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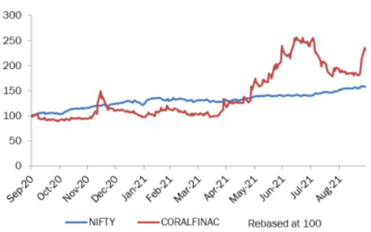
Coral India Finance and Housing Limited

04 October 2021

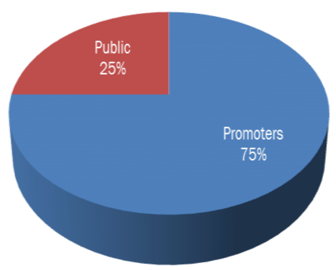
Leveraging the presence in emerging locations — BUY

Sector	: Investment Company
Target Price	: ₹ 62
Current Market Price	: ₹44.5
Market Cap	: ₹ 178.54 crore
52-week High/Low	: ₹ 58.75/17.30
Daily Avg Vol (12M)	: 1,03,771
Face Value	: ₹2
Beta	: 0.82
Pledged Shares	: NIL
Year End	: March
BSE Scrip Code	: 531556
NSE Scrip Code	: CORALFINAC
Bloomberg Code	: CIFH IN
Reuters Code	: CORI.BO
Nifty	: 17,691
BSE Sensex	: 59,299
Analyst	: Research Team

Price Performance



Shareholding Pattern



Introductory Note

Investment Summary

- One of the growing housing-development and -investment companies in India, Coral India Finance and Housing Limited's business is divided into two main segments: construction and investment, the latter bringing nearly 80% to operating revenue in FY21. Rental income accounts for more than 50% of investment income, with a 5% escalation clause annually.
- The company has commenced a residential project at Deolali, Nashik, which includes flats, and bungalows of ~40,000 sq.ft. The Nashik real-estate market presents immense opportunities, given its location and robust infrastructure. We expect the company to benefit significantly from growth in the city's real-estate market.
- It has a 300,000 sq.ft. project of a five-residential-building complex and one commercial complex at Ghodbunder, Thane. Property prices in Thane have steeply risen due to proximity to nature and the fast pace of development, coupled with the government's proposed plan to enhance Thane's connectivity to Navi Mumbai as well as the eastern and western suburbs of Mumbai. With the expected sales of its remaining 33 flats by the end of this financial year, we expect the company to realize the benefits of its complex in Thane.
- It has been paying dividends for eight years consecutively.
- In 2020 it decided to go in for a buyback. It bought 95,76,755 equity shares at ₹ 17 each, resulting in an outflow of ₹16.28 crore in cash.
- The stock now trades at an attractive P/E multiple of 8.7x FY23E EPS. We assign a target multiple of 12x FY23E EPS. Our valuation generates a target price of ₹ 62 with 38% potential from levels now, signalling a BUY rating. A complete debt-free entity with a strong financial base and a positive bottom line since inception makes it a promising investment. **BUY**.

Key Financial Metrics

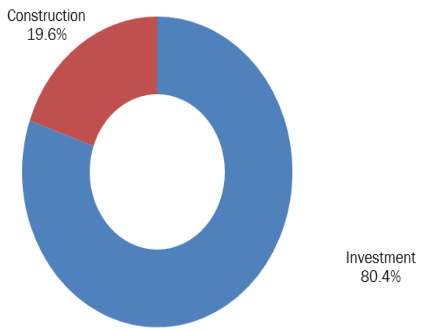
₹ lakh	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total income	1,455	1,326	2,008	2,642	3,036	3,470
Growth		*-8.9%*	*51.5%*	*31.5%*	*14.9%*	*14.3%*
Cost of operations	417	343	427	428	504	590
PAT	822	801	1,297	1,814	2,072	2,375
PAT margin	*56.5%*	*60.4%*	*64.6%*	*68.6%*	*68.3%*	*68.4%*
Diluted EPS (₹)	1.65	1.61	3.22	4.50	5.14	5.89

Source: Company data; Khambatta Research

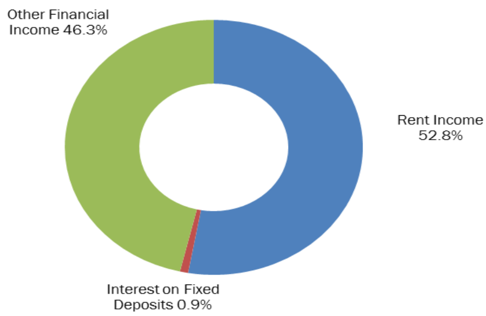
Company Profile

Incorporated in 1995, Coral India Finance and Housing Limited is engaged in multi-sector businesses. Its primary focus is to carry on business as builders, developers and contractors for all types of construction, including land and property development and real estate deals, and to provide all types of financial services including bill discounting, lending and investment in other securities.

