

ASHIANA HOUSING LIMITED

CONSTRUCTION - HOUSING

BSE Scrip Code: 523716

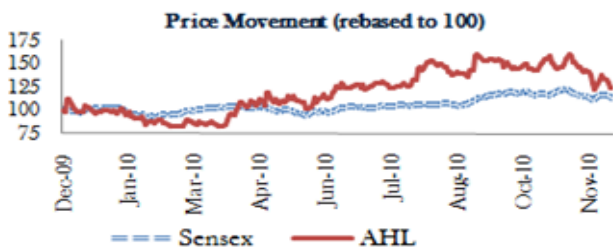
CMP Rs. 140.50¹9th Dec 2010

KEY MARKET STATS

Market Capitalisation	Rs. Cr.	263
Enterprise Value (EV)	Cr	255
52 Week High / Low	Rs.	192 / 93
Diluted EPS (FY10)	Rs.	20.3
P/E (FY10)	times	6.9
Beta	times	1.14
Average Daily Volumes*	000	30

* BSE for last 30 working days

STOCK PERFORMANCE



Return%	1M	3M	6M	1YR
Absolute	-22%	-23%	7%	21%
Rel. to Sensex	-1.5%	-2.5%	-8%	8%

FINANCIAL SNAPSHOT - CONSOLIDATED

Rs. Cr	FY 08	FY 09	FY 10
Revenue	133.5	104.0	121.0
EBITDA	44.8	33.7	46.9
Margins (%)	34%	32%	39%
PAT	38.7	28.4	36.8
Growth (%)	309%	-27%	29%
Gearing (times)	0.0	0.0	0.1
RoCE	81%	38%	38%
RoE	77%	35%	33%
P/E (times)			6.9
EV/EBITDA (times)			5.4

Financial Year: April-March

SHARE HOLDING PATTERN



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¹ CMP: Current Market Price

Focus on mid-segment housing to support demand

Ashiana Housing Limited (AHL) is a mid-sized real estate company currently operating in six Tier II/III cities. AHL's business model focuses on home building segment, including group housing for middle income group and retirement resorts for senior citizens. AHL has already delivered over 90 lakh sq. ft. and currently developing an additional 71 lakh sq. ft. AHL has formulated an aggressive growth plan of completing 20 lakh sq ft per annum till FY2012-15 by consolidating its presence in existing locations and expanding into newer locations such as Kolkata, Chennai and Udaipur.

Demand outlook for mid-segment housing looks healthy

The real estate sector has seen a revival in market given strong economic turnaround in India, job stability and lower interest on home loans. Mid-size companies such as AHL are particularly at advantage given their focus on affordable and mid-segment housing where demand remains strong. Going forward, CARE Research expects growth in mid-segment housing in Tier II and Tier III cities to remain robust coupled with increase in volume. Investment related demand is also expected to get a boost as housing sector offers opportunities to deploy funds.

Key concerns

- Lack of clarity over land titles in certain instances
- Possibility of cash flow mismatch
- Stiff competition from unorganized sector
- Rising interest on home loans and property pricing

Valuations

AHL is currently trading at trailing P/E and EV/EBITDA multiples of 6.9x and 5.4x, respectively.



HISTORY AND BACKGROUND

Background

Ashiana Housing Ltd. (AHL) has been in the real estate development sector for the last two decades and has established itself as one of the well-known housing developer & builder. It was established in Patna in 1979 and was incorporated as Ashiana Housing & Finance Limited in 1986. Over the years, AHL has expanded its geographic reach by venturing into Jamshedpur (1985), Bhiwadi (1992), Jaipur (2006), Jodhpur (2007) and Pune (2008). In September 2010, AHL became the only real estate company from India to feature in ‘Asia’s Best Under A Billion’ list of companies compiled by the Forbes magazine. Since inception, the company has built and delivered 92.2 lakh square feet (sq. ft.) of residential and commercial space to the clients and currently providing facility management services to about 4,500 housing units.

