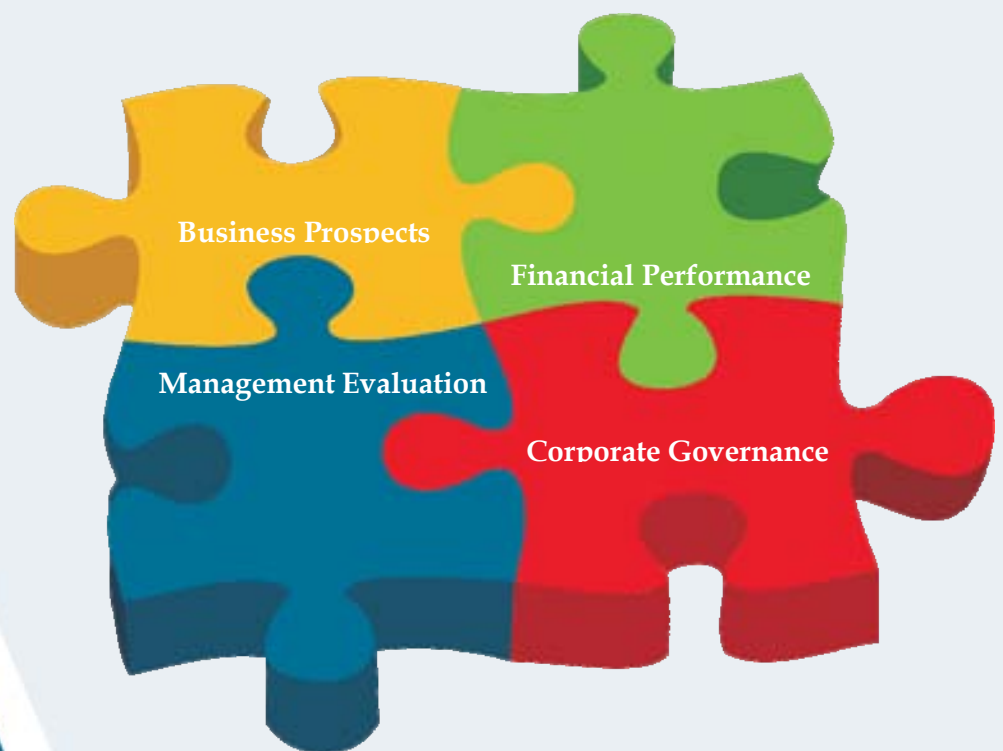


# Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

**Ashiana Housing  
Limited**

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

### Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

### Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

### Disclaimer:

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Delhi-based Ashiana Housing Ltd (Ashiana) is a mid-sized real estate player focused on affordable homes and retirement housing projects. It has developed ~9 mn sq.ft. of area and has a healthy pipeline of ~7 mn sq.ft. over the next four-five years. However, limited land bank inventory reduces future visibility. We assign Ashiana a fundamental grade of '3/5', indicating that its fundamentals are 'good' relative to other listed securities in India.

### Strong track record - known for quality construction and transparent business

Ashiana's past track record and a robust pipeline of projects clearly support the fact that it is an established player in the industry. Its position is supported by superior quality of construction, timely delivery and transparent business structure. This enables Ashiana to sell properties at premium rates compared to its peers' projects in the same location. We expect this trend to continue in the future.

### Business model different from peers; well positioned to weather cyclical risks

Unlike other real estate players, Ashiana builds residential projects which are generally self-sufficient in terms of funding as against commercial projects. The company does not build a huge land bank reserve or engage in buying expensive land parcels. This results in comparatively lower capital requirement and consequently limited financial liabilities. Therefore, we believe that Ashiana is well positioned to withstand cyclical risks compared to peers; it was least affected during the economic downturn in FY09.

### Cautious strategy on land bank inventory reduces future visibility

Although the company's strategy of holding limited land bank mitigates the downside risk, it reduces revenue visibility beyond five-six years. Therefore, future growth will be dependent on the company's ability to continuously acquire land bank at reasonable prices in an increasingly competitive market. The company is looking for land parcels, but we believe there will be challenges in a new market since real estate requires knowledge of local business environment and customer expectation.

### Revenues to grow at a two-year CAGR of 40%, EPS to increase to Rs 34.3 in FY12

Revenues are expected to grow at a two-year CAGR of 40% to Rs 2.2 bn in FY12 driven by revenue recognition in Bhiwadi, Lavasa and Jaipur projects. EBITDA margins are expected to increase to 36.8% in FY12 from 34.9% in FY10 due to increasing contribution from high-margin residential projects. PAT is expected to increase at a CAGR of 30.7% to Rs 0.6 bn in FY12. EPS is expected to increase to Rs 34.3 in FY12 from Rs 20.1 in FY10.

### Valuation - the current market price has strong upside

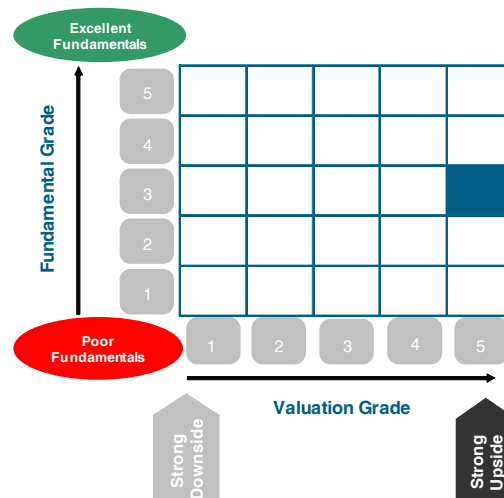
We have used the NAV method to value Ashiana and arrived at a one-year fair value of Rs 220 per share. We initiate coverage on Ashiana with a valuation grade of '5/5', indicating that the market price of Rs 166 (as on November 03, 2010) has a 'strong upside' from the current levels.

### Key forecast (consolidated)

Rs (mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,271	918	1,139	1,563	2,233
EBITDA	386	222	398	556	822
Adj Net income	387	286	363	439	620
EPS-Rs	21.4	15.8	20.1	24.3	34.3
EPS growth (%)	17.3	(26.8)	29.5	19.5	41.0
P/E (x)	4.5	2.1	8.3	6.8	4.8
P/BV (x)	2.6	0.6	2.3	1.8	1.3
RoCE (%)	70.3	24.7	32.6	34.3	39.6
RoE (%)	77.3	34.9	32.1	29.3	31.3
EV/EBITDA (x)	4.4	2.1	7.3	4.9	2.5

Source: Company, CRISIL Equities estimate

### CFV matrix



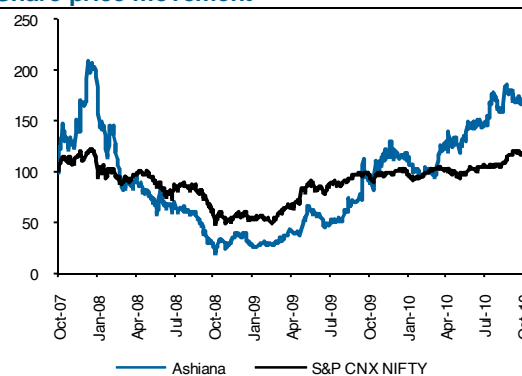
- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '5/5' indicates strong upside

