Independent Equity Research

LOK HOUSING & CONSTRUCTIONS LTD

REAL ESTATE INDUSTRY

BSE Scrip Code: 500256

CARE Research

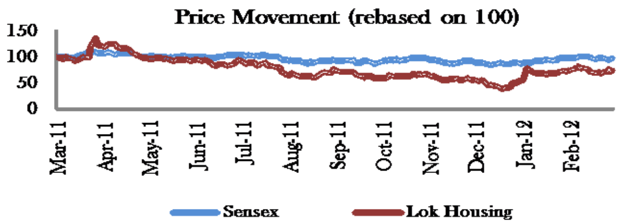
CMP Rs.17.9 [1] March 10, 2012

KEY EQUISTATS

Market Capitalisation	Rs. Crores	83
Enterprise Value	Rs. Crores	135
52 Week High / Low	Rs.	35/9
Diluted EPS (FY11)	Rs.	0.2
P/E (FY11)	times	77.6
Regression Beta	times	1.1
Average Daily Volumes *	Lakhs	0.5

* BSE for last 52 weeks

STOCK PERFORMANCE



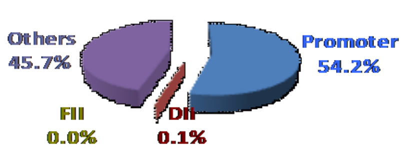
Returns	1M	3M	6M	I Yr
Absolute	1%	36%	3%	-28%
Rel. to Sensex	2%	23%	-3%	-24%

FINANCIAL SNAPSHOT

Rs. Crores	FY09	FY10	FY11
Net operating income	21	29	29
EBITDA	-1	8	6
EBITDA margins	NM	29.1%	20.4%
PAT	0	1	1
PAT margins	2.0%	2.5%	3.6%
Gearing (times)	0.3	0.3	0.3
RoCE	-0.4%	3.2%	2.2%
RoE	0.2%	0.4%	0.5%
P/E (times)			77.6
EV/EBITDA (times)			23.1

Financial Year: (April, 1 - March, 31)

SHARE HOLDING PATTERN



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[1] CMP: Current Market Price

Experienced player in Mumbai real estate market

Lok Housing and Construction Ltd (LHCL) is one of the oldest real estate developers in Mumbai, with its projects located in many parts of the city. The company has over two decades of experience in real estate construction with a portfolio of projects across both the residential and commercial segment. The company has a land bank aggregating to 650 acres.

Cautious outlook due to weak demand and high costs

CARE Research believes the outlook for the real estate sector would be cautious on account of weak demand and high construction costs. However, there would be some respite as we believe that interest rate cycle is at its peak and any reduction in rates would bring down the borrowing cost and potentially improve the cash flow position.

Key concerns

- High geographical concentration with most of the projects located in Mumbai.
- Cost and time overruns in execution of projects could affect profitability
- Rise in interest rates
- Delay in environmental clearances

Valuations

At current market price, LHCL is trading at FY11 (refers to the period April 1, 2010 to March 31, 2011) P/E and EV/EBITDA multiple of 77.6x and 23.1x respectively.

HISTORY AND BACKGROUND

Background

Incepted in 1986, Lok Housing and Constructions Limited is the flagship company of the Mumbai-based Lok Group of Companies (founded in 1982). The company has over two decades of experience in real estate construction with a portfolio of projects across both the residential and commercial segment. The company is also into construction of railway quarters, railway bridges & slum rehabilitation programmes through its associate companies.

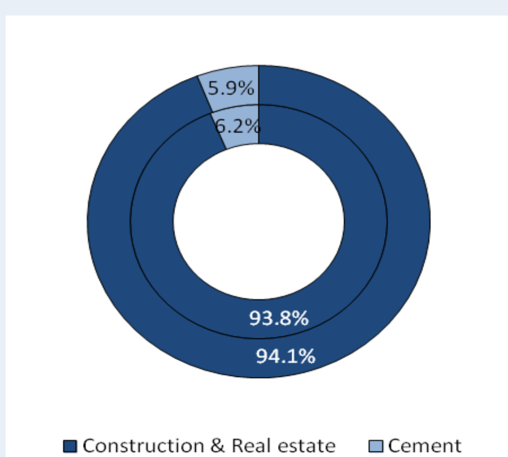
Operations

The group has built several housing complexes in the suburbs of Mumbai like Khar, Andheri, Vikroli and Mulund and outside Mumbai in Thane, Kalyan and Ambernath. The company has a land bank aggregating to over 650 acres located at Turbhe, Ambernath, Kalyan, Vasai, Pune and Bangalore. The company has also diversified by setting up a cement plant with a capacity of 1 -1.5 million tonnes p.a. The plant operates as a separate profit centre with small proportion of production consumed in-house and the balance is sold to outsiders.

