NOLEGEIN Journal of
Operations Research & Management

ISSN: 2581-5458
Volume 5, Issue 1, 2022
DOI (Journal): 10.37591/NJORM

http://mbajournals.in/index.php/JoORM/index

Review NJORM

A Study on the Performance of Select Real Estate Companies in India

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Abstract

Real estate sector broadly includes sectors like housing, hospitality, and infrastructure plans along with land rights giving the title to land ownership, development, and natural resources. The COVID-19 outbreak has completely disrupted the social, political, religious, and financial implications of the global community. The purpose of the study was to analyze Real Estate companies' performance in India. This research work includes a study to understand the growth in the performance of Real Estate Companies in FY 2020–21. In the study, secondary data was used for the research purpose. Data pertaining to five selected Real Estate companies is considered to know the performance using some financial ratios. The study tries to know the relation between Net Profit and some financial ratios. A high correlation between net profit and funds from operations was observed.

Keywords: Real estate, pandemic, ratios, impact, COVID-19, correlation

INTRODUCTION

Real estate has become the preferred option for investors in today's world. The epidemic has changed customer preferences concerning the choice of investment sectors. The contribution of the real estate sector to India's gross domestic product (GDP) is estimated at 6.5 to 7% and half is expected to create millions of jobs [1, 2].

The industry is experiencing a decline in its popularity due to stagnation or falling prices. Over the past decades, the high growth of the sector is accompanied by the growth of the corporate environment, as is the need for office space and urban and central residential areas [3]. The real sector is expected to bring in non-Indian investment (NRI) investments. The results can be short-term and long-term.

Like other sectors, the real estate sector under the construction industry is also facing the impact of the COVID-19 epidemic. It becomes riskier with the labor market, corporate finances, supply of building materials, project delivery, significant cost components, and more. In general, the real estate sector will likely face difficulties in the event of project completion, planning, and funding [4]. Scheduled work cannot be done due to the lack of adequate numbers of skilled workers and staff.

LITERATURE REVIEW

Naidu *et al.* (2005) [5]

This study provides a unique insight into the implications of Western business ventures in real estate business in India and presents useful results for both organizations seeking to relocate business

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Received Date: July 30, 2022
Accepted Date: August 05, 2022
Published Date: August 17, 2022

Citation: Kiranmayi Patel, K. Pravallika. A Study on the Performance of Select Real Estate Companies in India. NOLEGEIN Journal of Operations Research & Management. 2022; 5(1): 18–24p.

operations in India and real estate market analysts who want to understand the drivers behind this ongoing demand for Indian real estate. Firstly, important aspects of Western corporate outsourcing of corporate activities in India, and secondly, the impact of business outsourcing on the local needs of corporate retailers in India [5].

Venkatesh (2008) [6]

Few factors including market research, pricing, marketing, advertising, and promotional web-based marketing have created a powerful impact that has pushed global prices and housing prices to rise sharply. The construction of dozens of IT supermarkets and parks across the country is one of the key factors in the growth of the real estate market. Not only the metro but also the tier-2 and tier-3 cities are full of this boom. Such an increase leaves market researchers wondering how long the bubble will last and whether it will explode shortly. This is an old story about the integration of all three ingredients: creation, communication, and delivery of value [6].

Prasad (2019) [7]

It is recognized that demo investment has influenced the performance of Indian real estate companies. Based on well-functioning schools, it can be assumed that real estate firms have done well in the past to make money from demons in comparison to the post-deduction period. Real estate firms are advised to consider potential improvements and to study well-functioning units to obtain control measures, additional adjustments, and management information for decision-making. The real estate market is known for its large-scale unregulated investment that will be managed over time as a result of the spending plan [7].

Vasudevan and Kumar (2019) [8]

Product awareness is a key metric and an important part of consumer-based product equity. Producing and maintaining product awareness has become an important product metric and an important result of advertising and marketing activities. Product awareness has been explored over the years in the field of market sharing and intelligence sharing and is considered the basic starting point for product relationships [8].

