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Initiating Coverage
September 19, 2014

Ashiana Housing Ltd.

All set for multifold growth over next 2 years...

Current	Previous
CMP : Rs.159	
Rating : BUY	**Rating : NR**
Target : Rs.202	**Target : NR**

(NR-Not Rated)

STOCK INFO	
BSE	523716
NSE	ASHIANA
Bloomberg	ASFI IN
Reuters	AHFN.BO
Sector	Real Estate
Face Value (Rs)	2
Equity Capital (Rs mn)	186
Mkt Cap (Rs mn)	14,818
52w H/L (Rs)	187/ 40
3m Avg Daily Volume (BSE + NSE)	29,485

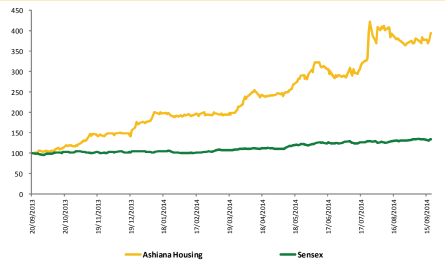
SHAREHOLDING PATTERN (as on 30th Jun. 2014)	**%**
Promoters	67.1
FIIs	3.3
DIIs	0.0
Public & Others	29.6

Source: BSE

STOCK PERFORMANCE (%)	**1m**	**3m**	**12m**
ASHIANA HOUSING	4	33	294
SENSEX	3	8	34

Source: IndiaNivesh Research

ASHIANA HOUSING v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Investment Rationale

Developer with Unique Business Model: Ashiana Housing Ltd. (AHL) is a unique asset light developer, with strong focus on pursuing Real Estate business in Tier II and III cities. AHL has unique business model, (1) where land cost as % of construction cost is lesser (vs. their listed peers), (2) does not build huge land banks, (3) does in-house construction as well as sales, & (4) consistently explore the alternative of deploying lower capital across projects. This asset light strategy, focus on cash flow generation has helped AHL remain debt free and experience above industry level Internal Rate of Returns (IRRs) of >30% across most of the projects.

Only Developer to generate >30% IRRs consistently: AHL in last few years has focused on generating >30% pre-tax Internal Rate of Return (IRRs), which the peers have been struggling to attain. Peers (inc. of Industry leaders) in last few quarters, have been struggling on a/c of sales slow-down, increase in the cost structure, levered balance sheet and delays in deliveries. If we look at pre-tax IRR levels of projects executed in last 3 years, AHL generated IRRs in range of 30-116% (at Aangan, Bhiwadi). Such higher IRRs have been on a/c of land acquisition done at low rates, projects executed and delivered quickly, and company being able to pass on increase in costs.

Highest Return Ratios in the Industry: Despite its focus on Tier II & III cities, AHL's financial health has not been majorly impacted by recent economic slow-down. Their strategy to avoid building land bank and focus on quicker execution has helped them maintain above-industry standard >30% pre-tax IRRs. AHL is the only listed developer, which has consistently maintained >25% RoE as well as RoCE for last few years (with exception of FY13 & FY14). Sudden drop in FY13-14 return ratios is owing to company's strategy to shift its accounting methodology from 'Percentage Completion Method' to 'Project Completion Method' (resulting in profitability decline). With most of the ongoing projects reaching completion, we expect sharp uptick in FY15-16E RoEs and RoCE. We expect AHL to report FY16E RoE and RoCE of 35.0%, each.

FY15-16E to see strong earnings growth: AHL is likely to report ~149% top-line CAGR during FY14-16E (to ~ Rs 6.9 bn), on the back of 3 projects entirely getting completed (Tree House, Utsav and Anantara) and some phases of remaining 7 projects getting completed (Ashiana Town, Rangoli Gardens, Aangan, Gulmohar Gardens, Navrang, Vrinda Gardens, Dwarka and Umang). Given that AHL follows "Project completion a/c'ing method", in-line with top-line recognition, costs related to projects would get recognized. We expect AHL to report ~248% EBITDA CAGR during FY14-16E (to ~ Rs 2.4 bn; EBITDA margins to expand from 17.8% in FY14 to 34.7% in FY16E). Such swing in margins could be reflection of (1) absorption of fixed costs and (2) changes in the inventory (as major chunk of inventory would get absorbed). Further, higher tax rate (in FY16E) would eat in to benefits of strong EBITDA growth. We expect AHL to report ~192% PAT CAGR during FY14-16E (to ~Rs 1.8 bn; PAT margins would expand from 19.8% in FY14 to 27.1% in FY16E).

Valuation

With substantial chunk of ~6.8 mn sq. ft. of ongoing projects reaching revenue recognition threshold, we expect revenue visibility to sharply improve from here-on. Accordingly, we expect AHL to report revenue and PAT CAGR of ~149% and ~192%, respectively, during FY14-16E. With debt free balance sheet, at CMP of Rs 159, AHL is trading at FY15E and FY16E, EV/EBITDA multiple of 18.1x and 5.9x, respectively. We have valued AHL using Sum-of-the-parts (SoTP) based valuation methodology to arrive at FY16E based price target of Rs 202. Given the ~27% upside, we initiate coverage on AHL with BUY rating.

