

Real Estate Sector – A Credit Perspective

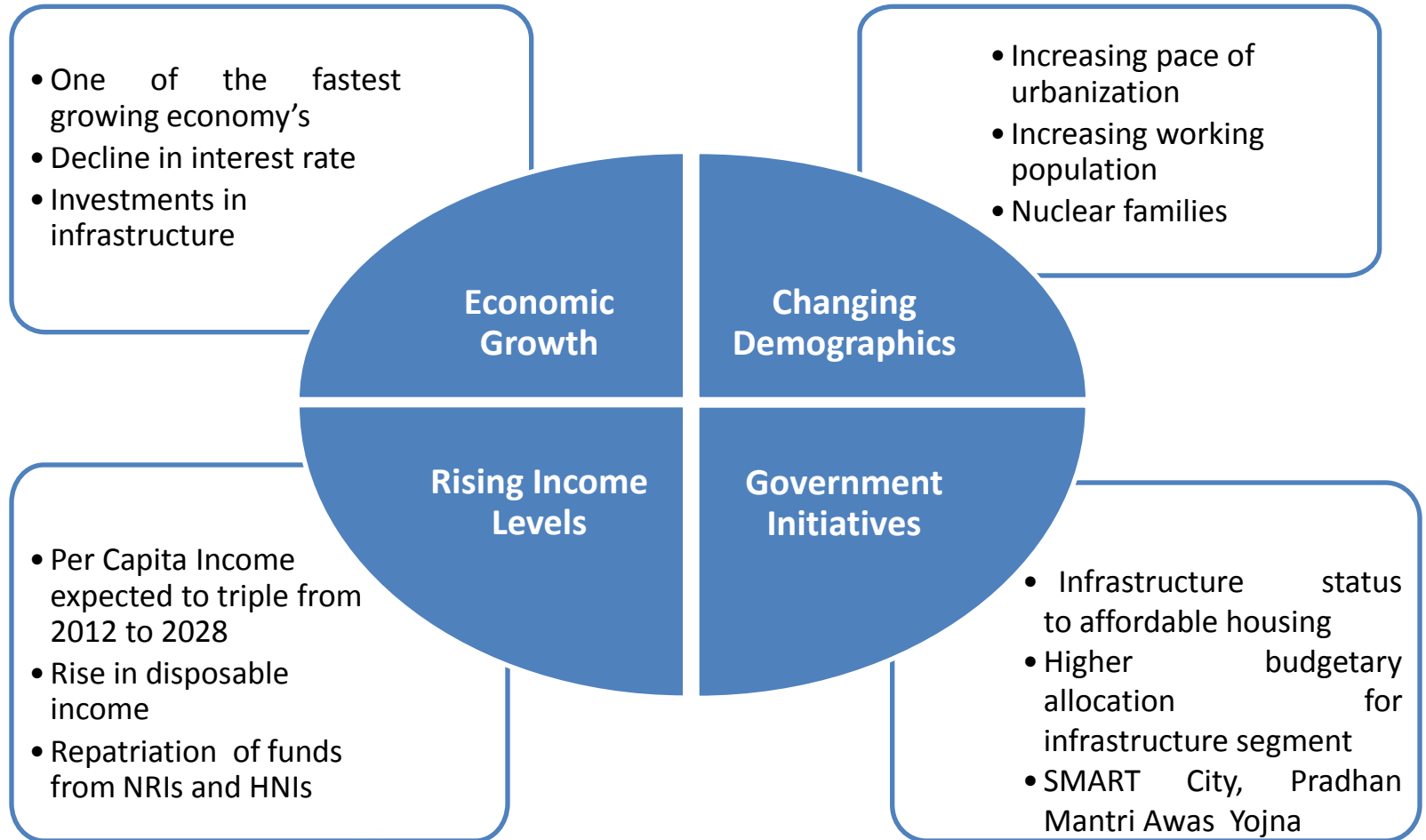
Agenda

- Real estate industry- Overview
- Sector Drivers
- Issues & Challenges Faced by the Sector
- Current Scenario
- RERA and its impact
- Rating Methodology and Analysis
- Rating Dispersion
- Outlook

