

**CMP: INR 236**

**Rating: BUY**

**Target Price: INR 316**

**Stock Info**

BSE	506194
NSE	ARIHANTSUP
Bloomberg	ARSU:IN
Reuters	ARIS.NS
Sector	Realty
Face Value (INR)	10
Equity Capital (INR cr)	41
Mkt Cap (INR cr)	971
52w H/L (INR)	206 / 91
Avg Yearly Volume (in 000')	171.3

**Shareholding Pattern %**

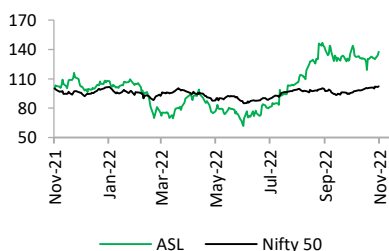
(As on Sep, 2022)

Promoters	74.71
DII	1.39
FII	0.70
Public & Others	23.19

**Stock Performance (%) 3m 6m 12m**

ASL	33.1	72.3	37.8
NIFTY	4.0	16.4	2.2

**ASL Vs Nifty**



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**Arihant Superstructures Ltd (ASL)** reported strong numbers, Q2FY23 revenue grew by 37.1% YoY (+35.3% QoQ) to INR 120cr vs our estimates of INR 132cr. Gross Profit stood at INR 37cr (+9.6% YoY/+9.4% QoQ) vs our estimates of INR 45cr, Gross Margin contracted by 781 bps to 31.1% vs 38.9% in Q2FY22. EBITDA stood at INR 20cr (-0.7% YoY/+6.6% QoQ) vs our estimates of INR 26cr, EBITDA Margin contracted by 623 bps to 16.3% vs 22.6% in Q2FY22. The raw material cost in terms of sales stood at 68.9% vs 61.1% in Q2FY22. The employee cost in terms of sales stood at 3.8% vs 4.5% in Q2FY22. The other expenses in terms of sales stood at 11% vs 11.9% in Q2FY22. PAT stood at INR 12cr (+1% YoY/+9.8% QoQ) vs our estimates of INR 16cr, PAT Margin contracted by 349 bps to 9.8% vs 13.3% in Q2FY22.

The company sold 785 units (+4.5% YoY) in H1FY23 vs 751 units in H1FY22, due to strong sales momentum despite interest rate hikes. The volumes stood at 6.23 lakh sq.ft in H1FY23 vs 6.25 lakh sq.ft in H1FY22. The sales value stood at INR 366.4cr (+9.5% YoY) in H1FY23 vs INR 334.8cr in H1FY22. The collections stood at INR 227.9cr (+11.7% YoY) in H1FY23.

**Key Highlights**

**Aayan and Aaradhya projects is expected to launch in Q3FY23:** The Titwala affordable project, Arihant Aayan is expected to launch in Q3FY23. The project has around 200 units which are having revenue potential of INR 160cr. The Kalyan affordable project, Arihant Aaradhya is expected to launch in Q3FY23. The project has around 440 units which are having revenue potential of INR 151cr.

**Shilphata project is expected to launch by Q1FY24:** The company has entered into a Joint Development for 12,080 Sq.m plot at Shilphata in Thane District (MMR) adjoining the 15,980 Sq.m plot acquired on Q1-FY23. The project has 5 lakh sq.ft of saleable area potential with a GDV of ~INR 300 Cr. It is expected to launch by Q1FY24 and executed over next 4 to 4.5 years.

**Focused to deliver more than 1,000 units on yearly basis:** The company has delivered between 700 to 900 units in past years and most of the projects were under construction stage in FY22 and expected significant deliveries going forward. The company has focused to delivery 1,000 to 1,200 units on yearly basis by next 2 to 3 years.

**Outlook & Valuation:** ASL witnessed growth despite of interest rate hikes and delayed monsoons. H2FY23 is expected to better and launch pipelines having revenue potential of more than INR 1,100cr. The company has revenue potential of more than INR 7,500cr which is including upcoming new launches, utilization of funds allocation to new multiplier projects, margin protection through appropriate price hikes and easing of commodity prices led to recovery in margins, gaining market share from micro markets and free cash flows from existing & new projects which is expected to create value going forward. We maintain our "BUY" rating at a Target Price of INR 316 per share based on DCF; an upside of 33.9%.

