

November 02, 2023

RESULT REPORT Q2 FY24 | Sector: Real Estate

Arvind Smartspaces

Strong BD required to drive long term growth

Our view

Arvind Smartspaces (ARVSMART) achieved best ever quarterly presales of Rs3.69bn guided by the strong bookings in the Uplands 2.0 wherein company achieved Rs3bn in just 3days and collected Rs2.63bn in Q2FY24. Additionally with the strong cashflow even after Rs1bn deployment towards the land company is Rs1.41bn net cash positive. Company in year to date acquired projects with the gross development value of Rs28bn and plans to deploy another Rs7.5bn towards business development which can add more Rs35bn in the remainder of year. Company reiterated the there is possibility of surpassing the growth guidance of 25%-30% for FY24 with the kind of launches planned for H2FY24 (4-5projects with topline potential of Rs17-18bn)

ARVSMART's current portfolio has more horizontal development projects i.e. plotted/ villa development, which have short project cycle vis-à-vis vertical development. Horizontal development project with a total saleable area of 1msf takes anywhere between 30-36 months including acquisition and approvals (compared to 42-48 months for vertical development). ARVSMART has projected strong capability to monetize its projects quickly in all the markets of its presence and is expected to generate strong cashflow in the next 2-3years. We continue to maintain our bullish stance on the company with base case WACC at 12.7% and assigned 35% premium to the current portfolio to arrive at a SoTP based NAV of Rs22.7bn which translates in price target of Rs502/share (one year forward TP). Additionally, for bull case, we reduced the discounting factor WACC to 10% and assigned premium of 50% to current portfolio and arrived at price target of Rs586/share while for bear case, we have arrived price target of Rs365/share assuming WACC at 14% with no premium assigned.

Result Highlights:

- Arvind Smartspaces (ARVSMART) achieved best ever quarterly pre-sales of Rs3.69bn (173.3% q/q & 95.3% y/y) guided by the Uplands 2.0 in South Ahmedabad which received an outstanding response and achieved pre-sales of over Rs3bn in just 3 days selling out the entire 1st phase inventory of about 4msf.
- Company collected Rs2.63bn which is highest ever quarterly collections for fourth successive quarter.
- Company acquired new high-rise project in Bengaluru spread across 4.3acres with the developable potential of 0.46msf and gross development value of ~Rs4bn. This project is outright bought under HDFC Platform 2. With this acquisition the cumulative new business development topline potential stands at more than ~Rs 28bn for the current year to date.
- ARVSMART reported revenue of Rs727mn up by 8.7% q/q and 44.4% y/y; EBITDA came in at Rs339mn up by 28.6% q/q and 271.5% y/y with the operating margin of 46.6%. Reported Adj. PAT at Rs86mn up by 28.6% q/q and 271.5% y/y.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	727	1,040	N/A	(30.1)	N/A	Strong presales but slower revenue recognition
EBITDA	339	226	N/A	49.8	N/A	
EBITDA Margin (%)	46.6	21.7	N/A	(2485bps)	N/A	
Adj. PAT	86	129	N/A	(33.3)	N/A	

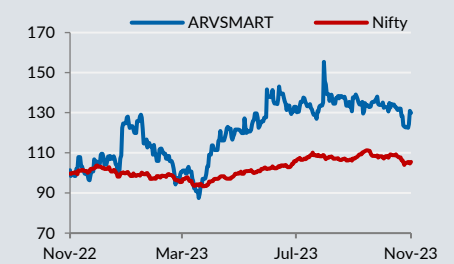
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 336
Target Price	: Rs 502
Potential Return	: +49%

Stock data (as on Nov 02, 2023)

Nifty	19,133
52 Week h/l (Rs)	415 / 223
Market cap (Rs/USD mn)	15368 / 185
Outstanding Shares (mn)	45
6m Avg t/o (Rs mn):	27
Div yield (%)	1.0
Bloomberg code:	ARVSMART IN
NSE code:	ARVSMART

