ViewCube

June 2023

Demand foreseen steady despite lower affordability

CRISIL webinar on the real estate sector

CRISIL
An S&P Global Company

CRISIL ViewCube on the real estate sector

ViewCube is a compilation of sector views expressed during the webinars of CRISIL.

These include views of CRISIL, the stakeholders, and those emanating from a poll conducted during the webinar.

Speakers

Mohit Makhija
Senior Director
CRISIL Ratings

Gautam Shahi
Director
CRISIL Ratings

Pranav Shandil
Associate Director
CRISIL Ratings Ltd

Suman Roy
Manager
CRISIL Ratings Ltd

Sanjay Yadav
Research Analyst
CRISIL MI&A

Contents

Section 1

Our view

CRISIL
An S&P Global Company

Key messages

Industry dynamics

- After strong momentum over the past two fiscals, demand growth is expected to slow to 4-6% on-year in fiscal 2024. However, the industry is structurally stronger than pre-pandemic
- While developers have outlined project launches over the medium term on the back of favourable unsold inventory level, the launches will be aligned with incremental demand. This will limit further reduction in the unsold inventory level
- Capital value increase is likely to range 3-5% on-year amid high interest rate and moderation in demand

Credit profile

- Credit profiles for developers will continue to improve gradually on account of healthy inventory liquidation and collections over the past two fiscals, resulting in reduced debt levels, thereby strengthening their ability to focus on new launches

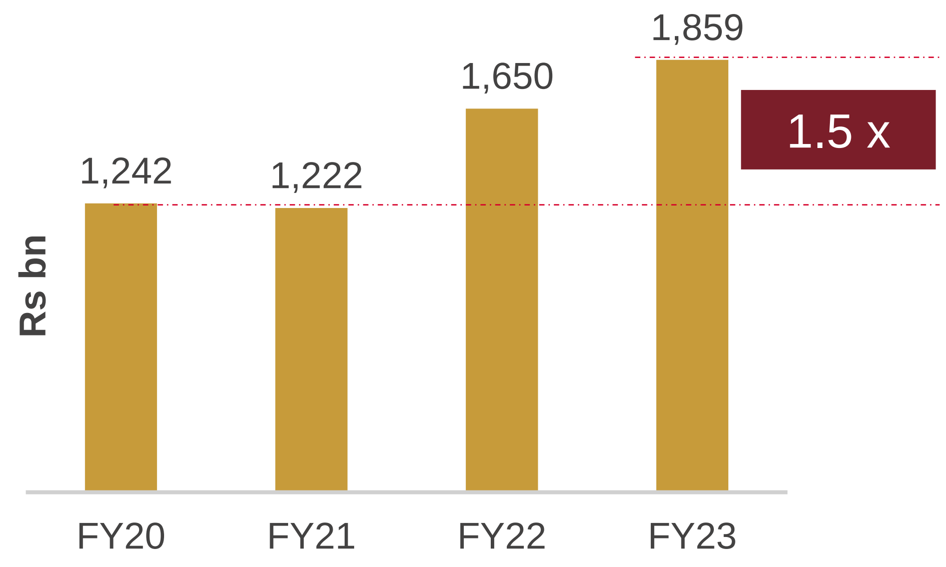
Consolidation

- Consolidation momentum will continue to favour large players; supportive demand and funding environment will provide further tailwinds to large developers

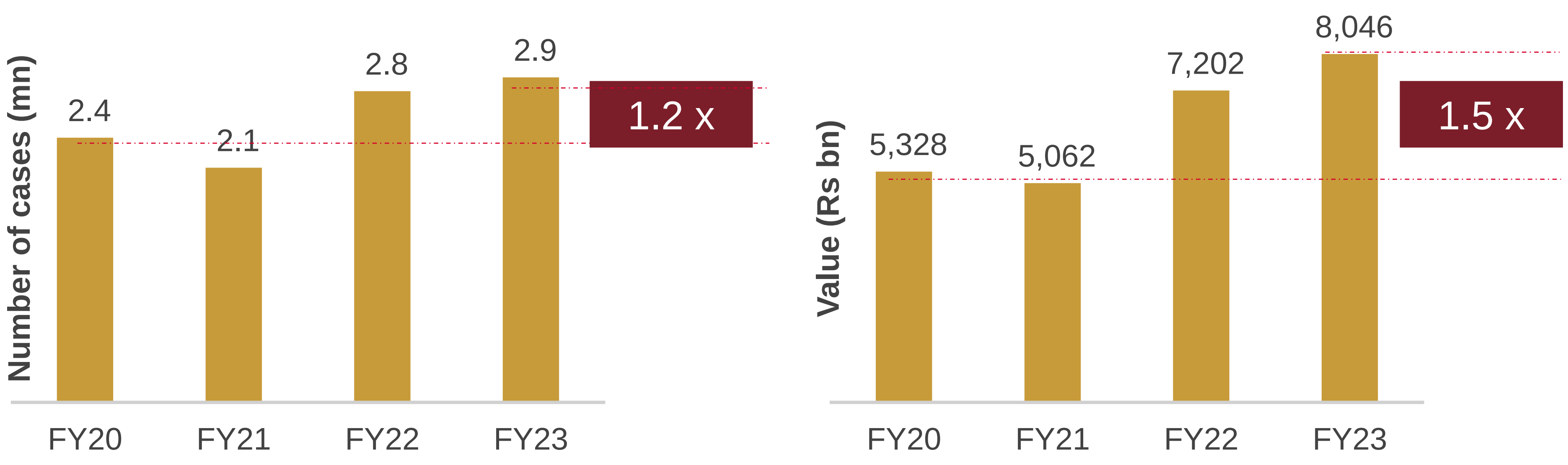
Residential real estate trends and outlook

All major real estate sector indicators have improved in unison

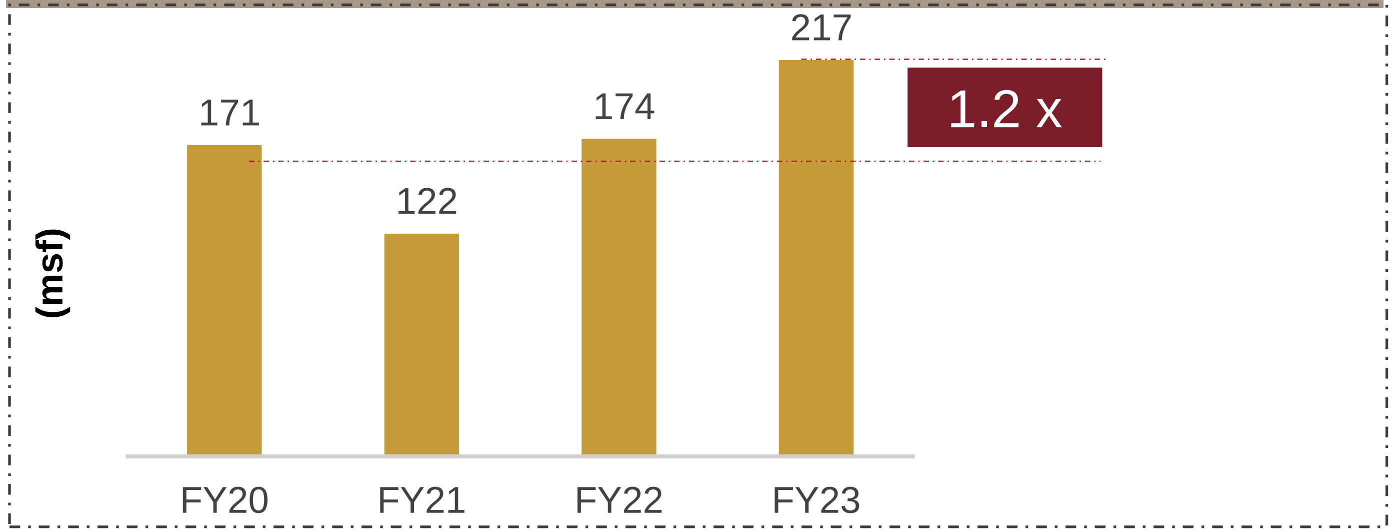
Stamp duty and registration revenue of top 20 states