Sanchaniya (2020) [9]

Sanchaniya, through her study states that due to the labor market, developers were not able to meet the demand. Household prices fall in price as the housing supply declines, reducing state revenue. Due to declining demand and increasing negotiation power in the short supply market, spatial exploration has begun, but at a slower pace. The suspension of construction activities posed a serious threat to the financial power of the engineers, who had not yet recovered from the crisis by the Non-Banking Corporation (NBFC). Either way, the epidemic could lead to short-term to medium-term value revisions [9].

Anarock (2020) [10]

According to Anarock in their study, on the Indian subcontinent at regular intervals, the improved period often sees an increase in the activities of the retail outlets as a result of folk festivals, as new feasts emerge. The nationwide closure, which lasted until mid-April, ended all training. As it turns out, the trading posts have been closed, tours have been disrupted, and construction work has stalled, which has harmed deals over time. Additionally, engineers have delayed the launch of their latest works indefinitely [10].

Gupta and Newell (2020) [11]

This paper reviews the housing markets in India and examines the adjusted performance risks and benefits of portfolio diversification in the housing markets (office, retail and residential) in New Delhi and Mumbai (two major Indian cities) 1998:Q2–2005:Q4 period. Real estate markets were found to be underperforming in the Indian stock market between 1998 and 2005, with many markets improving their performance in recent years, although there has been some loss in the benefits of a variety of office and residential portfolios [11].

RESEARCH METHODOLOGY

The research methodology is a quantitative research method by using annual reports of the Indian Real Estate companies for the financial year 2020–21 by comparing it with the last 3 years data.

Objectives of the study are:

- To understand the growth in the performance of Real Estate Companies in FY 2020–21.
- To study the performance of real estate companies and see if there exists and relation between selected ratios and Net Profit.

For this study top five companies with highest market capitalization have been considered (Table 1).

Table 1. Top five companies with highest market Capitalization.

S. No.	Companies	Market Capitalization (in Cr)
1.	DLF Ltd.	95,596.54
2.	Godrej Properties Ltd.	56,156.22
3.	Oberoi Realty Ltd.	31,089
4.	Prestige Estate Ltd.	17,493.6
5.	Phoenix Mills Ltd.	17,069.9

Data

Required data has been extracted from the financial statements of the selected real estate companies.

Tools used

1. Average Profits;
2. Interest Coverage Ratio;
3. Asset turnover Ratio;
4. Current Ratio;
5. FFO; and
6. Correlation.

DATA ANALYSIS AND FINDINGS

3-year Average Profits

As shown in Figure 1, the average profits of Phoenix Mills and Oberoi Reality have increased and DLF, Godrej Properties Ltd., and Prestige Mills have faced a downfall in generating profits in the financial year 2020–21 when compared to the past 3 years' average profits.

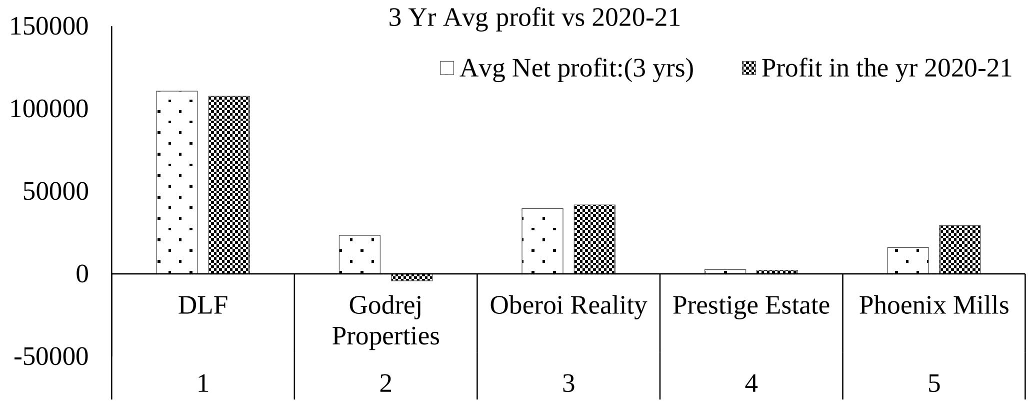

Figure 1. Graph representing average profit and profit in year 2020–21.

