

Godrej Properties Ltd

Strong pick-up in execution – a key positive

Q4FY10 proved to be a strong quarter for Godrej Properties (GPL), marked by a staggering 114% and 218% growth in its sales and profitability, to Rs 1.7bn and Rs 575mn, respectively. The improvement in sales came in from incremental contribution from Ahmedabad and Kolkata projects while profitability surged on stake sale in subsidiaries. We like GPL as it has significantly ramped up its execution levels and delivered 3.9msf in FY10 as against 3.7msf delivered cumulatively until FY09. We expect the company to launch 15 msf in next one year – in the backdrop of a robust demand environment, this would enable the company to enter a different league by leveraging on its Godrej pedigree. Key triggers to watch out for in FY11 would be a) the Vikhroli launch b) the Ahmedabad II phase launch, c) the stake sale in a SPV d) land acquisitions, and d) entry into India's northern market. We have a Hold rating on the stock with a target price of Rs 520.

Topline jumps 114%: GPL's income from operations jumped 114% YoY, from Rs 800mn in Q4FY09 to Rs 1.7bn in Q4FY10, as incremental revenues flowed in from three projects: Garden City (Ahmedabad), Prakriti (Kolkata), and Waterside (Kolkata). We believe that going ahead too both Ahmedabad and Prakriti Kolkata projects will form a significant portion of the company's revenues.

Stake sale shores up other income, profitability: During Q4FY10, other income increased by 237% to Rs 726mn as the company diluted 49% and 22.27% of its equity share holding in Godrej Estate Developers (Chandigarh) and Godrej Sea View (Chennai) to HDFC PMS for Rs 450mn and Rs 250mn respectively. Consequently, PAT skyrocketed 218% to Rs 575mn in Q4FY10 as against Rs 186mn during the year-ago quarter.

Execution in full swing: Significant ramp in execution enabled GPL to deliver 3.9msf in FY10 as compared to 3.7msf delivered cumulatively until FY09. As per the management the company is targeting higher execution and may exceed delivery of 10msf in the next three years; this is because its Ahmedabad Project will start delivering 1msf after two years and gain momentum every year thereafter. With L&T roped in as a contractor to its projects, we believe that the company is well on track to achieve its execution target over the next three years.

Launches of 15msf lined up for FY11: GPL is aiming to launch 15msf in FY11 through projects in Chennai, Hyderabad, Bangalore, Kochi, Ahmedabad, and Mumbai. We believe that these launches will lead to higher sales booking and therefore higher cash flow for the company in FY11.

Valuation : We have a hold rating on the stock with NAV based target price of Rs 520 .

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	1,710	4,000	10,060	12,072
Growth (%)	(16.7)	134.0	151.5	20.0
Adj net income	575	1,567	4,010	4,787
Growth (%)	(24.9)	172.5	155.9	19.4
FDEPS (Rs)	8.2	22.4	57.4	68.6
Growth (%)	(35.0)	172.5	155.9	19.4

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	9.6	45.9	48.5	48.6
EBIT margin	9.1	44.3	46.9	47.1
Adj PAT margin	33.6	39.2	39.9	39.7
ROE	10.4	18.1	36.1	31.5
ROIC	1.0	8.7	22.1	26.0
ROCE	5.5	9.8	21.9	21.5

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 521	Rs 520	HOLD	MEDIUM

BSE	NSE	BLOOMBERG
533150	GODREJPROP	GPL IN

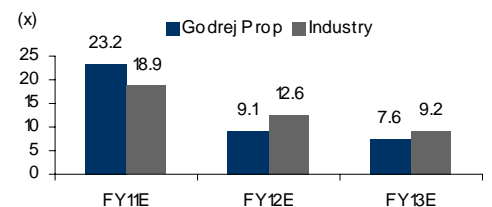
Company data

Market cap (Rs mn / US\$ mn)	36,972/791
Outstanding equity shares (mn)	70
Free float (%)	10.8
Dividend yield (%)	0.6
52-week high/low (Rs)	587 / 429
2-month average daily volume	91,786

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
GPL	521	3.4	10.5	-
Realty Index	3,113	(10.0)	(2.4)	(18.7)
Sensex	16,669	(6.7)	5.4	3.8

P/E comparison



Valuation matrix

(x)	FY10E	FY11E	FY12E	FY13E
P/E @ CMP	63.2	23.2	9.1	7.6
P/E @ Target	63.1	23.2	9.1	7.6
EV/EBITDA @ CMP	260.8	23.3	8.7	7.3