Consolidated Financials

YE March (Rs mn.)	Net Sales	EBITDA	PAT Adj.	Equity Cap.	EPS (Rs)	EV/EBITDA (x)
FY13A	1,486.6	349.1	331.5	186.1	3.6	41.1x
FY14A	1,106.5	197.4	218.6	186.1	2.3	72.6x
FY15E	2,470.4	786.1	726.4	186.1	7.8	18.1x
FY16E	6,869.5	2,385.0	1,858.6	186.1	20.0	5.9x

Source: IndiaNivesh Research

Investment Rationale

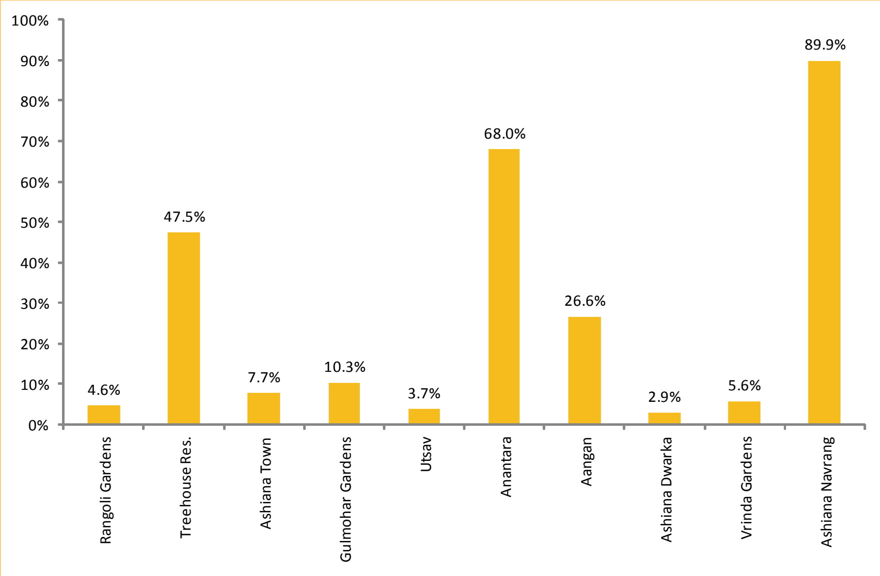
Real Estate developer with Unique Business Model:

Ashiana Housing Ltd. (AHL) is a unique asset light developer, with strong focus on pursuing Real Estate business in Tier II and III cities. AHL has unique business model, (1) where land cost as % of construction cost is lesser (vs. their listed peers), (2) does not build huge land banks, (3) does in-house construction as well as sales, & (4) consistently explore the alternative of deploying lower capital across projects. This asset light strategy, focus on cash flow generation has helped AHL remain debt free and experience above industry level Internal Rate of Returns (IRRs) of >30% across most of the projects.

AHL has asset light business model, with focus on affordable housing space, as they focus on Tier-II and III cities. In various aspects of conducting business, AHL is different from its listed peers. These include:

Land cost as % of construction cost is lesser: Land cost as % of total project cost at AHL is lesser than their listed peer. If we look at details of the ongoing projects, barring, TreeHouse, Anantara and Navrang, all other projects have land cost as % of construction cost in range of 2.9%-26.6%.

Land Cost as % of Construction Costs



Source: Company; IndiaNivesh Research

This is comparatively lower to listed peers (such as DB Realty, ORL), whose land cost as % of construction costs is >50%. We attribute following reasons for such huge difference:

(1) AHL focuses on affordable housing space in Tier-II and III cities. For some of the projects AHL acquired agriculture lands (and convert them), mostly at outskirt of cities (with proper road connectivity), develop them and sell. Given that conversion of Agri land takes 6-12 month, AHL management confirmed that they would refrain from acquiring any new Agri land. At the same time, they would scout for JDA opportunities, which have lesser land costs as % of construction costs.

(2) AHL also looks distinctive vs. other listed peers, as none of the players have such high exposure to Tier II & III cities. Again within, Tier II & III cities, AHL is selective to enter only such cities which are fast growing industrial hubs.

Does not build huge land banks: AHL differs from its peers on execution based business model, instead of building huge land banks, wait for 5-7 years and then develop the project. At any given point of time, AHL's land bank does not exceed

5.0-7.0x its current Equivalent Area Constructed (EAC), thereby giving revenue visibility for next 3-4 years. This strategy to look upon its land bank as raw material ensures that their balance sheet is unlevered and less working capital intensive.

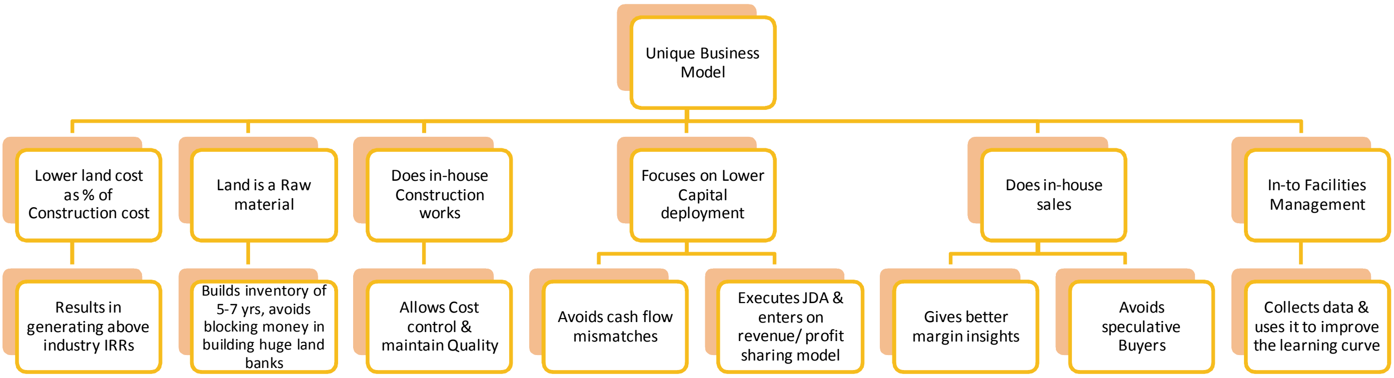
Does in-house construction as well as sales: AHL is again one of the few developers, who focus on having in-house construction as well as in-house sales.

