Company Update
Anant Raj

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Beneficiary of resurgent demand

We recently interacted with the management of Anant Raj (ARCP). The company has a multi-sector pronged strategy, with aggressive expansion in data centres and warehouses. An attractively located land bank will help maintain cash flows in the residential business, which, in turn, can be utilised for the development of new businesses. A strong resurgence in residential demand in NCR, after a cyclical slowdown, is expected to help sustain growth in the residential business. Its aggressive expansion into data centres has been supported by the Centre's decision to implement the data protection bill and the grant of infrastructure status to the Data Centres. We note a healthy Balance Sheet with a comfortable net debt-to-equity ratio of 0.37x in FY23. The stock is not rated.

Well laid out plans to capitalise on the data centre opportunity

Given the higher adoption of digital technology, migration of IT infrastructure to third-party providers, and growing usage of data from new and existing channels, global real estate services firm JLL anticipates an addition of 678MW to the digital transformation industry over 2023–25. To capitalise on the same, ARCP plans to develop Tier III and IV data centres with a 300MW IT load capacity. In the first phase, it plans to build an IT load capacity of 21MW at Anant Raj Tech Park, Manesar by Q4FY24 (3MW already commissioned, with a commitment from Telecommunications Consultants India and Railtel Corporation of India). The balance will accrue over phases across Manesar (29MW), Rai (200MW), and Panchkula (50MW). The development will be a mix of greenfield and retrofitting of existing office space. It expects these assets to yield a monthly rental of INR9,000/kW and the cost of constructing to be ~INR26cr/MW. Given the growing preference for India as a capability centre for global value organisations, demand for data centres is expected to stay strong ahead, which could benefit early movers such as ARCP.

Residential segment sees resilient demand and consistent launches

ARCP clocked one of its best pre-sales of INR749cr in FY23, up 94% YoY, driven by strong growth in launches (villas in Ashok Estate, plots in Anant Raj Estate, and group housing at Birla Navya) along with healthy demand in NCR (absorption grew 41% YoY in FY23 versus a pan-India growth of 30%). Volume surged 37% YoY to 0.61mn sq. ft. with realization improving 41% YoY. As of March, it had ongoing projects of 2.1mn sq. ft. (plots/villas/GHS of 0.54/0.2/1.02mn sq. ft.) with an estimated GDV of INR2,600cr (plots/villas/GHS of INR990cr/INR225cr/INR1,340cr). Its forthcoming project pipeline spans 4.9mn sq. ft. (plots/floors/GHS of 0.13/0.37/4.1mn sq. ft.), with a GDV of ~INR6,600cr (plots/floors/GHS of INR213cr/INR594cr/INR5,550cr).

Financials robust on consistent deliveries and scale in operations

Revenue grew 107% YoY to INR957cr in FY23 on consistent deliveries, scaling up of the launch pipeline, and improvement in pricing. With operating leverage kicking in (better absorption of employee cost and other fixed expenses), EBITDA grew 160% YoY to INR197cr and margin expanded by 416bp to 21%. Due to a marginal decline in depreciation and relatively stable interest cost, PAT grew 198% YoY to INR144cr. The management expects its financial performance to improve in FY24 on higher realisation and healthy project execution.

Healthy financial performance strengthens Balance Sheet

Led by consistent launches and healthy pre-sales, ARCP was able to generate healthy collections, which helped pare off its debt. From INR1,252cr in FY22, net debt fell to INR1,035cr, driving down its net D/E ratio to 0.37x in FY23 from 0.47x in FY22.

Valuation and view

At the CMP, the stock trades at a P/B of 1.4x and an EV/EBITDA of 25.6x (five-year median: 30.2x) on a TTM basis. The stock is not rated.

