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Long Term Recommendation

Kolte Patil Developers Ltd.

Scaling up for next leg of growth

Kolte Patil Developers Ltd. (KPDL) is a leading Maharashtra-based real estate company with consistent annual sales of >2msf over the last decade. It has an established presence in Pune, and looking to expand its presence in Bengaluru and Mumbai. With robust project pipeline of 4.5msf to be launched over the next 6-9 months, the company is set to report >3msf sales for the first time in its three-decade long history. Further, the company is aiming to expand its sales base to 5msf by FY23-24E and add deals worth 10-12msf over the next 12-18 months. Despite the aggressive deal additions, the company is expected to maintain its balance sheet resilience, led by potential net cash flows of INR2,000cr (post-tax, KPDL share) from ongoing/upcoming projects over the next 4-5 years. The valuation gap and upside potential from deal additions makes KPDL an attractive stock in the current real estate upcycle. We recommend a 'BUY' rating with NAV-based price target of INR 319 and 17% upside potential.

Improved affordability provides a multi-year upcycle opportunity for the sector

We believe residential real estate sector is poised for a multi-year upcycle opportunity given the decadal low interest rates which has materially improved affordability and helped narrow the gap between rental yield and interest rates. Additionally, realized importance of owning a home and additional space requirement given WFH scenario has influenced buying decisions. In our view, this bodes well for players like KPDL who has the execution capability and balance sheet strength to scale up their business to benefit from this upcycle opportunity.

Robust launch pipeline and prospective deal additions to fuel growth

After a consistent performance over a last decade, KPDL is now looking to expand its sales base. Plans are afoot to launch robust 4.5msf of projects over the next 6-9 months, which should lead to 10msf of saleable pipeline. Thus, we expect KPDL to report >3msf of sales in FY22E for the first time in its history. Further, KPDL is aiming to be among the top-5 residential real estate players in India over the next 2-3 years with annual sales of 5msf. As a result, the company is looking to add 10-12msf of projects over the next 12-18 months across markets. Also, its plans to scale up its operations in Bengaluru and Mumbai from >0.25msf to 1.5msf or 30% of targeted sales over the next 2-3 years.

Cash flow efficiencies and asset light strategy to retain balance sheet resilience

Since 2017, the company is extremely focused on cash flows. This has resulted in collections of INR 1,368cr (12% CAGR rise) and operating cash flows (OCF) of >INR 250cr in FY19-20. With strong cash flows, KPDL managed to give PE exits and further improved future cash flow potential through higher economic interest. KPDL's cash flow strength should continue over the next 4-5 years thanks to potential net cash flows of INR 2,000cr from ongoing/upcoming projects over the next 4-5 years. Moreover, KPDL's asset light strategy will limit initial cash outlays despite aggressive project additions. This would keep leverage below the target of 0.5x

Valuations attractive given potential cash flows and accretive deal additions

KPDL is expected to generate INR 3,800cr net cash flows from its ongoing, upcoming and future (land bank) projects over the next 8-10 years. On discounting, this derives a value of INR 2,900cr v/s current EV of INR 2,400cr. **Further, project additions should lead to NAV accretion of INR 800-950cr or 100-120/share which is not built in our price target yet.** We recommend a BUY rating with target price of INR 319 and potential upside of 17%.

INR crore	FY19	FY20	FY21E	FY22E	FY23E
Sales value	1,432	1,315	1,133	2,051	2,494
Y-o-Y Growth (%)	19	-8	-14	81	22
Average Realisation	5,302	5,259	6,219	6,789	8,271
Collections	1,173	1,312	935	1,536	1,825
Operating cash flow	247	421	175	260	310
P/OCF (x)	7.7	2.1	10.6	7.1	6.0
Net Debt	741	631	558	521	364
Net-Debt/Equity	1.0	0.8	0.6	0.5	0.3

Pritesh Sheth
 Research Analyst
 Pritesh.sheth@edelweissfin.com

Debashish Mazumdar
 Research Analyst
 Debashish.mazumdar@edelweissfin.com

CMP: INR 273
Target price: INR 319

Rating: BUY

Upside: 17%

**Further potential upside:
 50-60% (including upcoming
 BD deals)**

Bloomberg:	KPDL:IN
52-week range (INR):	103/278
Share in issue (crore):	74
M-cap (INR crore):	1,858
Promoter holding (%)	74.45

Date: January 8, 2021

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We expect KPDL to report 33% CAGR in operating cash flow (OCF) over FY21-23E driven by:

- (a) **Healthy recovery in collections (40% CAGR over FY21-23E) post 29% decline YoY in FY21E** helped by
- (b) Construction progress triggering milestone payments and 40% rise in sales boosted by 4.5msf launches during the same period
- (c) partially offset by higher construction spend with expected 16.6msf of projects under construction and higher employee costs.

KPDL ticks all the right boxes in our opinion as one of the key beneficiaries of ongoing residential consolidation for the factors given below:

- a) Exposure to three of the top-4 residential markets with established presence in Pune and scaling up in Bangalore and Mumbai
- b) Upcoming launches and prospective deal additions **will help gain market share**
- c) **Cash flow efficiencies** aiding healthy balance sheet strength and further scope for business expansion

We initiate coverage on Kolte Patil Developers Ltd. (KPDL) with a 'BUY' recommendation and target price of INR319, 17% upside potential

Over the last decade, KPDL has reported >2msf of annual sales and is now at the inflection point with upcoming 4.5msf of launches. KPDL will likely report >3msf of sales for the first time in its history in FY22

KPDL has further 16msf of land bank which in our view will be developed in 8-10 years. Company is also looking to add 10-12msf of deal in its future project pipeline over the next 12-18 months

Robust operating cash flows will keep leverage below the company's target of 0.5x equity despite prospective deal additions

Particulars	Amount (INR cr.)
Ongoing Projects	
Pending receivables from sold Inventory	1,365
Unsold Inventory	2,132
Total inflow	3,498
Pending construction	1,580
Net cash flow	1,918
Taxes	479
Net cash flow post taxes	1,438
KPDL share	1,251
Upcoming projects	
Revenue potential	4,150
EBITDA @ 25% margin	1,038
Taxes	259
Net cash flow	778
KPDL share	739
Total ongoing & upcoming projects	1,991

Particulars	Amount (INR cr.)
Future projects	
Revenue potential	12,000
EBITDA @ 25% margin	3,125
Taxes	781
Net cash flow	2,344
KPDL share	2,039

INR cr. (KPDL share)	FY20	FY21E	FY22E	FY23E
Collections	1,312	935	1,536	1,825
Costs	-564	-524	-1,003	-1,173
Other Exp.	-233	-178	-186	-239
Taxes	-94	-58	-87	-103
OCF	421	175	260	310
Net Debt	631	558	521	191
Debt/Equity	0.69	0.63	0.53	0.14

NAV of ongoing/upcoming projects of INR 1600cr

+

Future projects from existing land bank will contribute INR 1300cr to NAV

+

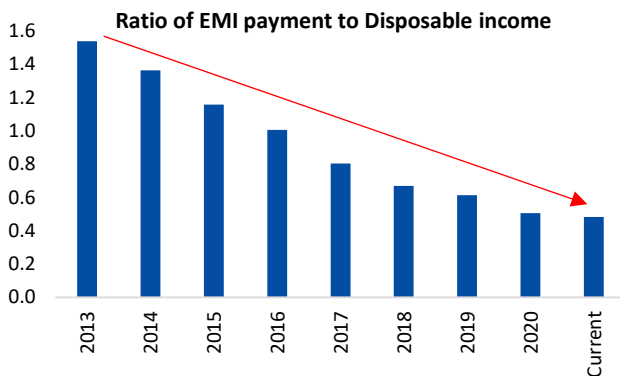
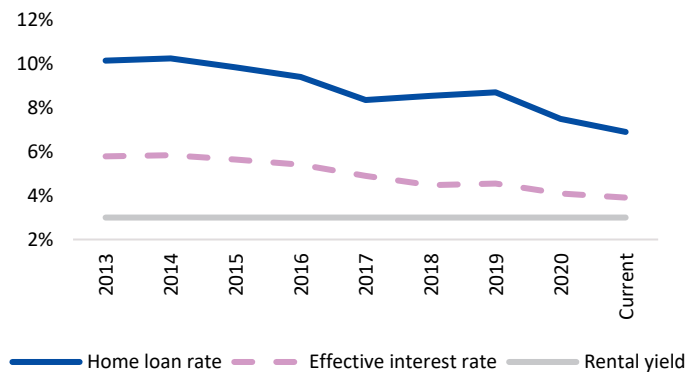
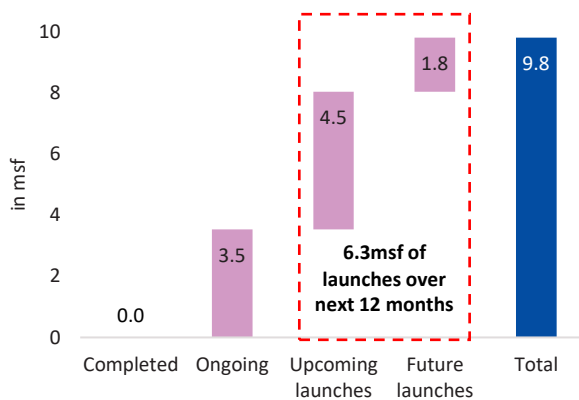
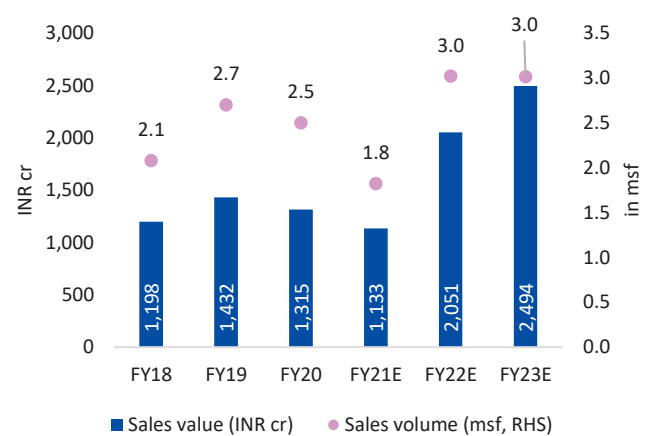
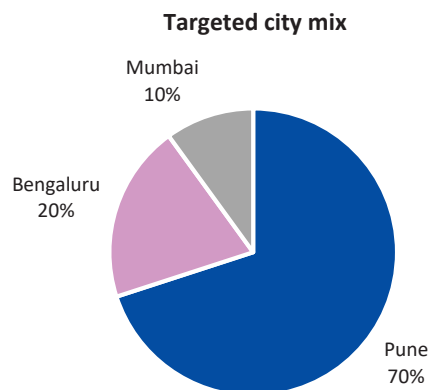
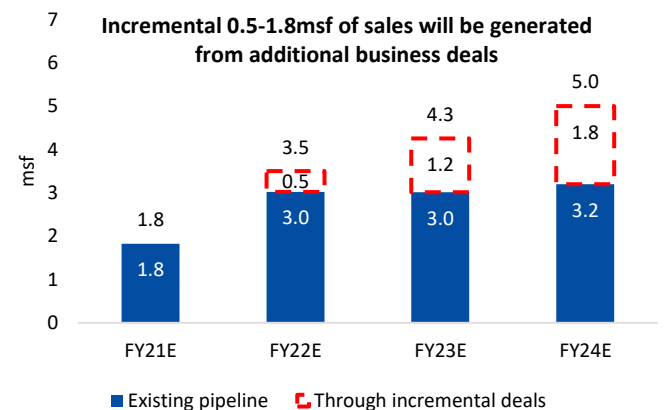
Adjusting for net debt we arrive at a target price of INR 319/share

