

GODREJ PROPERTIES

Project portfolio augmentation continues

India Equity Research | Real Estate

Godrej Properties (GPL) has entered into agreements to develop 2 new residential projects in Gurgaon and Bangalore, further expanding its footprint in these key markets. We perceive good prospects for these projects and estimate NAV of INR3 for the Gurgaon project and INR1 for the Bangalore project. We expect the company to expand its development portfolio via sustained new project additions, which cumulatively should help grow GPL's NAV meaningfully. However, as most positives are currently priced in, we see limited upside for the stock. Maintain 'HOLD'.

Gurgaon project

GPL has entered into a JV agreement to develop a group housing project in Gurgaon entailing ~1.05msf saleable area. The project is located in New Gurgaon (5km from NH8) and is expected to be launched in FY19. This is a profit share project with GPL's share at 37.5%. We assume a starting selling price of INR6,500 psf, development cost of INR2,800 psf, project completion period of 5 years, 5% YoY inflation and 14% discount rate. Accordingly, we estimate GPL to garner sales of ~INR2.9bn (its share), resulting in NAV of INR586mn (INR3/share).

Bangalore project

The company has entered into a Development Management agreement for a new group housing project in Bangalore of ~0.6msf saleable area. Under the agreement, GPL will be entitled to ~11% revenue share. Located on Magadi Road (West Bangalore), it is in the vicinity of Bangalore's CBD and is likely to be launched in FY19. We assume starting selling price of INR8,500 psf, 80% EBITDA margin, 4 years' completion period, 5% YoY inflation and 14% discount rate. Accordingly, we estimate the company's project profit of ~INR346mn and NAV of INR204mn (INR1/share).

Outlook and valuations: Fairly valued; maintain 'HOLD'

We expect GPL to continue to expand its project portfolio in its focus markets of Mumbai, Pune, Bangalore and NCR. Post RERA, the company should benefit from smaller developers looking to tie up with prominent ones to ensure better sales momentum and timely completion. In our view, GPL's new project pipeline, prospects of portfolio expansion (we have factored ~15msf over FY18), strong brand name and tailwinds from RERA & affordable housing incentives are largely priced in. Hence, we maintain 'HOLD/SP'. At CMP, the stock trades at 15% discount to our FY18E NAV of INR612.

Financials

	(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E
Revenues	26,340	17,083	21,946	24,674
EBITDA	3,504	3,758	4,794	6,226
Net profit	2,311	2,061	3,220	4,220
EPS (INR)	10.7	9.6	14.9	19.5
P/E (x)		54.2	34.9	26.6
ROE (%)	10.7	10.0	12.7	14.7

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	None

MARKET DATA (R: GODR.BO, B: GPL IN)

CMP	: INR 524
Target Price	: INR 520
52-week range (INR)	: 586 / 285
Share in issue (mn)	: 216.4
M cap (INR bn/USD mn)	: 113 / 1,748
Avg. Daily Vol.BSE/NSE('000)	: 344.1

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	74.9	74.9	74.9
MF's, FI's & BK's	2.8	1.1	1.1
FII's	8.9	10.5	8.9
Others	13.4	13.5	15.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	0.7	(0.4)	6.1
3 months	30.0	4.1	29.1
12 months	44.3	15.4	34.4

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Company Description

GPL, established in 1990, is a pan-India real estate developer focusing primarily on residential development. It has a development portfolio with significant exposure to key markets of Ahmedabad, Bangalore, Mumbai, Pune, NCR, Hyderabad and Kolkata. The company's land bank strategy includes both outright purchase and joint agreement with land owners in the form of revenue / profit share. It also ties up with developers as a 'Development Manager' wherein it earns 10-11% of project revenue in lieu of project marketing, selling and branding.

Investment Theme

We have a '**HOLD**' on GPL as the strong fundamentals and expected tailwinds are largely priced in. We cite the following positives and expected tailwinds:

1. Continued scale up in operations via steady new launches and strong sales recorded in these projects.
2. Tailwinds in the form of some demand uptick due to interest rate subvention offered to first-time home buyers for affordable housing.
3. Steady augmentation of GPL's development portfolio through value accretive JDA/JV deals in key city markets.
4. Post RERA implementation, opportunities of new project acquisitions are expected to increase, especially for organised/large developers like GPL.
5. Strong cash flows expected from monetisation of balance inventory in legacy commercial projects and Godrej BKC.
6. GPL could benefit from tax incentives offered under the affordable housing initiatives.
7. Geographically diversified development portfolio.

Key Risks

Upside risks:

1. Sharp improvement in demand across markets coupled with price increase.
2. Faster addition of new projects to development portfolio versus our expectations.
3. New project acquisitions at significantly attractive terms.
4. Quick liquidation of balance inventory in legacy commercial projects and BKC.
5. Increase in market share in key city markets owing to RERA and shift of customer preference to organised developers.

