

Anant Raj Industries Ltd.(ARIL)		Date : December 15, 2006	
Outperformer	Rs.1350	Mkt Cap.	Rs.29.4bn
Visit Note	Industry-Reality		\$654mn
		52 Wk H/L	Rs.1475/302
		BSE Sensex	14614

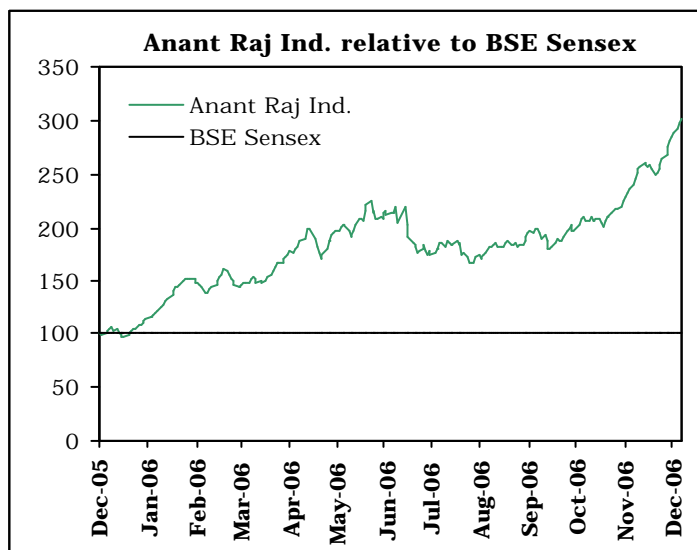
FORECAST							GROWTH	
March year end	Net Sales (Rs mn)	PAT (Rs mn)	OPM (%)	EPS (Rs)	PER (x)	P/BV (x)	PAT (%)	EPS (%)
2005	225.8	2.9	12.4	0.2	8,946.3	11.8		
2006	568.3	280.9	70.5	12.9	104.7	3.3	9,552.0	8,444.0
2007E	2,750.0	1,782.4	83.0	35.6	37.9	0.3	534.5	176.5
2008E	11,200.0	7,288.4	86.0	145.8	9.3	0.2	309	309

Investment Arguments

- Anant Raj Industries Ltd.** ARIL belongs to the Delhi based Ashok Sarin group which owns 59% stake. ARIL was incorporated as a public company in 1985 under the name Anant Raj Clay Products Ltd. In 1995, the name was changed to Ananraj Industries Ltd. ARIL has over 3 decades of construction experience in NCR region. It has developed 11.5mn sq feet of residential, office and shopping mall space.
- Focus on real estate in NCR** - Contrary to others ARIL's real estate activity being restricted to NCR (Delhi, Haryana, UP). NCR will be receiving huge investment in infrastructure which will keep property prices buoyant. In last 2 years ARIL has started focusing on investment and development of real estate assets. This is being achieved with help of merging and acquiring group entities as well as acquisition of new land. ARIL currently owns, constructs and develops a diversified portfolio that includes retail, commercial, hospitality, entertainment & IT parks.
- The total land bank of ARIL is at 1200 acres.** All of this land bank is located in NCR region. In our latest meeting management has emphasized that conservatively this land is valued at Rs100bn. Around 500 acres representing 70mn sqft is currently under development. The total project value on this land bank will be Rs250bn or USD5bn.
- Valuations-ARIL** quotes At Rs 1350. ARIL is focused on real estate development in the NCR region. ARILs land bank is now being used to build up properties which will be given on rent to reputed customers. This will ensure huge but steady cash flows for ARIL. We rate ARIL an **Outperformer**

Shareholding Pattern as on September'06

Category	% of Holding
Indian Promoters	59.4
Mutual Funds / Insurance Companies	0.9
FII's	23.3
Private Corporate Bodies	7.8
Others	8.6
Total	100.0



□ Background

- **Anant Raj Industries Ltd (ARIL)** is part of the Anant Raj Group. This group was established by Mr. Ashok Sarin in 1969 by setting up an enterprise for third party construction services under the name Anant Raj agencies.
- ARIL set up a ceramic tile manufacturing plant in 1989, at Rewari (Haryana, India) with capacity of 3500 square meters per day. This was in collaboration with Henshell Bamford of UK. The clay tiles are sold in the domestic and export markets under the *Romano* brand. Ceramic tiles contributed Rs230mn to revenues in FY06.
- The current plant capacity is 12,000 square meters of ceramic floors/wall tiles/day.

