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Mumbai

CRISIL Equities assigns fundamental grade 3/5 to Ashiana Housing Limited

CRISIL Equities has assigned a CRISIL IER fundamental grade of **3/5** (pronounced three on five) to Ashiana Housing Ltd (Ashiana). The grade indicates that the company's fundamentals are **'good'** relative to other listed equity securities in India. CRISIL Equities has assigned a valuation grade of **5/5**, indicating that the market price has **'strong upside'** from the current levels of Rs 166 (as on November 03 2010). Our one-year fair value of the stock is Rs 220. The grades are not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned fundamental grade reflects Ashiana's strong track record of developing ~9 mn sq.ft. of residential projects and building a brand which is known for quality construction, timely delivery and facility management services. It has also pioneered the concept of retirement housing, which is picking up in India. The grade factors in the healthy project pipeline of ~7 mn sq.ft. entailing development of residential and retirement housing projects across seven projects. The company does not accumulate huge land bank or engage in developing commercial properties, which results in comparatively lower capital requirements. This strategy along with very low leverage provides Ashiana the strength to withstand cyclical risks. The grade also factors in experienced and professional management, transparent group structure and superior disclosure levels.

However, Ashiana's strategy of not accumulating land bank reduces revenue visibility beyond five-six years. Also, the company's future growth will be dependent on the ability to acquire land at reasonable prices in an increasingly competitive market. Moreover, it is looking for land parcels in new geographies, where it is likely to face local environmental challenges. The grade is also moderated due to cyclical risks inherent in the real estate industry. Ashiana shares a similar brand with Ghaziabad-based real estate developer Ashiana Homes; they have collaborated with each other in the past. Absence of a formal non-compete agreement could pose a threat to the company in the long run.

Financial outlook

CRISIL Equities expects Ashiana's revenues to grow to Rs 2.2 bn in FY12 at a two-year CAGR of 40%. EBITDA margins are expected to improve from 34.9% in FY10 to 36.8% in FY12 due to revenue recognition from comparatively high-end projects such as Utsav in Lavasa (Maharashtra) and Ashiana Aangan in Bhiwadi (Rajasthan). Adjusted PAT is expected to grow at a two-year CAGR of 30.7% to Rs 0.6 bn in FY12. CRISIL Equities expects EPS to increase to Rs 34.3 in FY12 from Rs 20.1 in FY10 and RoE of 31.3% in FY12 vs. 32.1% in FY10.

Valuation grade (5/5 – current market price has strong upside)

CRISIL Equities has used the net asset value method to value Ashiana and arrived at a one-year fair value of Rs 220 per share. We have projected cash flows from the ongoing projects and considered market value of land for the projects in the approval stage.

About the company

Incorporated in 1986, Ashiana is a Delhi-based real estate developer focused on affordable homes. It has diversified into retirement housing projects in 2004, identifying a need for such kind of projects in India. The company has first-mover advantage in tier II and III cities such as Bhiwadi, Jamshedpur and Neemrana.

About CRISIL Independent Equity Research

CRISIL IER (Independent Equity Research) is an independent, unbiased opinion on fundamentals and fair valuation of the company. CRISIL IER encompasses a comprehensive analysis of the four pillars of sustainable value creation, namely: Industry and business prospects, financial performance & outlook, management capabilities and corporate governance.

About CRISIL Fundamental and Valuation (CFV) Matrix

The CFV matrix addresses two important aspects in investment making decision - analysis of fundamentals (addressed through fundamental grade) and analysis of returns (valuation 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. A CRISIL IER fundamental grade of '5/5' indicates 'excellent' fundamentals and a fundamental grade of '1/5' indicates 'poor' fundamentals relative to other listed equity securities in India. CRISIL's valuation grade represents an assessment of the fair value of the company's 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). A CRISIL IER grading should not be construed as a recommendation to invest in the graded security, nor a comment on suitability of a particular investment for the reader.

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