

Shree Ram Urban Infra Ltd. ₹ 151**Face the Realty****Buy**

January 13, 2012

Financial Performance

Shree Ram Urban Infrastructure Ltd. (Shreeram's) unaudited earnings results for the Q3E Sep 31, 2011 were mixed. For the quarter, net income was ₹ 430.4 mn against ₹ 86.6 mn during the corresponding previous quarter- a jump of more than 400%. However on a sequential basis, its net sales dropped from ₹ 2.3 bn i.e a drop of 84%. The textile business contributed meagre ₹ 56 mn, whereas realty business contributed ₹ 367 mn. It posted a net loss of ₹ 87 mn for the quarter as against a loss of ₹ 348 mn during the corresponding previous quarter. For the 9ME on Sep 30, 2011 Shreeram's net income was ₹ 3.47 bn as against ₹ 2.67 bn for the same period a year ago. It posted a profit of ₹ 9.7 mn for the period as against a loss of ₹ 132.4 mn. The shared pledged reduced to 8.62% of the promoter group's holding as against 74.52% a year ago. Consequently, its debt to equity ratio stood at 1:2 as against 1:5 a year ago.

Investment Rationale**➔ Macro Environment Improving**

Food inflation in India fell 2.9% in the last week of December followed by a 3.36% in the preceding week. Though this was essentially because of higher base during the previous year, according to the FM, the overall inflation situation will be manageable if the declining trend in food inflation continues for the next three months. The monetary cycle has peaked. RBI, which has raised its interest rates 13 times since March 2010, left its key lending rate, the repo rate, steady at 8.50% last month indicating that the rates may be lowered if inflation falls further. Also it has been observed that the demand is still high for houses in Mumbai, but the buyer is waiting for the rates to fall. Reversal in Interest rates could trigger the demand for real estate.

➔ More Help Pours In

IL&FS Investment Managers- largest private equity firm is investing ₹ 1 bn in the construction business of Mumbai-based SRM Sites Pvt Ltd, a subsidiary of Shreeram. The PE fund had earlier invested ₹ 1.55 bn in SRM Sites. This going to ease out the most critical- financing issue for Shreeram.

Key Financials

Year Ended 31 st	Dec 09	Dec 10	Dec 11
Revenue (₹ mn)	404.2	410.8	367.6
Rev. growth (%)	1.56	1.63	(10.52)
EBITDA (₹ mn)	210.4	451.5	571.7
Net profit (₹ mn)	(96.2)	(138.0)	(162.5)
Shares outstanding (mn)	20.6	20.6	20.6
EPS (₹)	(4.7)	(6.7)	(7.9)
EPS growth (%)	(3662.96)	43.45	17.75
P/E (x)	(15.3)	(20.4)	(22.4)
EV/ EBITDA	79.0	72.3	72.1
ROCE (%)	(4.61)	(3.85)	(3.43)

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Previous Report

Date	: Apr 01, 2011
Recommendation	: Buy
Price	: ₹ 141
Target Reached	: Apr 05, 2011

Market Data

52 Wk Range (₹)	: 180 / 107
Shares in Issue (mn)	: 41
Mkt. Cap (₹ bn)	: 6.25
BSE 2 Wk Avg Vol	: 57000

Share Holding Pattern (%)

Promoters	: 69.06
DII's	: 0.32
FII's	: 5.05
Others	: 25.57

Investment Theme

Shreeram is currently developing a multi-storey residential building called Palais Royale at Worli (Mumbai). The company had recently run into trouble when Municipal Corporation of Mumbai issued a stop-work notice to it. However, the court of law has ordered a stay on the BMC notice, thereby allowing the to continue the work. The government is trying to bring in transparency and reduce arbitrary & discretionary decision-making. It is trying to boost the real estate industry which is necessary for Mumbai with a poor infrastructure state. Investments by private equity funds in Indian real estate grew 69% in 2011 to \$ 2.68 bn as against \$ 1.59 bn during 2010 suggesting the strong potential. Going forward we believe that the macro trend would continue to recover in domestic market. We remain bullish on the stock.

Building Growth !

Financial Statements

Income Statement

(₹ mn)

Year end	Dec 09	Dec 10	% Chg	Dec 11	% Chg
Total Sales + Excise	393.5	400.0	1.65	348.0	(13.00)
Other Income	10.7	10.8	0.93	19.6	81.48
Change in Stocks	1094.5	1813.5	65.69	2215.4	22.16
Raw Material Con.	274.8	476.3	73.33	361.3	(24.14)
Employee Exp.	70.1	66.5	(5.14)	68.8	3.46
Indirect Taxes	4.9	5.6	14.29	7.5	33.93
Other Exp.	938.5	1224.4	30.46	1573.7	28.53
Operating Exp.	193.8	(40.7)	(121.00)	(204.1)	401.47
Operating Profit	199.7	440.7	120.68	552.1	25.28
Total Interest	236.3	540.7	128.82	626.8	15.92
Gross Profit	(25.9)	(89.2)	244.40	(55.1)	(38.23)
Net Dep.	46.7	70.3	50.54	107.4	52.77
Total Taxation	23.6	(21.5)	(191.10)	0.0	(100.00)
Net Profit/Loss	(96.2)	(138.0)	43.45	(162.5)	17.75

4 Years Balance Sheet

(₹ mn)

