

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

GLOBAL ECONOMY

The World is witnessing unprecedented transformations affecting disruptions across sectors and industries. The real estate industry is not an exception to disruptions that are catalysing technological advancement, changing business environment, altering economic realities and changing consumer behavior.

The year 2019 was a difficult year for the global economy with world output growth estimated to grow at its slowest pace of 2.9 per cent since the global financial crisis of 2009, declining from a subdued 3.6 per cent in 2018 and 3.8 per cent in 2017.

COVID-19 has infected more than 23.3 million people worldwide and has claimed over 8.06 lakh lives across the globe. With the World Health Organisation (WHO) declaring it a global health emergency and pandemic on March 11, 2020, the sentiments of businesses worldwide have been severely impacted and are mostly negative in their outlooks. The outbreak has created a great deal of uncertainty regarding trade and imports, not only in China but worldwide.

INDIAN ECONOMY

Owing to a strict nationwide lockdown due to the novel coronavirus (COVID-19) during the bulk of the first quarter of the financial year 2020-21, India's Gross Domestic Product (GDP) for the April-June quarter (Q1) slipped by a sharp 23.9 per cent, as per provisional estimates released by Ministry of Statistics and Programme Implementation (MoSPI). The GDP had expanded by 5.2 per cent in the corresponding quarter of 2019-20.

India's economy slowed down to 3.1 per cent in Q4 on the back of the coronavirus pandemic superimposed on a prolonged slowdown. With the release of Q4 GDP growth, the full year 2019-20 GDP growth stood at 4.2 per cent.

The central government on March 25 had ordered a complete lockdown of most of the manufacturing and service sectors owing to the spread of COVID-19. Only essential services such as food items and medicines were allowed during this period as the country tried to curb the spread of the virus across the country.

EFFECT OF COVID-19 ON REAL ESTATE SECTOR

The impact of the novel Coronavirus on Indian real estate has been unprecedented to an extent that it has brought construction activities to a halt and significantly eroded the market of its potential buyer-base. With property transactions dipping to near-zero during the nationwide lockdown, the sector is looking at challenging times ahead. The interdependence of supply chains, migration of labourers, cost overruns, and liquidity constraints are some of the looming challenges. The COVID-19 crisis and its impact on Indian real estate is such that it is being considered as the third 'Black Swan' event for the realty sector in the last five years, the first two being Demonetisation and the implementation of the Real Estate (Regulation and Development) Act, 2016.

The Indian real estate sector has not been spared either. Moreover, with the lockdown in India spanning over two months, and no clarity regarding the resumption of international flights, traders would not be able to visit mainland China any time soon. This will have a bearing on the prices of steel and other articles used in the construction industry in India. Difficulties in procuring raw material would mean reduced construction activities of ongoing real estate projects in the coming months, even if all restrictions are fully lifted.

Despite an increase in the cost of construction and uncertainties around labour returning to metro cities from their hometowns post-lockdown, property prices are expected to see corrections, owing to marred buyer sentiment and panic selling by some homeowners in the resale market. New project launches are expected to get postponed till the festive month of October and it is highly unlikely that they will contribute enough to move average selling prices up in various cities.

Housing sales across top seven property markets in India is likely to witness a 25-35% year-on-year drop in 2020, while absorption of office spaces is also likely to dip 15-30% owing to the impact of Coronavirus pandemic. In 2019, residential sales stood at around 2.61 lakh units across top 7 cities and may now fall between 1.70 lakh -1.96 lakh units. Likewise, new launches may also witness a 25-30% decline during the same period-- from 2.37 lakh units in 2019 to anywhere between 1.66 lakh -1.78 lakh units. Unsold inventory in 2020 will largely remain stable, with single-digit annual decline of around 1-3%.

The affordable housing segment, which had gained significant traction over the last few years, may also take a hit by COVID-19. The outbreak will significantly affect affordable housing's target audience. With limited income and unemployment fears, buyers of affordable housing may defer purchase decisions, leading to an estimated 1-2% rise in unsold stock within this segment in 2020.

