

Kolte Patil Developers

BUY

Holding steady

We maintain BUY with SOTP based TP of Rs 311/sh. We have cut our FY20/21E EPS by 25.4/14.0% to factor in a delay in projects moving into revenue recognition under IND AS 115.

HIGHLIGHTS OF THE QUARTER

- **4QFY19 Revenue was weak** at Rs 2.0bn (-59% YoY, +170% QoQ), lower by Rs 1.8bn due to IND AS 115. After an EBITDA loss in 3QFY19, KPDL posted 4QFY19 EBITDA of Rs 767mn (vs. Rs 1.0bn YoY). 4QFY19 APAT came in at Rs 401mn (Rs 176mn lower due to IND AS 115).
- After strong 2Q/3QFY19 with 0.8mn sqft each (led by strong traction in Tuscan and Western Avenue; now marginal inventory), KPDL recorded a 21.3% QoQ dip to 0.6mn sqft in 4QFY19 (~0.5mn sqft YoY). Bolstered by Life Republic (~1mn sqft) and Ivy Estate, KPDL posted encouraging pre-sales of 2.7mn sqft (+28.1% YoY) in FY19.
- **Debt has bloated up:** Collections declined 18% YoY to Rs 3.1bn in 4QFY19. FY19 collections witnessed only a marginal 6% growth to Rs 11.8bn. Led by Downtown (IL&FS' stake) and Life Republic (ICICI Ventures' stake) buyouts (~Rs 1bn infused) and ~Rs 0.7-0.8bn higher construction spend led by Jai-Vijay and Raga (Bengaluru), gross debt (incl. structured debt) inched

up Rs 1.2bn YoY to Rs 8.1bn (Net debt is Rs 5.2bn vs Rs 2.9bn YoY). We do not foresee any major reduction in the near term.

- **Life Republic update:** KPDL has entered into a SPA to buy out ~50% stake of ICICI ventures for Rs 2.1bn (~Rs 0.7bn already paid). Additionally 12 acres of land (equivalent FSI of ~1mn sqft) will be allocated post spending ~Rs 0.3bn on premium for expansion of FSI allocation to 1.0 from existing 0.5.
- **Mumbai projects:** OC for Jai-Vijay is expected to come in 60days. In the remaining 3 projects, KPDL expects all of them to be under development by Mar-20E (~0.6mn sqft KPDL's share – Rs 10/2.5bn revenue/cash flow potential).

STANCE:

KPDL has a strong brand recall in Pune. Despite new entrants launching (eg. around Life Republic) and other financially sound brands entering its home turf, it has demonstrated decent sales velocity in FY19. Management expects the momentum to continue (and guided for 18-20% YoY growth) and will focus more on volumes (in tune with peers) as price is expected to remain sticky. We remain constructive and maintain BUY. Key Risks: (1) Aggressive competition by peers, (2) High interest rates and (3) Further debt bloat up.

Financial Summary (Consolidated)

YE March (Rs mn)	4QFY19#	4QFY18*	YoY (%)	3QFY19#	QoQ (%)	FY18*	FY19P#	FY20E#	FY21E#
Net Sales	1,954	4,777	(59.1)	723	170.4	12,192	8,693	10,616	12,656
EBITDA	767	1,039	(26.2)	(77)	-	3,033	2,471	3,142	3,723
APAT	401	406	(1.3)	(129)	-	1,216	755	1,324	1,450
Diluted EPS (Rs)	5.3	5.4	(1.3)	(1.7)	-	16.0	10.0	17.5	19.1
P/E (x)						15.5	25.0	14.3	13.0
EV / EBITDA (x)						7.1	9.7	7.5	6.4
RoE (%)						13.4	8.3	14.7	14.2

