

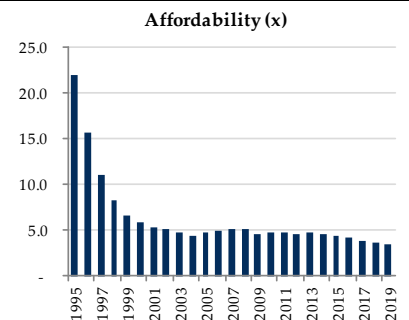
Real Estate

Worst quarter, given the lockdown

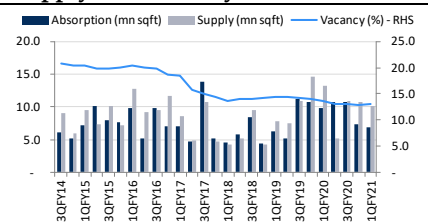
- 1QFY21 hit by COVID-19:** Real estate being highly cyclical has been hit hard by the COVID-19 pandemic. The first two months of 1QFY21 were nearly a washout with realty companies adopting the digital way of doing business. Things have improved from June-20 and, with partial aid from online channels, we expect coverage companies to report 40-65% of normal quarterly pre-sales. Affordable housing players are seeing a faster recovery vs. luxury segment players. As things were turning positive, the re-imposition of a partial lockdown may lead to delayed recovery, though it would make a case for further extension in the moratorium.
- Annuity plays – retail extended pain, office stable but headwinds remain:** Landlords made productive use of COVID-19 lockdown and completed rental negotiation with tenants. A few players have offered complete waiver for lockdown period and gradual ramp-up to MG once consumption reaches 70-75%. Others have given 50% MG rebate during the lockdown, and slow ramp-up towards normalcy as consumption picks up. Northern and Southern malls have opened for public with 60-65% occupancy and 35-40% consumption. MMR malls are yet to open. Office collections have been encouraging at 90-95% efficiency, but the shift to Work from Home headwinds remain on the longer-term demand outlook. Our channel check suggests few landowners have given some discounts on rentals and escalation may remain soft in the near term.
- Financial lenders remain circumspect, under construction pipeline to get delayed:** Our channel checks with leading lenders suggest a 'wait and watch' approach on new LRDs. There is limited visibility on how consumption will pick up in the absence of a COVID-19 vaccine. Further restrictions remain on social distancing, which may result in overall lower mall occupancies. We would see a late recovery for malls and lower LTVs and tenure of LRD loans. Under construction projects, financially closed may also witness slow build-out as owners remain circumspect on recovery. The hospitality sector occupancies may remain low at 35-40%, and recovery is contingent on COVID-19 vaccination and opening of international travel. Onetime restructuring is necessary for survival of this sector.
- Interest rates decade low, consolidation theme to strengthen, real estate prices may see 15-20% correction:** Pent-up demand may lead to pre-sales recovery from the upcoming festive season. COVID-19 has resulted in further stress for the sector, and buyer's preference will move to larger regional realty leaders and top brands. The market may consolidate in the hands of select large organized developers with a strong balance sheet and access to bank funding. JDA/JV model will continue, and land buying will take a back seat. Launches will get deferred, and focus will be on completing the existing unsold area. We expect 25-30% dip in volumes/15-20% price correction in FY21E.
- A large part of coverage universe to report 1QFY21 loss:** Except DLF and Oberoi Realty, we expect Sobha, Brigade, Kolte Patil and Prestige Estates to report 1QFY21 losses on account of interest expense/depreciation. DLF may also report loss ex-DCCDL. There won't be any immediate liquidity concerns with regards to the moratorium.
- Recommendations and stock pick:** We expect mixed-use plays to outperform pure plays as office segment is least impacted followed by retail, residential and hospitality. DLF, Brigade and Prestige Estates are our top sectoral bets. Oberoi may see delayed recovery on account of concentrated exposure to highly unaffordable Mumbai realty market.

COMPANY	OLD RECO	NEW RECO	TP (Rs.)
DLF	BUY	BUY	219
Oberoi	BUY	BUY	538
Prestige	BUY	BUY	280
Sobha	BUY	BUY	348
Brigade	BUY	BUY	213
Kolte Patil	BUY	BUY	240

Residential Affordability: Improving



Commercial Office – Absorption, Supply and Vacancy Stable



Source: HSIE, Commercial – Cushman Wakefield.
 Affordability Index – HDFC Ltd. Commercial/Residential data takes into account Top 6 Indian Cities of MMR, NCR, Bengaluru, Chennai, Pune and Hyderabad.
 Affordability is Property Price divided by Annual Income

MG: Modified gross

LRD: Lease rental discounting

LTV: Loan to value ratio

JDA: Joint development agreement

DCCDL: DLF Cyber City Developers Ltd.

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Financial Summary: 1QFY21E

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)		
	1QFY21E	QoQ (%)	YoY (%)	1QFY21E	QoQ (%)	YoY (%)	1QFY21E	QoQ (%)	YoY (%)	1QFY21E	QoQ (%)	YoY (%)
DLF	6.25	(63.1)	(53.1)	0.01	(99.6)	(99.5)	0.2	(18.5)	(17.8)	0.48	(87.4)	(58.6)
Oberoi Realty	2.70	(41.2)	(55.2)	1.08	(45.8)	(54.1)	39.9	(3.4)	0.9	0.54	(52.7)	(64.4)
Prestige Estates	10.9	(44.9)	(29.0)	2.25	(55.1)	(57.4)	20.6	(4.7)	(13.7)	(1.80)	-	-
Sobha Limited	4.96	(45.5)	(57.8)	0.59	(64.6)	(74.0)	11.9	(6.4)	(7.4)	(0.29)	-	-
Brigade Enterprises	3.58	(43.8)	(49.5)	0.76	(44.0)	(58.5)	21.2	(0.1)	(4.6)	(0.50)	-	-
Kolte-Patil Developers	1.42	(35.8)	(75.7)	0.03	(18.8)	(98.4)	2.2	0.5	(31.1)	(0.12)	-	-
Aggregate	29.84	(49.5)	(49.8)	4.71	(64.3)	(70.7)	15.8	(6.6)	(11.2)	-	-	-

Source: Company, HSIE Research

Valuation Summary

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
DLF	357	144	BUY	219	4.0	3.1	4.4	36.5	45.9	32.5	34.9	56.7	63.7	2.9	2.2	3.1
Oberoi* Realty	131	361	BUY	538	15.2	14.6	31.4	23.7	24.7	11.5	16.6	16.7	11.6	6.7	6.1	12.0
Prestige Estates	77	193	BUY	280	9.1	1.5	5.9	21.2	125.3	32.7	6.5	8.6	7.2	14.4	3.5	6.9
Sobha Limited	22	235	BUY	348	29.7	24.0	25.7	7.9	9.8	9.1	2.9	3.4	3.2	12.1	9.0	9.0
Brigade Enterprises	29	139	BUY	213	6.4	(1.2)	6.6	21.8	(114.3)	21.1	6.0	8.2	4.9	5.8	(1.1)	6.1
Kolte-Patil Developers	12	154	BUY	240	8.7	7.5	14.8	17.8	20.7	10.4	7.1	7.7	5.5	5.2	3.7	10.1

Source: Company, HSIE Research; * FY20E for Oberoi as 4QFY20/FY20 results not released yet

Real Estate: 1QFY21 Results Preview

Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:

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