

GODREJ PROPERTIES

Strong operations coupled with b/s improvement

India Equity Research | Real Estate



Godrej Properties (GPL) reported strong Q1FY18 new sales driven by good response to new launches during the quarter. Strong operating cash flows led to INR4bn QoQ fall in net debt. Going ahead, we expect robust operations given GPL's new project pipeline, ability to leverage brand name to augment project portfolio and a diversified land bank. Balance sheet is expected to improve as sales progresses in legacy commercial assets. Tax incentives under affordable housing should provide tailwinds. However, at current valuations, we see most positives priced in. Hence, maintain 'HOLD'.

Q1FY18 numbers miss estimates

Revenue at INR2.5bn (down 18% YoY, 42% QoQ—first-time recognition from Trees-Ph2 in Q4FY17) was driven by POCM-based revenue recognition in ongoing projects. It reported EBITDA loss of INR183mn due to higher marketing expenses on new launches during the quarter. Other income of INR964mn included ~INR570mn from sale of its subsidiary 'GPL Investment Advisors'. This, along with higher effective tax rate, led to 46% YoY fall in net profit to INR233mn (down 63% QoQ) versus our estimate of INR706mn.

Q1FY18 operations: New launches boost sales

New sales were 1.8msf (up 205% YoY and QoQ) worth INR14.7bn (up 280% YoY, 303% QoQ)—the second highest in GPL's reported history. This was driven by strong response (sold 1.3msf/INR11.9bn) to new launches during the quarter across Mumbai, Noida and Pune. Operating cash flows of INR6.6bn (up 211% QoQ) included INR4.0bn receipts from Jet Airways towards space occupied by it in *Godrej BKC*. Strong cash flows led to net debt reduction of INR4bn QoQ to INR30.1bn; net gearing fell 22ppt QoQ to 153%. For balance residential development at Ahmedabad, the company has restructured the arrangement—17% revenue share with full construction cost borne by the partner versus earlier 68% revenue share with entire development cost borne by GPL. **GST impact:** GPL expects to transfer incremental benefit available to it under GST to buyers. Its sales momentum was not significantly impacted by GST and RERA.

Outlook and valuations: Fairly valued; maintain 'HOLD'

While the sharp demand uptick in key markets, price increase and faster new project additions pose key upside risks, demand slowdown, slow new launches and delays in selling balance commercial inventory are key downside risks. At CMP, the stock trades at 18% discount to our FY18E NAV of INR612. We believe the stock is fairly valued and offers limited upside from current level. Hence, maintain 'HOLD'.

Financials	(INR mn)							
Year to March	Q1FY18	Q1FY17	% chg	Q4FY17	% chg	FY17	FY18E	FY19E
Revenues	2,487	3,038	(18.2)	4,313	(42.3)	15,829	12,426	13,196
EBITDA	(183)	398	(146.0)	664	(127.5)	2,504	2,831	3,467
Net Profits	233	433	(46.2)	624	(62.7)	2,061	3,226	4,040
EPS (INR)	1.1	2.0	(46.8)	2.9	(62.6)	9.53	14.91	18.67
P/E (x)							33.5	26.8
ROE (%)						9.9	15.2	16.9

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 500
Target Price	: INR 520
52-week range (INR)	: 586 / 285
Share in issue (mn)	: 216.4
M cap (INR bn/USD mn)	: 108 / 1,698
Avg. Daily Vol.BSE/NSE('000)	: 346.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	74.9	74.9	74.9
MF's, FI's & BK's	2.3	2.8	1.1
FII's	8.4	8.9	10.5
Others	14.4	13.4	13.5
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(4.6)	4.1	4.5
3 months	(7.8)	7.5	8.8
12 months	42.1	17.2	39.7

