

Hampton Sky Realty Limited

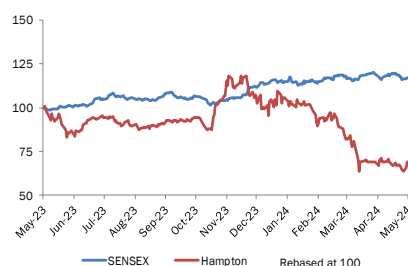
19 May 2024

Attractive Tier II regional real estate play

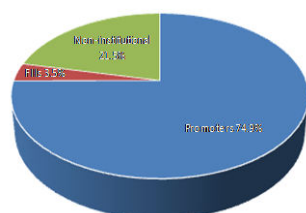
BUY

Sector	: Real Estate
Target Price	: ₹38
Last Closing Price	: ₹31
Market Cap	: ₹844 crore
52-week High/Low	: ₹59/29
Daily Avg Vol (12M)	: 2,08,735
Face Value	: ₹1
Beta	: 0.33
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 526407
NSE Scrip Code	: N/A
Bloomberg Code	: HAMPTON IN
Reuters Code	: N/A
Nifty	: 22,502
BSE Sensex	: 74,006
Analyst	: Research Team

Price Performance



Shareholding Pattern



Initiating Coverage

Investment Summary

- Incorporated in 1987, Hampton Sky Realty Limited (Hampton), formerly known as Ritesh Properties and Industries Limited (RPIL), is a Ludhiana-headquartered company, primarily operating in the real estate sector.
- At the topmost level, Hampton is led by its promoters. Mr. Sanjeev Arora, promoter and Managing Director, has been associated with the company for almost 20 years. With more than 40 years' experience in business administration and the real estate sector, he is also Rajya Sabha MP. CEO Mr. Kavya Arora has over 15 years' leadership experience at Femmella Fashions India Limited whilst he has been associated with Hampton for more than a decade.
- The Indian real estate is poised for robust growth in the medium-to-long term. According to a report by the international property consultant Knight Frank and the National Real Estate Development Council, India's real estate market is projected to grow to US\$ 5.8 tn by 2047, contributing 15.5% of GDP, up from 7.3% currently. Key drivers for the sector are rising disposable income, urbanisation, a large working-age population, and overall strong economic growth.
- The Ludhiana real estate market offers strong tailwinds, enabled by infrastructure development, population growth, and industrial expansion, and resulting in robust demand growth for commercial and residential real estate in the city.
- Hampton has successfully delivered a number of marquee projects in Ludhiana in a timely manner. The company's robust project pipeline offers revenue and earnings visibility.
- Hampton has a scalable business model, enabled by the company's strategy to capitalise on future opportunities by acquiring new land parcels.
- The Hampton stock currently trades at an attractive FY26E forward PEG ratio of 0.9x basis an expected medium-term average earnings growth rate of 37%. Assigning a target PE multiple of 40x FY26E EPS, we value the Hampton stock at Rs 38 at a reasonable PEG ratio of 1.1x, informing a BUY rating with a 22% upside potential.

Key Financial Metrics (Consolidated)

₹ crore	FY22A	FY23A	FY24A	FY25E	FY26E
Total income	199.4	76.0	242.4	309.8	407.7
Growth		-61.9%	219.0%	27.8%	31.6%
EBITDA	41.7	3.3	35.6	46.5	62.8
EBITDA margin	20.9%	4.3%	14.7%	15.0%	15.4%
PAT (ex-minority interest)	23.8	(0.6)	13.7	16.8	25.7
PAT margin	11.9%	-0.7%	5.6%	5.4%	6.3%
EPS (₹)	0.97	(0.02)	0.50	0.61	0.94

Source: Company data, Khambatta Research

Hampton Sky Realty Limited

19 May 2024

Formerly known as Ritesh Properties and Industries Limited, Hampton Sky Realty operates in Ludhiana's real estate market

Company Profile

Incorporated in 1987, Hampton Sky Realty Limited (Hampton), formerly known as Ritesh Properties and Industries Limited (RPIL), is a Ludhiana-headquartered company operating in the real estate, capital market, and fashion sectors. The company is engaged in the businesses of real estate, fabrics, shares, derivatives, forex, commodities, and other financial products. Hampton's operations are based out of Ludhiana and Delhi. The company's primary focus area is real estate with concentration on the Ludhiana micro-market.

