

**JANUARY 29, 2019**
**RESULT**

Coverage view: **Neutral**

Price (₹): **743**

Fair Value (₹): **400**

BSE-30: **35,657**

**Strong pre-sales.** Godrej Properties reported 25% yoy growth in pre-sales at Rs15.2 bn aided by the launch of six projects (5.9 mn sq. ft) that contributed sales of Rs10 bn during 3QFY19. Cash generation remained weak as cash inflows from recently launched projects will likely follow through in subsequent quarters. Maintain our SELL rating with fair value of Rs400/share noting expensive valuations and large contribution from future developments in NAV.

**Company data and valuation summary**

Godrej Properties

**Stock data**

52-week range (Rs) (high,low) 920-460

Market Cap. (Rs bn) 170.3

**Shareholding pattern (%)**

Promoters 70.8

FIs 14.4

MFs 1.3

**Price performance (%)**

Absolute 1M 3M 12M 11.2 40.4 (9.3)

Rel. to BSE-30 12.5 31.4 (8.3)

**Forecasts/Valuations**

2019E 2020E 2021E

EPS (Rs) 7.1 23.5 24.5

EPS growth (%) (34.6) 230.7 4.2

P/E (X) 104.7 31.6 30.4

Sales (Rs bn) 23.5 27.3 21.0

Net profits (Rs bn) 1.6 5.4 5.6

EBITDA (Rs bn) 1.1 6.5 6.4

EV/EBITDA (X) 174.7 28.8 28.5

ROE (%) 5.8 14.6 13.3

Div. Yield (%) 0.0 0.0 0.0

**Strong pre-sales on the back of six new project launches**

Godrej Properties reported consolidated sales of Rs15.2 bn up 25% yoy—the strongest sales performance for a quarter. Sales volume at 2.8 mn sq. ft (+96% yoy) yielded blended realization of Rs5,449/sq. ft (-36% yoy). Lower realizations can be attributed to (1) sale of plotted development in Bengaluru (Godrej Reserve) at realization of Rs3,290/sq. ft, and (2) sale of 0.2 mn sq. ft in Ahmedabad (Godrej Green Glades) at Rs3,315/sq. ft. During the quarter six new projects/phases were launched across six locations (5.9 mn sq. ft) with an aggregate sales value of Rs10 bn (2.16 mn sq. ft at realization of Rs4,672/sq. ft). GPL reported revenues of Rs3.4 bn (-46% yoy, -14% qoq) in 3QFY19 with negative EBITDA of Rs387 mn (-184% yoy, +233% qoq). Gross profit margin at 15.8% declined sequentially, and was well below the average gross profit margin of 22.3% seen in FY2018. We highlight the recognition of Rs421 mn as share of profit in joint ventures that allowed the company to report a PAT of Rs416 mn during the quarter. We note that change of revenue recognition to project completion method brings a lot of skew/lumpiness to reported earnings for real estate companies.

**Cash collection remained weak as launches were skewed to latter half of the quarter**

GPL reported operating cash flows of Rs100 mn in 3QFY19 weak in comparison to operating cash flow of the preceding eight quarters. Weak cash collection (Rs9.2 bn in 3QFY19) coupled with consistent project execution (Rs4.9 bn in 3QFY19) resulted in poor operational cash flows. Net cash flow after accounting adjustments stood at negative Rs2.5 bn for 3QFY19 due to payment of Rs1.1 bn to JV partners.

**Strong launch activity with launch of six projects during the quarter**

During the quarter, GPL launched six projects with an aggregate area of 5.9 mn sq. ft. Consequently, total projects under implementation currently stand at 148.3 mn sq. ft spread across 68 projects and 11 cities. We highlight that the company had exited from Hyderabad last quarter in line with its strategy to focus on the top-4 strength cities. We highlight that the company has entered into a JV with Hero Cycles and Godrej Fund management for developing 1 mn sq. ft of commercial space in Gurgaon to be sold on lease basis.

