

Anant Raj Industries Ltd

Residential revenues steal the show, rentals set to pick up

During Q2FY11, Anant Raj Industries' (ARCP) net sales increased by 29% QoQ to Rs 1.3bn, driven by revenues from Kapashera and Manesar projects (launched in H1FY11) and a marginal 3% QoQ increase in rental income to Rs 187mn. We maintain our positive stance on the company based on the following: 1) Rental revenues are likely to jump by 85-90% to Rs 850mn-900mn in FY11 over FY10. 2) The company has started generating revenues from Kapashera and Manesar projects and is soon likely to recognise revenues from residential launches in the pipeline. Moreover, the Hauz Khas launch may surprise the market positively. 3) The first phase of ARCP's Rai project is expected to be completed in June '11 (after a three-month delay) and is likely to boost rental revenues further. We reiterate a BUY on the stock with our NAV-based target price of Rs 185.

Income from operations rises 29% QoQ: During Q2FY11, ARCP clocked a robust 29% QoQ growth in sales to Rs 13.3bn, 32% ahead of our estimates on account of Rs 240mn generated from a stake sale in one of its SPVs (real estate investment, not factored in our estimates). During the quarter, revenues were largely contributed by two residential projects: Kapashera (Rs 210mn, 65% of the project cumulatively recognised in H1FY11) and Manesar (Rs 620mn, 35%). Besides, rental revenues also increased marginally by 3% QoQ to Rs 187.1mn (in line with our estimates).

EBIDTA margin lower 47% QoQ: EBIDTA margin slumped 800bps QoQ to 47.2% on account lower margins generated from the SPV stake sale and a ~40% margin clocked by the Manesar project. We expect a contraction in margins, going ahead, on account of residential launches on recently acquired land parcels and range-bound margins (34-45%) of other residential launches.

Rental income set to grow in H2FY11: We expect certain key projects to augment ARCP's rental revenues in H2FY11: 1) Kirtinagar Mall—likely to be operational from H2FY11 onwards with more than 300,000sq ft pre-leased to clients such as MORE, Westside, Lilliput, Fastrack and Beverly Hills; 2) Hilton Hotel in Manesar—under fit-outs and likely to be operational from Q3FY11; 3) Tricolour Hotel in NH-8—tied-up with Maple and expected to earn rentals in H2FY11.

Residential launches likely on recently acquired land parcels: ARCP is expected to launch residential projects in Sec-91, Gurgaon (1.2msf) and Neemrana, Rajasthan (2msf). The company had acquired land parcels for these projects 6-9 months back. Moreover, it also acquired few land parcels in the last one year, leading to a D/E ratio of 0.1x(Sept'10) for an otherwise net cash positive company.

Valuation: We maintain our BUY recommendation on the stock with a target price of Rs 185.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	2,863	4,655	9,619	22,128
Growth (%)	14.2	62.6	106.6	130.0
Adj net income	2,383	2,053	2,715	7,068
Growth (%)	14	(14)	32	160
FDEPS (Rs)	8.1	7.0	8.9	22.5
Growth (%)	14.3	(13.8)	28.0	152.1

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	90.3	45.3	31.5	46.5
EBIT margin	86.5	40.4	27.9	44.5
Adj PAT margin	83.2	44.1	28.2	31.9
ROE	6.9	5.6	6.9	16.3
ROIC	6.3	4.0	5.0	13.3
ROCE	6.7	5.3	6.2	13.8

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 139	Rs 185	BUY	MEDIUM

BSE	NSE	BLOOMBERG
515055	ANANTRAJ	ARCP IN

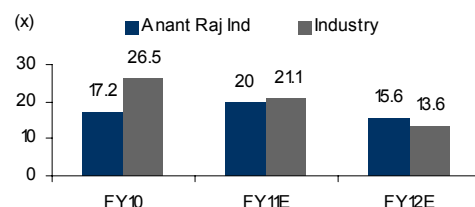
Company data

Market cap (Rs mn / US\$ mn)	40,955/877
Outstanding equity shares (mn)	295
Free float (%)	35.4
Dividend yield (%)	0.1
52-week high/low (Rs)	356 / 37
2-month average daily volume	145,185

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Anant Raj Ind	139	(9.3)	5.0	13.8
BSE Realty	3,673.6	(6.0)	3.3	12.3
Sensex	20,589	1.2	13.9	20.1

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	17.2	20.0	15.6	6.2
P/E @ Target	22.9	26.6	20.8	8.2
EV/EBITDA @ CMP	14.3	17.5	12.2	3.6



Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	1,329	1,005	32.2
EBITDA	627	535	17.3
Adj net income	481	476	0.9
FDEPS (Rs)	1.5	1.5	0.9

