

February 2, 2007

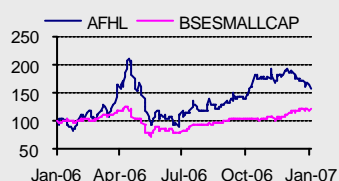
#### Stock Details

<b>Recommendation</b>	<b>BUY</b>
Target Price	Rs570
CMP	Rs432
Upside	32%
52 Week H/L	Rs600/226
Avg. Volume (6m)	12,700
Market Cap	Rs2.7bn
Face Value	Rs10
BSE Code	531381
NSE Code	ARIHANT
Bloomberg Code	AFH@IN
Reuters Code	N/A

#### Share Holding Pattern

	Sep' 06	Dec' 06
Promoter	40.3	39.3
Institutions	0.6	0.8
FII	11.2	16.7
Public & Others	47.9	43.2

#### Relative performance chart



#### Analyst

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*Continued boom in the Chennai real estate market, helped AFHL post a 64% revenue and 85% profit growth. However, operating margin was down by 114bps on account of a low margin commercial project, which is likely to correct from the third quarter. We have revised our estimates downward by 17% in revenues both for F9/07 and F9/08 and earnings by 7% and 1% for the next two years to factor in some project delays. This apart the company has added 4 new projects to its project pipeline during the quarter. We continue to maintain BUY rating with a revised our price target of Rs570 from Rs602 earlier.*

#### Result update

##### Revenue growth remained robust amidst firm real estate prices

Property demand in Chennai remained firm in the Oct-Dec quarter, helping AFHL book a 64% growth in revenues. The company currently has 5 on ongoing projects and has booked total sales of 0.19mn sqft during the quarter as against 0.16mn sq ft in the previous quarter. AFHL is currently carrying a Work-In-Progress inventory of Rs590mn, the sales for which should be converted over the next two quarters.

##### Margin contraction likely to ease from the third quarter

While the CBD, OMR and GST rd have seen stable to rising prices, other areas like Ambattur have not picked up as well as expected. As a result majority of the company's projects are earning gross margin in the range of 35-40%. However, the commercial project at Ambatur (approximately 55% of revenues in Q1 F9/07) grossed around 22%, pulling down blended margin to 25.3%, a drop of 114bps over Q1 F9/07. However, we expect margin to look up from third quarter as high margin project contribution increases.

##### Company expanding footprints outside Chennai; 4 new projects added to pipeline

In line with the company's guidance, it has started foraying outside Chennai. AFHL has added four new projects one each in Madurai (21 acres), Vijaywada (50 acres), Poonamali high rd (5 acres) and Mall + hotel (0.6mn sq ft) on the OMR rd. We have yet to factor in these new projects in our estimates, which are likely to contribute to revenues from F9/09.

##### Lowering revenue estimates to factor in likely delays in some projects

We have delayed our project completion phase in some of AFHL's projects (no guidance from the management). As a result we have revised our revenue growth downwards by 17% each for F9/07 and F9/08, while earnings have been revised downwards only 7% and 1% in the respective years. Lower revision in earnings is on account of lower tax rate.

#### Table: Valuation summary

	F9/04	F9/05	F9/06	F9/07E	F9/08E
Sales (Rs mn)	299	615	933	1,593	2,835
Growth (%)	23.6	105.5	51.7	70.8	78.0
Operating margins (%)	6.4	16.4	29.7	30.3	34.4
Net Profit (Rs mn)	6	75	200	369	754
Growth (%)	(26.1)	1,258.4	165.3	84.2	104.6
ROCE	3.0	10.6	21.8	31.3	45.5
ROAE	3.5	24.7	37.3	42.7	53.3
EPS	1.1	12.6	33.3	52.6	107.7
PE (x)	389.2	34.4	13.0	8.2	4.0
EV/ EBITDA (x)	324.9	37.4	13.0	7.8	3.7

Source: Company data, India Infoline estimates



## Arihant Foundation and Housing Ltd (AFHL)-

### Q1 F9/07 Result update – Small and sweet

Table: Quarterly financials

(Rs mn)	Q1 F9/07	Q1 F9/06	Growth	Q4 F9/06	Growth
	(3)	(3)	(%)	(3)	(%)
Operating Income	312	190	64.2	273	14.2
Operating Expenses	(233)	(140)	66.8	(198)	17.5
Operating Profit	79	50	57.1	75	5.3
Operating Margin (%)	25.3	26.4		27.4	
Other Income	2	2	0.6	9	(82.6)
EBITDA	81	52	55.3	84	(4.5)
Depreciation	(1)	(1)	5.3	(1)	70.7
EBIT	80	51	56.2	84	(5.0)
Interest	(9)	(5)	82.2	(16)	(44.5)
Profit Before Tax	71	46	53.5	68	4.2
Tax	(8)	(12)	(37.0)	(8)	(9.6)
Profit After Tax	63	34	85.0	60	6.1

Source: Company data, India Infoline estimates

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