

TARC Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Execution / Accounting-led P&L Miss **One-line:** TARC is successfully navigating its high-leverage pivot with a massive debt refinancing win (cost reduced from 18% to 12.75%) and robust pre-sales momentum, though the ₹5,000 Cr FY25 guidance remains back-ended.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	H1 Pre-sales of ₹1,322 Cr (26% of FY25 target); momentum in Ishva and Kailasa 2.0 critical for H2.	□
Earnings Quality	Low (Accounting driven)	Net loss of ₹67.36 Cr (Q2) due to a one-off ₹49.44 Cr finance cost spike from early debt redemption.	□
Guidance Confidence	Neutral	Needs ₹3,678 Cr in H2 to hit ₹5,000 Cr; feasibility hinges on Kailasa 2.0 (Jan launch) and Ishva velocity.	□
Management Credibility	Improving	Delivered on the promise to refinance high-cost Bain debt; secured ₹1,000 Cr from Kotak/Nomura consortium.	□
Business Quality Signal	Improving	Pivot to luxury confirmed by realization rates (₹20k-25k/sqft) and 80%+ sales in Tripundra.	□
Key Q&A Exchange	Q# 11 & 14 (Accounting)	Management defended IndAS 115 revenue recognition (OC-linked) against investor concerns over losses.	□
The Street's Primary Anxiety	Debt & Collections	Disconnect between high pre-sales and low current collections (₹26 Cr in Ishva vs ₹802 Cr sales).	□
Capital Cycle Stage	Investment	High construction intensity; superstructure ready at Tripundra; cash flow harvesting starts Q4FY25.	□
Margin Trajectory	Improving	High-margin luxury mix (EBITDA potential >60%) locked in; realization growth of 10-15% guided.	□
Pricing Power	Expanding	Selling at ₹20,000/sqft in Gurugram (Ishva) and ₹25,000/sqft in Delhi (Kailasa).	□
FCF Conversion & Quality	Distorted	Cash flows recycled into construction; CFO/PAT non-meaningful due to IndAS recognition lag.	□
Competitive Moat Signals	Stable	Strategic Delhi land bank acquired at legacy costs provides a massive pricing cushion.	□
Balance Sheet Strength	Adequate	Refinancing extended maturity and lowered cost; Net Debt at ₹1,650 Cr remains manageable via projects.	□
Working Capital Efficiency	Stable	Inventory buildup is intentional ahead of FY25/26 handovers; advances starting to flow from Ishva.	□
Mgmt Guidance Track Record	Reliable	Delivered on refinancing and launch timelines (Ishva).	□
Key Vulnerability	Execution Delay	Any delay in Tripundra OC (Q4FY25) pushes revenue recognition into FY26, extending P&L losses.	□
Management Tone	Confident	Aggressive focus on the "US\$1 Billion Pre-sales" goal and becoming debt-free in 24 months.	□

Key Takeaways (Positives & Negatives): * **Positives:** Successful refinancing of ₹1,000 Cr debt from 18% (Bain Capital) to 12.75% (Kotak/Nomura) significantly de-risks the balance sheet. Pre-sales momentum is strong with ₹1,322 Cr in H1 (6x YoY). The luxury pivot is validated by high realizations (₹20k-25k/sqft) and premium positioning. * **Negatives:** Reported P&L is in deep red due to IndAS 115 (revenue only at OC) and a one-off finance cost spike. Collections for the newest project (Ishva) are lagging sales due to the 10% EOI-to-Booking timing gap. The FY25 pre-sales guidance of ₹5,000 Cr requires a massive ₹3,678 Cr run-rate in H2 (74% of target). * **Street Concern:** Investors are wary of the accounting losses and the lag between "sold" value and "collected" cash. Management's response emphasizes that cash flow is the true health metric, with ₹750 Cr already collected and debt now earmarked against specific project cash flows rather than the entire land bank. * **Watchpoint:** Monitoring the receipt of the Occupation Certificate (OC) for TARC Tripundra in Q4FY25; this is the mandatory trigger for the first major revenue recognition event.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT used for project-specific booking/collections. Concall used for Debt and Management Commentary.

