

**25 October 2012**

**CMP:** Rs.16.6

**Industry:** Realty

**BSE group/index:** B

**Promoters**

Chandan Parmar

Suresh Kumar

Chandan Kumar

**Year of incorporation**

1992

**Registered office**

20/43 Kasthuri Rangan Road

Near Russian Cultural Center

Alwarpet

Chennai- 600018

**Company website**

<http://www.vijayshanthibuilders.com>

**Write to us at:**

[equity.research@outlook.com](mailto:equity.research@outlook.com)

**Key Data (as on 25 Oct'12)**

BSE	523724	ISIN	INE806F01011
Face Value	10	Mkt Cap (Rs.mn)	430
30 day daily trading volume (nos.)	31575	Current P/E	3.8
52 week high-low	40.2-12.6	Current P/BV	0.4
Equity capital (Rs.mn)	261.9	Net worth (Rs.mn)	1093.6

**Company business**

Vijay Shanthi Builders Ltd ('VSBL') was incorporated in 1992. The company is engaged in property development business mainly in and around Chennai. The company develops and constructs residential apartments, luxury apartments and villas.

During FY12, the company has sold the plant & machinery of its mineral water division and abandoned the building and booked a net loss of Rs.2.2 mn from the discontinued operation.

VSBL has been promoted by Chandan Parmar, Suresh Kumar and Chandan Kumar. Chandan Parmar is the non-executive chairman and Suresh Kumar is the managing director of the company.

**Peer group analysis – Standalone financials**

VSBL reported EBIDTA of Rs.155.7 mn in FY12. The company has the lowest EBIDTA and EBIDTA margin as compared with select industry peers (refer table below). The company has better return on average net worth and capital employed among the select peers. The market is discounting its earning 6.5 times and in line with its peers it trades at a price to book value of below one.

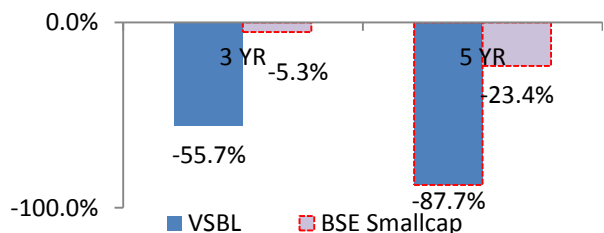
**Financials - Standalone**

FY12, Rs.mn	VSBL <sup>1</sup>	Ganesh <sup>1</sup> Housing	DS <sup>1</sup> Kulkarni	Satra <sup>2</sup> Property
Total income	2107.8	1801.2	1867.5	2226.0
EBIDTA	155.7	869.0	328.7	379.3
EBIDTA margin	7.4%	48.2%	17.6%	17.0%
PAT	96.9	305.9	173.4	39.0
PAT margin	4.6%	17.0%	9.3%	1.8%
EPS	3.6	9.4	6.7	0.2
Cash accruals	102.9	331.2	187.7	43.9
BV/share	41.8	176.8	184.4	5.8
Debt/EBIDTA	2.1	1.6	15.6	6.0
Debt/Equity	0.30	0.25	1.07	2.25
ROANW	9.2%	5.4%	3.7%	3.9%
ROACE	6.2%	4.0%	2.0%	3.9%
P/E	6.5	12.8	8.6	23.5
P/BV	0.6	0.7	0.3	0.8

Source: Moneycontrol, Company

<sup>1</sup> FV Rs.10 per share

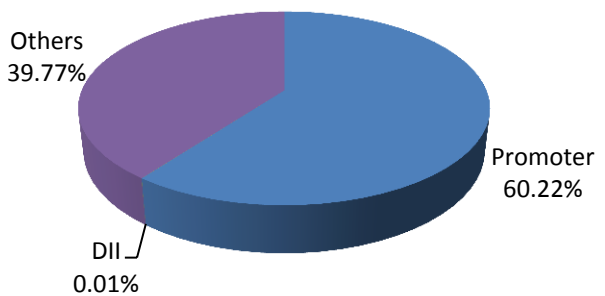
<sup>2</sup> FV Rs.2 per share

Business capacity		Price Performance
<b>Business</b>	<b>Total saleable area</b>	 <p>3 Years: 25 Oct 07 to 23 Oct 12 5 Years: 25 Oct 09 to 23 Oct 12</p>
Ongoing projects	244,989 square meter	
Proposed projects	313,929 square meter	

### Public shareholders with >1% shareholding

Sl. No.	Name of the Shareholder	No. of Shares held (mn)	Shares as % of Total No. of Shares
1	Sanjay B Siroya	0.61	2.33
2	Darashaw & Company Pvt. Ltd	0.55	2.10
3	Kadayam Ramanathan Bharat	0.51	1.96
4	Neeta Rajesh Lodha	0.35	1.34
<b>Total</b>		<b>2.02</b>	<b>7.73</b>

