

Estimate change



TP change

Rating change

CMP: INR584

TP: INR1,085 (+86%)

Buy

Navya-4 and Floors to launch in 4Q

Data Center's 22MW IT load on track to be commissioned by FY25-end

Bloomberg	ARCP IN
Equity Shares (m)	342
M.Cap.(INRb)/(USDb)	199.8 / 2.3
52-Week Range (INR)	948 / 281
1, 6, 12 Rel. Per (%)	-32/18/70
12M Avg Val (INR M)	1089

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	19.7	23.1	30.8
EBITDA	5.7	9.2	12.8
EBITDA (%)	29.1	39.8	41.4
Adj PAT	4.5	6.0	6.4
Cons. EPS (INR)	13.1	17.5	18.6
EPS Growth (%)	68.5	33.4	6.3
BV/Share (INR)	119.5	136.5	154.6

Ratios

Net D/E	(0.0)	0.1	0.6
RoE (%)	11.0	12.8	12.0
RoCE (%)	11.6	14.3	11.3
Payout (%)	3.8	2.9	2.7

Valuations

P/E (x)	44.6	33.4	31.4
P/BV (x)	4.9	4.3	3.8
EV/EBITDA (x)	34.7	22.2	17.9
Div Yield (%)	0.1	0.1	0.1

Shareholding Pattern (%)

As On	Dec-24	Mar-24	Dec-23
Promoter	60.0	60.0	63.3
DII	6.7	3.6	1.6
FII	13.1	11.5	9.0
Others	20.2	24.8	26.1

- **P&L performance** – In 3QFY25, revenue came in at INR5.3b, up 36%/4% YoY/QoQ (50% above the estimate).
- EBITDA was at INR1.3b, up 48%/18% YoY/QoQ (50% below the estimate), driven by higher total expenditure of INR4b vs estimated INR1b. EBITDA margin stood at 25%, up 2% YoY but ~50% below the estimate.
- Adj PAT was at INR1.1b, up 54%/5% YoY/QoQ (31% below the estimate). PAT margin was at 21%, up 2% YoY but ~24% below the estimate.
- In 9MFY25, Revenue came in at INR15.2b, up 46% YoY.
- EBITDA was at INR3.5b, up 52% YoY. EBITDA margin was at 23%, up 1% YoY.
- Adj PAT was at INR3.1b, up 68% YoY. PAT margin was at 20%, up 2% YoY.

Key highlights from the result presentation

- ARCP continues to make significant progress in reducing its debt. Its net debt ending Q3FY25 stood at INR540m vs INR960m in Q2FY25.
- Data Center Expansion – The 6MW IT load data center at Manesar is now operational, with an additional 15MW at Manesar and 7MW at Panchkula on track. This will bring the total capacity under development to 22MW IT load capacity by the end of FY25.
- ARCP successfully launched Ashok Cloud, Bharat's own sovereign cloud platform, with a 0.5MW IT load in collaboration with Orange Business. The platform initially offers Infrastructure as a Service (IaaS). With plans to expand cloud infrastructure, including IaaS and colocation services, the company remains well-positioned to capitalize on the growing demand for data centers, data localization, and India's under-penetrated data infrastructure market.
- Construction of The Estate Residences (Group Housing 1) and Aashray 2 in Tirupati has already commenced and is progressing rapidly, remaining on track for timely delivery.
- Construction of Birla Navya Phase 1 has been completed, while building plans for Birla Navya Phase 4 have been approved. The RERA application has been submitted, and the project is expected to be launched in Q4FY25.
- The new version of Independent Floors, branded as The Estate Apartments, is in the advanced stages of launch in Q4FY25. The sample apartment is ready, and soft discussions are already underway in the market.
- The approval process for the recently acquired 11.35 acres is in its advanced stage, with the Letter of Intent for land conversion already received.

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Valuation and view

- ARCP's residential segment is expected to deliver 14msf over FY25-30, generating a cumulative NOPAT of INR75.3b.
- The residential business cash flow, discounted at an 11.6% WACC with a 5% terminal growth rate, accounts for INR2.5b in annual business development expenses, yielding a GAV of INR130b, or INR380/share.
- The annuity business cash flow is discounted at a capitalization rate of 8.5%, valuing it at INR13b or INR38/share.
- We expect ARCP's DC revenue to grow materially, with capacity increasing from 6 MW in FY24 to 307 MW by FY32, along with a shift towards cloud services, which will expand from 0.5 MW to 77 MW over the same period.
- We model the free cash flows for the data center business till FY32, using a discount rate of 11.6%, a rental escalation of 3%, and a terminal growth rate of 3%, resulting in an EV of INR200b or INR585/share.
- We reiterate our **BUY** rating with the revised TP of INR1,085 based on our SOTP-based valuation.

