Company Initiation
India
REAL ESTATE

20 November 2014

BUY

TP: INR 245.00
▲ 40.0%

Ashiana Housing

ASFI IN

Quality mid-income housing play – initiate with BUY

We initiate coverage on ASFI with BUY and a Mar'16 TP of Rs 245, offering 40% upside from current levels. ASFI is the only pure play on mid-income housing in industrial townships in India. We like the company for: (1) its mid-income product positioning (sub-Rs 5.5mn ticket size), (2) strong brand and customer-centric approach, (3) a lean B/S (net cash of Rs 876mn in Mar'14), and (4) a superior ROE profile (20%/37% in FY15/FY16).

- **Quality construction, strong execution:** ASFI has been successful in delivering quality products on time (24-30 months against the industry trend of 36-42 months). Also, maintenance and aftersales services (resale/rental support) enhance customer satisfaction – in turn leading to strong referral-based sales (56% in FY14).
- **High ROEs:** ASFI maintains only 5-6 years of land bank/projects, resulting in a leaner B/S (net cash of Rs 876mn as of Mar'14). While revenue and PAT have been muted during FY13-FY14 due to the project completion methodology followed for revenue recognition, we expect a sharp improvement over FY15-FY17E as project delivery picks up. We expect ASFI to report ROEs of 20%/37%/30% over FY15/FY16/FY17E.
- **Expansion in new cities, strong brand to fuel growth:** We expect ASFI to sell 2msf in FY15 (-11% YoY) and post 22% volume growth over FY15-FY17E aided by entry into Sohna, Gurgaon, and launch of new phases in existing projects. It also plans to enter one city each year (starting with Chennai and a few cities in Gujarat) and enhance its presence in existing cities – which should help set the stage for next leg of growth.
- **Initiate with BUY:** We like ASFI for its product positioning, strong brand/execution and high ROE profile. Our Mar'16 TP of Rs 245 includes Rs 153/sh from existing projects and Rs 64/sh for the terminal value of business. Key risks to our call are delays in project acquisition and execution/approvals and a slowdown in volumes.

Financial Highlights

Y/E 31 Mar	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (INR mln)	1,487	1,107	2,286	6,119	8,387
EBITDA (INR mln)	349	197	931	2,741	3,675
Adjusted net profit (INR mln)	331	219	701	1,933	2,246
Adjusted EPS (INR)	17.8	11.7	37.6	103.9	120.7
Adjusted EPS growth (%)	(51.7)	(34.0)	220.4	175.9	16.2
DPS (INR)	2.5	0.5	0.8	1.2	1.5
ROIC (%)	24.2	7.0	26.5	48.2	38.2
Adjusted ROAE (%)	13.1	7.9	22.2	44.1	35.4
Adjusted P/E (x)	9.8	14.9	4.6	1.7	1.4
EV/EBITDA (x)	46.1	80.5	17.0	5.7	4.5
P/BV (x)	1.2	5.7	4.7	3.1	2.2

Source: Company, Factset, RCML Research

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PRICE CLOSE (19 Nov 14)
INR 175.00

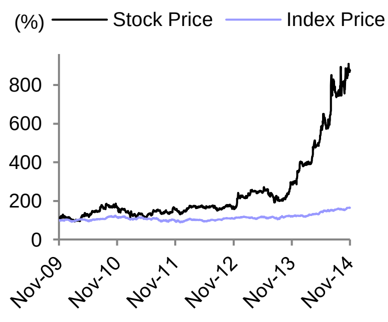
MARKET CAP
INR 16.4 bln
USD 265.5 mln

SHARES O/S
93.0 mln

FREE FLOAT
33.0%

3M AVG DAILY VOLUME/VALUE
0.0 mln / USD 0.1 mln

52 WK HIGH	52 WK LOW
INR 187.35	INR 57.05



Investment rationale

Affordable/quality product delivered on time

ASFI's product portfolio includes building of comfort and senior living homes in the sub-7.5mn category (general cost: Rs 2.5mn–5.5mn) in existing and upcoming industrial townships in India. Through in-house construction and sales, the company ensures strong control over customer experience and quality. This in turn facilitates on-time delivery and good maintenance of completed properties.