Source: BSE

Change in Shareholding Pattern (%)					Shareholding Pattern (%)
Year	Promoters	DII	FII	Others	
Jun-12	60.22	0.01	0.0	39.77	 <p>Source: BSE, as at 30 June 2012</p>
Mar-12	63.86	0.01	0.0	36.13	
Dec-11	66.89	0.01	0.0	33.10	
Sep-11	66.86	0.01	0.0	33.13	
Mar-11	66.86	0.01	0.0	33.13	
Mar-10	33.87	0.02	0.0	66.11	
Mar-09	33.76	0.02	0.0	66.22	
Mar-08	31.55	0.02	0.0	68.43	
Mar-07	41.18	0.02	3.12	55.68	

Source: BSE

## Key strengths

### Established brand

The company has been in the business of construction for around 20 years and has established name in the property development market. The company has earned customer trust through its commitment to quality, innovation and timely completion of projects.

### Achieved significant operational experience

The company has constructed residential buildings in Chennai, covering a built up area of over 50 lakhs square feet. It has completed about 275 projects in residential real estate sector. VSBL's ongoing and future projects include Lotus Pond, Infiniti, Park Avenue, Calm Springs, Ela and Eternal Springs among others, each of which have saleable area of more than 4 lakh square feet.

## Key concerns

### Increase in price of construction materials

The increase in prices of construction materials like cement, steel, sand etc. lead to increase in cost to the ultimate buyers. This may impact the sales volume and profitability of the company.

### Limited land supply

Limited land in the city has made some of the localities of Chennai quite costly. This has raised the prices of apartments to more than Rs.1 crore. This affects heavily on the buying power of middle-income group in the city which is an important target segment of the company.

### Increased inflation and lending rates

The continuing inflation in the economy and increased lending rate by RBI has resulted in increased cost of home loans. Subsequently this has dampened the buyers' interest.

## Industry overview

### Significantly dependent on IT and ITES sector

Chennai's residential real estate market is significantly dependent on the information technology (IT) and information technology enabled services (ITES) sector. With better employment stability in these sectors, demand for homes has reached a comfortable stage. The approximate demand of residential properties is between 28,000-30,000 per year, with most of the absorption taking place in Old Mahabalipuram Road (OMR) and near the IT corridor.

### Chennai – a self-sustained market for residential real estate

Property prices in Chennai have remained relatively steady when compared to some other cities, where prices have been more volatile, over the last couple of years. Out of the total residential units, FY 2012 witnessed the launch of approximately 14,900 units which are scheduled to be completed in the next 2-3 years. *Source: Knight Franck research*

### Chennai real estate market has been less speculative

For home buyers in Chennai, location is the most critical factor. The end users are specific on their choice and demands. Demand has been more evident in the mid-income category. Also the investors participation in Chennai real estate is long term in nature which mitigates the speculative market scenario. *Source: Knight Frank research*

### Configuration precedes square feet

There has been a shift in preference from 2 BHK to 3 BHK units over the last three quarters. The average buyer gives more importance to the 'BHK specification' of a property than the square feet area.

## Company fundamentals

The company has continued launching projects mainly to cater to both middle and higher income groups. Most of the residential projects of the company are in an advanced stage of completion. The company is in the process of completing and handing over projects constituting more than 10 lakh sq.ft. of constructed space during FY 2012-13.

The project details are as given in the table below:

### Ongoing operations

Project name	Location	Total saleable area (lakh. sq. ft)	Completion time
Park Avenue (Phase-1)	Kandigai	4.2	Dec-2012
Park Avenue (Phase-2)	Kandigai	4.1	Dec-2013
Silent Valley	Tambaram	1.0	Dec-2012
Mystiq	Purasawalkam	0.3	Dec-2012
The Art	Nungambakkam	1.2	Dec-2012

## Key financial indicators

VSBL's total income increased substantially by 54.5% to Rs.2.1 bn in FY12 (Rs.1.4 bn in FY11). Growth in FY12 was largely on account of 56% increase in income from sales of flats (from Rs.1.3 bn in FY11 to Rs.2.1 bn in FY12). This is because of increase in demand of property development market compared to FY11.

### EBIDTA growth subdued due to significantly increase in material cost

However EBIDTA growth was relatively subdued at 16.5% in FY12. This is mainly due to rise in construction expenses by 62.3% to Rs.1.8 bn (88% of sales) in FY12 from Rs.1.1 bn (84.5% of sales) in FY11. Consequently EBIDTA margin fell from 9.8% to 7.4% in FY12.

PAT earned was at Rs.96.9 mn in FY12 v/s Rs.95.1 mn in FY11. PAT margin reduced from 7.0% in FY11 to 4.6% in FY12.

During FY11, the shareholders of the company approved the merger of High End Homes Pvt. Ltd (HEPL) with VSBL. HEPL owns substantial land banks. The company believes the merger would bring land assets for its future projects.