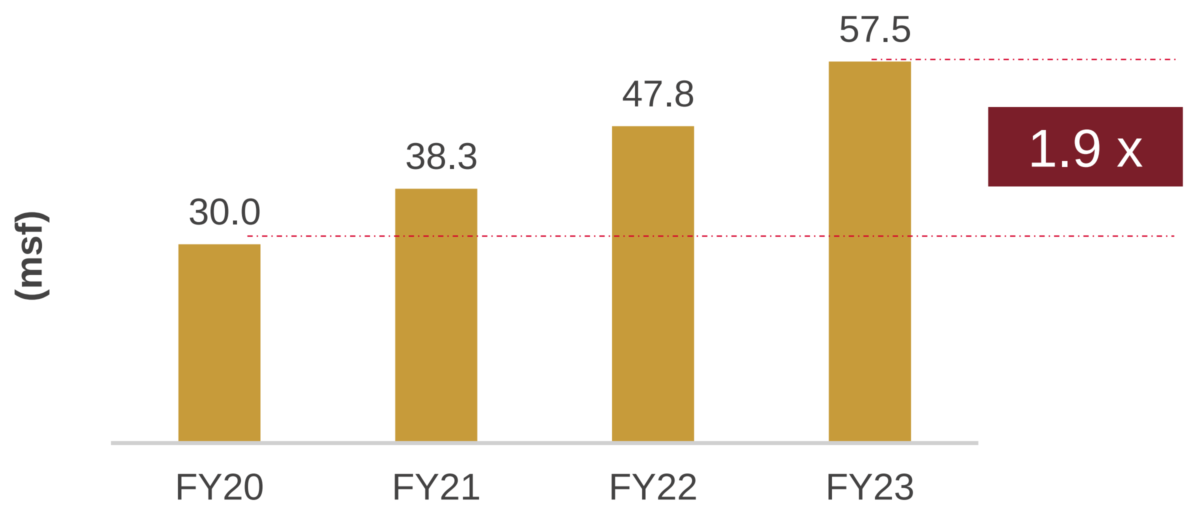
All India home loans disbursed by banks and NBFCs



Demand^ in top 6 cities



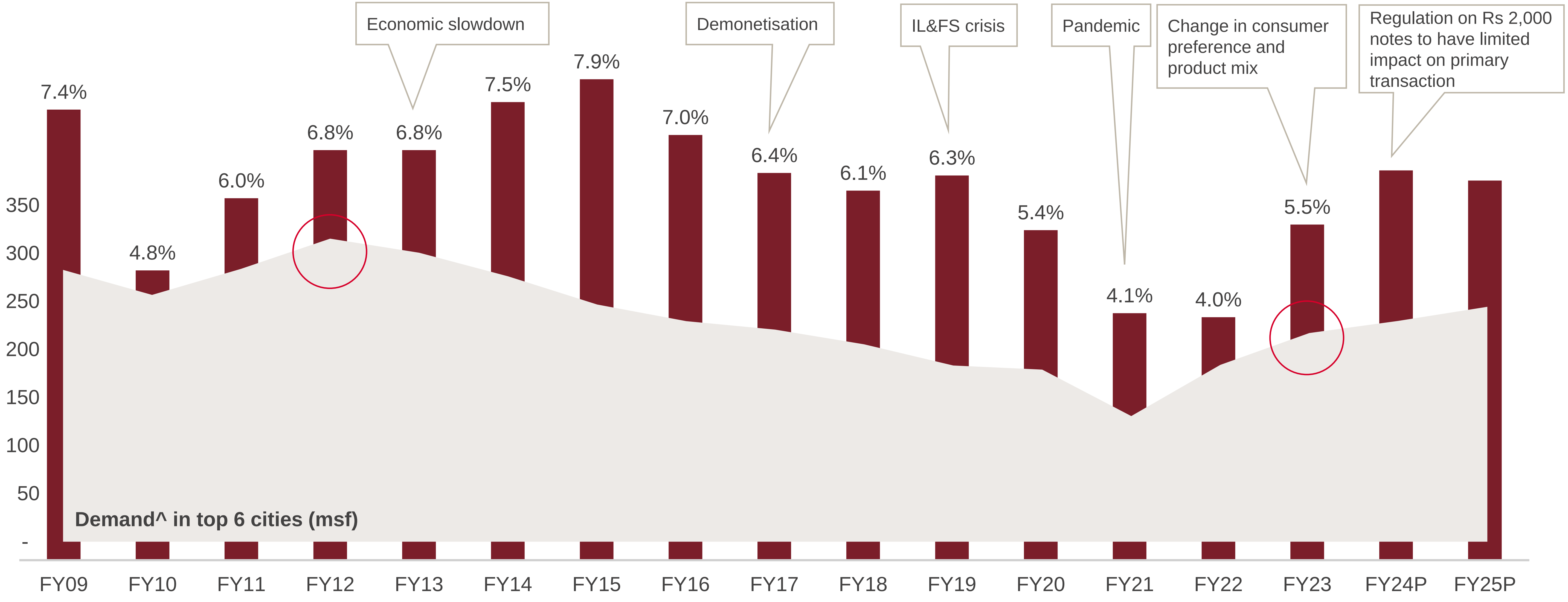
Demand of large 9 listed developers



^ Demand refers to booking or absorption in the primary market (developer sales) of newly launched as well as under construction projects
msf: million sq ft; Top-6 cities – Mumbai Metropolitan Region (MMR), Pune, Hyderabad (from RERA) and Bengaluru, Kolkata and National Capital Region (NCR; from secondary sources)
Note: FY23 numbers have been extrapolated using latest available data from relevant sources
Source: Comptroller and Auditor General of India, industry, developer filings, credit bureau, CRISIL MI&A Research

Demand growth to moderate to 4-6% this fiscal

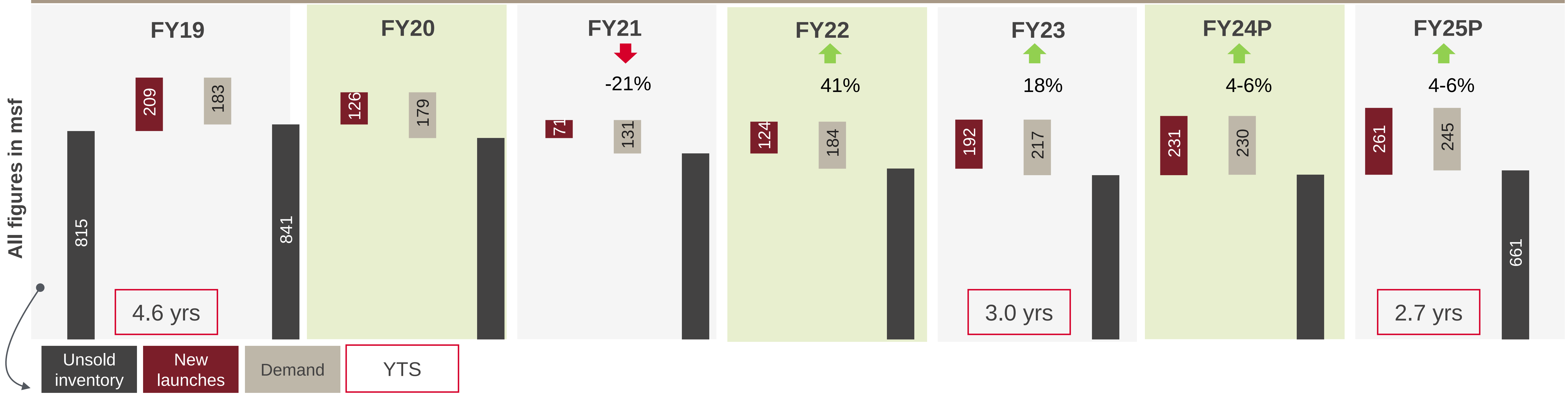
New peak in fiscal 2023 was structurally stronger than pre-Covid-19