Upside of 17%

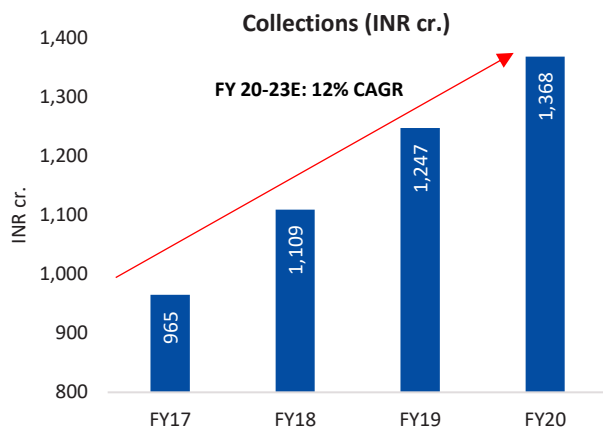
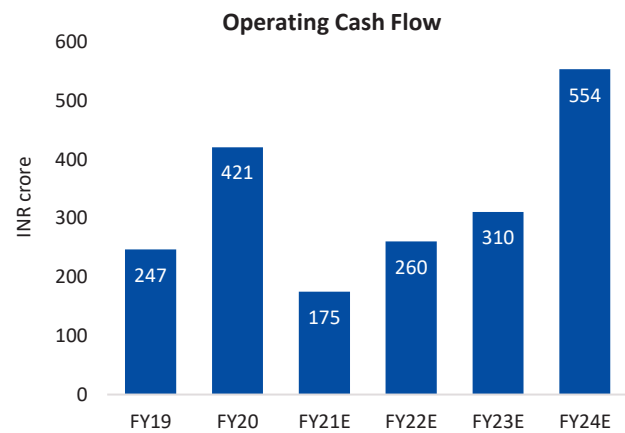
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Further, prospective deal additions of 10-12msf will further add INR 800-950cr or 100-120/share to the NAV which is not considered in our price target yet

Upside of 50-60%

Story in a nutshell
Exhibit 1: Improved affordability provides a multi-year upcycle opportunity

Exhibit 2: Gap between rental yield and interest rate has narrowed, which has also influenced buying decisions

Exhibit 3: KPDL is looking to expand its sales base through robust launch pipeline of 6.3msf, including future launches

Exhibit 4: As a result, KPDL is likely to report >3msf of sales for the first time in its history

Exhibit 5: KPDL is aiming to rank among the top-5 residential real estate players with an annual sales of 5msf over the next 2-3 years

Exhibit 6: Current pipeline is insufficient to reach 5msf scale; KPDL is targeting 10-12msf of deal addition


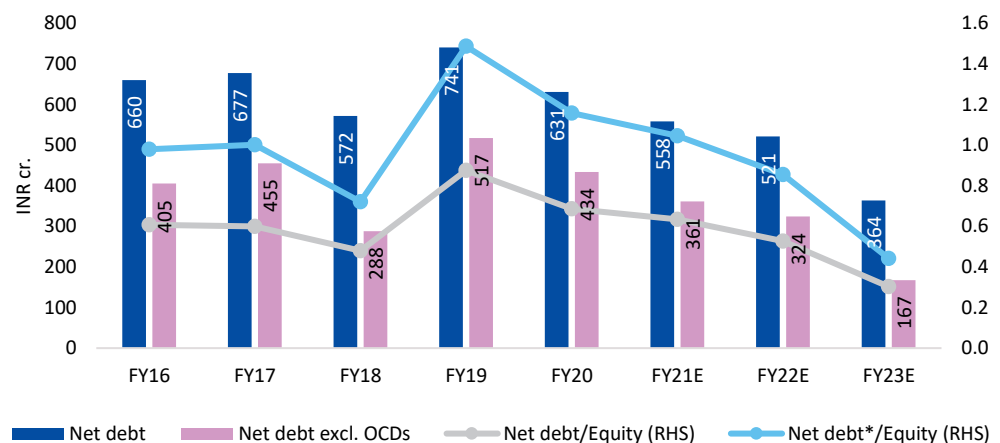
Source: Company, Edelweiss Wealth Research

Exhibit 7: Focus on collection efficiencies has led to 12% CAGR rise in cash flows while sales grew at 3% CAGR

Exhibit 8: Cash flow should remain strong given potential cash flows from ongoing/upcoming projects


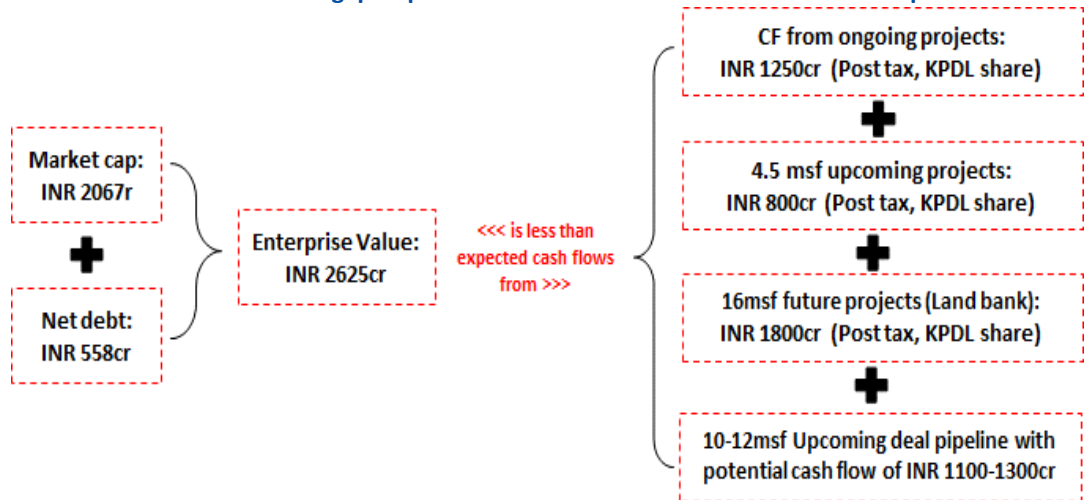
Source: Edelweiss Wealth Research

Exhibit 9: Higher collections will lead to increase in cash flows partially offset by increased construction outlay

Cash flows (INR crore)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Sales	1,431	1,315	1,133	2,051	2,494	2,795	2,204
Collections	1,173	1,312	935	1,536	1,825	2,501	2,428
Construction Cost	-658	-564	-524	-1,003	-1,173	-1,488	-1,113
Other Expenses	-167	-233	-178	-186	-239	-275	-346
Direct & Indirect Taxes	-101	-94	-58	-87	-103	-185	-242
Operating Cash Flow	247	421	175	260	310	554	727

Exhibit 10: Asset light strategy and focus on cash flow efficiencies has enabled balance sheet strength which will continue going ahead


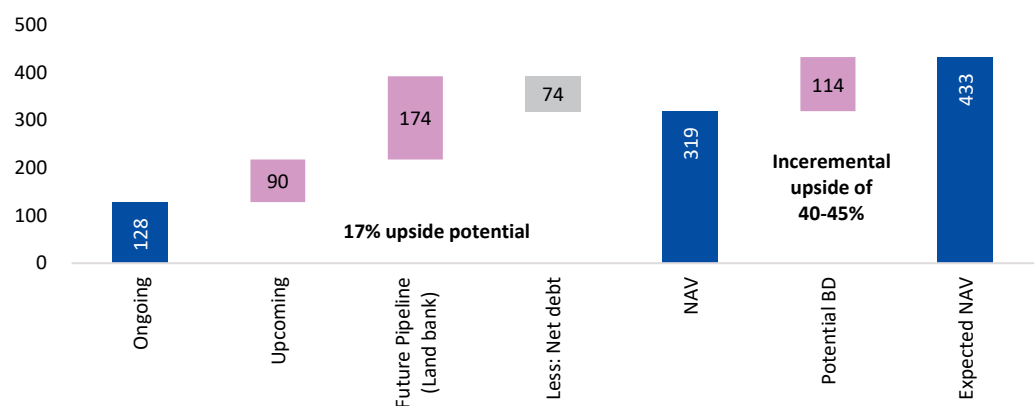
Source: Company, Edelweiss Wealth Research

Exhibit 11: We see valuation gap as potential net cash flows exceed current enterprise value


Source: Edelweiss Wealth Research

Exhibit 12: Even on a discounted basis, NAV denotes potential upside of 17%

NAV Summary	INR Crs	Per Share	as % of NAV	as % of CMP
Ongoing projects	971	128	40%	47%
Upcoming projects	680	90	28%	33%
Future Pipeline (Land bank)	1,322	174	55%	64%
Gross Asset value	2,973	392	123%	143%
Net debt	(558)	(74)	(23)%	(27)%
Net Asset value	2,415	319	100%	117%
No. of share	7.6			
Price objective	319			
CMP	273			
Upside	17%			

Exhibit 13: Prospective business deal additions provide incremental 40-45% upside


Source: Edelweiss Wealth Research

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Affordability has improved to 0.5x from 1.5 in 2013.

Gap between rental yield and interest rate has declined from 3.0% to 0.9%

I. Improved affordability provides a multi-year upcycle opportunity for the sector

Decadal low interest rates and stable prices has led to improvement in affordability

Interest rates for home loans has declined to below 7% from >10% a decade ago. Coupled with stable prices and rising income, affordability has improved significantly over the last 2-3 years. Ratio of EMI payment to disposable income now stands at 0.5 versus 1.5 in 2013.

Further, low interest rates has also helped narrow the gap between rental yield and effective interest rate which has been the key hurdle for a buying decision for a new home buyer. While the rental yield continues to be stable at 2.5-3.0%, effective interest rate (excluding tax and PMAY benefits) has declined from 6% in 2013 to 3.9% currently.

Exhibit 14: Improved affordability provides a multi-year upcycle opportunity

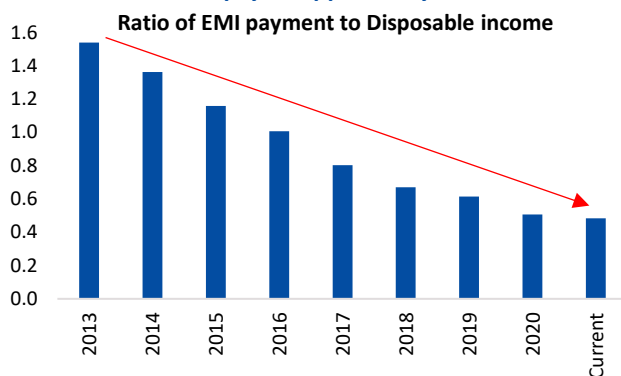
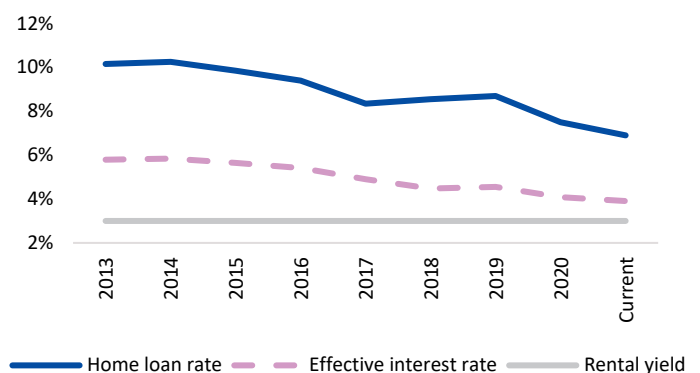


Exhibit 15: Gap between rental yield and interest rate has narrowed, which has also influenced buying decisions



Source: HDFC, Edelweiss Wealth Research

Note: Effective interest rate and EMI computed for property value of INR 45lacs with LTV ratio of 60% and 20yrs tenure.