## Q2FY23 Results

## Income statement summary

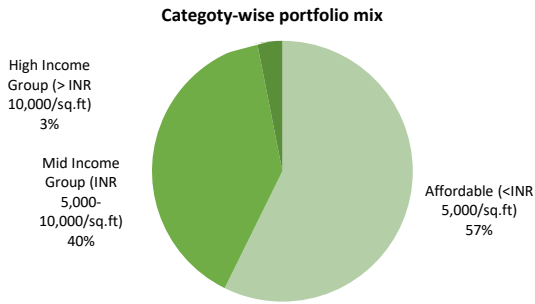
Particular (INR cr)	Q2FY22	Q1FY23	Q2FY23	YoY (%)	QoQ(%)
<b>Revenue</b>	<b>88</b>	<b>89</b>	<b>120</b>	37.1%	35.3%
Net Raw Materials	54	55	83	54.6%	51.4%
Employee Cost	4	4	5	16.2%	2.8%
Other Expenses	10	11	13	26.7%	16.6%
<b>EBITDA</b>	<b>20</b>	<b>18</b>	<b>20</b>	<b>-0.7%</b>	<b>6.6%</b>
<b>EBITDA Margin (%)</b>	<b>22.6%</b>	<b>20.8%</b>	<b>16.3%</b>	<b>-623 bps</b>	<b>-440 bps</b>
Depreciation	0.4	0.5	0.5		
Interest expense	5	5	5		
Other income	0.3	0.6	0.5		
Exceptional Items	-	-	-		
<b>Profit before tax</b>	<b>15</b>	<b>14</b>	<b>15</b>	2.5%	8.0%
Taxes	3	3	3	8.3%	1.8%
<b>PAT</b>	<b>12</b>	<b>11</b>	<b>12</b>	<b>1.0%</b>	<b>9.8%</b>
<b>PAT Margin (%)</b>	<b>13.3%</b>	<b>12.0%</b>	<b>9.8%</b>	<b>-349 bps</b>	<b>-226 bps</b>
Minorities and other	(0)	2	3		
Other Comprehensive income	-	-	-		
<b>Net profit</b>	<b>12</b>	<b>9</b>	<b>9</b>	<b>-24.3%</b>	<b>4.2%</b>
<b>Net Profit Margin (%)</b>	<b>13.7%</b>	<b>9.8%</b>	<b>7.6%</b>	<b>-613 bps</b>	<b>-226 bps</b>
EPS (INR)	3	3	3		

Source: Company Reports, Arihant Capital Research

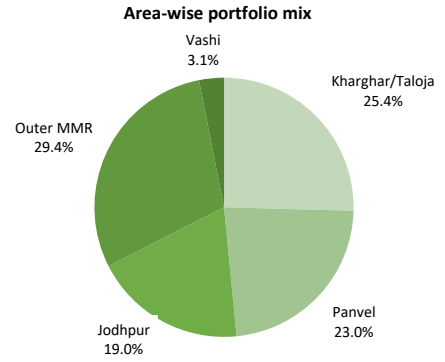
## Concall Highlights

- The Arihant Advika – Vashi project commenced in Q2FY23. Arihant Amisha launched in Q2FY23. The project has 145 units and is located in Taloja.
- The Titwala affordable project, Arihant Aayan is expected to launch in Q3FY23. The project has around 200 units which are having revenue potential of INR 160cr.
- The Kalyan affordable project, Arihant Aaradhya is expected to launch in Q3FY23. The project has around 440 units which are having revenue potential of INR 151cr.
- The company raised INR 45cr through NCD and utilized it for land acquisitions. Around 7-acre land was acquired for the Shilphata project.
- There was no price hike in Q2FY23. Some of the projects have been delayed due to heavy monsoons and an increase in mortgage rates.
- The average execution of the project is around 3 years. The Shilphata project execution period is around 4 to 4.5 years.
- The Jodhpur projects are slow and steady. The inventory value stood around INR 60cr. Adita project has around 40 units and Anchal phase I has around 90 to 95 units.
- The company focused to grow 30% to 40% across all the verticals for the next 3 to 4 years.

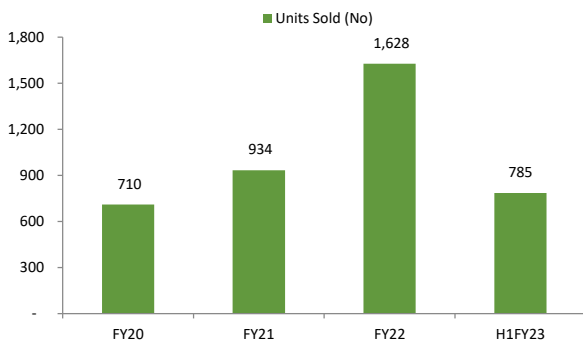
**Exhibit 1: 97% of portfolio consists of affordable and mid income.**



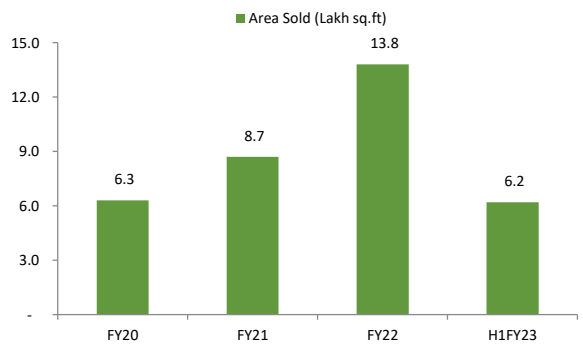
**Exhibit 2: Well diversified in micro markets.**