Key financials

Year to March (INR cr)	FY19	FY20	FY21	FY22	FY23
Revenue	350	276	250	462	957
EBITDA	75	52	35	76	197
EBITDA margin	22	19	14	16	21
Operating cash flow	810	-84	-150	423	-6
Net D/E ratio	0.6	0.7	0.7	0.5	0.4
P/B ratio	0.2	0.2	0.6	0.8	1.4
EV/EBITDA ratio	34.0	43.8	92.4	42.7	25.6

CMP INR: 168

Rating: Not Rated

Date: June 13, 2023

Bloomberg:	ARCP:IN
52-week range (INR):	43/170
Shares in issue (cr):	32.4
M-cap (INR cr):	5,456
Promoter holding (%)	63.2

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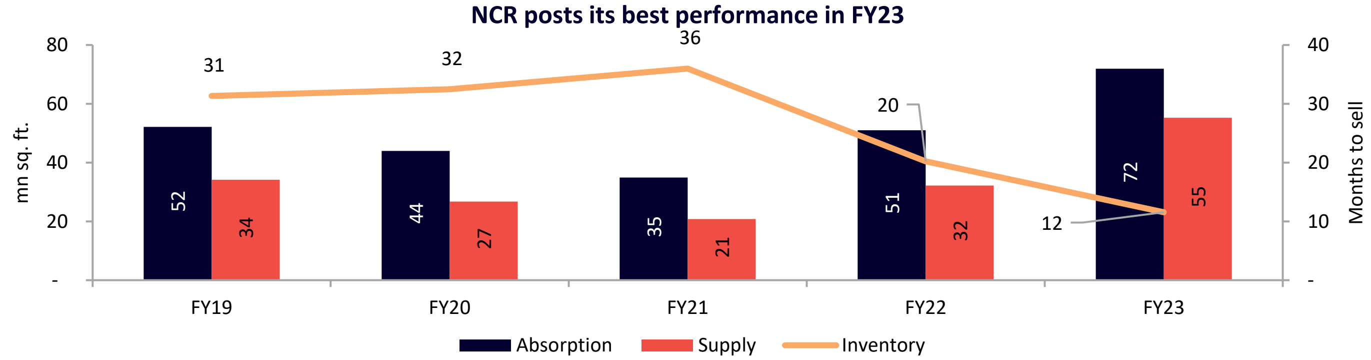
Growth in residential real estate aided by a cyclical upturn in the sector

ARCP's land bank is well-located and is primarily based in NCR. We expect growth in sales led by: i) growth in overall sales in NCR (as shown below), ii) lower inventory levels in NCR (12 months), iii) attractively located land bank (175 out of the 240 acres located in Sector 63A, Gurugram), and iv) an experienced management (the fourth generation is running this family business).

Cyclical upturn in the NCR residential real estate market; inventory near record lows

As a market, NCR posted one of its best performances in FY23, with the growth in absorption being the highest among the top seven cities. NCR clocked sales of 71.9mn sq. ft. in FY23, up 41% YoY (pan India growth of 30.3%). Supply grew sharply, albeit on a lower base. In FY23, supply stood at 55.2mn sq. ft., up from 32.2mn sq. ft. in FY22. As supply continued to lag demand, inventory in NCR plunged to a 12-year low of 14 months. With inventory levels near a record low and strong consumer sentiment, demand is expected to stay robust ahead.

NCR posts its best performance in FY23



Source: PropEquity, Nuvama Wealth Research

ARCP positioned to capitalise on the resurgent demand

In the residential segment, ARCP's focus is on the development of its integrated residential and commercial project in Gurugram's Sector 63A. As per the company, of the ~240 acres, ~175 acres are in Sector 63A, having a development potential of 6mn sq. ft. and a gross development value of INR7,000cr. It has partially launched its Anant Raj Estate project, which includes the development of villas, group housing, independent floors, plots, and a commercial complex. It is adding group housing projects in the vicinity in partnerships (Birla Navya) as well as on its own. As of March, it has four ongoing projects, with a developable area of 2.1mn sq. ft. and another 4.9mn sq. ft. to be launched by FY26.