### Key stock statistics

BSE Ticker	ASHIHOU
Fair value (FV – Rs 10)	220
Current market price*	166
Shares outstanding (mn)	18.1
Market cap (Rs mn)	2,995
Enterprise value (Rs mn)	2,732
52-week range (Rs) (H/L)	192 / 78
P/E on EPS estimate (FY12E)	4.8
Beta	1.0
Free float (%)	32.6
Average daily volumes	26,555

\*as on report date

### Share price movement



-Indexed to 100

### Analytical contact

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**Ashiana: Business environment**

Parameter	Real estate - Development of residential and retirement housing properties
<b>Product / service offering</b>	<ul style="list-style-type: none"> <li>Primarily into affordable residential and retirement housing properties; has one property in retail and hospitality</li> </ul>
<b>Geographic presence</b>	<ul style="list-style-type: none"> <li>Primary area of operations: Rajasthan (~80% of future saleable area)</li> <li>Also has one ongoing project each at Jamshedpur (Jharkhand) and Lavasa (Pune). Plans to expand its geographic presence to western India in the near future</li> </ul>
<b>Market position</b>	<ul style="list-style-type: none"> <li>Is a mid-sized player (ongoing development of 7.1 mn sq.ft.) in the competitive north Indian market with focus on affordable housing. Ashiana has first-mover advantage in its area of operations known for quality construction and timely delivery of projects. It commands a premium (10-15%) over other developers in the same area</li> <li>Ashiana is also a leading player in retirement housing projects</li> </ul>
<b>Industry outlook</b>	<ul style="list-style-type: none"> <li>North India outlook – Residential market is expected to remain stable; capital values expected to rise by 5% in 2011</li> </ul>
<b>Sales growth (FY07-FY10 – 3-yr CAGR)</b>	30%
<b>Sales forecast (FY10-FY12 – 2-yr CAGR)</b>	40%
<b>Demand drivers</b>	<ul style="list-style-type: none"> <li>Strong economic outlook driving the demand for real estate. Low interest rates and improving job prospects to boost demand for residential properties, particularly affordable homes</li> <li>There is acute shortage of houses in India in the mid-income and low-income category. Urban housing needs are expected to increase owing to continuous migration and rise in nuclear families. CRISIL Research expects housing shortage in urban areas to touch 21.7 mn units by the end of 2014 from ~19 mn units in 2008</li> </ul>
<b>Key competitors</b>	<ul style="list-style-type: none"> <li>Large players – Omaxe Ltd, Mahindra Lifespace Developers Ltd, Parsvnath Developers Ltd</li> <li>Comparable players – Ansal Housing</li> </ul>

Source: Company, CRISIL Equities

## Grading Rationale

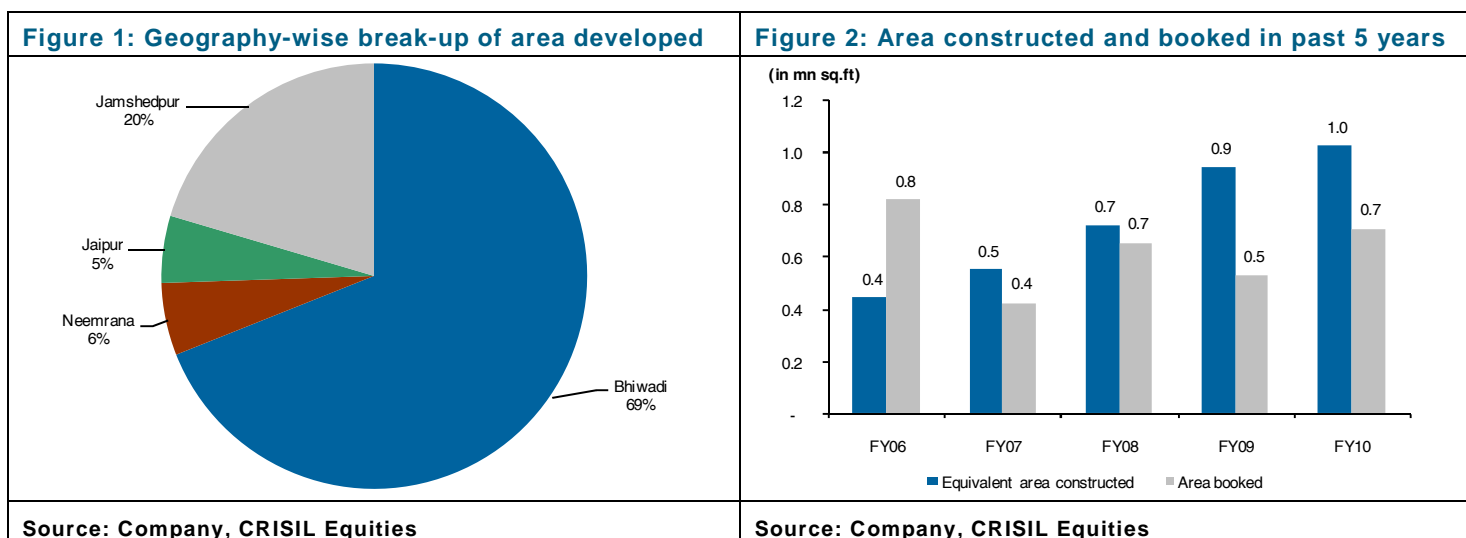
### A mid-sized real estate player focused on affordable homes

Ashiana is a mid-sized real estate player in north India with a focus on affordable housing. The company has mainly developed projects in the cities of Bhiwadi and Jaipur in Rajasthan, and Jamshedpur in Jharkhand. It has also pioneered the retirement housing concept in India.

### Strong execution track record; known for quality construction

Ashiana has a strong track record of execution. It has developed ~ 9 mn sq.ft. of area so far; 3.5 mn sq.ft. was developed in the past five years. The company further plans to develop ~7 mn sq.ft. of residential projects over the next four-five years. It plans to increase the equivalent area constructed (EAC) from the current 1 mn sq.ft. per year to 2 mn sq.ft. every year by FY13.

*Ashiana has so far developed ~9 mn sq.ft. of area*



*Ashiana is known for quality construction and timely delivery*

Although Ashiana is a mid-sized player, it boasts a brand known for quality construction and timely delivery. It has an in-house construction team, which helps control quality, costs and provides execution flexibilities. It follows a direct sales approach to the end-users and believes in long-term commitment with clients by providing management services to the projects built by them. This enables the company to command a premium over other developers operating in the surrounding area. For example, its project – Ashiana Angan – on the Old Alwar Highway, Bhiwadi (Rajasthan) has an average realisation of Rs 2,150 per sq.ft. compared to the average prevailing rate of Rs 1,900 per sq.ft. in the area. Since Ashiana has built a reputation of delivering quality products at reasonable prices, we believe its ability to sell properties at a premium compared to its peers' projects will continue in the future.

