INSTITUTIONAL RESEARCH

Real Estate

Approval challenges may play spoil sport

This report focuses on the challenges Grade A developers (particularly Bengaluru players, i.e., Sobha, Prestige, Brigade, and Godrej Properties) are facing due to delays in regulatory approvals. These hurdles are resulting in postponements of planned launches, which, in turn, could lead to supply-side constraints in the residential real estate market in the near term. Despite these bottlenecks, demand for housing remains robust, driven by resilient end-user interest and favourable macroeconomic factors. This report delves into the implications of these challenges and highlights how they may shape the competitive dynamics in the ongoing RE upcycle.

Approval challenges: Developers face several hurdles in obtaining necessary approvals. First, coordination with multiple agencies adds complexity. In addition to RERA, developers must secure approvals from various local and state authorities, such as urban planning boards, municipal corporations, fire safety departments, and environmental agencies. Coordination among these bodies can be slow and inefficient, contributing to extended approval times. Second, stringent environmental and land use regulations often cause delays. These include strict requirements for environmental clearances, assessments of land use, impact on the local ecosystem, and adherence to sustainability norms. Obtaining these clearances can be particularly time-consuming in metro cities and sensitive ecological zones. Lastly, frequent policy changes further disrupt the approval process. Recent changes in local and state regulations related to construction norms, zoning laws, and infrastructure have required developers to adjust project designs or seek additional clearances to comply with new standards.

Consequences of launch delays and impact on developers: Increase in cost: Prolonged approval processes result in increased project costs due to inflation in construction materials, extended land holding costs, and higher interest payments on loans. This financial burden is particularly significant for developers who rely on pre-sales for funding construction activities. **Delayed revenue generation:** Delays can postpone cash inflows, creating liquidity constraints for developers and impacting their financial health. **Missed market opportunities:** Timing is critical in real estate, and approval delays can lead to missed opportunities, especially in high-demand locations. Developers may lose the advantage of launching projects when market conditions are favourable, impacting sales momentum. **Impact on market share:** Frequent launch delays can weaken a developer's market position, as competitors with streamlined approval processes may gain a larger share of the market. Developers with a history of delays may struggle to attract and retain buyers in a competitive market.

Developers grievance: Approval challenges from RERA and other regulatory bodies are a major cause of project launch delays for Indian developers, as evidenced by the experiences of Grade A developers like Sobha, Prestige, Brigade and Godrej Properties in the recent (H1FY25) earnings con call. These delays impact costs, cash flows, buyer confidence, and overall market dynamics. Addressing these challenges will require greater coordination between developers and authorities, adoption of single-window clearance systems, and clearer, more consistent regulatory guidelines. We believe that for developers, investing in compliance management and maintaining open communication with authorities and investors will be key strategies to mitigate the risks associated with approval delays.

	CMP	Reco	TP
DLF	867	BUY	988
Godrej Properties	2888	ADD	3,000
Oberoi Realty	2127	BUY	2,302
Mahindra Lifespaces	481	BUY	700
Kolte Patil	384	BUY	480
Phoenix Mills	1845	BUY	1,950
Sobha	1621	BUY	2,639
Brigade Enterprises	1250	BUY	1,400
Prestige Estates	1741	BUY	2,060
Macrotech Developers	1401	ADD	1,311

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Potential impact on developers

Strained financials and liquidity: Delays in project launches can result in significant cash flow challenges. Developers may face liquidity issues, leading to an increased reliance on debt to manage operations, which can stress balance sheets and raise borrowing costs. **Reduced profit margins**: Rising costs due to approval delays, coupled with penalties for late delivery under RERA, can shrink profit margins. This puts pressure on developers to manage costs efficiently while maintaining quality and regulatory compliance. **Slower project pipeline development**: Approval delays can impact a developer's ability to sustain a robust project pipeline. Cautious about regulatory risks, developers may slow down new project acquisitions or defer launches, affecting long-term growth. **Financing challenges**: Developers experiencing consistent launch delays may find it harder to raise funds from investors or financial institutions. Concerns over delayed cash flows and regulatory risks may lead to stricter terms for financing or even reluctance from lenders to extend credit.