Indian retail sector net leasing is estimated to be 3.1-4.3 million sq ft in 2020, a decline of 49-64% from last year. Meanwhile, new mall completions will be 4.2-5.9 million sq ft. Rentals are expected to be down 10-15% in 2020 in terms of effective collections from retailers by mall owners.

As the effects of COVID-19 are felt around the world, real estate companies are being impacted in different ways, largely dependent on region and asset class. In the near-term, real estate executives are concerned with preserving value and liquidity, keeping tenants and visitors safe, including increased cleaning measures, and complying with governmental agency requirements. The attached article looks at:

- Potential short and long-term impact on Real Estate companies
- Key questions executives and boards should be asking

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- Practical next steps

INDUSTRY STRUCTURE AND DEVELOPMENTS

The real estate sector is one of the most globally recognized sectors. It comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

Total investments in FY 2019-20 fell to its lowest in four years, declining by 13% to \$4,261 million over previous year levels of \$4,780 mn, according to the 'India Capital Markets Update. The recent Covid-19 outbreak was one of the biggest reasons for the decline, the report highlighted, along with high-profile issues in the domestic banking and finance sectors in late 2019 and early 2020. The impact of Covid-19 virus has been unthinkable in its scope. Investors are expected to remain in a wait-and-watch mode, with caution and risk aversion is expected to drive the dominant behavior of institutional real estate investors over next few quarters. The year 2020 will be one of redemption, as the world recovers from one of its most challenging periods in recent history," said Ramesh Nair, CEO and Country Head, JLL India.

The real estate sector has been facing a liquidity crunch following defaults by IL&FS Group in 2018, leading to a pile-up of unsold apartments.

It is expected that this sector will incur more non-resident Indian (NRI) investments in both the short term and the long term. In India it is expected that it will reach to a market size of US \$ 1 trillion by 2030 from US \$ 120 billion in 2017 and contribute 13 per cent of the country's GDP by 2025. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs but due to Coronavirus outbreak real estate sector declined sharply in the January–March 2020 period, dropping 58% year-on-year, a report by real estate consultancy firm JLL showed.

The growing flow of FDI into Indian real estate is encouraging increased transparency. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

SEGMENT-WISE PERFORMANCE

The Company trades in a single business segment i.e. Real Estate Business. It operates in sale, purchase and development of real estate projects. The Company has taken initiative and has focused on consideration of projects. It's anticipating considerable scope for improvement.

OPPORTUNITIES & STRENGTHS

Effect of RERA: In the year 2018, developers had concentrated on offering and finishing the current ventures within the due date. This year 2019 will also witness significant deals and conveyance in the real estate.

So, RERA ensures customers' interests. It will be unthinkable for unreliable operators to be in the market and just the most-dedicated players will have the capacity to explore and growing the market. This will led to a win-win situation for both the home buyers and the sellers alike in the long haul.

Different Tax Incentives: Government is doing its best to help the boost of 'reasonable housing' through different tax incentives and different changes. This will likewise accompany affordable housing subsidies, additionally improving the methods of purchasing and offering of a home. Unlike, earlier the buyers and developers were imposed with numerous duties, for example, service tax, VAT, and excise duty which shifted from state to state. The lack of clarity and high costs deterred them from investing in it.

Past year changes to shape what's to come: There have been many changes set by the legislature, including RERA and GST which will influence the market in 2019 as well. For both, home buyers and builders, these changes will create a different outlook on how business is done. There were some unavoidable issues for home buyers when it came to investing in under-developed projects, but now with full transparency, home buyers and designers can have a simple business.

PMAY to take care of housing for all: The yearning design of the Prime Minister to construct homes for all by 2022 will definitely get a noteworthy financial change. This will make 60 million new houses and 2 million occupations throughout the following 4-5 years. Each task is presently getting enrolled under PMAY conspire, the urban real estate segment will see a significant lift in 2019. Affordable housing could rise as the characterizing pattern in 2019.

Favorably low home interest: The excess liquidity has driven the RBI to rejig the key loaning rates. Resultantly, the home advance loan costs that were recorded at around 9.5 percent per annum in 2016 have now been skimming in the range between 8.5-8.9 percent.

