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India Property

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Indexation benefit removed

Negative for investments with shorter duration, moderate price growth

In the India Union Budget, the government has removed the indexation benefit for calculating long-term capital gain (LTCG) on non-financial assets (including property). It has also lowered the LTCG tax rate to 12.5% (from 20% previously). We believe this is unlikely to impact end-users who sell their existing house and reinvest in a new house, but it will impact investors who sell their house (investment) and reinvest in other asset classes. We believe the impact of this new regime is likely to be negative for investors with holding period of <5 years and where property price appreciation is moderate (<10% p.a.).

Indexation benefit removed

- ❑ The government has removed the indexation benefit for calculating long-term capital gains on non-financial assets (includes property).
- ❑ It has also lowered the LTCG tax rate to 12.5% (from 20% previously).
- ❑ This is being done to rationalise the capital gains tax across all financial and non-financial assets.
- ❑ The short-term capital gains (STCG) tax rate has been left unchanged at 20%.
- ❑ The government has clarified that the removal of indexation benefits will not be applicable to old properties held before 2001, which would continue to get indexation benefits.
- ❑ The new norms are applicable with immediate effect, ie, from July 23, 2024.
- ❑ This move is unlikely to impact the end-users who sell their existing house and reinvest in a new house (LTCG is not applicable).
- ❑ However, it will impact investors who would sell their house (investment) and reinvest in other asset classes. Also, it will impact relatively shorter-term investments (<5 years) where market price growth is <10% p.a.
- ❑ Conversely, the impact of this new regime would be neutral/marginally beneficial for investments with longer holding period (>10 years) and where property price appreciation is at >10% p.a.
- ❑ We believe markets like Bangalore, Hyderabad and Pune, which are end-user driven markets, will be the least impacted. Markets like NCR and Mumbai, which have higher investor activity, are likely to be adversely impacted.
- ❑ Further, there will be no impact for super-luxury apartments with ticket size of >Rs100 since in last year's budget they had capped the indexed cost of acquisition at Rs100m.

Focus on urban housing

- ❑ Allocation of Rs10tn for urban housing (includes Rs2.2tn by the central government over the next five years), which will benefit 10m urban households. It will include interest subsidy schemes (similar to CLSS).
- ❑ The government will encourage states with high stamp duties for property registration to moderate these duties. Key cities that have higher stamp duty rates are Haryana (7%), Chennai (7%), Mumbai (6%), and Pune (6%).
- ❑ To consider lowering of duties on house purchases by women.
- ❑ Pradhan Mantri Awas Yojna (PMAY) urban allocation for FY25 is at Rs301.7bn (This figure was Rs251bn in the FY24 budget, but has been revised down to Rs221bn).
- ❑ This should benefit affordable and mid-income housing players like Sobha, Prestige Estates, Sunteck Realty, Godrej Properties.

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Illustration on removal of indexation benefit

In the below illustration, we have re-based the acquisition cost to 100, and used the government's Cost Inflation Index (CII) for calculating indexed cost of acquisition, for calculating LTCG in the old regime. We compare that with new regime (no indexation) to calculate the LTCG tax at lower rate of 12.5% (versus 20% in the old regime).

We estimate that under the new regime the LTCG tax incidence is higher when the holding period is lower (<10 years) and property price appreciation is <10% p.a.

Conversely, the LTCG tax in the new regime would be neutral/marginally beneficial for investors who hold it for longer duration (10 years and over) and where property price appreciation is healthy (>10% p.a.).

