

**Sobha Developers**
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**Issue Open: 23 November 2006**

**Issue Close: 29 November 2006**

**Issue Details**

Present Equity Capital: Rs 64cr

Issue size: Rs 489cr – Rs 569cr

Issue Price : Rs 550- Rs 640

Promoters holding pre-issue: 98.95%

Promoters holding post-issue: 86.88%

**Book Building**

QIBs	Atleast 60%
Non-Institutional	Upto 10%
Retail	Upto 30%

**Post Issue Shareholding Pattern**

Promoters Group	86.88%
MF/Banks/Indian FIs/Public & Others	13.12%

**Public Issue Note**
**Objects of the Issue**

■ Land Acquisition	Rs 234cr
■ Development and construction cost for existing and forthcoming projects	Rs 142cr
■ Repayment of loans of the company	Upto Rs 132cr
■ General corporate purpose	■

Bangalore based Sobha Developers is entering the capital markets, with 88.9 lakh equity shares on offer. The issue would constitute 12.20% of the fully diluted post issue paid up capital of the company. The book runners and lead managers of the issue are Kotak Mahindra and Enam. The company was incorporated in the year 1995 and promoted by Mr. Menon, who has tremendous experience in the development of real estates. He started his career in the Middle East where he constructed palaces and hotels.

**Company Overview**

Sobha Developers are one of the leading real estate development and construction companies in India, which focuses on residential and contractual projects. It has constructed residential projects in Bangalore and other projects on a contractual basis in eight states of India, namely, Karnataka, Kerala, Andhra Pradesh, Orissa, Tamil Nadu, Punjab, Haryana and Maharashtra. As of September 30, 2006 the company had land reserves of 2,747.06 acres and its land arrangements comprised of 3,373.28 acres of land.

The company has executed several residential projects including presidential apartments, villas, row houses, super luxury apartments and luxury apartments. In the contractual space, the company executed its first project for Infosys Technologies.

The company has laid special emphasis on quality and hence done backward integration to keep a check on timely execution and control on quality. This helps the company to retain its key competencies and in-house resources to deliver a project from the conceptualization stage to completion.

The company has been awarded several certifications for compiling with the regulatory norms. Moreover the company has been awarded many awards for excelling in its field.

The company has a highly professional and well qualified management team. The company is one of the very few in India who have a strong sense of corporate social responsibility.

Cushman & Wakefield, international property consultants, as on July 7 2006 have valued the land reserves of the company between Rs 7036cr – Rs 7776cr.

### **Industry Scenario**

The Indian economic growth has been growing consistently at a rapid pace, and with even better prospects of future growth in the Indian economy, the development of a supporting, scalable infrastructure have become increasingly important. We expect India's overall population to become more urbanized, necessitating quality real estate space.

Moreover, as the Indian economy continues its growth, and with a higher disposable income the aspirations of people will also grow. People's preference to live in nuclear families coupled with demand for quality housing, is ushering the housing boom, fuelling the spiraling real estate prices.

Contribution of housing and real estate to India's GDP is meager 1% against 3-6% of developing countries. If the economy grows at the rate of 10%, the housing sector has the capacity to grow at 14%. With India firing on all cylinders and growth prospects intact, we believe that the real estate sector is set to capitalize this opportunity.

### **Industry Growth Triggers**

#### ■ **Housing Sector**

The tenth five-year plan estimates a shortage of 22.4 mn dwelling units. Thus, in the coming 15-20 years, 80-90 mn housing units will have to be constructed with a majority catering to the low-income group. The 2001 census indicates an urbanisation rate of 27.78%, which is expected to go up to 41 % in the next 20 years. Urbanisation, coupled with higher disposable income, easy availability of loans and tax incentives, are the key drivers for a housing boom.

#### ■ **Office Premises**

Another major booster for the growth of real estate is growing demand for office premises by booming IT industry especially the BPO sector. It is expected that India would continue to be one of the preferred destinations for setting up back office operations.

#### ■ **Shopping Malls, Multiplex Cinemas**

The increase in disposable income coupled with more brand consciousness results in higher sale of branded goods. With organised retailing poised for sharp growth in the near future, requirement of real estate will be essential.

### **Investment Rationale**

#### ■ **Backward Integration Model**

In order to retain its core competencies like quality and in house resources to deliver the project from conceptualization to completion, the company has gone in for backward integration. This includes an architectural and design studio, concrete block making plant, metal and glazing factory, interiors and wood working factory, mechanical, electrical and plumbing division and project implementation team.