Downside risks:

1. Slowdown in new launches owing to uncertainties related to RERA implementation leading to slower new sales.
2. Low involvement in certain group MoUs.
3. Slower-than-expected sales in Godrej BKC project and delay in selling balance inventory in legacy commercial projects.
4. Infusion of PE in projects at high hurdle rates.
5. Protracted redevelopment projects.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	69.0	69.0
Company				
Selling Price increase (%)	5	5	5	5
Construction Cost Increase (%)	5	5	5	5

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	26,340	17,586	21,946	24,674
Direct costs	21,355	12,066	14,368	15,134
Employee costs	459	501	576	662
Other Expenses	1,021	1,888	2,210	2,651
Total operating expenses	22,835	14,455	17,153	18,447
EBITDA	3,504	3,131	4,794	6,226
Depreciation	150	155	172	172
EBIT	3,354	2,976	4,621	6,054
Add: Other income	941.2	1,290.35	1,130.11	757.44
Less: Interest Expense	154	1,160	1,100	720
Profit Before Tax	4,142	3,106	4,651	6,091
Less: Provision for Tax	1,248	994	1,581	2,071
Less: Minority Interest	583	190	150	200
Reported Profit	2,311	2,302	3,220	4,220
Adjusted Profit	2,311	2,302	3,220	4,220
Shares o /s (mn)	216	216	216	216
Adjusted Basic EPS	10.7	10.6	14.9	19.5
Diluted shares o/s (mn)	216	216	216	216
Adjusted Diluted EPS	10.7	10.6	14.9	19.5
Adjusted Cash EPS	11.4	11.4	15.7	20.3
Dividend per share (DPS)	-	3.5	3.5	3.5
Dividend Payout Ratio(%)	-	0.4	0.3	0.2

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	86.7	82.2	78.2	74.8
Staff costs	1.7	2.8	2.6	2.7
S G & A expenses	3.9	10.7	10.1	10.7
Depreciation	0.6	0.9	0.8	0.7
Interest Expense	0.6	6.6	5.0	2.9
EBITDA margins	13.3	17.8	21.8	25.2
Net Profit margins	8.8	13.1	14.7	17.1

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	42.9	(33.2)	24.8	12.4
EBITDA	36.2	(10.7)	53.1	29.9
PBT	27.1	(25.0)	49.7	31.0
Adjusted Profit	21.1	(0.4)	39.9	31.1
EPS	11.6	(0.4)	39.9	31.1

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,081	1,081	1,081	1,081	
Reserves & Surplus	20,601	22,018	24,352	27,686	
Shareholders' funds	21,682	23,099	25,433	28,768	
Minority Interest	1,172	1,172	1,172	1,172	
Long term borrowings	32,034	36,132	30,566	20,000	
Sources of funds	54,888	60,403	57,171	49,940	
Gross Block	1,722	1,722	1,722	1,722	
Net Block	1,298	1,143	970	798	
Capital work in progress	158	161	161	161	
Deferred tax asset	(345)	2,500	2,500	2,500	
Total Fixed Assets	1,456	1,304	1,131	959	
Non current investments	-	2,850	2,850	2,850	
Cash and Equivalents	6,404	6,130	16,145	6,535	
Inventories	51,758	43,950	37,231	37,916	
Trade receivables	1,916	2,458	2,502	2,367	
Loans & Advances	16,692	16,192	14,192	15,192	
Total current assets	70,366	62,600	53,925	55,476	
Current liabilities	22,880	14,380	18,780	17,780	
Provisions	112	600	600	600	
Total Current Liab	22,992	14,980	19,380	18,380	
Net Curr Assets-ex cash	47,374	47,620	34,545	37,096	
Uses of funds	54,888	60,403	57,171	49,940	
BVPS (INR)	100.3	106.8	117.6	133.0	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	2,311	2,302	3,220	4,220	
Add: Depreciation	125	155	172	172	
Interest (Net of Tax)	107	789	726	475	
Less: Changes in WC	929	246	(13,075)	2,551	
Operating cash flow	1,507	2,212	16,467	1,842	
Less: Capex	250	-	-	-	
Free Cash Flow	1,364	3,000	17,193	2,317	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Godrej Properties	1,748	35.2	26.9	4.5	3.9	13.3	15.6
Brigade Enterprises	553	17.0	13.6	1.6	1.4	11.0	11.1
DLF	5,338	37.2	33.3	1.2	1.2	3.3	3.6
Obero Realty	1,926	14.6	13.6	2.0	1.7	14.3	13.5
Sobha Developers	558	17.0	13.7	1.3	1.2	7.7	9.0
Suntech Realty Limited	477	9.7	8.5	1.4	1.2	15.9	15.5
Median	-	17.0	13.7	1.5	1.3	12.1	12.3
AVERAGE	-	21.8	18.3	2.0	1.8	10.9	11.4

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Investing cash flow	708	(5,698)	-	-	
Financing cash flow	(204)	(886)	(886)	(886)	
Net cash Flow	2,010	(4,372)	15,581	956	
Capex	250	-	-	-	
Dividend paid	-	886	886	886	
Share issue/(buyback)	903	-	-	-	

