

India Real Estate

Wait for market equilibrium continues

We visited MCHI's bi-annual Exhibition in Mumbai which saw participation from 40+ developers covering more than 150 projects. In addition we observed increased presence of home financing companies offering competitive rates/terms for home loans. While developers continued to maintain project prices, channel check suggests 5-15% discount available on negotiation/deal closure. Most discounts addressed the affordability issue by offering deferred payments and lower floor rise/transaction cost. With material time correction in pricing over last two years and sales exceeding launches, residential real estate market is going through a self-corrective phase. Improving funding avenues has aided developer's holding capacity of under-construction/completed inventory. Improvement in purchasing power, credibility in developer's execution capability and fund availability for Real estate remain key monitorable for change in status quo.

- **Pricing broadly maintained in last one year:** MMR witnessed a marginal increase (4%) in pricing over last year, based on our visit to developers in the exhibition. More than 50% projects in our survey had a delivery schedule in FY17 and FY18 while 30% should be available for delivery in less than a year (Exhibit 1). Handover has been delayed by 6 months on an average over last one year (Exhibit 2).
- **Subvention, box rates- offered by developers to attract customers:** Developers are using discounting in the form of subvention schemes, stamp duty/floor rise/maintenance bill waiver and freebies (furniture, gold coins, and holiday trips) to improve sales velocity (Exhibit 3). However, bulk of these discounts offset the marginal price increase taken by the developers. We continued to observe higher discounts available on execution of deal (10-15%) which remains a preferred way of giving discounts than cut in declared property rate.
- **Higher participation by home loan companies:** We observed higher participation by housing finance companies (HFCs) which were offering home loans starting from 9.3% (Exhibit 6). However the latest RBI rate cut was not yet incorporated in the rates offered. In addition HFCs were funding upto 100% of contract value if market value exceeded contracted value. Approval process timelines varied from 5 to 15 days.
- **Benign funding continues to improve holding power of developers:** First half of FY17 has seen improved funding from banks to developers (10% YoY in Aug'16) as NBFCs continued to gain market share in the sector (1QFY17 growth at 25-30% YoY, Exhibit 4-5). Availability of funds improves the holding capacity of developers as sector awaits demand recovery. We believe price correction will be a measure of last resort as sector could see consolidation where distressed developers with good assets will make an attractive target acquisition.
- **Increasing disposable income, higher transparency to drive sales:** With sales exceeding launches over last 6 quarters, market is in a self-correcting phase. This process could be accelerated by improving affordability- higher disposable income or price correction. However with high under construction inventory, we expect capital value improvement to take 12-24 months. Improving transparency (Real Estate Regulator) will improve the customer confidence thus aiding in recovery.

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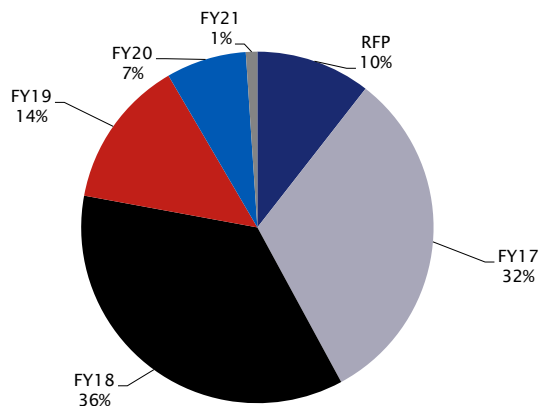
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- While operations are expected to remain muted in short term, we expect developers with strong balance sheet (Oberoi Realty, TP ₹310) and execution track record (Godrej Properties, TP ₹360) to benefit from current environment in the medium term. However we await better entry opportunities in these stocks.