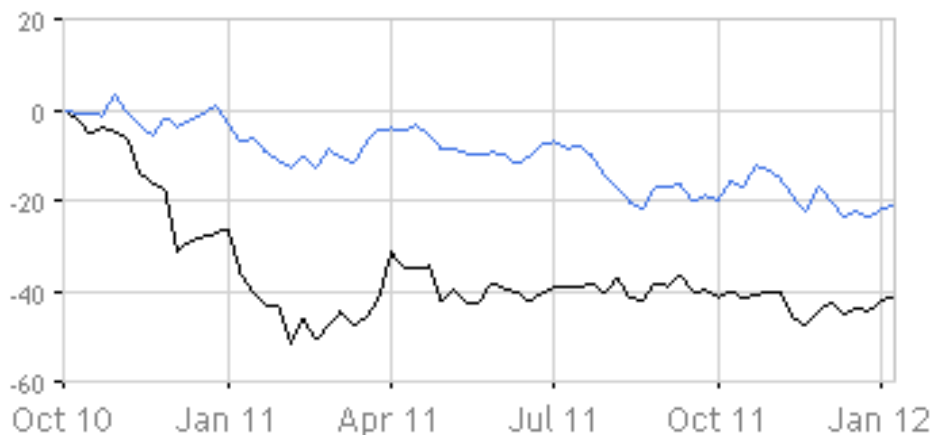
Balance Sheet as on 31 st	Dec 08	Dec 09	Dec 10	Dec 11
SOURCES OF FUNDS	1978.6	2459.2	5030.5	5381.1
Equity Share capital	206.3	206.3	206.3	206.3
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	25.4	25.4	25.4	25.4
Reserves & Surplus	264.9	168.7	30.8	(131.7)
Loan Funds	1365.3	1956.2	4051.8	5227.7
Unsecured Loans	116.7	102.6	716.2	53.4
USES OF FUNDS	1978.6	2459.2	5030.5	5381.1
Gross Block	1488.2	1797.7	1887.8	2088.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	87.8	134.3	203.6	308.7
Net Block	1400.4	1663.4	1684.2	1780.0
Capital Work in Progress	193.3	27.3	36.9	0.7
Investments	0.0	0.0	10.0	10.2
Current Assets	2997.2	3544.4	6197.3	9396.0
Less : Current Liabilities	2773.1	2883.1	2951.5	5805.8
Total Net Current Assets	224.1	661.3	3245.8	3590.2
Misc. Expenses not written	160.8	107.2	53.6	0.0
NOTE				
Bk Val Unquoted Investments	(0.2)	(0.2)	9.8	10.0
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	144.5	68.0	86.1	110.8
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 10	Mar 11	Jun 11	Sep 11
Net Sales	80.00	81.20	2732.70	433.50
Cost Of Sales	88.30	85.70	2706.70	442.60
Operating Profit	(8.30)	(4.50)	26.00	(9.10)
Recurring Income	0.20	0.20	0.30	0.60
Adjusted PBDIT	(8.10)	(4.30)	26.30	(8.50)
Financial Expenses	0.00	0.00	0.00	0.00
Depreciation	17.60	0.20	0.20	0.20
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	(25.70)	(4.50)	26.10	(8.70)
Tax Charges	0.00	0.00	3.30	0.00
Adjusted PAT	(25.70)	(4.50)	22.80	(8.70)
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	(25.70)	(4.50)	22.80	(8.70)

52 Week Index Relative Percentage Appreciation



Shreeram vs SENSEX

Sectoral Overview

➔ Real estate developmental density in Mumbai has not kept pace with the growth in population density. Due to the huge pressure on the city's already scarce land resources, market forces have tended to circumvent the base FSI regulations & this has resulted in poor standards of infrastructure.

➔ Currently the permissible FSI in South Mumbai is 1.33, while that in the suburbs has recently been increased from 1 to 1.33. Additionally, developers can purchase Transfer of Development Rights (TDRs) and construct up to a FSI of 2. However, this is low when compared to global destinations such as Singapore, New York and Hong Kong Island Urban Area, which have FSI of 5, 10 and 12 or above respectively within a radius of 10 kilometers from the city centre.

➔ The government of Maharashtra recently amended the development control regulations for the state capital city. According to the DCR amendments, balconies, flower beds, terraces, voids and niches would be counted in the floor space index. To compensate for the loss of free-of-FSI areas, fungible FSI to the extent of 35 per cent for residential development and 20 per cent for industrial and commercial developments has been allowed with premium. This should bring better transparency and faster clearances for the projects.

In a Nutshell

Shree Ram Urban Infra Ltd earlier known as Shree Ram Mills Ltd. is engaged into the business of Real Estate development & Textile trading activities, where its core business consists of Real Estate division. One of the largest mills during the textile era of the Mumbai city, the company has huge landbank in the prime location at Worli. Shreeram is currently executing a Real Estate residential building project named 'Palais Royale' in the same premises. On completion it would be one of the prestigious projects for the firm & would be one of the India's tallest Green Residential tower. The company had been given relief by the court to continue its operations pending a stop work order from BMC. The promoter group raised their stake in the company from 59% to 69%. They also reduced their pledged shares to just 8.62% from the 74% in last year. The company's debt ratio also has improved. The real estate sector in Mumbai has failed to keep up with the growth in population of the city. The state government recently amended the DCRs to promote & boost real estate industry. As the macro factors in domestic economy recover, we expect RBI to boost liquidity. This could spur the demand. We therefore remain bullish on the industry & company. Thus we recommend to buy this stock.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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