Financial Highlights

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	3,162	3,323	3,923	4,426	4,718	5,129	5,346	4,462	14,833	19,655	3,568	50%
YoY Change (%)	98.4	32.1	47.6	58.0	49.2	54.3	36.3	0.8	55.0	32.5	-9.0	
Total Expenditure	2,566	2,524	3,022	3,382	3,689	4,001	4,011	2,235	11,495	13,935	909	
EBITDA	595	799	901	1,044	1,030	1,128	1,336	2,227	3,338	5,720	2,659	-50%
Margins (%)	18.8	24.0	23.0	23.6	21.8	22.0	25.0	49.9	22.5	29.1	74.5	-4953bp
Depreciation	42	42	48	48	55	81	82	377	181	594	184	
Interest	75	80	77	114	36	15	29	100	346	180	262	
Other Income	96	86	88	105	98	109	93	149	374	450	97	
PBT before EO expense	575	762	863	987	1,037	1,141	1,318	1,899	3,186	5,395	2,311	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	575	762	863	987	1,037	1,141	1,318	1,899	3,186	5,395	2,311	-43%
Tax	92	174	165	109	142	97	223	453	540	915	705	
Rate (%)	16.0	22.9	19.1	11.0	13.7	8.5	16.9	23.9	17.0	17.0	30.5	
Minority Interest & Profit/Loss of Asso. Cos.	24	14	21	-44	15	11	10	-36	14	0	-10	
Reported PAT	483	587	698	878	895	1,044	1,094	1,446	2,645	4,480	1,605	
Adj PAT	507	601	718	858	910	1,056	1,104	1,410	2,659	4,480	1,595	-31%
YoY Change (%)	105.4	79.2	57.4	73.8	79.7	75.7	53.7	64.2	76.0	68.5	122.0	
Margins (%)	16.0	18.1	18.3	19.4	19.3	20.6	20.7	31.6	17.9	22.8	44.7	-2404bp

