Aditya Birla Real Estate AITE.NS ABREL IN

EQUITY: PROPERTY

Robust 2QFY25: Real estate pre-sales up 99% y-y

Quick Note

Rating Remains	Buy
Target price Remains	INR 3,700
Closing price 22 October 2024	INR 2,738

Research Analysts

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ABREL reported 2QFY25 earnings on 22 October. Below we highlight key takeaways:

Robust 2QFY25 for real estate (RE) segment with pre-sales up 99% y-y and collections up +157% y-y

The company recorded 2QFY25 pre-sales of INR14bn (+99% y-y, +439% q-q) driven by bookings for the newly launched Trimaya (Phase 2 (P2)), Bangalore and RR Nagar, Bangalore.

- While Trimaya P2 was almost fully sold out (*link*), RR Nagar sold ~55% at the time of launch, which we think was partly because the project was launched towards the end of the quarter on 27 September.
- The company's high-end Walkeshwar project sold ~20% post launch. Management thinks that's mainly due to the expensive nature of the project (rate of +INR130K per sq. ft. on carpet area) and expects gradual sales from the project as the construction progresses.

Collections came in at INR6.5bn (+157% y-y, +32% q-q). Management maintained that RE segment would turn operational cash flow positive in FY25 (vs negative OCF in FY24).

Management maintains FY25E RE pre-sales guidance of INR70-80bn (vs INR40bn in FY24) thanks to strong launch pipeline in 2HFY25E

Overall, management maintained its FY25E guidance of INR70-80bn pre-sales (vs our estimate of INR75bn). This compares to pre-sales of INR16.7bn in 1HFY25 and implies roughly ~INR60bn for 2HFY25E. As such, while 2HFY25E pre-sales look like a tall ask, management remains confident of its guidance mainly due to robust pipeline of new launches as well as inventory as follows:

- 3QFY25 – it expects to launch the Sangamwadi, Pune project with GDV of INR10.5bn.
- 4QFY25 – it expects to launch a minimum of 3 projects with a GDV of INR48bn (with upside risk from possible launches of Thane (more likely; GDV of INR18bn)/Sec 31 (less likely; GDV of ~INR50bn)).
- In addition, the company has ~INR35bn in inventory with ~INR22bn in Niyaara, Worli and ~INR4-5bn each in the RR Nagar project and Walkeshwar project. Management is seeing improving interest for its Niyaara project.

Pulp and paper segment: Subdued outlook due to pricing pressure

2QFY25 NSR (net sales realization) for the pulp and paper segment was down 4% y-y (flattish q-q). This combined with rising input cost pressure from increasing wood and imported pulp cost constrained the EBITDA margin at 7% (vs 8% in 1QFY25).

Looking forward, the company expects writing and printing paper demand to improve in 3QFY25F while Tissue/ Board demand should remain low post the festive holiday season. On the pricing front, inventory accumulation in the domestic market along with pressure from cost-competitive imports due to weak international market will likely keep pricing constrained for the segment.

P&L performance: 2QFY25 revenue/EBITDA +32%y-y/+50% y-y, RE project-level EBITDA margin at ~29%

Revenue came in at INR11.21bn (+32% y-y) but declined q-q mainly due to lower real estate revenue recognition on lower deliveries in 2QFY25. Management maintained that it

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would record INR13bn in revenue for the real estate segment in FY25E (vs ~INR5bn in 1HFY25). Consolidated EBITDA margin came in at 9%.

While real estate EBITDA margin came in at 11%, at the project-level the company had recorded EBITDA margin of 29% for the quarter. The difference was mainly due to corporate overheads, which management thinks will likely be ~3% of pre-sales and expects operating leverage to kick in as more real estate revenues get recognized.

