

Godrej Properties | BUY

Stable Operations; capital raise to improve growth profile

GPL reported robust 4Q operational performance with pre-sales at INR10bn which was driven by Sohna Road project and sustenance sales. However reported margin was impacted by INR 1.5bn write-off taken in legacy commercial assets (Kolkata /Chandigarh). With improvement in 4QFY18 operations, GPL has achieved a pre-sales of 6.3msf/INR 50.8bn for FY18. Net debt declined by INR2bn during the quarter as company collections improved to INR 12.8bn (from INR 9bn in 3QFY18). Company is planning to raise INR 10bn through preferential issue resulting in 5.5% dilution. We believe the raised capital will enable company to increase business development activity and have higher interest in JV projects. Company has added 6msf projects in portfolio during the quarter. Quick turnaround of portfolio will enable the company to tap market demand as competitors adjust to new operating conditions. We continue to monitor margins from new launches while demand slowdown remains key risk. Maintain BUY with a TP of INR880.

- Profits at Rs1.4bn on recognition of Godrej Two commercial part sale; margin impacted on commercial write-off:** GPL reported PAT at INR 1.4bn vs -INR 626mn in 4QFY17 as company recognised c. INR 2.8bn (JMFe) on gain from Trees commercial transaction. However company recognised a write-off wrt commercial projects in Chandigarh and Kolkata (c. INR 1.5bn) with carrying value of inventory at INR 2.8bn. Trees phase 3 reached revenue recognition during the quarter (INR 3.4bn). Based on our interaction with management "Trees" margins remained stable at c.35%. GPL reported 1.5msf/INR 10.5bn pre-sales. GPL has achieved a pre-sales of 6.3msf/INR 50.8bn for FY18.
- Net debt declines on improving collections:** Net debt declined by INR 3.2bn (ex-Ind AS adjustments), as GPL received INR 3bn payment from BKC sales (completed in prior quarters). Collections improved to INR 12.8bn while operating cash flow was reported at INR 6.8bn. Company spent on JV advances and approvals was at INR 4bn. We expect balance BKC payment (INR 2.2bn) in 1QFY19.
- GPL raises INR 10bn growth capital:** GPL proposes to raise INR 10bn (via private placement) at INR 783.5/share, resulting in a dilution of 5.5%. Management has guided for deployment of capital for business development. We believe higher capital deployment will result in more JV/JD project additions as against DM based projects.
- Strong brand and higher bargaining power to aid growth; BUY TP INR 880:** GPL has been able to successfully launch projects in tough market conditions. We value the capital raised at an implied 1.6x as visibility on scale-up in operations improves. We believe GPL is well placed to reap benefits of a strong brand name, as evident with the successful launches in the weak Mumbai market. The key investment risks are a slower-than-expected ramp-up in operations. We value GPL's existing portfolio at INR 549/share. The Vikhroli DM is valued at INR 213/share (based on a 60-year DCF). GPL's NAV is valued at INR 684/share. BD value (on the basis of 5% market share across key geographies) is factored in at INR 196/share. We maintain BUY with a TP of INR 880.



Abhishek Anand CFA

abhishek.anand@jmfll.com | Tel: (91 22) 66303067

Roshan Paunekar

roshan.paunekar@jmfll.com | Tel: (91 22) 66303563

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	880
Upside/(Downside)	8.7%
Previous Price Target	860
Change	2.3%

Key Data – GPL IN

Current Market Price	INR810
Market cap (bn)	INR175.3/US\$2.6
Free Float	21%
Shares in issue (mn)	216.0
Diluted share (mn)	229.2
3-mon avg daily val (mn)	INR138.0/US\$2.1
52-week range	912/474
Sensex/Nifty	34,915/10,618
INR/US\$	66.9

Price Performance

%	1M	6M	12M
Absolute	13.1	12.8	52.5
Relative*	6.9	8.8	31.6

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	21,226	15,829	18,892	10,872	9,592
Sales Growth (%)	21.8	-25.4	19.3	-42.4	-11.8
EBITDA	1,366	2,527	-44	2,197	2,321
EBITDA Margin (%)	6.4	16.0	-0.2	18.7	20.0
Adjusted Net Profit	1,434	2,068	2,350	1,840	2,322
Diluted EPS (INR)	6.6	9.6	10.9	8.0	10.1
Diluted EPS Growth (%)	-30.7	44.1	13.6	-26.1	26.2
ROIC (%)	1.9	3.6	-0.3	3.5	3.7
ROE (%)	7.9	11.0	11.1	6.5	6.6
P/E (x)	122.1	84.7	74.6	100.9	80.0
P/B (x)	9.9	8.7	7.8	5.4	5.1
EV/EBITDA (x)	147.4	83.1	-4,622.8	90.7	86.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 04/May/2018

