



January 9, 2008

Omaxe Ltd.

Buy

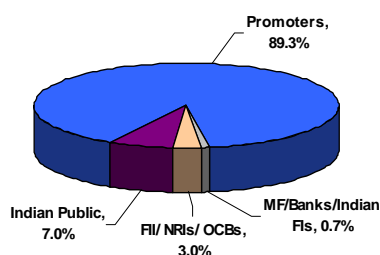
CMP: Rs 547

Target Price: Rs 744

Key Data

Market Cap (Rs bn)	95.01
Market Cap (US\$ mn)	2375
52 WK High / Low	613 / 263
Avg Daily Volume	687271
Face Value (Rs)	10
BSE Sensex	20873
Nifty	6288
BSE Code	532880
NSE Code	OMAXE
Reuters Code	OMAX.BO
Bloomberg Code	OAXE IN

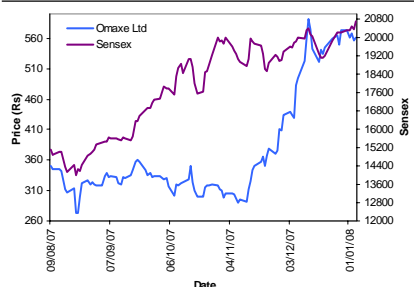
Shareholding Pattern (%)



Price Performance (%)

	Absolute	Relative
3 Months	77.2	60.8
Listing	60.2	23.2

BSE vs Omaxe Ltd.



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Omaxe Limited is a real estate development and construction company with business spread across 30 cities of 9 states in India. The company commenced business in the year 1989 as a construction/contracting company and diversified into real estate development in 2001, with focus on residential and commercial properties.

Investment Arguments

- The company since inception has executed 120 construction projects in the capacity of contractors' thereby delivering ~30 mn sqf of area for third parties. As a developer the company delivered 9 residential and 2 commercial real estate projects comprising ~5.6 mn sqf of developed area.
- Omaxe's land reserves of ~3,255 acres translates into ~150 mn sqf of developable and saleable area, which is well diversified across 9 states. The average cost of land for Omaxe works out to around Rs 150 p/sqf which gives the company a competitive advantage.
- Omaxe has a strong brand image in the National Capital Region where it has delivered quite a few impressive projects. The company completed 'Royal Residency' its first major residential group housing project in 2004, 'NRI City' at Greater Noida, its first township, came up in June, 2006. Company's first significant commercial development is 'Omaxe Plaza' at Gurgaon.
- The company is further diversifying into various verticals like road development, SEZs, etc by way of various JVs with domestic & international companies. Bid for 8 lane 'Ganga Expressway' in Uttar Pradesh and SEZ approval from Govt. of Rajasthan are couple of new initiatives by Omaxe.

Valuation

At CMP of Rs 547, the stock trades at a P/E of 11.4x FY2009E and 7.4x FY2010E and EV/EBITDA of 9.1x FY2009E and 6.0x FY2010E. We Initiate Coverage on OMAXE with a price target of Rs 744. Our price target is at a 10% premium to our NAV estimates. Our NAV estimate is based on the discounted cash flows from the development schedule for the current landbank.

Key Financials

Y/E	March (Rs mn)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales		14,313	24,463	36,143	54,085
% chg		73.5	70.9	47.7	49.6
Net Profit		2,579	5,871	8,403	12,980
% chg		94.2	127.7	43.1	54.5
EPS		16.6	33.6	48.2	74.4
EBITDA Margin (%)		24.3	31.3	31.7	32.5
P/E (x)		32.9	16.3	11.4	7.4
P/CEPS (x)		32.4	16.1	11.3	7.3
ROE (%)		55.1	35.3	33.6	34.2
ROCE (%)		20.4	28.3	33.7	37.0
P/BV (x)		18.1	5.7	3.8	2.5
EV/Sales (x)		7.5	4.3	2.9	1.9
EV/EBITDA (x)		31.0	13.9	9.1	6.0

Source: Company; FQ Research

Investment Rationale

A 'sight' at Omaxe

Omaxe Limited is a real estate development and construction company with business spread across 30 cities of 9 states in India. The company has proven track record of delivering 120 projects aggregating ~30 mn sqf for third parties as civil contractors. This also proves the operational efficiency of the company and capability to deliver in future as well. Omaxe's main focus remains Tier II-III cities, which is obvious from the fact that 83% of its real estate revenues for FY2007 resulted from sale in these cities vis-à-vis 62% in FY2006. Omaxe's development projects range from integrated townships, group housing, commercial properties, hotels, IT and bio-tech parks to Special Economic Zone.