Project Profile in Exhibition

Exhibit 1. Delivery schedule spread (no. of projects)



Source: Company, JM Financial

Exhibit 2. Projects and handover schedule

Developer	Project	Region	Possession as on Oct'14	Possession as on Oct'15	Possession as on Oct'16	Delays (months)
Acme Group	Acme Oasis	Kandivali (E)	Dec-17	Dec-17	Mar-18	3
Acme Group	Acme Hills	Goregaon (E)	Dec-17	Oct-18	Oct-19	12
Acme Group	Acme Avenue	Kandivali (W)	Dec-16	Dec-16	Dec-18	24
Acme Group	Acme Boulevard	Andheri (E)	Oct-18	Dec-18	Dec-18	0
Acme Group	Acme Ozone	Thane (W)		Dec-19	Dec-19	0
Ajmera Realty	Ajmera Aeon	Wadala (E)	Dec-15	Jun-16	Mar-17	9
Ajmera Realty	Ajmera Zeon	Wadala (E)	Dec-16	Dec-16	Mar-17	3
Ajmera Realty	Ajmera Treon	Wadala (E)	Dec-17	Dec-17	Dec-19	24
Ajmera Realty	Ajmera Pristine	Borivali (W)	Mar-16	Jun-16	Dec-16	6
Ajmera Realty	Ajmera New Era	Kalyan (W)	Dec-15	Dec-16	Dec-17	12
DB Realty	DB Crown	Prabhadevi		Jun-19	Dec-19	6
DB Realty	DB Skypark	Andheri (E)	Sep-17	Dec-17	Jun-18	6
Kanakia Group	Kanakia Rainforest	Andheri (E)		Jun-18	Jun-18	0
Kanakia Group	Kanakia Aroha	Borivali (E)		Jun-17	Aug-17	2
Kanakia Group	Kanakia Sevens	Andheri (E)		Jun-18	Dec-18	6
Kanakia Group	Platino at Kanakia Levels	Malad (E)		Dec-17	Dec-17	0
Mayfair Housing	Mayfair Legends	Malad (W)		Jun-17	Jun-17	0
Nirmal Lifestyle	US Open Apartments	Mulund (W)	Dec-17	Dec-17	Dec-17	0
Nirmal Lifestyle	Nirmal Turquoise	Mulund (W)	Dec-17	Dec-17	Dec-17	0
Nirmal Lifestyle	Nirmal Olympia	Mulund (W)	Dec-17	Dec-17	Dec-17	0
Rajesh Lifespaces	Raj Infinia	Malad (W)	Dec-16	Jun-17	Dec-18	18
Rajesh Lifespaces	Raj Altezza	Mulund (W)	Jul-16	Dec-16	Dec-17	12
Rajesh Lifespaces	White City	Kandivali (E)	Dec-17	Dec-17	Dec-17	0
Rajesh Lifespaces	Raj Tattva	Thane (W)	Dec-17	Dec-17	Dec-17	0
Rajesh Lifespaces	Raj Torres	Thane (W)	Dec-17	Dec-17	Jun-19	18
Romell Group	Romell Aether	Goregaon (E)	Oct-16	Dec-16	Mar-17	3
Romell Group	Unmiya Grandeur	Goregaon (E)	Oct-16	Dec-15	Nov-16	11
Romell Group	Romell Diva	Malad (W)	Jun-15	Mar-16	May-16	2
Skyline Group	Skyline Sparkle	Bhandup (W)		Dec-17	Dec-17	0
Skyline Group	Skyline Viha	Ghatkopar (W)		Dec-17	Dec-17	0

