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CMP	:	INR350

MANAGEMENT MEET UPDATE

Ajmera Realty & Infra India

Weathering cost pressure well

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We met with the management of Ajmera Realty and Infrastructure Ltd (ARIL) to gauge the business outlook under the influence of strong sector tailwinds on one hand and impact of raw material price impact on the other.

Incorporated in 1985, ARIL is in the business of providing residential and rented commercial properties. The company has a presence in 6 cities Mumbai, Bengaluru, Ahmedabad, Pune, Surat and Rajkot in Indiaas well as in foreign countries such as UK. The company has a pipeline of 3.2 mn sqft expected to be launched in next 15-18 months and another 18.2 mn sqft for future development.

Weathering the cost pressure via calibrated price hikes

Commodity price had been hardening for last 12-18 months which further accelerated sharply in last 6 months (BCOM Index up 20%/38% in 6months/12months). The rising input cost inflation has been one of the key headwinds to profitability for most sectors including real estate. As per our estimate (details in exhibit 1), overall impact is 18% escalation in last 1 year, translating to ~ INR 800/sqft increase in cost for a sample project. Our interaction with the management of ARIL indicates that the company has been able to absorb the inflationary cost pressure via calibrated price increase (c.6-10%) across projects. In our view, any significant price hike by developers is unlikely as it will impact the demand. However, given strong underlying demand driven by decadal best macros for housing, reputed developers such as ARIL will be in a position to take calibrated price hike across projects/micro markets without any negative impact on sales volume. In addition, with large landbank at historical cost at Company's disposal, ARIL has better flexibility to absorb the inflationary cost and calibrate supply.

Aggressive launch plan to monetize land bank; focussed approach to drive value unlocking

According to Prop Equity data, housing demand in MMR has grown by 23% YoY in CY21 to ~110mn sqft driven by improving affordability which has significantly improved demand supply dynamics. Given underlying sector tailwinds leading to a strong housing demand, ARIL has modelled an aggressive launch plan utilizing its existing land bank to drive growth momentum. ARIL has ~8mn sqft of under-construction/planned projects and ~18 mn sqft TDA worth of land parcels in key mico-markets of MMR (which is a high value market). Additionally, the management has also chalked out an alternative growth strategy of JDA/JV/DM model to fuel next leg of growth. Going ahead, company has clear plans to set up separate platform for growing its commercial annuity assets via strategic partnership with global players which will further drive value unlocking.

De-leveraging of balance sheet on track

For the last 4-5 years, burgeoning debt had been one of the key overhangs for the company. However, recent housing market boom coupled with efficient execution and sales performance, ARIL has shown a significant improvement in its financial position with debt on a downward trajectory thus leading to improved leverage ratio for the company (refer exhibit 12). Further, provided one of the few developers with land parcels in prime micro markets of Mumbai, ARIL is in a healthy position to monetize these existing land parcels without stretching its balance sheet further.

Market data

Sensex	:	58,576
Sector	:	Real Estate
Market Cap (INRbn)	:	12.4
Market Cap (USDbn)	:	0.163
O/S Shares (m)	:	35.5
52-wk HI/LO (INR)	:	496/98
Avg Daily Vol ('000)	:	132
Bloomberg	:	AREAL IN

Source: Bloomberg

Valuation

	FY20	FY21	9MFY22
EPS (INR)	9.2	8.5	8.8
P/E (x)	38.0	41.2	NA
P/BV (x)	1.9	1.9	NA
EV/EBITDA (x)	18.85	20.63	NA
EV/Sales (x)	5.72	5.68	NA

Source: Company, Antique

Returns (%)

	1m	3m	6m	12m
Absolute	4	(10)	(3)	215
Relative	(1)	(6)	(0)	157

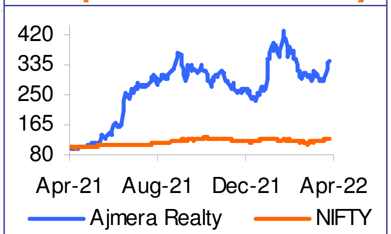
Source: Bloomberg

Shareholding pattern

Promoters	:	70%
Public	:	30%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

