

8-05-2017

CMP: Rs.165 Weight:8%



STOCK DATA

Market Cap (Rs. Cr)	7894
Debt	8326
Cash	353
Enterprise Value	15867
Promoters Holding	50.35%
52 week high/low	173.30/57
Shares outstanding (in Cr.)	47.84

KEY FINANCIALS

(Rs. in Cr)

Y/E March	2014	2015	2016	2017
Revenue	1800	2737	3097	2844
EBITDA	575	707	1035	1169
PBT	334	351	463	539
PAT	224	248	296	397

VALUATION – The Company will have free cash flow more than the Current market cap in the next 2 years. It is a mispriced bet at current valuations. We believe the valuation of the currently demerged commercial division will yield a minimum valuation of 5,500 crores for its 55% Stake. The ROE of Indiabulls real estate is set to increase as the Company lowers its debt from huge expected cash flow in next 2 years.

INDIABULLS REAL ESTATE

Thesis –

Indiabulls Real Estate is a real estate company with presence in Residential (16 projects) and Commercial Leasing Space (2 properties completed).

Indiabulls Real Estate in India has performed well on the Commercial leasing front with the Occupancy rates at all time high at 91%. Lately Foreign PE Investors have shown interest and bought large stakes in commercial real assets of well-known developers of the country. This has increased our conviction as the supply is limited.

RERA is another trigger for the sector. With RERA launched on 1st May, 2017, it will bring more transparency to the sector.

Why do we like India Bulls?

- Demerger of Commercial Rental Business
- Increase in Housing Finance
- Free Cash Flows
- Reduction of debt post restructuring
- No new Land Investment
- RERA

The main reason for us buying this stock is that, the commercial assets value of the company alone (min 5,500 Cr.) is about 75% of the current market Cap (7500 Cr.) and the annuity income is expected to increase from current 609 Cr to Rs. 1357 Cr in next 4 years which is a growth of 22% CAGR (Management Estimates). We expect the Company will generate a free cash flow of about 7,000 Crores (Equals to current Market cap) in 2017-2018 and 5,000 Crores in 2018-2019 from its construction business. The Company has a massive land bank of 1,000 Acres plus around the country and won't need to invest in land for the next 10 years. We believe that the balance sheet of the company will be very strong in FY2018.

Promoter – “The most important thing in Real Estate is its promoters”. The Company is run by Sameer Gehlaut, who’s an IIT Delhi Alumni, 43 years old. Indiabulls Started as a brokerage house and it’s come a long way in last 18 years having 3 different business’ and has created massive wealth.

- 1) **Indiabulls Real Estate**
- 2) **Indiabulls Housing Finance (Recently included in prestigious Nifty 50)**
- 3) **Indiabulls Ventures**

Market believes that former Finance Minister P Chidambaram is involved in the company, but lately the promoters have been seen with Amit Shah as well. We understand that politicians do play an important role in real estate not only in India, but around the world, and political connections shouldn’t be a plus or a minus. We believe that the promoter are very capable and have made its sister company Indiabulls Housing Finance large enough to be part of Nifty 50 Index and is the top 10 Dividend paying companies in India.

Why We like IndiaBulls Real Estate?

- **Demerger of Commercial Rental Business** – We believe with demerger or Strategic Sale of Commercial Rental Business there will be a minimum 5,500 Cr. of Value Unlocked in Indiabulls Real Estate.
- **Increase in Housing Finance** – Today, majority of the home buyers take housing loans to buy a home which decreases black money involvement and improves corporate governance.
- **Free Cash Flows** – We believe there will be a 7000-7500Cr of free cash flow within next 12-15 months which will change the balance sheet by FY2018. The company is expected to be flooded with Cash, and have a cleaner balance sheet.
- **Reduction of debt post restructuring** – IndiaBulls intends to restrict its debt to 2000 crores post restructuring in the developing properties business. This will be done by paying off debt from the expected cash flows from Blu of 2700crores.
- **No new Land Investment** – Indiabulls is moving into a similar business model as that of Godrej where it will create JV’s with Landowners and won’t have any large investment upfront and hence have higher return of Equity. This will keep their balance sheet leaner and improve their profitability and return ratios.
- **RERA** – With new real Estate Regular, we believe there will be only 3-4 major builders in every city; it’s going to be the biggest shift from unorganized to organized. We believe a very large basket of small builder all over India having less than 5 projects will be irrelevant.

