

Ashiana Housing Ltd — Feb 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline on Operations / Miss on Reported Earnings (Accounting-led) **One-line:** Strong operating momentum in high-margin Senior Living and aggressive land acquisitions support a "Growth/ROE" thesis, but recurring fund misappropriation flags a significant internal control overhang.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|------------------------------|-------------------|--|-----------|
| Beat/Miss vs Guidance | Inline | Presales of 4.21 Lakh sq. ft. vs 4.51 Lakh sq. ft. in Q2; Realizations hit record ₹4,028/sq. ft. | □ |
| Earnings Quality | High (OCF driven) | Reported PAT loss of ₹3.84 Cr is an accounting artifact; Pre-tax OCF of ₹29.22 Cr shows strong cash collection. | □ |
| Guidance Confidence | Neutral | Mgmt targeting 15% ROE in FY23, contingent on massive delivery bunching. | □ |
| Management Credibility | Weak | Admission of a second instance of fund misappropriation; decentralization cited as a failure point. | □ |
| Business Quality Signal | Improving | Transition to high-margin Senior Living (Chennai/Bhiwadi) decoupling from regular housing cycles. | □ |
| Key Q&A Exchange | Q#4 - Controls | Mgmt admitted "laxity" during pandemic led to fund misappropriation; appointing GT for internal audit. | □ |
| The Street's Primary Anxiety | Internal Controls | Investors questioned how misappropriation happened twice; mgmt shifting to centralized ERP and Big-6 audit. | □ |
| Capital Cycle Stage | Investment | Aggressive land buying (7-8 parcels) using IFC facility; shifting from "land banking" to "execution." | □ |
| Margin / Return Trajectory | Improving | GP margins on new projects targeted at 30%+; realizations up 11% QoQ. | □ |
| Pricing Power | Expanding | Senior Living prices in Chennai/Bhiwadi rising despite stagnant regular housing markets. | □ |
| FCF Conversion & Quality | Strong | CFO-to-PAT is highly divergent due to advance collections; construction costs fully covered by booked receivables. | □ |
| Competitive Moat Signals | Widening | Brand leadership in Senior Living (Ranked #1 by Track2Realty) allowing for premium pricing. | □ |
| Balance Sheet Strength | Strong | Net Debt/Equity remains ultra-low at 0.07; utilizing IFC facility for capital-efficient growth. | □ |
| Working Capital Efficiency | Stable | Inventory liquidation in Bhiwadi remains the primary lever for capital release. | □ |
| Mgmt Guidance Track Record | Mixed | Strong on sales/construction; weak on internal governance/controls. | □ |
| Key Vulnerability / Red Flag | Governance | Repeated failure of internal financial controls; decentralized branch model is a structural risk. | □ |
| Management Tone | Candid | Management was transparent about the fraud and the need for structural ROI focus. | □ |

Sentiment: Neutral

Key Takeaways: * **Positives:** Operating performance is robust with realizations crossing ₹4,000/sq. ft. for the first time; Senior Living is proving to be a high-margin, counter-cyclical moat. Cash flow remains strong (₹29.22 Cr OCF) despite accounting losses, and the land pipeline is now sufficient to target 2.5–3.0 million sq. ft. sales in the medium term. * **Negatives:** The "Thesis-Killer" is the breakdown in internal controls leading to fund misappropriation; this is a recurring issue that suggests the decentralized branch model has outgrown its current governance framework. Land prices in markets like Jaipur are rising, potentially squeezing margins for future acquisitions. * **The Street's Concern:** Analysts focused heavily on the audit failure and the roadmap to a 15% ROE. Management's response relies on "delivery bunching" in FY23 and a transition to a centralized ERP. * **Watchpoint:** Execution of the FY23 delivery schedule and the successful implementation of the "Farvision" ERP to prevent further leakages.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source.