Exhibit 1. 4QFY18 result snapshot- Write down in legacy inventory led to decline in margins (INR mn)

	4QFY17 AS	2QFY18 AS	3QFY18 AS	3QFY18 AS	YoY %	QoQ %
Revenues	4,313	4,923	6,270	5,212	21%	-17%
Cost of sales	2,927	3,419	4,956	4,526	55%	-9%
Personnel cost	233	125	303	550	136%	82%
Other expenses	490	628	550	1,210	147%	120%
EBITDA	663	752	462	-1,074	-262%	-333%
EBITDA (% of Rev)	15.4	15.3	7.4	-20.6	-3600 bps	-2798 bps
Dep. and amort.	40	40	42	43	7%	2%
EBIT	623	711	420	-1,118	-279%	-366%
Other income	310	438	412	3,274	957%	695%
Interest expenses	247	402	378	407	64%	8%
Pre-tax profit	685	747	454	1,750	155%	285%
Taxes	189	269	212	343	81%	62%
Effective tax rate (%)	27.6	36.0	46.7	19.6	-801 bps	-58%
Add: JV profits	130	-36	17	9	-93%	-50%
Reported net profit	626	442	259	1,415	126%	446%
Margin (% of Rev)	14.5	9.0	4.1	27.2	1264 bps	2301 bps

Source: Company, JM Financial

Exhibit 2. Cash Flow- Improvement on receipt of BKC payment (INR mn)

	1QFY17	2QFY17	3QFY17	4QFY17	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18
Collections	5,790	8,550	4,370	6,970	25,680	11,670	7,400	9,024	12,770	40,864
Outflow										
Construction Cost	3,760	3,615	3,160	3,490	14,025	2,590	2,594	2,640	3,600	11,424
Other Project related cost	1,570	1,520	1,280	1,360	5,730	2,490	2,544	3,260	2,350	10,644
Net operating cash flow	460	3,415	-70	2,120	5,925	6,590	2,262	3,124	6,820	18,796
Land & Approval related outflow	530	1,310	1,370	2,730	5,940	860	1,570	1,240	2,534	6,204
Advance to JV	130	120	100	340	690	180	290	280	1,464	2,214
Net cash after land/JV payments	-200	1,985	-1,540	-950	-705	5,550	402	1,604	2,822	10,378
Interest payment	985	1,110	1,020	1,590	4,705	1,050	1,120	937	-350	2,757
PE Exit	2,485	0	0	0	2,485	0	0	0	0	0
Net Cash flow	-3,670	875	-2,560	-2,540	-7,895	4,500	-718	667	3,172	7,621

Source: Company, JM Financial

Exhibit 3. Project launch performance

Project	Geography	Type	Launched (msf)*	Sold (msf)	Value (INR mn)	Realisation (INR/sf)
Godrej Nature+	Gurgaon	Profit share	NA	0.43	2,440	5,600

