Hindu Business Line

Momentum may slow down

Date: 01-08-2010 | Edition: Mumbai | Page: 5 | Source: Mounmita Bakshi Chatterjee | Clip size (cm): W: 19 H: 25

Clip: 1 of 1

Momentum may slow down

Rising realty prices and an upward bias in interest rates could dampen the demand.

Moumita Bakshi Chatterjee

Aided by improved market sentiments, real-estate companies such as DLF, Sobha Developers, HDIL and Omaxe have delivered 24-112 per cent year-on-year increase in revenue for the quarter ended June 2010. But while builders believe that the recovery in the real-estate market is now "well-entrenched", analysts caution that rising realty prices and an upward bias on interest rates can dampen the demand in coming quarters.

"Though there is a marginal slowdown in the operating metrics in Mumbai and Delhi, the quarter has been good for most developers. However, the incremental improvement in quarter-on-quarter sales that had been visible in FY10, appears to be going away and the momentum is slowing down," says Mr Bhaskar Chakraborty, real-estate analyst at IIFL.

Market watchers feel that demand has started being hit by rising real-estate prices. "On the one hand, the higher price has impacted affordability and hence demand is slowing down. On the other, rising rates have prompted more developers to launch projects, pushing up the supply," Mr Chakraborty pointed out.

Mr Samir Jasuja, Founder & CEO, PropEquity, agrees that rising prices in the property market are a "huge concern". "Although the right numbers are coming in so far as the top-line is concerned, this could be largely due to improved realisation, given that rates in Tier-1 locations have gone up 60-70 per cent over the last one year. I think, the prices are stagnant for now, but if they start to move up again, one could expect slowdown in absorption. It is too early to say anything...We will have to watch this space," he says.

OFF TO 'OPTIMISTIC START'

For the record, India's largest real-estate company DLF Ltd posted consolidated revenue of Rs 2,161 crore in Q1 of this fiscal, 24 per cent higher than the year-ago period, and said it was on to an "optimistic start" in FY11 with continued buyer interest in the residential space, better leasing momentum in offices, and signs of enquiry and interest in select locations on the retail side.

But DLF missed the street expectation on consolidated net profit, as higher interest cost and depreciation dragged profitability. Another disappointment was the subdued development volume of 1.9 million sq.ft (msf), with the management citing delay in approvals for the fewer launches.

"In the last quarter, the management has guided 15-18 msf of development volumes for FY11, which will be a challenging task," Angel Broking has said in its post earnings report on the company.

On a positive note for DLF, there was an improved momentum in leasing with 1.1 msf done in Q1 2011, more than the leases booked in the whole of last year.

Delhi-based Omaxe reported a 113 per cent growth in net sales during Q1 to Rs 252.9 crore but faced the heat on EBITDA margins, which stood at 20.55 per cent compared with almost 39 per cent in the corresponding period previous year. "There has been a stress on the margins as we are into affordable housing with average realisation in the range of Rs 1,400-1,500 per sq ft," says Omaxe CMD, Mr Rohtas Goel.

Sobha Developers says it sold 6,70,883 sq.ft compared with 2,50,385 sq.ft in the same period of the previous year; and handed over four contractual projects totalling 0.28 msf. Commenting on its growth plans, Sobha pointed out that in the current quarter it has launched a row house project at Coimbatore, with saleable area of 0.19 msf. The growth blueprint also includes launch of about 1.57 msf in the current quarter; and projects in NCR and Chennai region this year.

MONETARY POLICY

Meanwhile HDIL — whose revenue grew nearly 53 per cent to Rs 451 crore in Q1FY11 — plans to launch 4-6 msf of residential projects in the current financial year. "The Indian economic and the realty market are projected to grow favourably, thereby providing us with an opportunity to further expand and consolidate our presence in the real-estate market," says Mr Sarang Wadhawan, Managing Director, HDIL.

This optimism notwithstanding, many in the industry feel that although improved macroeconomic conditions and rising salaries, particularly in sectors such as IT, have galvanised demand for housing in recent times, any further series of action on the monetary policy side could spoil the rally.

"The cost of borrowing has always been closely linked to demand. A small increase, such as the recent 25 basis point hike in repo rate will not have any adverse effect, but if the trend continues and the interest rates go back to double digit, it will definitely depress demand," says Mr Shobhit Agarwal, Director, Protiviti Consulting.