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Sumit Kumar on recent trends in India's real estate market

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Synopsis
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But from a listed coverage perspective, I think there are a few players that have a diversified profile and you can also look at them to probably make a public market investment there.

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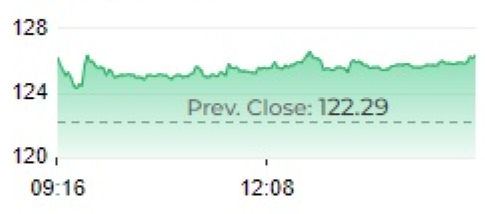
What kind of trends are we seeing within the entire real estate space. The fact that we have seen an uptick in demand as well as in pricing. Would you like to break it down for us in terms of some of the observations that you have made, perhaps city-wise where we are seeing the pricing trends having seen a huge delta?

Sumit Kumar: So, let us go back a little bit. In FY22, the real estate industry actually started the green shoots of recovery. It grew by around 38%. In F23, the number was 51%, although on a low base, because we were coming from a COVID lockdown.



And F24, as we have highlighted in our report, the home run continues. The industry level growth was around 30%. This broken into two components. Volume growth was around 20% and price growth was around 10%. And this is for a pan-India level for the top seven cities that we cover.

Now, going forward, we expect roughly around a 12% to 14% volume growth for this year and pricing growth somewhere in the 6% to 7% range, which means the overall industry will probably be growing at a 20% top line for FY25.

We have to be mindful of the fact that the first quarter was a little weak quarter because of heatwave the footfall at the project sites were lower; the election impact, the approvals did not come through and hence supply for the launches were muted and hence, obviously, absorption took a hit as well.

In that backdrop, I think the 20% growth looks robust. And if you look at the market share gains of the listed or the tier I developers that has continued last year from sort of the 15 top developers that we track, the pre-sales have grown at around a 42% kind of a number against a backdrop of a 30%.

So, this, we expect will continue and sort of overlaying the numbers in the past, we expect the developer universe, the top tier and the listed ones to probably do a 30% kind of a revenue growth.

To come to the second part of the question, which is basically the cities, I think in terms of pricing, Delhi NCR has been at the top, followed by Hyderabad and then Bangalore.

The overall price growth in the last five years from CY19 to CY24, whatever we have seen, is roughly on a pan-India average of 40%, where Delhi is almost like 2x, so it is at the top of the pack, then Hyderabad is somewhere around 1.8x.

Mumbai is probably on the lower side at around 40%, it is close to the national average, so that has been the split. Volume growth wise, we all know MMR is the largest market today in the country with around 40-45% share. The top market in MMR being Thane in terms of volume and then you have Pune, Bangalore and Hyderabad to follow.

That exactly is the point because real estate is no more a region-specific story and I am talking only about the listed universe because the mighty big players have all diversified. I mean, the Delhi players are now in Mumbai and Bangalore and the Bangalore ones are now out here in Mumbai. And it is becoming more of a pan-India story. So, how is it that you figure out which realty stock to actually invest in?

Sumit Kumar: So, I think this geographical expansion is a natural extension of your growth story. Obviously, understand real estate is a very localised affair. The supply-demand dynamics vary across micro-markets. Not even in the city, a south-central Mumbai can have a very different dynamic compared to Thane or Panvel. But there is sort of a space for each and every credible player out there. If you look at what is the market share of the top 25 developers today, it is around 20% and this is the data that I am quoting from PropEquity. The number will range from 20 to 30 but the point is the organised segment is probably at one-third of the total market and that is growing.
So, there is space for any developer worth his salt, who knows how to run a decent selling and marketing game that can get the approvals in a timely manner and execute the project in a timeline of three to four years. So, it is all about managing your working capital well, not really going too aggressive on capital allocation.

And to be fair to all the listed players, they have actually deleveraged their balance sheet, helped by obviously the cash flows that have come through in the last three years, helped by good pre-sales numbers, and supported by valuations, they have raised money as well and they have also not really spent aggressively on land acquisitions.
If you look at most of the business development that has been done by the developers, it is largely through the asset light route through JDAs and JVs.

So, to be fair to them, they have been sort of prudent on the capital side and obviously there is an industry upcycle that everybody has benefited from.

So, players with a decent track record of execution, players who have invested smartly in business development and have the capability to do land deals because of economies of scale, scope, or they have a brand power, so they attract a pull, the landlords are willing to work with them, these kind of developers will probably outperform the entire industry and that has happened and we expect that to continue.

Let us get specific as well in terms of stocks and companies that are specific to different cities. For example, Delhi NCR, because a lot of projects really seem to be selling out over here, that is the discussion as well that we had with some of the managements. There is lots of co-working spaces, the IT hiring has been a big factor for Bengaluru. So, for players like a Prestige Estate or other players that are dominant in that region, what is your outlook in terms of what could influence the price movement of some of these players?

Sumit Kumar: In terms of the four asset classes that we generally classify real estate into, I think residential is doing the best today. Office is still in a recovery mode. And retail, we have seen some growth in consumption that has moderated.

Warehousing, obviously, from the high that we saw in the COVID period, there is some bit of a sort of a muted environment right now. In terms of cash flows, I think the coverage universe that we have, as well as the top 15 developers, they have delivered good growth on pre-sales.

We expect the collections to grow in a similar manner and the gross operating surplus looks healthy for most of the listed developers, barring a few. I expect collections to also move in the same line as pre-sale, which is roughly around 25-30%.

On the commercial side, it is still in sort of slow path to recovery, though we have seen certain players where the occupancies have started to move upwards of 90%, they will take another two-three quarters to reach occupancies which were at the pre-COVID levels of around 95% and that gives you a massive operating leverage from the flow of security deposits and the incremental rentals that come in, so that will also help.

But from a listed coverage perspective, I think there are a few players that have a diversified profile and you can also look at them to probably make a public market investment there.