

Targeting sustainable growth on the back of strong project pipeline

We hosted Mr. Pirojsha Godrej, Chairman, Godrej Properties to discuss the demand trends and the company's strategy to further scale up the business from its current level. We also discussed the trajectory of cash flows and leverage going ahead. Key insights from the discussion are highlighted below:

Pursuing growth with improved profitability

India will be a strong structural growth story for the next 10-15 years, given the economic reforms being implemented. Urbanization and job creation will drive the housing demand for the foreseeable future. Management is of the view that the housing cycle spans 8-9 years in either direction. We are currently in the third year of an upcycle, and there is no reason to believe this one will last for a shorter time period. While delivering a 20% growth with improved profitability on sustainable basis remains the primary objective, given the strong demand traction, the company is keen to surpass its targeted growth rate over the next few years. In the past, the margins were impacted by an overreliance on lower-end mid-income projects, where cost inflation had a more noticeable effect. Hence, the company has strategically shifted focus toward developing a portfolio of projects that lean more toward the premium side of the mid-income segment, and has consistently tried to bring down the cost of construction in proportion to sales

Focused on existing markets

From a group housing perspective, the company would remain focused on its existing four markets, i.e., NCR, Mumbai, Pune, and Bengaluru. The only new market which will soon be added to the list is Hyderabad. Management believes that there is significant scope to expand its presence in these five markets, considering that GPL has only 2-3% market share. As India continues to progress economically, new markets will emerge on a scale that justifies committing capital and management resources to seize growth opportunities. However, currently, it intends to double down on existing markets before expanding further. Additionally, the company will continue to pursue plotted development opportunities in tier II cities. The turnaround time in this segment can be as low as six months and it offers high margin/high return on capital. It also provides opportunity to understand the market dynamics of smaller cities. The company is open to explore plotted opportunities in top 20 tier II cities although there are not many favorable deals currently available.

Current project pipeline sufficient to deliver growth; on track for 20% RoE

Competition among developers to acquire new projects/land has resulted in a sharp increase in land prices. However, the company has de-risked itself by adding new projects worth ~INR350b over the last 18 months and at current prices, the sales potential of these projects has also increased substantially. While aggressive investments toward land is now behind, the company will continue to make opportunistic investments to refill the project pipeline or bridge the gap in the existing portfolio. The management perceives potential in Noida and Bengaluru markets, seeing opportunities to add additional projects. Overall, the current project pipeline is robust enough to deliver consistent growth over the next few years. As these projects get launched, the collections will significantly scale up and expect GPL to generate positive FCF soon. The company is comfortable to operate at 1x D/E and in absolute terms, it will remain well below INR100b. On the profitability front, the company is confident of achieving 10-15% PAT margin with an upside risk, given the increase in realizations and it remains on track to achieve 20%+ RoE.

Godrej Properties



Mr. Pirojsha Godrej,
Executive Chairperson

Mr. Pirojsha Godrej is the Executive Chairperson of Godrej Properties, Godrej Housing Finance, and Godrej Fund Management. He graduated from the Wharton School of Business in 2002, completed his Masters in International Affairs from Columbia University in 2004, and an MBA from Columbia Business School in 2008. Pirojsha joined GPL in 2004, became an Executive Director in 2008, and was appointed CEO in 2012

Performance-linked incentive for senior management; improved focus on quality

Incentives for the leadership team are being set in line with the below goals: 1) Reported P&L 2) Operational P&L which would reflect imputed margin 3) Cash collections and 4) Net Promoter score based on customer feedback. Apart from business development, many key operational areas are decentralized with regional CEOs being independently responsible for monetizing/executing the projects. The company has also set up a separate governance vertical whose head will report to CEO and is mandated to track just the quality aspects of all projects.

Other highlights

- Risk of over aggression is embedded in real estate, which is evident from the fact that many companies have gone bankrupt in this sector. Hence, it is important to remain mindful of market dynamics and commit capital accordingly without compromising on growth.
- Two years ago, business development was the key priority, but today, the ultimate focus is on getting approvals for all the new projects and launch them in a timely manner.
- Unsold inventory to launched inventory is one of the key metrics the company tracks internally and the ratio is down to 11% vs. 20% pre-covid.
- The company enjoys a low cost of debt, given the strong parentage. This enables it to underwrite projects at better terms, and hence, act as an entry barrier.