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**Maintain SELL with fair value of Rs400/share**

GPL is recovering operations with the help of favorable project structures, concentrated market approach and strong pre-sales. We expect GPL to continue generating positive cash flow from operations. At 4.3X March 2020 BV and with 50% of value for new projects despite the lag in new project development, GPL continues to be expensive versus sector peers. GPL's business model on JVs and hence its reporting structure for financials is complex.

**Exhibit 1: Operating cash flows remained weak in 3QFY19 at Rs100 mn; collections for 9MFY18 were at Rs31.6 bn**

GPL: Gross OCF, March fiscal year-ends, 1QFY17-3QFY19 (Rs mn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Operating cash inflow	5,790	8,550	4,370	6,970	11,670	7,400	9,020	12,770	11,280	11,100	9,180
Construction and related outflow	(3,760)	(3,620)	(3,160)	(3,490)	(2,590)	(2,590)	(2,640)	(3,600)	(5,050)	(4,600)	(4,920)
Other project related outflow	(1,570)	(1,520)	(1,280)	(1,360)	(2,490)	(2,540)	(3,260)	(2,350)	(3,470)	(2,700)	(2,950)
Interest and related outflow	(990)	(1,110)	(1,020)	(1,590)	(1,050)	(1,120)	(940)	350	(1,180)	(1,290)	(1,210)
PE exits	(2,490)	—	—	—	—	—	—	—	—	—	—
<b>Operating cash flow</b>	<b>(3,020)</b>	<b>2,300</b>	<b>(1,090)</b>	<b>530</b>	<b>5,540</b>	<b>1,150</b>	<b>2,180</b>	<b>7,170</b>	<b>1,580</b>	<b>2,510</b>	<b>100</b>
Land and approval costs	(530)	(1,310)	(1,370)	(2,730)	(860)	(1,570)	(1,240)	(2,530)	(3,110)	(1,670)	(1,720)
Advance to JV partners	(130)	(120)	(10)	(340)	(180)	(290)	(280)	(1,460)	(90)	(330)	(1,090)
<b>Net cash flow</b>	<b>(3,680)</b>	<b>870</b>	<b>(2,470)</b>	<b>(2,540)</b>	<b>4,500</b>	<b>(710)</b>	<b>660</b>	<b>3,180</b>	<b>(1,620)</b>	<b>510</b>	<b>(2,710)</b>
Ind-AS adjustments	2,000	(220)	—	160	(430)	410	(80)	(990)	2,330	1,860	140
<b>Net cash flow</b>	<b>(1,680)</b>	<b>650</b>	<b>(2,470)</b>	<b>(2,380)</b>	<b>4,070</b>	<b>(300)</b>	<b>580</b>	<b>2,190</b>	<b>710</b>	<b>2,370</b>	<b>(2,570)</b>

Source: Company, Kotak Institutional Equities

**Exhibit 2: Contribution from projects like Trees and Godrej BKC has reduced during the quarter**

GPL: Revenue contribution, March fiscal year-ends, 3QFY16-3QFY19 (Rs mn)

		3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Godrej Trees	Mumbai	—	—	—	—	3,350	2,920	750	730	1,000	3,410	—	720	630
Godrej Garden City	Ahmedabad	320	240	260	260	250	320	330	110	190	—	—	—	760
Godrej BKC	Mumbai	790	1,770	1,090	1,830	460	110	150	2,890	4,240	—	8,400	—	—
Godrej Summit	Gurgaon	630	920	640	520	430	—	170	220	—	460	—	—	—
Other projects		1,310	910	1,340	960	800	1,150	1,087	973	840	4,620	2,150	7,170	13,650
<b>Total</b>		<b>4,500</b>	<b>5,330</b>	<b>3,038</b>	<b>3,296</b>	<b>5,183</b>	<b>4,313</b>	<b>2,487</b>	<b>4,923</b>	<b>6,270</b>	<b>8,490</b>	<b>10,550</b>	<b>7,890</b>	<b>15,040</b>
Contribution (%)														
Godrej Trees	Mumbai	—	—	—	—	65	68	30	15	16	40	—	9	4
Godrej Garden City	Ahmedabad	7	5	9	8	5	7	13	2	3	—	—	—	5
Godrej BKC	Mumbai	18	33	36	56	9	3	6	59	68	—	80	—	—
Godrej Summit	Gurgaon	14	17	21	16	8	—	7	4	—	5	—	—	—
Other projects		29	17	44	29	15	27	44	20	13	54	20	91	91
<b>Gross margins (%)</b>		<b>33</b>	<b>16</b>	<b>32</b>	<b>26</b>	<b>35</b>	<b>32</b>	<b>28</b>	<b>31</b>	<b>21</b>	<b>13</b>	<b>14</b>	<b>17</b>	<b>16</b>
<b>EBITDA margins (%)</b>		<b>19</b>	<b>10</b>	<b>13</b>	<b>7</b>	<b>23</b>	<b>15</b>	<b>(7)</b>	<b>15</b>	<b>7</b>	<b>(21)</b>	<b>7</b>	<b>(3)</b>	<b>(11)</b>