**Table 1: Key projects executed in the past**

Sl.No	Project name	Location	Completion	Saleable area (mn sq.ft.)
1	Ashiana Gardens	Jamshedpur	1992	0.8
2	Ashiana Utsav	Bhiwadi	2008	0.7
3	Ashiana Gardens	Bhiwadi	2003	0.6
4	Ashiana Woodland	Jamshedpur	2009	0.4
5	Ashiana Greenhills	Neemrana	2008	0.3

Source: Company, CRISIL Equities

*Enjoys first-mover advantage in most of its project*

**First-mover advantage in majority of its projects in tier II and III cities**

Ashiana enjoys the first-mover advantage in locations where most of its projects are located. The company was the first organised developer in Patna, Bhiwadi, Jamshedpur and Neemrana. The strategy of entering a new market and making it a destination puts the company in a sweet spot due to lower land cost.

**Affordable housing ready for strong traction - Ashiana well positioned**

India is facing an acute shortage of houses especially in the mid-income and low-income categories. Housing supply is mainly concentrated in the premium category, resulting in a shortage of affordable houses. CRISIL Research expects urban housing shortage to increase further owing to continuous migration and rise in nuclear families. Housing shortage in urban areas was ~19 mn units at the end of 2008 and is likely to touch 21.7 mn units by the end of 2014. Looking at this huge gap, real estate developers are increasingly planning to target this segment. We believe Ashiana, with an understanding and experience of operating in this market, is positioned well to tap future growth potential.

**Business model different from other developers; higher ability to withstand a downturn**

Unlike other real estate players, Ashiana is only into residential projects which are generally self-sufficient in terms of funding as against commercial and hospitality projects. Also, the company focuses on affordable and retirement housing projects, in tier II and tier III cities where land is a smaller component (~20-25%) of the total project cost. This results in comparatively lower capital requirement than high-end residential projects. The company does not focus on building huge land bank reserves and does not engage in buying expensive land parcels.

**Strategy of land bank inventory of five-seven years reduces strain on balance sheet...**

Ashiana considers land bank as a raw material and keeps an inventory of five-seven years. The strategy of holding limited land bank is in contrast to the approach of other real estate players, who have aggressively accumulated land over the past few years by taking substantial debt. Since Ashiana's capital requirements are funded from cash inflows from the ongoing projects, it has a limited debt which provides strong financial flexibility. Also, the company picks up land parcels in new markets which are relatively cheaper, translating into per sq.ft. cost of ~Rs 80.

**Table 2: Ashiana is virtually a debt-free company**

Rs mn	FY07	FY08	FY09	FY10
Debt	32.4	25.8	12.0	79.6
Cash	234.2	77.7	130.1	160.6
Equity	323.4	677.7	962.8	1,297.9
<b>Net debt-to-equity (x)</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>

Source: Company, CRISIL Equities

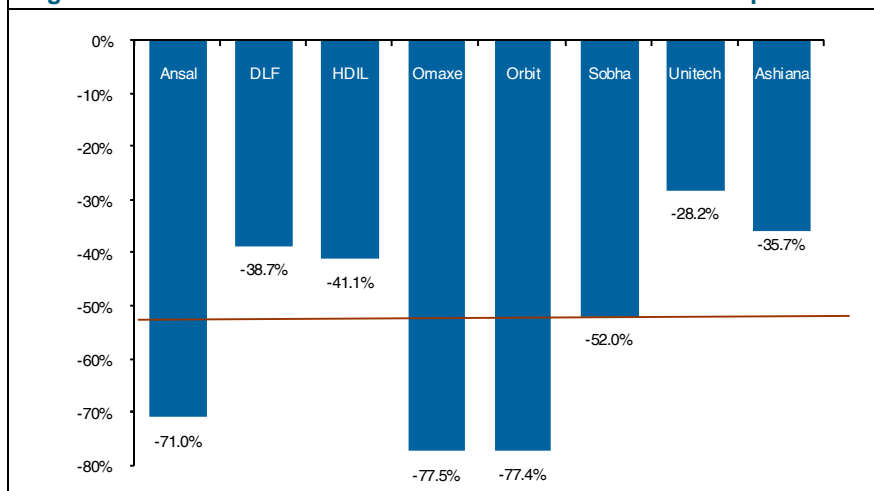
*Focuses on projects, where land is a small component of the total cost*

*Ashiana was able to hold on to prices during downturn in FY09*

**... enables company to weather the downturn and hold on to prices**

Due to a low burden of debt servicing, Ashiana is well equipped to weather a cyclical downturn. In the economic downturn in FY09, many real estate players lowered their prices, offered attractive discounts and resorted to distress sales to meet the burgeoning financial liabilities. Most of these companies witnessed a huge decline in profitability (on an average ~55%). Ashiana reported a comparatively lower dip in profitability, as it was able to hold on to prices as there was no liquidity constraint.

**Figure 3: PAT decline in FY09 was lower than most of its peers'**



Source: Company, CRISIL Equities estimate

**Partnership/JV with land owners enables company to take on large projects**

Ashiana is also undertaking development of projects under the joint venture model with land owners. The company enters into joint development where the JV partner has a clear title to the land and the regulatory approvals are in place. This mitigates the risk of being stuck in a project due to disputes on the land title or lack of approvals. The company has entered into a partnership with Manglam Group to develop Rangoli Gardens in Jaipur, largest project till date with saleable area of ~2.5 mn sq.ft. It has also entered into partnership with Miras Properties (65%) and Shubhlabh Buildhomes (50%) for its Jodhpur and Jaipur projects.

**Pioneer in retirement housing projects in India**

Ashiana is a pioneer in retirement homes; its first project - Utsav - in Bhiwadi in 2004 (640-units retirement resort) received overwhelming response and was successfully sold by FY09. It now aims to replicate the story of Utsav in other parts of India and has launched two projects in Jaipur and Lavasa (Pune). In India, ~9% of the population is above 60 years of age. Owing to the growing senior citizen cohort, improved financial independence and change in mindset, we remain upbeat about the potential market for retirement homes in India.

**Retirement housing concept is picking up in India**

The status of senior citizens in India is experiencing a sea change and contemporary retirement homes have replaced the earlier concept of old age homes. Although a relatively new concept in India, the demand for retirement housing is growing fast

*Ashiana pioneered the concept of retirement housing by launching its first project - Utsav - in 2004*

**Retirement housing units to grow five-fold in next three-four years**

among senior citizens who seek the companionship of same-age people. According to industry sources, the retirement housing units currently estimated at ~4,000 are expected to jump to over 20,000 units in the next three-four years. The immense potential of this segment, with its unique needs and promises, offers ample opportunities to real estate developers.

**Table 3: Details of existing and upcoming retirement housing projects in India**

Company Name	Project name	Location	Price (Rs per sq.ft.)
Paranjpe Schemes	Athashri	Tamhini in Mulshi Taluka, 40 kms from Pune, Baner , Bhawdhan-Pune	4,000
Classic Kuthumba	Classic Kuthumba	Sholinganallur, Chennai	2,600
Alternative Lifestyle Pvt Ltd	Melur Meadows	Coimbatore, Tamil Nadu	2,231
Ashiana Housing	Utsav	Bhiwadi	2,100
Ashiana Housing	Utsav	Jaipur	1,500
Ashiana Housing	Utsav	Lavasa (Pune)	3,100

Source: CRISIL Equities

**Distinguished player with unique offerings to senior citizens**

Although other real estate developers too are focusing on the retirement housing segment, we believe Ashiana stands distinguished with its unique offerings.

