

Real Estate

4QFY17E Results Preview

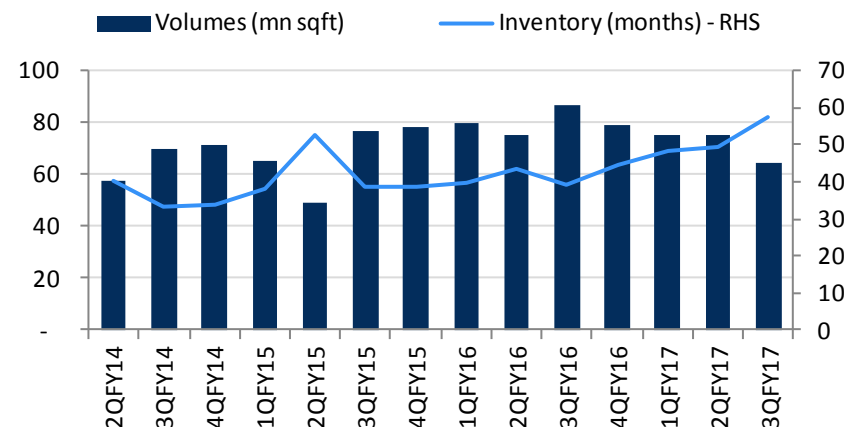
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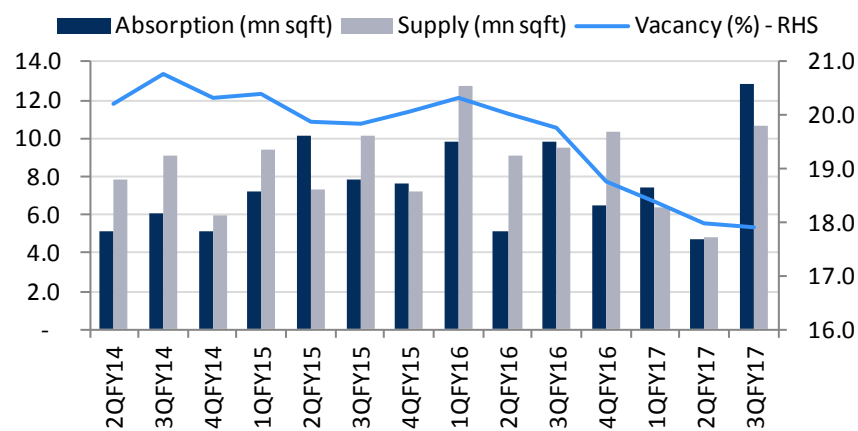
Near- term Headwinds, Long-term Gains

- With the dampening effect of demonetisation a thing of the past, and the implementation of the Real Estate Regulatory Act (RERA) driving outperformance, the BSE Realty Index has risen 27% in the last 3 months. In the interim, we choose to remain cautious, rather than chasing stock prices, owing to multiple headwinds like (1) Notable increases in customer litigations (post RERA) (2) A reduction in liquidity (3) A weakening of buyers' sentiment (4) Developers' efforts to complete under-construction projects will lead to erosion of margins and (5) No meaningful recovery in pre-sales. However, on flip side, market share gains may compensate the lowering of investor demand.
- Near term, the outlook remains cautious, while over the long term, RERA will drive transparency, reduce cost of capital, improve liquidity and lead to significant re-rating.
- Within our coverage universe, we expect weak results across companies, as the upward revision of completion costs would impact profitability. Revenue recognition in under-construction projects will remain muted, owing to discounts.
- During 4QFY17E, aggregate sales in our coverage universe will decline 8.9% YoY. The decline in EBIDTA/PAT numbers is pegged at 8.9/25.4% respectively.
- Change in rating:** With a sharp rise in share prices, we downgrade the real estate sector coverage to NEUTRAL.
Changes in TP: We increase TP of Kolte Patil to Rs 177/sh (reduce NAV discount from 35% to 20% as demonetisation is largely behind us). We increase our TP of Brigade Enterprise to Rs 230/sh (reduce rental cap rate to 8.5% and change base property price correction from 15% to 10%.)

Residential: Inventory Rising On Account Of Demonetisation



Commercial Offices — Strong Absorption, Vacancies Reducing



Source: HDFC sec Inst Research, Commercial - Cushman Wakefield, Residential - Liasas Foras. Commercial/Residential data takes into account Top 6 Indian Cities of MMR, NCR, Bengaluru, Chennai, Pune and Hyderabad

