Ansal Properties & Infrastructure (ANSP.BO)

Sell: Concentration in North India Raises Risks

- **Initiating with Sell/High Risk, TP of Rs255** — Ansal Properties (Ansal) is an eminent developer in north India with a land bank of ~8,000 acres, primarily for the residential market, in the mid-upper segment operating on a develop-sell model. We initiate with a Sell (3H) and a target price of Rs255 based on a 15% discount to our NAV estimate of Rs300, implying 12% downside.
- **Large build out planned in the north**— Plans to build ~195mn sq.ft. over the next 4-5 years in northern Tier III cities, particularly the NCR - has already acquired most of the land/development rights (except Dadri project of 2,500 acres) – timely execution and softening prices in the region, are risks to growth.
- **Focus on plotted and township development** — The majority of its projects are concentrated in townships and are dominated by residential development, with a mix of plots (45%), housing projects (28%) and some IT Parks (5%) and retail/commercial projects (23%).
- **Discount to NAV is fair value** — While we expect rapid earnings growth over FY07-09E, we believe the factors driving this are likely to moderate significantly in future, hence, we believe a 15% discount to NAV is fair value.
- **Key reasons for discount to NAV** — 1) Concentration in NCR and Tier III cities in the north (87% of development), where the risk of prices softening is high, 2) high dependence on plots (45% of development) limits its ability to command a price premium, 3) risk to delays for large township projects, particularly Dadri (27% of our NAV value) is high as land is still being acquired.

Sell/High Risk	**3H**
Price (03 May 07)	Rs291.05
Target price	Rs255.00
Expected share price return	-12.4%
Expected dividend yield	0.3%
Expected total return	**-12.0%**
Market Cap	Rs33,034M
	US$805M

Price Performance (RIC: ANSP.BO, BB: APIL IN)

See Appendix A-1 for Analyst Certification and important disclosures.

Figure 1. Statistical Abstract

Year to 31-Mar	Net Profit (Rs. m)	EPS (Rs.)	P/E (x)	ROCE (%)
FY05	134	1.9	nm	10%
FY06	375	5.4	54.4	21%
FY07E	1,743	15.4	19.0	36%
FY08E	3,609	31.8	9.2	43%
FY09E	6,129	54.0	5.4	47%

Source: Citigroup Investment Research

Figure 2. Ansal API Landbank by Segment

	Area (m sq. ft.)	% of Total
Plot	87.2	45%
Housing Projects	54.2	28%
Commercial/Retail	45.0	23%
IT Parks	8.9	5%
Total	**195.3**	**100%**