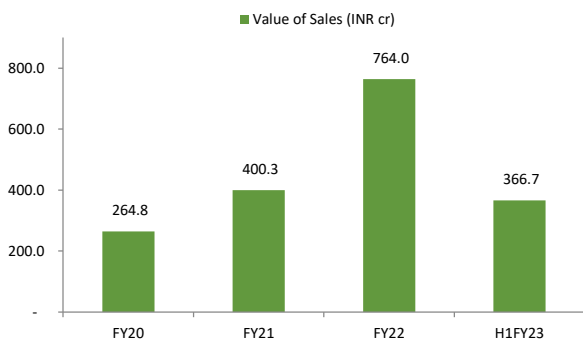
**Exhibit 3: Units sold has been more than 2x in 2 years.**



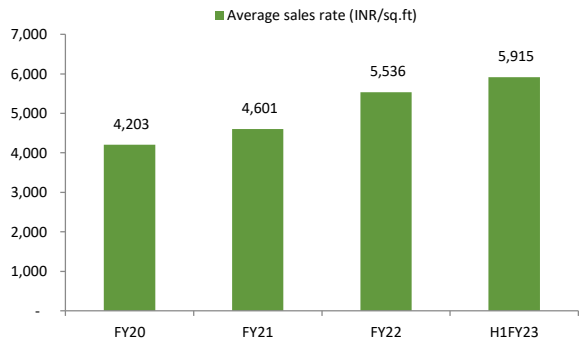
**Exhibit 4: Area sold has been more than 2x in 2 years.**



**Exhibit 5: Sales value has been more than ~3x in 2 years.**



**Exhibit 6: Continuous improvement on realizations.**



Source: Company Reports, Arihant Capital Research

## Sales Bookings

## Sales Booking (INR cr)

Company	Projects	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	Total
	4 Anaika	3	-	-	-	-	-	-	3
	Anchal	46	73	98	132	140	141	61	690
	Aarohi	15	-	-	-	-	-	-	15
ASL	Adita	31	23	12	-	-	-	-	67
	Arshiya	37	48	70	74	51	35	14	328
	Akarshan	136	247	267	116	-	-	-	767
	Kalyan	58	128	142	114	40	-	-	482
	5 Anaika	76	20	-	-	-	-	-	96
Vatika	Aalishan	153	143	109	82	-	-	-	488
	Anmol	28	28	23	16	-	-	-	96
	Advika	174	193	185	52	-	-	-	604
Aashiyana	Amisha	35	38	31	-	-	-	-	103
	Aloki	34	14	13	5	-	-	-	66
Abode	Aspire	243	310	441	422	297	228	101	2,042
	Palaspe	-	-	131	213	158	158	80	741
<b>Total</b>		<b>1,069</b>	<b>1,263</b>	<b>1,521</b>	<b>1,227</b>	<b>687</b>	<b>562</b>	<b>257</b>	<b>6,587</b>

Source: Company, Arihant Capital Research

Project	Location	Category	Tmeline	No of Units	Area (sq ft)	Revenue Potential (INR cr)
Aakarshan	Taloja	Affordable	Q1 - FY23	439	2,66,378	135
Amisha	Taloja	Affordable	Q2 - FY23	140	1,00,464	45
Aayan	Titwala	Affordable	Q3 - FY23	200	1,45,044	160
Aaradhya	Kalyan	Affordable	Q3 - FY23	440	3,02,524	151
Aspire	Panvel	Mid-Income	Q4 - FY23	370	3,74,755	274
Anmol	Badlapur	Affordable	Q4 - FY23	178	1,29,084	52
Arshiya	Khopoli	Affordable	Q4 - FY23	138	1,20,000	40
Aloki	Karjat	Affordable	Q4 - FY23	198	1,52,769	52
Avanti	Shilphata	Mid-Income	Q1 - FY24	425	3,40,000	204
<b>Total</b>				<b>2,528</b>	<b>19,31,018</b>	<b>1,113</b>

## DCF Valuation

Valuation Assumptions		Valuation Data		WACC	
g (World Economic Growth)	3%	Total Debt (long term borrowings) (2022)	175	We	84.7%
Rf	7%	Cash & Cash Equivalents (2022)	15	Wd	15.3%
Rm	12%	Number of Diluted Shares (2023)	4	Ke	12.2%
Beta	1.04	Tax Rate (2023)	26%	Kd	7.4%
CMP	236	Interest Expense Rate (2023)	10%	<b>WACC</b>	<b>11.5%</b>
		MV of Equity	971		
		Total Debt	175		
		<b>Total Capital</b>	<b>1,147</b>		