Mid-income housing

Low average cost/unit along with provision of modern amenities helps target the mid-income working group

The average unit cost (basic price) for ASFI's entire portfolio hovers in the range of Rs 2.5mn–5.5mn. This along with provision of modern amenities attracts the aspirations of the mid-income working group. The key reason for a lower cost per unit includes (a) location (upcoming industrial cities wherein the land cost is lower) and (b) simplistic construction which in turn leads to quicker and cheaper construction.

Fig 1 - Average unit cost in the range of Rs 2.5mn – 5.5mn

Project	# of Homes	Average Unit cost (Rs mn/unit)
Aangan	1544	2.9
Brahmananda	390	2.1
Amarbagh	413	2.8
Rangoli Gardens	1,680	4.2
UTSAV – Lavasa	447	5.0
UTSAV – Jaipur	310	2.3
Tree House Residences	46	9.9
Aangan Neemrana	336	3.6
Anantara	352	4.1
Gulmohar Gardens	836	3.1
A Town	1,232	4.1
Navrang	512	2.5
Vrinda Garden	1,104	4.1
Dwarka	400	4.0
Surbhi	480	2.7
Umang	576	5.4

Source: RCML Research, Company

Quality product – both pre and post sales

ASFI is one of India's few customer-centric real estate companies. In-house construction, sales and maintenance results in greater control over customer experience w.r.t. product, transparency and usability. This has helped the company establish strong brand recall, in turn leading to referral-based sales. The key differentiators for ASFI's products include:

- **Own construction:** ASFI develops projects on its own and doesn't outsource the entire process to any single agency.
- **Simpler construction:** ASFI typically focusses on simplistic mid, low-rise developments with stilt parking (rather than basement parking, which entails extra time and cost). This ensures faster delivery (24-30 months) and easier and cheaper maintenance.

- **Quality maintenance and aftersales service:** ASFI's maintenance arm does the in-house maintenance of buildings. Apart from this, the in-house team also helps buyers rent or sell the property.

ASFI enjoys strong brand recall and customer stickiness. Given that the company has been to sell 66% of its Halol, Gujarat, project (new location launched in FY14) via referrals only, we believe ASFI should be able to effectively carry its brand to new locations.

Timely delivery

On-time delivery comes out as a single biggest contributor to ASFI's brand value. The company promises to deliver the product in time and has successfully done so on most occasions in the past. Further, the typical construction time for different phases has been 24-30 months as against the arguable industry standard of 36-42 months.

Fig 2 - Timely possession vs offers

Source: RCML Research, Company

Fig 3 - Delivery timelines

Projects	Phases	Start Date	Finish Date	Delivery Time (months)
Aangan	Phase-I	Apr-07	Mar-10	36
Aangan	Phase-II	Jan-08	May-10	28
Aangan	Phase-III	Apr-08	May-11	37
Aangan	Phase-IV	May-10	Mar-12	22
Aangan	Phase-V	Aug-10	Mar-12	20
Aangan	Phase-VI	Apr-11	Feb-13	22
Brahmananda	Phase-I	May-09	Jan-12	33
Brahmananda	Phase-II	Aug-10	Jun-12	22
Brahmananda	Phase-III	Aug-11	Mar-13	19
Amarbagh	Phase-I	Sep-07	Mar-10	30
Amarbagh	Phase-IA	May-09	Sep-10	17
Amarbagh	Phase-II	Feb-09	Oct-10	20
Amarbagh	Phase-III	Oct-09	Jul-11	22
Amarbagh	Phase-IV	Nov-09	Feb-12	27
Amarbagh	Phase-V	May-11	Mar-13	22
Amarbagh	Phase-VI	Jul-11	Jul-13	24
Ashiana Utsav	Phase-I	Jan-08	May-10	28
Ashiana Utsav	Phase-II	Oct-08	Jul-11	33
Ashiana Utsav	Phase-III	Jan-09	Dec-11	35
Ashiana Utsav	Phase-IV	Sep-10	Mar-12	18
Rangoli Gardens	Phase-I	May-10	Mar-12	24
Rangoli Gardens	Phase-II	Feb-11	Feb-13	24
Rangoli Gardens	Phase-III	Nov-11	Nov-13	24
Rangoli Gardens	Phase-IV	Jul-12	Jul-14	24
Rangoli Gardens	Phase-V	Feb-13	Jan-15	23e
Rangoli Gardens	Phase-VI	May-13	Mar-15	20e
Rangoli Gardens	Phase-VII	Jul-13	Jun-15	23e
Lavasa	Phase-I	Dec-08	Sep-13	56
	Phase-II	Nov-10	Apr-15	52e
THR	Building	Aug-12	Aug-14	24