Story in charts

Exhibit 1: DC's operational capacity to double by FY27

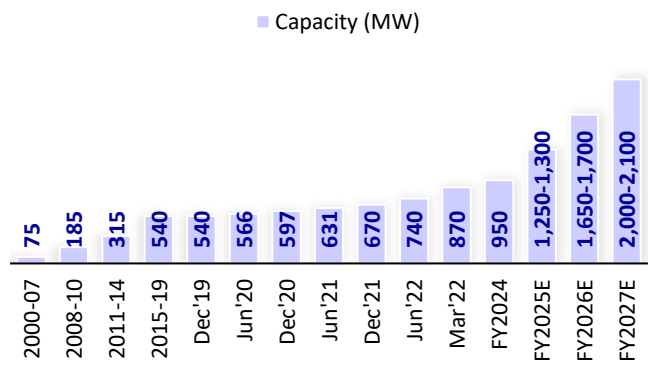


Exhibit 2: Region-wise DC capacity (MW) by FY27

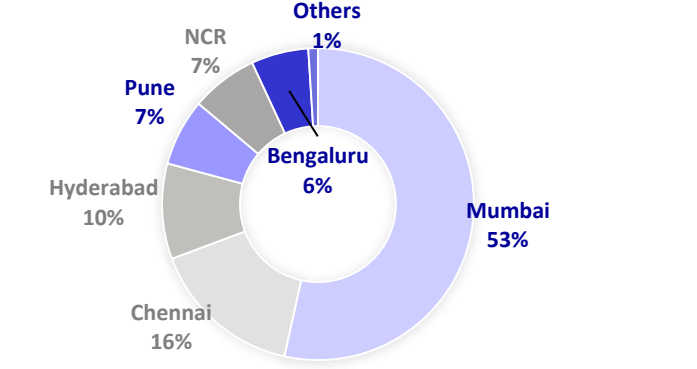


Exhibit 3: Increased capacity was also complemented by higher absorption

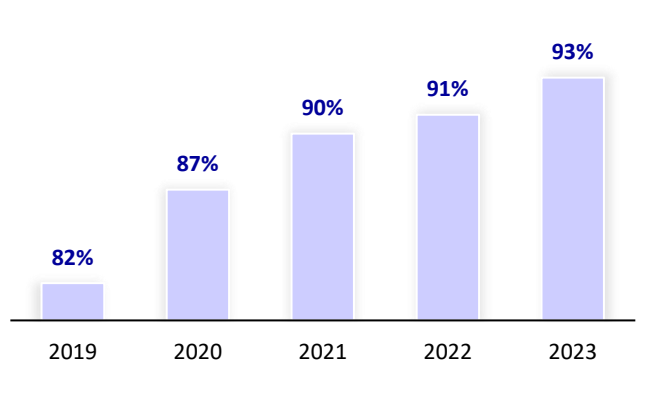


Exhibit 4: Key players in Delhi-NCR – Existing capacity

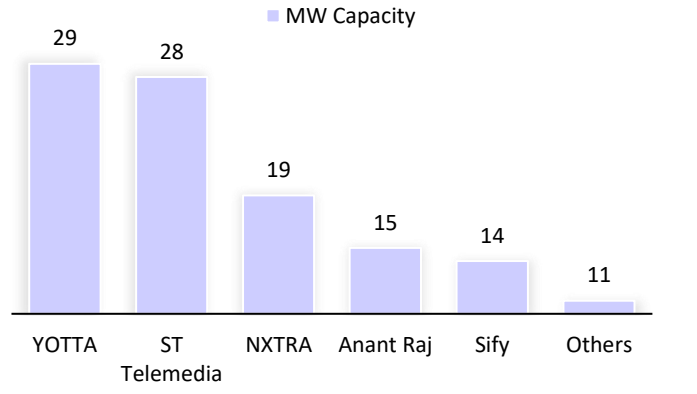


Exhibit 5: Key players in Delhi-NCR – Upcoming capacity by FY26

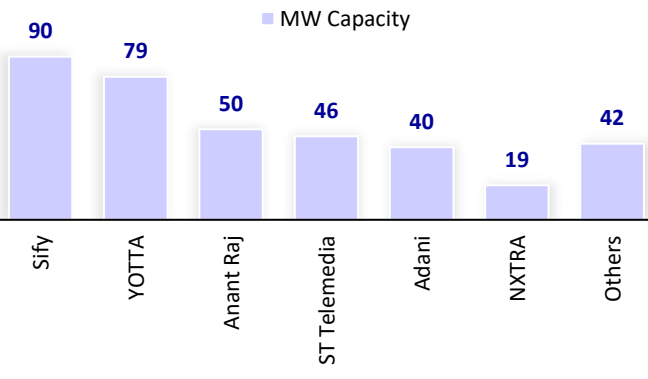


Exhibit 6: Planned data center capacity expansion by ARCP

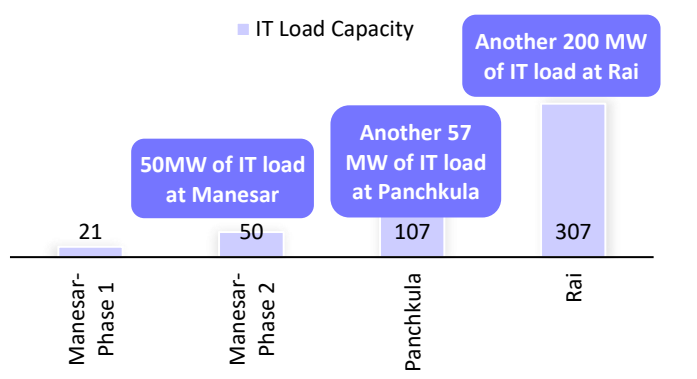


Exhibit 7: Cloud Services to grow exponentially in total load capacity by FY26

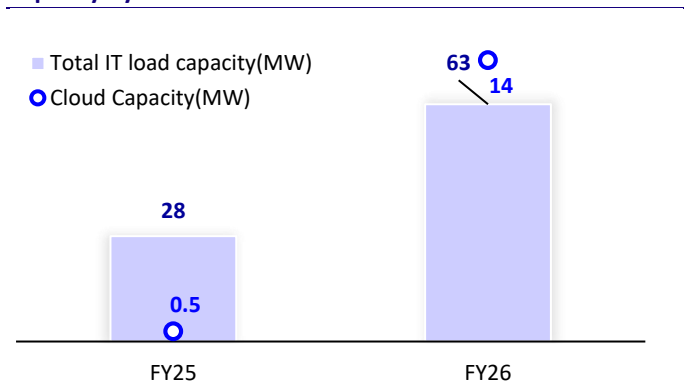


Exhibit 8: ARCP’s pre-sales to grow at 22.5% CAGR over FY24-27E

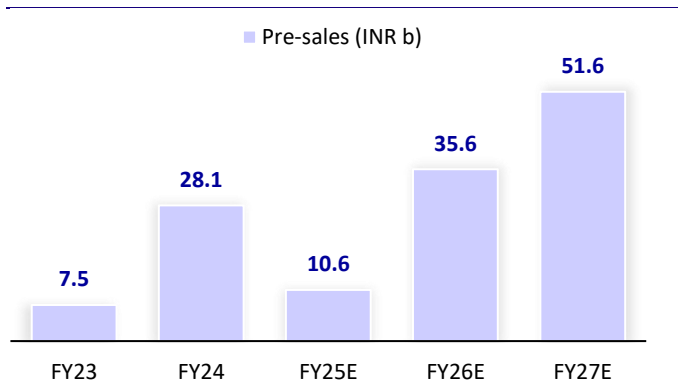