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase				Terminal Yr	
Particular (INR cr)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
EBIT * (1-Tax Rate)	85	176	234	215	164	125	100	85	76	72	71	73
Dep	3	3	3	3	3	4	3	2	2	2	2	2
Purchase of Assets	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Changes in Working Capital	87	29	121	(100)	91	16	34	29	26	25	24	25
FCFF	173	206	357	116	257	143	136	116	104	98	96	99
Terminal Value												1,219
<b>Total Cash Flow</b>	<b>173</b>	<b>206</b>	<b>357</b>	<b>116</b>	<b>257</b>	<b>143</b>	<b>136</b>	<b>116</b>	<b>104</b>	<b>98</b>	<b>1,316</b>	

Enterprise Value (INR cr)	1,461
Less: Debt (INR cr)	175
Add: Cash (INR cr)	15
Equity Value (INR cr)	1,300
Equity Value per share (INR)	316

% Returns	33.9%
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Rating	BUY
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## Sensitivity Analysis

		Terminal Growth (%)								
		2.0%	2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%
WACC (%)	316									
	10.5%	325	329	333	337	342	347	352	358	364
	10.8%	318	322	325	329	333	338	343	348	353
	11.0%	311	314	318	321	325	329	<b>334</b>	338	343
	11.3%	304	308	311	314	318	<b>321</b>	325	330	334
	11.5%	298	301	304	307	<b>310</b>	314	318	322	326
	11.8%	292	295	297	<b>300</b>	303	307	310	314	318
	12.0%	286	289	<b>291</b>	294	297	300	303	307	310
	12.3%	281	283	285	288	291	293	296	300	303
12.5%	275	278	280	282	285	287	290	293	296	

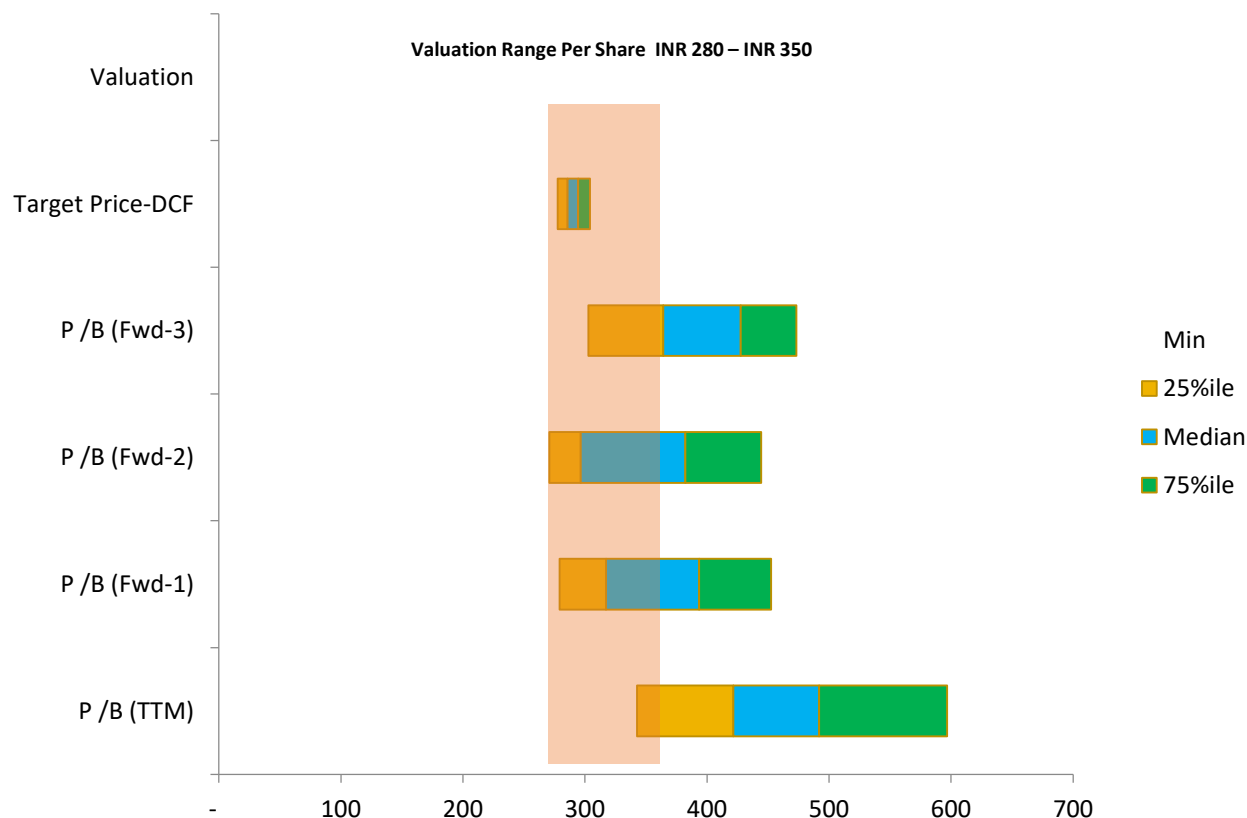
Source: Company Reports, Arihant Capital Research