We believe residential real estate sector is poised for a multi-year upcycle which bodes well for players with execution capability and balance sheet strength like KPDL

WFH driving additional space requirement = upgradation led demand

Pandemic has made people realized importance of owning a home which has influenced buying decisions of people waiting for an opportunity to buy homes. Further, additional space requirement given WFH scenario is also leading to upgradation and thereby further housing demand. Based on these factors we believe the ongoing recovery has fuel for it to sustain and residential real estate sector is poised for a multi-year upcycle opportunity.

Upcycle bodes well for players with execution capability and healthy balance sheet

While demand sentiment are positive supply side continue to consolidate due to concentrated availability of growth capital and buyers preference on developers with limited execution risk. **Thus, in our view, upcycle opportunity during ongoing consolidation phase bodes well for players like KPDL who has the execution capability and balance sheet strength to scale up their business.**

4.5msf of upcoming launches will help KPDL report >3ms of sales for first time in history

II. Upcoming launches to boost sales

With only 3.5msf of inventory left from its ongoing projects, KPDL is targeting the next leg of growth with **4.5msf of planned launches over the next 6-9 months** (including 1.4msf in its most successful Life Republic project). Of the 4.5msf pipeline, ~2.2msf of projects are likely to be launched in Q4FY21, which includes three society redevelopment projects in Mumbai.

Exhibit 16: Robust launch pipeline of 4.5msf of projects over next 6-9 months

Projects	Location	Use	Saleable Area (msf.)	Tentative launch date
Pune			3.8	
Life Republic R10	Hinjewadi, Pune	Residential / Retail	1.4	Q4FY21
Giga	Viman Nagar	Commercial	0.6	2H FY22
Boat Club	Boat Club Road	Commercial	0.4	2H FY22
Down Town	Kharadi	Residential / Retail	0.5	Q2FY22
Pimple Nilakh	Pimple Nilakh	Residential	0.6	Q2FY22
Wagholi	Wagholi	Residential	0.3	Q4FY21
Mumbai			0.5	
Sagar Vaibhav	Dahisar	Residential	0.2	Q4FY21
Hari Ratan	Goregaon	Residential / Retail	0.3	Q4FY21
Om Shree Gokul	Borivali	Residential / Retail	0.1	Q4FY21
Bengaluru			0.3	
Raaga 3	Hennur Road	Residential	0.3	1QFY22
Total			4.5	

Source: Company, Edelweiss Wealth Research

Post these launches, KPDL's near term project pipeline is expected to reach 10msf – this includes 3.5msf of ongoing project inventory and further 1.8msf of expected launches over the next 12 months. **With fresh launches, sales should get a boost and are likely to breach the 3.0msf mark in FY22 – a first in the company's history.**

Exhibit 17: Post upcoming/future launches, total pipeline will reach 10msf = 3 years of growth visibility

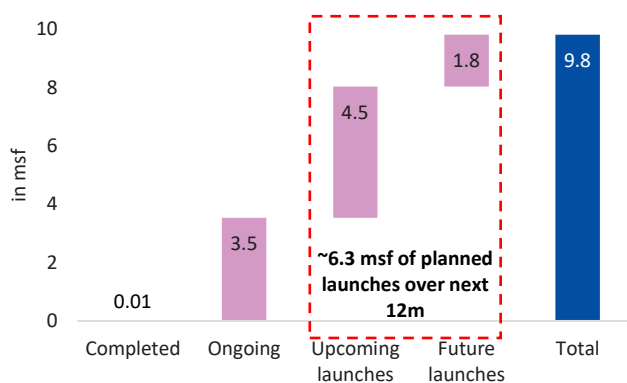
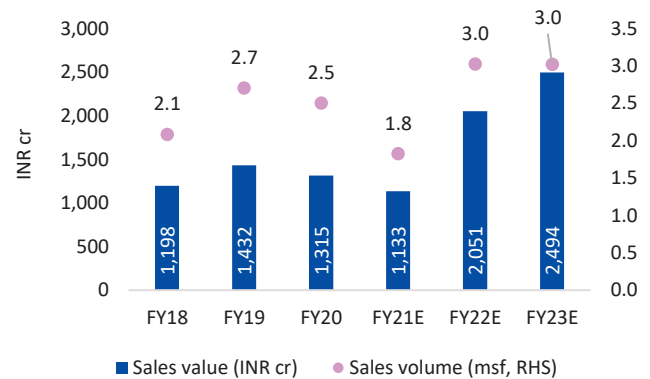


Exhibit 18: Sales run rate is expected to cross 3.0msf mark in FY22 – a first in the company's history



Source: Company, Edelweiss Wealth Research

KPDL is expected to deliver average realization at 16% CAGR to INR 8,200/sqft over the next three years. This will be driven by launch of higher realization projects in Mumbai, commercial projects in Pune, and the luxury Raaga 3 project in Bengaluru. **Thus over FY21-23E, KPDL is expected to deliver sales volumes at 22% CAGR and sales value at 40% CAGR.**

Exhibit 19: Realization of upcoming launches are 75% higher than current average due to Mumbai and commercial projects

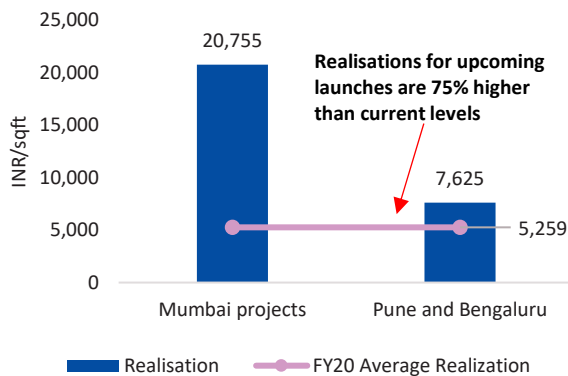
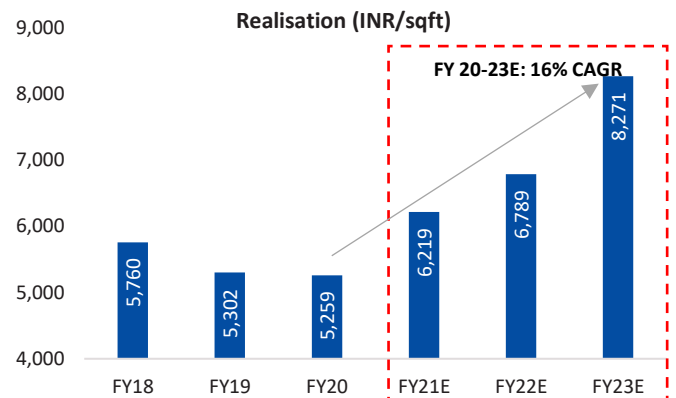


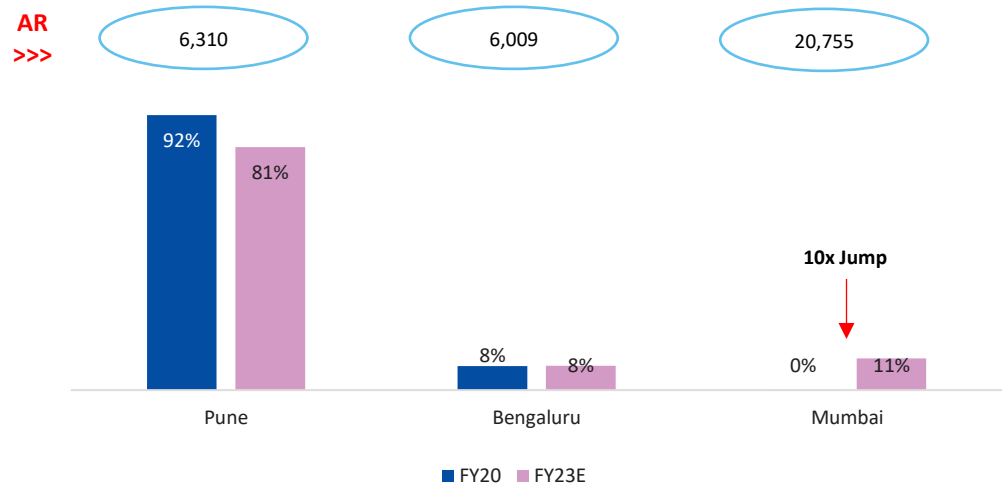
Exhibit 20: Expect 16% CAGR in average realization over next three years



Source: Company, Edelweiss Wealth Research

We expect Mumbai region to contribute 11% of total sales in FY23 versus close to 1% in FY20. This increase in sales mix from Mumbai is leading to 16% CAGR in realization over FY20-23E.

Exhibit 21: Increase in sales contribution from Mumbai will lead to higher blended realization



Source: Company, Edelweiss Wealth Research **Note:** AR is Average realization (INR/sqft)

KPDL targets 10-12msf of deals over next 12-18 months to scale up to 5msf of annual sales

III. Business development deals to provide growth visibility

KPDL targets to scale up to 5msf of annual sales over FY23-24E. Of this, 70% or 3.5msf will be in Pune, 20% or 1msf in Bengaluru and the rest 10% or 0.5msf in Mumbai. While the company's current and future project pipeline is expected to suffice 3.0-3.5msf of sales, KPDL is looking to add 10-12msf of business development deals (especially in Pune and Bengaluru) to reach its target of 5msf. The company is confident of closing these deals over the next 12-18 months.

Given the need to conserve cash, a large part of these deals are expected to be under partnership agreements with land owners, which will ensure liquidity. Once more clarity emerges on the demand outlook, KPDL might also consider outright land purchases (but only selective parcels with minimum holding period).

Growth strategy:

Pune: Of the 10-12msf of planned deal addition, **the company is very near to signing 3.0-3.5msf deals in Pune (expected to close in Q4FY21).** KPDL will further look to add deals of similar scale.