**Table 4: Services offered at retirement houses**

Hobby clubs, swimming pool, health club, and wheel chair-friendly campus
Emergency switches, large-sized switches in red colour, in-built night lamp, smooth corners and anti-skid tiles; bathrooms are specially equipped with grab rails and arthritis-friendly handles
Weekly/fortnightly activities including cultural events and festivals
24 X 7 availability of nurses, ambulance, doctors, taxi, drivers and maids

Source: Company, CRISIL Equities

The biggest USP of Utsav is that it is managed and maintained by Ashiana’s in-house facility management arm, which ensures highest level of safety and comfort to the residents.

**Healthy project pipeline of five-six years: Rangoli Gardens and Ashiana Aangan are the biggest projects**

Ashiana has a healthy project pipeline entailing development of 6.8 mn sq.ft. (Ashiana’s share 75%) to be completed over the next five-six years. Some of the major ongoing projects include a group housing project in Jaipur and Bhiwadi, and a retirement housing project in Lavasa.



**Table 5: Ongoing projects**

Sl. No	Project	Location	Type	Saleable area (mn sq.ft.)	Share in project (%)
1	Utsav	Lavasa	Retirement resort	0.69	100
2	Ashiana Brahmananda	Jamshedpur	Residential	0.48	100
3	Ashiana Angan	Bhiwadi	Residential	2.06	100
4	Ashiana Amarbagh	Jodhpur	Villas	0.34	65
5	Utsav	Jaipur	Retirement resort	0.39	65
6	Rangoli Gardens	Jaipur	Residential	2.50	50
7	Ashiana Greenwood	Jaipur	Residential	0.36	50

Source: Company, CRISIL Equities

### Pending approvals to aid project pipeline

Apart from 6.8 mn sq.ft. of development plans, the company is awaiting approvals for ~4 mn sq.ft. of saleable area. This will add to the project pipeline adding visibility for another two years.

### Cautious strategy on land bank inventory reduces future visibility

Ashiana, as a strategy, does not accumulate land reserves of more than five-seven years of its current execution. Even though the company's strategy of holding limited land bank mitigates the risk of a decline in land prices, it reduces visibility beyond five-six years. Its future growth will be dependent on the ability to continuously acquire land at reasonable price in an increasingly competitive market.

### Looking for land parcels in new geographies; understanding these markets a key

Ashiana is actively looking for land parcels in western markets - Pune - to enhance its revenue visibility. It also plans to explore eastern and southern markets. However, we believe there will be challenges in a new market since real estate requires knowledge of local business environment, laws and customer expectation, which are critical for the success of its projects.

*Future growth prospects dependent on ability to acquire land at reasonable price*

## Key risks

### Execution delays in ongoing projects

Ashiana has a proven track record for timely delivery of most of the projects. However, we have factored in slight delays in the execution schedule of the ongoing projects due to unforeseen events. More-than-anticipated delays could impact our valuations.

### Real estate industry is exposed to political and legal hindrances

The real estate industry is exposed to government rules and regulations which might stall ongoing projects. In addition, political and administrative influences may lead to delays in project execution.

### Slowdown in industry, land acquisition delays might impact growth

Although the outlook for the real estate industry remains positive, any downturn might have an adverse impact on future prospects. Also, the recent surge in property prices has adversely affected affordability, which may impact volumes. Since the company does not have a significant land bank, any delays in acquisition may have a severe impact on its growth plans.

*Downturn in the industry might have an adverse impact on future prospects*

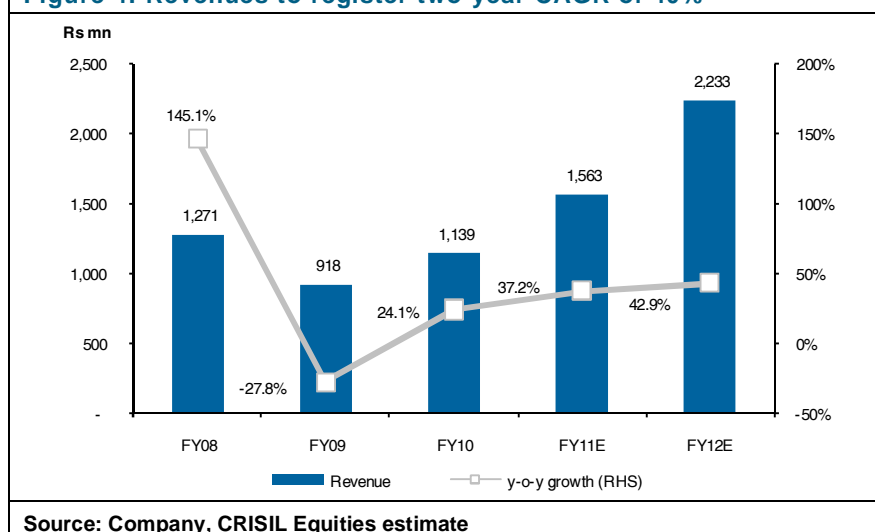
## Financial Outlook

### Revenues to grow at two-year CAGR of 40% to Rs 2.2 bn in FY12

*Revenues expected to grow at a two-year CAGR of 40% to Rs 2.2 bn in FY12*

Ashiana's consolidated revenues grew at a three-year CAGR of 30% to Rs 1.1 bn in FY10 driven by revenue bookings in Utsav and Ashiana Aangan at Bhiwadi. Going forward, we expect consolidated revenues to grow at a two-year CAGR of 40% to Rs 2.2 bn in FY12. Revenue growth will be driven by revenue bookings in projects such as Ashiana Aangan (residential project in Bhiwadi), Utsav (residential project in Lavasa) and Ashiana Greenwoods (residential project in Pune). The initial response in these projects has been good. As the company scales up construction in these projects, revenues will start getting booked on achieving a recognition threshold of 25%.

**Figure 4: Revenues to register two-year CAGR of 40%**



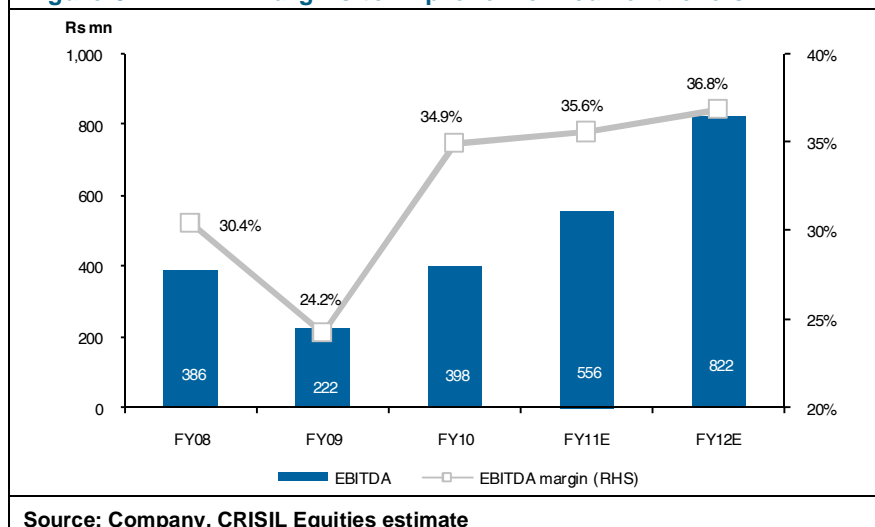
Source: Company, CRISIL Equities estimate

### EBITDA margins to improve to 36.8% in FY12 from 34.9% in FY10

*EBITDA margins are expected to improve to 36.8% in FY12*

We expect EBITDA margins to improve from 34.9% in FY10 to 36.8% in FY12. The improvement is due to revenue recognition in comparatively high-end projects such as Utsav in Lavasa and Ashiana Aangan in Bhiwadi.