Key takeaways of management meet

- **Cost escalation on account of commodity inflation:** Raw material cost consists of ~25% of overall cost in a project. Other costs are relatively unaffected from commodity cost inflation.
- **Price hike:** In line with industry, ARIL has also taken price hike of 6-10% across projects in last 1 year in order to mitigate the negative impact of commodity cost inflation.
- **Risk mitigation strategy:** Company has a strategy to sell the units over the life cycle of the project, which helps it mitigate the unexpected inflationary conditions there by adjusting the realization prices to absorb the effect.
- **Impact of increase in stamp duty by 1%:** ARIL believes that the recent increase of stamp duty by 1% in Maharashtra is not going to be a significant demand dampener as other demand drivers like low interest rates, improved affordability and enhanced sense of home ownership as an aftermath of pandemic will continue keeping the demand intact. Additionally, the underlying wave of industry consolidation will further accentuate and drive demand for grade A developers like ARIL.

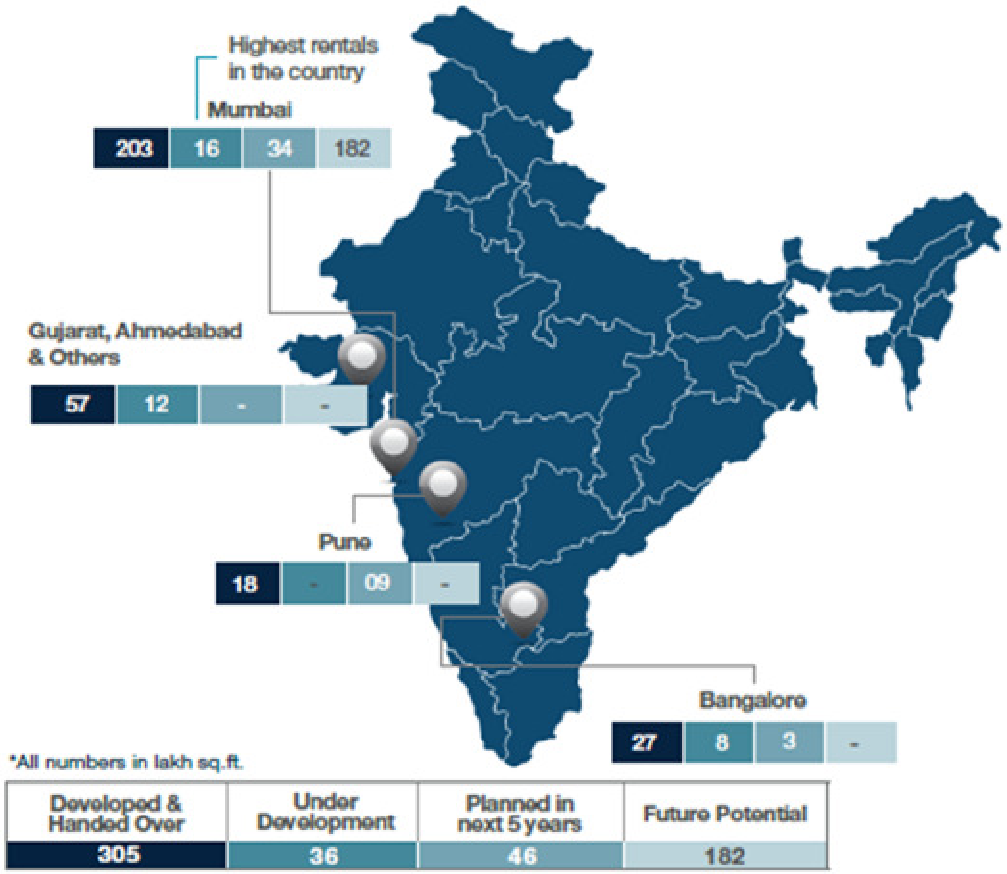
Exhibit 1: Typical cost break up of a real estate developer