Source: RCML Research, Company

Typical construction period 24-30 months as against the industry standard of 36-42 months

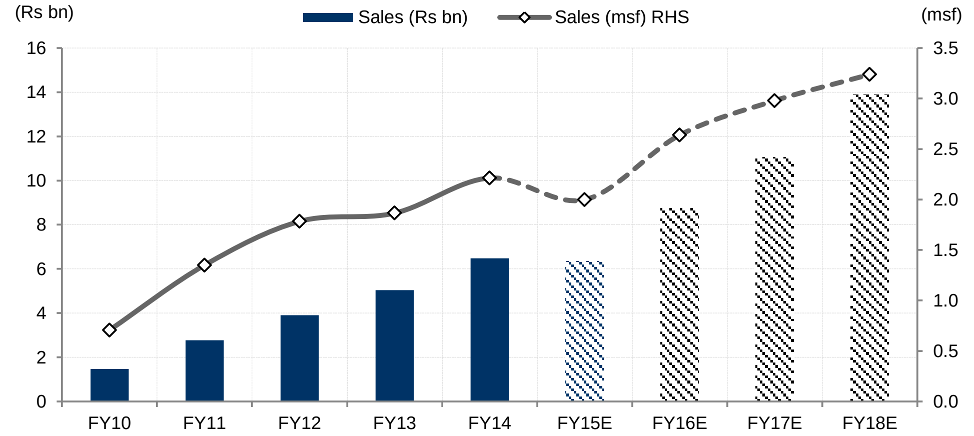
Growth to be driven by acquisitions

ASFI mainly operates in existing and upcoming industrial/commercial cities with a population of 1mn or more. The company has been able to earn strong brand recall and customer stickiness, given that >50% of its volumes get generated from referrals. Here onwards, the company plans to enter into new cities and expand coverage in existing cities. We understand that growth in volumes from new locations will hinge upon the company's ability to carry the brand to such locations

Volumes to grow on new launches, addition of new land parcels

ASFI's volumes have grown by 25% CAGR over FY10-FY14 led by addition of new cities (like Neemrana) and growth in existing cities (Bhiwadi and Jaipur). From here on, we expect volumes to grow at 22% p.a. over FY15-FY17 led by entry into the Sohna market and expansion of existing projects in Neemrana and Bhiwadi. Further, the company intends to enter one city each year and actively look at land/project acquisitions in Chennai, a few cities in Gujarat and Pune, apart from growing its presence in existing markets. These new acquisitions should set the tone for the next leg of growth in volumes.

Fig 4 - Volumes to grow on new launches



Source: RCML Research, Company

Volumes to grow at 22% p.a. over FY15-FY17

The key attributes to ASFI's land/project acquisition strategy includes:

- Focus on industrial towns with a high-employment generation potential:
  a. **Entered Halol, Gujarat:** Intends to expand coverage in Gujarat.
  b. **Entering Sohna** (neighbuoring Gurgaon): Aims to cater to the residential demand of Gurgaon's (Sohna road) working population.
  c. **Targeting Chennai:** Looking to expand presence in south India.
- Conservative approach towards land acquisition: promoter family directly involved in acquisition proceeds.
- JV/JDA in new cities to de-risk profile as approval risks are borne by the land owner.
- The company has earlier been able to convert acquired land into projects within 2 years of acquisition.

Maintenance + aftersales support = customer stickiness

ASFI manages the maintenance of its completed buildings via a wholly-owned subsidiary named Ashiana Maintenance Services. Further, it also manages the sales/rental requirements of its customers in-house. This, in our view, leads to high customer satisfaction and better word-of-mouth publicity.