Industry Overview

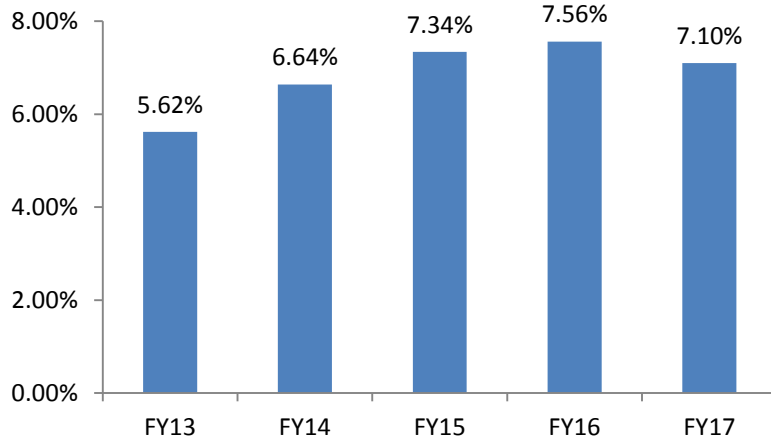
- Real Estate market size of approximately Rs.700 billion
- The third highest contributor to Indian Economy in terms of GDP
- Third largest employer in India
- Second largest inflows of FDI in India in CY16
- Second highest private equity investments in CY16
- Residential segment is the biggest contributor

