

Kolte Patil Developers

BUY

Weak pre-sales a dampener

KPDL financial performance under POCM was in line with our estimates. Despite this, weak pre-sales was a key dampener. Robust collections and stable debt are key positives. We maintain BUY with SOTP of Rs 313/sh.

HIGHLIGHTS of the QUARTER

- In line POCM performance:** In order to maintain continuity, KPDL also provides key financials under POCM. The like-to-like comparison vs our estimates are as follows: 2QFY20 revenue: Rs 3.1bn (19% YoY, 14% beat), EBITDA: Rs 564mn (-11% YoY, 25% miss) and APAT: Rs 240mn (-1% YoY, 2% miss). KPDL has adopted lower tax rate of 25.17% from 2QFY20.
- Pre-sales robust in soft real estate market:** On a weak real estate backdrop KPDL recorded 0.5mn sqft pre-sales, a 35% de-growth YoY (led by strong traction in Life Republic, Opula, Ivy Estate, Exente and Western Avenue projects). Pre-sales value de-grew 33% YoY to Rs 2.7bn whilst realization remained muted at Rs 5,401/sqft. KPDL cut its ~3mn sqft of annual pre-sales guidance to 2.4-2.7mn sqft. No major launches are envisaged for 2HFY20.
- Debt stable, net D/E nearing guidance:** KPDL 1HFY20 collections grew 5.5% YoY to Rs 6.4bn, surplus cash

was utilized to repay Rs 360mn of gross debt (to Rs 7.7bn including OCD, NCDs etc). This resulted in net debt reducing by Rs 390mn QoQ to Rs 4.8bn. Net D/E reduced from 0.62x to 0.51x in 1HFY20 in line with 0.5x guidance.

- Mumbai projects approvals in the last lap, 1QFY21 launch likely:** KPDL 3 Mumbai projects are expected to get all approvals in next 3-4months. KPDL expects all of them to be under development by Mar-20E (~0.6mn sqft KPDL's share – Rs 10/2.5bn revenue/cash flow potential). Mumbai projects will be key for further re-rating.

STANCE

Despite weak sectoral headwinds and entry of other organized players like Godrej in Pune market, KPDL is continuing to hold its influence in home market of Pune. To drive profitability, KPDL has built 1mn sqft of project pipeline for Mumbai. Absence of new launches in 2HFY20 remains a key dampener. We expect KPDL to bounce back as real estate recovery pans out. We derive comfort from large part of KPDL portfolio being affordable. We remain constructive and maintain BUY. Key Risks: (1) Aggressive competition, (2) High interest rates and (3) Debt bloat up.

Financial Summary (Consolidated)

YE March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Sales	1,919	2,110	(9.1)	5,857	(67.2)	12,192	8,693	12,131	10,285
EBITDA	319	425	(24.9)	1,951	(83.6)	3,033	2,471	2,977	2,516
APAT	62	102	(39.0)	879	(93.0)	1,216	755	1,199	1,006
Diluted EPS (Rs)	0.8	1.3	(39.0)	11.6	(93.0)	16.0	10.0	15.8	13.3
P/E (x)						16.8	27.0	17.0	20.3
EV / EBITDA (x)						7.7	10.3	8.2	9.8
RoE (%)						9.9	5.6	12.3	8.8

Source: Company, HDFC sec Inst Research

INDUSTRY	REAL ESTATE
CMP (as on 11 Nov 2019)	Rs 269
Target Price	Rs 313
Nifty	11,913
Sensex	40,345
KEY STOCK DATA	
Bloomberg	KPDL IN
No. of Shares (mn)	76
MCap (Rs bn) / (\$ mn)	20/285
6m avg traded value (Rs mn)	18
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 288/196
	3M 6M 12M
Absolute (%)	23.3 18.6 12.5
Relative (%)	16.0 10.9 (2.2)
SHAREHOLDING PATTERN (%)	
	Jun-19 Sep-19
Promoters	74.63 74.63
FIs & Local MFs	0.13 0.07
FPIs	14.21 14.17
Public & Others	11.03 11.13
Pledged Shares	- -
Source : BSE	