**Figure 5: EBITDA margins to improve from current levels**

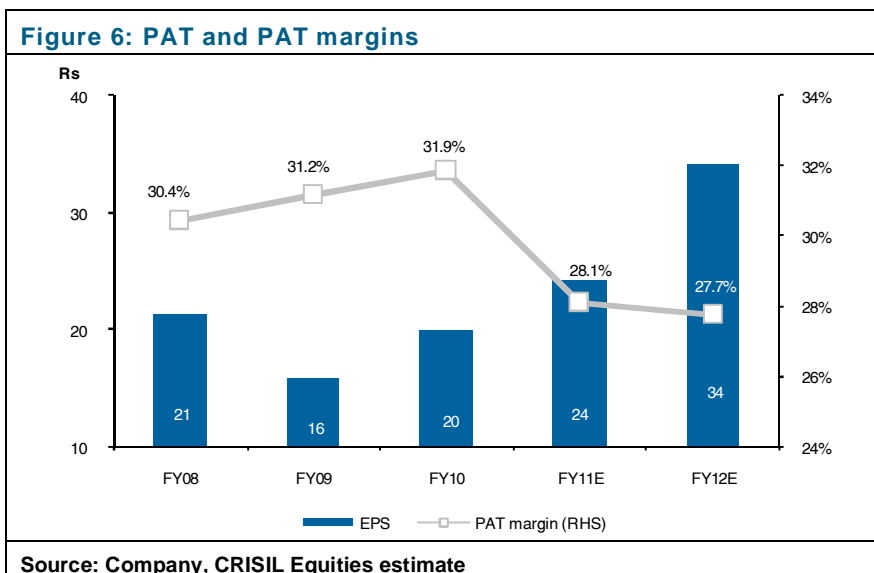


Source: Company, CRISIL Equities estimate

**PAT to grow at a two-year CAGR of 31%, EPS expected to increase from Rs 20.1 in FY10 to Rs 34.3 in FY12**

*EPS is expected to increase from Rs 20.1 in FY10 to Rs 34.3 in FY12*

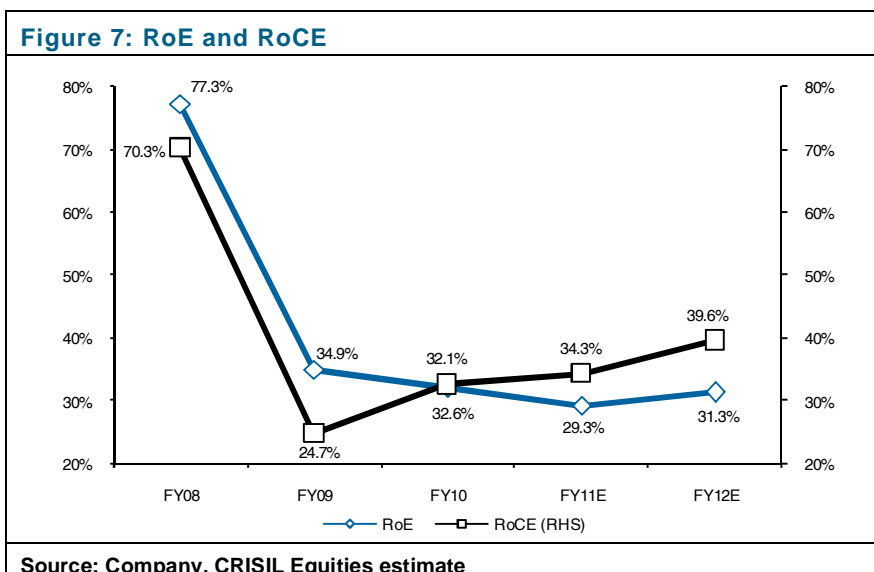
Ashiana’s consolidated PAT is expected to grow at a two-year CAGR of 30.7%, primarily on account of strong growth in top line. Despite improvement in EBITDA margins, net margin is expected to decline to 27.7% in FY12 from 31.9% in FY10 due to lower other income. EPS is expected to increase from Rs 20.1 in FY10 to Rs 34.3 in FY12.



**RoE to remain stable at 30-31%**

*RoE is expected to remain healthy at 31.3% in FY12*

We expect RoE to be at 30-31% in next two years, which is quiet healthy. RoCE is expected to increase from 32.6% in FY10 to 39.6% in FY12. Although the estimated RoE of 30-31% is healthy, it is lower than RoCE as it is tempered by lower gearing.



## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance. Overall, we feel that the management is strong and will drive the company's growth in the near future.

### Experienced and professional management with strong track record

Ashiana has an experienced and professional management team led by three brothers - Mr Vishal Gupta, Mr Ankur Gupta and Mr Varun Gupta. Mr Vishal Gupta (managing director) is an MBA from FORE School of Management (Delhi) and looks after project execution and general administration. Mr Ankur Gupta (joint managing director), MS in real estate from New York University (USA) has focused on residential projects for senior citizens during his research work at the university; he looks after marketing. Mr Varun Gupta (whole time director), majored in finance and management and has worked with Citigroup in commercial mortgage backed securities underwriting commercial real estate. He currently looks after land and finance. Currently, the trio is managing the business; their father, Mr Om Gupta, turned chairman emeritus in April 2010.

### Pioneer in retirement housing projects

Ashiana is one of the first companies to pioneer retirement housing projects in India. The management was quick in identifying the opportunities; its Utsav – Bhiwadi project was a great success. To replicate the story, it has announced two similar projects in Jaipur and Lavasa.

### Fairly experienced second line

Although major activities are handled by three brothers, based on our interactions with various project heads – Bhiwadi, Jaipur, Jodhpur and Lavasa - we believe Ashiana has a fairly experienced second line of management with an experience of 10-15 years.

*Experienced and professional management team led by three brothers*

*Company has a fairly experienced second line of management*

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Ashiana is strong supported by fairly high disclosure levels and transparency. Also, the current board has good and relevant experience.

### Board composition

Ashiana's board comprises seven members, of whom four are independent, meeting stipulated SEBI listing guidelines. Given the background of directors, we believe that the board is fairly diversified.

### Transparent group structure with superior disclosures

Contrary to other real estate companies, who operate through a number of joint ventures, SPVs and group companies, Ashiana has a transparent group structure with only one subsidiary – Vatika Marketing Ltd - which undertakes facility management services in different projects. Ashiana's quality of disclosure can be considered superior, judged by the level of information and details furnished in annual reports, website and other publicly available data. Ashiana's transparent group structure and superior disclosures mark a new era in the accountability of the real estate companies.