Exhibit 9: ARCP’s collections to grow at 87% CAGR over FY24-27E

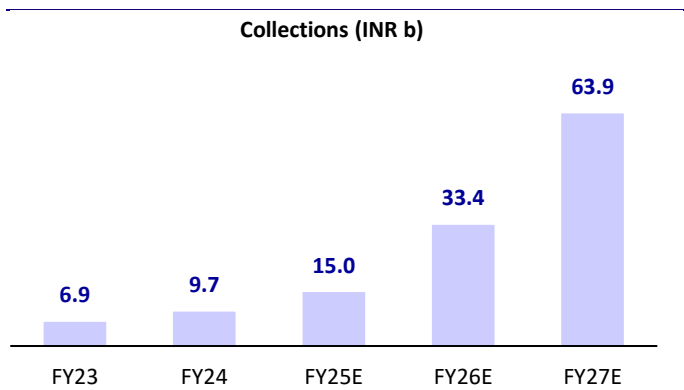


Exhibit 10: ROE & ROCE to witness improvement

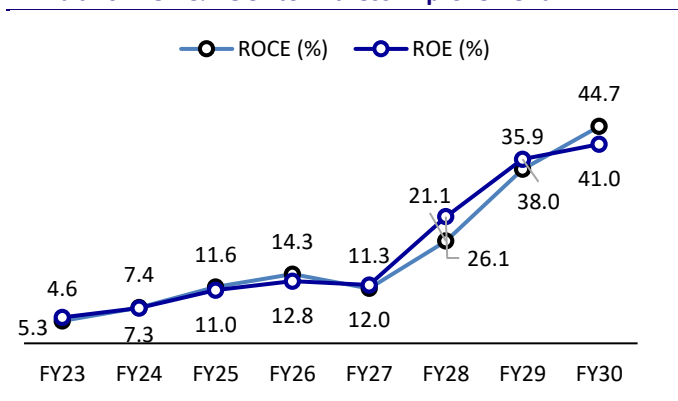


Exhibit 11: Our earnings change summary

(INR m)	Old		New		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	19,655	23,136	18,768	23,136	5%	0%
EBITDA	5,720	9,215	8,805	11,745	-35%	-22%
Adjusted PAT	4,480	5,977	5,953	7,477	-25%	-20%

Source: MOFSL, Company

Changes to estimates

- Revenues from completed projects, such as Birla Navya Phase 1-3, have been accelerated.
- Other costs were accelerated as the company is in the process of launching new projects in 4Q, leading to a drop in operating profits.
- Earlier, we increased debt assuming the company would require funds for capex. However, as the company continues to reduce debt, we have made changes to our debt assumptions accordingly.

