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INDEPENDENT EQUITY RESEARCH

Ashiana Housing Ltd

Detailed Report

Enhancing investment decisions

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) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation 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 Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	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:

Ashiana Housing Ltd

Standing tall amidst macroeconomic headwinds

Fundamental Grade	**4/5 (Superior fundamentals)**
Valuation Grade	**5/5 (CMP has strong upside)**
Industry	**Real Estate Management & Development**

A mid-size developer in north India, Ashiana Housing Ltd (Ashiana) has established a strong brand based on quality construction and timely delivery of projects. While majority of developers have fallen prey to a weak macroeconomic environment, Ashiana has recorded healthy bookings. We draw comfort from its relatively superior financial performance (high RoE), strong balance sheet (low gearing of less than 0.1x), improved land bank visibility and receipt of approvals for the Pune-based Utsav Lavasa project. Consequently, we revise our fundamental grade to **4/5** from 3/5, indicating **superior** fundamentals relative to other listed equity securities in India. However, sustained slowdown in the industry could impact future prospects.

Healthy traction in ongoing projects; superior performance than peers

Ongoing projects witnessed healthy traction - equivalent area constructed (EAC) in Q3FY11-Q2FY12 was 1.2 mn sq.ft. vs. 1 mn sq.ft. in Q3FY10-Q2FY11. Bookings registered strong growth, up from 1.1 mn sq.ft. to 1.5 mn sq.ft. during the same period. Ashiana's performance was superior – revenues grew 28% during FY07-11 vs. peers' average of 11%, while PAT grew 47% compared to an average -5% growth by other developers.

Recent land acquisitions boost future visibility; eyeing diversifications

Acquisition of 40 acres in Thada, Bhiwadi and 10 acres in Uttarpara, Kolkata quells our concerns on revenue visibility. Ashiana plans to develop ~3.2 mn sq.ft. of group housing and active senior living projects, which will add to the future pipeline of 3.6 mn sq.ft. It plans to diversify geographically and is looking to acquire ~20-30 acres in western or southern markets.

Lavasa project cleared; assumed gradual ramp-up in bookings

Given the environment ministry's clearance to Lavasa township project after a delay of one year, we expect construction at Utsav project to commence in a month. Since it is based on certain pre-conditions, there could be some hurdles. We expect bookings to be slow initially and gradually pick up in FY13.

Revenues to grow at a two-year CAGR of 23%, RoCE to increase

We expect revenues to register a two-year CAGR of 23% to Rs 2.1 bn in FY13 driven by bookings in the Ashiana Aangan and Rangoli Gardens projects (both in Rajasthan). EBITDA margin is expected to improve by 350 bps to 35% in FY13 due to increase in contribution from high-margin projects. RoCE is expected to improve to 28% in FY13 from 26.8% in FY11.

Valuations – current market price has strong upside

Though construction at Lavasa Utsav is expected to start in a month, there could be further hurdles given the conditional clearance. We continue to use the net asset value method for Ashiana, but halve our discount for the Utsav project's NAV to 25% from 50%. Accordingly, we raise the fair value to Rs 205 per share from Rs 195. This translates to a valuation grade of **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	918	1,139	1,396	1,930	2,117
EBITDA	222	398	441	650	744
Adj PAT	286	363	429	515	534
Adj EPS-Rs	15.8	20.1	23.1	27.7	28.7
EPS growth (%)	(26.1)	26.8	15.0	19.9	3.7
Dividend yield (%)	-	1.2	1.4	1.4	1.4
RoCE (%)	24.7	32.6	26.8	30.7	28.0
RoE (%)	34.9	32.1	28.2	25.9	21.7
PE (x)	9.4	7.4	6.5	5.4	5.2
P/BV (x)	2.8	2.1	1.6	1.3	1.0
EV/EBITDA (x)	11.6	6.6	5.2	3.7	2.4

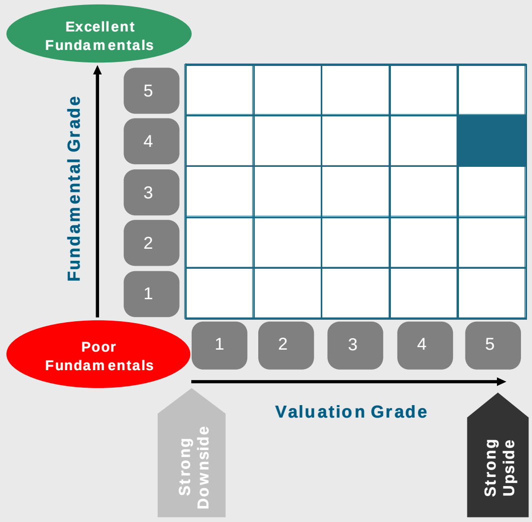
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

December 07, 2011

Fair Value Rs 205
CMP Rs 149

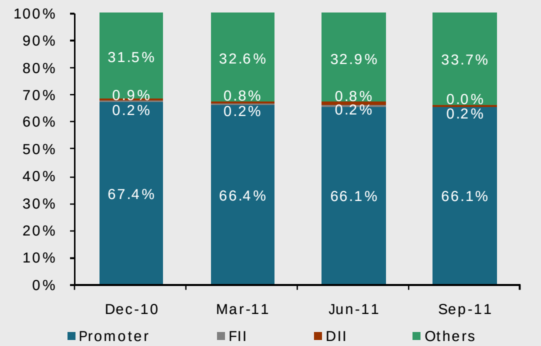
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5039/16805
NSE / BSE ticker	ASHIANA /ASHIHOU
Face value (Rs per share)	10
Shares outstanding (mn)	18.6
Market cap (Rs mn)/(US$ mn)	3,049/60
Enterprise value (Rs mn) /(US$ mn)	2,655/52
52-week range (Rs) (H/L)	185/112
Beta	1.0
Free float (%)	33.9%
Avg daily volumes (30-days)	13,708
Avg daily value (30-days) (Rs mn)	2.1

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
ASHIANA	-15%	11%	11%	-2%
NIFTY	-5%	0%	-9%	-16%

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Table 1: Ashiana - Business environment

Parameter	Real estate - development of residential and retirement housing projects
Product / service offering	• Primarily into affordable residential housing projects • Also develops retirement (active senior living) housing projects • Has two properties in hospitality and retail segments
Geographic presence	• Present mainly in and around Rajasthan (~80% of the future saleable area) • It also has two ongoing projects in Jamshedpur (Jharkhand) and one at Lavasa (Pune). Bought 10 acre land in Kolkata and is eyeing diversification in western and southern India
Market position	• A mid-sized developer in the north Indian real estate market, particularly Rajasthan; known for timely delivery of projects and quality construction • First organised developer to launch a residential project in Bhiwadi, Jamshedpur, Neemrana and Patna • One of the leading developers of retirement housing projects in India
Industry outlook	• North India outlook – Residential supply to offset demand in the near term; capital values expected to remain stable in H2FY12
Sales growth (FY09-FY11 – 2-yr CAGR)	22%
Sales forecast (FY11-FY13 – 2-yr CAGR)	23%
Demand drivers	• There is acute shortage of houses in India. CRISIL Research expects housing shortage in urban areas to touch 21.7 mn units by the end of 2014 from ~20 mn units in 2010 • Strong economic outlook, leading to improving job prospects which is expected to drive the demand for residential properties particularly affordable homes • Increased urbanisation - urbanisation rate in India has increased from ~25% in 1991 to ~30% in 2010
Key competitors	• Large players – Omaxe Ltd, Parsvnath Developers Ltd, Mahindra Lifespace Developers Ltd • Comparable players – Vipul Ltd, CHD Developers, Ansal Housing and other small north India-based developers • Retirement housing – Paranjpe Schemes, Classic Kutumb and Riverdale Retirement Resorts

Source: Company, CRISIL Research

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Grading Rationale

Ashiana brand becomes stronger; USP: quality construction and timely delivery

Consistently high quality of construction and timely delivery of projects have made Ashiana a popular affordable housing brand in northern India. The brand has become even stronger in the past couple of years since the company has been able to execute and deliver projects on time, while most of its peers could not due to execution issues.

Ashiana commands premium pricing compared to other developers in the same vicinity

Ashiana has developed ~10 mn sq.ft. of projects so far, mostly in Rajasthan and Jamshedpur. The company's reputation for quality construction and timely delivery has ensured good response for its newly launched projects too. The strength of the brand is also reflected in the premium pricing its projects command compared to other developers' projects in the same vicinity.