Ongoing projects

Project	Type	ARCP's share	Saleable area (mn sq. ft.)	Estimated GDV (INR cr)
Anant Raj Estate	Plots	100%	0.28	461
Ashok Estate	Plots	100%	0.27	530
Birla Navya (Phase I, II, and III)	GHS	50%	1.02	1,336
Joy Square	Commercial	100%	0.37	60
Anant Raj Estate The Villas	Villas	100%	0.20	225

Source: Company, Nuvama Wealth Research

Forthcoming projects

Project	Type	ARCP's share	Saleable area (mn sq. ft.)	Estimated GDV (INR cr)	Planned launch date
Anant Raj Estate Group Housing (Phase I)	GHS	100%	0.99	1,800	July
Anant Raj Estate Group Housing (Phase II)	GHS	100%	1.09	1,900	July 2024
Birla Navya (Phase IV)	GHS	50%	0.83	1,536	March 2024
Anant Raj Estate Floors	Independent floors	100%	0.37	594	October
Anant Raj Estate Plots	Plots	100%	0.13	213	October
Anant Raj Estate Commercial	Commercial	100%	0.10	220	July 2024
Anant Raj Ashray II - Tirupati	GHS	100%	1.19	314	October
Commercial - Tirupati	Commercial	100%	0.03	15	October

Source: Company, Nuvama Wealth Research

Leasing segment — Steadily growing annuity portfolio

ARCP's commercial properties are spread across NCR, catering to the office, retail, and hospitality segment. It operates three IT parks with a leasable area of 4.65mn sq. ft., two hospitality assets with an area of 0.2mn sq. ft., and one retail asset with an area of 0.1mn sq. ft. The hospitality assets have been leased at a fixed rate.

Project	Location	Type	Leasable area (mn sq. ft.)	Occupancy	Estimated annual rental (INR cr)
Anant Raj Tech Park*	Manesar	Office	1.80	0%	n/a
Anant Raj Trade Centre*	Rai	Office	2.10	0%	n/a
Anant Raj Tech Park	Panchkula	Office	0.60	100%	43.2
Office building	Gurugram	Office	0.15	100%	16.20
Misaki Hotel	Manesar	Hospitality	0.10	n/a	n/a
Stellar Resorts	New Delhi	Hospitality	0.10	n/a	8.52
Bel-LA Monde	New Delhi	Hospitality	0.10	n/a	5.61
Karol Bagh Mall	Karol Bagh	Retail	0.09	30%	n/a

*Office assets at Manesar and Rai are currently unoccupied. ARCP is in the process of converting these assets into data centres.

Source: Company, Nuvama Wealth Research

Company is currently in process of adding another office asset, viz., Ashok Tower, in Gurugram with a leasable area of 0.16mn sq. ft. and an estimated rental of INR 90 per sq. feet per month. As per the company, it is expected to launch in FY24 and would become operational by June 2025. ARCP expects steady state annual rentals in the range of INR17-18cr once it is fully occupied.

Focus on data centres — A new growth driver

Recently, ARCP entered the business of building and leasing data centres. We expect demand for data centres to grow manifold due to the government's intention to implement the data protection bill. To support data centres, the Centre has granted it infrastructure status. ARCP has aggressive plans to expand this business. It plans to develop a combination of Tier III and IV data centres (Tier III/IV have a n+1/n+n redundancy), with a 300MW IT load capacity across three locations.

i) Anant Raj Tech Park, Manesar (Haryana) — 3MW leased out to TCIL and RAILTEL

Anant Raj Tech Park is one of the firm's first assets in the data storage domain, located 10km from Gurugram, which is the IT and BPO hub in NCR. The asset is spread over 10 acres, with a leasable area of 1.8mn sq. ft. The existing structure has the capacity to be converted to a Tier III data centre with an IT load capacity of 50MW. In the first phase, the company plans to build a 21MW IT load capacity over 450,000sq. ft., of which 3MW has been completed. The balance is set to be commissioned by Q4FY24-end. It has already received TIA-942 Tier III certification for the first phase. The management pegs the average monthly rental potential at ~INR9,000/kW and the cost of constructing the data centre would average ~INR26cr per MW. In the second phase, it plans to expand its IT load capacity to 50MW.