Valuation and view

The management has laid out a clear growth strategy as it looks to capture a higher share in its focused markets. GPL has developed a strong project pipeline over the last 18 months and intends to launch these projects on priority, which would accelerate the bookings growth and enable higher cash flow, given favorable ownership of new projects. The sustained traction in BD continues to offer a clear outlook for pre-sales growth. Additionally, the increased completion of projects with favorable ownership structures augurs well for the stock. We reiterate our BUY rating with an increased TP of INR2,300, implying a 22% upside.

Exhibit 1: Our SoTP-based approach denotes 22% upside for GPL based on CMP; reiterate BUY

Particulars	Rationale	Value (INR b)	Per share	Contribution
Own and JV/JDA projects	❖ DCF for four years, expected cash flow at WACC of 10%, and terminal value assuming 3% long-term growth	678	2,441	106%
DM projects	❖ PV of future cash flows discounted at WACC of 10%	3	11	0%
Commercial projects	❖ PV of future cash flows discounted at WACC of 10%	14	52	2%
Gross asset value		696	2,503	109%
Net debt	❖ FY24E	(57)	(203)	-9%
Net asset value		639	2,300	100%
No. of shares (m)		278		
NAV per share		2,300		
CMP		1,891		
Upside		22%		

Source: MOFSL

Story in charts

Exhibit 1: Project additions over last five years at ~100msf

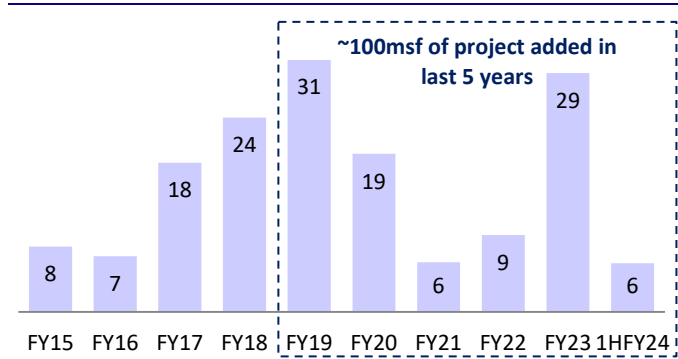


Exhibit 2: GPL has ~80msf of executable pipeline

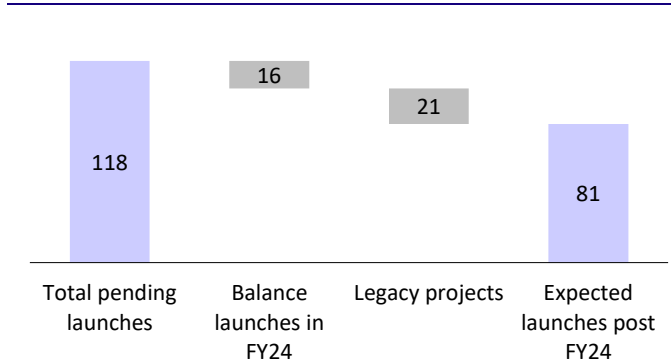


Exhibit 3: Expect launch run-rate to sustain at over 15-20msf from FY24

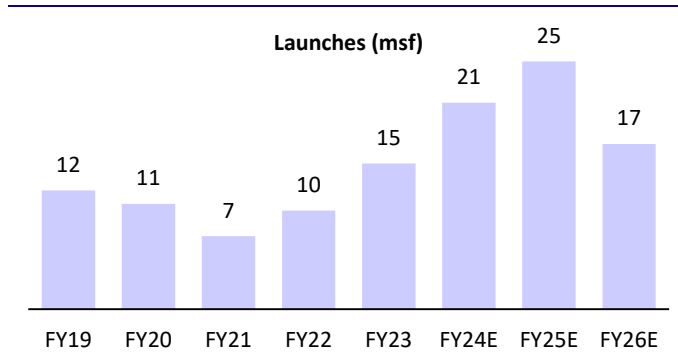


Exhibit 4: Expect 23% CAGR in pre-sales over FY23-26

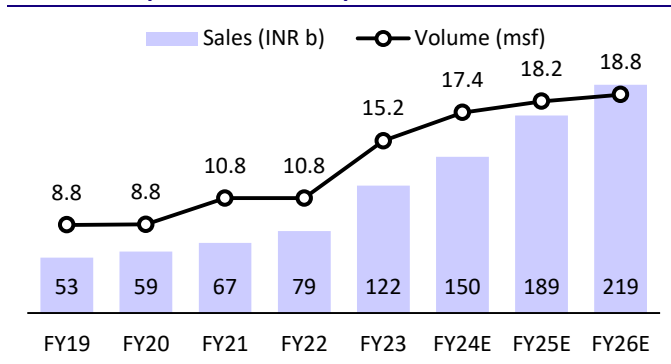


Exhibit 5: Cash (INR41b), room for leverage (INR42b), and surplus cash flow generation (INR73b) over FY23-25E indicate continued momentum in business development

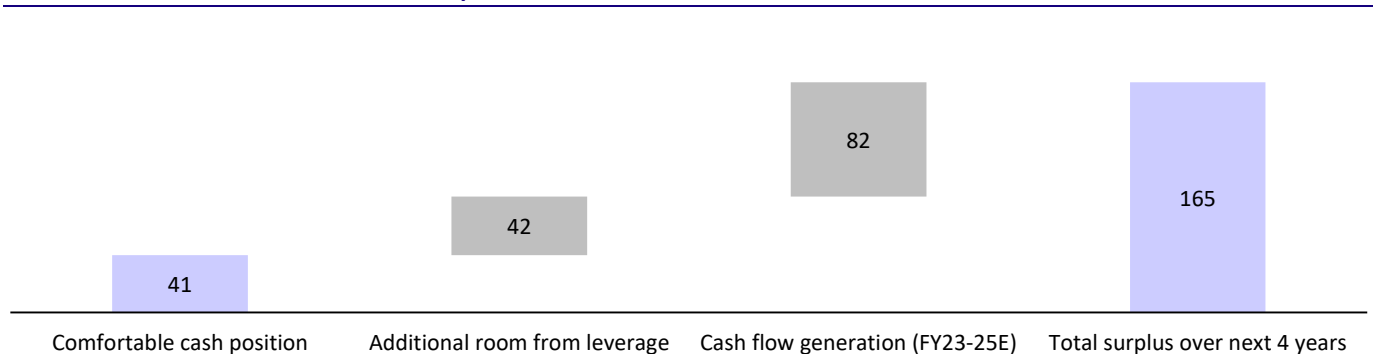
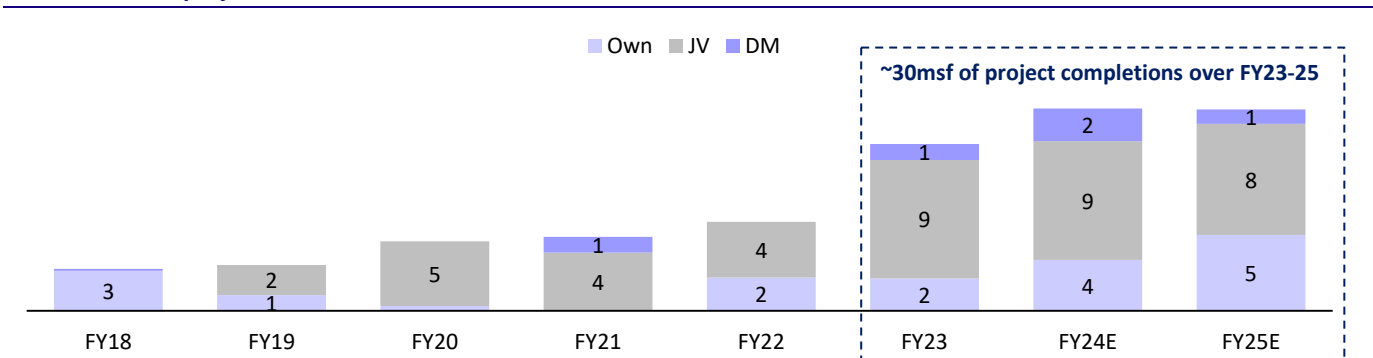
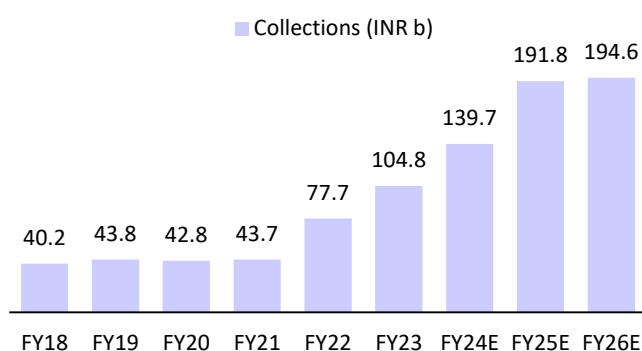