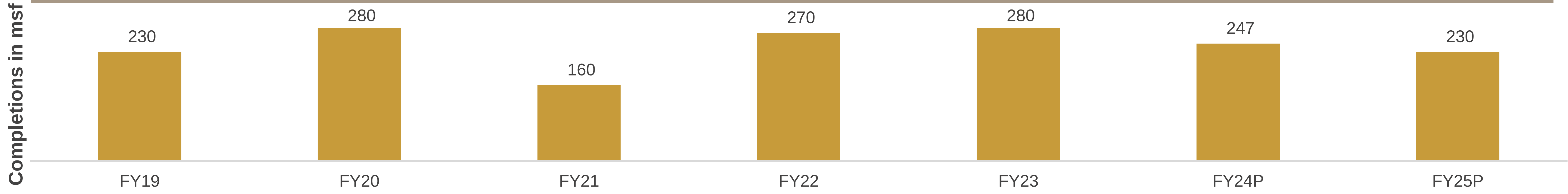
P: Projected
^ Demand refers to booking or absorption in primary market (developer sales) in newly launched as well as under construction projects
msf – million sq ft; top 6 cities – MMR, Pune, Hyderabad (from RERA) and Kolkata, Bengaluru and NCR (from secondary sources)
Source: Industry, CRISIL MI&A Research

Medium-term launch pipeline healthy on favourable unsold inventory

However, launches will be aligned with incremental demand, thus limiting further reduction to unsold inventory level



Pace of construction to remain healthy



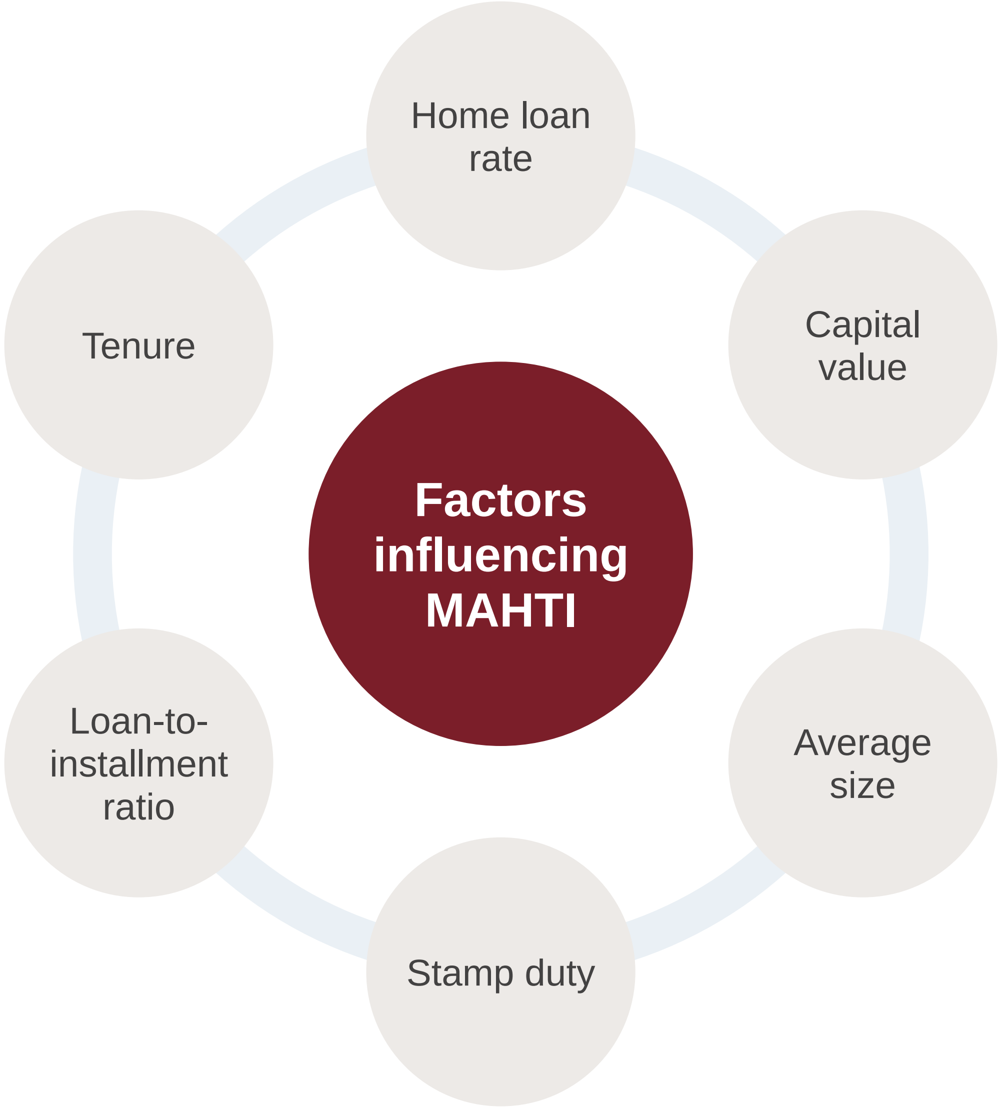
P: Projected
^ Demand refers to booking or absorption in primary market (developer sales) in newly launched as well as under construction projects.
msf – million sq ft; Top 6 cities – MMR, Pune, Hyderabad (from RERA) and Kolkata, Bengaluru and NCR (from secondary sources)
Source: Industry, CRISIL MI&A Research

CRISIL
An S&P Global Company

Capital value rise to be moderate amid high rate, tempered demand

Capital values to inch up 3-5% this fiscal

	FY23 MAHTI	FY19	FY20	FY21	FY22	FY23	FY24	FY25
MMR	Rs 2.2 mn	2%	-1%	-15%	2%	17%	8%	2%
NCR	Rs 1.3 mn*	2%	-2%	-15%	-1%	13%	6%	2%
Pune	Rs 1.5 mn	2%	0%	-9%	-2%	13%	7%	2%
Hyderabad	Rs 1.7 mn	2%	2%	-10%	-1%	14%	5%	1%
Kolkata	Rs 1.1 mn	2%	4%	-18%	-1%	11%	8%	2%
Bangalore	Rs 1.6 mn	2%	0%	-9%	2%	17%	6%	2%



** Excluding Noida for MAHTI calculation*

Notes:

1) MAHTI is calculated using key factors, such as capital values, stamp duty charges, average area, home loan rate, loan-to-installment ratio and tenure. 2) Market-specific average household income level to buy a house in a city (MAHTI); % in the chart indicates on-year growth