Key Sector Drivers

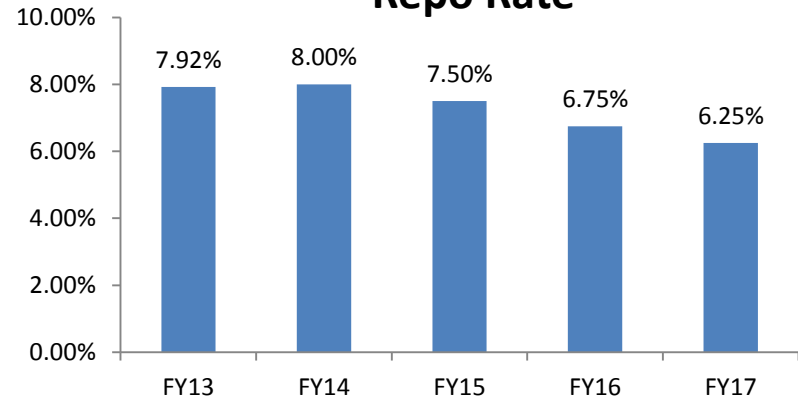


Macro Economic Indicators

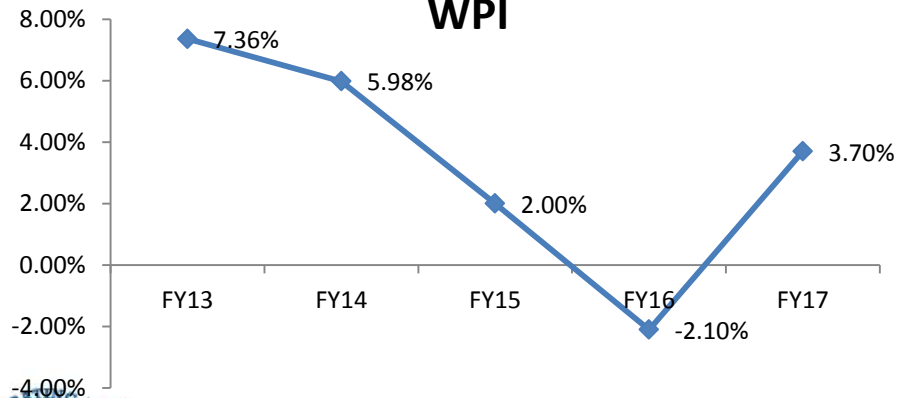
GDP Growth



Repo Rate

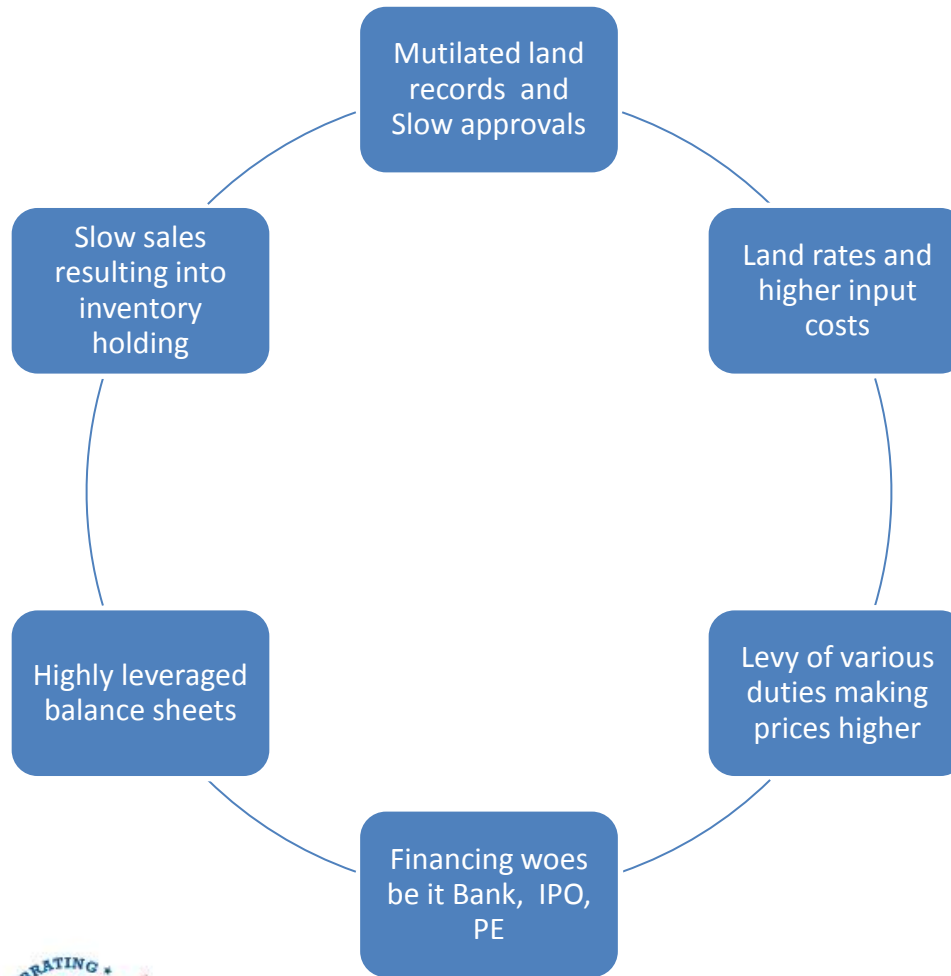


WPI



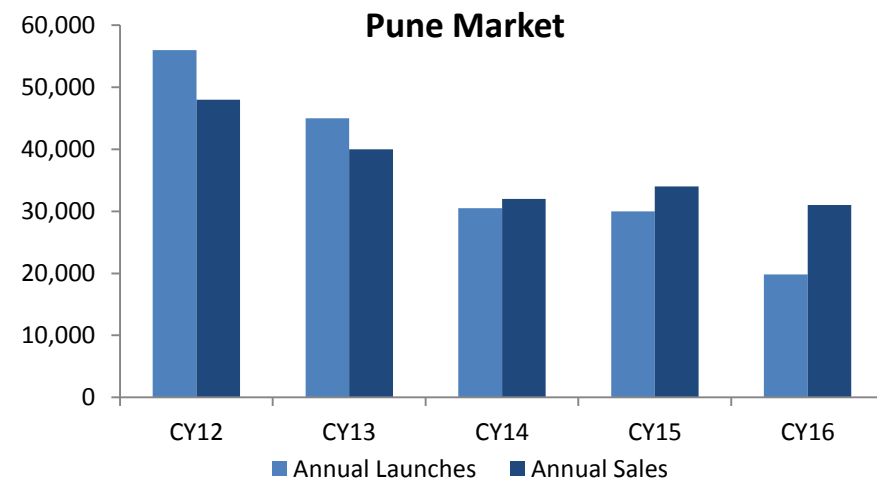
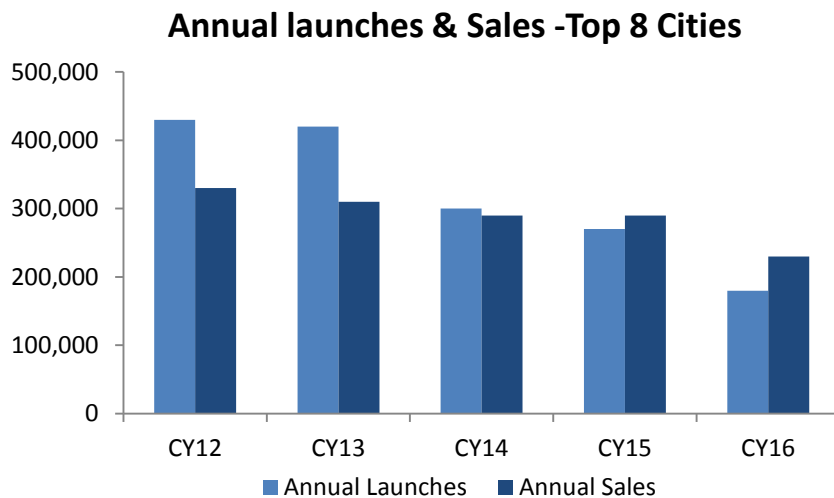
Source: CARE Research

