



INDEPENDENT EQUITY RESEARCH

Vipul Ltd

Initiating coverage

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Disclaimer:

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Vipul Limited

Back to basics

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry Real Estate Management & Development

Gurgaon-based Vipul Ltd (Vipul) is a mid-sized real estate developer focused on the local market. Lately, it has also entered Bhubaneswar and Ludhiana. So far Vipul has developed ~5.5 mn sq.ft. (all in Gurgaon) and has a planned project pipeline of ~11.6 mn sq.ft. However, aggressive plans in the past, resulting in increased debt, have strained the financials. We assign Vipul a fundamental grade of '2/5', indicating that its fundamentals are 'moderate' relative to other listed securities in India.

Ongoing project pipeline provides revenue visibility

Till date, Vipul has launched 8.5 mn sq.ft of projects in Gurgaon, Bhubaneswar and Ludhiana of which ~5.8 mn sq.ft. is already booked. With the construction in most of these projects in the medium to advance stage, every incremental booking enhances revenue visibility. However, because of higher cost of land, margins from these projects will be lower compared to that of a developer with historic low-cost land bank.

Ample land bank but monetisation will take time

Vipul's total land bank comprises ~600 acres, of which the proposed 11 mn sq.ft. accounts for merely 190 acres; the project on the remaining land is yet to be conceptualised, which, in our opinion, will delay monetisation. Since the company has ample land bank in good locations, especially in Gurgaon, we believe that the projects once conceived may translate into significant value for shareholders. Also, in certain cases, the company needs to obtain various approvals before launching the projects.

High debt has strained financials

Vipul's debt levels increased in FY07, increasing the gearing from 1.5x in FY06 to 3.7x. The company reduced its gearing by diluting 15% equity at ~Rs 2.4 bn to Wachovia (a US-based bank) but utilised this money in funding land acquisitions and execution of new projects. Although overall gearing improved from 3.7x to 0.5x in FY08, increased interest burden has strained the financials leading to lower profitability.

Revenues to grow at a three-year CAGR of 18%

Revenues (consolidated) are expected to grow at a three-year CAGR of 18% to Rs 4.7 bn in FY13 driven by incremental bookings and execution of the launched projects. PAT is expected to increase from Rs 89 mn in FY10 to Rs 652 mn by FY13 driven by revenue growth and decrease in interest expenses. EPS is expected to increase to Rs 5.4 in FY13 from Rs 0.7 in FY10.

Valuation - the current market price has strong upside

We have used the net-asset-value (NAV) method to value Vipul and arrived at a one-year fair value of Rs 31 per share. We initiate coverage on Vipul with a valuation grade of '5/5'.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	4,198	2,856	3,652	4,298	4,727
EBITDA	361	253	461	778	883
Adj PAT	191	89	221	512	652
Adj EPS-Rs	1.6	0.7	1.8	4.3	5.4
EPS growth (%)	(55.9)	(53.0)	147.2	131.4	27.5
Dividend yield	0.8	0.8	1.3	3.1	4.0
RoCE (%)	6.8	4.3	7.4	14.0	17.2
RoE (%)	5.6	2.6	6.1	13.0	14.7
PE (x)	11.1	23.6	9.5	4.1	3.2
P/BV (x)	0.6	0.6	0.6	0.5	0.4
EV/EBITDA (x)	9.7	16.9	9.1	3.3	0.7

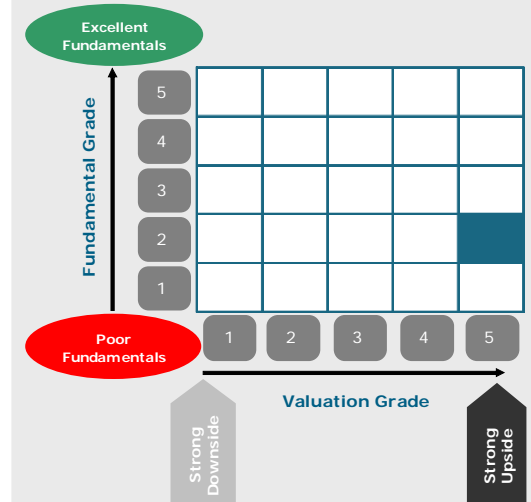
Source: Company, CRISIL Equities estimate

NM: Not meaningful; CMP: Current Market Price

January 12, 2011

Fair Value Rs 31
CMP Rs 18

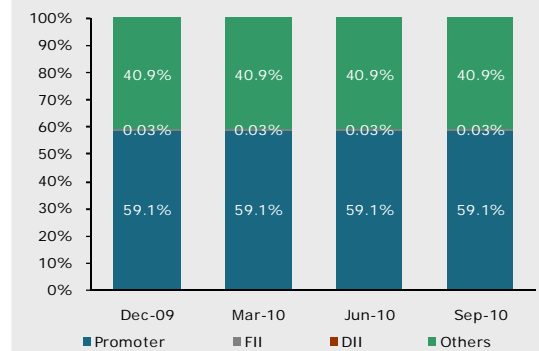
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5754/19196
NSE/BSE ticker	VIPUL
Face Value (Rs per share)	1
Shares outstanding (mn)	120.0
Market cap (Rs mn)/(US\$ mn)	2,112/47
Enterprise value (Rs mn)/(US\$ mn)	4,186/92
52-week range (Rs) (H/L)	76/17
Beta	1.19
Free float (%)	40.9%
Avg daily volumes (30-days)	13,489
Avg daily value (30-days) (Rs mn)	0.3

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
VIPUL	-1%	-19%	-16%	-49%
NIFTY	-2%	-6%	8%	10%

ANALYTICAL CONTACT

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Vipul: Business environment

Parameter	Real estate - development of residential and commercial properties
Product / service offering	<ul style="list-style-type: none"> Development of residential and commercial projects; has also moved into developing integrated townships
Geographic presence	<ul style="list-style-type: none"> Present mainly in and around Gurgaon Has also moved into tier II cities such as Bhubaneswar and Ludhiana
Market position	<ul style="list-style-type: none"> A mid-sized developer in Gurgaon; known for premium quality residential and commercial developments First organised developer and also the first developer to launch a premium high rise residential project in Bhubaneswar
Industry outlook	<ul style="list-style-type: none"> North India outlook – residential market is expected to remain stable; capital values expected to rise by 5% in 2011
Sales growth (FY07-FY10 – 3-yr CAGR)	<ul style="list-style-type: none"> 10%
Sales forecast (FY10-FY13 – 3-yr CAGR)	<ul style="list-style-type: none"> 18% (on account of faster execution and incremental bookings)
Demand drivers	<ul style="list-style-type: none"> Strong economic outlook, leading to improving job prospects which is expected to drive the demand for real estate There is acute shortage of houses in India. CRISIL Research expects housing shortage in urban areas to touch 21.7 mn units by the end of 2014 from ~19 mn units in 2008
Key competitors	<ul style="list-style-type: none"> DLF, Unitech, Parsvnath Developers, Ansal Housing and other small North India-based developers

Source: Company, CRISIL Equities

Grading Rationale

A mid-sized Gurgaon-focused developer

Vipul is a mid-sized real estate developer with a focus on the Gurgaon market. Well known in that region, it mainly develops premium residential and commercial properties. Of late the company has diversified into Bhubaneswar and Ludhiana. The ongoing projects include residential and commercial projects, and integrated townships comprising plots, villas, floors, group housing and commercial built-up spaces.