Industry Segments

The company is present in two business segments i.e. construction and real estate and cement division. The construction and real estate business continue to be the dominant business segment for the company. The segment contributed around 94.1 per cent of the FY11 revenues for the company.

LHCL: Segmental Revenue Break up



Note: Inner circle represents FY10 and outer circle represents FY11

Source: Capitaline and CARE Research

LHCL: Peer comparison

(FY11)	Units	LHCL	DSKDL	MCL	NEL
Net operating income	Rs. Crores	28.67	218.0	124.6	124.1
EBITDA	Rs. Crores	5.86	23.3	22.6	0.4
PAT	Rs. Crores	1.02	7.5	12.6	10.9
Growth in net operating income	%	-0.3%	29.4%	108.1%	74.5%
EBITDA Margin	%	20.4%	10.7%	18.2%	0.3%
PAT Margin	%	3.6%	3.5%	10.1%	8.8%
RoCE	%	2.2%	1.9%	7.0%	NM
RoE	%	0.5%	1.9%	12.3%	3.9%
Price/Earnings (P/E) Ratio	times	77.6	21.8	9.3	24.7
Price/Book Value(P/BV)	times	0.4	0.4	1.1	0.6
Enterprise Value (EV)/EBITDA	times	23.1	25.4	14.5	NM

Note: MCL refers to Manjeera Constructions Ltd, NEL refers to Nitesh Estates Ltd, and DSKDL refers to D.S. Kulkarni Developers Ltd.

Source: Capitaline and CARE Research

CONSOLIDATED FINANCIAL PERFORMANCE AND ANALYSIS

Flat revenue growth

In FY11, revenue growth of the company was flat at Rs.28.7 crore as compared to Rs.28.8 crore in FY10. This performance was largely on account of flat growth in its Construction & Real Estate Development business which witnessed 0.07 per cent y-o-y growth in FY11 to Rs.26.99 crore while the cement product business witnessed decline of 5.3 per cent to Rs.1.68 crore. The major reason for growth of the company was mainly due to subdued demand for real estate and slower execution of projects due to non availability of sand.

Operating margins decline under cost pressure

The company reported EBITDA of Rs.5.9 crore in FY11 against Rs.8.4 crore FY10, a decline of 30.1 per cent. The decline in EBITDA was mainly on account of increase in raw material cost particularly cement and steel. Consequently, the EBITDA margin in FY11 declined to 20.4 per cent against 29.1 per cent in FY10.

Lower interest and tax expenses lifts net profit

Net profit for the company increased by 43.7 per cent to Rs.1.0 crore against Rs.0.7 crore in FY10 on account of lower interest and effective tax rate. Consequently, the net profit margin for the company was up at 3.6 per cent in FY11 as compared to 2.5 per cent in FY10.

LHCL: Financial Performance (FY07-11)

(Rs. Crore)	FY07	FY08	FY09	FY10	FY11
Net operating income	268.9	122.8	21.4	28.8	28.7
EBITDA	140.2	63.3	(0.8)	8.4	5.9
PAT	91.7	35.1	0.4	0.7	1.0
Fully Diluted EPS* (Rs.)	78.4	8.2	0.1	0.2	0.2
EBITDA margins	52.1%	51.6%	-3.7%	29.1%	20.4%
PAT margins	34.1%	28.6%	2.0%	2.5%	3.6%

Source: Capitaline and CARE Research

EXPANSIONS, NEW INITIATIVES AND CONCERNS

Future Projects

- The company is planning to strengthen its presence on a pan-India basis and establish a strong national identity in the realty space by extending its presence across all metros and fast emerging cities across India. Following are expected to be some of the new projects, extensions and future phases of LHCL's already existing projects:
  - Lok Ishan at Malad
  - Lok Villa at Ambernath
  - Lok Nirman Commercial at Khar
  - Lok Puram at Thane (West)

Key concerns

- High geographical concentration with most of the projects located near Mumbai.
- Cost and time overruns in execution of projects could affect profitability.
- Rise in interest rates.
- Delay in environmental clearances.
- Government regulation with respect to transfer of development rights and floor space index.

SECTOR OUTLOOK

The demand for the Indian real estate industry can be categorized mainly into three segments viz residential, commercial and retail. In the past few decades, rising population, increasing trend of urbanisation, rising income levels of a growing middle class, nuclearisation of families and tax incentives provided the momentum to the demand for housing. Demand for commercial real estate was mainly driven by the flourishing services industry, especially the IT and BPO sectors.