Exhibit 1: Ongoing & Planned Projects

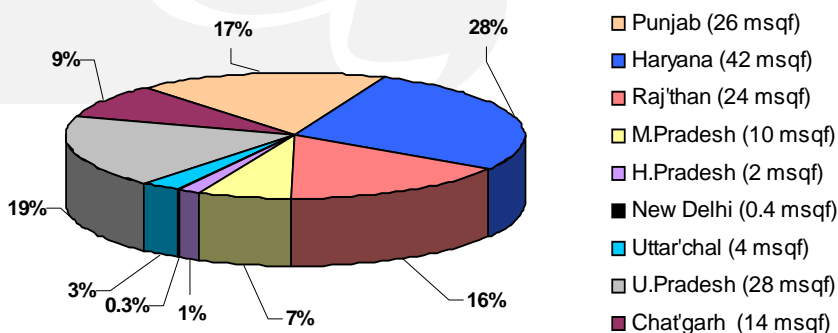
Segment	No. of Projects	Area (m sqf)
Township	16	77
Group Housing	21	67
Commercial	14	5
Hotel	1	1
Total	52	150

Source: Company

Extensive & diversified land reserves

The company's land reserves of ~3,255 acres translates into ~150 mn sqf of developable and saleable area, which is well diversified across 9 states in India. The average cost of land for Omaxe works out to Rs 150 p/sqf which gives the company a competitive advantage, especially with spiraling land prices. With this extensive landbank the company is set to benefit from large volume opportunity and secured development pipeline.

Exhibit 2: Break-up of land reserves across states



Source: Company; FQ Research

Current significant projects

A number of Omaxe's noteworthy residential projects are 'The Forest' at Noida; which is a 0.5mn sqf group housing project located in close proximity to 8-lane expressway at Sector 92, Noida. The project includes range of luxury apartments and penthouses surrounded by 325 acres of green reserves. 'The Forest' at Faridabad is a luxury group housing project being developed over an area of 3 mn sqf. 'The Nile' at Gurgaon is a 0.9 mn sqf of development incorporating an 'Egyptian' theme to its architecture and design. This modern development will have 416 apartments, along with a landscaped park and other modern amenities.

Omaxe's significant current township projects are:-

- Omaxe City' at Jaipur, which is being developed over an area of ~ 399 acres of land, located strategically on Jaipur-Ajmer Express Highway.
- Omaxe City' at Sonapat being developed over an area of ~ 346 acres of land and the completion is expected by December 2009. This township is located on NH-1 and will be identical to other township planned.
- Omaxe City' at Lucknow is being developed over an area of approximately 140 acres of land and has an expected completion date of September, 2009, key feature of this township is its proximity to the prime locations in and around Lucknow and its vicinity to the local airport.
- Company's significant current commercial projects are the 'Omaxe Connaught Place' in Greater Noida, the expected completion date for this project is September, 2009 which has a saleable area of ~ 1.5mn sqf and will feature modern office complexes, a world class shopping mall, an eight-screen multiplex, a five star hotel, food courts and various family entertainment centres.

Innovative strategy

Omaxe looks out for new business opportunities in its business line and was one of the first developers to conceptualize and develop theme malls in northern India. Omaxe introduced the concept of 'Wedding Malls' which are meant to be 'one-stop shops' for all wedding related preparations. The company plans wedding malls at Gurgaon, Agra, Patiala having saleable area of approximately 1.8 lac sqf, 3.2 lac sqf and 1.8 lac sqf respectively.

Another similar innovative concept of 'House 2 Home' is planned by Omaxe. This development will include shops selling interior design-ware, furniture and other residential accessories required to set-up and furnish a home. The 'House 2 Home' mall is being constructed at Sohna Road at Gurgaon and has a saleable area of ~ 0.2 mn sqf. The mall is located near the residential hub of Gurgaon providing the mall with an accessible customer base.