Exhibit 6: Expect to complete more than 30msf of projects over FY23-25; 60% of these are JVs, 25% are own projects, and the rest are DM projects



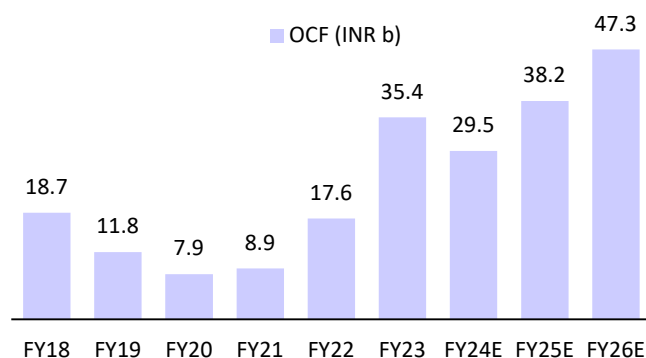
Source: Company, MOFSL

Exhibit 7: Collections to increase to INR140b in FY24E



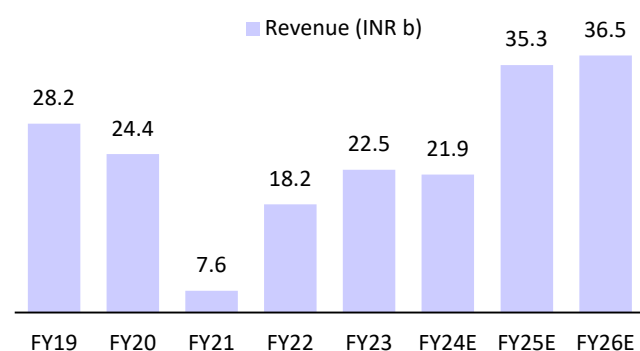
Source: Company, MOFSL

Exhibit 8: Expect OCF to sustain at INR30b+



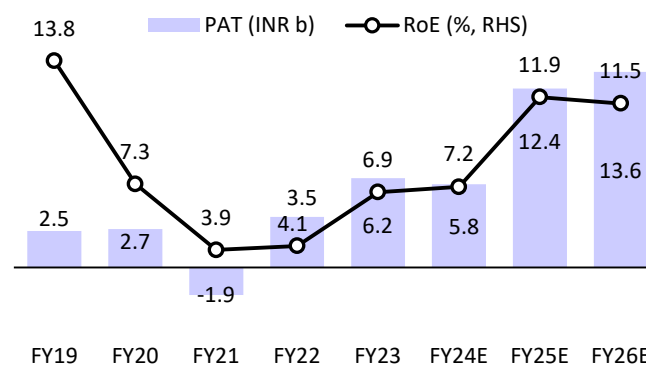
Source: Company, MOFSL

Exhibit 9: Expect revenue recognition to increase to FY19–20 levels, with pick-up in own project completions