Source: Company Reports and CIR

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	152.6	54.4	19.0	9.2	5.4
P/E reported (x)	152.6	54.4	19.0	9.2	5.4
P/BV (x)	18.6	13.5	9.1	4.6	2.5
Dividend yield (%)	0.1	0.2	0.2	0.3	0.3
Per Share Data (Rs)					
EPS adjusted	1.91	5.35	15.36	31.79	53.99
EPS reported	1.91	5.35	15.36	31.79	53.99
BVPS	15.68	21.53	32.11	62.89	115.88
NAVps ordinary	na	na	na	na	na
DPS	0.28	0.57	0.50	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	**626**	**1,204**	**5,231**	**8,531**	**13,576**
G&A expenses	-362	-558	-2,570	-3,041	-4,306
Other Operating items	-20	-30	-35	-40	-45
EBIT including associates	**244**	**615**	**2,625**	**5,450**	**9,225**
Non-oper./net int./except.	-41	48	0	-15	5
Pre-tax profit	**203**	**663**	**2,625**	**5,435**	**9,230**
Tax	-57	-188	-882	-1,826	-3,101
Extraord./Min. Int./Pref. Div.	-13	-101	0	0	0
Reported net income	**134**	**375**	**1,743**	**3,609**	**6,129**
Adjusted earnings	134	375	1,743	3,609	6,129
Adjusted EBIT	244	615	2,625	5,450	9,225
Adjusted EBITDA	264	646	2,660	5,490	9,270
Growth Rates (%)					
NOI	5.7	92.4	334.4	63.1	59.1
EBIT adjusted	15.7	152.2	326.5	107.6	69.3
EPS adjusted	119.6	180.4	187.0	107.0	69.8
Cash Flow (RsM)					
Operating cash flow	**448**	**87**	**-2,198**	**1,041**	**631**
Depreciation/amortization	20	30	35	40	45
Net working capital	437	-270	-3,641	-2,607	-5,543
Investing cash flow	**7**	**-24**	**-38**	**-42**	**-89**
Capital expenditure	0	-84	-40	-42	-89
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-405**	**92**	**2,759**	**-519**	**-284**
Borrowings	-385	59	2,029	-405	-170
Dividends paid	-20	-40	-57	-114	-114
Change in cash	**50**	**155**	**523**	**480**	**258**
Balance Sheet (RsM)					
Total assets	**7,761**	**9,827**	**16,781**	**21,246**	**29,333**
Cash & cash equivalent	191	346	868	1,349	1,607
Net fixed assets	410	548	553	556	599
Total liabilities	**6,663**	**8,276**	**13,092**	**14,062**	**16,134**
Total Debt	1,367	1,426	3,455	3,050	2,880
Shareholders' funds	**1,098**	**1,551**	**3,689**	**7,184**	**13,199**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	11.2	17.2	29.6	37.6	40.7
ROE adjusted (%)	12.2	28.8	67.7	66.9	60.4
ROA adjusted (%)	1.8	4.3	13.1	19.0	24.2
Net debt to equity (%)	107.1	69.7	70.1	23.7	9.6
Interest coverage (x)	1.5	4.7	21.3	47.7	88.3

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Company Background

Ansal Properties (Ansal) is a prominent real estate developer in northern India focusing on the NCR and Tier-III cities in Uttar Pradesh, Haryana, Rajasthan and Punjab. The company has development experience of ~32m sq.ft over the last four decades. Ansal is a pioneer of plotted development and townships with experience in developing some key commercial and retail properties in Delhi. These include: Ansal Bhawan, Ambadeep, Antariksh Bhawan and Ansal Plaza, Delhi's first shopping mall. The roadmap for future development includes integrated townships in Tier-II/Tier III cities, IT parks, office blocks, shopping malls and hotels. In FY2007, the company merged with Ansal Township & Projects Ltd (ATPL), a group company engaged in construction and township development mainly in Rajasthan and Punjab. Ansal's landbank (post merger) has a saleable area of ~195m sq. ft. of which plotted development accounts for a sizeable 45%. This is a flagship company of the Sushil Ansal Group, where post merger and preferential issue of Dec'06, the promoters hold a 66% stake.

Investment Thesis

We initiate coverage on Ansal Properties with a Sell/High Risk (3H) rating with target of Rs255, based on 15% discount to our NAV estimate of Rs300 per share. This implies 12% downside. We attribute the discount to: 1) the company's concentration in NCR and Tier III cities in north India, where the near-term risk of property prices softening is high 2) large exposure to plotted development (45% of development), a low value add business, and 3) risk of delays for some of its large township projects, particularly the Dadri project (2,500 acres, 27% of our gross NAV value), where it is still acquiring land.

Ansal, however, has aggressive development plans to develop ~195mn sq.ft (post-merger) over the next 4-5 years. It has already secured most land/development rights (except Dadri project of 2,500acres, ~23% of the development). The company's strategy to operate on a develop-and-sell model with capital raised (~Rs6.82bn) through preferential issue of equity is likely to provide it with requisite cash flows. The key challenge is in execution. Management plans to build 38 large townships and also develop some commercial, retail and IT projects, through which it hopes to enhance its presence in NCR and Tier III cities in the north. We view its execution and softening prices in the region as risks to growth. We expect rapid earnings growth of over FY07-09E following the merger on increased volumes, and higher margins. This is largely on the back of gains from appreciation of its land bank acquired in the past. This factor should, however, moderate significantly in the future. Factoring this in, we believe the stock's performance will largely be determined by its NAV.