Stock performance



	1M	3M	1Y
Absolute return	-3.0%	-10.8%	28.2%

Shareholding pattern (As of Sep'23 end)

Promoter	50.4%
FII+DII	12.5%
Others	37.1%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	2,559	4,726	7,739
YoY growth	(0.4)	84.7	63.7
EBITDA	489	1,027	1,542
YoY growth	(0.3)	109.9	50.1
PAT	256	588	1,014
YoY growth	2.2	129.7	72.4
EPS	5.7	13.0	22.4
P/E	59.5	25.9	15.0
P/BV	3.1	2.8	2.4
D/E	0.3	0.2	0.2
EV/EBITDA	31.1	14.5	9.5
RoE (%)	5.2	11.0	16.1
RoCE (%)	7.2	15.1	20.6

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Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	FY23	FY22	y/y %
Revenue	503	526	927	668	727	44.4	8.7	2,568	2,559	(0.4)
EBITDA	91	87	203	263	339	271.5	28.6	491	489	(0.3)
<i>EBITDA Margin %</i>	<i>18.1</i>	<i>16.6</i>	<i>21.9</i>	<i>39.4</i>	<i>46.6</i>	<i>2848 bps</i>	<i>721 bps</i>	<i>19.1</i>	<i>19.1</i>	<i>0 bps</i>
Depreciation	6	7	8	9	13	109.5	54.1	15	27	79.7
EBIT	85	81	195	255	325	283.6	27.8	476	462	(2.9)
<i>EBIT Margin %</i>	<i>16.8</i>	<i>15.3</i>	<i>21.0</i>	<i>38.1</i>	<i>44.8</i>	<i>2792 bps</i>	<i>667 bps</i>	<i>18.5</i>	<i>18.1</i>	<i>-47 bps</i>
Interest charges	20	40	64	146	192	876.8	31.8	168	140	(16.9)
Other Income	13	26	17	22	26	103.4	16.5	76	73	(3.2)
PBT	78	67	148	131	159	103.9	21.4	383	396	3.2
Tax	29	16	43	40	51	74.5	26.7	128	118	(8.6)
Effective Tax Rate (%)	37.2	24.1	29.1	30.5	31.8	-538 bps	134 bps	34.2	29.7	-447 bps
PAT	48	43	93	80	86	79.3	7.5	251	256	2.2
<i>PAT Margin %</i>	<i>9.6</i>	<i>8.1</i>	<i>10.0</i>	<i>12.0</i>	<i>11.9</i>	<i>231 bps</i>	<i>-14 bps</i>	<i>9.8</i>	<i>10.0</i>	<i>25 bps</i>
EPS (Rs)	1.1	0.9	2.1	1.8	1.9	73.9	7.5	5.9	5.7	(4.2)

Source: Company, YES Sec

Exhibit 3: Operational Performance

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	FY22	FY23	y/y %
Sales (msf)	1.2	0.7	0.9	0.6	4.1	229.2	583.9	2.6	3.4	28.0
Sales (Rs mn)	1,889	2,503	2,440	1,350	3,690	95.3	173.3	6,013	8,016	33.3
Collection (Rs mn)	1,120	1,680	1,880	2,040	2,630	134.8	28.9	5,952	6,000	0.8
Net Debt	(110)	(340)	(300)	(870)	(1,410)	1,181.8	62.1	(1,070)	(300)	(72.0)