| Metric | Current Qtr (Q3FY22) | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|----------------------|-------------|-------------|-------|---|
| Presales (Lakh sq. ft.) | 4.21 | ↑ 17.9% | ↓ 6.6% | → | Strong bookings from Anmol Ph-II (Gurgaon) and Shubham Ph-IV (Chennai). |
| Realization (₹/sq. ft.) | 4,028 | ↑ 9.3% | ↑ 9.5% | ↑ | First time crossing ₹4,000 mark; driven by product mix (Gurgaon) and price hikes. |
| Equivalent Area Const. (Lakh sq. ft.) | 3.73 | ↑ 5.4% | ↓ 17.1% | ↓ | Delay in some projects due to pandemic and unseasonal rains. |
| Pre-tax Operating Cash Flow (₹Cr) | 29.22 | ↓ 54.3% | ↑ 3.7% | → | Steady collections; includes ₹379.51 Cr receivables from booked area. |
| Revenue (₹Cr) | 54.19 | ↓ 39.6% | ↓ 10.7% | ↓ | Lower handovers this quarter (1.97 Lakh sq. ft. vs 3.94 Lakh sq. ft. YoY). |
| PAT (₹Cr) | (3.84) | ↓ 129.8% | ↑ 33.1% | ↓ | Net loss due to accounting timing (Project Completion Method). |
| Land Bank (Estimated Saleable - Lakh sq. ft.) | 117.62 | First entry | First entry | ↑ | Aggressive acquisition of ~143 acres for future development. |
| D/E Ratio | 0.07 | ↓ 56.2% | → | ↑ | Healthy leverage; utilizing IFC funding for land acquisitions. |
| Revenue Potential Locked (₹Cr) | 1,143.83 | First entry | First entry | ↑ | Value of area booked in ongoing projects. |

2B. SEGMENT BREAKDOWN

| Segment | Area Booked (Lakh sq. ft.) | % of Total Sales | Trend | vs Co. Avg Realization | Key Development |
|---------------|----------------------------|------------------|-------|------------------------|--|
| Senior Living | 1.35 | 32% | ↑ | Higher | Chennai Ph-IV launch successful; decoupling from regular housing prices. |
| Kid-Centric | 1.33 | 31.6% | ↑ | Average | Gurgaon (Anmol) seeing sales pick up; brand improving in NCR. |
| Comfort Homes | 1.53 | 36.4% | ↓ | Lower | Jamshedpur remains a stronghold; Jaipur seeing land price inflation. |

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|-----------|----------------|--|--|---|---------------------------------|
| Guidance | ROE | 15% post-tax ROE in FY23. | Requires ~₹110-120 Cr PAT on ~₹750 Cr NW; needs massive revenue recognition from bunched deliveries. | Mixed; FY22 YTD is loss-making. | High: Dependent on timely OCs. |
| Guidance | Sales Volume | 2.5 - 3.0 Million sq. ft. (Medium term). | Needs ~6.5 - 7.5 Lakh sq. ft./qtr; current run-rate is ~4.3 Lakh. | Improving; land bank now supports this scale. | Execution risk on new launches. |
| Guidance | GP Margins | 30% Gross Profit Margin on new projects. | Requires realizations to outpace construction inflation (~₹1,800/sq. ft. cost). | Historically 25-27%; rising realizations suggest 30% is feasible. | RM Inflation (Steel/Cement). |
| Strategy | Governance | Centralized ERP and Big-6 Internal Audit (GT). | Go-live for "Farvision" ERP in next few months. | Failed; 2nd instance of fund misappropriation. | Systemic control risk. |
| Strategy | Capital Alloc. | Shift to JVs/ Revenue Share for better capital efficiency. | 3 projects signed (Jamshedpur, Jaipur, Pune) in JV/Revenue Share format. | Strong; low D/E maintained despite land buying. | Land price run-up in Jaipur. |