Issues and Challenges



Current Scenario - Residential

- Fewer launches during CY16 specially during October 2016 -December 2016 on account of demonetization.



- Pune residential market on down-ward trend in terms of project launch & sales.
- Sales volume down by 35% y-o-y in Q4CY16 and new launched down by 64% during same period

Source: Knight Frank Research

Top 8 cities: Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, NCR, Pune

Pune Market Trend - Residential

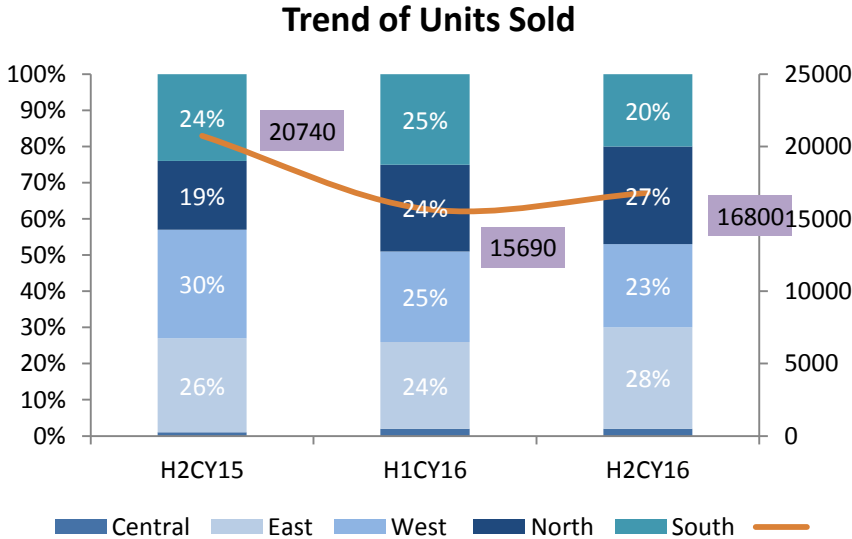
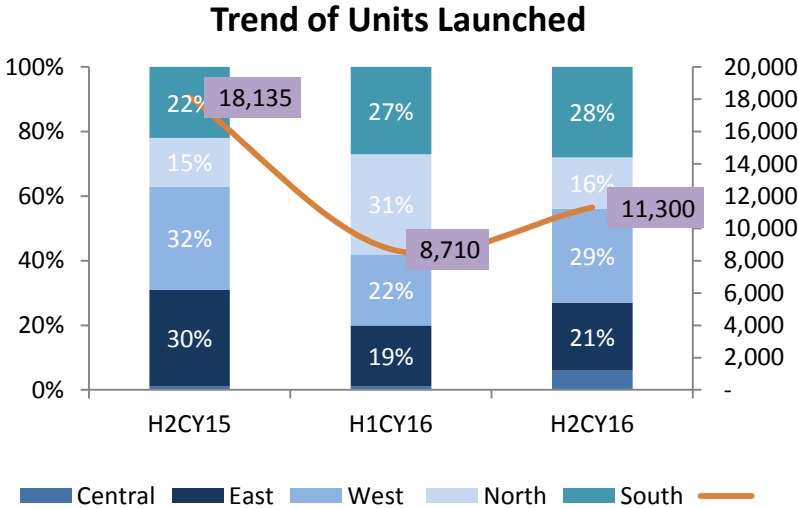
Market	Locations	Drivers
Central	Koregoan Park, Boat Club, Erandwane, Deccan, Kothrud, Model Colony	Corporate offices, organized retail, limited availability of land, good connectivity with various parts
East	Vimanagar, Kharadi, Wagholi, Hadapsar, Dhanori	IT/ITeS, presence of airport, retail market
West	Aundh, Baner, Wakad, Hinjewadi, Bavdhan, Pashan	IT/ITeS, vicinity to Mumbai-Pune express way, vacant land, affordable rents
North	Pimpri, Chinchwad, Moshi, Chikhali, Chakan, Talegoan	Industrial units- India automobile manufacturing companies
South	Kondhwa, Ambegaon, Undri, Dhayari, Warje, Singhad Road	Affordable alternative to Central Pune for residential market