Management Profile

Mr. Sanjeev Arora, promoter and Managing Director, has been associated with Hampton for almost 20 years. With more than 40 years' experience in business administration and the real estate sector, he is also Rajya Sabha Member of Parliament (MP). He leads strategy and planning, business development, and marketing functions at the company. Mr. Sanjeev Arora possesses entrepreneurial and leadership experience in the real estate, textile and garment industries, as well as in the new-age women's fashion brand Femella.

With over 15 years' leadership experience at Femella Fashions India Limited, CEO Mr. Kavya Arora has been associated with Hampton for more than a decade. Mr. Kavya Arora possesses a BBA degree in International Business from George Washington University, Washington, DC.

Investment Thesis

Indian real estate is poised for robust growth in the medium-to-long term

India's real estate market is projected to grow to US\$ 1 tn by 2030 from US\$ 200 bn in 2021. The sector is estimated to grow at a CAGR of 19.5% between 2017 and 2028. The market is expected to reach US\$ 650 bn, accounting for 13% of India's GDP by 2025. According to a joint report by the international property consultant Knight Frank and the National Real Estate Development Council, India's real estate market is projected to grow to US\$ 5.8 tn by 2047, contributing 15.5% of GDP, up from 7.3% currently. (Source: IBEF)

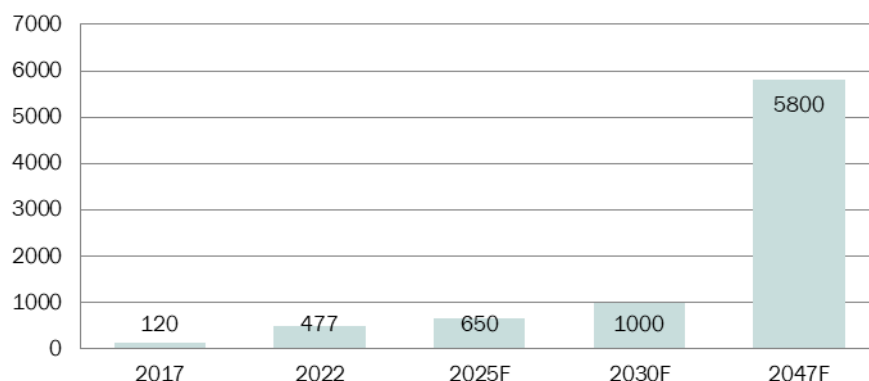
India's central and state governments have taken significant initiatives to strengthen the housing sector. State fiscal incentives such as stamp duty waivers and reduced charges have driven expansion of the market. The Special Window for Affordable and Mid-Income Housing (SWAMIH) provides last-mile financing for stalled housing developments, promoting project completion and boosting customer trust. The Pradhan Mantri Awas Yojana or 'Housing for All' initiative, along with the government's ongoing tax benefits for the affordable housing segment, is expected to bolster sector dynamics.

India's real estate sector is estimated to grow at a CAGR of 19.5% between 2017 and 2028

Hampton Sky Realty Limited

19 May 2024

Size of India's real estate market (US\$ billion)

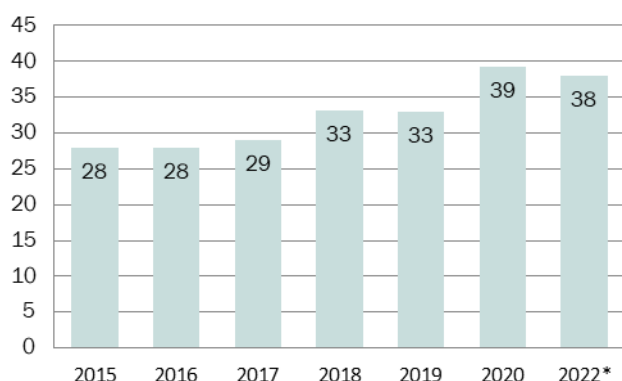


Source: IBEF

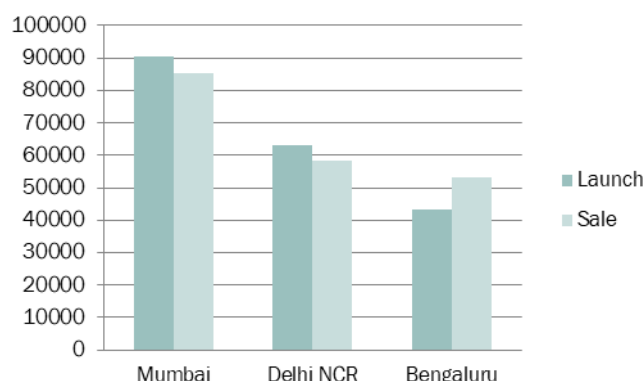
Key drivers for India's real estate sector are rising disposable income, urbanisation, a large working-age population, and strong economic growth