Valuation and view

- ARCP's residential segment is expected to deliver 14msf over FY25-30, generating a cumulative NOPAT of INR75.3b.
- The residential business cash flow, discounted at an 11.6% WACC with a 5% terminal growth rate, accounts for INR2.5b in annual business development expenses, yielding a GAV of INR130b, or INR380/share.
- The annuity business cash flow is discounted at a capitalization rate of 8.5%, valuing it at INR13b or INR38/share.
- ARCP, having entered the DC business in Sep'23, is well-positioned to capitalize on these trends. We believe with its early-mover advantage and efficient cost management, the company is set to transform three existing tech parks into cutting-edge DCs, targeting a total capacity of 300MW over the next 4-5 years.
- The company's move into the cloud services space and its focus on the Infrastructure as a Service (IaaS) model offer the potential for 4-5x higher margins than traditional co-location. This further strengthens ARCP's profitability, in our opinion.
- That said, slower-than-expected capacity expansion could hinder ARCP, allowing competitors to capture market share. Additionally, the company's recent entry into cloud services has led to strong competition from established players and hyperscalers, limiting its market penetration. As a result, execution will be a key monitorable moving forward.
- We expect ARCP's DC revenue to grow materially, with capacity increasing from 6 MW in FY24 to 307 MW by FY32, along with a shift towards cloud services, which will expand from 0.5 MW to 77 MW over the same period.
- This growth, coupled with a projected EBITDA margin expansion to 77% by FY30E, reflects ARCP's ability to scale operations and achieve strong profitability.
- We expect the data center business to start generating positive EBIT from FY26 onwards and positive free cash flows from FY30 onwards. We expect NOPAT to reach INR60b from the data center business by FY32.
- We model free cash flows for the data center business till FY32 using a discount rate of 11.6%, a rental escalation of 3%, and a terminal growth rate of 3%, resulting in an EV of INR200b or INR585/share.
- We reiterate our **BUY** rating with the revised TP of INR1,085 based on our SOTP-based valuation.

Exhibit 12: SOTP-based valuation table

Nav Calculation	Rationale	INR b	Per share (INR)	(%)
Residential	❖ DCF of 6 years cash flow at a WACC of 11.6% and terminal value assuming 5% long-term growth	130	380	35
Commercial	❖ Cap rate of 8.5% for operational assets and DCF for ongoing and planned assets	13	38	3
Land	❖ 20% discount to the tentative market rate	29	84	8
DC & Cloud	❖ DCF of 7 years cash flow at a WACC of 11.6% and terminal value assuming 3% long-term growth	200	585	54
GAV		371	1086	100
Less: Debt	❖ As of 3QFY25	1	2	0
Net Asset Value (rounded)		371	1085	100
CMP			584	
Upside/downside			86%	

Source: MOFSL estimates

Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	2,497	4,619	9,569	14,833	19,655	23,136	30,832
Change (%)	NA	85.0	107.2	55.0	32.5	17.7	33.3
Total Expenditure	2,143	3,860	7,599	11,495	13,935	13,921	18,061
% of Sales	85.8	83.6	79.4	77.5	70.9	60.2	58.6
EBITDA	354	759	1,971	3,338	5,720	9,215	12,771
Margin (%)	14.2	16.4	20.6	22.5	29.1	39.8	41.4
Depreciation	172	167	165	181	594	1,161	2,856
EBIT	182	592	1,806	3,157	5,126	8,054	9,915
Int. and Finance Charges	306	271	318	346	180	539	1,920
Other Income	200	394	479	374	450	473	496
PBT bef. EO Exp.	76	715	1,967	3,186	5,395	7,987	8,491
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	76	715	1,967	3,186	5,395	7,987	8,491
Total Tax	74	231	523	540	915	2,010	2,137
Tax Rate (%)	96.9	32.2	26.6	17.0	17.0	25.2	25.2
Minority Interest/Profit from JV	104	64	67	14	0	0	0
Reported PAT	106	549	1,511	2,659	4,480	5,977	6,354
Adjusted PAT	106	549	1,511	2,659	4,480	5,977	6,354
Change (%)	NA	415.5	175.3	76.0	68.5	33.4	6.3
Margin (%)	4.3	11.9	15.8	17.9	22.8	25.8	20.6