Table 2: List of major completed projects

Name of the project	Location	Area developed in mn sq. ft.	No. of units	Year of completion
Ashiana Gardens	Jamshedpur	0.68	574	1992
Ashiana Bageecha	Bhiwadi	0.24	231	1998
Ashiana Enclave	Jamshedpur	0.32	253	2001
Ashiana Black Gold Appts	Greater Noida	0.25	176	2002
Ashiana Gulmohar Park	Bhiwadi	0.24	195	2002
Ashiana Orchid	Greater Noida	0.23	168	2002
Ashiana Gardens	Bhiwadi	0.37	316	2003
Ashiana Suncity	Jamshedpur	0.29	220	2003
Ashiana Rangoli	Bhiwadi	0.27	240	2006
Ashiana Utsav	Bhiwadi	0.78	640	2008
Ashiana Greenhills	Neemrana	0.35	280	2008
Ashiana Woodland	Jamshedpur	0.36	241	2009
Ashiana Manglam	Jaipur	0.22	156	2009

Source: Company, CRISIL Research

Strong traction in ongoing projects, robust bookings in the newly launched projects

Ashiana's projects have witnessed healthy traction in past one year

Ashiana has a healthy project pipeline of 10 mn sq.ft. across different geographies (ongoing – 3.3 mn sq.ft. and upcoming 6.8 mn sq.ft.) over the next four to five years. The company has received good customer response in most of its projects launched in the past one year. This is despite the fact that the northern residential market has been witnessing some slowdown and the other developers have not been able to get such a response in their projects. Bookings in Rangoli Gardens, Jaipur, which is its largest project (2.5 mn sq.ft.), launched in Q4FY10 has received good response with 28% of project being booked. Other projects have also received good response and the bookings have been healthy.

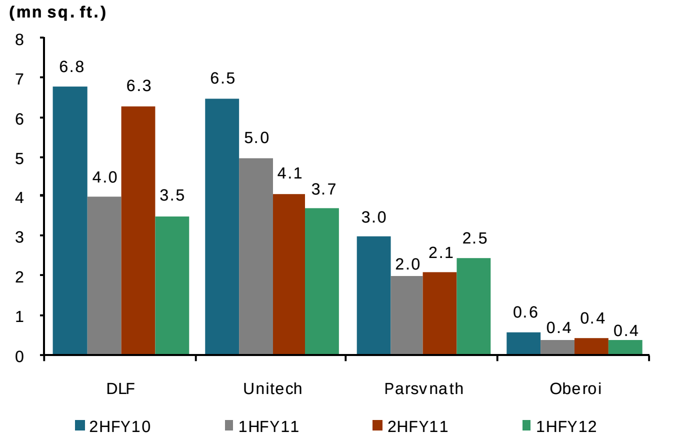
Table 3: Strong bookings across projects in past one year

Project Name	Location	Total area (lakh sq.ft.)	Bookings till Sep'10	% booked	Bookings till Sep'11	% booked
Ashiana Aangan	Bhiwadi	20.52	12.05	59%	17.46	85%
Utsav	Jaipur	3.88	1.07	28%	1.71	44%
Ashiana Brahmananda	Jamshedpur	4.79	1.46	30%	3.1	65%
Ashiana Amarbagh	Jodhpur	5.33	2.50	47%	3.53	66%
Utsav	Lavasa, Pune	6.87	1.79	26%	2.07	30%
Rangoli Gardens	Jaipur	25.00	1.80	7%	6.91	28%
Marine Plaza	Jamshedpur	1.87	0.00	0.0%	0.21	11%
Total		**68.26**	**20.67**	**30%**	**34.99**	**51%**

Source: Company, CRISIL Research

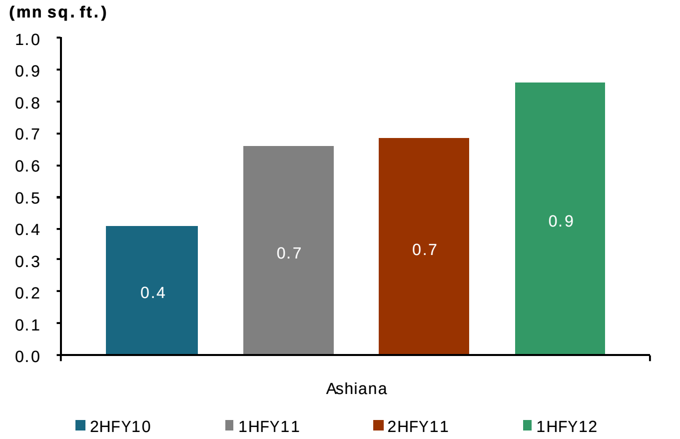
Unlike majority of developers who are grappling with decline or muted trend in volumes and sales due to weak macroeconomic sentiments, Ashiana's ongoing projects have witnessed healthy traction in the past one year. Equivalent area constructed (EAC) in Q3FY11-Q2FY12 was 1.2 mn sq.ft. vs. 1 mn sq.ft. in Q3FY10-Q2FY11. However, bookings expanded from 1.1 mn sq.ft. to 1.5 mn sq.ft., outpacing construction growth during the same period.

Figure 1: Decline in other developers' bookings...



Source: Company, CRISIL Research

Figure 2: ... but not for Ashiana

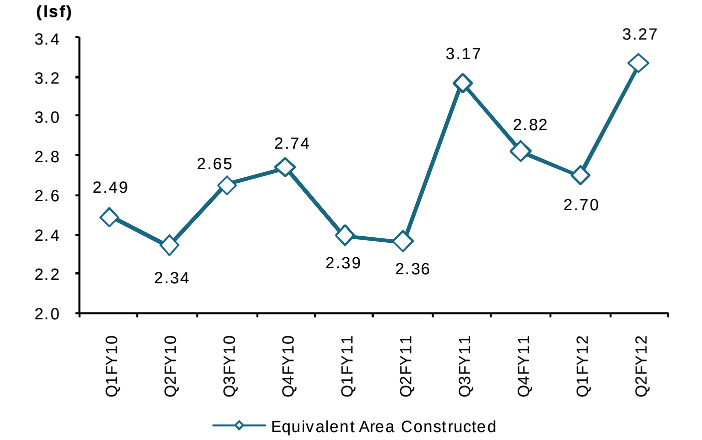


Source: Company, CRISIL Research

Growth in construction, though healthy at 20%, was marginally impacted due to the standstill status of the 0.7 mn sq.ft. Utsav Lavasa project. Bookings, however, registered robust 40% growth driven by strong response in Ashiana Aangan (Bhiwadi) and Rangoli Gardens (Jaipur) projects, which contributed 35% and 33%, respectively.

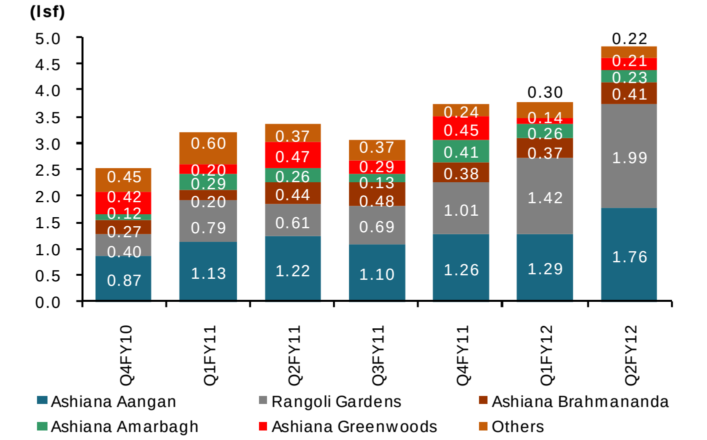
Bookings registered robust 40% growth in past one year

Figure 3: Rising trend in EAC



Source: Company, CRISIL Research

Figure 4: Bookings outpaced growth in construction



Source: Company, CRISIL Research

Well positioned in affordable housing segment; strong demand for affordable housing augurs well

Well placed to tap opportunities in affordable housing space

Given the comparatively lower margins in the affordable housing space, most developers concentrate in the luxury/premium category. As a result, there is supply shortage in the mid-income and affordable housing segment. We believe Ashiana, with a strong focus on affordable housing, is well placed to tap the upcoming opportunities. Also, volumes in the affordable housing space have been least impacted in the past one year – visible from Ashiana's booking growth vs. decline in volume for players whose focus is in premium-pricing properties.

Owing to an increase in population, rise in nuclear families and continuous migration, urban population in India has increased from 290 mn in 2001 to ~355 mn in 2011 and is expected to increase further to ~600 mn by 2030. This is expected to create a huge demand in the housing sector, particularly in the affordable space. CRISIL Research expects urban housing shortage to increase from ~20 mn units in FY11 to ~22 mn units by FY14-end.