Current Ratio

An ideal current ratio is considered to be more than 1.5. From Figure 2, we can see that only DLF Limited and Prestige Estates have a good current ratio. We can also observe that the current ratio of Phoenix Mills was drastically affected in the financial year 2020–21.

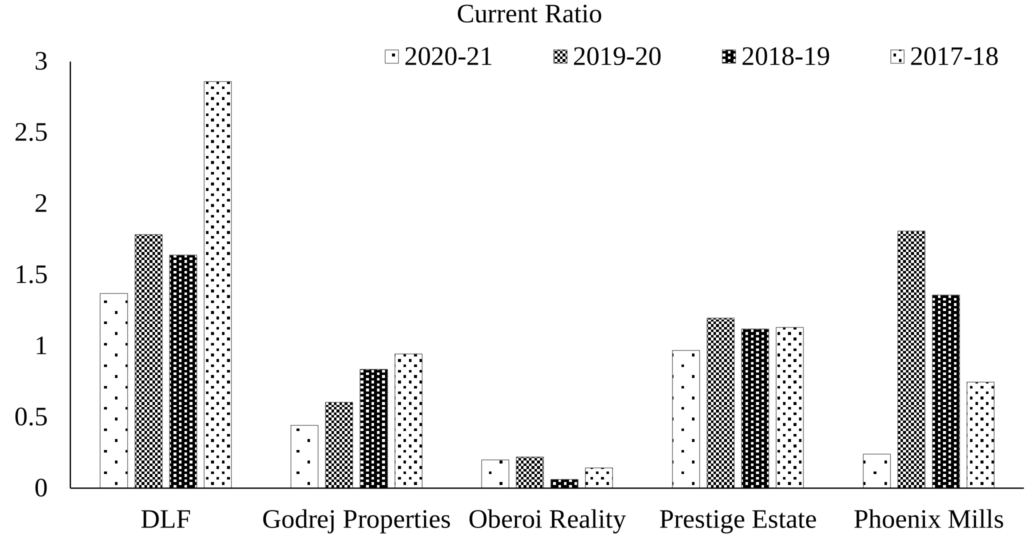

Figure 2. Graph representing current ratio.

Interest Coverage Ratio

A minimum acceptable interest coverage in the real estate sector is greater than 2. Though DLF is the largest according to market capitalization in India, it has one of the lowest interest coverage ratios. We can observe a high-interest coverage ratio is observed in Oberoi Reality Ltd. and Prestige Estate Ltd. (Figure 3).