Impressive delivery track record

Omaxe's first major residential group housing project in 2004, 'NRI City' at Greater Noida, its first township, in June, 2006. This township has 3.75 mn sqf of developed area and is located in the NCR at Greater Noida. Company's significant commercial development is 'Omaxe Plaza' at Gurgaon. Its well established brand name in this micro market allows it to command premium over comparable projects of other developers.

Outsourcing contracts

The company also outsources few critical activities like designing, architecture and construction to take advantage of the expertise of reputed companies, to reduce costs and to add value to its projects. The company uses the past experience of its team to monitor and supervise the activities which it outsources.

Business Plan

Integrated Townships – answer to urban problems

Integrated Township projects are focused on creating new suburbs through large scale developments and are the new face of Indian real estate. A township provides choice of residential housing from apartments to individual plots with world-class amenities. This trend of Integrated Township has played a crucial role in opening floodgates for development across the country and could be the answer to India's urban problems. Development of Noida, Greater Noida, Ghaziabad and Faridabad amongst others are examples that refer to success of township planning in India. Cities like Jaipur and Indore are also witnessing major development in this segment as Omaxe plans its townships in these cities. Omaxe completed 'NRI City' at Greater Noida, its first township, in June, 2006. This township has 3.75 mn sqf of developed area and is located in the NCR at Greater Noida. The company is in the process of developing 16 integrated townships with ~ 2180 acres or ~ 77 mn sqf of saleable area. This segment constitutes 52% of Company's total current projects under development. These Townships basically consists developed plots, villas, group housings - apartment & condominium, commercial complexes, IT, Biotech and other facilities. Complexes built in large area of land with all such facilities which provide the living experience, are in demand these days.

Exhibit 4: Omaxe's Integrated Township commitments

Project	Location	Area (mn sqf)
Omaxe City	Sonepat	11.4
Omaxe City	Rohtak	4.5
Omaxe City	Palwal	4.8
Omaxe City, Jhajjar Rd.	Bahadurgarh	2.5
Omaxe City, Delhi Rd.	Bahadurgarh	2.2
Omaxe City	Lucknow	3.8
Omaxe City, Sultanpur	Lucknow	4.0
Omaxe City	Mathura	1.0
Omaxe City, Mayakheri	Indore	3.4
Omaxe City, Nihalpur	Indore	2.9
Omaxe City	Jaipur	14.1
Omaxe City	Ajmer	1.3
Omaxe City	Patiala	11.6
Omaxe City	Yamuna Nagar	4.1
Omaxe City	Bulandsahar, U.P	1.7
Omaxe City-II	Indore	3.9

Source: Company

Group Housing– creating greater housing stock

Group housing trend on the periphery of big cities, away from the madding crowd, has picked up as land prices in these outskirts are considerably lower against high prices within cities. In order to ensure optimum utilisation of scarce urban land, several housing boards have introduced plans to create greater housing space across the region. For instance, Haryana Urban Development Authority (HUDA) has introduced the concept of Group Housing in its major Urban Estates, through increased floor area ratio (far) and multi storeyed construction. Omaxe's group housing projects include apartment condominium type housing and also comprise of commercial complexes. The company completed 'Royal Residency' its first major residential group housing project in

2004. Omaxe currently is in the process of developing 21 residential group housing projects of ~ 67 mn sqf of developable area. This particular segment constitutes 44% of the total projects under development. These group housing may include additional amenities such as gymnasium, pools, clubs, security systems and recreational areas.

Exhibit 5: Company's Group Housing plans

Project	Location	Area (mn sqf)
The Forest II, Sarai Khwaja,	Faridabad	3.1
The Nile	Gurgaon	0.9
Omaxe Heights, Naharpur	Faridabad	3.7
Omaxe Heights	Bahadurgarh	2.2
The Forest II, Sec 92	Noida	0.5
Omaxe Heights	Lucknow	1.2
Omaxe Heights	Agra	3.5
Omaxe Grandwoods	Noida	2.4
Omaxe Heights	Gr. Noida	4.0
Omaxe Heights	Baddi	2.3
Omaxe Green	Derabassi	1.3
Omaxe Heights	Derabassi	3.7
Omaxe Heights	Rajpura	3.8
Royal Residency	Ludhiana	3.4
Omaxe City	Raipur	13.6
Omaxe Heights-I	Bhiwadi	5.2
Omaxe Heights-II	Bhiwadi	5.2
Omaxe Riveria	Pantnagar	3.5
Omaxe Heights	Gurgaon	0.9
Omaxe Heights, Sec 50	Noida	0.3
Omaxe Heights, Sec 112	Noida	3.7