Source: RCML Research

Fig 2 - Quarterly performance

(Rs mn)	Q2FY11	Q2FY10	% Chg YoY	Q1FY11	% Chg QoQ
Revenue	1,329	868	53.0	1,034	28.5
Expenditure	701	64	1,000.4	465	50.8
Operating profit	627	805	(22.0)	569	10.2
Other income	64	117	(44.9)	94	(31.5)
Interest	9	0	4,050.9	15	(40.0)
Depreciation	38	39	(1.7)	36	6.9
PBT	645	882	(26.9)	612	5.4
Tax	166	172	(3.4)	154	7.9
PAT	481	711	(32.4)	459	4.8
EBITDA margin (%)	47.2	92.7	(4540bps)	55.0	(781bps)
FDEPS (Rs)	1.5	2.4	(36.7)	1.5	4.8

Source: Company, RCML Research

Results beat estimates mainly on account of a SPV stake sale

Net sales increased 29% QoQ as revenues started flowing in from Kapashera and Manesar projects

The EBITDA margin nosedived 800bps primarily due to lower margins generated from the SPV stake sale



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	2,863	4,655	9,619	22,128
Growth (%)	14.2	62.6	106.6	130.0
EBITDA	2,584	2,110	3,031	10,288
Growth (%)	17.1	(18.4)	43.7	239.4
Depreciation & amortisation	107	230	350	450
EBIT	2,478	1,880	2,681	9,838
Growth (%)	16.8	(24.1)	42.7	266.9
Interest	49	95	105	150
Other income	534	750	775	800
EBT	2,963	2,535	3,351	10,488
Income taxes	581	482	637	3,420
Effective tax rate (%)	19.6	19.0	19.0	32.6
Extraordinary items	-	-	-	-
Min into / inc from associates	1	-	-	-
Reported net income	2,381	2,053	2,715	7,068
Adjustments	(1)	-	-	-
Adjusted net income	2,383	2,053	2,715	7,068
Growth (%)	14.4	(13.8)	32.2	160.4
Shares outstanding (mn)	295.1	294.6	314.6	314.6
FDEPS (Rs) (adj)	8.1	7.0	8.9	22.5
Growth (%)	14.3	(13.8)	28.0	152.1
DPS (Rs)	0.6	1.5	1.5	2.5

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,488	2,283	3,065	7,518
Non-cash adjustments	(126)	(190)	133	2,480
Changes in working capital	2,540	(3,115)	1,667	(6,626)
Cash flow from operations	4,902	(1,022)	4,864	3,373
Capital expenditure	(6,252)	(4,314)	(5,910)	(2,856)
Change in investments	140	(100)	(100)	(100)
Other investing cash flow	169	144	-	-
Cash flow from investing	(5,942)	(4,270)	(6,010)	(2,956)
Issue of equity	601	(1)	1,315	-
Issue/repay debt	(712)	4,494	-	5,000
Dividends paid	(208)	(206)	(517)	(552)
Other financing cash flow	-	144	-	-
Change in cash & cash eq	(1,359)	(861)	(348)	4,865
Closing cash & cash eq	4,898	4,036	3,689	8,554

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	15.2	14.9	14.9	14.9
ROIC (%)	6.3	4.0	5.0	13.3
Invested capital (Rs mn)	33,930	41,415	45,397	54,546
EVA (Rs mn)	(3,015)	(4,501)	(4,497)	(895)
EVA spread (%)	(8.9)	(10.9)	(9.9)	(1.6)

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	4,898	4,036	3,689	8,554
Accounts receivable	2,399	2,345	2,297	2,254
Inventories	117	4,165	1,718	4,500
Other current assets	2,742	1,681	3,474	7,991
Investments	2,949	3,049	3,149	3,249
Gross fixed assets	18,604	21,628	25,067	37,140
Net fixed assets	18,050	20,844	23,933	35,556
CWIP	7,457	8,747	11,218	2,000
Intangible assets	1,472	1,472	1,472	1,472
Deferred tax assets, net	17	-	-	-
Other assets	-	17	-	24
Total assets	40,100	46,356	50,957	65,600
Accounts payable	688	200	200	200
Other current liabilities	385	705	1,670	2,300
Provisions	816	897	1,055	4,707
Debt funds	1,399	5,883	5,883	10,883
Other liabilities	866	1,000	1,100	1,250
Equity capital	590	589	629	629
Reserves & surplus	35,355	36,891	40,328	45,690
Shareholder's funds	35,945	37,670	41,058	46,260
Total liabilities	40,100	46,356	50,957	65,600
BVPS (Rs)	123.3	128.7	131.7	148.7