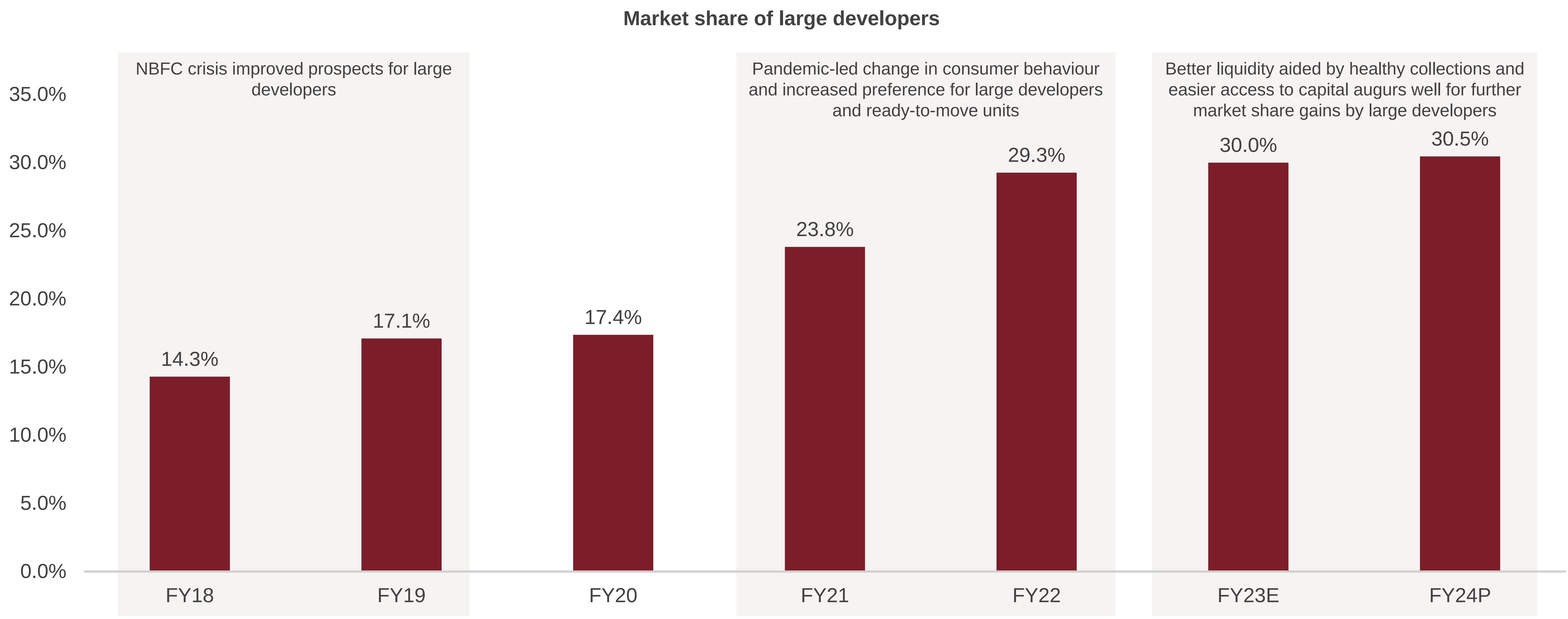
3) MAHTI has inverse relation to capital value and interest rate

Source: Industry, CRISIL MI&A Research.

CRISIL
An S&P Global Company

Large developers continue to outperform industry

Market share of large developers increasing steadily



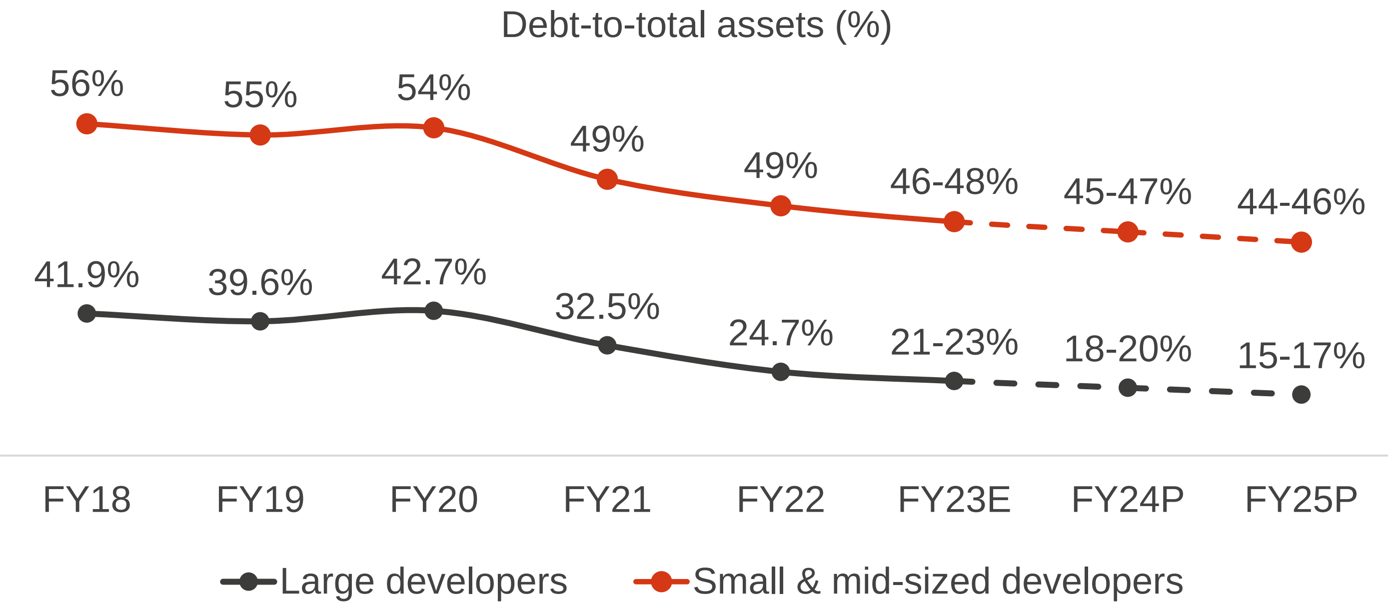
Note: Sample of 13 large rated / listed developer groups, for small and mid-sized players – sample of CRISIL rated 76 groups / single-project SPVs with net-worth below Rs 500 crore
Source: CRISIL Ratings

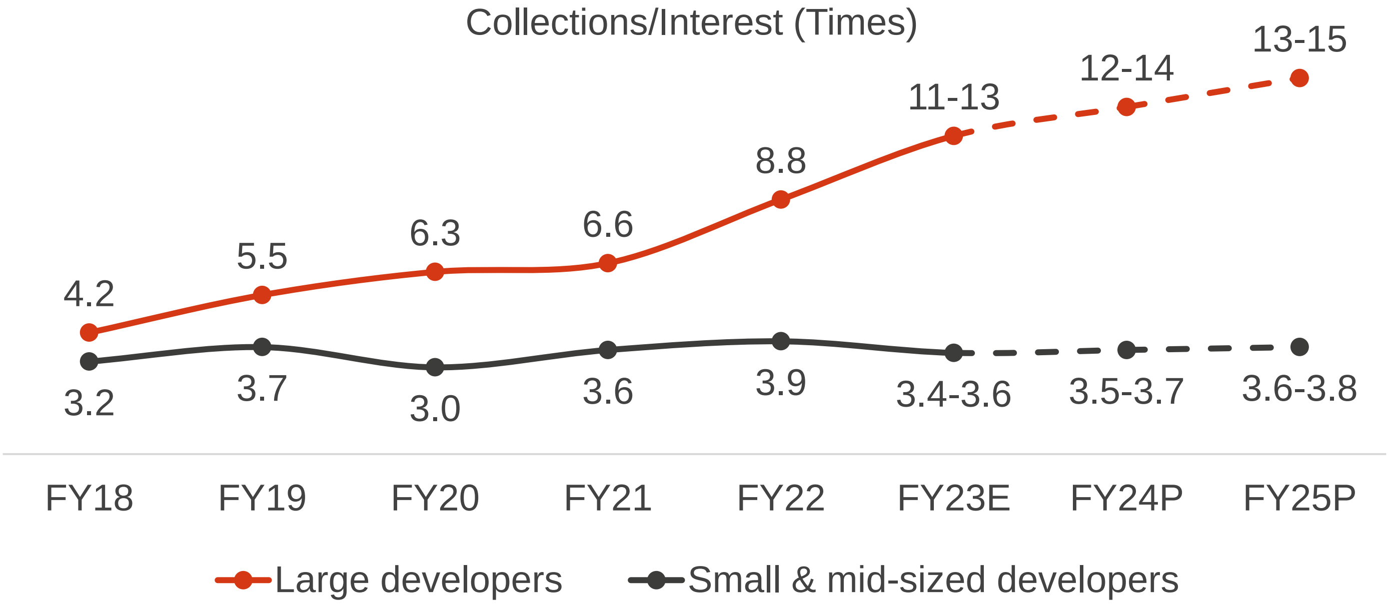
CRISIL
An S&P Global Company

Residential real estate credit trends and outlook

Large developers reduce their leverage significantly

Sharp improvement in debt metrics of large developers; small and mid-sized players also show some improvement