Recent land acquisitions boost visibility

Acquisition of 50-acre land increases future visibility to 6.8 mn sq.ft.

Unlike other developers, Ashiana considers land bank as a raw material and does not accumulate land beyond four-five years' visibility. The company had limited future revenue visibility as it had a land bank that could support development for the next five-six years. We had highlighted this as a concern in our initiation report dated November 03, 2010 and mentioned that the company needs to acquire land at reasonable prices in the competitive market, which could be a challenge. However, with the acquisition of land recently, the visibility has increased and quells our concerns on the same. The company acquired two land parcels – 40 acres in Thada, Bhiwadi for Rs 350 mn and 10 acres in Uttarpara, Kolkata. It plans to develop ~3.2 mn sq.ft. of group housing and active senior living projects on these land parcels; we expect these projects to be launched in FY13. With these acquisitions, Ashiana's future project pipeline has increased to 6.8 mn sq.ft. exclusive of ongoing projects of 3.4 mn sq.ft. (total saleable area of 6.8 mn sq.ft.).

Table 4 –Future project pipeline

	Land area (acres)	Estimated saleable area (lsf)	Proposed development	Status
Thada Land, Bhiwadi	40.00	26.00	Group Housing/ Active senior Living	Recently acquired. Project launch expected in Q1FY13
Uttarpara Land, Kolkata	10.00	6.00	Active Senior Living	Recently acquired. Project launch expected in Q1FY13
Milakpur Land, Bhiwadi	40.63	31.00	Group Housing/ Active senior Living	Caught in regulatory approvals. Likely to be launched by March 2012
Tanawada Land, Jodhpur	10.92	4.70	Group Housing	To be launched in Q2FY13
Total	**101.55**	**67.70**		

Source: Company, CRISIL Research

Delays in regulatory clearance may impact project launches

Regulatory delays affect 3.1 mn sq.ft. Milakpur project

Since Ashiana has acquired most of the agriculture land, delays in regulatory approvals may impact its future project launches. For e.g., the 40-acre land in Milakpur, Bhiwadi is stuck in the approval process and the launch of 3.1 mn sq.ft. of group housing and retirement housing project has been delayed by more than six months.

Cognizant buying will help maintain margins

Ashiana follows a selective approach in buying land parcels that entails healthy margins and transforms into value-accretive acquisitions. Also, it focuses on affordable housing projects in tier II and III cities, where the contribution to total project cost is lower (20-25%). This strategy has helped Ashiana keep a check on project costs and has kept its balance sheet relatively clean. The cost of its current land bank on an average is ~Rs 100 per sq.ft.

Exploring geographical diversification

Apart from recent acquisitions in Bhiwadi and Kolkata, Ashiana is actively looking for land parcels in other geographies such as western and southern India. With a cash balance of ~Rs 300 mn, we believe the company has enough cushion to acquire another 20-30 acres of land. These land parcels may be either in the western or southern market and are expected to further improve revenue visibility. However, there will be challenges as the real estate business necessitates knowledge about the local business environment, clients' expectations and applicable laws.

Lavasa hurdle cleared; construction in a month

Construction at Utsav Lavasa to commence in one month

Ashiana's 0.7 mn sq.ft. Utsav project in Lavasa (Pune) hit a roadblock in November 2010. The Ministry of Environment and Forests (MoEF) has given an order to stop all the construction work on the proposed 5,000-hectacre Lavasa township project due to violation of the provisions of Environment Impact Assessment Notification 1994, as amended in 2004 and 2006. Ashiana, with a 30-acre retirement housing project site, has had to follow suit.

Recently, the environment ministry gave clearance to the Lavasa township project (phase I with 2,000 hectares of the total 5,000-hectare project), subject to certain preconditions. With this clearance, we expect construction to commence in a month. The company is planning to mobilise resources in the next three-four weeks post which the construction will resume. As of September 2011, total area booked was 0.2 mn sq.ft. and the company has spent Rs 229 mn on land and construction costs and received Rs 315 mn as advances from customers.

Expect gradual ramp-up in future bookings

Since the environment ministry has given clearance to the Lavasa project based on certain specific conditions relating to environment, construction, operation and maintenance, the project could face hindrances if rules are not complied with. Therefore, we remain cautious till construction picks up and there are signs of improvement in bookings. We have assumed slower bookings initially and then a gradual pick-up – 0.02 mn sq.ft. in FY12 to 0.1 mn sq.ft. in FY13. Accordingly, revenues are expected to increase from Rs 39 mn in FY12 to Rs 357 mn in FY13.

Table 5 – Bookings to improve from FY12 onwards

Booking	FY10	FY11	FY12E	FY13E
Phase 1	107,075	50,565	-	33,780
Phase 2	4,755	33,897	19,326	28,989
Phase 3	-	-	-	40,292

Source: Company, CRISIL Research

Revenue recognition (Rs mn)	FY10	FY11	FY12E	FY13E
Phase 1	185	157	24	181
Phase 2	4	27	15	177
Phase 3	-	-	-	-

Source: CRISIL Research

Strong cash flows + low gearing place Ashiana well

Ashiana has low gearing and history of generating free cash flows

Ashiana has a distinct business model – it focuses only on the residential segment, which is mainly self-sufficient in terms of funding and does not require high amount of upfront capital. This coupled with a focus on affordable housing in tier II and III cities leads to lower capital requirements compared to other developers who are in the premium housing or commercial/retail space. Owing to this business model, Ashiana is one of the few real estate developers with low gearing and a history of generating positive free cash flows from operations.

We believe real estate developers with strong cash flows and low gearing levels are better placed and expected to perform better due to:

- Flexibility of holding the prices during the slowdown thereby maintaining margins in the project
- Low debt-servicing burden enables the company to invest cash flows in the existing projects ensuring timely construction. Further, they can encash on the opportune time of acquiring land at discounted valuations during distress sales in the market.

Successful track record of retaining high RoE

Ashiana has consistently maintained RoE of 25%+ in the recent past, notwithstanding low gearing levels. Even during the economic downturn in FY09, the company posted strong RoE of ~35%. Going forward, we expect the momentum to continue but RoE is expected to marginally decline from 28% in FY11 to ~22% in FY13 due to an increase in tax expenses. Since the projects approved before FY08 had tax holidays, we believe with the completion of these projects and launch of new projects, tax rates will increase.

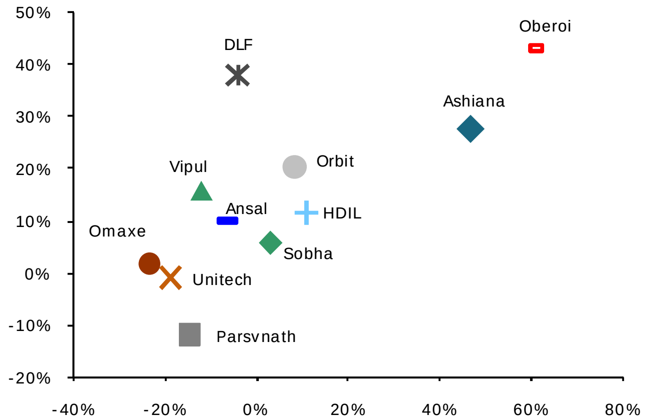
Superior performance vis-à-vis peers

Ashiana had posted superior performance vis-à-vis other national and regional developers despite volatility in the real estate industry during FY07-11.

- Revenue growth of 28% was above peers' average of 11%. However, PAT growth was far superior at 47% vs. an average of -5% for the peers.
- Ashiana has median RoE of 33% vs. peers' average of 14%.
- Ashiana is one of the few companies to have very low gearing and positive cash flows from operations.

