

ANANT RAJ INDUSTRIES

Deep value

Numbers sharply below estimates, on lower asset monetisation

Anant Raj Industries (ARIL) clocked revenues and PAT of INR 341 mn and INR 309 mn, respectively, in Q4FY10, significantly below our estimates (revenue: INR 750 mn; PAT: INR 616 mn). In the past, the company regularly recorded asset sales to clock revenues. However, in the current quarter, asset monetisation was very low, at INR 180 mn, against the usual run-rate of ~INR 700–800 mn.

Rental income at ~INR 150 mn for Q4FY10; INR 490 mn for FY10

ARIL has clocked rental revenues of INR 150 mn for the quarter against INR 135.3 mn in Q3FY10 and INR 25.3 mn in Q4FY09. Key contributors to rent in the quarter are the hotel properties (~INR 71 mn, 190 rooms) and the IT Park at Manesar, at INR 33.2 mn.

Kirti Nagar Mall to be operational on August 15

ARIL has successfully leased out ~200,000 sf at the Kirti Nagar mall, of which, ~85,000 sf has been leased to 'More' as the anchor tenant. The launch date for the mall has been finalised as August 15, 2010. We expect this mall (0.75 msf) to significantly contribute to rental income in the coming years. For FY11E, we expect the mall to earn INR 150 mn.

Launch of affordable housing at Manesar soon

ARIL is expected to launch an affordable housing project across 1.1 msf saleable area at Manesar. The company intends to launch this at a price of INR 2,700/sf, and hopes to complete the project in the next three years.

Outlook and valuations: Attractive; maintain 'BUY'

We have factored in the slippages of launch of a key residential project at Hauz Khas, New Delhi, and the delay in the launch of another one at Bhagwandas Road, New Delhi, assuming their launch in FY12E (presenting upside risk to our revenue and profit estimates). We have also factored in delays in leasing in the IT Park at Manesar, where the occupancy is about half of the area that is lease-generating. Hence, we scale down our SOTP NAV estimate for ARIL down from INR 263/share to INR 243/share. However, the stock is currently trading at INR 113/share, at 54% discount to NAV and 0.85x FY12E BV (1x trailing book). We maintain 'BUY' and 'Sector Performer' on the stock.

Financial

Year to March	Q410	Q310	% change	Q409	% change	FY10	FY11E
Net revenue (INR mn)	341	826	(58.7)	131	159.3	2,863	1,653
EBITDA (INR mn)	262	763	(65.7)	51	416.8	2,585	1,376
Net profit (INR mn)	309	670	(53.8)	60	417.5	2,383	1,114
Diluted EPS (INR)	1.0	2.1	(53.8)	0.2	417.5	7.6	3.5
Diluted P/E (x)						14.9	31.9
EV/EBITDA (x)						10.6	18.7
ROAE (%)						6.9	3.1

May 29, 2010

Reuters : ANRA.BO Bloomberg : ARCP IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 113
52-week range (INR)	:	163 / 82
Share in issue (mn)	:	295.1
M cap (INR bn/USD mn)	:	33 / 716
Avg. Daily Vol. BSE/NSE ('000)	:	799.7

SHARE HOLDING PATTERN (%)

Promoters*	:	61.3
MFs, FIs & Banks	:	1.2
FIIIs	:	28.0
Others	:	9.5
* Promoters pledged shares (% of share in issue)	:	Nil

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(19.0)	(5.8)	(14.7)
3 months	(12.5)	1.6	(9.6)
12 months	(4.9)	17.0	(20.5)

Aashiesh Agarwaal, CFA

+91-22-4063 5491

aashiesh.agarwaal@edelcap.com

Financials snapshot

(INR mn)