### Board's processes

The company has various committees – audit, remuneration and investor grievance - in place to support corporate governance practices. CRISIL Equities assesses from its interactions with independent directors of the company that the quality of agenda papers and the level of discussions at the board meetings are good.

We feel that the independent directors are well aware of the business of the company and are fairly engaged in all the major decisions, reflecting well on the company's corporate governance practices. The audit committee is chaired by an independent director and it meets at timely and regular intervals. The board also includes other known names like Mr Ashok Mattoo worked with major organisations like BHEL and Tata Steel and Mr Abhishek Dalmia, CEO of Renaissance Group. However, Mr Ashok Mattoo's daughter - Ms Sonal Mattoo - is also an independent director with the company, which we believe is not good corporate governance practice.

### Similar brand can lead to confusion

Ashiana Homes, Ghaziabad-based real estate company (managed by Mr Rajkumar Modi – erstwhile founder of Ashiana Group along with Mr Om Gupta) shares a similar brand with Ashiana. Hence, end-users may get confused between the two companies.

*High level of transparency and superior disclosure levels*

*Board comprises seven members, of whom four are independent directors*

## Valuation

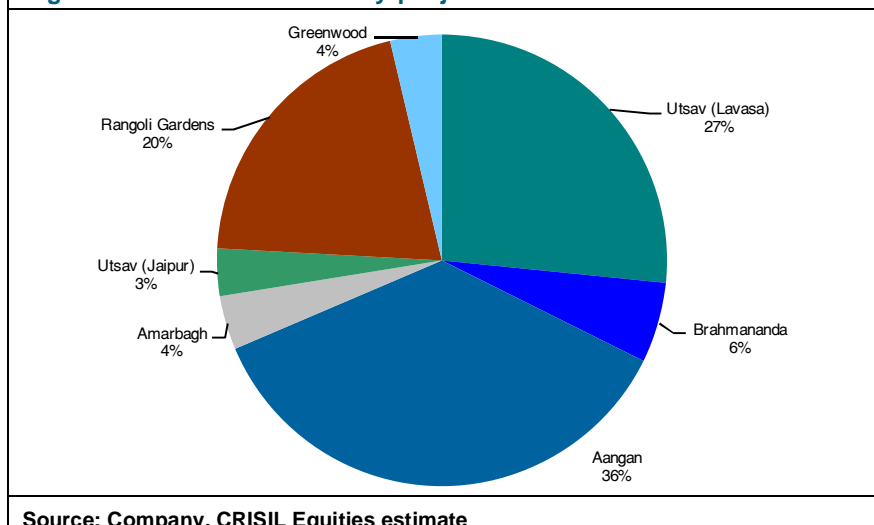
Grade: 5/5

*We initiate coverage on Ashiana with a valuation grade of '5/5'*

We have valued Ashiana using the NAV method and arrived at a valuation of Rs 3.9 bn which translates into a one-year fair value of Rs 220 per share. Consequently, we initiate coverage on with a valuation grade of '5/5', indicating that the market price has 'strong upside' from the current levels.

Aangan (Bhiwadi), Utsav (Lavasa) and Rangoli Gardens (Jaipur) contribute more than 80% to the total valuation. Bookings and timely construction of these projects is a key monitorable.

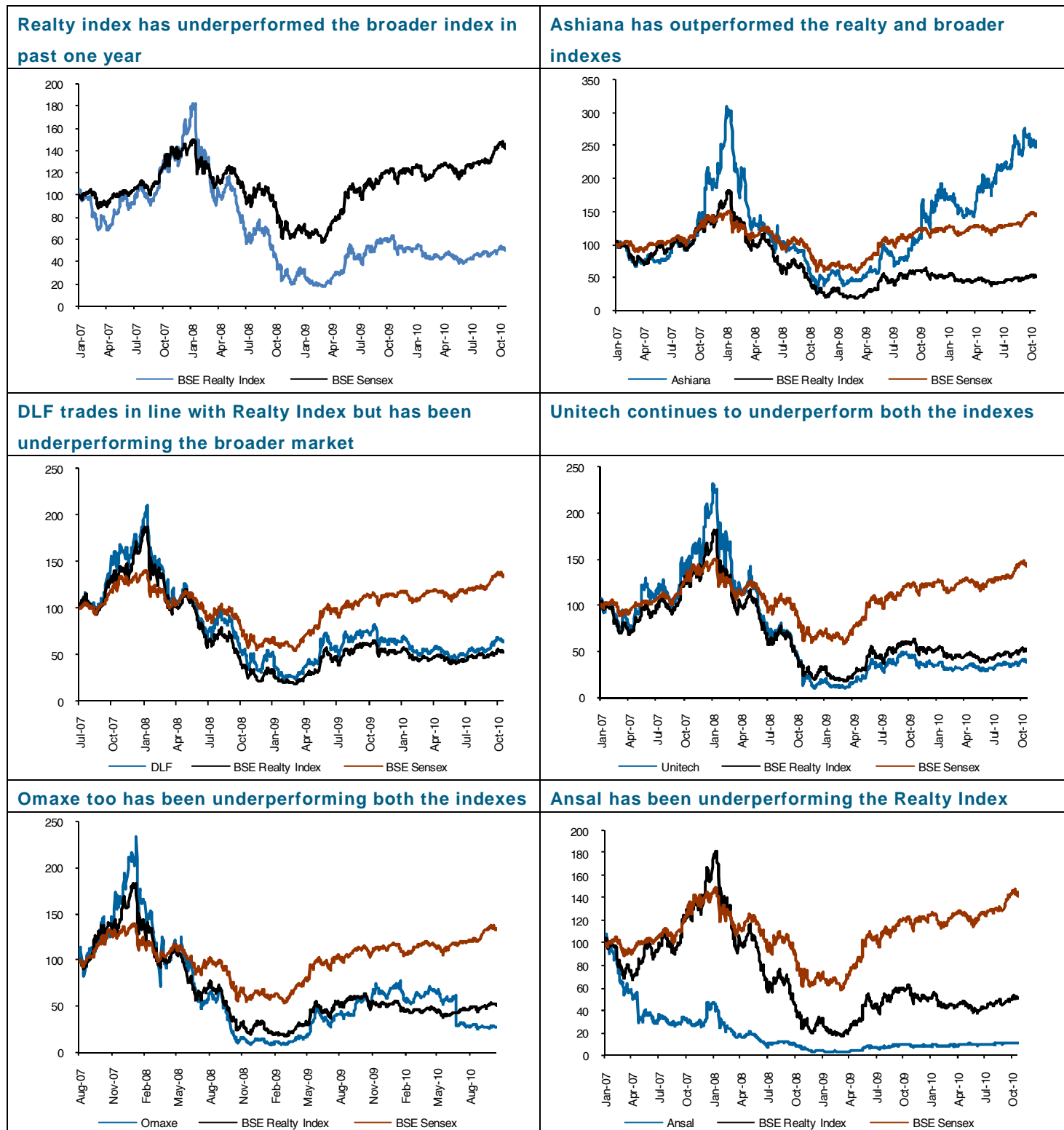
**Figure 8: Contribution of key projects in valuation**



We have valued only those projects based on cash flows which have received approvals and there is higher certainty in terms of execution. The following are the key assumptions in our valuation:

- We have assumed a cost of equity of 16.0%. This is lower than what we have taken for other real estate companies since the company is not leveraged, reducing the financial risk. Also, the business model of the company is less prone to cyclical risks.
- We have assumed a tax rate of ~20% in the initial two years as the company gets the benefit of unutilised MAT credit. Post FY12 we have assumed a full tax rate of 34%.
- We have taken the market value of land for projects which have not received approval. Once the company gets the necessary approvals on these projects, it could provide an upside trigger to our valuation.

