

# AN ANALYTICAL STUDY OF PERFORMANCE OF REALITY SECTOR IN SENSEX

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## ABSTRACT

*The Real Estate sector is a large, huge diversified sector, one with many verticals such as land, design, construction, development, investment, lending etc. As India is experiencing the growth curve, moving forward many companies will be spawned in each of these verticals and offer great career opportunities. The sector is very important for the government as it is a big generator of tax revenue. Real estate stocks tends to give returns in extremes that is when the market is in a bull phase it gives very high returns and when the market is in a bear phase it gives adverse negative returns. Hence investments in the real estate stocks are very risky. Since the investor is not aware what is in store for him. The problem he faces is that he is not aware of the returns and risk he faces when he invests in the stocks. This study emphasizes on the impact of macroeconomic variables on the stock market performance of a developing economy this paper investigated the performance of real estate stocks under both the phases to take decisions of investing in the real sector. Author has given suggestion for investing in stock market in Real Sector.*

**Keywords:** Real Estate, Stock Exchange, macroeconomic variables, bull and bear phase.

## INTRODUCTION

Global economic uncertainties have affected India's economy, Macroeconomic indicators are not healthy, Fiscal deficit and interest rates are high while the rupee is depreciating. All this does not bode well for any industry, especially real estate High prices and interest rates have been dampeners. Demand has been stagnating in a few cities even as supply remains high. Investors as well as end-users have been showing signs of weariness. Repeated increases in interest rates have led to a decline in sale of residential properties. This is likely to have an impact on residential sales in 2012 as well. Real estate developers are reeling under high debt and foreign direct investment inflows have slowed. Indicators show that interest rates will remain high, though more likely than not they will stabilize or move downwards, largely driven by a recovery in the US. Due to rising interest rates and regulatory issues faced by the sector, the BSE Realty index fell 51 per cent in 2011 from 2,856 on 31 December 2010 to 1,376 on 31 December 2011, becoming the worst performer of the year. However, since the

beginning of the year 2012 it outperformed others by rising 35 per cent, or 476 points, to 1,846.

### **OBJECTIVES OF THE STUDY**

1. To analyze the performance of the real estate stocks with the benchmark index sensex. And analyze the impact of economic indicator on real stock.
2. To suggest the prospective investors the parameters that has to be taken while investing in real estate stocks.

### **SCOPE OF THE STUDY**

The scope of the study is limited to three worth companies (UNITECH, DLF, and SOBHA DEVELAPERS) and as paper shows, the share price movements depend on the company's performance. Since share price of the company is empirically found to depend up to 50% on the performance of the industry and the economy.

### **METHODOLOGY OF THE STUDY**

This Analytical Research based on the secondary data. And one year's (2011-12) stock price of the companies are consider. The different statistical tools (Standard deviation, Beta, Alpha, Co-efficient of correlation) used for the calculation to identified the volatility of the return of the stocks. This statistical indicator also helps to describe the relationship between the securities return and the index returns.

### **REVIEW OF LITERATURE**

Andrew Metrick "Performance Evaluation with Transactions Data: the stock selection of Investment Newsletter" This Paper analyzes the equity-portfolio recommendations made by investment newsletters. The Comprehensive and bias-free transactions database also allows for insights into the precision of performance evaluation. Using A measure of precision defined in the paper, a transactions-based approach yields a median improvement of 10 Percent over a corresponding factor model. This compares favorably with the precision gained by adding factors to the CAPM.

Murat Kiyilar and Ali Hepson "Performance Appraisal of Real Estate Investment Trusts (REITs): A Practice in Istanbul Stock exchange" The primary purpose of this research is to examine real estate investment trust (REIT) risk-adjusted return performance versus the average performance of common stocks as measured by the Istanbul stock exchange (ISE).

Kim Hiang Liow "Co-Movements and Correlations across Asian Securitized Real Estate and Stock Markets" We find that conditional real estate -stock correlations at the local, regional and global levels are time-varying and asymmetric in some cases, for our sample of eight Asian securitized real estate markets over 1995-2009. Real estate-global stock correlations co-move significantly and positively with real estate-regional stock correlations and real estate local stock correlations. They are also influenced significantly by relative real estate volatilities and their lags at three integration levels.

Flannery and Protopapadakis (2009) estimate a GARCH model of daily equity returns, where realized returns and their conditional volatility depend on 17 macro series'

announcements. They find six candidates for priced factors: three nominal (CPI, PPI, and a Monetary Aggregate)

There have been a lot of studies in the developed world about the interrelationships between real activity and financial variables. Most of them concentrated on stock markets and relationship with different sector stock.