The company runs referral schemes for its existing home owners, from which it generates a major portion of its regular business (56% of FY14 volumes came from referrals). This we believe is indicative of the company's brand strength and customer satisfaction that it has been able to achieve thus far.

Referral schemes for existing owners helped generate 56% of volumes in FY14

But can execution sustain the growth?

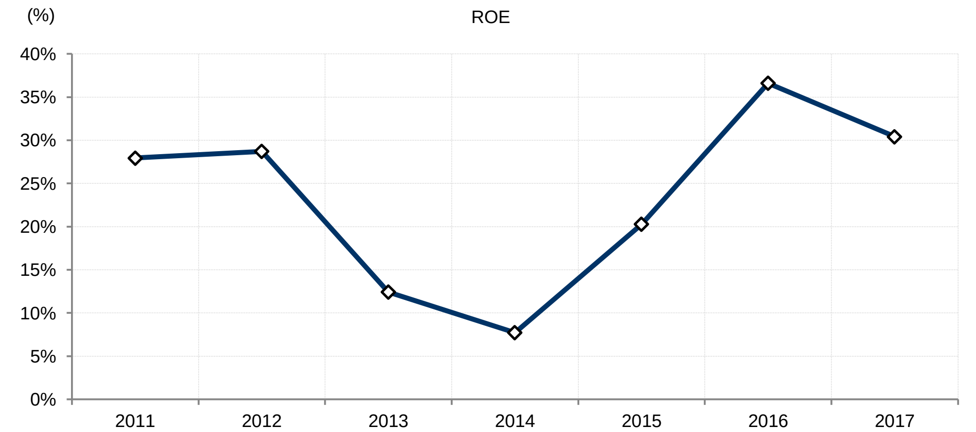
We believe ASFI is well-placed to ramp-up execution levels while entering into new cities, owing to (a) its standardised construction procedures, (b) process orientation and sincere follow-up by mid-upper management, and (c) internal training processes that help generate supervisors (semi-skilled/skilled laborers) in-house.

Financials

ROEs to improve starting FY15

A limited investment in land bank facilitates a leaner balance sheet [net worth of Rs 2.8bn and net cash of Rs 876mn as on Mar'14) for ASFI. Given that the company follows the project completion methodology of revenue recognition, profit booking is delayed till projects are delivered. This pushed down ROEs in FY14 to 8% from 29% in FY12. We expect the income statement numbers to pick up starting FY16 (delivery of *Ashiana Town*, *Gulmohar Garden*, *Aangan Neemrana*), and hence reported ROEs to increase to 20%/37%/31% in FY15/FY16/FY17. Debt levels however should rise temporarily once land acquisition picks up (expect net debt of Rs 710mn in FY17 vs. net cash of Rs 876mn in FY14).