Fairly good execution track record

Vipul, since 2001, has delivered 5.5 mn sq.ft. covering nine projects – five commercial and four residential. Vipul is known for its premium construction quality and has developed a strong brand value in Gurgaon. This is confirmed by the presence of offices of corporates such as Convergys, Shaw Wallace, IDBI Bank, Nortel, Cairn Energy and DELL in Vipul's commercial projects.

Vipul has developed ~5.5 mn sq.ft. across nine projects since 2001

Table 1: Projects executed in the past

Project	Location	Location Area	Segment	Total Area (mn sq.ft.)
Global Arcade	Gurgaon	Near Mehrauli Gurgaon Road	Commercial	0.19
Vipul Square	Gurgaon	Block B, Sushant Lok, Golf Course road	Commercial	0.35
Vipul Plaza	Gurgaon	Suncity, Golf Course road	Commercial	0.46
Vipul Agora	Gurgaon	Mehrauli Gurgaon Road	Commercial	0.37
Vipul Tech Square	Gurgaon	Sec 43, Golf Course road	Commercial	0.51
Vipul Floors	Gurgaon	Ardee City	Residential	0.11
Vipul Gardens	Gurgaon	Suncity, Golf Course road	Residential	0.82
Vipul Greens	Gurgaon	Sec-48, Sohna road	Residential	1.56
Vipul Belmonte	Gurgaon	Sec -53, Golf Course road	Residential	1.11

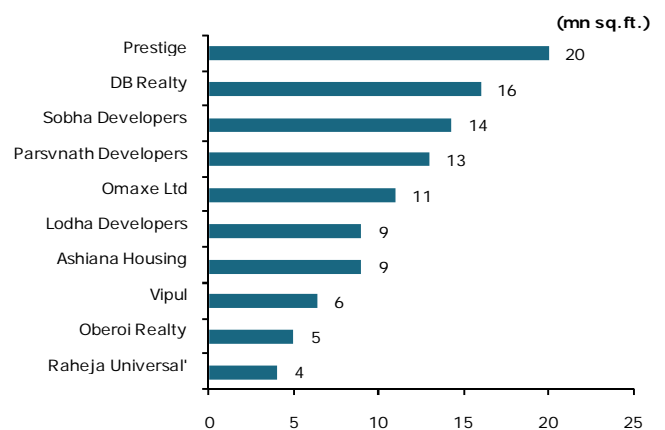
Source: Company, CRISIL Equities

The company outsources its construction work to small and medium contractors while the in-house team supervises the entire construction activity, and takes care of the architectural and designing work. In the past, the company has followed a build-and-sale model for all its projects including commercial; it plans to follow the same in the future.

Ongoing projects provide visibility for five-six years

Till date, Vipul has conceived a project pipeline of ~11.6 mn sq.ft. on 190 acres of land which is expected to be executed over the next five-six years. These projects comprise premium group housing, villas, commercial built-up spaces and integrated townships and are located in Guragaon, Faridabad, Ludhiana and Bhubaneswar.

Figure 1: Execution track record



Source: CRISIL Equities

Vipul follows the build-and-sale model across all projects

Enhanced booking, construction levels improve visibility

Of the ~11.6 mn sq.ft., the company has already launched 8.5 mn sq.ft. The response has been good so far across all its projects with ~65% of area being booked. For instance, Vipul World, an integrated township in Gurgaon, has already achieved a booking of 70% by FY10. Vipul Lavanya was launched in July 2010 and has achieved a booking of 47% by September 2010. Besides, construction activities in most of such projects is in the medium to advanced stage (having crossed the revenue recognition threshold of 30%), which enhances the revenue visibility from such projects with every incremental bookings.

Of the projects launched, 65% is already booked

Table 2: Ongoing projects – booking and construction status

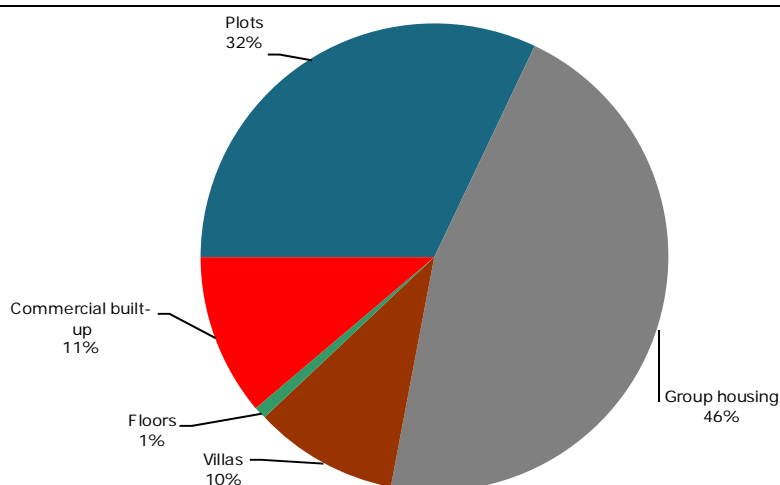
Project name	Location	Product segment	Total area (mn sq.ft.)	Area sold till FY10 (%)	Construction till FY10 (%)	Vipul's share (%)
Vipul World	Ludhiana	Plots	1.74	67%	71%	75%
Vipul World	Ludhiana	Group housing	0.83	-	11%	75%
Vipul World	Ludhiana	Commercial built-up	0.41	-	8%	75%
Vipul Gardens	Bhubaneswar	Group housing	0.95	76%	22%	82%
Vipul World	Gurgaon	Plots	1.96	88%	93%	100%
Vipul World	Gurgaon	Villas	1.15	58%	52%	100%
Vipul World	Gurgaon	Commercial built-up	0.32	82%	46%	100%
Vipul World	Gurgaon	Floors	0.10	79%	55%	100%
Vipul Plaza	Faridabad	Commercial built-up	0.24	26%	2%	100%
Vipul Villa Nova	Gurgaon	Group housing	1.64	-	28%	75%
Vipul Gardens	Dharuhera	Group housing	1.00	42%	25%	33%
Vipul Lavanya	Gurgaon	Group housing	0.89	-	0%	100%
Vipul Trade Centre	Gurgaon	Commercial built-up	0.32	85%	79%	25%
Total			11.55	45%	-	-

Source: Company, CRISIL Equities estimates

Vipul's ongoing project portfolio is more skewed towards residential development which will lower the dependence on borrowed funds as these projects are generally self-sufficient in terms of funding.

Residential projects forms majority of the future development plan

Figure 2: Segment-wise distribution of 11.6 mn sq.ft.

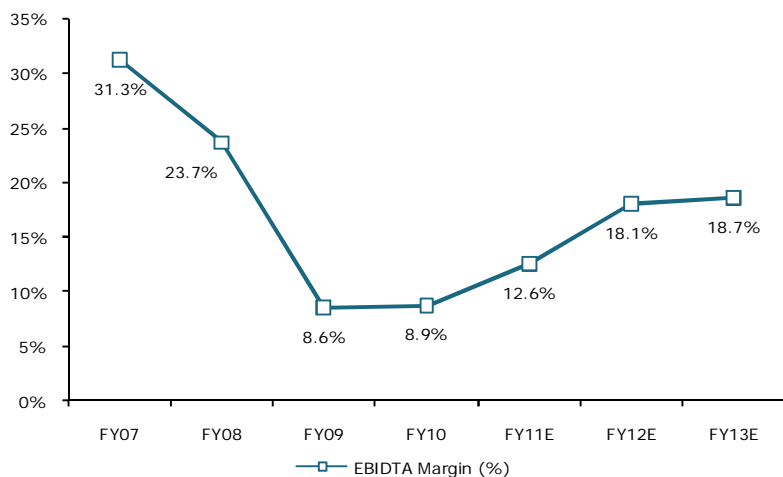


Source: Company, CRISIL Equities

Expensive land parcels to yield lower margins

Vipul plans to develop premium quality projects on the entire 11.6 mn sq.ft. Besides, such projects will be executed on the newly acquired land parcels, which costs Rs 600 per sq.ft. on an average. Hence, it will not be in a position to register higher margins on such projects compared to developers like DLF, Unitech and others with a historical low-cost land bank.

