

HOUSING FOR ALL 2020

Knowledge Webinars for Real Estate Sector

Session Notes

Session 6: Shri. Deepak Parekh on COVID 19: Impact and Way Forward

Time: 12:00 pm, 14th April 2020

I. Macro-Economic Outlook

- Global Economy could shrink by almost 2% in 2020 due to COVID – 19 Pandemic. 0.5% will be the global growth rate for 2020.
- Among G20 Countries , only 3 countries will have positive growth i.e India, China and Indonesia. Rest all will have negative growth.
- USA Growth Rate which was estimated around 1.7% Pre-COVID is now reduced to -2.8% . UK which was estimated to have about 1.8% Pre-COVID is now reduced to -5% . China and India which had around 6% growth rate have been reduced to 1% and 2% respectively.
- 12% dip in global growth in one quarter hasn't happened since long.
- All of these projections are based on assumptions that normalcy will return in second half of 2020. No second wave or third wave of pandemic will occur.
- Never before has world economy shrunk so much so quickly.
- Oil prices have dropped by 50% to almost \$25 - \$30 a Barrel. For India, Oil is very important as it accounts 30% - 40% of our import bill. Oil will not shoot up in near future. Oil is 10% of Wholesale price index and 3% of Consumer price index. So this is positive for us.
- India markets corrected 30% while currency depreciated 7%. However, I don't think we have reached the bottom yet.
- China is best performing, its index is down 7% and currency depreciated by 2%.
- Everyone today is grappling with leadership issues. Essentials of leadership are humility, clarity and courage. However, In this crisis there is no clarity.
- Regarding Macros, we don't need to be gloomy . Firstly, We have enough foreign reserves. India is one of the top countries receiving foreign funds from NRIs. This helps to balance our currency. Currency risk is less because we get so much inflow.
- Secondly, India is not a manufacturing-based country. We are service based economy. Certain services have been impacted but IT, call centres, Banks, Online services etc. are working to some extent.

Hon'ble Speaker



Shri. Deepak Parekh

Chairman, HDFC Limited

- India also has 3rd largest base of start-ups. I have lots of confidence that these start-ups will perform well and come up with unique solutions. They have a future with great possibilities.
- Our key challenge is that our economy was already in slowdown. Then we were hit by a HEF crisis: Health, Economic and Financial Crisis. Poor People have been affected the most and we should support them & take steps to bring them out of poverty.
- Immediately , As leaders of company we have two tasks:
 - Ensure our people are safe. Take all adequate precautions to prevent spread of this health crisis.
 - Secondly plan for how to get back to work safely. Deliberate on what will be new normal? What changes will come in customer behaviour? What will be workers psyche? When and how can they come back? What should be the plan, if there is a second wave?
- All of these are difficult questions and possibilities. No one has past experience in dealing with it.
- One key advice is be liquid. Having PE Commitment or Sanctioned Line of Limit is not liquidity. Liquidity is what you have, not some sanctioned piece of paper.
- Valuation model is going to change. Companies will be judged on tangible cash flow. Start up model of Burning cash will not last.

II. Real Estate

- Be Cautiously optimistic.
- Real Estate is an important asset class. Value of global real estate today is more than all the world stocks and bonds combined.
- Indian Real Estate was already in prolonged slow down. In the past, Real Estate Sector has already faced several challenges like Demonetisation, GST, RERA and Liquidity crisis.
- Real Estate Developers are resilient lot and always find a way to come out of difficult situation. This shall be no different.
- My key advice for the sector is
 - Pricing has to come down. In ready inventory, be prepared for reducing costs to sell the inventory at earliest.
 - For Homebuyers, this is an excellent buying opportunity. Homebuyers with job security / savings should leverage this opportunity.
 - New project launches shall be delayed.
 - Corporates shall defer commercial property transactions. However Commercial demand will not evaporate. Work from home will be done upto some extent but not everyone will want to Work From Home. Also, there are large number of jobs which cannot be digitised and work from home will not be possible.
 - Government is sensitive to the challenges of the sector but has only limited resources.

○ My Recommendations to State Governments, RBI and Developers are as follows:

▪ State Governments:

- Incentivise migrant workers to return to work. Government should ensure easy travel and enhance insurance for migrant labour to attract them back to construction. For first 45 days, government may look at partly paying for travel cost and insurance cost.
- Developers may have to increase their wages. Don't forget the pain of these people in going back home.
- Waiver of stamp duty and development charges for limited period. Limited Period because I understand that the loss of revenue will be significant.
- Review Ready Reckoner rates frequently
- Most Important: Permit a staggered / deferred payment of various levies including cess, premium, fungible FSI etc. No one can pay these costs upfront in current scenario. If needed, take stock as part payment.
- If State Government is selling land, take money over a period of time. No one will be able to pay up-front.

▪ RBI

- Yields have risen , not fallen despite repo rate cut as markets know government will soon come for funding
- Banks are risk averse because of past problems. Many recommendations have been made to RBI to directly purchase corporate bonds / commercial paper as primary markets have died down. Globally all countries are doing it in order to fund economic activity. So much so, that 2 days ago USA announced that they will buy junk bonds.
- All this, is for a short period of time. RBI needs to act quickly.
- Allow , one time restructuring of loans. It is a better solution to renegotiate payment timelines rather than getting into legal tangle of Force -majeure. Unwinding from this legal mess will be very painful.
- Consider 180 days NPA from 90 days. Only for 6 months.

▪ Developers

- Compromise, Compromise, Compromise
- Offload unsold inventory at earliest. Get rid of inventory.
- Leverage long-term relationships with lenders. Build long-term relationships with lenders.

- Use moratorium as last resource. There is a cost to it. Most moratoriums are for construction finance loans and LRDs. Before opting for moratorium, deliberate what your strategy will be post moratorium period.
- Stay in touch with suppliers. Keep a strong eye on commodity prices of steel and cement.
- Be careful of leverage. It is a double-edged sword. In good times, it doubles your profit but in bad times it destroys you.
- Enhance equity cushion. Make compromise on valuation and take any equity you get.
- Focus on completing projects rather than starting new ones. Even at the cost of putting new launches on hold.
- Can't do everything on own. Look at options of Joint development contracts and debt asset swap.
- Time for partnership. Time for working together.
- Raise bar for governance and transparency.
- Lastly, how much ever possible avoid legal battles. Sit across with people for solution rather than costly and lengthy legal battle.