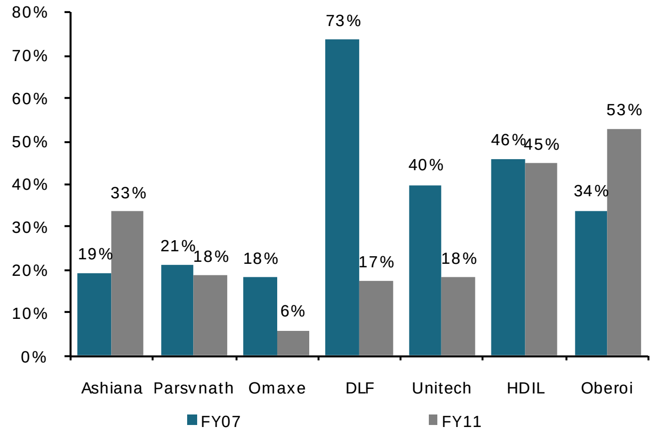
Ashiana has superior performance than peers during FY07-11

Figure 5: Revenue, PAT growth second to Oberoi



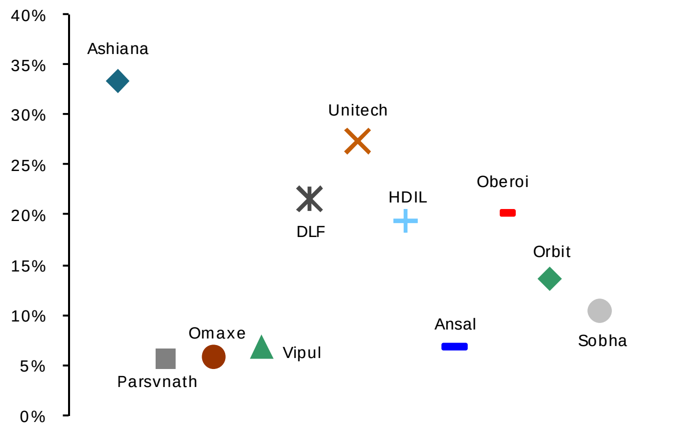
Source: Company, CRISIL Research

Figure 6: PAT margins improved in past four years



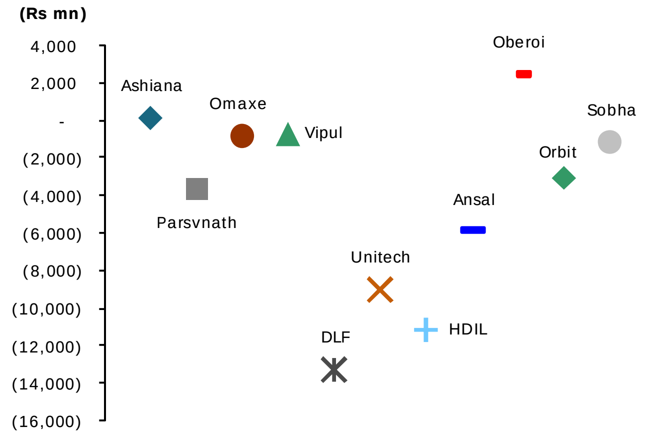
Source: Company, CRISIL Research

Figure 7: Superior RoE…



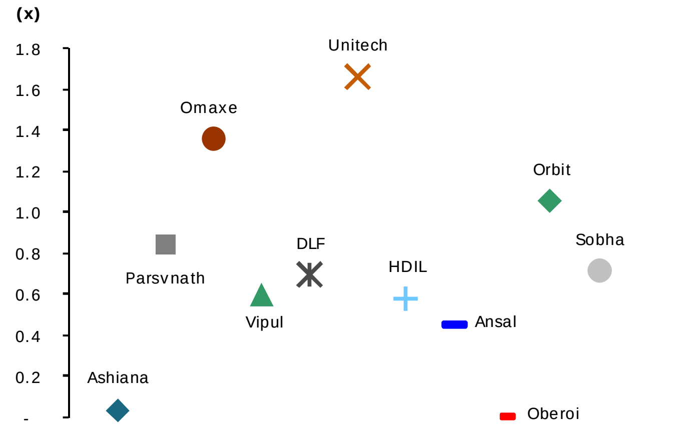
Source: Company, CRISIL Research

Figure 8: …and positive cash flows vs. peers



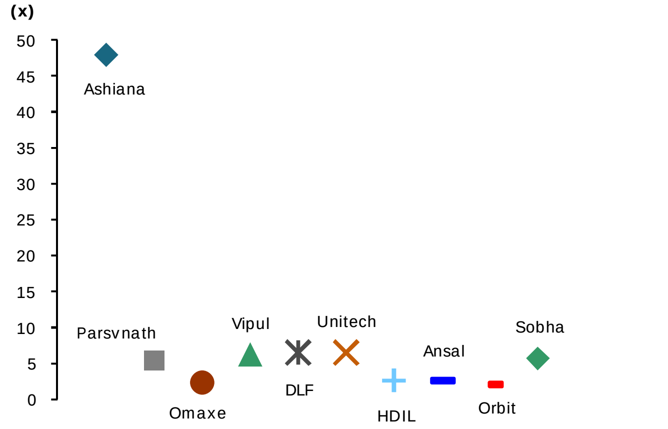
Source: Company, CRISIL Research

Figure 9: Lowest gearing…



Source: Company, CRISIL Research

Figure 10: …and high interest coverage



Source: Company, CRISIL Research

Sustained slowdown in industry could impact future prospects

Ashiana's focus on only affordable housing has helped it remain insulated from the current slowdown in the real estate industry. However, sustained moderation in demand owing to further increase in interest rates is expected to impact individual affordability and may have an adverse impact on future growth prospects of the company. The National Housing Bank's Residex, which tracks residential prices across 15 cities, highlighted a dip in property prices in nine cities in Q2FY12. The number of cities with property rates rising was down to six in the second quarter from 12 in Q1FY12. Apart from a decline in prices, volumes of major developers have also shown signs of slowdown as evident from lower bookings in H1FY12.

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Key risks

Land acquisition delays; increase in land prices

Given Ashiana's business model, it needs to continuously acquire land to build future visibility. Historically, Ashiana has been able to acquire land at reasonable prices. Any delay in acquisition or surge in land prices may have a severe impact on its growth plans.

Delays in acquisition or surge in land prices may impact future plans

Rising interest rates

The real estate sector is highly sensitive to movement in interest rates. A benign interest rate scenario, leading to lower interest rates on housing loans, led to a rise in the demand for residential properties in the last up-cycle. Given the rising inflation and tightening monetary policy, further increase in interest rates will impact individual affordability and would lower demand.

Political and legal risks

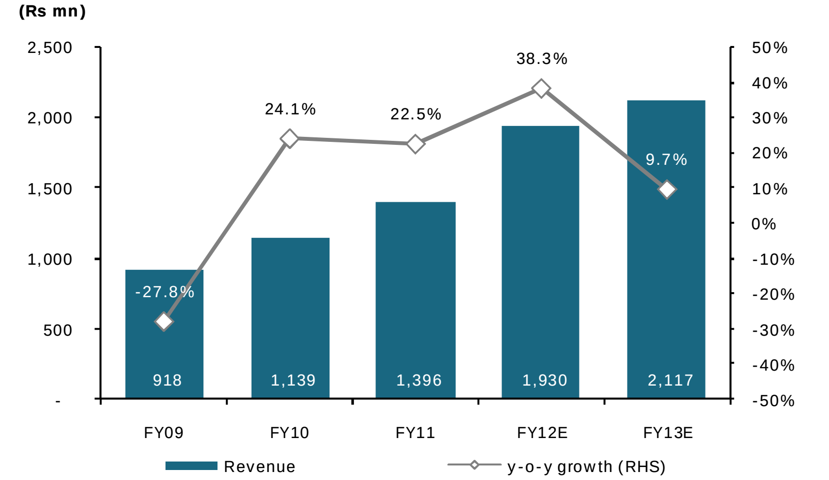
The real estate industry is exposed to government rules and regulations, which might stall future projects. In addition, delays in project approvals and administrative hindrances may also adversely impact the commencement of projects.

Financial Outlook

Revenues to grow at two-year CAGR of 23% to Rs 2.1 bn in FY13

We expect consolidated revenues to grow at a two-year CAGR of 23% to Rs 2.1 bn in FY13 driven by bookings in key projects such as Rangoli Gardens (residential project in Jaipur) and Ashiana Aangan (residential project in Bhiwadi).

Figure 11: Revenues to register two-year CAGR of 23%



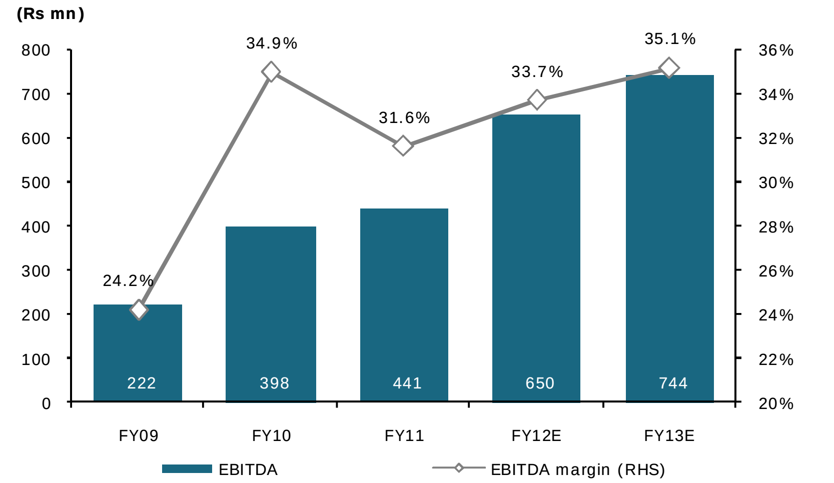
Source: Company, CRISIL Research estimates

EBITDA margin to improve by 350 bps in FY13

We expect EBITDA margin to increase from 31.6% in FY11 to ~35% in FY13 due to an increase in contribution from high-margin projects such as Rangoli Gardens, Ashiana Aangan and Lavasa-based Utsav projects.