The interiors and wood work factory is engaged in manufacturing of wood or wood based products, including doors, windows, wooden flooring, paneling, pillars and staircases. A design team provides interior design schemes. The metal and glazing division is engaged in the business of metal fabrication such as aluminium windows and doors, structural and architectural glazing. The concrete block making division makes a wide range of pavers, kerb and water drainage products.

- The company plans to expand into new geographical areas. Besides Bangalore, the company plans to enter cities like Mysore, Jaipur, Kochi, Pune, Delhi, Chennai, Mangalore, Hyderabad and Mumbai. It intends to develop and construct residential projects, townships, malls, SEZs and retail commercial projects.
- Besides residential projects, the company plans to diversify by developing hotels, integrated townships, malls, multiplexes and shopping complexes. The company is positioning itself to capitalise on the developments created in the hospitality and entertainment space.
- The company is actively seeking to pursue opportunities in the contractual projects from its existing clients like Infosys, Mico, and Taj group while actively targeting other companies.
- The company plans to diversify its product offerings to include retail products in the nature of furnishings and interiors.

### **Projects Executed**

The company's huge land reserves represent an aggregate of approximately 118 million sq ft of developed or potential developed area, over 78 locations in 7 cities across India. Land arrangements represent approximately 117 million sq feet of developed or potential developed area spread over 13 locations in 3 cities.

The company operates in two broad categories namely:

- 1) Development and construction of residential and commercial projects on a turn-key basis.
- 2) Construction of projects on a contractual basis.

The residential projects include villas and apartments along with amenities such as clubhouse, swimming pool and shopping complex. As of September 30, 2006 the company had developed and constructed 21 residential projects in Bangalore aggregating 1,552 apartments and covering approximately 2.98 million sq. ft. of super built up area.

The company has also constructed two commercial properties on a turnkey basis in Bangalore aggregating to 109,178 sq feet of super built up area.

The company has constructed a variety of projects on a contractual basis, including convention centers, software development blocks, multiplex theaters, hostel facilities, guest houses, food courts, restaurants, educational and research centers, residential bungalows and corporate offices. In the contractual project space, the scope of work includes designing, electrical works, plumbing work, metal and galvanizing works, interiors and construction. The company as on September 30, 2006 has completed construction of 75 projects, covering 8.42 million sq ft of super built up area. The total value of these projects amounts to Rs 767cr.

### **Current and Forthcoming Projects**

The company is currently developing 15 residential projects in Bangalore which are at various stages of completion, aggregating to approximately 4.97 million sq ft of super built-up area comprising of 2,682 apartments. In addition the company is proposing to develop 13 residential projects in Bangalore, aggregating around 5.17 million sq ft of super built up area comprising of 3055 apartments, for which some regulatory approvals are awaited.

In the contractual space the company is currently executing 23 projects for various corporates and other entities such as school, hospital, and software development blocks in various states of India. These projects are estimated to have a contractual value of Rs 529 cr.

**Exhibit 1: Key Financials**

Y/E March (Rs cr)	FY2004	FY2005	FY2006
Net Sales	195.1	453.1	596.6
% change	-	132.2	31.7
EBIDTA	14.5	53.6	109.7
PAT	8.9	33.8	89.2
% change	-	281.1	163.6
EPS (Rs)	1.2	4.6	12.2
Book Value Per Share (Rs)	40.3	88.9	187.7
<b>Key Ratios</b>			
EBIDTA Margins (%)	7.4	11.8	18.4
PAT Margins (%)	4.6	7.5	15.0
RoNW (%)	30.2	52.2	65.2
<b>Valuations @ Rs640</b>			
P/E (x)	525.3	137.8	52.2
P/BV	15.8	7.2	3.4

Source: Company, Red Herring Prospectus

**Valuation and Outlook**

The company is in a high growth area of real estate development, which offers tremendous opportunities. It has about 118.1 mn square feet of development rights and is entering newer geographies and plans to diversify the project portfolio by developing hotels, malls, multiplexes, shopping complexes and integrated townships.

For the six months ended September, 2006 the company's net sales stood at Rs 83.2cr, while it reported a PAT of Rs 54cr. **For the FY2006, on a post diluted equity base, the company has an EPS of Rs 12.2 and Price to book value of 3.4x.** In terms of P/E ratio the stock trades at 44.9x at the lower price band and at 52.2x at the higher price band of Rs 640. Given the high growth and future prospects of the company, we recommend investors to **Subscribe** to the issue.

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