OUTPERFORMER

Ansal Properties & Infrastructure

North-bound!

Rs44

Mkt Cap: Rs6.9bn; US$156m

Ansal Properties & Infrastructure Limited (APIL), a well-entrenched and experienced developer in North India, is taking firm strides towards regaining its old glory. APIL is leveraging its core competency of developing large integrated townships in tier II cities with focus on affordable housing. Impressive FY11 sales of >24msf (average realization, Rs1,067psf) underline this resurgence. With ~27msf in cumulative sales (~Rs20bn in value), the 3,530-acre Lucknow township has crossed the hump and, along with the upcoming 2,504-acre Greater Noida township and 108-acre Essencia II township in Gurgaon, is expected to drive accelerated profit growth. We estimate cash generation of >Rs21bn over FY12-14E (before land payments), which mitigates concerns on managing the Rs15.6bn debt (repayment of Rs6.4bn due in FY12). We initiate coverage with Outperformer and a 12-month price target of Rs120 (25% discount to FY12E NAV of Rs160/share). Any material step-up in land acquisition strategy and inability to refinance debt are key risks.

An integrated township developer; focus on affordable housing: Having delivered ~230msf in the last four decades, including ~98msf of mid-income housing townships, APIL is India's leading township developer. It is executing 19 projects (311msf; APIL's share at ~77%) with Lucknow and Greater Noida hi-tech townships among India's largest. APIL's 10,136-acre land bank (average cost of Rs180psf; ~74% acquired) further enhances its competitiveness.

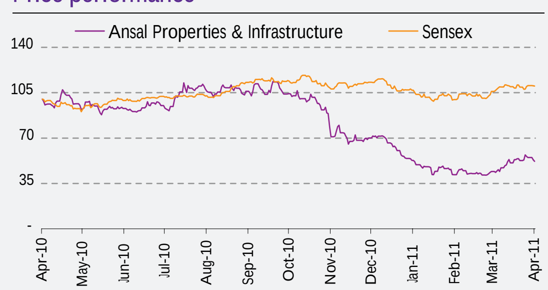
A strong rebound from the lows: Quest to accumulate land for the two mega projects (Lucknow and Greater Noida) had led to a build-up of >Rs17bn of high-cost debt as of March 2010 and stifled growth as sales momentum waned over FY08-10. A Rs3.8bn capital-raising in FY11, solid operating performance, >Rs15bn customer advances and Rs1.8bn cash generation (before interest payout) have enabled APIL to entirely repay its high-cost debt and put the wheels back on the business. With strong demand momentum across townships, we expect APIL to sell ~52msf over FY12-14E.

A proxy to the affordable housing theme; Outperformer: APIL's mid-income housing focus across projects has enabled it to sell a staggering 24msf of projects in FY11. Significant growth visibility in three of its largest projects (Lucknow, Greater Noida and Gurgaon) and >Rs30bn of pending cashflows on sold projects enhances comfort on near-term profit growth and mitigates concerns on high debt (gearing at 0.86x as of FY11E). At 4x FY12E earnings and a 72% discount to our FY12E NAV, we see a strong case for re-rating of the stock.

Key valuation metrics

As on 31 March	FY09	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	7,410	8,532	12,321	14,133	20,158
Adj. net profit (Rs m)	339	508	1,070	1,696	2,425
Shares in issue (m)	114	123	157	157	157
Adj. EPS (Rs)	3.0	4.1	6.8	10.8	15.4
% growth	*(80.5)*	*38.4*	*64.6*	*58.5*	*42.9*
PER (x)	14.7	10.7	6.5	4.1	2.9
Price/Book (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x)	14.5	12.1	8.8	5.9	3.4
RoE (%)	2.6	3.6	6.2	8.0	10.1
RoCE (%)	4.9	5.9	8.0	10.5	17.2

Price performance



Bloomberg: APIL IN | **6m avg daily vol. (m): 0.52**
1-yr High/ Low (Rs): 100/33 | **Free Float (%): 53.6**

Nitin Agarwal
nitin.agarwal@idfc.com
91-22-6622 2568

Vineet Chandak
vineet.chandak@idfc.com
91-22-6622 2579

Content

INVESTMENT ARGUMENT

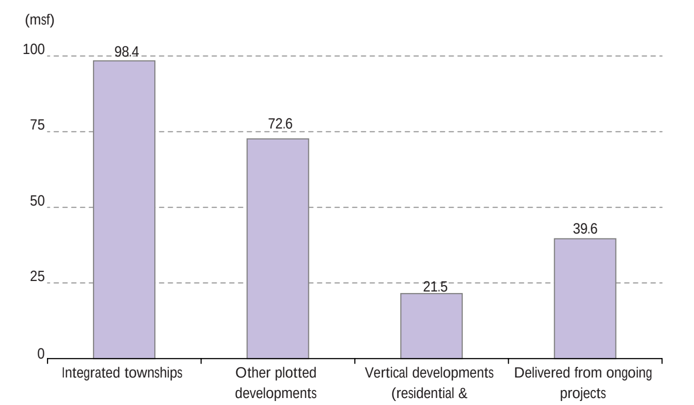
- APIL, one of the most experienced real estate developers in India, is engineering a strong rebound from the trough of the last few years
- Keen focus on affordable housing, wherein demand remains buoyant, is a key competitive edge in the prevailing challenging times for the sector
- Successful launch of mega townships (Lucknow and Greater Noida) underlines APIL's credentials as a leading township developer
- Expect 28% and 50% CAGR in revenues and PAT over FY11-13, driven by accelerated and profitable revenue recognition from the large townships
- We see deep value in the stock; though manageable, the Rs15.6bn debt remains a key risk to recovery given funding constraints for the sector

Established player with large land bank and proven execution skills

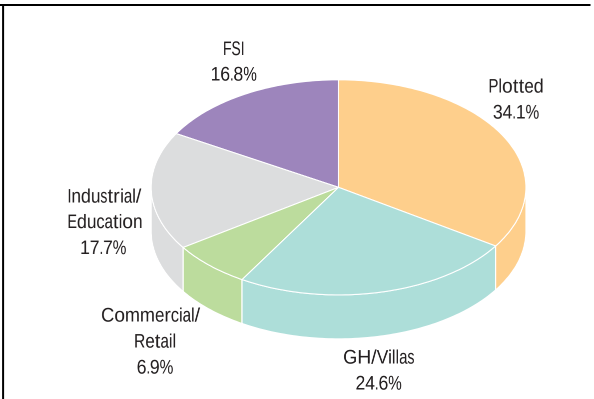
APIL is one of India's oldest real estate players and has delivered >230msf to date

Established in 1967, APIL is one of the oldest real estate players in India with presence across cities in North India. With >230msf delivered to date, primarily in the mid-income housing space, APIL has proven execution capabilities in township development. In line with its focus on township development (largely plotted), APIL has garnered a large land bank (10,136 acres), with gross saleable area of 311msf (includes ~40msf of area delivered from ongoing projects) and Ansal's share of 238msf, at a low cost of acquisiton (average cost, Rs180 psf).

Exhibit 1: APIL has delivered >230msf till date



>311msf of land bank as of FY11



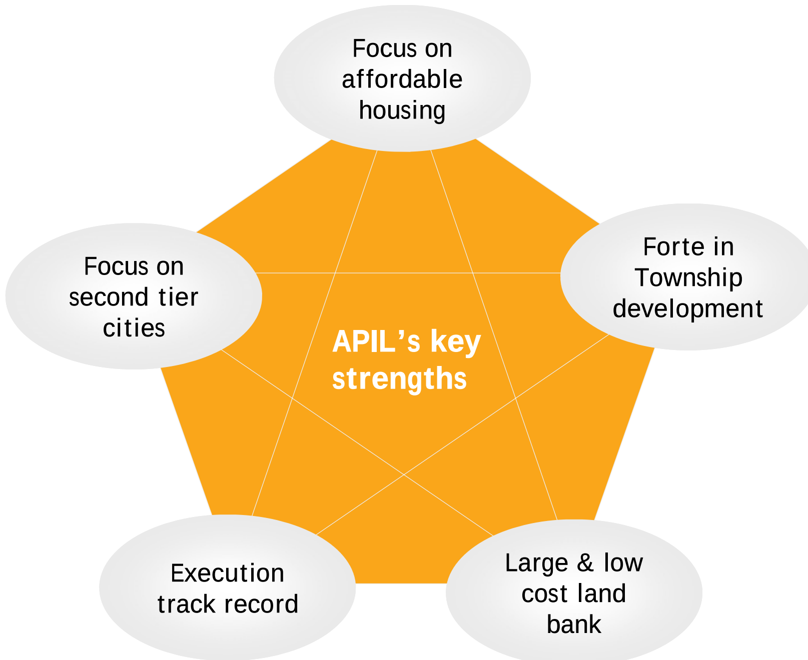
Source: Company

Township development – the core competency

Most offerings are in the mid-income segment

APIL's forte is township development; it currently has 19 townships in various stages of development, including two large hi-tech townships (Lucknow, 3,530 acres, and Greater Noida, 2,504 acres). Most of these offerings are in the mid-income segment and tier II cities of North India.

Exhibit 2: APIL's competitive strengths



Source: IDFC Securities Research

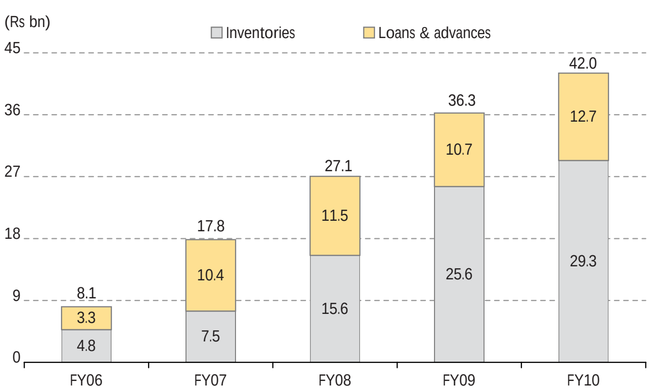
Forayed into hi-tech townships in 2007, which now forms a key part of its portfolio

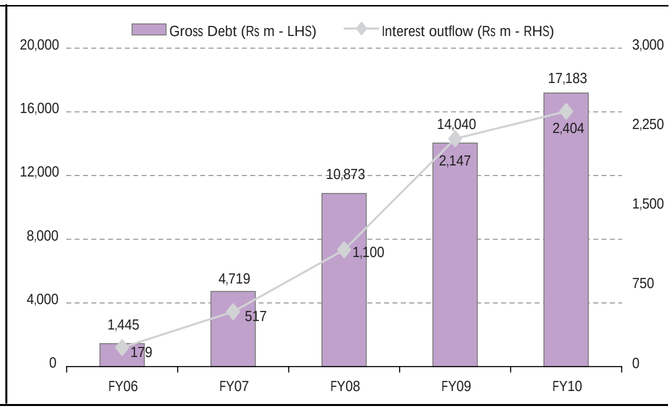
Aggressive land acquisition derailed the story in FY08-10…

Significant increase in interest expenses and high-cost debt on the books

Like most other real estate players, APIL went on a land-acquisition spree during the boom of FY06-08. The funding was largely through debt and the company piled up an incremental ~Rs9.4bn debt over the period. With the slowdown severely denting cashflows, APIL had to resort to high-cost borrowing to fund its repayment and fixed-cost obligations. This resulted in a significant increase in interest expense (from Rs1.45bn in FY06 to Rs2.4bn in FY10) and high-cost debt on the books.

Exhibit 3: Aggressive investment in land acquisition led to significant increase in debt





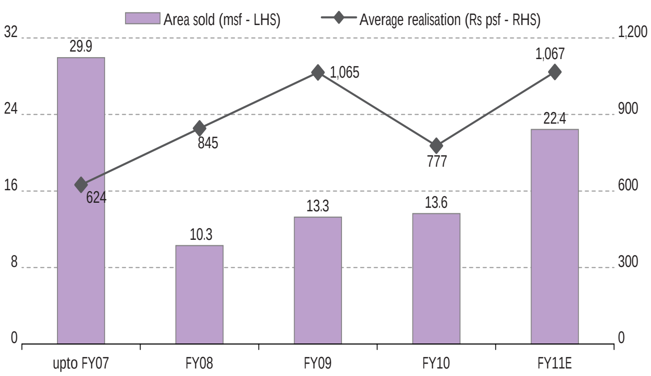
Source: IDFC Securities Research

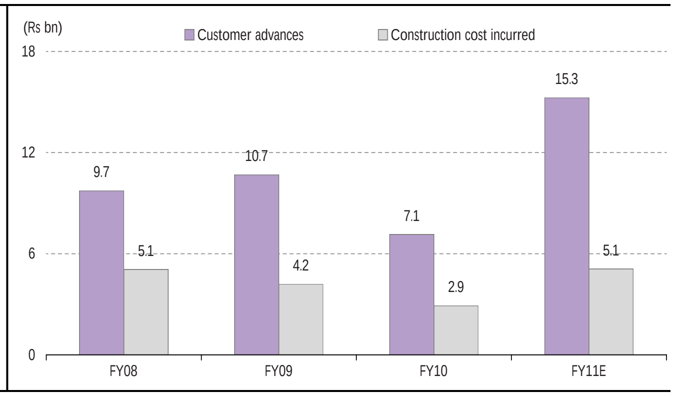
…but FY11 was a watershed year

APIL witnessed a 65% rise in volumes and 126% growth in sales value in FY11

Buoyed by capital-raising to the tune of Rs3.8bn and strong focus on generating volumes, APIL posted a strong operational performance in FY11. It sold a record 22.4msf (vs. 13.6msf in FY10) and achieved sales value of ~Rs24bn (Rs10.6bn in FY10) – a 65% increase in volumes and 126% increase in sales value yoy. Average realization increased by 37% yoy to Rs1,067 psf (Rs777 in FY10). Also, customer advances increased sharply (Rs15.3bn in FY11 vs. Rs7.1bn a year ago) as construction activity gathered pace (Rs5.1bn in FY11 vs. Rs3bn in FY10).

Exhibit 4: Sales volumes and cashflows jump in FY11





Source: IDFC Securities Research

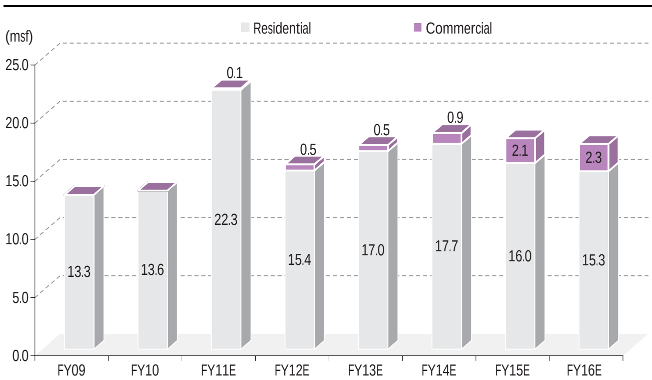
APIL raised ~Rs3.8bn in FY11 from various sources (QIP, private placement, PE, etc) and utilized the funds to reduce the high-cost debt on the books (~Rs2bn). APIL has also been focusing on improving operational disclosures, which should address any shareholder concerns on corporate governance, especially with the negative news flow pertaining to the industry recently. APIL is one of the first in the sector to provide monthly disclosures of operational performance (area sold, sales value, etc) and cashflows (customer advances, capital raising, etc).