Figure 1

Illustration on capital gains calculation in old vs new regime

Holding period (no. of years)	Old regime				New regime			
	2.0	5.0	10.0	20.0	2.0	5.0	10.0	20.0
Cost of acquisition	100	100	100	100	100	100	100	100
Indexed cost of acquisition*	110	126	151	321	100	100	100	100
Tax rate	20%	20%	20%	20%	12.5%	12.5%	12.5%	12.5%

House price increase at 5% cagr

Market value	110	128	163	265	110	128	163	265
LT capital gains	0.6	2.0	11.6	(55.9)	10	28	63	165
LT capital gains tax	0.1	0.4	2.3	(11.2)	1.3	3.5	7.9	20.7
% change in LTCG tax in new regime vs old regime					1000%	754%	238%	NA

House price increase at 7.5% cagr

Market value	116	144	206	425	116	144	206	425
LT capital gains	6	18	55	104	16	44	106	325
LT capital gains tax	1.2	3.6	11.0	20.7	1.9	5.4	13.3	40.6
% change in LTCG tax in new regime vs old regime					65%	52%	21%	96%

House price increase at 10% cagr

Market value	121	161	259	673	121	161	259	673
LT capital gains	11	35	108	352	21	61	159	573
LT capital gains tax	2.3	7.1	21.6	70.3	2.6	7.6	19.9	71.6
% change in LTCG tax in new regime vs old regime					16%	8%	(8%)	2%

House price increase at 12.5% cagr

Market value	127	180	325	1,055	127	180	325	1,055
LT capital gains	17	55	173	733	27	80	225	955
LT capital gains tax	3.4	10.9	34.7	146.7	3.3	10.0	28.1	119.3
% change in LTCG tax in new regime vs old regime					(2%)	(8%)	(19%)	(19%)

Source: CLSA; * Indexed cost of acquisition in old regime is based on the Government's Cost Inflation Index (CII)

Break-even annual price appreciation

Further, we present the below computation for break-even compounded annual price appreciation for the LTCG tax to be the same under new and old regime. For lower holding period and higher cost inflation index (used in the old regime), the compounded price appreciation required is much higher for break-even tax.

Figure 2

		Breakeven compounded annual price appreciation (%)			
		Cost Inflation Index (%)			
		4.0%	4.5%	5.0%	5.5%
Holding period (yrs)	3	10.1%	11.2%	12.4%	13.6%
	5	9.5%	10.6%	11.7%	12.7%
	10	8.6%	9.5%	10.3%	11.2%
	15	7.9%	8.7%	9.5%	10.2%
	20	7.4%	8.1%	8.8%	9.5%
	25	7.0%	7.7%	8.3%	8.9%
	30	6.7%	7.3%	7.9%	8.5%

Source: CLSA



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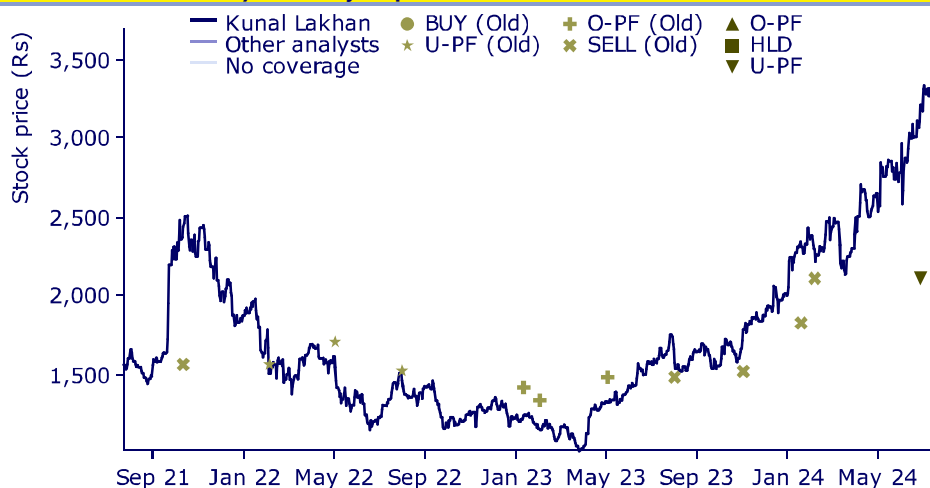
- Godrej Properties (GPL IB - RS3,144.6 - U-PF)
- Prestige Estates (PEPL IN - RS1,761.0 - O-PF)
- Sobha (SOBHA IS - RS1,784.4 - U-PF)
- Sunteck Realty (SRIN IN - RS582.0 - O-PF)