RERA Headwinds To Impact Profitability

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
DLF	BAD	<ul style="list-style-type: none"> Revenues to decline 15.6% YoY, as DLF Phase V sales recovery will be muted EBIDTA margins may decline 239bps QoQ to 44.2%. Legacy projects nearing completion are loss-making and margin dilutive Net profit to decline 40.9% QoQ, on high interest expenses Rental income will reduce owing to the demonetisation impact on sales of luxury goods 	<ul style="list-style-type: none"> Guidance on Rentco stake sale completion and funds inflow Debt levels Pre-sales momentum in the residential segment
Oberoi Realty	BAD	<ul style="list-style-type: none"> We expect a 7.9% QoQ revenue decline on account of muted sales in Goregaon projects EBIDTA margins to expand 67bps QoQ to 50.7% Net profit to dip 21.9% QoQ 	<ul style="list-style-type: none"> Sales traction in completed project- 'Exquisite' Pre-sales pickup in the Worli project Leasing trend in Commerz-II
Prestige Estates	BAD	<ul style="list-style-type: none"> We expect 9.5% QoQ decline in revenues EBIDTA margins to expand by 45bps QoQ to 19.8% Net profit to dip 23.1% QoQ Rental income will reduce due to the demonetisation impact on luxury good sales 	<ul style="list-style-type: none"> Pre-sales momentum Change in debt levels owing to assets restructuring Capex plans on annuity assets/REIT's monetisation
Sobha	AVG	<ul style="list-style-type: none"> We estimate 7.4% QoQ decline in revenues EBIDTA margins may expand 184bps QoQ to 20.1% Net profit to decline 9.1% QoQ 	<ul style="list-style-type: none"> Pre-sales momentum on premium projects Debt levels Outlook on Capex in the Commercial segment

Rera Headwinds To Impact Profitability

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Brigade	AVG	<ul style="list-style-type: none"> ▪ We expect revenue to decline 7.7% QoQ ▪ EBIDTA margins may expand 398bps to 27.2% QoQ ▪ Net profit to decline 7.0% QoQ ▪ Rental income will reduce due to the demonetisation impact on luxury good sales 	<ul style="list-style-type: none"> ▪ Outlook on asset capex ▪ Debt levels, Fund raise ▪ Timely completion of Hotel and Rental properties
Kolte Patil	BAD	<ul style="list-style-type: none"> ▪ Revenue to decline 28.9% QoQ ▪ Margin expansion by 24bps QoQ to 24.8%, on account of higher contribution from Mumbai projects ▪ Net profit to decline 29.5% QoQ 	<ul style="list-style-type: none"> ▪ Debt levels ▪ Sales traction in Life Republic R1 sector, Corolla Realty and Wakad project ▪ Launch pipeline and pre-sales volumes

Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	QoQ (bps)	YoY (bps)	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	3Q FY17	4Q FY16
DLF	17.4	(15.6)	(25.6)	7.7	(19.9)	(12.3)	44.2	(238.6)	671.7	0.6	(40.9)	(54.2)	0.3	0.5	0.7
Oberoi Realty	2.3	(7.9)	2.4	1.2	(6.7)	14.1	50.7	66.6	519.6	0.7	(21.9)	3.1	2.0	2.5	1.9
Prestige Estates	11.2	(9.5)	(1.8)	2.2	(7.4)	(15.1)	19.8	44.8	(308.9)	0.5	(23.1)	(34.4)	1.4	1.8	2.1
Sobha Limited	5.0	(7.4)	(8.8)	1.0	2.0	(14.2)	20.1	184.0	(126.5)	0.4	(9.1)	29.9	3.7	4.0	2.8
Brigade Enterprises	5.2	(7.7)	4.7	1.4	8.1	21.6	27.2	397.8	378.4	0.3	(7.0)	15.4	2.5	2.7	2.2
Kolte-Patil Developers	1.6	(28.9)	(12.5)	0.4	(28.2)	(24.0)	24.8	24.0	(373.9)	0.1	(29.5)	(27.1)	1.7	2.5	2.4
Aggregate*	42.7	(12.4)	(13.4)	13.9	(13.7)	(8.9)	32.5	(46.8)	160.1	2.5	(25.2)	(25.4)			

Source: Company, HDFC sec Inst Research * consolidated financials

Valuation Summary

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
DLF	283.5	159	NEU	153	1.7	2.0	3.2	93.8	81.3	49.6	15.1	14.6	13.9	2.4	1.4	2.1
Oberoi Realty	124.5	367	NEU	396	10.2	30.8	40.4	36.2	11.9	9.1	23.8	9.4	5.9	6.3	17.1	18.8
Prestige Estates	86.3	230	NEU	222	6.4	8.6	11.1	36.0	26.8	20.8	16.6	13.4	11.8	9.2	11.1	13.5
Sobha Limited	37.1	378	NEU	381	15.3	20.8	24.8	24.7	18.2	15.3	14.5	10.8	9.9	4.6	6.9	7.9
Brigade Enterprises	26.9	239	NEU	230	9.5	11.3	13.2	25.1	21.1	18.2	9.1	8.5	7.6	8.2	8.9	10.4
Kolte-Patil Developers	13.4	177	NEU	177	9.2	10.6	15.9	19.3	16.6	11.1	8.6	7.7	5.6	7.7	8.3	11.4

Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH
Rating Definitions

BUY	: Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	: Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL	: Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

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