Main activities are now in real estate.

- **Over the years, Anant Raj group has expanded/diversified into multiple companies and the residential/commercial developments for self and third parties-are well recognized.**
- **The group is amongst the top few real estate developers in North India and is known for its high quality of development.**
- **ARIL has good experience in the NCR region for last 3 decades.**
ARIL has in last 30 years completed development of real estate and construction of residential/commercial buildings in the NCR region. Table below shows the completed developments.

The completed developments include:

Residential houses/row houses/multistoreyed apartments	7809200 sqft
buildings for use as office/colleges/hospital factory	1026100 Sqft
shopping complex/mall	375000 sqft
Farm houses complex with infrastructure	210 acres/70 houses
Development of roads and drainage systems	55 sq kms
Parks	75 acres
Laying of water pipe lines	30 kms
laying of sewage pipe lines	15 kms

- **ARIL also has investments in hotels/ cinemas & theatres. ARIL mainly follows a lease-rental model for its properties.**
- **Reputed rental customer base**-ARIL has a very reputed customer base for its rental properties. This includes reputed MNCs as well as key Government Organizations.

Major Tenants, Customers

USAID India
Government of India
Ministry of Science & Technology
Income Tax Department
Bharat Sanchar Nigam (Telecom)

International Business

Rolls Royce marketing office
Guang Hua Real Estate Development
Auto Desk
Avaya Global connect
Nortol Networks (India)

Public Sector

IDBI Bank
New India Insurance Company

Companies

Allianz Bajaj Insurance
Amway India
Ambit RSM
Bharti Airtel
Ernst & Young
First Rain Software
Logica
Perfect Business Centre Services
Sky Gourmet Caterers
Whirlpool India

Source : Company, Dolat Research

Flexible revenue development model depending on the type of development

For IT Parks/Office/Malls

- ARIL gets fixed rental and/or share of turnover. ARIL has clauses wherein it gets an increment in every 3 years. Maintenance receipts and deposits are taken in advance from tenants. Normally 8-14 months of rent is taken as security deposit. This also helps in keeping debt levels low. This lower debt leverage will be a significant cushion in case of a down turn in prices.

For Hotels & Cinemas

- ARIL contacts reputed chain for operations. For instance in hotels it has signed contracts with AtkinSpence of Sri Lanka. While retaining the ownership of the property, ARIL gets a protected Dead rent as well as share of revenues. The operator of cinema or hotel is also invited to invest partly.

ARIL gets revenue of 8-14% of the capital value of the property every year from rentals. This is net of all maintenance charges etc.

However residential properties are sold

- ARIL prefers to sell these as residential annual rentals are lower than non-residential at 3-6% of capital values.

Consolidation of ARIL's real estate activities with a focus on NCR

- **Focus on real estate**-In last 2 years ARIL has started focusing on investment and development of real estate assets. This is being achieved with help of merging and acquiring group entities as well as acquisition of new land.
- **Focusing on NCR**-Contrary to others ARIL is focused on its real estate activity being restricted to NCR (Delhi, Haryana, UP). Management feels that NCR will be receiving huge investment in infrastructure which will keep property prices buoyant.

NCR, a big and growing market with improvement in infrastructure:

- New Delhi, India's Capital city and suburbs. Population of Delhi and suburbs=20mn.
- Unprecedented Infrastructure development. Large new highways linking Delhi with satellite towns in NCR. New metro Rail commissioned-rapidly being expanded.
- Privatization of Distribution of electric power, Privatization of Airport.
- Common wealth games in 2010 are a spur for quality infrastructure.
- Land use controls being reviewed to keep the same in line with developmental needs, change of use allowed on payment of charges. New floor space index norms allow more construction. Freeing of Government lease-hold land for development of infrastructure and for office parks/residential townships. Municipal taxes are reduced
- Incentives to attract IT/ BPO services-large employers.
- **The potential of NCR is perhaps greater than almost all locations in India.**

ARIL's Principles of Investing In Real Estate:

- Focus on NCR region as the region offers a big opportunity.
- **ARIL has a deep and mature understanding of:** Local Land laws, Development by-laws, regulations and practices, Infrastructural changes/augmentation, Market trends and nature of Demand.
- ARIL identifies and buys land at right time. Its deep understanding of NCR market helps it to identify A, B& C category properties on an ongoing basis.
- ARIL's 3 pronged Land Bank strategy is to identify properties commercially exploitable in:
 - Category A**-1-2 years Invest if significant value appreciation is expected.
 - Category B**-2-4 years Invest if Infrastructure is planned for development.
 - Category C**->5 Years Invest after study of city development-category C.