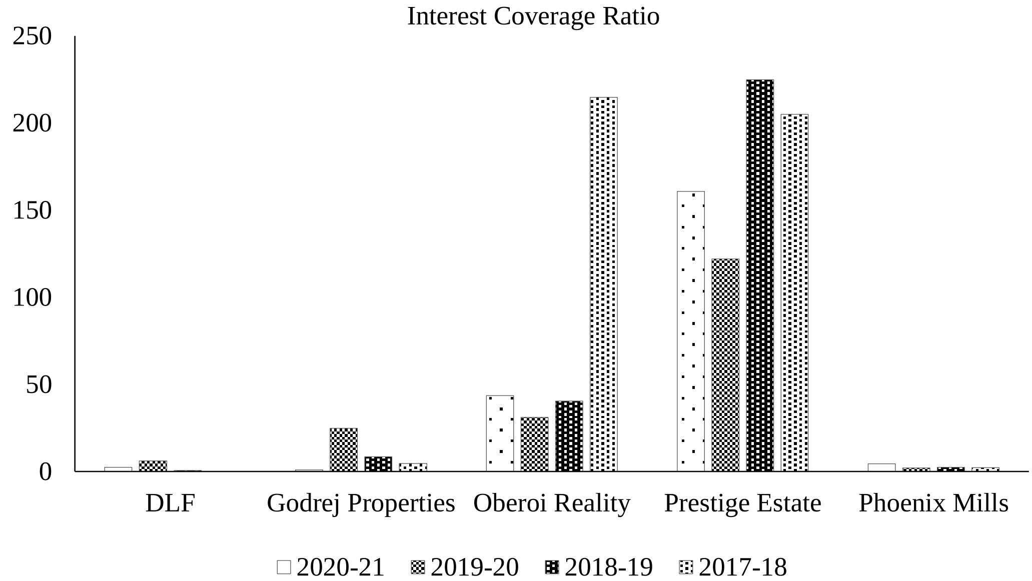

Figure 3. Graph representing Interest Coverage Ratio.

Asset Turnover Ratio

The asset turnover ratio has increased for all the companies apart from Godrej Properties Ltd. An ideal asset turnover ratio for real estate companies is said to be 0.25 to 0.5 or above that. Here, in

NOLEGEIN Journal of Operations Research & Management
Volume 5, Issue 1
ISSN: 2581-5458

Figure 4, we can see that only Prestige Estate and Godrej Properties Ltd. has a ratio above the ideal ratio; whereas DLF Ltd., Godrej Properties Ltd., and Phoenix Mills have a ratio below the ideal ratio. This states that the higher the asset turnover ratio more effective was the company in generating revenue out of it.

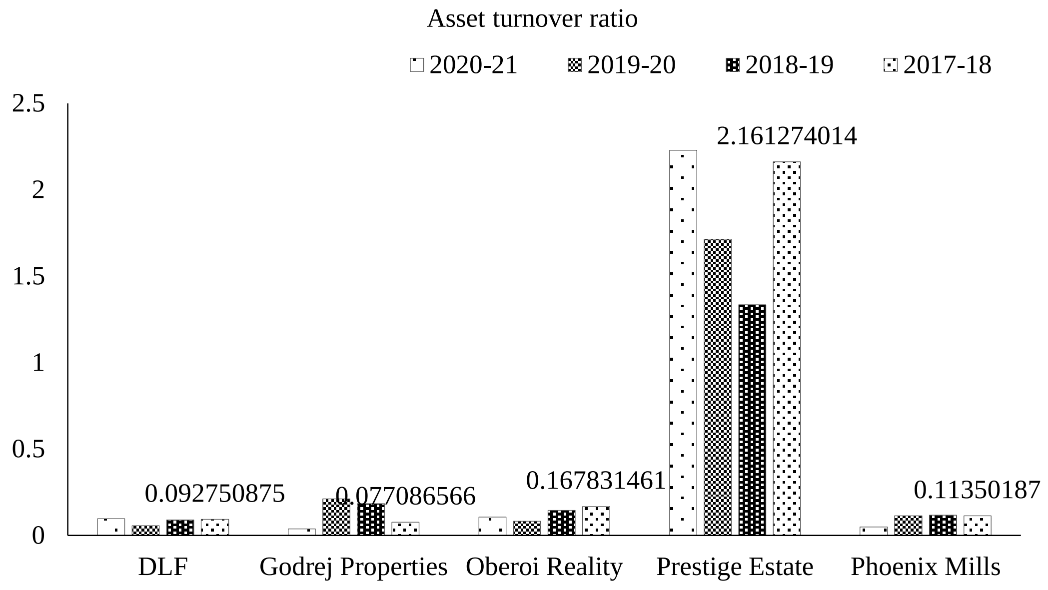

Figure 4. Asset Turnover Ratio.

Funds from Operations

In the Figure 5, we can observe that the funds from operations were highest for DLF Ltd. during the financial year 2020–21.