Figure 3: Expensive land yielding lower margin



Source: Company, CRISIL Equities

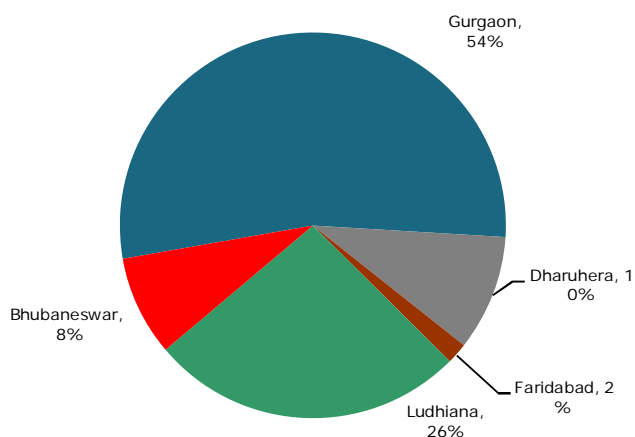
Diversifying into new upcoming tier II markets

Vipul recently moved into the newer and growing markets of Bhubaneswar and Ludhiana. Of the ~11.6 mn sq.ft. of future development, 1 mn sq.ft. is in Bhubaneswar and ~3 mn sq.ft. is in Ludhiana. Apart from these two cities, the company has also moved to Faridabad where it has a small development plan of 0.2 mn sq.ft.

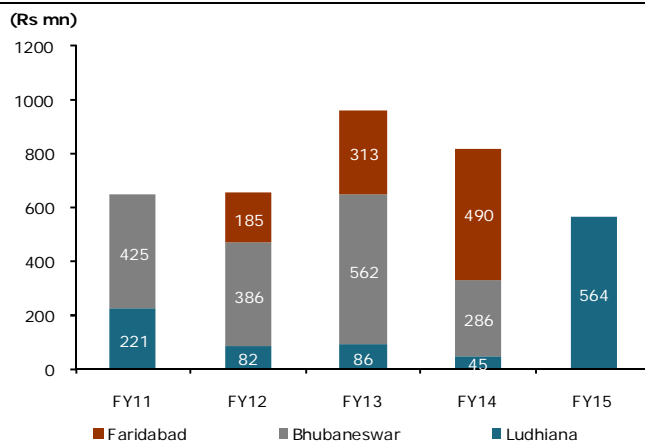
Vipul has moved to Bhubaneswar and Ludhiana, which are upcoming markets

Figure 4: City-wise distribution of 11.6 mn sq.ft.

Figure 5: City-wise revenue profile ex-Gurgaon



Source: Company, CRISIL Equities



Source: Company, CRISIL Equities estimates

First organised developer in Bhubaneswar - upcoming city

Vipul entered Bhubaneswar in 2009, which is an upcoming and growing market in the eastern region. Over the past few years, real estate demand in Bhubaneswar has grown rapidly with the entry of large IT companies such as TCS, Wipro and Infosys owing to the presence of numerous engineering colleges

in and around the city and lower office rentals. Also, the government's willingness to attract two big FDI proposals by Arcelor Mittal and POSCO (totalling Rs 4.7 tn) further boosted real estate demand in the state. As per industry sources, there is a huge gap between demand and supply of dwelling units in Bhubaneswar. Against a demand for nearly 10,000 houses, private and public sector developers together have been able to build only 6,000 dwelling units till date.

Given the increasing demand for real estate and lack of organised developers in Bhubaneswar, Vipul entered the market in joint development with one of the local land owners. It has launched a premium group housing project 'Vipul Gardens' comprising ~1 mn sq.ft. of saleable area at Sankarpur Mauza (on NH-5, near Kalinga Nagar) in February 2009. The project has received good response and reported booking of 0.7 mn sq.ft. by the end of FY10. The company has been able to build a good brand value for itself, as it is the first organised and high-rise premium residential developer in the city.

Entered Ludhiana - another location with good potential

Vipul entered Ludhiana in 2008, known as the industrial town and most populated city of Punjab. It is the richest city of the state and is home to many NRIs. Good connectivity with major cities and favourable business environment have made the city a preferred investment destination. Besides, various reputed education institutes enabled the availability of skilled workforce which has attracted many from the IT and ITes sector to invest in the city. This has heightened the overall real estate demand. Many large reputed developers like Omaxe, Parsvnath, Ansal, Eldeco, Vipul and others are also present in the city.

Vipul is developing a 110-acre integrated township project on Ferozepur Road (2.5 km from the Ludhiana railway station and preferred destination for residential and commercial development), of which projects have been conceived on ~55 acres. Of the conceived projects, the company has launched plots on ~40 acres comprising 1.7 mn sq.ft. Vipul has already sold 1.2 mn sq.ft. till FY10. On the remaining ~15 acres, the company plans to develop group housing and commercial built-up spaces. However, it plans to build such projects after three years since it believes that the city dwellers are yet to accept the culture of high-rise towers. In the earnings model, CRISIL Equities has factored in the cash flows only from the ~60 acres of conceived projects and for the rest we have assumed the book value of the land.

Growth in such cities will be a challenge

Vipul has tasted initial success in both Bhubaneswar and Ludhiana. Although the overall exposure in these markets is currently low (8% in Bhubaneswar and 26% in Ludhiana), the company has long-term plans in these cities and is looking to launch more projects in these locations. However, given the growth potential in such cities, many large developers have entered the market and intensified competition. We believe that there will be enough takers for quality residential development in these cities, which so far has been dominated by

Vipul's project in Bhubaneswar has received good response

Competition in tier II and tier III cities is increasing due to increasing economic activity in such cities

small local players who lack expertise in providing quality apartments. But given the increasing competition, swift penetration will be a challenge. In the past, the company entered new markets like Kolkata, Nagpur and Hyderabad, but it had subsequently exited.

Ample land bank but monetisation will take time

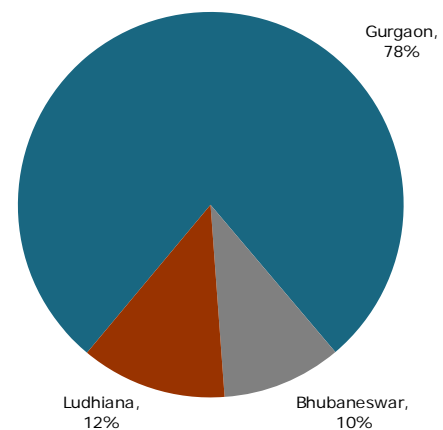
Vipul has a total land bank of ~600 acres (Vipul's economic interest is ~450 acres), of which the ongoing project portfolio accounts for merely ~190 acres (Vipul's economic interest: ~155 acres). The company is yet to conceptualise projects on the remaining 407 acres of land. Of the 407 acres (Vipul's share 295 acres), ~80% is in Gurgaon, 12% in Ludhiana (48 acres as part of the already launched 108-acre township) and the remaining in Bhubaneswar. The average cost of this land bank is also low at ~Rs 190 per sq. ft.

