JM FINANCIAL

The times, they are a-changin'

Unorganised developer returns to decline post RERA

40% of launches by tier-1 developers; consolidation underway

End-user demand, execution to benefit branded developers

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TABLE OF CONTENTS

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The times, they are a-changin'

India's real estate sector is undergoing a transformation, the results of which are now visible in sector performance. Customer profiles have changed significantly as investors that had the ability to take execution risks have given way to end users who focus on minimum execution risks and affordability. While sales have declined 30-40% from peaks, we see a market share shift towards tier-1 developers, who remain the preferred choice for end users. Additionally, with the implementation of RERA, we see the IRRs of unorganised developers declining from 25-30% to 10% with higher non-compliance costs being a key risk. As a result, we see a higher number of tie-ups between branded developers and unorganised builders/land aggregators.

The unorganised to organised shift is clearly visible in industry numbers and filings. The market share of India's top 10 developers improved from 13% in 2015 to 19% in 2017. Also, our study of Maha RERA data suggests that tier-1 developers would have a 30-35% launch share in Mumbai, along with a significantly higher sales share. While affordability still remains a challenge, timely correction in prices, decline in inventory and improvement in rentals could push the market towards equilibrium in the next two years. The availability of funds and cost of funds remain the key risks in the interim, in our view.

Improving transparency and consolidation would address legacy investor concerns in real estate stocks. We incorporate business development value in our coverage universe based on market share expectations on a steady state basis. Godrej Properties (GPL), with significant operational presence in key cities and Prestige Estate Projects (PEPL), with high potential in the development business, in our view, have a favourable risk-reward profile at current valuations.

Unorganised developers impacted by low demand, plummeting returns:

The customer risk appetite has shifted from a quick return-high risk strategy to execution certainty-low risk strategy. While demand remains lacklustre for unorganised developers, after RERA we expect their IRRs to decline to 10% (from 30%) as the business model structurally changes.Furthermore, compliance with RERA norms and the resulting contingent liabilities would be key risks for developers.

Sector consolidation visible; RERA to further drive developer JVs:

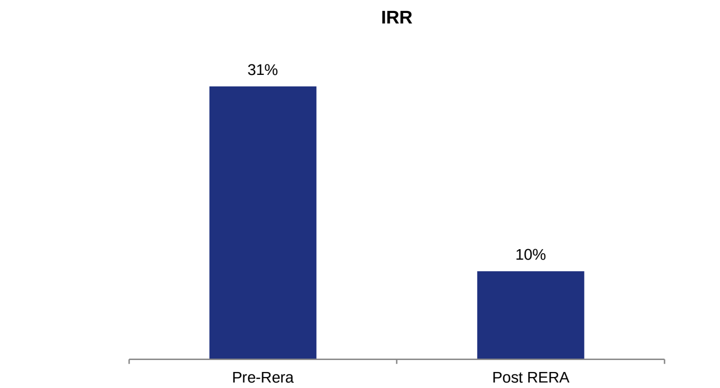
Customers' low risk appetite has resulted in a marked shift towards tier-1 developers. The Mumbai market has seen the highest consolidation across key cities. While the industry has gone through some consolidation, we expect this trend to continue as unorganised developers partner with branded developers to improve return profiles and reduce regulatory risks.

Affordability - improvement led by lower unit costs, rising salaries:

We expect the net interest-to-rental ratio to improve as rental growth outpaces capital appreciation. Based on our house economics model, the affordability age has declined by 2-4 years across cities on improving incomes and a reduction in unit sizes. While volume growth would remain the key earnings driver, we see the industry heading towards equilibrium over the next 2 years.

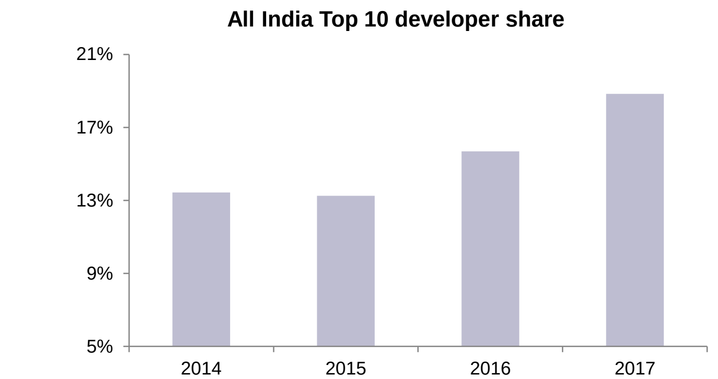
Key Charts

Exhibit 1. Return profile deteriorates for unorganised developers



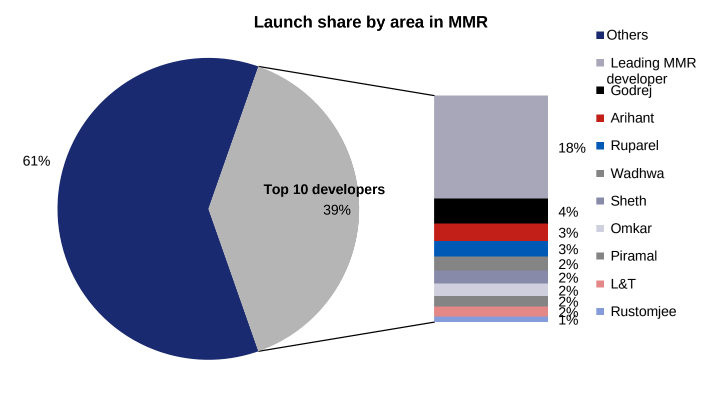
Source: Industry, JM Financial

Exhibit 2. The market share of India's top 10 developers is improving



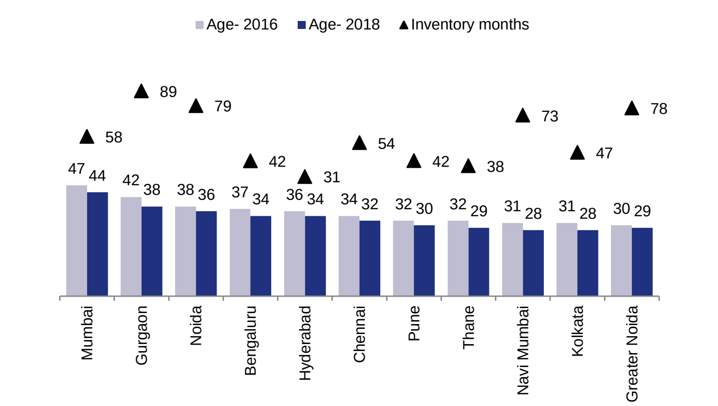
Source: Industry, JM Financial

Exhibit 3. Top 10 developer share expected to rise further in MMR



Source: Industry, JM Financial * Based on Maha RERA filings in MMR region

Exhibit 4. Improving affordability across cities*

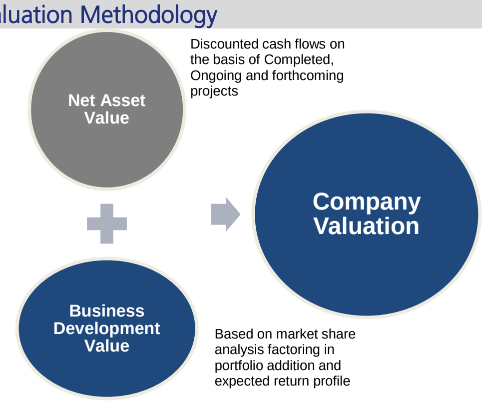


Source: Industry, JM Financial * Region-wise minimum age to afford apartment

Exhibit 5. Rising interest rates a key risk- G-Sec yields

Source: Industry, JM Financial

Exhibit 6. Valuation Methodology

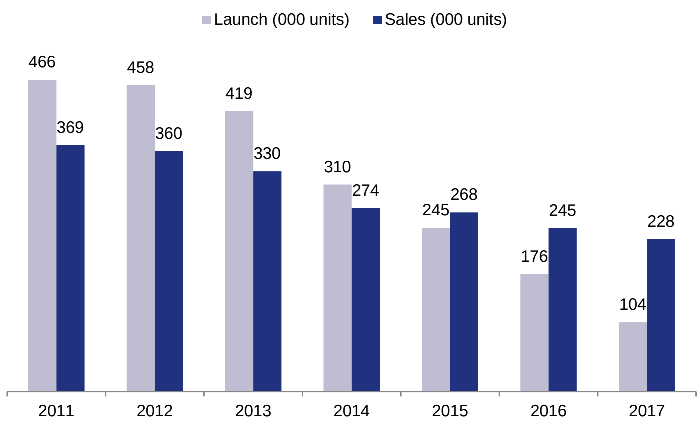


Source: Industry, JM Financial

Real Estate Sector – Have things changed?

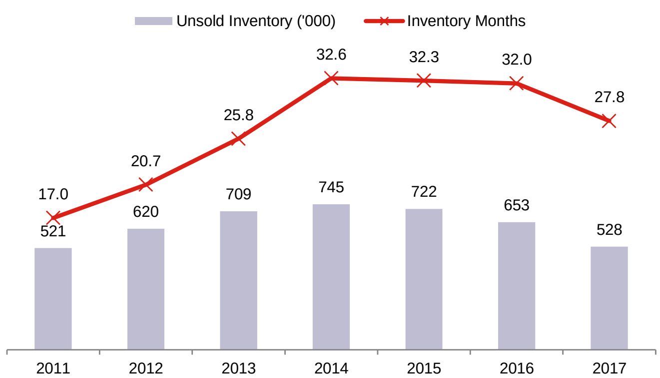
- India's real estate sector has seen a marked slowdown in demand over the last 4 years primarily on lack of transparency, low affordability, project execution delays and regulatory uncertainties.
- The 2011-13 period saw inventory build-up as project launches continued until 2013 but sales declined 30-40% from the peak of 2011.
- 2015-17 recorded higher sales than launches in key geographies, which resulted in a material self-correction despite relatively low price movement across regions (barring the North India market).

Exhibit 7. Sales vs. launches – 2015-17 period a self-corrective phase



Source: Knight Frank, JM Financial

Exhibit 8. Inventory declining as the market shifts towards an equilibrium



Source: Knight Frank, JM Financial

- However, the sales decline has continued despite a drop in inventory levels, primarily due to Demonetization in 2016, the implementation of the Real Estate Regulatory Authority (RERA) Act in 2016 and the Goods & Services Tax (GST) in 2017.
- In the following sections, we identify the key reasons for the decline in launches and sales. Also, we analyse the trends on market consolidation as a result of current operating dynamics.

Prudence in launches expected going forward

- Developers historically have attracted investors by offering pre-launch offers (price discounts) to part fund the cost of land thus reducing the funding cost for the project.
- Most of the real estate projects relied on negative working capital cycle for funding real estate. Historically, two key factors in business model of real estate companies allowed companies to work on negative working capital and significant holding power.

  - **Pre-launch sales**: Sales booking prior to getting the requisite approvals (commencement certificate) was a norm in the industry as it gave access to capital for fund the land acquisition (or repaying debt for land acquired).

  - **Collection terms**: In addition, developers relied on skewed payment terms (up to 90% collection on structure completion) to get surplus cash flows to not only meet the construction cost but also fund other projects in portfolio.

- In addition, dispute resolution was a long and difficult process for consumers which allowed certain one sided conditions on delays/defaults from consumer as against project delays

Exhibit 9. Impact on business model - Case study (1/2): Land funding met by pre-launch sales

Firm LO is a land bank owner with land worth INR30mn on its books. LO has aspirations of becoming a real estate developer especially after seeing the returns presented by his consultants on 1 Jan'16.

Land cost (INR mn)	30					
Construction cost (INR mn)	35					
Margin (INR mn)	35					
Sales (INR mn)	100					
Pre-approvals sales price	40	20% discount at pre-approval launch				
Post-approval Sales	50					
Pre-approvals sales volume	50%	Half of the inventory sold in pre-launch to fund land cost				
Post-approval sales volume	50%					
Pre-approval collections	50%	Collections at 50% from pre-launch units in year one				
Cost of land funding	20%					
Construction finance	15%	Debt refinanced through construction finance in year 3 (official launch)				
Working capital funding	12%					
Year ->	1	2	3	4	5	6
Land Cost	-30.0	0.0	0.0			
Construction schedule		0%	10%	30%	30%	30%
Construction cost spent			-3.5	-10.5	-10.5	-10.5
Sales (pre-launch sales)	40.0					
Collection (pre-launch sales)	20.0				10.0	10.0
Sales		0.0	50.0			
Collection		0.0	15.0	12.5	12.5	10.0
Collection schedule			30%	25%	25%	20%
Surplus/Deficit for the year	-10.0	0.0	11.5	2.0	12.0	7.5
Opening deficit	-10.0	-12.0	-2.9	-1.3	10.5	18.0
Funding cost	-2.0	-2.4	-0.4	-0.2		
Closing deficit	-12.0	-14.4	-3.3	-1.5	10.5	20.0
Net cash flow post financing	**-12.0**	**-2.4**	**11.1**	**1.8**	**12.0**	**9.5**
Total Cost	70					
IRR	**31%**	>30% pre-tax IRR looked very attractive for LO				

Source: Industry, JM Financial

Real Estate Regulatory Authority (RERA) Act - Impact on business model

- We have discussed key RERA norms in our previous reports (for a detailed overview, refer to notes on RERA).
- While we highlight a few key provisions, we are focussing more on the implementation of the regulations across regions.
- **Pre-launch sales a thing of the past**: This has materially impacted the real estate project cycle. While most companies previously launched projects before receiving a commencement certificate (usually after the IOD stage), we now see project sales commencing only after receipt of the commencement certificate. The delay in sales results in a significant rise in funding costs especially linked to land financing.

  - Land financing is the most costly form of funding, accounting for 15-20% of total costs. It could take up to 2 years for the receipt of approvals (conversion of land, IOD, etc.) and this increases the cost of acquisition by 35-40% (cost of equity + cost of debt).
- **Collections - linked closely to construction spends**: With the introduction of RERA, 70% of collections will remain in a dedicated account, where withdrawal would be linked to construction spends.

Exhibit 10. Impact on business model - case study (2/2): Post RERA - access to low-cost funding key

Post RERA
However with the implementation of RERA norms, he has his consultant again work on the return profile and increase in cost.
Pre-approval sales are no longer allowed. Collections will be deferred based on construction schedule.

Year ->	1	2	3	4	5	6
Land cost	-30.0	0.0	0.0			
Construction schedule		0%	10%	30%	30%	30%
Construction cost spent			-3.5	-10.5	-10.5	-10.5
Sales	0.0					
Collection	0.0				0.0	0.0
Sales		0.0	100.0			
Collection		0.0	19.8	22.7	28.4	29.0
Collection schedule			20%	23%	28%	29%
Surplus/Deficit for the year	-30.0	0.0	16.3	12.2	17.9	18.5
Opening deficit	-30.0	-36.0	-26.9	-17.9	-2.1	16.2
Funding cost	-6.0	-7.2	-3.2	-2.1	-0.3	
Closing deficit	-36.0	-43.2	-30.1	-20.0	-2.4	16.2
Net cash flow post financing	**-36.0**	**-7.2**	**13.1**	**10.1**	**17.6**	**18.5**
Total Cost	84					
IRR	10%					

Returns could be lower as sales velocity could be slow for unorganised developer

LO's project will face 20% cost escalation (16% on account of pre-sales and 4% on account of collection deferrals)

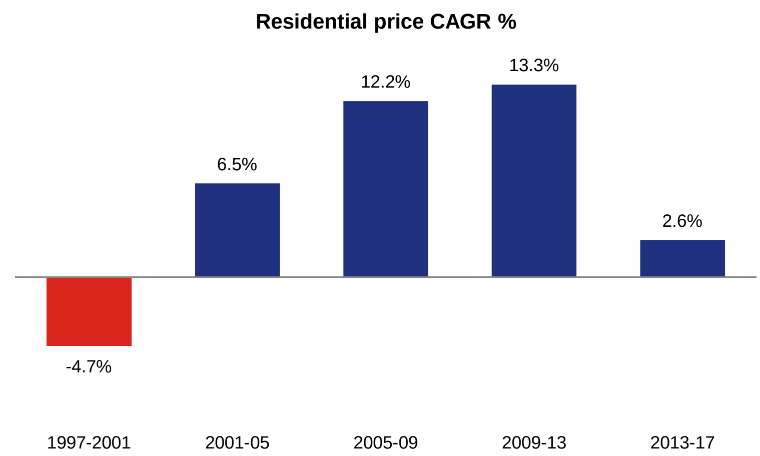
Source: Industry, JM Financial

- The above case study clearly shows the impact of RERA norms on project fundamentals. In our view, this will lead to an increase in cost of funding by 15-17% owing to the ban on pre-launch sales. Additionally, higher working capital requirements would lead to another 2-4% increase in costs.
- Developers who have **a)** access to low-cost funding and **b)** follow an asset-light model (no land capex) will have a competitive advantage over peers. Additionally, old landlords will look to collaborate with developers with healthy balance sheets and execution capabilities as RERA sees land owners as co-promoters (equally liable in case of execution slippages).
- We expect builders to remain prudent in launches as execution commitments would keep a check on launch pipelines, with developers focussing on buyer preferences. While 2017 launches were significantly lower on account of RERA/GST implementation, we expect an uptick in 2018 launches primarily on the base impact.

Sales decline - Focus shifts to end users

- The 2011-13 period saw inventory build-up as project launches continued until 2013 but sales declined 30-40% from the peak of 2011.
- Sales have continued to decline since 2011 as asset class returns deteriorated, especially after FY13.

Exhibit 11. Muted asset class performance since 2013



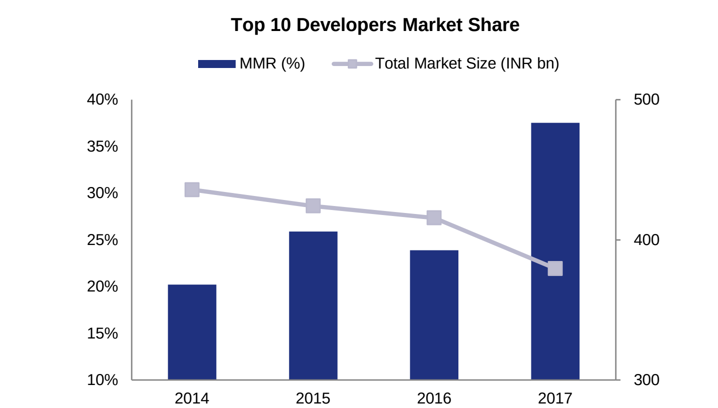
Source: Industry, JM Financial

- The declining return profile has gradually reduced investor demand as the risk taken by investors was not commensurate with the return profile (execution, regulatory risks, etc.).
- With investors' share reducing from the demand pie, end users' share has increased. We believe this has led to a shift towards branded/organised developers or completed inventory as key purchase decisions factor in execution risk and affordability.
- While the execution risk is relatively low for completed projects or branded projects, affordability has been a key constraint for end users over the last few years, driving a decline in sales velocity.

Sector consolidation – A natural progression

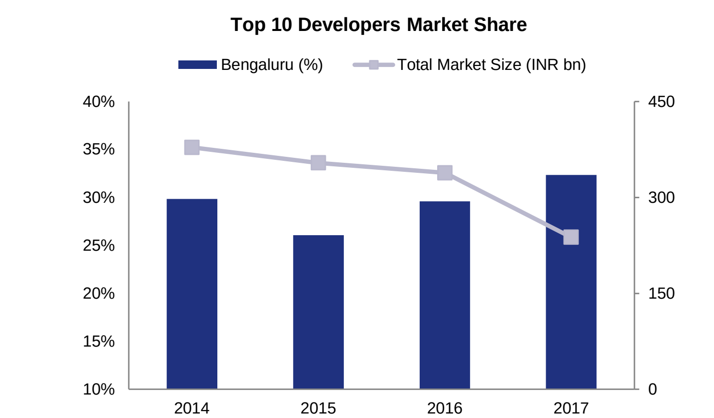
- While market consolidation is a natural transition as demand shifts from investors to end users, the pace of consolidation is the key when gauging incumbents' market share gains.
- We believe the market is slated to consolidate in favour of organised developers over the next few years. However, to gauge the pace and extent of consolidation, we studied historical consolidation trends in the sector and analysed the recent filings on the RERA website to understand smaller developers' responses to the new regulations.
- In our view, a market share shift towards branded/unorganised players would take place primarily on account of end user demand dominating overall sales, as the risk profile of a customer changes.
- RERA implementation is the tipping point as it would give organised developers a significant advantage over developers facing financial constraints or land owners (LOs) who aspire to become developers.
- To gauge the extent of consolidation in the sector, we analysed key geographies and the share of the top 10 developers over the last 4 years.

Exhibit 12. Mumbai



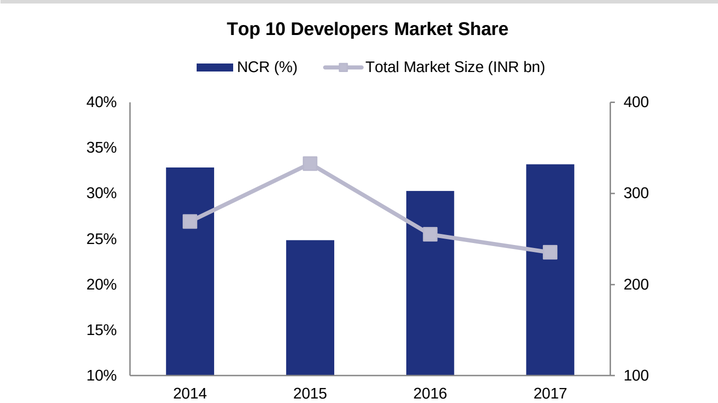
Source: Industry, JM Financial

Exhibit 13. Bengaluru



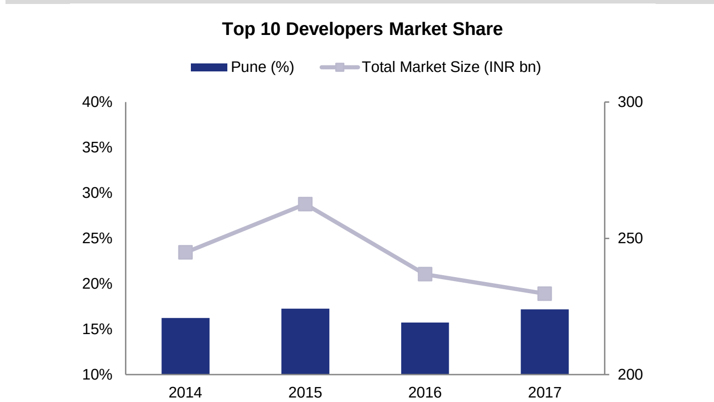
Source: Industry, JM Financial

Exhibit 14. NCR



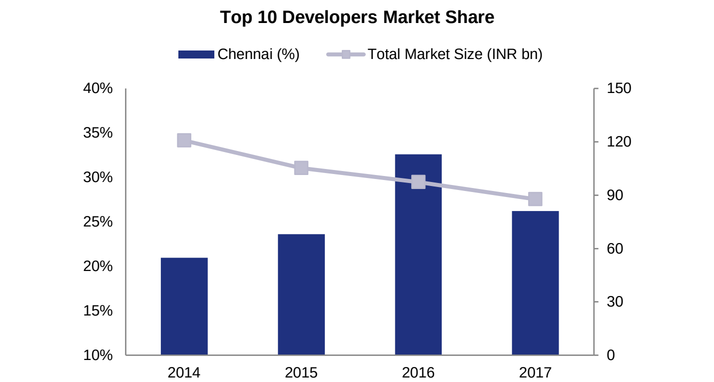
Source: Industry, JM Financial

Exhibit 15. Pune



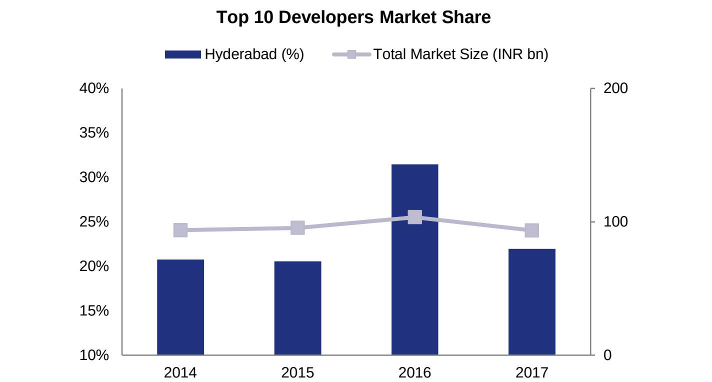
Source: Industry, JM Financial

Exhibit 16. Chennai



Source: Industry, JM Financial

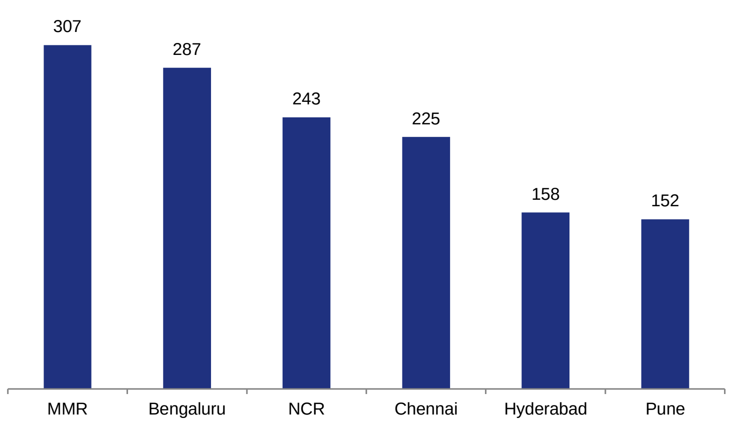
Exhibit 17. Hyderabad



Source: Industry, JM Financial

- The market-wise analysis clearly highlights that the share of the top 10 developers has been rising, especially in Mumbai, where they constitute almost 40% of the market.
- Pune is the most fragmented market among the cities analysed, with the top 10 developers holding <20% of the market.
- Bangalore has been stable, with the top 10 developers' market share being steady c.30% over the last 4 years.
- The real estate residential segment still remains a fragmented/competitive market, with the Herfindahl-Hirschman Index (HHI) at 150-310 (monopolies HHI score at 10,000). Mumbai is the most consolidated market, while Pune and Hyderabad have the lowest HHI score.

