

IPO Note

Kolte-Patil Developers Limited

Subscribe

IPO Details

Face Value	Rs. 10
Price Band	Rs. 125-145
Issue Opens	19-Nov-07
Issue Closes	22-Nov-07
BRLM	DSP Merrill Lynch Edelweiss Cap. Ltd
Registrar to issue	Bigshare Services Pvt Ltd
Shares on offer for sale	19.0 mn

Kolte-Patil Developers Limited (KPDL) is a development and construction Company with major operations based in Pune and, some operations in Bangalore. The Company which has to its credit 25 projects is further developing 28 new projects comprising residential and commercial space and IT parks. KPDL has also entered into a JV with Arora International Hotels for the development of 2 hotel properties. Presently, the Company has a land bank of over 54.5 mn sq. ft. to implement its project development plans.

With various IT companies setting up their base in Pune, KPDL was able to register high sales in the commercial segment in FY07. As a result, on a yoy basis, the Company's net sales jumped from Rs. 531.1 mn in FY06 to Rs. 2,293.7 mn in FY07.

Pre issue shareholding pattern

Shareholders	% Stake
Promoters and Promoter group	100

Valuation and Recommendations

The Company is valued at a P/E of 5.4x and 6.3x, at the lower and upper price band, respectively for FY07. At the lower and upper price band, KPDL is at a significant discount to its peers such as Akruiti City, Ansal Housing, IVR Prime and Mahindra Lifespaces. On standalone basis, net sales grew at a CAGR of 155.1% for FY03-07 while EBITDA and PAT margins increased to 39.4% and 36.4% in FY07 respectively.

Post issue shareholding pattern

Shareholders	% Stake
Promoters and Promoter group	74.8
Public & Others	25.2

With aggressive land acquisition plans on the cards and foray in high margin businesses like hospitality and IT parks, it has a potential to exploit the upsurge in the real estate sector in Pune and Bangalore. We feel the Company is significantly undervalued at the price band of Rs. 125-145 and hence we expect the stock to provide modest gains on listing.

Considering the above factors, we believe the issue is an apt investment and hence recommend the investors to Subscribe to the issue.

Segmented Allocation

QIBs	9,406,355
Non-Institutional	2,821,906
Retail	6,584,448
Employees	188,127

IPO Details

	Lower End	Upper End
Price Band (Rs.)	125.0	145.0
Equity Shares prior to issue (mn)	56.3	56.3
Fresh Issue of shares (mn)	19.0	19.0
Total Equity Shares (mn)	75.3	75.3
Share Capital (mn)	Rs. 752.5	Rs. 752.5
Implied market cap (mn)	Rs. 9,406.4	Rs. 10,911.4
Debt (mn) (as on 30/06/2007)	Rs. 1,510.0	Rs. 1,510.0
Cash (mn) (as on 30/06/2007)	Rs. 24.9	Rs. 24.9
Implied EV (mn)	Rs. 10,891.4	Rs. 12,396.4

Peer group comparison

Valuation	Market cap	PE Ratio	EV/EBITDA	EV/Revenue
Akruti City	67,684	29.6x	67.3x	37.6x
Ansal Housing	2,808	6.1x	6.7x	1.4x
IVR Prime	26,778	90.7x	79.8x	20.2x
Mahindra Lifespaces	27,665	182.0x	131.4x	17.1x
Peer group average		77.1x	71.3x	19.1x
KPDL				
Lower price band	9,406	5.4x	11.8x	4.7x
Upper price band	10,911	6.3x	13.4x	5.4x

IPO

Issue details

KPDL plans to raise Rs. 2,375.1 mn and Rs. 2,755.1 mn through an IPO of 19 mn equity shares. Presently, the promoters and the promoter group hold 100% of the issued and paid up capital. After the issue, they will own 74.8% of the post-issue paid-up equity share capital. The Company plans to allocate 9.4 mn shares of the net issue for QIBs, 2.8 mn for non-institutional buyers, 6.6 mn for retailers and the remaining for its employees. The issue constitutes 25.3% of the post issue paid-up capital of the Company.

Issue objective

The IPO is being carried out to raise funds for:

- Financing acquisition of development rights
- Financing the construction and development costs for some of the Company's proposed projects
- Meeting expenditures for general corporate purposes

Promoters

Mr. Rajesh Patil, the promoter of KPDL, has 17 years of experience in the real estate sector. He is responsible for the business development, land procurement, and raising funds for the various projects undertaken by the Company. Mr. Milind Kolte has more than 16 years of experience in the field of real estate development and is responsible for handling the day to day

operations, legal matters, procurement of land and construction activities for the various projects undertaken by KPDL. Mr. Naresh Patil who has more than 15 years of experience in the field of real estate development, is responsible for all the Bangalore based projects of the Company.

