

VISIT UPDATE

MID CAP

Share Data

| | |
|-----------------------|---------|
| Reuters code | GODR.BO |
| Bloomberg code | GPL IN |
| Market cap. (US\$ mn) | 840 |
| Issued shares (mn) | 70 |
| Target price (Rs) | 519 |

Performance (%) 1M 3M 12M

| | | | |
|----------|-----|-----|---|
| Absolute | 2 | (3) | 0 |
| Relative | (4) | (5) | 0 |

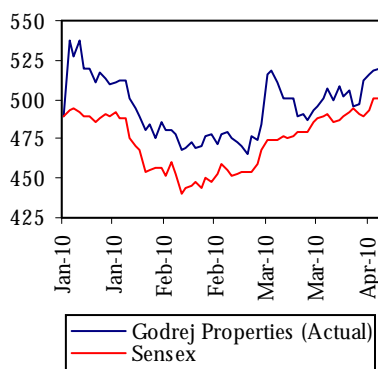
Valuation Ratios

| Yr to 31 Mar | FY11E | FY12E |
|--------------------|--------|-------|
| EPS (Rs) | 17.3 | 25.3 |
| +/- (%) | (18.2) | 45.8 |
| PER (x) | 30.3 | 20.8 |
| PBV (x) | 4.2 | 3.8 |
| Dividend/Yield (%) | 1.5 | 2.0 |
| EV/Sales (x) | 8.2 | 4.7 |
| EV/EBITDA (x) | 29.2 | 15.6 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 84 |
| FII's | 5 |
| MF's | 4 |
| BFSI's | 3 |
| Public & Others | 4 |

Relative performance



Godrej Properties

Maintain Underperformer

Price: Rs 526

BSE Index: 17,951

09 April 2010

Ahmedabad calling...

We met the management of Godrej Properties Ltd. (GPL) recently and below are the key takeaways:

- Good response to Phase I of ambitious Ahmedabad project:** Spread over an area of ~330 acres, Godrej Garden City is the most ambitious project of the company. The project comprising mixed-use development of ~40 mn sq ft is slated to be developed in phases over the next 10 years. Phase I of the project comprising ~1.3 mn sq ft (~888 units) received a good response due to judicious pricing (*Refer Annexure I*) of the project. The company managed to pre-sell 100% of area in a span of 10 days for an average realisation (basic price) of Rs 2,300 per sq ft.
- Though the company launched the project earlier than our anticipated launch date and received better than expected response, we believe, going forward, pricing for the incremental phases is the key to watch out for.** We believe if the incremental phases are priced imprudently (overwhelming response to Phase I) the company might not manage healthy pace of bookings. However, our interaction suggests that the management is not contemplating any steep price hikes for incremental phases.
- Exploring new opportunities:** The company is contemplating both geographical and segmental diversification. Geographically, NCR seems to be on the radar of the company. The company would continue to focus on its tried and tested JDA model to enter NCR market. However, selective open plot projects cannot be ruled out. Segment-wise, the management looks keen to diversity into highly lucrative redevelopment space in Mumbai Metropolitan Region (MMR). The strategy to enter into NCR market and segmental diversification looks in sync with the company's intent to manage both topline as well as margins. Entry into relatively high volume NCR market will help the company push volumes to report topline growth, whereas redevelopment projects will help keep margins healthy.
- Recent stake sales to keep funding requirement low:** The company recently did stake sales in two of its projects, namely, Godrej Eternia (commercial project in Chandigarh) and residential project in Chennai project to HDFC PMS. First transaction involved divestment of 49% stake in its commercial project in Chandigarh for a consideration of Rs 450 mn. The second transaction involved stake sale of 49% (transaction to be executed in two tranches of 22.3% and 26.7%) in one of its subsidiaries executing residential project in Chennai for Rs 550 mn. Stake sales have not only helped the company arrange funds for execution of the projects; but have also resulted in reducing capital intensity of the projects. (Please refer to Annexure II for further details).
- Change in the accounting treatment for debtors and customer advances:** Though the company recognises revenue on POCM basis, till 3QFY10 it did not knock off its customer advances by the revenue recognised (practice commonly followed by most of its peers). Instead it used to increase receivables by the revenue recognised

amount to match assets with liabilities. Both customer advances and receivables were earlier being adjusted or knocked off at the actual delivery of the project. Though there was nothing wrong with the policy, it did not reflect the actual cash receivables for the company. To address this concern, the company now intends to follow practice followed by its peers and knock off customer advances by the revenue recognised.

