



Godrej Properties

		Rs590	Neutral							
BSE SENSEX	S&P CNX									
18,882	5,655									
Bloomberg	GPL IN									
Equity Shares (m)	69.8									
52-Week Range	823/438									
1,6,12 Rel. Perf. (%)	2/-21/8									
M.Cap. (Rs b)	41.2									
M.Cap. (US\$ b)	0.9									
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EYI	EYI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	3,134	1,228	17.6	64.5	33.6	5.0	15.1	18.4	15.1	53.5
3/11E	3,393	1,142	16.3	-7.0	36.1	4.5	12.4	13.6	13.9	64.5
3/12E	7,162	2,760	39.5	141.7	14.9	3.5	23.2	23.5	6.1	19.8
3/13E	13,475	3,760	53.8	36.2	11.0	2.7	24.5	24.8	3.4	10.1

Revenue booking remains muted, EBITDA margin expands: Godrej Properties (GPL) reported lower than expected numbers for 3QFY11. While revenue declined 44% YoY to Rs482m, reported PAT declined 13% YoY to Rs329m. EBITDA declined ~90% YoY to Rs65m; EBITDA margin expanded from 4.4% in 2QFY11 and 3.2% in 1QFY11 to 13.5%. The improvement in EBITDA margin can primarily be attributed to revenue booking from higher-margin projects in Bangalore, and commercial projects in Kolkata and Chandigarh. The management has hinted at strong revenue booking in 4QFY11 due to contribution from additional projects.

Volume up due to new launches: During 3QFY11, GPL launched four residential projects and one commercial project. It achieved strong momentum in sales, primarily due to its new launches. It sold ~0.83msf of area (v/s 0.24msf during 2QFY11). Its total booking as at 9MFY11 was 1.6msf. The management has guided new launches at Kochi, Mumbai and Hyderabad over the next 12 months.

Net DER up to 0.78x: As at December 2010, GPL's gross debt increased to Rs8.7b, while net debt stood at Rs6.6b. The increase in debt is primarily attributable to steady traction in execution across key projects. During 3QFY11, its net DER jumped to 0.78x (v/s 0.66x for 2QFY11), while the average borrowing cost was up to 9.7% in 3QFY11 (v/s 9.45% in 2QFY11).

Downgrading FY11E EPS to Rs16.3; FY12E NAV to Rs686: Due to delay in monetization of some key projects, we are revising our FY11 EPS estimate to Rs16.3 (v/s Rs20.5 earlier). We have rolled over our NAV estimate to FY13 at Rs777, while our FY12E NAV is revised to Rs686. We expect GPL to trade at premium to NAV due to its strong growth visibility, asset-light model and brand equity. GPL currently trades at 23% discount to option-adjusted FY13E NAV. It is valued at 3.5x FY12E BV of Rs170 and 14.9x FY12E EPS of Rs39.5. Maintain **Neutral** with one-year forward target price of Rs700 (10% discount to FY13E NAV).

CONSOLIDATED QUARTERLY PERFORMANCE

	FY10				FY11			(Rs Million)	
	1Q	2Q	3Q*	4Q	1Q	2Q	3Q	FY10	FY11E
Total Revenue	175	391	858	1,710	412	343	482	3,134	3,393
Change (%)	-	-	-	-	135.0	-12.4	-43.9	22.7	8.2
Total Expenditure	117	348	238	1,546	399	328	416	2,249	2,663
EBITDA	58	44	620	164	13	15	65	886	729
Change (%)	-	-	-	-	-77.2	-65.5	-89.5	-27.0	-17.7
As of % Sales	33.1	11.2	72.3	9.6	3.2	4.4	13.5	28.3	21.5
Depreciation	4	6	7	8	8	9	11	26	14
Interest	21	18	490	134	6	2	1	662	639
Other Income	13	597	90	726	323	494	200	1,426	1,510
PBT	46	617	213	748	322	498	254	1,624	1,586
Tax	16	168	36	162	91	159	76	382	444
Effective Tax Rate (%)	33.8	27.3	17.0	21.6	28.4	32.1	29.9	23.5	28.0
Reported PAT	30	448	177	586	230	338	178	1,242	1,142
Minority	-1	-1	2	-11	-6	-9	-23	-12	0
Adj PAT	30	447	178	575	224	329	155	1,230	1,142
Change (%)	-	-	-	-	653.2	-26.4	-13.1	63.0	-7.2

