



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

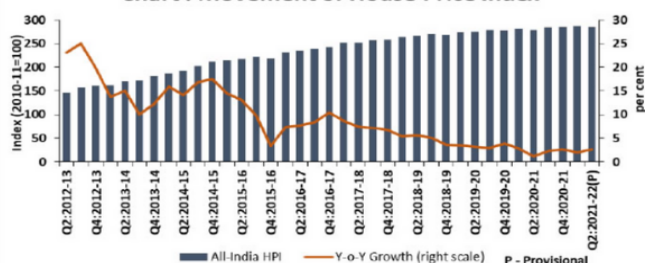
ASHIANA HOUSING LTD

WHAT WE LIKE

MEAN REVERSION PLAY

Real Estate in the past has witnessed long up cycles and down cycles. The last several years have been tough and recovery in the sector is already underway.

Chart : Movement of House Price Index



A general indication of the RE cycle turning upward is when Area booked exceeds the Equivalent Area constructed consistently. It has happened for FY19, FY20 & FY21 too, which may be signaling that the RE cycle coming back up.

	2018-19	2019-20	2020-21
Area Constructed (Lakhs sq. ft.)	7.68	9.85	11.66
Area Booked (Lakhs sq. ft.)	10.79	19.82	14.97

UNIQUE BUSINESS MODEL VS PEERS

High quality in-house construction	In house end-to-end construction capabilities – Ensure higher control over cost and quality and flexibility in execution Focus on use of high quality and efficient construction methodologies & techniques to help reduce time and cost
In-house sales and marketing	Instead of broker-driven model, Ashiana has in-house sales and marketing team Ensures greater ownership of customers and helps in selling projects to them in future High proportion of customer referral sales to overall sales due to established brand and high customer satisfaction level
In-house Facility Management Services	Services provided to some of the projects of Ashiana through its wholly owned subsidiary Other than facility management and maintenance facilities, resale and renting services also provided This acts as a continuous direct customer feedback channel
Land is Raw Material	Execution based model instead of land banking model Target land inventory of 5-7 times of current year execution plan

STRONG BALANCE SHEET

The median Debt to Equity ratio has been 0.1x-0.2x in the last 20 yrs and it was at 0.07 in FY21. Across cycles, they have stayed away from betting on risky land deals. Have walked away from deals where:

- (1) There is litigation involved &
- (2) 10-15% of Networth is required

This prudence shows the management's drive to maintain a strong balance sheet and avoid the common pitfalls of the Indian RE sector.

WHAT WE DON'T LIKE

CYCLICALITY HURTS EVEN THE BEST

Despite its unique Business Model and strong Balance Sheet, Ashiana suffered during the challenging times of the real estate cycle. However, we at SSS, believe that they have survived the worst part without over-leveraging their Balance Sheet and are now ready to thrive if the RE cycle provides opportunity.

REGULATIONS IN THE INDUSTRY

Real Estate is a highly regulated sector especially the residential sector. From time to time, the Govt makes adjustments to the existing policy or Act keeping the interest of the homebuyers in mind. Often any such sudden changes and amendments prove detrimental for developers like Ashiana.

LITIGATIONS & ALLEGATIONS OF FUND MISAPPROPRIATION

Every player in the real estate industry in India is faced with all manners of litigations related to matters such as boundary disputes, title defects claims, property rights, etc. Although Ashiana claims that it avoids deals where there is any litigation involved, this is one risk that is unavoidable for every real estate developer.

The company has also faced allegations of fund misappropriation in the past and the management stated in the Q3FY22 investor call that the company has appointed Grant Thornton for strengthening the internal controls of the company.

COVID RELATED UNCERTAINTIES

Covid-19 has been a shocker for all of us. There is still a fair bit of uncertainty as to how different industries will come out of it. Although the damage of each wave of the pandemic is becoming lower and lower, it is still causing delays in construction, project overruns, and raw material supply disruptions which can be very detrimental to real estate developers everywhere.

SCALABILITY CHALLENGES

We do not see this business having economies of scale. Geographical concentration in a region helps build bargaining power due to economies of scale coming in while procuring building materials which are mostly local products. A good example of this is Oberoi Realty who are based mostly in and around Mumbai. Geographical diversification on the other side takes away bargaining power. However, Ashiana may combat this problem with productivity improvements.

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