4. ANALYST Q&A

| Q# | Relevance | Analyst / Firm | Category | Underlying Concern | Management Response & Investment Implication | Credibility | Verdict |
|----|-----------|-----------------------|--------------------|--|--|-------------|-------------------------|
| 1 | 4.5 | Himanshu / O3 Capital | Business Overview | How does Senior Living price appreciation correlate with normal housing? | Mgmt stated Senior Living is not intrinsically linked to regular housing cycles and enjoys higher pricing power due to low supply. This implies Senior Living will be the primary margin expansion engine and a competitive moat. | 4.0 | Clear and quantified |
| 2 | 4.0 | Himanshu / O3 Capital | Management Outlook | Can we achieve 2.5-3 million sq. ft. sales with the current pipeline? | Achievable but requires launching 6 out of 8 new projects by FY23-24; Jaipur needs 2 more projects to hit this run-rate. Volume growth is now contingent on regulatory approval speed for new land parcels. | 3.5 | Specific timeline given |
| 3 | 4.0 | Vivek Chaturvedi | Financials | How does the company benchmark internal returns? | Target is a 15% post-tax ROE at the corporate level, using project-level funding at ~9-10% cost. This confirms a shift in mgmt mindset from volume-only to return-on-equity focused growth. | 3.5 | Specific target set |
| 4 | 5.0 | Devanshu (Chat) | Governance | Why did fund misappropriation happen a second time? | Mgmt admitted decentralized processes and pandemic-led "laxity" allowed for failures; appointing Grant Thornton and implementing a new ERP. This confirms a significant governance overhang that requires quarterly monitoring of internal audit findings. | 2.5 | Deflected — key signal |
| 5 | 4.0 | VP Rajesh / Banyan | Business Overview | What is the strategy for the problematic Milakpur/Bhiwadi land? | Milakpur remains in litigation; Bhiwadi focus has shifted to Senior Living (Ashiana Advik) to release capital from completed stock. Successful liquidation | 4.0 | Clear strategy |

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|----|-----------|--------------------|-------------------|--|---|-------------|-----------------------|
| | | | | | of Ashiana Town inventory is critical for the 15% ROE target. | | |
| 6 | 3.5 | Rohit Potti | Business Overview | Will scaling up to 5mn sq. ft. require outsourcing construction? | Construction capabilities can scale in-house, but sales will utilize channel partners in competitive markets like Gurgaon/Pune. This marks a shift from Ashiana's traditional in-house-only sales model to a hybrid one. | 4.0 | Directional evidence |
| 7 | 4.5 | Apurva Shah | Financials | Can price hikes cover construction cost inflation? | Current realizations (~₹4,000+) more than cover current input costs; however, land prices in Jaipur are factoring in a 10% future price hike. Margin compression is a risk if land prices continue to outpace realization growth. | 3.5 | Specific risk flagged |
| 8 | 4.0 | Rohit Balakrishnan | Financials | What is the trend for fixed costs as volumes scale? | Fixed costs (~₹65-75 Cr) will not grow in proportion to sales; Chennai selling costs dropped from 8% to 4% as brand matured. Significant operating leverage is expected as the company goes "deeper" into existing markets. | 4.0 | Specific data point |

PATTERN FLAGS & SENTIMENT

- **Internal Control Failures:** The most recurring and anxious theme was the fund misappropriation. Management's posture was defensive but apologetic, pointing to decentralization as the culprit. While the appointment of Grant Thornton provides some comfort, the fact that this is a second occurrence creates a "trust but verify" environment for analysts.
- **Transition to ROE-Centricity:** Management is clearly trying to pivot investor focus toward a 15% ROE target. This was met with skepticism regarding "delivery bunching," as real estate revenue recognition is notoriously lumpy and prone to regulatory delays.
- **Senior Living Moat:** Analysts are beginning to recognize Senior Living as a distinct asset class for Ashiana. Management's confidence in decoupling these prices from regular housing suggests they will prioritize this segment for future land acquisitions.

Analyst Sentiment Verdict: Analysts were operationally impressed but governance-skeptical. The friction was highest during the misappropriation discussion. Credibility deteriorated slightly due to the governance lapse, but the strong realization growth and low debt provide a safety net for the thesis.

GUIDANCE GAPS REVEALED IN Q&A

| Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis |
|-------------------|--|---|--|---|
| Internal Controls | Systems were robust post-2017 incident. | Decentralized processes failed during pandemic. | Admission of systemic governance failure. | Potential for further leakages; auditor scrutiny. |
| Sales Model | In-house sales is a core differentiator. | Moving to Channel Partners in Gurgaon/Pune. | Shift in "full-stack" model to scale faster. | Higher selling costs; potential brand dilution. |

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.