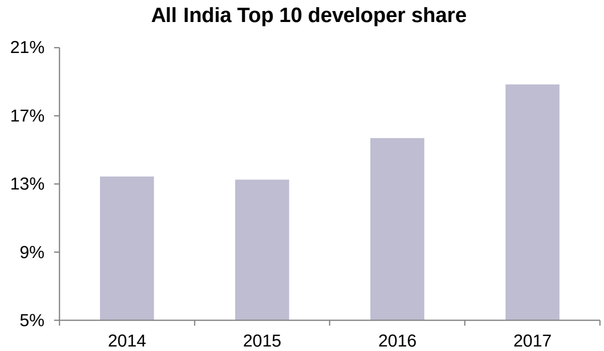
Exhibit 18. Herfindahl-Hirschman Index for the residential market



Source: Industry, JM Financial

- On an all-India basis, the top 10 developers' market share improved from c.13% in 2015 to 19% in 2017. The pace of consolidation has picked up over the last 2 years, after the implementation of RERA.

Exhibit 19. The market share of India's top 10 developers is improving



Source: Industry, JM Financial

- We anticipate a shift from regional developers to top developers as market demand transitions from investors to end users. While this is positive, the decline in overall demand has also been material. We believe affordability is the key for end-user demand to pick up materially from current levels. However organised developers will grow by increasing their market share in respective geographies resulting in strong operations performance.

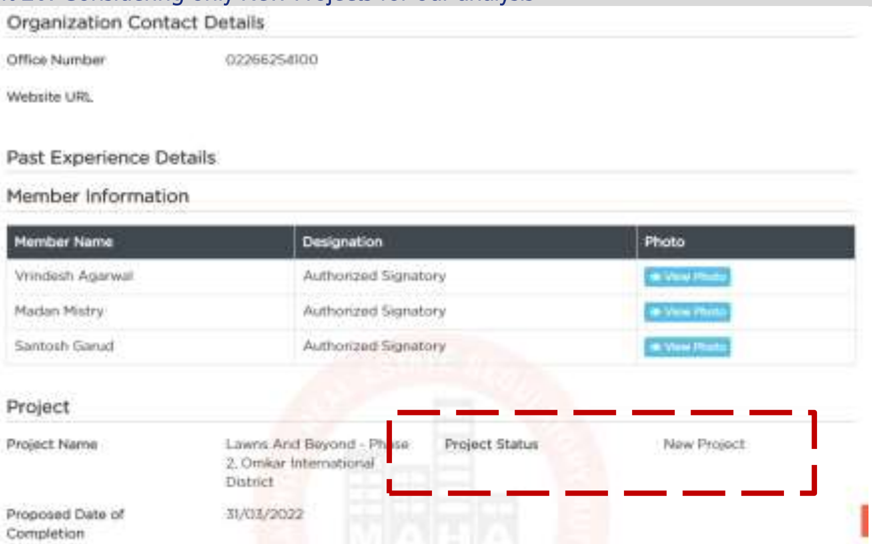
Maha RERA filings - Organised developers to have a 40% launch share

- While consolidation is a natural progression from current operating dynamics, the pace of consolidation is imperative for us to factor in lower competition for branded developers.
- We analyse housing projects listed in the Mumbai Metropolitan Region (MMR) that have been registered under the category "New Projects". In our view, the analysis of these will give us a tentative share of launches by organised developers over the next 1-2 years. We also believe developers under the New Projects category have voluntarily registered their projects after considering RERA norms and liabilities in case of default.

Methodology of this study

- The study is restricted only to the MMR and covers projects in Mumbai, Thane and Navi Mumbai.
- We have considered only residential projects in our analysis.
- Under Maha RERA, projects have been classified as Ongoing (construction/sales already commenced before RERA implementation) and New Projects (projects yet to commence operations). We analyse the projects categorised as "New Projects" under Maha RERA.

Exhibit 20. Considering only New Projects for our analysis



Organization Contact Details

Office Number 02266254100

Website URL

Past Experience Details

Member Information

Member Name	Designation	Photo
Vrindesh Agarwal	Authorized Signatory	View Photo
Madan Mistry	Authorized Signatory	View Photo
Santosh Garud	Authorized Signatory	View Photo

Project

Project Name: Lawns And Beyond - Phase 2, Omkar International District

Project Status: New Project

Proposed Date of Completion: 31/03/2022

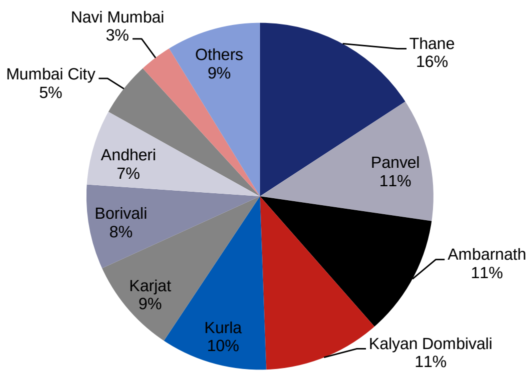
Source: Industry, Company

- We have excluded projects that have not specified completion dates under RERA.
- We have considered Nirmal Project - Sports City - as a New Project as it is slated to be re-launched under Godrej's branding.

Key takeaways from Maha RERA filings:

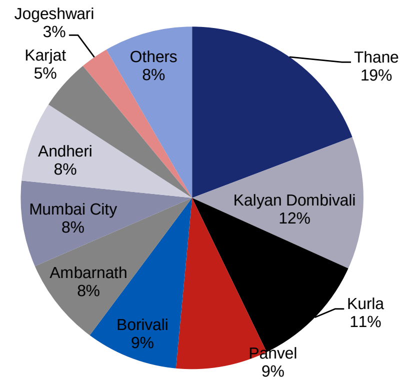
- 535 "New Projects" with a total of 48,446 units had been registered as at 28 Feb'18. The MMR market's annual sales are close to 70,000 units.
- In terms of approval, the total FSI of registered projects is 3.16mn m^2.
- Thane has the highest number of units planned (7,659) followed by Panvel (5,557), Ambarnath (5,448) and Kalyan-Dombivali (5,277).

Exhibit 21. Region-wise distribution of units to be launched (total - 48,446 units)



Source: Maha RERA, JM Financial

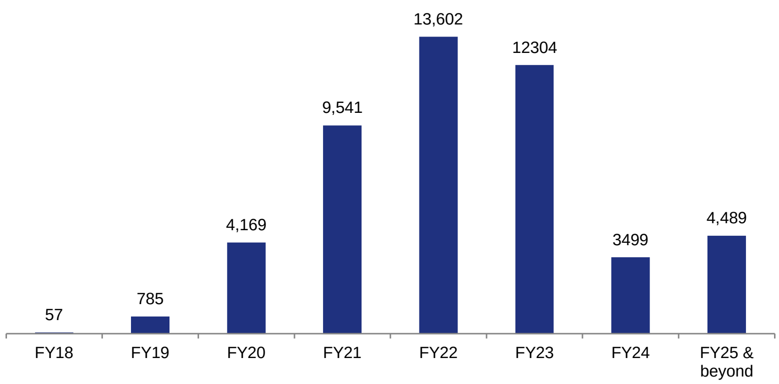
Exhibit 22. Region-wise distribution of FSI to be launched (total - 3.16mn m^2)



Source: Maha RERA, JM Financial

- Most of the launched units are expected to be delivered during FY21-23 (73% of the units registered under new projects).

Exhibit 23. Unit completion timelines - 73% of units to be delivered in FY21-23

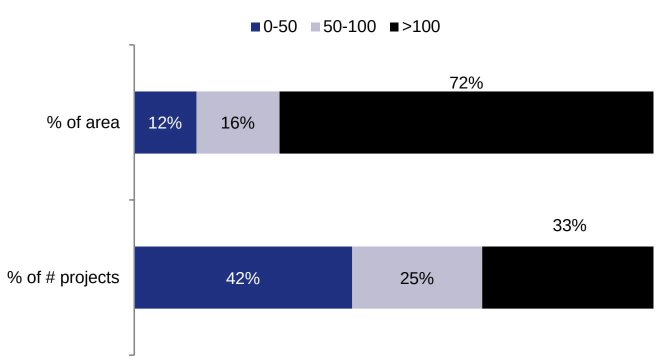


Source: Industry, JM Financial

We address a few hypotheses through our analysis

Hypothesis 1 - Small developers will be out of the market after RERA implementation: With the implementation of RERA, smaller developers will avoid launching projects as compliance and execution costs increase. Within ongoing projects registered with Maha RERA, c.65% has fewer than 100 units; but, one could argue that the listings were done to avoid any regulatory violations. Additionally, these projects (with fewer than 100 units) represented only 28% of the area offered by ongoing projects.

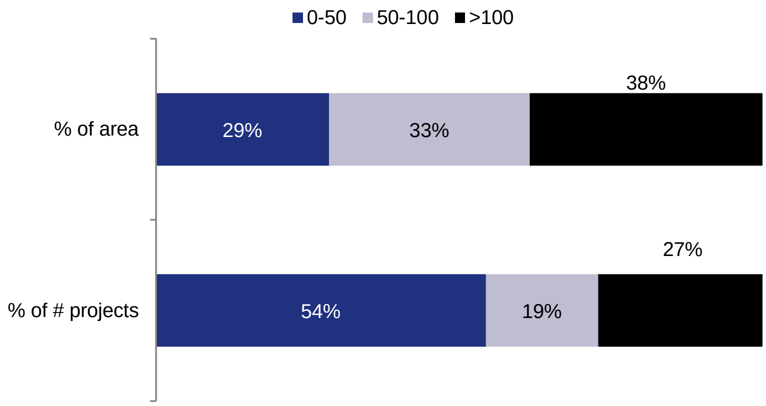
Exhibit 24. Ongoing projects - 72% of area in larger projects



Source: Propstack, JM Financial

Fact: Analysis of "New Projects" indicates that 73% of projects have fewer than 100 units and 54% has fewer than 50. In terms of area, projects with fewer than 100 units contribute 62%.

Exhibit 25. New Projects - Smaller projects contribute significantly to planned launches



Source: Industry, JM Financial

- **Limited reduction in players over the next 12-18 months**: Based on the above analysis, we are yet to see a shift from smaller to larger projects, as developers with smaller land parcels have registered their projects with the completion timeline. We believe these projects would be launched over the next 12-18 months (given the timeline of 4-5 years for completion). While a reduction in developers with a smaller scale is possible over the next few years, we do not see this trend playing out over the next year.

Hypothesis 2 - Organised developers will gain market share after RERA implementation: With the implementation of RERA regulations, organised developers are expected to gain market share as unorganised developers would find it difficult to work amid the new operating dynamics (no pre-launches, higher funding costs, guaranteed post-delivery, etc.).

We have seen early signs of market consolidation with Godrej Properties being the most active and collaborating with developers across geographies.

Exhibit 26. Recent partnerships/deals between developers

Developer	Partner/Acquirer	Type	Micro Market	Area (msf)
DB Realty	Radius Group	JV	Bandra, MMR	2.4
Nirmal Lifestyle	L&T Realty	JV	Mulund, MMR	3.0
Nirmal Lifestyle	Godrej Properties	DM*	Thane, MMR	2.0
Manyata	Godrej Properties	DM*	Bangalore	4.7
Shivam	Godrej Properties	DM*	Kandivali, MMR	1.0
Hubtown	Wadhwa	JD	Prabhadevi, MMR	0.2
Shree Sai Group	Wadhwa	Area Share	Andheri, MMR	0.2
Nirmal Lifestyle	Shapoorji Pallonji	DM*	Mulund, MMR	2.0
Peninsula Land	Godrej Properties	Land Purchase	Mamurdi, Pune	4.5
Nirmal Lifestyle	Piramal Realty	Land Purchase	Mulund, MMR	0.3
Lotus Greens	Godrej Properties	DM*	Noida	4.0
Lotus Green	Tata Value Homes	DM*	Noida	2.2
DB Realty	Rustomjee	DM*	Prabhadevi, MMR	1.8
DB Realty	Radius	DM*	Mahalaxmi, MMR	1.1

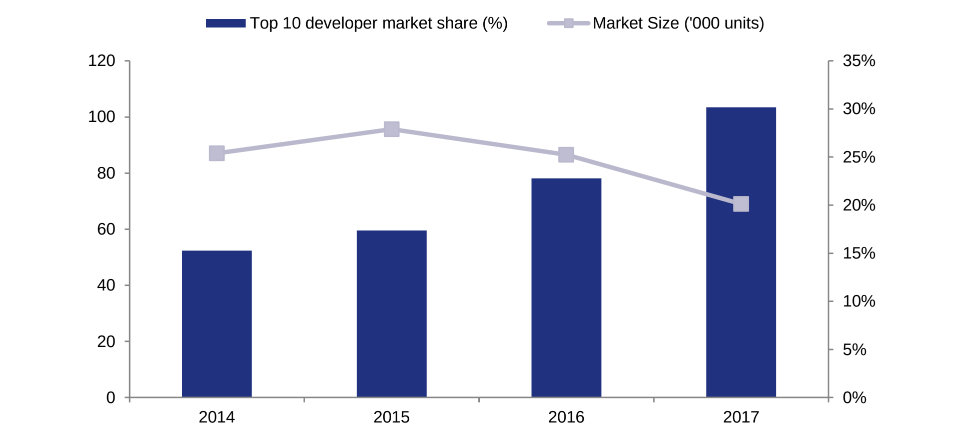
Source: Industry, Company, JM Financial *DM: Development Manager; JV: Joint Venture; JD: Joint development

We believe an analysis of "New Projects" will help us gauge the market share trends of branded/organised developers for the next 1-2 years as these projects are launched.

Fact: As analysed in the previous section ("Sector Consolidation – A natural progression"), the market has been consolidating over the last 3 years, with the top 10 players gaining market share. While we discussed the value of sales as a parameter in the section, the Maha RERA website discloses units and area to be launched across projects.

Market share trends in terms of units track value trends, with top 10 players having a consolidated market share of c.30% in 2017.

Exhibit 27. MMR market consolidating over the last 4 years



Source: Industry, JM Financial

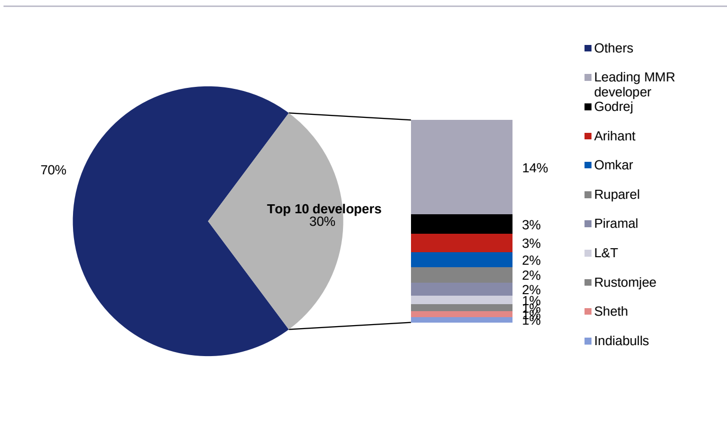
Based on our analysis of "New Projects" registered, we observe the following:

- Top 10 developers will have a c.30% share of the launch units over the next 12-24 months. In terms of area, the share of top 10 developers increases to 39%.
- Existing inventory as per consultant reports is close to 350,000 units (Source: Propstack/Cushman Wakefield report - Analysing Mumbai's housing markets Post RERA).
- Market inventory is expected to decline further as sales (c.65,000-70,000 units pa) remain higher than launches scheduled (c.49,000 units).

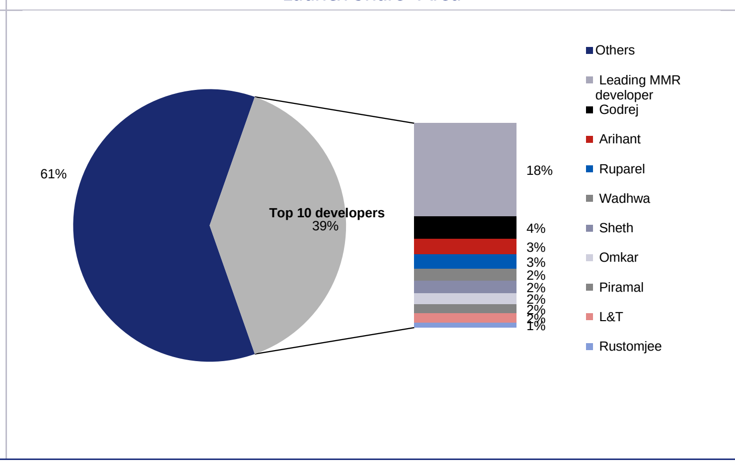
New supply forms 11% of the total supply in the region. Low supply addition bodes well for market equilibrium.

Exhibit 28. Share of new units registered with Maha RERA

Launch share- Units



Launch Share- Area

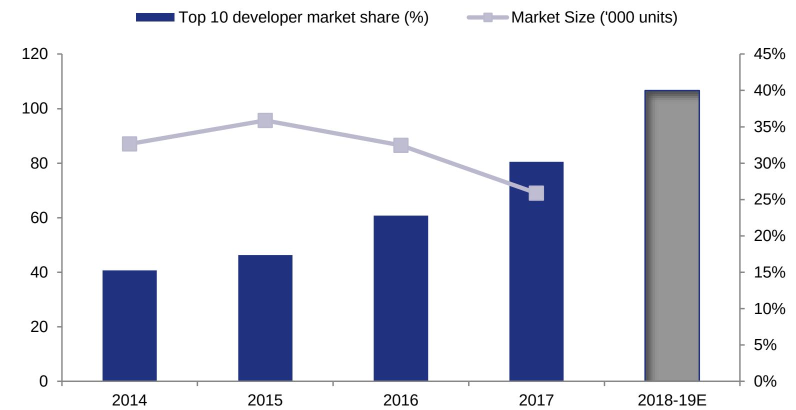


Source: Industry, JM Financial

- Given the launch share trends, we believe market share of top 10 developers will be >40% as organised/ tier 1 developers are likely to receive a better response in new launches vs. competitors.

- We see further increase in market share of organised developers as launches from regional developers decline further.
- As the market is expected to be dominated by end users, we expect the current trend of consolidation towards tier 1/organised developers to continue, while the pace of consolidation will be contingent on RERA implementation and access to funding.

Exhibit 29. Top 10 developers' market share expected to rise further



Source: Industry, JM Financial

Affordability improves further as unit costs decline; salaries improve

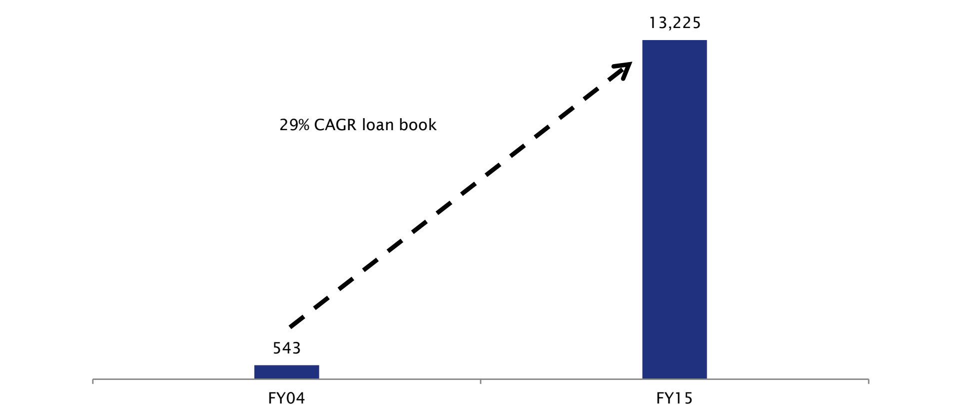
Two key factors help determine home purchase affordability:

1) Home loan availability and interest rates
2) Household savings

Home loan book has recorded a 29% CAGR over the last 10 years

- Home loan availability has continued to improve over the last decade, with the loan book posting a c.29% CAGR.

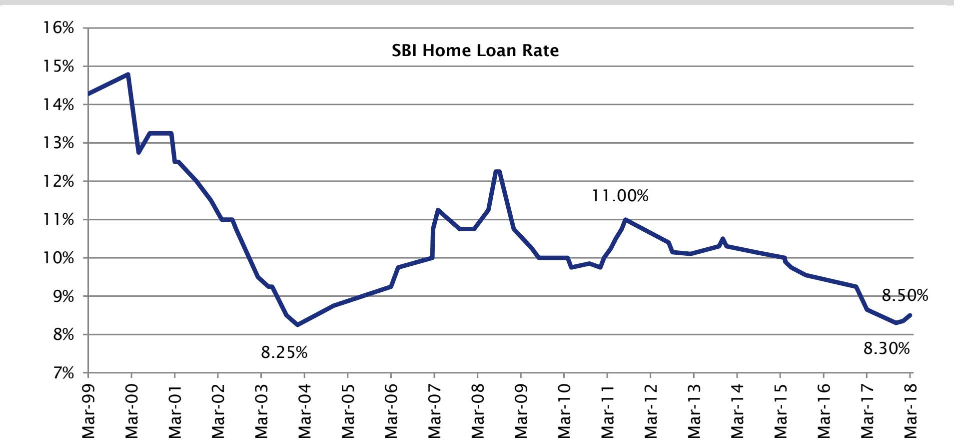
Exhibit 30. Home loan availability continues to improve



Source: Industry, JM Financial

- Recently, SBI announced a 10-25bps increase in the marginal cost of funds based lending rate (MCLR) from 1Mar'18. While home loan rates (linked to 1-year MCLR) are expected to rise 20bps, the rate still remains materially low vs. historical levels.
- The property market recorded a significant improvement in capital value after 2004 (10–15% CAGR until 2007 and over 2010-13). However, recovery was driven by investors entering the asset class. This led to home prices appreciating ahead of fundamentals.

Exhibit 31. SBI home loan interest rate trends



Source: SBI, JM Financial

Model household affordability analysis

- We believe easy access to low-cost funding is an important building block for recovery, but it is not a purchase trigger. The key bottleneck is end users' affordability in the current environment.
- We have analysed a model household, benchmarking the existing per-household income levels (adjusted for below-poverty-line households). We assume a savings rate of 25% of gross salary with 10% increment along with INR 0.7mn as the annual starting salary for the household.
- In our analysis, we identify two aspects: 1) years taken for an earning household to afford EMIs and 2) years taken for an earning household to save for equity contribution (at least 20% of the unit's value).
- We identify the age at which an individual becomes eligible for a home loan (HLE) in the model household and its sensitivity to interest rates and unit sizes.

Exhibit 32. Key household assumptions for affordability analysis

Age	25	26	27	28	29	30	35	40	45	50	55	60
Salary (INR mn)	0.67	0.74	0.81	0.89	0.98	1.08	1.74	2.80	4.51	7.27	11.70	18.85
Increment		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
savings%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Savings (INR mn)	0.17	0.18	0.20	0.22	0.25	0.27	0.43	0.70	1.13	1.82	2.93	4.71
Cumulative Savings (INR mn)	0.17	0.35	0.55	0.78	1.02	1.29	3.11	6.03	10.73	18.31	30.51	50.16

Source: Industry, JM Financial

Exhibit 33. Model household: Affordability analysis for the purchase of an INR10mn apartment* (INR mn)

Age	25	26	27	28	29	30	31	32	33	34	35	36	37	40	45
Loan required adjusted for savings	9.8	10.6	10.4	10.2	10.0	9.7	9.4	9.1	**8.7**	8.3	7.9	7.4	6.9	5.0	0.3
% of property value	98%	97%	95%	93%	91%	88%	86%	83%	**79%**	76%	72%	67%	63%	45%	2%
Annual payout- EMI*12	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.5	0.0
Salary Required	2.4	2.6	2.5	2.5	2.4	2.4	2.3	2.2	2.2	2.1	2.0	**1.9**	1.8	1.3	0.1
Actual Salary	0.7	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.6	1.7	**1.9**	2.1	2.8	4.5

Source: India Census, JM Financial *10% transaction cost; * Annual Salary = 2*EMI*12/ (1-Effective tax rate)

- Our analysis suggests that home loan eligibility has limited sensitivity on interest rate changes. With the interest rate cut from 10% to 8.35%, the eligibility age reduced by one year in the best case scenario (ticket size <₹10mn). The one year improvement in eligibility implies the inclusion of 1.2% of households.
- As expected, home loan eligibility improves materially as ticket size reduces. The 10% lower unit cost leads to inclusion of 1% of households. As a result, a ticket size of c.INR 5mn will result in a 33-year-old person eligible for loan, while for a c.INR 20mn unit cost, the eligibility age rises to 45 years.