About the Business – the Company’s business can be divided in 2 parts:

Recently the company announced its plan to separate its two businesses into separate entities as a part of restructuring /reorganising businesses (either via demerger or selling to strategic PE investor).

- 1) **Commercial Division (Leasing and has 55% Stake)**
- 2) **Development Division (Build and Sell Model)**

1) Commercial Properties – Indiabulls has 2 completed projects of 5.2 Million Sq. Ft., and 4 under construction projects which will add another 3.15 million Sq. Ft. leasable area by 2021. In FY 2017 the Annuity revenue was 609 Crores, the management has guided to reach 1,357 Crores, growing at 22% CAGR.

Property	Leasable Area (Mn. sq. ft.)	Annuity Revenue (₹ cr)
Completed Properties		
Indiabulls Finance Centre and One Indiabulls Centre, Mumbai	3.3	690
One Indiabulls Park, Chennai	1.9	91
Total	5.2	781
Properties under construction & in Planning/Approval Process		
Indiabulls Mint, Sector 104, Gurgaon	0.40	41
Indiabulls commercial development at Sector 106, Gurgaon	1.16	118
Indiabulls commercial development at Indiabulls Finance Centre site at Mumbai	0.79	159
Indiabulls commercial development at Blu site at Mumbai	0.80	258
Total	3.15	576
Grand Total	8.35	1,357

Private Equity market tells a lot about where the smart money is moving. The latest deals are a clear indicator that smart money is moving towards commercial real estate.

Commercial Division (In Cr.)	
Networth	2469
Gross Debt	4389
Net Debt	3949
Annuity FY 2017	609
*Annuity FY 2018	692
*Annuity FY 2021	1357
* Guidance by Management	

The Investments needed by Indiabulls for making 4 new commercial projects will be funded by a mix of Debt and Annuity revenues. **Based on Current Deals happening we value Indiabulls Commercial Division at 10,000 Crores, and hence value the 55% Stake in this division at 5,500 Crores.** There has been market speculation that the deal will happen at 14,000 or 7700 Crores for its 55% Stake. If this division get demerged and listed as REIT, we expect it to trade at 7% Yields.

Recent Transactions in the commercial real estate Space in India

DLF Cybercity - GIC	GIC, the Government of Singapore Investment Arm has bought 40% Stake in DLF's Rental Arm by Investing an Estimated 13,000 Crores valuing the Rental Arm at 32,500 Crores. DLF Rental Arm has annuity revenues of 2700 Crores and has 30 Million Square Feet. The Valuation of Rental Arm is 12x Rental Revenues or 1100 Crores/Million Sq. feet.
K Raheja - Blackstone	Blackstone Group invested 1600 Crores to buy 15% stake in the office holding company of K Raheja Corp valuing the rental arm of K Raheja Corp at 11,000 Crores. They have 20-million sq ft income-producing office portfolio and is the 2nd largest commercial rental company after DLF. The transaction happened at 550 Crores per million Square feet. The rental income for this deal is undisclosed but we believe it should be in the range of 10-13x Rental Income.
Phoenix – CPPIB	Lately Canadian Pension Fund picked up 49% Stake in Phoenix Bangalore at pre money valuation of 2200 Cr. Bangalore Phoenix mall has done a Revenue of 107 Cr and is 1 million Square feet big. The Deal Happened at 20.5x Rental Revenues or 2200 Crores/Million Sq. Feet.
Other Important deals	GIC Bought Stake in Vivana Mall for a valuation of 1000 Crores; Westend Mall Pune was bought by Blackstone; Alpha G Malls in Amritsar and Ahmedabad were sold for 800 Crores to Blackstone.

2) Development Division - This division is in the business of construction of building and selling real estate residential properties. Indiabulls has currently 33 Million Sq ft. under Construction.

Development Division (In Cr.)	
Networth	2285
Gross Debt	5020
Net Debt	4377
PAT for FY17	476
Annualized ROE	20.80%

We believe that they will generate free cash flows of 7500 Cr. next fiscal year; this will change how the balance sheet looks in FY2018. Company expects the net surplus from Blu Project to be Rs. 2729 Cr. which they intend to use to reduce their debt to 2000 Cr. from the current level of more than 4000 Cr currently in next 12-18 months. They currently have an annualized ROE of 20.80% which is expected to increase going forward as interest cost reduces.