Vipul is yet to conceptualise projects on 407 acres of land parcels

Table 3: Details of land bank (not yet conceptualised)

Land bank	Area (acres)	Vipul's share (acres)	To acquire (acres)	Acquired (acres)
Vipul World Gurgaon	80	80	-	80
Vipul World Ludhiana	48	36	-	36
Bhubaneswar	5	5	-	5
Bhubaneswar Township	70	70	45	25
Fazilpur Township	49	49	-	49
Sector 71/72 Gurgaon	200	100	-	100
Total	452	340	45	295

Figure 6: Majority of land parcels is in Gurgaon



Source: Company, CRISIL Equities

Since Vipul has ample land bank in good locations, especially Gurgaon, we believe that the projects once conceived may translate into significant value for shareholders. However, in our opinion, monetisation will take time as the company is yet to conceptualise projects on these locations. Also, in certain cases, it needs to obtain various approvals before the projects can be launched.

Since projects on such land parcels are yet to be conceptualised, we have not factored in any cash flows from them in our earnings model. Besides, for valuation, we have assumed only the book value of the land bank (Vipul's share).

High debt levels strain financials

Vipul's debt levels increased significantly from Rs 467 mn in FY06 to ~Rs 2,300 mn in FY07 to fund future growth plans, which increased the corresponding gearing from 1.5x to 3.7x over that period. The company further raised ~Rs 2.4 bn from Wachovia (a US-based bank) by diluting 15% equity in FY08 but utilised this money in funding land acquisitions as well as executing new projects. Although the equity dilution led to an improvement in overall gearing (improved from 3.7x to 0.5x in FY08), the economic slowdown in FY09 and interest and debt repayment burden have strained the financials. This forced the company to

exit from certain markets and non-core segments. As on March 31, 2010 the consolidated debt was Rs 2,499 mn. Due to high levels of absolute debt, the company will be vulnerable to the industry slowdown risk.

Table 4: Projects withdrawn during the downturn

Projects	Location	Land area (acres)	Saleable area (mn sq.ft.)	Vipul's share (%)	Nature
Group housing	Kolkata	30.0	2.0	100%	Residential
Vipul World	Faridabad	67.0	3.2	75%	Townships
Vipul World	Hyderabad	412.1	10.3	100%	Townships
Vipul Tech Square	Kolkata	1.9	0.7	65%	Commercial built-up
Vipul SEZ	Nagpur	54.0	5.4	50%	SEZ
Hotel-cum-commercial	Manesar	11.3	0.9	25%	Hospitality
Vipul Tech Square II	Gurgaon	2.0	0.14	75%	Commercial built-up

Source: CRISIL Equities

Large part of debt is specific to one project where cash flows are robust; do not see a concern on repayment

Of the total outstanding debt of Rs 2.5 bn in FY10, Rs 1.6 bn is project-debt which has been raised from LIC Housing Finance Ltd for Vipul World (an integrated township in Gurgaon) and has been linked with its cash flows. We believe that the launched ~70 acres of this township will yield Rs ~4.0 bn of cash flow (net of construction cost) over the next three years and, hence, would be sufficient to meet interest as well as repayment obligation.

Majority of the outstanding debt is a project-debt and is linked with the project cash flows

Key risks

Dependence on Gurgaon market

Most of Vipul's projects under development (~62% of the ~11 mn sq.ft. of future development) as well as ~78% of the total land bank yet to be conceptualised are in Gurgaon. This makes the company vulnerable to any potential oversupply in the Gurgaon real estate market. Any softening in this market will also adversely impact the company's profitability.

Stiff competition in Gurgaon market

In Gurgaon, Vipul has to compete with larger players like DLF and Unitech, who have a stronger balance sheet, access to lower cost capital and better brand value. Vipul's growth will significantly depend on its ability to sell its projects amid such competition and failure to do so could hamper its overall growth prospects.

Rising interest rates

The real estate sector is highly sensitive to interest rate movements. A benign interest rate scenario, leading to lower interest rates on housing loans, led to an overall rise in the demand for residential properties in the last upcycle and during the initial stages of the economic recovery. With the rising inflation and overall money supply risk, the RBI is cautiously moving towards tightening the monetary policy. Any increase in interest rates will impact individual affordability and may lower demand.

Execution delays in ongoing projects

Though we have built in delays in our earnings model for the ongoing projects, yet any more-than-anticipated delays in such projects could impact our overall valuations.

Competition in Bhubaneswar and Ludhiana

Vipul was the first organised developer to enter Bhubaneswar but the recent entry of large reputed developers like DLF, Unitech, etc. has increased competition. In Ludhiana, Vipul is competing with players like Omaxe, Ansal API and Eldeco. Inability to mitigate competition in these cities may hamper incremental bookings and impact overall earnings.

Concentration risk due to dependence on the Gurgaon market

Stiff competition in the Gurgaon market with players like DLF and Unitech

Financial Outlook

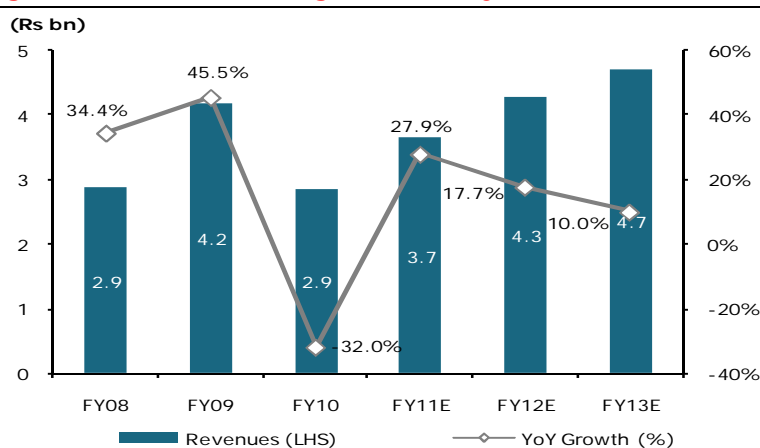
Revenues to grow at three-year CAGR of 18%

Vipul's consolidated revenues are expected to grow at a three-year CAGR of 18% to Rs 4.7 bn in FY13 driven by incremental bookings and execution of projects like Vipul Gardens (Bhubaneswar), Vipul World (Gurgaon), and Vipul Lavanya (Gurgaon). The response to these projects has been good and the construction in most of them has already crossed the threshold of 30%; hence, incremental bookings will lead to immediate revenue recognition.

During the first half of FY11, the company's revenues increased 41% y-o-y to Rs 1.7 bn driven by incremental bookings in the already launched projects. The company has collected Rs ~1.6 bn from its customers during the first half.