Segment Revenue



Investment Revenue Break-up



Source: Company data

Key Projects

Stable Rental income coupled with additional revenue from existing inventory to boost the revenue

A residential project at Deolali, Nasik (Maharahstra), on land purchased at a low price in 2006 includes flats and bungalows of ~40,000 sq.ft. The project's budgeted cost is ~ ₹ 10 crore and sales are projected to be ~ ₹ 20 crore (as per current market valuations) with the expected completion timeline of FY23.

At Coral Gardens, Thane, 33 Flats are ready for possession with O.C (O.C for 8 flats is applied and awaited) for which the valuation comes to ~ ₹ 30 crore. As per the Management, these 33 flats are expected to be sold by the end of March 22.

Coral Square Building in Thane is solely for commercial use. Offices of ~65,000 sq.ft. are rented and ~₹ 8 crore revenue is generated every year with a yearly escalation clause of 5%.

The company has clear ownership of 100,000 sq.ft. land in Baroda in J/V.

At Baroda, it has 25,00,000 sq.ft. disputed land in a JV.

It has stock equity investment of ~ ₹ 37 crore and Mutual Funds investments and liquid funds investments of ~₹ 39 crore.

Management Profile

Mr Navin Doshi – Over 25 years of experience in real estate and construction

Promoter and Managing Director Mr. Navin Doshi has over 25 years' experience in real estate and construction. His leadership abilities and expertise in construction have been instrumental in the growth and success of the company. He oversees the entire business including construction, maintaining of quality, sales, profits and investments.

Along with Navin Doshi, the Board of Directors is equipped with sufficient breadth of skills and expertise in construction, tenders, finance, legal, consulting, operations, marketing, general management, technology, etc. Their innovative and dynamic thinking has helped the company grow in size and scale.

Industry Overview

Only second to agriculture, real estate is the largest employment generator in India's industrial sector

Only second to agriculture, real estate is the largest employment generator in India's industrial sector. While India's housing need demands the construction of 5 houses per 1,000 people each year, only 3 houses per 1,000 people are actually built according to the Economic Times Housing Finance Summit. With an estimated urban housing shortage of approximately 1 crore units, urban India's growing housing need will necessitate the construction of an additional 2.5 crore affordable homes by 2030.

The real estate sector faced several challenges during 2014 to 2020 leading to an oversupply situation, resulting from cheap money invested into the sector with many projects of poor quality launched. The 2018 NBFC crisis led to a liquidity crunch, causing a reduction in fund availability and consequently consolidation within the sector. The situation clearly favoured the bigger developers with deep pockets. Offering better quality projects coupled with their capacity of timely delivery, consumer preference shifted towards the bigger reputed developers.

Residential sales across the top seven cities in Q2 (April-June) 2021 increased by 83% as compared to Q2 2020. According to JLL's Residential Market Update – Q2 2021 released in July 21, this was mainly due to low base effect, less stringent lockdowns, and accelerating vaccination drives during Q2 2021, demonstrating improved resilience in the market. During the first wave of COVID-19, residential sales dropped by a record 61% quarter-on-quarter to 10,753 units in Q2 2020. However, the impact of the second wave has been limited with sales in Q2 2021 dipping by 23% to 19,635 units.

New launches in the Mumbai residential market increased by 33%, from 4,616 units in Q1 2021 to 6,143 units in Q2 2021, as per a recent study by JLL. While sales in the city remained at similar levels of Q1 2021, transactions were concentrated in the price segment of ₹ 50 lakh to ₹ 1 crore, which accounted for 40% of the sales during the quarter.

The construction sector attracts the third-highest FDI inflow in India. The sector (including construction development and construction activities) received FDI to the tune of US$ 43 bn between April and September 2020.