Source: Company, Kotak Institutional Equities

**Exhibit 3: EBITDA remained negative on account of higher marketing expenses in 3QFY19**

GPL: Results snapshot, March fiscal year-ends (Rs mn)

	3QFY19	3QFY19E	3QFY18	2QFY19	% change			9MFY19	9MFY18	% chg.	FY2019E	FY2018	% chg.
					3QFY19E	3QFY18	2QFY19						
Net sales	3,401	5,816	6,270	3,933	(42)	(46)	(14)	17,300	13,680	26	23,549	18,892	25
Operating costs	(3,788)	(5,167)	(5,808)	(4,049)	(27)	(35)	(6)	(17,135)	(12,649)	35	(22,494)	(18,936)	19
EBITDA	(387)	649	462	(116)	(160)	(184)	233	166	1,031		1,056	(44)	
Other income	906	356	473	938	155	92	(3)	2,545	1,874	36	3,877	5,015	(23)
Interest costs	(542)	(588)	(378)	(615)	(8)	44	(12)	(1,748)	(1,095)	60	(2,337)	(1,501)	56
Depreciation	(38)	(46)	(42)	(35)	(18)	(10)	9	(106)	(118)	(10)	(177)	(161)	10
PBT	(61)	371	515	172	(116)	(112)	(136)	857	1,692		2,419	3,308	
Taxes	56	(111)	(212)	170	(150)	(126)	(67)	(62)	(676)	(91)	(822)	(1,019)	(19)
PAT	(5)	260	303	342	(102)	(102)	(101)	795	1,016		1,596	2,289	
Share of profit from associates	421	—	(44)	(136)	NA	(1,064)	(409)	170	(82)		(30)	(73)	
Adjusted PAT	416	260	259	206	(102)	(1,165)	(511)	965	935		1,566	2,216	
EPS (Rs/share)	1.8	1.1	1.2	0.9				4.2	4.3		7.0	10.6	
<b>Key ratios</b>													
EBITDA margin (%)	(11.4)	11.2	7.4	(3.0)				1.0	7.5		4.5	(0.2)	
PAT margin (%)	12.2	4.5	4.1	5.2				4.6	7.4		6.8	12.1	
Effective tax rate (%)	92.1	30.0	41.2	(99.0)				7.2	39.9		34.0	30.8	
<b>Operational (a)</b>													
Resi. sales (mn sq. ft)	2.77		1.31	1.07		112	159	4.9	4.7	6		6.1	
Comm. sales (mn sq. ft)	0.03		0.12	0.05		(72)	(27)	0.1	0.2	(31)		0.2	
Sale value (Rs mn)	15,270		12,200	8,070		25	89	31,540	40,290	(22)		50,830	
Collections (Rs mn)	9,180		9,020	11,100		2	(17)	31,560	28,090	12		40,860	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 4: Realizations have taken a hit due to sale of plotted developments in Bengaluru**