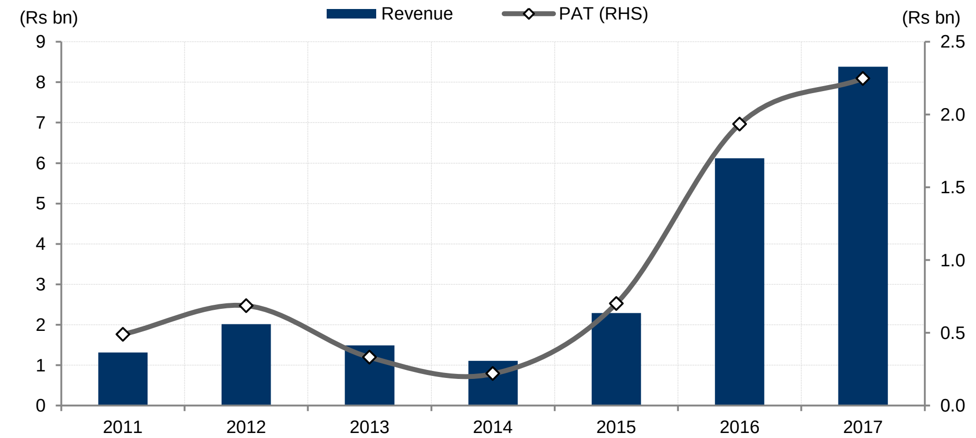
Fig 5 - RoE trend



Source: RCML Research, Company

ROEs to rebound to ~35% p.a. off a higher base

Fig 6 - Revenue/PAT trend



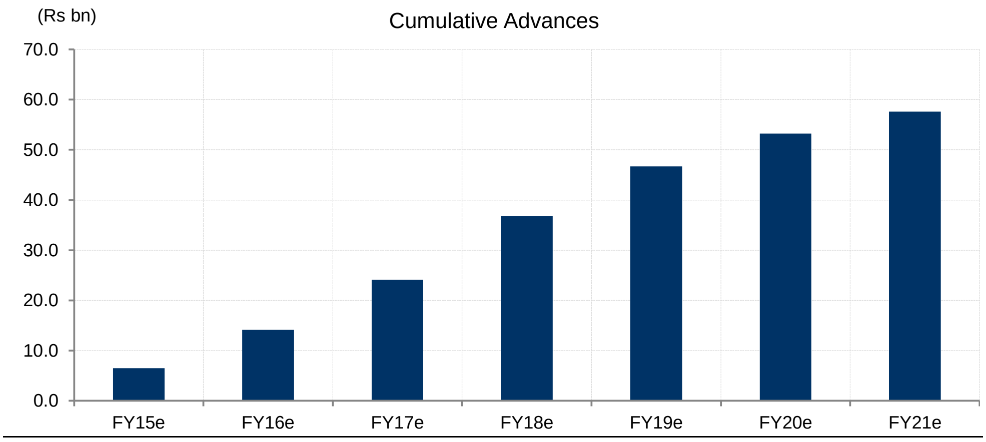
Source: RCML Research, Company

Revenue/PAT to improve in FY16 on completion of *several properties*

Cash flows to strengthen as existing portfolio is executed

Existing projects are expected to generate advances of Rs 57bn over FY15-FY21E, assuming 5% average inflation over the current market price.

Fig 7 - Trend in advances



Source: RCML Research, Company

Current portfolio to generate Rs 57bn advances over FY15-FY21E

Valuation

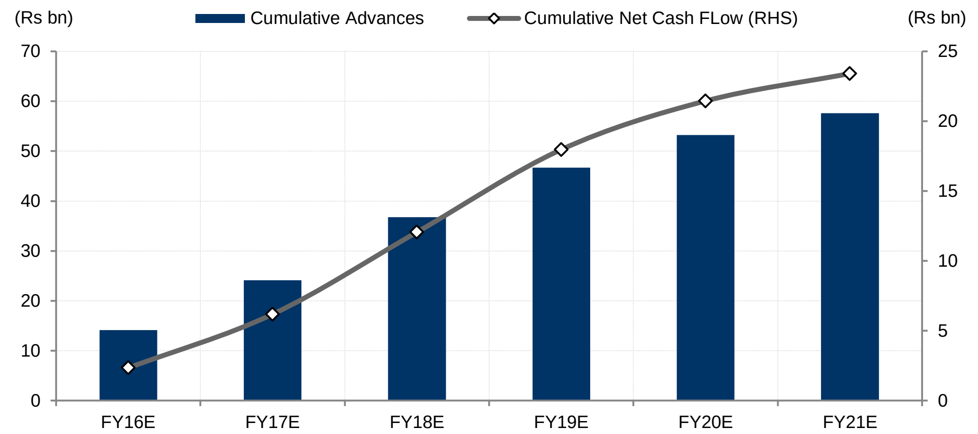
Initiate with BUY with Mar'16 TP of Rs 245

Our TP of Rs 245 includes Rs

We like ASFI for its product positioning, execution capabilities and customer stickiness. We initiate coverage on the stock with BUY and a Mar'16 TP of Rs 245, which is based on DCF of the current portfolio and terminal value of the business after existing projects are exhausted.

The current portfolio is expected to generate cumulative cash advances of Rs 51bn and post-tax net cash flows of Rs 23bn over FY16-FY21E, assuming 5% inflation in sales price and construction costs. We value the current portfolio at a DCF of Rs 15.3bn.

