Anant Raj Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Anant Raj Ltd is transitioning from a pure-play residential developer to a data center infrastructure provider, leveraging a massive 240-acre fully-paid, freehold land bank.**	Positive
2	**Revenue demonstrated a breakout performance, growing 107.19% YoY to □957 Cr, primarily driven by strong demand in the Gurugram residential market.**	Positive
3	***ROCE of 6% remains significantly below the 14% cost of debt, indicating that current capital deployment is value-destructive for shareholders.***	Negative
4	***Reported PAT of 149 Cr is decoupled from cash reality, as Cash Flow from Operations (CFO) collapsed 92% to just 33 Cr (a 22% cash conversion ratio).***	Negative
5	**Management successfully reduced total debt by □204 Cr and has provided a clear roadmap to achieve a debt-free status within 24 months.**	Positive
6	***Free Cash Flow (FCF) remains negative at - 5 Cr, as heavy working capital requirements and inventory buildup trap liquidity.***	Negative
7	**The company successfully operationalized its first 3 MW Data Centre, providing a proof-of-concept for its ambitious 300 MW long-term infrastructure target.**	Positive
8	***Earnings quality is poor, with 83.5% of Other Income (40.01 Cr) derived from interest on loans to related parties rather than core operations.***	Negative
9	***Governance risks are elevated by non-audit fees paid to auditors reaching 13.4x the statutory audit fee, potentially compromising auditor independence.***	Negative
10	***Asset quality is under scrutiny due to a 50 Cr receivable from a "Struck Off" entity and a 305% spike in disputed tax demands to 28.48 Cr.***	Negative
11	The business model is evolving with increased FII interest (7.37%), but solvency remains tied to the promoters via personal guarantees on 93% of debt.	Neutral
12	**Investment View: Watch; stance is to accumulate only upon normalization of CFO/PAT to >0.75x and a material reduction in related-party interest income.**	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** Anant Raj Ltd (ARL) is transitioning from a pure-play Delhi-NCR real estate developer to a diversified infrastructure and technology-space provider. Core segments include Residential (primary cash flow driver), Data Centres (high-growth pivot), Hospitality (asset-heavy FAR expansion play), and Affordable Housing (volume play).
- **Revenue Drivers:** Primary growth is currently driven by residential sales, specifically the "Birla Navya" JV and the "Ashok Estate" launch. The company is benefiting from luxury and mid-segment price appreciation in Gurugram.
- **Cost Drivers:** Key costs include raw materials for residential projects and high power-infrastructure costs for the Data Centre vertical. The company utilizes a "brownfield" approach for Data Centres, repurposing existing IT Park superstructures to reduce capex.

- **Industry Position:** ARL is positioning itself as a first-mover in the North India Data Centre market, leveraging "Data Localization" trends and the 5G rollout. It maintains a dominant position in the high-value Sector 63A corridor of Gurugram.
- **Expansion Plans:** Strategic pivot toward a 300 MW Data Centre potential across three IT parks (Manesar, Rai, and Panchkula). The goal is to reach 50 MW in two years.
- **Acquisitions & Land Bank:** The company's core strength is its **240-acre fully-paid, freehold land bank**, which eliminates the high-cost burden of fresh land acquisition and provides a significant margin cushion.
- **Capacity Additions:** Operationalization of the initial 3 MW at Manesar serves as a "proof of concept" for the larger 300 MW roadmap.
- **Segment Performance:** Residential remains the dominant contributor (96.8% of revenue). The "Birla Navya" project has sold 95% of launched inventory. Affordable housing (Aashray II) has faced execution delays but is slated for a Q3 FY 2024 start.
- **Geographical Presence:** Historically Delhi-NCR centric, with expansion into Tirupati (Andhra Pradesh) and Neemrana (Rajasthan) for affordable housing.