Particulars	% share in cost	Escalation in last 1 yr	Overall Impact
Civil Cost	**56%**		**11%**
Concrete cost	13%	10%	1.3%
Steel	18%	40%	7.2%
Shuttering cost	7%	8%	0.6%
Labour charges	10%	10%	1.0%
Other civil cost	8%	10%	0.8%
Finishing cost	**15%**		**2%**
Labour	2%	10%	0.2%
Tiles cost	8%	10%	0.8%
Doors+Windows+Glass	4%	15%	0.6%
Other Finishing cost	1%	15%	0.2%
Servicing Cost	**20%**		**5%**
Electrical work	7%	25%	1.6%
Elevators	4%	20%	0.7%
Plumbing + Sanitary	5%	35%	1.8%
Firefighting cost+alarm+cctv	4%	10%	0.4%
Other service cost	1%	10%	0.1%
Infrastructure cost	**2%**	**10%**	**0.2%**
Amenities Cost	**2%**	**10%**	**0.2%**
Consultancy Cost	**3%**	**10%**	**0.3%**
Water and Electricity cost	**2%**	**10%**	**0.2%**
Total Cost	**100%**		**18%**

Source: Company, Antique;
Note:
- The cost estimation is for a 44 storeyed building in Mumbai suburb
- Assuming the overall cost of development of INR 4500/sqft, the escalation in cost would be around 18% or INR800/sqft.
- Inflationary escalation in metals especially steel has the major impact on cost of construction.
- Passing on the entire cost means for a selling rate of INR14,000/sqft, the price escalation should be 5-6%.
- Although in absolute terms, the cost would be passed on but overall % margin would decrease.
- However, impact would be more for affordable/low mid-income housing where Civil construction forms a big cost of development and margins are more squeezed.

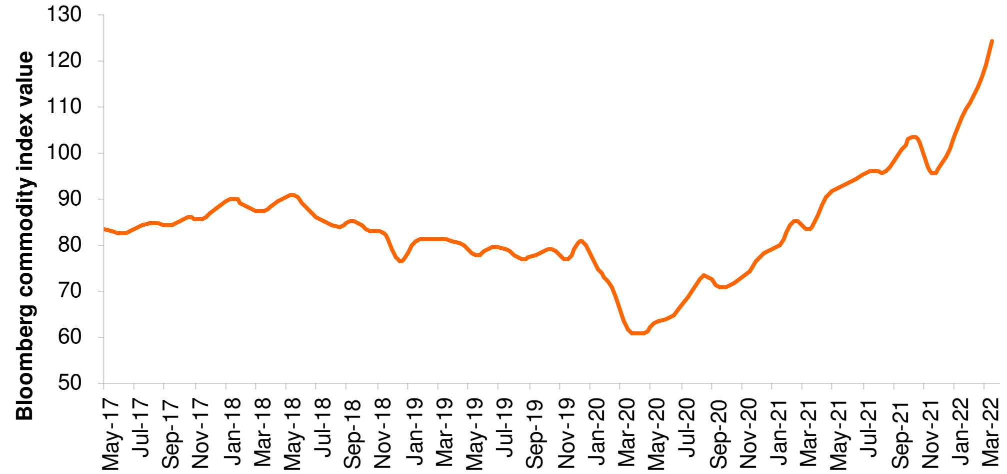
Story in Charts

Exhibit 2: ARIL's presence in India



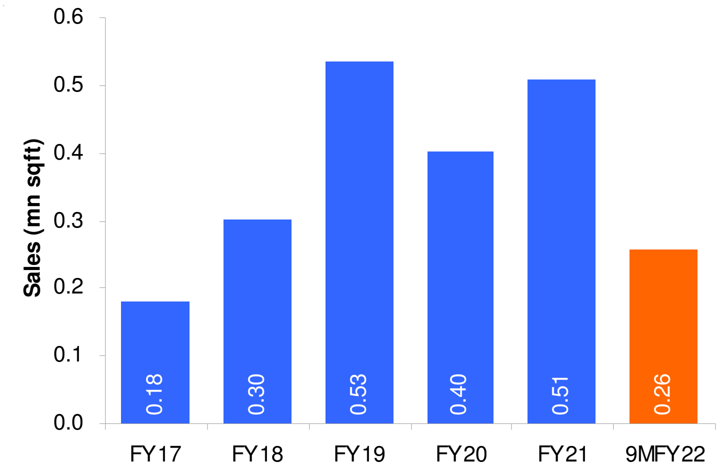
Source: Company, Antique; Note: this includes completed, ongoing and planned projects across locations

