

## Indiabulls Real Estate Ltd

### Crossing the wall of worry - II

As anticipated, Indiabulls Real Estate's (IBREL) Q1FY11 revenues (Rs 1.7bn) and PAT (Rs 0.25bn) were significantly ahead of our estimates (Rs 0.67bn and 0.18bn resp.), helped by revenue recognition (POCM) from the real estate business. Revenue contribution from residential projects aided the company post a staggering 183% YoY increase in revenues and a profit at the EBITDA level – for the first time in more than eight consecutive quarters. A healthy 0.65msf of residential sales, 1.05msf of leased and 1.9msf of completed commercial space and a 158% YoY increase in rentals reported by Indiabulls Property Investment Trust (IPIT) during Q1FY11 reinforces our positive stance on IBREL. An important thing to note that key concerns related to slow cash deployment and delayed execution by the company seem to be getting addressed over the past two weeks. With allaying concerns and improving disclosures levels, we reiterate a Buy on the stock with a target price of Rs 230.

**Real estate revenue kicks in:** Recognition of revenue from the real estate business helped IBREL post strong Q1FY11 numbers. Revenues and PAT were at Rs 1.7bn and Rs 252mn respectively, both significantly better than our estimates. Gross margins, lower at 23%, may have been due to the lower selling price for some of the initial projects (Ahmedabad). In our view, the margins should improve, going ahead, as new projects with better margins start getting recognised.

**Sales/lease momentum remains good:** IBREL sold 0.65msf of residential space in Panvel and Lower Parel (IPIT) in Mumbai, and in Gurgaon and Chennai. It also started the construction on 0.4msf of commercial space during the quarter. IBREL has till date leased 1.05msf and completed the construction of 1.9msf of commercial space (mainly through IPIT that reported a 159% YoY increase in Base rent during Q1FY11). In our view, IBREL, with significant commercial exposure, stands to benefit from the recovery in commercial space.

**Cash reduces as construction picks up:** Net cash available to IBREL's real estate business reduced from Rs 7.4bn in Q4FY10 to Rs 2.6bn in Q1FY11. This reduction may have come in due to cash deployed on land acquisitions (or licenses obtained) and higher construction costs. About 72% of the revenue recognised resulted in higher debtors, leading to a negative cash flow from operations.

**Quelling concerns; Buy:** IBREL has mainly been weighed down by two risks: slow deployment of cash and delayed project execution. However, the purchase of two prime land parcels in Mumbai (which should be value accretive, albeit with some conditions) and the flowing in of realty revenues address both these concerns. The continued momentum in projects execution, launch of Mumbai land parcels and pick up in lease momentum should help allay these concerns further. We therefore reiterate a Buy on the stock with a target price of Rs 230.

#### Financial highlights

(Rs mn)	FY10E	FY11E	FY12E	FY13E
Revenue	1,366	7,946	13,982	18,096
Growth (%)	(34.5)	481.8	76.0	29.4
Adj net income	(89)	2,148	3,240	4,374
Growth (%)	(130.1)	(2,523.0)	50.8	35.0
FDEPS (Rs)	(0.2)	5.3	8.1	10.9
Growth (%)	(119.3)	(2,523.0)	50.8	35.0

#### Profitability and return ratios

(%)	FY10E	FY11E	FY12E	FY13E
EBITDA margin	(73.2)	30.0	30.5	34.2
EBIT margin	(82.4)	28.4	29.1	33.1
Adj PAT margin	(6.5)	27.0	23.2	24.2
ROE	0.2	1.8	2.7	3.7
ROIC	(1.4)	2.4	3.9	5.2
ROCE	0.2	2.1	2.8	3.4

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 187	Rs 230	BUY	HIGH

BSE	NSE	BLOOMBERG
532832	IBREALEST	IBREL IN

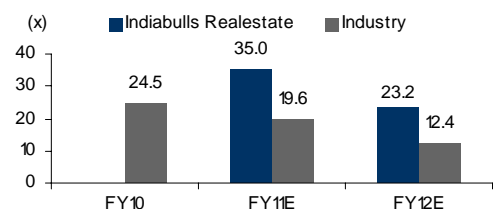
#### Company data

Market cap (Rs mn / US\$ mn)	75,091/1,611
Outstanding equity shares (mn)	402
Free float (%)	308.5
Dividend yield (%)	-
52-week high/low (Rs)	299 / 142
2-month average daily volume	6,817,250