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August 3, 2017

Management call: Key highlights

1. **Ahmedabad project restructuring:** GPL has restructured arrangement for all future residential development for its Ahmedabad project. Earlier arrangement entailed GPL 68% revenue share with entire construction /selling cost borne by it. Under the revised arrangement, GPL will share 17% of project revenue and will be responsible for selling/marketing the project, while the entire construction cost will be borne by the partner. The restructuring decision was taken to make better margins on the project versus earned historically. Decision for commencement of various future phases will be taken collectively by GPL and its partner. The company may look at revising its arrangement with respective partners in some of the other markets such as Nagpur and Mangalore.
2. **GST:** GPL is calculating the extent of benefits it could get under GST for various projects. It plans to transfer these incremental benefits to buyers. However, it is not confident if the benefits transferred to buyers will be sufficient to fully cover the higher tax incidence payable by the buyer under GST.
3. **BKC project:** GPL is keen to liquidate balance commercial inventory in BKC (~0.25msf) and expects sales potential of INR8-9bn from this. It is open to leasing this balance inventory and sees good traction for it. However, the focus is to ultimately liquidate it.
4. **RERA:** GPL has made application for project registration to respective RERA authorities for all its ongoing projects across markets, except Kolkata projects where RERA is yet to be finalised. It has received registration numbers for many of its ongoing projects and expects to receive for balance over coming days. It is seeing little impact on demand due to RERA and GST uncertainty.

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	2,487	3,038	(18.2)	4,313	(42.3)	15,829	12,426	13,196
Direct Operating expenses	1,786	2,053	(13.0)	2,927	(39.0)	10,809	7,152	7,023
Staff costs	117	130	(10.1)	119	(1.6)	475	504	534
Other expenses	767	458	67.4	603	27.1	2,041	1,939	2,172
Total expenditure	-	-		-		13,325	9,595	9,728
EBITDA	(183)	398	NA	664	NA	2,504	2,831	3,467
Depreciation	36	34	5.7	40	(11.4)	145	129	129
Other income	964	290	232.6	336	187.3	1,254	1,284	693
Interest	315	138	129.1	248	26.9	1,015	1,100	792
Profit before tax	430	516	(16.6)	711	(39.5)	2,598	2,885	3,238
Provision for taxes	195	106	83.0	189	2.9	777	923	1,036
PAT	235	410	(42.5)	522	(54.9)	1,821	1,962	2,202
Minority interest	-	-		-		240	1,264	1,838
Associate profit share	(3)	24	NA	102	NA	-	-	-
Adjusted Profit	233	433	(46.2)	624	(62.7)	2,061	3,226	4,040
Diluted shares (mn)	216	216		216		216	216	216
Diluted EPS (INR)	1.1	2.0	(46.8)	2.9	(62.6)	9.5	14.9	18.7
Adjusted Diluted EPS	1.1	2.0	(46.8)	2.9	(62.6)	9.5	14.9	18.7
Diluted P/E (x)	-	-		-		-	33.5	26.8
ROAE (%)	-	-		-		9.9	15.2	16.9
Cost of construction	71.8	67.6		67.9		68.3	57.6	53.2
Employee cost	4.7	4.3		2.8		3.0	4.1	4.0
Other expenses	30.8	15.1		14.0		12.9	15.6	16.5
Total expenses	107.4	86.9		84.6		84.2	77.2	73.7
EBITDA	(7.4)	13.1		15.4		15.8	22.8	26.3
Depreciation	1.4	1.1		0.9		0.9	1.0	1.0
EBIT	(8.8)	12.0		14.5		14.9	21.7	25.3
Interest expenditure	12.7	4.5		5.8		6.4	8.9	6.0
Reported net profit	6.8	13.0		13.4		13.0	26.0	30.6
Tax rate	45.3	20.6		26.6		29.9	32.0	32.0

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. Its land bank strategy includes both outright purchase of land and joint agreement with land owners in the form of revenue / profit share. Additionally, it also ties up with developers as a 'Development Manager' entailing GPL to earn 10-11% of project revenue in lieu of marketing, selling and branding of the project.

Investment Theme

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

1. Continued scale up in operations through 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 via value accretive JDA/JV deals in key city markets.
4. Post implementation of RERA, opportunities for 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 affordable housing initiatives.
7. Geographically diversified development portfolio.