Exhibit 3: Commodity prices accelerated sharply in last 5-6 months



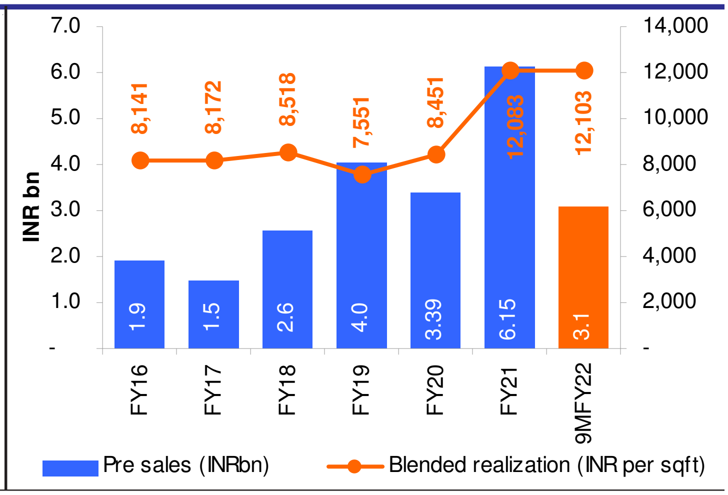
Source: Bloomberg, Antique

Exhibit 4: Sales volume trend



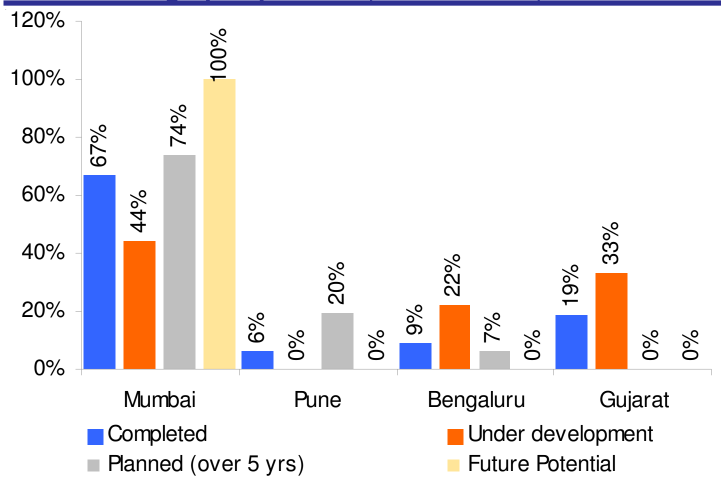
Source: Antique, Company

Exhibit 5: Sales value and realization trend



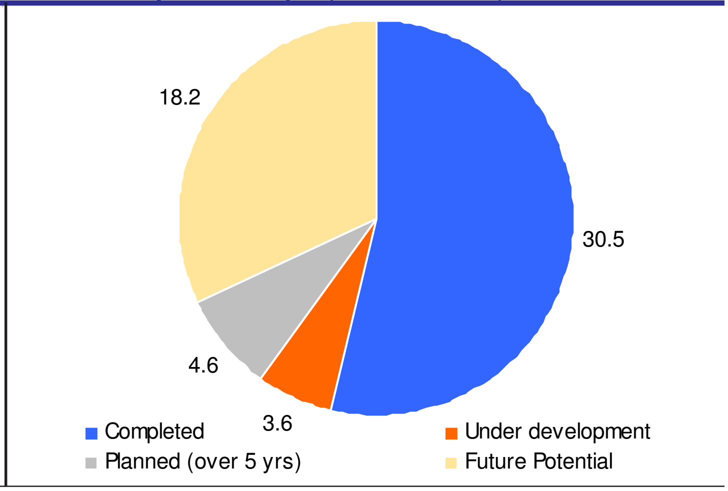
Source: Antique, Company

Exhibit 6: Geographic presence (as on 3QFY22)