Revenues expected to grow at a three-year CAGR of 18% to Rs 4.7 bn in FY13

Figure 7: Revenues to register three-year CAGR of 18%



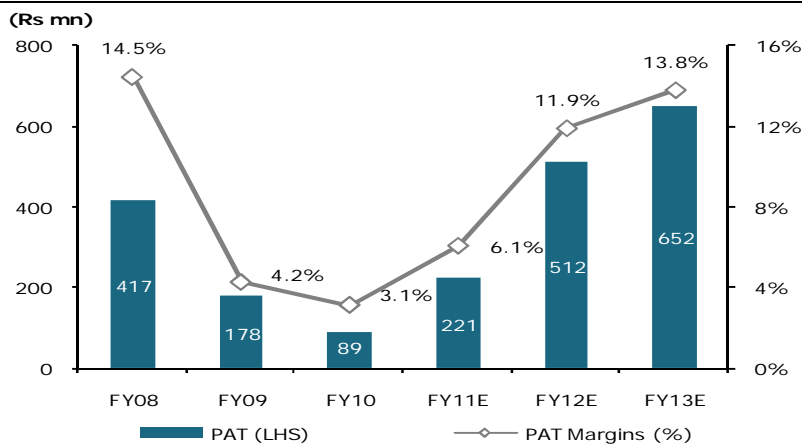
Source: Company, CRISIL Equities estimate

PAT to jump as interest expense comes down

Vipul's consolidated PAT is expected to increase significantly from Rs 89 mn in FY10 to Rs 652 mn by FY13. This is primarily on account of growth in the top line, and a decline in the interest expenses due to debt repayment. EPS is expected to increase from Rs 0.7 in FY10 to Rs 5.4 in FY13.

EPS is expected to increase from Rs 0.7 in FY10 to Rs 5.4 in FY13

Figure 8: PAT and PAT margins



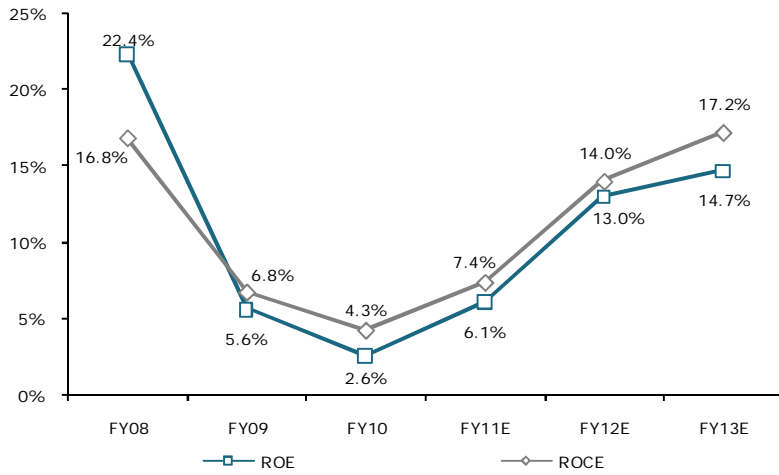
Source: Company, CRISIL Equities estimate

RoE to improve to 14.7% in FY13

We expect RoE to improve from 2.6% in FY10 to 14.7% in FY13 driven by an improvement in net margin. RoCE is expected to increase from 4.3% in FY10 to 17.2% in FY13.

RoE is expected to improve from 2.6% in FY10 to 14.7% in FY13

Figure 9: RoE and RoCE



Source: Company, CRISIL Equities estimate

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance. Overall, we feel that Vipul's management team is well experienced to drive the company's growth in the future.

An experienced management

Vipul has an experienced management led by Mr Punit Beriwal (managing director), who has more than two decades of experience in real estate development. It was under Mr Beriwal's leadership that the group started real estate development in 1996-97 as a joint venture with Unitech and then under Vipul since 2001. The company has been successful in establishing a good brand in the Gurgaon market. Based on our interaction, we believe that Mr Beriwal has a strong understanding of the Gurgaon real estate market and has been playing an instrumental role in the growth of the company.

Second line of management

Vipul's second line of management is headed by experienced professionals. Ms Guninder Singh, CEO, has been associated with the company for the past seven years and is responsible for the overall management of the company. Overall, she has 26 years of experience and has served as an architect at Unitech prior to joining Vipul. Mr Pankaj Agarwal, SVP – construction, has been associated with the company since the past three years and is responsible for supervising the entire construction activity. He has over two decades of experience and has worked with Shapoorji Palonji and Unitech prior to joining Vipul. Mr Rakesh Sharma, SVP – legal and business development, has been with Vipul for the past four years and is responsible for the overall land bank procurement and resolving legal issues. He is a chartered accountant and has over 25 years of experience with companies like Onida, Stanford Engineering, Silverline Holdings and Tapasya Projects Ltd.

Downturn led management to focus on core strength

In order to take advantage of the booming real estate market, Vipul's management entered new markets and segments where it had no experience. The company had entered Kolkata, Nagpur and Hyderabad to launch commercial, SEZ and residential projects. However, it withdrew from Kolkata and scrapped its projects in Nagpur and Hyderabad during the global downturn by offloading its economic interests in such projects. Now, the management is concentrating on primarily three cities - Gurgaon, Bhubaneswar and Ludhiana where the company believes to have a good understanding of the market dynamics.

Vipul's management team is well experienced to drive future growth

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Vipul's current board has relevant experience in the industry, but overall disclosure levels need to be strengthened.

Board composition

Vipul's board consists of six members, of whom five are independent which is more than the required listing guidelines of SEBI. The unique thing about the overall corporate structure is that nobody on the board or in the second line of management is related to the managing director which reflects that the company is run by professionals who play significant roles in the overall decision making process. Based on our interaction, we believe that independent directors are well aware of the business and take part in major decisions, which speaks well of the company's corporate governance practices. Also, given the background of directors, we believe that the board is fairly diversified.

Board's processes

The company has five committees – audit, investor grievance, executive committee of board of directors, investment/finance and monitoring. All the committees consist of independent directors as its members and Mr Beriwal, except the last three committees, does not hold a position in any of them. Based on our interaction with independent directors we assess that the quality of agenda papers and the level of discussions at the board meetings are good.

Disclosure levels need improvement

Overall disclosure levels need to be improved, judged by the level of information and details furnished in annual reports, quarterly disclosure, website and other publicly available data. The company does not declare consolidated quarterly financial results. Besides, information about projects and other land banks should be disclosed in a detailed manner in the annual report. Projects from which Vipul has withdrawn need to be removed from the website.

Promoter group companies in similar line of business

Besides Vipul, Mr Beriwal also has businesses like facility management, design and engineering solutions for buildings, and remote building maintenance services being carried under other group companies namely Vipul Facility Management and NGENOX Ltd.

Overall disclosure needs to be improved

Valuation

Grade: 5/5

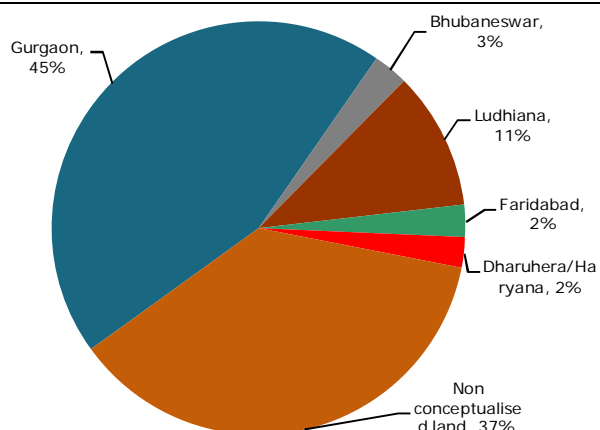
We have valued Vipul based on net-asset-value (NAV) method and arrived at a valuation of Rs 4.6 bn which translates into a one-year fair value of Rs 31 per share. Consequently, we initiate coverage on the company with a valuation grade of '5/5'. This grade indicates that the market price has a 'strong upside' from the current levels.

