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Ansal Housing & Construction Limited **(Rs 380, P/EFY08E - 9.4x BUY)**

We met the senior management of Ansal Housing & Construction Ltd.
Key -takeaways of the meet are:

AHCL has successfully completed over 64.67-mn sq ft (1789 acres) of projects comprising integrated townships, apartments, commercial establishments & farmlands

Ansal Housing & Construction Limited (AHCL), a part of the Delhi based Ansal Housing Group is a north India based real estate developer. The company started its commercial operations in 1986 and has successfully completed over 64.67-mn sq ft (1789 acres) of projects comprising integrated townships, apartments, commercial establishments & farmlands. It has executed its projects in 22 cities is focused on the tier 2 & tier 3 cities of northern India. Through subsidiaries & joint ventures AHCL has presence in hospitality, estate management, ITES and car sales & services.

Projects Completed	Area	
	Land (acres)	Developed/ Build-up (Mn. Sq ft)
Integrated Townships	949	27.74
Apartments		2.12
Commercial		1.20
Farm Lands	840	36.59
Total Completed Projects	1789	67.64

The current land bank of the company is 2500 acres

Land Bank:

- The current land bank of the company is 2500 acres (108.9-mn sq. ft) with an average acquisition cost of Rs 122/ sq.ft.
- Land acquisition has been done mostly in Northern states of India however; the company has acquired land in other states also thereby derisking the business model.
- The company in its own name owns 50% of the land while the rest is in joint venture with its group companies (development rights with Ansal Housing) or in collaboration with 3rd parties with agreements for revenue/ area sharing.
- Most of the land bank purchased is under deferred payment system and the company has to still pay up Rs 3000 million.
- AHCL has further plans to acquire land of further 1000 acres in the next 2 years and looking at the appreciated land prices the cost of land is expected to be above Rs 500/ sq.ft.

Further plans to acquire land of further 1000 acres in the next 2 years

Land acquisition strategy:

- The company has acquired land mostly in the cities like Delhi, Mumbai, Bangalore and in tier2 & tier 3 cities like Agra, Indore, Bhopal, Jammu etc predominantly in the sates of North India.
- Majority of the land acquired by the company is agricultural land and thereby conversion of development rights of the same..
- About 50% of the total land bank is in its own name or in joint venture with its group companies (development rights with Ansal Housing), which have been acquired directly or through an aggregator. Some part of the land bank has been acquired in collaboration with the 3rd party with a predetermined agreement for revenue/ area sharing.

Ongoing Projects –

Out of the total developed area of 67.64-mn sq. ft — stock of about 2.5% - 3% (land area) remains, and revenue for the same would get accounted by FY08.

Out of the total projects under execution about 27% of the total area under development have been booked and the revenues would be accounted in the coming years.

Out of the total projects under execution — Integrated Township (9.35 mn sq.ft), residential apartments (0.59 mn sq.ft) and commercial (0.50 mn sq. ft) about 27% of the total area under development have been booked and the revenues would be accounted in the coming years.

Projects under Execution

	Total Project Area (mn sq. ft)	Percentage of Booking(%)	Area Booked (mn. Sq. ft)
Integrated township			
Avantika — Gaziabad	1.1	50	0.55
Ansal Courtyard — Agra	0.55	70	0.385
Ansal Town — Agra	2.79	25	0.6975
Ansal Town — Indore	2.58	20	0.516
Ansal Town — Jammu	2.32	NS	
Total	9.34		2.15
Residential Apartments			
Orchid Green — Lucknow	0.27	NS	
Whispering Meadows — Mumbai	0.2	80	0.16
Ansal Heights — Mumbai	0.12	60	0.072
Total	0.59		0.232
Commercial			
Ansal Plaza — Gaziabad	0.5	80	0.4
Total	0.5		0.4
Grand Total	10.43		2.78

NS: Sales not started

- Further projects to the tune of 55.16-mn sq. ft (integrated township, residential apartments & commercial) are under various stages of planning & sanctions and booking & revenue generation of the same are expected from May'07.
- The company is further looking to built up Integrated townships at 18 locations across India with a total area of 1921 acres (41.39 sq. ft) which would fetch an estimated sales revenue of Rs 33.58 bn over a period of 5 years.
- Under the commercial space 30% of the companies projects are under lease while 70% is on out right sales basis.
- The company expects its topline (Sales + Other Income) to grow by 78% CAGR for a 6 year period to 23517.5 million in FY12. For FY06, about 75% of the revenue came from residential projects (integrated townships & apartments) while 25% were from commercial projects.
- The company accounts its revenue on a percentage completion method.
- AHCL books 15% to 25% of the sales price as customer advances.
- Projects of 10.44 mn sq. ft is presently under execution & further 55.16 mn sq. ft (including 41.39 sq.ft of integrated townships) is planned.