**Ashiana has recovered from its trough (outperformed BSE Realty Index and Sensex), but others are still bleeding**





*Featured in 'Asia's Best under a Billion' list by Forbes in 2010*

## Company Overview

Incorporated in 1986, Ashiana is a Delhi-based real estate developer focused on affordable homes. It diversified into retirement housing projects in 2004, identifying a need for such kind of projects in India. The company has a strong brand image supported by quality construction, timely deliveries and facility management services. It is the only Indian real estate company that boasts of being featured in 'Asia's Best under a Billion' company list by Forbes in 2010.

**Table 6: Ashiana's evolution**

Year	Events and milestones
1979	Established as the first organised developer in Patna
1985	Started housing projects in Jamshedpur
1986	Incorporated as Ashiana Housing and Finance (India) Limited
1992	Started operations as the first organised developer in Bhiwadi, Rajasthan
1992	Came out with an IPO
1998	Launched residential project in Neemrana, Rajasthan
2006	Started operations in Jaipur
2007	Commenced project in Jodhpur. Completed India's first retirement resort in Bhiwadi. Also launched hotel and club at the same location
2008	Launched 30 acres of retirement resort project at Lavasa (Pune)
2008	Issued bonus shares in the ratio of 5:2
2010	Launched Rangoli Gardens in Jaipur with saleable area of 2.5 mn sq.ft., largest project till date
2010	Got recognised under Forbes Asia's Best under a Billion' 200 list of companies

Source: Company

## Key ongoing projects

### Ashiana Aangan – Bhiwadi (Rajasthan)

Ashiana Aangan is located on Old Alwar Highway, Bhiwadi (55 kms from the international airport, Delhi). The project will be developed in five phases totalling saleable area of 2.1 mn sq.ft. and ~1,475 residential units. Two phases entailing total area of 0.9 mn sq.ft. is already completed.

### Utsav – Lavasa (Pune)

Ashiana has planned 0.7 mn sq.ft. of saleable area with ~440 homes and villas for retirement housing in Lavasa. It's an hour drive from Pune (around 65 kms) and around 3.5 hours from Mumbai (around 200 kms).

### Rangoli Gardens – Jaipur (Rajasthan)

Rangoli Gardens is a joint venture project between Ashiana (50%) and Manglam Group (land owners – 50%). It is located in Jaipur, Rajasthan and has a saleable area of 2.5 mn sq.ft. and ~1,600 residential units.

## Annexure: Financials

<b>Income Statement</b>					
<b>(Rs Mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
Net sales	1,245	879	1,086	1,502	2,165
<b>Operating Income</b>	<b>1,271</b>	<b>918</b>	<b>1,139</b>	<b>1,563</b>	<b>2,233</b>
<b>EBITDA</b>	<b>386</b>	<b>222</b>	<b>398</b>	<b>556</b>	<b>822</b>
Depreciation	14	15	15	19	22
Interest	-	2	11	8	6
Other Income	31	80	25	31	45
<b>PBT</b>	<b>403</b>	<b>285</b>	<b>397</b>	<b>560</b>	<b>840</b>
<b>PAT</b>	<b>387</b>	<b>286</b>	<b>363</b>	<b>439</b>	<b>620</b>
No. of shares	18	18	18	18	18
<b>Earnings per share (EPS)</b>	<b>21.4</b>	<b>15.8</b>	<b>20.1</b>	<b>24.3</b>	<b>34.3</b>
<b>Balance Sheet</b>					
<b>(Rs Mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
Equity capital (FV - Rs 10)	181	181	181	181	181
Reserves and surplus	497	782	1,117	1,517	2,081
Debt	26	12	80	55	35
Current Liabilities and Provisions	964	601	451	274	326
Deferred Tax Liability/(Asset)	3	5	11	11	11
<b>Capital Employed</b>	<b>1,670</b>	<b>1,581</b>	<b>1,840</b>	<b>2,037</b>	<b>2,634</b>
Net Fixed Assets	253	281	290	342	390
Capital WIP	28	56	136	-	-
Intangible assets	1	1	1	1	1
Investments	457	407	499	499	499
Loans and advances	398	106	51	51	51
Inventory	416	584	685	816	705
Receivables	39	15	17	12	15
Cash & Bank Balance	78	130	161	318	974
<b>Applications of Funds</b>	<b>1,670</b>	<b>1,581</b>	<b>1,840</b>	<b>2,037</b>	<b>2,634</b>

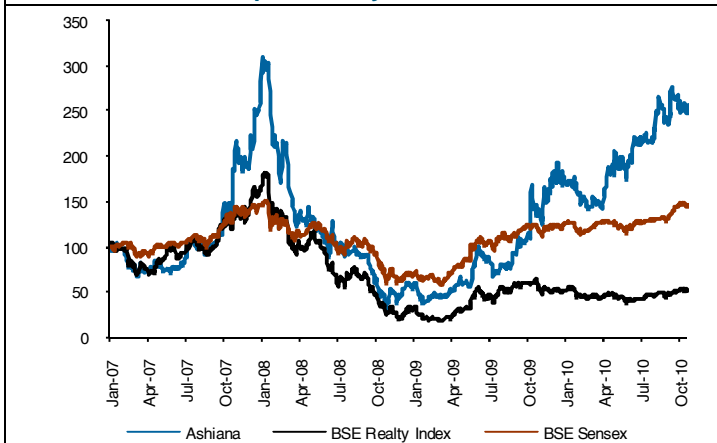
Source: Company, CRISIL Equities estimate