ii) Anant Raj Tech Centre, Rai (Haryana) — 200MW potential

The Anant Raj Tech Centre is spread over 25 acres in Rai, with a development potential of 5.1m sq. ft. It is just 5km from NCR and is connected to the airports at Gurugram and Manesar by the Kundli–Manesar–Palwal Expressway. Going forward, the area is expected to be connected to the Delhi Metro. At present, ARCP has a leasable area of 2.1mn sq. ft., which it plans to convert to a Tier III data centre with a 100MW IT load capacity. It is considering adding 1.5mn sq. ft. of leasable area, which can host 100MW of Tier III and IV data centres. This will be the company's largest data centre.

iii) Anant Raj Tech Park, Panchkula (Chandigarh) — 50MW potential

The Anant Raj Tech Park at Panchkula is a JV between ARCP and US-based Monsoon Capital. The asset is spread over 9.2 acres and has a development potential of 1.6mn sq. ft. Till date, it has developed 0.6mn sq. ft., which it has leased out to commercial offices. The asset has a greenfield potential of 5.25 acres with an FSI of 0.6mn sq. ft. that can be developed into a Tier IV data centre with an IT load capacity of 50MW.

Beneficiary of resurgent demand

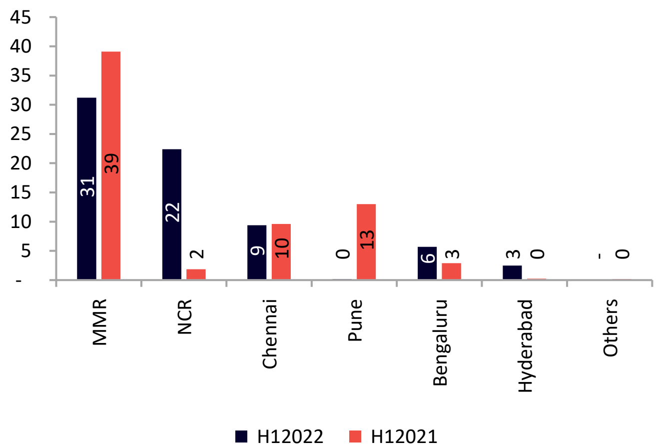
Asset	Land area (acres)	Leasable area (mn sq. ft.)	IT capacity (MW)	To be operational in the near term
Anant Raj Tech Park, Manesar	10	2	50	21
Anant Raj Trade Centre, Rai	25	4	200	-
Anant Raj Tech Park, Panchkula	9	2	50	-

Source: Company, Nuvama Wealth Research

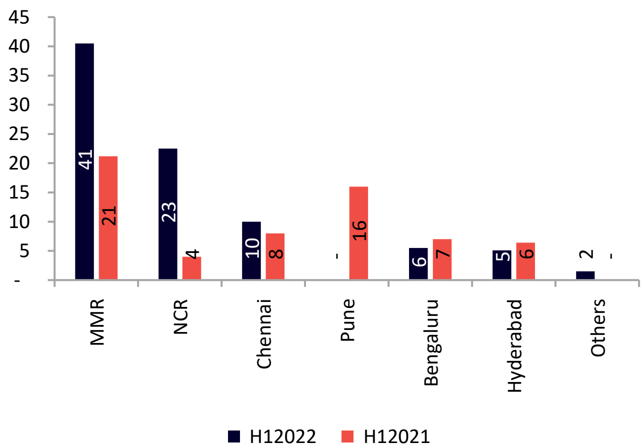
India's data centre market at a glance

In 2022, the industry clocked record high absorption of 160MW, resulting in a total occupancy of 660MW, up 32% YoY. To meet the rising demand, data centre operators added 171MW of supply in 2022, primarily from hyperscalers. Total industry capacity stood at 722MW in 2022, up from 350MW in 2019, a CAGR of 27%. Supply is largely backed by pre-commitments, which constitute a significant portion of demand. As of 2022, hyperscalers have a pre-commitment of over 350MW, which is to be delivered by 2025. MMR and NCR are the largest demand drivers as well as suppliers in the market, with NCR growing at a much higher pace. According to JLL, the growing use of digital technology, the migration of IT infrastructure to third-party providers, and higher usage of data from new and existing channels will result in the addition of 678MW to the digital transformation industry between 2023 and 2025. This expansion will necessitate a demand for 9.1mn sq. ft. of real estate space, requiring an investment of USD4.8bn in data centre infrastructure.

