Company In-Depth

26 June 2007 | 7 pages

Ansal Properties & Infrastructure (ANSP.BO)

Sell: Earnings Below Expectations

- **Solid results, but below expectations** — Ansal Properties reported strong consolidated FY07 numbers, with revenues growing 137% yoy and PAT (before extraordinary items) +193% yoy. Earnings were 20% below our estimate primarily because of a lower EBITDA margin and higher interest costs.
- **Margin expansion lower than anticipated** — Consolidated EBITDA margin expanded 560bps YoY to 25.4% in FY07, below our 30% estimate because of lower-than-expected volumes.
- **New developments** — Ansal Properties has entered into MoUs with two UAE-based companies, Deyaar Development and Noor Capital. The MoU with Deyaar is for developing a mixed use township where Deyaar may have up to a 40% stake; Noor Capital will invest in a township at Agra (Sushant Taj City), which was launched earlier this month, only a part of which is factored into our NAV estimate, and a group housing project in Ghaziabad (Ansal Aquapolis).
- **Key concerns** — 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 plotted development (45% of development), which limits ability to command a price premium, and 3) risk of delays in large township projects, particularly Dadri (27% of our NAV value), is high as land is still being acquired.
- **Maintain Sell/High Risk** — We maintain our Sell/High Risk (3H) rating with the stock currently trading at a 7% discount to our NAV estimate of Rs300 per share. We believe a 15% discount is fair value.

Sell/High Risk	3H
Price (26 Jun 07)	Rs277.90
Target price	Rs255.00
Expected share price return	-8.2%
Expected dividend yield	0.4%
Expected total return	-7.9%
Market Cap	Rs31,542M
	US$774M

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	51.9	21
FY07E	1,743	15.4	18.1	23
FY08E	3,609	31.8	8.7	25
FY09E	6,129	54.0	5.1	32

Source: Company Reports and Citigroup Investment Research (CIR) estimates

Figure 2. Earnings Summary

(Rs. Million)	FY06	FY07	YoY
Sales	3665.2	8687	137%
EBITDA	725	2,206	204%
EBITDA Margin	19.8%	25.4%	
Interest	137.1	204.8	49%
Other Income	105	128.6	22%
Depreciation	30.2	37.5	24%
PAT (Before Ext)	475	1,393	193%
Extraordinary Items	-101	-72	
PAT (After Ext)	374	1,321	253%

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)	145.7	51.9	18.1	8.7	5.1
P/E reported (x)	145.7	51.9	18.1	8.7	5.1
P/BV (x)	17.7	12.9	3.2	2.4	1.6
Dividend yield (%)	0.1	0.2	0.2	0.4	0.4
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	85.89	116.68	169.66
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**	**-8,304**	**1,041**	**631**
Depreciation/amortization	20	30	35	40	45
Net working capital	437	-270	-9,746	-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**	**8,864**	**-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**	**20,395**	**23,710**	**30,862**
Cash & cash equivalent	191	346	868	1,349	1,607
Net fixed assets	410	548	553	556	599
Total liabilities	**6,663**	**8,276**	**10,601**	**10,421**	**11,558**
Total Debt	1,367	1,426	3,455	3,050	2,880
Shareholders' funds	**1,098**	**1,551**	**9,794**	**13,289**	**19,304**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	11.2	17.2	29.6	37.6	40.7
ROE adjusted (%)	12.2	28.8	31.0	31.4	37.7
ROA adjusted (%)	1.8	4.3	11.5	16.4	22.5
Net debt to equity (%)	107.1	69.7	26.4	12.8	6.6
Interest coverage (x)	1.5	4.7	21.3	47.7	88.3

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Ansal Properties & Infrastructure

Company description

Ansal Properties (Ansal) is a prominent real estate developer in northern India focusing on 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 like — 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 FY07 the company merged with Ansal Township & Projects Ltd, a group company engaged in construction and township development.

Investment thesis

We rate Ansal Properties as Sell/High Risk (3H) rating and target of Rs255, based on 15% discount to our NAV estimate of Rs300. Ansal has aggressive plans to develop ~195mn sq.ft and has secured most land (except Dadri project of 2,500acres). The strategy to operate on a develop-and-sell model should provide it with requisite cash flows. Management plans to build 38 large townships in the NCR and Tier III cities in the north, but execution ability and softening prices in the region are risks to growth. We expect rapid earnings growth over FY07-09E on increased volumes, and higher margins. This should, however, moderate significantly in the future. We believe the stock's performance will largely be determined by its NAV and consider a 15% discount to NAV as fair value.

Valuation

Our target of Rs255 is based on a 15% discount to our estimated NAV of Rs300. This discount is attributable to the company's : 1) concentration in the NCR and Tier III cities in north India where the risk of soft property prices in the near-term are 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 where land is still being acquired. Assumptions are: 1) market prices remaining at this level with no price inflation, 2) development volume of ~179m sq.ft (~16.4mn recognized as revenue in FY06-07E), 3) most of the projects are completed as per schedule, except some large township projects where we expect sizeable risks of delays, 4) average cost of capital of 14%, and 5) a tax rate of 33%.

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 upside 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 remain above our target price.

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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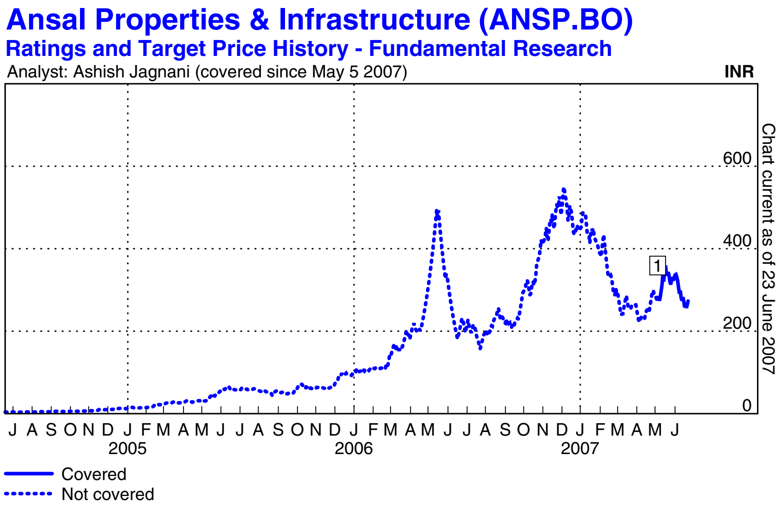

#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3H	255.00	281.05

*Indicates change.

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