Business Model

AHL’s business model focuses on home building segment including group housing for middle income group and retirement resorts for senior citizens. The company also has presence in other realty segments such as commercial, hotels, retail and facility management, albeit not contributing significantly to AHL’s top-line. AHL’s business model and the associated current industry practice is tabulated below:

Business Model	Current Industry Practice	AHL's Strategy
Execution versus land-banking	<u>Land-banking model:</u> Developers maintains large inventories of land irrespective of future execution targets.	<u>Execution based model:</u> Being in a real estate business, land is a raw material for AHL. However, the company follows execution focused model rather than land banking model currently prevalent in the industry. AHL targets to maintain a land inventory of 5-7 times the current yearly execution capacity.
Final Sale	<u>Broker driven market:</u> Currently, the realty market is driven by brokers who inturn executes final sales to end-consumers and investors.	<u>Direct selling to end customers:</u> AHL has in-house sales team who directly executes sales to the actual end-consumers instead of going through brokers. This is likely to give AHL better visibility over future demand and other consumer preferences.

Continued...



Business Model	Current Industry Practice	AHL's Strategy
Sub-contracting	<p><u>Prevalent sub-contracting:</u> Presently, sub-contracting is prevalent in real estate business given the wide array of activities, associated costs and lack of expertise in niche construction activities.</p>	<p><u>In-house construction model:</u> AHL has developed end-to-end in-house construction capabilities, thereby circumventing sub-contracting activities. This allows better cost/ quality control and enhances AHL's execution flexibility in response to changing industry dynamics.</p>
Facilities Management	<p>Developer & builder typically cease to maintain facilities after handing over the project to buyers.</p>	<p>AHL continue to offer facilities management service indicating its long term commitment on its built projects. Furthermore, this service also provides inputs to AHL's development team, which can be incorporated in future projects to improve quality.</p>
Capital Investment	<p>Aims to reduce capital investment through joint ventures and deferred payment plans.</p>	<p>Apart from the prevalent industry practice, AHL also operates in locations where land is relatively cheaper. The company tries to keep its land costs at 20-25% of the overall project costs and has maintains minimum benchmarks on gross profit margin and per square feet margins from a particular project.</p>

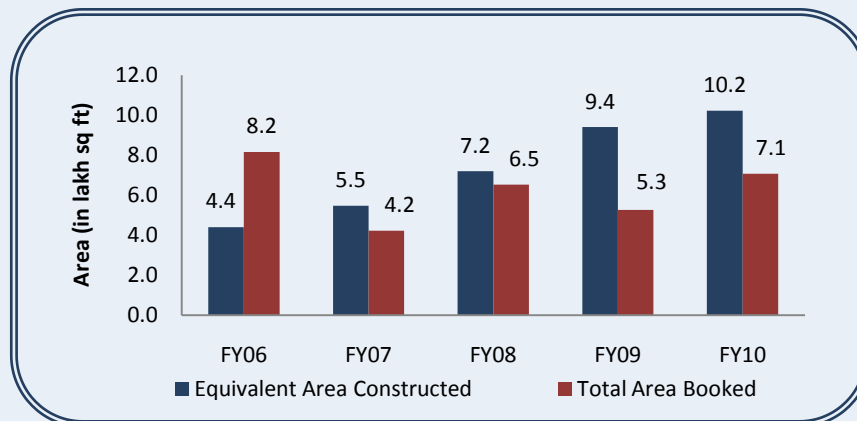
Source: CARE Equity Research , Company

Operations

The company has primarily kept their presence in the Northern India region with developments in Delhi-NCR zone, Jamshedpur, Jaipur, Jodhpur, Ghaziabad and also at Lavasa near Pune. In terms of land acquisition the company always targets a land inventory of 5-7 years of current year's execution plan and has over 71.1 lakh sq. ft. of upcoming development at various locations. In FY10, AHL constructed 10.22 lakh sq. ft., its highest ever in a single year and sold approximately 7.07 lakh sq. ft at an average realization of Rs 2,071 per sq. ft.