The stock is trading close to our NAV estimate. Given company's concentration in the north, a market we believe is overheated, we believe a 15% discount to NAV is fair value. Given these factors and considering our High risk rating, we initiate with a Sell.

Strategy and Competitive positioning

Build aggressively on large land bank

Build aggressively on its potentially large land bank of ~8,000 acres

Ansal is looking to build aggressively on its potentially large land bank of ~8,000 acres. It plans to develop ~195m sq.ft over the next 4-5 years. The company has already acquired most of the land/development rights (except Dadri project of 2,500 acres). Operating on a develop-and-sell model and concentrated on plotted development, a large part of Ansal's projects are pre-sold (~48m sq.ft). This provides it with cash flows to develop projects. In some cases it also allows it to invest in additional land, in line with its strategy to grow scale. Although Ansal is an experienced developer, the company's development plans involve significantly more development than it has delivered so far. This does raise risk levels and subjects it to execution and market risks, which could limit any cushion in the event of market or project slowdowns.

Core focus – plotted and township development

Plots account for 45% of Ansal's total development plans

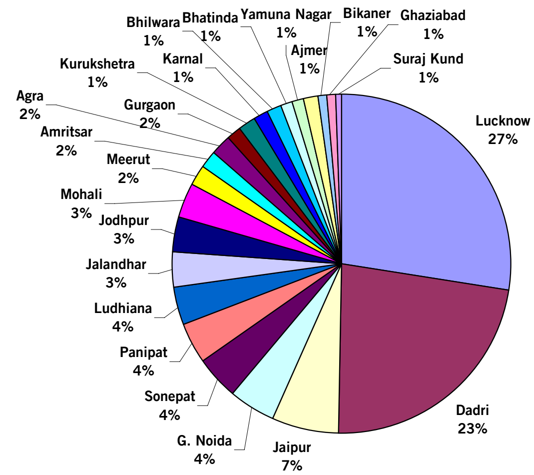
Historically, the sale of plots and residential properties in townships was the principal source of revenue for Ansal. The strategy going forward continues to revolve around township projects. Of 65 ongoing and proposed projects, 38 are township projects. We see this raising the risk-return profile, given larger capital commitments and large scale of development. Within each township project there is high concentration of plotted development with the proportion of land used for plots ranging from 35% to 90%. Plots typically account for well over 50% of the total land used in the company’s township projects, with the balance land used for a blend of residential, commercial and retail development. Overall, plots account for 45% of Ansal's total development plans. We believe the company’s high dependence on plotted sales is a limiting factor, since plots offer little opportunity for differentiation and thereby restrict the ability to command a price premium.

Targeting NCR and Tier III cities in the north

We believe job creation, income levels to support current high prices and expected supply in the region will be critical

Ansal's land holdings are focused primarily in the north, particularly in the NCR. A large proportion of its development of townships are in Tier III cities in the NCR (Greater Noida, Ghaziabad, Gurgaon, Sonepat, Surajkund, Bahadurgarh, Meerut) in Haryana (Panipat, Kurukshetra, Yamuna Nagar, Karnal), the Punjab (Bhatinda, Mohali, Ludhinana, Jalandhar, Amritsar) and Rajasthan (Jaipur, Jodhpur, Ajmer, Bhilwara, Bikaner). This strategy tends to differ from some of the larger north Indian developers, which have sought to go pan-India, rather than focus on the northern states. Management, however, believes this region offers significant demand potential and good progress on infrastructure projects in the region will significantly enhance the value of its development projects going forward. While development of infrastructure will positively benefit, we believe job creation to provide sufficient income levels to support the current high price levels and expected supply in these markets will be more critical. The high interest rate environment also makes these markets more susceptible to a slowdown in demand and prices.