Bengaluru: As of now, KPDL does not have any upcoming projects in its Bengaluru pipeline. **The company is planning to add 2-3 deals with saleable area of around 1msf each to reach the targeted scale of 1msf annual sales.**

Mumbai: With eight society redevelopment projects (total saleable area of 1.2msf), KPDL is comfortable with its current project pipeline in Mumbai. **That said, the company will continue to seek JV/JD projects or outright land deals as a part of its future growth strategy for Mumbai.**

Exhibit 22: Target of 5msf annual sales over next 2-3 years with Pune contributing 70% of sales

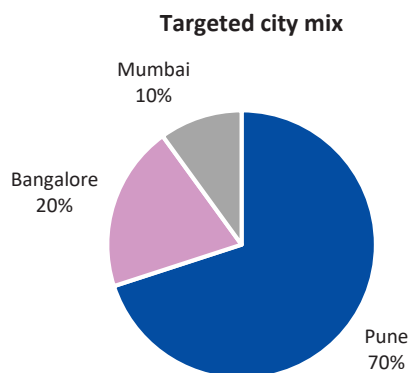
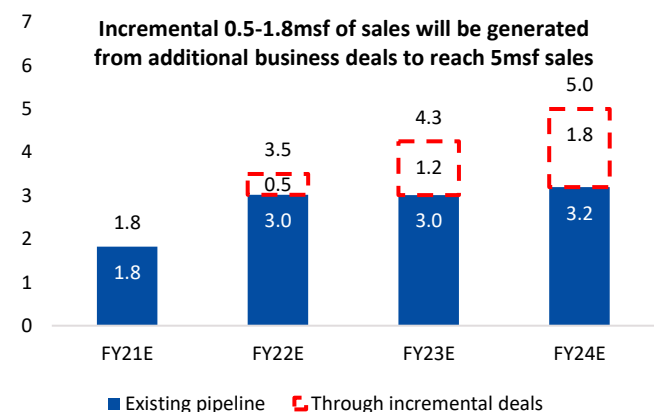


Exhibit 23: Looking to add 10-12msf of projects in Pune and Bengaluru to reach targeted sales



Source: Company, Edelweiss Wealth Research

IV. Asset light strategy and cash flow efficiencies to retain balance sheet resilience

KPDL has followed an asset light development model by strategically partnering with PE firms for large scale projects, which has helped the company to de-risk execution and enabled front-ended construction financing. This strategy has ensured sustenance of the KPDL's balance sheet strength.

Exhibit 24: Strategic engagement with PE partners ensures an asset light business model (Few of the PE deals entered by KPDL)

Date	Company/Fund	Subsidiary	Project	Investment (INR cr)	Stake
Apr'20	Planet Smart City	KPIT	Life Republic	172	1.4msf land parcel
Dec'17	KKR	KPIT	Life Republic	193	NA
Dec'15	JP Morgan Asset management	NA	Jay Vijay	120	NA
Apr'14	ASK real estate fund	NA	Three Jewels	116	70%
2009	Portman Holdings	Tuscan Estate	Tuscan	NA	50%
2009	Portman Holdings	NA	Margosa Heights	NA	50%

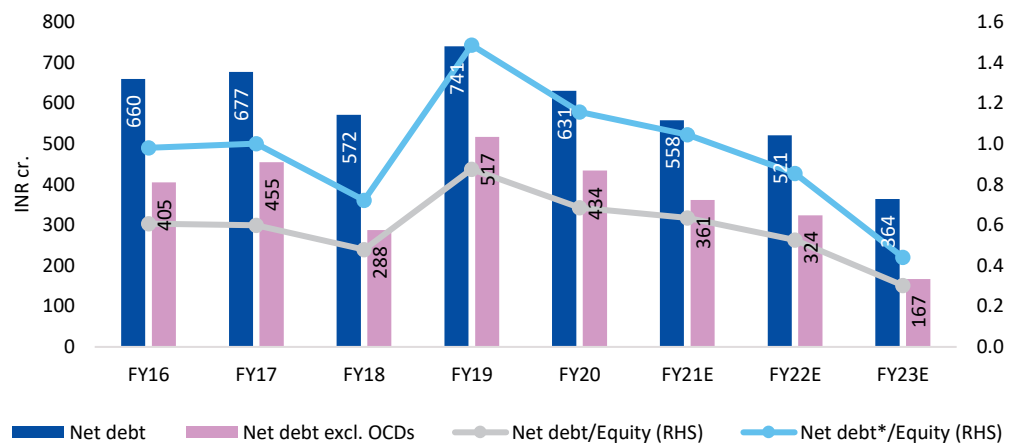
Source: Company, Edelweiss Wealth Research

Healthy cash flow generation to help KPDL maintain leverage below 0.5x

Leverage to remain at 0.5x of Equity despite aggressive deal addition outlook

While KPDL is looking to aggressively boost its future project pipeline, leverage (Net debt to Equity) should remain at current levels of 0.5x due to the company's asset light strategy. **According to KPDL's management, a large part of the deal additions are expected to be partnership agreements. Under such agreements, for a 1msf deal the initial outflow should not exceed INR10-15cr.** Given the cash flow efficiency we expect KPDL's operating cash flow to be sufficient enough for upfront deal payments of that scale.

Exhibit 25: Asset light strategy and focus on cash flow efficiencies has enabled balance sheet strength

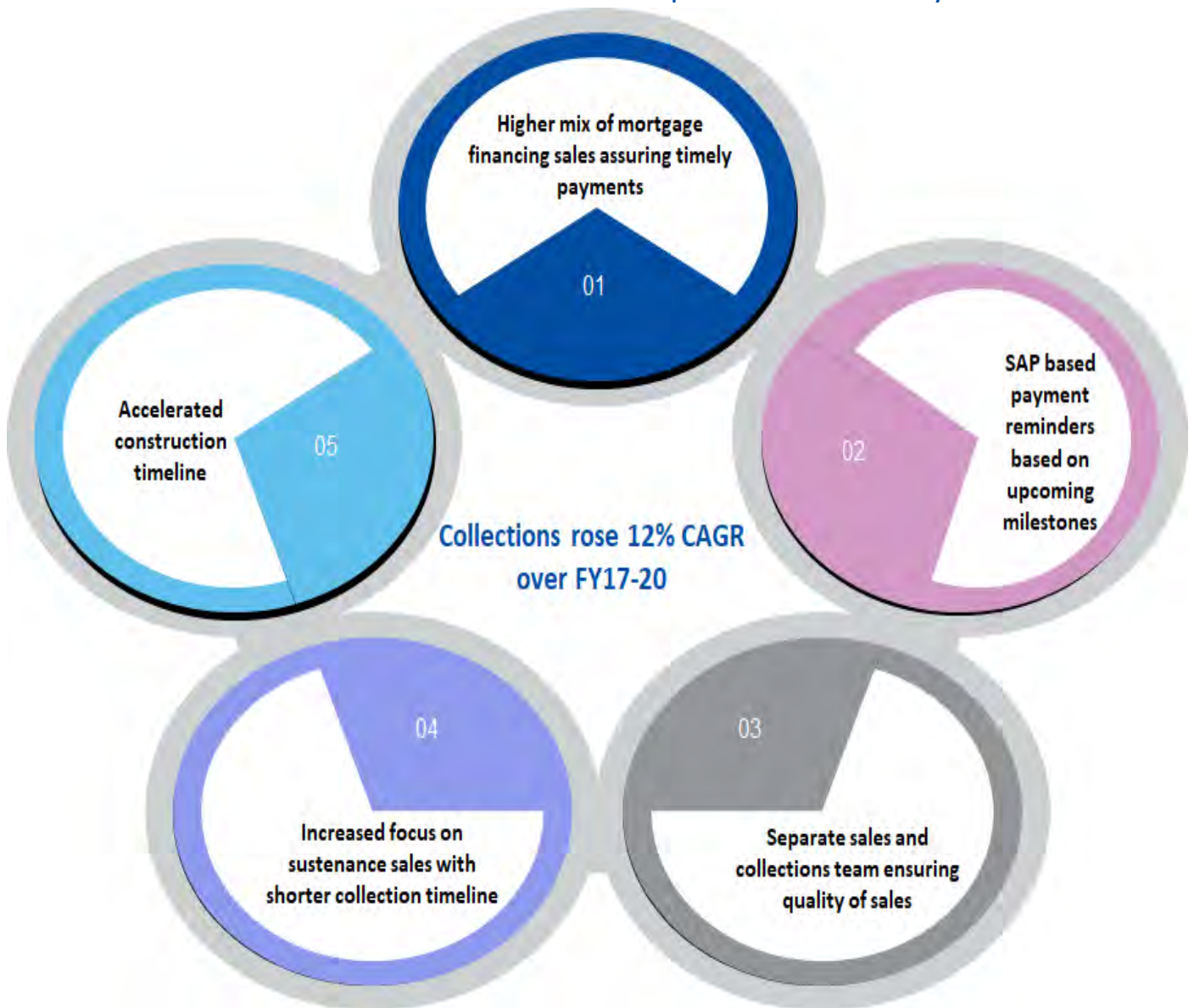


Source: Company, Edelweiss Wealth Research

Focused strategies have led to improved collection efficiency

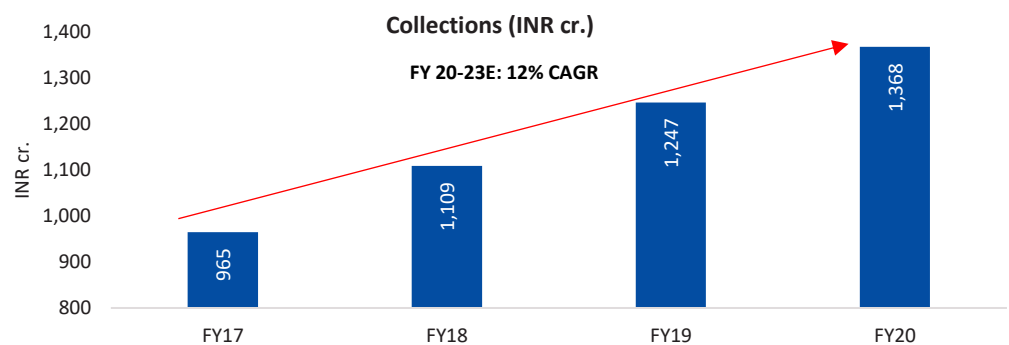
Over the last four years, KPDL has identified collections as a key success factor and given it utmost focus. **Thus, over the same period, the company has reported 12% collection CAGR despite a mere 3% sales CAGR.**

Exhibit 26: KPDL followed a framework to improve its collection efficiency



Source: Company, Edelweiss Wealth Research

Exhibit 27: Focused framework has resulted in 12% collection CAGR despite 3% sales CAGR



Source: Company, Edelweiss Wealth Research

Improved collection efficiencies has enabled PE exits over the last 2-3 years which has ensured healthy cash flow generation for KPDL with increased economic interest

Improved collection efficiencies and sales growth to further enhance cash flows

Improved collection efficiencies have played a major role in enhancing cash flows. This has enabled PE exits over the last 2-3 years without any pressure on KPDL's balance sheet. These PE exits should ensure healthy cash flow generation for KPDL with increased economic interest. **For e.g. ICICI Venture's stake buyout of INR210cr from Life Republic project was largely funded through internal accruals. Economic interest improved from 45% to 95% for KPDL's most successful project.**

Further, with the expected rise in sales, collections should further increase to INR 1,800-2,500cr (excluding partner's share) by FY23-25E from INR1,300cr in FY20. This will be partially offset by increased construction outflow, leading to net operating cash flow of INR300-727cr (excluding partner's share).