Year to March	Q410	Q310	% change	Q409	% change	FY10	FY11E	FY12E
Net sales	341	826	(58.7)	131	159.3	2,863	1,653	3,884
Cost of construction	(9)	(6)	47.6	(12)	(27.4)	(28)	(199)	(236)
Staff cost	(24)	(19)	24.7	(20)	20.4	(79)	0	0
Other exp	(65)	(38)	69.3	(50)	30.7	(171)	(79)	(200)
Inc/dec in stock	19	1	2,777.3	1	3,396.2	(1)	0	0
Total operating expenses	(79)	(63)	25.8	(81)	(2.6)	(278)	(278)	(436)
EBITDA	262	763	(65.7)	51	416.8	2,585	1,376	3,447
Depreciation	16	(43)	(137.1)	(25)	(164.0)	(107)	(356)	(382)
EBIT	278	720	(61.4)	26	985.3	2,478	1,020	3,065
Interest expense	(48)	(0)	28,290.5	(0)	119,850.0	(49)	(3)	(6)
Other income	126	117	8.3	261	(51.7)	535	627	1,024
PBT	367	837	(56.1)	287	27.9	2,964	1,644	4,083
Provision for taxation	(59)	(166)	(64.3)	(218)	(72.9)	(581)	(371)	(958)
Tax	(59)	(166)	(64.3)	(218)	(72.9)	(581)	(371)	(958)
Net profit from ordinary activities	308	671	(54.1)	69	348.9	2,383	1,114	2,874
Extraordinary items	(0)	(0)	0.0	(11)	(97.4)	0	0	0
Minority Interest	(2)	1	(312.5)	(2)	(11.0)	0	0	0
Reported net profit	309	670	(53.8)	60	417.5	2,383	1,114	2,874

as % of net revenues

Total operating expenses	23.1	7.6		61.4		9.7	16.8	11.2
Depreciation	(4.7)	5.2		19.1		3.7	21.5	9.8
Interest expenditure	14.1	0.0		0.0		1.7	0.2	0.2

Margins

EBITDA margin	76.9	92.4		38.6		90.3	83.2	88.8
EBIT margin	81.6	87.2		19.5		86.6	61.7	78.9
Net profit margin	90.7	81.1		45.4		83.2	67.4	74.0
Tax rate	16.1	19.8		76.1		19.6	22.6	23.5

■ Company Description

ARIL is the flagship company of the Anant Raj Group. The group began operations in 1969 and is among the oldest and one of the most experienced development and construction companies in the NCR. It has over three decades of experience in infrastructure development and construction, and so far, it has developed and constructed 11.5 mn sq ft. It is also one of the leading ceramic tiles production companies in India with a plant at Rewari (Haryana). The current plant capacity is 12,000 sq mt of tiles per day.

■ Investment Rationale

Huge land bank at prime locations in NCR drives value

Anant Raj Industries (ARIL) has access to a high-quality land bank of 988 acres, either solely or through its subsidiaries or by way of joint developments (ARIL's share is 801 acres). This translates into total developable area of ~83 mn sq ft (ARIL's share is 66 mn sq ft). Over 90% of the land is within NCR, with ~446 acres in Delhi. We believe possession of a large land bank at prime locations is a significant value driver for ARIL, differentiating the company from other North India-based developers.

Healthy balance sheet with net cash of ~INR 4 bn at FY10 end

The company has a healthy balance sheet with cash balance of INR 4.9 bn and net cash of INR 4 bn at of FY10. Also, the company's unpaid land cost is at a minimal INR 0.8 bn. Thus the company stands to be in a comfortable position in terms of cash flows. We expect the company to deploy the cash into lucrative projects over the next quarters, enhancing its' land bank significantly.

Strong cash flows due to annuities

ARIL is developing a portfolio of leased assets on which it will earn consistent revenues on an annuity basis. While this strategy is capital intensive, ARIL has regularly monetised its assets over the past three years, keeping its balance sheet light. The company is currently generating annualized rentals of ~ INR 0.6 bn, which is expected to increase to INR 1.1 bn by FY11E and INR 1.4 bn by FY12E.

■ Key Risks

Regional concentration

Since most of the company's land bank is based in NCR, it faces strong regional risk. Any significant correction in property prices in that region or any adverse change in government policies in NCR will hurt profitability and valuations of ARIL.

High exposure to commercial and IT/SEZ segments

Nearly 60% of the company's land bank comprises commercial and IT/SEZ development. These segments have been the worst hit during the recent downturn. In case there is delay in recovery in these segments, will adversely impact valuations of the company.

Inability to deploy cash efficiently

ARIL has cash of INR 4 bn at the end of FY10. If the company is not able to deploy its cash efficiently, it may hurt profitability and valuations of the company.