**Relative Valuation**

Valuation Parameter	P/B		
	FY23E	FY24E	FY25E
DLF Ltd	2.6 x	2.5 x	2.3 x
GR Infraprojects Ltd	2.1 x	1.8 x	NA
Macrotech Developers Ltd	3.6 x	3.1 x	2.7 x
Mahindra Lifespace Developers Ltd	3.2 x	3.0 x	2.7 x
Oberoi Realty Ltd	2.8 x	2.5 x	2.2 x
Prestige Estates Projects Ltd	1.9 x	1.8 x	1.7 x
Sobha Ltd	2.2 x	2.0 x	1.8 x
The Phoenix Mills Ltd	3.1 x	2.9 x	2.5 x
<b>Maximum</b>	<b>3.6 x</b>	<b>3.1 x</b>	<b>2.7 x</b>
<b>75th Percentile</b>	<b>3.1 x</b>	<b>2.9 x</b>	<b>2.6 x</b>
<b>Median</b>	<b>2.7 x</b>	<b>2.5 x</b>	<b>2.3 x</b>
<b>25th Percentile</b>	<b>2.2 x</b>	<b>1.9 x</b>	<b>2.0 x</b>
<b>Minimum</b>	<b>1.9 x</b>	<b>1.8 x</b>	<b>1.7 x</b>
<b>Arihant Superstructures Ltd</b>	<b>4.1 x</b>	<b>2.5 x</b>	<b>1.6 x</b>

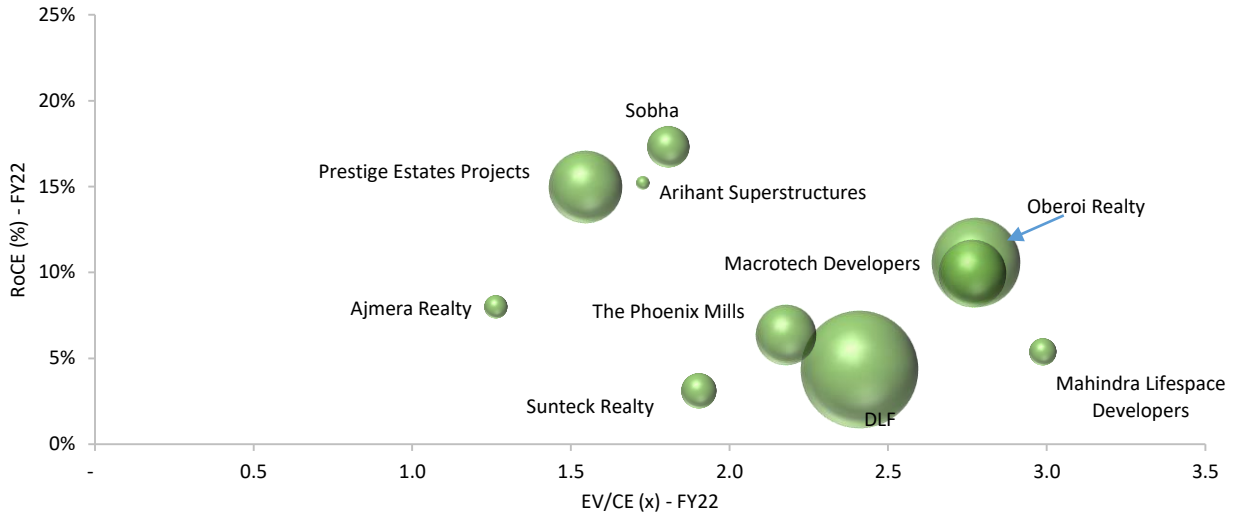
Source: Bloomberg estimates, Arihant Capital Research