We expect momentum to continue and realizations to improve

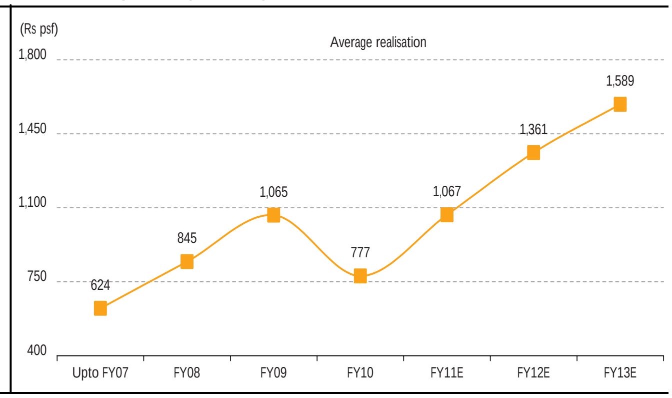
We expect the volume momentum to remain strong (~52msf to be sold over FY12-14E) due to buoyancy in the affordable housing segment and good response to APIL's townships. Also, we expect realizations to steadily increase to Rs1,589psf by FY13E, in line with an increase in vertical developments and higher sales from premium projects like Essencia II in Gurgaon and Golf Villas in Lucknow.

Realizations to increase in tandem with increase in vertical developments and higher sales from premium projects

Exhibit 5: APIL to sell 52msf in the next three years...



...with improving average realizations



Source: IDFC Securities Research

Three large townships to drive future value

Strong demand and rapid infrastructure development to drive sales

The two hi-tech townships (in Lucknow and Greater Noida) and Essencia Gurgaon (phase I & II), we believe, will be the key growth drivers. With strong demand momentum and rapid infrastructure development in those regions, we expect the townships to create significant shareholder value. We expect APIL to generate cumulative sales of 34msf and net cashflows of >Rs18bn from these three projects over FY12-14. We also see significant scope for expansion of these townships.

Exhibit 6: APIL's key townships – a snapshot

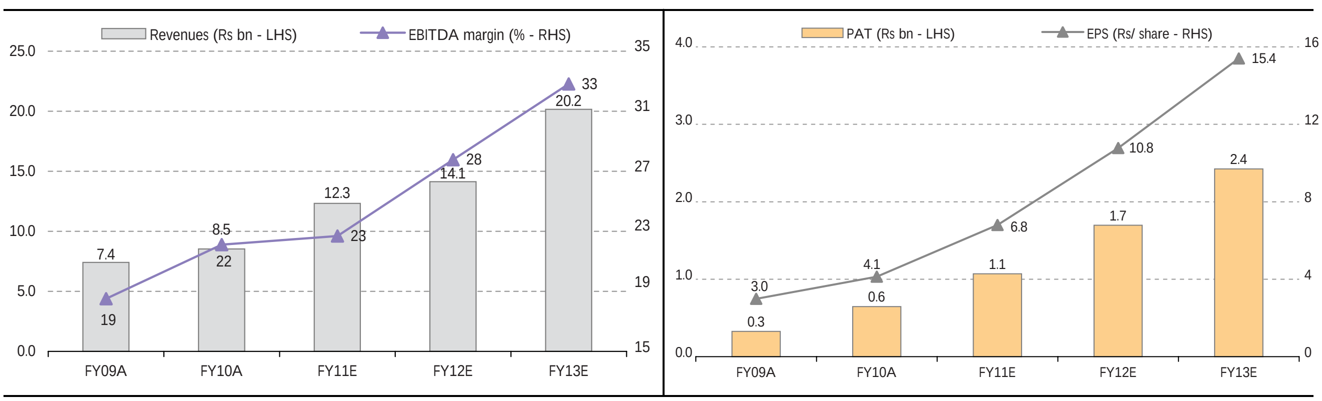
	Sushant Golf City, Lucknow	Megapolis, Greater Noida	Essencia Ph II, Gurgaon
Location	Lucknow	Greater Noida	Gurgaon
Type	Hi-Tech	Hi-Tech	Township
Development time-line	10 years	11 years	4 years
Size (acres)	2,565	2,504	108
Share of APIL (%)	100.0%	53.9%	74.0%
Land acquired (acres)	2,117	702	75
Estimated saleable area (msf)	82.6	77.3	5.2
Area sold till Mar-11 (msf)	27.0	5.1	-
Sales value of area sold (Rs bn)	19.9	5.5	-
Pending customer advances (Rs bn)	11.3	1.8	-
Pending revenue recognition (Rs bn)	13.0	2.8	-
Estimated project cashflows			
Advances (Rs bn)	98.6	99.4	26.2
Land + construction cost (Rs bn)	47.6	50.7	11.1
Key Investors	**Nil**	**HDFC Asset Management**	**Red Fort Capital**
Amount invested (Rs m)	Nil	750	2,000.0
Equity stake given (%)	Nil	15%	26%

Source: IDFC Securities Research

Accelerated growth ahead

We expect 28% CAGR in revenues for APIL over FY11-13 to Rs20.2bn in FY13 as revenue recognition from the large projects begins to accelerate. Improvement in EBITDA margins (from 23% in FY11 to 33% in FY13E), combined with a steady decline in interest costs, would drive 50% CAGR in PAT to Rs2.4bn in FY13E.

Exhibit 7: Revenues and PAT over FY09-13E



Source: IDFC Securities Research

Cashflows on a strong uptrend; FY12 debt repayment a key monitorable

We expect APIL to generate >Rs21bn of operating cash surplus (before land payments) over FY12-14E on the back of continued momentum in sales and improved execution. Prima facie, these strong cash flows should enable APIL to comfortably manage its ~Rs15.6bn outstanding debt. However, a substantial Rs6.4m of the debt is due for repayment in FY12. We expect the company to retire Rs2.5bn of this debt while refinancing the rest (APIL management is guiding towards a higher repayment of ~Rs4bn in FY12).

Further, the management aims to raise Rs3bn-4bn in private equity investments to fund its planned land acquisitions in FY12. Notably, a successful fund-raising may facilitate higher debt repayments, while inability to refinance debt/ raise PE investment would likely lead to lowering of land acquisition spends in FY12.

Exhibit 8: APIL's cashflow situation over FY11-14E

(Rs m)	FY11E	FY12E	FY13E	FY14E
Area sold (msf)	22	16	18	19
Sales value (Rs m)	23,927	21,284	27,356	34,174
Cashflows				
Total inflows	15,568	17,501	22,191	25,779
Construction cost	(5,104)	(7,393)	(8,767)	(10,413)
Other expenses	(2,658)	(3,091)	(4,432)	(5,758)
Interest payment	(2,650)	(2,152)	(1,832)	(1,696)
Net cashflows before land payment	5,156	4,864	7,160	7,912
Equity raising	2,900	-	-	-
Private Equity investment	700	1,450	-	-
Cashflows available for land acquisition and debt repayment*	**8,756**	**6,314**	**7,160**	**7,912**
Mandatory debt repayment	*5,546*	*6,360*	*2,500*	*1,500*

*Source: IDFC Securities Research; * prior to working capital changes*

The stock available at a deep discount to NAV; Outperformer

Hi-tech townships contribute 52% to gross NAV

We derive an FY12 NAV of Rs25.2bn (Rs160/ share) for APIL. Our gross NAV stands at Rs52bn, with the hi-tech townships (Lucknow and Greater Noida) contributing 52% to the total. The Gurgaon townships, including Essencia (phase I & II) and Golden Greens, contribute 23% to the gross NAV. We initiate coverage on the stock with Outperformer and a 12-month price target of Rs120, which is at a 25% discount to FY12E NAV.

Exhibit 9: APIL -- FY12E NAV valuation summary

(Rs m)	FY12E				
	Rs m	% of total	NAV/ share (Rs)	Net area (msf)	Value psf (Rs)
Lucknow township	19,003	37	121	82.6	230
Megapolis, Greater Noida	8,048	16	51	23.5	342
Essencia Ph I, Gurgaon	1,518	3	10	2.9	517
Essencia Ph II, Gurgaon	5,601	11	36	3.9	1,445
Golden Greens, Gurgaon	4,302	8	27	4.7	911
Sushant Taj City, Agra	1,676	3	11	9.8	170
Other townships - area sold	2,099	4	13	35.0	60
Other townships - balance area	9,375	18	60	46.8	201
Gross NAV	**51,622**	**100**	**328**	**209.2**	**247**
Add: Cash	624		10		
Less: Gross Debt	(13,082)		(89)		
Less: NPV of Admin exp.	(12,613)		(80)		
Less: IL&FS stake buyout in Essencia I	(1,400)		(9)		
Net NAV	**25,151**		**160**		
Outstanding shares (m)	*157.4*				
NAV per share	**160**				
Less: Discount @ 25%	40				
Target price (Rs)	**120**				

Source: IDFC Securities Research

Pioneer of Affordable Housing & Townships

- North-India-based real estate developer with four decades of experience and forte in township development (19 townships under development)
- Focus on affordable housing (largely plotted) with strong execution capabilities (>230msf delivered to date)
- Large land bank (10,136 acres), with gross saleable area of 311msf (Ansal's share, 238msf), at low cost of acquisition (average cost, Rs180 psf)
- Strategic location of land bank with ~37% in NCR; significant portion licensed (90%) and paid for (74%)
- Forayed into hi-tech townships in 2007 with two large townships under development (Lucknow -3,530 acres and Greater Noida – 2,504 acres)

APIL – one of the oldest names in North India

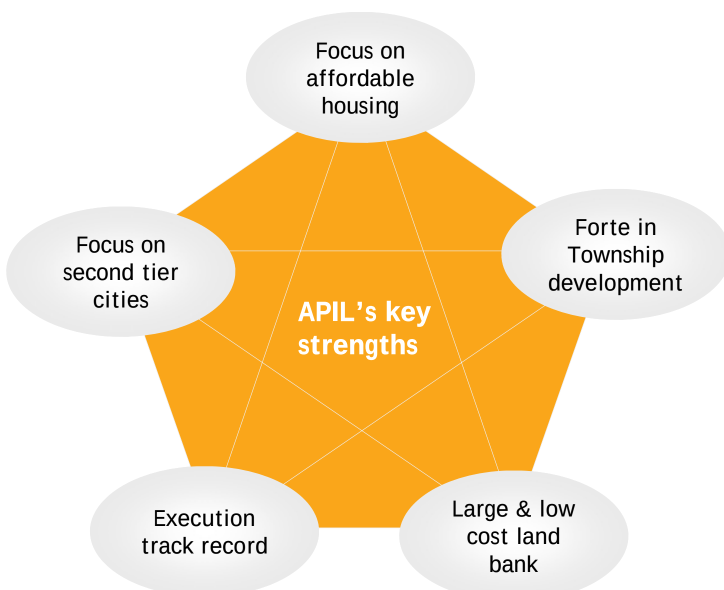
APIL has delivered ~230msf; 19 integrated townships under development

APIL is a North-India-based real estate developer with four decades of experience and a pioneer of affordable housing. Its forte is integrated township development. Starting as a commercial and residential developer in Delhi with several landmark developments to its credit, the company has delivered ~230msf to date (mostly townships and plotted development) – one of the largest in the country. Currently, APIL is developing 19 integrated townships (311msf of gross saleable area; includes ~40msf of area delivered from ongoing projects) and is the largest player in this segment.

Forayed into hi-tech townships in 2007, which now forms a key part of its portfolio

In 2007, APIL forayed into development of hi-tech townships with the launch of two large projects in Uttar Pradesh (3,530 acres in Lucknow and 2,504 acres in Greater Noida). Notably, the Lucknow township has received excellent response with ~27msf of area already sold (sales value – Rs24bn), and the Greater Noida project too offers strong growth potential as it is located in the NCR.

Exhibit 10: APIL's competitive strengths



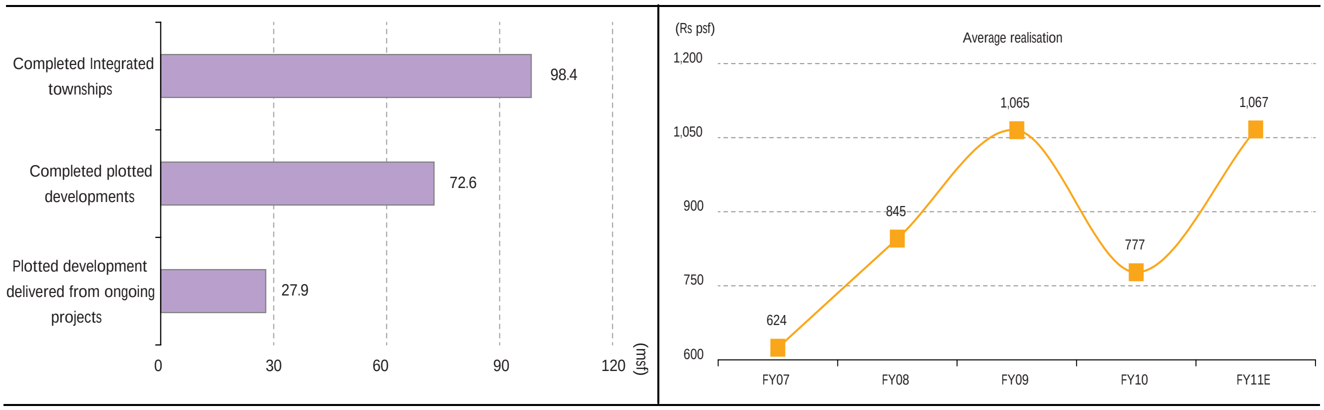
Source: IDFC Securities Research

Affordable housing — at the core of the strategy

Average realizations in the range of Rs600-1200psf

APIL is a pioneer of affordable housing projects, having started horizontal development (township planning over a large area) since the late 1980s. With presence in tier II/ III cities and focus on plotted and low-rise developments (independent floors, villas, etc), the company has to date developed and delivered 2,258 acres (~98.4msf) of integrated townships and handed over 1,666 acres (72.6msf) of other plotted developments. Average realizations have been in the range of Rs600-1,200psf, with offerings in small to mid-sized products.

Exhibit 11: Strong track record in horizontal developments in the affordable housing segment



Source: IDFC Securities Research

Township development — key competency

Developed and delivered ~2258 acres of integrated townships

APIL started as a commercial and residential developer in Delhi and has some landmark developments to its credit. However, the focus subsequently shifted to integrated townships and affordable housing. APIL is developing townships in NCR and key cities in North India, operating as a master-plan developer. Till date, the company has developed and delivered ~2,258 acres (98.4msf) of integrated townships. The company is currently working on 19 townships with gross saleable area of 311msf (including ~40msf of area delivered from ongoing projects).

