

Indiabulls Real Estate

BSE SENSEX 17,151	S&P CNX 5,202	CMP: INR61	TP: INR85	Buy
Bloomberg	IBREL IN			
Equity Shares (m)	474.0			
52-Week Range (INR)	142/40			
1,6,12 Rel. Perf. (%)	-4/-12/-43			
M.Cap. (INR b)	29.0			
M.Cap. (USD b)	0.6			

Revenue booking healthy; New launches key to augment RoCE

- Indiabulls Real Estate (IBREL) has reported in-line results for 4QFY12. Growth in revenue booking was healthy at 22% QoQ, largely backed by stronger execution progress, as incremental sales during the quarter were muted. EBITDA declined 6% YoY to ~INR1.1b, while EBITDA margin declined to 24% from 29% in 3QFY12. Despite decline in EBITDA, PAT jumped 1.6x YoY due to lower tax rate.
- For the full year, revenue declined 3% to INR13.9b. However, EBITDA grew 20% to INR3.9b, driven by higher revenue contribution from Mumbai (Panvel) and Gurgaon projects.
- During 4QFY12, sales volume declined sharply, though sale of commercial space in Mumbai (Worli) drove up average realization and sales value QoQ. It sold 0.6msf (INR6.7b) v/s 0.9msf (INR4.5b) in 3QFY12. For the full year, sales were 3.5msf (INR19.8b) v/s 5.9msf (INR48.4b) in FY11, almost 60% de-growth in value terms.
- Leasing volume in IPIT commercial deteriorated QoQ to 0.06msf (v/s historical run rate of 0.18msf), taking the total area under lease at IFC and Indiabulls One to 2.21msf.
- Net debt was stable at INR18.6b, implying a net DER of 0.25x. However, considering the effective stake of IBREL in IPIT's debt, net debt works out to ~INR30.3b.

Valuation and view: Recent developments such as (a) continuous stake increase by promoters, also with the announcement of buyback, (b) warrant conversion at a high price, etc render positive sentiment for the stock, especially due to prolonged valuation discount compared to peers. However, (a) approval hurdles and regulatory headwinds, (b) slowdown in Central Mumbai market (IPIT and Worli projects account for ~45% of NAV), and (c) delay in new launches would remain key concerns. IBREL's continuous land acquisitions over the last couple of years have raised concerns over effective utilization of surplus cash. The monetization of these land parcels over FY13 would be a key factor to watch to augment RoCE. The stock trades at 0.4x FY13E BV, 14.6x FY13E EPS, and at ~40% discount to our NAV estimate. **Buy.**

Quarterly Performance (Consolidated)

Y/E March	(INR Million)								FY11	FY12
	FY11				FY12					
	1Q	2Q	3Q	4Q*	1Q	2Q	3Q	4Q*		
Sales	1,717	3,000	3,997	6,060	2,419	3,320	3,565	4,452	14,325	13,916
Change (%)	858	2,165	966.8	897.7	40.9	10.7	-10.8	-26.5	1,007.4	-2.9
Total Expenditure	1,500	2,188	2,768	4,930	2,118	2,294	2,534	3,394	11,095	10,049
EBITDA	217	812	1,229	1,130	301	1,026	1,031	1,058	3,230	3,867
Change (%)	LTP	LTP	LTP	LTP	38.9	26.3	-16.1	-6.3	LTP	20
As % of Sales	12.6	27.1	30.7	18.6	12.4	30.9	28.9	23.8	22.5	28
Depreciation	33	42	73	46	53	55	52	54	184	209
Interest	10	116	18	542	334	724	494	474	609	2,286
Other Income	206	244	182	148	1,415	350	209	79	631	951
PBT	378	897	1,320	691	1,329	597	694	609	3,067	2,323
Tax	127	393	536	288	306	213	285	30	1,293	641
Effective Tax Rate (%)	33.5	43.8	40.6	41.7	23.0	35.7	41.1	5.0	42.2	27.6
Reported PAT	206	509	766	216	660	394	417	561	1,598	1,658
Change (%)	LTP	984	2,662	249	221	-23	-46	160	LTP	4

E: MOSL Estimates; Consolidated Results; *4Q numbers are adjusted while others are not - hence may not be additive