Crucial factors contributing to the real estate sector's growth include the continuous rise in per capita GDP, indicating people's improved economic conditions and increase in wealth. As disposable incomes increase, more people buy houses and invest in real estate to improve their standard of living and driven by lifestyle choices. Urbanisation contributes significantly to the real estate industry. As people relocate to cities for greater opportunities and better amenities, the demand for residential and commercial properties increases, driven further by a large and growing pool of working-age people. A robust economy attracts foreign investment and contributes to the growth of the real estate sector. Given solid economic prospects for the Indian economy, the real estate sector is poised for strong growth going forward.

Demand for commercial space in top 8 cities (mn sqft)



Housing sales and launches in top 3 cities in FY23 (# of units)



*The calendar year 2022 includes only the top 7 cities

Source: IBEF

Hampton Sky Realty Limited

19 May 2024

Infrastructure development, population growth, and industrial expansion have resulted in robust demand growth for real estate in Ludhiana

Narayana E-Techno School in Nellore, a Hampton project in collaboration with Narayana Educational Society, has a capacity of 1,500 students

Hampton is developing a super-speciality hospital in Ludhiana in collaboration with Narayana Hospitals Ltd

The Ludhiana real estate market offers strong tailwinds

Ludhiana has seen significant growth of industrial areas over the last couple of decades, resulting in infrastructure development. As the city grows and becomes more urbanised, more people are recognising its potential and establishing new industrial facilities. This has led to robust demand growth for commercial and residential real estate in the city. The major factors contributing to Ludhiana's potential are infrastructure development, population growth, and industrial expansion. With strong experience in and knowledge of the local market, Hampton is well-placed to benefit from the strong tailwinds in Ludhiana's real estate market.

Timely execution and delivery of projects

Hampton has successfully completed a substantial number of projects. Some important projects of the company are:

- "Hampton Homes", a residential complex with 672 flats in Ludhiana is one of the company's marquee projects with an overall built-up area of 712,000 sqft. All flats are two-bedroom units built in six 14-story towers. The project was delivered before the RERA deadline.
- Narayana E-Techno School in Nellore is a Hampton project in collaboration with Narayana Educational Society, Andhra Pradesh. The school is CBSE-accredited and has a capacity of 1,500 students.
- Hampton Arcade, a boutique shopping complex with 24 shops, is already running successfully.
- "Hampton Court Business Park" in Ludhiana, located on the NH-5 Ludhiana-Chandigarh highway and spanning 25 acres, has 76 environment-friendly non-polluting units. These units specialise in garments, knitting, IT and other areas.
- A wholesale warehouse rented out on a long-term lease to Walmart, now known as Flipkart Wholesale.

Strong pipeline of projects under development

The total area currently under development by Hampton spans 55 acres, with a built-up area of 2.8 mn sqft, of which 1.3 mn sqft is residential, 1.2 mn sqft is commercial, 0.2 mn sqft is hospital, and 0.1 mn sqft is school.

The company has undertaken a project named "Hampton Narayana Superspeciality Hospital" (HNSH) in Ludhiana in collaboration with Narayana Hospitals Ltd (NHL). The project is expected to be completed by FY2025-26 at a budget of Rs 200 crore. The state-of-the-art hospital will provide high-quality healthcare services at affordable rates, ensuring accessibility to advanced medical treatment for surrounding areas. When the hospital becomes operational, it will add around Rs 250 crore in revenues annually with a peak PAT margin of around 35%.

Hampton Sky Realty Limited

19 May 2024

Hampton Estate is a marquee residential-cum-commercial project spread over 12 acres

Hampton looks to capitalise on future opportunities by acquiring new land parcels

The Hampton stock currently trades at an attractive forward PEG of 0.9x basis FY26E EPS

Hampton announced a new project called "Hampton Plaza," a commercial complex spanning approximately 200,000 square feet in Ludhiana. The property will have PVR cinema, retail brands, food court, play area, banqueting and other amenities.