KPDL targets 1000cr of operating cash flow by FY23-24 taking into consideration 5msf of annual sales

Exhibit 28: Operating cash flow expected to further improve with rise in sales

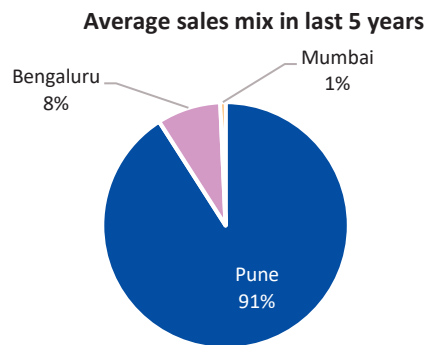
Cash flows (INR crore)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Sales	1,431	1,315	1,133	2,051	2,494	2,795	2,204
Collections	1,173	1,312	935	1,536	1,825	2,501	2,428
Construction Cost	-658	-564	-524	-1,003	-1,173	-1,488	-1,113
Other Expenses	-167	-233	-178	-186	-239	-275	-346
Direct & Indirect Taxes	-101	-94	-58	-87	-103	-185	-242
Operating Cash Flow	247	421	175	260	310	554	727

Source: Company, Edelweiss Wealth Research

Established player in Pune, one of India's key IT hubs

KPDL is one of the leading real estate developers in India with an established presence in Pune. The company is looking to strengthen its foothold in Bengaluru and Mumbai's residential real estate markets. **Over the last five years, Pune contributed >90% of KPDL's total sales (Bengaluru contributed 8% while Mumbai contributed a marginal 1-2%).**

Exhibit 29: Highly concentrated in Pune market with more than 90% of sales



Source: Edelweiss Wealth Research

According to a Knight Frank research, Pune is amongst the top-4 residential real estate markets in India. **Over the last seven years, Pune has delivered a consistent annual sales run-rate of 30-35k units.** During the same period, launches have largely matched demand, keeping inventory in check at ~40-50k units or 18-24 months of sales.

Exhibit 30: Stable market with annual sales of 30-35k units

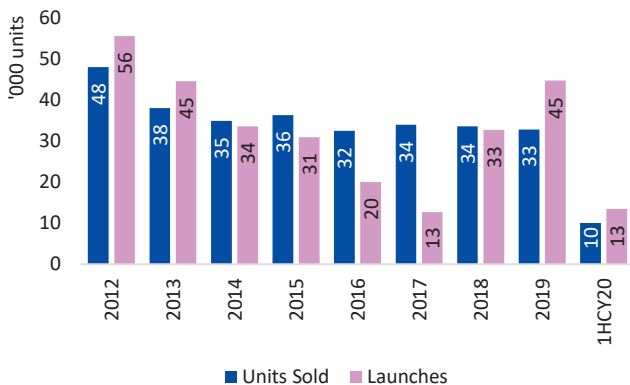
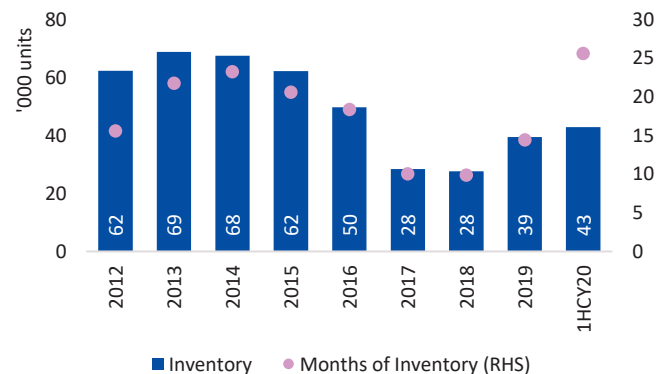


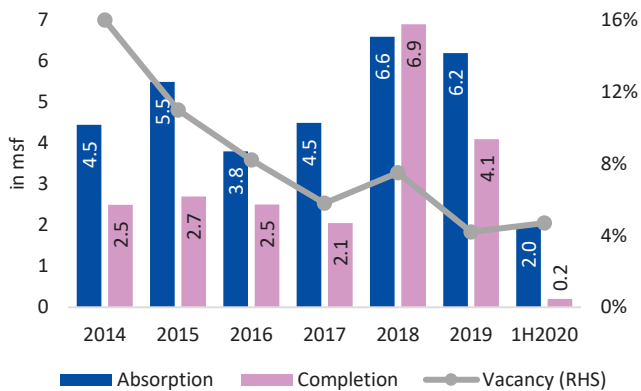
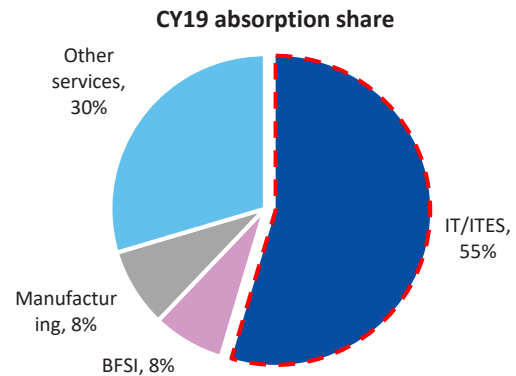
Exhibit 31: Inventory overhang of 18-24 months looks manageable



Source: Edelweiss Wealth Research

Office absorption instills confidence in stability of housing demand

Pune is home to several large domestic and multinational organizations, including global tech giants (Infosys, IBM, Microsoft, Wipro and Tech Mahindra), large auto companies (GM, Daimler, Bajaj Auto and Tata Motors) and financial institutions (Credit Suisse, etc.). IT/ITES sector dominates office absorption in Pune with over 50% share. The BFSI sector (back office operations of large financial institutions) constitutes 8% of the absorption share.

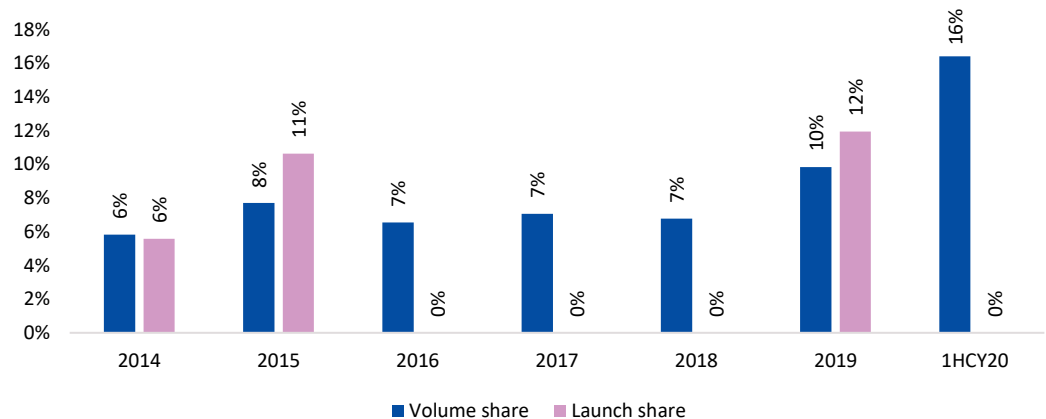
Exhibit 32: Pune is amongst the top-5 office real estate markets with annual absorption of more than 6msf

Exhibit 33: Absorption share is dominated by IT/ITES and back offices of BFSI


Source: Knight Frank, Edelweiss Wealth Research

The Pune market has been creating 50,000-60,000 fresh employment opportunities annually, which can be gauged from the city's annual office space absorption of ~4.0-6.5msf. This has created housing shortage in Pune. **Thus, we believe housing demand in Pune will atleast remain at existing levels and could also see an uptrend with improved affordability.**

Dominant 10% market share in Pune market

KPDL market share in Pune has improved from 6% in 2014 to 10% in 2019. KPDL has projects spread across Pune – Central (Boat Club road, Kalyani Nagar), West (Hinjewadi, Wakad), East (Kharadi, Wagholi, Viman Nagar), North (Pimpri Chinchwad) and South (NIBM) markets.

Exhibit 34: KPDL dominates Pune market with 10% market share


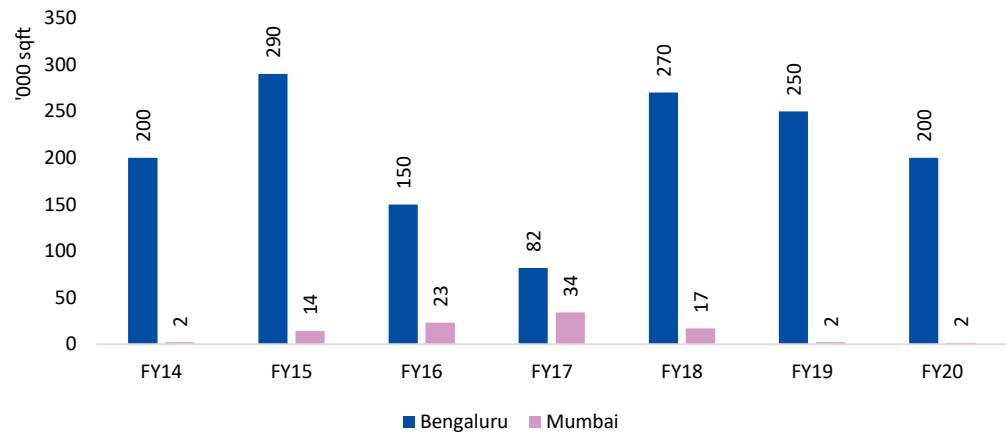
Source: Knight Frank, Company, Edelweiss Wealth Research

Looking to expand in Bengaluru and Mumbai

KPDL has been present in Bengaluru for over two decades. However, with total project portfolio of 2.5msf, it is yet to find a strong footing in Bengaluru. The company entered the Mumbai market in 2015 with society redevelopment projects. Till date, KPDL has acquired 10 such projects; of this, it has completed and delivered two projects (including the recently completed Jay Vijay project in Andheri). With three upcoming launches (0.5msf) and further five projects in the pipeline, Mumbai's share in KPDL's total sales is expected to increase to over 5% in the near term.

With the Pune market likely to mature for KPDL, the company is looking to further expand its presence in Bengaluru and Mumbai. KPDL expects share of sales from Bengaluru and Mumbai to increase to 25% over the next 2-3 years from 10% currently.

Exhibit 35: Aiming to expand sales base in Bengaluru and Mumbai



Source: Company, Edelweiss Wealth Research

Consistent performer in real estate sector

KPDL's ability to drive sales even during the sustenance period has led to consistent performance over the last 10 years. During this period, KPDL clocked sales of >2msf every year with significant growth seen in years of project launches. To drive sustenance sales, the company has laid out focused strategies, including successful marketing campaigns like 'Nest Fest' in 2015 and 'ZABARDUS' for Life Republic project in 2019.

Exhibit 36: Focus on sustenance sales has led to consistent performance...