Key results highlights

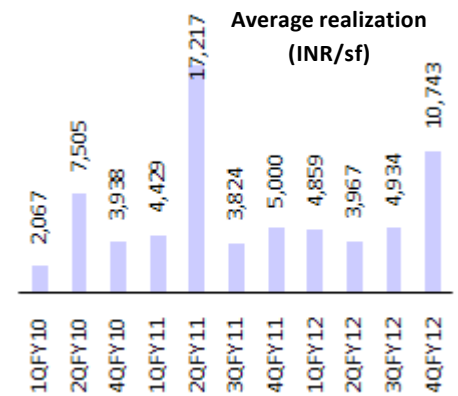
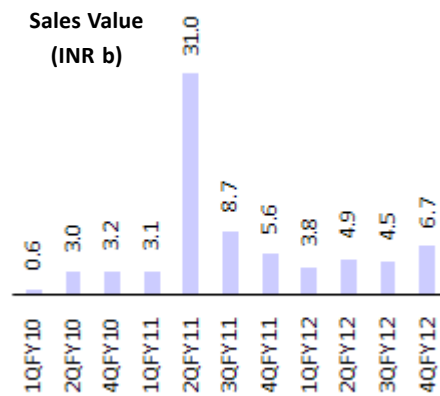
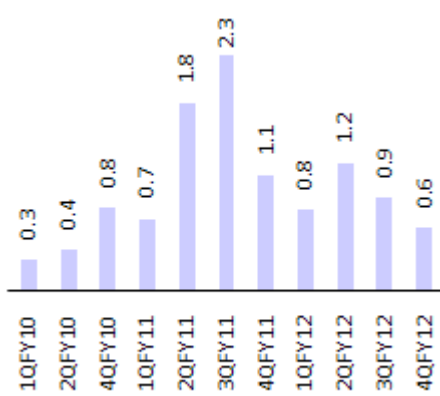
- **Revenue in-line, up 22% QoQ – sign of stronger execution:** Growth in revenue booking was healthy at 22% QoQ, largely backed by stronger execution progress, as incremental sales during the quarter were muted. However, revenue declined ~27% YoY to INR4.4b (our estimate was INR4b). The key projects driving revenue recognition continue to be (a) Indiabulls Green (Panvel, Mumbai), (b) Centrum Park (Gurgaon), and (c) Chennai Green.
- **Core EBITDA margin declined 510bp QoQ:** EBITDA declined 6% YoY to ~INR1.1b, while EBITDA margin declined to 24% from 29% in 3QFY12. The decline in EBITDA margin could be attributed to revenue mix getting skewed towards low margin projects and cost inflation.
- **PAT above estimate due to lower tax:** Despite decline in EBITDA, PAT jumped 1.6x YoY due to lower tax rate (due to reversal impact). Effective tax rate for FY12 was 27.6%.
- **FY12 EBITDA grew 20% though revenue declined 3%:** For the full year, revenue declined 3% to INR13.9b. However, EBITDA grew 20% to INR3.9b, driven by higher revenue contribution from high margin Mumbai (Panvel) and Gurgaon projects. PAT grew 4% to INR1.7b. However, full year numbers are not entirely comparable, given that Indiabulls Power (IPL) was demerged during FY12.

Key operating highlights

- **Sales volume declined QoQ, value up due to commercial sales at Worli:** In 4QFY12, IBREL sold 0.6msf (INR6.7b) v/s 0.9msf (INR4.5b) in 3QFY12. In the absence of any major new launches, Indiabulls Green, Panvel (INR3,500-4,500/sf), and Centrum and Enigma, Gurgaon (INR3,500-5,000/sf) remain the major sales drivers, along with Chennai projects. However, average realization increased sharply in 4QFY12 to INR10,743/sf (v/s INR4,934/sf in 3QFY12) due to the sale of commercial space (~0.15msf) at Worli (Bharat Mill land) at average realization of ~INR25,000/sf.
- **~60% sales de-growth in FY12:** For the full year, sales were 3.5msf (INR19.8b) v/s 5.9msf (INR48.4b) in FY11, almost 60% de-growth in value terms. While massive slowdown in Central Mumbai residential projects (IPIT projects) was the primary reason, broadbased torpidity across other markets also contributed to this.
- **Guides strong launch pipeline for FY13; time ripe to monetize acquired land:** Post a subdued FY12, IBREL has guided a strong launch pipeline of ~10 projects across tier-I/II locations over FY13, including the launch of Indiabulls Bleu and Savroli (Mumbai), and Enigma (Gurgaon) over 1HFY13. New launches would be critical to mitigate concerns over (a) declining sales trend in the last 3-4 quarters, and (b) monetization of idle land parcels, justifying the massive land acquisition/aggregation by the company over FY11-12. However, timely approval remains a key concern. We estimate sales of 5.2msf (INR26.7b) for FY13.
- **Leasing run rate deteriorates:** Leasing volume in IPIT commercial has declined sharply QoQ to 0.06msf (v/s the historical run rate of 0.18msf), taking total area under lease at IFC and Indiabulls One to 2.21msf. Major share of leasing at IFC happened at average rental of INR110-125/sf/month.
- **Net debt-equity at 0.25x:** Net debt was stable at INR18.6b, implying a net debt-equity of 0.25x. However, considering IBREL's effective stake in IPIT's debt, net debt works out to ~INR30.3b.