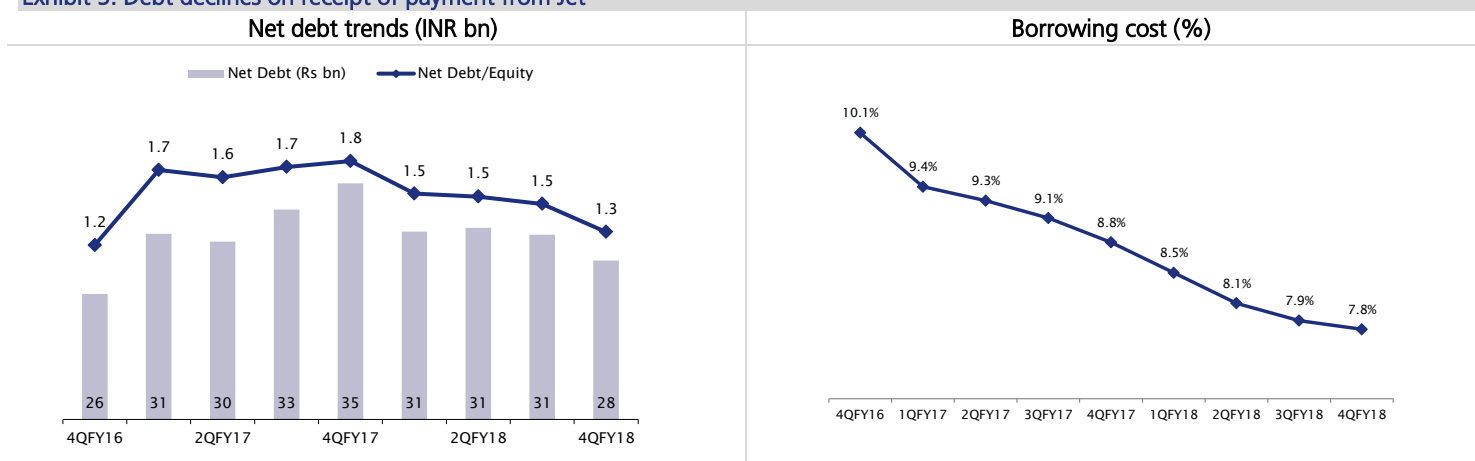
Source: Company, JM Financial * JM estimates

Exhibit 4. Margins decline on write down in legacy projects (INR mn)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17 Ind AS	2QFY17 Ind AS	3QFY17 Ind AS	4QFY17 Ind AS	1QFY18 Ind AS	2QFY18 Ind AS	3QFY18 Ind AS	4QFY18 Ind AS
Reported revenue	2,633	14,814	4,503	5,330	3,328	3,590	5,540	4,648	3,450	5,361	6,743	8,486
Godrej Garden City, Ahmd	360	360	320	240	260	260	250	320	330	110	190	400
Godrej Platinum, Bangalore			110						470	310	130	
Godrej Gold County, Bangalore									80			
Godrej Central, Mumbai	360	1,410	450	450	JV	JV	JV	JV	JV	JV	JV	
The Trees, Mumbai							3,350	2,920	750	730	1000	3410
Godrej Prakriti, Kolkata		130						130	90			
Godrej Summit, Gurgaon	410	420	630	920	640	520	430		170	220		460
Godrej Oasis, Gurgaon			600	230	JV		JV	JV	JV	JV	JV	JV
Godrej Icon, Gurgaon				740	JV		JV	JV	JV	JV	JV	JV
Godrej Sky, Byculia	290											
Godrej Genesis, Kolkata	100		140			110						
Godrej Crest, Bangalore			0									
Godrej Horizon, Pune		130										
Godrej Prana, Pune			400					250				
Godrej Platinum, Kolkata			0				250	110				
Godrej Serenity										90		
Godrej BKC	250	11,450	790	1,770	1,090	1,830	460	110	150	2,890	4,240	110
Others	860	910	1,060	980	1,340	960	800	1,150	1,410	970	1,140	4110
Total	2,630	14,810	4,500	5,330	3,330	3,680	5,540	4,648	3,450	5,320	6,700	8,490
Ahmedabad + Commercial Project (Ex-Godrej One) as a % of	26.0%	79.7%	24.7%	37.7%	40.6%	58.2%	12.9%	9.3%	13.9%	56%	66%	6%
Adj. margins	12.6%*	11.3%	19.0%	12.6%*	13.1%	7.1%	23.3%	15.4%	-7.4%	15.3%	7.4%	-20.6%