The Indian real estate is projected to see robust FDI inflows of up to US$ 8bn by FY22. (Source: IBEF)

The Government of India (GoI) announced policy initiatives over the past few years with the objective of supporting the real estate sector. In 2015, the government approved 100 Smart City projects while also raising FDI limits for townships and settlements development projects to 100%. Real estate projects within SEZs have been allowed 100% FDI. Further, the government released draft guidelines for investment by Real Estate Investment Trusts (REITs) in the non-residential segment.

Indian Real Estate – FDI inflows projected up to US$8bn by FY22

The GoI's Housing for All initiative is expected to bring in investments to the tune of US$ 1.3 tn to the country's housing sector by 2025. The Pradhan Mantri Awas Yojana – Urban (PMAY-U) scheme is expected to push affordable housing and boost the Indian real estate sector. The GoI approved the development of Affordable Rental Housing Complexes (AHRCs) for urban migrants and poor as a sub-scheme under PMAY-U. As of December 2019, 1.12 crore houses were sanctioned in urban areas under PMAY-U, which has a potential to create 1.2 crore jobs. The Ministry of Housing and Urban Affairs has recommended all states to consider reducing stamp duty on property transactions to increase the affordability of real estate and help drive the sector.

The real estate sector is expected to generate a total value of US$ 1 tn by 2030 and it is expected to contribute 13% of GDP by 2025. Besides the housing segment, retail, hospitality and commercial real estate are expected to witness robust growth in the long term, driving further demand for residential real estate in turn. Rapid urbanisation, rising household income and continued emergence of nuclear families will be the key growth drivers across all segments of Indian real estate. (Source: IBEF)

The impact of second wave of the pandemic in Q2 2021 has not been as pronounced as that of the first wave in Q2 2020. However, the office market has been more affected by the pandemic compared to the residential market that is seeing a sustained resurgence in demand. The leasing activity in the MMR office market has been subdued due to the extended pandemic situation. The MMR office market witnessed a 58% Year-on-Year (YoY) decline in transaction activity during H1 2021. This drop in leasing was primarily on account of two factors: the extended lockdown scenario in the MMR and the high base of Q1 2020. The transaction activity in MMR had started recovering towards the end of 2020 and had improved further in Q1 2021. However, the second wave stalled this upward momentum. (Source: Knight Frank Research)

Investment Thesis

Projects in Nasik

Nashik enjoys a locational advantage owing to its proximity to the two major metropolises: Mumbai and Pune. On the completion of widening the highways connecting the city to the two, travel time between them and Nashik has come down from five hours to under three hours. This has increased the attractiveness of Nashik's property market to investors from Mumbai and Pune. The city is one of the 'Golden Triangle' industrial setting, which includes Pune and Mumbai. The company has commenced a residential project at Deolali, Nasik on land purchased at a low price in 2006. It includes flats, and bungalows of ~40,000 sq.ft. The budgeted cost is ~₹ 10 crore and sales are projected at ~₹ 20 crore, signalling robust growth opportunities for the company.

Ongoing project in Nasik & the existing inventory at Thane with no financial leverage makes company's balance sheet stronger

Projects in Thane

The company has a 300,000 sq.ft. project including a five-building residential complex and one commercial complex at Ghodbunder, Thane. Offices for commercial use are rented out. At present rental income generates ~₹ 8 crore revenue per annum. The company has a long-term agreement for five years with 5% increment every year. As per our discussion with the management, there were no significant changes in their Rental income considering the pandemic effect. Thane's central location, adequate public transport and multi-lane roads have undoubtedly made it a preferable choice for home and office buyers.

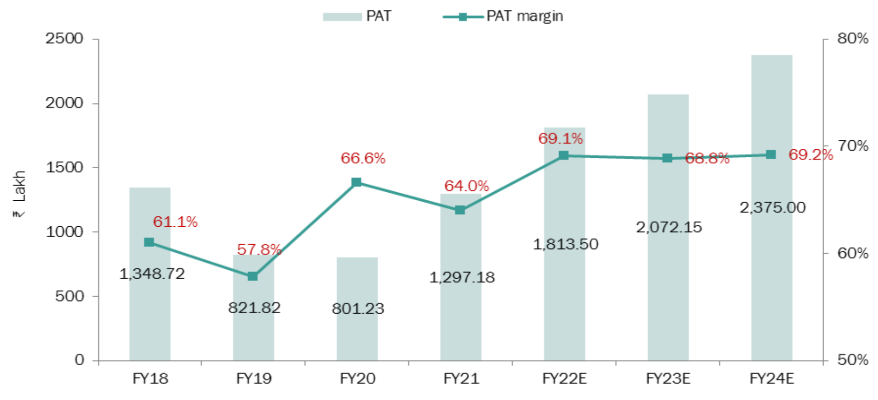
A Debt free Entity

Real estate being capital-intensive, Coral India Housing and Finance stands tall as it is a completely debt-free entity with no secured/unsecured loans.