In-house construction helps, AHL to continuously improvise on construction techniques, helpful in cost control as well as maintain quality at the same time. In FY14, AHL started deploying new construction method of using pre-fab structures called Aluminum Formwork System (thereby avoiding need of block works and brick works) at Ashiana Surbhi, Bhiwadi. Execution of this technology should help them save cost, time and also improve construction quality.

AHL has in-house sales team, which is actively involved in sale process and not dependent on broker driven sale model. This strategy helps AHL get regular feedback from potential home-buyers, again helpful in devising the future business strategy.

Explore possibility of deploying lower capital: AHL has been a conservative developer, when it comes to entering new city/ town. When entering a new market/ city, AHL ties-up with land owners on milestone based payments, which are again linked to profit/ revenue sharing. This strategy helps AHL in blocking lower capital for land purchases and execute them with minimal capital. Later, as the company gets hold of market, AHL focuses on acquiring low cost lands (as % of construction cost) and use its experience to develop the projects.

This 4-pronged execution strategy, places AHL in a very unique position, in comparison to its peers. This strategy has helped AHL generate positive cash flows, remain debt free, and generate above industry level Internal Rate of Returns (IRRs) of >30% across most of the projects.



Source: Company; IndiaNivesh Research

Only Developer to generate >30% IRRs consistently:

AHL in last few years has focused on generating >30% pre-tax Internal Rate of Return (IRRs), which the peers have been struggling to attain. Peers (inc. of Industry leaders) in last few quarters, have been struggling on a/c of sales slow-down, increase in cost structures, levered balance sheet and delays in deliveries.

If we look at pre-tax IRR levels of projects executed in last 3 years, AHL generated IRRs in range of 30-116%. Such higher IRRs have been seen at their Bhiwadi (industrial belt near Delhi NCR), Jamshedpur, Neemrana, Jodhpur & Jaipur based projects. Such higher pre-tax level IRRs are attributable to (1) land acquisition done at low rates, (2) projects getting delivered quickly (maintained focus on ticket size of ~Rs 4-7 mn), and (3) AHL's ability to pass on increase in the costs.

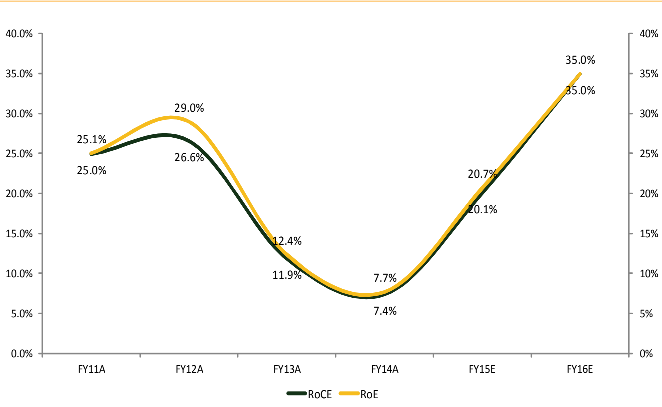
On a whole, we remain optimistic that AHL would be able to deliver projects with ~30% pre-tax IRRs.

Return Ratios to be on upward trend:

Considering lower land costs, quicker execution, AHL has been able to maintain above-industry standard >30% pre-tax IRRs. AHL is the only listed developer, which has consistently maintained >25% RoE as well as RoCE for last few years (with exception of FY13 & FY14). Sudden drop in FY13-14 return ratios is owing to company's strategy to shift its accounting methodology from 'Percentage Completion Method' to 'Project Completion Method'. Shift in a/c'ing method resulted in delays in revenue recognizition across projects, which led to decline in profitability. As a result RoE declined to 12.4% and 7.7% in FY13 & FY14, respectively.

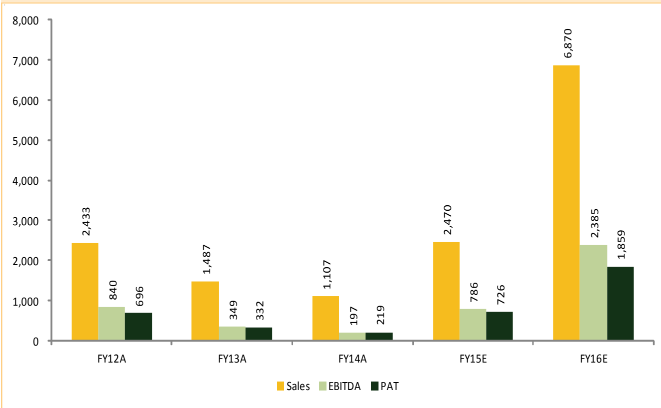
Considering that most of the ongoing projects are likely to reach completion, we expect sharp uptick in FY15-16E RoEs as well as RoCE. We expect AHL to report FY15E and FY16E RoE of 20.7% and 35.0%, respectively.