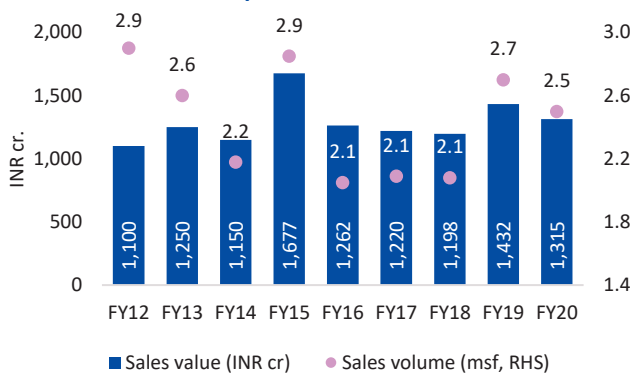
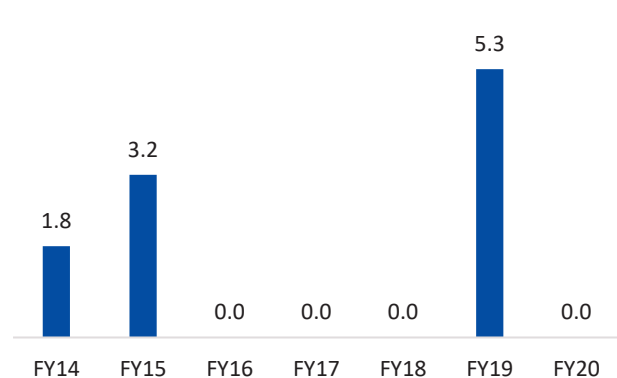


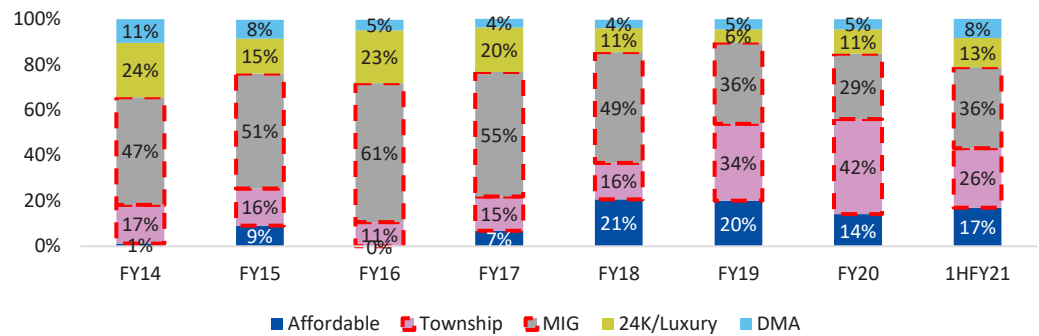
Exhibit 37: ...even as projects were launched in a staggered manner



Source: Company, Edelweiss Wealth Research

Presence across product segments

KPDL offers products across price categories i.e. affordable, mid-income and luxury. Mid-income group (MIG) projects contribute >60% of the company's sales and remain the key focus segment. Over the last four years, KPDL has increased its exposure to the affordable segment with the launch of Ivy Estate and Three Jewels. The company caters to the luxury segment through its 24K brand.

Exhibit 38: Product offerings across price categories; mid-income projects dominate sales mix


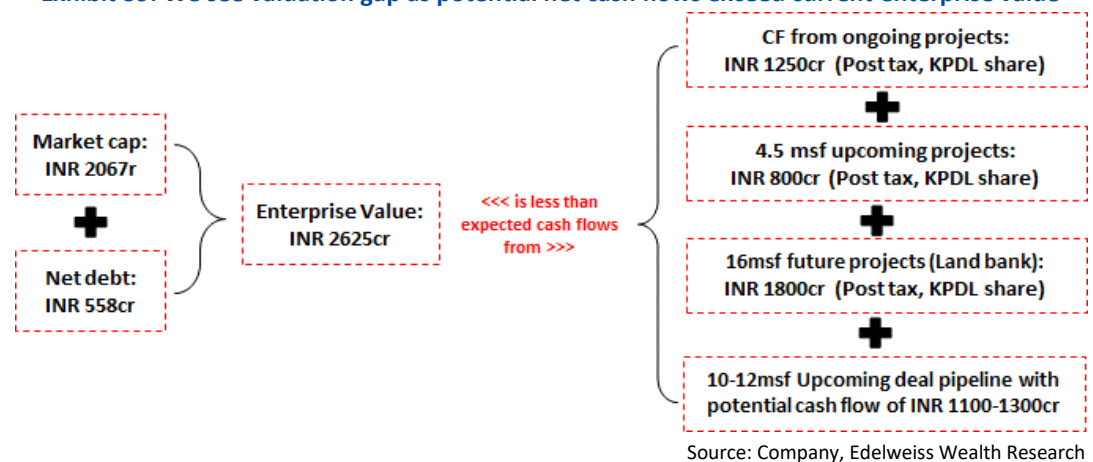
Source: Company, Edelweiss Wealth Research

Simplified cash flow model suggests valuation gap

KPDL is expected to generate INR 3,500cr of gross cash flow from sales receivables INR 1,400cr and unsold inventory INR 2,100cr v/s pending construction outlay of INR 1,600cr. This should lead to a pre-tax net inflow of INR 1,900cr. Adjusting for taxes and partners' share, net cash flow is expected at ~INR 1,250cr.

Further, the company will realize INR800cr net cash flow from upcoming 4.5msf launch pipeline. Thus, it will generate INR 2,000cr net cash flows from ongoing/upcoming projects over the next 3-5 years. At CMP of INR 273, these cashflows constitute 78% of the enterprise value. This means a steep discount to the potential INR 1,800cr net cash flows from future land bank development and nil value to targeted 10-12msf of project additions, leading to further upside potential.

Exhibit 39: We see valuation gap as potential net cash flows exceed current enterprise value



NAV-based model denotes 17% upside; prospective business deals offer further 40-45% upside

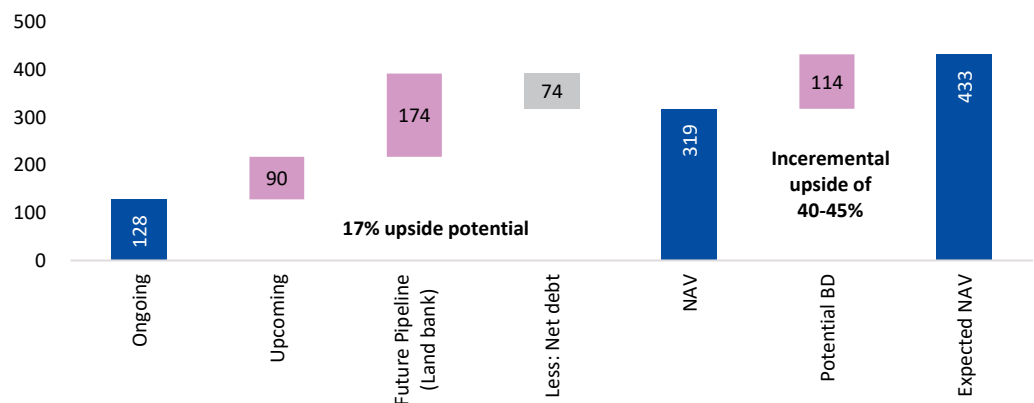
We value the above potential cash flow stream on a discounted basis using 15% weighted average cost of capital, leading to gross asset value of INR 2,973cr or INR 392/share. **Adjusting for consolidated FY21E net debt of INR 558cr (including OCDs), we arrive at NAV of INR 2,415cr or INR 319/share.** This at current CMP of INR 319/share denotes an upside of 17%.

We have not assigned any value to the targeted 10-12msf potential project additions yet. **We ascribe INR 800-950cr or 100-120/share value to prospective business deal additions which provides an upside potential of 50-60% from current CMP.**

Exhibit 40: Our discounted cash flow model suggests 17% upside at CMP

NAV Summary	INR Crs	Per Share	as % of NAV	as % of CMP
Ongoing projects	971	128	40%	47%
Upcoming projects	680	90	28%	33%
Future Pipeline	1,322	174	55%	64%
Gross Asset value	2,973	392	123%	143%
Net debt	(558)	(74)	(23)%	(27)%
Net Asset value	2,415	319	100%	117%
No. of share	7.6			
Price objective	319			
CMP	273			
Upside	17%			

Source: Edelweiss Wealth Research

Exhibit 41: Prospective business deal additions provide incremental 40-45% upside


Source: Edelweiss Wealth Research

Sensitivity

WACC: We have assumed cost of equity at 15%. For cost of capital, we have considered current cost of debt at 10.5%, which on weighted average basis amounts to 12% for KPDL. **Note that 1% change in WACC leads to 2-3% change in NAV or Target price.**

Price and construction cost estimate: We have assumed 3% increase in real estate prices FY24 onwards and expect 3% inflationary rise in construction costs annually. **Note that 1% change in our price or construction cost estimates leads to 5-6% change in NAV or target price.**

Exhibit 42: 1% change in WACC leads to 2-3% change in NAV estimates

Sensitivity to NAV & PO						
		Cost of Equity				
		13%	14%	15%	16%	17%
Cost of Debt	8.5%	349	339	330	320	311
	9.5%	343	333	324	315	306
	10.5%	337	328	319	310	301
	11.5%	332	322	313	305	296
	12.5%	326	317	308	300	291

Exhibit 43: 1% change in price and cost assumptions leads to 5-6% change in NAV estimates

Sensitivity to NAV & PO						
		Change in Price				
		1%	2%	3%	4%	5%
Change in Construction cost	1%	326	340	355	370	386
	2%	308	322	337	352	368
	3%	290	304	319	334	350
	4%	270	284	299	315	330
	5%	250	264	279	294	310

Source: Company, Edelweiss Wealth Research

Land bank likely to be up for development over next 8-10 years

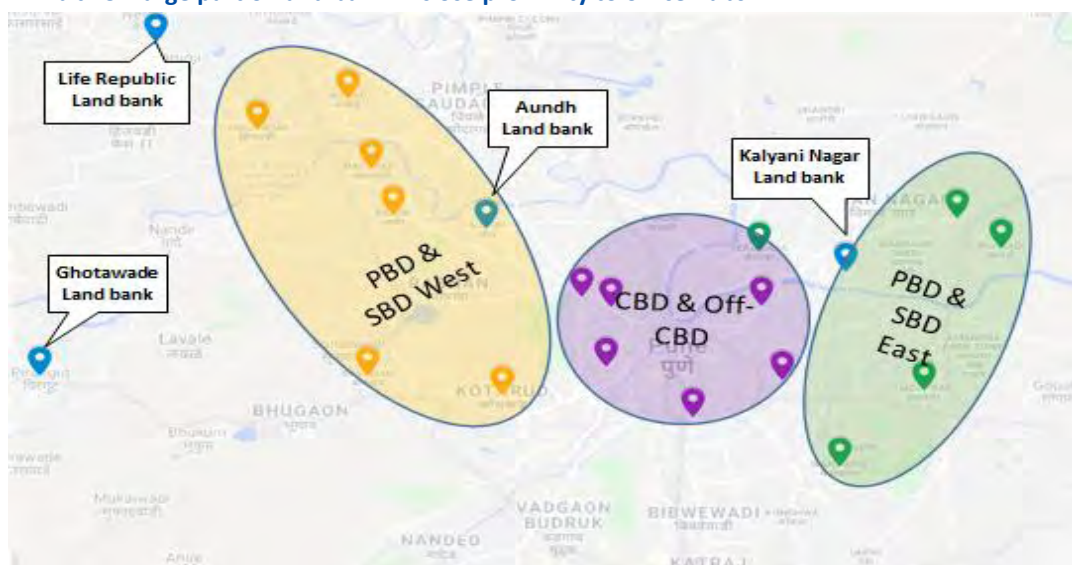
Based on FSI of 1.0, KPDL's Life Republic project has pending saleable area of 10.4msf, which constitutes 60% of its total land bank. The state government's integrated township norms state potential FSI of 1.7. This could add 11.6msf of additional saleable area, which we have not yet considered in our calculation. According to KPDL's management, **the company might potentially use FSI of 1.3-1.4 only if realisation reaches above INR6,000/sqft. This could add INR40/share to NAV once developed.**