Greater Profitability and Better Performance

Since inception, Coral India has made profits with an elevated performance over the years. It has seen more than a 60% jump in PAT in FY21 with PAT margins of 64%. Ahead, we expect even higher margins, leading to greater profitability.

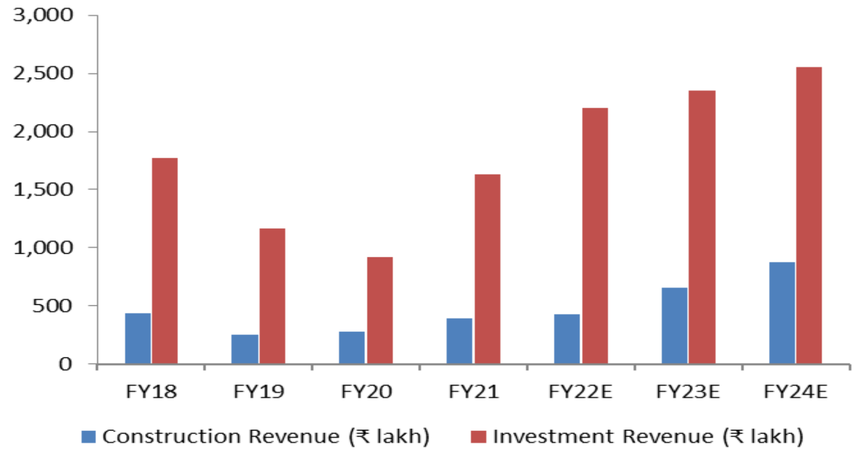
PAT & PAT Margin



Source: Company data

Both the segments have done well from the previous year despite the economic stress and market slowdown. Income from construction was ₹ 394.23 lakh (39% y-o-y growth) compared to ₹ 282.78 lakh the previous year. The investment division too has been improving. For the year under review, income from investment has witnessesd 55% y-o-y growth.

Segment Revenue



Source: Company data

Baroda JV 50:50

Company has land with clear ownership of 1,00,000 sq. feet in J/V in Baroda. The land was purchase in 2006 for around ₹ 6 crs. We expect a higher topline growth for the company when the land is used for construction.

Valuation:

At 12x FY23E EPS, we rate Coral India Finance and Housing Ltd a BUY with a target price of ₹ 62, an upside potential of 38% from current levels. Capitalizing on its presence in locations with robust growth opportunities coupled with boosted PAT Margins, we anticiapte the company to exhibit good performance over the years and value the company at ₹ 62 informing a Buy rating.

Profit & Loss Account

₹ lakh	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total income	**2,298**	**1,455**	**1,326**	**2,008**	**2,642**	**3,036**	**3,470**
Growth		*-36.7%*	*-8.9%*	*51.5%*	*31.5%*	*14.9%*	*14.3%*
Cost of operations	582	417	343	427	428	504	590
Depreciation & amortization	18	15	13	11	10	9	8
PBT	1,697	1,021	969	1,570	2,204	2,522	2,870
Tax expense	349	199	167	273	390	450	495
PAT	**1,349**	**822**	**801**	**1,297**	**1,814**	**2,072**	**2,375**
PAT margin	*58.7%*	*56.5%*	*60.4%*	*64.6%*	*68.6%*	*68.3%*	*68.4%*
Diluted EPS (₹)	**2.70**	**1.65**	**1.61**	**3.22**	**4.50**	**5.14**	**5.89**

Source: Company data; Khambatta Research

Key Risks

- Real estate is a highly regulated and policy-driven sector. Any significant changes in policy, regulations or administered prices can potentially affect our outlook and forecast.
- Continued high inventory levels will keep real estate prices subdued, which, in turn, will negatively affect the sector's growth.
- Further severe waves of COVID-19 or it remaining around for an extended period of time, especially in urban India can potentially have a negative impact on the housing sector.

Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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