Pune Market



Pune Market Trend - Launches & Sales

- Major new launches in West region and South region with Central region witnessing lesser launches



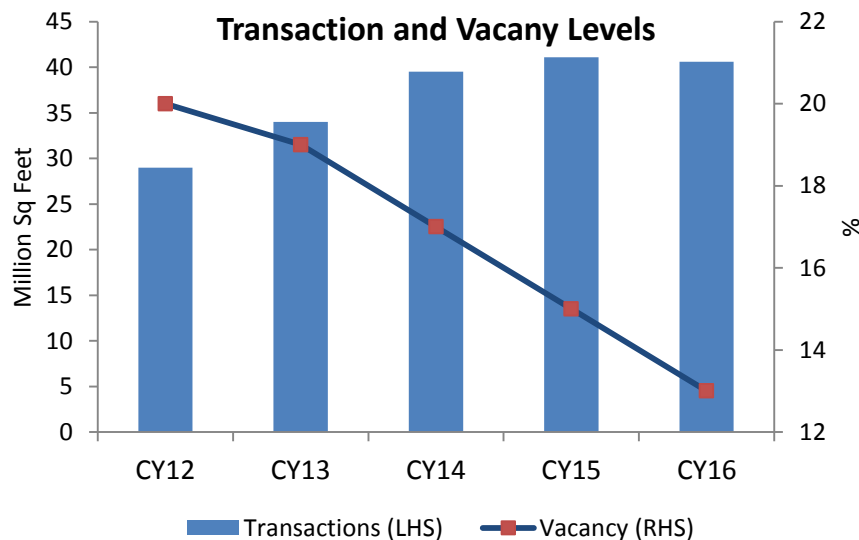
Source: Knight Frank Research

Affordable Housing

- Fuelling the growth for the real estate industry
- Home loans below Rs.10 lakh surged by 43% during FY17
- Various government initiatives-***Pradhan Mantri Awas Yojana (PMAY)*** – Housing for all (Urban) on 25th June 2015, by reforming “Housing for All” scheme.
- It is expected that 60 million new homes to be built in India between 2018-2024, with affordable housing rising almost 70% to 10.50 million by 2024. (*Source: CLSA*)

Current Scenario - Commercial

- The office market across top six cities in India in line with last year
- Total transactions of 40.60 million square feet during CY16 vis-à-vis 41.10 million square feet during CY15
- Vacancy level falling, with 13% during CY16



Million Sq Feet Transacted	CY15	CY16	Growth
Bangalore	11.07	11.40	3%
Chennai	5.10	5.30	4%
Hyderabad	4.60	6.00	31%
Mumbai	7.50	7.10	-5%
NCR	7.40	7.30	-1%
Pune	5.50	3.80	-31%

Source: Knight Frank Research

Top 6 cities: Bangalore, Chennai, Hyderabad, Mumbai, NCR, Pune

Pune Commercial Market Trend

- Vacancy levels in Pune all time lower at 8.30% during CY16 despite demand outstripping new supply.
- The focus shifted from commercial to residential post 2010, resulting into limited launches in commercial space.
- From 2012 onwards, 13.50 million square feet of new space delivered as against 20.70 million square feet transacted, leading to steady increase in weighted average rent in Pune.