Source: Company, YES Sec

KEY CONFERENCE CALL HIGHLIGHTS

- Company is on track to conclude the ongoing business plan of Rs10bn fresh investment to create a record year in terms of new project additions both from a value and volume perspective.
- Company pre-launched Forest Trails Phase 1, Sarjapura, Bengaluru which is spread across 15.6acres which translates in 0.8msf with the GDV of Rs5.35bn. Projects in under revenue sharing model with company's economic interest of 65%. Phase-II will comprise of ~3.5acres and gross development value of Rs1.35bn.
- Sarjapur, Doddballapura Road, Last phase of Arvind Greatlands, Uplands Phase-2 and Uplands 3.0 are slated for launch in the remainder part of year with potential topline of Rs17-18bn.
- As of today, the company is yet to deploy Rs7.5bn out of Rs10bn towards the business development and management is confident to deploy it in next 5-6months on the back of strong project pipeline.
- Out of Rs7.5bn, Rs5-5.5bn is only from the HDFC platform while remaining ~Rs2.25bn is the company's contribution and where the company will acquire projects in joint development model. However, in HDFC platform, projects will only be outright buys.
- From the deployment of Rs7.5bn, one should expect the topline of ~Rs35bn.
- Significant part of cashflow is from horizontal projects but it's part of strategy but it will change as the project mix changes.
- Sarjapura project recently pre-launched is showing an encouraging trend and booking will flow in Q3FY24.
- Company generated Rs2.7bn of cashflow while Rs1bn was outflow towards the land.
- By the end of year management is confident to acquired atleast one projects in MMR/Pune.
- All the projects the company acquired, will be launched in 6-9months from the time of acquisition.
- Interest cost of Rs192mn is payment towards HDFC Platform -1 which works on waterfall structure. It works on redemption premium and interest payout on OCD. So, its one-time payment for the quarter while HDFC Platform-2 will attract interest payment.
- Currently the portfolio is skewed towards horizontal projects but in the medium to long run it will be balanced between vertical and horizontal. And currently focusing on acquiring verticals to bring the balance.
- Management is confident of achieving growth better than the 25-30% range which the company has been communicating for a long time.

Exhibit 4: SoTP at WACC 12.7% and Premium to Current Portfolio at 35%

Valuation Breakup	Rs. Mn	Rs./share	(%)	Comments
Current Projects	13,916	307	61	1 year forward NAV
Future Potential	2,698	60	12	20% Discount to Future Value
Premium @35% to Current Portfolio	5,815	128	26	Strong Cashflow visibility in next 2-3yrs
Net Debt as of FY24	305	7	1	Robust cash collection
Total NAV	22,735	502	100	
CMP		343		
Upside/Downside		46%		

Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	356	425	453	453	453
Reserves	2,758	3,966	4,211	4,620	5,552
Net worth	3,114	4,318	4,664	5,073	6,006
Debt	1,892	302	1,450	1,250	1,050
Deferred tax liab (net)	151	160	407	407	407
Other non-current liabilities	409	400	325	325	325
Total liabilities	5,566	5,180	6,845	7,054	7,787
Fixed Asset	484	560	629	657	675
Investments	14	3	835	835	835
Other Non-current Assets	449	523	602	602	602
Net Working Capital	4,268	2,585	4,144	4,241	4,843
Inventories	6,943	7,663	9,570	9,905	10,918
Sundry debtors	23	11	27	37	61
Loans and Advances	349	0	0	0	0
Sundry creditors	600	573	599	848	1,282
Other current liabilities	8,047	8,047	8,047	8,047	8,047
Cash & equivalents	350	1,509	636	720	832
Total Assets	5,566	5,180	6,845	7,054	7,787

Source: Company, YES Sec

Exhibit 6: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
PBIT	145	376	396	837	1,442
Depreciation	11	20	27	30	32
Tax paid	(2)	(138)	(364)	(248)	(428)
Working capital Δ	504	1,218	(1,168)	(96)	(603)
Other operating items	252	130	99	246	158
Operating cashflow	910	1,606	(1,010)	767	601
Capital expenditure	(114)	(94)	(96)	(58)	(50)
Free cash flow	796	1,512	(1,106)	709	551
Equity raised	0	1,135	738	0	0
Investments	(307)	387	(719)	0	0
Debt financing/disposal	(439)	(1,722)	513	(200)	(200)
Interest Paid	(272)	(145)	(48)	(246)	(158)
Dividends paid	0	0	0	(179)	(82)
Other items	517	(8)	(251)	0	0
Net Δ in cash	296	1,159	(873)	84	112