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Indiabulls Realestate	187	11.5	18.0	5.2
BSE REALTY	3,592	7.7	9.8	6.1
Sensex	18,074	0.8	5.5	11.9

#### P/E comparison



#### Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	-	35.0	23.2	17.2
P/E @ Target	(1,041.7)	43.0	28.5	21.1
EV/EBITDA @ CMP	(59.3)	24.9	13.9	9.6



## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,717	668	157.0
EBITDA	217	(134)	(262.1)
Adj net income	252	176	43.1
FDEPS (Rs)	0.6	0.4	43.1

Source: RCML Research

Results were above estimates as real estate revenue kicked in earlier

**Fig 2 - Q1FY11 Results**

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	1,717	179	858.4	607	182.7
Expenditure	1,500	479	213.1	706	112.6
Operating profit	217	(300)	NA	(98)	NA
Other income	206	313	(34.4)	294	(30.0)
Interest	10	31	(67.0)	2	414.7
Depreciation	33	30	12.0	33	1.6
PBT	378	(48)	NA	160	135.8
Tax	127	144	(12.4)	76	65.8
PAT	252	(193)	NA	84	199.3
EBITDA margin (%)	12.6%	-167.5%	18,013	-16.2%	2,881
FDEPS (Rs)	0.56	-0.48	(217.3)	0.21	168.6

Source: Company, RCML Research

Recognition of residential projects boosted the Revenue

Gross Margin was at 23%

**Fig 3 - Key Balance Sheet Figures (excluidng Indiabulls Power)**

Rs mn	1QFY11	Q4FY10
<b>Total Debt Fund</b>	14,757	11,625
Cash (Bank Balance)	1,632	2,939
Investment	60,686	60,514
<b>Net Current Assets</b>	<b>3,486</b>	<b>187</b>
<b>Net Cash (ex investment)</b>	<b>2,585</b>	<b>7,394</b>

Source: Company, RCML Research

Net Cash for Real estate business reduced Rs.4.8bn

Current Assets increased Rs.3.3bn out of Construction cost spent and land acquisition



Fig 4 - Balance Sheet

(Rs mn)	1QFY11	Q4FY10
<i>Liabilities</i>		
Share Capital	803	803
Reserves and Surplus	93,162	92,741
Minority Interest	20,269	19,956
Pref Share of Subsidiary	3,125	3,125
<b>Shareholder's Fund</b>	<b>117,359</b>	<b>116,624</b>
Convertible Debentures	9,396	9,396
Other Loans and Interest due	5,369	4,236
<b>Total Debt Fund</b>	<b>14,765</b>	<b>13,632</b>
Deferred Tax Liability	(4)	(2)
<b>TOTAL SOURCES OF FUNDS</b>	<b>132,120</b>	<b>130,253</b>
<i>Assets</i>		
Fixed Assets	11,040	8,427
Cash (Bank Balance)	4,533	10,454
Investment	73,501	72,474
Inventory	24,585	24,489
Sundry Debtors	1,424	190
Other Current Assets	25,914	18,540
Less Current Liabilities and Provisions	(8,878)	(4,320)
<b>Net Current Assets</b>	<b>43,045</b>	<b>38,899</b>
<b>Total USES OF FUNDS</b>	<b>132,120</b>	<b>130,253</b>
Net Cash (ex investment)	18,294	24,862

Source: Company

Fig 5 - Indiabulls Property Investment Trust (Q1FY11 results)

(S\$ mn)	Q1FY11	Q1FY10	YoY
Base Rent	9,963	3,847	159%
Other Income	734	421	74%
<b>Total Property Income</b>	<b>10,697</b>	<b>4,268</b>	<b>151%</b>
Property Expenses	(4,666)	(1,211)	285%
<b>Net Property Income</b>	<b>6,031</b>	<b>3,057</b>	<b>97%</b>
Finance Cost	(1,150)	(8,660)	-87%
Trust and Management fee	(2,087)	(2,018)	3%
<b>Profit/(Loss) Before tax</b>	<b>2,794</b>	<b>(7,621)</b>	<b>NA</b>
Income Tax	(442)	(270)	64%
<b>PAT</b>	<b>2,352</b>	<b>(7,891)</b>	<b>NA</b>