AHL: Constructed versus Booked Area (FY06-FY10)



Source: CARE Equity Research , Company

Industry segments

AHL is into multiple realty segments which include retirement resort, group housing, hotel, retail and facility management. The group housing segment is largest in terms all the three parameters, namely, contribution to the company’s overall revenue stream, saleable area and booked area. The retirement resorts segment, despite contributing significantly to the saleable and booked area in FY10, could garner only about 3% to the company’s overall revenue mix. The company also has presence in other realty segments such as commercial complex, hotels, retail and facility management, albeit not contributing significantly to AHL’s top-line.

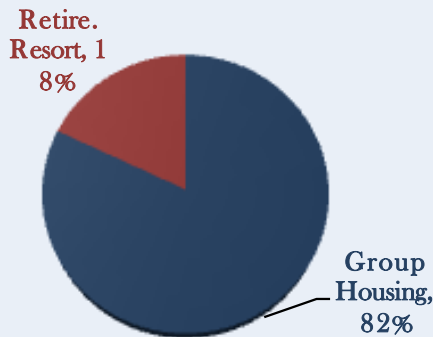
AHL: Segment-wise Revenue Break-up (FY10)

Segment	Revenue (FY10)	
	Rs crore	% share
Group Housing	101.8	84%
Commercial	0.2	0%
Retirement Resorts	3.4	3%
Rooms, Restaurant, Banquets and other services	3.2	3%
Project maintenance charges	4.0	3%
Other income	4.3	4%
Share of profit from partnership		
Group Housing	2.6	2%
Retirement Resorts	1.6	1%
Total	121.0	100%

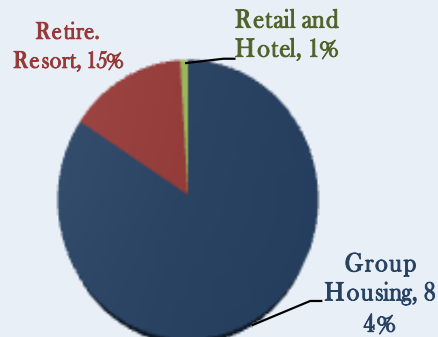
Source: CARE Equity Research , Company



AHL: Segment-wise Break-up of
Area booked (FY10)



AHL: Segment-wise Break-up of
Saleable Area (FY10)



Source: Company and CARE Research

Peer comparison

In terms of competition, AHL caters to a very niche segment where competition if any is quite limited. It does not operate in key markets such as Delhi and Mumbai where competition can get intense and options for consumer are limitless. AHL serves primarily to the middle income group in Tier II and III cities where consumers are looking for affordable housing along with commitment on timely delivery. The company focuses on execution model rather than creating land banks and maintains a land inventory of five to seven times their yearly execution capacity. Moreover, the company tries to keep its land costs at 20-25% of the overall project costs and has maintains minimum benchmarks on gross profit margin and per square feet margins from a particular project while remaining virtually debt-free which signifies little competition.

Nonetheless, competition in general has intensified in the over-heated Indian real estate sector with increasing number of builders/developers who offer schemes to lure customers. The domestic housing market is also exposed to a huge unorganized sector and pre-owned houses which remain totally unaccounted. In some places, competition is also determined by the number of brokers and speculative investors that create artificial demand and escalate realty prices. The bigger players in the market have an upper hand in determining market prices given their economies of scale, greater visibility, prime location, larger project sizes and multiple options they can provide to their customers.



AHL: Peer comparison

Company	AHL	Omaxe	Ansal Properties
BSE Code	523716	532880	500013
Sales (Rs crore)	121	1,015	895
Upcoming Projects	71.1 Lakh sq. ft.	53 projects	n.a.
Market Cap (Rs crore)	267	2,380	873
EBITDA margins	38.8%	20.7%	12.6%
ROE	28.3%	7.1%	5.0%
P/E (times)	6.9	21.2	9.2
EV/EBITDA (times)	5.4	19.1	22.1

Note: Market capitalization is as on 9th December 2010.

Source: Prowess and CARE Research



CONSOLIDATED FINANCIAL PERFORMANCE AND ANALYSIS

Top line surges 16% in FY10

After the economic downturn in FY2009, the company has bounced back with 16.3% y-o-y increase in the top line during FY2010 on the back of 7.07 lakh sq. ft. of area booked during the same period. The company has focused on its core strategy of affordable housing and timely execution of their projects while concentrating on Tier II and Tier III cities. The company has maintained their average realisations of approximately Rs. 2,100 per sq ft which they were able to sustainable even during the recessionary phase.