Considering the location of the company's land bank, we believe most of them would be up for development over the next 5-6 years. **Approvals for other society redevelopment projects in Mumbai are expected over FY22-23.**

Exhibit 44: Expect KPDL to develop 16.2msf of land bank within 8-10 years

	Saleable area (msf)	KPDL Share	KPDL Share (msf)
Life Republic	10.4	95%	9.8
Ghotawade	3.2	50%	1.6
Aundh	1.0	100%	1.0
Kalyani Nagar	1.0	100%	1.0
Other Mumbai projects	0.7	100%	0.7
	16.2		14.1

Source: Company, Edelweiss Wealth Research

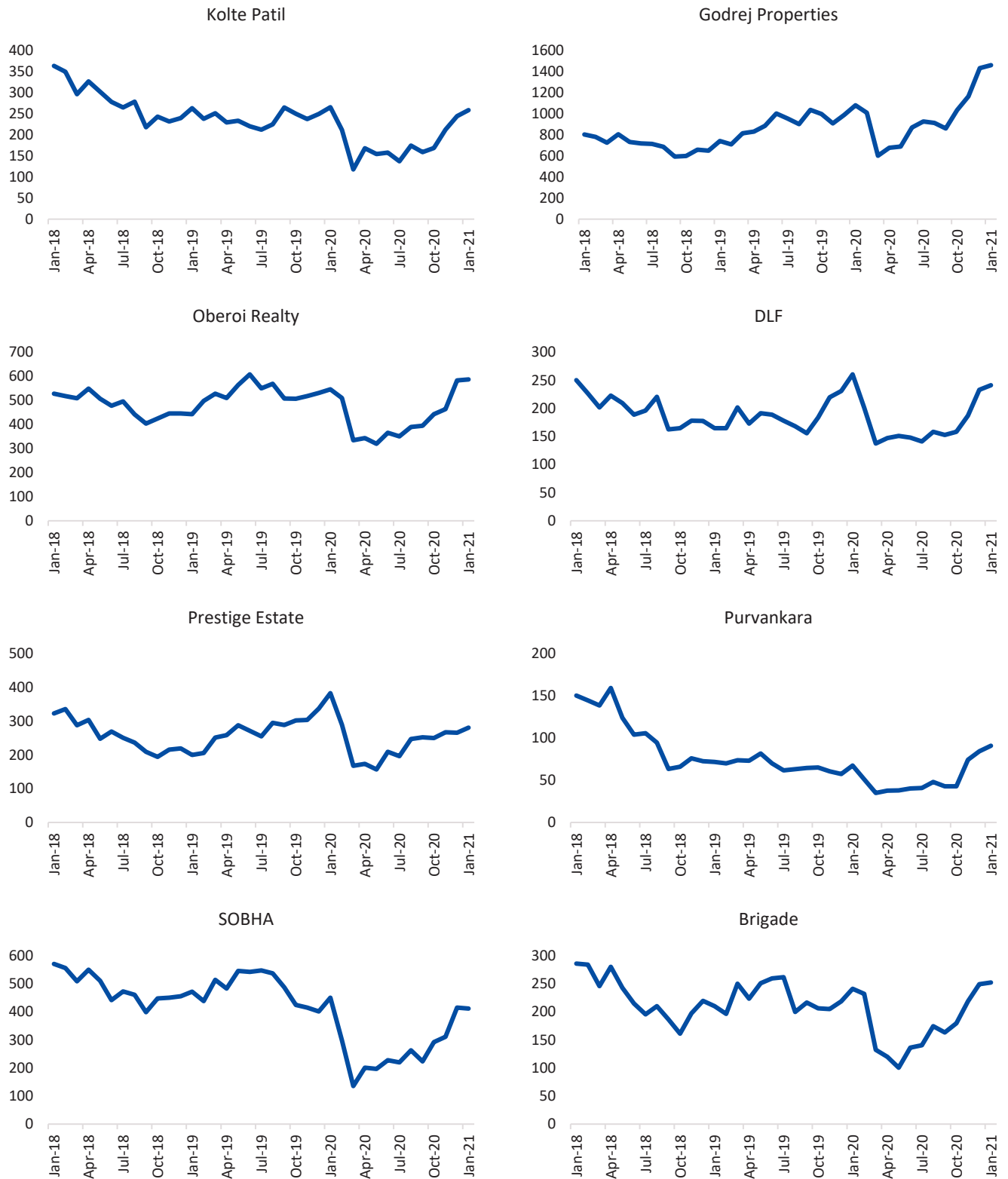
Exhibit 45: Large part of land bank in close proximity to office hubs


Source: Company, Edelweiss Wealth Research

Exhibit 46: Future society redevelopment projects in Mumbai to be launched over FY22-23


Source: Company Presentation

Exhibit 47: 1-year stock price performance Real Estate Companies



Source: Bloomberg, Edelweiss Professional Investor Research

Catalysts & Risks:
Catalysts

- **Deal addition:** Our target price derived from NAV does not include potential upside from future project addition. The company is targeting 10-12msf deal additions over the next 12-18 months, which are key upside catalysts.
- **Cash flow efficiencies:** We expect the company to generate INR200-400cr of operating cash flows annually over the next 2-3 years. Any efficiency initiatives, which leads to faster-than-expected collections or lower-than-expected construction/overhead spends will result in higher cash flows, leading to an upside.
- **Project-specific price hikes:** We have assumed realizations across projects to remain flat until 2024. If the company manages to improve realisation at any of its ongoing/upcoming projects, it will lead to improvement in cash flows, and thereby, the NAV.

Risks

- **Hurdles in demand recovery:** According to the management, demand has fully recovered to pre-Covid levels. However, any hurdles in this recovery will impact the project offtake, launch plans and delay the company's cash flows.
- **Delay in consolidation:** Any delay in the sector's inevitable consolidation will hamper the company's project addition plans, and thus, future growth visibility, which will lead to a potential downside risk
- **Rise in interest rate:** An increase in interest rate will not only impact the discount rate for future cash flows but would also impact demand sentiment, which has improved due to the rise in affordability owing to the decline in interest rate.
- **High concentration to Pune market:** Pune market constitutes >90% of sales currently. Despite ramp up of other markets i.e. Bangalore and Mumbai contribution from Pune market is expected to remain at 70% in medium term. Any change in demand outlook in Pune will materially impact KPDL's future growth outlook

Exhibit 48: Management team of Kolte Patil Developers

Name	Designation	Years of experience	Details
Rajesh Patil	<i>Chairman & Managing Director</i>	25	Mr. Rajesh Patil holds a degree in Civil Engineering from the University of Mysore. He has been associated as promoter of the company since inception. He has more than 25 years of experience in the real estate business spanning business development, land procurement, funding requirements and strategy.
Naresh Patil	<i>Vice Chairman</i>	25	Mr. Naresh Patil holds a degree in Commerce from University of Pune. He has more than ~25 years of experience in real estate development. He handles the company's Bengaluru-based projects.
Milind Kolte	<i>Executive Director</i>	25	Mr. Milind Kolte holds a degree in Law from the University of Amravati and a degree in Commerce from University of Nagpur. He has more than 25 years of experience in the real estate industry pertaining to legal matters, operations, procurement, liaising and planning of construction activity.
Gopal Sarda	<i>Chief Executive Officer</i>	12	Mr. Gopal Sarda joined KPDL in 2010 as a Sr. Manager – Finance and Strategy. He went on to become Group President in 2016 and Group CEO at the young age of 33 years. Mr. Sarda has played an instrumental role in the company's foray into the Mumbai market and scaling up of sales velocity in Bengaluru. He has ensured large focus on collaborative work culture, execution and accountability. At the same time, he has laid out utmost importance on profitable growth without hampering quality of P&L, balance sheet and cash flows.

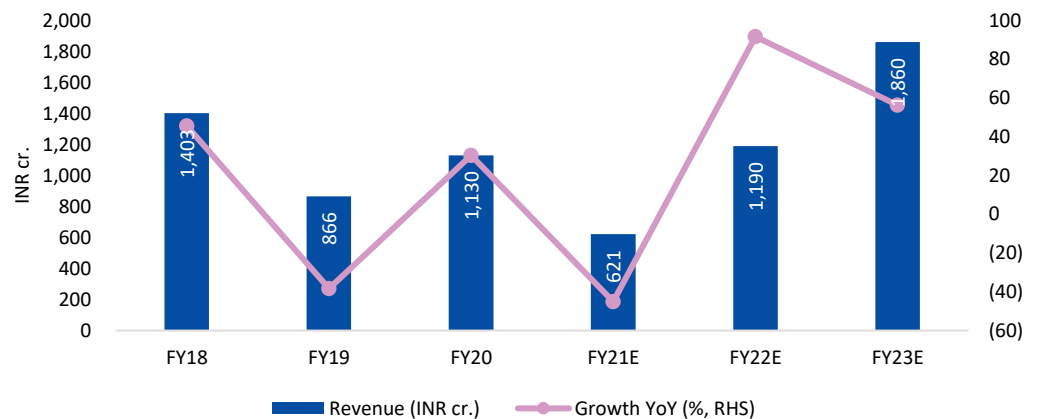
Note: All the numbers discussed below are based on project completion method as per IND AS 115

Revenue growth to recover in FY22

While revenue in FY21 is expected to be impacted due to limited project completions we expect it to recover from FY22 and report 82% CAGR over FY21-23E to INR 1860cr. We expect KPDL to deliver 5.5msf of projects in FY22-23E versus 0.85msf in FY21.

Revenue growth to recover in FY22. Stable EBITDA margins will lead to 82% YoY growth

Exhibit 49: Revenue will recover in FY22 with 88% YoY growth to INR 1,168

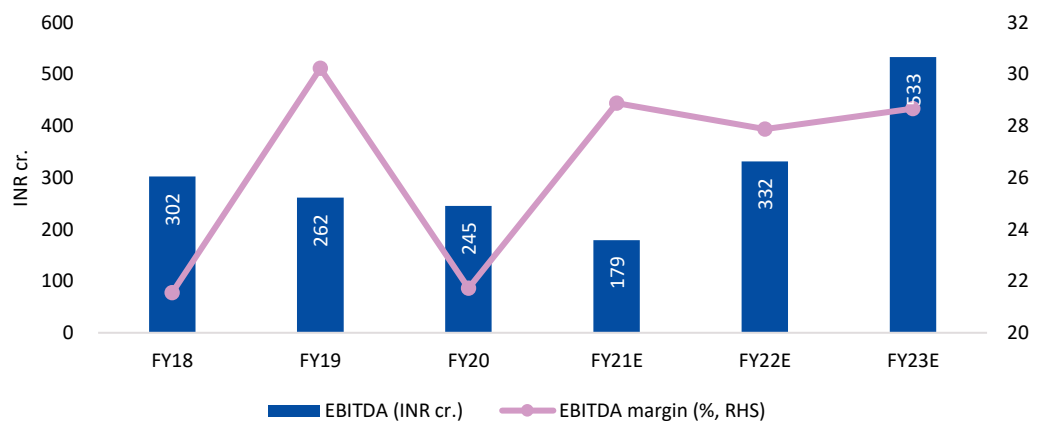


Source: Company, Edelweiss Wealth Research

EBITDA margin to sustain between 25-30%

EBITDA margins are expected to remain stable between 25-30%. Expect EBITDA to grow by 154% CAGR over FY22-23E to INR 533cr on the back of higher project completions.