We initiate coverage on Vipul with a valuation grade of '5/5'

We have valued only those projects based on cash flows which have received approvals and there is higher certainty in terms of execution. The following are the key assumptions in our valuation:

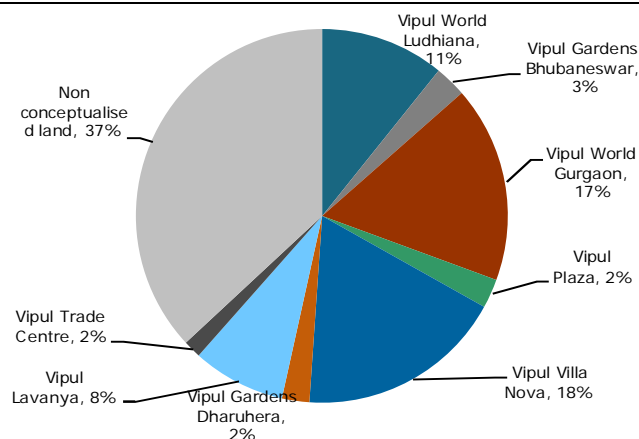
- We have assumed a cost of equity of 18.0%. This is marginally higher than what we have taken for other real estate companies because of low liquidity in the stock.
- For land banks, already acquired but on which the company has not yet conceptualised projects, we have assumed the book value of such land banks. Once the project is conceptualised and these lands are monetised, it may provide further upside potential to our valuation.

Figure 10: State-wise contribution to NAV



Source: CRISIL Equities estimate

Figure 11: Project-wise contribution to NAV



We have also done a sensitivity of real estate valuation to WACC and capital appreciation (increase in property prices) and cost inflation.

Table 5: Sensitivity of NAV to WACC and price

WACC	Price Inflation p.a.				
	-10%	-5%	3%	5%	7%
10.0%	16	21	31	34	37
13.0%	16	21	30	32	35
15.0%	15	20	28	31	33
16.0%	15	20	28	30	33
17.0%	15	20	28	30	32

Source: CRISIL Equities estimate

Table 6: Sensitivity of NAV to WACC and cost

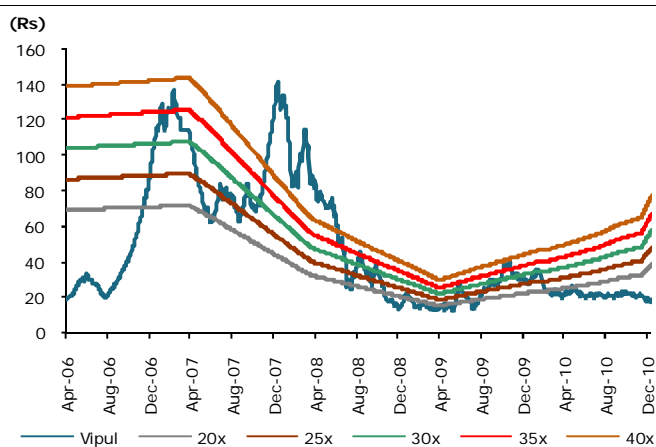
WACC	Cost Inflation p.a.				
	-10%	-5%	3%	5%	7%
10.0%	40	38	35	34	33
13.0%	38	36	33	32	31
15.0%	37	35	32	31	30
16.0%	36	34	31	30	30
17.0%	35	33	31	30	29

Table 7: Real estate peer comparison

Companies	M Cap. (Rs mn)	EPS (Rs)			PER (x)			PBV (x)			RoE (%)		
		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Vipul Limited	2,112	0.7	1.8	4.7	23.6	9.5	4.1	0.6	0.6	0.5	2.6	6.1	13.0
DLF	444,912	10.1	13.1	17.9	30.5	19.8	14.5	2.2	1.6	1.4	7.3	7.9	10.3
Unitech	151,828	3.0	3.7	5.1	24.8	16.9	12.2	1.7	1.3	1.2	8.7	8.5	10.6
Parsvnath Developers	24,305	3.5	4.6	7.3	16.0	12.8	7.6	1.0	0.9	0.8	6.3	7.3	12.1
Ansal Properties	8,799	8.7	8.2	8.6	8.2	7.4	6.8	0.7	0.5	0.5	8.1	7.2	7
Ansal Housing	1,021	14.2	19.1	16.8	3.8	2.9	3.3	0.4	-	-	9.7	-	-
DB Realty	48,092	10.4	15.8	39.8	43.9	11.6	4.8	1.6	1.4	1.1	7.3	12.7	24.7
Omaxe	25,297	5.2	8.9	16.4	28.0	16.4	8.9	1.6	1.5	1.3	5.9	9.3	15.3
Ashiana Housing	2,680	20.1	24.3	34.3	7.3	6.1	4.3	2.1	1.6	1.2	32%	29%	31%
Mean					16.2	12.1	8.0	1.2	1.1	1.0	10%	10%	14%
Median					16.5	11.6	7.1	1.3	1.4	1.2	8%	8%	11%