EBITDA margins driven by increase in contribution from high-margin projects

Figure 12: EBITDA margin to increase to ~35% in FY13



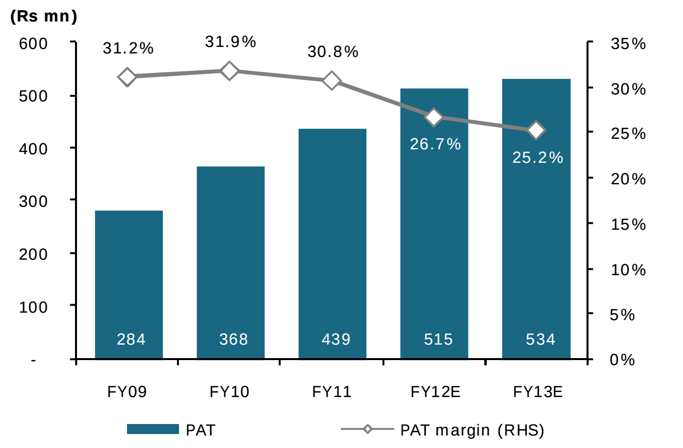
Source: Company, CRISIL Research estimates

PAT to grow at a two-year CAGR of ~10%, EPS to increase from Rs 23.1 in FY11 to Rs 28.7 in FY13

EPS to register similar growth as PAT ~12%

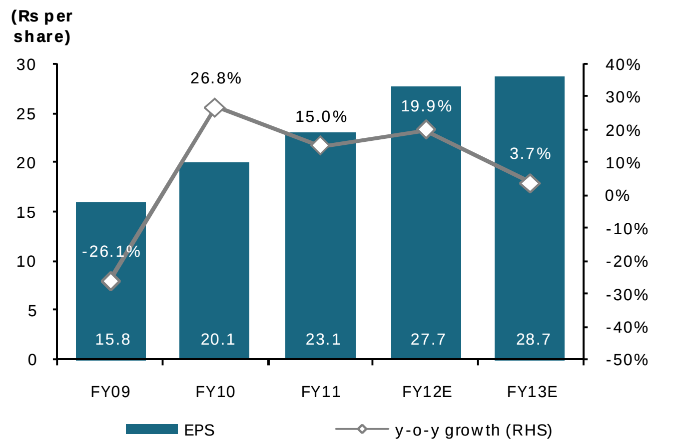
In FY13, we expect the company to move to full tax bracket, which will partially offset top-line growth and margin expansion. As a result, consolidated PAT is expected to grow at a two-year CAGR of 10.3% to Rs 534 mn in FY13. We expect EPS to register a similar growth of 12% to Rs 28.7 in FY13.

Figure 13: PAT and PAT margin



Source: Company, CRISIL Research estimates

Figure 14: EPS and EPS growth



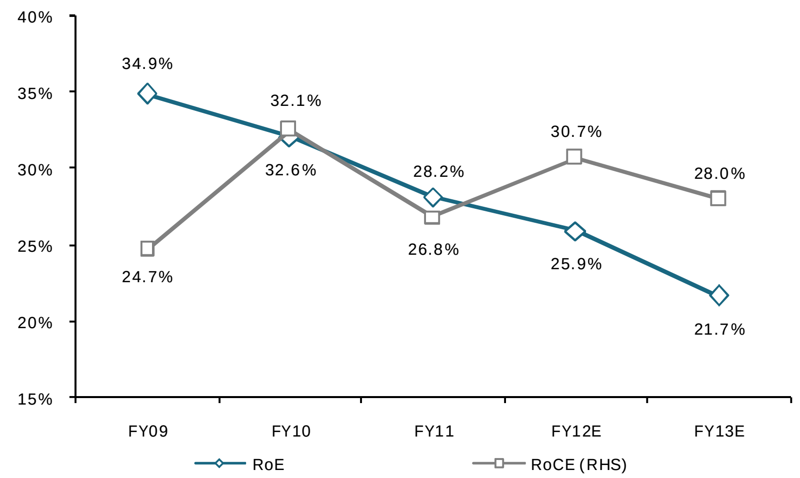
Source: Company, CRISIL Research estimates

RoCE to improve marginally; RoE to decline but remain healthy

RoE is expected to remain healthy at ~22% in FY13

We expect RoCE to improve marginally from 26.8% in FY11 to 28% in FY13 supported by growth in EBITDA margins. RoE is expected to decline due to higher tax expenses but will remain healthy at ~22% in FY13.

Figure 15: RoE and RoCE



Source: Company, CRISIL Research estimates

Ashiana will move to possession based accounting from FY13 onwards vs. the current percentage completion method. We will incorporate the revision in numbers post Q4FY12 results. We believe revenues and profitability will be revised downwards but there will be no impact on cash flow or balance sheet and, consequently, the valuations as we have adopted the net asset value method.

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.

Prudent management; pioneer of retirement housing in India

Ashiana has an experienced and prudent 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 general administration and project execution. 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 (director - finance), majored in finance and management, and has worked with Citigroup in commercial mortgage backed securities underwriting commercial real estate. He currently looks after finance and land.

Ashiana has an experienced and prudent management

Ashiana diversified into retirement housing projects in 2004, identifying a sizeable market in India. It launched the first retirement resort in Bhiwadi comprising 640 units which received overwhelming response and was successfully sold in 2008. It plans to leverage the brand and replicate the success in other geographies.

Created strong business model; well-equipped to weather downturn

The management has been successful in creating a strong business model with a focus on affordable housing in tier II and III cities. Owing to this model, Ashiana is one of the few real estate developers with low gearing and sound track record of generating positive free cash flows from operations. This provides flexibility to hold on the prices and weather a cyclical downturn. Ashiana was the least impacted among real estate developers during the last slowdown in FY09.

Strong second line of management

Though major activities are handled by the three brothers, based on our interactions with project heads – Bhiwadi, Jaipur, Jodhpur and Lavasa - Ashiana has a fairly experienced second line of management with an average experience of 5-10 years.

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 Research analyses the 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.

Corporate governance at Ashiana reflects good practices supported by a strong and fairly independent board, with good and relevant experience, and board processes and structures broadly conforming to minimum standards.

Board composition

Ashiana's board consists of seven members, of whom four are independent directors, exceeding the requirements under Clause 49 of SEBI's listing guidelines. The directors are well qualified and have reasonably strong industry experience. The independent directors have a fairly good understanding of the company's business and its processes.

Board's processes

The company has various committees – audit, remuneration and nomination, and investors' grievance - in place to support corporate governance practices. The company's disclosures are sufficient to analyse various business aspects of the company. CRISIL Research 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 understand that the independent directors are well aware of the company's business 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, Mr Lalit Kumar Chhawchharia, and it meets at timely and regular intervals. The board also includes well-known names such as Mr Ashok Mattoo, who has worked with organisations like BHEL and Tata Steel, and Mr Abhishek Dalmia, CEO of Renaissance Group.

Commendable disclosure standards

The company's quality of disclosure in reporting is commendable, judged by the level of information and details furnished in the annual report, websites and other publicly available data. For instance, the company provides area constructed and project-wise bookings in its quarterly presentations. The disclosure level is sufficient to analyse varied business aspects. Unlike other real estate players, Ashiana has a transparent group structure of wholly owned five subsidiaries – one undertakes facility management services and the other four are formed primarily for acquiring land.

Ashiana has commendable disclosure levels

Valuation Grade: 5/5

Though construction at Lavasa Utsav is expected to start in a month's time, we do not rule out future hurdles given the conditional clearance. We continue to use the net asset value method for Ashiana, but halve the discount for the Utsav project's NAV to 25% from 50%. Accordingly, we raise our fair value to Rs 205 per share from Rs 195. This translates to a valuation grade of 5/5.