Sales declined 33% QoQ (msf)

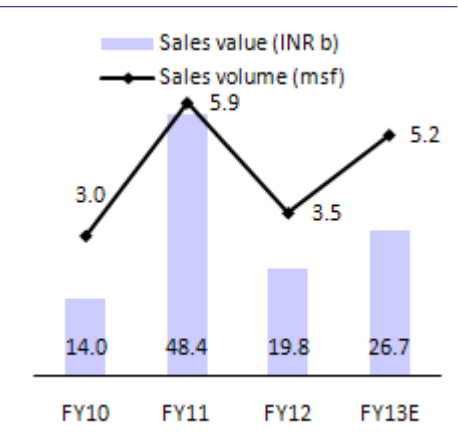
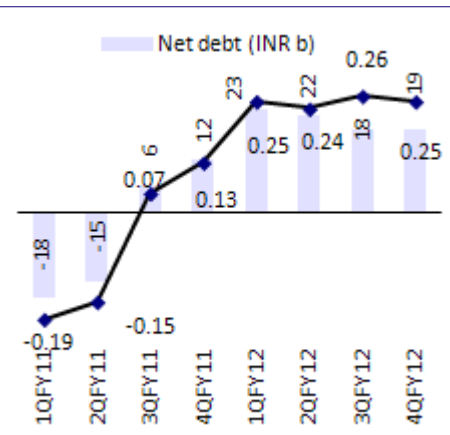
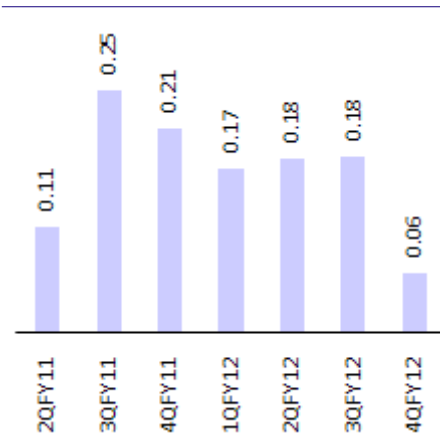
However, commercial sales at Worli drove the uptick in sales value (INR b) and average realization (INR/sf)



Leasing volume (msf) declines QoQ

Net debt steady at 0.25x

Expect sales uptick in FY13 on the back of new launches



Source: Company/MOSL

Warrant conversion has infused ~INR3b

Among the key balance sheet changes, Reserves and Surplus increased by INR3.8b QoQ, largely due to cash infusion through 28.7m of warrant conversion concluded in 4QFY12. However, due to continuous investments in land acquisition (acquired ~334 acres in 4QFY12, and a total of 420 acres in FY12) and slower sales, the cash balance (+ current investments) declined to ~INR1.8b, which appears insufficient for maximum buyback target (~INR4.5b for buyback of 60m shares @ INR75/share), although minimum buyback at current price requires ~INR915m.

IBREL's Warrant History since 2007

Date	Warrant issue (m)	Ex price (INR/sh)	Payment (INR m)	Remarks
Nov-07	10	115.1	1,151	10% upfront payment made earlier
Aug-07	15	300	450	Money forfeited later with lapse of option
Nov-07	43	540	2,322	Money forfeited later with lapse of option
Aug-10	28.7	165	1,184	25% paid during warrant issue
Apr-11	3.8	165	159	Transfer of proportionate liability to IBWSL
O/S warrant to IBREL	26.4	165	1,025	Shown as warrant in IBREL's book
Balance infusion in IBREL			3,076	Recent warrant conversion

Source: Company/MOSL

Valuation and view: Monetization of acquired land essential for operational uptick