Source: Company

Commercial & Retail – This portfolio consists of shopping malls, commercial complexes, multiplexes, and office premises. Company's first significant commercial development was 'Omaxe Plaza' at Gurgaon. Omaxe has acquired land to deliver 14 commercial complexes equivalent to ~ 4.89 mn sqf of saleable area. This division also includes development of retail space across the area of operations. Company's completed retail projects are 'Omaxe Arcade' at Gr. Noida and 'Omaxe Plaza' at Gurgaon. This segment constitutes 4% of the total current projects under development. At present, demand for office space is beyond supply at almost all locations in India. This is supported by pre-lease and low vacancy rates in this segment. In India nearly 75% of the office space is occupied by the IT/ITES segment, which has been the key driver for commercial office space demand. We estimate retail sector demand at 40 mn sqf/annum; the demand for quality retail space is sensed across India.

Exhibit 6: Following are Commercial & Retail projects.

Project	Location	Area (mn sqf)
Omaxe Connaught Place	Gr. Noida	1.5
Wedding Mall	Agra	0.2
Omaxe Park Palza	Ghaziabad	0.1
NRI City Centre	Gr. Noida	0.1
Omaxe Citadel, Jasola	New Delhi	0.1
Perals Omaxe	Delhi	0.3
House 2 Home	Gurgaon	0.2
Wedding Mall	Gurgaon	0.2
Wedding Mall	Patiala	0.3
Omaxe Plaza	Ludhiana	0.2
Omaxe Mall	Ludhiana	0.7
Omaxe Terminal	Amritsar	0.6
Novelty	Amritsar	0.1
Omaxe Mall	Yamunanagar	0.3

Source: Company

New Initiatives – (JVs & MoU)

Omaxe has signed a number of joint venture agreements with various international/national companies to venture into new business verticals. Company's operating efficiency and scale allows it to tie up with these companies. These ventures will contribute significantly to the company's valuations going forward.

Some of the ventures & agreements:-

High on the Highway

Omaxe Ltd through a consortium of M/s. GVK Power & Infrastructure Ltd and M/s. Nagarjuna Construction Company Ltd submitted an application with Department of Infrastructure Development, Government of Uttar Pradesh in regard to development of 8 lane 'Ganga Expressway' project from Greater Noida to Ghazipur, Ballia. The Government of Uttar Pradesh (UP) has planned to develop an access-controlled 8-lane expressway of ~1,047kms, at an estimated cost of about Rs 298bn (US\$7.4bn), from Greater Noida (near Delhi) to Ballia along the left bank of the river Ganga based on a PPP (Public Private Partnership) model. The expressway will provide flood protection to the area along with high speed direct connectivity from western to eastern boundaries of the state of UP. The developers would be awarded roughly 1,000 acres of land along the road stretch that can be commercially developed.

Exhibit 7: 'The Ganga Expressway'

Stretch	Distance (km)	Est. Cost (Rs bn)
Gr. Noida - Fategarh	253	76.3
Fategarh - Dalmau	305	80.1
Dalmau - Aurai	211	61.2
Aurai - Ballia	278	80.2

Source: Industry

SEZ adding value

Omaxe has entered into Memorandum of Understanding with State of Rajasthan for facilitating the setting up of Multi Product Special Economic Zone at District Alwar Rajasthan. The proposed SEZ is over 5000 hectares (12500 acres approx) of land in Dist Alwar, Rajasthan, to be set up over an estimated period of 5 years and is expected to generate direct and indirect employment for approximately 6 Lac people in the State of Rajasthan.

Unique Inorganic growth strategy

Omaxe Ltd. has acquired SN Realtors, NCR-based land owning company, for a consideration of USD 11.25 mn (INR 450 mn). By this take over, the company has acquired 11.012 acres of land in Faridabad; and plans to develop a residential project with an additional investment of USD 25 mn (INR 1 bn). The strategy of inorganic growth is one of the unique in real estate sector. However, this shows the significance importance about the likely consolidation within the sector on account of large unorganised players in the sector.