That makes for impressive savings in the EMI costs, empowering individuals to benefit from minimal home loans and turn into a mortgage holder. It is normal that the home advance rates will stay low for the following few quarters and may even descend further.

Affordable housing plans: The budget of 2019 also has proposals that could benefit and boost the real estate sector in the year 2019-2020. The focus was on affordable housing. One such initiative was to award the infrastructure status to affordable housing.

Middle-income home buyers have a lot of motivations to celebrate after the centre modified the carpet area of homes for the MIG category under the PMAY (Pradhan Mantri Awas Yojana) scheme. The middle-income buyers would now be able to possess a greater and better house.

THREATS & CHALLENGES

Adhering the Regulatory Compliances: In 2019, we saw many new regulatory standards and laws by the administration which affected the real estate market, positively and negatively. So in 2020 as well, developers will confront the effect of RERA by limiting themselves to new

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development and concentrating more on finishing the ongoing projects. As the supply of ready to move in properties will expand, builders will confront the challenge of finishing the task on a specified due date.

The concept of Single Window Clearance: The significant problem a real estate developer faces is the property clearance and as a rule, takes 18 months to three years. The lion's share of the work is to procure approvals from specialists who take a very long time to answer. Single Window Clearance is the greatest test faced by the developers. So actualizing this strategy won't just cut down the project delay but additionally the cost of the task execution as well.

To get a Home Loan Interest limit: The home loan interest tax is the real issue imposed on the home buyers. The government needs to raise the limit to 5 lakh from the present 2 lakh for every annum. So this will surely give a big break to home buyers in saving cash on the home loan. The higher the interest on home loan fee, the lower the demand for property, causing a ripple impact.

The GST Rate: Since the foundation of GST, the real estate market has been confronting tremendous barrier because of high GST rate. As buying a home is an immense investment, the legislature ought to cut down the GST rate to urge home buyers to put resources and investment into new activities.

Out of the considerable number of difficulties assessed by the real estate sector of India, two issues have recently been tended to on a full scale. The annihilation of a mind-boggling tax structure with the usage of GST and tending to inventory pile-up by executing the RERA (Real Estate Regulatory Authority) bill.

Rising Input Cost: The real estate industry is a capital and work focused sector, accordingly, an ascent in the cost of work makes issues in the development of the project in focus. Besides, uncalled for routine with regards to specific segments of merchants and concrete industry by raising the cost, makes issues in the completion of the project venture more prominent.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The internal control system is looked after by Directors themselves, who also looked after the day to day affairs to ensure compliances of guide lines and policies adhere to the management instructions and policies to ensure improvements in the system.

The Internal Audit reports are regularly reviewed by the management. The Company has proper and adequate internal control system commensurate with the size of the business operations geared towards achieving efficiency in its various business operations, safeguarding assets, optimum utilization of resources and compliance with statutory regulations. Efforts for continued improvement of internal control system are being consistently made in this regard.

The internal audit programme is reviewed by the Audit Committee at the beginning of each financial year and quarterly progress reports are placed before the Committees. The Company continued its efforts to define its control mechanisms and to align its processes with best practices in these areas.

FINANCIAL AND OPERATIONAL PERFORMANCE

During the year under review, your Company has registered a consolidated turnover of Rs. 388.00 Lacs (Previous year Rs. 236.59 Lacs) which results net losses of Rs. 130.16 Lacs (Previous year net losses of Rs. (1732.16Lacs).

HUMAN RESOURCES

The Company values and appreciates the dedication and drive with which its employees have contributed towards improved performance during the year under review. The relations with workers and staff are cordial during the year under review. All issues pertaining to staff matters are resolved in harmonious and cordial manner.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, expectations, predictions and assumptions may be 'forward looking' within the meaning of applicable securities laws and regulations. Actual results may differ materially from those expressed herein. Important factors that could influence the Company's operations include global and domestic economic conditions affecting demand, supply, price conditions, change in government's regulations, tax regimes, the laws and other factors such as litigation and industrial relations.

**By the Order of the Board
ALCHEMIST REALTY LIMITED**

**Sd/-
Anup Nargas
(DIN: 03609482)
(Chairman & WTD)**

**Dated : 04.09.2020
Place : New Delhi**