RoE & RoCE Trends (%)



Source: Company; IndiaNivesh Research

Growth in FY16E Sales & Profitability



Source: Company; IndiaNivesh Research

FY15-16E to see strong earnings growth, huge swing over FY14:

Expect 6.2x top-line growth during FY15-16E

Expect 12.1x EBITDA growth during FY15-16E

Expect 8.5x PAT growth during FY15-16E

AHL is likely to report ~149% top-line CAGR during FY14-16E (to ~ Rs 6.9 bn), on the back of 3 projects entirely getting completed (Tree House, Utsav and Anantara) and some phases of remaining 7 projects getting completed (Ashiana Town, Rangoli Gardens, Aangan, Gulmohar Gardens, Navrang, Vrinda Gardens, Dwarka and Umang). Given that AHL follows "Project completion a/c'ing method", in-line with top-line recognition, costs related to projects would get recognized. We expect AHL to report ~248% EBITDA CAGR during FY14-16E (to ~ Rs 2.4 bn; EBITDA margins to expand from 17.8% in FY14 to 34.7% in FY16E). Such swing in margins could be reflection of (1) absorption of fixed costs and (2) changes in the inventory (as major chunk of inventory would get absorbed). Higher tax rate (in FY16E) would eat in to benefits of strong EBITDA growth. We expect AHL to report ~192% PAT CAGR during FY14-16E (to ~Rs 1.8 bn; PAT margins would expand from 19.8% in FY14 to 27.1% in FY16E).

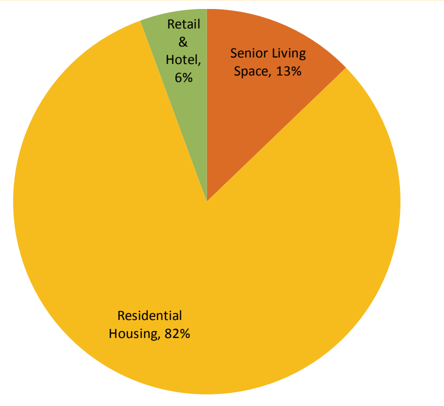
Quicker execution on back of state-of-art technology resulted in building strong brand "Ashiana":

AHL's strategy to maintain in-house construction activities has helped them in making deliveries as per customer commitments, which in-turn has helped in building the "Ashiana" brand. This brand building exercise has helped them now quote 10-15% premium to its peers in the local Bhiwadi, Neemrana & Jaipur markets.

In order to further de-risk its business model (and ensure IRRs do not fall below 30%), management is focusing on building quicker execution capabilities. Without compromising on quality, AHL has adopted Alu-form technology at Ashiana Surbhi, Bhiwadi. This Malaysian technology uses pre-designed light weight aluminum frames for construction of all the elements of the building structure. On using this technology, developers could quickly scale the project as they would replace the usage of bricks with Reinforced Cement Concrete (RCC) Walls. As a result, industry experts view that project delivery time could reduce by ~30%. Also, it would shorten the cash flow cycles and help in generating higher returns on capital deployed.

Early mover advantage in Senior Living space:

FY16E- Revenue Split



Source: Company; IndiaNivesh Research

AHL is of the few Real Estate developers, which forayed early in to "Senior Living Space". This category contributes <10% of current revenues, but puts AHL at advantage, given their early mover advantage. Currently, AHL is executing only one Senior Living project- Utsav, Lavasa (has total saleable area of ~0.49 mn sq.ft; ~75% of Phase III sold-out).

Amongst projects in pipeline, AHL plans to build Senior Living facility at Ashiana Town, Bhiwadi and Utsav, Kolkata (both the projects are yet to be launched).

Having early mover advantage, AHL is well positioned to capture any opportunities emerging from the Senior Living Space across the markets AHL is present across.

Presence in Post-Sale Services- De-risks the business:

In order to improve on its learning, AHL ventured in to post-sale maintenance services through its 100% subsidiary Ashiana Maintenance Services Ltd (earlier known as Vatika Marketing). Even though this is a low margin business (in 5-7% range), AHL focuses on collecting feedback from customers and uses it to understand customer expectations and further improve its chain of offerings. This strategy indirectly helps in AHL in primary data collection of market trends such as resale values, rental values and occupancy trends, amongst other metrics. All these data points help AHL in taking right strategic calls.

Having handed over 9,000 houses to-date, this post-sale maintenance services business has evolved from yearly revenues of Rs 26 mn in FY09 to Rs 154 mn in FY14. With some phases of 7 projects getting completed & 3 entirely getting completed during FY15-16E, we expect revenues from this segment to report 13.8% CAGR during FY14-16E to ~Rs 199 mn.

In order to consolidate its brand, AHL has built 101 rooms resort in Bhiwadi under brand name "Tree House Hotel". This hotel has been in operations since FY09. Over the years, occupancy rates gradually increased to ~85% levels (as of FY14), reflecting uptick in the pricing trends. At FY14-end this segment contributed 12.8% of consolidated revenues. With residential projects getting completed, contribution from this segment should decline to ~3% levels by FY16E.

On a whole, these 2 businesses, give revenue stickiness (with yearly revenue contribution of ~Rs 350 mn) and de-risk the business model up to certain extent.