Source: Company, MOFSL

Exhibit 10: Profit recognition to improve to INR12b in FY25E



Source: Company, MOFSL

Financials and valuations

Consolidated Profit and Loss (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	24,414	7,649	18,249	22,523	21,900	35,350	36,532
Change (%)	-13.3	-68.7	138.6	23.4	-2.8	61.4	3.3
Cost of Sales	15,633	4,751	11,939	12,413	11,723	17,785	17,529
Employees Cost	1,847	1,785	1,103	2,184	2,621	3,145	3,774
Other Expenses	3,480	3,236	3,876	5,443	6,754	6,463	6,398
Total Expenditure	20,960	9,772	16,917	20,040	21,098	27,393	27,701
% of Sales	85.9	127.7	92.7	89.0	96.3	77.5	75.8
EBITDA	3,454	-2,123	1,332	2,482	802	7,957	8,830
Margin (%)	14.1	-27.7	7.3	11.0	3.7	22.5	24.2
Depreciation	205	195	214	241	280	280	280
EBIT	3,249	-2,318	1,117	2,241	522	7,677	8,550
Int. and Finance Charges	2,220	1,849	1,675	1,742	2,324	2,839	2,839
Other Income	4,732	5,684	7,608	7,867	10,439	10,396	11,018
PBT after EO Exp.	5,761	-767	7,051	8,366	7,087	15,234	16,730
Total Tax	2,203	734	1,658	1,747	2,126	3,808	4,182
Tax Rate (%)	38.2	-95.7	23.5	20.9	30.0	25.0	25.0
MI & Profit from Assoc.	-885	-401	-1,887	-407	834	1,004	1,037
Reported PAT	2,672	-1,902	3,506	6,212	5,795	12,429	13,584
Adjusted PAT	2,672	2,568	3,506	6,212	6,880	12,429	13,584
Change (%)	5.6	-3.9	36.5	77.2	10.8	80.6	9.3
Margin (%)	10.9	33.6	19.2	27.6	31.4	35.2	37.2

Consolidated Balance Sheet (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1,260	1,390	1,390	1,390	1,390	1,390	1,390
Total Reserves	46,785	81,805	85,364	91,252	97,047	1,09,476	1,23,060
Net Worth	48,045	83,195	86,754	92,642	98,437	1,10,866	1,24,450
Minority Interest	0	0	-18	230	230	230	230
Total Loans	37,101	45,131	51,698	64,118	81,118	81,118	81,118
Deferred Tax Liabilities	-3,640	-2,906	0	0	831	2,354	4,027
Capital Employed	81,506	1,25,420	1,38,434	1,56,989	1,80,615	1,94,567	2,09,824
Gross Block	1,875	2,606	2,912	3,501	3,781	4,061	4,341
Less: Accum. Deprn.	746	860	1,075	1,316	1,596	1,876	2,156
Net Fixed Assets	1,129	1,745	1,837	2,185	2,185	2,185	2,185
Goodwill on Consolidation	0	0	0	1	1	1	1
Capital WIP	1,629	2,293	3,395	6,524	6,524	6,524	6,524
Total Investments	35,710	52,426	48,830	25,345	10,345	10,345	10,345
Curr. Assets, Loans&Adv.	58,947	1,03,097	1,23,974	1,96,999	2,25,789	2,71,913	2,95,547
Inventory	21,253	48,014	56,683	1,20,734	1,44,598	1,81,592	1,87,662
Account Receivables	4,328	3,101	3,649	5,197	1,521	1,961	2,462
Cash and Bank Balance	5,070	7,729	13,385	20,159	28,761	37,451	54,514
Loans and Advances	28,297	44,253	50,256	50,909	50,909	50,909	50,909
Curr. Liability & Prov.	15,910	34,140	39,602	74,064	62,678	94,850	1,03,227
Account Payables	7,197	19,017	22,541	33,566	18,256	23,527	29,540
Other Current Liabilities	8,354	14,642	16,498	39,875	43,799	70,700	73,063
Provisions	360	481	563	623	623	623	623
Net Current Assets	43,037	68,956	84,372	1,22,935	1,63,110	1,77,063	1,92,320
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	81,506	1,25,420	1,38,434	1,56,989	1,80,615	1,94,567	2,09,824