Source: Company, JM Financial

Exhibit 3. Promotional schemes during the exhibition

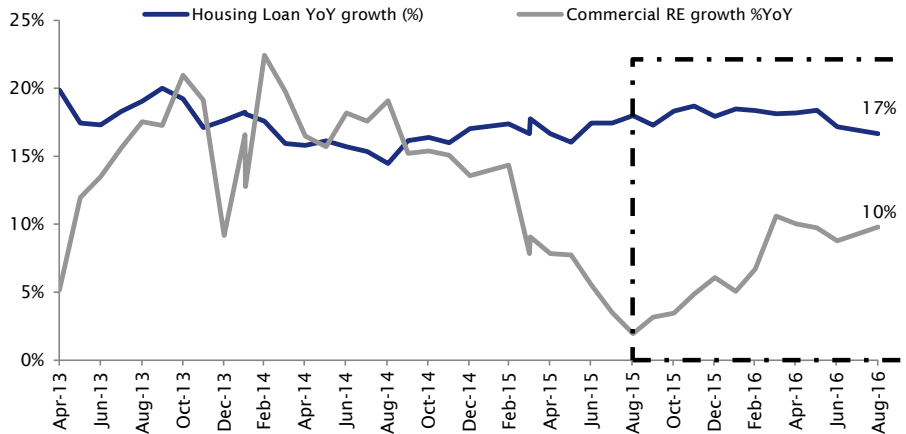
Project	Region	Scheme
Acme Oasis	Kandivali (E)	No floor rise above 20th Floor
Acme Avenue	Kandivali (W)	Pay 20% Now & Rest On Possession
Acme Boulevard	Andheri (E)	Free gold coin
Acme Ozone	Thane (W)	Save upto ₹ 20,00,000; Limited period offer for first 11 units
Stadium View	Andheri (W)	Save upto ₹1,66,000 Any flat, Any floor (No floor rise, No PLC)
Ajmera Aeon	Wadala (E)	Offer: 25:75 Subvention Scheme
Ajmera Zeon	Wadala (E)	20:80, 10:20:70
Ajmera Pristine	Borivali (W)	Book Now & Get Stamp Duty Waive Off
Ajmera New Era	Kalyan (W)	Stamp Duty + Registration waive off
F Residences	Malad (E)	Assured Luxury Car Worth ₹2.6mn
F Residences	Ghatkopar (E)	Assured Luxury Car Worth ₹2.6mn
Excellente	Mulund (W)	Assured Premium Furniture worth ₹ 0.1- 0.15mn*
Eminente	Borivali (E)	
Kanakia Rainforest	Andheri (E)	No stamp Duty & Registration
Kanakia Sevens	Andheri (E)	No stamp Duty & Registration
Kanakia Paris	Bandra (E)	No Floor Rise
Kanakia Hollywood	Andheri (W)	Win tickets to Hollywood for a family of 4
Vedic heights	Kandivali (E)	30-70 Builder Subvention Scheme
UK Heights	Andheri (W)	30-60-10 Builder Subvention
Marathon Nexzone	Panvel	₹2,00,000 Off
Mayfair Legends	Malad (W)	12 Month Maintenance Inclusive Block Pricing, Available in A Wing 11th-17th floors & B Wing 11th-16th floors, Save upto ₹ 7,00,000
The Palms	Seawoods	5:80:10:5 Subvention Scheme
Nakshatra	Chembur	Floor Rise Waiver
Swiss Boulevard	Chembur	Gold Coin
Lifestyle City	Kalyan (W)	Avail Fully Furnished Homes (Ready to Move in)
Romell Aether	Goregaon (E)	19:81
Unmiya Grandeur	Goregaon (E)	19:81, Save upto ₹ 13,26,000
Romell Diva	Malad (W)	Save upto ₹ 14,85,000
Peyton Palace	Santacruz (E)	Save upto ₹ 12,45,000
Skyline Sparkle	Bhandup (W)	Save upto ₹ 3,00,000 Assured furniture of upto ₹0.3mn or flat discount
Skyline Viha	Ghatkopar (W)	Spot Discount+ Stamp duty+ Registration+Vat Free
Skyline Riverside	Karjat	No Emi Till Fitout
Balaji Symphony	Panvel	Free Stamp Duty

Source: Company, JM Financial

Liquidity availability for Real Estate improving

- **Banks increasing their exposure to developers:** Banks have significantly increased their exposure to developers after muted growth over last couple of years. In first 5 months of FY17, banks have increased their exposure by ₹41bn vs a decline of ₹10bn in same period last year. Loan growth to developers (+10% YoY in Aug'16) has witnessed grown ahead of non-food credit (+8% YoY). Home loans continue to grow at a steady 17% YoY.