Action: Maintain Buy with TP of INR3,700

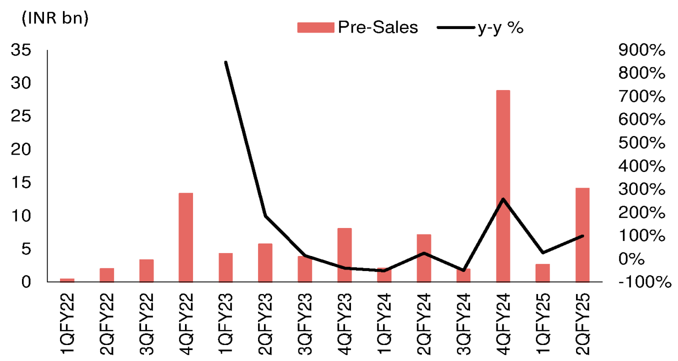
Overall, we remain bullish on ABREL mainly as we see: 1) long-term visibility thanks to the development potential of its ~40-acre prime Worli land parcel, which alone could drive cumulative pre-sales of ~INR400bn at +40% EBITDA margin over its lifetime on a conservative basis; 2) large scale, disciplined and quality business development (BD) in Mumbai, the National Capital Region (NCR), Bangalore and Pune that provides visibility on its future pre-sales and margins. We peg the cumulative GDV of its project pipeline at +INR900bn (vs to-date pre-sales at INR108bn). Shares currently trade at 13x residential EV/EBITDA (for FY25F), slightly ahead of Godrej Properties (GPL IN, Not rated).

Fig. 1: ABREL: 2QFY25 RE segment: Operational review

(INR bn)	2QFY25	2QFY24	y-y%	1QFY25	q-q%
Pre Sales	14.1	7.1	99%	2.6	439%
Collections	6.4	2.5	157%	4.9	32%