Exhibit 34. Age eligibility sensitivity on interest rate and unit cost (years)

		Unit Cost (INR mn)				
		5	10	15	20	25
Home loan rate (%)	8.0%	31	37	41	45	47
	8.4%	31	37	42	45	47
	9.0%	32	38	42	45	48
	10.0%	32	38	42	45	48
	11.0%	33	39	43	46	48

Source: JM Financial

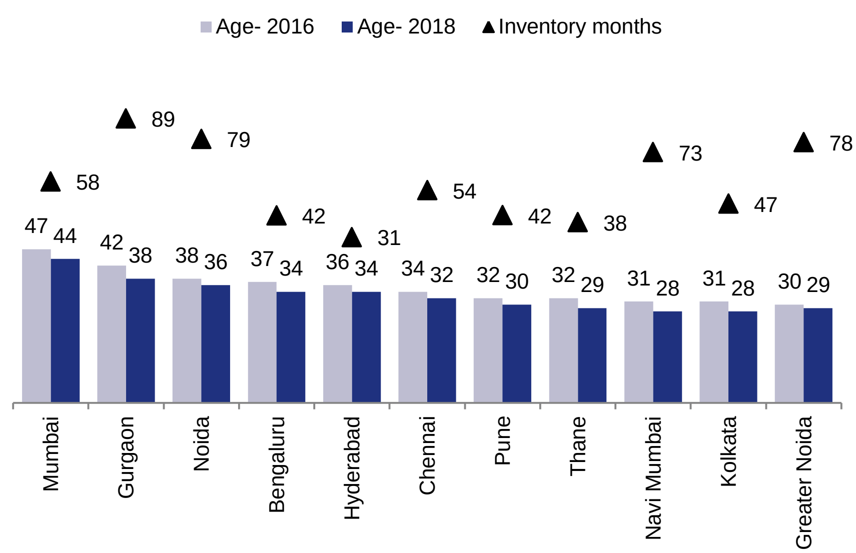
Exhibit 35. Percentage of households targeted at various ticket sizes

		Unit Cost (INR mn)				
		5	10	15	20	25
Home loan rate (%)	8.0%	42%	33%	27%	22%	19%
	8.4%	42%	33%	25%	22%	19%
	9.0%	41%	32%	25%	22%	18%
	10.0%	41%	32%	25%	22%	18%
	11.0%	39%	30%	24%	20%	18%

Source: Census, JM Financial

- A city-wise analysis of age eligibility suggests that Mumbai has the lowest affordability for end users, while Pune, Thane, Navi Mumbai, Kolkata and Greater Noida have affordability of 30-32 years. However, excessive launches and lack of transparency have impacted pre-sales in these geographies, especially Greater Noida**.**
- Over the last 2 years, Mumbai, Gurgaon and Kolkata markets have shown highest improvement in affordability as unit costs have declined (lower size, price rationalisation, etc.), while salaries have grown 9-10% annually.

Exhibit 36. Improving affordability across cities- Cut-off age

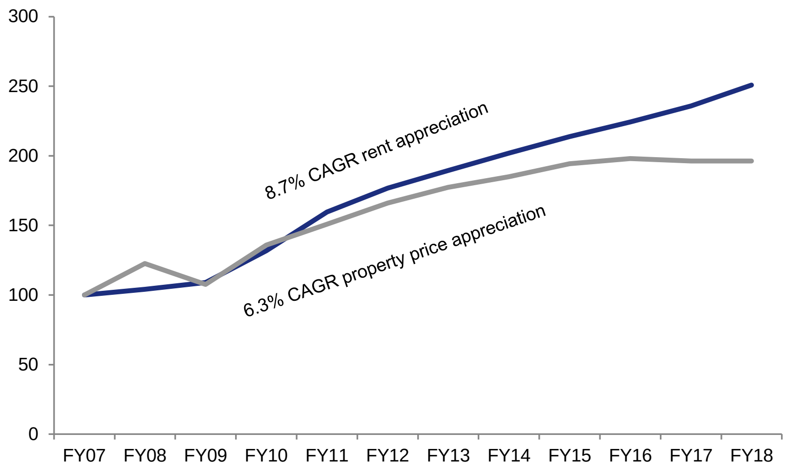


Source: Industry, JM Financial

House economics -Improvement visible but recovery to take time

- As observed in our affordability analysis, a lower ticket size increases the number of target households that can afford the unit on offer. High capital appreciation during FY10-13 has resulted in a decline in demand. Consequently, the market has recorded limited appreciation in capital values in most regions over the last 3-4 years.
- While capital appreciation is limited, rentals have grown 9% annually over the last 10 years, with FY16-18 rentals posting a c.6% CAGR.

Exhibit 37. Rental growth outpaces property price increase



Source: Industry, JM Financial

- We believe as the market shifts towards end-user demand (no pre-launch investment avenues, circle rates and market rates converging), the trend of interest-to-rental ratio is an important monitorable to identify recovery in the sector. We expect demand to recover as the ratio tends towards 1 – i.e. the interest cost is covered by rent received. We believe the ratio is an important trade-off point for end users as the house becomes self-funding (in terms of interest).

Exhibit 38. House economics- Impacted by government actions on cap on loss of property income

	Unit	2008-09	2012-13	2016-17	2017-18	2019-20	Comment
Property Value	INR	27,54,495	45,34,318	50,00,000	50,00,000	50,00,000	
Loan	INR	22,03,596	36,27,455	40,00,000	40,00,000	40,00,000	
Interest Rate	%	11.60%	10.40%	8.65%	8.35%	8.40%	
G-Sec yield	%	7.57%	8.15%	6.93%	6.86%	7.70%	
Equity return required	INR	41,703	73,909	69,300	68,600	77,000	G-Sec Yield assumed
Post tax interest cost	INR	1,66,151	2,45,216	2,24,900	2,62,800	2,62,800	Assuming full rebate of interest cost
Total cost of buying a house	INR	2,07,854	3,19,125	2,94,200	3,31,400	3,39,800	
Rentals from House	INR	65,735	1,14,326	1,41,044	1,50,000	1,78,215	3% Property yield in FY18;
Deficit to be covered by capital gains	INR	1,42,119	2,04,799	1,53,156	1,81,400	1,61,585	
% of house cost	%	5.2%	4.5%	3.1%	3.6%	3.2%	Annual appreciation required for break even
Interest to rent ratio	**x**	**2.5**	**2.1**	**1.6**	**1.8**	**1.5**	
Years to break even on Rent less interest cost	years	9.0	8.0	4.9	5.9	4.5	9% rent escalation assumed; assuming no principal payment

Source: JM Financial, Industry

- The ratio deteriorated in FY18 as tax authorities capped the interest offset available on properties to INR 200,000 per individual. This impacts investors' return profiles materially as they lose the tax cover on a substantial portion of investment property; this is especially relevant for owners with higher-cost units or multiple properties.

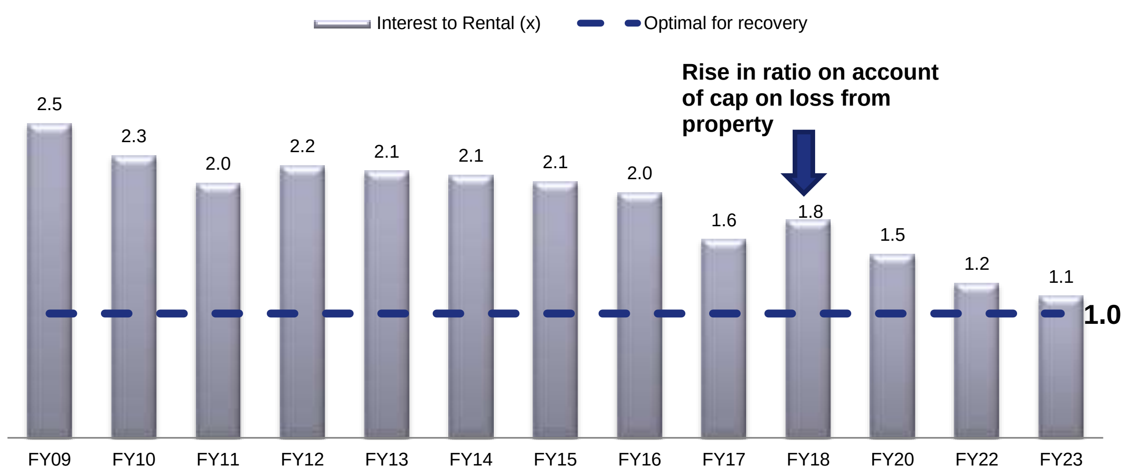
Exhibit 39. Impact of cap on loss in house property

	No limit on property loss	Property loss capped at INR 0.2mn	Comment
Property Value	50,00,000	50,00,000	
Loan	40,00,000	40,00,000	
Interest Rate	8.35%	8.35%	
G-Sec yield	7.70%	7.70%	
Equity return required	77,000	77,000	
Post tax interest cost	**2,17,100**	**2,62,800**	Net interest cost rises by 21%
Total cost of buying a house	**2,94,100**	**3,39,800**	
Rentals from House	1,50,000	1,50,000	
Deficit to be covered by capital gains	1,44,100	1,89,800	
% of house cost	2.9%	3.8%	
Interest to rental ratio	**1.4**	**1.8**	Ratio rises on higher net interest cost

Source: JM Financial, Industry

- Assuming the current trend of limited capital appreciation and stable interest rates, we could see rental yields and interest costs merging in the next four years. We expect decision-making to be triggered as home buyers observe this trend and the outlook of rentals remains robust (rentals have posted a CAGR of 8-9% since FY07).
- We believe end users and investors would increase their exposure to the sector as the ratio approaches 1x contingent on customer's risk profile and outlook on key parameters -income, rentals and interest rates.

Exhibit 40. Net Interest to Rentals (I/R) at a decade low - recovery likely to be delayed



Source: Industry, JM Financial

Credit Linked subsidy improves economics, but with restrictions

- The Government announced a Credit Linked Subsidy Scheme for economically weak segments (EWS), Low Income Groups (LIG) and Middle Income Groups (MIG), covering households with salaries up to INR 1.8mn per annum. Under the scheme, the beneficiary households will receive an interest subsidy up to 6% for home purchases. In addition, the government has lowered GST for CLSS eligible houses from 12% to 8%.

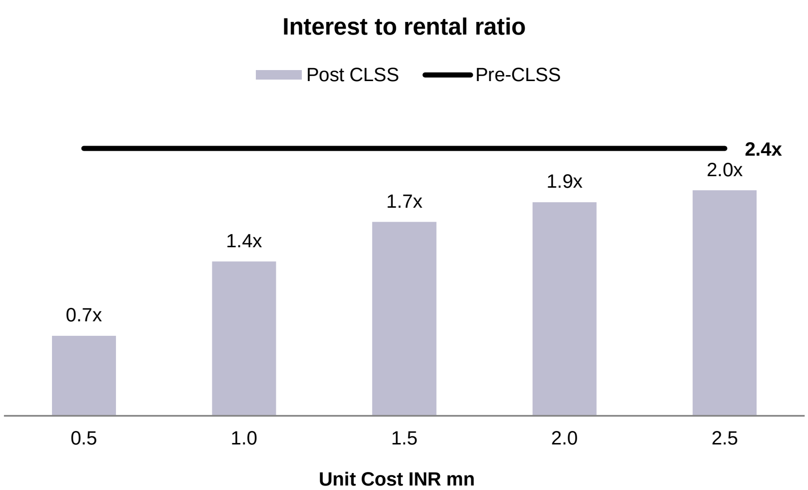
Exhibit 41. CLSS categories

Annual Household Income (INR)	Categories	Interest Subsidy (%)	Subsidy Calculated on Max. Loan of (INR)	Max. Interest Subsidy of (INR)	Max. Carpet Area of the Property
Upto 0.3 mn	EWS	6.50%	6,00,000	267,000	No Limit
0.3mn to 0.6mn	LIG	6.50%	6,00,000	267,000	No Limit
0.6mn to 1.2mn	MIG-1	4.00%	9,00,000	235,000	1291 sq. ft.
1.2mn to 1.8mn	MIG-2	3.00%	12,00,000	230,000	1614 sq. ft.

Source: Industry, JM Financial

- Reduction of interest costs improves house economics materially. Considering that households will have higher-than-average credit costs (we assume 10% home loan rates for the segment under CLSS), the interest-to-rent ratio declines below 1x for purchases lower than INR 0.5mn.

Exhibit 42. CLSS implementation materially improves interest to rental ratio



Source: Industry, JM Financial

Assuming 90% LTV; 10% base home loan rate; 20 year tenure

- As seen from the I/R analysis, sub-INR 1mn ticket size apartments would be attractive upon considering house economics metrics.
- While CLSS has a meaningful impact on improving affordability, it has been successful only in the LIG/EWS segments with demand for the scheme higher than government budgeted expenditure.
- The number of beneficiaries under CLSS for EWS and LIG rose sharply from 17,634 in 2016 to over 53,000 in 2017.
- However, CLSS for MIG is seeing weak off-take. MIG beneficiaries were 9,944 and had received a subsidy of INR 2bn until Dec'17 of the allocated INR 10bn for the scheme.

Low interest in MIG scheme

- Key reasons for lower off-take of the MIG scheme were:

  - Restriction of no previous home ownership reduces the number of eligible households.

  - Processing could take up to 4 months, which implies uncertainty of benefit to the end user at the time of purchase.

  - Lack of clarity on eligibility of houses in certain regions (industrial/rural).

  - Lack of clarity on lower GST applicability and approving body.

  - Lower size of apartments: CLSS was applicable for houses up to 110m^2, thus reducing the apartments under the ambit of CLSS.

- The government has worked to iron out certain issues to improve the off-take:

  - Increasing the carpet area in the MIG I category of CLSS from the existing 90 square metre to "up to 120 square metre" and increasing the carpet area of the MIG II category of CLSS from the existing 110 square metre to "up to 150 square metre".

  - Extension of home loan tenure from 15 years to 20 years.

  - Extended coverage of interest subsidy under the PM Awas Yojna (PMAY) to any property falling under any part of a development authority and planning area, including rural areas, industrial belts and even rural pockets within special economic zones (SEZs).

- While the steps are in progress to improve the CLSS acceptance rate, the government has reduced the allocation to CLSS-MIG for the current year.

Exhibit 43. Reduction in CLSS-MIG budget (INR mn)

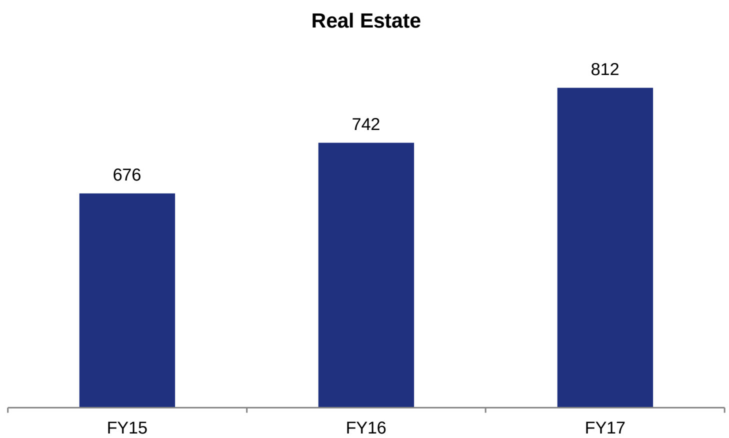
Segment	Income	FY18 Budget allocation	FY18 Budget revised	FY18 Budget allocation
CLLS LIG/EWS	INR 0.3-0.6 mn	4,000	8,000	10,000
CLSS MIG	INR 0.6-1.8 mn	10,000	6,000	9,000
Total		14,000	14,000	19,000

Source: Industry, JM Financial

Funding - Rising rates could be a dampener

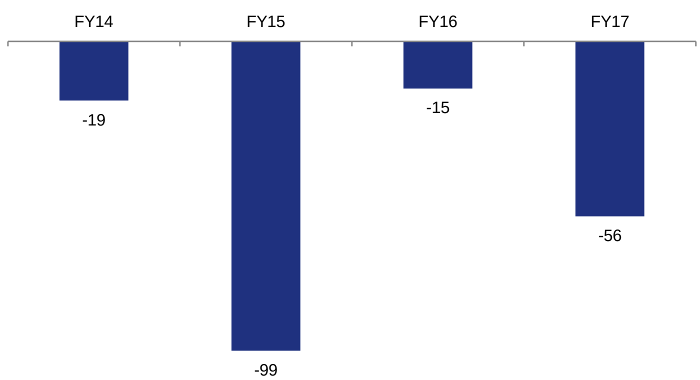
- Funding has always been a critical aspect when analysing the real estate sector. Historically, we have seen developers tap bank/NBFC credit lines to keep pace with execution commitments, despite low demand.
- Most developers have tapped debt financing, as the tough market environment has resulted in limited equity fund raising options. Operating cash deficit, as a result, has been a primary contributor to rising debt (c.80% of the incremental debt on account of an operating deficit in FY17).

Exhibit 44. Steady increase in sector debt* (INR bn)



Source: Industry, Company, JM Financial
* Analysed 25 listed real estate companies

Exhibit 45. Operating cash flow remains negative* (INR bn)



Source: Company, JM Financial FY16- DLF-GIC transaction worth INR 19bn reduced OCF deficit
* Analysed 25 listed real estate companies

- With the implementation of RERA, access to funds is even more critical as:

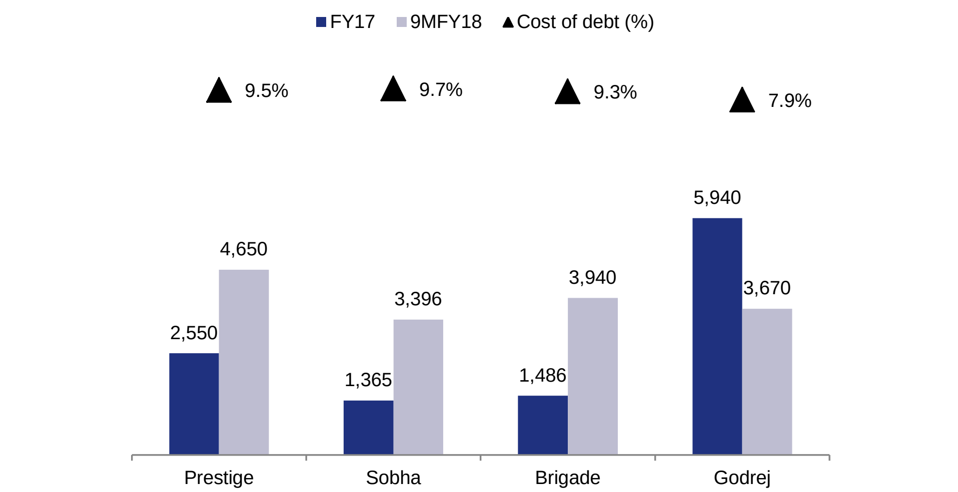
  - **Land funding** cost would be financed by internal accruals (available to the developer) and debt instead of customer funding.

  - The **working capital cycle** of real estate firms would increase with 70% of collection linked to the construction schedule.

  - **Business development** activity would require further capital (land owner deposits, outright purchase, project deficit funding, etc.) as firms look to improve their market share and benefit from current market dynamics.

- We have seen companies increase the pace of business development over the last two years despite tough market conditions. Access to funds and cost of funds are two key factors that would determine the ability of firms to improve return ratios going forward.

Exhibit 46. Spend on JD deposits and land (INR mn)

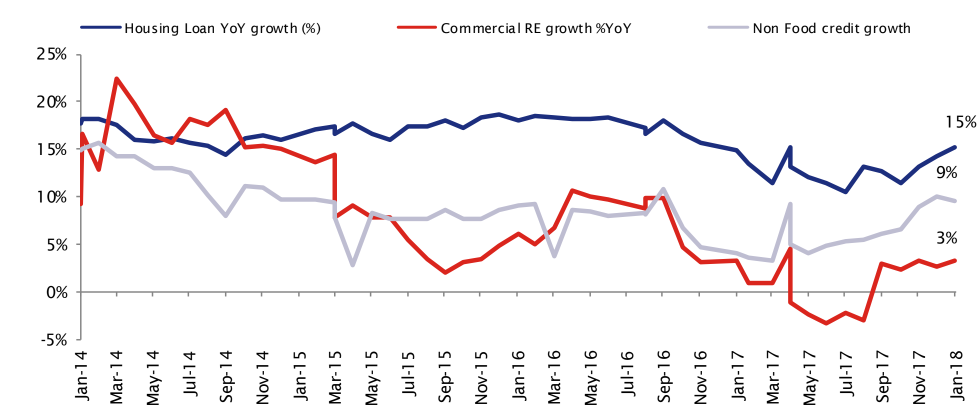


Source: Company, JM Financial

Funding Status - Fund availability continues to improve

- Banks funding the sector have been limited, with a loan book growth of 3% in 2017. Total funding to the real estate sector from banks has remained stable at INR 1,750bn-1,850bn. Loan book growth to developers has been materially lower than home loan rates (15%) and overall non-food credit growth (9%)

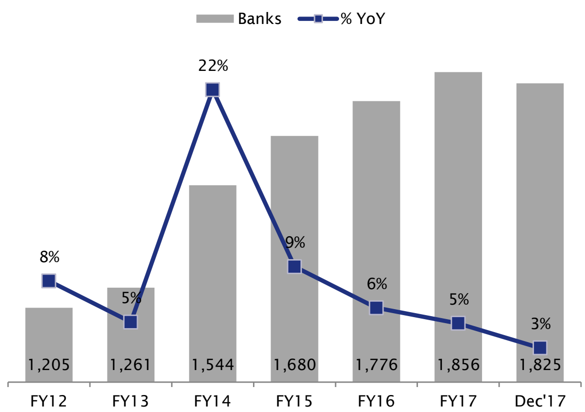
Exhibit 47. Muted growth in bank funding to developers



Source: Industry, JM Financial

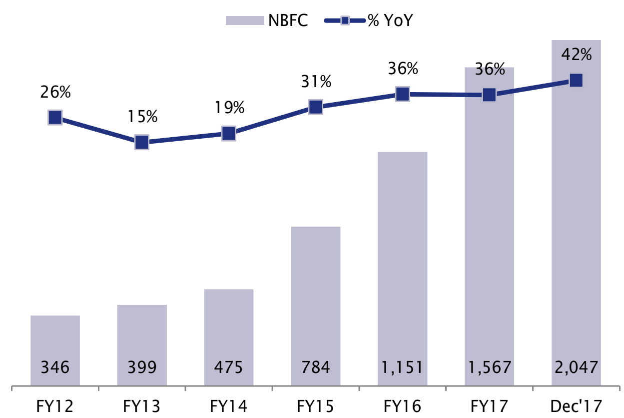
- While bank funding to the sector has witnessed limited growth over the last two years, NBFCs (with a loan book of c.INR 2,000bn) have been growing at more than 30% since FY14, leading to significant availability of liquidity for developers, despite tough operating conditions.

Exhibit 48. Muted growth in bank funding… (INR bn)



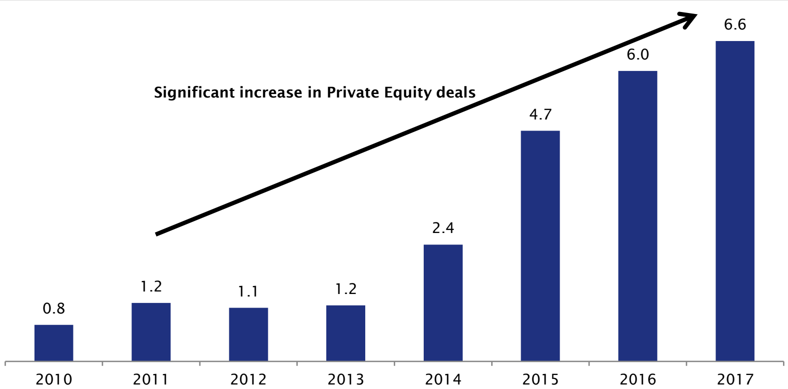
Source: Industry, JM Financial

Exhibit 49. …offset by NBFC funding (INR bn)



Source: Industry, JM Financial

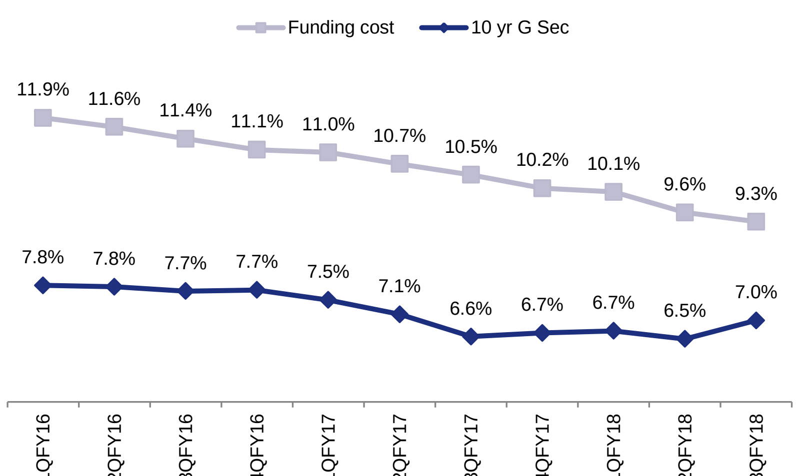
Exhibit 50. Increase in Private Equity deals



Source: Industry, JM Financial

- Improving availability of funding to the sector is visible in the decline in borrowing costs. Over the last year, the cost of funding for real estate developers is down c.110bps vs. the repo rate cut of 25bps.