Source: Company, JM Financial

Exhibit 5. Debt declines on receipt of payment from Jet

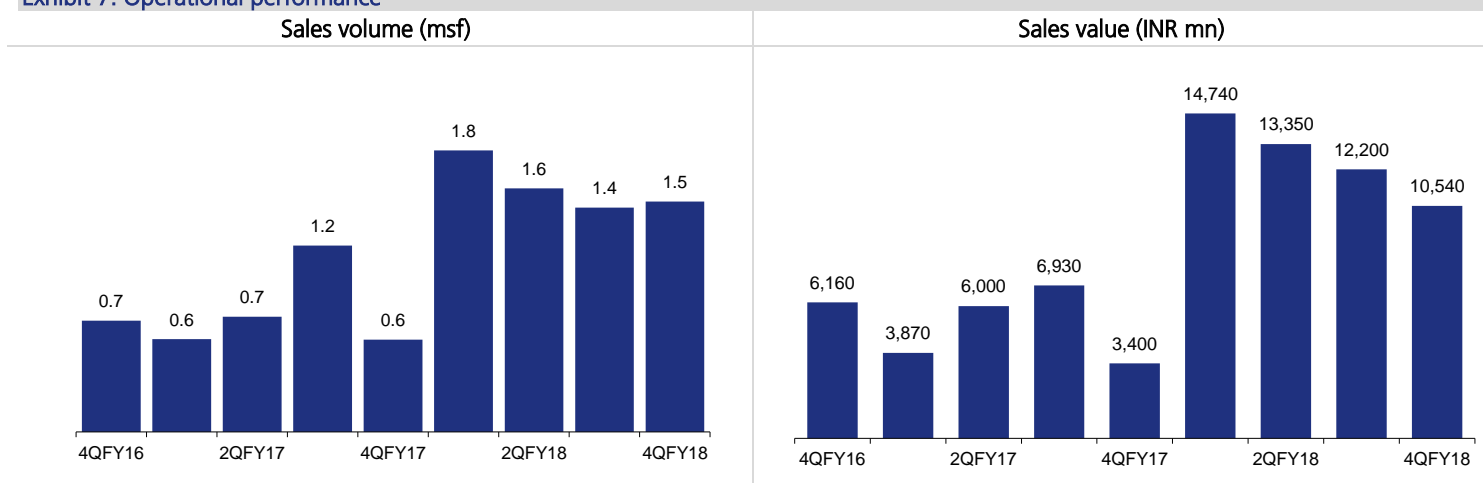


Source: Company, JM Financial

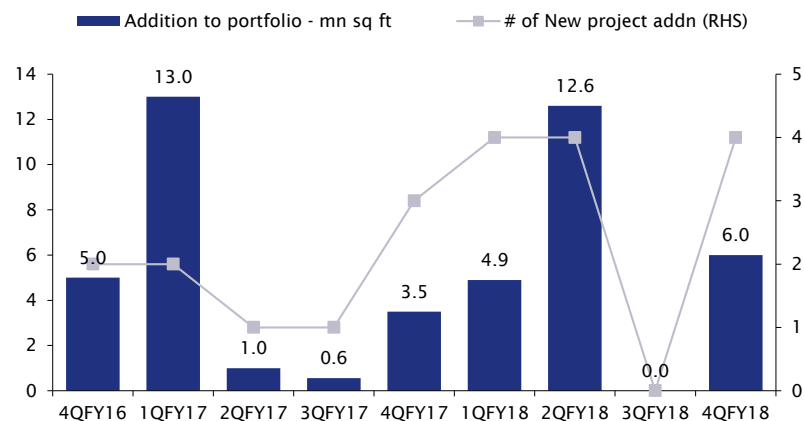
Exhibit 6. Balance sheet

	4QFY17	3QFY18 AS	4QFY18 AS
Shareholder's funds	20,037	20,996	22,403
Equity share capital	1,082	1,082	1,082
Reserves & surplus	18,956	19,914	21,321
Loan Funds	39,804	40,290	37,029
Minority interest	0	0	0
Deferred tax liab. (net)	-1,182	-1,087	-846
Total liabilities	58,659	60,198	58,586
Net Block incl. CWIP	1,021	1,137	1,841
Goodwill on consolidation	0	0	0
Investments	7,600	10,681	15,207
Inventories	39,661	30,173	23,437
Sundry debtors	2,218	2,375	1,925
Cash & bank balance	1,104	3,782	3,147
Loans & advances	8,053	9,856	11,657
Other current assets	10,810	14,148	12,691
Trade payables	4,684	2,884	3,126
Other current liabilities	7,055	8,975	8,045
Provisions	69	94	148
Net current assets	50,038	48,380	41,537
Total assets	58,659	60,199	58,586