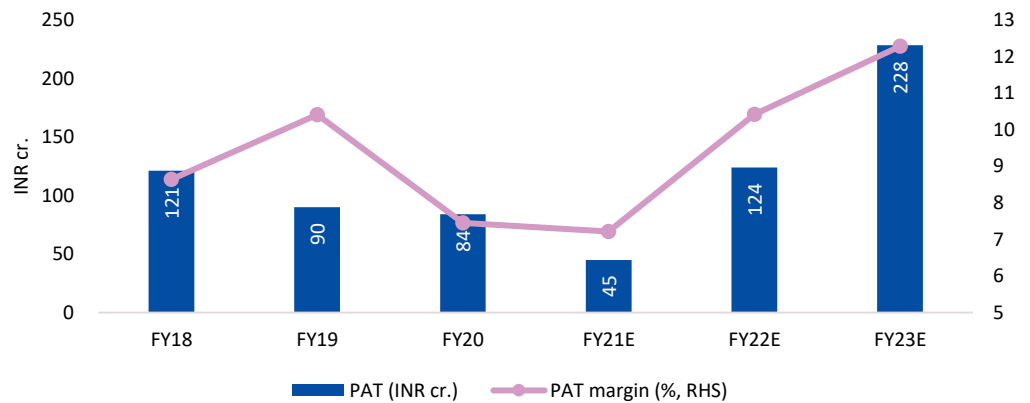
Exhibit 50: EBITDA margins to recover to average 27-29% in FY21-23E



Source: Company, Edelweiss Wealth Research

PAT to grow five-fold in FY23E

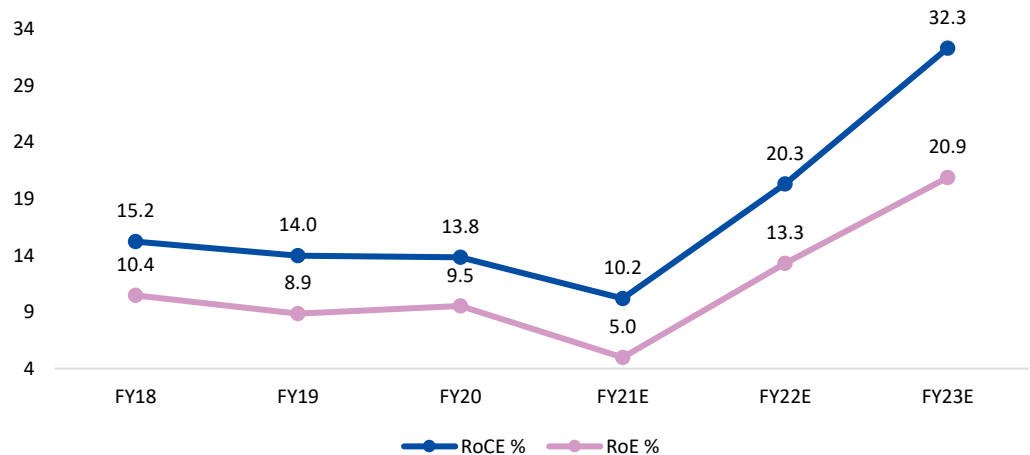
PAT declined to 121cr in FY18 to 84cr in FY20. We expect PAT to grow five fold in FY23E to INR 225cr registering a PAT margin of 12%.

Exhibit 51: PAT margins to recover to average 10-12% in FY22-23E


Source: Company, Edelweiss Wealth Research

Healthy return ratios to continue

At 10%/14% RoE/RoCE, KPDL generates the highest return ratios in the industry on the back of its asset light strategy. We expect such healthy return ratios to continue and improve to 13%/20% RoE/RoCE in FY22E.

Exhibit 52: Return ratios continue to remain healthy and expected to increase in FY22


Source: Company, Edelweiss Wealth Research

Income Statement

(INR crs)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Revenue	866	1,130	621	1,190	1,860
Direct costs	454	733	332	570	890
Indirect costs	150	151	110	288	436
Total operating expenses	604	884	442	858	1,326
EBITDA	262	245	179	332	533
Depreciation and amortisation	15	17	17	17	17
EBIT	247	228	162	315	516
Interest expenses	92	80	76	68	60
Other income	11	47	3	2	2
Profit before tax	166	195	90	249	458
Provision for tax	52	84	31	85	156
Core profit	114	111	59	164	303
Extraordinary items	0	0	0	0	0
Profit after tax	114	111	59	164	303
Minority Interest	-24	-27	-15	-40	-74
Adjusted net profit	90	84	45	124	228
Equity shares outstanding	7.6	7.6	7.6	7.6	7.6
EPS (INR) basic	11.9	11.1	5.9	16.4	30.1
Diluted shares	7.6	7.6	7.6	7.6	7.6
EPS (INR) fully diluted	11.9	11.1	5.9	16.4	30.1
Dividend per share	2.4	0.0	2.0	2.0	2.0
Dividend payout (%)	20.0	0.0	33.8	12.2	6.6

Common size metrics- as % of net revenues

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Operating expenses	69.8	78.3	71.1	72.1	71.3
Depreciation	1.7	1.5	2.8	1.4	0.9
Interest expenditure	10.6	7.1	12.2	5.7	3.2
EBITDA margins	30.2	21.7	28.9	27.9	28.7
Net profit margins	10.4	7.5	7.2	10.4	12.3

Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	(38.3)	30.4	(45.0)	91.6	56.3
EBITDA	(13.4)	(6.3)	(26.9)	85.0	60.8
PBT	(18.1)	17.8	(54.0)	176.7	84.3
Net profit after minority interest	(25.7)	(6.6)	(46.8)	176.7	84.3
EPS	(25.7)	(6.6)	(46.8)	176.7	84.3

Balance sheet
(INR Crs)

As on 31st March	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	76	76	76	76	76
Reserves & surplus	764	829	789	898	1,111
Minority interest	6	15	15	15	15
Shareholders funds	846	920	879	988	1,202
Secured loans	395	364	289	214	64
Unsecured loans	412	365	365	365	365
Borrowings	807	729	654	579	429
Net Deferred tax	-175	-141	-133	-110	-69
Long term liabilities	35	55	55	55	55
Current liabilities	1,858	1,924	1,829	1,935	1,998
Provisions	82	83	83	83	83
Total CL & provisions	1,940	2,007	1,911	2,018	2,081
Total Liabilities	3,452	3,569	3,366	3,529	3,697
Gross block	137	344	361	378	396
Depreciation	53	69	86	103	121
Net block	85	275	275	275	275
Capital work in progress	1	1	1	1	1
Total fixed assets	85	276	276	276	276
Goodwill	0	0	0	0	0
Investments	22	20	20	20	20
Inventories	2,827	2,758	2,552	2,690	2,803
Sundry debtors	108	62	68	130	178
Cash and equivalents	64	97	95	57	64
Loans and advances	327	338	338	338	338
Other current assets	18	19	19	19	19
Total current assets	3,344	3,274	3,071	3,233	3,401
Total Assets	3,452	3,569	3,366	3,529	3,697
Book value per share (INR)	111	119	116	130	159

Cash flow statement
(INR Crs)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Net profit (before MI)	114	111	59	164	303
Add: Depreciation	15	17	17	17	17
Add: Misc expenses written off	0	0	0	0	0
Add: Deferred tax	-19	19	8	22	41
Add: Others	77	31	72	66	58
Gross cash flow	188	179	157	270	419
Less: Changes in W. C.	-120	153	105	-94	-98
Operating cash flow	67	331	262	176	321
Less: Capex	4	11	17	17	17
Free cash flow	64	321	244	158	304

Cash flow metrics

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Operating cash flow	67	331	262	176	321
Investing cash flow	16	(66)	(84)	(15)	(15)
Financing cash flow	(120)	(227)	(180)	(198)	(299)
Net cash flow	(36)	38	(2)	(38)	7
Capex	4	11	17	17	17
Dividend paid	21	20	15	15	15

Profit & Efficiency Ratios

Year to March	FY19	FY20	FY21E	FY22E	FY23E
ROAE (%)	8.9	9.5	5.0	13.3	20.9
ROACE (%)	14.0	13.8	10.2	20.3	32.3
Debtors (days)	61	27	40	40	35
Current ratio	1.6	1.5	1.5	1.5	1.5
Debt/Equity	1.0	0.8	0.6	0.5	0.3
Inventory (days)	978	900	1,500	825	550
Payable (days)	110	90	110	90	70
Cash conversion cycle (days)	929	837	1,430	775	515

Operating ratios (x)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Total asset turnover	0.3	0.3	0.2	0.3	0.5
Fixed assets turnover	10.2	4.1	2.3	4.3	6.8
Equity turnover	0.9	1.3	0.7	1.3	1.7

Du pont analysis

Year to March	FY19	FY20	FY21E	FY22E	FY23E
NP margin (%)	10.4	7.5	7.2	10.4	12.3
Total assets turnover (x)	0.3	0.3	0.2	0.3	0.5
Leverage multiplier (x)	3.0	4.0	3.9	3.7	3.3
ROAE (%)	8.9	9.5	5.0	13.3	20.9

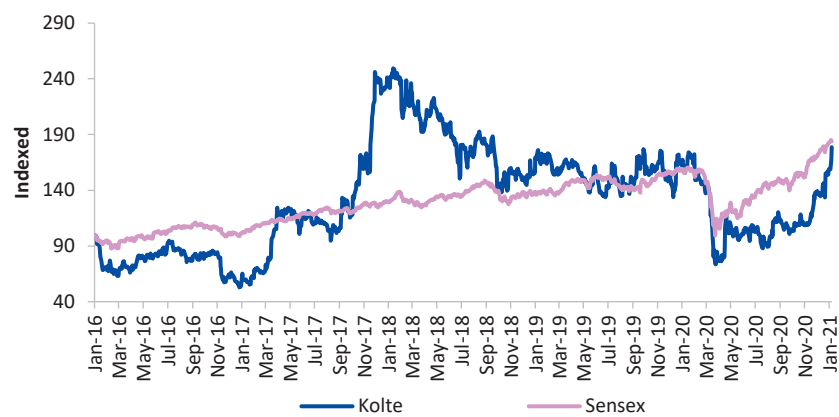
Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Diluted EPS (INR)	11.9	11.1	5.9	16.4	30.1
Y-o-Y growth (%)	(25.7)	(6.6)	(46.8)	176.7	84.3
CEPS (INR)	13.9	13.4	8.2	18.6	32.4
Diluted P/E (x)	25.2	12.3	47.8	17.3	9.4
Price/BV(x)	2.3	1.0	2.1	1.9	1.5
EV/Sales (x)	3.1	1.4	3.9	2.0	1.2
EV/EBITDA (x)	10.2	5.4	13.4	7.2	4.2
Diluted shares O/S	7.6	7.6	7.6	7.6	7.6
Basic EPS	11.9	11.1	5.9	16.4	30.1
Basic PE (x)	25.2	12.3	47.8	17.3	9.4
Dividend yield (%)	20.0	0.0	33.8	12.2	6.6

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirod Road, Kurla(W)
 Board: (91-22) 4272 2200

Vinay Khattar
 Head Research
 vinay.khattar@edelweissfin.com

Rating	Expected to
BUY	appreciate more than 15% over a 12-month period
HOLD	appreciate between 5% and 15% over a 12-month period
REDUCE	return below 5% over a 12-month period



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