Strong Balance Sheet

AHL in last few years has been successful in maintaining its balance sheet unlevered, on a/c of lower land costs as % of construction costs and focus on quicker execution. AHL at FY14-end had consol. debt of Rs 91.3 mn (reflecting consol. D/E ratio of 0.03x). With CFO to the tune of ~Rs 2.4 bn during FY15-16E, we expect AHL to repay its entire debt on the books by FY16-end.

AHL has followed the model of using cash flow proceeds to acquire land and maintain project level pre-tax IRRs of >30% over the years, thereby creating value for shareholders. On the back of such higher pre-tax IRR model, we expect Cash and liquid investments balance after paying debt and land acquisition to increase to ~Rs 3.0 bn by FY16E.

AHL's Growth Strategy

Since its inception in 1986, AHL diversified its business to North & North-Western India. Over the years, AHL has built a strong brand (by focusing on delivering quality product on time) name across the Tier-II and III cities, where the real estate sector is highly unorganized. Since inception AHL has delivered 9,000+ houses covering 15+ mn sq.ft. of housing space. Management has been following a prudent strategy of entering Tier-II and III cities, which are fast growing Industrial hubs and have potential to absorb new home sales.

AHL follows a differentiated business model in comparison to other real estate players, as it **does not focus on building huge land banks** and **maintains its focus on acquiring land in Tier II & III cities and execute these projects quickly**. AHL maintains its focus of acquiring land parcel in Tier III cities/ towns with ~1 mn of population (which also happen to be industrial hubs). Notably, **land parcel here is a smaller component of total project cost (vs. peers)**. As diversification strategy, AHL enters new market through JV/ JDA route. On learning ropes of business, it focuses on buying land parcel and execute it on its own.

AHL currently has 11 ongoing projects across 7 cities, of which Bhiwadi (an industrial belt near NCR) and Jaipur are the cities where it is seeing maximum area under development. ~78% of its total saleable area is from Bhiwadi (36%) and Jaipur (42%). AHL in FY14 made in-roads in to Halol (Gujarat).

Is this growth Sustainable?...

After coming to power, both, State (Rajasthan) and Central governments have shown increased thrust to execute long-pending Delhi Freight Corridor (DFC) & Delhi-Mumbai Industrial Corridor (DMIC) projects. These projects have direct/ indirect bearing on ~80% of AHL's land bank (Bhiwadi, Neemrana & Jaipur). Government initiatives to execute these projects should create enthusiasm across manufacturers, who play a key role in employment generation. This in-turn gives better growth outlook of these fast growing real estate markets and confirms that the current growth trends are sustainable.

Where will the growth come from?...

Sensing a prudent business diversification strategy, AHL management has decided to venture in to new markets. AHL bought small land parcel in Halol and launched the project (which has received strong response). In addition to this, AHL has zeroed on to enter another 2-3 cities/ towns in Gujarat, Maharashtra and Tamil Nadu. We expect some announcement on this front in next few months.

Management's strategy to enter new residential real estate markets which are also industrial hubs, with ~1 mn of population is in the right direction. Given the cautious approach AHL follows while entering a new market, there could be a possibility of AHL experiencing lower pre-tax level IRRs for the first project in a given city. However, subsequent project launches in the same city, should help AHL gradually return back to its targeted >30% pre-tax level IRRs.

Manufacturing destinations of India

North India: Delhi (NCR)/Gurgaon, Kanpur, Lucknow, Chandigarh & Indore	**West India:** Mumbai, Pune, Bhiwadi, Jaipur, Ahmedabad, Halol, Vadodara & Panaji
East India: Kolkata, Guwahati, Patna & Jamshedpur	**South India:** Hyderabad, Visakhapatnam, Bangalore, Chennai & Coimbatore

Source: IndiaNivesh Research

If we look at above grid of various manufacturing belts in the country, then AHL has strong presence in Western India (at Bhiwadi, Halol, Neemrana & Jaipur) and slight presence in East India (at Jamshedpur).

With development of DFC and DMIC projects, we expect market saturation is still few years away at the currently served markets in Western India. Within West India, AHL is exploring areas in-and-around Pune, which have huge growth potential, as Pune is looked upon as the Manufacturing, Auto & IT hub.

AHL has been scouting to enter South India market for last few months. We are of view that AHL would soon announce entry in to Chennai manufacturing belt, where they could execute the project through JDA route.

On a whole, AHL is making serious efforts to enter new markets, which in-turn should de-risk their business model up to certain extent in the longer run.

Status of Ongoing Projects:

AHL is currently pursuing 11 projects with total saleable area of ~6.8 mn sq.ft. A major chunk of these projects (inc. phases for some of these projects) are likely to get executed during FY15-16E. Already at Q1FY15-end, AHL reported bookings of ~4.7 mn sq.ft.