Exhibit 51. Interest rate decline has helped companies reduce the impact of lower demand and collections



Source: Industry, Company, JM Financial

Funding Status - Rising interest rates could be a headwind

- The recent rise in G-Sec and Commercial Paper rates is likely to increase the cost of funding in the sector. We believe any real estate developer's ability to raise capital in a rising interest rate scenario would be crucial as developers balance business development/expansion activity with maintaining financial prudence.

Exhibit 52. 10-year G-Sec rate trend

Source: Industry, JM Financial

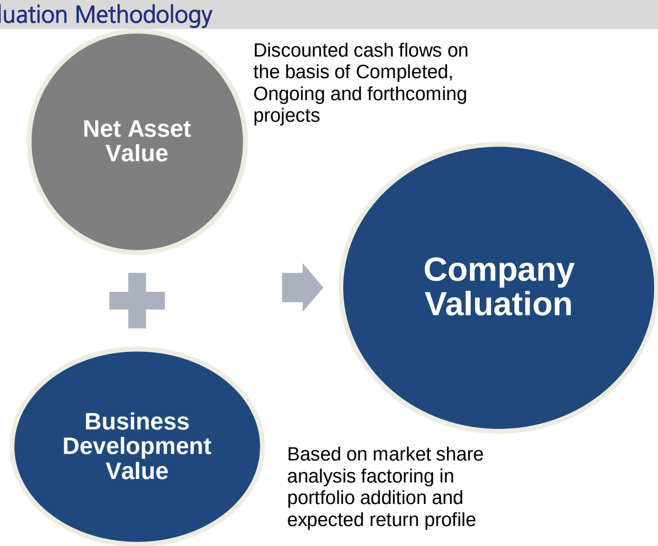
Exhibit 53. 12-month Commercial Paper rate trend

Source: Industry, JM Financial

Valuation - Debate between NAV and Going Concern Valuation

- Project execution visibility remains the key for a NAV approach, while demand/supply visibility gives comfort for a going concern valuation (GCV).
- Given the expectation of consolidation in the sector, the pace of portfolio addition could exceed the historical rate. While the NAV approach captures existing portfolio additions, we should debate the inclusion of a base case scenario of portfolio additions based on the business development strategy adopted till date.
- The key risks in incorporating a GCV for a real estate firm are the long gestation of projects and execution risks involved. While portfolio additions can exceed expectations, we see risks such as funding, pricing and regulations impacting the execution of projects. Due weightage needs to be attributed to these factors in order to determine the value of firms, especially if incorporating GCV.
- We prefer companies with a good history of execution and high access to funding options. In addition. companies with robust business development practices will benefit as market weakness is offset by a gain in market share.
- We introduce **business development value (BDV)** in our valuation analysis for firms to identify companies likely to benefit from the current environment.

Exhibit 54. Valuation Methodology



Source: JM Financial

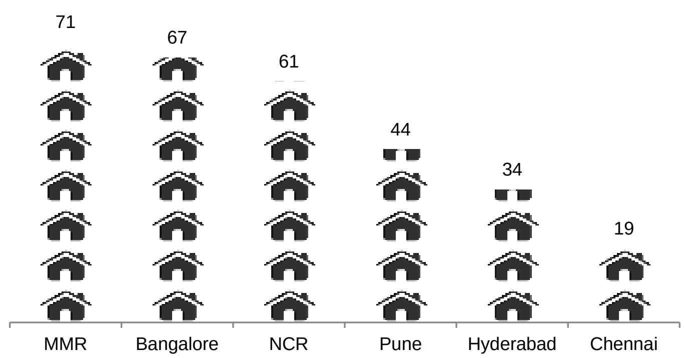
- As the demand scenario improves, we should see stocks move towards a combination of NAV and BDV. However, continued weakness in demand or higher weightage to risk will result in lower weightage to BDV.

Methodology for calculating BDV

- We value firms on their market presence in various geographies and how centralised/de-centralised their operations are to identify core markets vs. non-core/potential markets.
- We benchmark the terminal year market share with top-10 developers' market share and expectations of the company's share in the market based on its presence and strategy.
- We factor in the expectation of the time period to reach the potential market share contingent on current market positioning and future strategy.
- While companies with multi-geography exposure could get a higher valuation, we prefer those with a focussed strategy of identifying key geographies and utilising the resources available to expand in core markets. Multi-geography exposure with limited experience could reduce the focus on the core market in current environment, leading to loss of market share. While approval processes have been streamlined in some geographies, we see natural barriers for players entering new geographies.

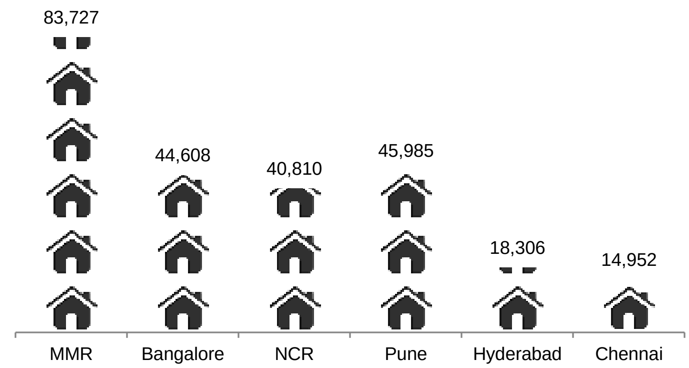
- We take the market size as a last-three-year average, adequately factoring in a decline in demand while adjusting for Demonetization/RERA/GST impact.

Exhibit 55. Volume (msf) assumption for determining BDV



Source: Industry, JM Financial

Exhibit 56. Volume (units) assumption for determining BDV



Source: Industry, JM Financial

Risks to BDV

- Improving transparency and the emergence of market leaders has led us to adopt the BDV approach in our valuation. However, risks to our valuation methodology are:

Upside:

Market growth: We estimate that market size would remain stable over the next 3-5 years when arriving at the BDV. However, any improvement in market conditions will lead to a material upside in our BDV.

Improving approval process: If approval processes become more standardised, we could see the emergence of national players, leading to higher-than-expected market potential for tier 1 developers.

Downside:

- Risk aversion: If the risk appetite declines, we could see BDV treated more as an option value by investors rather than being factored into the valuation.
- Increase in competition: As the real estate sector becomes more organised, we see the risk of corporate business houses entering the the sector to increase competitive intensity. While incumbents would have an advantage over the medium term, our market share assumptions could change in the long term.

Recommendation

- We prefer companies with a strong brand name and good execution capability that have a strategy to tap end-user demand. In addition, we prefer companies with a robust business development set-up, which gives us higher comfort in the execution of BDV.

Exhibit 57. Recommendation Summary

Company	Recon	NAV (INR/share)	Land Valuation (INR/share)	BDV (Ex-land) (INR/share)	Target Price (INR/share)	CMP (INR/share)	% Upside	Comment
Godrej Properties	BUY	369	226	204	860	723	19%	Vikhroli DM treated under land valuation; BDV based on 5% market share in MMR, Pune, Bengaluru and NCR
Prestige Estates	BUY	318	13	44	375	298	26%	BDV based on 7% market share in Bangalore
Oberoi Realty	BUY	470	-	80	550	512	7%	BDV based on 1.5msf recurring volume in MMR
Sobha ltd	BUY	116	252	232	600	550	9%	BDV based on 6% market share in Bangalore and

Source: Company, JM Financial

JM FINANCIAL

Godrej Properties | BUY

Well-placed to benefit from sector dynamics

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Godrej Properties (GPL) has reaped the benefits of its positioning in key micro markets by firstly gaining market share and secondly building a robust portfolio during tough times to give significant growth visibility. We have analysed key investor concerns on the development manager (DM) model and margin profile. While we see a case for higher DM returns, limited risks emerge on the company's highly controlled arrangements with developers. Its margin profile has been muted primarily on low profitability in commercial projects and accounting of marketing expenses under Ind-AS. Our analysis suggests the company would earn healthy margins in profit share agreements going forward. We introduce business development value (BDV) for GPL based on a 5% market share in 4 key geographies. Our TP is INR 860/share. Portfolio conversion and execution will be key monitorables.

- **Portfolio additions beating estimates:** GPL has added c.48msf worth of projects in the last 3 years, significantly augmenting its existing presence in Mumbai, NCR, Bangalore and Pune. The company has focussed on an asset-light approach with projects based on Joint development (JD, primarily area share) and DM models. With the implementation of RERA and rising costs for developers, GPL is expected to benefit further in business development as it leverages its 1) brand pull, 2) low cost of funding and 3) focussed presence in 4 geographies.

- **DM model - limited risks on brand dilution; return profile could improve:** 28% of GPL's existing projects are based on the DM model (42% of portfolio addition since Apr'15 on DM). While limited capital is involved in this model, we have been closely monitoring the brand dilution risk associated with partnering with developers under this model. Our analysis of the DM contract indicates limited risk emerging on brand dilution, with GPL controlling sales, construction and post-delivery conditions. Additionally, the company has increased its control on the respective SPVs by becoming a shareholder. While contractually we see limited risk of brand dilution, we believe the return profile could improve from 10-12% revenue share, given GPL's involvement in the project and premium available to the partner upon the availability of the Godrej brand name.

- **Margins of JD projects indicate a healthy trend:** The Ind-AS implementation has resulted in profit share-based projects being treated under JV accounting (39% of projects under profit share). While reported margins have been muted, our analysis of two profit share-based LLPs indicates significantly higher gross margins (38-40% GPL share) as compared to c.25% in FY18. Margins have been impacted by immediate expensing of marketing costs which we believe would normalise as revenue is recognised from launched projects.

- **Key beneficiary of sector consolidation - maintain Buy:** We value GPL's existing portfolio at INR 532/share. The Vikhroli DM is valued at INR 226/share (based on a 60-year DCF). GPL's NAV is valued at INR 655/share. BD value (on the basis of 5% market share across key geographies) is factored in at INR 205/share. We maintain BUY with a TP of INR 860.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	860
Upside/(Downside)	18.5%
Previous Price Target	580
Change	48.3%

Key Data – GPL IN	
Current Market Price	INR726
Market cap (bn)	INR157.1/US$2.4
Free Float	21%
Shares in issue (mn)	216.0
Diluted share (mn)	216.4
3-mon avg daily val (mn)	INR167.4/US$2.6
52-week range	912/428
Sensex/Nifty	34,305/10,528
INR/US$	65.5

Price Performance			
%	1M	6M	12M
Absolute	-2.2	13.3	68.8
Relative*	-5.4	7.8	45.0

* To the BSE Sensex

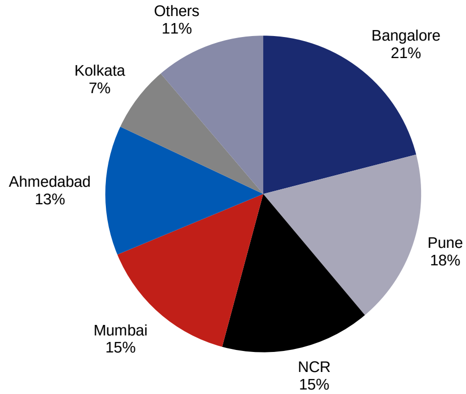
Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	21,226	15,829	19,401	10,872	9,592
Sales Growth (%)	21.8	-25.4	22.6	-44.0	-11.8
EBITDA	1,366	2,504	1,591	1,711	1,755
EBITDA Margin (%)	6.4	15.8	8.0	14.6	15.1
Adjusted Net Profit	1,434	2,068	1,231	2,489	3,354
Diluted EPS (INR)	6.6	9.6	5.7	11.5	15.5
Diluted EPS Growth (%)	-30.7	44.1	-40.5	102.1	34.8
ROIC (%)	1.9	3.6	1.7	2.6	2.9
ROE (%)	7.9	11.0	6.0	11.1	13.2
P/E (x)	109.5	76.0	127.6	63.1	46.8
P/B (x)	8.9	7.8	7.4	6.6	5.8
EV/EBITDA (x)	134.2	76.6	116.6	105.3	99.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 16/Apr/2018

□Portfolio additions have beaten estimates

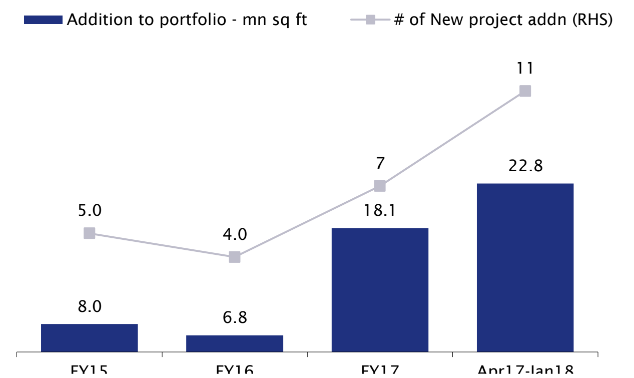
- **Portfolio additions better than estimates:** GPL has added c.41msf projects in the last 2 years, significantly augmenting its existing presence in Mumbai, NCR, Bangalore and Pune. 70% of the company's portfolio is focused in these geographies.

Exhibit 1. Focus cities form c.70% of the portfolio



Source: Company, JM Financial

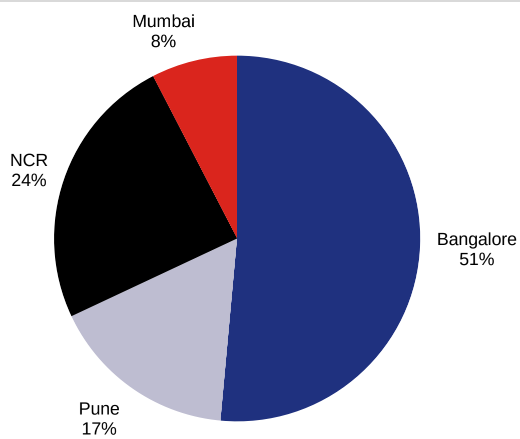
Exhibit 2. Uptick in portfolio additions in the last two years



Source: Company, JM Financial

- In the last 2 years, GPL has added all its projects in the 4 above-mentioned geographies, with Bangalore accounting for 51% of additions in the pie, followed by the NCR (24%).

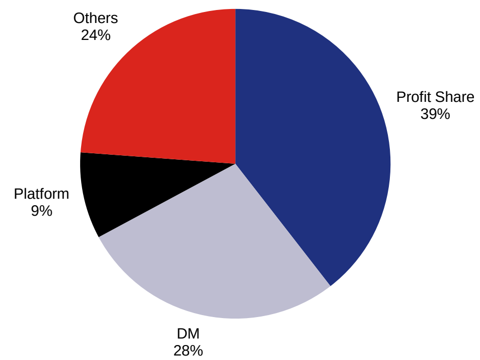
Exhibit 3. All additions in 4 focus cities



Source: JM Financial, Company

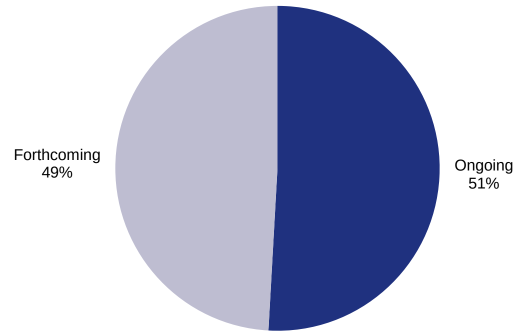
- GPL has focussed on an asset-light approach with projects based on JD (primarily area share - 39% of portfolio) and DM modes (29% of portfolio). With RERA implementation and rising costs for developers, GPL is expected to benefit further in business development as it leverages its 1) brand pull, 2) low cost of funding and 3) focussed presence in 4 geographies.

Exhibit 4. Profit share dominates the portfolio with DM projects accounting for c.30%



Source: Company, JM Financial

Exhibit 5. Ongoing vs. forthcoming split



Source: Company, JM Financial

DM model - limited risks on brand dilution; return profile could improve

- 28% of GPL's existing projects are based on the DM model (42% of portfolio additions since Apr'15 on DM). While limited capital is involved in this model, we have been closely monitoring the brand dilution risk associated with partnering with developers under this model.
- We analysed one of the DM contracts for GPL to gauge the impact of RERA on DM projects and GPL's contractual ability to avoid brand dilution.

DM contract analysis with Lotus Greens

- Based on our analysis of the DM contract, we see limited risk emerging on brand dilution with GPL controlling sales, construction and post-delivery conditions. We see significant control across activities in a DM model. Key aspects of the contract are highlighted in the exhibit below.

Exhibit 6. Clauses in DM model

Clause	Primary party responsible	Further details
Approvals	**Developer**	**In case developer is unable to get the approvals GPL will arrange for the approvals. However all payments by developer**
Building Plans and drawings	GPL/ Developer	GPL to co-ordinate with architect; however in case of difference of view with developer, developer view shall prevail
Marketing	GPL	GPL completely responsible for marketing including marketing material with limited interference from the developer
Construction Timelines	Developer	Quarterly review between developer and GPL to discuss status
Architect, Consultant	Developer	List provided in DM contract
Main Contractors	**Developer**	**List provided in DM contract**
Business Plan including sale price	GPL/ Developer	Initial business plan prepared by GPL; for modification consent of both parties required
Purchaser Documentation	Developer	Document prepared
Construction finance	**Developer**	**On receivables (ex-DM fees) construction cost will have first preference; If GPL funds the deficit then rate of interest 24-30%**
Payment to third parties	GPL	GPL to co-ordinate payment to all vendors as per budge from project account; in case invoice exceeds DM has to take approval from developer; no financial liability
Post-delivery conditions	**GPL**	**In order to use Godrej brand, the society needs to adhere to certain conditions as decided at the time of delivery.**
General Management Services	GPL	MIS
Project Management	GPL/ Developer	Advisory and supervisory role for GPL
Customer Relationship management	GPL	Post sales engagement with customers

Source: Industry, Company, JM Financial

Shareholding change in SPV after RERA implementation

- GPL has has also increased the control on its respective SPVs by becoming a shareholder. As per the Shareholder Agreement signed with Lotus Green, GPL has purchased one equity share in Brick Rise Developers Private Ltd (SPV executing the Godrej Nest project).

Exhibit 7. Key excerpts from the shareholder agreement with Lotus

With the intention of effective decision making under the DMA, and increasing GPL's ability to manage the development effectively, Lotus has agreed to induct GPL as a shareholder of the Company with decision making authority

GPL has agreed to purchase from Lotus 1 (one) Equity Share of the Company for INR 10/- (Rupees Ten Only), free and clear of all Encumbrances

GPL shall have the right to nominate 2 directors on the Board of the Company (out of four)

Through the shareholding, consent is required for -

* Making amendments to agreement with the main contractor and development of a group housing project

* Making any changes to the Approvals obtained in respect to the construction and development of the subject land into a group housing and/or consent to any change in the Master Plan approved for entire Sports city

* Appointing any contractor/ vendor which is not as per the DMA

Source: Company, JM Financial

- While contractually we see limited risk of brand dilution, we believe the return profile could improve from 10-12% of revenue share, on involvement of GPL in the project and premium available to the partner on the availability of the Godrej brand name.

Margins of JD projects indicate a healthy trend

- Implementation of Ind-AS has resulted in profit share-based projects being treated under JV accounting (39% of projects under profit share).
- GPL's margins have been impacted by immediate expensing of marketing costs for projects launched, while their revenue recognition would be seen after 2 years. In addition, GPL's margins have been muted on account of the recognition of its low-margin BKC project. Most of GPL's BKC sales and recognition was completed in FY18 and we do not expect this factor to impact margins going forward. However, recognition of commercial projects in Chandigarh and Kolkata in future could impact margins.
- While reported margins have been muted, we analysed 2 profit share LLPs – Dreamworld Landmarks and Oasis Landmarks – to gauge the company's margin profile from these projects. Sales in these LLPs commenced in FY15/16, while revenue was recognised form these sales in FY16/17.
- Godrej has two streams of revenue from profit share – 1) development manager fees (8-10% of collections) and 2) profit share (varies 35-50% across projects).
- We have analysed the financial statements of these LLPs to arrive at a per sq ft cost for land, construction, architect and other costs. Land cost, as expected is lower than market rates as the land owner gets compensated with a higher share of profit under the sharing agreement. Construction cost is inclusive of approval costs and is contingent upon regional dynamics (FSI/FAR cost). We have normalised other costs to reflect the per sq ft value on area launched than on area recognised as Ind-AS requires immediate expensing of marketing costs.
- In both projects, we see gross margins of c.40% at the project level. This indicates that consolidation of these LLPs would have resulted in material improvement in margins. At the GPL level, we see the company earning 23-25% margins on projects' sales value after considering the revenue share and net DM fees. We believe this is a recurring margin for GPL that needs to be incorporated in our valuation for projects based on profit share.

Exhibit 8. Godrej Prana/Greens (Dreamworld Landmarks LLP)- reported financials analysis

	INR per sq ft
Sale Price	4,789
Land	156
Construction	1,827
Architect	36
Other Costs	730
Total Cost	2,749
Gross Margin	**2,040**
Project gross margin	**42.6%**
Godrej DM Fees	383
Profit Share@ 40%	816
Total GPL share	1,199
% margin on total sales value	**25.0%**

Source: Company, JM Financial

Exhibit 9. Oasis Landmarks LLP (Oasis and Icon Project)- reported financials analysis

	INR per sq ft
Price	7,177
Land	159
Construction	3,056
Architect	12
Other Costs	1,099
Total Expense	4,325
Gross margin	**2,852**
% margin	**39.7%**
Profit Share @38%	1,084
DM Fees	574
Total GPL Share	**1,658**
% gross margin on topline	**23.1%**

Source: Company, JM Financial

BD Value

- The company has been targeting to be one of the top three developers in NCR, Bangalore, Mumbai and Pune. With business development momentum and de-centralised teams in operation, we factor in a 5% market share across regions in the next 5 years to arrive at a Gross Business Development Value. We subtract Vikhroli DM valuations (valued separately) to value BD potential at INR 205/share.

Exhibit 10. Business Development Value - 5% Market share assumed in 4 focus cities

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Bangalore									
Existing project based projections (msf)	4.00	4.26	4.99	3.54	3.64	0.00	0.00	0.00	0.00
Going Concern Volume (msf)		3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
BDV volume (msf)		0.00	0.00	0.00	0.00	3.35	3.35	3.35	3.35
Realisation (INR/sf)		6,500	6,825	7,166	7,525	7,901	8,296	8,711	9,146
Value Sold (INR mn)		0	0	0	0	26,447	27,769	29,157	30,615
Mumbai	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Existing project based projections (msf)	2.50	1.87	0.55	0.08	0.12	0.00	0.00	0.00	0.00
Going Concern Volume (msf)		3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55
BDV volume (msf)		1.68	3.00	3.47	3.43	3.55	3.55	3.55	3.55
Realisation (INR/sf)		12,000	12,600	13,230	13,892	14,586	15,315	16,081	16,885
Value Sold (INR mn)		**20,104**	**37,771**	**45,868**	**47,606**	**51,737**	**54,324**	**57,040**	**59,892**
Pune	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Existing project based projections (msf)	1.33	1.86	1.78	2.73	1.43	0.76	0.76	0.76	0.76
Going Concern Volume (msf)		2.19	2.19	2.19	2.19	2.19	2.19	2.19	2.19
BDV volume (msf)		0.33	0.40	0.00	0.76	1.43	1.43	1.43	1.43
Realisation (INR/sf)		5,500	5,775	6,064	6,367	6,685	7,020	7,371	7,739
Value Sold (INR mn)		1,826	2,326	0	4,818	9,572	10,051	10,553	11,081
NCR	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Existing project based projections (msf)	1.95	1.45	1.36	0.64	0.34	0.00	0.00	0.00	0.00
Going Concern Volume (msf)		3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.05
BDV volume (msf)		1.60	1.69	2.41	2.71	3.05	3.05	3.05	3.05
Realisation (INR/sf)		6,000	6,300	6,615	6,946	7,293	7,658	8,041	8,443
Value Sold (INR mn)		9,584	10,630	15,925	18,804	22,224	23,336	24,502	25,727
Total Volume (msf)		**3.60**	**5.09**	**5.87**	**6.89**	**11.37**	**11.37**	**11.37**	**11.37**
Value sold (INR mn)		**31,514**	**50,728**	**61,793**	**71,229**	**1,09,980**	**1,15,479**	**1,21,253**	**1,27,315**
Margin @ 15% (INR mn)		4,727	7,609	9,269	10,684	16,497	17,322	18,188	19,097
Tax @ 30% (INR mn)		1,418	2,283	2,781	3,205	4,949	5,197	5,456	5,729
Net of tax (INR mn)		**3,309**	**5,326**	**6,488**	**7,479**	**11,548**	**12,125**	**12,732**	**13,368**
Working capital Required (INR mn)	152	181	227	285	322	350	368	377	386
Cash Flow (INR mn)	-152	3,128	5,100	6,203	7,157	11,198	11,757	12,355	12,982
Terminal Value (INR mn)									1,94,733
Total Cash Flows (INR mn)	-152	3,128	5,100	6,203	7,157	11,198	11,757	12,355	2,07,715
NPV (INR mn)	93,512								
Per share (INR)	**430**								
Less Vikhroli DM (INR)	226								
Effective BDV (INR)	**205**								

Source: JM Financial, Company

Valuation

- We value the company's existing portfolio at INR 538/share. Vikhroli DM is valued at INR 226/share (based on a 60-year DCF). The company's NAV is INR 655/share. Business development value (on the basis of a 5% market share across key geographies) is factored in at INR205/share. We maintain BUY with a TP of INR 880.
- We continue to ascribe 100% value to Trees commercial as detail of transaction (Godrej Properties has entered into a deal with Godrej Fund Management (GFM) for a 50% stake in Godrej Two) is awaited..