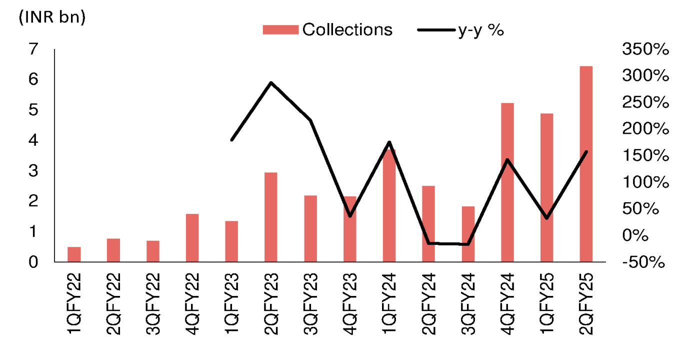
Source: Company data, Nomura research

Fig. 2: ABREL: RE segment: Quarterly pre-sales trend



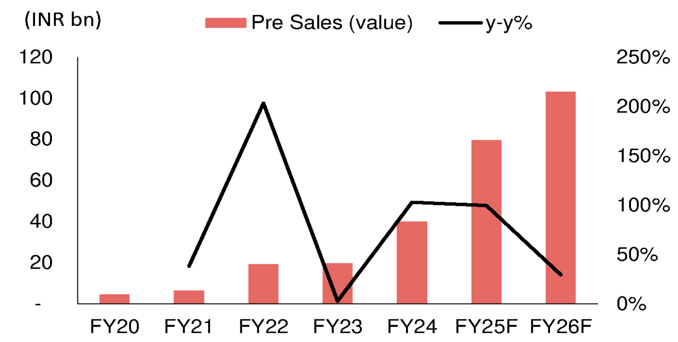
Source: Company data, Nomura research

Fig. 3: ABREL: RE segment: Quarterly collection trend



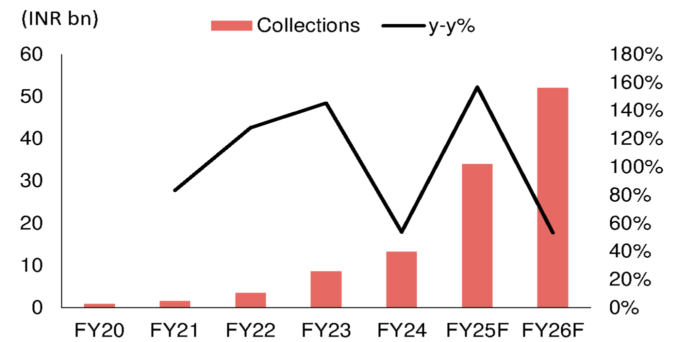
Source: Company data, Nomura research

Fig. 4: ABREL: RE segment: Annual pre-sales trend



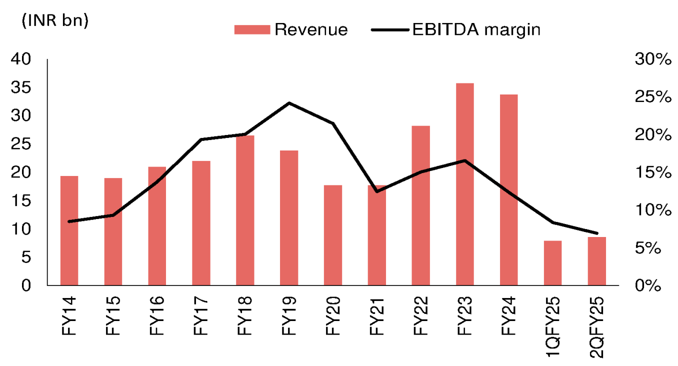
Source: Company data, Nomura estimates

Fig. 5: ABREL: RE segment: Annual collection trend



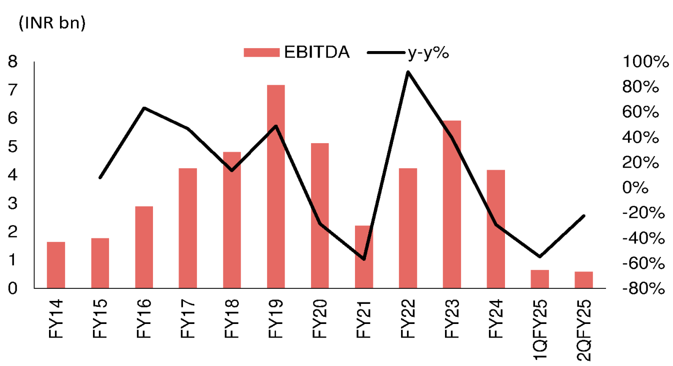
Source: Company data, Nomura estimates

Fig. 6: ABREL; Pulp and Paper segment: Revenue and EBITDA margin trend



Source: Company data, Nomura research

Fig. 7: ABREL; Pulp and Paper segment: EBITDA and y-y trend



Source: Company data, Nomura research

Fig. 8: ABREL: 2QFY25 earnings review

(INR bn)	2QFY25	2QFY24	y-y%	1QFY25	q-q%
Revenue	**11.2**	**8.5**	**32%**	**11.4**	**-2%**
Real Estate	2.5	0.4	535%	3.4	-25%
Pulp and Paper	8.5	8.0	7%	7.9	9%
EBITDA	**1.0**	**0.7**	**50%**	**1.3**	**-21%**
Real Estate	0.3	(0.2)	T.B	0.4	-35%
Pulp and Paper	0.6	0.8	-22%	0.7	-9%
PAT (Continuing Operations)	**0.1**	**(0.1)**	**T.B**	**0.3**	**-56%**
Margins					
EBITDA	8.8%	7.7%		11.0%	
Real Estate	11.0%	-55.0%		12.7%	
Pulp and Paper	6.9%	9.5%		8.3%	

Source: Company data, Nomura research

Fig. 9: ABREL: RE launch pipeline for FY25

Project	Location	Period	GDV (INR bn)
Birla Ojasvi, RR Nagar	Bangalore	2QFY25	10
Birla Anayu, Walkeshwar	Mumbai	2QFY25	5
Trimaya P2	Bangalore	2QFY25	6
		2QFY25 Total	**21**
Wellesley Road (Sangamwadi)	Pune	3QFY25	11
		3QFY25 Total	**11**
Sarjapur	Bangalore	4QFY25	27
Trimaya P3	Bangalore	4QFY25	7
Navya P3	Gurugram	4QFY25	14
Thane	Mumbai	4QFY25/ 1QFY25 (more likely in 4QFY25)	18
Sec 31	NCR	4QFY25/ 1QFY26 (more likely in 1QFY26)	50
		4QFY25 Total (ex. Thane, Sec. 31)	**48**
		4QFY25 Total (ex. Sec. 31)	**66**

Source: Company data, Nomura estimates

Fig. 10: ABRE: Business development done over the past 1.5 years provides further visibility to drive presales