- B and C category properties create significant, long term, sustained value.
- Larger the distance from city center, lower are the land prices and longer is the time for development. This provides higher margins during good times and higher cushion to downturns. Thus the main criteria are identification of the right property a while before development is likely.
- **Identification of land is done in such a manner that ensures land cost is lowest on per square foot of construct able area with an optimal exploitation of potential to construct**
- ARIL avoids implementation delays by achieving financial closure from banks prior to commencing physical construction.
- A key feature about ARIL's management is its reputation among bankers and government authorities. It gets funding from SBI for its projects. Also ARIL is able to get approval from Haryana & Delhi govts for projects and land clearances fast.
- **The total land bank of ARIL is at 1200 acres. All of this land bank is located in NCR region. In our latest meeting management has emphasized that conservatively this land is valued at Rs100bn.**
- **Around 500 acres representing 70mn sqft is currently under development. The total project value on this land bank will be Rs250bn or USD5bn.**

ARIL has revealed the details of almost 700 acres of its land bank

Directly owned by ARIL	166 acres
Owned by Wholly Owned Subsidiaries of ARIL	195 acres
A 90% subsidiary holding	180 acres
ARIL is acquiring through a merger process	38 acres
117 acres and 10% share of 180 acres owned by affiliates	
A stake of 33% in 108 acres	

ARIL has disclosed category-wise breakup of 700 acres of its landholding

Category	Acres
A	50
B	168
C	480
Total	698

1/3 rd shareholding of 108 acres

Thus ARIL has at-least 100 acres of land in prime locations.

- ARIL has invested in mix of properties that are commercially exploitable immediately.

Project under Implementation

Land Bank	Location Nos	Built area mn sqf	Development cost-Rs mn
Hospitality	11.0	5.3	261.0
IT parks	2.0	6.3	236.0
SEZ,land for one acquired,25% of land (140 acres) acquired for the other	2.0	3.9	117.0
Commercial	3.0	0.7	18.0
Residential	10.0	4.7	110.0
		20.9	742.0

Source : Company, Dolat Research

- **IT Parks-At Manesar ARIL is developing a 1.8mnsq feet IT park. At Rai in Haryana it is developing a 4.5mn square feet IT park.**

IT parks near Delhi

Location	Manesar	Rai
Land, acres	10	25
Built area*	1.8	4.5
Cost to ARIL		
USD M	76	173
Annual Lease		
USDM	16	39

* Million sq feet

- Rai in Sonipat, Haryana is one of the most preferable industrial belts in North India due to its proximity to Delhi, it is just 1.5 kms from Delhi Border on the National highway. It has pollution free environment, Industrial peace adequate availability of manpower and Infrastructure.
- The total constructed area would be 4.5mn sq ft the proposed facility shall provide state of the art workstations to different software development, Multimedia production, data processor and IT services to joint venture partners involved in the development, research assembly and marketing of the state of the art equipment used in software, telecommunications, Biotech, Biotech research, computer robotics and allied business.
- The IT park is proposed to be constructed shall be of the most modern design and shall also be equipped with all infrastructure facilities and conveniences like Lifts, elevators, Central Air Conditioning, 100% Power backup, Electronic Security system etc., Provision of Business centre and convention centre to provide secretarial and communication services. Provision for restaurants to propose for needs of 700 personnel working in IT park, Provision of swimming pools and health centre to provide recreational and health facilities.
- The project also envisages: Development of a Five Star Hotel. Development Housing Societies. Development of Commercial Complex & Retail Outlets which shall be let out to well know retail chains.
- **Project Cost at Rai**
The total project cost would be Rs 100bn and completion would generate rental revenue of Rs 1.8bn per annum.
- **Manesar IT Park**-ARIL is also developing an Information Technology Park on land allotted by State Authority of Haryana at Manesar. The project will be developed on "Walk to Work" concept, and will be self sufficient integrated mini-township with all necessary and appurtenant facilities. This 1.8mn sq feet property includes features similar to the Rai IT park.