Market	Location	Rental Value Rs/square feet/Month
Central	Bund Garden, S.B. Road, Camp, Deccan, University Road, Shankar Sheth Road	70-100
Suburb-East	Kalynai Nagar, Yewada, Nagar Road, Vishrantwadi, Hadapsar	50-85
Peripheral-East	Kharadi, Phursungi, Wanowrie	45-75
Suburb-West	Wakdewadi, Aundh, Baner, Kothrud, Balewadi	50-75
Peripheral-West	Hinjewadi, Wakad, Bavdhan	35-48

Source: Knight Frank Research

Key Developments - RERA

Developer's Perspective

- Streamlining of operations from planning to execution
- Compliance for the existing under construction projects
- Project specific cash flow management
- Ring fencing of the project specific cash flow
- Need for additional funding requirement
- Weeding out of non-serious and small players
- Adherence to project completion schedule

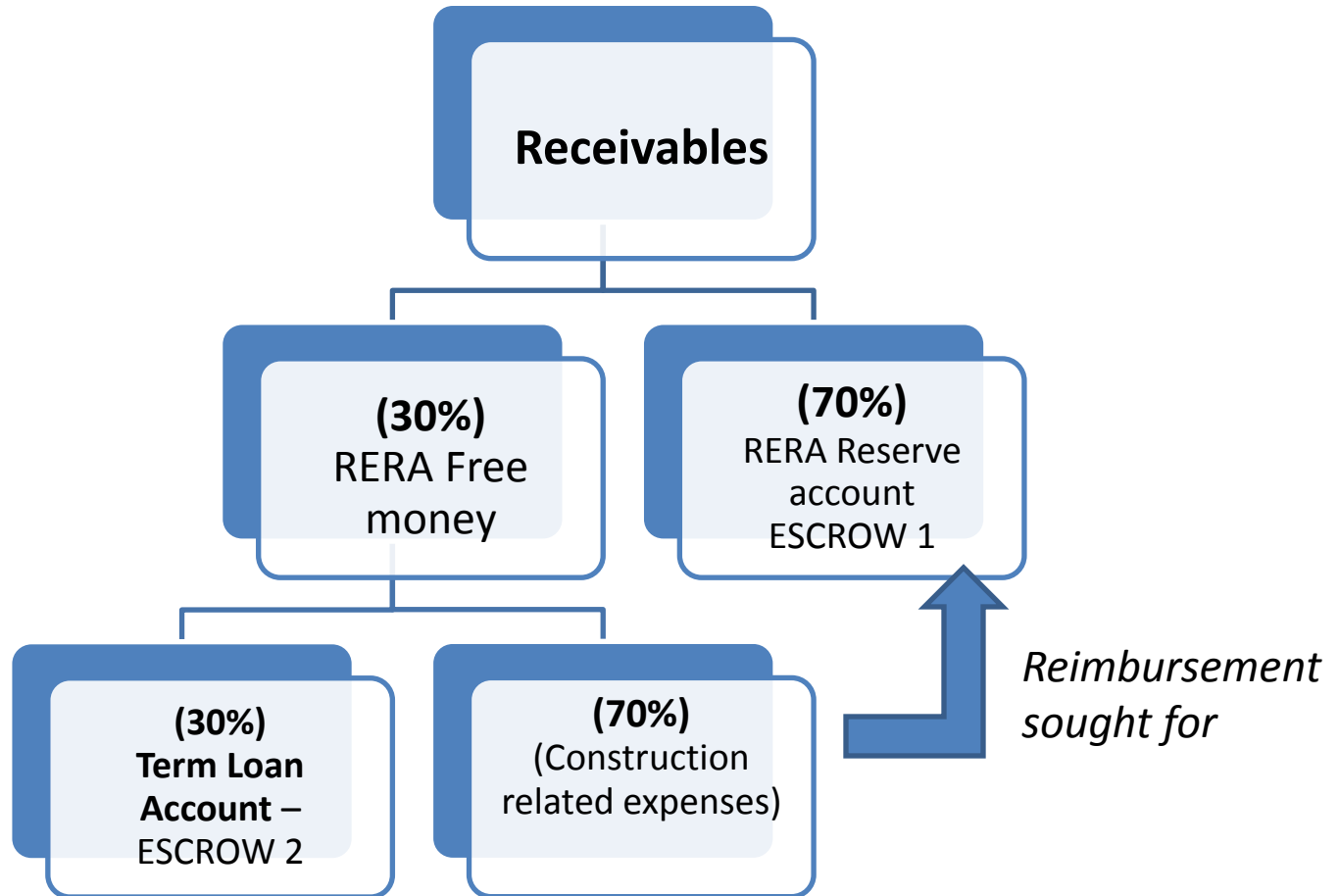
Buyer's Perspective

- Higher transparency and credibility
- Access to project specific information and project progress
- On time completion of projects as per the schedule
- Boost in consumer confidence
- Defect liability period clause of five years
- Faster resolution of disputes

