

The NCR has emerged as India's second-largest residential market by sales value on demand revival post Covid, preference for larger homes, and strong price increase. However, we believe it is yet to unlock its demand potential as India's largest metro region by population and second/third-largest commercial market by office stock/annual gross leasing. But supply constraints have capped its number of units absorbed at half than that of other top cities. The scale-up of supply and emergence of markets such as Noida/Delhi can unlock growth in the NCR. Only a handful of credible developers can address this supply constraint – DLF (BUY) being one, with SGIL/MAX emerging as other credible brands. Their ability to scale up pipeline and execution could drive re-rating. We initiate coverage of SGIL/MAX with a BUY rating on each.

NCR – second largest by absorption value amid demand/pricing revival...

After a decade of lull, the NCR market saw a visible recovery both in demand/pricing post Covid, with 27/59% volume/value CAGRs over CY21-24. With that, the NCR market, at Rs 1.4 tn, emerged as the second-largest market by absorption value in India in CY24, from fifth largest in CY21, surpassing Hyderabad, Bengaluru, and Pune. The number of units sold in the NCR is still a third away from its previous peak, but most of the volume growth was led by demand for larger homes, with the average apartment size rising from 1,600 sq ft to 2,200 sq ft. Inventory is down 75% from its peak in CY14, as supply continues to lag demand. Inventory overhang at nine months is the lowest among the Top 7 cities. Thus, a further rise in supply would not be detrimental to demand/pricing growth.

... though yet to unlock full potential given constrained supply

We believe the NCR remains a supply-constrained market, as indicated by its launches-to-incremental household ratio. The region sees a launch of two units for every ten households added in a year, the lowest amongst the Top 7 cities. We are confident about the underlying demand potential, given its lowest absorption-to-household ratio of 0.5% as of CY24. The NCR is the largest market by size and population, yet the number of units sold is half that of the other Top 5 cities. The NCR is also at the forefront of white-collar job-creation, indicated by its second-largest share in both office stocks and annual gross leasing – yet it is the fifth largest in residential absorption. Further, there is a population in and around the NCR plus NRIs who are keen to invest real estate in the region.

Unlocking supply in Noida/Delhi markets can take NCR to #1 position

The NCR's depth is yet to be unlocked. Gurugram, the largest city in the NCR area-wise, contributes over 75% of the residential demand by value. Noida is still 90% away from its previous peak, on account of tight supply controls. However, recent land auctions have opened a bit of supply from Grade-A developers. Land-locked cities like Delhi can see a massive supply boost from approval of land pooling policy and address increasing demand from incumbent population. Ghaziabad is also emerging as a residential hub after recent success. The unlocking of supply in these markets can cater to this pent-up demand and make the NCR the largest residential market in India.

SGIL/MAX beneficiaries of this growth – we initiate with BUY

The NCR has 84 active developers, with only a handful of credible ones which can benefit from this growth opportunity. DLF (BUY), the largest in both residential/commercial, can benefit here. But we believe SGIL/MAX could be even bigger beneficiaries, given their massive scale-up potential, exposure to mid-income/premium housing (90% of demand) and aim to diversify presence in the NCR. The brands have gained credibility over a decade of operations and their ability to execute and scale-up from here on will lead to re-rating. We initiate coverage of SGIL and MAX with a BUY rating on each.

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