GPL: Sales and sales value, March fiscal year-ends, 2014-3QFY19

	2014	2015	2016	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
<b>Sales (mn sq. ft)</b>														
<b>Residential</b>														
From new launches (a)	0.59	0.92	3.10	0.31	0.59	1.04	0.50	0.96	0.80	0.64	0.57	0.70	0.28	1.88
From existing projects	1.55	2.72	0.75	0.23	0.09	0.14	0.09	0.84	0.76	0.66	0.87	0.41	0.78	0.88
<b>Residential</b>	<b>2.15</b>	<b>3.64</b>	<b>3.85</b>	<b>0.54</b>	<b>0.67</b>	<b>1.18</b>	<b>0.58</b>	<b>1.80</b>	<b>1.56</b>	<b>1.31</b>	<b>1.44</b>	<b>1.11</b>	<b>1.07</b>	<b>2.77</b>
<b>Commercial</b>														
From new launches	—	—	—	—	—	—	—	—	—	—	—	—	—	—
From existing projects	0.81	0.25	0.47	0.04	0.05	0.01	0.01	0.00	0.08	0.12	0.03	0.06	0.05	0.03
<b>Commercial</b>	<b>0.81</b>	<b>0.25</b>	<b>0.47</b>	<b>0.04</b>	<b>0.05</b>	<b>0.01</b>	<b>0.01</b>	<b>0.00</b>	<b>0.08</b>	<b>0.12</b>	<b>0.03</b>	<b>0.06</b>	<b>0.05</b>	<b>0.03</b>
<b>Total</b>	<b>2.96</b>	<b>3.89</b>	<b>4.32</b>	<b>0.58</b>	<b>0.73</b>	<b>1.19</b>	<b>0.59</b>	<b>1.80</b>	<b>1.63</b>	<b>1.43</b>	<b>1.47</b>	<b>1.17</b>	<b>1.12</b>	<b>2.80</b>
Growth (%)	(27)	31	11	(56)	(42)	16	(17)	209	125	20	150	(35)	(32)	96
<b>Sales value (Rs mn)</b>														
Residential	15,090	23,890	35,430	2,895	4,565	6,560	3,370	14,720	10,630	7,950	10,410	7,980	7,890	15,040
From new launches (a)		12,370	29,220	1,280	2,590	5,030	1,680	11,860	5,220	3,790	3,640	5,260	2,130	10,110
From existing projects		11,520	6,210	1,615	1,975	1,530	1,690	2,860	5,410	4,160	6,770	2,720	5,760	4,930
Commercial	9,250	2,890	14,940	750	1,220	360	30	20	2,720	4,250	130	220	180	230
<b>Total</b>	<b>24,340</b>	<b>26,780</b>	<b>50,370</b>	<b>3,645</b>	<b>5,785</b>	<b>6,920</b>	<b>3,400</b>	<b>14,740</b>	<b>13,350</b>	<b>12,200</b>	<b>10,540</b>	<b>8,200</b>	<b>8,070</b>	<b>15,270</b>
Growth (%)	(12)	10	88	(71)	(70)	(43)	(45)	304	131	76	210	(44)	(40)	25
<b>Avg. realizations (Rs/sq. ft)</b>	<b>8,221</b>	<b>6,879</b>	<b>11,665</b>	<b>6,267</b>	<b>7,970</b>	<b>5,813</b>	<b>5,771</b>	<b>8,190</b>	<b>8,180</b>	<b>8,532</b>	<b>7,162</b>	<b>7,012</b>	<b>7,234</b>	<b>5,449</b>
Growth (%)	21	(16)	70	(34)	(49)	(51)	(33)	31	3	47	24	(14)	(12)	(36)

Source: Company, Kotak Institutional Equities estimates, Kotak Institutional Equities

**Exhibit 5: Net debt/equity has improved due to equity infusion**

GPL: Profit model, balance sheet, cash flow model, March fiscal year-ends, 2016-21E (Rs mn)