- **Status quo maintained on MoU land and Group's land bank:** The company maintained status quo on MoU land (~185 acres across three cities) and future plans for Group's land bank. As per our understanding, the Godrej group owns in excess of 3,500 acres in Vikhroli (including 36.5 acres already covered by one of the Group Company for mixed use development). Though most of the land bank is reserved for mangrove conservation, the management indicated that ~500 acres of the said land bank is commercially exploitable. However, the management did not comment on the timelines for taking up this land bank for development. If and when conveyed to GPL for commercial exploitation or development, we believe, this could add materially to our estimated FVPS.
- **The way forward:** GPL intends to launch 6-7 mn sq ft of space in the next two fiscal years. Given huge demand-supply mismatch in affordable housing segment, in medium term, the company intends to focus more on development of affordable housing units with ticket size ranging from Rs 2.5-4.0 mn per unit.
- **Earnings revision and valuation:** Adjusted for earlier than expected launch of Ahmedabad project and better than expected response and recent stake sales, we revise our earnings estimates to Rs 21.2 for FY10E (from Rs 15.4 earlier), Rs 17.3 for FY11E (from Rs 14.0 earlier) and Rs 25.3 for FY12E (from Rs 19.3 earlier). Subsequent to earnings revision, change in house call for WACC assumptions and roll forward of target price by one year, our estimated fair value per share (FVPS) stands revised to Rs 519. We maintain our Underperformer rating on the stock, as the recent run up in the stock price seems to have factored in all of the upsides as of now. Any further stake sale to keep the business model asset light poses a threat to our call.

Annexure I: Project specifications

| Type | Size (sq ft) | Rate (Rs mn) | Basic price (Rs per sq ft) |
|-------------------------|-----------------|-----------------|-------------------------------|
| 2 Bedroom | 1,064 | 2.2 | 2,100 |
| 2 Bedroom | 1,262 | 2.7 | 2,100 |
| 3 Bedroom | 1,332 | 3.0 | 2,250 |
| 3 Bedroom | 1,729 | 3.9 | 2,250 |
| 3 Bedroom+ 1 Study Room | 2,253 | 5.5 | 2,450 |

Source: www.allcheckdeals.com

Annexure II: Recent stake sales

| Date of agreement | Name of subsidiary | Project | Saleable area (mn sq ft)* | Name of Buyer | Stake sold (%) | Total consideration (Rs mn) |
|-------------------|--|----------------------------|---------------------------|---------------|----------------|-----------------------------|
| 22/03/2010 | Godrej Estate Developers Pvt. Ltd. | Godrej Eternia, Chandigarh | 0.19 | HDFC PMS | 49.00 | 450 |
| 31/03/2010 | Godrej Sea View Properties Pvt. Ltd.** | Chennai Project | 1.15 | HDFC PMS | 22.27 | 250 |
| | | | | | 26.73 | 300 |

Source: Company, B&K Research. *GPL's economic interest post stake sale. **Stake sale to take place in two tranches; the first (22.27%) took place in March 2010 and the second (26.73%) for Rs 300 mn will take place subsequently.

Annexure III: SOTP valuation

| Particulars (Rs mn) | Old valuation | Revised | | |
|----------------------------------|---------------|---------------|----------------|---------------|
| | | Valuation | Per share (Rs) | % age of FVPS |
| Residential | 14,098 | 17,340 | 248 | 48 |
| Commercial (Sale based) | 12,749 | 11,029 | 158 | 30 |
| Commercial (Lease based) | 2,895 | 2,192 | 31 | 6 |
| Add: Value of lands through MoUs | 4,077 | 4,234 | 61 | 12 |
| Total GPV | 33,819 | 34,795 | 498 | 96 |
| Add: Debtors | 644 | 3,729 | 53 | 10 |
| Less: Net debt | (2582) | (2,269) | (32) | (6) |
| Fair value | 31,882 | 36,255 | 519 | 100 |
| No. of shares (mn) | 70 | 70 | - | - |
| Fair value per share (Rs) | 456 | 519 | 519 | - |

Income Statement

| Yr end 31 Mar (Rs mn) | FY09 | FY10E | FY11E | FY12E |
|--|---------------|---------------|---------------|--------------|
| Net sales | 2,053 | 1,447 | 4,927 | 9,114 |
| <i>Growth (%)</i> | <i>(9.7)</i> | <i>(29.5)</i> | <i>240.6</i> | <i>85.0</i> |
| Operating expenses | (1,348) | (1,032) | (3,549) | (6,376) |
| Operating profit | 704 | 414 | 1,378 | 2,738 |
| EBITDA | 704 | 414 | 1,378 | 2,738 |
| <i>Growth (%)</i> | <i>(41.3)</i> | <i>(41.2)</i> | <i>232.7</i> | <i>98.7</i> |
| Depreciation | (11) | (23) | (12) | (15) |
| Other income | 450 | 1,439 | 405 | 97 |
| EBIT | 1,143 | 1,831 | 1,771 | 2,820 |
| Interest paid | (53) | (51) | (61) | (74) |
| Pre-tax profit (before non-recurring items) | 1,089 | 1,780 | 1,710 | 2,747 |
| Pre-tax profit (after non-recurring items) | 1,089 | 1,780 | 1,710 | 2,747 |
| Tax (current + deferred) | (323) | (292) | (423) | (824) |
| Net profit | 766 | 1,488 | 1,287 | 1,923 |
| Minority interests | (9) | (9) | (77) | (158) |
| Net income | 757 | 1,479 | 1,210 | 1,764 |
| Adjusted net profit | 757 | 1,479 | 1,210 | 1,764 |
| <i>Growth (%)</i> | <i>0.9</i> | <i>95.4</i> | <i>(18.2)</i> | <i>45.8</i> |