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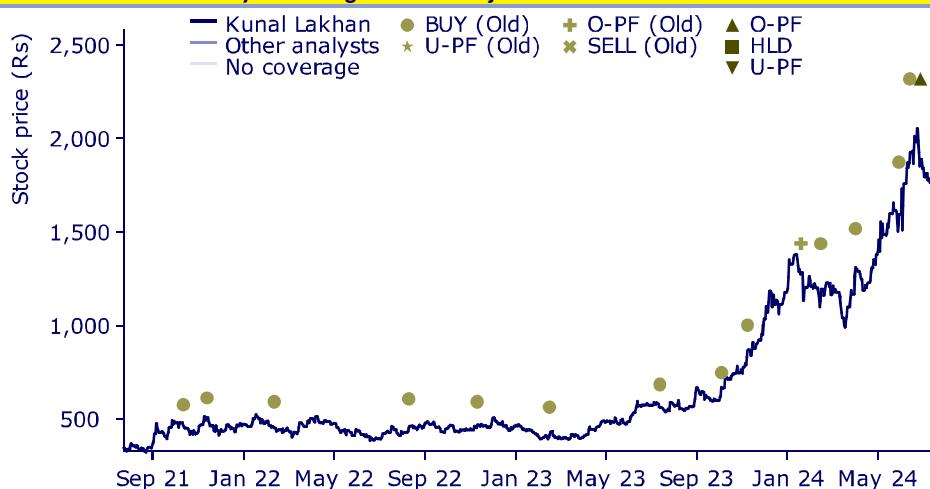
Date	Rec	Target	Date	Rec	Target
28 Jun 2024	U-PF	2,110.00	03 Feb 2023	O-PF	1,335.00
07 Feb 2024	SELL	2,110.00	12 Jan 2023	O-PF	1,417.00
20 Jan 2024	SELL	1,827.00	02 Aug 2022	U-PF	1,523.00
03 Nov 2023	SELL	1,520.00	04 May 2022	U-PF	1,707.00
03 Aug 2023	SELL	1,482.00	05 Feb 2022	U-PF	1,563.00
05 May 2023	O-PF	1,482.00	12 Oct 2021	SELL	1,563.00

Note: At 6pm (HKT) on 28 June 2024, we changed our ratings to Outperform (O-PF), Hold (HLD) and Underperform (U-PF). Please see Key to CLSA/CLST investment rankings below for details. Source: CLSA

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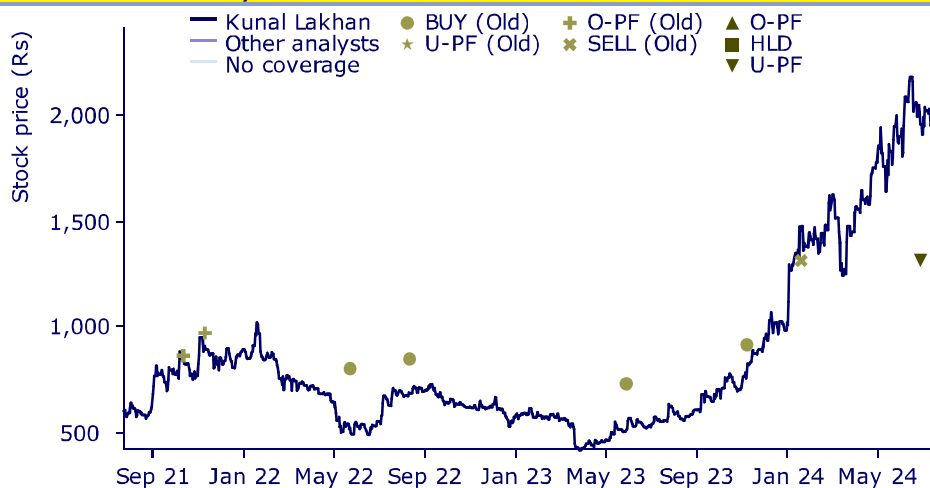
Recommendation history of Prestige Estates Projects Ltd PEPL IN