Summary of Ongoing Projects

Land Parcel	Location	Est. Saleable Area (mn sq.ft.)	Area booked (as of Q1FY15; mn sq.ft.)	Comments
Rangoli Gardens (Phase IV-VII & Plaza)	Jaipur	2.6	2.5	Expects Phase IV to be handed over in Q2FY15, Phase V in Q4FY15, Phase VI in Q1FY16 & Phase VII in Q2FY16
Treehouse Residences (Phase I & Plaza)	Bhiwadi	0.1	0.1	Expects Phase I to hand over in Q2FY15
Ashiana Town (Phase I-III & EWS)	Bhiwadi	1.1	0.1	Hand over Phase I in Q3FY16, Phase II in Q4FY16 & Phase III in FY17
Gulmohar Gardens (Phase I-IV)	Jaipur	0.5	0.4	Hand over Phase I in Q2FY16 & Phase II in Q4FY16
Utsav (Phase I-IV)	Lavasa	0.4	0.3	Hand over Phase II in Q3FY15 & Phase III in FY17
Anantara (Phase I-IV)	Jamshedpur	0.5	0.3	Hand over in Q3FY16
Aangan (Phase I & EWS)	Neemrana	0.4	0.4	Hand over in Q2FY16
Dwarka (Phase I-III)	Jodhpur	0.2	0.1	Hand over Phase I in FY16
Ashiana Surbhi	Bhiwadi	0.3	0.2	Hand over Phase I in FY16
Vrinda Gardens (Phase I)	Jaipur	0.5	0.2	Hand over Phase I in FY17
Ashiana Navrang (Phase I-III)	Halol	0.3	0.2	Hand over Phase I in Q2FY16
		6.8	**4.7**	

Source: Company; IndiaNivesh Research

In addition to the ongoing projects mentioned above, AHL also has strong pipeline of projects, which are to be launched soon. These 5 projects have ~8.1 mn sq.ft of land area, with saleable area of 6.6 mn sq.ft.

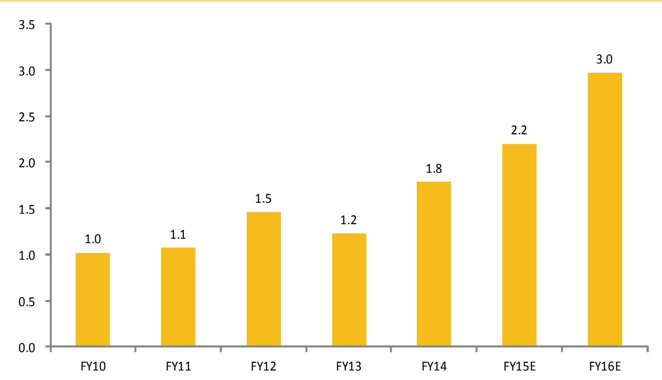
Summary of Upcoming Projects

Land Parcel	Location	Land Area (mn sq.ft.)	Est. Saleable Area (mn sq.ft.)	Proposed Development
Aangan Neemrana (Phase II)	Neemrana	0.4	0.4	Comfort Homes
Utsav	Kolkatta	1.0	0.8	Senior Living
Milakpur Road	Bhiwadi	4.1	3.1	Comfort Homes
Ashiana Umang	Jaipur	1.3	1.2	Comfort Homes
Sohna Road	Sohna	1.3	1.1	Comfort Homes
		8.1	**6.6**	

Source: Company; IndiaNivesh Research

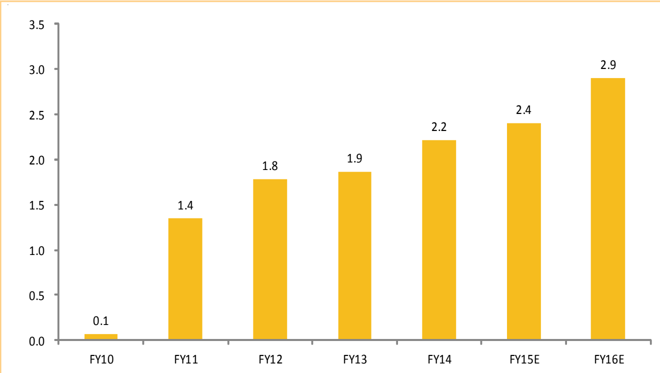
On the back of projects pipeline and new project launches, we expect AHL to report 29% CAGR in its Equivalent Area Constructed (sq.ft.) to 3.0 mn sq.ft. during FY14-16E and 14% CAGR in Area booked during FY14-16E to 2.9 mn sq.ft.

Equivalent Area Constructed (sq.ft.)



Source: Company; IndiaNivesh Research

Area Booked (mn sq.ft.)



Source: Company; IndiaNivesh Research

So how would Financials stack-up??

AHL reported negative 32.6% top-line CAGR during FY12-14. In Q1FY15, AHL reported consol. revenues of Rs 113.1 mn (down 39.5% y/y). This revenue de-growth is attributable to AHL switching its accounting methodology from "Percentage Completion method" to "Project Completion method". On switching to Project Completion method, both revenues as well as expense recognition gets deferred till the project gets completed. With 10 of the 11 ongoing projects getting completed (inc. phases for some of the projects) during Q2FY15-Q4FY16, we expect AHL to report strong ~149% top-line CAGR during FY14-16E to ~Rs 6,870 mn. Key projects likely to attain revenue recognition in FY15E include TreeHouse, Rangoli Gardens, Utsav (Lavasa) and Anantara.

EBITDA of the company de-grew 51.5% CAGR during FY12-14. Inability of the company to absorb fixed costs, led AHL report Rs 24.8 mn of negative EBITDA in Q1FY15. With top-line growth likely to pick-up from Q2FY15, we expect EBITDA to grow from here-on. Accordingly, we are of view that AHL is likely to report strong

~248% CAGR during FY14-16E (to Rs 2,385 mn). EBITDA margins are likely to get doubled from 17.8% in FY14 to 34.7% in FY16, mainly on the back of changes in inventory levels and better absorption of fixed costs.