Source: Company, HDFC sec Inst Research, *POCM, #As per IND AS 115

INDUSTRY	REAL ESTATE
CMP (as on 29 May 2019)	Rs 249
Target Price	Rs 311
Nifty	11,861
Sensex	39,502
KEY STOCK DATA	
Bloomberg	KPDL IN
No. of Shares (mn)	76
MCap (Rs bn) / (\$ mn)	19/265
6m avg traded value (Rs mn)	28
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 320/204
	3M 6M 12M
Absolute (%)	3.1 6.6 (20.0)
Relative (%)	(7.1) (2.6) (33.0)
SHAREHOLDING PATTERN (%)	
	Dec-18 Mar-19
Promoters	74.53 74.53
FIs & Local MFs	00.04 0.05
FPIs	13.93 14.36
Public & Others	11.50 11.06
Pledged Shares	- -
Source : BSE	

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4QFY19 Revenue was weak at Rs 2.0bn (-59% YoY, +170% QoQ), lower by Rs 1.8bn due to IND AS 115

After an EBITDA loss in 3QFY19, KPDL posted 4QFY19 EBITDA of Rs 765mn (vs. Rs 1.0bn YoY)

4QFY19 APAT came in at Rs 401mn (Rs 176mn lower due to IND AS 115).

Bolstered by Life Republic (~1mn sqft) and Ivy Estate, KPDL posted encouraging pre-sales of 2.7mn sqft (+28.1% YoY) in FY19

Quarterly Financial Snapshot (Consolidated)

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Sales	1,954	4,777	(59.1)	723	170.4	8,693	12,192	(28.7)
Material Expenses	(678)	(3,312)	(79.5)	(391)	73.5	(4,543)	(7,819)	(41.9)
Employee Expenses	(134)	(93)	44.4	(132)	1.7	(538)	(370)	45.4
Other Operating Expenses	(375)	(333)	12.7	(277)	35.3	(1,141)	(970)	17.6
EBITDA	767	1,039	(26.2)	(77)	-	2,471	3,033	(18.5)
Interest Cost	(318)	(268)	18.5	(207)	53.9	(920)	(987)	(6.8)
Depreciation	(36)	(48)	(25.3)	(39)	(7.0)	(149)	(153)	(2.6)
Other Income	25	71	(64.9)	43	(42.1)	111	156	(28.8)
PBT	438	794	(44.8)	(279)	-	1,513	2,049	(26.2)
Extraordinary Items	-	-	N.M	-	N.M	-	(18)	N.M
Minority Interest	66	(207)	(131.9)	88	(25.1)	(240)	(322)	(25.5)
Tax	(103)	(181)	(43.1)	62	-	(518)	(493)	5.1
APAT	401	406	(1.3)	(129)	-	755	1,216	(37.9)

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

MARGIN ANALYSIS	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Material Expenses % Net Sales	34.7	69.3	(3,463)	54.1	(1,938)	52.3	64.1	(1,187)
Employee Expenses % Net Sales	6.9	1.9	491	18.2	(1,138)	6.2	3.0	315
Other Operating Expenses % Net Sales	19.2	7.0	1,222	38.4	(1,916)	13.1	8.0	517
EBITDA Margin (%)	39.3	21.8	1,749	(10.7)	4,992	28.4	24.9	355
Tax Rate (%)	23.5	22.8	72	22.3	117	34.2	24.1	1,018
APAT Margin (%)	20.5	8.5	1,202	(17.8)	3,834	8.7	10.0	(129)

Source: Company, HDFC sec Inst Research

Pre – Sales Trend

Pre-sales trend	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Sales Volume (mn sqft)	0.63	0.49	28.6	0.80	(21.3)	2.7	2.1	28.1
Sales Value (Rs mn)	3,550	2,790	27.2	4,175	(15.0)	14,303	11,984	19.4
Average Realization (Rs/sqft)	5,623	5,694	(1.2)	5,196	8.2	5,369	5,762	(6.8)
Collections (Rs mn)	3,090	3,770	(18.0)	2,673	15.6	11,793	11,089	6.3

Source: Company, HDFC sec Inst Research

Net D/E has increased sharply from 0.49x to 0.62x QoQ

We expect Net D/E to improve to ~0.5x by FY21E

Net D/E is higher in FY19 on account of IND AS 115 adjustments in net worth

POCM net D/E stands at 0.47x (directly comparable with 0.29x in 4QFY18)