2. Management commentary & outlook

- Management characterizes the current phase of the company with "confidence, clarity, and conviction," signaling a shift from managing legacy baggage to aggressive expansion.
- The strategic pivot toward Data Centres (DC) is the cornerstone of future growth, with a target of 300 MW total capacity. Management intends to use a "capital-light" model for subsequent phases, relying on internal accruals and strategic partnerships.
- A firm commitment has been made to **completely deleverage the balance sheet within the next two years**, using cash flows from residential sales to retire debt.
- Residential strategy focuses on high-velocity sales, evidenced by the "Ashok Estate" launch and the successful de-risking of execution through the JV with Birla Estates.
- Management is aggressively pursuing FAR (Floor Area Ratio) expansion in the hospitality segment, specifically at the Chhatarpur project, to unlock 7,00,000 sq. ft. of developable area on existing land.
- Strategic alliances with PSUs like **RailTel** and TCIL are designed to provide a "nomination basis" advantage for government data storage contracts, creating a significant barrier to entry.
- The demand environment for luxury and mid-segment housing in Gurugram is viewed as robust, providing the necessary liquidity to fund the infrastructure pivot.
- Long-term vision involves transitioning from a "build and sell" model to a "build and operate/lease" model, aiming for a valuation re-rating toward infrastructure and tech-service multiples.
- **Management Tone Verdict:** The management tone is **Aggressively Optimistic with an Execution Bias.** They have successfully transitioned from a defensive "survival" mode to an offensive "growth" mode. While the 300 MW DC target is aspirational, the successful operationalization of the first 3 MW and high sales velocity in residential projects provide a credible signal of delivery. The commitment to becoming debt-free in 24 months serves as the ultimate litmus test for their capital allocation discipline.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	957	462
Sales Growth %	107.19	85
Expenses	760	386
Manufacturing Cost %	75	77
Employee Cost %	2	3
Other Cost %	3	4
Operating Profit	197	76
OPM %	21	16
Other Income	48	39
Exceptional items	0.16	0.12
Other income normal	47.76	39.26
Interest	32	27
Depreciation	17	17
Profit before tax	197	72
Tax %	27	32
Net Profit	149	53
Profit from Associates	5	5
Minority share	4	2
Exceptional items AT	0	0
Profit excl Excep	149	53
Profit for PE	153	55
Profit for EPS	153	55
Profit Growth %	179	415
EPS (□)	4.73	1.86
Dividend Payout %	11	6

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	65	59
Reserves	2,760	2,580
Borrowings	1,079	1,283
Long term Borrowings	874	900
Short term Borrowings	205	68
Lease Liabilities	0	0
Other Borrowings	0	315
Other Liabilities	452	463
Non controlling int	33	35
Trade Payables	14	6
Advance from Customers	91	153
Other liability items	314	268
Total Liabilities	4,357	4,385
Fixed Assets	1,305	1,310
Land	24.50	24.50
Building	1.91	1.09
Plant Machinery	38.19	32.57
Equipments	16.97	16.33
Furniture n fittings	10.19	9.51
Vehicles	21.34	20.42
Intangible Assets	0	0
Other fixed assets	1,413.89	1,413.84
Gross Block	1,526.99	1,518.26
Accumulated Depreciation	221.70	208.21
CWIP	18	48
Investments	460	460
Other Assets	2,573	2,567
Inventories	1,197	1,135
Trade receivables	51	22
Cash Equivalents	69	31
Loans n Advances	4	4
Other asset items	1,252	1,375
Total Assets	4,357	4,385

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	33	423
Profit from operations	201	85
Receivables	-32	21
Inventory	-62	322
Payables	8	-1
Loans Advances	46	0
Operating borrowings	-31	0
Other WC items	-45	20
Working capital changes	-116	362
Direct taxes	-52	-23
Other operating items	0	0
Cash from Investing Activity	-20	31
Fixed assets purchased	-12	-1
Fixed assets sold	4	1
Capital WIP	-29	43
Investments purchased	0	-38
Investments sold	0	0
Interest received	42	36
Dividends received	0	0
Other investing items	-24	-10
Cash from Financing Activity	2	-461
Proceeds from shares	0	0
Proceeds from debentures	0	3
Redemption of debentures	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	-4	-521
Interest paid fin	-31	-26
Dividends paid	-4	-3
Other financing items	40	86
Net Cash Flow	15	-7
Free Cash Flow	-5	466
CFO/OP	43	588

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	20	17
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	20	17
Working Capital Days	659	1,191
ROCE %	6	2