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	9.6	9.2	12.6	22.4	24.8	44.7	48.9
Cash EPS	10.4	9.9	13.4	23.2	25.8	45.7	49.9
BV/Share	172.9	299.3	312.1	333.3	354.2	398.9	447.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	205.6	213.9	156.8	88.5	76.4	42.3	38.7
Cash P/E	191.0	198.8	147.7	85.1	73.4	41.4	37.9
P/BV	11.4	6.6	6.3	5.9	5.3	4.7	4.2
EV/Sales	23.8	76.7	30.4	25.9	26.6	16.2	15.2
EV/EBITDA	162.4	-259.0	416.2	234.7	726.2	72.1	63.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-10.5	-28.7	-21.3	-113.7	-103.9	16.5	44.4
Return Ratios (%)							
RoE	7.3	3.9	4.1	6.9	7.2	11.9	11.5
RoCE	6.8	6.2	5.0	5.4	4.6	7.3	7.4
RoIC	6.4	-8.9	1.3	2.0	0.3	4.2	4.6
Working Capital Ratios							
Fixed Asset Turnover (x)	13.0	2.9	6.3	6.4	5.8	8.7	8.4
Asset Turnover (x)	0.3	0.1	0.1	0.1	0.1	0.2	0.2
Inventory (Days)	318	2,291	1,134	1,957	2,410	1,875	1,875
Debtor (Days)	65	148	73	84	25	20	25
Creditor (Days)	108	907	451	544	304	243	295
Leverage Ratio (x)							
Current Ratio	3.7	3.0	3.1	2.7	3.6	2.9	2.9
Interest Cover Ratio	1.5	-1.3	0.7	1.3	0.2	2.7	3.0
Net Debt/Equity	0.2	0.0	0.1	0.4	0.6	0.4	0.2

Consolidated Cash flow (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	4,909	-857	5,163	7,959	9,471	16,237	17,767
Depreciation	205	195	214	241	280	280	280
Interest & Finance Charges	-1,273	1,849	1,675	1,742	2,324	2,839	2,839
Direct Taxes Paid	-232	154	-1,912	-1,690	-1,296	-2,285	-2,509
(Inc)/Dec in WC	-6,219	-3,566	-5,439	-30,342	-28,929	-1,814	5,253
CF from Operations	-2,610	-2,225	-299	-22,090	-18,150	15,257	23,629
Others	312	-4,487	-4,218	-6,517	-10,439	-10,396	-11,018
CF from Operating incl EO	-2,297	-6,712	-4,517	-28,606	-28,589	4,862	12,611
(Inc)/Dec in FA	-631	-1,253	-1,403	-2,999	-280	-280	-280
Free Cash Flow	-2,928	-7,965	-5,920	-31,605	-28,869	4,582	12,331
(Pur)/Sale of Investments	-10,991	-24,016	4,366	23,668	15,000	0	0
Others	-498	-7,949	-1,725	4,211	10,439	10,396	11,018
CF from Investments	-12,120	-33,219	1,238	24,881	25,159	10,116	10,738
Issue of Shares	20,659	36,909	0	0	0	0	0
Inc/(Dec) in Debt	2,081	9,412	6,041	12,279	17,000	0	0
Interest Paid	-3,014	-3,731	-3,585	-3,854	-4,969	-6,287	-6,287
Dividend Paid	0	0	0	0	0	0	0
Others	-4	-1	-104	-103	0	0	0
CF from Fin. Activity	19,722	42,590	2,352	8,322	12,031	-6,287	-6,287
Inc/Dec of Cash	5,305	2,659	-926	4,596	8,601	8,691	17,062
Opening Balance	-235	5,070	7,729	13,385	17,981	26,582	35,273
Closing Balance	5,070	7,729	13,385	17,981	26,582	35,273	52,336

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