Investment Rationale

Attractively priced issue

The issue seems considerably undervalued taking into account its upcoming projects in commercial and hospitality segment in Pune. As the Company has acquired large tracts of land in Pune and Bangalore at an average cost of Rs. 149/sq ft, realizations from sale are expected to be very high. In addition, a well diversified product portfolio indicates that it can capitalize on the burgeoning realty sector in the respective markets.

Aggressive land acquisition plans

KPDL is on a fast track to acquire land in order to commence the development of 28 projects, including 24 in Pune, and 4 in Bangalore. As of September 30, 2007, it has 32.9 mn sq ft of developable area through development rights and memoranda of understanding. These projects will generate over 17.8 mn sq. ft. of saleable area on 21.6 mn sq. ft. of land area. Majority of the projects are in the commercial segment.

Emphasis on high margin businesses

On consolidated basis, KPDL registered a high EBITDA margin at 40.1% and PAT margin of 39.8% for FY07 primarily due to low average land cost at Rs. 149/sq ft and sale of commercial property in its Gigaspace IT park. This IT park has been the most promising revenue propeller for KPDL considering the leap in sale of commercial properties during FY07. Buoyed by the success of this project, the Company plans to develop 5 more IT parks. Besides entering into a JV with Arora International Hotels to setup atleast 2 hotels, KPDL also intends to develop integrated townships and serviced apartments. All these businesses offer higher margins due to improved realization from the sale of properties and are likely to trigger the growth momentum of the Company.

Shift of business model

KPDL has changed its business model from developing projects on its own to the joint venture model, in order to raise capital through real estate funds and FDI and thus scale up its operations. This change in the strategy will not only reduce the risk of developing all the projects on its own but will also allow KPDL to develop much larger projects and share better returns with the JV partners. The JV partners include ICICI Venture Capital, K2 Property Ltd (based in Jersey), Arora International Hotels and Ankit Enterprises.

Shift of businesses to Tier-II and Tier-III Cities

The increasing costs of rentals and scarcity of space in Tier-I cities has resulted in many corporates moving towards suburban and peripheral locations, named as Tier-II and Tier-III cities. As a result, developers holding land in these cities have been able to make huge profits by selling or leasing them at higher prices to corporate entities.

Key Risks

Concerns regarding ability to sustain high margin

KPDL reported a high EBITDA margin during FY07 at 39.4% on a standalone basis backed by improved realization from sale of commercial IT space. However, historically, EBITDA margins have not been so impressive (an average of 9.7% over FY03-06). Though the Company has moved towards high margin businesses such as hospitality and IT parks, there is concern regarding the ability of KPDL to maintain a high margin in the near term.

Concentration of business in Pune

The Company's business is heavily concentrated in Pune with 92% of its holding based in the city. Though it has plans to expand its operations across the country, there are no concrete plans as to how KPDL will be able to realize it. So, a slowdown in the demand for commercial and residential units in Pune will pose a threat to the Company's earnings.

Outlook

KPDL is valued at a P/E of 5.4x and 6.3x for FY07 on the lower and upper price band of Rs. 125 and Rs. 145 respectively. On P/E basis, the issue is at a considerable discount to its peer group average of 70.9x. Backed by an adequate land bank and partnerships with ICICI capital venture and other corporate enterprises, the Company will be able to raise funds for its various development projects. Moreover, the debt-equity ratio stands low at 0.5 providing scope for raising further debt to fund the Company's large projects in the near term. In the light of the above factors, we feel that the issue seems to be attractively priced and is likely to provide modest gains on listing. Hence, we recommend investors to Subscribe to the issue.

Company Background

KPDL was incorporated in the name of Kolte-Patil Developers Pvt. Ltd., on November 25, 1991, in Jalgaon. The Company is a Pune based real estate developer with some operations in Bangalore. It is engaged in the construction and development of residential and commercial space but plans to diversify its project portfolio by undertaking projects in construction of serviced apartments, integrated townships, hotels and IT parks. KPDL has also entered into strategic agreements and joint ventures with financial partners and enterprises. It intends to build a strong foothold in high growth markets like Hyderabad and Chennai and also obtain the first mover advantage by venturing into new locations such as Nasik, Goa, Nagpur, Aurangabad and Mysore. It aims to cultivate long-term relationships with major financial institutions, real estate funds and individual investors as joint venture partners and co-investors in future projects.

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