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Godrej Properties

# Holding its ground

## The company is likely to emerge stronger from this tough market environment

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The share price of Godrej Properties has corrected 9 per cent from the level we suggested a 'hold' on the stock about four months back. At the current market price of ₹331, the valuation looks reasonable, with its price-to-earning ratio (30 times) in tune with its three-year average. Being a strong brand, the company has demonstrated ability to buck the market trend.

While residential property has been hit by demonetisation and government efforts to bring more transparency, the company could actually be a beneficiary of the consolidation process. With its asset-light model and focus on major markets, it is prepared to withstand price correction or a slowdown in sales. Investors with a long-term perspective of three years can buy the stock, though there could be short-term fluctuations.

### Strong brand

Godrej Properties is the among the strongest brands in real estate with the financial capability to withstand slowdown in the industry. The ushering of RERA (Real Estate (Regulation and Development) Act, 2016) and demonetisation has affected housing sales. But the good part is that it would professionalise the sector and benefit companies with good governance like Godrej Properties through consolidation of the industry players.

Godrej Properties has demonstrated its ability to hold its own in a tough market. Recently, against the backdrop of a weak National Capital Region (NCR) realty market, it launched a project in Noida and managed a booking value in excess of ₹300 crore in a single day. During the September 2016 quarter, its new project Godrej Emerald (Thane) clocked ₹259 crore in bookings, while Godrej Infinity (Pune) registered booking of ₹100 crore.

Also, the company's asset light model, whereby it enters into revenue or profit sharing with land owners, will shield the company even if the land prices fall. The company could gain if lower land prices reduce the cost of the project and improve afforability of buyers. For in places like Mumbai, land prices form a significant component of overall property prices. Godrej Properties typically enters into such revenue or profit sharing contracts if the land cost component exceeds 20 per cent of project value.

### Focussed market

The company is streamlining its operations and focusing on just the top markets such as Mumbai, Bengaluru and Pune. This is a good move, since higher migration to these financial and IT hubs for jobs is expected to keep the demand strong for housing in the long run.

Within these markets, the management's plans to get into as many micro markets as possible. Recently, it added a new project with saleable area of approximately 1 million square feett at Sarjapur Road in South Bengaluru.

### Financials

During 2015-16, the company's sales were up 43 per cent year-on-year to ₹2,634 crore while net profit was up 23 per cent to ₹188 crore. For the first half of 2016-17, net sales were however were down by 62 per cent to ₹540 crore, while net profit was down by 60 per cent to ₹55 crore. About 1.3 msf of area was sold in the first half of 2016-17, down 48 per cent as compared to the previous year.

However, excluding the large BKC deal made in the second quarter of FY16, the sales growth and profit growth for the first half of 2016-17 were at 74 per cent and 52 per cent respectively.

The commercial property sales as against that of residential tend to be lumpy and hence has to be analysed from a long-term perspective. For instance, in September 2015, one third of the total 1.3 msf of saleable area at BKC was sold to Abbott for ₹1,479 crore. The company's financial position is expected to improve, once the BKC project is off its books.

Currently, the company has a net debt of ₹3,000 crore and a debt-to-equity ratio of 1.6 times. About ₹1,000-1,500 crore of inflows is expected from its sale which, in turn, could reduce debt . The management is hopeful of closing the deal soon.

It could improve operating margins to earlier levels of 25 per cent. In 2015-16, half the company's sales were from the BKC project which has low margins due to 50 per cent profit-sharing arrangement with Jet Airways that owns the land.

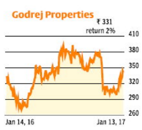
This moderated the operating margin to about 14 per cent. Moreover, its successful Mumbai project 'The Trees' is expected to reach revenue recognition stage in FY 2018.


**Why**

- Reasonable valuation
- Strong brand
- Asset-light business model

**Did you know?**

Established in 1990, the company has developed 125 million square feet of area across India



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