E: MOSL Estimates; *Balancing figures based on remaining three quarters' numbers

Revenue booking remains muted, EBITDA margin expands

- GPL reported lower than estimated numbers for 3QFY11. While revenue declined 44% YoY to Rs482m, reported PAT declined 13% YoY to Rs329m. Its 9MFY11 numbers fall well short of our full-year estimates: (a) 9M revenue was Rs1.2b (v/s FY11 estimate of Rs4.2b) and (b) 9M PAT was Rs709m (v/s FY11 estimate of Rs1.5b).
- The key projects contributing to revenue are: (1) Garden City Phase-I, Ahmedabad (Rs130m), (2) Prakriti Phase-I, Kolkata (Rs166m), (3) Riverside, Kalyan (Rs108.4m), (4) Genesis, commercial project at Kolkata (Rs55m), (5) Woodman Estate, Bangalore and (6) Eternia, Chandigarh.
- EBITDA declined ~90% YoY to Rs65m; EBITDA margin expanded from 4.4% in 2QFY11 and 3.2% in 1QFY11 to 13.5%. The improvement in EBITDA margin can primarily be attributed to revenue booking from higher-margin projects in Bangalore, and commercial projects in Kolkata and Chandigarh.
- During 3QFY11, other income was Rs200m v/s Rs90m in 3QFY10 and Rs494m in 2QFY11, including Rs149m towards partial dilution of project level equity stake in: (a) Godrej Buildwell Private Limited to India Realty Excellence Fund and others for a consideration of ~Rs50m, and (b) Godrej Sea View Properties Private Limited to HDFC PMS for a consideration of ~Rs100m.
- The management has re-iterated that as a part of GPL's business strategy, it looks to monetize part of its stake at an early stage of development to accelerate monetization and also lower its tax burden. While the company has not entered into any new project level-stake dilution in 3QFY11, a substantial part of its other income comprises the later tranches of its past dilution.
- The management has hinted at strong revenue booking in 4QFY11 due to contribution from additional projects, where the company has already witnessed robust pre-sales and which are likely to cross the recognition threshold level of 25% by 4QFY11. The key projects are: (a) Garden City Phase-II and III, (b) Prakriti (20% completed), (c) Frontier, Gurgaon (7% completed), (d) Palm Groves, Chennai (5% completed), etc.

QoQ sales volume achieved in key projects

Projects	Type of development	Project saleable area (msf)	Launch Date	Cumulative area sold (msf)			
				4Q FY10	1Q FY11	2Q FY11	3Q FY11
Godrej Riverside Phase-1, Kalyan	Residential	0.12	FY10	0.02	0.02	0.02	0.02
Godrej Riverside Phase-2, Kalyan	Residential	0.12	FY10				
GVD IIA	Residential	0.04	FY10			0.04	0.04
Garden city IA, Ahmedabad	Residential	1.31	4QFY10	1.30	1.30	1.30	1.30
Garden city II, Ahmedabad	Residential	0.45	1QFY11		0.40	0.45	0.45
Garden city III, Ahmedabad	Residential	0.73	3QFY11				
Prakriti-Phase I, Kolkata	Residential	0.55	FY10	0.18	0.28	0.40	0.49
Prakriti-Phase II, Kolkata	Residential	0.66	3QFY11				0.08
Edenwood, Thane	Residential	0.03	FY10				
Avalon, Manglore	Residential	0.87	2QFY11				
Woodman annex, Bangalore	Residential	0.07	FY10		0.01	0.01	0.01
Frontier, Gurgaon	Residential	1.04	3QFY11				0.55
Palm grove, Chennai	Residential	1.1	3QFY11				0.04
Others	Residential					0.02	0.06
Waterside Phase-1, Kolkata (GPL's share)	Commercial	0.75	1QFY11	0.30	0.30	0.30	0.30
Eternia, Chandigarh	Commercial	0.68	2QFY11			0.00	0.00
Genesis, Kolkata	Commercial	1.34	3QFY11				0.03
		9.9		1.80	2.31	2.55	3.37