NAV Estimation

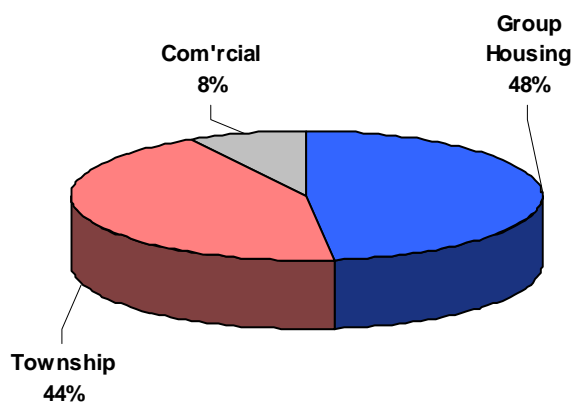
We have arrived at a fair value of Rs 744 per share, based on our NAV estimates for various projects. Following is the NAV arrived for Omaxe from its various business segments

Exhibit 8:

NAV Estimation	Rs mn
NAV of Group Housing	73,220
NAV of Township	66,372
NAV of Commercial Properties	11,383
Gross NAV	150,975
Add Cash	8,638
Less Debt	10,682
Less Interest	1,335
Less Tax @ 20%	30,195
Net NAV	117,401
Add 10% premium	11,740
Total NAV	129,141
No. of Shares	174
Value/Share	744

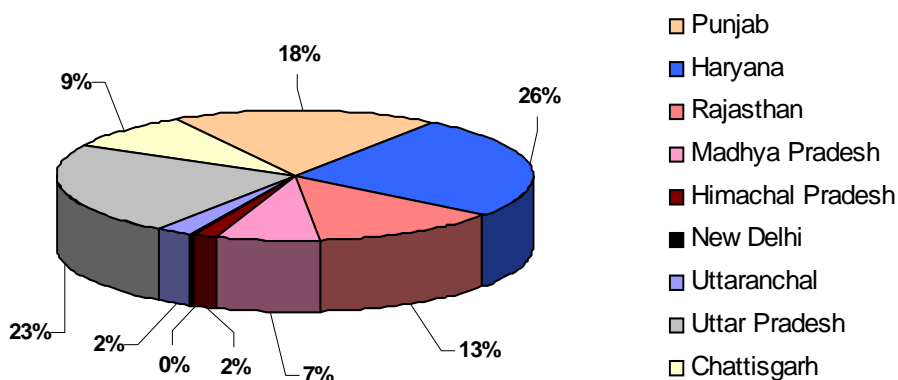
Source: FQ Research

Exhibit 9: Segment wise NAV



Source: FQ Research

Exhibit 10: State wise NAV



Source: FQ Research

NCR region update

The company holds its key projects in the National Capital Region, which includes key suburbs in the region of Delhi such as Gurgaon, Faridabad, Ghaziabad, Noida and Greater Noida. The NCR which has seen spurt in real estate activities for past few years has become a darling of developers across the country and is one of the key markets to follow. Residential market in the region remains firm with most property consultants expecting demand-supply to remain in balance. However, deal volumes have seen a fall, which is due to, developers and consultants claim exit of speculative activity in the region. However, end user demand still remains strong. A 10-15% correction in capital values of properties across the region has been estimated by various consultants. Initiatives like release of fresh land parcels by the authority are leading the growth prospects of the region. Also, announcement of Gurgaon-Manesar master plan has been a big boost for real estate growth in the region.

Residential outlook

Knight Frank estimates approx. 122.5 mn sqf of residential supply in National Capital Region for the year 2009-10, supply for 2008 stands at ~39.3 mn sqf. Activities like Metro rail extension, development of expressways, widening of national highways, airport modernization has fuelled more interest of big and small players in the region and has increased the commercial viability of NCR. Premium segment here reports for high volume transactions with demand from NRI's & HNI's.