Consolidated - Balance Sheet							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	590	590	648	684	684	684	684
Total Reserves	24,405	25,801	27,603	35,880	40,189	45,995	52,178
Net Worth	24,995	26,391	28,251	36,564	40,873	46,678	52,862
Minority Interest	370	353	332	282	282	282	282
Total Loans	14,987	9,681	11,011	6,472	3,472	9,972	34,972
Deferred Tax Liabilities	190	251	374	512	512	512	512
Other non-current liabilities	1,056	1,696	1,845	1,804	1,804	1,804	1,804
Capital Employed	41,597	38,373	41,813	45,634	46,943	59,248	90,432
Gross Block	15,179	15,185	15,270	15,527	24,685	35,924	70,964
Less: Accum. Deprn.	1,918	2,084	2,217	2,389	2,983	4,145	7,001
Net Fixed Assets	13,261	13,101	13,052	13,138	21,701	31,779	63,963
Other Non-current Assets	3,908	4,130	3,951	4,931	4,931	4,931	4,931
Capital WIP	904	476	185	215	887	2,683	2,071
Total Investments	4,225	4,602	4,603	3,018	3,018	3,018	3,018
Curr. Assets, Loans&Adv.	23,807	21,542	21,774	27,380	19,516	19,993	19,704
Inventory	14,566	11,349	11,967	14,159	7,992	8,139	7,468
zAccount Receivables	436	218	513	996	1,051	1,047	1,058
Cash and Bank Balance	374	308	691	3,212	1,460	1,794	2,166
Other current assets	8,431	9,666	8,603	9,013	9,013	9,013	9,013
Curr. Liability & Prov.	4,509	5,477	1,753	3,049	3,111	3,156	3,256
Account Payables	69	60	136	192	254	299	399
Other Current Liabilities	4,431	5,408	1,608	2,846	2,846	2,846	2,846
Provisions	8	10	9	11	11	11	11
Net Current Assets	19,299	16,064	20,021	24,331	16,405	16,837	16,448
Appl. of Funds	41,597	38,373	41,812	45,634	46,943	59,248	90,432

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	0.4	1.9	4.7	7.8	13.1	17.5	18.6
Cash EPS	0.9	2.4	5.2	8.3	14.8	20.9	26.9
BV/Share	84.7	89.4	87.2	106.9	119.5	136.5	154.6
DPS	0.1	0.1	0.5	0.7	0.5	0.5	0.5
Payout (%)	27.7	6.5	10.7	9.4	3.8	2.9	2.7
Valuation (x)							
P/E	1,618.3	313.9	125.2	75.1	44.6	33.4	31.4
Cash P/E	619.2	240.8	112.9	70.3	39.3	28.0	21.7
P/BV	6.9	6.5	6.7	5.5	4.9	4.3	3.8
EV/Sales	73.2	38.3	20.3	13.5	10.1	8.8	7.4
EV/EBITDA	516.4	233.3	98.8	59.8	34.7	22.2	17.9
FCF per share	-3.8	13.1	1.0	3.9	4.7	-16.0	-65.9
Return Ratios (%)							
RoE	0.4	2.1	5.3	7.3	11.0	12.8	12.0
RoCE	0.5	1.6	4.6	7.4	11.6	14.3	11.3
Turnover Ratios							
Asset Turnover (x)	0.1	0.1	0.2	0.3	0.4	0.4	0.3
Inventory (Days)	2,130	897	456	348	148	128	88
Debtor (Days)	64	17	20	25	20	17	13
Creditor (Days)	10	5	5	5	5	5	5
Leverage Ratio (x)							
Current Ratio	5.3	3.9	12.4	9.0	6.3	6.3	6.1
Interest Cover Ratio	0.6	2.2	5.7	9.1	28.4	14.9	5.2
Net Debt/Equity	0.4	0.2	0.2	0.0	0.0	0.1	0.6

Consolidated – Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	76	715	1,967	3,186	5,395	7,987	8,491
Depreciation	172	167	165	181	594	1,161	2,856
Interest & Finance Charges	277	261	308	326	180	539	1,920
Direct Taxes Paid	-74	-231	-523	-540	-915	-2,010	-2,137
(Inc)/Dec in WC	-1,866	3,617	-1,159	-3,068	6,175	-98	760
CF from Operations	-1,415	4,530	759	84	11,429	7,579	11,891
Others	-83	-297	-430	-339	0	0	0
CF from Operating incl EO	-1,499	4,233	329	-255	11,429	7,579	11,891
(Inc)/Dec in FA	389	-377	0	1,584	-9,830	-13,035	-34,428
Free Cash Flow	-1,110	3,856	329	1,329	1,599	-5,456	-22,538
Others	465	682	-202	224	0	0	0
CF from Investments	853	305	-203	1,808	-9,830	-13,035	-34,428
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	1,137	-5,205	-40	-4,070	-3,000	6,500	25,000
Interest Paid	-277	-261	-308	-326	-180	-539	-1,920
Dividend Paid	-8	-30	-35	-162	-171	-171	-171
Others	-21	884	404	5,714	0	0	0
CF from Fin. Activity	830	-4,613	20	1,156	-3,351	5,790	22,909
Inc/Dec of Cash	185	-74	146	2,709	-1,752	334	372
Opening Balance	84	269	194	341	3,050	1,298	1,632
Closing Balance	269	194	341	3,050	1,298	1,632	2,003

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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