Delays impacting the Southern developers the most: Q2FY25 results commentary of Southern developers highlighted a resounding concern around approval cycles getting elongated in Bengaluru. Prestige, Sobha, and Brigade emphasised this issue. Whilst the reasons were not quite clear, it was attributed to changes in bureaucracy at the approving agency, general election-related delays, and changes in byelaws. The bad news is that this may negatively impact the Q3FY25 presales for Bengaluru-exposed developers, as a large part of the festive season was a dry period for launches. Even if approvals come in by mid-Dec-24, there won't be enough firepower to make up for the lost sales and time. Prestige, Brigade, and Sobha may be at risk of slowing presales numbers. The good part is that underlying demand remains resilient and may result in a growth uptick as launches pick up in H1CY25.

Our top picks

We maintain a positive outlook on the overall residential real estate market, driven by robust end-user demand and the strong execution capabilities of established players. Grade A developers are likely to sustain their dominance, particularly those with extensive land reserves and proven delivery track records. However, for superior growth and stock outperformance in the medium term, a diversified multi-regional presence will be crucial. Among Southern players, our top picks in the sector remain Prestige Estates and Sobha, given their strong foothold in their home turf and strategic expansion into other high-growth markets. GPL may not see much impact from Bengaluru, and with the fundraise in place, it may see further re-rating.

Promising market dynamics

Bengaluru's residential market is underpinned by strong fundamentals, making it an attractive destination for both end-users and investors. Key factors include a low inventory of 14 months across regions and segments, reflecting healthy demand and controlled supply. High market consolidation has resulted in organised developers gaining market share (both local and non-Bengaluru players). Additionally, rising rental yields (~4.5%) and predictable property price escalations averaging 3%-5% annually over the last decade further strengthen the market's appeal. High affordability levels are supporting sustained demand, driving a balanced mix of investor and end-user participation.

Bengaluru also plays a pivotal role in India's Grade A office market, accounting for 30% of the total stock across major cities and a dominant 46% share of GCC leasing activity between CY23 and H1CY24. These factors reinforce the city's position as a leading hub for residential and commercial real estate investment.

Grade A Developers having presence in South	Upcoming launches (in msf)	Presales H1FY25 (INR bn)*	Presales estimates for H2FY25 (INR bn)*
Prestige Estates	57.3	71	170
Sobha	5.5	31	54.5
Godrej Properties*	18	138	131
Brigade	5.5	29	41

Source: Company, HSIE Research * overall presales expectations across India

Prestige Estates

In H2FY25, PEPL expects a series of significant residential launches as part of its broader strategy to achieve its presales guidance of INR 240bn. It aims to launch projects valued at INR 520bn by March 2025. These launches will span 57.3msf across key regions, including Bengaluru, Hyderabad, Chennai, Goa, and Delhi-NCR. Despite approval delays and muted sales (delay in some of the key launches) during H1FY25, PEPL is very optimistic about achieving its guidance with the forthcoming launch pipeline. We have conducted sensitivity analysis around the launches and believe that if PEPL fails to execute these planned launches by a quarter, it may still achieve the overall INR 240bn guidance, though there may be a timing difference. In the exhibit below, we highlight likely launches and potential presales. In the bear case, we expect the sales to be INR 70/103bn for Q3FY25/Q4FY25. We are incorporating a one-quarter delay in key launches compared to the PEPL guidance for these launching in Q3FY25.

Potential launches in H2FY25	Location	TDA (msf)	GDV (INR bn)	Est Presales (INR bn) - Q3FY25	Est Presales (INR bn) - Q4FY25	Comment
Prestige Southern Star	Bengaluru	8.5	61	-	35	RERA approval yet not there
TPC Indirapuram	NCR	11.6	100	41	20	RERA approval yet not there
Prestige Rock Cliff	Hyderabad	0.7	9	4	3	RERA approval yet not there
Prestige Pallava Gardens	Chennai	4.2	26	-	10	RERA approval yet not there
Sustenance Sales/Other smaller launches			25		35	
Total			**196**	**70**	**103**	

Source: Company

Projected Presales (INR bn)	Bear case	Base Case
FY24A	210	210
H1FY25A	71	71
H2FY25E	173	190
FY25E	244	261
FY26E	280	300
FY27E	322	345