Fig 8 - Customer advances and net cash flows



Source: RCML Research, Company

Current portfolio to generate cumulative cash advances of Rs 51bn/ post-tax net cash flows of Rs 23bn over FY16-FY21E

Given ASFI doesn't rely on land acquisitions and is constantly looking to expand its project portfolio, we value the terminal value of business (FY20) at 7x the sustainable net cash flows of Rs 2bn p.a. (assuming sustainable volumes of 3msf p.a. at 75% revenue share with 30% margin). Our NAV includes the discounted value for the same in FY16.

Fig 9 - Valuation

Particulars	(Rs mn)
DCF for existing portfolio	14,965
Add: Cash in hand (excl land assumed to be acquired in FY16)	1,005
Add: Terminal Value	8,437
Add: Maintenance and Hotel Business	1,103
NAV	**25,511**
# of shares	93
NAV per share	**274**
Discount @30% of terminal value	2,531
Target Market Cap (Rs mn)	22,980
Target Price (per share)	**245**

Source: RCML Research, Company

Annexure

Fig 10 - Upcoming launches

	Project	Location	(msf)
a.	Ashiana Anmol	Sohna	1.15
b.	Ashiana Aangan,	Neemrana	0.40
c.	Ashiana Nirmay	Bhiwadi	0.79
d.	Ashiana Utsav	Kolkata	0.75
e.	Ashiana Town Y	Bhiwadi	1.85
f	Milakpur Land	Bhiwadi	3.10

Source: RCML Research, Company

Fig 11 - Under-construction projects

Project	Location	Saleable Area (msf)	Area Launched (msf)	Area Sold (msf)
Ashiana Town B	Bhiwadi	1.67	1.46	0.89
Ashiana Umang	Jaipur	1.24	0.46	0.24
Ashiana Utsav Lavasa (Senior Living)	Lavasa	0.62	0.44	0.30
Ashiana Surbhi	Bhiwadi	0.47	0.37	0.22
Ashiana Aangan	Neemrana	0.42	0.42	0.42
Treehouse Residences	Bhiwadi	0.13	0.13	0.06
Rangoli Gardens	Jaipur	2.62	2.62	2.57
Vrinda Gardens	Jaipur	1.48	0.77	0.27
Gulmohar Gardens	Jaipur	1.09	0.58	0.42
Ashiana Navrang	Halol	0.67	0.31	0.20
Ashiana Dwarka	Jodhpur	0.53	0.18	0.07
Ashiana Anantara	Jamshedpur	0.47	0.47	0.39
Total		**11.41**	**8.20**	**6.03**

Source: Company, RCML research

Per Share Data

Y/E 31 Mar (INR)	FY13A	FY14A	FY15E	FY16E	FY17E
Reported EPS	17.8	11.7	37.6	103.9	120.7
Adjusted EPS	17.8	11.7	37.6	103.9	120.7
DPS	2.5	0.5	0.8	1.2	1.5
BVPS	144.0	30.6	37.3	56.9	79.6

Valuation Ratios

Y/E 31 Mar (x)	FY13A	FY14A	FY15E	FY16E	FY17E
EV/Sales	10.8	14.4	6.9	2.5	2.0
EV/EBITDA	46.1	80.5	17.0	5.7	4.5
Adjusted P/E	9.8	14.9	4.6	1.7	1.4
P/BV	1.2	5.7	4.7	3.1	2.2

Financial Ratios

Y/E 31 Mar	FY13A	FY14A	FY15E	FY16E	FY17E
Profitability & Return Ratios (%)					
EBITDA margin	23.5	17.8	40.7	44.8	43.8
EBIT margin	21.7	15.1	37.8	43.5	42.8
Adjusted profit margin	22.3	19.8	30.6	31.6	26.8
Adjusted ROAE	13.1	7.9	22.2	44.1	35.4
ROCE	9.7	5.0	19.3	38.8	33.9
YoY Growth (%)					
Revenue	(26.1)	(25.6)	106.6	167.7	37.1
EBITDA	(47.3)	(43.4)	371.4	194.6	34.1
Adjusted EPS	(51.7)	(34.0)	220.4	175.9	16.2
Invested capital	597.5	20.0	12.8	119.7	54.1
Working Capital & Liquidity Ratios					
Receivables (days)	17	36	23	11	8
Inventory (days)	497	1,613	1,669	770	641
Payables (days)	155	696	908	368	134
Current ratio (x)	2.8	1.8	1.6	2.1	3.5
Quick ratio (x)	0.5	0.2	0.2	0.2	0.3
Turnover & Leverage Ratios (x)					
Gross asset turnover	5.2	1.8	3.0	6.5	7.4
Total asset turnover	0.4	0.2	0.3	0.7	0.8
Net interest coverage ratio	10.7	9.1	72.8	34.7	20.6
Adjusted debt/equity	(0.2)	(0.2)	(0.2)	0.1	0.1