Source: Company/MOSL

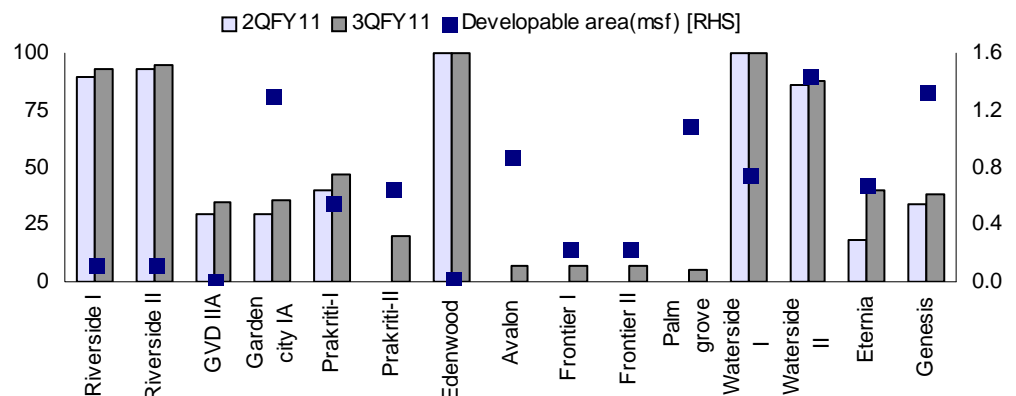
Volume up due to new launches

- During 3QFY11, GPL launched four residential projects: (1) Godrej Frontier, Gurgaon (1.04msf), (2) Godrej Palm Groves, Chennai (1.1msf), (3) Phase-II of Godrej Prakriti, Kolkata (0.66msf), and (4) Phase-III of Godrej Garden City, Ahmedabad (0.73msf), and (5) one commercial project: Godrej Genesis, Kolkata.
- It achieved strong momentum in sales, primarily due to its new launches. It sold ~0.83msf of area (v/s 0.24msf during 2QFY11). Its total booking as at 9MFY11 was 1.6msf.
- The management has guided new launches at Kochi, Mumbai (Chembur) and Hyderabad over the next 12 months.

Steady progress in execution

- The company has witnessed steady traction in construction for all of its ongoing projects. Many of its projects are approaching the completion hurdle of 25% and would start contributing substantially to revenue in the forthcoming periods.
- The management has also guided commencement of construction of its commercial project in Vikhroli, Mumbai during 4QFY11 and possible completion over the next 24 months.

QoQ project completion status (%)



MOSL

Net DER up to 0.78x

As at December 2010, GPL's gross debt increased to Rs8.7b, while net debt stood at Rs6.6b. The increase in debt is primarily attributable to steady traction in execution across key projects. During 3QFY11, its net DER jumped to 0.78x (v/s 0.66x for 2QFY11), while the average borrowing cost was up to 9.7% in 3QFY11 (v/s 9.45% in 2QFY11). However, interest cost remained low due almost full capitalization of interest in its joint-development projects.

Key takeaways from conference call

- During 3QFY11, the key projects contributing to revenue are: (1) Garden City Phase-I, Ahmedabad (Rs130m), (2) Prakriti Phase-I, Kolkata (Rs166m), (3) Riverside, Kalyan (Rs108.4m), (4) Genesis, commercial project at Kolkata (Rs55m), (5) Woodman Estate, Bangalore and (6) Eternia, Chandigarh.
- The management has hinted at strong revenue booking in 4QFY11 (similar to 4QFY10) due to contribution from additional projects, where the company has already witnessed robust pre-sales and which are likely to cross the recognition threshold level.
- It plans to start the construction for Phase-I of its commercial project in Vikhroli, Mumbai during 4QFY11, while new launches at Kochi, Chembur (Mumbai) and Hyderabad are likely to happen over the next 12 months, with Chembur and Kochi likely to be launched during 1QFY12.
- Sales at Garden City Phase-III are robust, with ~0.6msf booked during 4QFY11.
- Expect net DER(x) to increase further on account of construction capex in ongoing projects.