Large players

Low ability to leverage: debt-to-total assets at lowest level in five years

Robust collection: to be used for construction of future projects with low reliance on external debt

Strong brand presence: higher sales booking and lower cost of debt compared with small and mid-sized players

Small and mid-sized players

Low refinancing ability: debt-to-total assets at 45-50% compared with 20-25% for larger players

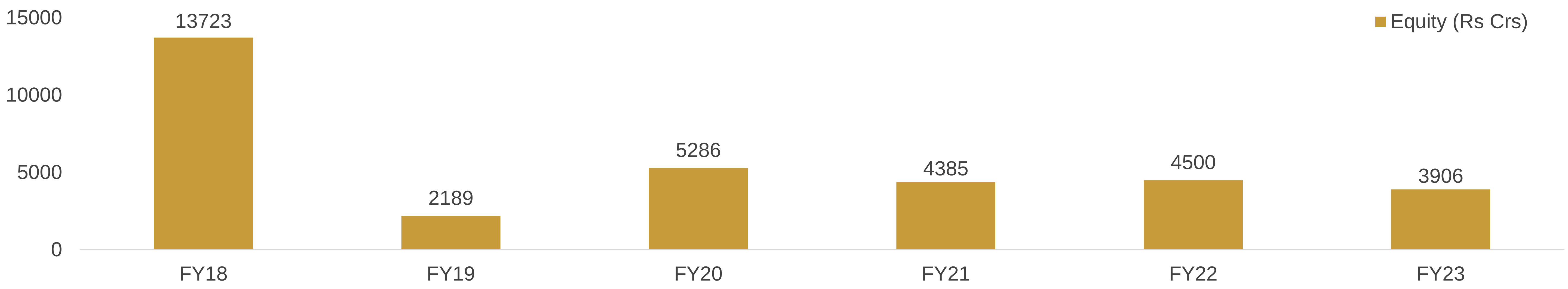
Higher interest cost: lower sales velocity and slower collections coupled with limited access to bank debt led to higher interest cost

Cost of debt is high: 13-16% compared with ~10% for larger players; majority debt is from non-banking sources

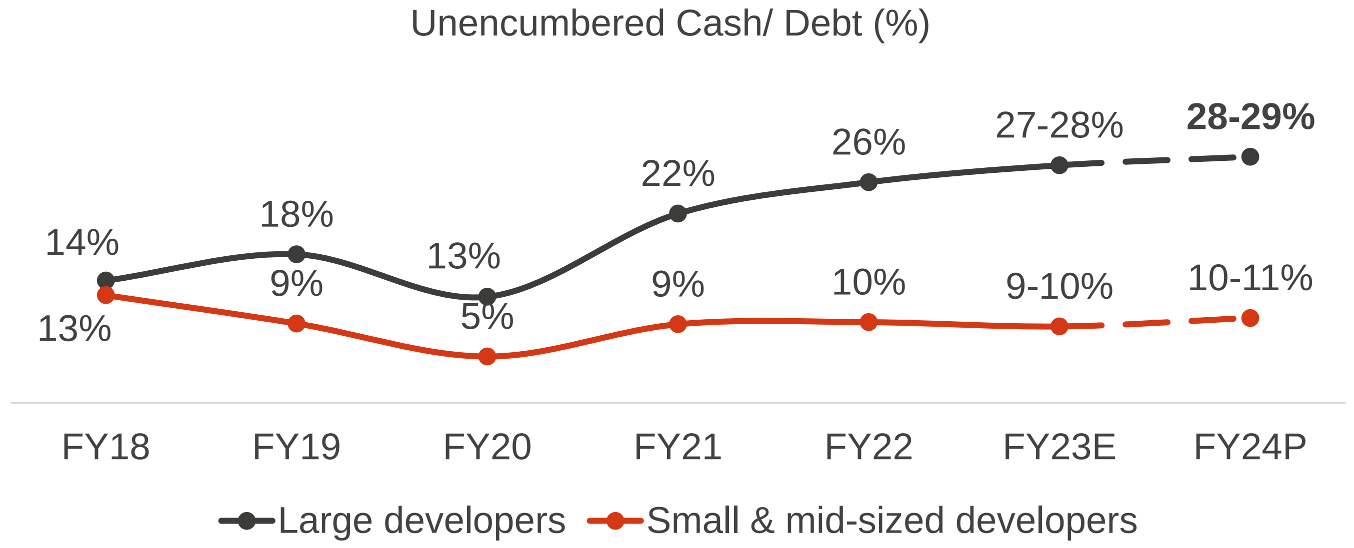
Note: Sample of 13 large rated / listed developers groups, for small and mid-sized players – sample of CRISIL rated 76 groups / single-project SPVs with networth below Rs 500 crore
Source: CRISIL Ratings

Large developers emerge stronger in past five years

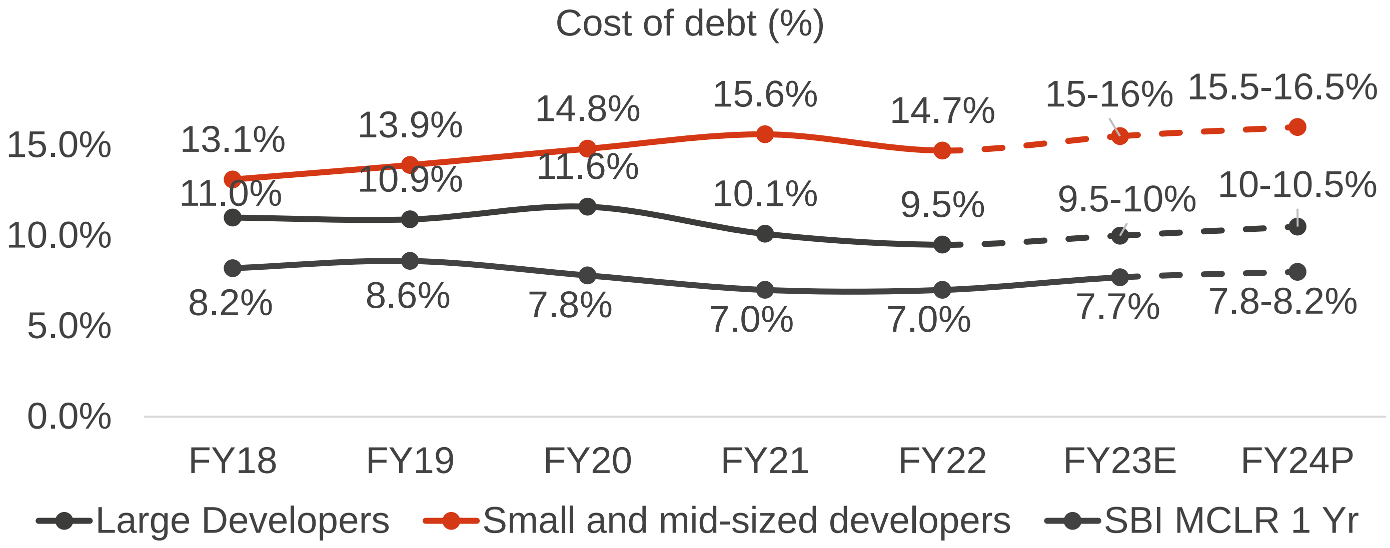
Deleveraging for large players aided by ~Rs 30,000 crore equity raised in past six years



