

GODREJ PROPERTIES

Robust new sales momentum sustained

India Equity Research | Real Estate

Godrej Properties (GPL) posted strong Q2FY18 numbers with: (a) robust sales—H1FY18 new sales at ~INR28bn, ~40% higher than entire FY17; (b) healthy project addition (17.3msf YTD versus 18.1msf in FY17); and (c) sales pick up in legacy BKC project, which will aid cash flows. We believe, GPL's operations will continue to scale up aided by its strong brand, diversified land bank and ability to augment project portfolio via partnerships. Moreover, we envisage project addition momentum to accelerate, propelled by RERA, with GPL likely to be the preferred partner of smaller developers owing to its extensive experience in the partnership model. We revise our TP to INR748/share (INR520 earlier) due to improving growth prospects and lower capital costs. Maintain 'HOLD'.

BKC project contributes to Q2FY18 beat

Revenue, at INR4.9bn, jumped 49% YoY and 98% QoQ; top line was aided by INR2.9bn income from commercial assets, which was up 49% YoY (mainly due to BKC project). EBITDA margin, at 15%, rose 8% YoY and 23% QoQ. This led to net profit catapulting 90% YoY to INR441mn (estimate INR336mn).

Q2FY18 operations: New sales maintain robust trend

New sales were 1.6msf (up 111% YoY, down 14% QoQ) worth INR13.4bn (up 122% YoY, down 9% QoQ). GPL sold ~76,000 sq ft in the BKC project worth INR2.7bn. The company added 4 new projects with saleable area of 12.1msf in Q2FY18. H1FY18 has been the best ever half year period for GPL's business development in terms of number of new deals (8 new projects added YTD). The company has added projects with 17.3msf saleable area YTD versus 18.1msf in FY17.

Outlook and valuations: Burnished prospects; maintain 'HOLD'

We expect GPL to continue to expand its project portfolio. Post RERA, the company should benefit from smaller developers looking to tie up with prominent players to ensure better sales momentum and timely completion; the company's strong track record of striking partnerships will help it in this regard. We factor in improved prospects of portfolio expansion (assumed ~30msf over FY18), narrow the discount to our NAV and lower our discount rate (due to falling interest costs) to arrive at revised target price of INR748. While we are bullish on GPL's prospects, the recent run up in the stock has capped upside in the near term. Hence, we maintain 'HOLD'.

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equal weight

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

CMP	: INR 718
Target Price	: INR 748
52-week range (INR)	: 740 / 285
Share in issue (mn)	: 216.5
M cap (INR bn/USD mn)	: 155 / 2,404
Avg. Daily Vol.BSE/NSE('000)	: 355.5

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	74.9	74.9	74.9
MF's, FI's & BK's	2.6	2.3	2.8
FII's	8.7	8.4	8.9
Others	13.9	14.4	13.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	16.8	6.0	14.6
3 months	43.6	4.4	9.6
12 months	97.1	23.2	59.1

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Financials

(INR mn)

Year to March	Q2FY18	Q2FY17	% chg	Q1FY18	% chg	FY17	FY18E	FY19E
Revenues	4,923	3,296	49.4	2,487	98.0	15,829	15,401	12,630
EBITDA	752	236	219.1	(183)	(510.9)	2,504	1,590	1,525
Net Profits	441	233	89.5	233	89.3	2,061	2,566	3,412
EPS (INR)	2.0	1.1	85.5	1.1	88.9	9.5	11.9	15.8
P/E (x)						76.8	61.7	46.4
ROE (%)						10.9	12.3	14.8

Management call: Key highlights

1. **BKC project:** GPL sold ~76,000 sq ft in the BKC project worth INR2.7bn (most of the cash to be realised over next couple of quarters). GPL is keen to liquidate balance commercial inventory in the project (~0.175msf) and expects to monetise significant inventory by year end. Given the low cost of debt (8.1% currently), the company may deploy the proceeds in new residential assets rather than debt repayment.
2. Sales during the quarter were driven by strong response (sold 0.8msf/INR5.2bn) to new launches during the quarter in Bengaluru and Greater Noida. Residential sales in H1FY18 were higher than in any other previous half year period.
3. **Sales in existing projects:** Excluding sales in new launches, sales in Q2FY18 stood at 0.87msf worth ~INR8.8bn. Notable contribution was from Godrej Emerald project where the company sold 273 apartments worth ~INR2.4bn.
4. The company has exited the DM agreement with G&B for a residential project at Moosapet in Hyderabad.
5. While net debt remained flat QoQ at ~INR31bn, net gearing fell 2ppt QoQ to 151%.