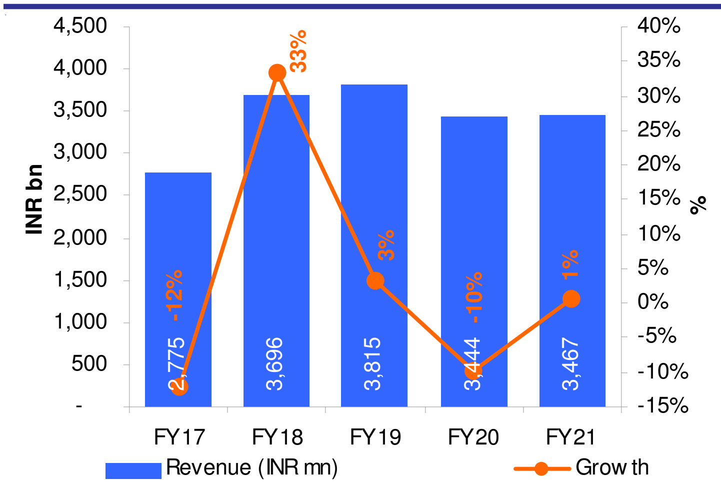
Source: Antique, Company

Exhibit 7: Project status split (as on 3QFY22)



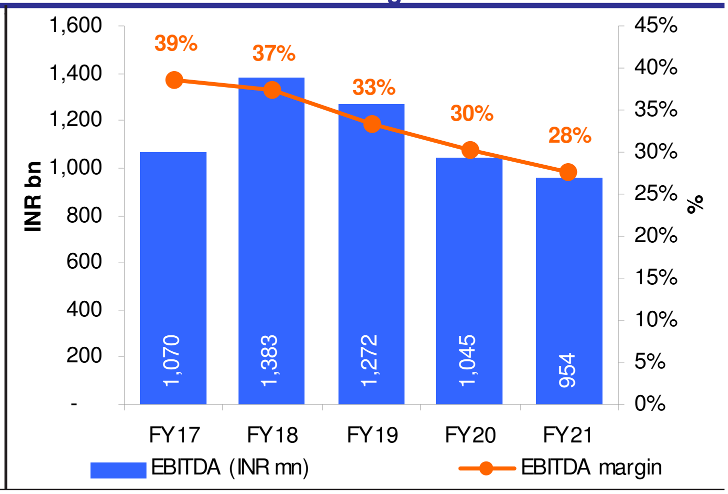
Source: Antique, Company

Exhibit 8: Revenue trend



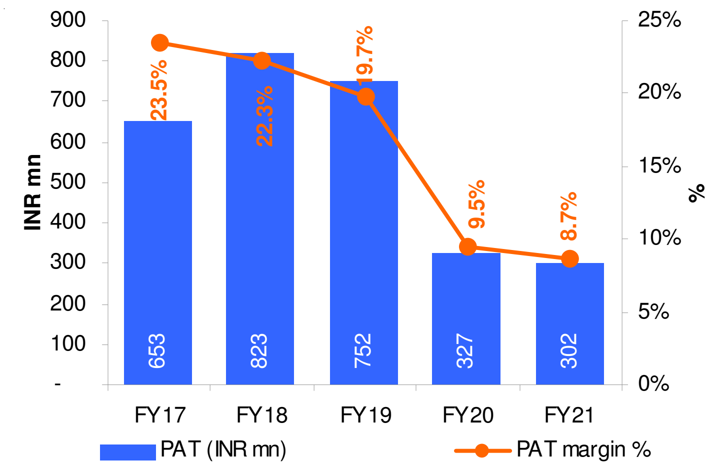
Source: Antique, Company

Exhibit 9: EBITDA and EBITDA margin trend



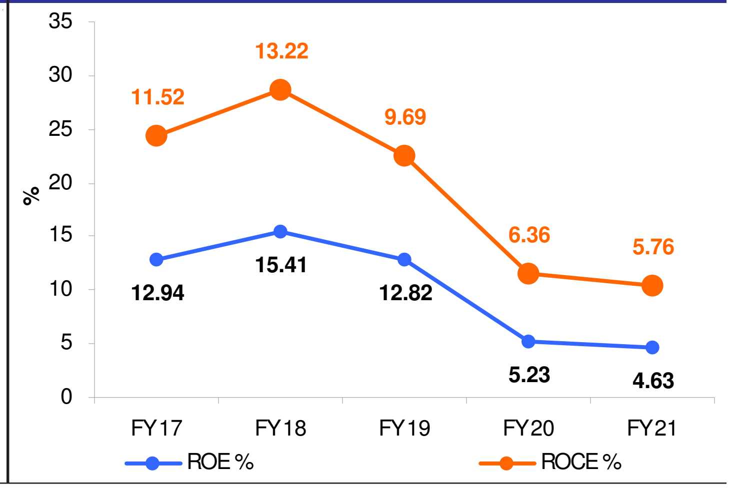
Source: Antique, Company

Exhibit 10: PAT and net profit margin trend



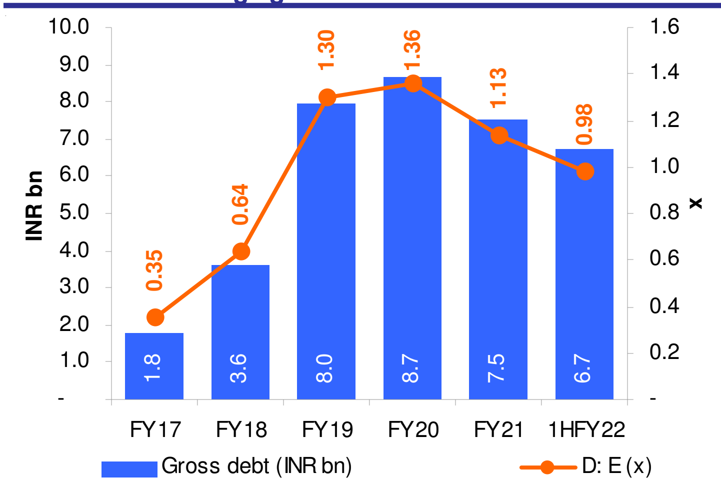
Source: Antique, Company

Exhibit 11: ROE/ROCE profile



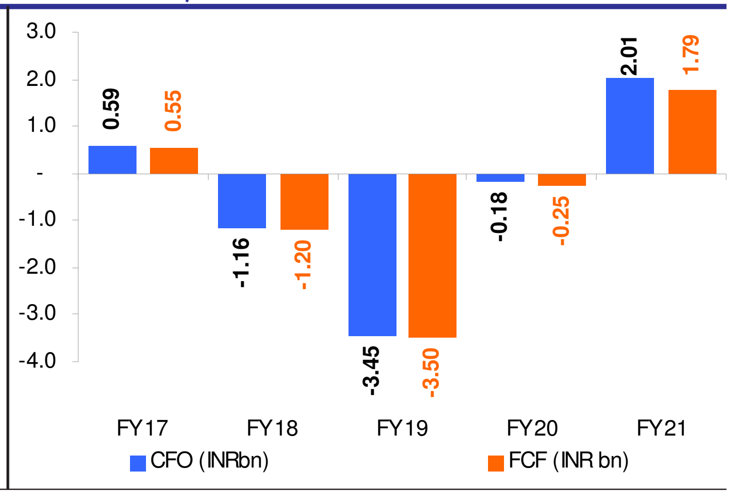
Source: Antique, Company

Exhibit 12: Deleveraging well on track



Source: Antique, Company

Exhibit 13: CFO/FCF trend



Source: Antique, Company

Financials

Profit and loss account (INRm)

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
Net Revenue	**3,696**	**3,815**	**3,444**	**3,467**	**3,022**
Op. Expenses	2,313	2,544	2,399	2,513	2,256
EBITDA	**1,383**	**1,272**	**1,045**	**954**	**766**
Depreciation	27	24	22	18	12
EBIT	**1,356**	**1,247**	**1,023**	**936**	**753**
Other income	172	195	62	51	33
Interest Exp.	463	503	659	577	365
Reported PBT	**1,065**	**940**	**427**	**410**	**422**
Tax	220	177	97	95	104
Reported PAT	**844**	**763**	**329**	**315**	**318**
Minority Int./Profit (loss) From Asso.	(22)	(10)	(2)	(13)	(4)
Net Profit	**823**	**752**	**327**	**302**	**314**
Adjusted PAT	**823**	**752**	**327**	**302**	**314**
Adjusted EPS (INR)	**23.2**	**21.2**	**9.2**	**8.5**	**8.8**

Balance sheet (INRm)