Project	Location	Area (Mn. sq. ft.)	Gross Development Value (GDV) (₹ Cr)	% Area Sold	Pending Collections from Area Sold (₹ Cr)	Pending Construction Cost (₹ Cr)	Net Surplus (₹ Cr)
Blu Estate & Club, Worli	Mumbai	1.37	5,943	90.5%	2,682	612	2,729
Indiabulls Greens, Panvel	Mumbai	8.73	4,430	84.8%	1,608	990	1,612
Indiabulls Golf City, Savroli	Mumbai	5.39	3,237	29.9%	649	1,060	1,856
Centrum Park, Gurgaon	NCR	2.16	911	78.7%	70	39	285
Enigma, Gurgaon	NCR	1.76	1,119	89.8%	124	51	212
Indiabulls Greens, Chennai	Chennai	2.07	822	56.0%	77	89	390
Indiabulls City, Sonapat	NCR	1.76	252	51.1%	19	11	151
One Indiabulls, Gurgaon	NCR	6.15	4,920	0.0%	-	1,675	3,245
One Indiabulls, Vadodara	Vadodara	0.23	83	13.0%	7	15	65
Indiabulls One 09	Gurgaon	1.10	875	18.2%	114	302	534
Mega Mall, Jodhpur	Jodhpur	0.65	363	32.3%	48	101	213
Indiabulls Seirra, Vizag	Vizag	0.84	265	76.2%	120	145	39
One Indiabulls Thane	Mumbai	1.40	1,652	10.0%	123	487	1,148
Total		33.61	24,872		5,641	5,577	12,479

NET SURPLUS = Free Cash Flow Net of Construction Cost

We Expect 7,500 Cashflow in next 12 months as Many Projects are Handed Over

'Net Surplus' = 'Pending Collections from Area Sold' + 'Value of Unsold Inventory' - 'Pending Construction Cost'

Planned Projects

Project	Location	Area (Mn. sq. ft.)	Gross Development Value (GDV) (₹ Cr)	Pending Construction Cost (₹ Cr)	Net Surplus (₹ Cr)
Indiabulls Imperial, Gurgaon (Sec 106)	NCR	5.20	4,160	1,560	2,600
Silverlake Villas, Alibaug	Mumbai	0.26	164	61	103
22 Hanover Square	London	0.11	5,720	1,500	4,220
Total		5.57	10,044	3,121	6,923

We believe that the company will generate free cash flows of approx. 12000 Cr. in next 2 years from its on-going projects and another 6500 Cr. will come in the coming years from the planned projects which have not yet started contributing to the company's revenues.

A. Land bank for future development:

Land Bank	Acres
Gurgaon	520
Mumbai Metropolitan Region	312
Chennai	178

B. Nashik SEZ

Indiabulls SEZ, spread over 2,588 acres in Nashik, Maharashtra

Land Bank - They even have a land bank of 1000 acres situated in Gurgaon (520), Mumbai (312) and Chennai (178), i.e. the company won't have to invest in land going forward, which gives them strong revenue visibility going forward.

Risks

Corporate Governance – There are more than 250 Subsidiaries of Indiabulls Real Estate, it’s impossible for any analyst to exactly understand how the funds are flowing. Our Calculations are broad based, and have believed in the company’s management as they have historically walked the talk.

Cash Flow Risk- Our Thesis is based on our cash flow expectations going forward that will change the shape of balance sheet, any cash flow delay will increase the risk and will hit valuations of the company.

Demand for Luxury Real Estate – Indiabulls has a lot of luxury projects, and slowdown in luxury housing can impact cash flows going forward.

Valuation – Lets first Understand what have we paid and what we get in Exchange. We have paid 16,000 crores enterprise value for Indiabulls Real estate. We are confident that there will be very strong free cash flow of 20,000 crores in next 4 years. There is limited downside risk due to these cash flows and commercial business valuation of 5,500 which provides us strong margin of safety.

Price Paid			
	Market Cap	Debt	Total
Price Paid	7837	8326	16163
Expectations			
Cash Flow	20,000 Cr. Freecash Flow in next 4 years		
Commercial Real Estate	5,500 Crore Expected Valuation		
Land Bank	1000 Acres Plus		

Conclusion – Indiabulls Real Estate is at a cusp of recovery, there is strong margin of Safety at current prices. There would be massive changes in the Balance Sheet of FY2018 as debt reduces materially going forward and with a high probability of a Stake Sale or Demerger in Commercial Division. **The cash flows going forward for next 2 years which will be more than market cap of the company.** Even during difficult times Indiabulls Real Estate’s Construction business did a ROE of 20%, we expect going forward valuations will improve materially.

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