Outlook and valuations: Burnished prospects; maintain 'HOLD'

We have revised up our target price to INR748/share (earlier INR520) owing to following triggers:

1. We have updated our model to account for latest disclosures related to ongoing projects as well as future plans.
2. Discount to NAV lowered from earlier 15% to 10%. This is primarily to account for prospects of balance sheet improvement post pick up in sales in the BKC project.
3. We are building in higher new project additions for FY18 in our NAV estimate (30msf compared to ~15msf earlier).
4. Lowered discount rate to 11% from 13% earlier to account for lowering of borrowing cost.

Consequently, our new FY18 NAV estimate for GPL is INR831/share (earlier INR612/share), to which we apply 10% discount (earlier 15%) to arrive at new target price of INR748 (earlier INR520).

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	4,923	3,296	49.4	2,487	98.0	7,410	15,401	12,630
Direct expenses	3,419	2,453	39.4	1,786	91.5	5,204	10,552	7,485
Staff costs	125	111	12.9	117	6.9	242	504	534
Other expenses	628	497	26.4	767	(18.1)	1,395	2,755	3,086
Total expenditure	4172	3,060	36.3	2,669	56.3	6,841	13,812	11,105
EBITDA	752	236	219.1	(183)	NA	569	1,590	1,525
Depreciation	40	34	17.4	36	13.2	76	142	145
Other income	438	295	48.4	964	(54.6)	1,401	1,877	1,653
Interest	402	275	46.3	315	27.7	717	1,424	1,054
Profit before tax	747	221	237.9	430	73.5	1,177	1,901	1,979
Provision for taxes	269	76	252.8	195	38.0	464	646	633
PAT	478	145	230.1	235	102.9	713	1,254	1,346
Minority interest	-	-	-	-	-	-	1,312	2,066
Associate profit share	(37)	88	NA	(3)	NA	(39)	-	-
Adjusted Profit	441	233	89.5	233	89.3	674	2,566	3,412
Diluted shares (mn)	216	216	-	216	-	216	216	216
Diluted EPS (INR)	2.0	1.1	85.5	1.1	88.9	3.1	11.9	15.8
Adjusted Diluted EPS	2.0	1.1	85.5	1.1	88.9	3.1	11.9	15.8

as a % of net revenues

Cost of construction	69.4	74.4		71.8		70.6	68.5	59.3
Employee cost	2.5	3.4		4.7		3.6	3.3	4.2
Other expenses	12.8	15.1		30.8		21.8	17.9	24.4
Total expenses	84.7	92.9		107.4		96.0	89.7	87.9
EBITDA	15.3	7.1		(7.4)		3.9	10.3	12.1
Depreciation	0.8	1.0		1.4		1.1	0.9	1.1
EBIT	14.4	6.1		(8.8)		2.8	9.4	10.9
Interest expenditure	8.2	8.3		12.7		10.4	9.2	8.3
Reported net profit	8.2	6.5		6.8		7.5	16.7	27.0
Tax rate	36.0	34.5		45.3		40.6	34.0	32.0

Company Description

Godrej Properties Limited (GPL), established in 1990, is a pan-India real estate developer focusing mainly 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 revenues in lieu of marketing, selling and branding of the project.

