



# 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. Last several years have been tough and hence a recovery may be very near. Or maybe has already started.

Chart : Movement of House Price Index



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

	FY 18	FY 19	FY20
Equivalent Area Constructed*	8.16	7.68	9.85
Area Booked	6.93	10.79	19.82

#### UNIQUE BUSINESS MODEL VS PEERS

- 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
- 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
- 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
- Execution based model instead of land banking model
- Target land inventory of 5-7 times of current year execution plan

#### STRONG BALANCE SHEET

Median Debt to Equity ratio has been 0.1x-0.2x in the last 20 yrs. Across cycles they have stayed away from betting on risky land deals. Walked away from deals where: (1). There is a litigation involved & (2). 10-15% of Networth is required

This prudence shows the management's drive to maintain a healthy 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

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 which no real estate developer can avoid completely.

#### 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. It is naïve to believe that we know for sure that the RE cycle has turned. We will only say that in retrospect.

#### 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.