**Exhibit 7: Relative valuation based on price to book value**



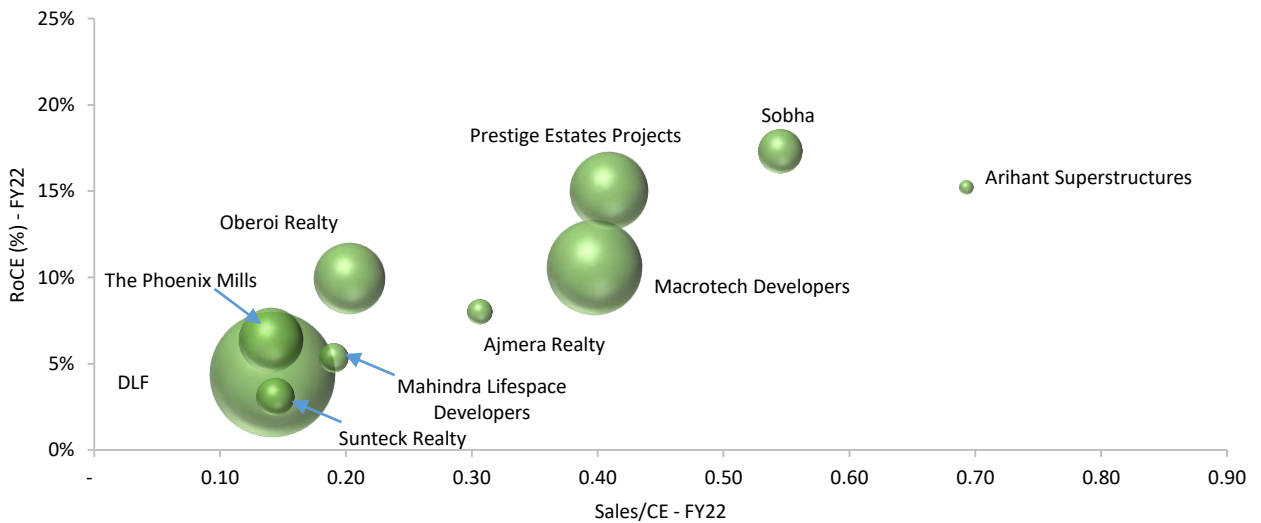
Source: Company Reports, Bloomberg estimates, Arihant Capital Research

**Exhibit 8: Arihant Superstructures Ltd has deployed lower capital in terms of enterprise value and delivered higher RoCE compared to peers.**



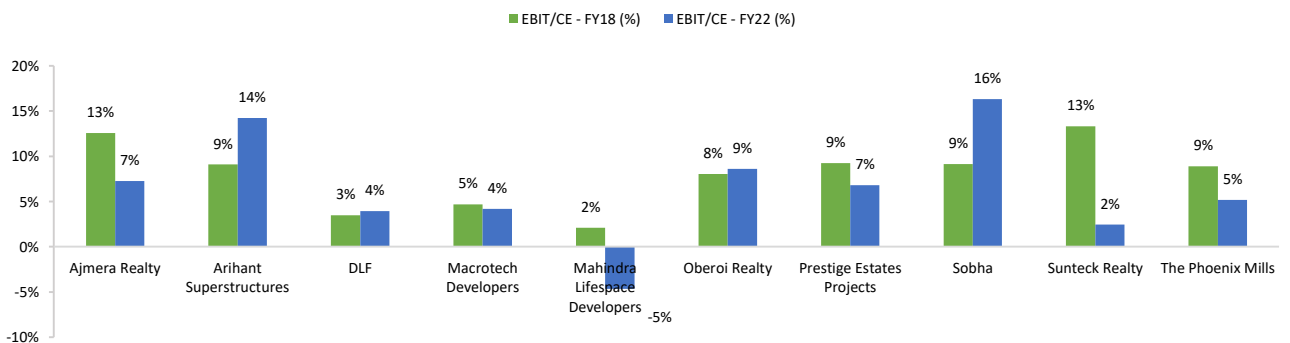
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

**Exhibit 9: Arihant Superstructures earned INR 0.7 per Capital Employed of INR 1, which is higher than Industry.**



Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

**Exhibit 10: Arihant Superstructures has delivered better profitability in-terms of capital employed compared to peers.**



Source: Ace Equity, Arihant Capital Research

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>233</b>	<b>270</b>	<b>331</b>	<b>564</b>	<b>1,073</b>
Net Raw Materials	155	183	197	363	665
Employee Cost	13	12	16	28	56
Other Expenses	23	28	48	55	112
<b>EBITDA</b>	<b>43</b>	<b>48</b>	<b>70</b>	<b>118</b>	<b>240</b>
<b>EBITDA Margin (%)</b>	<b>18.4%</b>	<b>17.8%</b>	<b>21.1%</b>	<b>20.9%</b>	<b>22.4%</b>
Depreciation	(2)	(2)	(2)	(3)	(3)
Interest expense	(30)	(28)	(21)	(34)	(35)
Other income	5	2	2	2	2
Share of profits associate & JV	-	-	-	-	-
<b>Profit before tax</b>	<b>16</b>	<b>20</b>	<b>48</b>	<b>83</b>	<b>204</b>
Taxes	(5)	(4)	(7)	(22)	(53)
<b>PAT</b>	<b>11</b>	<b>16</b>	<b>41</b>	<b>61</b>	<b>151</b>
Minorities and other	(6)	(5)	(0)	-	-
<b>Net profit</b>	<b>5</b>	<b>11</b>	<b>41</b>	<b>61</b>	<b>151</b>
<b>EPS</b>	<b>1</b>	<b>3</b>	<b>10</b>	<b>15</b>	<b>37</b>