In 2003, the Uttar Pradesh government put forward a proposal for development of hi-tech townships involving various benefits (see exhibit on page 37). APIL was one of the first companies to see potential and bagged the license for a township in Lucknow (Phase I - 1,765 acres). In 2007, the company bagged another hi-tech township in Greater Noida, Greater Noida (2.504 acres). Recently, APIL also got approval for extension of the Lucknow Township by another 1,765 acres (Phase II).

- Sushant Golf City, Lucknow (golf-based development), with saleable area of 60msf in Phase I (1,765 acres), was launched in FY07 and received excellent customer response. APIL has sold >27msf in the township to date.
- Megapolis, Greater Noida (Greater Noida), with saleable area of ~43msf in Phases I & II, was launched in FY09 with ~5msf of area sold to date.

Exhibit 12: Select townships of APIL – a snapshot

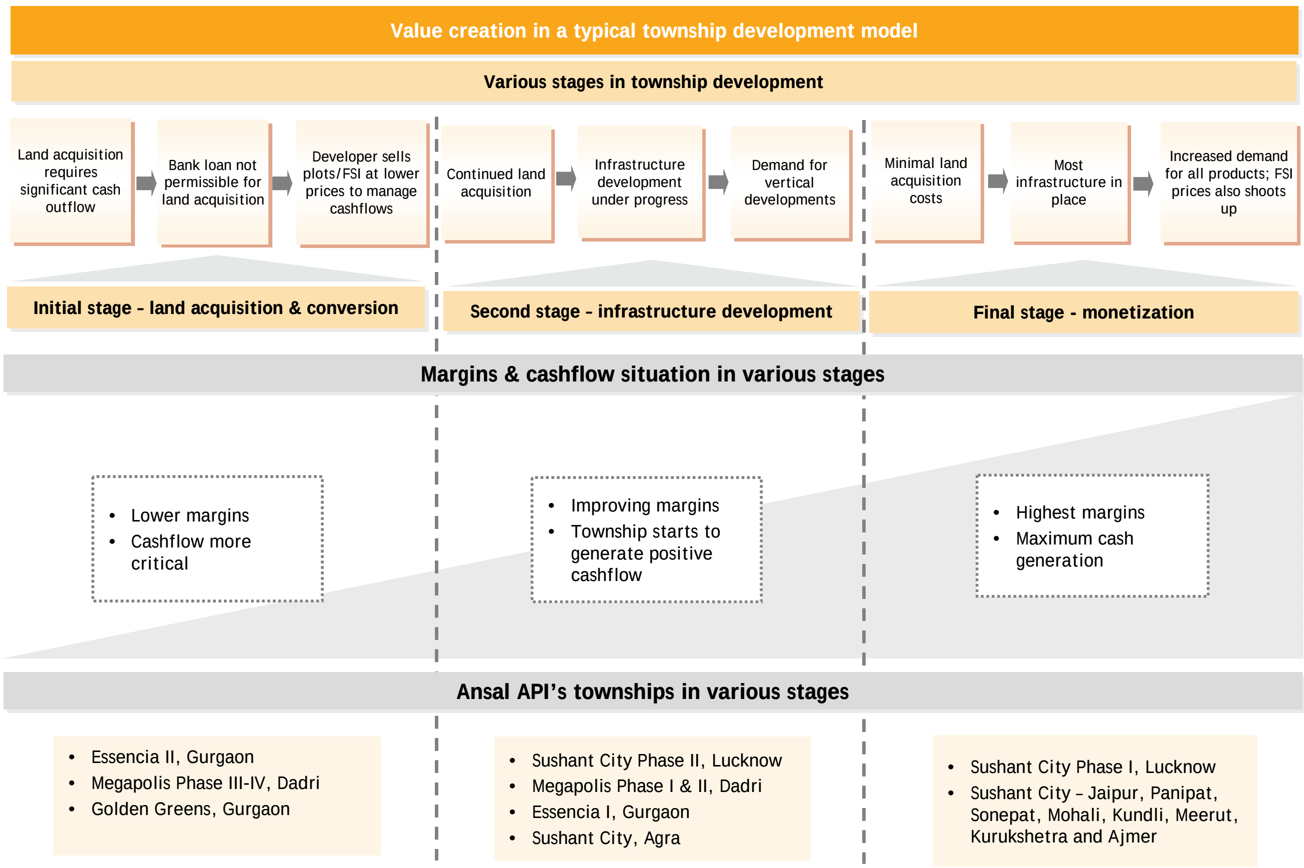
Project/Location	Gross area (acres)	Saleable area (msf)	Area sold- msf (As on 31/3/11)	% sold	Acquired/ possessed acres (31/12/10)	Land exhausted acres (31/12/10)
Sushant Megapolis, G. Noida – Ph I	500	13.8	5.15	37	264	-
Sushant Megapolis, G. Noida – Ph II	870	29.1	-	-	249	-
Sushant Megapolis, G. Noida – Ph III	687	22.6	-	-		-
Sushant Megapolis, G. Noida – Ph IV	446	11.8	-	-		-
Sushant Golf City, Lucknow - Ph I	1765	60.0	27.04	45	1,609	-
Sushant Golf City, Lucknow - Ph II	800	22.6	-	-	508	-
Sushant City-I & II, Jaipur	511	11.4	9.41	83	511	330
Sushant City, Agra	442	9.7	2.43	25	303	-
Golf Links - I & II, Mohali	319	8.4	5.09	60	309	-
Sushant City, Panipat	377	9.9	6.27	64	377	258
Sushant City, Kundli	356	11.5	7.58	66	356	228
Sushant City, Meerut	298	8.0	5.96	74	298	-
Sushant Lok and City, Jodhpur	262	7.5	2.81	38	262	68
Sushant City, Bhatinda	210	5.5	2.36	43	207	-
Sushant City, Karnal	250	7.6	2.43	32	250	-
Sushant City, Kurukshetra	166	3.2	2.20	70	166	-
Sushant City-II, Yamuna Nagar	142	2.3	0.70	30	142	-
Aquapolis, Ghaziabad	128	5.0	1.60	32	106	-
Sushant City, Ajmer	122	3.0	1.61	54	122	-
Esencia, Gurgaon - Ph I	112	3.0	2.49	82	112	-
Esencia, Gurgaon - Ph II	108	5.2	-	-	76	
TOTAL	**8,839**	**260.9**	**85.13**	**33**	**6,226**	**884**

Source: Company

Township Development – significant upfront investments; accelerated gains later

While township development requires upfront investment in terms of land acquisition and infrastructure development, significant value creation happens at the last stage when a large part of the infrastructure is in place and the township is established as one of the preferred locations in the city. With strong demand as well as appreciating prices, a developer is able to maximize returns at this stage.

Exhibit 13: Value creation in a typical township model



Nearly 50% of APIL's townships are in or entering the accelerated profit growth phase

With 19 townships under development, nine townships are in the final stage of development (saleable area, 118msf; ~68msf sold) with >50msf of unsold inventory. We expect these townships to generate significant cashflows going forward.

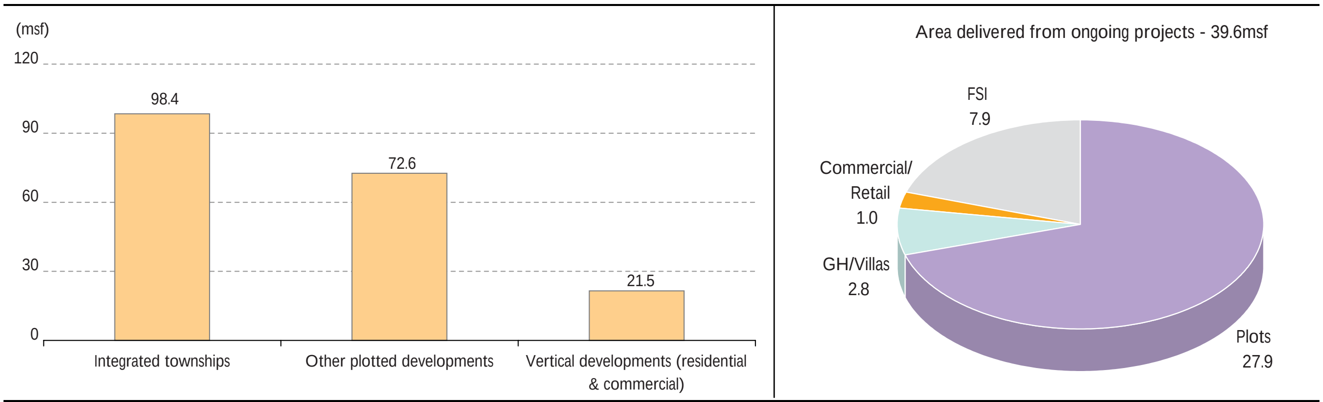
Proven execution skills – >230msf delivered to date

One of the most trusted brands in the NCR; has ~90msf of ongoing projects

APIL is one of the oldest names in NCR and a leading property developer with strong brand equity (popularly known as 'Ansal API'). The company has, to date, developed and delivered 2,258 acres (~98.4msf) of integrated townships, handed over 1,666 acres (72.6msf) of other plotted developments at various locations in Delhi and Haryana, and 21.5msf of vertical developments including commercial, industrial and residential built-up area.

From the ongoing projects (~90msf), APIL has already delivered 39.6msf and expects to deliver the balance area over next 2-4 years. It also has overseas experience, having completed developments in Russia, Thailand and Iraq.

Exhibit 14: Total area developed to date from completed and ongoing developments



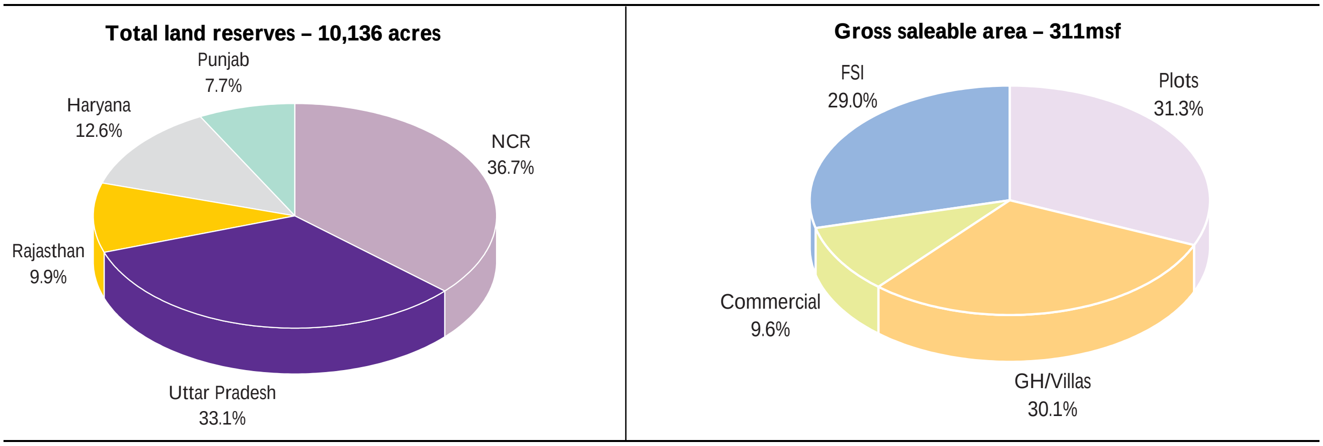
Source: Company

Large and low-cost land bank acquired at competitive prices

APIL has accumulated significant and high-quality land reserves (10,136 acres, ~37% in NCR) with most of it licensed (64%) and acquired (74%). Including the two large hi-tech townships (combined area of >5,000 acres; excluding 965 acres in Lucknow Phase II as development agreement is yet to be signed) and 17 other townships under development, APIL has a gross saleable area of 311msf (Ansal's share – 238msf) under its belt with ~90msf already sold (APIL's share in the remaining area of 221msf is 168msf). The company has acquired most parcels at competitive prices (average acquisition cost of Rs180psf).

Significant and high-quality land bank acquired at an average price of Rs180psf

Exhibit 15: Breakup of land reserves (geographic and asset class wise)



Source: Company

Focus on tier II cities…

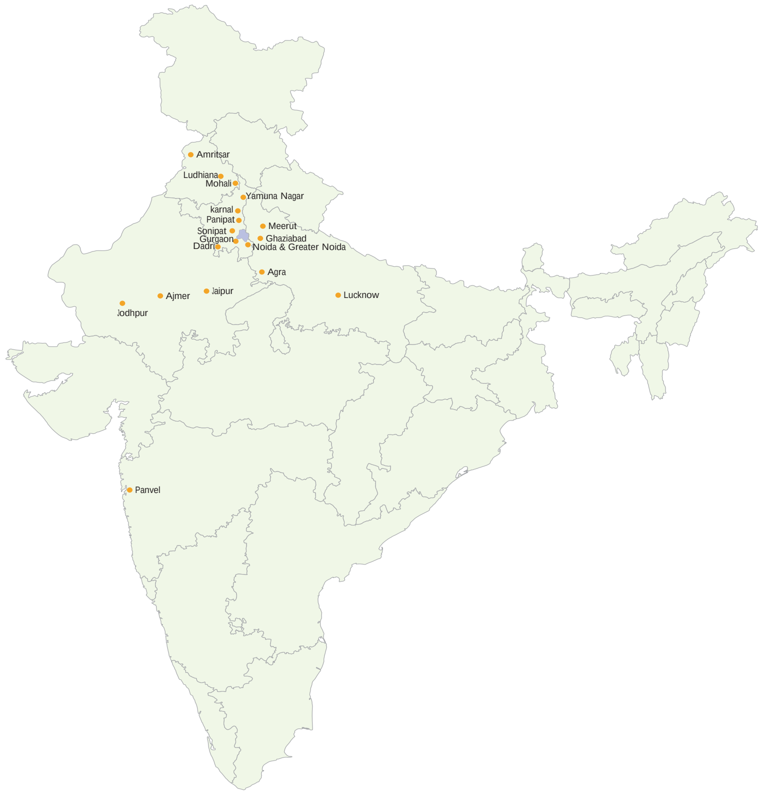
APIL's strategy is to acquire large tranches of land at competitive prices to build mega townships. It has, hence, targeted tier II cities which are characterized by strong demand and growth potential to create a long-term sustainable business.

APIL has land in all major cities in North India, including Gurgaon, Noida, Greater Noida, Lucknow, Sonepat, Ghaziabad, Meerut, Greater Noida, Jaipur, Amritsar, Mohali, Ludhiana and other tier-II cities like Panipat, Karnal, Yamuna Nagar, Agra, Jodhpur, Ajmer and Panvel (Maharashtra). It plans to launch more projects in these cities by extending the current townships.

Land bank spans all major cities of North India…

…with plans to launch more projects in the cities by expanding existing townships

Exhibit 16: APIL's operations in North Indian cities



Source: Company

…with a considerable portion licensed and acquired

Of the total 9,360 acres, license obtained for 8,029 acres and acquired 6,500 acres

Of its total land reserves of 10,136 acres, APIL has acquired (ownership or under joint development) and paid for ~7,500 acres of land. Licenses have been obtained for 9,139 acres with another 996 acres awaiting approval.