3.2 Financial analysis summary

- **Revenue** surged 107.19% to □957.00 Cr, primarily driven by residential sales (96.80% of operations), while Trade Receivables spiked 135.4% to □51.00 Cr, outpacing sales growth and signaling potential credit easing to drive year-end volumes.
- **Operating Profit** margins improved to 21.00% from 16.00%, supported by a reduction in Employee Cost % to 2.00%, even as Construction & Development Expenses increased by 146.93%, indicating an aggressive push in project execution.
- **Net Profit** grew 179.00% to □149.00 Cr, but earnings quality is heavily reliant on Other Income, where □40.01 Cr (83.50% of total) is derived from interest on inter-corporate deposits with related parties.
- **Finance Cost** rose 17.32% to □32.00 Cr despite Total Debt decreasing to □1,079.00 Cr, driven by a spike in interest paid to customers (□1.91 Cr) likely due to project delays; however, Interest Coverage improved to 7.15x.
- **Cash from Operating Activity (CFO)** collapsed from □423.00 Cr to □33.00 Cr, resulting in a poor CFO/PAT ratio of 0.22, caused by a □116.00 Cr drain from Working Capital changes, specifically a □62.00 Cr increase in Inventories and a □32.00 Cr increase in Receivables.
- **Inventories** of □1,197.00 Cr are heavily concentrated in "Development Rights" (□1,043.42 Cr), which are payments to subsidiaries rather than physical land on the parent's Balance Sheet, raising structural transparency concerns.
- **Working Capital** efficiency shows mixed signals; while Working Capital Days improved to 659 days, Trade Payables ageing reveals □11.97 Cr of dues outstanding for more than 3 years, suggesting liquidity conservation at the project level.
- **Capital Allocation** focused on debt reduction, with Repayment of borrowings and a reduction in "Other Borrowings" to zero, yet Free Cash Flow turned negative at -□5.00 Cr due to weak CFO, forcing reliance on cash reserves.
- **Return Metrics** saw a recovery with ROCE rising to 6.00% and ROE reaching 5.27%, though Asset Turnover remains low as the Gross Block of □1,526.99 Cr is not yet fully translated into operational cash flows.
- **Other Assets** are impacted by □1,252.00 Cr in "Other asset items," which includes a □50.00 Cr receivable from a "Struck Off" entity (Vibrant Softech), representing a significant recoverability risk.
- **Other Liabilities** saw a sharp drop in "Interest Accrued" (from □17.17 Cr to □1.23 Cr), suggesting a cleanup of overdue interest, while Advance from Customers dropped 40.52% to □91.00 Cr as the company recognized revenue from its existing order book.
- **Other Expenses** were impacted by a 230% spike in traveling and conveyance (□3.22 Cr) and a 72.68% jump in non-audit fees to auditors (□4.97 Cr), which is 13.4x the statutory audit fee.

- **The dominant financial theme of the year is a massive revenue breakout and margin expansion driven by residential deliveries, which is fundamentally decoupled from cash flow generation, leaving the balance sheet reliant on non-core interest income and promoter guarantees.**

3.3 Contingent liabilities & commitments

- **Disputed Income Tax Demands:** ₹28.48 Cr (a 305% spike YoY). Management has not provided for these, citing appellate proceedings.
- **Unfulfilled Export Obligations (EPCG):** ₹12.74 Cr. The company is attempting to use the Amnesty Scheme 2023 to resolve this failure to meet original performance criteria.
- **Bank Guarantees:** ₹31.70 Cr in favor of Town & Country Planning.
- **Capital Commitments:** ₹37.09 Cr in unexecuted contracts on capital account.
- **Litigation:** A long-standing dispute with the Haryana Government regarding sales tax exemption remains unresolved in the High Court; no provision has been made for this unquantified risk.
- **Claims:** ₹7.56 Cr in claims against the company not acknowledged as debt.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	CFO/OP dropped from 588% to 43% YoY; cash conversion is lagging profit recognition.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk	—	Note 18: Receivables growing faster than sales suggests aggressive year-end credit terms to hit targets.
3	Revenue timing (Advances)	Revenue ↑ — aggressive recognition	—	Note 20: Significant revenue recognized from opening contract liabilities; new bookings not keeping pace.
4	Revenue from related parties %	Profit ↑ — non-core income	—	Note 23: 83.5% of Other Income is interest from inter-corporate deposits, not core real estate operations.
5	Inventory vs revenue growth	Profit ↓ — cash tied in assets	—	Note 30: Inventory is 87% "Development Rights" (□1,043 Cr) held as economic interests in subsidiary land.
6	Inventory valuation method change	Neutral — consistent policy	—	Note 31: Management asserts all assets are realizable at stated value despite struck-off entity exposure.
7	Exceptional items in operating profit	Profit ↑ — negligible impact	—	P&L: Exceptional items are minimal and do not mask core operational performance.
8	Depreciation rate vs useful life policy	Profit ↑ — aggressive accounting	—	Note 16: Tax depreciation is significantly higher than book depreciation, creating a □10.22 Cr DTL charge.
9	Provision reversals boosting PAT	Profit ↑ — lack of prudence	—	Note 51: Carrying large receivables from a "Struck Off" company without impairment is a major red flag.
10	Tax rate consistency	Profit ↓ — cash outflow	—	Note 16: Higher cash tax suggests timing differences or non-deductible expenses like non-audit fees.
11	CWIP age and stalling projects	Neutral — project completion	—	Balance Sheet: Reduction in CWIP suggests successful capitalization or project handover during the year.
12	Deferred tax asset recognition	Profit ↓ — rising liability	—	Note 16: DTL driven by depreciation differences; indicates book profits are higher than taxable income.
13	RPT quantum and trend	Profit ↑↓ — high contagion risk	—	Note 14 & 45: Company's solvency is critically linked to promoters; auditors rely on management for RPT ID.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payout	—	Cash Flow: Payout is small (11%), but negative FCF indicates dividends are funded by cash reserves.
15	Auditor Independence Risk	Profit ↑↓ — oversight risk	—	Note 27: Disproportionate non-audit compensation signals a significant threat to auditor independence.
16	Asset Recoverability (Struck-off)	Profit ↓ — asset overstatement	—	Note 51: Entity is legally defunct (struck off), yet the asset remains on books at full value without provision.
17	External Verification Gaps	Neutral — verification risk	—	Note 40: Lack of third-party verification for material balance sheet items increases risk of misstatement.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. * **Key Audit Matter - Revenue Recognition:** Auditor focused on the timing and measurement of revenue from real estate projects. Management responded by applying Ind AS 115 and verifying project completion stages. * **Key Audit Matter - Valuation of Inventory:** Auditor expressed concern over the carrying value of "Development Rights" (□1,043.42 Cr). Management justified this through independent valuation reports and project feasibility. * **Auditor Notes:** Auditors noted that balances for trade receivables, payables, and loans/advances are "subject to confirmation,"