Financial Statements

Income statement

(INR mn)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Income from operations	6,038	2,508	2,863	1,653	3,884
Direct costs	232	90	199	236	563
Other expenses	183	224	79	200	125
Total operating expenses	415	314	278	436	688
EBITDA	5,622	2,194	2,586	1,217	3,196
Depreciation and amortisation	82	86	107	356	382
EBIT	5,540	2,108	2,479	861	2,813
Interest expenses	33	5	48	4	26
Other income	293	701	535	404	336
Profit before tax	5,800	2,804	2,965	1,261	3,122
Provision for tax	1,438	733	581	315	781
Core profit	4,362	2,071	2,385	946	2,342
Profit after tax	4,362	2,071	2,385	946	2,342
Adjusted net profit	4,362	2,071	2,383	946	2,342
Equity shares outstanding (mn)	295	295	295	295	295
EPS (INR) basic	14.8	7.0	8.1	3.2	7.9
Diluted shares (mn)	295	295	315	315	315
EPS (INR) fully diluted	14.8	7.0	7.6	3.0	7.4
Dividend per share	1.5	0.6	0.6	0.6	0.6
Dividend payout (%)	10.1	8.6	7.4	18.7	7.6

Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating expenses	6.9	12.5	9.7	26.4	17.7
Depreciation	1.4	3.4	3.7	21.5	9.8
Interest expenditure	0.6	0.2	1.7	0.2	0.7
EBITDA margins	93.1	87.5	90.3	73.6	82.3
Net profit margins	72.2	82.6	83.3	57.2	60.3

Growth metrics (%)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	190.2	(58.5)	14.2	(42.3)	134.9
EBITDA	217.6	(61.0)	17.8	(52.9)	162.6
PBT	239.0	(51.7)	5.8	(57.5)	147.6
Net profit	247.6	(52.5)	15.2	(60.3)	147.6
EPS	182.2	(52.5)	7.8	(60.3)	147.6

Balance sheet**(INR mn)**

As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity share capital	589	589	589	589	589
Subscription money received against warrants	0	0	435	435	435
Share application money	2	178	0	0	0
Reserves & surplus	28,415	32,431	34,606	35,344	37,479
Shareholders funds	29,006	33,198	35,630	36,369	38,503
Secured loans	570	1,217	867	467	367
Unsecured loans	10	885	85	55	25
Borrowings	580	2,102	952	522	392
Minority interest	3	687	687	687	687
Sources of funds	29,590	35,987	37,269	37,577	39,582
Gross block	12,772	14,131	16,789	20,097	22,268
Depreciation	420	518	625	981	1,363
Net block	12,352	13,613	16,164	19,116	20,905
Capital work in progress	3,855	7,211	6,661	4,200	2,549
Total fixed assets	16,208	20,824	22,825	23,316	23,454
Investments	1,486	3,089	3,089	3,089	3,089
Inventories	777	129	123	477	923
Sundry debtors / (Advances from customers)	3,098	2,405	1,615	1,631	1,648
Cash and equivalents	6,048	6,257	4,906	4,064	3,394
Loans and advances	4,443	4,514	5,470	5,743	8,614
Total current assets	14,366	13,305	12,114	11,916	14,579
Sundry creditors and others	1,103	324	0	249	580
Provisions	1,355	936	788	522	988
Total CL & provisions	2,458	1,260	788	772	1,568
Net current assets	11,909	12,045	11,326	11,144	13,011
Net deferred tax	(19)	(26)	(26)	(26)	(26)
Misc expenditure	6	54	54	54	54
Uses of funds	29,590	35,987	37,269	37,577	39,582
Book value per share (INR)	98	112	119	123	130

Cash flow statement**(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	4,364	2,071	2,383	946	2,342
Add: depreciation	82	86	107	356	382
Gross cash flow	4,446	2,157	2,490	1,302	2,724
Less: Changes in W. C.	4,605	(30)	631	660	2,538
Operating cash flow	(159)	2,187	1,859	642	186
Less: Capex	0	4,714	2,108	847	520
Free cash flow	(159)	(2,527)	(249)	(205)	(334)