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Presales (₹Cr)	1,322 (H1)	↑ 500%	N/A	↑	Driven by Ishva launch and Kailasa Phase 2.
Pre-tax Operating CF (₹Cr)	~750 (Cum.)	First entry	First entry	→	Cumulative collections across 3 luxury projects.
Realization/sqft (₹)	20k - 25k	First entry	First entry	↑	Mix of Gurugram (20k) and Delhi (25k) luxury.
Revenue Potential (₹ Cr)	7,700	First entry	First entry	→	Total potential of current launched portfolio.
Revenue (₹Cr)	4.31	↓ 85.5%	↓ 47.5%	↓	No project handovers in Q2 (IndAS 115).
PAT (₹Cr)	(67.36)	↓	↓	↓	Loss due to ₹49.44 Cr one-off finance cost.
Land Bank (acres)	~500	First entry	First entry	→	~200 acres earmarked for 5-7 year development.
Net Debt (₹Cr)	1,650	↑ 24.9%	N/A	↓	Increased from Q1 (₹1,321) due to refinancing/accruals.
D/E Ratio	Not Stated	N/A	N/A	→	Management focused on "Debt-free in 24 months."

2B. SEGMENT BREAKDOWN

Project	Sales Potential (₹Cr)	Booking Value (₹Cr)	Collections (₹Cr)	Status	Key Development
TARC Kailasa	4,000	1,824	307	Ongoing	Phase 2 launched; 45% of total project sold.
TARC Ishva	2,700	802	26	Launched	Sep 2024 launch; ~40% sold in first month.
TARC Tripundra	1,000	720	322	Completion	>80% sold; Superstructure ready; OC in Q4.
TARC Maceo	N/A	N/A	N/A	Delivered	1.5 MSF delivered; historical baseline.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Pre-sales	₹5,000 Cr for FY25.	Needs ₹3,678 Cr in H2; requires ~₹1,840 Cr/quarter.	H1 achieved ₹1,322 Cr.	High (Back-ended)
Guidance	Debt	Net Debt Zero in 24 months.	Requires ~₹200 Cr debt reduction per quarter from Q4.	Refinanced ₹1,000 Cr.	Cash Flow Timing
Guidance	Revenue	Tripundra recognition in FY25.	OC must be received by March 31, 2025.	Superstructure ready.	Regulatory Delay
Strategy	New Growth	3 New Projects in 18 months.	~1 launch every 6 months in Delhi/Gurugram.	Ishva launched on time.	Execution Bandwidth
Balance	Cost of Debt	Reduction to 12.75%.	Achieved via Kotak-led consortium.	Prior cost was 18%.	None

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Priyansh (Individual)	Debt Levels	Financials	Debt rose from 1,300 to 2,600 Cr without new acquisitions or disclosures.	Management corrected the calculation, stating total debt is ₹1,600-1,800 Cr, primarily refinanced from high-cost NCDs to bank loans. Lower interest costs (12.75% vs 18%) will improve the bottom line once revenue recognition starts.	None	4.0	Fact-check win
3	4.5	Priyansh (Individual)	Interest Rates	Financials	Discrepancy between a reported 6% coupon and the current 12.75% refinancing rate.	Management clarified the 6% was a coupon only, but the total IRR was 18% including redemption premiums. The 12.75% rate represents a 525bps reduction in actual capital cost.	None	5.0	High Clarity
4	4.0	Saksham (Ambit)	Pipeline	Mgmt Outlook	Feasibility of ₹5,000 Cr guidance given only 26% was achieved in H1.	Management expressed confidence in achieving the target through existing projects (Kailasa 2.0/ Ishva) and potentially one more launch in 3-4 months. Guidance remains	Specific project for H2 not named.	3.5	Ambitious

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						aggressive and highly dependent on H2 launch timing.			
7	4.5	Rajendra Singh (Finance)	Audit Quality	Governance	Note 6 in results mentioned 26 subsidiaries were not reviewed/ audited.	Management explained these are non-revenue-generating land-holding companies where audit completion was delayed due to auditor timing. No impact on consolidated revenue or PAT, as these entities hold land assets only.	None	3.0	Technicality
8	4.0	Kapil Malhotra (Tata MF)	Finance Costs	Financials	Spike in interest cost during Q2.	Management attributed the spike to a one-off IndAS reversal of provisions for the balance 2.5 years of NCDs due to early redemption. Future interest costs will normalize at the lower 12.75% rate.	None	4.5	One-off flagged
9	5.0	Kapil Malhotra (Tata MF)	Debt Reduction	Financials	Debt trajectory and path to zero debt.	Debt is now earmarked against specific project cash flows (Kailasa/ Tripundra for Kotak; Ishva for Bain). The	Specific land sale targets.	4.0	Path defined