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

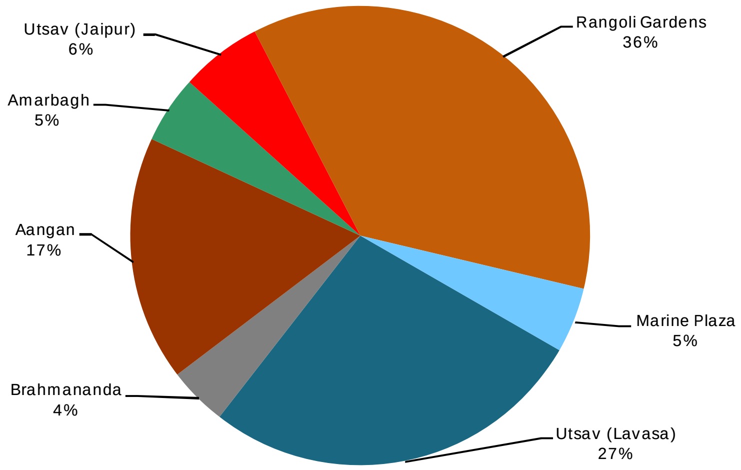
We revise our fair value to Rs 205 per share

Key DCF assumptions

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:

1. We have assumed a cost of equity of 16.7%. 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.
2. We have assumed a tax rate of ~20% in FY12 as the company gets the benefit of unutilised MAT credit. Post FY12 we have assumed a full tax rate of 34%.

Contribution of key projects in valuation

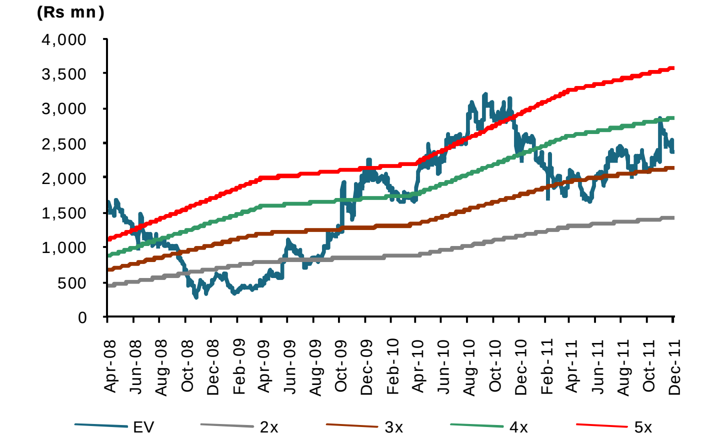


Source: Company, CRISIL Research estimates

One-year forward P/E band

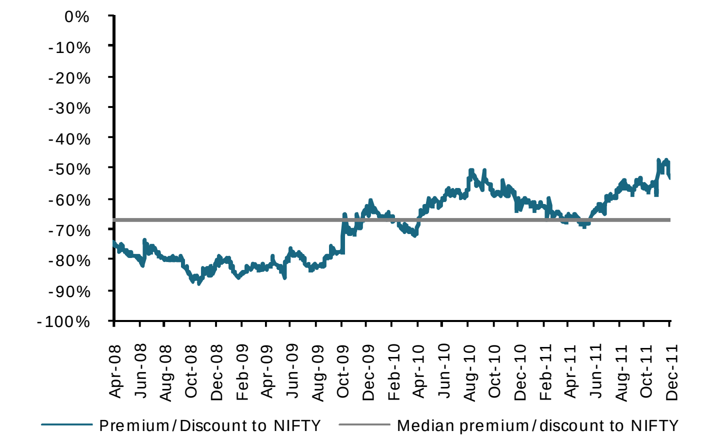
Source: Company, CRISIL Research

One-year forward EV/EBITDA band



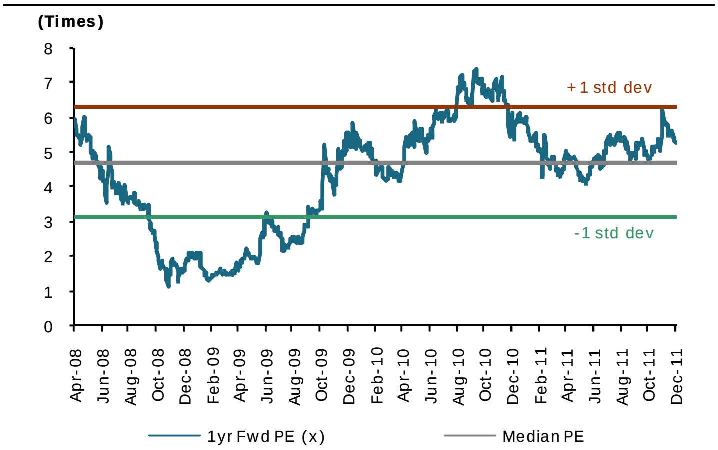
Source: Company, CRISIL Research

P/E – premium / discount to NIFTY



Source: Company, CRISIL Research

P/E movement

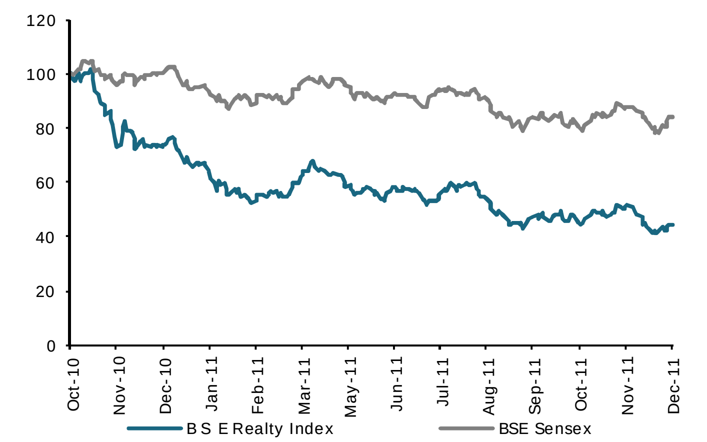


Source: Company, CRISIL Research

Real estate companies' performance in past year

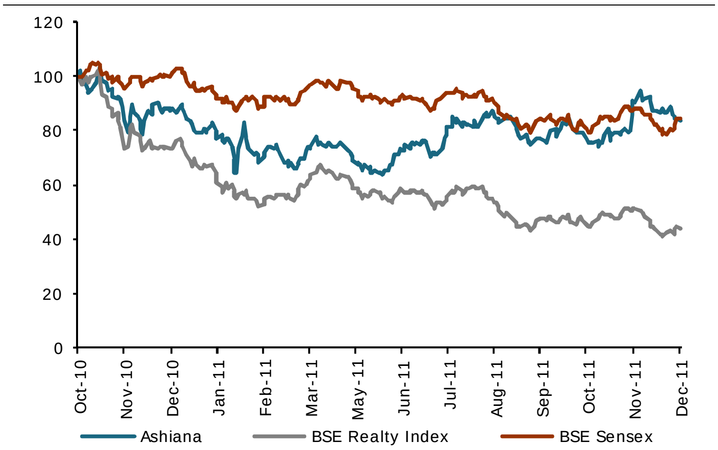
While the BSE Realty Index has underperformed the Sensex in the past one year, majority of the real estate companies underperformed the Realty Index in the same period. Ashiana, however, outperformed the index, and owing to strong growth in Q2FY12, it outperformed the Sensex too in the recent past.