We have cut our FY20/21E EPS by 25.4/14.0% to factor in a delay in projects moving into revenue recognition under IND AS 115

Net D/E: May Have Peaked; To Decrease To ~0.5x By FY21E

(Rs mn)	1QY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Comments
Gross Debt	7,750	7,620	7,200	6,890	6,620	6,710	7,640	8,070	
Structure NCD's	(2,290)	(2,290)	(3,040)	(2,890)	(2,790)	(2,790)	(2,690)	(2,240)	Deducting NCD & CCD as they are equity structured as debt by KPDL and JVs
Cash	(950)	(830)	(950)	(1,170)	(940)	(890)	(990)	(670)	
Current investments									
Net debt	4,520	4,510	3,210	2,880	2,890	3,020	3,960	5,170	
Net Worth	8,990	9,150	9,150	9,840	8,090	8,020	8,090	8,400	FY19 onwards as per IND AS 115
Net Debt/ equity (x)	0.50	0.49	0.49	0.29	0.36	0.38	0.49	0.62	

Source: Company, HDFC sec Inst Research

Change in Estimate

Particulars	FY20E New	FY20E Old	% Change	FY21E New	FY21E Old	% Change
Revenues (Rs mn)	10,616	14,649	(27.5)	12,656	15,170	(16.6)
EBITDA (Rs mn)	3,142	3,794	(17.2)	3,723	4,009	(7.1)
EBITDA (%)	29.6	25.9	369.7	29.4	26.4	299.4
APAT (Rs mn)	1,324	1,774	(25.4)	1,450	1,686	(14.0)

Source: HDFC sec Inst Research

GNAV mix – Rs 30.3bn

Rs mn	Rs/sh	%
Pune	266	66.4
Bengaluru	34	8.6
Mumbai	14	3.6
Land Bank	86	21.5
Total GAV	400	100

Source: Company, HDFC sec Inst Research

We maintain KPDL at BUY with a TP of 311

Valuation –Maintain BUY with NAV Target Rs 311/share

- We have valued KPDL using DCF and arrived at a target price of Rs 311/share. We do not give any NAV premium. This is to factor in (1) Limited further property price appreciation & (2) No new land capex outlays. We have not considered the likely upside in saleable area once the township FSI increases from 1x to 1.7x.
- The State government has already increased FSI for non-agricultural land based township and is in the final stages of implementing it for townships on agricultural land. KPDL's key project that will be affected is Life Republic Township. In terms of value, this could add about Rs 64/share to NAV and about ~20mn sqft to the gross saleable area or (~10mn sqft KPDL share).

Rs mn	NAV	Comments
Gross NAV	30,346	Including ongoing, forthcoming projects and land bank valuation
Less Net debt	(6,799)	Net Debt as on end FY20E (incl. Structured obligations)
NAV	23,547	No material change
Shares outstanding (mn)	76	
NAV/share (Rs)	311	
Discount to NAV	0%	No NAV discount (1) due to stability in property prices post 7-10% correction & (2) New opportunities through JDA, Affordable housing etc
Target Price (Rs)	311	

Source: Company, HDFC sec Inst Research

- Our channel checks suggest that over next 6-12month there could be (1) delay in deal closure (2) longer sales cycle (3) reduction in new launches. This would impact cash flows timing.
- Further, stimulus on affordable housing will benefit KPDL as it has about 70% portfolio in LIG/MIG with ticket size Rs 5.5mn. Lower mortgage rate (~100bps reduction) can drive volumes 12-13% higher.

Real Estate Development – NAV Calculation Methodology

- We have divided KPDL's entire land bank (with launch visibility over the next 5 years) into residential projects (based on the information given by the company).
- We have arrived at the sale price/sq ft. and the anticipated sales volumes for each project based on our discussions with industry experts.
- We have deducted the cost of construction based on our assumed cost estimates, which have been arrived at after discussions with industry experts.
- We have further deducted marketing and other costs that have been assumed at 5% of the sales revenue.
- We have then deducted income tax based on the tax applicable for the project.
- The resultant cash inflows at the project level have been discounted based on WACC of 13% (cost of equity 15.1% based on beta of 1.1x & debt/equity ratio of 0.4x). All the project level NAVs have then been summed up to arrive at the NAV of the company.
- From the NAV, we have deducted the net debt and likely outgo on balance land payments as of FY20E to arrive at the final valuation of the company.