Movement of Sensex and Real Estate share



Source: <http://www.firstpost.com/economy/chart-smart-sensex-catches-problems-of-realtors-in-india-358698.html>

Profitability Index of Real Estate Companies



Source: <http://www.firstpost.com/economy/chart-smart-sensex-catches-problems-of-realtors-in-india-358698.html>

Real estate companies represented by the Realty index on BSE have witnessed a fall of 1.7 per cent over the past one month. The BSE Sensex fell by 1.4 per cent. The Realty Index on the Bombay Stock Exchange (BSE) has dropped by more than half the Sensex fall, i.e. 26 percent during the last one year compared to a 10 percent fall in the Sensex in the same period. Another report by broking house Jefferies says that property volume has declined by 32 percent year-on-year. The demand for more capital appreciation in the wake of rising prices coupled with the home loan rate hike has dampened the buying spirit and propelled demand for rental property in India.

Returns of BSE and UNITECH LTD, SOBHA DEVELOPERES LTD and DLF Stock Prices  
in The Year 2011

Month	BSE(RETURN)	UNIT(RETURN)	SDL(RETURN)	DLF(RETURN)
Jan-11	0.435739262	-3.621169916	-6.850393701	-11.99730776
Feb-11	6.265600245	2.179836512	7.451266169	3.803820006
Mar-11	0.176208844	13.54534747	12.859184	0.75502008
Apr-11	-3.624039002	-17.10344828	-3.330052493	-12.62891261
May-11	4.272494619	2.749832327	-5.613305613	4.111727967
Jun-11	0.936799212	8.246153846	13.68326604	4.347826087
Jul-11	0.572195834	-4.771115409	-1.687956204	0.149130075
Aug-11	10.45387142	12.07482993	13.75737705	20.0238537
Sep-11	-0.183603114	-1.847575058	-5.991103698	-7.769208797
Oct-11	-2.618121278	-36.48542159	-10.52389	-13.9462978
Nov-11	4.816595958	4.15407855	-0.261860752	-5.240623394
Dec-11	-11.90178178	-37.48701973	-24.43933295	-30.3930326
TOTAL	9.601960224	-58.36567135	-10.94680216	-48.78400505
Avg rate	0.8001633	-4.863805	-0.912233513	-4.065333755

Source: [www.BSEindia.com](http://www.BSEindia.com)

Value of Standard Deviation, Beta, Alpha, & Co-Efficient Of Correlation

Company Name	standard Deviation	Beta	Alpha	co-efficient correlation
UNITECH LTD	17.0860	2.3974	-6.7819	0.7863
SOBHA DEVELOPERES LTD	11.3106	1.4960	-2.1091	0.7343
DLF	12.6598	2.0526	-5.7075	0.9085

### ANALYSIS

The standard deviation value of shows Sobha Developers has got moderate risk which yields moderate return. The systematic risk (Beta) value of Sobha Developers is greater than one, which indicates the stock is moderately risky. The unsystematic risk (Alpha) value indicates that the stocks are moderately risky. The standard deviation of DELHI LAND FINANCE (DLF) shows that there is a higher deviation in return of stock. The systematic risk value of DLF is more than the value 2 which indicates that the stocks are highly volatile. The

systematic risk values it is found the stock price of unitech ltd are highly volatile and brigade's is less volatile. The unsystematic risk value of the companies, it can be found that shobha developers has got stocks with lesser risk, and unitech ltd has got stock price with higher risk. The Delhi land finance is in good position as the co-efficient of correlation is grater is then BSE SENSEX. Considering the stock return value the Brigade enterprise is less volatile, suggestible investor to go with Brigade enterprise than unitech ltd since the stock return value is more volatile. It is suggestible to investors to invest sobha developers as it is having less risk when compare to unitech ltd having higher risk. The co-efficient of correlation as compare BSE SENSEX and other companies. The DLF Company as better to other company and good return, the investor is investing in this company.

### **SUGGESTION**

In order to bring back the enthusiasm of the investor community into the sector, real estate companies will have to focus on factors such as improving cash flow position, lowering inventory, reducing debt and increasing profit margins. Real estate stocks were beaten down year 2010 due to tightening monetary policy. They have started recovering on expectations of the rate cycle turning. Companies with good governance standards and debt reduction strategies will do well. DLF seems to be on that path.

### **CONCLUSION**

The real estate sector plays a significant role in the Indian economy: it is second only to agriculture in terms of employment generation and substantially contributes to the gross domestic product of the country. Almost 5 per cent of GDP is contributed by the housing sector, and in the next few years it is expected to rise to 6 per cent. 2011 year has seen huge volatility in the stock markets. The year began with bulls which sent the markets to nearly 18,500 or up by 19 per cent by February but with the issues like huge rupee depreciation, persistent high inflation with status quo on lending rates and policy paralysis, the Sensex came off those highs and by June 2012 it touched the 2011 level. Indian realty stocks that looked all set to fly on the wings of rising demand amid easier access to bank loans and higher purchasing power have been beaten down once again in the recent market correction. In the year 2011-12, Bombay Stock Exchange's Realty Index has been a stark underperformer, losing half of its value when benchmark Sensex managed to churn out a 2% return. The price-to-earnings ratio of the realty index corrected from its peak of 59 in January, 2010, to a modest 19 in March 2011. But factors such as a rise in borrowing costs and peaking asset prices. That is weighing down the residential home segment has stopped investors from bottom fishing in the stocks.

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