- IBREL's strong pre-sales of ~INR81b render robust cash flow visibility. Its revenue booking run rates have been in tandem with sales accruals (INR3b-5b), which suggests commensurate progress in execution.
- Moreover, recent developments such as (a) continuous stake increase by promoters, also with the announcement of buyback, (b) warrant conversion at a high price, etc render positive sentiment for the stock, especially due to prolonged valuation discount compared to peers.
- However, (a) approval hurdles and regulatory headwinds, (b) slowdown in Central Mumbai market (IPIT and Worli projects account for ~45% of NAV), and (c) delay in new launches would remain key concerns. IBREL's continuous land acquisitions over the last couple of years have raised concerns over effective utilization of surplus cash. The monetization of these land parcels over FY13 would be a key factor to watch to augment RoCE. The stock trades at 0.4x FY13E BV, 14.6x FY13E EPS, and at ~40% discount to our NAV estimate. **Buy.**

Estimate NAV at INR102, Central Mumbai accounts for ~45%

NAV Calculations	(INR m)	NAV/Share	% of NAV	% of GAV
Residential	71,724	151	149	64
IPIT-Residential	16,588	35	34	15
Add: IPIT Commercial	20,516	43	42	18
Add: Other land bank	2,500	5	5	2
Gross Asset Value (GAV)	111,328	235	231	100
Less: Tax	23,844	50	49	21
Less: Net Debt	30,287	64	63	27
Less: Operating Exp	8,906	19	18	8
Net Asset Value (NAV)	48,291	102	100	43

Source: MOSL

Indiabulls Real Estate: an investment profile

Company description

IBREL, the de-merged real estate arm of Indiabulls Financial Services (IBFSL), listed on the Bombay Stock Exchange and the National Stock Exchange in March 2007. It entered the real estate sector in 2005 after it won two land parcels at auction bids of textile mill land in central Mumbai. The company is focused on development and sale of residential properties in tier-I cities like the NCR, Mumbai and Chennai and rental of commercial properties to be developed in Mumbai.

Key investment arguments

- High quality land bank at city centric locations.
- Strong monetization visibility from robust pre-sales and steady progress in execution;
- Recovery in Central Mumbai market could be a key trigger.

Key investment risks

- Severe delay in new launches and approval risks.
- Slower sales momentum in Central Mumbai projects

Recent developments

- In 4QFY12, IBREL sold 0.6msf (INR6.7b) v/s 0.9msf (INR4.5b) in 3QFY12.
- Post a subdued FY12, IBREL has guided a strong launch pipeline of ~10 projects across tier-I/II locations over FY13, including the launch of Indiabulls Bleu and Savroli (Mumbai), and Enigma (Gurgaon) over 1HFY13.

Valuation and view

- IBREL's continuous land acquisitions over the last couple of years have raised concerns over effective utilization of surplus cash. The monetization of these land parcels over FY13 would be a key factor to watch to augment RoCE. The stock trades at 0.4x FY13E BV, 14.6x FY13E EPS, and at ~40% discount to our NAV estimate. **Buy.**

Sector view

- RE sector has been a major underperformer over the last 12 months with multiple operational and non-operational headwinds such as volume slowdown (due to declining affordability), monetary tightening, pilling liquidity pressure etc. However, with a buoyant macro-picture, likelihood of interest rate cut and increasing focus on execution, we believe the outlook will improve going forward.

Comparative valuations

		IBREL	Oberoi	Phoenix
P/E (x)	FY13E	14.6	15.1	23.0
	FY14E	9.7	9.8	10.8
P/BV (x)	FY13E	0.4	2.1	1.6
	FY14E	0.4	1.7	1.4
EV/Sales (x)	FY13E	2.8	6.1	9.2
	FY14E	2.2	3.7	4.4
EV/EBITDA (x)	FY13E	10.3	10.6	13.4
	FY14E	8.0	6.2	7.5

Shareholding pattern (%)

	Mar-12	Dec-11	Mar-11
Promoter	38.5	34.8	23.0
Domestic Inst	0.2	0.2	2.2
Foreign	37.1	35.0	59.5
Others	24.2	30.0	15.4

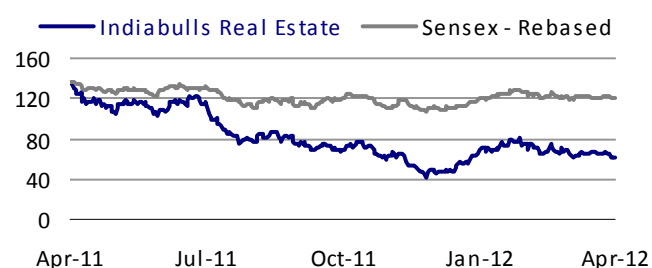
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	4.2	5.6	-24.6
FY13	6.3	7.4	-14.8

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
61	85	39.3	Buy

Stock performance (1 year)