Our pricing assumptions are moderate and at a 5-10% discount to the current prevailing prices.

Key valuation assumptions

- In the exhibit below we highlight our sales and cost inflation forecasts. We expect property price appreciation in line with WPI inflation, i.e. 5% and peg cost inflation slightly higher at 6%. We forecast other costs including marketing, SGA and employee costs at 15% of sales. We have discounted the cash flows using 13% as hurdle rate.

Base Case Assumptions

Assumptions	%
Discount rate	13
Annual rate of inflation - sales price	5
Annual rate of inflation - cost of construction	6
Other costs - marketing, SGA, employee cost (as % sales)	15
Tax rate	33

Source: Company, HDFC sec Inst Research

- Our pricing assumptions are moderate and at a 5-10% discount to the current prevailing prices. Construction cost assumptions are higher than the KPDL estimates.

Base Property Price And Construction Cost Assumptions

Location	City	Prices Rs/sqft	Cost Rs/sqft
Wagholi	Pune	3,750	1,800
Hinjewadi	Pune	4,900	2,100
Kharadi	Pune	5,000	2,200
Undri-NIBM	Pune	4,500	2,200
Mohamad Wadi	Pune	4,500	2,200
Aundh Annexe	Pune	5,200	2,500
Boat Club Road	Pune	9,100	3,500
Kondhwa	Pune	3,900	2,000
Viman Nagar	Pune	8,600	3,500
Aundh	Pune	6,700	2,600
Kalyani Nagar	Pune	7,500	2,800
Bavdhan	Pune	4,600	2,000
Atria	Pune	7,200	2,800
Wakad	Pune	5,400	2,500
Andheri	Mumbai	14,500	7,500
Vile Parle	Mumbai	20,000	9,500
Koramangla Block III	Bangalore	6,200	2,400
Hosur Road	Bangalore	5,700	2,300
Kannur Road	Bangalore	3,750	1,800

Source: Company, HDFC sec Inst Research

1% increase in average base sale price impacts our NAV positively by 2.7%

Every 100bps increase in sale price inflation impacts our NAV positively by 6.9%

100bps increase in cost inputs decreases our NAV by 4.5%

100bps increase in discounting rate impacts our NAV negatively by 5.1%

NAV sensitivity analysis

Sensitivity to our assumption of property price

- Our model is sensitive to changes in the assumptions regarding property prices. For every 1% change in the base property prices, the NAV will change by approximately 2.7%.

NAV Sensitivity To Changes In Base Sale Price

% change in sale price	(10)	(5)	0	5	10
NAV/share (Rs)	227	270	311	354	394
Change in NAV (%)	(27.1)	(13.4)	-	13.5	26.1

Source : Company, HDFC sec Inst Research

Sensitivity of NAV to changes in sale inflation

- In our base case, we have assumed annual sale price inflation of 5%. For every 100bps increase in the annual sale price inflation, the NAV will increase by approximately 6.9%.

NAV Sensitivity To Change In Sales Inflation

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	270	291	311	333	355
Change in NAV (%)	(13.4)	(6.7)	-	6.9	13.7

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in cost inflation

- In our base case, we have assumed cost inflation to be 6%. For every 100bps increase in construction cost inflation, the NAV will change by approximately 4.5%.

NAV Sensitivity To Change In Cost Inflation

Cost inflation rates (%)	4	5	6	7	8
NAV/share (Rs)	341	326	311	298	283
Change in NAV (%)	9.2	4.6	-	(4.5)	(9.1)

Source : Company, HDFC sec Inst Research

The combined impact of a 100bps increase in sale price inflation and cost inflation will be a NAV increase of 2.4%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 13%. For every 100bps increase in the discount rate, the NAV will fall by ~5.1%.