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2QFY20 Revenue came in at Rs 1,919mn

KPDL posted 2QFY20 EBITDA of Rs 319mn

KPDL has adopted new lower tax rate of 25.17%. This has resulted in deferred tax asset write off and 1QFY20 tax reversals we have reflected same as exceptional

2QFY20 APAT came in at Rs 62mn

In order to maintain continuity, KPDL also provides key financials under POCM. The like-to-like comparison vs our estimates are as follows:

•2QFY20 revenue: Rs 3.1bn (19% YoY, 14% beat)

•EBITDA: Rs 564mn (-11% YoY, 25% miss)

•APAT: Rs 240mn (-1% YoY, 2% miss)

KPDL posted 1HFY20 pre-sales of 1mn sqft (-18.2% YoY) with muted realization at Rs 5,460/sqft. Collection stood at Rs 6.4bn

Quarterly Financial Snapshot (Consolidated)

Particulars (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Sales	1,919	2,110	(9.1)	5,857	(67.2)	7,776	6,015	29.3
Material Expenses	(1,164)	(1,283)	(9.3)	(3,526)	(67.0)	(4,690)	(3,475)	35.0
Employee Expenses	(149)	(137)	8.2	(150)	(0.9)	(299)	(272)	9.8
Other Operating Expenses	(287)	(266)	8.2	(230)	25.0	(517)	(489)	5.8
EBITDA	319	425	(24.9)	1,951	(83.6)	2,270	1,779	27.6
Interest Cost	(215)	(193)	11.6	(232)	(7.2)	(447)	(395)	13.1
Depreciation	(48)	(38)	25.9	(47)	1.7	(95)	(75)	26.6
Other Income	34	24	46.0	302	(88.6)	336	42	698.8
PBT	91	218	(58.4)	1,974	(95.4)	2,065	1,351	52.8
Minority Interest	(6)	(10)	(40.4)	(149)	(96.0)	(155)	(393)	(60.6)
Tax	(236)	(106)	122.4	(666)	(64.6)	(903)	(479)	88.6
RPAT	(152)	102	(249.3)	1,159	(113.1)	1,008	480	109.9
Exceptional	213	-	-	(280)	-	(67)		
APAT	62	102	(39.0)	879	(93.0)	941	480.00	96.0

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

MARGIN ANALYSIS	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Material Expenses % Net Sales	60.6	60.8	(14)	60.2	44	60.3	57.8	255
Employee Expenses % Net Sales	7.7	6.5	124	2.6	519	3.8	4.5	(68)
Other Operating Expenses % Net Sales	15.0	12.6	239	3.9	1,105	6.7	8.1	(148)
EBITDA Margin (%)	16.6	20.1	(349)	33.3	(1,668)	29.2	29.6	(39)
Tax Rate (%)	260.7	48.8	21,190	33.8	22,695	43.7	35.4	830
APAT Margin (%)	3.2	4.8	(158)	15.0	(1,178)	12.1	8.0	412

Source: Company, HDFC sec Inst Research

Pre – Sales Trend

Pre-sales trend	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Sales Volume (mn sqft)	0.50	0.77	(35.1)	0.51	(2.0)	1.0	1.2	(18.2)
Sales Value (Rs mn)	2,678	3,988	(32.8)	2,837	(5.6)	5,515	6,578	(16.2)
Average Realization (Rs/sqft)	5,401	5,223	3.4	5,616	(3.8)	5,460	5,330	2.4
Collections (Rs mn)	2,932	2,940	(0.3)	3,431	(14.5)	6,363	6,030	5.5

Source: Company, HDFC sec Inst Research

Net D/E is stable QoQ at 0.51x and the company is well on track to achieve its target D/E of 0.5x

KPDL net debt reduced by Rs 10mn debt QoQ to Rs 4,780mn

We have recalibrated our revenue estimate for FY20/21E

KPDL has opted for new ETR and hence adjusting for same and other exceptional items like one time gain on OCD fair valuation in 1QFY20 of Rs 280mn and Rs 213mn loss on deferred tax asset reversal during 2QFY20, we have cut our FY20/21E EPS by 9.4/30.6%