In-line with EBITDA de-growth, AHL reported negative 43.9% CAGR PAT during FY12-14. Also, AHL reported net loss of Rs 21.7 mn in Q1FY15. On the back of better EBITDA numbers, we expect AHL to report strong ~192% bottom-line CAGR during FY14-16E to Rs 1,859 mn. PAT margins of the company are likely to improve from 19.8% in FY14 to 27.1% in FY16E. Despite sharp EBITDA margin expansion, PAT margin growth in FY16E would be restricted due to higher effective tax rate (of 25.0% in FY16 vs. 15.6% in FY14).

Income statement

Y E March (Rs m)	2013A	2014A	Q12015A	2015E	2016E
Net sales	**1,486.6**	**1,106.5**	**113.1**	**2,470.4**	**6,869.5**
Growth %		*-25.6%*		*123.3%*	*178.1%*
Total Operating Expenses	1,137.5	909.1	137.9	1,684.3	4,484.4
EBITDA	**349.1**	**197.4**	**(24.8)**	**786.1**	**2,385.0**
Growth %		*-43.5%*		*298.2%*	*203.4%*
EBITDA Margin %	*23.5%*	*17.8%*	*-21.9%*	*31.8%*	*34.7%*
PAT	**331.5**	**218.6**	**(21.7)**	**726.4**	**1,858.6**
Growth%		*-34.0%*		*232.2%*	*155.9%*
PAT margin %	*22.3%*	*19.8%*	*-19.2%*	*29.4%*	*27.1%*

Source: IndiaNivesh Research

Note:

1. Given that the company follows Project completion method of accounting it would be unfair to compare the company's financials on quarterly basis.
2. With all 10 key projects nearing completion, AHL is likely to report strong FY15-16E financials. We expect blip in AHL's financials from FY17E onwards as new projects would take time to get recognized. We expect AHLs financials to see this lumpiness, till the time they attain large scale.

Risks to our Estimates

- **Execution delays:** Any execution delays should affect the revenue and profitability recognizition from that project. As a result, any deviation in project execution could be a risk to our estimates.
- **Uptick in Interest Rate Cycle:** Any uptick in interest rate cycle (on the back of higher inflation) can prolong the decision making of home buyers, which in-turn could affect the business of AHL.

Valuation

With substantial chunk of ~6.8 mn sq. ft. of ongoing projects reaching revenue recognition threshold, we expect revenue visibility to sharply improve from here-on. Accordingly, we expect AHL to report revenue and PAT CAGR of ~149% and ~192%, respectively, during FY14-16E. With debt free balance sheet, at CMP of Rs 159, AHL is trading at FY15E and FY16E, EV/EBITDA multiple of 18.1x and 5.9x, respectively.

Alternatively, AHL stock is trading at FY15E and FY16E, P/E multiple of 20.4x and 8.0x, respectively. We valued AHL using Sum-of-the-parts (SoTP) based valuation methodology, where all residential projects have been valued on NPV basis, Hotel & AMS on PV of FCF basis, Land (at 20% discount) and Cash Balance (FY16 balance) to arrive at FY16E based price target of Rs 202. Given the ~27% upside, we initiate coverage on AHL with BUY rating.

NAV Based Valuation Methodology

Particulars	PV of FCFs	Stake (%)	NAV/ Share	% of Total
Treehouse Residences	146	100%	2	1%
Ashiana Town	1,206	100%	13	6%
Rangoli Gardens	1,534	50%	8	4%
Utsav Lavasa	116	100%	1	1%
Aangan Neemrana	343	100%	4	2%
Anantara	537	75%	4	2%
Gulmohar Gardens	802	50%	4	2%
Navrang	589	81%	5	3%
Vrinda Garden	709	50%	4	2%
Dwarka	348	75%	3	1%
Residential Projects	**6,329**		**48**	**24%**
Hotels & Retail business	**189**	**1**	**2**	**1%**
Ashiana Maintenance Serv.	**89**	**1**	**1**	**0%**
Upcoming Projects (@20% discount)	**11,148**		**120**	**59%**
FY16E- Net Cash & Liquid Investment			**32**	**16%**
Target Price			**202**	
CMP			**159**	
Upside			**27%**	
Rating			**BUY**	

Source: IndiaNivesh Research

Consolidated Financial Statements

Income statement

Y E March (Rs m)	2013A	2014A	2015E	2016E
Net sales	**1,486.6**	**1,106.5**	**2,470.4**	**6,869.5**
Growth %		*-25.6%*	*123.3%*	*178.1%*
Purchases	617.9	716.3	1,032.4	1,434.8
Employee Expenses	144.2	185.6	206.6	231.4
Change in Inventories	(780.9)	(1,715.0)	(1,287.1)	(864.0)
Project Expenses	895.1	1,386.4	1,368.1	3,287.6
Other Expenses	261.1	335.8	364.3	394.6
Total Operating Expenses	1,137.5	909.1	1,684.3	4,484.4
EBITDA	**349.1**	**197.4**	**786.1**	**2,385.0**
Growth %		*-43.5%*	*298.2%*	*203.4%*
EBITDA Margin %	*23.5%*	*17.8%*	*31.8%*	*34.7%*
Depreciation & Amortisation	26.0	30.5	35.4	40.4
Other Income	127.6	121.5	131.0	142.0
EBIT	**450.7**	**288.4**	**881.7**	**2,486.6**
EBIT Margin %	*30.3%*	*26.1%*	*35.7%*	*36.2%*
Interest	30.3	18.3	27.1	8.5
Extra-Ordinary Items	0.0	10.9	0.0	0.0
PBT	**420.4**	**259.1**	**854.6**	**2,478.1**
Tax	88.9	40.5	128.2	619.5
Effective tax rate %	*21.1%*	*15.6%*	*15.0%*	*25.0%*
Minority Interest	(0.0)	0.0	0.0	0.0
PAT	**331.5**	**218.6**	**726.4**	**1,858.6**
Growth%		*-34.0%*	*232.2%*	*155.9%*
PAT margin %	*22.3%*	*19.8%*	*29.4%*	*27.1%*