Financial flexibility of large developers improves



Lower cost of debt for large developers



Note: Sample of 13 large rated / listed developers groups, for small and mid-sized players – sample of CRISIL rated 76 groups / single-project SPVs with net-worth below Rs 500 crore
Source: CRISIL Ratings

CRISIL
An S&P Global Company

Way forward

Demand growth to continue this fiscal, albeit at a lower pace, amid affordability headwinds

With healthy unsold inventory levels, developers focus on new launches in line with demand

Large players, comfortably placed financially, poised to gain market share and have easier access to funding

Credit profiles of developers to continue to improve on account of healthy collection and reduced debt levels; interest rates and affordability to remain key monitorables

Section 2

Their view

CRISIL
An S&P Global Company

Excerpts from a panel discussion held at the webinar (1/4)

Eminent panellists

Ashok Kumar Tyagi
CEO and Wholetime Director
DLF Limited

Darshan Hiranandani
Managing Director & CEO
H-Energy, Hiranandani Group

Atul Goyal
Chief Financial Officer
Brigade Enterprises Limited

AS Rao
CFO
My Home Group

Vipul Agarwal
Head - Risk (Commercial Real Estate, Retail and Rural)
ICICI Bank

Demand to continue to strengthen in residential segment

- Robust growth seen in residential segment demand in the past two fiscals
- Demand growth not only sustained, but also strengthened in the past 6-8 quarters across categories of all price points from the lowest to the highest priced units, and across various geographies. Premium and luxury segments logged higher growth than affordable and mid-range segments
- Rise in interest rates by 200-250 bps in the past 3-4 quarters provided the ideal environment for demand to slow down; while it did not impact overall demand in the residential sector, it hit users in the affordable segment. Currently, as the interest rate cycle is expected to be at its peak, demand is expected to continue to strengthen going forward
- Also, with urbanisation and infrastructure development continuing to remain strong, more people are shifting to metro cities, which is fueling demand in the residential segment

Changing consumer preferences over past two fiscals

- The pandemic has led to the following changes in consumer preferences:
    i. Growing needs and desires of consumers to purchase ready-to-move-in houses
    ii. Increased consumer need for bigger houses vis-a-vis earlier need for smaller houses
    iii. Shift in consumer demand towards bigger and established players on account of past track record, strong brand and trust in these players
- Product mix of residential developers has shifted towards mid-premium, premium and luxury categories over the past two years because of change in consumer preference, led by the pandemic
- There has been a shift in consumer preference from owning standalone houses to townships with various amenities. After the pandemic, amenities such as decks and balconies, other aesthetics, as well as location of houses in the 0-5 km radius from workplace have become more critical
- With inflation rising and capital appreciation, consumer demand has shifted from the lower segments in terms of price towards the next higher segment

CRISIL
An S&P Global Company

Excerpts from a panel discussion held at the webinar (2/4)

Profitability of organised players to continue growing

- Currently, organised developers can get credit at a very reasonable cost, while laggard developers cannot get credit at all
- To be considered organised, a developer needs to have both, capital and ability to finish the construction. Finishing the construction itself drives demand. Currently, there is hardly any completed inventory available in the market
- Higher demand for completed inventory is leading to higher appreciation in home prices, which in turn, is leading to higher profitability
- This trend – of growing profitability for organised players – is expected to continue for some time

Increasing demand in Tier 2 cities

- Real estate infrastructure will be a key contributor to India’s achieving the $5-trillion economy target
- Increasing infrastructure development in Tier 2 cities, higher disposable income of millennials, and tax benefits for salaried employees on availing of home loans, have led to healthy demand pick-up in Tier 2 cities
- Despite a decrease in demand by 15-20% in the past two years vis-à-vis pre-pandemic levels, businesses of developers in all micro-markets have become consolidated. This has resulted in a clear segregation of credible and less credible developers. Established and credible players are expected to see growth in projects being launched in Tier 1 and 2 cities, though most of the launches would be in Tier I cities
- In the micro-market of Chandigarh, capital appreciation in houses, at 60% over the past three years, has been the highest among all micro-markets

Excerpts from a panel discussion held at the webinar (3/4)

Reducing inventory levels to drive project launches

- Inventory levels in the top six cities have corrected to a comfortable 3.0 years, on average, as against 4.6 years before the pandemic. This is because of fewer launches in the past two years and faster sales momentum
- With favourable unsold inventory and continuing strong demand, developers have already planned for a healthy launch pipeline over the medium term
- We expect more launches from organised developers
- More number of launches are expected in the premium and luxury segments, as compared with the affordable segment, owing to higher demand in those categories
- Organised players are exploring other major geographies as well, to keep the supply in step with the demand
- Though new launches are catching up, healthy demand will keep the inventory levels in check (around 2.5-3.0 years) over the next 2-3 years

Low impact of higher interest rates on overall demand

- Despite the rise in interest rates by 200-250 bps over the past 12 months; overall demand in the residential segment has seen robust growth
- Big ticket size properties are getting sold much faster than those in the lower end and the rate of interest is not affecting demand in the former
- The impact of higher interest rates is seen in low ticket size segments, with a 200 bps increase resulting in a 15-20% reduction in affordability
- The other reason for low impact on demand is people have been comfortable with interest rates of 8-9% in the past; and it is only during the pandemic the interest rates had come down

Developers' strategy – outright land purchase or JV?

- The strategy of whether to purchase the land alone or develop it through joint ventures (JVs)/joint development agreements (JDAs) depends on the location, type and potential of the land
- Buying the entire land through promoter's fund is the costliest proposition
- Government initiatives such as Development Plan 2034 in Mumbai has increased the buildability of land multi-fold leading to a number of land parcels becoming more viable for re-development. This will lead to more opportunities in JDAs/JVs
- The market necessitates more JDAs/JVs in areas like Mumbai Metropolitan Region. Given that demand and supply do not move in tandem, these mechanisms ensure supply remains in the market. They also impart more bargaining power to organised players in deal execution vis-à-vis others

Excerpts from a panel discussion held at the webinar (4/4)

Increasing rental rates fuelling demand

- Rental rates of houses have appreciated 10-15% over the past two fiscals in most micro-markets. Some like Bengaluru have seen rental rates rise 25-30% over the past two fiscals
- Companies such as in IT/ITES sectors calling employees to return to offices, and people wanting to stay near offices to avoid traffic congestion, are some of the drivers leading to the sudden spike in rental rates
- This is indirectly fuelling demand for houses as it is also leading to capital appreciation in housing prices. People are realising it as a good investment opportunity with higher expected returns

Pricing to increase at a moderate 4-5% this fiscal

- Prices of houses have gone up 10-15% in the past two fiscals
- This price increase was not only on account of a mismatch in demand-supply and impact of inflation on cost of construction, but also on account of higher specifications such as balconies, or amenities within the complex, as required by users.
- Prices of houses are expected to increase at moderate 4-5% this fiscal in line with the inflation rate

Funding challenges remain for Tier 2 developers

- Most non-banking financial companies which earlier had higher exposure to Tier 2 developers, have exited now
- Even banks are reluctant to fund Tier 2 developers
- Private equity funds with high-cost capital remain the only source of funds for these developers
- Organised and larger developers have better access to funding