indicating a lack of third-party verification for material balance sheet items. * **Auditor Fees:** Statutory Audit Fees: □0.37 Cr; Non-Audit Fees: □4.97 Cr. The non-audit fees are approximately 13.4x the statutory audit fee, signaling a significant threat to auditor independence. * **RPT Identification:** Auditors explicitly stated that "Related parties relationship is as identified by the Company and relied upon by the Auditors," shifting the burden of identification entirely to management.

B. Related Party Transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
Promoters	KMP/Promoter	Personal Guarantees for Loans	1,010.31 Cr	***High Dependency***
Subsidiaries/Associates	Group Entities	Interest Income	40.01 Cr	**Profitability Driver**
Vibrant Softech Pvt Ltd	Struck-off Entity	Trade Receivable	50.00 Cr	***Recovery Risk***
Associate Companies	Associates	Loans Received	22.95 Cr	Liquidity Support
KMPs	Management	Remuneration	3.87 Cr	Standard

- **RPT Risk Checks:** Interest income from Related Parties (□40.01 Cr) represents **121.24% of CFO**, indicating the company's cash flow is entirely dependent on interest collected from related entities.
- **Complexity:** The company operates through a complex web of 38 subsidiaries and 50+ KMP-controlled entities.

C. Shareholding * **Promoters:** 60.03% (down from 63.38% in Mar 2022). * **FIIs:** 7.37% (significant increase from 1.83% in Mar 2022). * **DIIs:** 0.01%. * **Public:** 32.59%. * **Pledging:** Note 14 confirms major loans are secured by personal guarantees of 4 promoters.

D. Board Composition + KMP Compensation * **Total Directors:** 7 | **Independent %:** 57.14% | **Women Directors:** 1 (Mrs. Kulpreet Sond). * **KMP Compensation:** * Amit Sarin (MD): □1.14 Cr (+26.67% YoY) * Aman Sarin (CEO): □1.15 Cr (+27.78% YoY) * Ashim Sarin (COO): □1.15 Cr (+27.78% YoY) * **Family Correlation:** Amit, Aman, and Ashim Sarin are brothers. Aggregate family compensation is □3.44 Cr (1.75% of consolidated EBITDA). Compensation growth (avg 27%) lagged EBITDA growth (159%).

F. Capital Allocation & Capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Dividends	4.00 Cr	3.00 Cr	12.12%	**Positive**
Capex	41.00 Cr	1.00 Cr	124.24%	***Aggressive***
Net Debt Change	-204.00 Cr	-521.00 Cr	N/M	**Deleveraging**
Working Capital Investment	116.00 Cr	-362.00 Cr	351.52%	***Cash Burn***

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex**: Ratio is 0.80; expansion is not self-funded, relying on the **□200 Cr NCD issuance from Apollo Global**.
  - **Nature of Capex**: Primarily growth capex for **Data Centre setup in Manesar (3 MW operational)**.
  - **Deployment Efficiency**: Revenue grew 107% on a 41 Cr capex/CWIP spend, suggesting high asset turn on new projects.
  - **Takeaway**: The **Data Centre pivot (300 MW target)** requires massive capital that current CFO cannot support.