Downgrading FY11E EPS to Rs16.3; FY12E NAV to Rs686

- Due to delay in monetization of some key projects, we are revising our FY11 EPS estimate to Rs16.3 (v/s Rs20.5 earlier). We have rolled over our NAV estimate to FY13 at Rs777, while our FY12E NAV is revised to Rs686.
- We expect GPL to trade at premium to NAV due to its strong growth visibility, asset-light model and brand equity. GPL currently trades at 23% discount to option-adjusted FY13E NAV. It is valued at 3.5x FY12E BV of Rs170 and 14.9x FY12E EPS of Rs39.5.
- Going forward, the key catalysts that could further re-rate GPL are: (i) traction on disclosed MoUs, (ii) visibility on development of other group land bank (particularly at Vikhroli), and (iii) continued momentum on new third party JDAs. Maintain **Neutral** with one-year forward target price of Rs700 (10% discount to FY13E NAV).

NAV calculation (FY12)

Particulars	Rs m	NAV/share	% NAV	% GAV
Residential	34,139	489	71	43
Commercial and Retail	18,677	267	39	24
IT parks	3,634	52	8	5
Hotels	4,533	65	9	6
Option Value to MoU in Progress				
Mohali (75 acres)	2,792	40	6	4
Bangalore (100 acres)	6,873	98	14	9
Hyderabad (10 acres)	716	10	1	1
Vikhroli(100 acres)	7,835	112	16	10
Gross Asset Value	79,199	1,134	165	100
Less: Debt	7,096	102	15	9
Add: Cash	3,833	55	8	5
Less: Other Op Exp	7,128	102	15	9
Tax	18,216	261	38	23
Land Cost	2,691	39	6	3
Net Asset Value	47,902	686	100	60

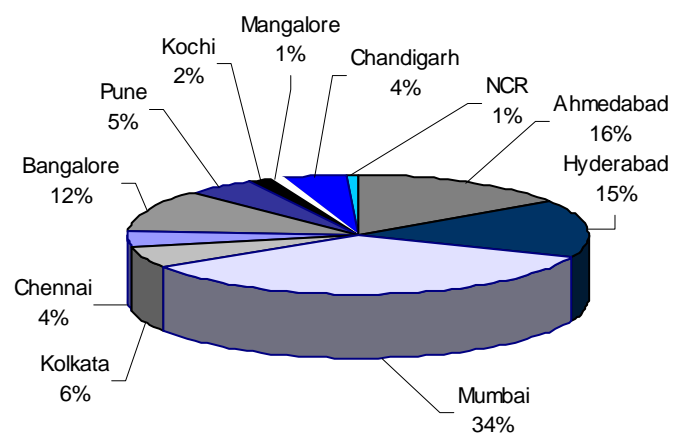
Source: MOSL

NAV calculation (FY13)

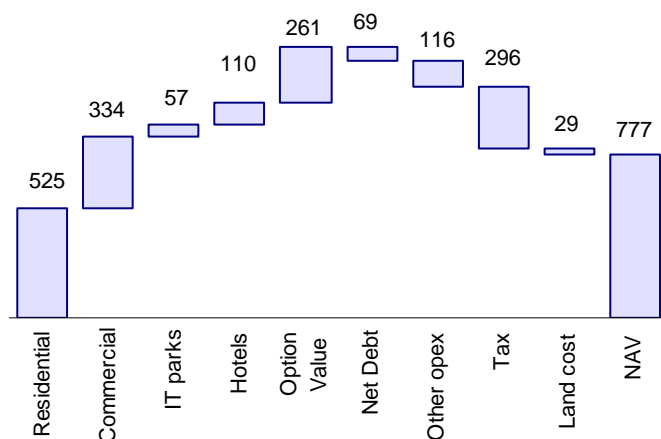
Particulars	Rs m	NAV/share	% NAV	% GAV
Residential	36,650	525	68	46
Commercial and Retail	23,303	334	43	29
IT parks	3,977	57	7	5
Hotels	7,703	110	14	10
Option Value to MoU in Progress				
Mohali (75 acres)	2,792	40	5	4
Bangalore (100 acres)	6,873	98	13	9
Hyderabad (10 acres)	716	10	1	1
Vikroli(100 acres)	7,835	112	14	10
Gross Asset Value	89,850	1,286	166	113
Less: Debt	8,035	115	15	9
Add: Cash	3,224	46	6	4
Less: Other Op Exp	8,086	116	15	9
Tax	20,665	296	38	23
Land Cost	2,000	29	4	2
Net Asset Value	54,286	777	100	69

Source: MOSL

City-wise GAV analysis



Vertical-wise NAV analysis (Rs/share)



Source: MOSL

Godrej Properties: an investment profile

Company description

Godrej Properties Limited (GPL), established in 1991, is part of the 113-year-old Godrej group of companies. GPL, which develops residential and commercial properties, recently entered large township development. The company expanded its footprint into 10 key tier-1 and tier-2 cities, with a land bank of 391 acres and developable area of ~83msf, where it has economic interest for ~50msf.