Investment Theme

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

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

Key Risks

Upside Risks:

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

Downside Risks:

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

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
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)	65.5	67.1	65.0	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	21,226	15,829	15,401	12,630
Direct costs	17,342	10,809	10,552	7,485
Employee costs	450	475	504	534
Other Expenses	2,068	2,041	2,755	3,086
Total operating expenses	19,860	13,325	13,812	11,105
EBITDA	1,366	2,504	1,590	1,525
Depreciation	142	145	142	145
EBIT	1,225	2,359	1,448	1,380
Add: Other income	1,295	1,254	1,877	1,653
Less: Interest Expense	406	1,015	1,424	1,054
Profit Before Tax	2,113	2,598	1,901	1,979
Less: Provision for Tax	679	777	646	633
Less: Minority Interest	(157)	(240)	1,312	2,066
Reported Profit	1,591	2,061	2,566	3,412
Adjusted Profit	1,591	2,061	2,566	3,412
Shares o /s (mn)	216	216	216	216
Adjusted Basic EPS	7.4	9.5	11.9	15.8
Diluted shares o/s (mn)	216	216	216	216
Adjusted Diluted EPS	7.4	9.5	11.9	15.8
Adjusted Cash EPS	8.0	10.2	12.5	16.4
Dividend per share (DPS)	-	-	3.5	3.5
Dividend Payout Ratio (%)	-	-	35	26

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	93.6	84.2	89.7	87.9
Staff costs	2.1	3.0	3.3	4.2
S G & A expenses	9.7	12.9	17.9	24.4
Depreciation	0.7	0.9	0.9	1.1
Interest Expense	1.9	6.4	9.2	8.3
EBITDA margins	6.4	15.8	10.3	12.1
Net Profit margins	7.5	13.0	16.7	27.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	15.2	(25.4)	(2.7)	(18.0)
EBITDA	(46.9)	83.3	(36.5)	(4.1)
PBT	(35.2)	22.9	(26.8)	4.1
Adjusted Profit	(16.6)	29.5	24.5	33.0
EPS	(23.2)	29.5	24.5	33.0

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,081	1,082	1,082	1,082	
Reserves & Surplus	16,567	18,956	20,636	23,162	
Shareholders' funds	17,648	20,037	21,717	24,243	
Long term borrowings	31,175	39,765	30,566	28,000	
Sources of funds	48,823	59,802	52,283	52,243	
Gross Block	1,207	1,292	1,292	1,292	
Net Block	1,067	1,020	878	733	
Capital work in progress	5	1	1	1	
Deferred tax asset	2,039	2,745	2,745	2,745	
Total Fixed Assets	1,072	1,021	879	734	
Non current investments	3,987	4,705	3,500	4,000	
Cash and Equivalents	4,722	4,767	4,717	5,664	
Inventories	39,231	39,661	40,348	41,123	
Trade receivables	1,719	2,218	1,810	1,192	
Loans & Advances	13,016	16,672	14,672	15,672	
Total current assets	53,965	58,551	56,830	57,986	
Current liabilities	16,906	11,918	16,318	18,818	
Provisions	56	69	69	69	
Total Current Liab	16,962	11,987	16,387	18,887	
Net Curr Assets-ex cash	37,004	46,565	40,443	39,100	
Uses of funds	48,823	59,802	52,283	52,243	
BVPS (INR)	81.6	92.6	100.4	112.0	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	1,591	2,061	2,566	3,412	
Add: Depreciation	(160)	131	142	145	
Interest (Net of Tax)	275	712	940	717	
Less: Changes in WC	(9,442)	9,561	(6,122)	(1,343)	
Operating cash flow	10,873	(7,369)	8,830	4,900	
Less: Capex	(265)	84	-	-	
Free Cash Flow	11,414	(6,742)	9,770	5,617	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Investing cash flow	(4,996)	(1,504)	1,205	(500)	
Financing cash flow	(4,691)	328	(886)	(886)	
Net cash Flow	1,187	(8,545)	9,149	3,514	
Capex	(265)	84	-	-	
Dividend paid	-	-	886	886	
Share issue/(buyback)	(2,412)	328	-	-	

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
EOP(ROE) (%)	9.0	10.3	11.8	14.1	
ROAE (%)	8.8	10.9	12.3	14.8	
ROACE (%)	5.5	6.3	6.6	6.1	
Current Ratio (x)	3.5	5.3	3.8	3.4	
Gross Debt/EBITDA (x)	22.8	15.9	19.2	18.4	
Gross Debt/Equity (x)	1.8	2.0	1.4	1.1	
Net Debt/Equity (x)	1.5	1.7	1.2	0.9	