Source: Company, HSIE Research

Sobha

Sobha has a focused strategy for H2FY25, aiming to launch about 5.5msf of new projects. A significant portion of the launches planned in H2FY25 will be in Bengaluru, Sobha's core market is in mid premium segment with INR 11,000/sqf realisation, with additional projects set for other micro markets (Pune) as part of its diversification plan. This move aligns with Sobha's broader goal of reducing dependency on Bengaluru, which currently drives a large share of its revenue. During Nov-24 end, Sobha has launched Ayana project in Bengaluru with ~INR 14bn GDV and our channel checks suggest good response for the same. Further, approvals for 3msf of another project in Bengaluru is currently underway and likely launch by first half of Jan-25. Our bear case factors the above scenario whilst base case factors the 3msf launch in second half of Dec-24.

Region wise sales contribution (INR mn)	FY21	FY22	FY23	FY24	H1FY25
Bengaluru	20,309	24,739	32,980	43,930	12,356
Gurgaon	3,599	7,147	10,553	8,300	9,273
Tamil Nadu	1,159	1,144	941	983	980
Kerala	5,071	3,369	3,771	9,579	5,789
Gift City	374	1,019	1,576	2,196	1,318
Hyderabad			1,452	1,028	537
Pune	863	1,643	705	425	269
Total	**31,375**	**39,061**	**51,978**	**66,441**	**30,522**

Source: Company, HSIE Research

Presales- base case vs bear case

INR mn	Q1FY25A	Q2FY25A	Q3FY25E	Q4FY25E	Total	Guidance (Rs mn)	Achievement (%)
Bear Case	18,737	11,785	14,500	27,000	72,022	85,000	85
Base Case	18,737	11,785	23,200	26,500	80,222	85,000	94

Source: Company, HSIE Research

Due to delays in obtaining approvals, the potential impact could be a miss on achieving the annual guidance. In our base case now, we factor in INR 80bn of presales, which is 94% of the FY25 guidance. However, Sobha's substantial land bank provides a buffer. With over 19.3msf of projects in the pipeline for the next 6-8 quarters, the company is well-positioned to pivot and potentially deliver a robust FY26. This land bank, spread across key markets, gives Sobha the flexibility to adapt to changing market dynamics and capitalise on any delayed or pent-up demand.

(INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Presales	38,702	51,889	66,445	80,222	112,311	140,388

Source: Company, HSIE Research

Godrej Properties

Godrej Properties (GPL) has outlined an ambitious launch pipeline for H2FY25. The company plans to launch projects spanning 21.9msf across regions such as Delhi-NCR, MMR, Bengaluru, Pune, and Hyderabad. These launches are critical to achieving its FY25 sales guidance of INR 270bn. H1FY25 already witnessed robust performance, with Godrej achieving 51% of its annual booking value guidance, driven by a 90% YoY increase in booking volumes to 14.1msf.

If the remaining H2FY25 launches face delays due to approval or operational challenges, GPL's substantial land bank and aggressive business development (BD) activities provide a strong foundation for FY26. The company added approximately 13.9 msf to its portfolio through 10 new BD deals in FY25 to date, with an estimated booking value of INR 174bn. This positions GPL to leverage any spillover demand and deliver a blockbuster FY26, even if near-term launches are impacted.

Region wise sales contribution (INR mn)	FY22	FY23	FY24	H1FY25
NCR	20,340	35,830	1,00,160	54,240
MMR	17,070	30,570	65,450	31,130
Bengaluru	6,740	22,430	24,600	38,890
Pune	18,360	21,260	26,860	9,080
Others	16,100	12,230	8,200	5,010
Total	**78,610**	**1,22,320**	**2,25,270**	**1,38,350**

Source: Company

FY25 Launch Pipeline

City	Expected Launch Area (MSF)	Expected Launch Value (INR Crore)	H1 FY25 Launch Area (MSF)	H1 Fy25 Launch Value (INR Crores)	Value Achievement (%)
MMR	5.5	9,500	4.6	2,800	29%
NCR	4.1	9,200	3.5	5,500	60%
Bengaluru	5.1	4,900	5.2	4,900	100%
Pune	4.5	3,700	1.2	1,200	32%
Others	2.7	2,700	0.9	335	12%
Total	**21.9**	**30,000**	**15.4**	**14,735**	**49%**

Source: Company

Brigade Enterprises

Brigade remains optimistic about maintaining its launch trajectory of around 7.5msf for the next 6-9 months, assuming the timely execution of its launch plans. Delays in project launches could significantly impact Brigade's FY25 presales. Residential sales volumes and cash inflows are heavily dependent on a steady pipeline of new projects. While the company has diversified revenue streams with its commercial and hospitality verticals, the residential segment contributes a major share to overall sales. Prolonged delays in project rollouts could prompt downward revisions in annual sales guidance.