Realty Index has underperformed broader index in past one year



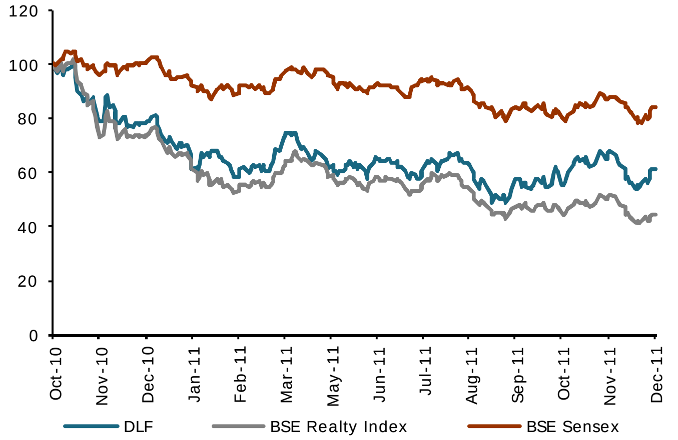
Source: BSE, CRISIL Research

Ashiana outperformed realty and recently the broader indices



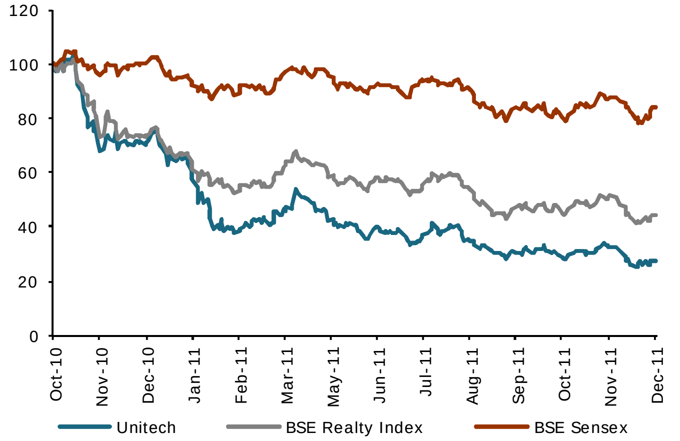
Source: NSE, BSE, CRISIL Research

DLF trades in line with Realty Index but underperforms the broader market



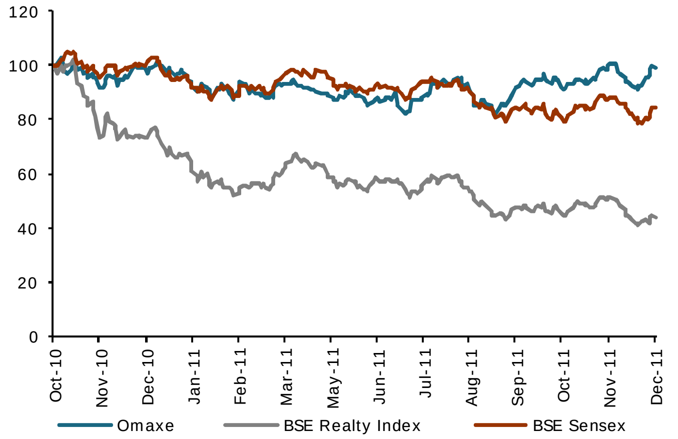
Source: NSE, BSE, CRISIL Research

Unitech continues to underperform both the indices



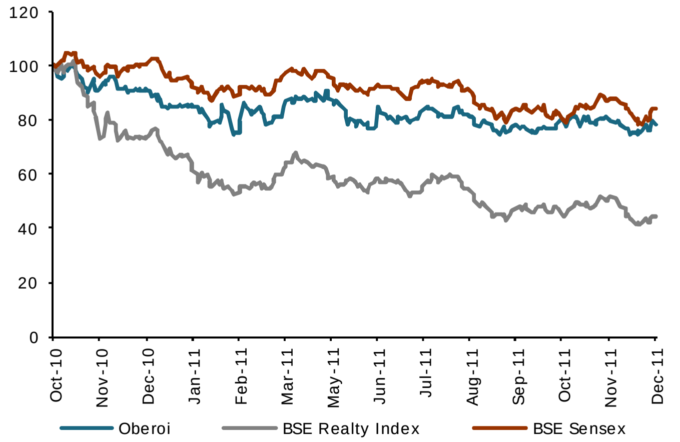
Source: NSE, BSE, CRISIL Research

Omaxe recently outperformed Sensex



Source: NSE, BSE, CRISIL Research

Oberoi underperformed Sensex



Source: NSE, BSE, CRISIL Research

Ashiana Housing Ltd

Company Overview

Delhi-based Ashiana, incorporated in 1986, has been in the real estate development sector for over 25 years with a focus on group housing and active senior living projects. The company started its operations in Patna in 1979, from where it expanded its reach to other tier II and tier III cities. It has projects in Delhi (NCR), Rajasthan, Maharashtra and Jharkhand; it has built projects mainly in the cities of Bhiwadi and Jaipur in Rajasthan. So far it has constructed over ~10 mn sq.ft. of area and provides facility management services to about 6,000 housing units. It pioneered the concept of active senior living in India.

Key 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 a hotel and club at the same location.
2008	Launched 30 acres of retirement resort project in 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
2011	Got Listed on the NSE. Got recognised in Forbes' 'Asia's Best under a Billion' 200 list of companies, second time in a row
2011	Ashiana Aangan and Ashiana Woodland awarded the best residential project in north and east India, respectively at Zee Business RICS awards

Source: Company, CRISIL Research

CRISIL RESEARCH

Annexure: Financials

Income statement

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	**918**	**1,139**	**1,396**	**1,930**	**2,117**
EBITDA	**222**	**398**	**441**	**650**	**744**
EBITDA margin	**24.2%**	**34.9%**	**31.6%**	**33.7%**	**35.1%**
Depreciation	15	15	20	23	24
EBIT	**207**	**383**	**421**	**627**	**720**
Interest	2	11	7	15	15
Operating PBT	**205**	**373**	**414**	**612**	**705**
Other income	80	25	145	84	86
Exceptional inc/(exp)	(2)	5	9	-	-
PBT	**283**	**402**	**568**	**696**	**791**
Tax provision	37	76	130	181	257
Minority interest	38	42	-	-	-
PAT (Reported)	**284**	**368**	**439**	**515**	**534**
Less: Exceptionals	(2)	5	9	-	-
Adjusted PAT	**286**	**363**	**429**	**515**	**534**

Ratios

	FY09	FY10	FY11	FY12E	FY13E
Growth					
Operating income (%)	(27.8)	24.1	22.5	38.3	9.7
EBITDA (%)	(42.5)	79.2	10.8	47.4	14.4
Adj PAT (%)	(26.1)	26.8	18.4	19.9	3.7
Adj EPS (%)	(26.1)	26.8	15.0	19.9	3.7
Profitability					
EBITDA margin (%)	24.2	34.9	31.6	33.7	35.1
Adj PAT Margin (%)	31.2	31.9	30.8	26.7	25.2
RoE (%)	34.9	32.1	28.2	25.9	21.7
RoCE (%)	24.7	32.6	26.8	30.7	28.0
RoIC (%)	108.8	61.6	82.6	63.7	53.1
Valuations					
Price-earnings (x)	9.4	7.4	6.5	5.4	5.2
Price-book (x)	2.8	2.1	1.6	1.3	1.0
EV/EBITDA (x)	11.6	6.6	5.2	3.7	2.4
EV/Sales (x)	2.9	2.4	1.7	1.3	0.9
Dividend payout ratio (%)	-	8.9	8.6	7.3	7.3
Dividend yield (%)	-	1.2	1.4	1.4	1.4
B/S ratios					
Inventory days	327	362	306	381	316
Creditors days	305	195	210	137	108
Debtor days	6	6	8	2	7
Working capital days	(1)	65	68	93	125
Gross asset turnover (x)	3.1	3.4	3.4	3.9	4.0
Net asset turnover (x)	3.4	4.0	4.0	4.6	5.0
Sales/operating assets (x)	3.0	3.0	3.3	4.6	5.0
Current ratio (x)	1.4	2.0	2.0	3.0	4.1
Debt-equity (x)	0.0	0.1	0.0	0.0	0.0
Net debt/equity (x)	(0.1)	(0.1)	(0.3)	(0.2)	(0.4)
Interest coverage	116.4	36.5	64.0	41.9	48.1

Per share

	FY09	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	15.8	20.1	23.1	27.7	28.7
CEPS	16.6	20.9	24.2	28.9	30.0
Book value	53.2	71.8	94.0	119.3	145.5
Dividend (Rs)	-	1.8	2.0	2.0	2.1
Actual o/s shares (mn)	18.1	18.1	18.6	18.6	18.6

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity share capital	181	181	186	186	186
Reserves	782	1,117	1,564	2,034	2,522
Minorities	-	-	0	-	-
Net worth	**963**	**1,298**	**1,750**	**2,220**	**2,708**
Convertible debt	-	-	-	-	-
Other debt	12	80	7	107	107
Total debt	**12**	**80**	**7**	**107**	**107**
Deferred tax liability (net)	5	11	32	32	32
Total liabilities	**980**	**1,389**	**1,789**	**2,359**	**2,847**
Assets					
Net fixed assets	281	290	415	422	423
Capital WIP	56	136	5	-	-
Total fixed assets	**338**	**426**	**420**	**422**	**423**
Investments	**407**	**499**	**667**	**667**	**667**
Current assets					
Inventory	584	685	751	1,235	1,059
Sundry debtors	15	17	29	13	42
Loans and advances	106	51	142	142	142
Cash & bank balance	130	161	401	422	994
Marketable securities	-	-	81	81	81
Total current assets	**835**	**914**	**1,404**	**1,892**	**2,317**
Total current liabilities	**601**	**451**	**702**	**622**	**561**
Net current assets	**235**	**463**	**702**	**1,270**	**1,757**
Intangibles/Misc. expenditure	**1**	**1**	**0**	**0**	**0**
Total assets	**980**	**1,389**	**1,789**	**2,359**	**2,847**