Of the 2,670 acres left to be acquired, ~1,800 acres is in the Greater Noida Township and ~500 acres in the Lucknow Township. Both the parcels are hi-tech townships, where land has been reserved either under Section 4 of The Land Acquisition Act of UP or other clauses of the policy against payment for reservations, and there is no immediate need for acquisition.

Exhibit 17: Land status as on 31 March 2011

*Source: Company; * does not include 965 acres in Lucknow Phase II where DA is yet to be signed*

Also, outstandings on land payments would be significantly low as pure agricultural land has been acquired through outright payment in most cases.

Impressive Rebound from the Lows

- While land acquisition spree during FY06-08 led to >Rs9.4bn jump in debt, slowdown in FY08-10 forced APIL to raise high-cost debt to meet cash shortfall
- APIL has made a strong operational comeback in FY11 marked by 65% growth in volumes (22.4msf sold) and 37% improvement in realizations (Rs1,067 psf)
- Significant improvement in cashflows (>Rs15bn in advances) backed by capital raising of Rs3.8bn utilised towards high-cost debt reduction
- Superior corporate governance with monthly operational and cashflow updates bodes well for future growth

To hell and back

Land acquisition spree followed by pressure on cashflows led to high debt

Like most other real estate players, APIL went on a land-acquisition spree during the boom of FY06-08 with funding largely through debt (~Rs9.4bn additional debt over FY06-08). However, with the slowdown severely denting cashflows, APIL had to resort to high-cost debt for funding its repayment and fixed cost obligations.

Comeback marked by focus on operational excellence and equity-raising

In the last one year, APIL has made a strong comeback on the back of; a) strong operational performance (>24msf of sales; >Rs15bn in collections), and b) equity raising (Rs2.3bn in QIP, Rs1.5bn from private equity stake sale) utilized for retiring high-cost debt and increasing the pace of execution. It has also significantly improved disclosures, with monthly updates on operations and cashflows.

Aggressive land acquisition in FY06-08 magnified debt

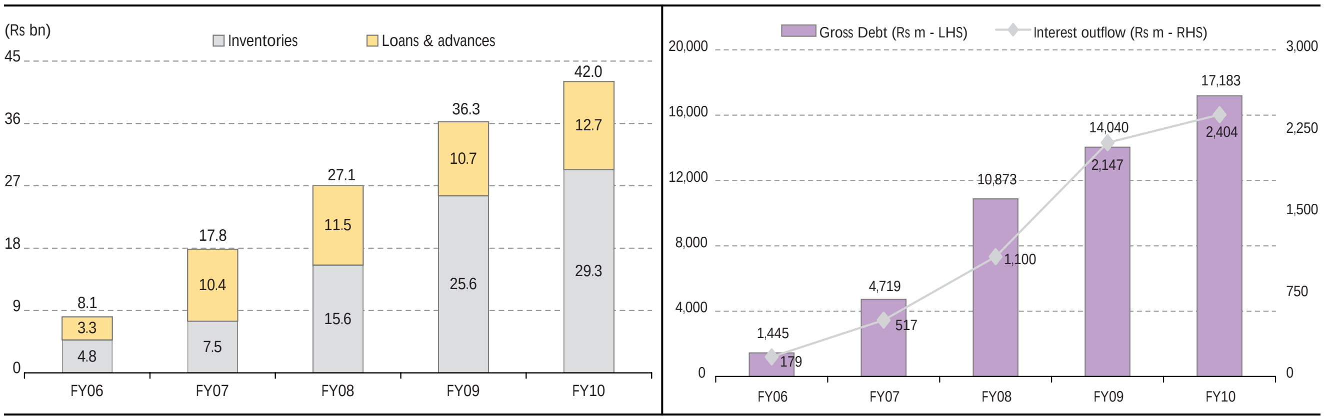
Large part of the hi-tech township investment was funded through debt

APIL's "Inventory + Loans & Advances" (indicator of investment in land and construction) rose by ~Rs19bn over FY06-08 when it invested heavily in land (either outright purchase or advances to land collaborators). Both the hi-tech townships (Lucknow and Greater Noida) were awarded during this period and required significant land acquisitions. A large part of this investment was funded through debt, resulting in an increase of Rs9.4bn in gross debt (from Rs1.4bn in FY06 to Rs 10.9bn in FY08).

APIL had to resort to high-cost debt to meet repayment obligations

The economic slowdown of FY08-09 hit cashflows as demand reduced significantly while land and short-term debt obligations required immediate payouts. With the equity markets turning bad and banks reluctant to lend, APIL had to resort to high-cost debt for funding its cash shortfall. This resulted in a significant increase in interest expense (from Rs1.45bn in FY06 to Rs2.15bn in FY09) and high-cost debt on the books.

Exhibit 18: Aggressive investment in land acquisition led to significant increase in debt



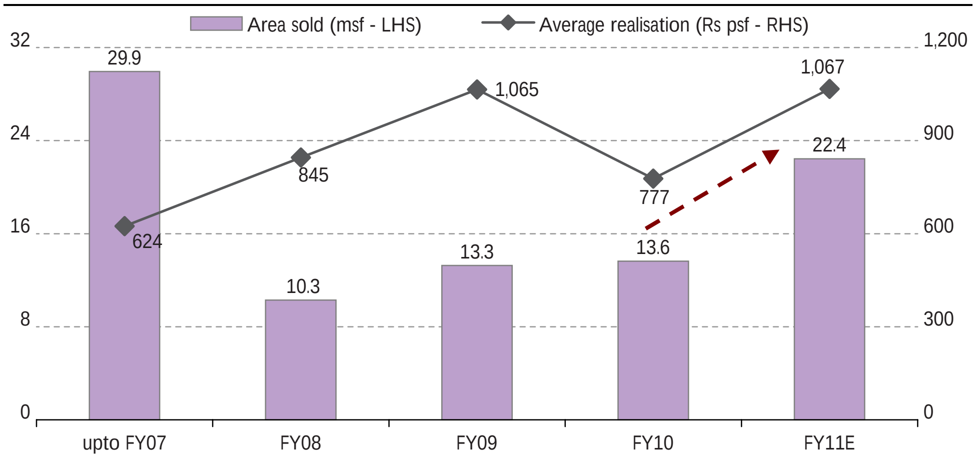
Source: IDFC Securities Research

However, FY11 witnessed a strong operational comeback...

With focus on generating volumes, APIL posted a strong operational performance in FY11. It sold 22.4msf (vs. 13.6msf in FY10) with sales value of ~Rs24bn (vs. Rs10.6bn in FY10) – a 65% increase in volumes and 126% increase in sales value yoy. Average realization increased by 37% yoy to Rs1,067 psf (vs. Rs777 in FY10).

Focus on generating volumes

Exhibit 19: Significant jump in sales volumes in FY11



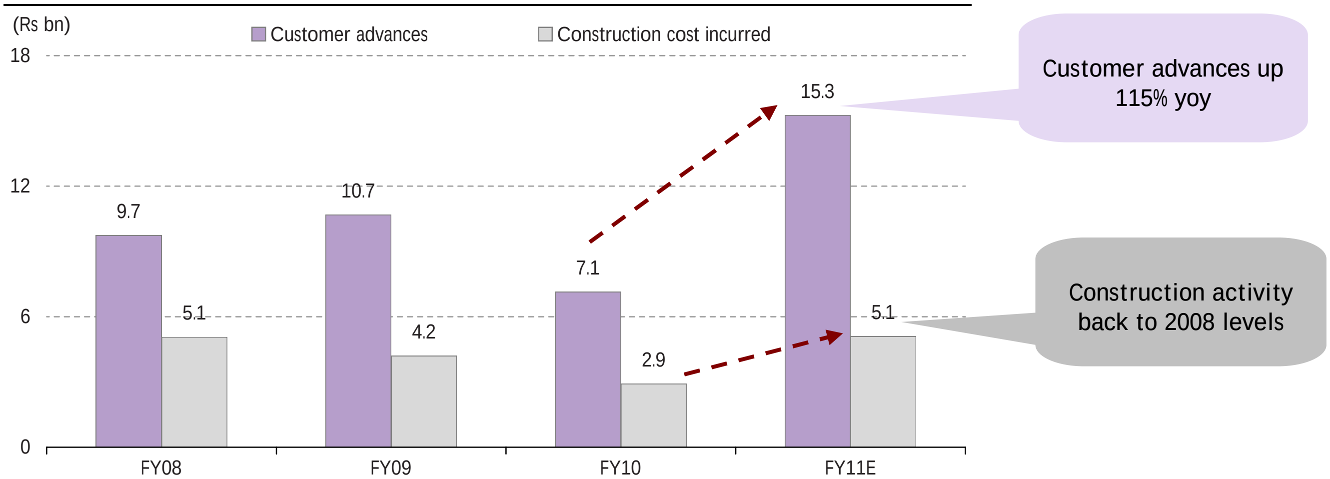
Source: IDFC Securities Research

… with significant improvement in cashflows…

Backed by strong fresh sales and improved execution, APIL's customer advances increased sharply to Rs15.3bn (Rs7.1bn in FY10). Construction activity picked up across projects, with Rs5.1bn of cost incurred as against ~Rs3bn in FY10.

Customer advances rose sharply to Rs15.3bn (vs. Rs7.1bn in FY10)

Exhibit 20: Customer advances picked-up with pick-up in execution



Source: IDFC Securities Research

… and capital raising utilized to reduce high-cost debt

Raised ~Rs3.7bn in FY11 via QIP, private placement and private equity inflows

APIL raised ~Rs3.8bn in FY11 from various sources, including; a) a QIP of Rs2.3bn, b) private placement to Enam & Group for Rs7bn, and c) private equity inflows of ~Rs7bn. With most of the capital utilized to reduce the high-cost debt (~Rs2bn), we expect significant reduction in interest cost from FY12 (from Rs2.6bn in FY11 to Rs2.1bn in FY12).

Exhibit 21: Fund raising in FY11

	Rs m
Qualified Institutional placement (QIP)	2,314
Private placement (Enam & Group)	705
Private Equity investments	
ICICI Prudential AMC (Aquapolis - Ghaziabad)	250
Redfort Capital (Essencia II - Gurgaon)	550
Total capital raised (Rs m)	**3,819**

Source: IDFC Securities Research

Improving corporate governance bodes well for future growth

APIL now provides monthly disclosures of operations and cashflows

After the capital-raising in October 2010, APIL is focusing on improving operational disclosures, thereby addressing shareholder concerns over corporate governance issues in the sector. The company has started providing monthly disclosures of operational performance (area sold, sales value, etc) and cashflows (customer advances, capital raising, etc) – one of the first real estate players to do so. We see these disclosures as extremely positive for APIL as it would help investors monitor the company's performance on a real-time basis.

THREE LARGE TOWNSHIPS TO DRIVE FUTURE VALUE

- APIL's growth to be driven by three large townships of Lucknow (Sushant Golf City), Greater Noida (Sushant Megapolis) and Gurgaon (Essencia Ph II)
- Sushant Golf City (3,530 acres) with ~Rs20bn of sales till date (27msf sold) offers huge potential; ~56msf of unsold inventory and 965 acres of potential expansion to drive future cashflows
- Megapolis (2,504 acres; 77msf) to benefit from strategic location and improving accessibility; significant cost arbitrage to generate demand going forward
- Essencia II (108 acres; 5.2msf) to benefit from strong response to Phase I; we expect net cashflows of ~Rs13bn over FY12-14E
- Golden Greens Gurgaon (golf based development; JDA with 76% revenue share) – potential value driver with >6msf of premium development

Banking on hi-tech townships

Hi-tech townships of Lucknow and Greater Noida key elements of growth

We believe the hi-tech townships, along with Essencia township, Gurgaon (Phase I & II), will be the key drivers of growth for APIL. With strong demand momentum and infrastructure development in full swing, we expect these townships to create significant shareholder value.

While Sushant Golf City has already emerged as one of the preferred locations in Lucknow, Megapolis is also generating buzz among customers with its improving connectivity to Greater Noida and considerable cost arbitrage. With Megapolis spread over 2,504 acres (~700 acres acquired) and Sushant Golf City extended by another 1,765 acres (agreement signed for 800 acres; 2,117 acres acquired in total), we believe APIL has significant scope for expanding the townships. With regards to Gurgaon township, we expect Essencia Ph II to deliver strong cashflows on the back of tremendous response received by Essencia I (>90% sold out).

Exhibit 22: Key townships – a snapshot

	Sushant Golf City, Lucknow	Megapolis, Greater Noida	Essencia Ph II, Gurgaon
Location	Lucknow	Greater Noida, Greater Noida	Gurgaon
Type	Hi-Tech	Hi-Tech	Township
Development time-line	10 years	11 years	4 years
Size (acres)	2,565	2,504	108
Share of APIL	100.0%	53.9%	74.0%
Land acquired (acres)	2,117	702	75
Estimated saleable area (msf)	82.6	77.3	5.2
Area sold till Mar-11 (msf)	27.0	5.1	-
Sales value of area sold (Rs bn)	19.9	5.5	-
Pending customer advances (Rs bn)	11.3	1.8	-
Pending revenue recognition (Rs bn)	13.0	2.8	-
Estimated project cashflows			
Advances (Rs bn)	98.6	99.4	26.2
Land + construction cost (Rs bn)	47.6	50.7	11.1
Key Investors	Nil	HDFC Asset Management	Red Fort Capital
Amount invested (Rs m)	Nil	750	2,000.0
Equity stake given (%)	Nil	15%	26%

Source: IDFC Securities Research

APIL has already sold ~13msf in Lucknow township; approval pending for extension of another 1,765 acres

Sushant Golf City – the only golf-based development in Lucknow

Pursuant to the 2003 Hi-Tech Township Policy of Uttar Pradesh govt, APIL got the approval to develop a hi-tech township in the new development area of Lucknow. Named as Sushant Golf City, the township was spread across 1,765 acres with 60msf of saleable area. Recently, APIL also received approval for extension of the township by another 1,765 acres. With development agreement signed for 800 acres till date, APIL's total area in the township stands at 2,565 acres with saleable area of 82.6msf. APIL expects to sign the agreement for balance 965 acres in FY12.

The township is advantageously located close to NH-56, which gives it quick and easy access to the CBD. Also, Sushant City is the only township in Lucknow with a golf course, making it an exclusive project in the city.

Phase I spread over 1,765 acres with ~60msf of saleable area

Phase I of Sushant Golf City was launched in 2007. With an estimated saleable area of 60msf, the township comprises ~20msf of residential and ~40msf of non-residential development (retail, commercial, industrial, FSI etc). The residential segment also comprises 5.7msf of golf villas/ group housing (developments around the golf course) – one of the premium offerings in the township.