Source: Company, JM Financial

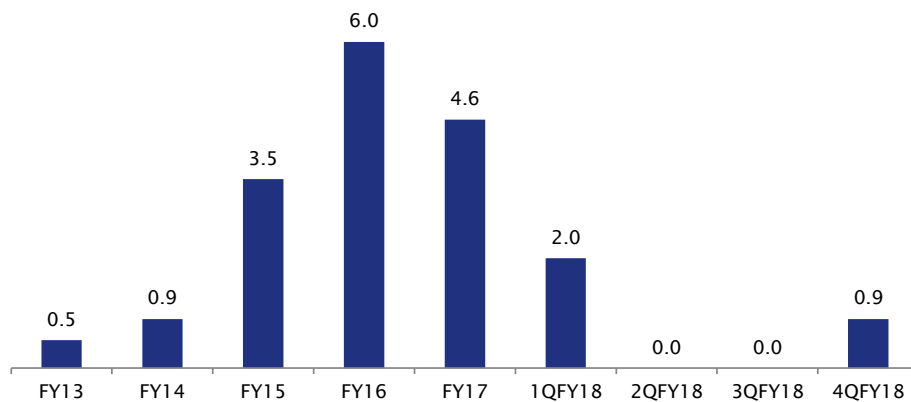
Exhibit 7. Operational performance

Source: Company, JM Financial

Exhibit 8. Portfolio addition-4 Projects /6msf In Jan'18

Source: Company, JM Financial

Exhibit 9. Execution – 0.9msf delivered during the quarter



Source: Company, JM Financial

Exhibit 10. Valuations

	PV (INR mn)	Per Shr (INR)
Residential Projects	1,25,500	549
Commercial Projects	6,717	29
Development Manager Value	13,790	60
Vikhroli	48,712	213
The Trees Commercial	5,096	22
BDV	44,800	196
Gross Value	2,44,615	1,069
Staff Costs	5,740	25
Other Expenses	10,695	47
Taxes	2,560	11
Total Overheads and Taxes	18,994	83
Net Value	2,25,621	986
Net Debt	24,401	107
Target Price	2,01,220	880

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	21,226	15,829	18,892	10,872	9,592
Sales Growth	21.8%	-25.4%	19.3%	-42.4%	-11.8%
Other Operating Income	0	0	0	865	2,016
Total Revenue	21,226	15,829	18,892	11,737	11,608
Cost of Goods Sold/Op. Exp	17,342	10,809	14,687	6,919	6,535
Personnel Cost	450	928	1,384	1,246	1,308
Other Expenses	2,068	1,565	2,865	1,375	1,444
EBITDA	1,366	2,527	-44	2,197	2,321
EBITDA Margin	6.4%	16.0%	-0.2%	18.7%	20.0%
EBITDA Growth	-46.9%	84.9%	0.0%	0.0%	5.6%
Depn. & Amort.	142	145	161	173	190
EBIT	1,225	2,382	-205	2,024	2,130
Other Income	1,295	1,185	5,015	1,591	1,515
Finance Cost	406	1,038	1,501	1,345	1,345
PBT before Excep. & Forex	2,113	2,528	3,308	2,270	2,301
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,113	2,528	3,308	2,270	2,301
Taxes	679	777	1,019	681	690
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	317	60	250	712
Reported Net Profit	1,434	2,068	2,350	1,840	2,322
Adjusted Net Profit	1,434	2,068	2,350	1,840	2,322
Net Margin	6.8%	13.1%	12.4%	15.7%	20.0%
Diluted Share Cap. (mn)	216.3	216.4	216.4	229.2	229.2
Diluted EPS (INR)	6.6	9.6	10.9	8.0	10.1
Diluted EPS Growth	-30.7%	44.1%	13.6%	-26.1%	26.2%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	17,648	20,037	22,403	34,244	36,566
Share Capital	1,081	1,082	1,082	1,146	1,146
Reserves & Surplus	16,567	18,956	21,321	33,098	35,420
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	31,229	39,765	37,029	37,029	37,029
Def. Tax Liab. / Assets (-)	-1,223	-1,382	-846	-846	-846
Total - Equity & Liab.	47,655	58,420	58,586	70,427	72,749
Net Fixed Assets	1,072	1,021	1,841	2,068	2,278
Gross Fixed Assets	1,491	1,020	1,126	1,526	1,926
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	425	0	0	173	363
Capital WIP	5	0	715	715	715
Investments	6,639	7,600	15,207	25,498	26,495
Current Assets	56,850	61,786	52,857	54,065	54,937
Inventories	39,231	39,661	23,437	24,317	25,668
Sundry Debtors	1,719	2,218	1,925	1,929	2,385
Cash & Bank Balances	1,056	1,104	3,147	6,917	6,213
Loans & Advances	6,229	8,164	11,657	11,255	11,131
Other Current Assets	8,616	10,639	12,691	9,647	9,541
Current Liab. & Prov.	16,907	11,987	11,320	11,205	10,961
Current Liabilities	5,949	4,684	3,126	3,216	3,180
Provisions & Others	10,958	7,303	8,193	7,989	7,781
Net Current Assets	39,943	49,799	41,537	42,860	43,976
Total - Assets	47,655	58,420	58,586	70,427	72,749