Source: Company reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	41	41	41	41	41
Reserves	86	98	137	199	350
<b>Net worth</b>	<b>127</b>	<b>139</b>	<b>178</b>	<b>240</b>	<b>391</b>
Minority Interest	-	25	25	-	-
Provisions	1	1	1	0	1
Debt	409	299	309	374	414
<b>Total Liabilities</b>	<b>537</b>	<b>463</b>	<b>512</b>	<b>614</b>	<b>805</b>
Fixed assets	9	9	9	9	8
Other Intangible assets	0.0	0.0	0.0	0.0	0.0
Investments	42	43	45	39	54
Other non current assets	0.1	0.2	0.2	0.6	1.1
Deferred tax asset (net)	-	-	-	-	-
<b>Net working capital</b>	<b>270</b>	<b>197</b>	<b>217</b>	<b>130</b>	<b>101</b>
Inventories	388	355	447	596	1,002
Sundry debtors	35	26	60	70	118
Loans & Advances	25	5	12	11	21
Other current assets	33	38	40	70	123
Sundry creditors	(63)	(53)	(62)	(98)	(182)
Advance from Customers	(144)	(170)	(277)	(508)	(966)
Other current liabilities & Prov	(3)	(3)	(3)	(11)	(16)
Cash	11	12	15	83	30
Other Financial Assets	10	3	6	14	21
Land	193	199	219	338	590
<b>Total Assets</b>	<b>537</b>	<b>463</b>	<b>512</b>	<b>614</b>	<b>805</b>

Source: Company reports, Arihant Capital Research



## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	16	20	48	83	204
Depreciation	2	2	2	3	3
Tax paid	(5)	(4)	(7)	(22)	(53)
Working capital Δ	46	74	(20)	87	29
<b>Operating cashflow</b>	<b>59</b>	<b>91</b>	<b>23</b>	<b>151</b>	<b>183</b>
Capital expenditure	(1)	(1)	(2)	(2)	(2)
<b>Free cash flow</b>	<b>58</b>	<b>90</b>	<b>21</b>	<b>149</b>	<b>181</b>
Equity raised	(5)	(4)	(2)	-	-
Investments	(2)	(1)	(3)	6	(14)
Others	(47)	1	(24)	(127)	(260)
Debt financing/disposal	(0)	(86)	10	40	40
Dividends paid	-	-	-	-	-
Other items	(7)	0	(0)	(0)	0
<b>Net Δ in cash</b>	<b>(3)</b>	<b>1</b>	<b>3</b>	<b>69</b>	<b>(53)</b>
<b>Opening Cash Flow</b>	<b>15</b>	<b>11</b>	<b>12</b>	<b>15</b>	<b>83</b>
<b>Closing Cash Flow</b>	<b>11</b>	<b>12</b>	<b>15</b>	<b>83</b>	<b>30</b>

Source: Company reports, Arihant Capital Research

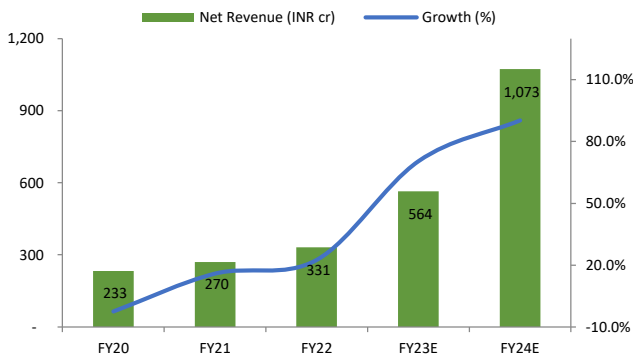
## Ratio analysis

Particular	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Revenue growth	-2.5%	15.8%	22.5%	70.4%	90.2%
Op profit growth	-19.5%	11.7%	45.1%	69.2%	103.9%
<b>Profitability ratios (%)</b>					
OPM	18.4%	17.8%	21.1%	20.9%	22.4%
RoCE	6.0%	7.8%	12.8%	15.7%	25.0%
RoNW	8.9%	11.9%	26.1%	29.3%	48.0%
RoA	2.0%	3.4%	8.1%	10.0%	18.8%
<b>Per share ratios (INR)</b>					
EPS	2.7	3.8	10.1	14.9	36.7
Cash EPS	3.2	4.3	10.5	15.5	37.4
Book value per share	30.8	33.7	43.3	58.2	95.0
<b>Valuation ratios (x)</b>					
P/E	88.4	61.7	23.5	15.8	6.4
P/CEPS	74.6	54.6	22.5	15.2	6.3
P/B	7.7	7.0	5.4	4.1	2.5
EV/EBIDTA	30.9	25.3	17.5	10.4	5.4
<b>Payout (%)</b>					
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%
Tax payout	29.2%	21.4%	14.7%	26.0%	26.0%
<b>Liquidity ratios (days)</b>					
Debtor days	50	41	47	42	32
Inventory days	955	742	743	525	439
Creditor days	99	95	80	65	61
<b>Leverage ratios</b>					
Interest coverage	1.4	1.6	3.2	3.4	6.7
Net debt / equity	3.14	2.07	1.65	1.21	0.98
Net debt / op. profit	9.25	5.97	4.22	2.46	1.59