Going forward, the company is targeting to construct roughly 20 lakh sq. ft. per annum till FY2012-13 and their total upcoming facilities measure to about 71.1 lakh sq. ft. AHL have a total land inventory of 5-7 years of current year's execution plan. The company has a track record of timely execution and delivery of their projects which is crucial in the housing market to maintain demand.

Growth in top line and decline on direct expenses boosts operating profit

AHL's operating margins showed remarkable improvement in FY10 increasing to about 38.8% from its FY09 levels of 32.4%. This can be attributed to the decline in total direct expenses which as a percentage of total income reduced from 51% in FY09 to 45.3% in FY10.

EPS grew by strong 29.5% on the back of higher operating profit

Net profit for the company increased by 29.5% which translated into net margins to grow by about 3.1% to 30.4% in FY10. This robust growth at net profit level of the company also led to significant increase in its EPS levels from Rs 15.7 in FY09 to Rs 20.33 in FY10, posting a growth of around 29.5%.

AHL: Consolidated Financial Performance (FY06-10)

	FY06	FY07	FY08	FY09	FY10
Net sales (Rs crore)	39.21	55.68	133.45	104.01	121.03
EBITDA (Rs crore)	6.27	11.22	44.84	33.74	46.92
PAT (Rs crore)	5.53	9.45	38.65	28.40	36.77
EBITDA margins	16.0%	20.2%	33.6%	32.4%	38.8%
Net margins	14.1%	17.0%	29.0%	27.3%	30.4%
EPS (Rs)	3.06	5.22	21.37	15.70	20.33

Source: Company and CARE Research



EXPANISONS, NEW INITIATIVES AND CONCERNS

Expansion plans and initiatives

The company has formulated an aggressive growth plans in near future. AHL is not only expecting to strengthen its presence in existing locations but also achieve incremental growth from expansion into newer locations such as Kolkata, Chennai, Udaipur and other parts of India. As per company management, AHL is expecting to benefit significantly from the current shortage of homes, specifically in the middle-income segment.

Summary of future targets

- Complete 20 lakh sq ft per annum till FY2012-15.
- Book 12 lakh sq. ft area in FY2011 and has booked 5.53 lakh sq ft area in the first 5 months.
- Cumulative operating profits from ongoing projects to reach Rs 188 crore by FY2012-13.

AHL: Summary of Ongoing Projects

Project Name	Location	Type	Saleable Area (Lakh sq. ft)	Area Launched (Lakh sq. ft)	Area Booked till 30/06/10 (Lakh sq. ft)
Ashiana Aangan	Bhiwadi	Group Housing	20.62	16.48	10.83
Ashiana Greenwood	Jaipur	Group Housing	3.62	3.62	2.03
Ashiana Brahmananda	Jamshedpur	Group Housing	4.79	2.32	1.02
Ashiana Amarbagh	Jodhpur	Group Housing	5.33	3.42	2.24
Rangoli Gardens	Jaipur	Group Housing	25.00	2.75	1.19
Utsav	Jaipur	Retirement Resort	3.88	2.51	0.89
Utsav	Lavasa	Retirement Resort	6.87	2.87	1.6
Village Centre	Bhiwadi	Retail & Hotel	1.00	NA	NA
Total			71.11	33.97	19.8

Source: Company and CARE Research



Key concerns

- **Land titles:** Currently, there has been lack of clarity over land records and land title. This opacity create difficult operating environment for reality companies as legal uncertainties associated with land title poses risks of execution and project delays. AHL attempts to reduce this risk by mostly acquiring non-agricultural lands.
- **Cash flow mismatch:** The Indian reality industry is very vulnerable to cash flow mismatches due to its cyclical nature. Most of the projects rely on customer advances to ensure project execution. There are also risks of customer advances getting diverted to other activities such as acquisition of land rather than deploying it in the development of projects.
- **Competition from unorganized sector:** Since AHL primarily operates in Tier II and Tier III cities, it faces a lot of competition from the unorganized sector which could affect future demand.
- **Rising interest on home loans:** AHL's main customers include middle income group and retirees who look for affordable housing. Any significant increase in home loan rates may adversely impact the company's future demand as it will limit their buying ability.