Key Risks

Upside Risks:

1. Sharp improvement in demand across markets coupled with price hikes.
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	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
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	15,829	12,426	13,196
Direct costs	21,355	10,809	7,152	7,023
Employee costs	459	475	504	534
Other Expenses	1,021	2,041	1,939	2,172
Total operating expenses	22,835	13,325	9,595	9,728
EBITDA	3,504	2,504	2,831	3,467
Depreciation	150	145	129	129
EBIT	3,354	2,359	2,702	3,338
Add: Other income	941.2	1,254.2	1,283.7	692.55
Less: Interest Expense	154	1,015	1,100	792
Profit Before Tax	4,142	2,598	2,885	3,238
Less: Provision for Tax	1,248	777	923	1,036
Minority Interest	(583)	(240)	1,264	1,838
Reported Profit	2,311	2,061	3,226	4,040
Adjusted Profit	2,311	2,061	3,226	4,040
Shares o /s (mn)	216	216	216	216
Adjusted Basic EPS	10.7	9.5	14.9	18.7
Diluted shares o/s (mn)	216	216	216	216
Adjusted Diluted EPS	10.7	9.5	14.9	18.7
Adjusted Cash EPS	11.4	10.2	15.5	19.3
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	84.2	77.2	73.7
Staff costs	1.7	3.0	4.1	4.0
S G & A expenses	3.9	12.9	15.6	16.5
Depreciation	0.6	0.9	1.0	1.0
Interest Expense	0.6	6.4	8.9	6.0
EBITDA margins	13.3	15.8	22.8	26.3
Net Profit margins	8.8	13.0	26.0	30.6

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	42.9	(39.9)	(21.5)	6.2
EBITDA	36.2	(28.5)	13.1	22.5
PBT	27.1	(37.3)	11.1	12.2
Adjusted Profit	21.1	(10.8)	56.5	25.3
EPS	11.6	(10.9)	56.5	25.3

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,081	1,082	1,082	1,082	
Reserves & Surplus	20,601	18,956	21,295	24,449	
Shareholders' funds	21,682	20,037	22,377	25,531	
Minority Interest	1,172	-	-	-	
Long term borrowings	32,034	39,757	30,566	22,000	
Sources of funds	54,888	59,794	52,943	47,531	
Gross Block	1,722	1,292	1,292	1,292	
Net Block	1,298	1,020	891	762	
Capital work in progress	158	153	153	153	
Deferred tax asset	(345)	2,747	2,747	2,747	
Total Fixed Assets	1,456	1,173	1,044	915	
Non current investments	-	4,705	3,500	4,000	
Cash and Equivalents	6,404	4,767	8,546	3,657	
Inventories	51,758	39,661	37,531	38,305	
Trade receivables	1,916	2,218	1,453	1,285	
Loans & Advances	16,692	16,519	14,519	15,519	
Total current assets	70,366	58,399	53,502	55,109	
Current liabilities	22,880	11,928	16,328	18,828	
Provisions	112	69	69	69	
Total Current Liab	22,992	11,997	16,397	18,897	
Net Curr Assets-ex cash	47,374	46,402	37,105	36,212	
Uses of funds	54,888	59,794	52,943	47,531	
BVPS (INR)	100.3	92.6	103.4	118.0	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	2,311	2,061	3,226	4,040	
Add: Depreciation	125	(153)	129	129	
Interest (Net of Tax)	107	712	748	539	
Less: Changes in WC	929	(972)	(9,296)	(893)	
Operating cash flow	1,507	2,881	12,651	5,063	
Less: Capex	250	(431)	-	-	
Free Cash Flow	1,364	4,023	13,399	5,601	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Investing cash flow	708	(7,362)	1,205	(500)	
Financing cash flow	(204)	(4,878)	(886)	(886)	
Net cash Flow	2,010	(9,359)	12,970	3,677	
Capex	250	(431)	-	-	
Dividend paid	-	886	886	886	
Share issue/(buyback)	903	(2,820)	-	-	