<b>Cash Flow</b>					
<b>(Rs Mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
Pre-tax profit	403	285	397	560	840
Total tax paid	(48)	(34)	(70)	(120)	(221)
Depreciation	14	15	15	19	22
Change in working capital	(222)	(215)	(198)	(302)	161
<b>Cash flow from operating activities</b>	<b>147</b>	<b>51</b>	<b>144</b>	<b>156</b>	<b>802</b>
Capital expenditure	(108)	(71)	(104)	66	(70)
Investments and others	(188)	50	(92)	-	-
<b>Cash flow from investing activities</b>	<b>(296)</b>	<b>(21)</b>	<b>(195)</b>	<b>66</b>	<b>(70)</b>
Equity raised/(repaid)	129	-	-	-	-
Debt raised/(repaid)	(7)	(14)	68	(25)	(20)
Dividend (incl. tax)	(33)	-	(33)	(40)	(56)
Others (incl extraordinary)	(98)	37	47	-	-
<b>Cash flow from financing activities</b>	<b>(8)</b>	<b>23</b>	<b>82</b>	<b>(65)</b>	<b>(76)</b>
<b>Change in cash position</b>	<b>(156)</b>	<b>52</b>	<b>31</b>	<b>157</b>	<b>656</b>
Opening Cash	234	78	130	161	318
Closing Cash	78	130	161	318	974
<b>Ratios</b>					
	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
<b>Growth ratios</b>					
Sales growth (%)	145.1	(27.8)	24.1	37.2	42.9
EBITDA growth (%)	418.9	(42.5)	79.2	39.6	48.0
EPS growth (%)	17.3	(26.8)	29.5	19.5	41.0
<b>Profitability Ratios</b>					
EBITDA Margin (%)	30.4	24.2	34.9	35.6	36.8
PAT Margin (%)	30.4	31.2	31.9	28.1	27.7
Return on Capital Employed (RoCE) (%)	70.3	24.7	32.6	34.3	39.6
Return on equity (RoE) (%)	77.3	34.9	32.1	29.3	31.3
<b>Dividend and Earnings</b>					
Dividend per share (Rs)	1.8	0.0	1.8	1.9	2.6
Dividend payout ratio (%)	8.5	0.0	8.9	7.7	7.7
Dividend yield (%)	1.9	-	1.1	1.1	1.6
Earnings Per Share (Rs)	21.4	15.8	20.1	24.3	34.3
<b>Efficiency ratios</b>					
Asset Turnover (Sales/GFA)	6.1x	3.1x	3.4x	4.1x	5.0x
Asset Turnover (Sales/NFA)	6.8x	3.4x	4.0x	4.9x	6.1x
Sales/Working Capital	-5.7x	-329.3x	5.6x	3.4x	4.3x
<b>Financial stability</b>					
Net Debt-equity	-0.1	-0.1	-0.1	-0.2	-0.4
Interest Coverage	nm	116.4	36.5	64.0	143.5
Current Ratio	1.0	1.4	2.0	4.4	5.3
<b>Valuation Multiples</b>					
Price-earnings	4.5x	2.1x	8.3x	6.8x	4.8x
Price-book	2.6x	0.6x	2.3x	1.8x	1.3x
EV/EBITDA	4.4x	2.1x	7.3x	4.9x	2.5x

Source: Company, CRISIL Equities estimate

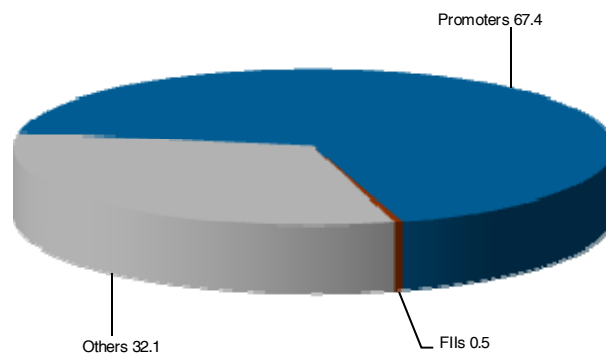
Focus Charts

Ashiana has outperformed the Realty Index as well as broader market in past one year



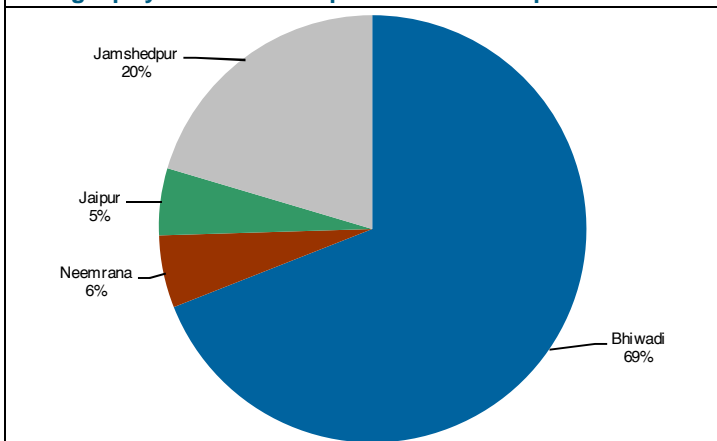
Source: NSE, CRISIL Equities

Shareholding pattern



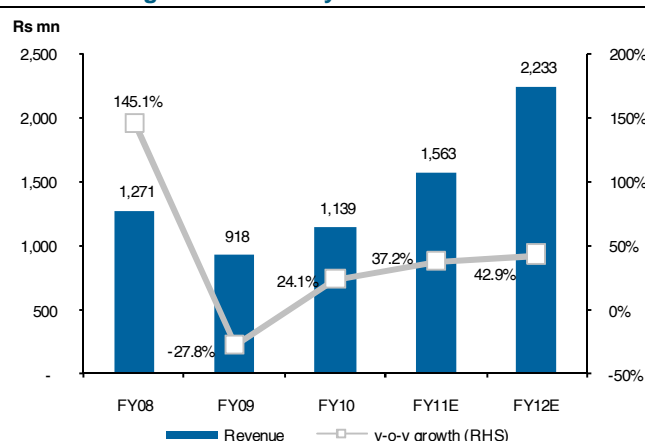
Source: NSE, CRISIL Equities

Geography-wise break-up of area developed



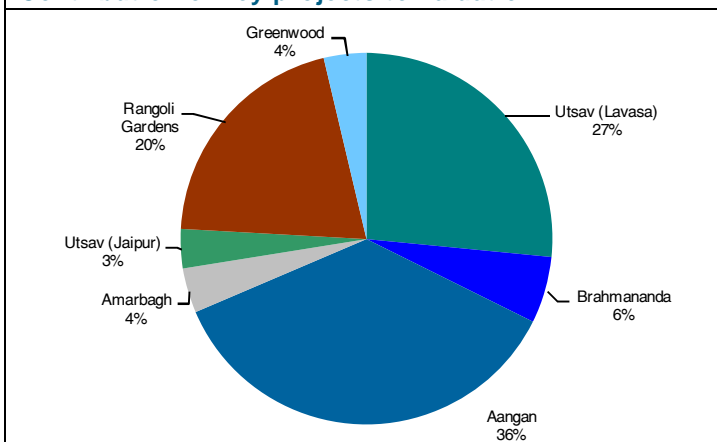
Source: Company, CRISIL Equities

Revenues to grow at a two-year CAGR of 40% in FY12



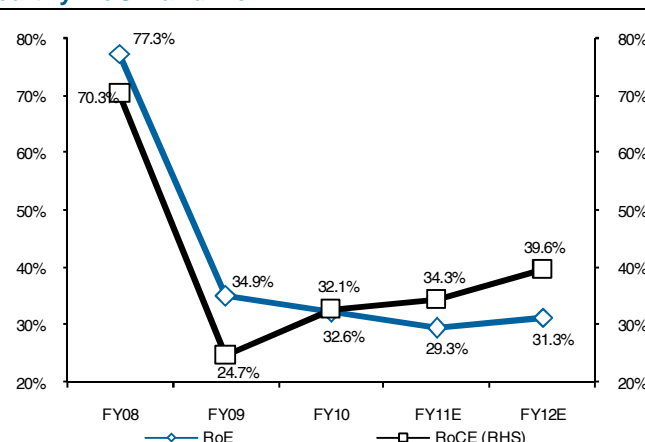
Source: Company, CRISIL Equities estimate

Contribution of key projects to valuation



Source: Company, CRISIL Equities estimate

Healthy RoCE and RoE



Source: Company, CRISIL Equities estimate

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