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
Share Capital	355	355	355	355	355
Reserves & Surplus	5,274	5,757	6,033	6,292	6,509
Networth	**5,629**	**6,112**	**6,387**	**6,647**	**6,864**
Debt	3,576	7,956	8,656	7,537	6,725
Minority Interest	832	954	1,047	1,015	756
Other long term liabilities	2,694	2,022	1,006	1,971	1,328
Capital Employed	**12,731**	**17,043**	**17,097**	**17,170**	**15,673**
Gross Fixed Assets	816	863	931	1,175	811
Accumulated Depreciation	129	154	175	197	206
Net Fixed Assets	**687**	**709**	**756**	**978**	**605**
Goodwill					416
Investments	245	865	667	501	225
Non current investments	245	345	345	345	143
Current investments	-	520	322	156	81
Current Assets, Loans & Adv.	**14,428**	**17,224**	**18,293**	**17,491**	**16,695**
Inventory	7,594	9,690	9,995	9,100	8,316
Debtors	1,783	1,921	2,104	1,793	2,110
Cash & Bank balance	196	277	221	427	204
Loans & advances and others	4,832	4,444	4,788	4,958	4,880
Other Current Assets	23	892	1,184	1,213	1,185
Current Liabilities & Prov.	**2,629**	**1,754**	**2,619**	**1,799**	**2,268**
Liabilities	2,508	1,590	2,471	1,617	2,107
Provisions	121	164	148	182	161
Net Current Assets	**11,799**	**15,470**	**15,674**	**15,692**	**14,427**
Application of Funds	**12,731**	**17,043**	**17,097**	**17,170**	**15,673**

Per share data

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
No. of shares (m)	35	35	35	35	35
Diluted no. of shares (m)	35	35	35	35	35
BVPS (INR)	158.64	172.24	180.01	187.31	193.42
CEPS (INR)	24.57	22.17	9.89	9.37	9.29

Source: Company, Antique

Cash flow statement (INRm)

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
PBT	**1,065**	**940**	**427**	**410**	**293**
Depreciation & amortisation	27	24	22	18	9
Interest expense	463	503	659	577	287
(Inc)/Dec in working capital	(2,385)	(4,631)	(1,188)	1,104	170
Tax paid	(220)	(177)	(97)	(95)	(72)
Less: Interest/Div. Income Recd.	(105)	(118)	(1)	-	-
Other operating Cash Flow	(5)	5	2	(7)	-
CF from operating activities	**(1,160)**	**(3,455)**	**(179)**	**2,007**	**686**
Capital expenditure	(36)	(46)	(69)	(221)	(86)
Inc/(Dec) in investments	(24)	(122)	182	126	123
Add: Interest/Div. Income Recd.	21	118	1	-	-
CF from investing activities	**(39)**	**(50)**	**114**	**(95)**	**37**
Inc/(Dec) in debt	1,797	4,380	700	(1,119)	(813)
Dividend Paid	(217)	(251)	(50)	(50)	(287)
Others	(493)	(503)	(659)	(577)	277
CF from financing activities	**1,087**	**3,626**	**(8)**	**(1,745)**	**(823)**
Net cash flow	**(112)**	**121**	**(73)**	**167**	**(99)**
Opening balance	147	35	157	84	251
Closing balance	**35**	**157**	**84**	**251**	**152**

Growth indicators (%)

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
Revenue(%)	33.2	3.2	-9.7	0.7	NA
EBITDA(%)	29.3	-8.1	-17.9	-8.6	NA
Adj PAT(%)	26.0	-8.6	-56.5	-7.7	NA
Adj EPS(%)	26.0	-8.6	-56.5	-7.8	NA

Valuation (x)

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
P/E (x)	15.1	16.5	38.0	41.2	NA
P/BV (x)	2.2	2.0	1.9	1.9	NA
EV/EBITDA (x)	14.23	15.48	18.85	20.63	NA
EV/Sales (x)	5.33	5.16	5.72	5.68	NA

Financial ratios

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
RoE (%)	15.41	12.82	5.23	4.63	NA
RoCE (%)	13.22	9.69	6.36	5.76	NA
Asset/T.O (x)	0.33	0.27	0.21	0.21	NA
Net Debt/Equity (x)	0.60	1.17	1.27	1.05	NA
EBIT/Interest (x)	3.30	2.87	1.65	1.71	NA

Margins (%)

Year-ended March 31	FY18	FY19	FY20	FY21	9MFY22
EBITDA Margin(%)	37.4	33.3	30.3	27.5	25.3
EBIT Margin(%)	36.7	32.7	29.7	27.0	24.9
PAT Margin(%)	21.27	18.76	9.33	8.58	10.28

Source: Company Antique

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