H2FY25 Launches	Saleable Area (in msf)	GDV (INR bn)
Chennai	3.0	30
Bengaluru	2.5	25
Bengaluru	2.0	24
Total	**7.5**	**79**

Source: Company

SOTP table

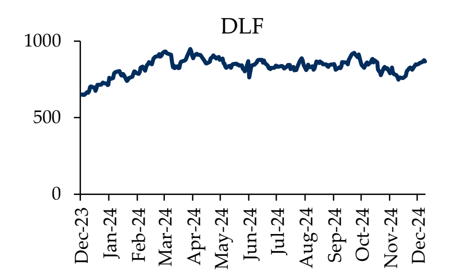
INR mn	MLIFE	DLF	Phoenix Mills	Sobha	KPDL	PEPL	Brigade	GPL	Oberoi Realty	Macrotech
Residential	11,631	2,38,675	-	1,39,213	21,687	2,67,053	92,773	2,98,932	5,36,212	2,25,143
Industrial Parks & SEZs	12,169	-	-	-	-	-	-	-	-	46,396
Rental Income (incl. Hospitality)	3,876	41,638	2,70,480	-	-	2,35,415	1,26,508	-	2,23,798	63,207
DCCDL Rentco	-	4,26,997	-	-	-	-	-	-	-	-
DCCDL Land	-	1,20,000	-	-	-	-	-	-	-	-
Other business	-	50,293	1,75,077	7,957	-	4,823	-	91,364	4,919	8,450
Land Bank	45,993	11,11,738	-	78,375	16,540	1,18,257	41,972	-	-	6,18,684
Refundable JDA deposits	-	-	-	4,500	-	-	-	-	-	-
Gross NAV	**80,070**	**19,89,341**	**4,45,557**	**2,30,045**	**38,227**	**6,25,548**	**2,61,254**	**3,90,297**	**7,64,928**	**9,61,880**
NAV Premium	47%	30%	58%	18%	0%	45%	40%	60%	11%	40%
Growth capital Premium	-	-	-	-	-	-	-	2,94,360	-	-
Net debt	3,200	1,08,052	22,633	15,000	1,882	56,125	19,450	53,000	11,500	31,681
Unpaid land cost	3,000	-	-	2,950	-	-	11,580	-	-	-
Equity Value	**1,08,589**	**24,45,676**	**6,68,219**	**2,50,272**	**47,249**	**8,25,663**	**3,22,314**	**8,34,035**	**8,36,306**	**13,02,279**
TP	**700**	**988**	**1,950**	**2,639**	**480**	**2,060**	**1,400**	**3,000**	**2,302**	**1,309**