DuPont Analysis

Y/E 31 Mar (%)	FY13A	FY14A	FY15E	FY16E	FY17E
Tax burden (Net income/PBT)	78.8	84.4	72.0	72.0	64.5
Interest burden (PBT/EBIT)	130.1	155.2	112.7	100.8	97.0
EBIT margin (EBIT/Revenue)	21.7	15.1	37.8	43.5	42.8
Asset turnover (Revenue/Avg TA)	44.1	21.7	31.9	68.3	82.1
Leverage (Avg TA/Avg equities)	133.0	184.2	226.9	204.3	160.9
Adjusted ROAE	13.1	7.9	22.2	44.1	35.4

Income Statement

Y/E 31 Mar (INR mln)	FY13A	FY14A	FY15E	FY16E	FY17E
Total revenue	**1,487**	**1,107**	**2,286**	**6,119**	**8,387**
EBITDA	349	197	931	2,741	3,675
EBIT	323	167	863	2,664	3,588
Net interest income/(expenses)	(30)	(18)	(12)	(77)	(174)
Other income/(expenses)	128	121	121	97	68
Exceptional items	0	(11)	0	0	0
EBT	420	270	973	2,684	3,482
Income taxes	(89)	(40)	(272)	(752)	(905)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	(330)
Reported net profit	**331**	**219**	**701**	**1,933**	**2,246**
Adjustments	0	0	0	0	0
Adjusted net profit	**331**	**219**	**701**	**1,933**	**2,246**

Balance Sheet

Y/E 31 Mar (INR mln)	FY13A	FY14A	FY15E	FY16E	FY17E
Accounts payables	837	2,630	4,118	2,687	782
Other current liabilities	217	271	294	322	356
Provisions	66	80	91	104	120
Debt funds	111	91	91	1,091	1,591
Other liabilities	185	207	207	207	207
Equity capital	186	186	186	186	186
Reserves & surplus	2,495	2,658	3,289	5,110	7,217
Shareholders' fund	2,681	2,845	3,475	5,296	7,403
Total liabilities and equities	**4,083**	**6,093**	**8,245**	**9,676**	**10,758**
Cash and cash eq.	576	572	921	763	745
Accounts receivables	122	96	191	191	191
Inventories	1,992	3,780	5,233	6,535	7,312
Other current assets	422	776	931	1,117	1,341
Investments	548	333	333	333	333
Net fixed assets	457	557	657	757	857
CWIP	1	13	13	13	13
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(37)	(34)	(34)	(34)	(34)
Other assets	0	0	0	0	0
Total assets	**4,083**	**6,093**	**8,245**	**9,676**	**10,758**

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY13A	FY14A	FY15E	FY16E	FY17E
Net income + Depreciation	357	249	768	2,010	2,334
Interest expenses	30	18	12	77	174
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,174)	(266)	(196)	(2,903)	(2,872)
Other operating cash flows	91	(1)	0	0	330
Cash flow from operations	**(695)**	**1**	**584**	**(816)**	**(34)**
Capital expenditures	(137)	(133)	(167)	(177)	(187)
Change in investments	950	215	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**813**	**82**	**(167)**	**(177)**	**(187)**
Equities issued	0	0	0	0	0
Debt raised/repaid	5	(19)	0	1,000	500
Interest expenses	(16)	(15)	(12)	(77)	(174)
Dividends paid	(27)	(55)	(69)	(106)	(147)
Other financing cash flows	145	19	12	19	24
Cash flow from financing	**107**	**(71)**	**(69)**	**836**	**202**
Changes in cash and cash eq	**225**	**13**	**348**	**(157)**	**(19)**
Closing cash and cash eq	**587**	**589**	**921**	**763**	**745**

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Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

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