AXIS SECURITIES

Initiating Coverage
24th September, 2024

Arvind Smartspaces (ARVSMART)
Real Estate

BUY
Target Price
1,085

BUILDING A 'SMART SPACE'

We are initiating coverage on Arvind Smartspaces Ltd. (ARVSMART) with a BUY recommendation and a target price of Rs 1,085/share, which implies an upside of 43% from the CMP. Arvind Smartspaces began operations in 1897 when Lalbhai Dalpatbhai established the company's first textile mill. Over the years, the business portfolio expanded to include textiles, dyes, chemicals, real estate, and engineering ventures, which were later demerged in 2016. Today, Arvind Smartspaces is one of the fastest-growing real estate companies, holding a dominant market share in Ahmedabad and Bangalore.

Investment Thesis

New Launch Visibility: ASL has significantly expanded its project portfolio since the demerger in FY15 and currently has a planned pipeline of projects spanning 47.97 Mn sq ft, bringing its total book size to 75.47 Mn sq ft. Approximately 72% of its projects follow an asset-light approach. The company's unsold inventory stands at 51 Mn sq ft from completed, ongoing, and planned projects, representing around 69% of its total portfolio, indicating strong launch visibility and booking potential for the upcoming year. ASL has guided for a GDV of Rs 5,000 Cr in FY25. With unutilized funds of Rs 600 Cr from the HDFC platform and the ability to comfortably raise Rs 300 Cr in debt, along with internal cashflows, the company has the total cash visibility of Rs 1,000 Cr. This positions ASL to achieve its guidance of 30%-35% growth in business development.

Asset-Light Model and Quick Turnaround: ASL follows a no-land bank strategy, treating land as raw material and acquiring it as needed. Notably, 79% of its total project portfolio consists of horizontal projects, such as villas and plotted developments, which have quicker turnaround times (2-3 years vs. 4-5 years for vertical projects). The company also adopts a JV model, with 72% of its portfolio under Joint Ventures. ASL's strategic partnership with the HDFC platform, with a 33% share in H-CARE III, further diversifies its risk and reduces cash outflows. The company adheres to a build-to-sell strategy, aiming to sell 30% of a project in its first phase, which shortens the monetization time and enhances cost efficiency during execution. ASL boasts a 100% track record of selling projects on time. This combination of a lean organizational structure, build-to-sell approach, JV projects, and horizontal developments enables a quick project turnaround and contributes to the company's healthy financials.

Geographical Play and Product Innovation: The company holds a dominant position in Ahmedabad and Bangalore, benefiting from strong brand recall associated with the "Arvind" name. Approximately 40% of collections come from its Bangalore projects, while around 45% are generated from Ahmedabad. In Ahmedabad, the company has secured a significant market share by focusing on product innovation and launching lifestyle and fitness-centric projects that add value for consumers and drive demand. Many of its projects feature large clubhouses, golf courses, jogging tracks, and theme-based developments.

To further de-risk its portfolio, the company is expanding into new markets such as Pune and MMR. It recently entered the Surat market with the NH48 Surat development, targeting the emerging demand for horizontal developments. Surat lacks a listed player in the horizontal development business, positioning the company to capitalize on this opportunity. The company anticipates that 20% of its portfolio will eventually be concentrated in the MMR region.

Low Leverage plus strong cashflows combined with strategic partnership: ASL's no-land bank strategy helps it maintain minimal debt on its books, lowering its overall leverage compared to other developers. ASL has achieved a collections CAGR of 37% from FY20 to FY24, and a projected CAGR of 41% for FY24-FY26E. Currently, its net interest-bearing funds stand at Rs (58) Cr, with a net debt (interest-bearing fund) to equity ratio of 0.1, down from 0.3. ASL's relationship with the HDFC platform, which began in 2019, has strengthened, notably with a preferential issue in 2021 under H-Care I (where HDFC holds an 8.8% equity stake in ASL). The current partnership under H-Care III is valued at Rs 900 Cr, with a topline potential of Rs 4,000-5,000 Cr. ASL holds a 33% share of this partnership, responsible for Rs 300 Cr, while the remaining Rs 600 Cr will be infused by HDFC. ASL's low leverage, combined with strong cash flows and strategic partnerships, positions the company for sustainable growth in the coming years.

Valuation & Recommendation

We initiate coverage on Arvind Smartspaces (ARVSMART) with a BUY recommendation. Our recommendation is supported by a) New Launch Visibility; b) Asset–light business and Quick turnaround time, c) Geographical Play and Product Innovation, and d) Low leverage plus strong cashflows combined with Strategic partnership. Valuing the company at 8X FY26 EV/EBITDA we arrive at a target price of Rs 1,085/share, implying an upside of 43% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	FY23	FY24	FY25E	FY26E
Net Sales	256	341	563	721
EBIDTA	49	111	158	216
Net Profit	26	42	91	124
EPS, Rs	5.6	9.2	20.0	27.2
PER, x	133.5	82.2	37.6	27.7
EV/EBIDTA, x	67.0	29.2	21.2	16.0
P/BV, x	7.3	6.9	5.9	5.0
ROE, %	5.5	8.4	15.8	17.9
Debt/Equity (%)	0.3	0.2	0.3	0.4

Source: company, Axis Research

CMP as of 23rd September, 2024

CMP (Rs)	758
Upside /Downside (%)	43%
High/Low (Rs)	826/310
Market cap (Cr)	3,452
Avg. daily vol. (6m) Shrs.	116
No. of shares (Cr)	4.5

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter Group	50.4	50.4	50.3
FII	0.5	0.4	1.8
MF's/Banks	2.8	2.6	1.3
Others	46.3	46.6	46.6

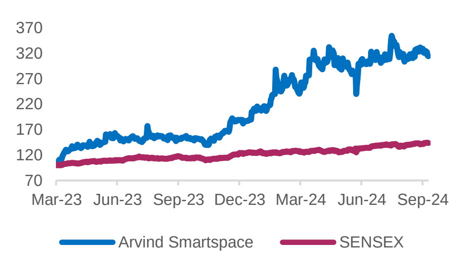
Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24	FY25E	FY26E
Net Sales	256	341	563	721
EBIDTA	49	111	158	216
Net Profit	26	42	91	124
EPS, Rs	5.6	9.2	20.0	27.2
PER, x	133.5	82.2	37.6	27.7
EV/EBIDTA, x	67	29.2	21.2	16.0
ROE, %	5.5	8.4	15.8	17.9
Debt/Equity (%)	0.3	0.2	0.3	0.4

Key Drivers (%) (Growth in %)

Y/E Mar	FY23	FY24	FY25E	FY26E
Net Sales	(0.4)	33.3	65.1	28.0
EBITDA	(0.3)	127.8	41.5	37.1
Net Profit	22.7	101.7	118	36.0

Relative performance



Source: Ace Equity, Axis Securities

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