Data centre absorption (MW)



Data centre supply (MW)



Source: JLL, Company, Nuvama Wealth Research

Warehousing — An opportunity to monetise

ARCP is phasing its investments in warehouses to meet the high demand due to the boom in e-commerce, rising need for a cold chain network from the food and bio-pharmaceutical sectors, and a growing manufacturing sector. It has an industrial land bank of 83.4 acres in Delhi and Haryana, which it intends to convert to warehouses over the next three years.

Site	Area	Location	Land (acres)
Dhansa	Najafgarh	Delhi	6.59
Issapur	Najafgarh	Delhi	4.45
Mundhela Kalan	Najafgarh	Delhi	15.16
Bhatti mines	Mehrauli	New Delhi	24.16
Holambi Khurd	Khera Khurd	Delhi	18.71
Rewari	Haryana	Haryana	14.05
Total			**83.12**

Source: Company, Nuvama Wealth Research

Company overview

ARCP started off as a construction company in 1969 and has worked on government contracts and projects for over 30 years. It gradually transitioned to a significant landowner in Delhi and NCR and entered commercial leasing and residential real estate. Till date, it has delivered more than 20mn sq. ft. of residential real estate projects, developed over 5mn sq. ft. of commercial space, and owns over 240 acres spread across prime locations in NCR. It has a comprehensive portfolio of residential townships, group housing projects, commercial developments, data centres, and hospitality developments spread across Delhi, Gurugram, and NCR.

1969–90	1990–2010	2010	2012	2019	2020	2021	2022	2023
Land Acquisition, Worked as Contractors for Govt. Projects	Developed Commercial & Hospitality Projects for Leasing	Entered Residential Real Estate & launched one of the largest Township in Gurugram	Forayed into Low-Cost Housing	JV with Birla Group	Demerged	Launched Birla Navya and entered into Data Centers	Launched Ashok Estate	Commissioned Phase I of 3MW Data Center at Manesar

Key management personnel

ARCP was co-founded by Mr. Ashok Sarin in 1969, who has passed on the mantle to the fourth generation.

Name	Designation	Remarks
Mr Amit Sarin	Managing Director	He has been associated with ARCP since 2009 and has been MD since 2021. He has a bachelor's degree in commerce
Mr Aman Sarin	Director & CEO	With an experience of more than 11 years, he has handled multiple positions at ARCP and has been its CEO since 2021
Mr Ashim Sarin	Director & COO	He has been with the company since 2012, handling multiple executive roles. He took over as COO from Mr Aman Sarin in 2021
Mr Pankaj Kumar Gupta	CFO	A qualified Chartered Accountant, he has been with ARCP since 2008 and has been the CFO since 2019
Mr Manoj Pahwa	CS	With an experience of 13 years, he has been handling the CS position since 2012

Source: Company, Nuvama Wealth Research

Financials

Income Statement

Year to March (INR cr)	FY19	FY20	FY21	FY22	FY23
Income from operations	350	276	250	462	957
Construction cost	241	189	186	354	718
Employee cost	13	12	13	14	16
Other expenses	20	23	16	18	26
Total operating expenses	274	224	214	386	760
EBITDA	75	52	35	76	197
Depreciation and amortisation	22	18	17	17	17
EBIT	54	35	18	59	181
Interest expenses	28	15	31	27	32
Other income	15	10	20	39	48
Exceptional item	-	-	-	-	-
Profit before tax	40	29	8	72	197
Provision for tax	11	12	7	23	52
Profit after tax	29	17	0	48	144
Shares outstanding	30	30	30	30	32
Adjusted EPS	1.5	1.0	0.4	1.7	4.9