Exhibit 11. Valuation (INR mn)

NET CASH FLOWS	PV (INR mn)	INR Per Shr
Residential Projects	99,353	460
Commercial Projects	6,717	31
Development Manager Value	13,790	64
Vikhroli	48,712	226
The Trees Commercial	13,376	62
BDV	44,348	205
Gross Value	**2,26,297**	**1,048**
Staff Costs	2,414	11
Other Expenses	12,198	56
Taxes	2,326	11
Total Overheads and Taxes	**16,938**	**78**
Net Value	**2,09,107**	**968**
Net Debt	23,321	108
Target Price	**1,85,786**	**860**

Source: Company, JM Financial

Key risks

- Key risks to our valuation are a further slowdown in demand, a liquidity decline for developers and regulatory changes in the micro market.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	21,226	15,829	19,401	10,872	9,592
Sales Growth	21.8%	-25.4%	22.6%	-44.0%	-11.8%
Other Operating Income	0	0	375	865	2,016
Total Revenue	**21,226**	**15,829**	**19,776**	**11,737**	**11,608**
Cost of Goods Sold/Op. Exp	17,342	10,809	15,033	7,777	7,492
Personnel Cost	450	475	499	524	550
Other Expenses	2,068	2,041	2,653	1,725	1,811
EBITDA	**1,366**	**2,504**	**1,591**	**1,711**	**1,755**
EBITDA Margin	6.4%	15.8%	8.0%	14.6%	15.1%
EBITDA Growth	-46.9%	83.3%	-36.4%	7.5%	2.5%
Depn. & Amort.	142	145	141	150	155
EBIT	1,225	2,359	1,451	1,562	1,599
Other Income	1,295	1,254	2,337	2,749	3,289
Finance Cost	406	1,015	1,368	1,113	1,113
PBT before Excep. & Forex	2,113	2,598	2,420	3,197	3,775
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,113	2,598	2,420	3,197	3,775
Taxes	679	777	1,089	959	1,132
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	247	-100	250	712
Reported Net Profit	1,434	2,068	1,231	2,489	3,354
Adjusted Net Profit	**1,434**	**2,068**	**1,231**	**2,489**	**3,354**
Net Margin	6.8%	13.1%	6.2%	21.2%	28.9%
Diluted Share Cap. (mn)	216.3	216.4	216.4	216.4	216.4
Diluted EPS (INR)	**6.6**	**9.6**	**5.7**	**11.5**	**15.5**
Diluted EPS Growth	-30.7%	44.1%	-40.5%	102.1%	34.8%
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	FY18E	FY19E	FY20E
Shareholders' Fund	17,648	20,037	21,269	23,757	27,111
Share Capital	1,081	1,082	1,082	1,082	1,082
Reserves & Surplus	16,567	18,956	20,187	22,675	26,029
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	31,229	39,765	39,765	39,765	39,765
Def. Tax Liab. / Assets (-)	-1,223	-1,382	-1,382	-1,382	-1,382
Total - Equity & Liab.	**47,655**	**58,420**	**59,652**	**62,140**	**65,494**
Net Fixed Assets	1,072	1,021	1,080	1,331	1,575
Gross Fixed Assets	1,491	1,020	1,220	1,620	2,020
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	425	0	141	290	446
Capital WIP	5	0	0	0	0
Investments	6,639	7,600	10,845	11,279	12,183
Current Assets	56,850	61,786	59,061	59,682	61,059
Inventories	39,231	39,661	28,904	26,185	25,125
Sundry Debtors	1,719	2,218	2,438	2,412	2,385
Cash & Bank Balances	1,056	1,104	7,331	12,595	17,648
Loans & Advances	6,229	8,164	10,836	9,647	7,951
Other Current Assets	8,616	10,639	9,551	8,843	7,951
Current Liab. & Prov.	16,907	11,987	11,335	10,152	9,323
Current Liabilities	5,949	4,684	3,793	3,216	3,180
Provisions & Others	10,958	7,303	7,542	6,936	6,143
Net Current Assets	39,943	49,799	47,726	49,531	51,736
Total – Assets	**47,655**	**58,420**	**59,652**	**62,140**	**65,494**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	2,113	2,598	2,420	3,197	3,775
Depn. & Amort.	142	145	141	150	155
Net Interest Exp. / Inc. (-)	406	1,015	1,368	1,113	1,113
Inc (-) / Dec in WCap.	-238	-6,689	10,114	5,527	4,915
Others	-1,069	-1,254	-2,337	-2,749	-3,289
Taxes Paid	-1,471	-777	-1,089	-959	-1,132
Operating Cash Flow	**-117**	**-4,962**	**10,616**	**6,279**	**5,538**
Capex	-244	471	-200	-400	-400
Free Cash Flow	-361	-4,490	10,416	5,879	5,138
Inc (-) / Dec in Investments	683	0	0	-183	-192
Others	249	297	2,337	2,749	3,289
Investing Cash Flow	**688**	**768**	**2,137**	**2,166**	**2,696**
Inc / Dec (-) in Capital	1	0	0	0	0
Dividend + Tax thereon	-480	0	0	0	0
Inc / Dec (-) in Loans	-2,172	8,535	0	0	0
Others	-457	-4,294	-3,181	-3,181	-3,181
Financing Cash Flow	**-3,109**	**4,241**	**-3,181**	**-3,181**	**-3,181**
Inc / Dec (-) in Cash	**-2,538**	**48**	**9,572**	**5,264**	**5,053**
Opening Cash Balance	6,954	1,056	1,104	7,331	12,595
Closing Cash Balance	4,416	1,104	10,676	12,595	17,648

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	6.8%	13.1%	6.2%	21.2%	28.9%
Asset Turnover (x)	0.4	0.3	0.3	0.2	0.2
Leverage Factor (x)	2.9	2.8	2.9	2.7	2.5
RoE	7.9%	11.0%	6.0%	11.1%	13.2%

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	81.6	92.6	98.3	109.8	125.3
ROIC	1.9%	3.6%	1.7%	2.6%	2.9%
ROE	7.9%	11.0%	6.0%	11.1%	13.2%
Net Debt/Equity (x)	1.5	1.7	1.4	1.0	0.7
P/E (x)	109.5	76.0	127.6	63.1	46.8
P/B (x)	8.9	7.8	7.4	6.6	5.8
EV/EBITDA (x)	134.2	76.6	116.6	105.3	99.7
EV/Sales (x)	8.6	12.1	9.4	15.3	15.1
Debtor days	30	51	45	75	75
Inventory days	675	915	533	814	790
Creditor days	109	128	76	117	118

Source: Company, JM Financial

JM FINANCIAL

Prestige Estate Projects | BUY

Robust annuity portfolio; residential pick-up to drive upside

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Prestige Estate Projects (PEPL) has developed a strong presence in both commercial and residential segments. It has signed a non-exclusive agreement for its Bangalore office project (Exora), providing liquidity for the next phase of growth in the segment. The company also plans to increase its residential footprint through its platform with HDFC. It has launched its first project in 6 quarters and expects to launch 10msf over the next 6-9 months. We believe a steady commercial portfolio and option value of residential scale-up would position the company well. We value it at INR 375, with INR 59 for BDV. Performance in new geographies, future scalability and leverage would be key monitorables going forward. We recommend BUY.

- **Restructuring completed; strategic partner identified for commercial platform:** PEPL has undertaken an exercise to streamline its holdings across commercial, retail, hospitality and residential segments. It has entered a preliminary term sheet with Reco Jade (GIC subsidiary) in relation to a possible minority investment in Prestige Exora Business Parks. A 40% divestment in subsidiary could raise INR 15bn-20bn contingent upon the transaction's cap rate. In addition, the company has streamlined its holding in retail through the acquisition of CapitaLand's stake in several malls (3.2msf) with a payment of INR 3.4bn.

- **Decline in inventory, platform with HDFC to benefit development business:** Prestige's inventory has declined from c.12msf in FY16 to 8msf currently as the company has focused on inventory liquidation while going slow on its launch pipeline. With annual sales of 3msf, we see the inventory levels as optimum for launches to commence (2 launches recently in Chennai and Bangalore – 0.8msf PEPL share). In addition, PEPL has recently formed a platform with HDFC, which plans to invest INR 25bn in the mid-income affordable housing segment. The funding will be a mix of debt and equity (60:40). We believe the tie-up could reduce the risk associated with geographical expansion for PEPL (lower capital requirement). Calibrated geographical expansion is imperative given the increase in compliance requirements across geographies.

- **Annuity portfolio provides significant valuation comfort:** A robust commercial outlook improves the visibility of PEPL's annuity income. We factor in capex of INR 35bn over 5 years for rentals to increase from INR 6bn currently to INR 16bn in FY22.

- **Maintain BUY, TP INR 370:** We factor in pre-sales pick-up from 3.2msf in FY18 to 4.7msf in FY20. We value the development business INR 116/share based on ongoing and forthcoming projects while valuing annuity assets at INR 195/share. We are factoring in a recurring volume of 4.7msf (factoring in 7% market share in Bangalore). We factor in a 20% margin to arrive at BDV of INR 22.6bn (INR 59/share). The target price inclusive of BDV value is INR 375/share. Strategic divestment would ensure limited increase in debt as the company scales up its annuity portfolio. Market consolidation in Bangalore and stable annuity income are key monitorables.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	375
Upside/(Downside)	23.0%
Previous Price Target	300
Change	25.0%

Key Data – PEPL IN	
Current Market Price	INR305
Market cap (bn)	INR114.3/US$1.7
Free Float	24%
Shares in issue (mn)	375.0
Diluted share (mn)	375.0
3-mon avg daily val (mn)	INR131.0/US$2.0
52-week range	357/221
Sensex/Nifty	34,305/10,528
INR/US$	65.5

Price Performance %	1M	6M	12M
Absolute	2.7	6.2	31.7
Relative*	-0.7	1.0	13.1

* To the BSE Sensex

Financial Summary Y/E March (INR mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	54,599	47,422	49,392	61,431	63,561
Sales Growth (%)	64.4	-13.1	4.2	24.4	3.5
EBITDA	10,663	9,198	10,114	12,548	13,532
EBITDA Margin (%)	19.3	19.3	20.3	20.3	21.2
Adjusted Net Profit	6,098	2,700	3,563	4,191	4,477
Diluted EPS (INR)	16.3	7.2	9.5	11.2	11.9
Diluted EPS Growth (%)	83.4	-55.7	32.0	17.6	6.8
ROIC (%)	8.5	5.7	5.7	6.7	6.7
ROE (%)	15.2	6.2	7.7	8.5	8.4
P/E (x)	18.8	42.4	32.1	27.3	25.5
P/B (x)	2.7	2.6	2.4	2.2	2.1
EV/EBITDA (x)	15.5	18.5	17.4	14.4	13.5
Dividend Yield (%)	0.4	0.4	0.5	0.5	0.6

Source: Company data, JM Financial. Note: Valuations as of 16/Apr/2018

Restructuring completed; strategic partner identified for commercial platform

- PEPL has undertaken an exercise to streamline its holdings across commercial, retail, hospitality and residential segments. It has entered a preliminary term sheet with Reco Jade (GIC subsidiary) in relation to a possible minority investment in Prestige Exora Business Parks. A 40% divestment in subsidiary could raise INR 15bn-20bn contingent upon the cap rate of the transaction. We await the details of assets to be infused in the Exora-Reco deal as well as the assets' debt levels.

Exhibit 1. Exora Business Park assets expected to be part of the GIC transaction

SPV	Asset	Status	Ownership	PEPL area (msf)	Expected rental PEPL share (INR/Sf/mnth)
Prestige Exora Business Park	Exora Business Park	Operating	100%	2.14	1,541
Prestige Construction Ventures Private Limited	Prestige Polygon	Operating	100.0%	0.33	332
Cessna Garden Developers Private Limited	Cessna Business Park	Operating/ Ongoing	85.0%	3.61	2,459
Dollars Hotel and Resorts Private Limited – From Valdel Xtent Outsourcing Solutions Private Limited	Tech Pacifica Park	Upcoming	65.9%	0.77	553
Dashanya Tech Parkz Private Limited	Tech park 4	Upcoming	49.0%	1.0	743
Total				**7.9**	**5,629**

Asset	Rental (INR mn)	EV (INR mn)	Cap Rate
Exora	3,198	39,975	8.0%
Cessna	1,134	12,600	9.0%
Tech Pacifica	553	5,534	10.0%
Tech Park 4	743	7,433	10.0%
EV		**65,542**	
EV-ex construction funding		**58,890**	

Source: Company, JM Financial

- **Retail - Prestige CapitaLand stake acquisitions, step towards a retail platform**: Prestige Estates Management has approved CapitaLand's stake acquisition in seven entities (six malls and one property management arm) for a consideration of INR 3.42bn. The company will also be taking over attributable debt of INR 2bn. We estimate the acquisitions to add EBITDA of c. INR 685mn once the assets are fully operational. All the assets – except Udaipur – are a part of existing subsidiaries/associates. Our analysis suggests a transaction cap rate of 10.6% for the acquisition. Assuming an 8% valuation cap rate for completed assets, we expect the transaction to have a positive NAV of INR 5/share. The transaction will result in incremental debt of INR 5.4b attributable to PEPL, resulting in total debt of INR 61.4bn (1.3x D:E). The low cost of debt (primarily through LRD) could limit the cash flow impact for the company. We believe the acquisition will help streamline the company's holdings across retail assets, giving low-cost access to capital either in the form of debt or equity (better valuations).

Exhibit 2. CapitaLand Stake acquisition

(INR mn)	Effective shareholding pre-buyback	Status	Area (msf)	Post buyback holding	PEPL rent post buyback	Rental addition	EBITDA
Forum Mall Mysore	51%	Near Completion	0.32	100%	170.6	83.6	75
Forum Mall Mangalore	51%	Completed	0.66	100%	196.1	96.1	86
Forum Value Mall	50%	Completed	0.29	100%	430.0	215.0	159
Forum Sujana Mall	25%	Completed	0.81	49%	402.0	201.0	181
Thomsun Realtors	37%	Under construction	0.68	50%	365.0	94.9	66
Celebrations Mall Udaipur	0%	Completed	0.4	100%	120	120.0	108
Mall Management Company	50%			100%	58.0	29.0	9
Total			3.2		1,742	840	685

Deal Value (INR mn)	3,420
Construction NPV (INR mn)	1,035
Attributable Debt (INR mn)	2,000
Total EV (INR mn)	6,455
Transaction Cap Rate (%)	10.6%
EV at 8% cap rate	8,373
Incremental value to PEPL	1,918
NoSH (mn)	375
per share value accretion	5.1

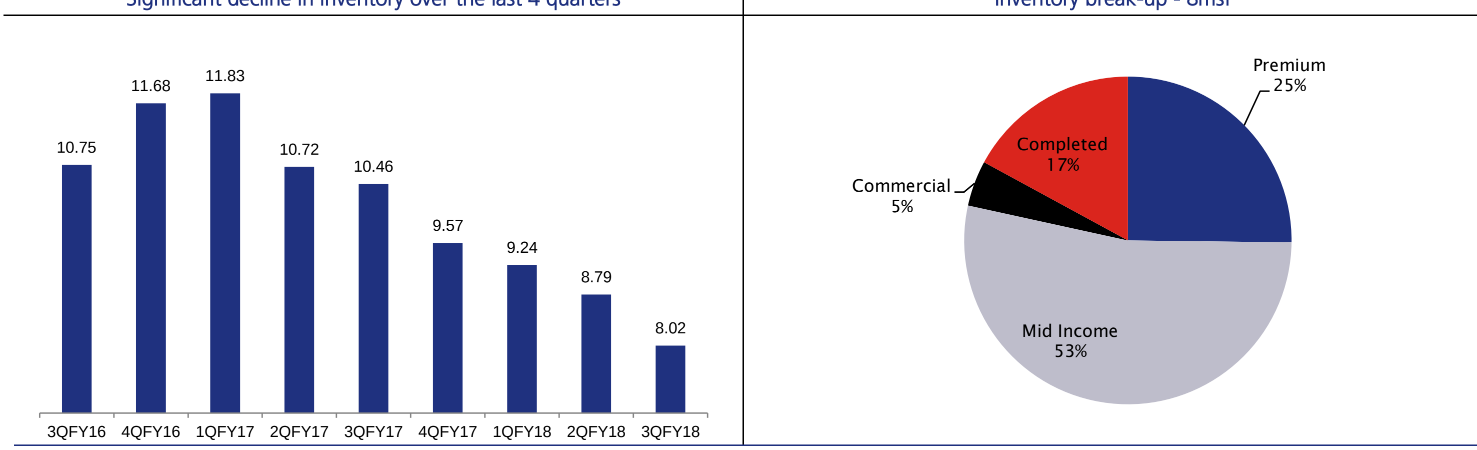
Source: Company, JM Financial

- **HDFC platform**: PEPL has announced an INR 25bn residential platform with HDFC Capital with primary focus on expanding the company's residential business by identifying land parcels with potential to develop large-scale mid-income segment projects. The funding will be a mix of debt and equity (60:40). Prestige will have lower contribution in the project acquisition while holding a 75% stake in the entity. In addition, the company will receive management fees from the entity. We believe the tie-up could reduce the risk associated with geographical expansion for PEPL (lower capital requirement). However, the pace of portfolio additions and launch of these will be key monitorables. Caliberated geographical expansion would be imperative given the increase in compliance requirements across geographies.
- There has been significant reduction in inventory over the last 2 years, from 12msf to 8msf. In addition, the company has 1.3msf of completed inventory.

Exhibit 3. Inventory trends

Significant decline in inventory over the last 4 quarters

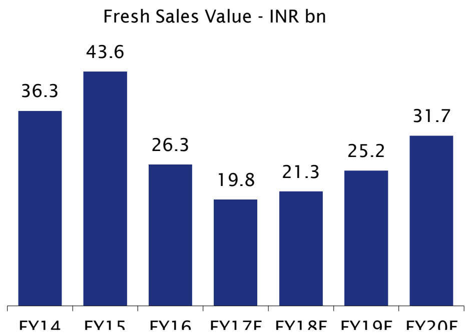
Inventory break-up - 8msf



Source: Company, JM Financial

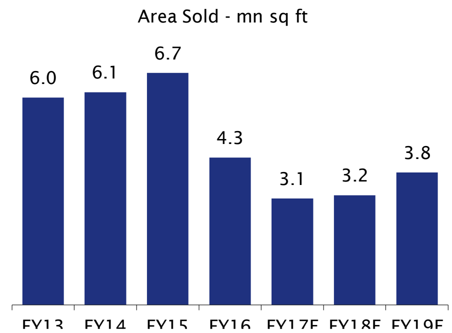
- We factor in pre-sales to improve from 3msf currently to 4.7msf by FY20E.

Exhibit 4. Pre-sales value (INR bn)



Source: Company, JM Financial

Exhibit 5. Pre-sales volume (msf)



Source: Company, JM Financial

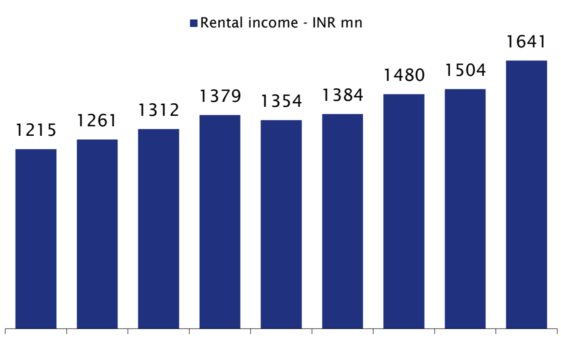
Robust rental portfolio with potential of INR 15bn rentals

Exhibit 6. Annuity Profile- Prestige Share

Segment	Ongoing		Under Construction		Upcoming		Total	
	Area	Rental	Area	Rental	Area	Rental	Area	Rental
Office	7.63	4,698	1.98	1,626	8.54	6,097	18.15	12,421
Retail	1.41	1,518	0.71	661	0.61	781	2.74	2,961
Hospitality *	690 keys	1,677	657 keys	1173	-	-	1347	2,850

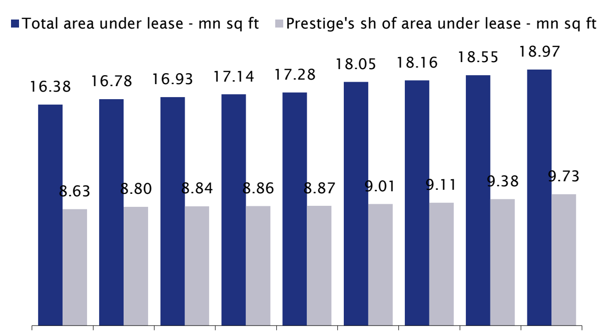
Source: Company, JM Financial * Hospitality Operating Income

Exhibit 7. Rental Income (INR mn)



Source: Company, JM Financial

Exhibit 8. Area under lease (mn sq ft)



Source: Company, JM Financial

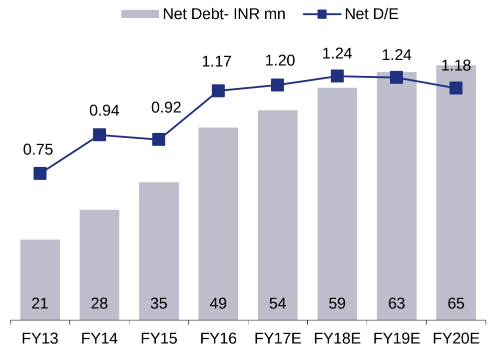
Debt to remain in focus on recent acquisitions

Exhibit 9. Recent investment

Entity/Land	Investment (INR mn)	% Stake acquired	Area (msf)	Type
Capitaland	3,420			Retail
ORR Sarjapur	3,360	80%	6	Commercial
Sarjapur Road	3,240	66.66%	7.5	Residential
Total	**10,020**			

Source: Company, JM Financial

Exhibit 10. Debt to remain elevated on capex plans



Source: Company, JM Financial

Business Development Value

- We are factoring in a 7% market share to compute the business development value for PEPL. While we attribute no value to geographical expansion, successful entry in new geographies could increase PEPL's BDV. However, given the early stage of activity and high compliance requirements, we could see risks in rushed geographical expansion.

Exhibit 11. Business Development Value at 7% market share (PEPL Group)

	FY23	FY24	FY25	FY26	FY27	FY28
Bangalore Sales (msf)	5.40	2.94				
BDV sales (msf)	4.7	4.7	4.7	4.7	4.7	4.7
Total Sales			**4.69**	**4.69**	**4.69**	**4.69**
Realisation (INR/sf)		6,500	6,825	7,166	7,525	7,901
Sales		**11,322**	**31,984**	**33,583**	**35,262**	**37,025**
Prestige Share @ 70%		7,926	22,389	23,508	24,683	25,918
Margin @ 20%			**6,397**	**6,717**	**7,052**	**7,405**
Tax			1,919	2,015	2,116	2,222
PAT			**4,478**	**4,702**	**4,937**	**5,184**
Working Capital	340	960	1,007	1,058	1,111	1,166
Net Cash Flow	**-340**	**-960**	**3,470**	**3,644**	**3,826**	**4,017**
Terminal Value						46,868
Free Cash Flow	**-340**	**-960**	**3,470**	**3,644**	**3,826**	**50,885**

Present Value	**22,032**
Nosh	375
BDV Value	**59**

Source: Company, JM Financial

Valuation

- We value the development business using DCF (14% discounting factor). The implied cap rate for the rental business is 7% (FY20 NoI) as material rental assets are added in FY21-22.