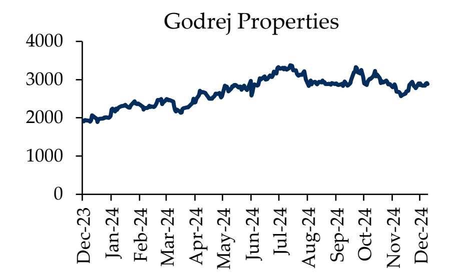
Source: HSIE Research

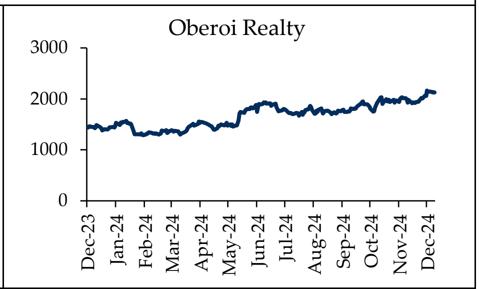
Developers	Core EV/net presales (x)			Core EV/embedded EBITDA (x)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E
DLF	2.8	2.5	2.2	7.5	6.6	5.8
Godrej Properties	4.8	3.3	2.7	19.1	13.2	11.0
Oberoi Realty	14.4	6.7	5.3	35.9	17.7	11.8
Mahindra Lifespaces	0.7	0.5	0.4	2.6	2.0	1.4
Kolte Patil	1.3	1.1	1.0	6.0	5.3	4.6
Sobha	1.4	1.0	0.8	5.6	4.2	3.2
Brigade Enterprises	3.3	2.5	2.0	13.3	10.2	8.2
Prestige Estates	2.5	2.0	1.7	11.0	8.8	7.3
Macrotech Developers	5.6	4.7	4.0	16.9	14.1	12.3

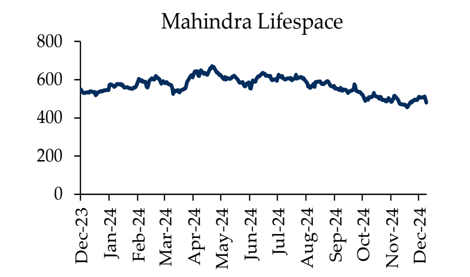
Source: HSIE Research

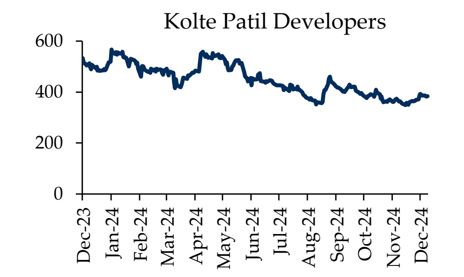
Price movement

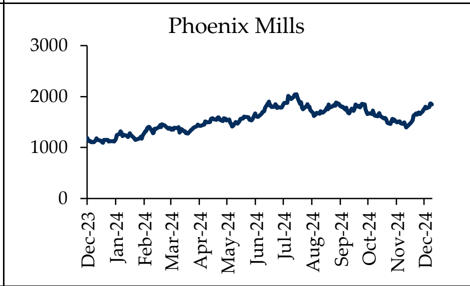


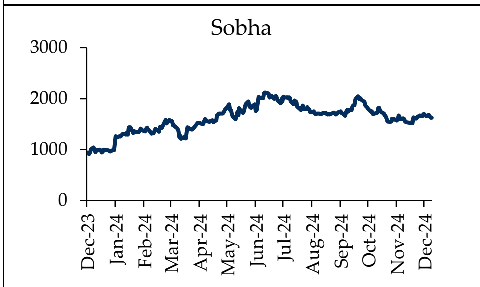


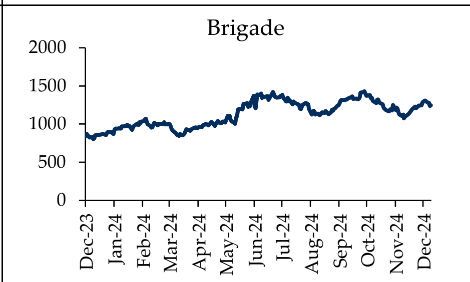


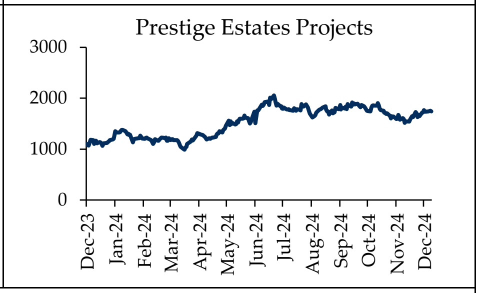


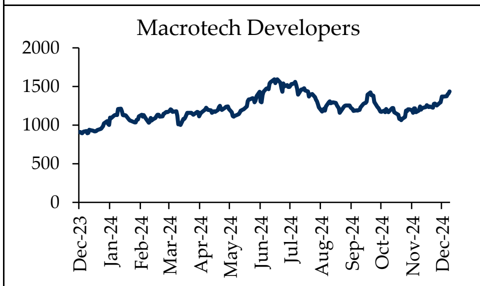












Rating Criteria

BUY: >+15% return potential
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