Result highlights

Fig 1 - Quarterly performance

(Rs mn)	Q4FY10	Q4FY09	% Chg YoY	Q3FY10	% Chg QoQ
Revenue	1,710	800	113.8	346	393.9
Expenditure	1,546	609	153.8	238	549.9
Operating profit	164	190	(14.1)	108	51.2
Other income	726	215	237.4	116	525.4
Interest	134	144	(7.5)	4	3,415.8
Depreciation	8	2	265.9	7	7.1
PBT	748	259	188.7	213	251.1
Tax	173	78	121.1	37	371.7
PAT	575	181	218.0	176	226.0
EBITDA margin (%)	9.6%	23.8%	(1420bps)	31.3%	2170bps
FDEPS (Rs)	8.2	2.6	218.0	2.5	226.0

Source: Company, RCML Research

Revenue was majorly contributed from
Ahmedabad and Kolkata project

PAT higher on account of stake sale



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	1,710	4,000	10,060	12,072
<i>Growth (%)</i>	<i>(16.7)</i>	<i>134.0</i>	<i>151.5</i>	<i>20.0</i>
EBITDA	164	1,835	4,880	5,872
<i>Growth (%)</i>	<i>(76.8)</i>	<i>1,021.2</i>	<i>165.9</i>	<i>20.3</i>
Depreciation & amortisation	8	65	160	190
EBIT	693	156	1,770	4,720
<i>Growth (%)</i>	<i>-</i>	<i>(77.5)</i>	<i>1,037.0</i>	<i>166.7</i>
Interest	134	3	60	65
Other income	726	260	350	370
EBT	748	2,027	5,010	5,987
Income taxes	163	460	1,000	1,200
Effective tax rate (%)	21.8	22.7	20.0	20.0
Extraordinary items	-	-	-	-
Min into / inc from associates	10	-	-	-
Reported net income	575	1,567	4,010	4,787
Adjustments	-	-	-	-
Adjusted net income	575	1,567	4,010	4,787
<i>Growth (%)</i>	<i>(24.9)</i>	<i>172.5</i>	<i>155.9</i>	<i>19.4</i>
Shares outstanding (mn)	69.8	69.8	69.8	69.8
FDEPS (Rs) (adj)	8.2	22.4	57.4	68.6
<i>Growth (%)</i>	<i>(35.0)</i>	<i>172.5</i>	<i>155.9</i>	<i>19.4</i>
DPS (Rs)	4.7	4.7	4.7	4.7

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	583	1,632	4,170	4,977
Non-cash adjustments	168	297	540	200
Changes in working capital	(3,068)	(2,728)	(790)	(500)
Cash flow from operations	(2,318)	(799)	3,920	4,677
Capital expenditure	1	(200)	(180)	(120)
Change in investments	(2,078)	578	500	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(2,077)	378	320	(120)
Issue of equity	4,798	-	-	-
Issue/repay debt	533	404	(250)	120
Dividends paid	(503)	(327)	(327)	(327)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	432	(344)	3,663	4,350
Closing cash & cash eq	701	357	4,020	8,371

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	13.6	14.7	14.7	14.7
ROIC (%)	1.0	8.7	22.1	26.0
Invested capital (Rs mn)	14,638	16,923	17,233	17,663
EVA (Rs mn)	(1,847)	(1,027)	1,272	1,996
EVA spread (%)	(12.6)	(6.1)	7.4	11.3

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	701	357	4,020	8,371
Accounts receivable	5,870	6,200	6,790	6,890
Inventories	6,001	8,200	8,900	9,500
Other current assets	5,201	5,500	5,500	5,500
Investments	2,078	1,500	1,000	1,000
Gross fixed assets	400	600	780	900
Net fixed assets	353	488	508	438
CWIP	30	30	30	30
Intangible assets	-	-	-	-
Deferred tax assets, net	5	5	5	5
Other assets	-	-	-	-
Total assets	20,239	22,280	26,754	31,734
Accounts payable	305	305	305	305
Other current liabilities	4,595	4,695	5,195	5,395
Provisions	178	475	1,015	1,215
Debt funds	7,096	7,500	7,250	7,370
Other liabilities	30	30	30	30
Equity capital	698	698	698	698
Reserves & surplus	7,336	8,577	12,260	16,720
Shareholder's funds	8,034	9,275	12,958	17,418
Total liabilities	20,239	22,280	26,754	31,734
BVPS (Rs)	125.1	142.9	195.6	259.5