Exhibit 23: Asset class break-up of saleable area

Asset Class	Gross area (acres)	Net Area (acres)	Salable Area (msf)	Area sold till Dec-10 (msf)	Sale value (Rs m)	Customer advances (Rs m)
Plotted	797	443.9	19.3	11.1	5,373.6	3,229.2
Built Up units	200	111.2	4.1	2.1	4,589.6	1,759.4
Group Housing	351	195.5	14.8	4.3	4,477.1	1,036.8
Golf Appartments	92	51.2	1.7	-	-	-
Golf Villas	109	61.0	4.0	-	-	-
Affordable Housing	23	12.7	0.6	0.6	757.4	195.1
Social Housing	7	4.1	0.3	0.2	215.2	119.5
Commercial	402	223.8	22.1	2.2	1,289.7	312.5
Bio - Technology Park	103	57.2	3.0	-	-	-
IT Park	89	49.8	3.3	0.1	31.5	10.9
Education & Medical Facilities	220	122.7	5.3	3.4	510.1	363.8
Other Social Assets	173	96.1	4.2	0.2	30.4	6.2
Total	**2,565**	**1,429**	**82.6**	**24.2**	**17,275**	**7,033**

Source: Company, IDFC Securites Research

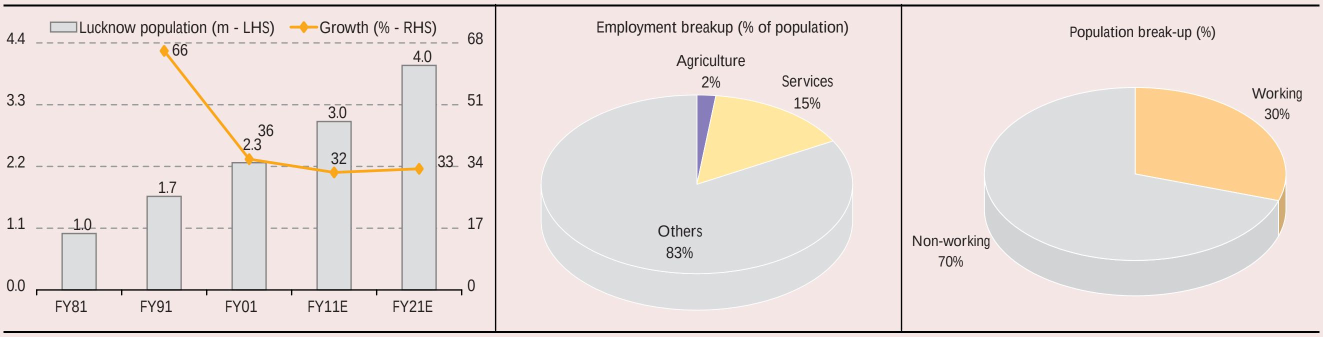
The township will also have special features like the Bhupati Tennis Academy, a bio-tech park, an amusement park, a sports club, a tourist leisure zone, and medical and education facilities.

Lucknow real estate market outlook

In terms of population, Lucknow is the second-largest town in UP after Kanpur and the 12th largest in India. It is also categorised as a metropolitan city with its population exceeding 2.5 million.

The city's infrastructure is under pressure due to the highly skewed population concentration (~30% of the population lives in 5% of the city's planned area) and decongesting these areas is a key concern for the government. This augurs well for the development of townships with adequate infrastructure. The demographics of Lucknow are also favourable – more than 30% of the population belongs to the working class and only 1-2% is employed in agriculture, implying higher demand for organized housing and other facilities.

Exhibit 24: Demographics of Lucknow favorable to real estate demand



Source: MPD 2021, Lucknow Development Authority

There has been a constant increase in the total area under the Lucknow master plan to absorb the pressures of a rapidly growing population. The new master plan of Lucknow Development Authority has a total area of 39,000 hectares – >4x of the 9,170 hectares specified in 1991.

Development in full swing, part possessions commenced

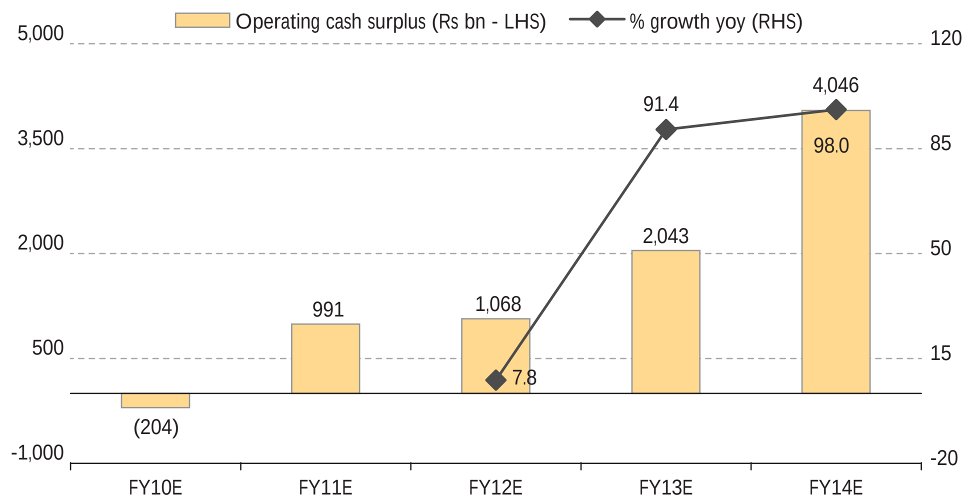
APIL has got extension for Sushant Golf City, which takes the total area of the township to 3,530 acres

APIL has acquired 2,117 acres (448 acres remaining) and development work is under way. Development work of major and minor roads, electricity, water, sewerage, greens and other infrastructure has been carried out and a significant portion of horizontal development has been completed. Work in progress includes land and plot development, villa construction and initial works for group housing projects. The company has offered possession of >5.7msf including plots, villas and FSI sales. Construction is also under way in projects launched by third-party developers (FSI sold by APIL) – a key indicator of strong demand for projects in the township.

We expect operating cash surplus of Rs7.1bn over FY12-14E

With over 27msf sold to date (sales value of ~Rs20bn) and significant development under way, Sushant Golf City has been able to establish itself as one of the preferred locations in Lucknow. We expect APIL to generate significant cashflows from the township on the back of; a) >Rs11bn of pending advances, b) strong demand across asset classes, c) price appreciation, and d) >75% of land already acquired and paid for. We estimate surplus cashflows of Rs7.1bn from the township over FY12-14E.

Exhibit 25: Operating cashflows from Sushant Golf City Lucknow – FY10-14E



Source: IDFC Securities Research

Megapolis, Greater Noida – Greater Noida

Project strategically located near fast growing business hubs of Noida and Greater Noida

In 2007, the UP government awarded the project to develop a hi-tech township to a consortium led by APIL. The project is being developed through an SPV called Ansal Hi-Tech Townships (Ansal Hi-Tech). The project is strategically located next to the fast growing business centres of Noida and Greater Noida and well connected with Delhi and other vital commercial centres through expressways and highways. HDFC Asset Management (PMC) has invested Rs2.25bn in the project for ~15% effective equity stake.

Spread across 2,504 acres in Greater Noida (Dadri)

The township is spread over 2,504 acres in Greater Noida adjoining Gautam Budh Nagar (adjoining Greater Noida) and is being developed under the brand "Megapolis". It would include sports, recreation and medical and education facilities. The master plan for the project has been approved and land has been notified under the existing norms.

Exhibit 26: Megapolis - asset class break-up of saleable area

Asset Class	Gross area (acres)	Net Area (acres)	Salable Area (msf)	Area sold till Dec-10 (msf)	Sale value (Rs m)	Customer advances (Rs m)
Plotted	681	336.9	14.7	3.8	3,024	1,606
Villas / Single Family Units	174	86.0	4.3	0.1	309	92
Vertical Appartments	466	230.5	20.3	0.9	1,625	453
Commercial	206	101.8	10.5	0.0	30	7
Industrial / IT Park	213	105.4	4.6	-	-	-
Retail	76	37.4	3.5	-	-	-
Hotel	20	9.7	1.1	-	-	-
Other Social Asset	489	242.0	10.4	-	-	-
Commercial FSI	84	41.4	3.5	-	-	-
GHS FSI	97	48.0	4.4	-	-	-
Total	**2,504**	**1,239**	**77.3**	**4.8**	**4,989**	**2,158**

Source: Company, IDFC SECURITIES Research

Four phases with ~77msf of saleable area; initial focus on Phase I & II

Megapolis would have an estimated saleable area of 77msf, of which a substantial portion (~44msf) is residential. The project has been divided into four phases and APIL plans to focus on the first two phases (1,375 acres; saleable area - 42.8msf) in the near term.

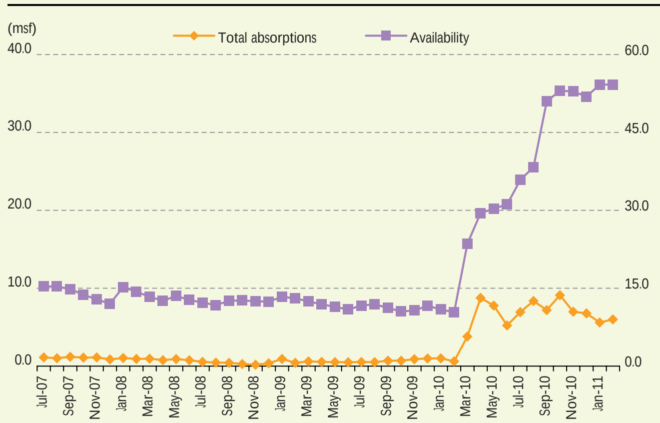
We believe the company will earn revenues of Rs4.1bn from Megapolis sold area of ~4.3msf

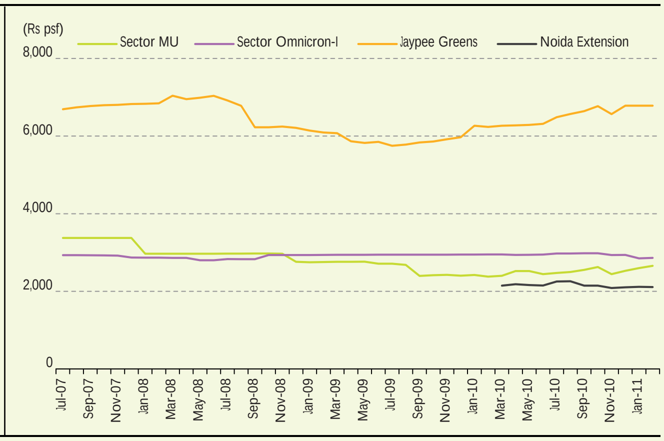
Ansal Hi-Tech has sold ~5.1msf of plots, villas and apartments with sales value of Rs5.5bn (average selling price – Rs1,077psf).The company has already received ~Rs3.7bn in advances from customers.

Greater Noida real estate outlook

Residential: The Greater Noida market has gained significance in the past one year with launches and absorptions picking up considerably. From an average monthly absorption of 0.6-1msf till February 2010, the run rate has gone up to 6-8msf in the last one year (83msf absorbed from March 2010 to February 2011). However, aggressive new launches of 126msf during the period have put pressure on prices, with most micro markets witnessing a 5-10% decline. While demand is expected to remain strong on the back of strong infrastructure and improving accessibility (Metro to reach Greater Noida in next 1-2 years), prices might remain under pressure given the available inventory of ~54msf.

Exhibit 27: NCR real estate – investors and end-users returning to the market





Source: PropEquity, IDFC Securities Research

Continued land acquisition with development under way in Phase I & II

Ansal Hi-Tech has entered into a development agreement for the first two phases with the Bulandsahar Development Authority (505 acres and 870 acres). The project was launched in July 2008 and development is under way at the site. Most available plots have been sold, while sale of affordable villas too has commenced. Vertical construction for housing has been launched.

Ansal Hi-Tech set to receive 900 acres of the remaining land required soon

Till date, APIL has bought ~700 acres of land in the township including ~500 acres in Phase I & II. In the near term, the company is focusing on acquiring balance land in the first two phases. Also, APIL can get substantial portion of land from the government at relatively lower prices as:

- The township agreement provides that the government would acquire (if required by the developer) up to 25% of the total project land and hand over the same to the developer at the acquisition price

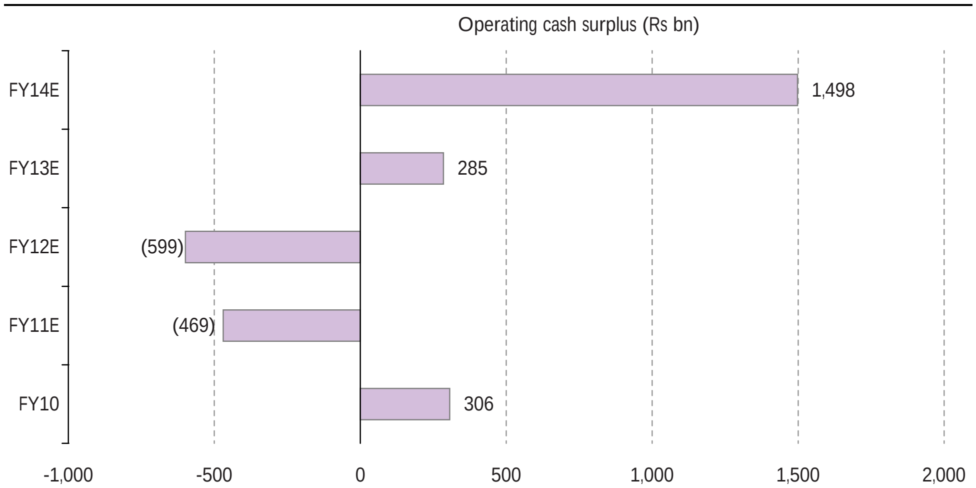
- Gram Sabha land of 258 acres will be provided by the government at the acquisition price

Cashflows to be driven by new launches and better execution

We expect operating cashflows to turn positive from FY13E

While operating cashflows from the township has been negative to date due to investment for land acquisition (>Rs2.5bn incurred) and slower launches, we expect cashflows to improve with new launches and increased execution. With >800 acres remaining to be acquired in Phase I & II, we expect land acquisition to continue in the next two years with cashflows breaking even in FY13E. Thereafter, cashflows are expected to remain positive unless APIL plans to step-up land acquisition for the remaining phases (Phase III & IV, 1,133 acres).

Exhibit 28: We expect cashflows to turn positive from FY13E



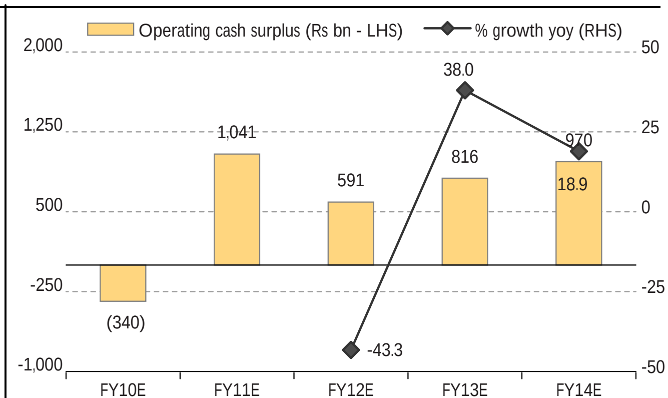
Source: IDFC Securities Research

Essencia Phase I, Gurgaon – tremendous response

APIL is developing a 112-acre township on Golf Course Extension Road, Sector 67, Gurgaon. The project, with saleable area of 2.9msf (largely plotted development), was launched in Mar-10 and received tremendous response. Over 80% of the project is sold out with last plotted sale recorded at Rs55,000 per sq yard. We expect APIL to generate net cashflows of Rs1.7bn from the project over the next three years.