Net D/E: May Have Peaked; To Decrease To ~0.4x By FY21E

(Rs mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	Comments
Gross Debt	6,620	6,710	7,640	8,070	7,580	7,710	
Structure NCD's	(2,790)	(2,790)	(2,690)	(2,240)	(1,890)	(1,840)	Deducting NCD & CCD as they are equity structured as debt by KPDL and JVs
Cash	(940)	(890)	(990)	(670)	(810)	(1,090)	
Current investments							
Net debt	2,890	3,020	3,960	5,170	4,880	4,780	
Net Worth	8,090	8,020	8,090	8,400	9,570	9,360	FY19 onwards as per IND AS 115
Net Debt/ equity (x)	0.36	0.38	0.49	0.62	0.51	0.51	

Source: Company, HDFC sec Inst Research

Change In Estimates

Particulars	FY20E New	FY20E Old	% Change	FY21E New	FY21E Old	% Change
Revenues (Rs mn)	12,131	10,616	14.3	10,285	12,656	(18.7)
EBITDA (Rs mn)	2,977	3,142	(5.3)	2,516	3,723	(32.4)
EBITDA (%)	24.5	29.6	(505.9)	24.5	29.4	(496.0)
APAT (Rs mn)	1,199	1,324	(9.4)	1,006	1,450	(30.6)

Source: Company, HDFC sec Inst Research

GNAV mix – Rs 30.3bn

Rs mn	Rs/sh	%
Pune	266	66.4
Bengaluru	34	8.6
Mumbai	14	3.6
Land Bank	86	21.5
Total GAV	400	100

Source: Company, HDFC sec Inst Research

We maintain KPDL at BUY with a TP of 313

Valuation –Maintain BUY with NAV Target Rs 313/share

- We have valued KPDL using DCF and arrived at a target price of Rs 313/share. We do not give any NAV premium. This is to factor in (1) Limited further property price appreciation & (2) No new land capex outlays. We have not considered the likely upside in saleable area once the township FSI increases from 1x to 1.7x.
- The State government has already increased FSI for non-agricultural land based township and is in the final stages of implementing it for townships on agricultural land. KPDL's key project that will be affected is Life Republic Township. In terms of value, this could add about Rs 64/share to NAV and about ~20mn sqft to the gross saleable area or (~10mn sqft KPDL share).

Rs mn	NAV	Comments
Gross NAV	30,346	Including ongoing, forthcoming projects and land bank valuation
Less Net debt	(6,620)	Net Debt as on end 2QFY20 (incl. Structured obligations)
NAV	23,726	No material change vs 1QFY20
Shares outstanding (mn)	76	
NAV/share (Rs)	313	
Discount to NAV	0%	No NAV discount (1) due to stability in property prices post 7-10% correction & (2) New opportunities through JDA, Affordable housing etc
Target Price (Rs)	313	

Source: Company, HDFC sec Inst Research

- Our channel checks suggest that over next 6-12month there could be (1) delay in deal closure (2) longer sales cycle (3) reduction in new launches. This would impact cash flows timing.
- Further, stimulus on affordable housing will benefit KPDL as it has about 70% portfolio in LIG/MIG with ticket size Rs 5.5mn. Lower mortgage rate (~100bps reduction) can drive volumes 12-13% higher.

Real Estate Development – NAV Calculation Methodology

- We have divided KPDL's entire land bank (with launch visibility over the next 5 years) into residential projects (based on the information given by the company).
- We have arrived at the sale price/sq ft. and the anticipated sales volumes for each project based on our discussions with industry experts.
- We have deducted the cost of construction based on our assumed cost estimates, which have been arrived at after discussions with industry experts.
- We have further deducted marketing and other costs that have been assumed at 5% of the sales revenue.
- We have then deducted income tax based on the tax applicable for the project.
- The resultant cash inflows at the project level have been discounted based on WACC of 13% (cost of equity 15.1% based on beta of 1.1x & debt/equity ratio of 0.4x). All the project level NAVs have then been summed up to arrive at the NAV of the company.
- From the NAV, we have deducted the net debt and likely outgo on balance land payments as of 2QFY20 to arrive at the final valuation of the company.