NAV Sensitivity To Change In Wacc

WACC rates (%)	11	12	13	14	15
NAV/share (Rs)	344	328	311	296	280
Change in NAV (%)	10.3	5.2	-	(5.1)	(10.2)

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9,656	12,192	8,693	10,616	12,656
Growth (%)	28.1	26.3	(28.7)	22.1	19.2
Material Expenses	6,082	7,819	4,543	5,600	6,871
Employee Expenses	422	370	538	619	681
Other Operating Expenses	753	970	1,141	1,255	1,381
EBIDTA	2,400	3,033	2,471	3,142	3,723
EBIDTA (%)	24.9	24.9	28.4	29.6	29.4
EBIDTA Growth (%)	21.0	26.4	(18.5)	27.2	18.5
Other Income	82	156	111	117	122
Depreciation	149	153	149	156	164
EBIT	2,334	3,036	2,433	3,102	3,682
Interest	860	987	920	965	919
PBT	1,473	2,049	1,513	2,137	2,763
Tax	624	493	518	641	829
PAT	849	1,556	995	1,496	1,934
Minority Interest	23	(322)	(240)	(172)	(483)
EO items (net of tax)	-	(18)	-	-	-
APAT	872	1,216	755	1,324	1,450
APAT Growth (%)	48.0	39.5	(37.9)	75.3	9.6
EPS	11.5	16.0	10.0	17.5	19.1
EPS Growth (%)	48.0	39.5	(37.9)	75.3	9.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	758	758	758	758	758
Reserves	7,880	9,080	7,643	8,816	10,134
Total Shareholders Funds	8,638	9,838	8,401	9,573	10,892
Minority Interest	2,666	2,075	59	231	715
Long Term Debt	1,417	3,657	2,443	1,877	1,897
Short Term Debt	3,903	343	3,387	3,615	3,615
Total Debt*	5,320	4,000	5,830	5,491	5,511
Deferred Taxes	(25)	(225)	(1,755)	(1,755)	(1,755)
Long Term Provisions & Others	2,432	3,270	2,586	2,650	2,650
TOTAL SOURCES OF FUNDS	19,032	18,958	15,120	16,191	18,013
APPLICATION OF FUNDS					
Net Block	1,061	968	837	895	1,281
CWIP	22	-	5	22	22
Goodwill	211	207	207	207	207
Investments, LT Loans & Advances	-	-	-	-	-
Other Non Current Assets	1,662	2,634	2,621	2,687	2,714
Inventories	20,607	18,364	28,270	25,130	26,698
Debtors	1,770	1,828	1,079	1,520	1,907
Cash & Equivalents	797	1,183	638	942	386
ST Loans & Advances, Others	1,972	1,206	834	2,246	3,093
Total Current Assets	25,147	22,581	30,821	29,838	32,084
Creditors	1,761	2,498	2,535	2,982	3,281
Other Current Liabilities & Provns	7,311	4,935	16,835	14,476	15,015
Total Current Liabilities	9,072	7,433	19,370	17,458	18,296
Net Current Assets	16,075	15,148	11,451	12,379	13,788
TOTAL APPLICATION OF FUNDS	19,032	18,958	15,120	16,191	18,013

Source: Company, HDFC sec Inst Research, *Excluding structured debt in Life Republic

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
PBT before minority	1,473	2,028	1,513	2,137	2,763
Non-operating & EO items	(29)	60	(111)	(117)	(122)
Taxes	(494)	(781)	(518)	(641)	(829)
Interest expenses	860	987	920	965	919
Depreciation	149	154	149	156	164
Working Capital Change	(543)	(878)	(3,421)	(646)	(1,978)
OPERATING CASH FLOW (a)	1,417	1,569	(1,468)	1,855	916
Capex	(77)	(42)	(23)	(232)	(550)
Free cash flow (FCF)	1,340	1,528	(1,491)	1,623	366
Investments	496	417	111	117	122
INVESTING CASH FLOW (b)	419	376	88	(115)	(428)
Share capital Issuance	-	3.40	-	-	-
Debt Issuance	(655)	(672)	1,830	(339)	20
Interest expenses	(792)	(1,002)	(920)	(965)	(919)
Dividend	(262)	(146)	(76)	(132)	(145)
FINANCING CASH FLOW (c)	(1,709)	(1,817)	835	(1,436)	(1,044)
NET CASH FLOW (a+b+c)	126	128	(545)	304	(556)
Opening Cash	552	678	1,183	638	942
Other Bank Deposits	119	377	-	-	-
Closing Cash & Equivalents	797	1,183	638	942	386