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	9.6	45.9	48.5	48.6
EBIT margin	9.1	44.3	46.9	47.1
Net profit margin	33.6	39.2	39.9	39.7
ROE	10.4	18.1	36.1	31.5
ROCE	5.5	9.8	21.9	21.5
Working Capital & Liquidity ratios				
Receivables (days)	1,175	551	236	207
Inventory (days)	1,400	1,296	624	560
Payables (days)	79	56	22	19
Current ratio (x)	3.6	4.1	4.6	5.3
Quick ratio (x)	1.2	1.2	1.2	1.2
Turnover & Leverage ratios (x)				
Gross asset turnover	4.3	8.0	14.6	14.4
Total asset turnover	0.1	0.2	0.4	0.4
Interest coverage ratio	1.2	590.0	78.7	87.4
Adjusted debt/equity	0.9	0.8	0.6	0.4
Valuation ratios (x)				
EV/Sales	25.0	10.7	4.2	3.5
EV/EBITDA	260.8	23.3	8.7	7.3
P/E	63.2	23.2	9.1	7.6
P/BV	4.2	3.6	2.7	2.0



Quarterly trend

Particulars	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Revenue (Rs mn)				346	1,710
YoY growth (%)				-14%	114%
QoQ growth (%)				-	394%
EBITDA (Rs mn)				101	156
EBITDA margin (%)				31%	10%
Adj net income (Rs mn)				176	575
YoY growth (%)				829%	218%
QoQ growth (%)				-	226%

DuPont analysis

(%)	FY09	FY10E	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	70.3	76.9	77.3	80.0	80.0
Interest burden (PBT/EBIT)	157.3	480.5	114.5	106.1	105.4
EBIT margin (EBIT/Revenues)	33.7	9.1	44.3	46.9	47.1
Asset turnover (Revenues/Avg TA)	16.6	9.8	18.8	41.0	41.3
Leverage (Avg TA/Avg equity)	458.5	315.4	245.7	220.6	192.5
Return on equity	28.4	10.4	18.1	36.1	31.5

Company profile

Godrej Properties Ltd is a Mumbai's real estate player. It is currently having a land bank of 83 mn sq ft with Godrej share of 50 mn sq ft. The company's 50% of the Land bank is concentrated in Ahmedabad where it is trying to build township.

Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	-	83.8	83.8
FIs	-	4.9	5.9
Banks & FIs	-	6.7	3.5
Public	-	4.6	6.8

Recommendation history

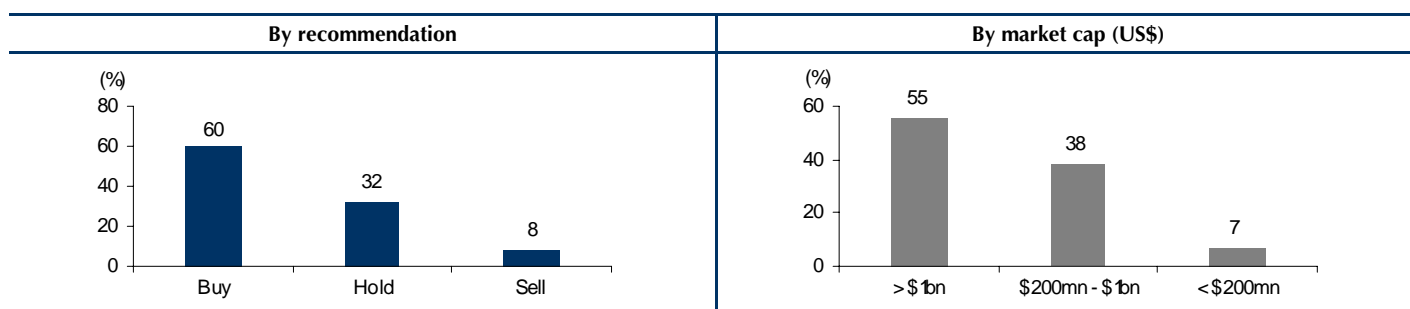
Date	Event	Reco price	Tgt price	Reco
8-May-10	Initiating coverage	473	520	Hold
20-May-10	Results Review	521	520	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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