Our pricing assumptions are moderate and at a 5-10% discount to the current prevailing prices.

Key valuation assumptions

- In the exhibit below we highlight our sales and cost inflation forecasts. We expect property price appreciation in line with WPI inflation, i.e. 5% and peg cost inflation slightly higher at 6%. We forecast other costs including marketing, SGA and employee costs at 15% of sales. We have discounted the cash flows using 13% as hurdle rate.

Base Case Assumptions

Assumptions	%
Discount rate	13
Annual rate of inflation - sales price	5
Annual rate of inflation - cost of construction	6
Other costs - marketing, SGA, employee cost (as % sales)	15
Tax rate	33

Source: Company, HDFC sec Inst Research

- Our pricing assumptions are moderate and at a 5-10% discount to the current prevailing prices. Construction cost assumptions are higher than the KPDL estimates.

Base Property Price And Construction Cost Assumptions

Location	City	Prices Rs/sqft	Cost Rs/sqft
Wagholi	Pune	3,750	1,800
Hinjewadi	Pune	4,900	2,100
Kharadi	Pune	5,000	2,200
Undri-NIBM	Pune	4,500	2,200
Mohamad Wadi	Pune	4,500	2,200
Aundh Annexe	Pune	5,200	2,500
Boat Club Road	Pune	9,100	3,500
Kondhwa	Pune	3,900	2,000
Viman Nagar	Pune	8,600	3,500
Aundh	Pune	6,700	2,600
Kalyani Nagar	Pune	7,500	2,800
Bavdhan	Pune	4,600	2,000
Atria	Pune	7,200	2,800
Wakad	Pune	5,400	2,500
Andheri	Mumbai	14,500	7,500
Vile Parle	Mumbai	20,000	9,500
Koramangla Block III	Bangalore	6,200	2,400
Hosur Road	Bangalore	5,700	2,300
Kannur Road	Bangalore	3,750	1,800

Source: Company, HDFC sec Inst Research

1% increase in average base sale price impacts our NAV positively by 2.7%

Every 100bps increase in sale price inflation impacts our NAV positively by 6.9%

100bps increase in cost inputs decreases our NAV by 4.5%

100bps increase in discounting rate impacts our NAV negatively by 5.1%

NAV sensitivity analysis

Sensitivity to our assumption of property price

- Our model is sensitive to changes in the assumptions regarding property prices. For every 1% change in the base property prices, the NAV will change by approximately 2.7%.

NAV Sensitivity To Changes In Base Sale Price

% change in sale price	(10)	(5)	0	5	10
NAV/share (Rs)	228	271	313	355	395
Change in NAV (%)	(27.1)	(13.4)	-	13.5	26.1

Source : Company, HDFC sec Inst Research

Sensitivity of NAV to changes in sale inflation

- In our base case, we have assumed annual sale price inflation of 5%. For every 100bps increase in the annual sale price inflation, the NAV will increase by approximately 6.9%.

NAV Sensitivity To Change In Sales Inflation

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	271	292	313	335	356
Change in NAV (%)	(13.4)	(6.7)	-	6.9	13.7

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in cost inflation

- In our base case, we have assumed cost inflation to be 6%. For every 100bps increase in construction cost inflation, the NAV will change by approximately 4.5%.

NAV Sensitivity To Change In Cost Inflation

Cost inflation rates (%)	4	5	6	7	8
NAV/share (Rs)	342	328	313	299	285
Change in NAV (%)	9.2	4.6	-	(4.5)	(9.1)

Source : Company, HDFC sec Inst Research

The combined impact of a 100bps increase in sale price inflation and cost inflation will be a NAV increase of 2.4%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 13%. For every 100bps increase in the discount rate, the NAV will fall by ~5.1%.