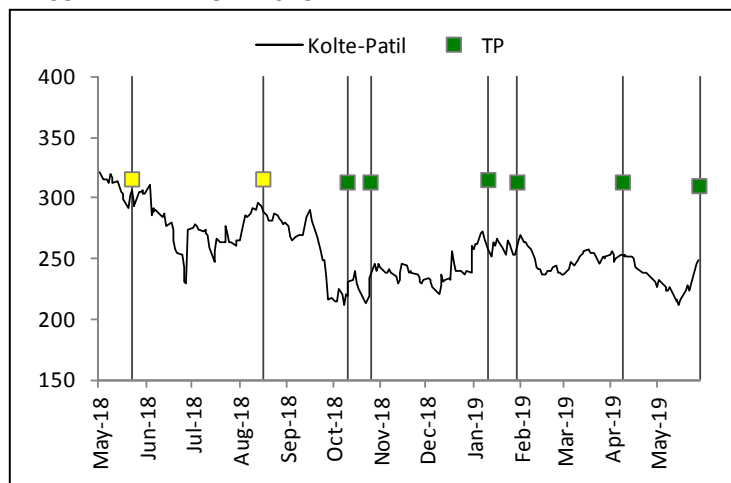
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	37.0	35.9	47.7	47.2	45.7
EBITDA Margin	24.9	24.9	28.4	29.6	29.4
EBIT Margin	24.2	24.9	28.0	29.2	29.1
APAT Margin	9.0	10.0	8.7	12.5	11.5
RoE	10.6	13.4	8.3	14.7	14.2
Core RoCE	13.6	23.1	20.2	25.8	27.7
RoCE	12.3	16.0	14.3	19.8	21.5
EFFICIENCY					
Tax Rate (%)	42.4	24.1	34.2	30.0	30.0
Asset Turnover (x)	0.5	0.6	0.6	0.7	0.7
Inventory (days)	775	583	979	918	747
Debtors (days)	61	54	61	45	49
Payables (days)	62	64	106	95	90
Cash Conversion Cycle (days)	774	573	934	868	706
Debt/EBITDA (x)	2.2	1.3	2.4	1.7	1.5
Net D/E	0.5	0.3	0.6	0.5	0.5
Interest Coverage	2.7	3.1	2.6	3.2	4.0
PER SHARE DATA					
EPS (Rs/sh)	11.5	16.0	10.0	17.5	19.1
CEPS (Rs/sh)	13.5	18.1	11.9	19.5	21.3
DPS (Rs/sh)	2.3	3.2	2.0	1.7	1.9
BV (Rs/sh)	114.0	129.8	110.9	126.3	143.7
VALUATION					
P/E	21.6	15.5	25.0	14.3	13.0
P/BV	2.2	1.9	2.2	2.0	1.7
EV/EBITDA	9.7	7.1	9.7	7.5	6.4
OCF/EV (%)	0.1	0.1	(0.1)	0.1	0.0
FCF/EV (%)	5.7	7.0	(6.2)	6.9	1.5
FCFE/Market Cap	3.6	4.5	1.8	6.8	2.0
Dividend Yield (%)	0.9	1.3	0.8	0.7	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
24-May-18	307	NEU	315
18-Aug-18	288	NEU	315
11-Oct-18	220	BUY	314
29-Oct-18	235	BUY	314
11-Jan-19	262	BUY	316
31-Jan-19	259	BUY	314
9-Apr-19	254	BUY	314
30-May-19	249	BUY	311

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
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