Exhibit 29: Key project details and cashflows

Area (acres)	113.0
Gross saleable area (msf)	3.0
Net saleable area (msf)	2.9
Area sold till Mar-11 (msf)	2.3
Sales value of area sold (Rs bn)	5.4
Estimated average realisation (Rs psf)	2,343
Estimated total cost (Rs psf)	1,802
Cashflows (Rs m)	
Advances received	2,920
Land cost paid till date	2,890
Construction cost incurred	148
Net cashflows pending (inflows - outflows)	1,705



Source: IDFC Securities Research

Essencia Phase II, Gurgaon – strong traction likely

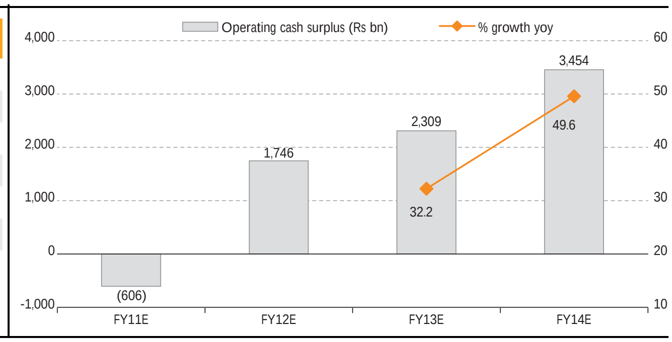
JV with Red Fort Capital to develop a 108-acre township

APIL recently entered into a JV with Red Fort Capital to develop a 108-acre township, an extension of the Essencia Phase I. Red Fort Capital has invested Rs2bn to acquire a 26% stake in the project. APIL has already acquired 75 acres of land (includes 47 acres of SEZ land to be converted into residential) and plans to acquire the balance land in next 3-6 months. Red Fort has already paid Rs550m to APIL and the remaining amount would be paid once the township approval is received (expected in Q1FY12).

On the back of excellent response for Eseencia I, we expect Essencia II to generate net cashflows (post land and construction cost) of ~Rs13bn over the next four years. Our Gross NAV for the project stands at Rs7.6bn (Ansal's share – Rs5.6bn).

Exhibit 30: Key project details and cashflows

Details	
Area (acres)	108.0
Gross saleable area (msf)	5.2
Net saleable area (msf)	3.9
Area sold till Mar-11 (msf)	Nil
Estimated average realisation (Rs psf)	5,011
Estimated total cost (Rs psf)	2,533
Net estimated cashflows from project (Rs bn)	12,972



Source: IDFC Securities Research

Golden Greens, Gurgaon – strong potential

In Q2FY11, APIL signed a joint development agreement (JDA) with the owners of Golden Greens (a 270 acres 18 hole golf course operational since 2002) for real estate development around the golf course. The project is spread over 300 acres of land (270 acres already acquired) with 6.2msf of saleable area. The saleable area comprises high end villas on the golf course, golf facing group housing and high rise apartments, commercial space, retail and hospitality. Under the agreement, APIL will give 24% of project revenues to the land owners.

The project is located off NH-8 in Gurgaon with proposed connectivity expected through 60 meter sector road encircling sector 70A. We expect net cashflows of >Rs13bn from the project with launch expected in FY14E.

Exhibit 31: Key project details

Details	
Area (acres)	300.0
Gross saleable area (msf)	6.2
Revenue share (%)	76%
Net saleable area (msf)	4.7
Project launch year	FY14
Project completion year	FY21
Estimated average realisation (Rs psf)	5,176
Estimated total cost (Rs psf)	1,826
Net estimated cashflows from project (Rs bn)	13,112

Source: IDFC Securities Research

Financial Analysis

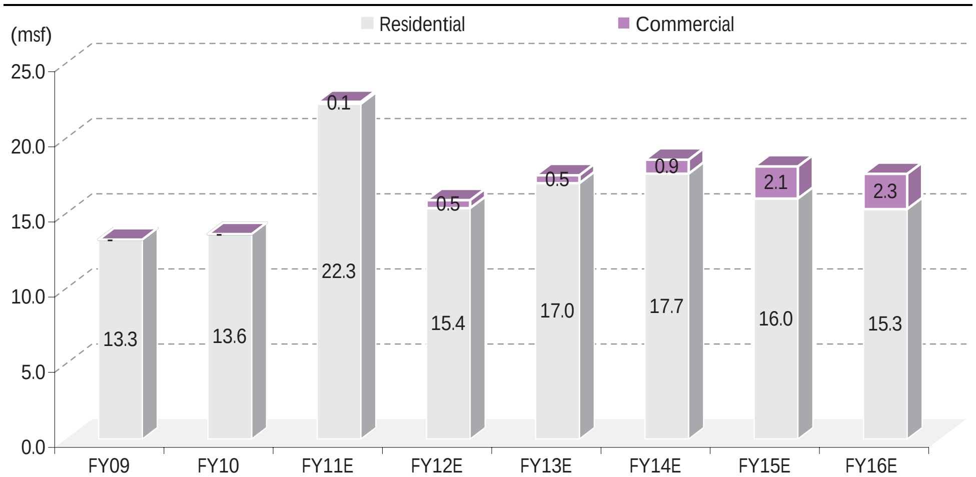
- We expect sales momentum to continue with ~52msf of sales volume over FY12-14E (sales value - Rs83bn) and improving realisations (>Rs1,500psf by FY13E)
- Improvement in execution will lead to 28% CAGR in revenues over FY11-13E; recognition from Essencia II will drive 44% yoy growth in FY13E
- EBITDA margins to improve to 33% by FY13E (from 23% in FY11E) as launch of premium projects (Essencia II, golf villas/GH in Lucknow) expand margins
- We expect Rs3.5bn of debt reduction in next two years; D/E ratio to reach comfort levels of 0.5x by FY13E
- Improving margins and steadily declining interest cost to drive >50% CAGR in PAT over FY11-13E; PAT margins to improve to 12% by FY11E (from 9% in FY11E)

Stellar FY11 volumes expected to continue…

We estimate ~34msf to be sold over FY12-13E

APIL has consistently delivered strong volumes over the last few years, including during the downturn when sales had almost dried up for most other developers. In FY11, the company sold a record 22.4msf (highest in APIL's history) on the back of strong demand in the Lucknow township (11.4msf sold; 4msf of plotted sales and 4.5msf of FSI sales). Going forward, we expect the volume momentum to remain strong (~52msf to be sold over FY12-14E) in view of buoyancy in the affordable housing segment and strong response to APIL's townships.

Exhibit 32: Sales momentum to remain strong



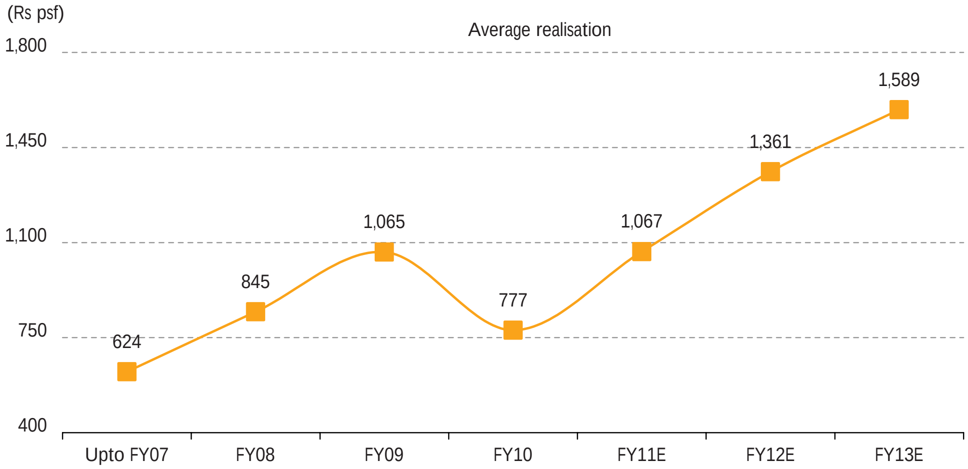
Source: IDFC Securities Research

…with average realizations set to improve

Realizations to increase to Rs1500psf by FY13E from ~Rs700-1000psf

Due to higher contribution of FSI sales, APIL's average realizations have been in the range of Rs700-1,000psf for the last few years. However, we expect it to steadily increase to >Rs1,500psf by FY13 - in line with an increase in vertical developments and higher sales from premium projects like Essencia II, Golf villas in Lucknow, etc.

Exhibit 33: Average realizations to improve to Rs1,581psf in FY13



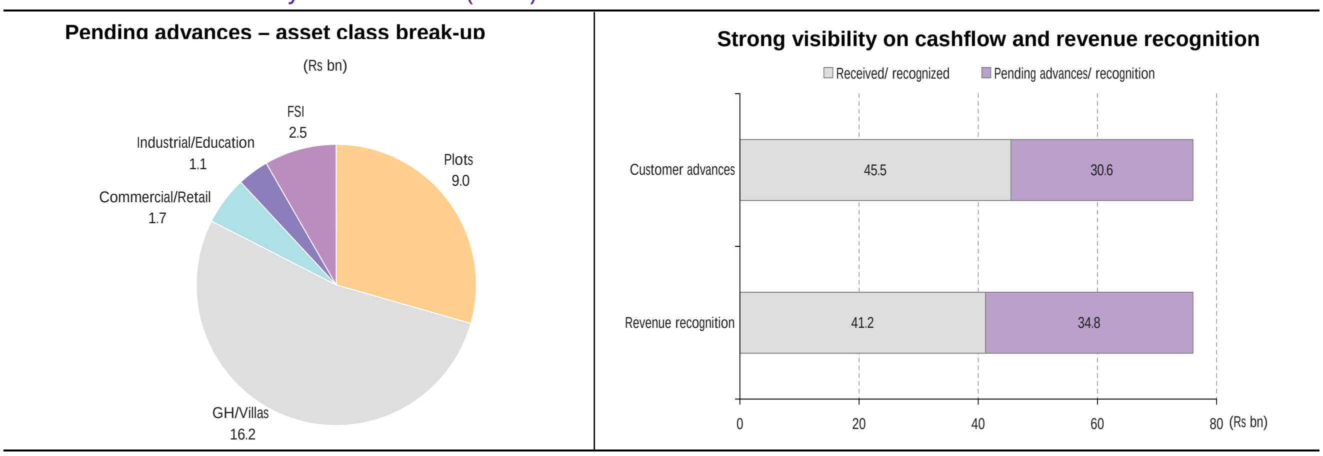
Source: IDFC Securities Research

Strong cashflow and earnings visibility over the next 2-4 years

APIL has sold ~90msf from its existing land bank until FY11, garnering a total sales value of Rs76bn. Of this, the company received Rs45.5bn in customer advances and has recognized revenues of Rs41.2bn to date. This implies that Rs34.8bn of revenue recognition (in the next 2-4 years) will happen only from the sold stock. With Rs30.6bn of cash receivables and land already paid for, this provides significant visibility on revenues and cashflows going forward.

Cash receivables and paid-for land increases visibility of cashflows

Exhibit 34: Cashflow visibility from stock sold (Rs bn)



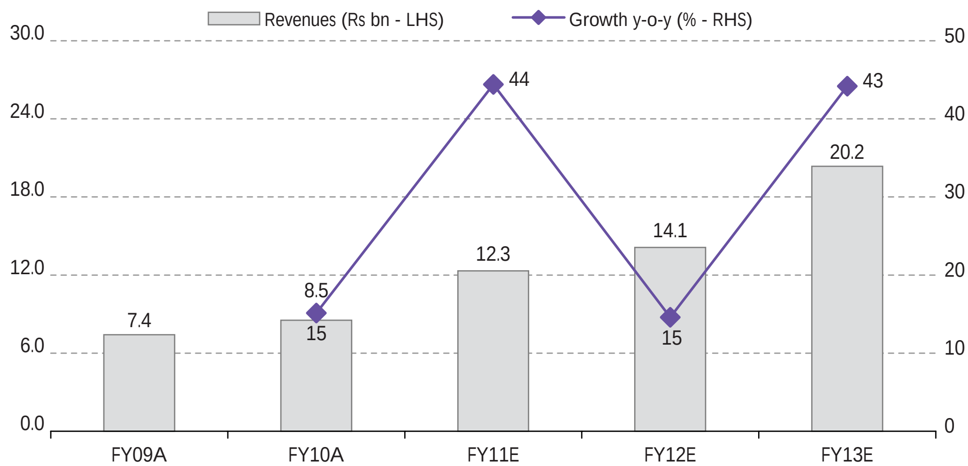
Source: Company, IDFC Securities Research

Revenues to register 28% CAGR over FY11-13E

With >Rs30bn to be recognised from sold stock and considerable improvement in execution, we expect 28% revenue CAGR for APIL over FY11-13. Also, we expect Essencia II to contribute to revenues from FY13 and become the key engine driving the expected 44% yoy revenue growth in FY13E.

Essencia II to become the key contributor of revenues in FY13E

Exhibit 35: Revenues and revenue growth over FY09-13E



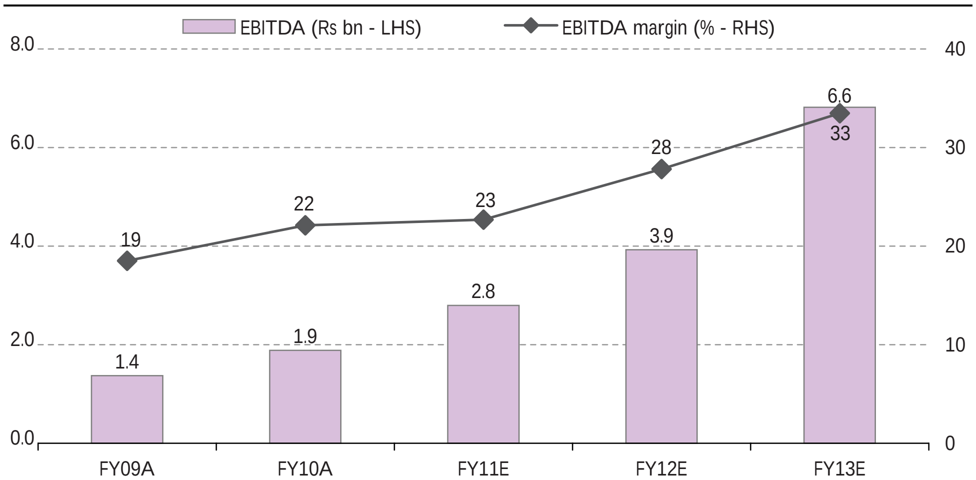
Source: IDFC Securities Research

EBITDA margins to improve

EBITDA margins to increase to ~30% over FY10-12 due to change in business mix

FY09 was a challenging year for the entire real estate sector, including APIL. Though the company sold ~12msf, EBIDTA margins declined sharply to 19% primarily due to lower realisations and higher administrative overheads. While recognition from past sales is keeping the margins muted, we expect them to increase to 33% by FY13E as the launch of Essencia II and golf villas/ group housing in Lucknow help drive margin expansion.