Key investment positives

- Focused mid-income housing play with an asset-light model: Unlike industry peers, GPL's development portfolio is skewed in favor of JDA projects.
- Leveraging on the Godrej brand: We believe the widely recognized Godrej brand gives GPL the unique strength to emerge as a true pan-India player.
- GPL entered into MoUs with group companies to develop ~185acres, which offers huge option value.

Key challenges

- Higher inclination towards joint-development model caps gains during an economic upswing and exposes the company to the potential risk of operational conflicts with JD partners.
- Heavy dependence (~16% of GAV) on Ahmedabad real estate market can hamper GPL's growth prospects in case of a downturn and an extreme economic situation.

Key news flows / triggers to watch

- Going forward, the key catalysts that could re-rate GPL are: (i) traction on disclosed MoUs, (ii) visibility on development of Vikhroli and (iii) continued momentum on new third party JDAs.
- GPL management indicated that they are in the process to finalize a deal with Jet Airways to develop ~2.5msf at BKC, Mumbai, which could add 4-5% to its GAV.

Valuation and view

- We have rolled over our NAV estimate for the company to FY13 at Rs777, while our FY12E NAV is revised to Rs686.
- We expect GPL to trade at premium to NAV due to its strong growth visibility, asset-light model and brand equity. GPL currently trades at 23% discount to option-adjusted FY13E NAV. It is valued at 3.5x FY12E BV of Rs170 and 14.9x FY12E EPS of Rs39.5. Maintain **Neutral**.

Sector view

- The real estate sector seems firmly set on the path to recovery, following the successful balance sheet recapitalization by key RE companies, shifting focus on execution and a pick-up in sales momentum. While the broad based recovery in residential vertical has been the key growth driver in last one year, the ongoing revival in commercial and retail segment is going to strengthen the sector outlook further in forthcoming years.

Comparative valuations

		Godrej Prop.	DLF	Unitech
P/E (x)	FY11E	36.1	21.8	19.2
	FY12E	14.9	17.5	13.9
P/BV (x)	FY11E	4.5	1.6	1.4
	FY12E	3.5	1.5	1.3
EV/Sales (x)	FY11E	13.9	6.6	5.5
	FY12E	6.1	4.9	3.3
EV/EBITDA (x)	FY11E	64.5	13.5	15.6
	FY12E	19.8	11.0	9.5

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	83.8	83.8	84.4
Domestic Inst	2.5	2.6	6.1
Foreign	4.9	5.2	4.9
Others	8.8	8.4	4.6

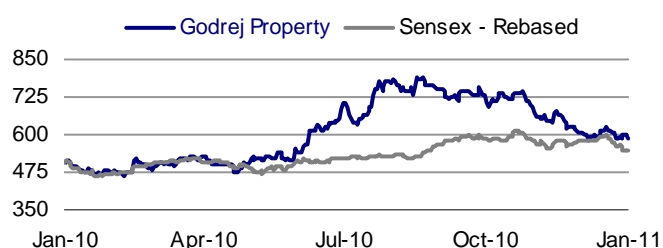
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	16.3	18.8	-13.3
FY12	39.5	31.1	27.1

Target price and recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
590	700	18.6	Neutral