### Merger with High End Homes Pvt Ltd. in FY11

VSBL issued 13.5 mn equity shares of Rs.10 each to the promoters of HEPL as the consideration of its business. Pursuant to this the promoter shareholding in VSBL increased to 66.86% (33.87% in March 2010). The shares issued to the promoters of HEPL are considered in promoter shareholding of VSBL. This also increased the equity capital of the company by Rs.135 mn in FY11.

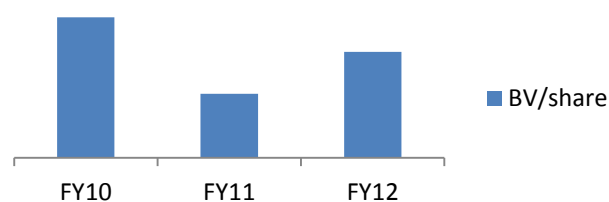
## Quarterly results

Particulars (Rs in mn)	Apr'12 to June'12	Apr'11 to Jun'11	% Change <sup>1</sup>	Jan'12 to Mar'12	% Change <sup>2</sup>
Total income	402.6	371.1	8.5%	718.0	(43.9%)
Total expenditure	339.4	340.4	(0.3%)	715.6	(52.6%)
EBIDTA	63.2	30.7	105.9%	2.4	2533.3%
PAT	42.0	23.1	81.8%	(11.2)	(475.0%)
EPS	1.6	(0.4)	(500.0%)	0.9	77.8%

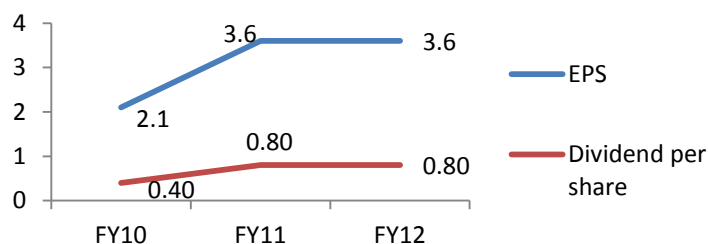
<sup>1</sup> compared to corresponding quarter in the previous year

<sup>2</sup> sequential comparison

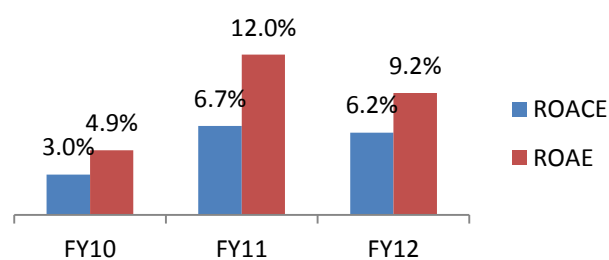
**Key ratios**



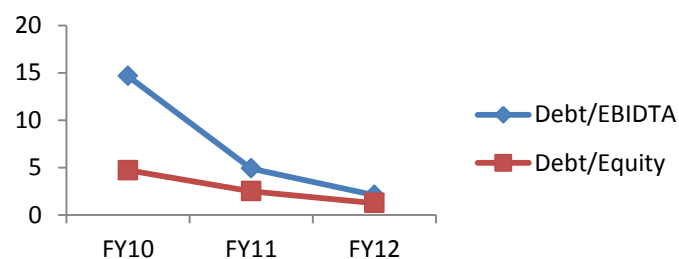
**Key ratios**



**Profitability ratios**



**Leverage ratios**



**Financials**

P&L (Rs. mn)	FY10	FY11	FY12
Total income	681.8	1364.0	2107.8
EBIDTA	40.8	133.7	155.7
EBIDTA margin	6.0%	9.8%	7.4%
Depreciation	4.8	5.2	6.0
EBIT	36	128.5	149.7
Interest	3.5	7.6	8.6
PBT	32.5	120.9	141.1
Tax	5.9	25.8	44.2
PAT	26.6	95.1	96.9
Cash Accruals	31.4	90.3	105.9
PAT margin	3.9%	7.0%	4.6%

Valuation ratios	FY10	FY11	FY12
P/E	18.9	5.7	6.5
P/BV	0.9	0.5	0.6

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	126.9	261.9	261.9
Reserves & Surplus	431.2	761.4	831.7
Net worth	558.1	1023.3	1093.6
Borrowings	597.8	656.1	328.4
Deferred tax liability	0.1	14.4	15.9
Current Liabilities (exclude borrowing)	-	363.0	688.4
<b>Total Liabilities</b>	<b>1156.0</b>	<b>2056.8</b>	<b>2126.3</b>
Net fixed assets	42.1	58.2	40.2
Other non-current assets		37.8	0.8
Loans and Advances	28.2	76.1	81.9
Current Assets	1085.7	1884.7	2003.4
<b>Total Assets</b>	<b>1156.0</b>	<b>2056.8</b>	<b>2126.3</b>

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	32.5	120.9	141.1
CF from Operation	237	(381.2)	393.7
CF from Investment	(5.8)	(30.5)	(4.1)
CF from Financing	(123.7)	417.3	(362.8)
Inc.//(dec.) Cash	107.5	5.6	26.8
Closing Balance	109.1	12.9	39.6

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