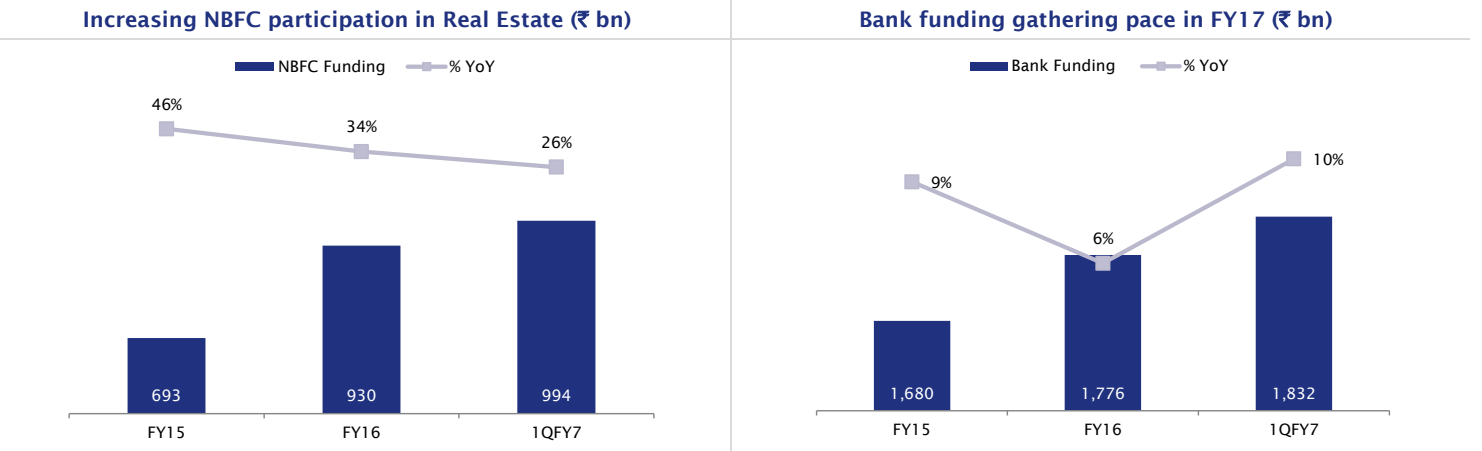
Exhibit 4. Significant decline in incremental bank funding for developers



Source: RBI, JM Financial

- **With NBFCs gaining market share:** While banks had gone slow on lending to real estate, NBFCs/HFCs had significantly increased their exposure to the sector. In 1QFY17, NBFC basket analysed by us increased its loan book to real estate by 26%. We estimate NBFC loan book to real estate sector at ₹1,200bn.

Exhibit 5. PE participation primarily in form of structured debt



Source: Companies, JM Financial

- **Transmission of latest RBI rate cut not visible yet:** While RBI cut repo rate by 25bps in Oct, we saw no transmission of rates among the HFCs present in the exhibition. Based on our checks post conference only ICICI Bank has reduced its MCLR by 5bps implying a non-material change in EMI (reduction of ₹33/month/million).

Exhibit 6. Home loan rates across Financial Institutes

Financial Institution	Nov-15	Apr-16	Oct-16
SBI	9.55%	9.45%	9.30%
LIC Housing Finance	9.60%	9.60%	9.40%
HDFC	9.55%	9.55%	9.45%
Indiabulls Housing Finance	9.55%	9.55%	9.40%
ICICI Bank	9.60%	9.45%	9.35%
Tata Capital	9.70%	9.70%	9.45%
Canara Bank	9.65%	9.65%	9.55%
Union Bank of India	9.90%	9.65%	9.50%
Axis Bank	9.60%	9.60%	9.40%
Punjab National Bank	9.75%	9.45%	9.35%

Source: Company, JM Financial

APPENDIX I

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