Date	Rec	Target	Date	Rec	Target
28 Jun 2024	O-PF	2,320.00	14 Jul 2023	BUY	687.00
14 Jun 2024	BUY	2,320.00	16 Feb 2023	BUY	566.00
30 May 2024	BUY	1,875.00	11 Nov 2022	BUY	595.00
02 Apr 2024	BUY	1,520.00	11 Aug 2022	BUY	610.00
15 Feb 2024	BUY	1,440.00	11 Feb 2022	BUY	595.00
20 Jan 2024	O-PF	1,440.00	13 Nov 2021	BUY	615.00
09 Nov 2023	BUY	1,005.00	12 Oct 2021	BUY	579.00
05 Oct 2023	BUY	750.00			

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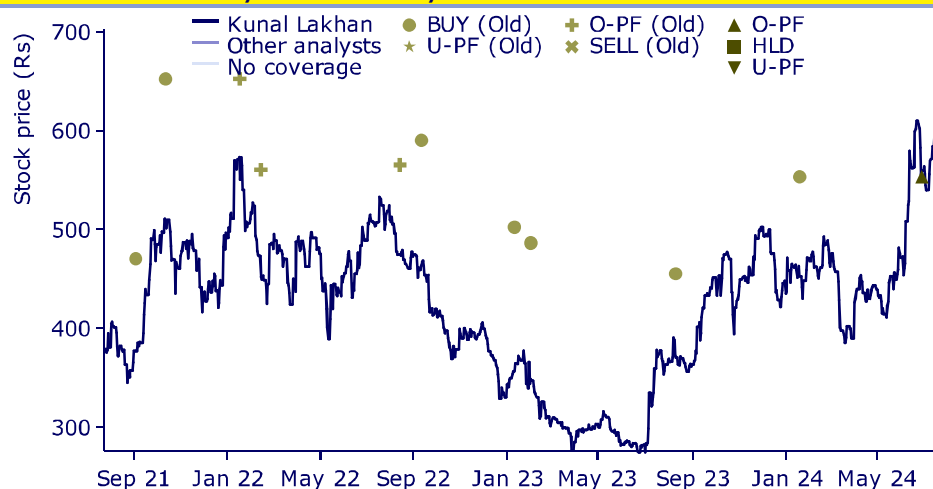
Recommendation history of Sobha Ltd SOBHA IS



Date	Rec	Target	Date	Rec	Target
28 Jun 2024	U-PF	1,315.00	12 Aug 2022	BUY	850.00
20 Jan 2024	SELL	1,315.00	24 May 2022	BUY	805.00
08 Nov 2023	BUY	918.00	10 Nov 2021	O-PF	973.00
30 May 2023	BUY	734.00	12 Oct 2021	O-PF	865.00

Note: At 6pm (HKT) on 28 June 2024, we changed our ratings to Outperform (O-PF), Hold (HLD) and Underperform (U-PF). Please see Key to CLSA/CLST investment rankings below for details. Source: CLSA

Recommendation history of Sunteck Realty Ltd SRIN IN



Date	Rec	Target	Date	Rec	Target
28 Jun 2024	O-PF	553.00	15 Aug 2022	O-PF	565.00
20 Jan 2024	BUY	553.00	14 Feb 2022	O-PF	560.00
11 Aug 2023	BUY	455.00	17 Jan 2022	O-PF	652.00
02 Feb 2023	BUY	486.00	12 Oct 2021	BUY	652.00
12 Jan 2023	BUY	502.00	03 Sep 2021	BUY	470.00
12 Sep 2022	BUY	590.00			

Note: At 6pm (HKT) on 28 June 2024, we changed our ratings to Outperform (O-PF), Hold (HLD) and Underperform (U-PF). Please see Key to CLSA/CLST investment rankings below for details. Source: CLSA

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