The prices of residential and commercial properties had shot up considerably during the period FY06-FY08, led by increase in demand and buoyant economic growth. Thereafter, many negative events like the global slowdown, drop in demand - especially in the commercial and retail segments and tight liquidity conditions led to a severe downturn in the real estate industry in FY09. Consequently, the developers were holding large inventories and the overall liquidity crunch further led to the debt trap. Thereafter, during FY10, the government's efforts to support the real estate sector gave the much-needed liquidity to the sector. Reduced home loan rates, excise duty cuts on steel and cement, extension of tax benefits and improved economic outlook etc. provided a breather to the real estate sector in FY10. However, with the rising interest rates, the real estate sector has witnessed some slowdown in demand in FY11.

The real estate sector in the country is highly fragmented with many regional players who have a significant presence in their respective local markets. The sector is one of the largest employers providing employment across various skill sets thereby significantly contributing to the overall economic development.

The key risks associated with the real estate sector are mainly the cyclical nature of the business, interest rate fluctuations and changes in government policies. Cement and steel are the two major raw materials consumed by the real estate industry. Moreover, adverse movement in interest rate affects the real estate players in both ways by hampering the demand as well as increasing the cost of construction. The sector is directly affected by changes in government regulations related to Floor Space Index (FSI) and any changes in the approvals required for the projects from various government bodies, usually at the state level.

The long-term prospects of the real estate segment remain vibrant driven by the huge demand from the housing sector which is the major driver of the real estate sector in the country. Going forward, the demand from the residential segment is expected to remain buoyant driven by the concept of the nuclear family gaining popularity, rising income of middle class, tax incentives, modern attitude towards home ownership (average age of new home owner has declined to 32 years from 45 years a decade ago) and growing youth & working women population in the country. The huge unmet demand in the case of low-cost affordable housing segment driven by the rapid urbanisation coupled with the slum Rehabilitation is also expected to provide immense opportunity to the developers in the country.

CONSOLIDATED FINANCIAL SUMMARY

Rs. Crores	FY07	FY08	FY09	FY10	FY11
Income Statement					
Net operating income	268.9	122.8	21.4	28.8	28.7
EBITDA	140.2	63.3	(0.8)	8.4	5.9
Depreciation and amortisation	0.2	0.3	0.3	0.2	0.2
EBIT	140.1	63.0	(1.1)	8.2	5.7
Interest	15.0	25.3	8.3	5.6	4.9
PBT	139.0	41.2	3.1	3.1	1.3
Ordinary PAT (After minority interest)	91.7	35.1	0.4	0.7	1.0
PAT (After minority interest)	91.7	35.1	0.4	0.7	1.0
Fully Diluted Earnings Per Share* (Rs.)	78.4	8.2	0.1	0.2	0.2
Dividend, including tax	-	-	-	-	-
* Calculated based on ordinary PAT on Current Face Value of Rs. 10/- per share					
Balance sheet					
Net worth (incl. Minority Interest)	147.3	176.9	189.7	195.4	201.4
Debt	116.3	72.6	61.9	53.7	57.0
Deferred Liabilities / (Assets)	4.0	4.2	6.5	8.4	8.7
Capital Employed	**267.6**	**253.7**	**258.1**	**257.5**	**267.2**
Net Fixed Assets (incl. Capital WIP)	15.2	12.0	8.3	4.6	1.1
Investments	40.5	3.5	3.5	5.9	5.9
Loans and Advances	17.3	32.7	42.3	33.9	33.8
Inventory	241.8	270.7	334.9	337.2	340.1
Receivables	168.4	33.6	40.4	35.2	24.7
Cash and Cash Equivalents	7.0	6.6	5.5	5.3	5.2
Current Assets, Loans and Advances	434.5	343.7	423.1	411.6	403.8
Less: Current Liabilities and Provisions	222.6	107.1	178.2	165.8	144.4
	0.1	1.7	1.4	1.0	0.7
Total Assets	**267.6**	**253.7**	**258.1**	**257.5**	**267.2**
Ratios					
Growth in Operating Income		-54.4%	-82.6%	34.4%	-0.3%
Growth in EBITDA		-54.9%	-101.3%	-1147.5%	-30.1%
Growth in PAT		-61.7%	-98.8%	65.1%	43.7%
Growth in EPS		-89.6%	-98.8%	70.0%	35.3%
EBITDA Margin		51.6%	-3.7%	29.1%	20.4%
PAT Margin		28.6%	2.0%	2.5%	3.6%
RoCE		24.2%	-0.4%	3.2%	2.2%
RoE		21.6%	0.2%	0.4%	0.5%
Debt-Equity (times)		0.4	0.3	0.3	0.3
Interest Coverage (times)		2.5	NM	1.5	1.2
Current Ratio (times)		2.0	3.2	2.4	2.5
Inventory Days		805	5,715	4,281	4,330
Receivable Days		100	689	446	314
Price / Earnings (P/E) Ratio					77.6
Price / Book Value(P/BV) Ratio					0.4
Enterprise Value (EV)/EBITDA					23.1

Source: Capitaline, CARE Equity Research

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- This report has been sponsored by the Bombay Stock Exchange (BSE).

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