Balance Sheet

| Yr end 31 Mar (Rs mn) | FY09 | FY10E | FY11E | FY12E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Current assets | 14,747 | 18,194 | 23,660 | 32,314 |
| Cash & marketable sec. | 269 | 1,819 | 2,138 | 4,424 |
| Other current assets | 14,478 | 16,374 | 21,522 | 27,890 |
| Net fixed assets | 392 | 247 | 296 | 745 |
| Other non-current assets | 5 | 0 | 0 | 0 |
| Total assets | 15,144 | 18,441 | 23,957 | 33,059 |
| Current liabilities | 5,575 | 6,051 | 9,519 | 12,890 |
| Total debt | 6,563 | 4,088 | 5,665 | 10,541 |
| Total liabilities | 12,138 | 10,139 | 15,184 | 23,431 |
| Equity share capital | 604 | 699 | 699 | 699 |
| Reserves & surplus | 2,385 | 7,577 | 7,971 | 8,668 |
| Shareholders' funds | 2,989 | 8,275 | 8,670 | 9,367 |
| Minority interest | 17 | 26 | 103 | 261 |
| Total equity & liabilities | 15,144 | 18,441 | 23,957 | 33,059 |
| Capital employed | 9,569 | 12,390 | 14,438 | 20,169 |

Cash Flow Statement

| Yr end 31 Mar (Rs mn) | FY09 | FY10E | FY11E | FY12E |
|---------------------------------|----------------|--------------|--------------|----------------|
| Pre-tax profit | 1,089 | 1,780 | 1,710 | 2,747 |
| Depreciation | 11 | 23 | 12 | 15 |
| Chg in working capital | (4,219) | (1,420) | (1,680) | (2,997) |
| Total tax paid | (324) | (287) | (423) | (824) |
| Cash flow from oper. (a) | (3,443) | 96 | (380) | (1,059) |
| Capital expenditure | (30) | 122 | (62) | (464) |
| Cash flow from inv. (b) | (30) | 122 | (62) | (464) |
| Free cash flows (a+b) | (3,473) | 218 | (442) | (1,523) |
| Equity raised/(repaid) | 0 | 4,482 | 0 | 0 |
| Debt raised/(repaid) | 3,832 | (2,475) | 1,576 | 4,876 |
| Dividend (incl. tax) | (177) | (523) | (644) | (857) |
| Other financing activities | 0 | (151) | (171) | (211) |
| Cash flow from fin. (c) | 3,656 | 1,333 | 761 | 3,809 |
| Net chg in cash (a+b+c) | 182 | 1,551 | 319 | 2,285 |

Key Ratios

| Yr end 31 Mar (%) | FY09 | FY10E | FY11E | FY12E |
|-----------------------|-------|-------|--------|-------|
| Adjusted EPS (Rs) | 12.5 | 21.2 | 17.3 | 25.3 |
| Growth | 0.9 | 69.0 | (18.2) | 45.8 |
| Book NAV/share (Rs) | 49.7 | 118.8 | 125.6 | 137.8 |
| Dividend/Share (Rs) | 2.5 | 6.4 | 7.9 | 10.5 |
| Dividend payout ratio | 23.3 | 35.4 | 53.2 | 48.6 |
| Tax | 29.7 | 16.4 | 24.7 | 30.0 |
| EBITDA margin | 34.3 | 28.6 | 28.0 | 30.0 |
| EBIT margin | 55.7 | 126.6 | 35.9 | 30.9 |
| RoCE | 15.5 | 16.7 | 13.2 | 16.3 |
| Net debt/Equity | 209.4 | 27.3 | 40.2 | 63.5 |

Valuations

| Yr end 31 Mar (x) | FY09 | FY10E | FY11E | FY12E |
|-------------------|------|-------|-------|-------|
| PER | 42.0 | 24.8 | 30.3 | 20.8 |
| PCE | 41.3 | 24.5 | 30.0 | 20.6 |
| Price/Book | 10.6 | 4.4 | 4.2 | 3.8 |
| Yield (%) | 0.5 | 1.2 | 1.5 | 2.0 |
| EV/Net sales | 21.0 | 27.0 | 8.2 | 4.7 |
| EV/EBITDA | 61.1 | 94.1 | 29.2 | 15.6 |

Du Pont Analysis - ROE

| Yr end 31 Mar (x) | FY09 | FY10E | FY11E | FY12E |
|----------------------|------|-------|-------|-------|
| Net margin (%) | 36.9 | 102.2 | 24.6 | 19.4 |
| Asset turnover | 0.2 | 0.1 | 0.2 | 0.3 |
| Leverage factor | 4.7 | 3.0 | 2.5 | 3.1 |
| Return on equity (%) | 27.9 | 26.2 | 14.2 | 19.2 |

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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