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover	0.4	0.3	0.3	0.2	
Fixed Asset Turnover	19.0	15.2	16.2	15.7	
Equity Turnover	1.2	0.8	0.7	0.5	

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)	7.4	9.5	11.9	15.8	
Y-o-Y growth (%)	(23.2)	29.5	24.5	33.0	
Adjusted Cash EPS (INR)	8.0	10.2	12.5	16.4	
Diluted P/E (x)	99.5	76.8	61.7	46.4	
P/B (x)	9.0	7.9	7.3	6.5	
Dividend Yield (%)	-	-	0.5	0.5	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Godrej Properties	2,404	61.7	46.4	7.3	6.5	12.3	14.8
Brigade Enterprises	586	18.0	14.4	1.7	1.5	10.8	11.0
DLF	5,900	41.0	36.7	1.3	1.3	3.3	3.6
Oberoi Realty	2,596	19.6	18.2	2.6	2.3	14.0	13.4
Sobha Limited	742	22.6	18.2	1.7	1.6	7.7	9.0
Suntech Realty Limited	694	14.1	12.4	2.1	1.8	15.9	15.5
Median	-	21.1	18.2	1.9	1.7	11.6	12.2
AVERAGE	-	29.3	24.2	2.8	2.5	10.7	11.2

Source: Edelweiss research

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 – Top 10

	Perc. Holding		Perc. Holding
L&Tt Investment Management	2.15	First State	1.26
Commonwealth Bank of Australia	1.05	Goldman Sachs	1.00
Franklin Templeton	0.94	Vanguard Group	0.59
Dimensional Fund Advisors	0.50	Skandia LIV	0.43
ICICI Prudential Asset Management	0.32	Blackrock	0.12

**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	Jaypee Infratech	BUY	SP	H
Kolte Patil Developers	BUY	SO	M	Mahindra Lifespace Developers	BUY	SO	L
Oberoi Realty	BUY	SP	L	Sobha Limited	BUY	SO	M
Suntech 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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Aditya Narain

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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
17-Oct-17	Oberoi Realty	Operations pick up; scale-up story on track; <i>Result Update</i>	469	Buy
26-Sep-17	Oberoi Realty	Value accretive Thane land buy; scope for further NAV growth; <i>Company Update</i>	420	Buy
28-Aug-17	DLF	Promoter CCPS deal sealed; <i>Company Update</i>	180	Hold

Distribution of Ratings / Market Cap

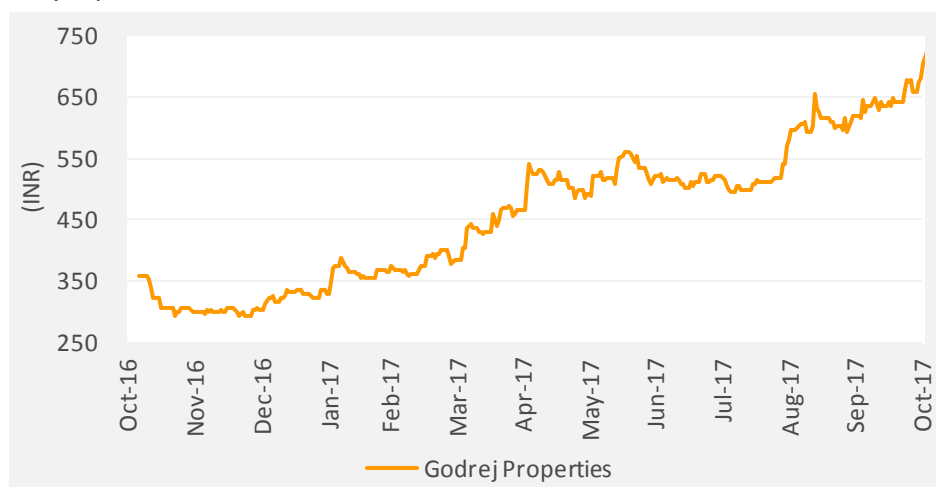
Edelweiss Research Coverage Universe

	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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