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT						RATIOS					
(Rs Million)											
Y/E MARCH	2009	2010	2011E	2012E	2013E	Y/E MARCH	2009	2010	2011E	2012E	2013E
Net Sales	2,555	3,134	3,393	7,162	13,475	Basic (Rs)					
Change (%)	12.3	22.7	8.2	111.1	88.2	Adjusted EPS	12.4	17.6	16.3	39.5	53.8
Construction expenses	1,311	2,142	2,535	4,817	8,788	Growth (%)	-0.5	42.3	-7.0	141.7	36.2
Staff Cost	38	107	128	154	185	Cash EPS	2.5	3.6	3.3	7.9	10.8
EBITDA	1,207	886	729	2,191	4,502	Book Value	49.5	117.0	132.2	170.1	219.4
% of Net Sales	47.2	28.3	21.5	30.6	33.4	DPS	0.6	4.0	1.0	1.5	4.0
Depreciation	11	26	14	14	14	Payout (incl. Div. Tax.)	23.4	25.5	6.9	4.3	8.4
Interest	527	662	639	723	855	Valuation (x)					
Other Income	421	1,426	1,510	2,381	1,589	P/E	47.7	33.6	36.1	14.9	11.0
PBT	1,089	1,624	1,586	3,834	5,222	Cash P/E	232.0	164.0	178.2	74.3	54.6
Tax	323	382	444	1,074	1,462	EV/EBITDA	34.8	53.5	64.5	19.8	10.1
Rate (%)	29.7	23.5	28.0	28.0	28.0	EV/Sales	16.4	15.1	13.9	6.1	3.4
Adjusted PAT	747	1,228	1,142	2,760	3,760	Price/Book Value	11.9	5.0	4.5	3.5	2.7
Change (%)	-0.5	64.5	-7.0	141.7	36.2	Dividend Yield (%)	30.0	53.3	13.3	20.0	53.3
BALANCE SHEET						Profitability Ratios (%)					
(Rs Million)											
Y/E MARCH	2009	2010	2011E	2012E	2013E	RoE	25.3	15.1	12.4	23.2	24.5
Share Capital	604	698	698	698	698	RoCE	22.0	18.4	13.6	23.5	24.8
Reserves	2,385	7,474	8,538	11,180	14,625	Leverage Ratio					
Net Worth	2,989	8,173	9,236	11,879	15,324	Debt/Equity (x)	2.2	0.9	0.9	0.8	0.8
Loans	6,563	7,096	8,035	9,503	12,259	CASH FLOW STATEMENT					
Deffered Tax Liability	0	0	0	0	0	(Rs Million)					
Capital Employed	9,569	15,298	17,301	21,411	27,613	Y/E MARCH	2009	2010	2011E	2012E	2013E
Gross Fixed Assets	398	340	359	359	359	PBT before Extraordinary	1,089	1,624	1,586	3,834	5,222
Less: Depreciation	39	63	60	75	89	Add : Depreciation	11	26	14	14	14
Net Fixed Assets	359	276	298	284	269	Interest	527	662	639	723	855
Capital WMP	33	2	0	538	1,714	Less : Direct Taxes Paid	323	382	444	1,074	1,462
Curr. Assets	10,375	14,928	17,705	27,580	36,982	(Inc)/Dec in WVC	4,219	3,081	756	620	4,474
Inventory	4,759	7,251	8,572	8,814	8,586	CF from Operations	-2,950	-1,164	1,039	2,878	155
Debtors	1,386	1,798	1,859	2,943	4,430	(Inc)/Dec in FA	-31	88	-34	-538	-1,175
Cash & Bank Balance	269	955	2,185	7,229	7,796	(Pur)/Sale of Investments	0	-2,078	0	2,078	0
Loans & Advances	3,962	4,924	5,089	8,594	16,170	CF from Investments	-31	-1,990	-34	1,540	-1,175
Current Liab. & Prov.	1,203	1,989	2,780	6,991	11,352	(Inc)/Dec in Networth	26	4,272	3	0	0
Creditors	1,005	1,619	2,257	5,799	9,576	(Inc)/Dec in Debt	3,832	532	940	1,468	2,756
Advance received	0	0	0	0	0	Less : Interest Paid	527	662	639	723	855
Other Liabilities	0	0	0	0	0	Dividend Paid	177	314	79	118	314
Provisions	198	370	523	1,191	1,776	CF from Fin. Activity	3,154	3,828	225	627	1,587
Net Current Assets	9,172	12,939	14,925	20,589	25,629	Inc/Dec of Cash	182	687	1,230	5,044	567
Misc. Expenses	0	0	0	0	0	Add: Beginning Balance	86	269	955	2,185	7,229
Application of Funds	9,569	15,298	17,301	21,411	27,613	Closing Balance	269	955	2,185	7,229	7,796

E: MOSL Estimates



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1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with company covered
4. Investment Banking relationship with company covered

Godrej Properties

No
No
No
No

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