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New launches, improving cash flows a positive for top realty players

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The national real estate market presents an intriguing picture. Lower volumes and flat pricing serve as dampeners. Sales bookings across the top ten markets have seen 6 per cent growth year-on-year (Y-o-Y) between April and August 2024, but sales volume is down 8 per cent Y-o-Y. Unsold inventory is up. However, analysts believe the ongoing financial year (FY25) will be a record year due to strong traction from new launches.

Post-Covid-19, the sector witnessed a strong upswing in all top markets. Over FY21-24, 11 real estate majors saw an aggregated annual growth of 43 per cent. Guidance implies aggregate sales booking will grow by 27 per cent (Y-o-Y) to ₹1.25 trillion in FY25 and these 11 companies have already recorded ₹27,800 crore in sales booking in Q1FY25.

New launches of gross development value (GDV) of ₹1.52 trillion are in planning, and the current inventory is ₹1.47 trillion. Launches with a GDV of ₹1.15 trillion are lined up in H2FY25. In some cases, sales bookings are at over 100 per cent of unsold inventory, indicating that new launches are urgent.

In Bengaluru, a key market, there are challenges in terms of approvals, and companies with large exposure, face risks of delay. Sobha, for example, has 60 per cent of its incremental launch value exposure to the Bengaluru market, while Brigade (40 per cent exposure), Century (38 per cent), Arvind Smart (28 per cent), and GPL (18 per cent) also have cause for concern.

Although realisations may rise due to premiumisation, price escalations may be moderate. Large players could achieve 20-25 per cent growth while midcap players could achieve 30 per cent growth in sales bookings. A cash flow analysis of realty developers in FY24 indicates that cash operating profit margins were sustained at 39 per cent, similar to FY22 and FY23. Nine developers had 'negative working capital cycles' as compared to (six such developers in FY23. Land-related capex rose to 29 per cent from 25 per cent (FY23) but net debt reduced for nine developers and average interest outgo as a percentage of collections fell to 6 per cent in FY24 from 7 per cent in FY23. This generated strong operating cash flow (OCF) in FY24.

There was wide variance. DLF, Oberoi, Signature Global, and Puravankara saw working capital improvement/negative cycles during FY24. Godrej's OCF was in the red in FY24, though the working capital cycle improved. Working capital requirements increased in FY24 for Prestige Estates, Brigade, Mahindra Lifespaces, and Kolte-Patil.

DLF, followed by Rustomjee and Lodha had the highest cash operating surplus in FY24. Sobha, Kolte-Patil, and Shriram Properties were at the lowest end in terms of cash profitability.

While DLF and Godrej Properties were able to hold on to their cash operating profit margins in FY24, profitability improved Y-o-Y for Puravankara and Shriram Properties but declined Y-o-Y for Kolte-Patil and Keystone.

Assuming strong housing demand is sustained, developers must focus on business development, meaning higher land capex. Lower leverage due to good cash flow generation/equity fund raises makes this possible. Developers may prioritise business development over deleveraging.

Among the listed players, Godrej, Prestige, Signature, and Brigade delivered the strongest growth in FY24. Real estate companies have diversified. DLF has moved into Mumbai, Prestige Estates is entering Mumbai & Hyderabad, Brigade expanding in Chennai and Hyderabad, and Oberoi Realty exploring Delhi-NCR.

Tier-I listed developers are also trying to gain market share versus the informal segment. According to data from Propequity, the top 10 listed developers have gained 8 per cent market share since 2019. Quick sales of high-quality launches have led to a shortage of such inventory. Tier-I players with strong balance sheets will be favoured in the prevailing environment.