Figure 3. City Wise Break-up of Ansal's Land Bank (%)



Source: Company Reports and Citigroup Investment Research

Diversify, although residential segment dominates

While Ansal is looking to scale up its presence in development of retail malls, commercial space and IT Parks/IT SEZs with significant projects, the residential segment continues to dominate, with 73% of total development. New projects on the drawing board are as follows:

- The IT SEZ at Greater Noida is spread over 75 acres and has been notified by the government. This project will be held through a subsidiary with a 66.23% stake with the balance held by HDFC Ventures Trustees Company Ltd.
- Complementing the company's township projects is the development of retail malls. It has ~7.02mn sq.ft of retail malls under development.
- It is also looking at developing hotels and service apartments within townships. It has already developed the five-star Marriott Welcome hotel at Saket in Delhi. It intends to develop more such properties, which will be managed by international hotel chains.

While a presence across different segments of real estate development is undoubtedly positive, we believe it will be a while before the company reaps the benefits of diversified projects, given its current emphasis on plotted development.

Merger with group company to complement business geography

Ansal has a major presence in the NCR, Haryana and Uttar Pradesh. Its ATPL associate has operations concentrated in Punjab and Rajasthan. We foresee this merger complementing the business geographies and also expanding land bank by ~2,000 acres – making Ansal an eminent developer of north India with large land bank of ~8,000 acres. The share swap ratio between Ansal and ATPL is 1 share of APIL (FV Rs5) for every two shares of ATPL (FV Rs2), which values the company at Rs5.9bn and does not involve any cash outlay. This has diluted

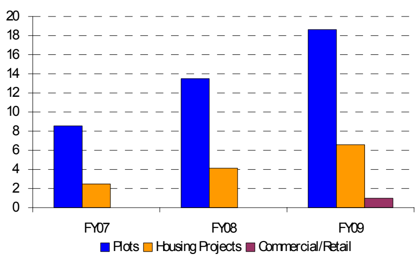
Ansal's equity by 15.8m shares (31.6% of merged equity capital). ATPL had an equity capital of Rs63.4m, which involved new equity issuance of 15.8mn new shares in APIL. Using APIL's six-month average price on the announcement date, ATPL was valued at Rs5.9bn.

Financial Analysis

Ansal's corporate structure includes four subsidiaries. Its recent merger with its group company ATPL became effective from 1st Apr 06 and will enhance land holdings and contribute towards growth. We believe consolidated operations and effect of the merger will be reflected in the company's true earnings potential - we model as such in our forecast.

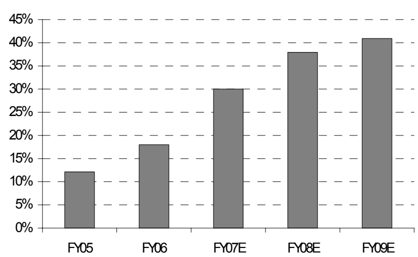
We forecast rapid growth in earnings over FY07-09E. Plotting sales and housing projects in its ongoing schedule (~70mn sq.ft) in the NCR and Tier III cities of should provide the primary drivers. Additionally, gains made on earlier land acquisitions should also drive gains, however, this is likely to moderate significantly in the future. Growth will be more pronounced due to: a) its merger with ATPL, b) significant plot sales, already pre-sold recognized as revenue during the year, and c) higher operating margins of 30-40% over FY07-09E given the benefits of lower land costs, although this could decline going forward. Revenues are recognized on percentage completion method for all projects on a proportionate basis subject to actual costs incurred being 50% for plots and 30% or more of the total estimated costs of the residential/other projects. We are not factoring in any substantial earnings from the retail and IT projects, as we believe the development is likely to take time – most of the retail malls and IT parks will be ready only post 2009E.