Margins enjoyed by the company

- The company expects a 25% IRR (average) through value addition over & above the land cost in its projects.
- The projects executed by the company have been on the land bank acquired well before which was below its average acquisition price of Rs 122/ sq. ft. With increasing real estate prices the company has been able to increase its EBITDA margins and has been able to achieve an IRR of about 50% for certain projects.
- EBITDA margins for H1 FY07 increased by 540 bps to 32.4% from FY06 levels and were almost double on YoY basis from 16.8% in H1 FY06.

The company expects an average IRR of 25% on its projects through value addition over & above the land cost in its projects.

Financial Performance

	Q2FY07	Q2FY06	Var(%)	H1FY07	H1 FY06	Var(%)
Net Sales	477.9	279.2	71.2	890.4	458.1	94.4
EBITDA	159.1	58.0	174.3	288.4	76.9	275.0
EBITDA (%)	33.3	20.8		32.4	16.8	
PAT	91.2	39.9	128.6	163.7	61.5	166.2
Equity	149.3	137.1		149.3	137.1	
EPS (Rs)	8.6	3.5	145.7	11.0	4.5	144.4

- The current debt of the company is about Rs 120 crore with an interest cost of 11.5%. The current debt equity ratio is 1:1 & the company expects to maintain the same till FY09E.
- The company expects to complete its QIB placements (approved Rs 1500 million) by Mar'07, which would be utilized for land acquisition & development of new projects. It has no further plans of equity dilution.

Financial Estimates

(Rs Mn):	FY06A	FY07E	FY08E	FY09E
Net Sales	1254.2	2200	4221.4	8733.7
Growth (%)		75.4	92	107
EBITDA	341.1	704.0	1435.3	2707
EBITDA (%)	27.2	32.0	34.0	31.0
PAT	206.0	421.5	803.5	1584.6
Equity	145.2	198.0	198.0	198.0
EPS (Rs)	14.2	21.3	40.6	80.0
PE (x)	26.8	17.8	9.4	4.8

Source: Emkay Private Client Research

Taking into account projects of 10.44 million sq ft under execution and newer projects to start in FY08(55.16 mn Sqft) we estimate a topline growth of 91% CAGR FY06- FY09E

- Taking into account projects of 10.44 million sq ft under execution and newer projects to start in FY08(55.16 mn Sqft) we estimate a topline growth of 91% CAGR FY06- FY09E, with net sales growth of 92% & 107% to Rs 4221.4 million & Rs 8733.7 million in FY08 & FY09 respectively looking at the newer projects with a total area of 55.16 million sq. ft, which would be commissioned in FY08.
- EBITDA margins for FY07 have been estimated by us at 32%, which are at H1 FY07 levels. In FY08 we expect the company to earn excellent margins (34% estimated by us) on account of increased sale of integrated townships, which have higher realisations than sale of flats.

Business Outlook and Valuation –

AHCL stock at the current market price of Rs. 380 trades at a PE multiple of 9.4x and 4.8 on FY08E and FY09E earnings respectively

The AHCL stock at the current market price of Rs. 380 trades at a PE multiple of 9.4x and 4.8 on FY08E and FY09E earnings respectively. AHCL has been focusing on Tier-II cities in North India to develop integrated townships, this strategy is expected to benefit AHCL significantly for catering to a large market segment, which has the demand for quality housing and also the capacity to pay. Hence looking at the projects of 10.44 mn sq. ft under execution and further projects of 55.16 mn sq. ft under planning and a reasonably strong land bank of 2500 acres as on date makes the AHCL stock look attractive from a medium term perspective and we rate the stock a BUY.

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