Exhibit 36: We expect EBITDA margins to expand to 33% by FY13E



Source: IDFC Securities Research

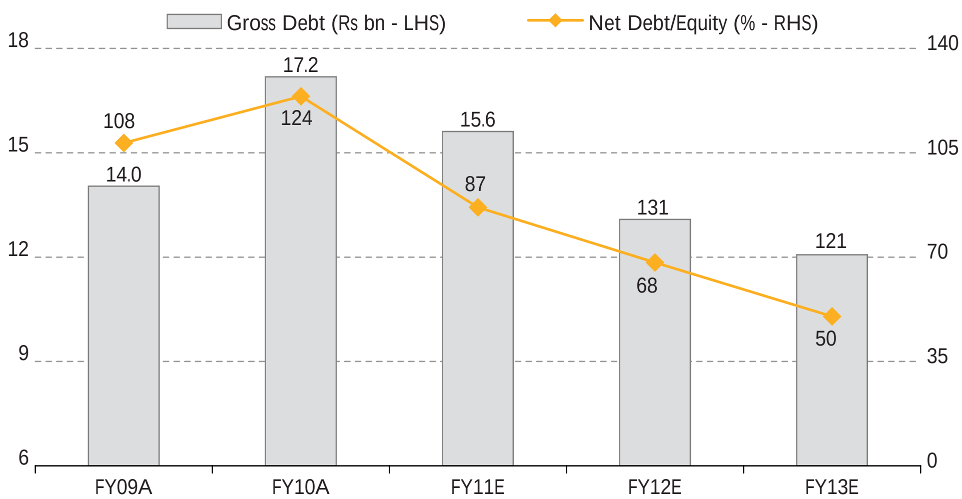
D/E ratio to reduce to 0.5x by FY13E

We expect debt reduction of ~Rs2.5bn over FY12-13

With ~Rs1.6bn of debt reduction in FY11, APIL's gross debt now stands at Rs15.6bn and D/E ratio at 0.86x. With improved execution leading to higher cashflows, we do not see debt as a concern. However, APIL has fairly large debt repayments of Rs6.4bn due in FY12E. Therefore, we see some refinancing risk as internal cashflows will be able to repay Rs2.5-3bn while balance debt will require to be refinanced.

Overall, we expect APIL to reduce debt by ~Rs3.5bn over FY12-13E, which will bring down the D/E ratio to a comfortable level of 0.5x.

Exhibit 37: We expect Gross Debt to reduce to Rs12bn by FY13E



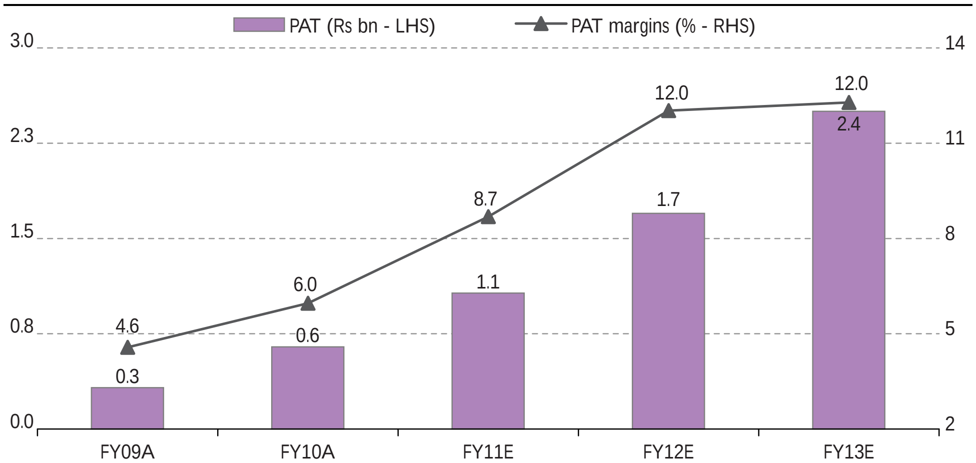
Source: IDFC Securities Research

We expect 50% CAGR in PAT over FY11-13; PAT margins at 12%

Driven by potentially strong execution and improving EBITDA margins, we expect 50% PAT CAGR for APIL over the next two years. PAT margin should also improve from 8.7% in FY11 to 12% in FY13E.

PAT growth to be driven by strong execution and higher EBITDA margins

Exhibit 38: PAT expected to grow at >50% CAGR over FY11-13E



Source: IDFC Securities Research

Valuations & View

- We have valued APIL using the NAV methodology with development of balance land bank (~170msf) over the next 15 years and discounted using WACC of 14.4%
- We derive gross FY12E NAV of Rs51.6bn and net NAV of Rs25.2bn (Rs160 per share)
- We apply a discount of 25% (to account for liquidity and project execution risks) to arrive at our price target of Rs120 per share
- Key contributors to gross NAV are Sushant Golf City Lucknow (37%), Megapolis Greater Noida (16%) and Essencia Phase II (11%)

We value APIL based on NAV methodology…

Significant visibility of township development provides comfort on cashflows

We value APIL based on NAV (DCF of future cashflows assuming development of the entire saleable area) as we believe this methodology best captures the value of APIL's large land bank. While we prefer forecasting cashflows only for the next five years (as there is little visibility beyond five years to project any real estate company's operations and cashflows) and value the remaining area as land bank (premium/ discount to book value), APIL deserves an exception due to its business model of township development. APIL's land bank is spread across 19 townships, all of which are at various stages of development. The townships offer significant visibility of development and, thereby, cashflows.

What is not included in our valuations:

- The 965 acres in Lucknow Phase II, given that APIL is yet to sign development agreement with the UP government.
- The 1130 acres in Megapolis Greater Noida (Phase III and IV), given limited development visibility and management focus on first two phases in the near term.

Adjusting for the above, we value APIL's gross saleable area of 259msf (APIL's share – 209msf) assuming a development timeline of 15 years (upto FY26) and annual sales volumes of 15-18msf going forward.

…with a WACC of 14.4%

We discount project cashflows by WACC to get the gross NAV. We have used a WACC of 14.4% based on a beta assumption of 1.45x (adjusted beta is calculated using weekly change in prices over the last five years) and a target D/E ratio of 0.6x.

Exhibit 39: WACC calculation

	(%)
Risk free rate (%)	8.0
Equity risk premium (%)	5.3
Beta (x)	1.45
Cost of equity	15.7
Cost of Debt	13.5
Target D/E ratio	0.6
WACC	14.4

Source: IDFC Securities Research

…to arrive at an FY12E NAV of Rs160/ share

We build in conservative estimates of volumes and pricing

Based on the above assumptions, we have arrived at an FY12E NAV of Rs25.2bn (Rs160/ share) for APIL. Our gross NAV stands at Rs52bn with hi-tech townships (Lucknow and Greater Noida) contributing 53% to the total. Gurgaon townships, including Essencia (Ph I & II) and Golden Greens, contribute 22% to the Gross NAV.

We initiate coverage on the stock with a 12-month price target of Rs120/ share, which is at a 25% discount to our FY12E NAV. Our discount to NAV factors in the following risks:

- Liquidity risk – high gearing (0.87x as of March 2011) with high cost of debt (14.5%).
- Project execution risk – significant value is derived from hi-tech townships (52% of gross NAV), which are >2,500 acres in size and require strong execution capabilities. While APIL has delivered large townships in the past, its capability to develop hi-tech townships of such scale is yet to be established.

Exhibit 40: FY12E NAV valuation summary

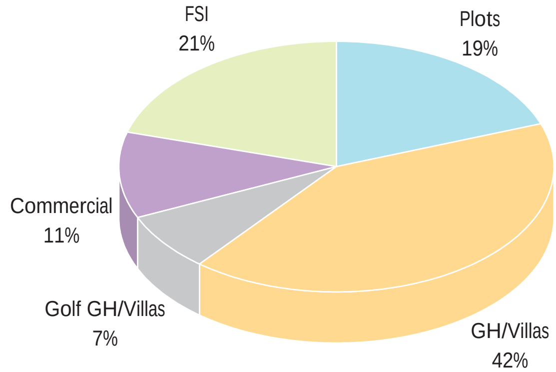
(Rs m)		FY12E			
	Rs m	% of total	NAV per share	Net area (msf)	Value psf
Lucknow township	19,003	37	121	82.6	230
Megapolis, Greater Noida	8,048	16	51	23.5	342
Essencia Ph I, Gurgaon	1,518	3	10	2.9	517
Essencia Ph II, Gurgaon	5,601	11	36	3.9	1,445
Golden Greens, Gurgaon	4,302	8	27	4.7	911
Sushant Taj City, Agra	1,676	3	11	9.8	170
Other townships - area sold	2,099	4	13	35.0	60
Other townships - balance area	9,375	18	60	46.8	201
Gross NAV	**51,622**	**100**	**328**	**209.2**	**247**
Add: Cash	624		10		
Less: Gross Debt	(13,082)		(89)		
Less: NPV of Admin exp.	(12,613)		(80)		
Less: IL&FS stake buyout in Essencia I	(1,400)		(9)		
Net NAV	**25,151**		**160**		
Outstanding shares (m)	*157.4*				
NAV per share	**160**				
Less: Discount @ 25%	40				
Target price	**120**				

Source: IDFC Securities Research

Valuation break-up

In terms of asset class, group housing/ villas contribute 41% to gross NAV, while plotted and FSI sales contribute a fifth each.

Exhibit 41: Gross NAV break-up by asset class



Source: IDFC Securities Research

Key risks

Execution risk

APIL is developing two large hi-tech townships with >2,500 acres in size. Successful execution of such townships will require significant increase in execution capabilities. While APIL has developed and delivered large townships in the past, forte in developing hi-tech townships of such scale is yet to be established.

Liquidity risk

APIL's gross debt stands at Rs15.6bn (as of March 2011) with a D/E ratio of 0.86x. With debt repayment of >Rs9bn due over the next two years (Rs6.4bn in FY12E), we believe APIL will have to generate significant cashflows or resort to debt refinancing which may increase interest burden. Also, the cost of debt is higher at ~15% and any operational slowdown could hurt profitability.

Concentration risk

We see geographic risk with APIL's focus on developments in the North Indian states of UP, Haryana, Punjab and Rajasthan. Also, APIL does not have any plans to diversify beyond the existing regions.

Brand dilution

The 'Ansal' brand is currently shared among three brothers. Though the three businesses are independent and have no conflict of interest, any negative news flow on the other companies could affect APIL's image.

Uphaar Cinema case

The Uphaar Cinema tragedy is almost forgotten, but the case is yet to be closed. Any negative outcome of future hearings could not only impact APIL's reputation but also hit the company financially in case of higher compensation.

Government policies and regulations

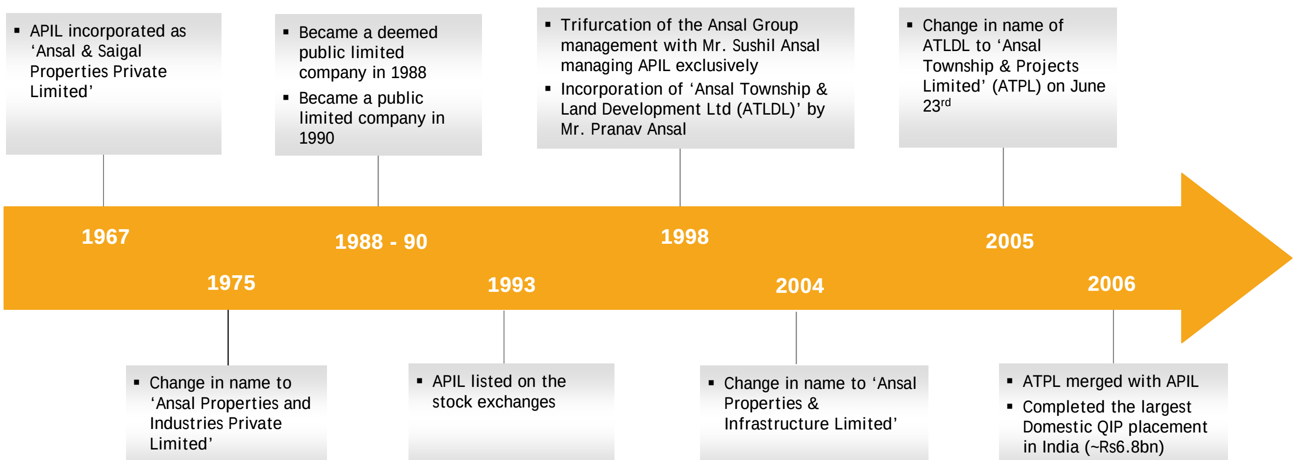
Township policies (especially hi-tech township policy) are governed and regulated by the state governments. Any change in the government policy or change in the ruling party could affect the viability of such projects.

ANNEXURE

Company background

APIL was incorporated on 30 June 1967 as Ansal & Saigal Properties Private Limited. The company was promoted jointly by the late Mr. C L Ansal (father of Mr. Sushil Ansal) and Mr. Sushil Ansal, the present chairman of APIL. APIL focused on commercial and residential developments in the CBD of Delhi in the early years of operations and achieved some landmark developments, including Akash Deep (first high-rise multistoried building with basement), Surya Kiran (first 13-storied commercial building with multiple basements) and Vikas Minar (tallest building of Delhi (to date) for the Delhi Development Authority.

Evolution of APIL

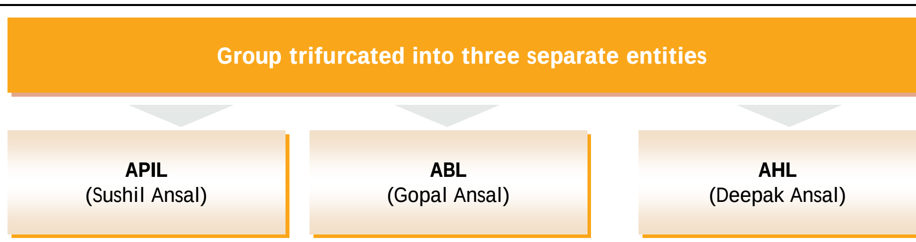


Source: Company

Splitting of business in 1998

Until the late 1990s, Ansal Group comprised three listed companies - APIL, Ansal Buildwell Limited (ABL) and Ansal Housing Construction Limited (AHCL) - jointly managed by the Ansal brothers, Sushil, Gopal and Deepak. In 1998, the business was split in three with the management of APIL resting exclusively with Mr. Sushil Ansal, Ansal Buildwell Limited with Mr. Gopal Ansal and Ansal Housing Construction Limited with Mr. Deepak Ansal. The companies, though they bear the common family name and are in the same business sphere, are now managed independently without any cross-share holdings or directorships.