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	285	397	559	696	791
Total tax paid	(34)	(70)	(109)	(181)	(257)
Depreciation	15	15	20	23	24
Working capital changes	(215)	(198)	83	(547)	86
Net cash from operations	**51**	**144**	**554**	**(10)**	**644**
Cash from investments					
Capital expenditure	(71)	(104)	(13)	(25)	(25)
Investments and others	50	(92)	(250)	-	-
Net cash from investments	**(21)**	**(195)**	**(263)**	**(25)**	**(25)**
Cash from financing					
Equity raised/(repaid)	-	-	5	-	-
Debt raised/(repaid)	(14)	68	(73)	100	-
Dividend (incl. tax)	-	(33)	(38)	(44)	(46)
Others (incl extraordinaries)	(39)	(37)	55	(0)	-
Net cash from financing	**(52)**	**(2)**	**(50)**	**55**	**(46)**
Change in cash position	(23)	(53)	241	21	573
Closing cash	130	161	401	422	994

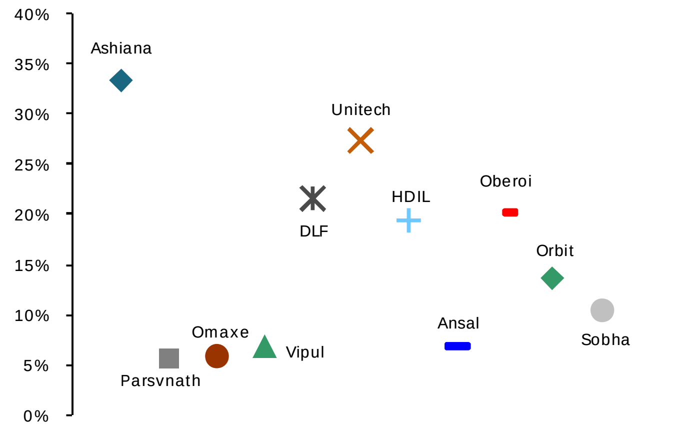
Quarterly financials

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Operating income	**284**	**256**	**484**	**402**	**567**
Change (q-o-q)	-32%	-10%	89%	-17%	41%
EBITDA	**88**	**84**	**176**	**141**	**176**
Change (q-o-q)	-36%	-5%	110%	-20%	25%
EBITDA margin	**31.0%**	**32.7%**	**36.3%**	**35.0%**	**31.1%**
PAT	80	72	170	130	146
Adj PAT	**80**	**72**	**170**	**130**	**146**
Change (q-o-q)	-32%	-9%	134%	-23%	12%
Adj PAT margin	**28.0%**	**28.3%**	**35.0%**	**32.4%**	**25.7%**
Adj EPS	**4.3**	**3.9**	**9.1**	**7.0**	**7.8**

Source: CRISIL Research

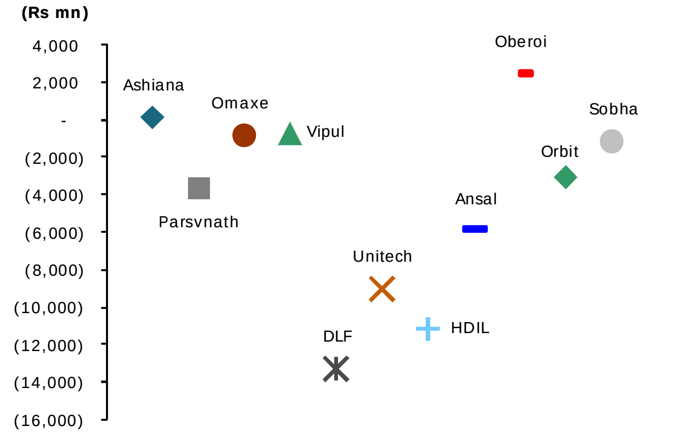
Focus Charts

Superior RoE...



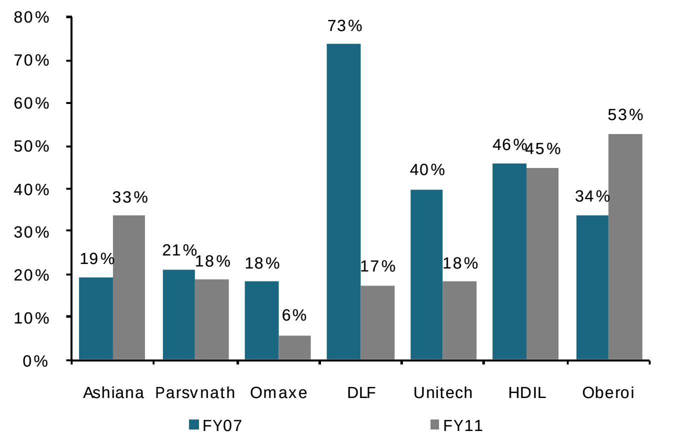
Source: Company, CRISIL Research

... and positive cash flows compared to peers



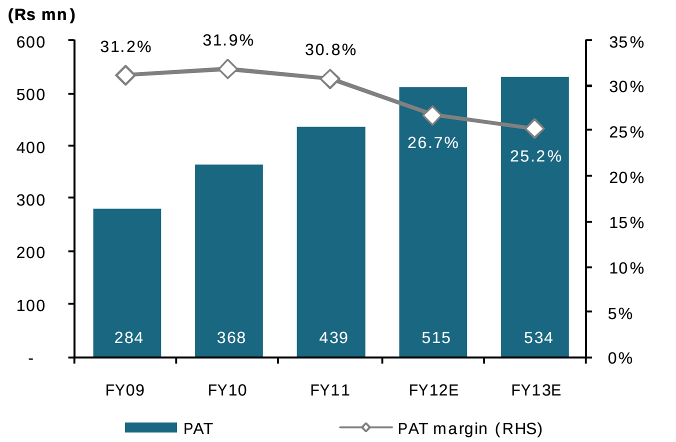
Source: Company, CRISIL Research

PAT margin improved in past four years



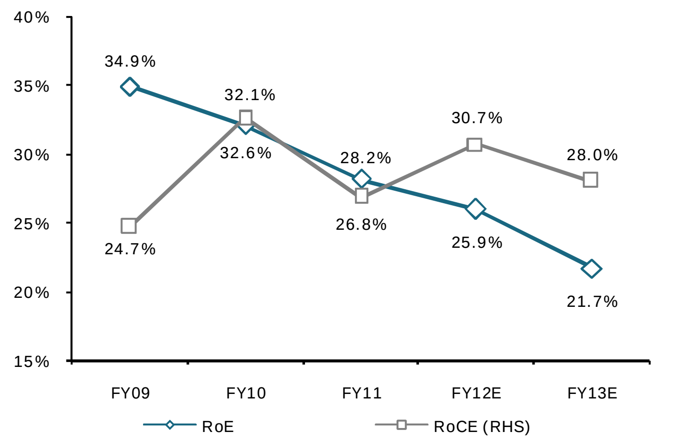
Source: Company, CRISIL Research

PAT and PAT margin



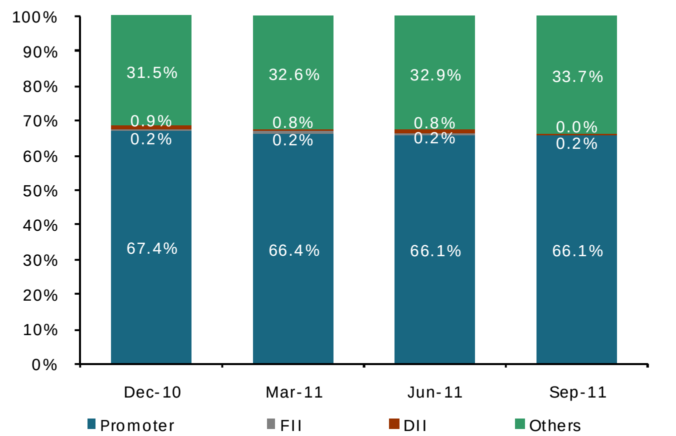
Source: Company, CRISIL Research

Healthy RoE and RoCE



Source: Company, CRISIL Research

Shareholding pattern over the quarters



Source: Company, CRISIL Research

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- Customised research on market sizing, demand modelling and entry strategies
- Customised research content for Information Memorandum and Offer Documents

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