Source: IndiaNivesh Research

Balance sheet

Y E March (Rs m)	2013A	2014A	2015E	2016E
Share Capital	186.1	186.1	186.1	186.1
Reserves & Surplus	2,494.6	2,658.5	3,325.1	5,118.2
Net Worth	**2,680.7**	**2,844.6**	**3,511.2**	**5,304.3**
Total Loan Funds	110.7	91.3	106.9	11.1
Deferred Tax	36.7	34.4	34.4	34.4
Other Long-term Liabilities	202.9	232.3	248.4	265.5
Minority Interest	(13.8)	(31.0)	(31.0)	(31.0)
Total Liabilities	**3,017.2**	**3,171.6**	**3,870.0**	**5,584.3**
Gross Block	572.8	696.6	788.5	887.4
Accumalated Depreciation	115.4	139.1	174.6	215.0
Net Block & Capital WIP	**458.2**	**570.3**	**613.9**	**672.4**
Total Investments	548.7	333.2	152.9	2,320.1
Current Assets	**3,112.6**	**5,223.9**	**5,875.8**	**5,757.7**
Inventories	1,992.3	3,779.9	4,307.9	3,939.9
Trade Receivables	122.2	95.7	85.0	75.0
Cash & Bank Balance	576.4	572.3	661.9	847.7
Other Current Assets	0.0	0.0	0.1	0.1
Short-term Loans & Advances	421.7	775.9	821.0	895.0
Current Liabilities & Provisions	**1,102.3**	**2,955.8**	**2,772.6**	**3,165.7**
Trade Payables	216.9	271.3	651.9	934.2
Advance from Customers	836.7	2,630.0	2,061.0	2,166.0
Provisions	48.7	54.4	59.7	65.5
Net Current Assets	**2,010.2**	**2,268.1**	**3,103.2**	**2,591.9**
Total Assets	**3,017.2**	**3,171.6**	**3,870.0**	**5,584.4**

Source: IndiaNivesh Research

Cash Flow

Y E March (Rs m)	2013A	2014A	2015E	2016E
PBT	420.4	270.1	854.6	2,478.1
Depreciation & Amortisation	26.0	30.5	35.4	40.4
Other adj. prior to WC changes	(136.9)	(206.0)	(163.9)	(175.5)
Changes in working capital	(411.6)	(236.1)	(645.1)	785.7
Tax & Extra-Ordinary Items	(117.7)	(90.3)	(128.2)	(619.5)
Cash flow from Operations	**(219.7)**	**(231.9)**	**(47.2)**	**2,509.2**
Capital expenditure	(46.0)	(146.2)	(22.6)	(40.4)
Free Cash Flow	**(265.8)**	**(378.1)**	**(69.8)**	**2,468.8**
Inc/Dec. in Income & Investments	538.4	451.5	221.6	(2,122.8)
Cash flow from Investments	**492.4**	**305.3**	**199.0**	**(2,163.3)**
Equity Capital raised (inc. Share Cap. prem.)	0.0	0.0	0.0	0.0
Inc./ (Dec.) In long term & Other Borrowings	(40.2)	5.6	15.6	(95.8)
Dividend & Interest paid (incl tax)	(91.4)	(83.0)	(77.9)	(64.3)
Cash flow from Financing	**(131.6)**	**(77.4)**	**(62.3)**	**(160.1)**
Net change in cash	**141.0**	**(4.0)**	**89.5**	**185.8**
Cash at the beginning of the year	**435.4**	**576.4**	**572.3**	**661.9**
Cash at the end of the year	**576.4**	**572.3**	**661.9**	**847.7**

Source: IndiaNivesh Research

Key ratios

Y E March	2013A	2014A	2015E	2016E
Adj. EPS (Rs)	3.6	2.3	7.8	20.0
Cash EPS (Rs)	3.8	2.7	8.2	20.4
BVPS (Rs)	28.8	30.6	37.7	57.0
ROCE (%)	11.9%	7.4%	20.1%	35.0%
ROE (%)	12.4%	7.7%	20.7%	35.0%
DPS (Rs)	0.5	0.5	0.5	0.6
Debtor Days	30	32	13	4
Inventory Days	489	1,247	636	209
Creditor Days	21	38	72	42
WC Days	499	1,240	577	171
PER (x)	44.7x	67.8x	20.4x	8.0x
P/BV (x)	5.5x	5.2x	4.2x	2.8x
P/CEPS (x)	41.4x	59.5x	19.5x	7.8x
EV/EBITDA (x)	41.1x	72.6x	18.1x	5.9x
Debt/Equity (x)	0.04x	0.03x	0.03x	0.00x
Net Debt/Equity (x)	-0.17x	-0.17x	-0.16x	-0.16x
Net Debt/EBITDA (x)	-1.33x	-2.44x	-0.71x	-0.35x

Source: IndiaNivesh Research

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