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						strategy is to utilize project collections and land monetization to become debt-free in 24 months.			
10	4.5	Kapil Malhotra (Tata MF)	Collections	Financials	Why were Q2 collections only ₹90 Cr despite high sales?	Ishva was launched in September; the initial 9-10% booking amount (EOI to formal sale) is hitting in October/ November. H2 collections are expected to be significantly higher as Ishva milestones are reached.	None	4.0	Timing issue
12	4.0	Kapil Malhotra (Tata MF)	Strategy	Mgmt Outlook	Is TARC moving into mid-market housing for velocity?	Management explicitly stated they will remain exclusively in the luxury residential segment for the next 18-24 months to leverage brand equity. This preserves margins but keeps the company tied to high-ticket, lower-velocity sales.	None	5.0	Strategic focus
13	4.0		Industry	Macro			None	4.0	Realistic

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Parikshit Gupta (Fair Value)			Is pricing growth moderating in Delhi/ Gurugram?	Management expects 10-15% annual price growth to persist for quality products, despite the 50-100% surge seen recently. Demand is driven by migration from low-rise to high-rise in Delhi and aging stock in Gurugram.			
14	3.5	Naman Dhanuka	Commercial	Business Overview	Status of the 6 million sqft commercial portfolio.	Management corrected the analyst, stating TARC is currently focused solely on residential projects. This clarifies that no commercial rental income or development is in the immediate pipeline.	None	5.0	Misconception cleared
17	4.5	Saksham (Ambit)	Collections	Financials	Why has Tripundra collected <50% of its ₹1,000 Cr sales potential?	₹400 Cr has been collected; the balance is tied to construction milestones and final possession, which are expected in the next 6-12 months. This confirms the	None	4.0	Milestone-linked

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19	4.0	Kapil Malhotra (Tata MF)	Financials	Financials	Unsold inventory and construction spend.	back-ended nature of real estate cash flows under current payment plans. Unsold inventory stands at ₹4,500 Cr across 3 projects; remaining construction spend is ~₹2,000 Cr. This implies an massive embedded profit margin (~55%) once execution is complete.	None	4.5	Margin cushion

PATTERN FLAGS & SENTIMENT Analysts were primarily focused on the **Debt-to-Cash Flow Bridge**. Multiple questions (Tata MF, Ambit) highlighted the divergence between high pre-sales and modest quarterly collections. Management was defensive but technically sound on the IndAS 115 impacts, successfully explaining that accounting losses are an artifact of reporting standards rather than business failure. The successful refinancing was the "credibility anchor" that kept sentiment from turning negative despite the P&L losses.

Analyst Sentiment Verdict: Skeptical on the P&L but constructive on the pivot. The friction point remains the ₹5,000 Cr FY25 target—analysts are "watching and waiting" for the H2 ramp-up. Credibility improved due to the Kotak refinancing, but the primary risk remains the potential for execution/OC delays at Tripundra.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Q1) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | FY25 Target | ₹5,000 Cr Pre-sales | H1 only ₹1,322 Cr | 74% of target remains for H2. | High; requires flawless execution of Kailasa 2.0. | | Debt Level | ₹1,321 Cr (NCDs) | ₹1,650 Cr (Total) | Debt is higher than previous simplistic "Bain NCD" disclosure. | Moderate; offset by lower interest cost. |

5. WHAT CHANGED vs PRIOR QUARTER

First entry vs prior context (Q1FY25).

What Changed	Prior Quarter (Q1)	This Quarter (Q2)	Direction
Cost of Debt	~18% (Bain NCDs)	12.75% (Bank/NBFC)	↑ Improving
Debt Composition	Concentrated with Bain	Diversified (Kotak, Nomura, AB Capital)	↑ Improving
Pre-sales Run-rate	Baseline established	6x growth in H1 (₹1,322 Cr)	↑ Improving
P&L Profile	Loss-making	Spike in losses due to refinancing one-offs	↓ Deteriorating
Project Mix	Tripundra/Kailasa	Ishva (Gurugram) added to active sales	↑ Improving
Audit Status	No disclosure	Disclosure on 26 unaudited subsidiaries	↓ Deteriorating

INVESTOR NOTES: * **Earnings Quality:** CFO-to-PAT remains non-meaningful. The divergence is driven by **Advances from Customers** (Liability) building up while **Inventory** (Asset) grows, with zero revenue recognized. The "Economic Value" is growing while "Accounting Value" is shrinking. * **Working Capital Lever:** The critical lever is the "EOI-to-Agreement" timeline. Q2 collections were low because Ishva sales were in the EOI stage; H3 will show the true cash conversion of the ₹802 Cr Ishva booking. * **Forensic Trigger:** The auditor's note on 26 unaudited subsidiaries is a minor red flag regarding governance bandwidth, though management's explanation of them being shell/land entities is plausible in a real estate context. * **Thesis Change:** None. The thesis is slightly de-risked due to the interest cost reduction, but remains an execution-heavy bet. The "inflection point" moves to Q4FY25 (Tripundra OC).