Cash flow metrics

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating cash flow	(256)	1,602	1,859	642	186
Financing cash flow	9,877	3,641	(1,535)	(637)	(337)
Investing cash flow	(4,200)	(5,033)	(2,108)	(847)	(520)
Net cash flow	5,422	210	(1,784)	(842)	(671)
Capex	0	(4,714)	(2,108)	(847)	(520)
Dividend paid	0	(207)	(207)	(207)	(207)

Ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	21.5	6.7	6.9	2.6	6.3
ROACE (%)	26.4	6.9	7.4	2.5	7.9
Debtors (days)	97	401	256	358	154
Current ratio	5.8	10.6	15.4	15.4	9.3
Debt/Equity	0.0	0.1	0.0	0.0	0.0
Debt/EBITDA	0.1	1.0	0.4	0.4	0.1
Adjusted debt/Equity	0.0	0.1	0.0	0.0	0.0

Operating ratios (x)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	0.3	0.1	0.1	0.0	0.1
Fixed assets turnover	0.5	0.2	0.2	0.1	0.2
Equity turnover	0.3	0.1	0.1	0.0	0.1

Du pont analysis

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	72.2	82.6	83.2	57.2	60.3
Total assets turnover	0.3	0.1	0.1	0.0	0.1
Leverage multiplier	1.1	1.1	1.1	1.0	1.0
ROAE (%)	21.5	6.7	6.9	2.6	6.3

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	14.8	7.0	7.6	3.0	7.4
Y-o-Y growth (%)	182.2	(52.5)	7.8	(60.3)	147.6
CEPS (INR)	15.1	7.3	8.5	4.4	9.2
Diluted P/E (x)	7.6	16.1	14.9	37.6	15.2
Price/BV(x)	1.1	1.0	0.9	0.9	0.9
EV/Sales (x)	4.4	10.7	9.6	16.8	7.3
EV/EBITDA (x)	4.7	12.2	10.6	22.8	8.9
Diluted shares O/S	294.6	294.6	314.6	314.6	314.6
Dividend yield (%)	1.3	0.5	0.5	0.5	0.5

Company	Absolute reco	Relative reco	Relative risk
DLF	Buy	SU	M
Orbit corporation	Buy	SP	H
Indiabulls real Estate	Buy	SO	H
Unitech	Buy	SO	M
Anant Raj Inds.	Buy	SO	M
Sobha Developers	Hold	SU	L
Parsvnath Developers	Buy	SU	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

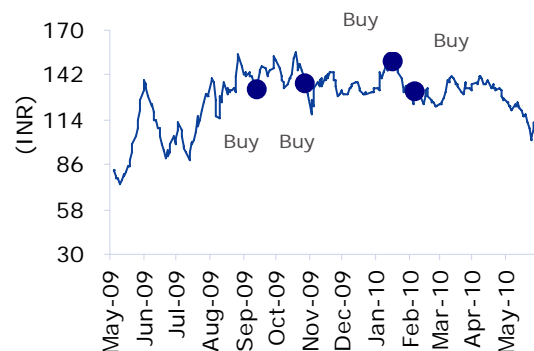
Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021.
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

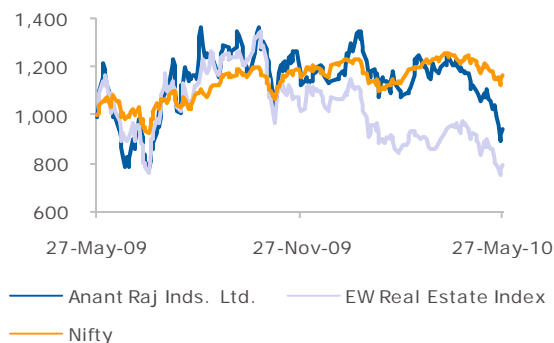
Coverage group(s) of stocks by primary analyst(s): Real Estate:

Anant Raj Industries, DLF, Indiabulls Real Estate, Orbit Corporation and Unitech

Anant Raj Industries



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169

* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	103	53	13

Recent Research

Date	Company	Title	Price (INR)	Recos
17-May-10	DLF	Focus on execution; Result Update	299	Buy
11-May-10	Orbit Corporation	Focused on volume; Growth; Result Update	299	Buy
27-Apr-10	Sobha Developers	Fully priced in; Result Update	315	Hold

Access the entire repository of Edelweiss Research on www.edelresearch.com

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst holding in the stock: no.