

**INDIA RESEARCH**  
Sector: Real Estate  
Group: Indian Private  
Date: 16-11-06

## SUBSCRIBE

**Sensex** 13469  
**NSE** 3876

### Shares in IPO

**Fresh Issue** 8.89 mn  
**Offer for sale** Nil

**Price Band** Rs 550-Rs.640  
**Face Value** Rs.10

**Equity Capital (Rs in mns)**  
**Pre-Issue** 640 mn  
**Post-Issue** 728.96mn

**Mkt Cap (@Rs.640)** Rs. 56896 mn  
**Mkt Cap (in US \$)** \$ 1269 mn  
**P/E (FY07 Expected)\*** 28.3%  
**\*Price taken as Rs.640 per share**

### Bid allocation pattern

**Non-Inst Bidders** Up to 10%  
**Retail** Up to 30%  
**QIBs** At least 60%  
**Employee Resv.** 0.8 mn

### Share Holding Pattern (Post Issue)

**Promoters** 87.8%  
**Public & Others** 12.2%

## SOBHA DEVELOPERS LIMITED (SDL)

### INTRODUCTION:

Sobha Developers is one of the leading real estate development & construction company in India. The company was incorporated by Mr. P N C Menon & Mrs. Sobha Menon both of whom have three decades of experience. They have built & decorated palaces in Oman. This Bangalore based company has completed 21 residential projects, 2 commercial projects & 75 contractual projects. Their client list includes Infosys, Taj group, MICO etc.

### INVESTMENT RATIONALE

- The residential, commercial & retail segment of the real estate industry will experience a robust growth potential due to growing population, urbanization, changing demographics, increased disposable income, demand by booming IT & ITeS, BPO industry, retail boom etc.
- Sobha Developers basically operates in Bangalore & have gradually expanded in 8 cities of India. They have land reserves of approximately 118 mn sq. ft. over 78 locations in 7 cities across India currently valued at Rs. 735-776 crores & land arrangement of approximately 117 mn sq. ft. over 13 locations in 3 cities across India. This is expected to be developed within 7-10 years.
- The company is currently undertaking 15 residential projects & 23 contractual projects. They are diversifying their business in terms of geographical presence & project portfolio. They develop hotels, integrated townships, malls, hostel facilities, food court, club houses & undertake plot development. They are also looking at Special Purpose Vehicles & Joint Ventures for growth potentials.
- They deliver a project from its conceptualization to completion through their 'backward integration' model. It includes architectural & design studio, metal & glazing factory, building material factory, interior & wood working factory, mechanical, electrical & plumbing division. It ensures cost & quality efficiency with ability to deliver the project in timely manner.
- The company has patented Construction Manual - first of its kind in India. they have been given awarded the DA 1 rating from CRISIL indicating excellent track record in executing the projects.
- The scale of operation of Sobha Developers has expanded over the years. Total revenue has increased from Rs. 1117.10 million in FY 2002 to Rs. 6284.36 million in FY 2006, at a CAGR of 75%. During the same period, profit after tax has increased at a CAGR of 317%.
- VALUATION:** At the current price band, the company's stock is valued between 22-28x FY07(E) EPS. The valuation seems to be on the higher side given the longer execution period of its land bank. Sales of the company have grown 3 fold from FY04 to FY06 whereas profit has risen 10 fold. With the land reserves & other qualitative factors we believe that the company will perform better in long run. **Hence we recommend a subscribe to the issue with a long term perspective.**

### Issue Snapshot:

- Issue opens:** Nov.23<sup>rd</sup> to Nov. 29<sup>th</sup>
- Price Band:** Rs.550 to Rs.640 per share
- Face Value:** Rs.10 per share
- Total Issue Size:** 8.89 mn equity shares
- Min Bid:** 10 shares & in multiples
- Lead Managers:** Kotak Mahindra Capital Co, Enam Securities, IL & FS Investment Ltd.
- Registrar:** Intime Spectrum Registry Ltd.

### Financial Snapshot

(Rs. in mn)

Particulars	FY04 (A)	FY05 (A)	FY06 (A)	FY07(E)
<b>Net Sales</b>	1950.9	4530.6	5966.2	14208.0#
<b>PBIDT</b>	144.6	585.9	1096.6	3232.3
<b>PBIDT (%)</b>	7.4%	12.9%	18.4%	23%
<b>PAT</b>	88.8	388.5	892.3	1650
<b>EPS (Rs.)</b>	1.4	6.1	13.9	22.6
<b>P/E (x)</b>	461.5	105.5	45.9	28.3*
<b>BV (Rs.)</b>	13.9	21.7	45.8	54.0*
<b>RoNW (%)</b>	30.2%	59.9%	65.2%	69.4%*

\* On the basis of post-issue capital # including manufacturing activity

Please Refer DISCLAIMER on the Last Page Source (for all financial data): Company, Techno Research; (A) = Audited, (E) = Techno Estimates, (U) = Unaudited

### Objects of the issue

Sobha Developers intends to use the proceeds towards following:

*(Rs in mn)*

Particulars	Rs. million
Land acquisition	2342.59
Development & construction cost of existing & forthcoming projects	1424.90
Repayment of loans of the company	Up to 1321.76
General corporate purpose	@

@ to be finalised after the net proceeds of the issue

### Concerns

Approximately 2.11% of land reserves of the company are classified as land falling in the 'green belt area' i.e. land where no commercial or residential development is permissible.

Almost 30% of the total revenue of the company is generated from only one customer i.e. Infosys Technologies Ltd.

Total land reserve of the company is expected to be developed in 7-10 years, which is a longer time horizon for returns.

Limited supply of land, increasing competition, applicable regulations, fluctuations in the market value of real estate, availability of finance to the customers, demographic factors, employment levels may adversely affect the business operations & financial conditions.

### Peer group comparison\*

*(Rs in mn)*

Company	Sobha Developers	Parsvnath Developers
Sales	14208	13584
EPS	22.6	12.2
P/E*	28.3	24.5
RONW(%)	69.4	52.4
Market Cap/S*	4.00	0.73

Based on FY07(E) \* on higher Price Band

### Outlook & Valuation

Based on the above numbers the company looks attractive as compared to the peers. Also the backward integration model, technologically advanced tools from Germany to ensure & monitor quality of work at each stage of project, well experienced management, ability to construct innovative structures, project management & delivery model, land reserves & their ability to identify emerging trends in customer requirements through Customer Relationship Management all these qualitative factors differentiate the company from its peers. They are also venturing into furnishing & interior retail soon.

Taking into consideration the real estate industry growth perspective & Sobha Developer's competitive strengths, we believe that the company is set to achieve robust growth on back of various ongoing & forthcoming project pipeline.

**We recommend to subscribe with a long term perspective.**

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