SECTOR OUTLOOK

Sector outlook

Based on improved economic numbers from the domestic market, the Indian real estate sector has shown significant signs of revival which is reflected in strengthening property prices. The domestic residential property market which saw drop in demand during the H2FY09 and Q1FY10 has seen a revival in market given strong economic turnaround in India, job stability and lower interest on home loans. Mid-size companies such as AHL are particularly at advantage given their focus on affordable and mid-segment housing where demand remains strong. Many developers have become cautious by launching new projects at optimum time leading to lower oversupply percentage in comparison to other sectors. Going forward, CARE Research expects growth in mid-segment housing in Tier II and Tier III cities to remain robust coupled with increase in volume. Investment related demand is also expected to get a boost as housing sector offers opportunities to deploy funds. According to industry sources, the pan India residential demand is estimated to be over 7.5 million units by 2013 across all categories, including Economically Weaker Sections (EWS), affordable, mid and luxury segments and affordable housing segment is expected to become a Rs. 300,000 crore per annum market by 2011.

In last few years, North India has shown significant pick-up in real-estate demand on the back of rapid industrialization and favourable demographics. Regions in proximity of Gurgaon such as Bhiwadi, Neemrana, Alwar and Manesar are witnessing significant commercial and industrial activities. This strength in industrial activities will spill-over to areas adjoining the NH-8 (Delhi-Gurgaon Expressway) as a large number of commercial and residential projects are likely to come up in the region. Furthermore, the sprawling IT/ITES companies in the region are likely to boost demand for affordable housing.



CONSOLIDATED FINANCIAL SUMMARY

Rs (crore)	FY06	FY07	FY08	FY09	FY10
Net sales	39.21	55.68	133.45	104.01	121.03
EBITDA	6.27	11.22	44.84	33.74	46.92
Depreciation and amortisation	0.28	0.36	1.43	1.49	1.50
EBIT	5.99	10.86	43.41	32.25	45.42
Interest and financial expenses	0.07	0.00	0.00	0.18	1.05
PBT	5.99	10.86	43.42	32.08	44.37
PAT	5.53	9.45	38.65	28.40	36.77
EPS	3.06	5.22	21.37	15.70	20.33
Dividends	0.57	0.71	1.50	0.00	1.50
Balance sheet					
Net worth (incl minority interest)	24.43	32.34	67.77	96.28	129.79
Long term debt	1.32	3.16	2.56	1.11	7.84
Current liabilities and provisions	80.74	102.47	102.65	65.61	56.35
Deferred tax liability/(assets)	0.48	0.64	0.98	1.59	2.14
Capital employed	26.23	36.14	71.31	98.98	139.77
Net fixed assets	4.41	12.28	25.40	28.22	29.10
Investments	23.22	26.95	45.72	40.68	49.85
Sundry debtors/ receivables	0.94	1.87	3.93	1.54	1.72
Inventory	51.23	58.13	41.60	58.39	68.55
Loan and advances	7.79	9.17	46.06	18.77	18.75
Cash and bank balances	17.06	23.42	7.77	13.01	16.06
Ratios					
Growth in net sales	169%	42%	140%	-22%	16%
Growth in EBITDA	NA	79%	300%	-25%	39%
Growth in PAT	NA	71%	309%	-27%	29%
EBITDA margins	16%	20%	34%	32%	39%
PAT margins	14%	17%	29%	27%	30%
ROCE	23%	35%	81%	38%	38%
ROE	23%	33%	77%	35%	33%
Debt-Equity (times)	0.1	0.1	0.0	0.0	0.1
Inventory days (days)	0.7	0.9	2.5	1.7	1.7
Receivable days (days)	9	12	11	5	5
Price/Earning (P/E) (times)					6.9
Price/Book value (times)					2.0
Enterprise value (EV)/EBITDA (times)					5.4

Source: PROWESS and CARE Research



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Published on behalf of The Stock Exchange Investors' Protection Fund

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