• **PHASE I-& PHASE-II of merger operations have been completed**

- ARIL has initiated steps to consolidate its hospitality and real estate operations as separate divisions of ARIL. Steps have been taken to merge five entities engaged in real estate development with ARIL. The merger is effective from April 1st 2005. The details of the merged entities are:

Background of entities merged with ARIL in Phase I

Company name	Project Details	Area(sqft)	Project Cost(Rs Mn)	Completion Date
Kalinga Meadows Ltd	Developing a 4 star hotel in satbari (Mehrauli,Delhi)-7.37 acres	130,000	278.0	Mar-06
Sarvodaya builders pvt Ltd.	Developing 220 service apartments in kapashera (Near International Airport, Delhi)14268 sq yards	295,000	555.0	Mar-07
B.T estates Pvt Ltd	Developing apartments near bhatti (Mehrauli New delhi)6.29 acres	457,567	773.0	Mar-08
Carnation Buildcon Pvt Ltd	Developing Commercial office space at Tejpul (Near badarpur,New Delhi) 13814 sq yards	315,000	4,020.0	Mar-08
Elegant Buildtech pvt Ltd.	Developing Commercial office space at tejpul, (near Badarpur,New Delhi)-14116 sq yards	315,000	4,057.0	Mar-08

Source : Company, Dolat Research

- ARIL's board has recently approved merger of four entities engaged in real estate development with ARIL. The details are:

Background of entities merged with ARIL in Phase II

Company name	Project Details	Area(sqft)	Completion Date
Grand Meadows Ltd	Developing a 135 room hotel in satbari (Mehrauli,Delhi) jointly with Papillon Estates-4.729 acres	150000 (jointly)	Jun-06
Papillon Estates Ltd	Developing a 135 room hotel in satbari (Mehrauli,Delhi) jointly with Grand Meadows-2.885 acres	150000 (jointly)	Jun-06
Roseview Estates Pvt Ltd	Developing 80 Luxury apartments at Hauz Khas,New Delhi	274,588.0	Mid-2008
Bhasin Resorts Pvt Ltd	Developing a Hotel in shahoorpur (Mehrauli,Delhi)	200,000.0	Mar-08

Source : Company, Dolat Research

- **Raising of Equity in 3 phases-While ARIL has raised equity in two phases, a 3rd phase is around the corner.**
- **Phase I** -In FY06 ARIL had issued 2.5mn shares and 1.5mn warrants by way of preferential allotment at a price of Rs175/share (including Rs165/share premium). In this phase ARIL raised Rs700mn. Participants in this round included Lloyd George, India Capital, Sonata Investments and Reliance Capital.
- **Phase-II**-In Q1FY07 ARIL allotted 3.5mn equity shares 1.504mn share warrants by way of preferential allotment at Rs600/share to FIIs. Rs3bn were raised with participation from Lehman Bros, HSBC Offshore, Citigroup. ARIL raised Rs3bn.
- **Phase III**-This phase will involve raising of Rs12-15bn by issuing upto 10mn shares. This phase would be completed by March 2007. The promoter holding post this merger phase will be 73%.
- While merging companies or making them subsidiaries of ARIL promoters are being issued shares in lieu of compensation.
- Ultimate equity would be in the range of Rs 500-550mn (10 paid up) by March 2007 when the integration process is likely to be over.

- **Rental cash flows will be huge**-In next 2-3 years AIL targeting large amount of rental income from properties it is developing. Management is confident.