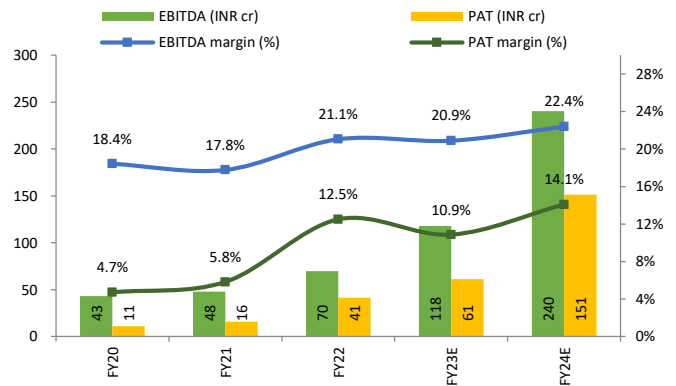
Source: Company reports, Arihant Capital Research

**Story in Charts**

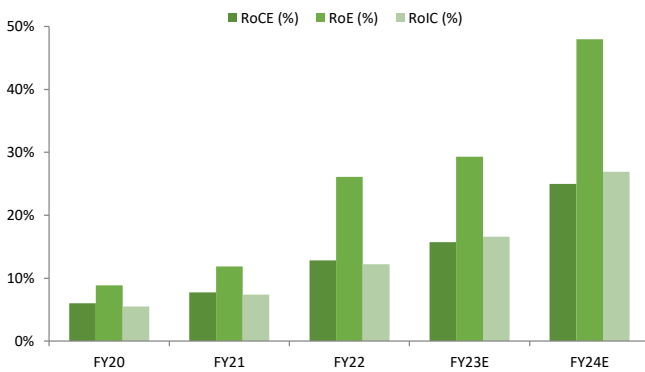
**Exhibit 11: Revenue is expected to reach 3x backed by strong sales.**



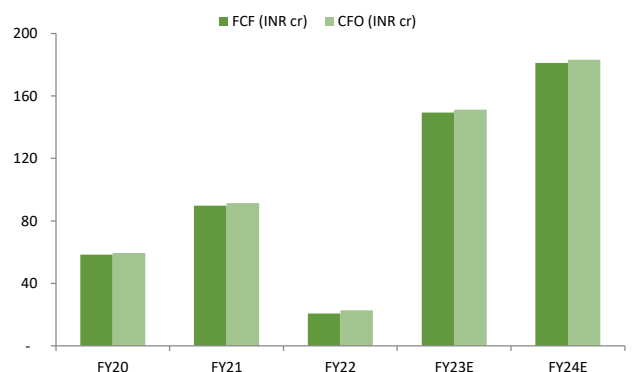
**Exhibit 12: Growth in EBITDA & PAT levels**



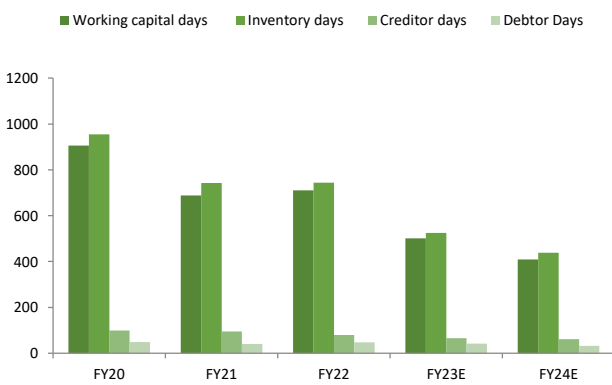
**Exhibit 13: Return ratios to be improve**



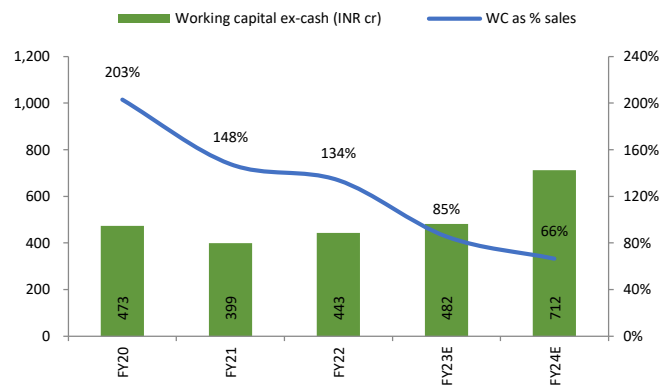
**Exhibit 14: Cash flows to be improve**



**Exhibit 15: Working capital days to be improve**



**Exhibit 16: Working capital management would continue.**



Source: Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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