Source: Company, YES Sec

Exhibit 7: Income statement (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,493	2,568	2,559	4,726	7,739
Operating profit	406	491	489	1,027	1,542
Depreciation	11	15	27	30	32
Interest expense	269	168	140	246	158
Other income	19	76	73	85	90
Profit before tax	145	376	396	837	1,442
Taxes	55	128	118	248	428
Adj. PAT	88	251	256	588	1,014
Net profit	90	248	278	588	1,014

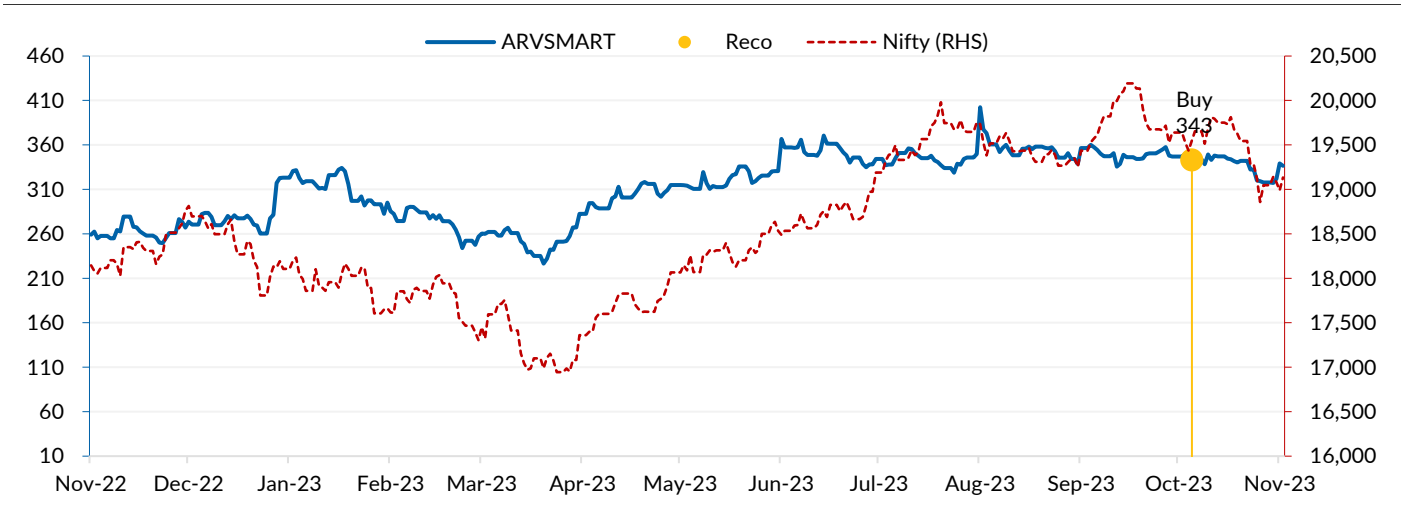
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(50.2)	72.1	(0.4)	84.7	63.7
Op profit growth	(54.3)	20.9	(0.3)	109.9	50.1
EBIT growth	(55.0)	20.5	(2.9)	115.8	51.4
Net profit growth	(77.7)	186.4	2.2	129.7	72.4
Profitability ratios (%)					
OPM	27.2	19.1	19.1	21.7	19.9
EBIT margin	26.5	18.5	18.1	21.1	19.5
Net profit margin	5.9	9.8	10.0	12.4	13.1
RoCE	7.3	9.4	7.2	15.1	20.6
RoNW	2.5	5.3	5.2	11.0	16.1
RoA	0.2	0.4	0.4	0.9	1.5
Per share ratios					
EPS	2.5	5.9	5.7	13.0	22.4
Dividend per share	0.0	0.0	0.0	3.3	1.5
Cash EPS	2.8	6.3	6.3	13.6	23.1
Book value per share	98.5	112.3	109.3	118.4	138.9
Payout (%)					
Dividend payout	0	0	0	25	7
Tax payout	38	34	30	30	30
Liquidity ratios					
Debtor days	6	2	4	3	3
Inventory days	1698	1089	1365	765	515
Creditor days	147	81	85	65	60

Source: Company, YES Sec

Recommendation Tracker



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