

## Indiabulls Real Estate.

20<sup>th</sup> March 2017

BSE: 532832 | Sector: Real Estate

vScore : 60 | Gain%: **37.90%**

Buy Date: 20-Mar-2017 | Buy Price : Rs. 82.50

Exit Date: 19-Apr-2017 | Exit Price : 113.77

### BUSINESS BACKGROUND

Indiabulls Real Estate (IBREL) is India's third largest property company. IBREL, the de-merged real estate arm of Indiabulls Financial Services (IBFSL), listed on the Bombay Stock Exchange and the National Stock Exchange in March 2007. It entered the real estate sector in 2005 after it won two land parcels at auction bids of textile mill land in central Mumbai. The company is focused on development and sale of residential properties in tier-I cities like the NCR, Mumbai and Chennai and rental of commercial properties to be developed in Mumbai. The company has various development projects in the residential, commercial, hotels, malls, and Special Economic Zone (SEZ) segments. IBREL's projects portfolio includes high-end office and commercial spaces, premium residential developments, integrated townships, luxury resorts and SEZs.

### INVESTMENT HIGHLIGHTS

**Q3FY17 results:** It recorded net sales of INR 291.21 Crs, compared to INR 707.44 in Q3FY16, Net profit of INR 40.9 Crs compared to INR 83.88 crore in Q3FY16. Adj. EPS: INR 7.32/share compared to INR 6.1/share last year same quarter. (All figures are on consolidated basis.)

**Segment Highlights:** The company is focused on development and sale of residential properties in tier-I cities like the NCR, Mumbai and Chennai and rental of commercial properties to be developed in Mumbai. The company has various development projects in the residential, commercial, hotels, malls, and Special Economic Zone (SEZ) segments. IBREL's projects portfolio includes high-end office and commercial spaces, premium residential developments, integrated townships, luxury resorts and SEZs.

### KEY DATA

FACE VALUE	Rs	2
DIVID YIELD %		0
52 WK HI/LOW		105.2/51.5
NSE CODE		IBREALEST
MARKET CAP		RS 3827.36 Cr

### SHAREHOLDING PATTERN-SEP 16

PROMOTERS	-	47.78%
BANKS, MFs & DIIs	-	1.99%
FIIs	-	0%
Others	-	50.23%

### KEY FUNDAMENTALS

Year Ending	FY16A	FY17E	FY18E
Rev Gr%	3	6	13
Net Profit Gr%	12	14	16
ROE %	3.5	3.9	4.5
ROCE %	6	6	7
EPS (Rs)	7.3	8.8	11
P/E (x)	12	10	7

**Presales improved more than 60% in last couple of years amidst 15% cut in gearing**

Indiabulls Real Estate Ltd had posted 45% increase in pre-sales in FY16 while added another 17-18% in FY17. IBREL's net debt was down significantly. With this management achieved 15%YoY reduction in gearing which we consider commendable amidst muted demand. Pending collection from sold inventory is at INR 41b. Pending construction cost at INR81b and unsold inventory is INR 237b leading to net surplus of INR197b by 2019.

**Gain in comfort on asset monetization key to re-rating while new launches in the pipeline could boost the revenue visibility**

IBREL trades at steep discount to peers and own valuation history. Key concerns are operational weakness in core regions (Central Mumbai and Gurgaon) and discomfort on London asset. Divestment of stake in London asset (as per media news) at healthy valuation, coupled with success in de-leveraging target would be key trigger. 2 new projects to be launched - total saleable area of 7.3msf (5.1 msf of residential & 2.2msf of commercial in NCR). Hanover square property also to be launched in FY17.

**Rich market, with strong recent momentum and overseas demand**

Mayfair, being the most sought after property destination in London, enjoys realizations range of £3,000-4,000/sqft, with further increase in pricing expected due to arrival of several ultra-priced residential projects. Overseas buyers have been a key driver in recent times with demand coming from Russia, Middle East and 15-20% from India. Based on the initial plan, IBREL is likely to develop mixed sized products with meaningful proportion of below £5m ticket size.

**Debt reduction past year with reduction in rates boosted margins**

Assuming average realizations of £4,500/sqft and sales/execution schedule over FY17-19, we estimate the project to enjoy post tax IRR of 14% and NAV of INR10/share. Management hinted at attractive interest cost of 3% (fixed), against the loan to be raised, which has already been tied up. We estimate equity-IRR at 25% led by cheaper cost of debt. We estimate peak debt of £135m (INR13-14b), on the back of equity contribution of INR 7b towards purchase of the project and initial execution spending, as launch of sales is likely to take place with some advancement in construction.

**Steady operational momentum to dilute the asset value discount**

IBREL's prevailing valuation does not capture contribution from IPIT and meaningful portion of its land bank. Thus, with Sky and Sky Forest obtaining approvals and the subsequent launches would act as major catalysts. Prices have been competitive compared to the projects in vicinity. Therefore, a successful absorption would remain a key. Strength of underlying operations is much higher than reported number. Hence, we expect P&L to catch up steadily with IBREL's healthy FCF.

## Business Outlook and Valuation :

At the moment at current price of 82.7 the stock is trading at (TTM) P/E of 12. Going ahead we expect revenue growth of 6-13% for FY17 and FY18. Hence our expectations for net sales for FY17 and FY18 are INR 2,842 Cr and INR 3,201 Cr respectively.

Going ahead we expect PAT percentage of 10-11% for next two years. Our PAT expectations for FY17 and FY18 are INR 402 Cr and INR 517 Cr respectively. Our EPS expectations for FY17 and FY18 are INR 8.8 and INR 11 respectively.

Looking at other companies in Real Estate with Industry average P/E of approx 22-25x and P/B average valuations of 4-6; we believe Indiabulls Real Estate Ltd at PE of 12 and P/B of 0.6 is very attractive. With EPS expectations of 8.8 for FY17 and book value of 195 we expect target price as **103/share** with a stop loss at 70.

## FINANCIALS:

For the Year Ended March (INR)	FY15A	FY16A	FY17E	FY18E
<b>Net Sales (Cr)</b>	2601	2677	2842	3201
<b>EBIDTA (Cr)</b>	572	751	759	903
<b>EBIDTA %</b>	21.9	28.05	26.71	28.21
<b>Interest (Cr)</b>	336	348	367	354
<b>Depreciation (Cr)</b>	20	10	13	14
<b>Tax (Cr)</b>	98	140	137	180
<b>Profit After Tax (Cr)</b>	229	325	402	517
<b>PAT%</b>	8.8	12.14	14.14	16.14
<b>Diluted EPS (INR)</b>	6.5	7.3	8.8	11.1
<b>Shareholder's Funds (Cr)</b>	7170	7552	7771	8087
<b>Borrowings (Cr)</b>	6544	6080	5380	5110
<b>Gross Block (Cr)</b>	162	165	170	176

## Key Risks and Concerns:

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- Intense competition from the organised and unorganised players.
- Time and cost overruns in the execution of the projects.
- Increase in raw material prices such as coal, cement and change in interest rates could trouble profitability.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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*Source: Niveza Research Desk*