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
EOP(ROE) (%)	10.7	10.3	14.4	15.8	
ROAE (%)	11.5	9.9	15.2	16.9	
ROACE (%)	8.1	6.3	7.8	8.8	
Current Ratio	333.9	526.5	378.4	311.0	
Gross Debt/EBITDA	914.2	1,587.7	1,079.6	634.5	
Gross Debt/Equity	147.7	198.4	136.6	86.2	
Net Debt/Equity	118.2	174.6	98.4	71.8	

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover	0.5	0.3	0.2	0.3	
Fixed Asset Turnover	21.3	13.7	13.0	16.0	
Equity Turnover	1.3	0.8	0.6	0.6	

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)	10.7	9.5	14.9	18.7	
Y-o-Y growth (%)	11.6	(10.9)	56.5	25.3	
Adjusted Cash EPS (INR)	11.4	10.2	15.5	19.3	
Diluted P/E (x)	46.8	52.5	33.5	26.8	
P/B (x)	5.0	5.4	4.8	4.2	
Dividend Yield (%)	-	0.7	0.7	0.7	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Godrej Properties	1,698	33.5	26.8	4.8	4.2	15.2	16.9
Brigade Enterprises	567	17.2	13.7	1.6	1.5	11.0	11.1
DLF	5,328	36.5	32.6	1.2	1.2	3.3	3.6
Oberoi Realty	2,061	15.4	14.2	2.0	1.8	14.0	13.3
Sobha Limited	582	17.5	14.1	1.3	1.2	7.7	9.0
Suntech Realty Limited	490	4.9	4.3	0.7	0.6	15.9	15.5
Median	-	17.3	14.1	1.5	1.3	12.5	12.2
AVERAGE	-	20.8	17.6	1.9	1.7	11.2	11.6

Source: Edelweiss research

Additional Data

Directors Data

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

Auditors - M/s. KALYANIWALLA & MISTRY

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	1.97	Rkn enterprises	1.84
Naoroji rishad kaikh	1.84	Naoroji rishad kaikh	1.84
Godrej nadir burjorj	1.84	L&t investment manag	1.39

**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 Limited	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

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

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

Recent Research

Date	Company	Title	Price (INR)	Recos
31-Jul-17	Oberoi Realty	Slow operations lead to miss, scale up ahead; <i>Result Update</i>	386	Buy
20-Jul-17	Real Estate	Karnataka RERA notified; risk of operations slowdown; <i>Sector Update</i>		
12-Jul-17	Sunteck Realty	On a growth track; <i>Company Update</i>	477	Buy

Distribution of Ratings / Market Cap

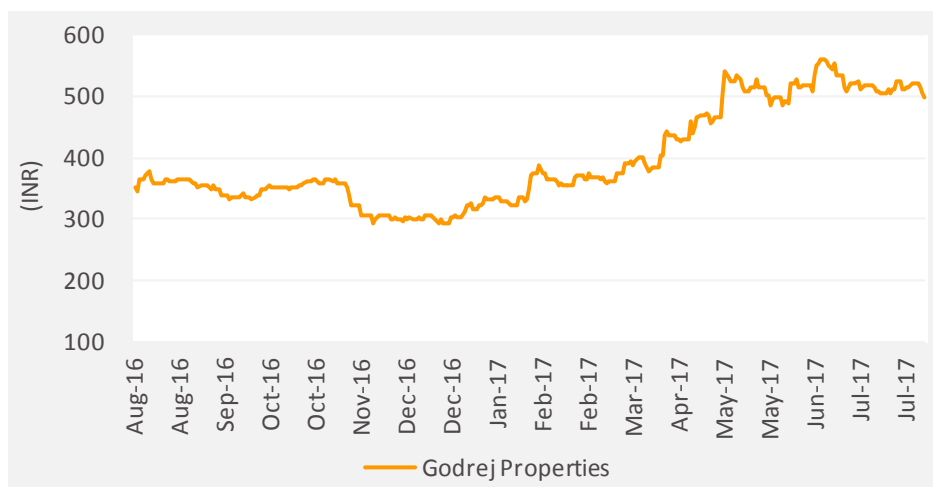
Edelweiss Research Coverage Universe

	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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