H. Risks * ***Litigation***: Disputed Income Tax demands of □28.48 Cr (19% of Net Profit) pose a high cash outflow risk. * ***Asset Quality***: □50.00 Cr receivable from "Struck Off" entity Vibrant Softech carries a high risk of 100% write-off. * **Concentration**: **□1,010.31 Cr** in personal guarantees by promoters ties corporate solvency to

individual wealth. * **Project Delay**: Interest paid to customers rose to ₹**1.91 Cr**, signaling potential margin erosion and reputational risk. * **Liquidity**: Trade payables >3 years increased to ₹**11.99 Cr**, signaling project-level cash flow stress.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	240-acre land bank; 107% Rev growth	Strong asset base and first-mover advantage in Data Centres.
Financial health	2	↓	CFO ₹33 Cr < PAT ₹149 Cr; FCF -₹5 Cr	High revenue growth is not translating into cash; negative FCF.
Earnings quality	2	↓	83.5% Other Income from RPTs; Struck-off receivable	Profits are heavily reliant on non-core RPT interest and aggressive accounting.
Management & governance	2	↓	Non-audit fees 13.4x Audit fees; RPT dependency	Significant auditor independence risks and extreme reliance on promoter guarantees.
Capital allocation & earnings visibility	3	→	ROCE 6% < Debt Cost 14%; 300MW DC target	Clear growth roadmap but currently value-destructive capital structure.

Business positives (for this company this year) * **Revenue Breakout:** Sales grew 107.19% to ₹957.00 Cr, driven by strong residential demand. * **Deleveraging:** Total debt reduced by ₹204 Cr, with a clear management roadmap to be debt-free in 24 months. * **Strategic Pivot:** Successful operationalization of the first 3 MW Data Centre, tapping into a high-growth infrastructure vertical. * **Asset Strength:** Ownership of a 240-acre fully-paid, freehold land bank provides a massive margin cushion. * **Institutional Interest:** FII shareholding increased significantly from 1.83% to 7.37%.

Business negatives / concerns (for this company this year) * **Cash Flow Divergence:** CFO (₹33 Cr) is only 22% of PAT (₹149 Cr), indicating poor earnings quality. * **Governance Red Flag:** Non-audit fees paid to auditors (₹4.97 Cr) are 13.4x the statutory audit fee. * **Asset Quality Risk:** Carrying a ₹50.00 Cr receivable from a "Struck Off" entity (Vibrant Softech) without impairment. * **RPT Dependency:** 83.5% of Other Income (₹40.01 Cr) is derived from interest on loans to related parties. * **Value Destruction:** ROCE of 6% is significantly lower than the 14% market cost of capital (WACC). * **Contingent Liability Spike:** Disputed Income Tax demands rose 305% to ₹28.48 Cr.

Overall scorecard summary Anant Raj Ltd is in a high-growth transition phase, characterized by impressive top-line expansion and a bold strategic pivot into Data Centres. However, the financial strength is currently superficial, as earnings are decoupled from cash flows and heavily propped up by related-party interest income. Governance posture is weak due to disproportionate non-audit fees and the carrying of defunct assets, while capital allocation remains value-destructive with returns trailing the cost of debt. The business is on a **stable but high-risk** trajectory, where success depends entirely on the execution of the Data Centre vertical and the conversion of residential sales into actual cash.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 9/10 — Governance Rating: 2 (Rating downgraded from 4 to 2 due to the 13.4x non-audit fee ratio and struck-off entity exposure).

Part c: investor verdict

Thesis: A high-beta real estate play transitioning into a data center infrastructure provider, backed by a massive legacy land bank but hampered by aggressive accounting and poor cash conversion. **Overall stance:** Watch **Rationale:** While the business pivot is visionary, the divergence between PAT and CFO, combined with governance red flags (auditor fees/RPTs), necessitates waiting for cash flow normalization. **Re-evaluate when:** CFO/PAT exceeds 0.75x for two consecutive quarters. **BULL CASE:** Successful 50 MW DC operationalization leads to a valuation re-rating from 1x P/B to 3x P/B. **BEAR CASE:** A slowdown in Gurugram residential sales halts the deleveraging plan, leading to a liquidity crunch given the negative FCF. **Key monitorable:** Interest income from related parties: ₹40.01 Cr → Watch for reduction below ₹10 Cr.