Exhibit 12. Valuation

	Value INR mn	INR/sh
Development Business	1,10,933	296
Rental Business	1,10,051	293
Total	2,20,984	589
Staff Costs	-15,264	-41
Other Expenses	-9,191	-25
Taxes	-13,840	-37
Enterprise Value	**1,82,688**	**485**
Net Debt	-63,308	-169
BDV	22,032	59
Equity Value	**1,41,412**	**375**

Source: Company, JM Financial

Key risks

Key risks to our estimates and recommendation are a delayed pick-up in demand, rising interest costs and high leverage.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	54,599	47,422	49,392	61,431	63,561
Sales Growth	64.4%	-13.1%	4.2%	24.4%	3.5%
Other Operating Income	711	323	323	323	323
Total Revenue	**55,310**	**47,745**	**49,715**	**61,754**	**63,884**
Cost of Goods Sold/Op. Exp	40,087	33,541	34,397	43,602	44,469
Personnel Cost	2,030	2,933	2,904	3,049	3,202
Other Expenses	2,531	2,073	2,301	2,554	2,682
EBITDA	**10,663**	**9,198**	**10,114**	**12,548**	**13,532**
EBITDA Margin	19.3%	19.3%	20.3%	20.3%	21.2%
EBITDA Growth	7.3%	-13.7%	10.0%	24.1%	7.8%
Depn. & Amort.	1,274	1,637	1,584	1,782	2,006
EBIT	9,389	7,561	8,530	10,767	11,525
Other Income	2,831	872	740	1,354	1,490
Finance Cost	3,462	3,160	3,406	5,333	5,807
PBT before Excep. & Forex	8,758	5,274	5,864	6,787	7,208
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	8,758	5,274	5,864	6,787	7,208
Taxes	2,292	1,601	1,876	2,172	2,307
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	502	1,215	668	668	668
Reported Net Profit	6,098	2,700	3,563	4,191	4,477
Adjusted Net Profit	**6,098**	**2,700**	**3,563**	**4,191**	**4,477**
Net Margin	11.0%	5.7%	7.2%	6.8%	7.0%
Diluted Share Cap. (mn)	375.0	375.0	375.0	375.0	375.0
Diluted EPS (INR)	**16.3**	**7.2**	**9.5**	**11.2**	**11.9**
Diluted EPS Growth	83.4%	-55.7%	32.0%	17.6%	6.8%
Total Dividend + Tax	542	596	656	722	794
Dividend Per Share (INR)	1.2	1.3	1.5	1.6	1.8

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	41,999	44,639	47,606	51,141	54,897
Share Capital	3,750	3,750	3,750	3,750	3,750
Reserves & Surplus	38,249	40,889	43,856	47,391	51,147
Preference Share Capital	0	0	0	0	0
Minority Interest	2,266	2,114	2,660	3,206	3,752
Total Loans	53,741	57,394	64,394	72,394	72,394
Def. Tax Liab. / Assets (-)	1,814	1,110	1,110	1,110	1,110
Total - Equity & Liab.	**99,819**	**1,05,256**	**1,15,769**	**1,27,851**	**1,32,152**
Net Fixed Assets	46,964	54,175	60,316	65,834	71,328
Gross Fixed Assets	35,907	36,898	41,386	46,683	52,481
Intangible Assets	3,069	3,069	3,069	3,069	3,069
Less: Depn. & Amort.	1,831	3,744	5,328	7,110	9,116
Capital WIP	9,819	17,952	21,189	23,192	24,894
Investments	5,129	3,551	3,673	3,795	3,917
Current Assets	1,12,503	1,11,740	1,16,695	1,23,791	1,20,290
Inventories	67,148	66,919	69,465	69,367	68,260
Sundry Debtors	11,426	10,057	9,807	11,166	10,502
Cash & Bank Balances	4,604	3,864	5,144	9,086	7,414
Loans & Advances	17,446	16,914	18,293	20,184	20,128
Other Current Assets	11,880	13,987	13,987	13,987	13,987
Current Liab. & Prov.	64,777	64,209	64,914	65,569	63,383
Current Liabilities	63,355	62,085	62,791	63,446	61,259
Provisions & Others	1,423	2,124	2,124	2,124	2,124
Net Current Assets	47,726	47,531	51,780	58,222	56,908
Total – Assets	**99,819**	**1,05,256**	**1,15,769**	**1,27,851**	**1,32,152**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	8,758	5,274	5,864	6,787	7,330
Depn. & Amort.	1,274	1,637	1,584	1,782	2,006
Net Interest Exp. / Inc. (-)	3,462	3,160	3,406	5,333	5,807
Inc (-) / Dec in WCap.	-4,500	-327	-2,970	-2,499	-358
Others	-2,831	-872	-740	-1,354	-1,490
Taxes Paid	-2,292	-1,601	-1,876	-2,172	-2,307
Operating Cash Flow	**3,871**	**7,271**	**5,267**	**7,878**	**10,989**
Capex	-4,142	-9,124	-7,725	-7,300	-7,500
Free Cash Flow	-271	-1,853	-2,458	578	3,489
Inc (-) / Dec in Investments	-2,342	1,578	-122	-122	-122
Others	2,831	-3,953	740	1,354	1,490
Investing Cash Flow	**-3,652**	**-11,498**	**-7,107**	**-6,068**	**-6,132**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-92	-542	-596	-656	-722
Inc / Dec (-) in Loans	8,250	13,185	3,653	7,000	8,000
Others	241	-12,571	62	-4,211	-13,685
Financing Cash Flow	**8,399**	**72**	**3,119**	**2,133**	**-6,407**
Inc / Dec (-) in Cash	**8,618**	**-4,155**	**1,280**	**3,942**	**-1,550**
Opening Cash Balance	5,368	4,604	3,864	5,144	9,086
Closing Cash Balance	13,985	448	5,144	9,086	7,536

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	11.0%	5.7%	7.2%	6.8%	7.0%
Asset Turnover (x)	0.6	0.5	0.4	0.5	0.5
Leverage Factor (x)	2.3	2.4	2.4	2.5	2.5
RoE	15.2%	6.2%	7.7%	8.5%	8.4%

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	112.0	119.0	126.9	136.4	146.4
ROIC	8.5%	5.7%	5.7%	6.7%	6.7%
ROE	15.2%	6.2%	7.7%	8.5%	8.4%
Net Debt/Equity (x)	1.2	1.2	1.2	1.2	1.2
P/E (x)	18.8	42.4	32.1	27.3	25.5
P/B (x)	2.7	2.6	2.4	2.2	2.1
EV/EBITDA (x)	15.5	18.5	17.4	14.4	13.5
EV/Sales (x)	3.0	3.6	3.5	2.9	2.9
Debtor days	75	77	72	66	60
Inventory days	443	512	510	410	390
Creditor days	518	588	579	471	444

Source: Company, JM Financial

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Oberoi Realty | BUY

Business scale-up to determine growth/earnings

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Oberoi Realty has been reporting mixed operational results, with Goregaon/Borivali projects seeing steady demand, but Mulund project sales remaining muted after the launch. Entry in the Thane micro-market should be monitored as Oberoi enters a new regulatory jurisdiction with sales potential of 8-10msf. We believe further business development activity would drive upside from current levels as the company prepares to scale-up its operations with access to low-cost funds and a strong balance sheet. As a result, we build a recurring annual volume of 1.25msf to arrive at BDV value of INR 80. We value Oberoi at INR 550. Key monitorables will be land acquisition(s) going forward and any risk to our recurring volume numbers.

- **Mixed operations - Borivali, Goregaon steady; Mulund muted:** Esquire (61% sold) continues to see traction as demand for completed properties is expected to remain high, driven by end users. Also, Borivali (63% sold) has done well on its differentiated product offering. However, Mulund projects (Eternia/Enigma) have been muted after the launch momentum, with much of the inventory unsold (0.7msf of launched; 1.7msf). We factor in Mulund sales completion by FY25 as we factor in delayed recovery in excess supply. Three Sixty West (Worli)'s sales completion is estimated by FY24. We also include the Thane project in our valuation, with the launch expected in FY20, at a starting realisation of INR 14,500/sf. We factor in pre-sales of 1.6/2.6msf in FY19/20 as Goregaon phase 3 and Sky City phase 2 are expected to be launched in FY19 and Thane in FY20.

- **Annuity portfolio remains stable; Worli/Borivali to increase rental contribution:** We expect Oberoi's annuity income to reach INR 4.2bn by FY20 as leasing improvement at Commerz 2 is factored in. In addition, management has indicated at plans for malls in Worli and Borivali of c.0.5msf each. Worli Mall construction order has been placed as per contractor filings in the exchanges. We are valuing the new malls at INR 14/share. In addition, we value the upcoming Commerz phase 2 at INR 25/share.

- **Business development potential – INR 80/share:** We factor Oberoi's recurring volume at 1.5msf for BDV computation, 2x its historical average as we expect the company to benefit from attractive business development opportunities (rational land prices). We estimate the present value of cash flows from recurring volumes at INR 27bn.

- **Maintain BUY; ramp-up in portfolio additions to realise business development value:** We believe Oberoi would be a key beneficiary of current environment that provides a level competing field for organised developers. The company has embarked on its next growth phase with the acquisition of a 60 acre land parcel in Thane. The execution strategy and timeline for this parcel would be key trigger for the stock going forward. Additionally, the launch of Goregaon phase 3 should drive an uptick in sales momentum. However, sluggish demand in its Mulund projects remains a concern. We believe the company would re-rate as business development activity picks up. We value the company at INR 550/share on DCF (14% WACC) and BDV based on 1.5msf recurring sales. We have a BUY call on the stock.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	550
Upside/(Downside)	7.0%
Previous Price Target	415
Change	32.5%

Key Data – OBER IN	
Current Market Price	INR514
Market cap (bn)	INR174.6/US$2.7
Free Float	28%
Shares in issue (mn)	339.4
Diluted share (mn)	339.4
3-mon avg daily val (mn)	INR242.4/US$3.7
52-week range	577/335
Sensex/Nifty	34,305/10,528
INR/US$	65.5

Price Performance			
%	1M	6M	12M
Absolute	0.5	7.5	39.7
Relative*	-2.8	2.2	20.0

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	13,997	11,045	12,901	28,862	32,609
Sales Growth (%)	53.7	-21.1	16.8	123.7	13.0
EBITDA	6,674	5,701	7,010	14,205	16,720
EBITDA Margin (%)	47.4	51.2	53.9	49.1	51.1
Adjusted Net Profit	4,259	3,786	4,526	9,370	15,281
Diluted EPS (INR)	12.5	11.2	13.3	27.6	45.0
Diluted EPS Growth (%)	29.9	-11.1	19.5	107.0	63.1
ROIC (%)	7.5	7.0	8.9	16.2	17.4
ROE (%)	8.6	6.9	7.7	14.4	19.9
P/E (x)	41.0	46.1	38.5	18.6	11.4
P/B (x)	3.3	3.0	2.9	2.5	2.1
EV/EBITDA (x)	26.6	31.5	27.2	13.1	10.9
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 16/Apr/2018

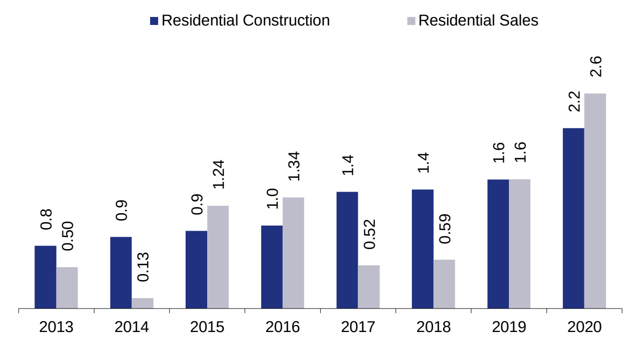
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters S&P Capital IQ and FactSet

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

Goregaon, Borivali and Thane launch to drive operations

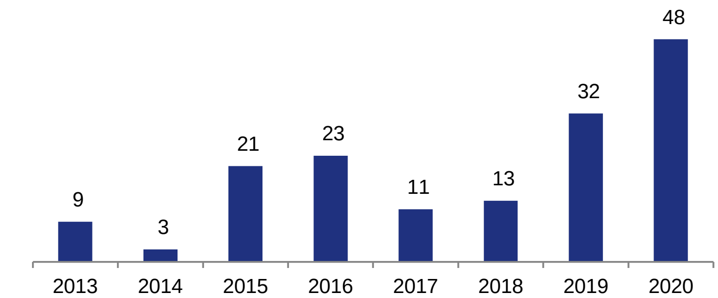
- We estimate the Thane project's launch in FY20 (after the receipt of conversion approvals) and sales completion by FY27 at a starting realisation of INR 14,500/sf.
- We factor in pre-sales of 1.6/2.6msf in FY19/20 as Goregaon phase 3 and Sky City phase 2 are expected to be launched in FY19 and Thane in FY20.

Exhibit 1. Operational ramp up expected on Goregaon, Borivali and Thane launch (msf)



Source: Company, JM Financial

Exhibit 2. Thus improving pre-sales value (INR bn)

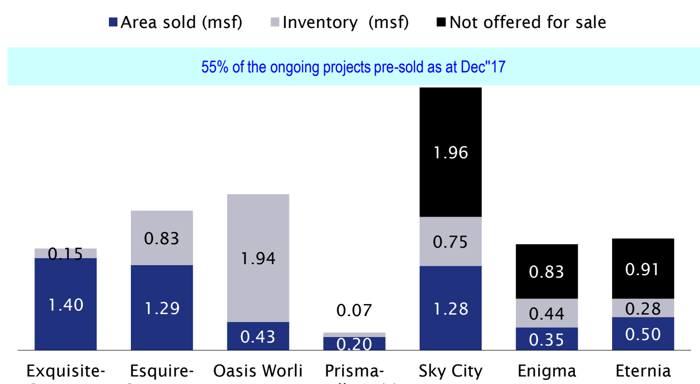


Source: Company, JM Financial

Current operations- Borivali, Goregaon steady; Mulund projects moving slow

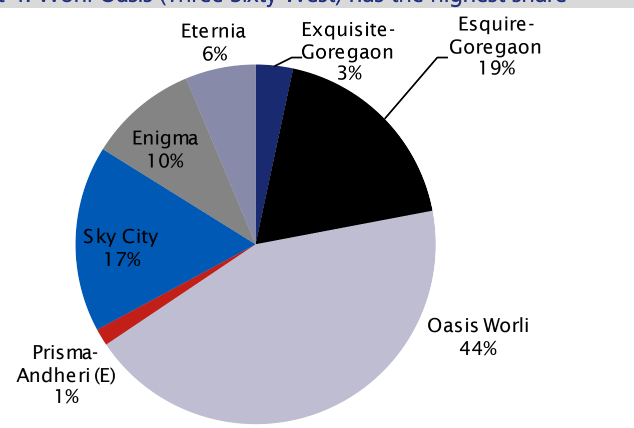
- Esquire (61% sold) continues to see traction as demand for completed properties is expected to remain high, driven by end users.
- In addition, Borivali (63% sold) has done well on its differentiated product offering.
- However, sales of Mulund projects (Eternia/Enigma) have been muted after the launch momentum with a significant amount of inventory remaining unsold (0.7msf of launched; 1.7msf). We factor in Mulund sales completion by FY25 as we factor in delayed sales recovery in excess supply.
- We estimate the completion of Three Sixty West (Worli)'s sales by FY24.

Exhibit 3. Project inventory



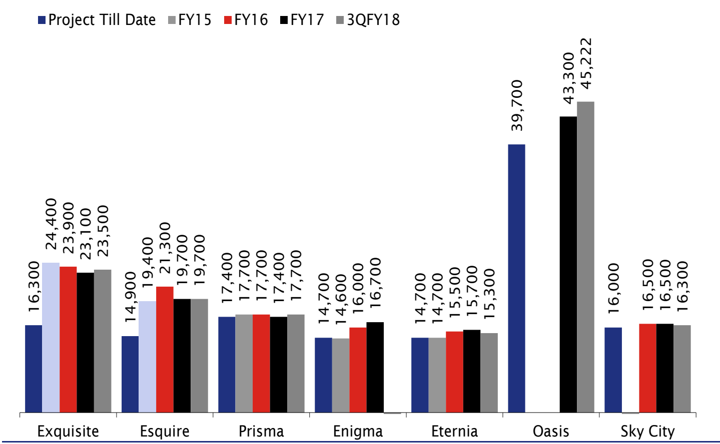
Source: Company, JM Financial

Exhibit 4. Worli Oasis (Three Sixty West) has the highest share



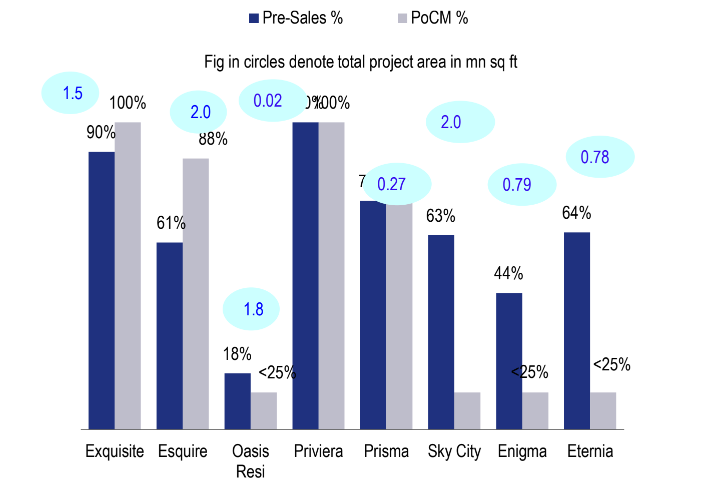
Source: Company, JM Financial

Exhibit 5. Realisation trends (INR/sf)



Source: Company, JM Financial

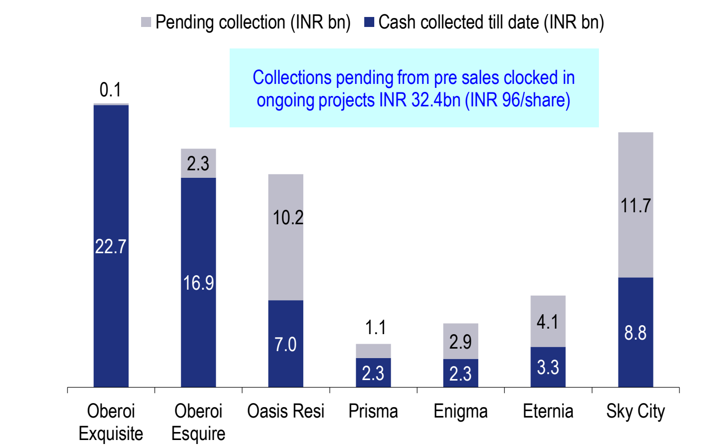
Exhibit 6. Pre-sales and PoCM trends



Source: Company, JM Financial

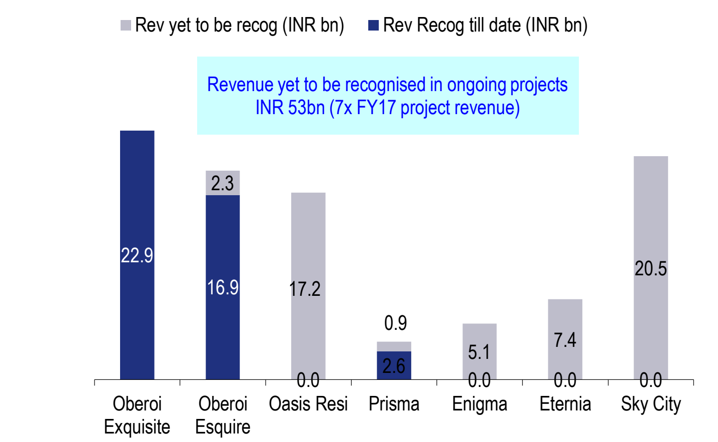
- We expect revenue recognition to pick up in FY19, led by Sky City, Eternia and Enigma. Sales will be a key monitorable in Enigma for revenue recognition (25% threshold).

Exhibit 7. Ongoing projects – cash collections (INR bn)



Source: Company, JM Financial

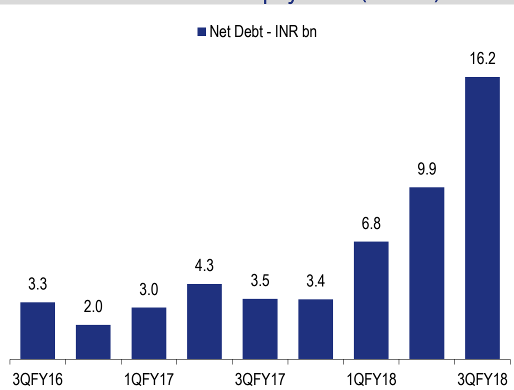
Exhibit 8. Ongoing projects – rev recognition (INR bn)



Source: Company, JM Financial

- Oberoi's debt has increased primarily on advance payments to Glaxo for the Thane land parcel. We expect debt to reduce by INR 6bn in FY19 as the company receives collections from Worli (advances on construction) and construction-linked payments from Mulund and Borivali

Exhibit 9. Net debt rises on Thane land advance payment (INR bn)



Source: Company, JM Financial

- We estimate an INR 6bn payment for the Thane land conversion to freehold. In addition, we factor in FSI purchases in Thane, Mulund and Borivali (phase 2).

Annuity portfolio remains stable; Worli/Borivali to increase rental contribution

Exhibit 10. Annuity profile

Westin	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Rooms	269	269	269	269	269	269	269	269
Occupancy	65%	75%	79%	77%	80%	81%	80%	80%
RevPar	5,280	6,008	6,577	6,722	6,763	6,915	7,172	7,530
Revenues (INR mn)	965	1,127	1,226	1,280	1,266	1,294	1,320	1,386
EBITDA (INR mn)	282	342	341	415	437	447	461	484
%margin	29%	30%	28%	32%	34%	35%	35%	35%
Commerz 1	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Area Leased (msf)	0.30	0.31	0.31	0.28	0.28	0.29	0.29	0.29
Rent/sf/mth (INR)	130	129	128	129	142	148	155	163
Occupancy	81%	85%	84%	88%	88%	80%	80%	80%
Revenues (INR mn)	461	482	472	465	481	519	545	572
EBITDA (INR mn)	451	480	472	463	478	498	523	549
%margin	98%	100%	100%	100%	99%	96%	96%	96%
Commerz II Ph 1	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Area Leased (msf)			0.05	0.09	0.15	0.50	0.70	0.73
Rent/sf/mth (INR)			110	114	127	121	127	133
Occupancy			7%	13%	20%	50%	70%	70%
Revenues (INR mn)			6	78	226	527	775	813
EBITDA (INR mn)			-8	17	146	422	697	732
%margin			-134%	22%	65%	80%	90%	90%
Oberoi Mall	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Area Leased (msf)	0.52	0.55	0.55	0.55	0.51	0.55	0.55	0.55
Rent/sf/mth (INR)	127	133	144	143	158	164	171	178
Occupancy	96%	99%	99%	99%	92%	99%	99%	99%
Revenues (INR mn)	792	872	940	942	1,000	1,079	1,122	1,167
EBITDA (INR mn)	757	834	905	893	934	1,025	1,066	1,109
%margin	96%	96%	96%	95%	95%	95%	95%	95%
Others	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Sales	156	303	240	237	239	247	252	257
EBITDA	151	280	225	227	237	221	225	230
%margin	97%	92%	94%	95%	99%	90%	90%	90%
Total Rentals	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Revenues (INR mn)	**2,374**	**2,783**	**2,884**	**3,003**	**3,212**	**3,666**	**4,013**	**4,195**
EBITDA (INR mn)	**1,641**	**1,935**	**1,934**	**2,015**	**2,232**	**2,613**	**2,972**	**3,103**
%margin	69%	70%	67%	67%	69%	71%	74%	74%

Source: Company, JM Financial

Business Development Value

- We value Oberoi's potential scale-up in operations by factoring in a recurring volume 2x its average sales in the last 7 years as operations ramp up and the company benefits from industry dynamics.
- We are factoring in construction and land cost at 25/30% of sales value.
- Land cost has been expensed in 3 equal instalments starting three years prior to sales booking.
- We are factoring in a 5% realisation increase annually.

Exhibit 11. Business development value computation

FY->	2024	2025	2026	2027	2028	2029	2030	2031	2032
Sales from existing projects (msf)	1.25	1.78	1.25	1.25	-	-	-		
Sales Value (INR mn)	66,160	35,486	24,280	25,493	-	-	-		
Realisation (INR/sf)	53,134	19,918	19,431	20,403					
BDV Volume (msf)				0.25	1.50	1.50	1.50	1.50	1.50
Realisation (INR/sf)				20,403	21,423	22,494	23,619	24,800	26,040
Sales Value (INR mn)				5,111	32,135	33,741	35,428	37,200	39,060
Land Cost (INR mn)	-511	-3,725	-7,099	-10,130	-10,637	-11,169	-11,727	-12,314	-12,929
Construction Cost @ 25% of revenues (INR mn)	0	0	0	-1,278	-8,034	-8,435	-8,857	-9,300	-9,765
Other expenses (INR mn)	0	0	0	-256	-1,607	-1,687	-1,771	-1,860	-1,953
Tax (INR mn) @ 30%	0	0	0	-613	-3,856	-4,049	-4,251	-4,464	-4,687
FCF (INR mn)	-511	-3,725	-7,099	-7,166	8,001	8,401	8,821	9,262	9,725
Terminal Value (INR mn)									1,13,463
Total FCF (INR mn)	**-511**	**-3,725**	**-7,099**	**-7,166**	**8,001**	**8,401**	**8,821**	**9,262**	**1,23,189**
PV	**27,193**								
Nosh	339								
Value per share	**80**								

Source: Company, JM Financial

Valuation

- We value Oberoi's current portfolio on a DCF basis, using a 14% discounting rate. BDV contributed 15% to the company's value.

Exhibit 12. Valuation

Project	Location	Area (mn sq ft)	NAV (INR mn)	Value per share (')	% of Total
Oberoi Exquisite	Goregaon(E)	1.54	1,273	4	1%
Oberoi Esquire	Goregaon(E)	2.12	10,843	32	6%
Oberoi Eternia	Mulund(W)	1.70	8,681	26	5%
Oberoi Enigma	Mulund(W)	1.50	7,897	23	4%
Oberoi Exquisite - III	Goregaon(E)	1.59	11,023	32	6%
Oasis Residential	Worli	2.31	12,383	36	7%
Sangam City Residential	Sangamwadi, Pune	0.77	362	1	0%
Oberoi Splendor Prisma	Andheri(E)	0.71	5,946	18	3%
Sky City- Borivali Ph 1	Borivali	2.00	7,012	21	4%
Sky City- Borivali Ph 2	Borivali	2.00	11,264	33	6%
Oberoi Thane	Thane- Pokharan	8.33	29,381	87	16%
Residential Total		24.90	1,06,066	313	57%
Commercial for Sale Total		0.97	2,447	7	1%
Commerz I	Goregaon(E)	0.36	6,870	20	4%
Commerz II - Phase I	Goregaon(E)	0.73	8,532	25	5%
Commerz II - Phase II	Goregaon(E)	1.66	8,381	25	4%
Oberoi Mall	Goregaon(E)	0.55	14,864	44	8%
Borivali	Borivali	0.51	4,569	13	0
Worli	Worli	0.64	384	1	
Commercial for Lease Total		3.82	43,601	128	23%
Social Infra Total		1.98	7,274	21	4%
The Westin Mumbai	Goregaon(E)	0.38	6,044	18	3%
Oasis Hotel	Worli	0.34	5,609	17	3%
Hotels Total		0.72	11,653	34	6%
Enterprise Value		33.03	1,71,041	504	92%
Net Debt			11,890	35	6%
NAV		33.03	1,59,151	469	85%
BDV			28,303	80	15%
Equity Value		33.03	1,87,454	550	85%

Source: Company, JM Financial

Key Risks

Key risks to our calculations are a continued slowdown in residential real estate sales, a slower-than-expected ramp-up in business development and a rise in interest rates.