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	90.3	45.3	31.5	46.5
EBIT margin	86.5	40.4	27.9	44.5
Net profit margin	83.2	44.1	28.2	31.9
ROE	6.9	5.6	6.9	16.3
ROCE	6.7	5.3	6.2	13.8
Working Capital & Liquidity ratios				
Receivables (days)	306	186	88	38
Inventory (days)	590	324	170	101
Payables (days)	1,909	67	12	7
Current ratio (x)	9.5	13.5	6.0	9.3
Quick ratio (x)	2.2	2.6	1.2	0.9
Turnover & Leverage ratios (x)				
Gross asset turnover	0.2	0.2	0.4	0.7
Total asset turnover	0.1	0.1	0.2	0.4
Interest coverage ratio	50.7	19.8	25.5	65.6
Adjusted debt/equity	0.0	0.2	0.1	0.2
Valuation ratios (x)				
EV/Sales	12.9	7.9	3.8	1.7
EV/EBITDA	14.3	17.5	12.2	3.6
P/E	17.2	20.0	15.6	6.2
P/BV	1.1	1.1	1.1	0.9



Quarterly trend

Particulars	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Revenue (Rs mn)	868	826	341	1,034	1,329
YoY growth (%)	(44.5)	17.0	159.3	(1.4)	53.0
QoQ growth (%)	(17.3)	(4.9)	(58.7)	203.4	28.5
EBITDA (Rs mn)	805	764	262	569	627
EBITDA margin (%)	92.7	92.4	76.9	55.0	-
Adj net income (Rs mn)	711	670	306	459	481
YoY growth (%)	(44.2)	(47.3)	346.3	(33.4)	(32.4)
QoQ growth (%)	3.1	(2.7)	(54.3)	49.9	4.8

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	74.3	80.4	81.0	81.0	67.4
Interest burden (PBT/EBIT)	132.2	119.6	134.8	125.0	106.6
EBIT margin (EBIT/Revenues)	84.6	86.5	40.4	27.9	44.5
Asset turnover (Revenues/Avg TA)	7.2	7.4	10.8	19.8	38.0
Leverage (Avg TA/Avg equity)	111.4	111.9	117.8	124.1	133.5
Return on equity	6.7	6.9	5.6	6.9	16.2

Company profile

ARCP has acquired prime land in Delhi and other parts of the national capital region (NCR) over the past two decades, with a very low cost of acquisition vis-à-vis peers. So far, the company has developed and sold 11.5msf of land and has 77msf under construction, which is to be completed by FY16.

Shareholding pattern

(%)	Mar-10	Jun-10	Sep-10
Promoters	61.4	61.4	61.4
FII's	28.6	29.0	26.8
Banks & FI's	1.2	0.7	2.8
Public	8.8	8.9	9.0

Recommendation history

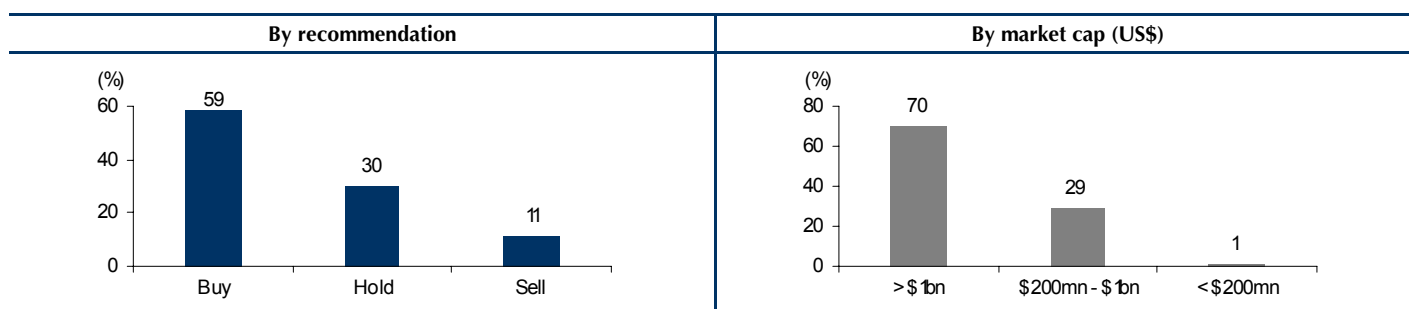
Date	Event	Reco price	Tgt price	Reco
10-May-10	Company Update	120	170	Buy
31-May-10	Results Review	113	170	Buy
6-Aug-10	Results Review	120	170	Buy
6-Oct-10	Sector Update	148	185	Buy
11-Nov-10	Results Review	139	185	Buy

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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