Common size metrics as a percentage of net revenue

Year to March	FY19	FY20	FY21	FY22	FY23
Operating expenses	78	81	86	84	79
Depreciation	6	6	7	4	2
Interest expenditure	8	5	12	6	3
EBITDA margin	22	19	14	16	21
Net profit margin	8	6	0	10	15

Growth metrics (%)

Year to March	FY19	FY20	FY21	FY22	FY23
Revenue	-27	-21	-10	85	107
EBITDA	-32	-31	-32	114	160
PBT	-49	-28	-74	840	175
Adjusted net profit	-51	-43	-99	n.m.	198
Adjusted EPS	-37	-32	-63	383	180

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Beneficiary of resurgent demand

Balance Sheet (INR cr)

As of March 31	FY19	FY20	FY21	FY22	FY23
Equity share capital	59	59	59	59	65
Reserves and surplus	2,442	2,426	2,440	2,580	2,760
Shareholders' funds	2,501	2,485	2,500	2,639	2,825
Total debt	1,591	1,691	1,663	1,283	1,104
Other long-term liabilities	30	30	106	170	185
Deferred tax liabilities	13	15	19	25	37
Minority interest	41	39	37	35	33
Sources of funds	**4,177**	**4,260**	**4,324**	**4,152**	**4,184**
Gross block	1,509	1,517	1,518	1,518	1,527
Depreciation	159	175	192	208	222
Net block	1,351	1,342	1,326	1,310	1,305
Capital work in progress	146	140	90	48	77
Total fixed assets	1,496	1,482	1,416	1,358	1,382
Investments	402	461	423	460	460
Inventories	962	1,388	1,457	1,135	1,197
Sundry debtors	62	72	44	22	51
Cash and equivalents	65	18	37	31	69
Loans and advances	1,280	782	843	967	860
Total current assets	2,369	2,259	2,381	2,154	2,177
Sundry creditors and others	424	319	282	220	143
Provisions	1	8	4	13	31
Total current liabilities and provisions	425	328	287	233	174
Net current assets	1,944	1,932	2,094	1,921	2,003
Other assets	334	386	391	413	338
Uses of funds	**4,177**	**4,260**	**4,324**	**4,152**	**4,184**
Book value per share (INR)	85	84	85	89	87

Cash Flow Statement

Year to March	FY19	FY20	FY21	FY22	FY23
Operating profit after tax but before working capital changes	108	20	44	85	198
Working capital changes	715	-91	-187	362	-152
CFO	810	-84	-150	423	-6
CFI	1,707	-5	85	31	50
CFF	-2,679	43	83	-461	-29
Total Cash Flow	-162	-46	18	-7	15

Beneficiary of resurgent demand

Ratios

Year to March	FY19	FY20	FY21	FY22	FY23
RoAE (%)	0.9	0.7	0.0	1.9	5.3
RoACE (%)	1.0	0.8	0.4	1.5	4.6
Debtors (days)	65	95	64	17	20
Inventory (days)	1,005	1,834	2,130	897	456
Payable (days)	21	26	31	5	5
Cash conversion cycle (days)	1,049	1,903	2,163	909	471
Current ratio	5.6	6.9	8.3	9.3	12.5
Debt/equity ratio	0.6	0.7	0.7	0.5	0.4
Debt/EBITDA ratio	21.1	32.3	47.0	16.9	5.6
Adjusted debt/equity ratio	0.6	0.7	0.7	0.5	0.4

Valuation parameters

Year to March	FY19	FY20	FY21	FY22	FY23
Diluted EPS (INR)	1.5	1.0	0.4	1.7	4.9
YoY growth (%)	-37	-32	-63	383	180
Diluted P/E ratio (x)	23.4	20.2	151.4	38.1	25.1
Price/BV ratio (x)	0.2	0.2	0.6	0.8	1.4
EV/sales ratio (x)	7.3	8.3	13.1	7.0	5.3
EV/EBITDA ratio (x)	34.0	43.8	92.4	42.7	25.6
Diluted shares outstanding	30	30	30	30	32
Basic EPS	1.5	1.0	0.4	1.7	4.9
Basic P/E ratio (x)	23.4	20.2	151.4	38.1	25.1

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