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	13,997	11,045	12,901	28,862	32,609
Sales Growth	53.7%	-21.1%	16.8%	123.7%	13.0%
Other Operating Income	84	92	92	97	102
Total Revenue	**14,081**	**11,138**	**12,993**	**28,959**	**32,711**
Cost of Goods Sold/Op. Exp	6,297	4,372	4,842	13,007	14,041
Personnel Cost	576	642	706	776	854
Other Expenses	533	423	435	970	1,096
EBITDA	**6,674**	**5,701**	**7,010**	**14,205**	**16,720**
EBITDA Margin	47.4%	51.2%	53.9%	49.1%	51.1%
EBITDA Growth	29.9%	-14.6%	23.0%	102.7%	17.7%
Depn. & Amort.	490	495	499	647	863
EBIT	6,185	5,206	6,511	13,558	15,857
Other Income	362	473	282	521	862
Finance Cost	2	56	66	98	158
PBT before Excep. & Forex	6,545	5,623	6,726	13,981	16,561
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,545	5,623	6,726	13,981	16,561
Taxes	2,286	1,869	2,235	4,646	5,503
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	-31	-35	-35	-4,223
Reported Net Profit	4,259	3,786	4,526	9,370	15,281
Adjusted Net Profit	**4,259**	**3,786**	**4,526**	**9,370**	**15,281**
Net Margin	30.2%	34.0%	34.8%	32.4%	46.7%
Diluted Share Cap. (mn)	339.4	339.4	339.4	339.4	339.4
Diluted EPS (INR)	**12.5**	**11.2**	**13.3**	**27.6**	**45.0**
Diluted EPS Growth	29.9%	-11.1%	19.5%	107.0%	63.1%
Total Dividend + Tax	790	817	817	817	920
Dividend Per Share (INR)	1.9	2.0	2.0	2.0	2.3

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	53,043	57,258	60,967	69,519	83,880
Share Capital	3,393	3,394	3,394	3,394	3,394
Reserves & Surplus	49,650	53,864	57,573	66,126	80,486
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	6,415	8,729	20,729	20,729	20,729
Def. Tax Liab. / Assets (-)	229	-1,176	-985	-985	-985
Total - Equity & Liab.	**59,687**	**64,811**	**80,711**	**89,264**	**1,03,624**
Net Fixed Assets	12,964	10,545	13,335	17,002	22,716
Gross Fixed Assets	11,855	12,028	15,318	19,632	26,208
Intangible Assets	2,654	0	0	0	0
Less: Depn. & Amort.	2,083	2,578	3,077	3,725	4,588
Capital WIP	539	1,095	1,095	1,095	1,095
Investments	744	18,243	23,554	23,589	27,812
Current Assets	63,889	54,578	66,187	71,038	75,462
Inventories	39,306	37,664	40,677	52,724	52,724
Sundry Debtors	1,170	1,058	2,043	1,058	1,058
Cash & Bank Balances	3,209	3,517	4,527	8,839	13,263
Loans & Advances	19,937	1,337	1,337	1,404	1,404
Other Current Assets	267	11,003	17,603	7,013	7,013
Current Liab. & Prov.	17,911	18,553	22,365	22,365	22,365
Current Liabilities	17,867	18,516	22,328	22,328	22,328
Provisions & Others	44	37	37	37	37
Net Current Assets	45,978	36,025	43,822	48,673	53,097
Total – Assets	**59,687**	**64,813**	**80,711**	**89,264**	**1,03,624**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	6,545	5,623	6,726	13,981	16,561
Depn. & Amort.	490	495	499	647	863
Net Interest Exp. / Inc. (-)	364	529	348	620	1,020
Inc (-) / Dec in WCap.	-995	10,261	-6,786	-539	0
Others	-19	-946	-563	-1,043	-1,724
Taxes Paid	-2,118	-1,869	-2,235	-4,646	-5,503
Operating Cash Flow	**4,267**	**14,094**	**-2,011**	**9,020**	**11,217**
Capex	-465	-67	-2,030	-2,444	-4,765
Free Cash Flow	3,802	14,026	-4,042	6,577	6,452
Inc (-) / Dec in Investments	139	-1,200	-5,311	0	0
Others	-2,108	-13,327	282	521	862
Investing Cash Flow	**-2,434**	**-14,594**	**-7,059**	**-1,922**	**-3,903**
Inc / Dec (-) in Capital	3,258	0	0	0	0
Dividend + Tax thereon	-1,607	-817	-817	-817	-920
Inc / Dec (-) in Loans	-2,600	2,000	12,000	0	0
Others	-862	-374	-1,326	-1,969	-1,969
Financing Cash Flow	**-1,812**	**809**	**9,857**	**-2,787**	**-2,890**
Inc / Dec (-) in Cash	**21**	**308**	**786**	**4,311**	**4,424**
Opening Cash Balance	2,937	3,209	3,517	4,527	8,839
Closing Cash Balance	2,958	3,517	4,303	8,839	13,263

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	30.2%	34.0%	34.8%	32.4%	46.7%
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.3
Leverage Factor (x)	1.2	1.1	1.2	1.3	1.3
RoE	8.6%	6.9%	7.7%	14.4%	19.9%

Key Ratios

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	156.3	168.7	179.6	204.8	247.2
ROIC	7.5%	7.0%	8.9%	16.2%	17.4%
ROE	8.6%	6.9%	7.7%	14.4%	19.9%
Net Debt/Equity (x)	0.1	0.1	0.3	0.2	0.1
P/E (x)	41.0	46.1	38.5	18.6	11.4
P/B (x)	3.3	3.0	2.9	2.5	2.1
EV/EBITDA (x)	26.6	31.5	27.2	13.1	10.9
EV/Sales (x)	12.6	16.1	14.7	6.4	5.6
Debtor days	30	35	57	13	12
Inventory days	1,019	1,234	1,143	665	588
Creditor days	881	1,243	1,362	552	510

Source: Company, JM Financial

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JM FINANCIAL

Sobha Ltd | BUY

Rising market share on new launches; land monetisation key

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Sobha's operations have seen a material uptick as it consolidates its position in the Bangalore market and on increasing demand in Gurgaon and Kochi. With 11msf of phase launches in the pipeline and plans for another 4-5msf of new launches, we expect continued improvement in its operating performance. Also, its successful entry into the affordable housing segment could present a new business opportunity. While new launches would be primarily on a JD/JV model, monetisation of its 200msf land parcel remains the key to improving its return profile. Our TP is INR 600 with INR 483/share attributable to BDV/land value. We have a BUY call on the stock. Monetisation of the Hoskote land parcel is a key monitorable going forward.

- **Operations improve materially as launches commence in FY18:** For FY18, pre-sales improved from 3msf the year prior to 3.6msf, with sales value of INR 24.2bn (+30% YoY) as the launch cycle commenced aided by an uptick in Gurgaon and Kochi sales. Dream Acres continues to account for 40-50% of Bangalore sales. The company launched 1.4msf in FY18. Sobha's Bangalore sales improved 15% during the year, while the market, as per industry experts, declined in FY18.
- **Ongoing projects and pipeline provides visibility of future performance:** Sobha has 11msf of phase launches in ongoing projects and 4-5msf planned launches in Bangalore and other geographies. Management has also alluded to launches in Bangalore, Chennai and Pune going forward, which would lead to an uptick in pre-sales. Further, entry into the affordable housing space in North Bangalore (1.8msf) could open a new segment for Sobha in the medium term.
- **Land monetisation remains key:** The company has a 200msf land parcel (book value of INR 24bn), which has been largely unutilised. However, its recent project launches have a JD/JV model with limited contribution from existing land parcels. We believe monetisation of this land parcel will be the key to improve its margins and return ratios. As per our discussion with management, the company is planning to monetise 8-9msf of land in the next two years (at the planning stage). Hoskote's (280acres) execution remains contingent upon the inventory at Dream Acres (currently at 4.4msf with a 0.8msf annual run rate). We expect Hoskote's launch in 3 years as Dream Acres' inventory declines to 1-1.5msf.
- **Business Development Value (BDV):** We factor in Sobha's recurring volume in Bangalore at 4msf (6% market share) with a share of 75% of total sales. We factor in 25% margins on the back of higher execution of the land bank and better margins. We value BDV at INR 45.8bn (INR 483/share), at an implied 1.9x land bank book value.
- **Maintain BUY with a TP of INR 600; significant uptick in operations necessary for upside:** We build in 8/11% volume/value CAGR over FY18-23E. We value ongoing projects at INR 30bn (on DCF, INR 326/share) and the contract arm at INR 4.7bn (6x FY20 EBITDA, INR 49/share). Subtracting net debt of INR 24bn (INR 258/share), we arrive at a target price of INR 600/share.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	600
Upside/(Downside)	9.1%
Previous Price Target	480
Change	25.0%

Key Data – SOBHA IN	
Current Market Price	INR550
Market cap (bn)	INR52.1/US$0.8
Free Float	20%
Shares in issue (mn)	96.3
Diluted share (mn)	94.8
3-mon avg daily val (mn)	INR234.0/US$3.6
52-week range	695/345
Sensex/Nifty	34,305/10,528
INR/US$	65.5

Price Performance

%	1M	6M	12M
Absolute	8.2	17.1	46.3
Relative*	4.6	11.4	25.6

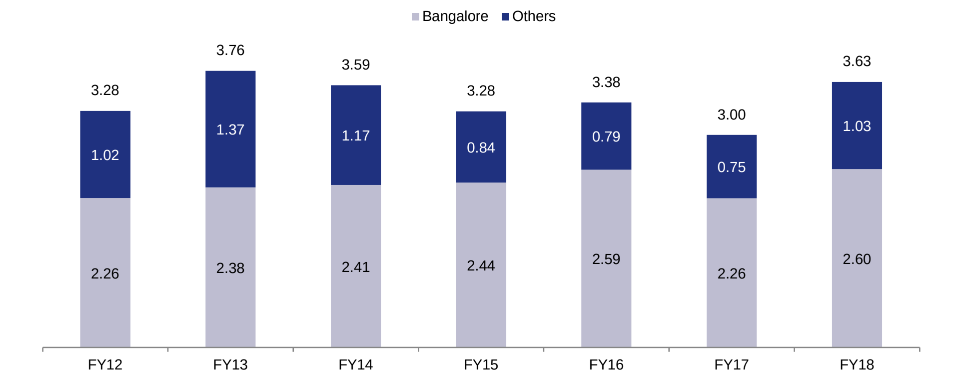
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	19,566	22,461	27,943	31,521	34,742
Sales Growth (%)	-19.6	14.8	24.4	12.8	10.2
EBITDA	4,519	4,255	5,363	6,157	7,018
EBITDA Margin (%)	23.0	18.9	19.2	19.5	20.2
Adjusted Net Profit	1,381	1,607	2,074	2,263	2,470
Diluted EPS (INR)	14.1	16.7	21.9	23.9	26.0
Diluted EPS Growth (%)	-42.0	18.5	31.0	9.1	9.2
ROIC (%)	4.7	4.7	6.7	7.2	7.9
ROE (%)	5.5	6.2	7.8	8.2	8.5
P/E (x)	39.1	33.0	25.2	23.1	21.1
P/B (x)	2.1	2.0	1.9	1.8	1.7
EV/EBITDA (x)	16.1	17.2	14.1	12.5	11.0
Dividend Yield (%)	0.4	0.5	1.5	1.5	1.5

Source: Company data, JM Financial. Note: Valuations as of 16/Apr/2018

- **Bangalore market remains the key with a 70-75% share:** Bangalore sales totalled 0.75msf, accounting for 69% of overall sales. In 4QFY18, the company recorded its highest quarterly sales in Bangalore since 4QFY15. The Dream series' phased launches have improved Sobha's product offerings in the sub INR 10mn segment, contributing c.40-50% to Bangalore sales. The company opened two buildings for sale during the quarter to tap incremental demand (0.2msf).

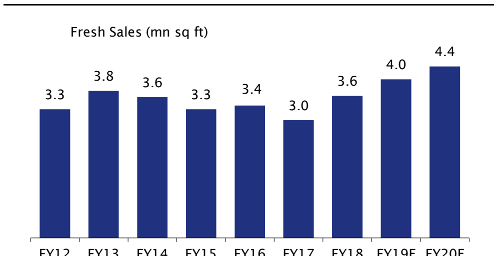
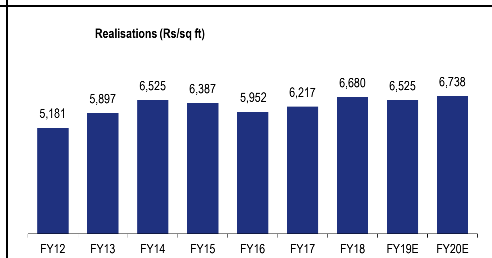
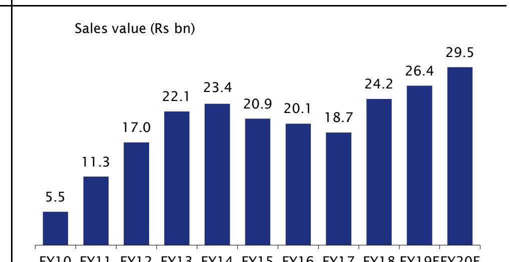
Exhibit 1. Material uptick in FY18 sales driven by Bangalore, Kochi and NCR (msf)



Source: Company, JM Financial

- We build in 8/11% volume/value CAGR over FY18-23 in our estimates.

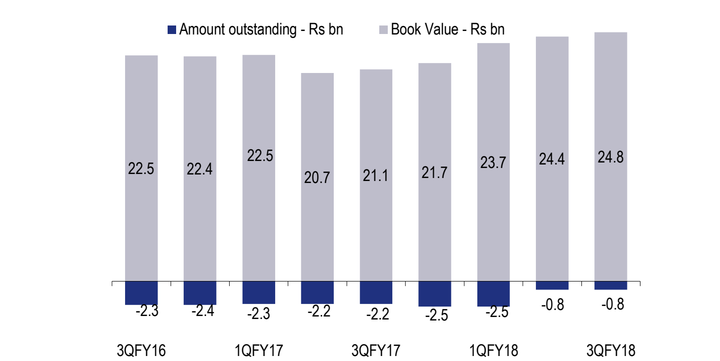
Exhibit 2. Operations expected to improve as the company benefits from RERA implementation

Pre-sales (msf)	Realisation (INR/sf)	Sales Value (INR bn)
		

Source: Company, JM Financial

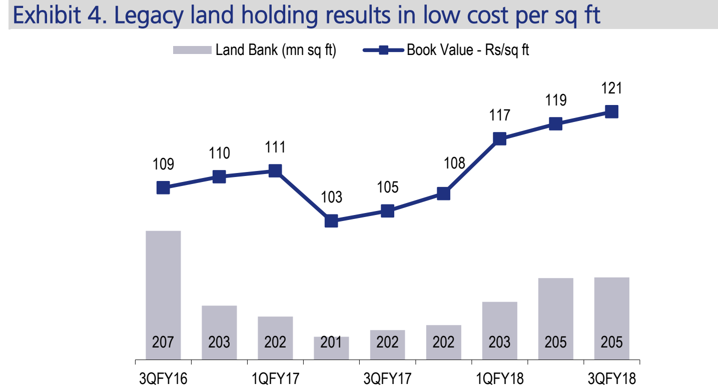
- **Business Development Value (BDV):** We factor in Sobha's recurring volume in Bangalore at 4msf, with a share of 75% of total sales. We factor in 25% margins on the back of higher execution of its land bank and better margins. We value BDV at INR 46.0bn (INR 485/share), at an implied 1.9x land bank book value.

Exhibit 3. Book value of land at INR 24.8bn



Source: Company, JM Financial

Exhibit 4. Legacy land holding results in low cost per sq ft



Source: Company, JM Financial

Exhibit 5. Business Development Value (BDV) calculations

	FY22	FY23	FY24	FY25	FY26	FY27
Bangalore (msf)	3.8	4.0	4.0	4.0	4.0	4.0
Business development volume (msf)	3.2	3.9	3.9	3.9	4.0	4.0
Others (msf)	1.3	1.3	1.3	1.3	1.3	1.3
Total Volume (msf)	5.1	5.4	5.4	5.4	5.4	5.4
Sales Realisation (INR/sf))	6500	6,825	7,166	7,525	7,901	8,296
Sales Value (INR mn)	33,098	36,582	38,411	40,332	42,348	44,466
Margin@ 25%	8,241	9,109	9,564	10,043	10,545	11,072
Tax	2,472	2,733	2,869	3,013	3,163	3,322
Post tax cash flows	5,769	6,376	6,695	7,030	7,381	7,750
Working Capital	-1,152	-1,210	-1,270	-1,334	-1,401	-1,471
FCF	4,617	5,166	5,425	5,696	5,981	6,280
Terminal Value						73,263
Total cash flow	**4,617**	**5,166**	**5,425**	**5,696**	**5,981**	**79,542**
NAV	45,767					
NAV/share	483					

Source: Company, JM Financial

- We build in 8/11% volume/value CAGR over FY18-23E. We value ongoing projects at INR 30bn (on DCF, INR 326/share) and the contract arm at INR 4.7bn (6x FY20 EBITDA, INR 49/share). Subtracting net debt of INR 24bn (INR 258/share), we arrive at a target price of INR 600/share including BDV value.

Exhibit 6. Sobha SoTP

	msf	INR mn	INR/sh	Comment
Real estate business	16	30,179	326	Valuing ongoing projects with sales completion by FY22
BDV/Land	204	45,767	483	BDV to land value at 1.9x
Contract business		4,685	49	6x FY20 EBITDA
SOTP Value		80,631	858	
Net Debt		24,441	258	
Target Price - Mar'19			600	

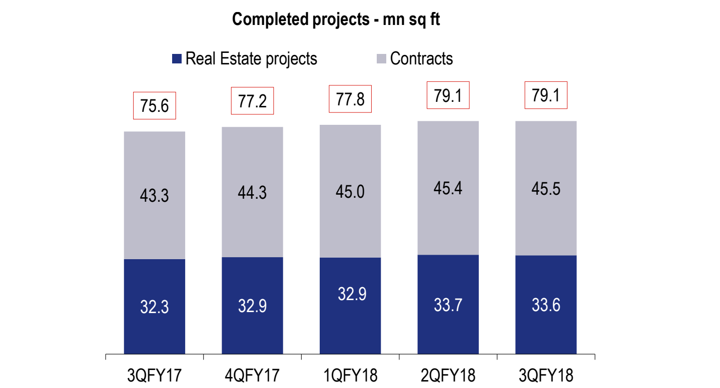
Source: Company, JM Financial

Exhibit 7. Direct cash flows

	FY13	FY14	FY15	FY16	FY17E	FY18	FY19	FY20
Operating Inflows	21.2	26.9	25.8	22.5	25.7	27.9	30.8	33.9
Construction Spend	12.3	16.9	19.2	14.6	15.4	18.2	19.2	20.2
Net Construction Inflow	**8.9**	**10.0**	**6.6**	**7.9**	**10.3**	**9.6**	**11.6**	**13.7**
Other Operating outflow	3.9	4.4	4.1	3.6	4.6	4.8	6.6	7.1
Net Operating Cash Flows (ex-land payment)	**5.0**	**5.6**	**2.5**	**4.3**	**5.8**	**4.8**	**5.0**	**6.7**
Land Payment	2.4	1.8	3.8	1.7	1.4	3.6	1.0	1.0
Net Operating Cash Flows (after land payment)	**2.6**	**3.8**	**-1.3**	**2.6**	**4.4**	**1.2**	**4.0**	**5.7**
Interest Cost	2.0	2.0	2.4	2.8	2.8	2.6	2.8	2.7
Other Cost	2.0	1.8	2.1	2.2	1.2	1.4	1.2	1.2
Net Cash Flow	**-1.4**	**0.1**	**-5.8**	**-2.3**	**0.4**	**-2.9**	**0.1**	**1.8**

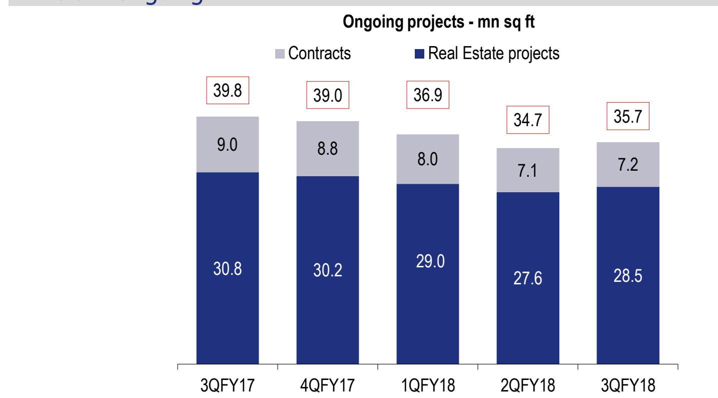
Source: Company, JM Financial

Exhibit 8. Completed projects



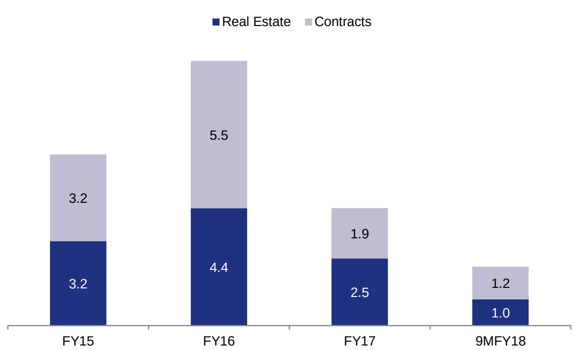
Source: Company, JM Financial

Exhibit 9. Ongoing



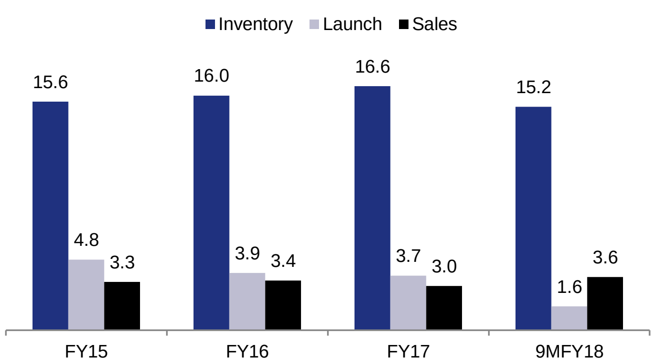
Source: Company, JM Financial

Exhibit 10. Completion details (msf)