Financials and Valuations

Income Statement			(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E
Net Sales	1,294	14,325	13,916	16,429	20,194
Change (%)	-38	1,007	-3	18	23
Construction Expens	105	9,892	8,310	10,892	13,191
Staff Cost	640	488	1,242	493	518
Office & Site Establi	1,620	716	497	493	808
EBITDA	-1,071	3,230	3,867	4,552	5,677
% of Net Sales	-83	23	28	28	28
Depreciation	126	184	209	220	216
Interest	97	609	2,286	2,039	1,835
Other Income	1,699	631	951	538	682
PBT	405	3,067	2,323	2,830	4,308
Tax	337	1,293	641	821	1,292
Rate (%)	83	42	28	29	30
Reported PAT	-160	1,598	1,658	1,986	2,992
Change (%)	-231	467	11	21	57

Balance Sheet			(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E
Share Capital	803	804	948	948	948
Reserves	93,512	89,833	70,827	72,804	75,776
Net Worth	94,315	90,638	71,775	73,752	76,725
Loans	13,632	35,378	20,393	20,393	20,393
Capital Employed	130,255	155,691	101,660	103,637	106,609
Gross Fixed Assets	2,102	5,267	3,224	3,668	4,318
Less: Depreciation	126	465	209	220	216
Net Fixed Assets	1,976	4,802	3,015	3,448	4,102
Capital WIP	6,451	28,353	0	0	0
Investments	72,474	66,698	49,294	49,294	49,294
Curr. Assets	53,572	77,828	68,641	74,614	81,099
Inventory	24,489	47,220	51,108	55,628	60,663
Debtors	190	5,840	9,303	9,002	8,299
Cash & Bank Balanc	10,454	6,058	1,605	2,696	4,120
Loans & Advances	18,439	18,710	6,625	7,287	8,016
Current Liab. & Prov.	4,320	26,123	20,182	24,382	28,548
Creditors	4,320	26,123	20,182	24,382	28,548
Net Current Assets	49,252	51,705	48,459	50,232	52,550
Application of Funds	130,255	155,691	101,660	103,637	106,609

E: MOSL Estimates

Ratios					
Y/E March	2010	2011	2012	2013E	2014E
Basic (INR)					
Adjusted FDEPS	-1.2	4.0	3.5	4.2	6.3
Growth (%)	-339.5	-418.9	-11.9	19.8	50.7
Consolidated FDEPS	-0.6	4.0	3.5	4.2	6.3
Growth (%)	-154.2	740.1	-11.9	19.8	50.7
Cash EPS	0.5	4.9	4.0	4.7	6.8
Book Value	236.8	235.6	151.4	155.6	161.9
DPS	1.0	0.3	0.2	0.2	0.2
Payout (incl. Div. Ta)	-98.5	1.6	1.0	0.8	0.7
Valuation (x)					
P/E		15.4	17.5	14.6	9.7
Cash P/E		12.6	15.3	13.0	9.0
EV/EBITDA		16.7	12.3	10.3	8.0
EV/Sales		3.8	3.4	2.8	2.2
Price/Book Value		0.3	0.4	0.4	0.4
Profitability Ratios (%)					
RoE	-0.2	1.6	2.2	2.6	3.8
RoCE	0.4	2.4	4.5	4.7	5.8
Leverage Ratio					
Debt/Equity (x)	0.1	0.4	0.3	0.3	0.3

Cash Flow Statement			(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E
PBT before EO Items	405	3,067	2,323	2,830	4,308
Add : Depreciation	126	184	209	220	216
Interest	97	609	2,286	2,039	1,835
Less : Direct Taxes P	337	1,293	641	821	1,292
(Inc)/Dec in WC	10,379	-6,844	-1,544	-682	-894
CF from Operations	10,670	-8,026	4,584	3,804	4,200
(Inc)/Dec in FA	-4,835	-25,251	30,186	-664	-865
(Pur)/Sale of Investr	-60,127	5,776	2,888	0	0
CF from Investments	-64,951	-19,468	33,296	-664	-865
(Inc)/Dec in Networt	38,752	-1,110	-25,189	0	0
(Inc)/Dec in Debt	1,676	21,746	-14,984	0	0
Less : Interest Paid	97	609	2,286	2,039	1,835
Dividend Paic	92	28	16	16	22
CF from Fin. Activity	48,838	19,822	-42,475	-2,132	-1,933
Inc/Dec of Cash	-5,442	-4,396	-4,453	1,090	1,425
Add: Beginning Bal	15,897	10,454	6,058	1,605	2,696
Closing Balance	10,455	6,058	1,605	2,695	4,120

N O T E S

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Indiabulls Real Estate

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