Trifurcation of business



Source: Company

Uphaar case now just a bad memory

The Uphaar fire tragedy, requiring significant management time and effort, is now just a bad memory, with the management of APIL being gradually taken over by Mr. Pranav Ansal (currently MD & Vice Chairman) since 2007. Mr Sushil Ansal, who was sentenced to one-year imprisonment, has already served 10 months and is currently on bail pending a Supreme Court decision. Most of the compensation to be paid has already been deposited by ATCPL and demands for further compensation seems unlikely. Also, cinema owning company (Ansal Theatres & Club Hotels Pvt. Ltd) is now jointly held by the three Ansal brothers and is not part of APIL.

A synopsis of the Uphaar Cinema tragedy

	Date	Description
What happened?	13-Jun-97	Fire broke out in a transformer belonging to DVB supplying electricity to surrounding Green Park area, resulting in death of 59 patrons and injuring about 103 (transformer belonging to Uphaar Cinema remained intact)
Judgment	23-Nov-07 19-Dec-08	Mr. Sushil Ansal was sentenced for two years by the sessions court. Judgment of the sessions court was set aside, reducing the sentence from two years to one year by the Delhi High Court.
Compensation	24-Apr-03	Delhi High Court awarded Rs1.5m each for deceased children, Rs1.8m each for deceased adults and Rs0.1m each to the injured along with interest @9% p.a. from 14 July 1997 to the date of payment. Amount of compensation to be shared in the ratio of 55%, 15%, 15%, 15% by the Cinema Owning Company (ATCPL), MCD, DCP Licensing and DVB
Current status		Against the judgment of Delhi High Court, SLP has been filed by the Cinema Owning Company and a sum of Rs. 8,00,05,150, including interest, has been deposited by ATCPL. APIL has no connection with ATCPL's cinema business or with this compensation. The final arguments in SLP have been concluded and the judgment has been reserved which is still awaited.
Tampering case		In Uphaar trial, some documents were found tampered / missing. An FIR was registered by the order of Delhi High Court and only the sessions court's record keeper was made accused vide a charge sheet dated 22 February 2007. Thereafter, two supplementary charge sheets were filed. In the second supplementary charge sheet filed on 17 January 2008, the name of six more persons, including Mr. Sushil Ansal, were shown as accused based on some hypothetical circumstances and without any direct evidence. The trial is yet to commence.

Source: Company

Landmark developments of APIL

In the early years of its operations, APIL was engaged in developing the vertical format of commercial and residential buildings in the CBD and SBD of Delhi and has delivered more than 6msf of commercial and more than 12msf of residential buildings to date. A few of its landmark developments:

Key developments of APIL

Building name	Size (msf)	Description
Amba Deep	0.20	Architectural award winning commercial building in Delhi CBD (~ 0.2msf)
Ansal Bhawan	0.19	Multi-storied commercial building in Delhi CBD (~0.19msf)
Antriksh Bhawan	0.23	Commercial building with revolving restaurant atop in Delhi CBD (~0.23msf)
Surya Kiran	0.22	Multi-storied commercial building in the CBD of Delhi
Sushant Shopping Arcade	0.42	Shopping and commercial building in Gurgaon
Statesman House	0.28	Architectural marvel in the CBD of Delhi
Palam Vyapar Kendra	0.29	Shopping and commercial office building in Gurgaon
Apartments at Aurangazeb Road	0.12	Multi-storied apartment building in the CBD of Delhi
Gauri Sadan, Dhawan Deep	0.10	Multi-storied residential apartment buildings in the CBD of Delhi
Valley View Estate	1.90	Multi-storied residential apartment complex in Gurgaon
Celebrity Homes	0.50	Multi-storied residential apartment complex in Gurgaon
Sunshine County	1.34	Residential apartment complex in Haryana
Green Escape	2.00	Multi-storied residential apartment complex in Haryana
Ansal Plaza - Delhi	0.20	First retail mall of Delhi and North India on a sell and lease model
Ansal Plaza – Palam Vihar	0.35	Retail mall in Palam Vihar, Delhi
Ansal Plaza – Greater Noida	0.80	Retail mall in Greater Noida

Source: Company

Integrated township – key definitions

Integrated townships

These are self-contained towns that offer modern civic amenities like power and water supply, good roads, garbage management, commercial spaces, hospitals, open spaces, clubs, recreation centres, restaurants and hotels, shopping malls, cinema halls, auditoriums and transport facilities. Local regulations require townships to also provide community centres, schools, police stations, commercial zones and leisure facilities. These must be built by the developer or space must be set aside to build them later. The type and number of such facilities are dictated by the local government.

Townships are also subject to several other local government regulations which vary in scope by region. Typically, these regulations require the developer to set aside a certain number of plots for low-income and not-for-profit housing and for social infrastructure, utilities and green spaces (like parks) that cannot be built upon.

Master-plan development

In real estate parlance, master-plan development takes care of the broad planning of a large tract of land and is used to coordinate the preparation of more detailed plans or a collection of such plans. Generally, master planning is done by local development authorities or a local government to guide private and public development or by a developer in land-use planning. Master planning includes designing and preparing plans keeping in mind the end-use of the land and other factors like traffic and roads position, population density, social services and asset classes required for community development, employment generating activities (industries, retail and commercial) as well as other broad requirements for maintaining the overall balance of the city.

Generally, the master plan authority is responsible for land-use planning and controlling development norms like distribution of FAR (Floor Area Ratio) over different areas, facade control, height regulations and other development norms along with planning, laying and maintaining common services like transport, water, sewerage, electricity and other basic services. A master planner would typically create opportunities for other developers or individual dwellers to build on their own within the norms. Generally, low-density areas like plotted development and single family units are developed at the first stage and later the higher-density areas are created (including vertical apartments and commercial developments). A master planner typically would sell the plots first and then involve other developers to build the higher density areas.

Hi-tech townships

Exhibit 5: Key advantages of hi-tech townships

Key advantages of Hi-tech Township

- Only two hi tech townships allowed in each of the large districts, therefore less competition but between large players
- Exemption on stamp duty on the first 1,500 acres of land purchased out of the project area
- Development of project can be carried out in phases
- General infrastructure (roads, sewerage, water pipelines, electricity distribution and other facilities) to be developed and maintained by the developer - entitled to collect maintenance charges and other related charges for perpetuity, a long term income generating facility for the company
- Exemption on the land holding in excess of 12.5 acres in the name of any single person / entity

Source: IDFC Securities Research

Process for allotment of Hi-Tech Townships

Govt identifies districts for Hi-tech townships and rolls out bid document (Financial & Technical criteria to be met)

Developers submit their credentials and concept

Government accepts, after selecting the developer, a detailed project report (DPR) from the developer identifying the area and a detailed master plan of the area proposed to be developed

Government approves the layout and includes it in the broader master plan of the city (also implying that entire land parcel is zoned and ceases to be agricultural land even before the land is acquired)

Entire land parcel gets notified under Section 4 of the Land Acquisition Act to provide for the following: (a) entire land available only to the applicant developer for development (b) no other developer can buy land in that area and apply for the licenses (c) farmers cannot play foul by selling the land to third parties

If required by the developer, Govt acquires and hands over up to 25% of the total project land at the acquisition price

Any land falling under the Gram Sabha (common village land) and forming part of the project land, is also acquired by the developer through the government

Source: Company

Income statement xxxx

Year to 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E	FY13E
Net sales	**7,410**	**8,532**	**12,321**	**14,133**	**20,158**
% growth	*(25.9)*	*15.1*	*44.4*	*14.7*	*42.6*
Operating expenses	6,038	6,646	9,526	10,208	13,542
EBITDA	**1,372**	**1,886**	**2,795**	**3,925**	**6,616**
% growth	*(47.8)*	*37.5*	*48.2*	*40.4*	*68.6*
Other income	154	181	303	141	141
Net interest	(972)	(1,062)	(1,102)	(1,184)	(1,100)
Depreciation	113	97	104	109	109
Pre-tax profit	440	908	1,892	2,773	5,549
Current Tax	119	337	700	971	1,831
Profit after tax	320	572	1,192	1,803	3,718
minorities_pl	19	(63)	(122)	(106)	(1,293)
Non-recurring items	(13)	139	-	-	-
Net profit after non-recurring items	**326**	**647**	**1,070**	**1,696**	**2,425**
% growth	*(81.2)*	*98.6*	*65.4*	*58.5*	*42.9*

Key ratios

Year to 31 Mar	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	18.5	22.1	22.7	27.8	32.8
EBIT margin (%)	17.0	21.0	21.8	27.0	32.3
PAT margin (%)	4.6	6.0	8.7	12.0	12.0
RoE (%)	2.6	3.6	6.2	8.0	10.1
RoCE (%)	4.9	5.9	8.0	10.5	17.2
Gearing (x)	1.0	1.2	0.8	0.6	0.5

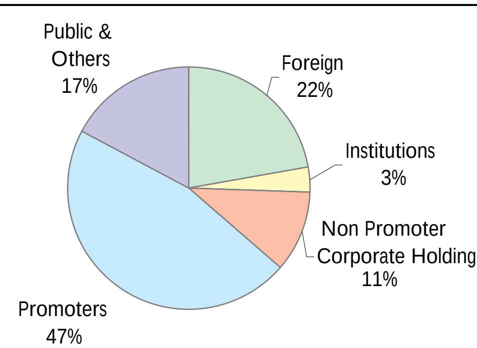
Valuations

Year to 31 Mar	FY09	FY10	FY11E	FY12E	FY13E
Reported EPS (Rs)	2.9	5.3	6.8	10.8	15.4
Adj. EPS (Rs)	3.0	4.1	6.8	10.8	15.4
PER (x)	14.7	10.7	6.5	4.2	2.9
Price/Book (x)	0.4	0.4	0.3	0.3	0.3
EV/Net sales (x)	2.7	2.7	2.0	1.7	1.1
EV/EBITDA (x)	14.5	12.1	8.8	6.0	3.4
EV/CE (x)	0.7	0.7	0.7	0.6	0.6

Balance sheet xxxx

As on 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E	FY13E
Paid-up capital	568	616	787	787	787
Reserves & surplus	11,464	12,375	15,957	17,484	19,666
Total shareholders' equity	13,944	14,320	19,934	22,210	25,685
Total current liabilities	15,381	18,430	20,641	21,367	21,259
Total Debt	14,040	17,183	15,612	13,082	12,069
Deferred tax liabilities	(46)	41	41	41	41
Other non-current liabilities	449	313	214	214	214
Total liabilities	29,823	35,967	36,509	35,705	34,584
Total equity & liabilities	**43,767**	**50,287**	**56,442**	**57,915**	**60,269**
Net fixed assets	1,536	1,243	1,289	1,180	1,071
Investments	281	122	122	122	122
Total current assets	41,949	48,922	55,031	55,612	58,075
Other non-current assets	1	1	1	1	1
Working capital	26,569	30,492	34,390	35,245	37,815
Total assets	**43,767**	**50,287**	**56,442**	**57,915**	**60,269**

Shareholding pattern



As of December 2010

Cashflow statement

Year to 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	440	908	1,892	2,773	5,549
Depreciation	113	97	104	109	109
Chg in Working capital	(6,105)	(3,855)	(3,887)	(322)	(1,374)
Total tax paid	(119)	(337)	(700)	(971)	(1,831)
Ext ord. Items & others	121	(136)	(99)	-	-
Operating cash Inflow	(5,551)	(3,322)	(2,690)	1,589	2,452
Capital expenditure	(102)	196	(150)	(0)	(0)
Free cash flow (a+b)	(5,652)	(3,126)	(2,840)	1,589	2,452
Chg in investments	17	159	-	-	-
Debt raised/(repaid)	3,167	3,143	(1,571)	(2,530)	(1,014)
Capital raised/(repaid)	97	455	2,791	-	-
Dividend (incl. tax)	(67)	(77)	(107)	(170)	(242)
Misc	1,663	(487)	1,738	643	-
Net chg in cash	(776)	68	11	(467)	1,196

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2600
Pathik Gandotra	Head of Research; Financials, Strategy	pathik.gandotra@idfc.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish.rane@idfc.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhil.vora@idfc.com	91-22-662 22567
Nitin Agarwal	Pharmaceuticals, Real Estate	nitin.agarwal@idfc.com	91-22-662 22568
Chirag Shah	Metals & Mining,Telecom, Pipes, Textiles	chirag.shah@idfc.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika.nair@idfc.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfc.com	91-22-662 22565
Bhushan Gajaria	Automobiles, Auto ancillaries, Retailing	bhushan.gajaria@idfc.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil.desai@idfc.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement	ashish.shah@idfc.com	91-22-662 22560
Probal Sen	Oil & Gas	probal.sen@idfc.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya.garg@idfc.com	91-22-662 22563
Abhishek Gupta	Telecom, Metals & Mining	abhishek.gupta@idfc.com	91-22-662 22661
Saumil Mehta	Metals, Pipes	saumil.mehta@idfc.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfc.com	91-22-662 22579
Kavita Kejriwal	Strategy, Financials	kavita.kejriwal@idfc.com	91-22-662 22558
Anamika Sharma	IT Services	anamika.sharma@idfc.com	91-22-662 22680
Varun Kejriwal	FMCG, Mid Caps	varun.kejriwal@idfc.com	91-22-662 22685
Swati Nangalia	Media, Education, Exchanges, Midcaps	swati.nangalia@idfc.com	91-22-662 22576
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfc.com	91-22-662 22566
Kavitha Rajan	Strategy, Midcaps	kavitha.rajan@idfc.com	91-22-662 22697
Dharmendra Sahu	Database Analyst	dharmendra.sahu@idfc.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh.sonawale@idfc.com	91-22-662 22572
Dharmesh R Bhatt, CMT	Technical Analyst	dharmesh.bhatt@idfc.com	91-22-662 22534

Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6622 2500
Naishadh Paleja	MD, CEO	naishadh.paleja@idfc.com	91-22-6622 2522
Paresh Shah	MD, Dealing	paresh.shah@idfc.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal.purohit@idfc.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil.gholani@idfc.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay.panicker@idfc.com	91-22-6622 2530
Rajesh Makharia	Director, Sales	rajesh.makharia@idfc.com	91-22-6622 2528
Nirbhay Singh	SVP, Sales	nirbhay.singh@idfc.com	91-22-6622 2595
Suchit Sehgal	AVP, Sales	suchit.sehgal@idfc.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfc.com	91-22-6622 2539
Dipesh Shah	Director, Derivatives	dipesh.shah@idfc.com	91-22-6622 2693
Jignesh Shah	AVP, Derivatives	jignesh.shah@idfc.com	91-22-6622 2536
Suniil Pandit	Director, Sales trading	suniil.pandit@idfc.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh.chaturvedi@idfc.com	91-22-6622 2512
Viren Sompura	SVP, Sales trading	viren.sompura@idfc.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar.hiremath@idfc.com	91-22-6622 2516

Explanation of Ratings:

1. Outperformer: More than 5% upside to Index
2. Neutral: Within 0-5% to Index (upside or downside)
3. Underperformer: More than 5% downside to Index

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www.idfc.com

Naman Chambers, C-32,
G- Block, Bandra-Kurla Complex,
Bandra (East), Mumbai 400 051

Tel: 91-22-6622 2600
Fax: 91-22-6622 2501