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
EOP(ROE) (%)	10.7	10.0	12.7	14.7
ROAE (%)	11.5	10.3	13.3	15.6
ROACE (%)	8.1	7.3	10.4	14.0
Current Ratio	333.9	458.8	361.6	337.4
Gross Debt/EBITDA	914.2	1,154.1	637.6	321.2
Gross Debt/Equity	147.7	156.4	120.2	69.5
Net Debt/Equity	118.2	129.9	56.7	46.8

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.5	0.3	0.4	0.5
Fixed Asset Turnover	21.3	14.4	20.8	27.9
Equity Turnover	1.3	0.8	0.9	0.9

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	10.7	10.6	14.9	19.5
Y-o-Y growth (%)	11.6	(0.4)	39.9	31.1
Adjusted Cash EPS (INR)	11.4	11.4	15.7	20.3
Diluted P/E (x)	49.0	49.2	35.2	26.8
P/B (x)	5.2	4.9	4.5	3.9
Dividend Yield (%)	-	0.7	0.7	0.7

Additional Data

Directors Data

Mr. Adi B. Godrej	Chairman	Mr. Jamshyd N. Godrej	Non-Executive Director
Mr. Nadir B. Godrej	Non-Executive Director	Mrs. Parmeshwar A. Godrej	Non-Executive Director
Mr. Pirojsha Godrej	Managing Director & Chief Executive Officer	Mr. Amit B. Choudhury	Independent Director
Mr. Keki B. Dadiseth	Independent Director	Mrs. Lalita D. Gupte	Independent Director
Mr. Pranay Vakil	Independent Director	Dr. Pritam Singh	Independent Director
Mr. S. Narayan	Independent Director	Mr. Amitava Mukherjee	Independent Director
Mr. Mohit Malhotra	Executive Director		

Auditors - M/s. KALYANIWALLA & MISTRY

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Godrej industries lt	56.7	Godrej & boyce manuf	4.92
Innovia multiventure	3.44	Innovia multivent pv	3.44
Commonwealth bank of	1.99	Rkn enterprises	1.84
Naoroji rishad kaikh	1.84	Godrej nadir burjorj	1.84
Naoroji rishad kaikh	1.84	L&t investment manag	1.49

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
10 May 2017	Mohit Malhotra	Sell	18000.00
30 Mar 2017	Innovia Multiventures Private Limited	Buy	7440862.00
30 Mar 2017	Godrej Investments Private Limited	Sell	7440862.00
23 Dec 2016	M/s. RKN Enterprises	Buy	3986400.00
22 Dec 2016	MR. RISHAD NAOROJI	Sell	3986400.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Brigade Enterprises	BUY	SO	M	DLF	HOLD	SU	H
Godrej Properties	HOLD	SP	L	Oberoi Realty	BUY	SO	L
Sobha Developers	BUY	SO	M	Sunteck Realty Limited	BUY	SO	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



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Coverage group(s) of stocks by primary analyst(s): Real Estate

Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Sobha Developers, Sunteck Realty Limited

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Jun-17	Real Estate	GST rate revised to 18% - No impact ; Sector Update		
27-Jun-17	Real Estate	Decoding the GST impact ; Sector Update		
15-Jun-17	Real Estate	Sluggish pace of RERA registrations in Mumbai ; Sector Update		

Distribution of Ratings / Market Cap

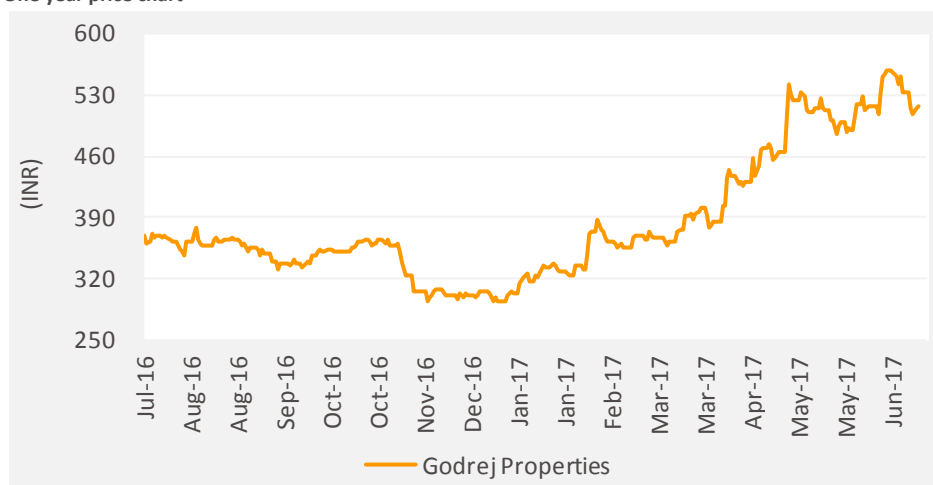
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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