Credit Perspective

- Reliability and availability of verified data on a half yearly basis
- Escrow mechanism to ensure project specific cash flows remain intact.
- Healthy sales momentum to improve liquidity
- Short term cash-flow mismatches
- Cash flow analysis to factor in the available cash flows for debt servicing
- Higher quantum of corporate loans a concern from credit perspective
- Factoring in various penalties

RERA – an illustration



Rating Methodology

Real Estate SPVs

- One project one SPV
- Ring fenced cash flows

Real Estate Developers

- All projects under same company/firm
- Fungibility of cash flows

Lease rental discounting

- Future rental against commercial property
- Discounted values of rental

Rating Methodology



Financial Analysis

Project spec, funding and sales

Project cost										Project cost incurred as on ...					
Land + TDR+ Stamp duty		Const.		Overheads		Interest		Total		Land + TDR Rs.Cr	Const. Rs.Cr	Over-head Rs. Cr	Int. Rs. Cr	To tal Rs. Cr	% of Total Proj ect Cost
Rs. cr.	PSF	Rs. cr.	PSF	Rs. cr.	PSF	Rs cr.	PSF	Rs. cr.	PSF						

Project Means of Finance (Rs. Crore)					Fund infused (Rs. Crore) as on					
Equity	Debt	Customer Advances	Total	Debt Tied up	Promoter funds	Debt	Customer Advances	Creditors / Others	Total	% of Total Cost

Sale area	Launched	Sold as on...	% sold	Avg. Sales price	Last sold rate	Customer advances			Area Registered		Total debt + bal. cons	Total debt + bal. project	Cust. receivable as a part of bal. construction + debt	Cust. receivable as a part of bal. project cost + debt
						T otal	Recd.	To be Recd.	L S F	%				
LSF	LSF	LSF	%	PSF	PSF	Rs. cr			L S F	%	Rs. cr			

Key Ratios

$$\text{Construction Status (\%)} = \frac{\text{Construction Cost Incurred}}{\text{Expected total Construction Cost}}$$

$$\text{Project Status (\%)} = \frac{\text{Project Cost Incurred}}{\text{Expected total Project Cost}}$$

$\frac{\text{Customer Advances to be received from Sold Inventory}}{\text{Balance Project Cost + Outstanding debt}} = \text{Receivable Coverage Ratio (\%)}$
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$$\text{Area booked (\%)} = \frac{\text{Sold Area}}{\text{Launched Area}}$$

$$\text{Status of Advances Received (\%)} = \frac{\text{Advances Received}}{\text{Total Sold Value}}$$

Equity Funds : Debt Funds : Customer Advances

Review Period	Year 1	Year 2	Year 3	
Rating	BB	BB+	BBB-	Risk Perception
Developer Experience - LSF	35	35	35	Neutral
Total project Area - LSF - Saleable	10	10	10	Neutral
% Debt tied up	0%	50%	100%	Positive
Project Execution (%)	21%	53%	75%	Positive
Sales Booked (%)	5%	45%	85%	Positive
Area Registered (%)	0%	41%	70%	Positive
Customer Advances (CA) as % of (total debt plus balance construction cost)	6.57%	32.62%	71.69%	Positive
Means of Finance Ratio (Promoters Funds: Debt: CA)	30:20:50	30:20:50	30:20:50	Neutral
% Promoters Funds Brought Up	67%	100%	100%	Positive
Whether all approvals received	No	Yes	Yes	Positive

Review Period	Year 1	Year 2	
Rating	BB	BB-	Risk Perception
Developer Experience - LSF	10	10	Neutral
Total project Area - LSF - Saleable	5	15	Negative
% Debt tied -up	50%	100%	Positive
Project Execution (%)	48%	23%	Negative
Sales Booked (%)	42%	20%	Negative
Area Registered (%)	30%	32%	Stable
CA as % of (total debt plus balance construction cost)	66.67%	19.40%	Negative
Means of Finance Ratio (Promoters Funds: Debt: CA)	35:10:55	20:20:60	Negative
% Promoters Funds Brought Up	94%	71%	Negative