Key Developments:

Delhi: Property rates in prime locations such as Vasant Vihar, Chanakya Puri & Defence Colony are between Rs 13,000-15,000 p/sqf. Other regions like Kalkaji, Mayur Vihar & Malviya Nagar attracts anything between Rs 3,500-5,000 p/sqf. Large number of group housing societies are coming up in the location. Delhi Master plan 2021 is under discussion and is likely to be approved by the end of FY08

Ghaziabad: Ghaziabad is well connected to Delhi and Noida and has seen a recent spurt in its property market thereby enhancing the residential activity in the region 'Acquapolis', designed by Chelsea West, New York is one of the notable projects. Parsvnath's luxury condominium project is also significant upcoming project.



Noida: Noida has seen quite a few commercial activities in the recent past which is driving its residential market as well. Many large and prime ultra modern residential apartments are coming up in the region. The region has seen a big bang launch of Omaxe 'Forest'.

Gurgaon-Manesar: The new Gurgaon-Manesar Urban Complex Plan 2021 is the first master plan for the region, inspired by the Chandigarh town planning model. The plan is ready and approved. This region sees residential value of Rs 3,150-6850 p/sqf. Manesar has forthcoming projects like 25000 acre Reliance SEZ and 135 acre IT park.

Faridabad: Faridabad is busy with ongoing and upcoming residential properties. Omaxe 'The Forest', 'Luxury Floors' from SPR group, 4 luxury projects from the Eros Group at SurajKund Faridabad are few of the noteworthy upcoming properties in the location. Property rates in the region ranges anything between Rs 2150-4350 p/sqf.

Exhibit 11: NCR Residential market-Capital Values

Region	Rs / sqf
Delhi - Prime	13000-23000
Noida	3800-7000
Ghaziabad	2750-3900
Gurgaon	2850-6900
Faridabad	2150-4350
Gr. Noida	1900-3000

Source: Industry; FQ Research

'Commercial' viability of NCR

Developers and consultants anticipate firm capital and rental values in the region. Trade and industry action in the region has been driven by initiatives taken by the Government and growth of service industry. Cushman & Wakefield estimates the projected supply by year end to be approximately 15.3 mn sqf. Sealing drive by MCD has stimulated interest in city suburbs. Increased leasing volumes and rental values makes up a strong case for the NCR growth story. Updates on few important locations in & around the NCR are as follows.

CBD-Connaught Place: It continues to dominate the rentals in Delhi, rents here for prime location is close to Rs 300 sqf/mnth & others between Rs 180-200 psqf/mnth. At this juncture demand remains strong on the back of Delhi metro connectivity and limited supply of Grade A stock.

Ghaziabad: Ghaziabad is evaluated to have the maximum supply of ~51 mn sqf in the NCR market by 2010-end. Large commercial developments in Noida are encouraging builders to come up with residential units along NH - 24 & 54. Also, Hi-tech city, a 1500-acre township in Ghaziabad is also on cards.

Gurgaon: Projects by Unitech and Shapporjee Pallonjee are the key developments in the region which is likely to see supply of ~8mn sqf of space. Rentals here ranges from Rs 70-100 psqf/mnth

Noida: As per Cushman & Wakefield ~5 mn sqf of Grade A supply expected in FY2008, of this ~ 90% of supply caters to IT companies. Aggressive plans from developers like Unitech, DLF etc. can be seen.

Exhibit 12: NCR Commercial-rentals

Region	Rs/sqf/mnth
Delhi-CBD	200-290
Noida	50-75
Ghaziabad	65-110
Gurgaon	70-100
Faridabad	62-85
Gr. Noida	38-42

Source: Industry; FQ Research

Retail brief

According to Knight Frank, NCR will continue to lead the real estate development with roughly 78 malls (~25 mn sqf) scheduled to be operational by 2008. The suburbs of Faridabad, Ghaziabad and Greater Noida to be the focus of future retail development. Manesar on National Highway-8 connecting the NCR to the city of Jaipur is also likely to witness high retail interest. In Delhi, land auctioning by Delhi development Authority (DDA) and Municipal Corporation of Delhi in prime residential and upcoming retail locations has released new space for development of shopping malls, multiplexes and entertainment hubs. Delhi's favourite and most expensive retail space Connaught Place is available at ~ Rs 850 psqf/mnth, followed by South Extension at Rs 565 psqf/mnth. Other micro markets in Delhi ranges from Rs 200-250 psqf/mnth, while Noida & Gurgaon attracts Rs 180-275 psqf/mnth. 'Metro Walk' & 'The Great India Place' from Unitech are key retail spaces coming up in the region.