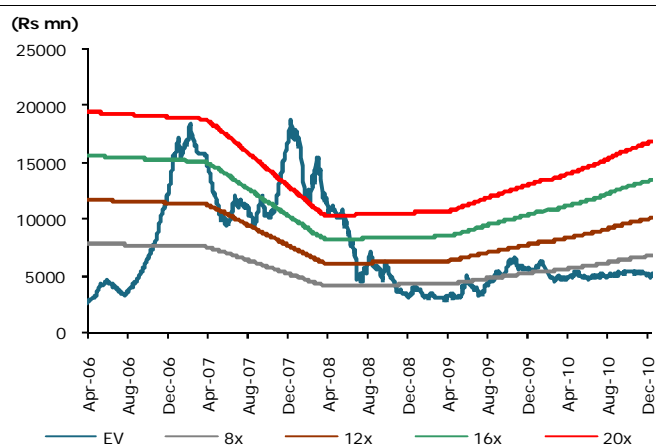
Source: Industry, CRISIL Equities

One-year forward P/E band



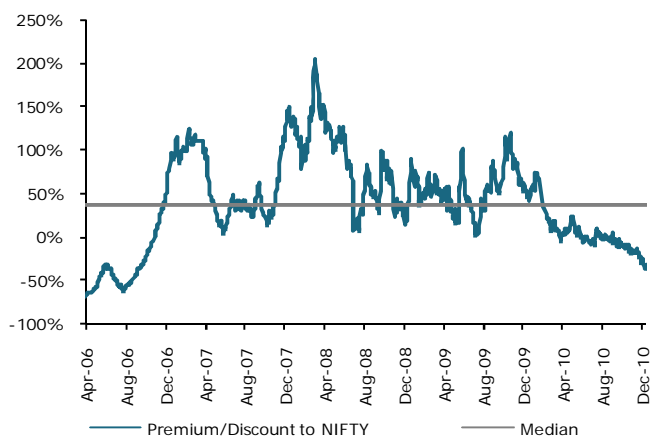
Source: Company, CRISIL Equities

One-year forward EV/EBITDA band



Source: Company, CRISIL Equities

P/E – premium / discount to NIFTY



Source: Company, CRISIL Equities

P/E movement



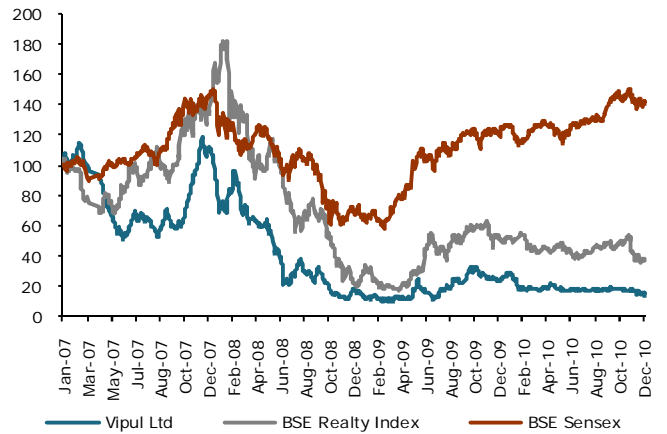
Source: Company, CRISIL Equities

Comparative stock performance

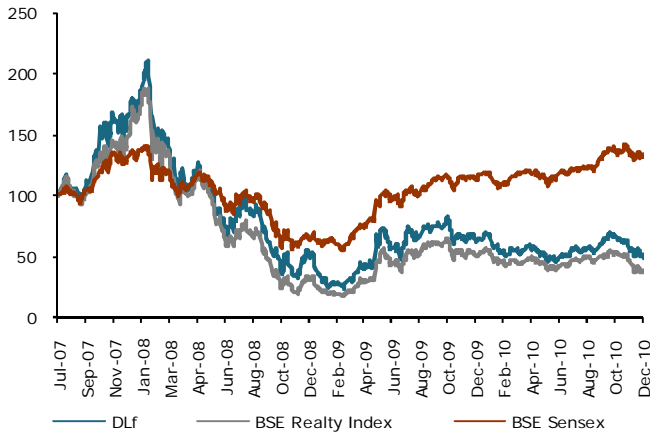
Realty index underperformed the broader index



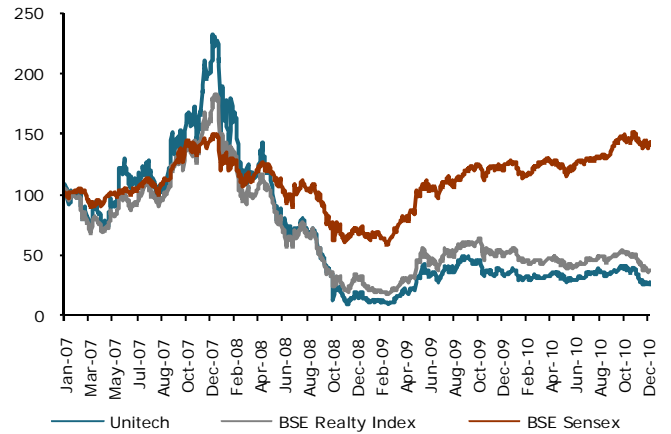
Vipul has underperformed both the indices



DLF trades in line with realty index but underperforms the broader market



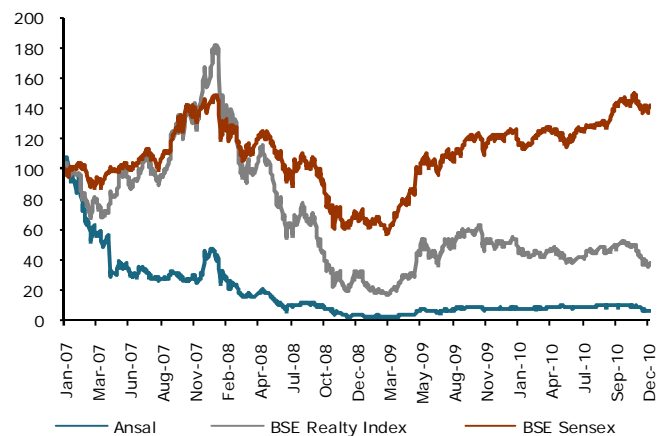
Unitech continues to underperform both indices



Parsvnath continues to underperform both indices



Ansal significantly underperforming both indices



Source: BSE, CRISIL Equities

Company Overview

Vipul Infrastructure Developers Ltd started developing real estate projects in 2001 and delivered its first premium residential project - Vipul Floors and Vipul Gardens in Gurgaon - in 2004. In 2006 Vipul Infrastructure Developers Ltd changed its name to Vipul Ltd. Since 2001 the company has delivered 5.5 mn sq.ft., all located in Gurgaon. Today Vipul has a market presence in Gurgaon, Bhubaneswar and Ludhiana.

Vipul has delivered ~5.5 mn sq.ft in the past 10 years

Table 8: Key milestones

Year	Events
2001	Started real estate development business under Vipul Infrastructure Developers Ltd
2003	Amalgamation of Analysis Finance Ltd with Vipul Infrastructure Developers Ltd; the latter name was retained
2004	Completed execution of first residential projects – Vipul Floors and Vipul Gardens in Gurgaon
2006	Vipul Infrastructure Developers Ltd was renamed as Vipul Ltd
2007	Vipul Ltd declared bonus shares in the ratio of 1:1
2007	The company managed to raise Rs 0.2 bn by diluting ~15% equity to Wachovia Bank

