

# Real Estate

## Bangalore visit - weak sales volume

We visited Bangalore recently and were surprised by the weak residential sales volume. Residential sale prices have increased by approximately 10-20% from the trough. While the current sales volumes are extremely weak, we expect a gradual increase in the volumes with improving confidence in the IT/ITES sector and improvement in hiring.

### Sales volume remains weak; 90% below peak level

We were surprised by the persistent weakness in sales volume based on our discussions with property brokers. According to the brokers if peak sales were 100 units/month, then the worst period was December 2008-January 2009 with zero unit sales, the current sales being approximately 10 units/month. This implies that sales volumes are still 90% below the peak sales level. We expect sales volumes to increase gradually as the hiring increases in the IT/ITES industry and improving confidence levels in the next 3 quarters.

### Sale price still lower than peak prices

Our conversation with developers and property brokers indicated that the sale price has risen by approximately 10%-20% in the past six months but remains approximately 10-20% below the peak prices achieved prior to the recession. However, if all the planned launches are achieved as per the developers' objective, we could, in that case, expect pressure on the prices.

### Sobha (Not Rated) - focus on improving B/S by selling land

Sobha plans to reduce the net debt to equity ratio from 0.9:1 to 0.5:1 in FY11. This would imply reduction of Rs5.5bn in net debt (from Rs14bn currently to Rs8.5bn). To achieve their objective Sobha plans to sell land worth Rs1.5bn in 4QFY10, and Rs2.5bn in FY11, and expects to get Rs1.5bn from operations in FY11. The company does not plan to buy any more land and expects to enter into joint development agreements with landowners to expand their land bank. It plans to launch 8mn sq. ft. in next 12-18 months.

### Brigade (Not Rated) - comfortable net debt to equity at 0.6:1

Brigade is comfortable with net debt to equity ratio of 0.6:1. The company expects to pay Rs500mn of debt in the next 1 year and expects construction expense of Rs6bn in the next one year. However, the company said that the requirement for construction expense has been fully tied up. The company expects to receive cash inflow of Rs6bn from sale of 5.7mn sq. ft. of residential projects under construction in the next one year.

### Purvankara (BUY)- comfortable net debt to equity of 0.5:1

Purvankara expects gradual improvement in sales in the next one year, as demand improves from the IT/ITES sector. The project Wellworth (affordable housing near the Bangalore airport) has seen strong response. The company has sold 850 units out of 1,025 units in phase I. We maintain BUY on Purvankara, as we expect the company to benefit from the improving confidence in the IT/ITES sector and expected increase in hiring.

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