The Phase II of "Hampton Homes" with 312 3BHK and 152 1BHK flats is under construction. The project, with a total built-up area is 550,000 sqft, is expected to be completed in the next three months. The project will also include an exclusive club with a building area of 16,000 sqft and a 6,000sqft convenience shopping centre.

Hampton launched the "Hampton Estate" project, spanning 12 acres and containing 111 residential plots of 250 square yards each, as well as commercial properties including 25 brand outlets, during the last financial year. The project is located on NH5 (Chandigarh-Ludhiana Highway) within the municipal limits of Ludhiana and approximately 800 metres from the company's existing project Hampton Court Business Park.

Another marquee project is the "Hampton High Street" in Ludhiana, a shopping complex spanning 12 acres and hosting premium retail brands, built at an investment of Rs 120 crore. The company is also building a playschool with a total area of 14,000 sqft, which it will be running in collaboration with the DCM Group of Schools.

Scalable business model

Hampton has a scalable business model. The company is strategically poised to capitalise on future opportunities by acquiring new land parcels. This proactive strategy aims to augment the company's development potential and expand its real estate portfolio, positioning them favourably for future growth and market leadership.

Valuation

At 40x FY26E EPS, implying a PEG ratio of 1.1x, we rate Hampton a BUY based on a price target of Rs 38 and an upside potential of 22%

Hampton reported robust growth in revenues and profits in FY24, enabled by strong delivery and bookings. Going forward, we expect revenues to grow at an average rate of 30% over the next couple of years, whilst forecasting PAT CAGR of 40% with increments in profitability. At an FY26E forward PE of 32.8x, the Hampton stock looks attractive with a PEG ratio of 0.9x, basis an expected medium-term average earnings growth rate of 37%. Assigning a target PE multiple of 40x FY26E EPS, we value the Hampton stock at Rs 38 at a reasonable PEG ratio of 1.1x, informing a BUY rating with a 22% upside potential.

Hampton Sky Realty Limited

19 May 2024

Profit & Loss Account (Consolidated)

₹ crore	FY22A	FY23A	FY24A	FY25E	FY26E
Total income	199.4	76.0	242.4	309.8	407.7
Growth		-61.9%	219.0%	27.8%	31.6%
EBITDA	41.7	3.3	35.6	46.5	62.8
EBITDA margin	20.9%	4.3%	14.7%	15.0%	15.4%
Depreciation & amortisation	0.5	0.6	0.7	0.8	0.8
EBIT	41.2	2.7	34.9	45.7	62.0
Interest expense	1.1	0.5	4.6	4.6	4.6
PBT	40.1	2.2	30.3	41.1	57.4
Tax expense	(0.4)	(3.1)	1.2	7.6	10.6
PAT (including minority interest)	40.5	5.3	29.1	33.5	46.8
Profit attributable to minority interest	16.7	5.9	15.4	16.8	21.0
PAT (attributable to parent company)	23.8	(0.6)	13.7	16.8	25.7
PAT margin	11.9%	-0.7%	12.0%	10.8%	11.5%
EPS (₹)	0.97	(0.02)	0.50	0.61	0.94

Source: Company data, Khambatta Research

Key Balance Sheet Items (Consolidated)

₹ crore	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Paid-up capital	24.4	27.4	27.4	27.4	27.4	27.4
Reserves & surplus	86.0	89.1	113.1	129.9	155.6	195.4
Total shareholders' equity	110.4	116.6	140.5	157.3	183.0	222.8
Total debt	11.3	10.1	58.5	58.5	58.5	58.5

Source: Company data, Khambatta Research

Ratio Analysis

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
ROE	21.6%	-0.5%	9.7%	10.7%	14.1%	17.9%
Total D/E ratio	0.10x	0.09x	0.42x	0.37x	0.32x	0.26x

Source: Company data, Khambatta Research

Key Risks

- Our growth forecasts are primarily driven by assumptions of new project execution. Inability of the company to execute ongoing and future projects in line with plan including delays, slow take-off or cost escalation presents risks to our forecast.
- Hampton operates in a highly competitive sector with a relatively low entry barrier, and the company does not possess any technical competitive advantage. Intensification of competition in the market and demand-supply mismatches can lead to underperformance of our expectations.
- Hampton operates in a sector which is governed by strong regulations. Any violation of regulatory norms or changes in the regulatory framework poses risk to our assumptions and forecast.

Hampton Sky Realty Limited

19 May 2024

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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Hampton Sky Realty Limited**19 May 2024**

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