Source: Company, RCML Research



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>1,366</b>	<b>7,946</b>	<b>13,982</b>	<b>18,096</b>
Growth (%)	(35)	482	76	29
<b>EBITDA</b>	<b>(1,000)</b>	<b>2,382</b>	<b>4,260</b>	<b>6,193</b>
Growth (%)	75	(338)	79	45
Depreciation & amortisation	126	128	196	197
EBIT	(1,126)	2,254	4,064	5,995
Growth (%)	66	(300)	80	48
Interest	97	997	1,329	1,777
Other income	1,699	1,812	1,895	2,030
EBT	476	3,069	4,629	6,248
Income taxes	337	921	1,389	1,874
Effective tax rate (%)	70.8	30.0	30.0	30.0
Extraordinary items	-	-	-	-
Min into / inc from associates	228	-	-	-
Reported net income	(89)	2,148	3,240	4,374
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>(89)</b>	<b>2,148</b>	<b>3,240</b>	<b>4,374</b>
Growth (%)	(130)	(2,523)	51	35
Shares outstanding (mn)	401.5	401.5	401.5	401.5
<b>FDEPS (Rs) (adj)</b>	<b>(0.2)</b>	<b>5.3</b>	<b>8.1</b>	<b>10.9</b>
Growth (%)	(119.3)	(2,523.0)	50.8	35.0
DPS (Rs)	-	2.0	5.0	7.5

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	37	2,276	3,436	4,571
Non-cash adjustments	(1,636)	(247)	(75)	(418)
Changes in working capital	(2,643)	4,675	5,851	5,340
Cash flow from operations	(4,241)	6,705	9,212	9,493
Capital expenditure	(4,857)	(18,692)	(20,692)	(12,692)
Change in investments	(32,087)	-	-	-
Other investing cash flow	2,862	1,812	1,895	2,030
Cash flow from investing	(34,082)	(16,880)	(18,797)	(10,662)
Issue of equity	288	-	-	-
Issue/repay debt	1,676	12,600	14,000	8,400
Dividends paid	-	-	-	-
Other financing cash flow	37	2,276	3,436	4,571
Change in cash & cash eq	(1,636)	(247)	(75)	(418)
Closing cash & cash eq	(2,643)	4,675	5,851	5,340

### Economic Value Added (EVA) analysis

Y/E March	FY10E	FY11E	FY12E	FY13E
WACC (%)	13.7	13.7	13.7	13.7
ROIC (%)	(1.4)	2.4	3.9	5.2
Invested capital (Rs mn)	130,256	144,103	159,090	168,485
EVA (Rs mn)	(1,963,862)	(1,623,701)	(1,566,246)	(1,436,456)
EVA spread (%)	-15.08	-11.27	-9.85	-8.53

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	38,494	40,018	42,180	46,033
Accounts receivable	190	980	1,724	2,231
Inventories	24,489	27,438	28,402	29,325
Other current assets	18,540	19,626	20,822	22,137
Investments	44,434	44,434	44,434	44,434
Gross fixed assets	3,382	4,074	4,765	5,457
Net fixed assets	3,108	3,672	4,167	4,662
CWIP	5,318	23,318	43,318	55,318
Intangible assets	-	-	-	-
Deferred tax assets, net	2	2	2	2
Other assets	-	-	-	-
<b>Total assets</b>	<b>134,576</b>	<b>159,489</b>	<b>185,050</b>	<b>204,142</b>
Accounts payable	-	-	-	-
Other current liabilities	4,063	13,564	22,318	30,403
Provisions	257	1,822	3,641	5,253
Debt funds	13,632	26,232	40,232	48,632
Other liabilities	-	-	-	-
Equity capital	73,464	73,464	73,464	73,464
Reserves & surplus	43,160	44,407	45,395	46,390
Shareholder's funds	116,624	117,871	118,859	119,853
<b>Total liabilities</b>	<b>134,576</b>	<b>159,489</b>	<b>185,050</b>	<b>204,142</b>
BVPS (Rs)	290.4	293.5	296.0	298.5

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	(73.2)	30.0	30.5	34.2
EBIT margin	(82.4)	28.4	29.1	33.1
Net profit margin	(6.5)	27.0	23.2	24.2
ROE	0.2	1.8	2.7	3.7
ROCE	0.2	2.1	2.8	3.4
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	143	27	35	40
Inventory (days)	41	78	127	151
Payables (days)	328	578	674	808
Current ratio (x)	7.4	3.5	2.4	1.9
Quick ratio (x)	4.5	2.1	1.5	1.2
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	0.2	0.4	0.4	0.3
Total asset turnover	0.0	0.1	0.1	0.1
Interest coverage ratio	5.9	4.1	4.5	4.5
Adjusted debt/equity	0.1	0.2	0.3	0.4
<b>Valuation ratios (x)</b>				
EV/Sales	43.5	7.5	4.2	3.3
EV/EBITDA	(59.3)	24.9	13.9	9.6
P/E	-	35.0	23.2	17.2
P/BV	0.6	0.6	0.6	0.6



### Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	179	132	375	607	1,717
YoY growth (%)	-61	-84	-4	44	858
QoQ growth (%)	-58	-26	183	62	183
EBITDA (Rs mn)	(330)	(360)	(354)	(131)	183
EBITDA margin (%)	(184.2)	(271.9)	(94.5)	(21.6)	10.7
Adj net income (Rs mn)	(243)	47	28	31	206
YoY growth (%)	(286)	(41)	(76)	(203)	(184)
QoQ growth (%)	722	(119)	(41)	11	572

### DuPont analysis

(%)	FY09	FY10E	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	0.5	0.3	0.7	0.7	0.7
Interest burden (PBT/EBIT)	0.9	0.8	0.8	0.8	0.8
EBIT margin (EBIT/Revenues)	0.8	0.4	0.5	0.4	0.4
Asset turnover (Revenues/Avg TA)	0.0	0.0	0.1	0.1	0.1
Leverage (Avg TA/Avg equity)	1.1	1.1	1.2	1.3	1.4
<b>Return on equity</b>	<b>1.1</b>	<b>0.2</b>	<b>1.8</b>	<b>2.7</b>	<b>3.7</b>

### Company profile

Indiabulls Real Estate Limited (IBREL), which was de-merged from Indiabulls Financial Services Limited, is one of the largest listed real estate companies in India. Its projects cover a total land area in excess of 10,000 acres. IBREL projects include high-end office and commercial spaces, premium residential developments, integrated townships and special economic zones. IBREL also has interest in power generation through its subsidiary (58.6% ownership) Indiabulls Power limited.

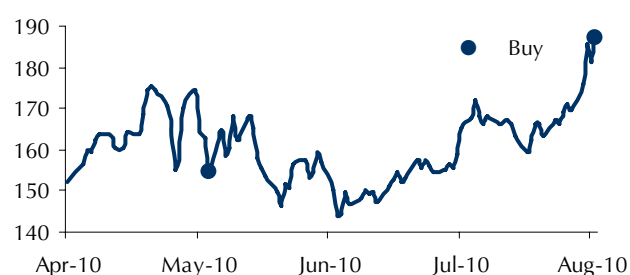
### Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	16.7	16.7	18.3
FIIIs	67.4	69.7	64.7
Banks & FIIs	5.8	3.4	4.7
Public	10.0	10.2	12.4

### Recommendation history

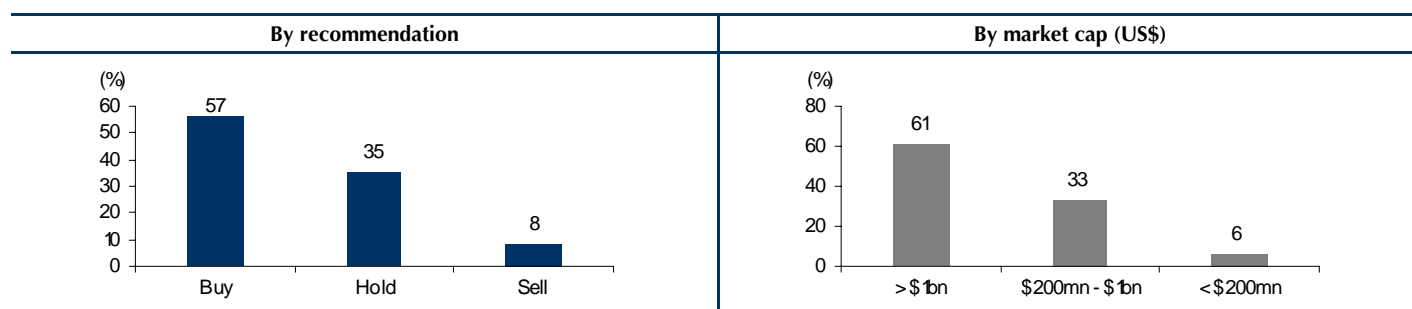
Date	Event	Reco price	Tgt price	Reco
10-May-10	Initiating Coverage	154	230	Buy
13-Aug-10	Results Review	187	230	Buy

### 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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