Review Period	Year 1	Year 2	Year 3	Year 4	Risk Perception
Ratings	BBB	BBB	BBB	BBB	
No of Projects Under group	21	21	26	21	Neutral
Developer Experience - LSF	> 60	> 75	> 80	>83	Reducing
Total project Area - LSF - Saleable	38.29	47.3	55.3	63.49	
% debt tied up	100%	100%	91%	95%	Stable, Positive
Project Execution (%)	45%	44%	48%	45%	Stable, Positive
Sales Booked (%)	59%	55%	60%	56%	Stable, Positive
Area Registered (%)	41%	27.50%	48%	74%	Positive
CA receivable as % of (total debt plus balance construction cost)	43%	52%	44%	41%	Stable Positive
Means of Finance Ratio (Promoters Funds: Debt: CA)	15:23:62	18:19:63	07:21:72	05:15:81	Negative
Actual Means of Finance ratio	12:40:49	26:26:49	12:18:70	10:14:77	Negative, Neutral

Coverage ratio - an illustration

Particulars/ for the quarter ended (Rs. crore)	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016
Cumulative Sales Booking	489.23	558.23	636.32	746.85	829.07	905.10	956.60
Cumulative Revenue Collected	249.51	304.51	372.51	445.51	498.36	537.85	596.01
Cumulative Tied by Receivables	239.72	253.72	263.81	301.34	330.71	367.25	360.59
Cumulative construction cost	428.83	428.83	428.83	428.83	497.67	612.95	612.95
Cumulative Construction Cost incurred	210.88	228.24	244.74	259.74	272.69	283.72	294.25
Balance Construction Cost be incurred	217.95	200.59	184.09	169.09	224.98	329.23	318.70
Net Debt outstanding	130.37	173.77	285.21	254.31	262.05	266.56	277.88
Balance construction cost and outstanding debt	348.32	374.36	469.30	423.40	487.03	595.79	596.58
Coverage ratio	69%	68%	56%	71%	68%	62%	60%
Construction coverage ratio	110%	126%	143%	178%	147%	112%	113%

LRD – Key Pointers

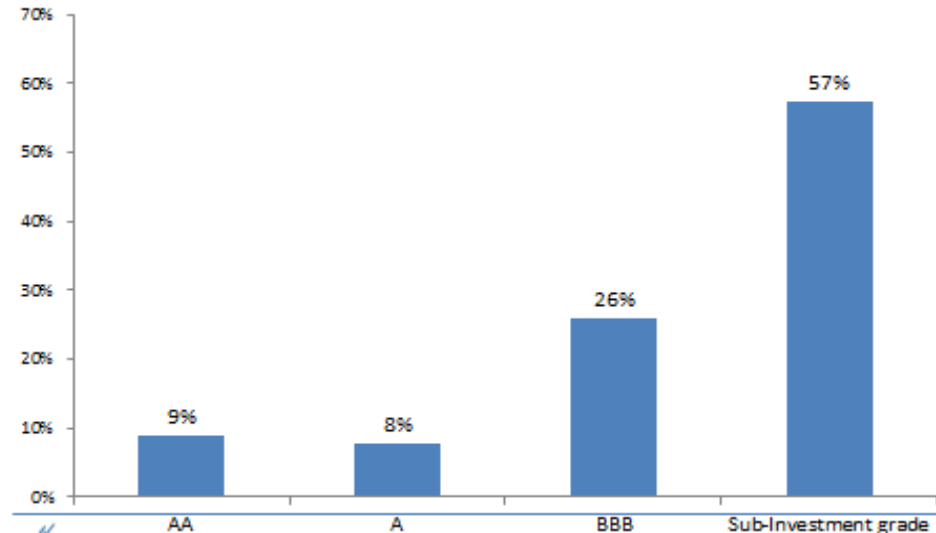
- Property Characteristics
- Occupancy & Lease rentals and Debt levels
- Tenure of lease agreements
- Counter party risk
- Escrow mechanism
- Presence of debt service reserve account (DSRA)

Rating Concerns

- Data transparency
- Cyclical nature of industry
- Several projects under execution in parallel
- Delays in the construction and cash flow mismatches
- Project delays on account of delay in financial closure
- Product offering and target audience mismatch
- Flexibility to raise capital
- Geographical concentration risk
- Diversion of funds

Rating Dispersion - CARE

Rating Dispersion CARE (May 2017)



Outlook

- Mid market segment to be at focal point.
- Commercial market to remain steady, albeit with reducing share from IT industry.
- Reduced source of funding from PSU banks
- RERA to kick in consolidation
- Pune residential market to witness stability given IT industry concerns
- Pune commercial market to witness more transactions from BFSI segment, subject to good property and location

Selected clientele



Thank You