Larger developers better placed, credit profiles intact

- With huge inventory pile-up before the pandemic and not many new launches from large developers, along with a spike in demand for houses, sales velocity has jumped and collections are healthy
- Higher collections have been utilised towards repaying existing loans as much as possible
- This has led to higher appetite for accessing capital from banks for newer launches, while keeping debt levels in check
- This strategy of larger developers has preserved their credit profiles, and make them strong and sustainable

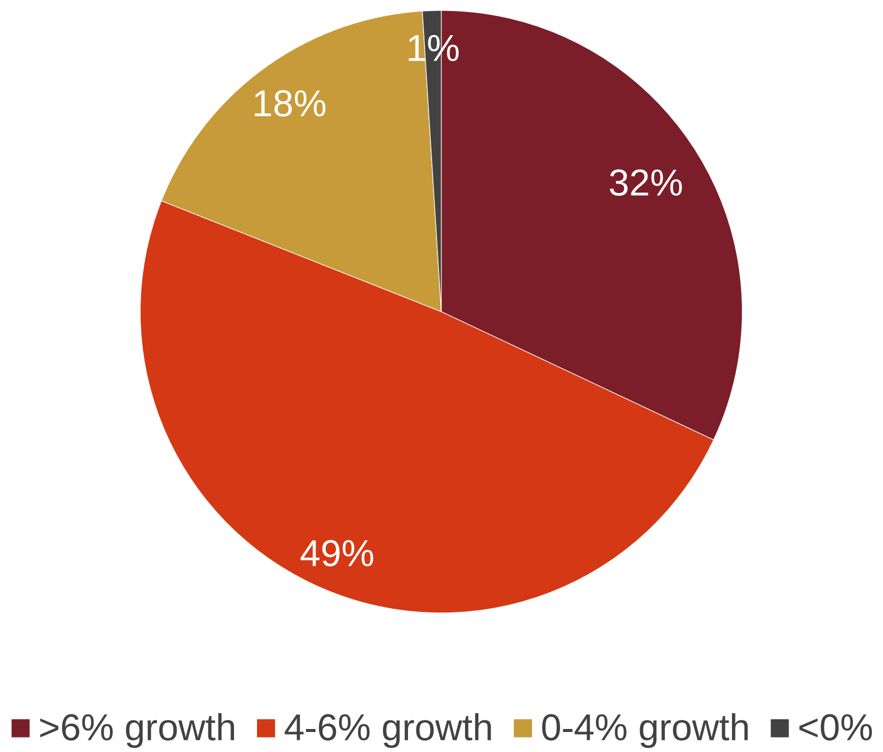
Section 3

Poll view

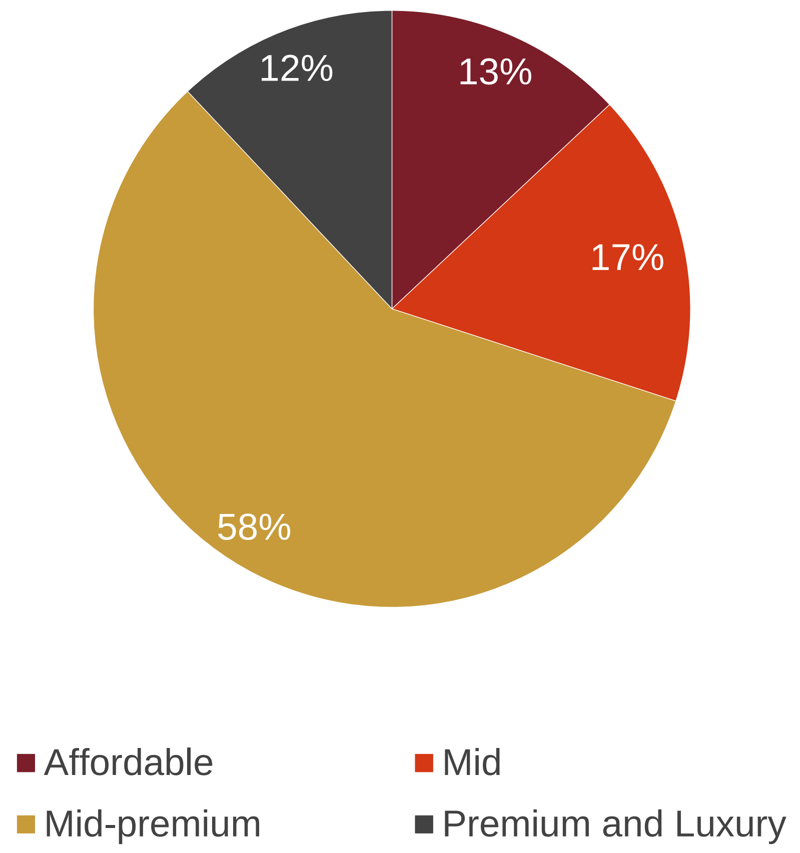
CRISIL
An S&P Global Company

Results of a survey conducted during the webinar (1/2)

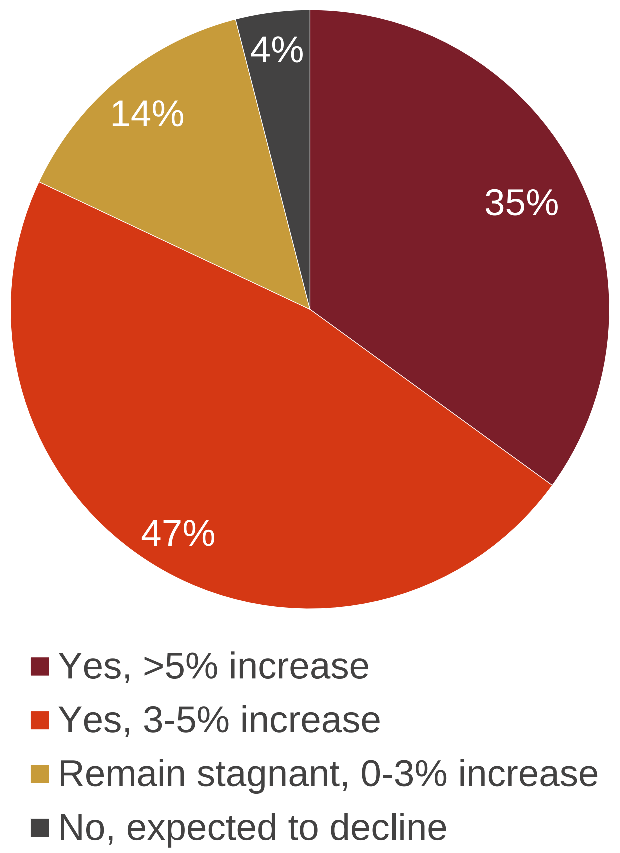
Q1. What are your expectations for on-year demand growth (in volume terms) for the residential real estate industry in the current fiscal?



Q2. Which segment is expected to contribute the most to residential demand growth in the current fiscal?