☐ Q2FY07 Results

Quarterly Results (Rs mn)	Q2FY07	Q2FY06	% change	H1FY07	H1FY06	% change
Ceramic Tiles	76.6	55.5	38.1	164.0	89.7	82.8
Real estate/Investments	364.9	32.4	1,026.4	654.0	32.4	1,918.7
Rent Received	13.0	0.3	3,839.4	17.5	7.8	123.5
Net Sales	454.5	88.2	415.3	835.5	129.9	543.0
a) Increase/Decrease in stock	(6.0)	(0.2)	3,471.6	13.237	6.3	109.9
b) Cost Of Construction and Raw materials	24.1	9.8	147.4	42.0	19.6	114.2
c) Cost Of Trading Good sold	0.0	0.0		9.4		
d) Staff Cost	4.7	4.0	16.9	9.7	8.2	18.8
e) Mfg And others	31.3	21.2	47.6	53.9	36.8	46.5
<i>Total Expenditure</i>	<i>54.1</i>	<i>34.8</i>	<i>55.4</i>	<i>128.2</i>	<i>70.9</i>	<i>81.0</i>
<i>Operating Profit (EBDIT)</i>	<i>400.4</i>	<i>53.4</i>	<i>650.2</i>	<i>707.3</i>	<i>59.1</i>	<i>1,096.9</i>
Depreciation	10.6	8.4	25.8	22.0	12.8	72.2
Gross Profit (EBIT)	389.8	45.0	766.8	685.4	46.3	1,379.0
Financial Expenses(Net)	2.5	2.6	(4.4)	5.8	5.2	10.2
Other Income	6.6	0.2	2,662.3	15.4	3.7	312.9
PBT	394.0	42.6	824.3	695.0	44.9	1,449.5
Tax Adjustment	124.1	17.0	631.5	224.6	17.2	1,205.6
Extraordinary/PYA	0.0	0.0		0.0	0.0	
PAT	269.9	25.7	951.4	470.4	27.7	1,601.1
OPM (%)	88.1	60.5		84.7	45.5	
Equity	25.28	19.29		25.28	19.29	
EPS(Rs)	10.7	1.3	702.0	18.6	1.4	1,197.6

- ARIL's net sales have witnessed a sharp 5 fold increase to Rs454.5mn. Major part of this was from sale of completed residential properties.
- Operating profit has increased 650%yoy to Rs400.4mn. Margins at operating levels have increased from 60.5% in Q2FY06 to 88.1% in Q2FY07.
- Depreciation charges rose 26%yoy to Rs10.6mn.
- PBT rose 9.4 fold to Rs394mn. Tax/PBT was at 31%. Tax provisions rose 7.3 fold to Rs124.1mn.
- **PAT increased 10.5 fold to Rs270mn.**

□ Key Assumptions

- In FY07 ARIL will earn revenues and profits primarily through selling the residential properties and special developments sale of residential properties and special developments of the company.
- ARIL will be selling 0.5mn sq feet of residential apartments in Kapashera & South Khas projects. The revenues from these will be at Rs4, 700/sq feet & Rs14, 000 sq feet respectively. ARIL will also be selling its commercial 82,500 sq feet Diamond Park Souk at Karolbagh for nearly Rs6bn at Rs80,000/sq feet. in H1FY08.
- **From H2FY08 onwards, the income will majorly comprise of rentals from commercial and office properties and the share of revenue from developments in the field of hospitality and entertainment.**
- **Operating margins will be high** on account of the fact that 3/4th of land was bought 5-6 years ago well before the run up in land prices started. In most cases the historical cost is 10-15% of the total expected sale value. This will be around 60% if land is acquired at current prices.

FY07 Estimates-Revenues will be at Rs 2750mn representing a 384%yoy rise. PAT of Rs1782.4mn represents an EPS of Rs71 on an equity of Rs252.8mn.

FY08 Estimates- Revenues will be at Rs 11,200mn representing a 307%yoy rise. PAT of Rs7,288.4mn represents an EPS of Rs146 on an equity of Rs500mn. .ROCE & RONW will be 29.1 & 29% respectively in FY08.

- **Valuations-ARIL** quotes At Rs1350. ARIL is focused on real estate development in the NCR region. ARILs land bank is now being used to build up properties which will be given on rent to reputed customers. This will ensure huge but steady cash flows for ARIL. We rate ARIL an **Outperformer**.