NAV Sensitivity To Change In Wacc

WACC rates (%)	11	12	13	14	15
NAV/share (Rs)	345	329	313	297	281
Change in NAV (%)	10.3	5.2	-	(5.1)	(10.2)

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9,656	12,192	8,693	12,131	10,285
Growth (%)	28.1	26.3	(28.7)	39.5	(15.2)
Material Expenses	6,082	7,819	4,543	7,281	5,708
Employee Expenses	422	370	538	619	681
Other Operating Expenses	753	970	1,141	1,255	1,381
EBIDTA	2,400	3,033	2,471	2,977	2,516
EBIDTA (%)	24.9	24.9	28.4	24.5	24.5
EBIDTA Growth (%)	21.0	26.4	(18.5)	20.5	(15.5)
Other Income	82	156	111	390	131
Depreciation	149	153	149	203	183
EBIT	2,334	3,036	2,433	3,164	2,464
Interest	860	987	920	995	919
PBT	1,473	2,049	1,513	2,168	1,545
Tax	624	493	518	737	402
Minority Interest	23	(322)	(240)	(165)	(137)
Share of associates	-	-	-	-	-
RPAT	872	1,234	755	1,266	1,006
EO items (net of tax)	-	(18)	-	(67)	-
APAT	872	1,216	755	1,199	1,006
APAT Growth (%)	48.0	39.5	(37.9)	58.9	(16.1)
EPS	11.5	16.0	10.0	15.8	13.3
EPS Growth (%)	48.0	39.5	(37.9)	58.9	(16.1)

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	758	758	758	758	758
Reserves	7,880	9,080	7,643	8,759	9,645
Total Shareholders Funds	8,638	9,838	8,401	9,516	10,403
Minority Interest	2,666	2,075	59	224	361
Long Term Debt	1,417	1,478	2,623	1,873	1,893
Short Term Debt	3,903	2,527	3,207	3,614	3,614
Total Debt	5,320	4,005	5,830	5,488	5,508
Deferred Taxes	(25)	(225)	(1,755)	(1,755)	(1,755)
Long Term Provisions & Others	2,432	3,270	2,585	2,650	2,650
TOTAL SOURCES OF FUNDS	19,032	18,964	15,121	16,123	17,167
APPLICATION OF FUNDS					
Net Block	1,061	968	837	684	1,051
CWIP	22	-	5	5	5
Goodwill	211	207	207	207	207
Other Non Current Assets	1,662	2,632	2,621	2,647	2,674
Inventories	20,607	18,364	28,270	28,715	27,897
Debtors	1,770	1,828	1,079	1,737	1,550
Cash & Equivalents	797	1,183	638	1,583	1,118
ST Loans & Advances, Others	1,972	1,208	861	2,404	2,797
Total Current Assets	25,147	22,583	30,848	34,439	33,361
Creditors	1,761	2,498	2,535	2,789	3,067
Other Current Liabilities & Provns	7,311	4,929	16,862	19,126	17,087
Total Current Liabilities	9,072	7,427	19,397	21,914	20,154
Net Current Assets	16,075	15,156	11,451	12,525	13,207
Misc Expenses & Others	-	-	55	23	23
TOTAL APPLICATION OF FUNDS	19,032	18,964	15,121	16,123	17,167

Source: Company, HDFC sec Inst Research, *Excluding structured debt in Life Republic

INSTITUTIONAL RESEARCH

Cash Flow (Consolidated)