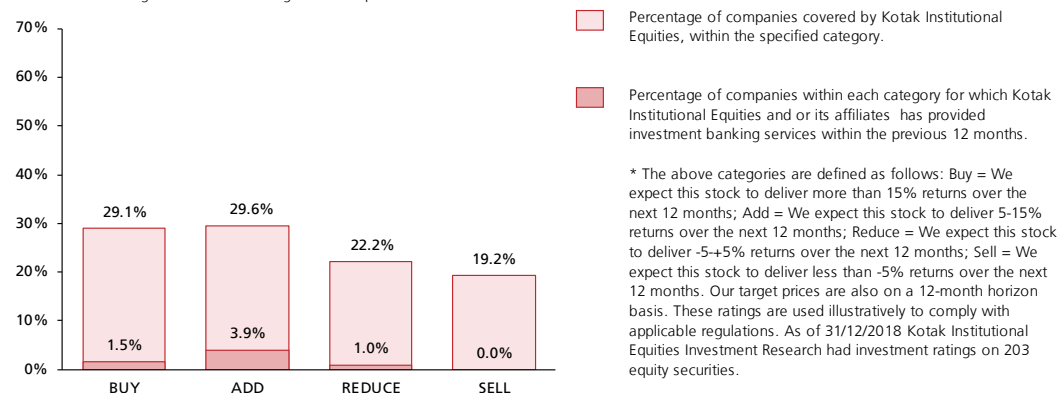
	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>						
Net sales	21,226	15,829	18,892	23,549	27,264	21,002
EBITDA	1,366	2,504	(44)	1,056	6,493	6,373
Other income	1,295	1,254	5,015	3,877	4,143	4,281
Interest	(406)	(1,015)	(1,501)	(2,337)	(2,343)	(1,989)
Depreciation	(142)	(145)	(161)	(177)	(197)	(222)
Pre-tax profits	2,113	2,598	3,308	2,419	8,097	8,443
Tax	(1,304)	(777)	(1,019)	(822)	(2,753)	(2,871)
Deferred tax	(390)	—	—	—	—	—
Net income	419	1,821	2,289	1,596	5,344	5,572
Adjusted net income	1,598	2,068	2,349	1,626	5,379	5,607
Earnings per share (Rs)	7.4	9.6	10.9	7.1	23.5	24.5
<b>Balance sheet</b>						
Total equity	17,648	20,037	22,403	34,031	39,410	45,017
Gross borrowings	31,230	39,765	37,230	29,532	37,420	19,420
Non-current liabilities	55	74	119	114	114	114
Current liabilities	12,657	9,909	9,403	7,064	5,677	7,763
Total liabilities and equity	61,590	69,785	69,155	70,740	82,620	72,314
Net fixed assets	1,072	1,021	1,841	1,104	1,111	1,143
Investments in Joint Ventures	582	814	2,905	—	—	—
Non-current financial assets	3,405	3,891	7,701	4,171	4,119	4,086
Other non-current assets	2,191	2,900	2,925	2,925	2,925	2,925
Current assets	54,869	59,503	50,410	64,264	76,190	65,885
Investments	3,665	3,663	5,438	—	—	—
Total assets	65,784	71,791	71,222	72,465	84,345	74,039
<b>Free cash flow</b>						
Operating cash flow excl. working capital	1,758	2,054	2,290	1,797	5,576	5,829
Working capital changes	49	(10,040)	8,769	(1,585)	(7,981)	(45)
Capital expenditure	300	(94)	(982)	560	(203)	(254)
Free cash flow	2,108	(8,080)	10,077	772	(2,609)	5,530
<b>Ratios (%)</b>						
Debt/equity	177	198	166	87	95	43
Net debt/equity	150	175	161	42	42	25
RoE (%)	9.5	11.0	11.1	5.8	14.6	13.3
RoCE (%)	1.0	3.0	(0.2)	0.9	5.9	5.7
Book value per share (Rs)	82	93	103	148	172	196

Source: Company, Kotak Institutional Equities estimates

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#### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2018

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**BUY.** We expect this stock to deliver more than 15% returns over the next 12 months.

**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE.** We expect this stock to deliver -5 to +5% returns over the next 12 months.

**SELL.** We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

### Other definitions

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