Source: Company, CRISIL Equities

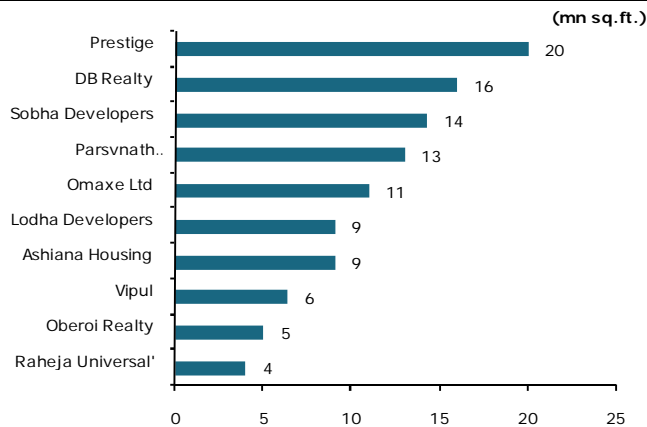
Annexure: Financials

Income statement						Balance Sheet					
(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E	(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	4,198	2,856	3,652	4,298	4,727	Liabilities					
EBITDA	361	253	461	778	883	Equity share capital	120	120	120	120	120
EBITDA margin	8.6%	8.9%	12.6%	18.1%	18.7%	Reserves	3,339	3,410	3,598	4,033	4,588
Depreciation	15	15	17	17	19	Minorities	-	-	-	-	-
EBIT	346	238	444	761	864	Net worth	3,459	3,530	3,718	4,153	4,708
Interest	94	195	180	60	36	Convertible debt	-	-	-	-	-
Operating PBT	252	43	265	701	828	Other debt	1,611	2,499	2,249	749	449
Other income	15	140	20	18	88	Total debt	1,611	2,499	2,249	749	449
Exceptional inc/(exp)	(12)	(1)	-	-	-	Deferred tax liability (net)	(22)	(3)	(0)	3	7
PBT	255	183	285	719	917	Total liabilities	5,048	6,026	5,967	4,905	5,163
Tax provision	76	94	96	247	318	Assets					
Profit from associates	-	-	33	40	54	Net fixed assets	127	116	105	93	92
PAT (Reported)	178	89	221	512	652	Capital WIP	49	64	64	64	64
Less: Exceptionals	(12)	(1)	-	-	-	Total fixed assets	177	179	168	156	155
Adjusted PAT	191	89	221	512	652	Investments	147	68	101	142	196
						Current assets					
						Inventory	6,773	6,908	6,729	5,917	4,989
						Sundry debtors	532	786	500	589	648
						Loans and advances	2,915	3,393	3,054	2,749	2,474
						Cash & bank balance	213	325	174	272	1,934
						Marketable securities	-	-	-	-	-
						Total current assets	10,432	11,413	10,457	9,526	10,044
						Total current liabilities	5,708	5,635	4,759	4,919	5,232
						Net current assets	4,725	5,778	5,697	4,607	4,812
						Intangibles/Misc. expenditure	-	0	0	0	0
						Total assets	5,048	6,026	5,967	4,905	5,163
						Cash flow					
						(Rs Mn)	FY09	FY10	FY11E	FY12E	FY13E
						Pre-tax profit	267	184	285	719	917
						Total tax paid	(98)	(75)	(93)	(244)	(315)
						Depreciation	15	15	17	17	19
						Working capital changes	(827)	(941)	(70)	1,189	1,457
						Net cash from operations	(642)	(818)	138	1,680	2,077
						Cash from investments					
						Capital expenditure	901	(18)	(5)	(5)	(18)
						Investments and others	1	79	-	(0)	-
						Net cash from investments	903	61	(5)	(5)	(18)
						Cash from financing					
						Equity raised/(repaid)	-	-	-	-	-
						Debt raised/(repaid)	(231)	888	(250)	(1,500)	(300)
						Dividend (incl. tax)	(18)	(17)	(33)	(77)	(98)
						Others (incl extraordinary)	(7)	(1)	-	-	-
						Net cash from financing	(255)	869	(283)	(1,577)	(398)
						Change in cash position	6	112	(151)	98	1,662
						Closing cash	213	325	174	272	1,934
						Quarterly financials (Standalone)					
						(Rs Mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
						Net Sales	533	704	776	809	899
						Change (q-o-q)	-21%	32%	10%	4%	11%
						EBITDA*	111	134	(44)	65	126
						Change (q-o-q)	-7%	21%	nm	nm	94%
						EBITDA margin	20.9%	19.1%	-5.6%	8.0%	14.0%
						PAT	52	68	(14)	24	63
						Adj PAT	52	68	(14)	24	63
						Change (q-o-q)	-3%	29%	nm	nm	163%
						Adj PAT margin	9.8%	9.6%	-1.7%	3.0%	7.0%
						Adj EPS	0.4	0.6	(0.1)	0.2	0.5

Source: Company, CRISIL Equities estimate

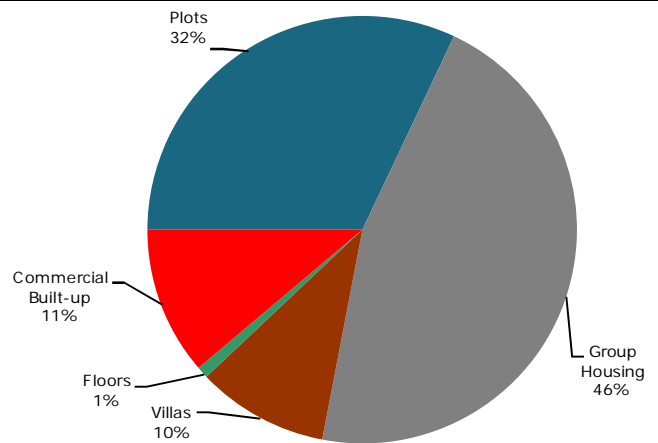
Focus Charts

Execution track record



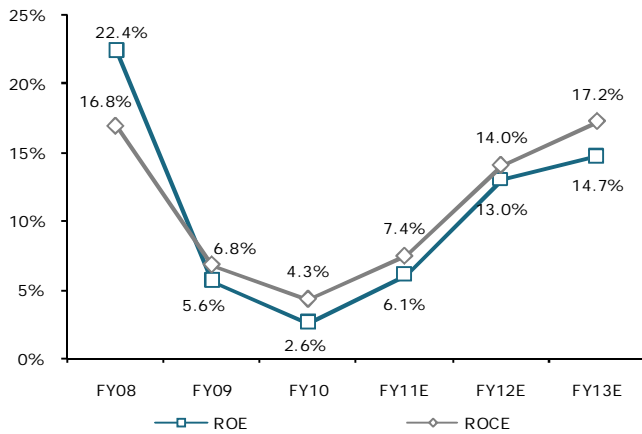
Source: BSE, CRISIL Equities

Segment-wise distribution of future development



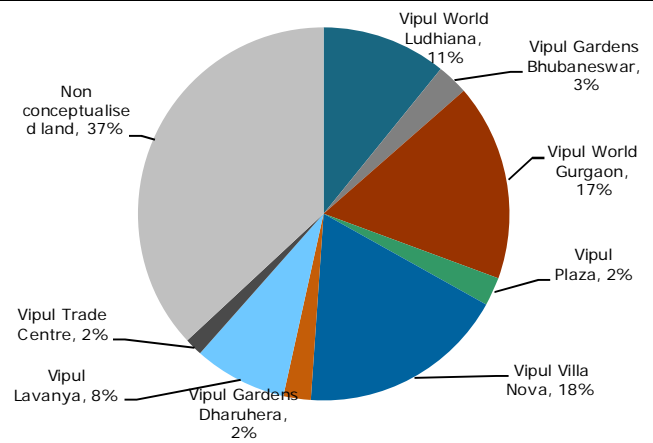
Source: NSE, CRISIL Equities

RoCE and RoE



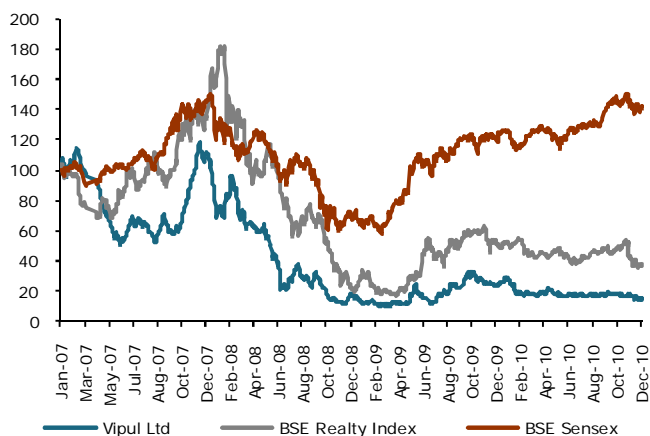
Source: Company, CRISIL Equities

Project-wise contribution to valuation



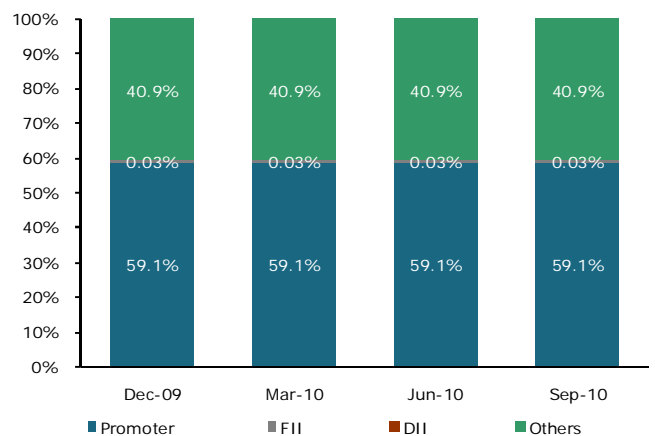
Source: Company, CRISIL Equities

Vipul has underperformed both the indices



Source: Company, CRISIL Equities

Shareholding pattern



Source: Company, CRISIL Equities estimate

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