Figure 4. Ansal API Sales Volumes (M sq. ft.)



Source: CIR Estimates

Figure 5. Ansal's EBITDA Margins (F05-FY09E)



Source: Company Reports and CIR Estimates

Figure 6. Consolidated Revenue Mix (FY07E-FY09E) (Rs Millions)

Segment	FY07E	FY08E	FY09E
Plots	4,263	5,951	8,365
Housing Projects	4,601	8,531	11,524
Commercial/Retail	0	0	2,772
Total	**8,864**	**14,482**	**22,662**

Source: CIR Estimates

Leverage low on strong cash inflows

Given its push on plotted development, Ansal is generating sufficient operating cash flows from pre-sales for funding its development plans. Further additional capital raised (Rs7.12bn) through the issue of 6.75m shares has brought down the leverage levels. If, however, management invests aggressively in land, or holds properties contrary to the develop-and-sell model today, leverage levels could well rise.

Valuation

Our target of Rs255 is based on a 15% discount to Ansal's estimated NAV of Rs300 as on Mar 07E. We believe a 15% discount to NAV is appropriate. This discount is largely due to: 1) the company's concentration in NCR and Tier III cities in north India, where the risk of soft property prices in the near-term is high, 2) large exposure to plotted development (45% of development), a low value-add business, and 3) risk of delays for some of its large township projects, particularly the Dadri project of 2,500 acres (27% of our NAV value) is high, where land is still being acquired.

We believe a NAV-based valuation methodology is most suitable as it values each project most appropriately, given the disparate nature of the businesses and recognizing the benefits of appreciated land banks of most developers. Our estimates for its NAV involve the following key assumptions: a) market prices remaining at this level with no price inflation, given the sharp run-up in prices over the last two years, b) development volume of ~179m sq.ft (as ~16.4mn is already recognized as revenue in FY06-07E), c) most of the projects undertaken by Ansal are completed as per schedule, except some large township projects, where we expect sizeable risks of delays – particularly Dadri project, where land is still being acquired, d) an average cost of capital of 14%, and e) tax rate of 33%, since the recent Union Budget has withdrawn the tax breaks.

Figure 7. NAV Sensitivity

Price Change	**0%**	**+ 5 %**	**+ 10 %**
NAV (Rupees)	300	342	384
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rupees)	323	300	279
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rupees)	283	266	234

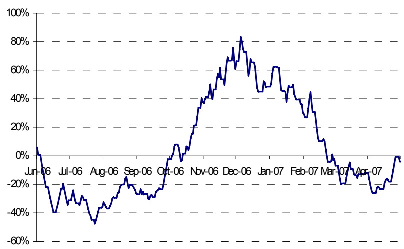
Source: Citigroup Investment Research

Figure 8. NAV Summary - Mar '07 (Rupees in Millions)

Gross NAV of Residential Development	49,440
Gross NAV of Non-Residential Development	42,012
Gross Total NAV	**91,452**
Less: Tax @ 33%	30,179
Less: Amt outstanding for land & govt. dues	16,172
Less: Debt Outstanding	3,500
Less: Net Customer Advances	7,500
Net NAV	**34,101**
No. of Shares Outstanding (Millions)	113.5
NAV Per Share (Rupees)	**300**

Source: CIR Estimates

Figure 9. Premium/Discount to NAV



Source: Citigroup Investment Research

The stock has been highly volatile over last three-months, and is now close to our NAV value of Rs300. With its high volatility and given our expectation of softness in property prices in north India, we believe a 15% discount to NAV is fair. Considering these factors and given our High risk rating, we initiate with a Sell (3H).

Risks

We rate Ansal High Risk, based on our quantitative risk rating system, which measures the stock's volatility over a 260-day period.