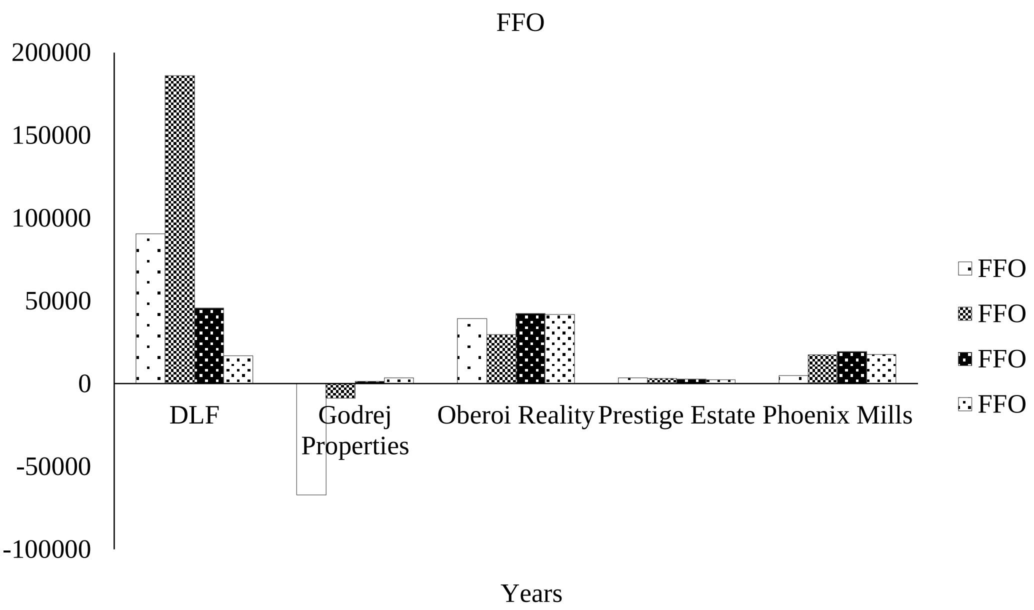

Figure 5. Funds from Operations.

Correlation

Using correlation here we are trying to study whether there exists any relation between Net Profit and select financial ratios (Table 2).

Table 2. Correlation between Net Profit, current ratio and FFO.

Ratio	Net Profit
Net Profit	1
Interest Coverage	–0.404046914
Current Ratio	0.542906657
Asset Turnover	–0.394427083
FFO	0.904506276

A higher value indicates that the variables have a strong relationship while a weak or low correlation indicates that the variables are hardly related. The above values indicate that Net Profit and Current Ratio and FFO are positively correlated.

FINDINGS

- When comparing the average growth of the five companies in FY 2020–21, we have observed an increasing trend in Oberoi Reality Ltd. and Phoenix Mills Ltd. The profits of Godrej Properties Ltd. have fallen into negative returns due to the effect of the pandemic in the financial year 2020–21.
- DLF Limited and Prestige Estates have a good current ratio which is above the ideal ratio.
- DLF Ltd. has one of the lowest interest coverage ratios which is less than the ideal ratio.
- The current ratio of Prestige Estate has not changed much, it was consistent over the years. In FY 2020–21, the interest coverage ratio was affected the most by Godrej Properties Ltd.; it fell from 24.8 to 8.5.
- We can observe an increase in the asset turnover ratio of all the companies except Godrej Properties and Phoenix Mills.
- Prestige Estate and Godrej Properties Ltd. have a ratio above the ideal ratio in the case of asset turnover ratio.
- There is a high correlation between net profit and funds from operations.

CONCLUSION

Since some decades more and more investments are made on real estate sector. The cash flows involved in it are indeed very high and the risk attached to it is considered low in the long run as the value of an asset like real estate would always increase in the long run rather than depreciate. Considering the short-term aspect, the sector gets affected by many events in the short run. Short-term risks can be managed only through managing the cash flows in the right way and maintaining enough cash flows for operations. One such event is the COVID-19 pandemic. We can observe a high correlation between net profit and funds from operations.

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