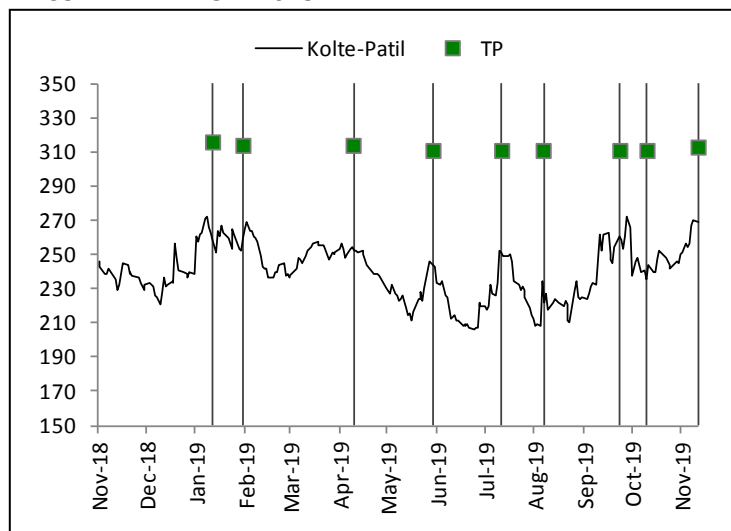
Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
PBT before minority	1,473	2,028	1,512	2,168	1,545
Non-operating & EO items	(29)	60	(0)	(457)	(131)
Taxes	(494)	(781)	(706)	(737)	(402)
Interest expenses	860	987	920	995	919
Depreciation	149	154	149	203	183
Working Capital Change	(543)	(878)	(2,552)	(110)	(1,161)
OPERATING CASH FLOW (a)	1,417	1,569	(676)	2,062	953
Capex	(77)	(42)	(24)	(50)	(550)
Free cash flow (FCF)	1,340	1,528	(700)	2,012	403
Investments	496	417	183	390	131
INVESTING CASH FLOW (b)	419	376	159	340	(419)
Share capital Issuance	-	3	2	-	-
Debt Issuance	(655)	(672)	1,114	(343)	20
Interest expenses	(792)	(1,002)	(755)	(995)	(919)
Dividend	(262)	(146)	(205)	(120)	(101)
FINANCING CASH FLOW (c)	(1,709)	(1,817)	157	(1,458)	(999)
NET CASH FLOW (a+b+c)	126	128	(361)	945	(465)
Opening Cash	552	678	806	638	1,583
Closing Cash & Equivalents	797	1,183	638	1,583	1,118

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	37.0	35.9	47.7	40.0	44.5
EBITDA Margin	24.9	24.9	28.4	24.5	24.5
EBIT Margin	24.2	24.9	28.0	26.1	24.0
APAT Margin	9.0	10.0	8.7	9.9	9.8
RoE	10.9	9.9	5.6	12.3	8.8
Core RoCE	13.9	19.7	17.0	20.7	18.5
RoCE	12.3	16.0	14.3	20.3	14.8
EFFICIENCY					
Tax Rate (%)	42.4	24.1	34.2	34.0	26.0
Asset Turnover (x)	0.5	0.6	0.6	0.8	0.6
Inventory (days)	775	583	979	857	1,005
Debtors (days)	61	54	61	42	58
Payables (days)	62	64	106	80	104
Cash Conversion Cycle (days)	774	573	934	820	959
Debt/EBITDA (x)	2.2	1.3	2.4	1.8	2.2
Net D/E	0.5	0.3	0.6	0.4	0.4
Interest Coverage	2.7	3.1	2.6	3.2	2.7
PER SHARE DATA					
EPS (Rs/sh)	11.5	16.0	10.0	15.8	13.3
CEPS (Rs/sh)	13.5	18.1	11.9	18.5	15.7
DPS (Rs/sh)	2.3	3.2	2.0	1.6	1.3
BV (Rs/sh)	114.0	129.8	110.9	125.6	137.3
VALUATION					
P/ES	23.4	16.8	27.0	17.0	20.3
P/BV	2.4	2.1	2.4	2.1	2.0
EV/EBITDA	10.4	7.7	10.3	8.2	9.8
OCF/EV (%)	0.1	0.1	(0.0)	0.1	0.0
FCF/EV (%)	5.4	6.6	(2.7)	8.3	1.6
FCFE/Market Cap	3.4	4.2	2.0	8.2	2.1
Dividend Yield (%)	0.9	1.2	0.7	0.6	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
11-Jan-19	262	BUY	316
31-Jan-19	259	BUY	314
9-Apr-19	254	BUY	314
30-May-19	249	BUY	311
11-Jul-19	251	BUY	311
7-Aug-19	235	BUY	311
22-Sep-19	255	BUY	311
10-Oct-19	235	BUY	311
12-Nov-19	269	BUY	313

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
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