Business development	Type of deal	Land Area (Acre)	Total Saleable Area (msf)	ABRE Share	Gross Revenue Potential (INR bn)	ABRE Share (INR bn)	Land Cost (INR bn)	Land Cost as % of	When Acquired
R.R Nagar, Bangalore	Outright	10.0	1.00	100%	10	10	1.2	12%	Acquired 4QFY23
Walkeshwar, Mumbai	Outright	0.2	0.06	100%	6	6	1.6	27%	Acquired 1QFY24
Wellesley Road, Pune	Outright	5.8	1.50	100%	25	25	3.5	14%	Acquired 1QFY24
Sarjapur, Bangalore	Outright	29.0	2.90	100%	28	28	3.0	11%	Acquired 1QFY24
Thane, Mumbai	Outright	31.0	5.50	100%	80	80	6.0	7%	Acquired 2QFY24
Mathura Road, NCR	JDA with IHP	6.8	1.40	64%	28	18			Acquired 2QFY24
Sector 31 Gurugram	JDA with Barmalt	13.3	2.40	60%	50	30	1.7		Acquired 1QFY25
Manjri, Pune	Outright	16.5	3.20	100%	25	25	3.3	13%	Acquired 1QFY25
Sector 71, Gurugram	Outright	5.0	1.00	100%	14	14	2.0	14%	Acquired 2QFY25
Sector 150, Noida*	JDA with LGCPL	131.0	10.00	50%	180	90			Acquired 2QFY25
Wadia Land*	Outright	10.0	2.50	100%	140	140	11.0	8%	Acquired 2QFY25
Total (including deal with Wadia group)		259	31		586	466			
Total (excluding deal with Wadia group)		249	29		446	326			

Note: Area and GDV for BD done with LGCPL and Wadia Group are Nomura estimates
Source: Company data, Nomura estimates

Fig. 11: ABREL: Real estate portfolio snapshot

		Share	Gross Development Potential		ABRE Share		Cumulative Launched		Cumulative Sold		% Sold	
			(msf)	(INR bn)	(msf)	(INR bn)	(msf)	(INR bn)	(msf)	(INR bn)	(msf)	(INR bn)
Mumbai Metropolitan Region (MMR)	Vanya, Kalyan	100%	1.3	11	1.3	11	1.3	11	1.1	9	83%	83%
	Total Potential of Worli Land Parcel	100%	7.4	399	7.4	399	1.8	78	1.3	56	72%	72%
	Walkeshwar, Mumbai	100%	0.1	6	0.1	6	0.1	6	0.0	1.1	22%	19%
	Thane, Mumbai	100%	5.5	80	5.5	80						
Total			**14.3**	**495**	**14.3**	**495**	**3.2**	**95**	**2.4**	**66**		
NCR/ Gurugram	Navya	50%	1.9	25	0.9	13	1.2	16	1.2	16	99%	99%
	Mathura Road, NCR	64%	1.4	28	0.9	18						
	Sector 31 Gurugram	60%	2.4	50	1.4	30						
	Sector 71, Gurugram	100%	1.0	14	1.0	14						
	Sector 150, Noida*	50%	10.0	180	5.0	90						
Total			**16.7**	**297**	**9.3**	**165**	**1.2**	**16**	**1.2**	**16**		
Bangalore	Tisya	40%	0.7	6	0.3	3	0.7	6	0.6	6	98%	100%
	Trimaya	47%	3.6	24	1.7	11	1.5	11	1.4	11	96%	96%
	Alokya	100%	0.6	4	0.6	4	0.6	4	0.5	4	96%	98%
	R.R Nagar, Bangalore	100%	1.0	10	1.0	10	1.0	10	0.6	6	55%	55%
	Sarjapur, Bangalore	100%	2.9	28	2.9	28						
Total			**8.7**	**72**	**6.4**	**56**	**3.7**	**31**	**3.1**	**26**		
Pune	Wellesley Road, Pune	100%	1.5	25	1.5	25						
	Manjri, Pune	100%	3.2	25	3.2	25						
Total			**4.7**	**50**	**4.7**	**50**						
Cumulative			**44.4**	**915**	**34.7**	**765**	**8.0**	**142**	**6.7**	**108**		