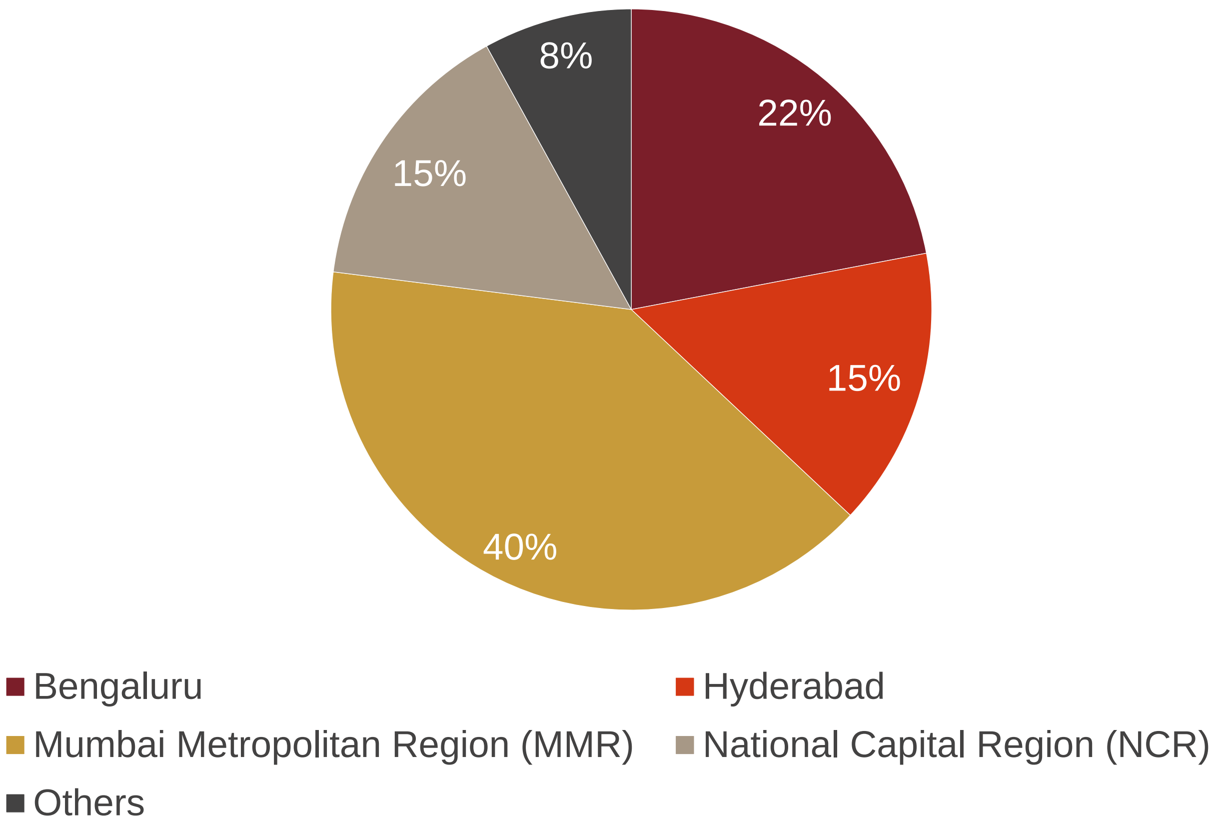
Q3. Do you expect prices to increase in residential real estate in the current fiscal, on-year?



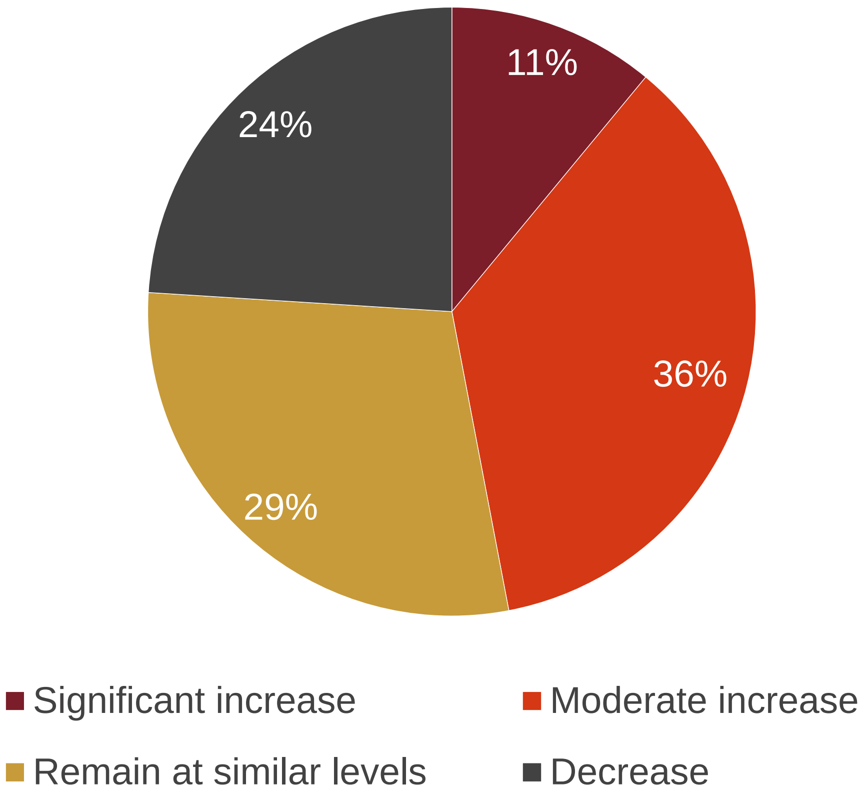
CRISIL
An S&P Global Company

Results of a survey conducted during the webinar (2/2)

Q4. Which micro-market will drive demand growth in residential real estate this fiscal?



Q5. How do you see the trend in unsold inventory in major cities this fiscal vis-à-vis previous fiscal?



List of CRISIL-rated real estate companies

CRISIL
An S&P Global Company

CRISIL-rated top developers and residential SPVs

Company
Aisshpra Life Spaces
Aurum Realestate Developers Ltd
Bramhacorp Ltd
Brigade Enterprises Ltd
CMK Projects Pvt Ltd
Darshita Housing Pvt Ltd
Darshita Southern India Happy Homes Pvt Ltd
DLF Ltd
Emerald Haven Realty Ltd
Evita Constructions Pvt Ltd
Gamma Constructions Pvt Ltd
Generic Engineering Construction and Projects Ltd
Godrej Properties Ltd
Hgp Community Pvt Ltd
Himalaya Developers
Hitech Competent Builders Pvt Ltd

Company
J P Infra Mumbai Pvt Ltd
Jaganmayi Real Estates Pvt Ltd
Jindal Realty Ltd
JP Infra Realty Pvt Ltd
JP Infra Residency Pvt Ltd
KLJ Developers Pvt Ltd
Kolte-Patil Developers Ltd
Kolte-Patil Integrated Townships Ltd
Macrotech Developers Ltd
Mahindra Lifespace Developers Ltd
Mascot Properties Pvt Ltd
Millennium Engineers and Contractors Ltd
Mindcomp Tech Park Pvt Ltd
My Home Infrastructures Pvt Ltd
NCC Urban Infrastructure Ltd
Neelanchal Realtors LLP

Company
Nestled Haven Developers LLP
Olympia Tech Park (Chennai) Pvt Ltd
Orchid Infrastructure Developers Pvt Ltd
Persipina Developers Pvt Ltd
Poorna Build-Tech Pvt Ltd
Poppy Realtors Pvt Ltd
Rajmata Realtors Pvt Ltd
Realtech Nirman Pvt Ltd
Regency Nirman Ltd
Roma Builders Pvt Ltd
S S Developers
Salarpuria Builders Pvt Ltd
Salarpuria Housing Pvt Ltd
Salarpuria Properties Pvt Ltd
Salarpuria Real Estates Pvt Ltd
Sattva Developers Pvt Ltd

Company
Sattva Housing Pvt Ltd
Shreno Ltd
Shriprop Structures Pvt Ltd
Shriram Properties Ltd
Shrivision Towers Pvt Ltd
Siddheshwari Griha Nirman Pvt Ltd
Sri City Pvt Ltd
St. Patricks Realty Pvt Ltd
Sumadhura Infracon Pvt Ltd
Talib and Shamsi Constructions Pvt Ltd
Tata Realty and Infrastructure Ltd
Vilas Javdekar Infinitee Developers Pvt Ltd

Outstanding ratings as on March 15, 2023

CRISIL
An S&P Global Company

Thank you

For further assistance and queries, write to us at events@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong, UAE and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK | INSTAGRAM

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.

CRISIL
An S&P Global Company