The key reasons for our High Risk rating include: 1) the company's high dependence on plotted development at 45% of the landbank, 2) concentration of landbank in tier-II cities in northern India where risk of excess supply over the next 2-3 years is high, and 3) evolving regulatory and political risks for the sector's growth high. The main risks to our investment thesis and target price are:

- Any positive developments on execution of the company's two SEZ projects would enhance the company's NAV and valuations.
- Timely aggregation of land for its Dadri project (23% of total development) will increase visibility and significantly enhance our NAV estimates.
- Geographic diversification of landbank into other parts of India would help alleviate concerns of concentration of landbank in northern India.
- Any downward revision in interest rates for the housing projects would positively benefit the company, given its high leverage in the residential segment.

If any of these risk factors has a greater impact than we expect, the share price would likely move above our target price.

Figure 10. Income Statement, FY05-09E (Rupees in Millions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Total Revenues	**2,182**	**3,586**	**8,864**	**14,482**	**22,662**
YoY Growth (%)	21.0%	64.3%	147.2%	63.4%	56.5%
EBITDA	**264**	**646**	**2,660**	**5,490**	**9,270**
Margin (%)	12.1%	18.0%	30.0%	37.9%	40.9%
Depreciation & Amortization	(20)	(30)	(35)	(40)	(45)
Other income	135	185	125	100	110
EBIT	**379**	**800**	**2,750**	**5,550**	**9,335**
Interest income(expense)	(176)	(137)	(125)	(115)	(105)
Profit Before Tax	**203**	**663**	**2,625**	**5,435**	**9,230**
Tax	(57)	(188)	(882)	(1,826)	(3,101)
Profit After Tax	**146**	**475**	**1,743**	**3,609**	**6,129**
Min Int & Share of Associates	0	1	0	0	0
Adj PAT	146	476	1,743	3,609	6,129
Extra-ordinary Items	(13)	(101)	0	0	0
Net Income	**134**	**375**	**1,743**	**3,609**	**6,129**

Source: Company Reports and CIR estimates

Figure 11. Balance Sheet, FY05-09E (Rupees in Millions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Source of Funds					
Equity Share Capital	117	175	284	284	284
Reserves	981	1329	3361	6856	12871
Share Application Money	0	3	0	0	0
Net Worth	1098	1507	3645	7140	13155
Minority Interest	0	44	44	44	44
Long Term Debt	603	691	2705	2400	2350
Short Term Debt	764	735	750	650	530
Total Debt	1367	1426	3455	3050	2880
Capital Employed	**2465**	**2977**	**7144**	**10234**	**16079**
Application of Funds					
Gross Block	722	806	846	889	978
Depreciation	307	258	293	333	378
Net Fixed Assets	410	548	553	556	599
Investments	118	57	55	55	55
Deferred Tax Assets	18	28	28	28	28
Inventories	4070	4754	12409	16655	22662
Sundry Debtors	703	766	1064	1448	2719
Other Current Assets	2251	3327	1803	1156	1663
Cash and Bank	191	346	868	1349	1607
Current Assets	7215	9193	16145	20608	28651
Current Liabilities	(5296)	(6850)	(9637)	(11012)	(13254)
Net Current Assets	1919	2343	6507	9595	15396
Total Net Assets	**2465**	**2977**	**7144**	**10234**	**16079**

Source: Company Reports and CIR Estimates

Figure 12. Key Ratios, FY05-09E

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
EPS (Rs)	1.9	5.4	15.4	31.8	54.0
EPS YoY Gr. (%)	120%	180%	187%	107%	70%
Book value (Rs)	14.9	20.8	31.6	62.4	115.4
Debt/Equity (x)	1.2	0.9	0.9	0.4	0.2
ROE (%)	12%	25%	48%	51%	47%
ROCE (%)	10%	21%	36%	43%	47%

Source: Citigroup Investment Research

Appendix A-1

Analyst Certification

We, Ashish Jagnani and Aditya Narain, CFA, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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