Source: Company data, Nomura estimates

Fig. 12: ABREL vs. top 4 India RE players— Residential EV/ EBITDA

Company	Market Cap	Net Debt	EV	Non-Residential	Residential EV	FY25 Presales	Embedded EBITDA margins	FY25 Embedded EBITDA	Residential EV/EBITDA (Based on FY25 Embeded EBITDA)	FY26 Presales	Embedded EBITDA margins	FY26 Embedded EBITDA	Residential EV/EBITDA (Based on FY26 Embeded EBITDA)
(INR bn)	(A)	(B)	(C) = (A) + (B)	(D)	(E) = (C) - (D)	(F)	(G)	(H) = (F) * (G)	(I) = (E)/ (H)	(J)	(K)	(L) = (J) * (K)	(M) = (E)/ (L)
Aditya Birla Real Estate	302	44	346	45	302	75	30%	23	13	105	30%	32	10
Godrej Properties	809	72	881	50	830	265	27%	72	12	318	27%	86	10
Prestige Estates	740	72	812	277	535	250	23%	58	9	300	23%	69	8
Macrotech Developers	1,078	49	1,127	46	1,081	175	32%	56	19	210	32%	67	16
DLF	2,018	(38)	1,980	537	1,443	170	45%	77	19	204	45%	92	16

Note: Bloomberg Finance L.P. consensus estimates for not rated stocks. Priced as of 22 October 2024.
Source: Company data, Bloomberg Finance L.P., Nomura estimates for Macrotech and Aditya Birla

Appendix A-1

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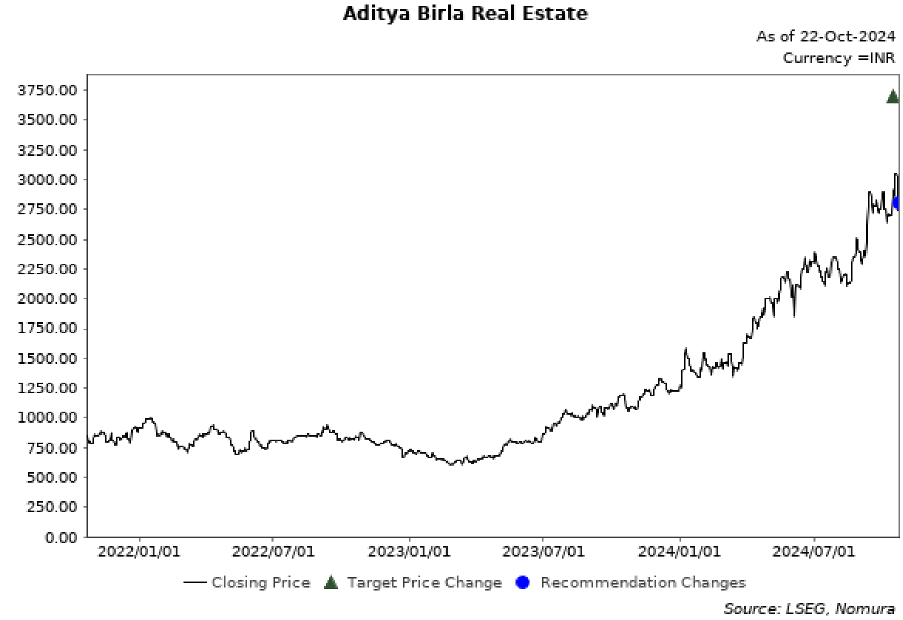
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Aditya Birla Real Estate	ABREL IN	INR 2,738	22-Oct-2024	Buy	N/A	

Aditya Birla Real Estate (ABREL IN) **INR 2,738 (22-Oct-2024)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
15-Oct-24	Buy		2,858.00
15-Oct-24		3,700.00	2,858.00

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR3,700 is based on SOTP where we add: 1) NAV of the company's RE project pipeline, 2) value of RE annuity assets, 3) value of untapped land bank, and 4) value of the company's paper and pulp business. We add a premium to NAV based on BD potential, based on the premium of other competitors. The benchmark index for the stock is NIFTY 50.

Risks that may impede the achievement of the target price Key downside risks 1) are poor execution of projects related to the Worli Land Parcel 2) weaker than expected expansion in Pune or Delhi 3) downturn in the real estate cycle.

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