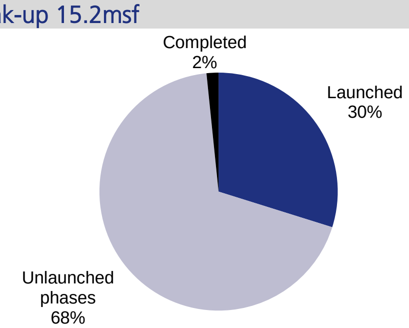
Source: Company, JM Financial

Exhibit 11. Inventory levels declining as sales exceed launches



Source: Company, JM Financial

Exhibit 12. Inventory break-up 15.2msf



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	19,566	22,461	27,943	31,521	34,742
Sales Growth	-19.6%	14.8%	24.4%	12.8%	10.2%
Other Operating Income	89	58	0	0	0
Total Revenue	**19,655**	**22,519**	**27,943**	**31,521**	**34,742**
Cost of Goods Sold/Op. Exp	10,243	13,191	16,128	18,452	20,376
Personnel Cost	1,762	1,779	1,957	2,055	2,157
Other Expenses	3,131	3,294	4,494	4,857	5,191
EBITDA	**4,519**	**4,255**	**5,363**	**6,157**	**7,018**
EBITDA Margin	23.0%	18.9%	19.2%	19.5%	20.2%
EBITDA Growth	-26.8%	-5.8%	26.0%	14.8%	14.0%
Depn. & Amort.	597	638	540	588	629
EBIT	3,922	3,617	4,823	5,570	6,389
Other Income	254	328	330	81	53
Finance Cost	1,637	1,497	2,034	2,248	2,728
PBT before Excep. & Forex	2,539	2,448	3,119	3,403	3,715
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,539	2,448	3,119	3,403	3,715
Taxes	1,188	970	1,045	1,140	1,244
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	30	129	0	0	0
Reported Net Profit	1,381	1,607	2,074	2,263	2,470
Adjusted Net Profit	**1,381**	**1,607**	**2,074**	**2,263**	**2,470**
Net Margin	7.0%	7.1%	7.4%	7.2%	7.1%
Diluted Share Cap. (mn)	98.1	96.3	94.8	94.8	94.8
Diluted EPS (INR)	**14.1**	**16.7**	**21.9**	**23.9**	**26.0**
Diluted EPS Growth	-42.0%	18.5%	31.0%	9.1%	9.2%
Total Dividend + Tax	236	290	914	914	914
Dividend Per Share (INR)	2.0	2.5	8.0	8.0	8.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	25,647	26,445	26,984	28,333	29,889
Share Capital	981	963	948	948	948
Reserves & Surplus	24,666	25,482	26,036	27,385	28,941
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	21,080	21,797	23,297	24,797	24,797
Def. Tax Liab. / Assets (-)	2,349	2,663	2,663	2,663	2,663
Total - Equity & Liab.	**49,076**	**50,905**	**52,944**	**55,793**	**57,349**
Net Fixed Assets	6,181	5,952	5,912	5,769	5,525
Gross Fixed Assets	5,727	5,153	5,653	6,098	6,482
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	0	0	540	1,128	1,757
Capital WIP	454	799	799	799	799
Investments	294	0	0	0	0
Current Assets	74,136	82,958	86,145	93,231	95,555
Inventories	42,649	50,960	53,717	59,303	60,203
Sundry Debtors	2,787	2,410	2,484	3,065	3,324
Cash & Bank Balances	1,185	1,469	729	356	357
Loans & Advances	7,348	8,994	10,090	11,383	12,546
Other Current Assets	20,167	19,125	19,125	19,125	19,125
Current Liab. & Prov.	31,535	38,005	39,112	43,206	43,730
Current Liabilities	3,182	7,693	7,762	8,756	9,650
Provisions & Others	28,353	30,312	31,350	34,451	34,079
Net Current Assets	42,601	44,953	47,033	50,024	51,825
Total – Assets	**49,076**	**50,905**	**52,945**	**55,793**	**57,349**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	2,569	2,577	3,119	3,403	3,715
Depn. & Amort.	597	638	540	588	629
Net Interest Exp. / Inc. (-)	1,637	1,497	2,034	2,248	2,728
Inc (-) / Dec in WCap.	-1,505	-1,113	-2,374	-2,967	-1,799
Others	-89	-328	-330	-81	-53
Taxes Paid	-619	-970	-1,045	-1,140	-1,244
Operating Cash Flow	**2,591**	**2,301**	**1,944**	**2,050**	**3,974**
Capex	-1,442	574	-500	-445	-385
Free Cash Flow	1,149	2,875	1,444	1,605	3,589
Inc (-) / Dec in Investments	43	0	0	0	0
Others	51	328	330	81	53
Investing Cash Flow	**-1,349**	**902**	**-170**	**-363**	**-331**
Inc / Dec (-) in Capital	0	-594	-620	0	0
Dividend + Tax thereon	-686	-196	-914	-914	-914
Inc / Dec (-) in Loans	1,774	717	1,500	1,500	0
Others	0	0	0	0	0
Financing Cash Flow	**-1,607**	**-2,890**	**-2,514**	**-2,059**	**-3,642**
Inc / Dec (-) in Cash	**-366**	**313**	**-740**	**-372**	**1**
Opening Cash Balance	1,631	1,185	1,469	729	356
Closing Cash Balance	1,266	1,498	729	356	357

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	7.0%	7.1%	7.4%	7.2%	7.1%
Asset Turnover (x)	0.4	0.5	0.6	0.6	0.6
Leverage Factor (x)	1.9	1.8	1.9	1.9	1.9
RoE	5.5%	6.2%	7.8%	8.2%	8.5%

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	261.4	274.6	284.5	298.7	315.1
ROIC	4.7%	4.7%	6.7%	7.2%	7.9%
ROE	5.5%	6.2%	7.8%	8.2%	8.5%
Net Debt/Equity (x)	0.8	0.8	0.8	0.9	0.8
P/E (x)	39.1	33.0	25.2	23.1	21.1
P/B (x)	2.1	2.0	1.9	1.8	1.7
EV/EBITDA (x)	16.1	17.2	14.1	12.5	11.0
EV/Sales (x)	3.7	3.2	2.7	2.5	2.2
Debtor days	52	39	32	35	35
Inventory days	792	826	702	687	633
Creditor days	77	154	125	126	127

Source: Company, JM Financial

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Annexures

Annexure 1

RERA update

Exhibit 1. Statewise implementation of RERA

Fully operational	Interim regulator +portal launched	Interim regulator, no portal	Rules yet to be notified
Punjab, Rajasthan, Gujarat, Maharashtra, Madhya Pradesh	Himachal Pradesh, Uttarakhand, Haryana, Uttar Pradesh, Chattisgarh, Andhra Pradesh, Karnataka, Kerala, Puducherry, Tamil Nadu, Bihar	Jharkhand, Odisha, Telangana	Sikkim, Assam, Meghalaya, Nagaland, Manipur, Mizoram, West Bengal, Arunachal Pradesh, Manipur, Mizoram, Arunachal Pradesh

Source: Industry, Company

RERA key verdicts

MahaRERA

Orders on registration and compliance

RERA pulls up real estate firm for misleading public, fines Rs1.2lakh: Barely after a month since RERA was put in place, Maharashtra Real Estate Regulatory Authority (RERA) has already penalised a real estate agent (firm) of Rs1.2lakh. (Source)

MahaRERA to slap minimum Rs 1 lakh penalty for ongoing project registration delay (Source)

MahaRERA doubles penalty for ongoing project registration post September 1 (Source)

Mumbai: Eight developers penalised for not following RERA norms: MahaRERA has imposed penalties of INR0.2mn to INR1mn to at least eight developers for not following norms under RERA act while publishing their advertisements. This comes after the Chairman of Mumbai Grahak Panchayat filed a complaint against these developers. These developers had not published their RERA registration number and the website name where the details of their project needs to be posted as per rules (Source)

MahaRERA Imposes INR5mn Fine On Builder's Company: Piramal Realty has been penalised for violating the norms set by MahaRERA for advertisements. The Company's registration number with MahaRERA was printed in small letters and the details of the advertisement were not available on MahaRERA's website. (Source)

Orders on Compensation

MAHARERA order says act's provisions are 'retroactive': The Maharashtra Real Estate Regulatory Authority (MahaRERA) has ordered Karnik Developers to refund a home buyer a sum of Rs 45.22 lakh with interest at 10.15 per cent from September 1, 2014 onwards for delayed possession of a bungalow in a weekend luxury villa project in Murbad, Thane. the developer had challenged the jurisdiction of MahaRERA to adjudicate the dispute. He contended that there is no relation of buyer and developer (allottee and promoter) between the parties. Ruling on the matter, the adjudicating officer said that Section 3 of RERA specifies the real estate projects which require the registration. RERA Authority gets jurisdiction over all real estate projects which are eligible for registration irrespective of the fact as to whether they are registered or not (Source)

Maharashtra RERA directs builder to refund Rs2.6mn to homebuyer: Following the intervention of the Maha-RERA, a home-buyer was able to get the refund of Rs2.615mn from a builder, who had failed to hand over possession of the flat with a stipulated time. (Source)

Maha RERA asks developer to pay up for delaying possession: The Real Estate Regulatory Authority (RERA) has directed Nirmal Lifestyle Developers to pay a loan interest of a homebuyer's flat for delaying the possession date by two years. (Source)

Maharera orders builder to refund Rs19.4mn: the Maharashtra Real Estate Regulatory Authority (MahaRERA) directed Runwal Homes to refund the amount invested by a couple in an apartment in one of its upcoming projects. (Source)

Maharashtra 1st state to form RERA arbitration panel: Maharashtra will be the first state in India to form a conciliation committee under the new Real Estate (Regulation and Development) Act (RERA), comprising a panel representing builders and consumer groups to arbitrate complaints. (Source)

Maharashtra RERA asks Sheth Group to waive off homebuyer's 5% payment for possession delay: The Maharashtra Real Estate Regulatory Authority (MahaRERA) has asked realty developer Sheth Infraworld to waive off the balance 5% consideration to be recovered from a homebuyer against delay in delivery of an apartment. (Source)

Orders on project execution

Builder ordered to hand over project 9 yrs before deadline: A dispute over non-payment of dues in an ongoing housing project in Andheri was settled by the MahaRERA which ordered two flat buyers to pay up a major portion of the apartment cost and asked the builder to hand over the project nine years before the deadline. They pointed that the developer set the Dec'27 as the deadline to hand over their flats while registering the project with MahaRERA. While the agreement didn't mention any completion date, they claimed that such a long delay was unwarranted. Acknowledging this, MahaRERA chairman Gautam Chatterjee revised the project completion deadline to December 2018. (Source)

Builder asked to advance possession date: The Maharashtra Real Estate Regulatory Authority (MahaRERA) granted relief to two home buyers who had paid 95 per cent of cost of the flats booked in Kavya Residency at Thane's Ghodbunder Road in 2013 and directed the developer Ms Kavya Mira Realty to advance possession date from December 2019 to March 2018. (Source)

MahaRERA chief helps restart stalled project: In an order, the Maharashtra Real Estate Regulatory Authority (MahaRERA) has succeeded in negotiating a settlement between the developer and home buyers of Tanvi Eminence housing project in Mira Road, stalled since 2013 because of a squabble between the four promoters. They will complete five wings of the 18-storey buildings in Phase I, and three buildings of 11-storeys in Phase II, and deliver possession to 181 home buyers by December 31, 2019, with a further grace period of three months. (Source)

MahaRERA tells developer to prepone possession date by seven years: The RERA bench ordered for preponement of the possession date of the project from 2025 to 2018. The complainant, approached the RERA bench against developer Kamalnath Universal Private Limited, redeveloping the Purvanchal Co-operative Housing Society located in Mulund. (Source)

Housing regulator now asks Maha govt officials to explain delays in project clearance: Hearing a case filed by a group of buyers against M/s Mount Mary Builders and M/s Akshar Space Private Limited over the delay in giving them flats in Green World project at Airoli, MahaRERA summoned officials from Navi Mumbai Municipal Corporation (NMMC) to understand the reason for delays in clearances. (Source)

Orders on regulations/clarification

Investor isn't allotee; just co-promoter- Rera: The essence of this order is that authority will choose end-users or homebuyers over investors, giving preference to their grievances. (Source)

Promoters asked to notify maharera, buyers before selling majority stake (Source)

Plot owner or society not liable in case of default by builder (Source)

Co-Promoters Are Now Promoters Under Maharashtra RERA: MahaRERA in its circular no 12/2017 have directed that the Land owners/investors having area/revenue share in RE projects will now be treated as promoters. In the circular it is directed that; **1)** Promoters being landowners or investors shall be specified as such at the time of online registration with MahaRERA; **2)** Liabilities of landowner/investor promoter shall be as mentioned in the written agreement in the project, however, for the purpose of withdrawal from the designated bank account of the project, obligations/liabilities of such promoters shall be at par with each other; **3)** Agreement/arrangement copy between promoters specifying the rights and shares of each promoter should be uploaded on the MahaRERA website; **4)** landowner/investor promoter should submit declaration in Form B of Maharashtra Real Estate Rules (registration of RE project, registration of RE agents, rates of interest and disclosures on website); **5)** each landowner/investor promoter entitled to the share of total area developed, should open a separate bank account for depositing 70% of the sale proceeds realized from allottees of their share. (Source)

MahaRERA to form 15 conciliation teams to resolve homebuyers' complaints (Source)

In case a homebuyer fails to register their agreement with a developer within the stipulated time, the developer can cancel the booking. (Source)

MahaRERA forms 33-member forum to set up conciliation teams (Source)

MahaRERA asks promoters to fully disclose legal tangles: While hearing a complaint against a Punebased builder for promoting a project that is embroiled in a legal tussle, the Maharashtra Real Estate Regulatory Authority (MahaRERA) has ruled that it is not enough for developers to mention legal disputes pending before courts in their Legal Title Report, but the information should also be clearly mentioned in the Litigation Details section on their registration page on the agency's online portal. (Source)

RERA to oversee redevelopment of Mumbai's old buildings (Source)

Agreement or not, details must be on MahaRERA website: Now, developers will have to update information regarding flats sold on the Maharashtra Real Estate Regulatory Authority (MahaRERA) website even if the agreement for sale hasn't been registered. (Source)

RERA forum resolves 4 city disputes on day 1: The Maharashtra Real Estate Regulatory Authority (MahaRERA) succeeded in resolving six of the 16 disputes heard by the conciliation forum in its first ever hearings.(Source)

Karnataka RERA

About 300 real estate developers in Karnataka to be penalised for missing RERA deadline (Source)

RERA to rope in pvt entity to identify unregistered real estate projects: Karnataka Real Estate Regulatory Authority (RERA) is planning to employ a private entity to find unregistered housing projects. (Source)

UP RERA

UP Rera gets 900 complaints, 600 of them on GB Nagar: UP RERA received of 900 complaints of which 600 are related to GB Nagar. (Source)

Haryana RERA

RERA helps Haryana mop up INR11.7bn as EDC from realtors: The interim Haryana Real Estate Regulatory Authority (H-Rera) has recovered INR11.7bn in external development charges (EDC) from developers across the state in just three months, from August to October this year. The amount has been recovered from developers who had not paid the mandatory EDC for their real estate projects in the state but had to do so to get their new projects registered under the new real estate law. The EDC collection was a major achievement for the newly formed body and might cross the INR20bn-mark as more registrations happen under the new law, as per the interim director of H-Rera. (Source)

Over 250 builders flouting Rera norms in Haryana: More than 250 builders, covered under the jurisdiction of the Panchkula bench of Haryana Real Estate Regulatory Authority (HRera-Panchkula), have not applied for the mandatory registration of their incomplete projects. (Source)

India, Japan firms' JV fined INR3mn by H-Rera: In its first hearing, the Gurugram bench of Haryana Real Estate Regulatory Authority (H-Rera) imposed a penalty of INR3mn on an Indo-Japanese joint venture firm for advertising its project even before registering it with the authority. (Source)

Annexure 2

Operations Snapshot

Exhibit 2. Pre-Sales (msf)

Pre-sales (volume msf)	0	FY12	FY13	FY14	FY15	FY16	FY17	9MFY18
Prestige	Bangalore	4.91	5.99	6.15	6.70	4.26	3.07	2.27
Sobha	Bangalore	3.28	3.76	3.59	3.28	3.38	3.00	2.61
Brigade	Bangalore	1.60	1.87	2.63	2.80	2.25	1.63	1.14
Puravankara	Bangalore	2.44	3.93	3.57	2.87	1.97	2.09	2.03
Oberoi	Mumbai	0.70	0.50	0.28	1.03	1.31	0.57	0.42
Mahindra Lifespaces	Mumbai	1.20	1.14	0.86	1.38	1.16	0.91	0.74
HDIL	Mumbai	0.00	0.00	0.00	1.34	1.33	1.54	0.00
Indiabulls Real estate	Mumbai	3.92	2.55	3.40	1.88	3.72	0.00	1.61
Godrej	Mumbai/NCR	2.53	4.08	2.97	3.88	4.32	3.11	4.79
DLF	NCR	13.55	7.24	3.74	2.26	1.13	0.21	0.50
Unitech	NCR	7.18	5.47	2.33	1.30	1.29	2.67	0.00
Kolte Patil	Pune	2.87	2.61	2.12	2.85	2.05	2.10	1.59
Phoenix Mills	Mumbai	0.00	0.00	0.00	0.00	0.33	0.01	0.04
Sunteck	Mumbai	0.00	0.00	0.00	0.20	0.23	0.00	0.00
Ashiana	Delhi	1.78	1.87	2.21	1.81	0.86	0.69	0.47
Total	0	**40.3**	**36.6**	**28.2**	**29.1**	**23.2**	**17.4**	**16.60**

Source: Company, JM Financial

Exhibit 3. Pre- Sales Value

Pre-sales (value mn)		FY12	FY13	FY14	FY15	FY16	FY17	9MFY18
Prestige	Bangalore	21,127	31,221	36,323	43,624	26,328	19,799	15,019
Sobha	Bangalore	17,015	22,147	23,426	20,949	20,119	18,662	17,659
Brigade	Bangalore	6,887	7,861	13,444	14,215	12,490	9,555	6,616
Puravankara	Bangalore	8,753	15,178	15,950	14,234	8,860	11,410	10,850
Oberoi	Mumbai	9,607	8,687	6,618	17,613	23,506	15,208	10,466
Mahindra Lifespaces	Mumbai	5,888	4,442	3,710	7,070	8,300	5,370	4,050
Indiabulls Real estate	Mumbai	19,820	30,020	30,760	20,370	29,190	25,370	19,730
Godrej	Mumbai/NCR	15,978	27,620	24,380	26,800	50,380	20,200	40,290
DLF	NCR	52,780	38,150	40,700	38,638	31,609	11,622	3,000
Unitech	NCR	38,080	28,070	15,030	8,280	9,630	8,058	0
Kolte Patil	Pune	0	12,500	11,344	16,770	12,625	12,202	9,194
Sunteck	Mumbai	0	0	0	5,106	5,504	6,464	4,016
Ashiana	Delhi	3,904	5,034	6,476	5,477	2,842	2,251	1,463
Total		**1,41,938**	**1,72,839**	**1,82,370**	**2,10,497**	**2,07,961**	**1,32,709**	**1,23,378**

Source: Company, JM Financial

Exhibit 4. Launch (msf)

Launches		FY12	FY13	FY14	FY15	FY16	FY17	9MFY18
Prestige	Bangalore	0	10.38	15.66	14.60	8.35	1.98	0.00
Sobha	Bangalore	10.45	2.64	5.72	4.80	3.89	3.71	0.98
Brigade	Bangalore	0	0	1.52	6.28	4.01	1.25	2.03
Puravankara	Bangalore	0	6.87	4.26	1.12	2.46	4.77	0.04
Oberoi	Mumbai	0	0	0	1.36	2.32	1.80	0.50
Mahindra Lifespaces	Mumbai	0	0	0	2.40	1.23	0.58	0.50
HDIL	Mumbai	0	0	0	0.00	0.00	0.00	0.00
Indiabulls Real estate	Mumbai	0	0	0	4.39	1.44	0.00	0.00
Godrej	Mumbai/NCR	0	0	0	1.99	3.64	2.23	3.70
DLF	NCR	11.47	17.84	9.59	0.57	0.00	-1.75	-1.75
Unitech	NCR	7.8	3.97	5.8	0.64	1.28	2.09	0.00
Kolte Patil	Pune	0	0	0	0.00	0.00	0	0.00
Phoenix Mills	Mumbai	0	0	0	0.00	1.02	0	0.00
Sunteck	Mumbai	0	0	0	0.00	0.00	0	0.00
Ashiana	Delhi	0	0	0	0.00	0.00	0	0.00
Total	0	**29.7**	**41.7**	**42.6**	**38.1**	**28.3**	**14.6**	**6.00**

Source: Company, JM Financial

Exhibit 5. Debt (INR mn)

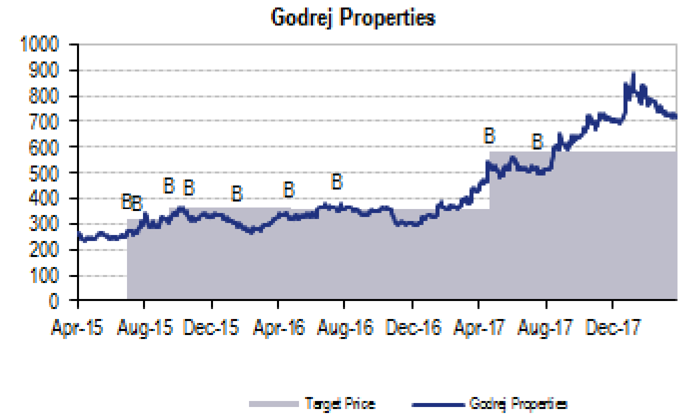
Debt		FY12	FY13	FY14	FY15	FY16	FY17
Prestige	Bangalore	16,768	20,509	25,236	32,166	51,118	52,074
Sobha	Bangalore	11,998	13,295	12,340	18,129	20,604	20,736
Brigade	Bangalore	8,021	9,498	7,778	12,541	17,902	19,533
Puravankara	Bangalore	12,454	15,331	15,216	15,570	18,860	20,020
Oberoi	Mumbai	12,934	10,725	-4,679	5,444	1,973	3,443
Mahindra Lifespaces	Mumbai	1,986	7,065	12,114	11,019	13,985	6,516
HDIL	Mumbai	38,555	38,215	32,848	30,422	28,052	24,216
Indiabulls Real estate	Mumbai	18,887	11,950	24,140	54,800	74,350	83,260
Godrej	Mumbai/NCR	14,866	14,970	17,000	27,640	25,630	34,990
DLF	NCR	2,27,250	2,17,310	1,85,260	2,09,650	2,22,020	2,50,960
Kolte Patil	Pune	0	0	1,360	1,440	4,050	4,550
Phoenix Mills	Mumbai	14,989	20,576	32,684	31,680	36,610	38,686
Sunteck	Mumbai	0	4,670	5,698	9,638	11,423	11,423
Ashiana	Delhi	-218	-437	-449	-265	-372	-372
Total		**4,31,442**	**4,35,646**	**4,21,717**	**4,39,481**	**5,01,169**	**5,58,984**

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

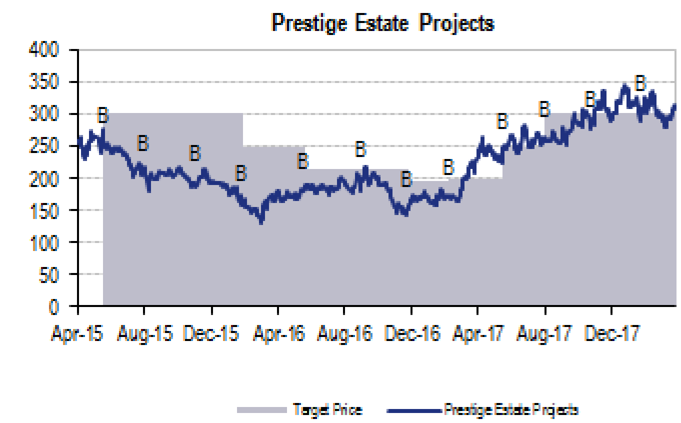
Recommendation History



History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
3-Jun-15	Buy	300	
13-Aug-15	Buy	300	0.0
16-Nov-15	Buy	300	0.0
11-Feb-16	Buy	250	-16.7
1-Jun-16	Buy	215	-14.0
16-Sep-16	Buy	215	0.0
9-Dec-16	Buy	195	-9.3
23-Feb-17	Buy	200	2.6
31-May-17	Buy	250	25.0
17-Aug-17	Buy	300	20.0
8-Nov-17	Buy	300	0.0
9-Feb-18	Buy	300	0.0

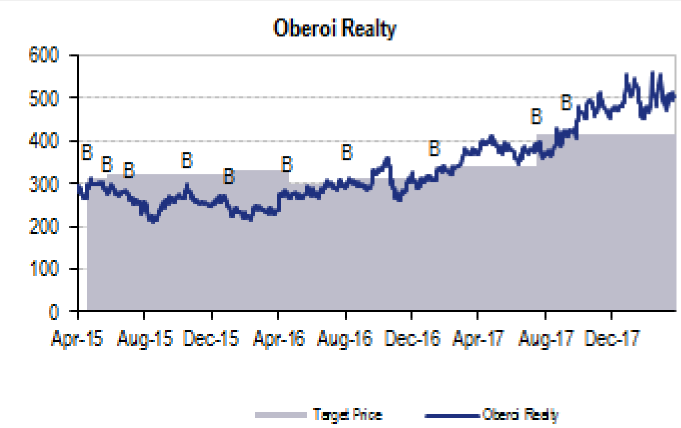
Recommendation History



History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
5-May-15	Buy	310	
11-Jun-15	Buy	320	3.2
21-Jul-15	Buy	320	0.0
4-Nov-15	Buy	320	0.0
19-Jan-16	Buy	330	3.1
2-May-16	Buy	300	-9.1
18-Aug-16	Buy	310	3.3
27-Jan-17	Buy	340	9.7
1-Aug-17	Buy	415	22.1
25-Sep-17	Buy	415	0.0

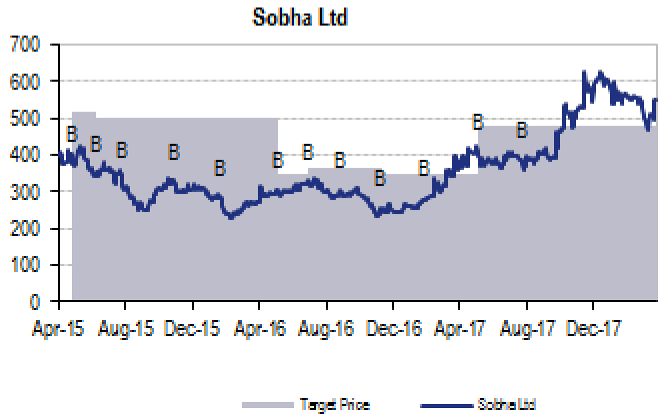
Recommendation History



History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
13-May-15	Buy	515	
23-Jun-15	Buy	500	-2.9
10-Aug-15	Buy	500	0.0
13-Nov-15	Buy	500	0.0
7-Feb-16	Buy	500	0.0
19-May-16	Buy	350	-30.0
14-Jul-16	Buy	365	4.3
11-Sep-16	Buy	365	0.0
22-Nov-16	Buy	350	-4.1
10-Feb-17	Buy	350	0.0
18-May-17	Buy	480	37.1
7-Aug-17	Buy	480	0.0

Recommendation History



Notes

Notes

APPENDIX I

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