

Scheme-led indirect price cuts kickstart sales momentum

GST rate cut, 'Affordable Housing' scheme to boost sales

We met Mr. Prashant Thakur, Head - Research of ANAROCK. Discussing the Indian real estate market, Mr. Thakur spoke at length on key trends in the top-7 Indian cities — Mumbai, NCR-Delhi, Bengaluru, Chennai, Pune, Hyderabad and Kolkata. Key takeaways:

- Pan India residential sales grew by 12% QoQ and 52% YoY in 1Q2019 despite GST related disruption in Mar'19. Developers in MMR, Bangalore and Pune activated multiple discount and subvention schemes to push sales, without reducing the headline sales price. This led to the conversion of fence sitters awaiting GST-based cuts in pricing.
- NCR developers stayed away from introducing any schemes due to low consumer sentiment in the micro market.
- Absorption has been mainly from new supplies which are affordable / lower ticket size.
- Supply planned in Mumbai Metropolitan Region (MMR) post-election is high, while Bangalore is stable and well timed. Hyderabad has very low supply with lowest inventory overhang; plus, local players are getting aggressive.
- Prices are likely to remain range-bound for some time until unsold inventory reduces to manageable levels. 2H2019 is likely to witness increased real estate activity, post the general elections.

Pan India sales hit its peak in 11 quarters; sales up 58% YoY in 1Q2019

It has been eleven consecutive quarters, when sales have exceeded the new launches and unsold inventory has been declining. In 1Q2015, in the top-7 cities, supply was 1.7x the absorption; supply stood at 1,33,838 units while absorption stood at 90,574 units; consequently, unsold inventory stood at 7,41,469 units. In subsequent quarters, absorption slowdown resulted in increased unsold inventory, which was the highest in 1Q2016 (7,94,419 units and supply at 1.2x absorption). After peaking in 1Q2016, subsequent quarters saw absorption exceeding the supply, resulting in declining unsold inventory. In 1Q2019, ratio of supply to absorption reduced to 0:9 as new launches reduced to 70,490, while absorption stood at 78,520 and unsold inventory stood at 6,65,105 units. Pan India sales reached its peak in the last 11 quarters in 1Q2019 (+52% YoY); though it grew by 12% compared to 4Q2018, it is still 4% lower than the previous peak witnessed in 1Q2016.

Affordable segment drives new-launch growth

In 2018, there was a double-digit growth in new launches and absorption, led by the affordable segment. New launches grew 33% from 1,46,870 units in 2017 to 1,95,300 units in 2018, driven by Bengaluru, Chennai and Pune. On the other hand, absorption grew 18% from 2,11,130 units in 2017 to 2,48,310 units in 2018, driven by Bengaluru, Kolkata, and NCR. In absolute terms, MMR continues to dominate the top position — for new launches and absorption — followed by Bengaluru, and then NCR. In absolute terms, MMR/Bengaluru/NCR saw new launches of approximately 59,926 units/34,877 units/26,014 units, with absorption at 66,441 units/57,540 units/44,300 units. In 1Q2019, affordable housing segment continued its dominance and accounted for 44% of the total new launch supply in 1Q2019. Nearly 90% of the supply in Pune is priced below INR8m targeting the migrant working class population of the IT-ITes and industrial sectors.



Mr. Prashant Thakur,
(Head of Research, ANAROCK)

With over 18 years of experience in the field of Research & Consulting, Mr. Prashant Thakur is the current Head of Research at ANAROCK. After completing an MBA in Finance, Mr. Thakur worked with consulting majors like Deloitte and Ernst & Young. Prior to joining ANAROCK, he worked with the residential vertical of Quikr.com as Vice President-Research & Data Services. His areas of expertise include business research, market intelligence, business writing, and content development in diverse domains. He has worked extensively in multiple sectors that include financial services, real estate and the consumer business. After a substantial stint in the consulting domain, he joined commonfloor.com as one of its earliest members and was instrumental in scaling up its data and research vertical.

New-launches unit size shrinks, go compact to match ticket size requirements

In 2018, a significant portion of new launches witnessed a drop in average unit size (measured in sq.ft) v/s 2015. In MMR, the drop was the highest at 27%, followed by Pune at 20%, and Kolkata at 18%. In MMR, the average unit size contracted to 700sq.ft in 2018 from 960sq.ft in 2015, Pune too witnessed a drop from 940sq.ft to 750sq.ft in 2018 and Kolkata witnessed a drop in average size from 1160sq.ft to 950sq.ft.

Significant drop in unsold inventory; Bengaluru sees highest decline YoY:

Inventory overhang as at 1Q2019 was the highest at 45 months in NCR, followed by 35 months in both MMR and Kolkata. However, when compared to 1Q2018, unsold inventory declined 10% in NCR to 1,86,710 units, was flattish in MMR at 2,19,490 units, and down 9% to 49,470 units in Kolkata. Inventory overhang was the lowest in Bengaluru and Hyderabad at 15 months. Bengaluru witnessed the highest change (decline) in unsold inventory at 27% to 66,820 units, followed by NCR at 10%, and Kolkata at 6% in 1Q2019. Every city has seen a reduction in unsold inventory over the previous year, except MMR and Pune.

Significant ready-to-move (RTM) units nearing completion, available in South India:

Inventory Aging Analysis reveals that there is a significant number of ready- to-move in and nearing completion inventory in South India. Bengaluru's unsold inventory comprises 17% RTM inventory and 28% 'less than 1-year to complete' inventory, while Chennai has the highest RTM inventory at 29% and 27% 'less than 1-year to complete' inventory. Similarly, Hyderabad has 17% RTM inventory and 37% 'less than 1-year to complete' inventory. MMR/NCR/Pune/Kolkatta have 12%/13%/10%/11% RTM inventory and 13%/23%/16%/25% 'less than 1-year to complete' inventory.

Outlook for 2019:

- Launches are gaining momentum and will continue to grow in the coming quarters.
- Sales are expected to grow further due to the positive impact of reduced GST rates.
- The Government's focus on affordable housing is expected to further provide an impetus to this segment.
- Prices are likely to remain range-bound for some time until unsold inventory reduces to manageable levels.
- 2H2019 is likely to witness increased real estate activity, post the general elections.

NOTES

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < -10% |
| NEUTRAL | > -10% to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

* In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL*) is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and BSE Limited (BSE), Multi Commodity Exchange of India (MCX) & National Commodity & Derivatives Exchange Ltd. (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://online-reports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf>

MOSL, its associates, Research Analyst or their relative may have a financial interest in the subject company. MOSL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MOSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MOSL or any of its associates may have:

- managed or co-managed public offering of securities from subject company of this research report,
- received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
- received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
- Subject Company may have been a client of MOSL or its associates during twelve months preceding the date of distribution of the research report.

MOSL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Terms & Conditions:

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement

Companies where there is interest

- Analyst ownership of the stock

No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. No. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-30801085.

Registration details of group entities: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. * Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products

*MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. The existing registration no(s) of MOSL would be used until receipt of new MOFSL registration numbers.