INCOME STATEMENT

Rs.mn

Year ended March 31	2005	2006	2007E	2008E
Net Sales	225.8	568.3	2,750.0	11,200.0
Cost of Goods Sold	197.8	167.7	467.5	1,568.0
Operating Profit (EBDIT)	28.0	400.6	2,282.5	9,632.0
Depreciation	19.9	28.8	60.5	106.1
Gross Profit (EBIT)	8.1	371.8	2,222.0	9,525.9
Financial Expenses(Net)	11.6	11.6	14.0	500.0
Other Income	6.9	8.9	20.0	200.0
PBT	3.4	369.2	2,228.0	9,226
Provision for Tax	0.5	88.1	445.6	1,937.4
Extraordinary/ P Y A	0.0	(0.2)	0.0	0.0
PAT	2.9	280.9	1,782.4	7,288.4
Dividends-Equity	0.0	54.5	252.8	505.6
Dividend Tax	0.0	7.6	33.0	66.0
Additions to Reserves	2.9	218.8	1,496.6	6,716.9

Share Data

Fully Diluted EPS	0.2	12.9	35.6	146
Fully Diluted CEPS	1.2	14.2	36.9	147.9
Dividend Per Share	0.0	0.5	5.1	10
Book Value Per Share	114.1	411.5	4,043.2	5,520.5
No of Shares (Mn)	19.3	21.8	50.0	50.0

Valuation Ratios

Market Price(Rs)		1,350.0	1,350.0	1,350.0
PE		104.7	37.9	9.3
Price/CEPS		95.0	36.6	9.1
Price/Bk Value		3.3	0.3	0.2
PE/EGR		0.0	0.2	0.0
Mkt Cap/Sales		258.8	122.7	30.1

Key Ratios and Statistics

Growth in (%)

Net Income		151.7	383.9	307.3
Operating Profit		1,330.7	469.8	322.0
Gross Profit		4,469.1	497.6	328.7
Net Profit		9,552.0	534.5	308.9
EPS		8,444.0	176.5	308.9

Margins(%)

Operating Margin	12.4	70.5	83.0	86.0
Gross Margin	3.6	65.4	80.8	85.1
Net Profit Margin	1.3	49.4	64.8	65.1
ROCE%	4.1	30.1	11.6	29.1
RONW%	1.3	31.3	9.7	29.0
Payout Ratio(%)	0.0	3.9	14.2	6.9
Interest Cover(times)	0.7	32.2	158.7	19.1

E-estimates

BALANCE SHEET				
	Rs.mn			
Year ended March 31	2005	2006	2007E	2008E
Equity Capital	192.9	217.9	500.0	500.0
Share premium	0.0	412.5	16,112.5	16,112.5
Profit and loss general reserves	27.1	239.2	1,735.8	8,452.6
Other Reserve	0.0	27.0	30.0	28.0
Net worth	220.0	896.6	18,378.3	25,093.1
Total debt	139.0	344.0	844.0	8,344.0
Deffered Tax Liability	10.0	25.9	28.9	31.9
Total liabilities	369.0	1,266.4	19,251.1	33,469.0
Gross block	445.6	1,142.5	2,242.5	6,242.5
Accumulated depreciation	237.8	254.1	314.6	420.8
Net fixed assets	207.8	888.4	1,927.9	5,821.7
Capital WIP	85.3	244.4	800.0	3,500.0
Investments	0.00	0.0	0.0	0.0
Current assets	161.1	243.8	16,973.5	25,343.9
Cash & bank	13.5	28.7	16,280.5	22,947.1
Accounts Receivable	69.3	98.0	385.0	1,120.0
Inventory	46.9	67.5	225.5	940.8
Other Current assets	0.0	0.0	0.0	0.0
Loans & advances	31.4	49.5	82.5	336.0
Current Liabilities	(85.2)	(112.4)	(452.8)	(1,200.2)
Accounts payable	(39.3)	(38.7)	(165.0)	(649.6)
Advances from customers	(43.2)	0.0	0.0	0.0
Dividend	0.0	(54.5)	(252.8)	(505.6)
Other provisions\liabilities	(2.7)	(19.3)	(35.0)	(45.0)
Net current assets	75.9	131.4	16,520.7	24,143.7
Net Deferred Tax Liability	0.0	0.0	0.0	0.0
Miscellaneous expenses	0.0	2.3	2.5	3.5
Capital employed/deployed	369.0	1,266.4	19,251.1	33,469.0
Ratios				
Current Ratio(x)	1.9	2.2	37.5	21.1
Average Collection Period(Days)	112.1	63.0	51.1	36.5
Inventory Turnover (Days)	75.8	43.4	29.9	30.7
Average Payment Period(Days)	63.5	24.8	21.9	21.2
Debt-Equity Ratio(x)	0.6	0.4	0.0	0.3

E-estimates

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