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“Reality check in Indian Real Estate Sector”

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No bubble like situation in Indian Real Estate sector: ASSOCHAM

Notwithstanding RBI's concern over the bubble in real estate sector, the financial performance of realty majors during the first half of the fiscal shows grim picture of the sector with a decline of 56 per cent in net profit; dampened by 51 per cent rise in financial charges and interest cost, according to an Assocham Financial Pulse Study.

The Assocham Financial Pulse (AFP) Study titled "Reality check in Indian Real Estate Sector" analyzed the financial performance of ten top real estate companies. As per the Study findings, the total income of the realty majors declined by an average 40 per cent; in line with the fall in net profit whereas the total expenses of the sector registered an average decline of 35 per cent despite a staggering increase of 51 per cent in interest cost.

"The increased provisioning for real estate sector loans by banks from the earlier 0.4 per cent to 1 per cent is likely to shrink the liquidity of the sector by bringing additional burden to banks in lending to developers. The tightening of interest rate on home loans would also reduce the demand significantly going forward" said Mr. D.S. Rawat, Secretary General, Assocham.

The Study stated, the demand for the commercial property is likely to remain in doldrums for this fiscal unless the business confidence improves heavily while the tightening of the policy rates in next year will significantly impact the demand for the housing sector with an increase in interest rate for home loans.

Even though the present situation of the sector is significantly better than the later half of the previous fiscal, the financial condition of the developers has not improved to a level that they can hold a project for long time. They need cash flow to service the debt, which they have taken to buy the land and for its development.

Despite the decelerating overall credit growth rate, bank credit to the sector has grown at a considerably higher pace. For one-year period till August-end this year, banks had lent Rs 28,353 crore to the real estate sector, up 41.5 per cent in comparison to the same period last year.

In stark contrast, home loans amounted to Rs 14,668 crore, up by only 5.4 per cent over the same period last year which contradicts a housing bubble scenario in India as the demand-supply mismatch is unlikely to trigger a boom-bust situation due to tight regulation by the RBI, said the Assocham report.

The Study found that the sentiments in the sector which was faced with severe liquidity crunch and slackening demand due to the global financial meltdown have improved remarkably during the reference period. The price correction has led to demand rising by 20-25 per cent in last two quarters after falling significantly in previous quarters.

The developers had cut prices by around 30 percent in first two quarters of the calendar year 2009 to stimulate the demand of residential units, which tumbled to a low due to the global financial crisis. But since the last quarter, the prices of affordable apartments and residential real estate prices has appreciated by around 10 percent across the country.

Performance of Indian Real Estate Sector (H1 FY 2009-10)				
<i>Change (in %) over corresponding period last year</i>				
Company Name	Total Income	Total Expenditure	Net Profit	Interest Cost
DLF Limited	-54.99	-38.91	-78.00	430.43
Ansal Properties & Infrastructure	-8.67	-12.22	-7.04	65.51
CHD Developers Ltd.	-22.29	-21.46	-74.37	58.06
Peninsula Land	21.25	9.84	35.22	39.56
Ackruti city Limited	-75.22	-61.21	-91.82	18.37
Omaxe Limited	-38.16	-42.84	-51.37	18.07
Parsvnath Developers Limited	-51.77	-54.23	-38.02	4.44
Indiabulls Real Estate	-75.55	-33.85	-117.83	-77.17
Sobha Developers Limited	-36.55	-29.65	-57.68	-30.80
Kolte Patil Developers Limited	-57.73	-65.22	-74.90	-19.99
Average	-39.97	-34.98	-55.58	50.65
Source: Assocham Financial Pulse				

During the last quarter, the real estate majors including DLF, Unitech, Indiabulls real estate, Parsvnath, Sobha Developers and Omaxe made effective use of the bull run in the stock market through the QIP route to fuel their liquidity position amid revival in demand. Supplementing it with the growth in real estate sector lending by banks, the overall liquidity situation of the sector remains robust but it has to be accompanied by a strong push in demand to create a bubble like situation.

Among the analyzed real estate companies, India's biggest real estate company, DLF, registered a major drop of 78 percent in net profit during the first half of FY '10 as compared to the same period of the last year, whereas its financial charges increased by a whopping 430.43 percent during the same period.

Among other realty companies that witnessed a major decline in net profit while registering a healthy rise in interest cost included Ansal Properties & Infrastructure, CHD Developers Limited, Akruti city Limited and Omaxe Limited.