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	2,113	2,528	3,308	2,270	2,301
Depn. & Amort.	142	145	161	173	190
Net Interest Exp. / Inc. (-)	406	1,038	1,501	1,345	1,345
Inc (-) / Dec in WCap.	-238	-6,712	13,634	5,058	791
Others	-1,069	-1,185	-5,015	-1,591	-1,515
Taxes Paid	-1,471	-777	-1,019	-681	-690
Operating Cash Flow	-117	-4,962	12,572	6,574	2,422
Capex	-244	471	-106	-400	-400
Free Cash Flow	-361	-4,490	12,466	6,174	2,022
Inc (-) / Dec in Investments	683	0	-1,773	-272	-286
Others	249	297	-11,619	1,824	1,515
Investing Cash Flow	688	768	-13,498	1,152	830
Inc / Dec (-) in Capital	1	0	10,000	0	0
Dividend + Tax thereon	-480	0	0	0	0
Inc / Dec (-) in Loans	-2,172	8,535	-2,736	0	0
Others	-457	-4,294	-4,294	-3,956	-3,956
Financing Cash Flow	-3,109	4,241	2,969	-3,956	-3,956
Inc / Dec (-) in Cash	-2,538	48	2,043	3,770	-705
Opening Cash Balance	6,954	1,056	1,104	3,147	6,917
Closing Cash Balance	4,416	1,104	3,147	6,917	6,212

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	6.8%	13.1%	12.4%	15.7%	20.0%
Asset Turnover (x)	0.4	0.3	0.3	0.2	0.2
Leverage Factor (x)	2.9	2.8	2.8	2.3	2.0
RoE	7.9%	11.0%	11.1%	6.5%	6.6%

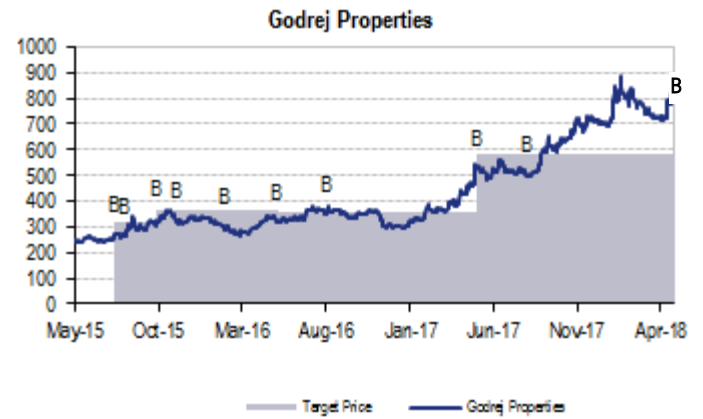
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	81.6	92.6	103.5	149.4	159.5
ROIC	1.9%	3.6%	-0.3%	3.5%	3.7%
ROE	7.9%	11.0%	11.1%	6.5%	6.6%
Net Debt/Equity (x)	1.5	1.7	1.3	0.7	0.7
P/E (x)	122.1	84.7	74.6	100.9	80.0
P/B (x)	9.9	8.7	7.8	5.4	5.1
EV/EBITDA (x)	147.4	83.1	-4,622.8	90.7	86.1
EV/Sales (x)	9.5	13.3	10.8	17.0	17.2
Debtor days	30	51	37	60	75
Inventory days	675	915	453	756	807
Creditor days	109	129	60	123	125

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
17-Jul-15	Buy	315	
5-Aug-15	Buy	315	0.0
30-Sep-15	Buy	365	15.9
5-Nov-15	Buy	365	0.0
2-Feb-16	Buy	365	0.0
6-May-16	Buy	360	-1.4
4-Aug-16	Buy	360	0.0
5-May-17	Buy	580	61.1
3-Aug-17	Buy	580	0.0
17-Apr-18	Buy	860	48.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.comCompliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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