Exhibit 13: NCR Retail-rentals

Region	Rs/sqf/mnth
Connaught Place	800-1000
Noida	175-205
Gurgaon	220-265
Faridabad	120-150
Gr. Noida	115-130

Source: Industry; FQ Research

Hotels – CWG effect

The forthcoming Commonwealth Games (CWG) to be held in New Delhi in 2010 is expected to attract around 0.8 mn international tourist and aprox. 3.6 mn domestic tourist in the National Capital Region. It is estimated that nearly 30,000 rooms will be required to house such an influx of tourist. As per Knight Frank aprox. 25 new hotels are coming up in Gurgaon alone. In the next couple of years, Noida will have additional 24 hotel projects. Knight Frank Research indicates that over the next few years, the supply of hotel rooms in NCR will cross 17,500. Out of this, around ~30 % of rooms are currently under construction and the rest in planning stages at various locations around the region. A 5 year tax holiday has been announced for two, three and four-star hotels and convention centres specially catering to the Commonwealth Games.

Thus, NCR region is getting heightened activity as far as Hotel industry is concerned under the CWG environment, thereby giving developers opportunity to encash on the likely upswing in hotel room demand.

Punjab region brief

Punjab witnessed an enormous revival in the Real Estate Sector. The Bathinda Development Authority auctioned a 4.5 acre commercial site for Rs. 1840 mn. With major real estate players - the Silver City Group of Companies, Ansals, Gulmohar, DLF and Parsvnath Developers launching their mega real estate projects in Punjab, the stage seems set for more real estate players in this state of northern India. Omaxe plans few of its important projects in the Punjab region of Amritsar, Derabassi, Ludhiana, Mohali and others. Grade-A developments comprising malls are coming up in Zirakpur, Derabassi and Mohali, under mega projects scheme. As NRI traffic grew, and the highways to Jalandhar, Pathankot and Wagah widened, Amritsar figured on every property developers plan. With developments on a fast growth trajectory, the demand for housing is expected to rise in the region.

Projects in Amritsar:

Nitishree Group's Shourya NRI City on NH 1 guarantees hi-tech living for Non-Resident Indians in particular.

Omaxe Terminal and Omaxe Novelty retail-cum-entertainment malls designed with high-value customers in mind.

The Royal Celebration Mall by AIPL on 2.5 lakh sq. ft promises a 7-star experience on Mall Road.

DLF to set up 1,000 acre SEZ in Chhabba village, Amritsar, at an investment of Rs 160bn.

The 200 acre Amritsar Global City is an effort by a consortium formed by Sharma and Gangahar Builders.

Noteworthy Projects: Mohali

Taneja Developers & Infra. Ltd's TDI *City, Mohali*, a fully integrated self sufficient township spread over 200 acres.

Parsvnath is set to unleash '*Mall Matrix*' an ultra-modern commercial landmark in Mohali.

More projects like *Ansal API's 'Orchard County'* & *EMAAR-MGF's 'Mohali Hills'* are coming up in the region.

Upcoming Ludhiana projects

Biggest names in real estate development like DLF, Aerens and Omaxe are setting up residential & commercial projects throughout this industrial city of Punjab. While, Omaxe has a 0.5mn sqf called Festival City coming up, Aerens has its Gold and Wedding Souk, to be spread over 2mn sqf. Fifteen malls are expected to be ready by 2009, and it is Ferozepur Road that is at the heart of a number of organised retail developments, such as, Vishal Mega Mart, Ansal Plaza and Centrestage Mall., including large format retail projects like Westend Mall.

Currently, commercial properties rates range between Rs. 3,500 - 4,500-psqf rental rates could be around Rs. 90-100-per sqf.

For the residential sector, capital values of high-end plotted developments in prime locations like Sarabha Nagar, Civil Lines and Gurdev Nagar are in range of Rs.2,200-3,300/sqf.



Chandigarh

Chandigarh city has encouraged most IT companies to set up shops in the region. IT top guns such as IBM, Dell, Cognizant, Mphasis and Satyam are considering about making good investments in Chandigarh. An incredible industrial growth has also contributed to the escalation of property prices in the city. According to Knight Frank prime residential locations in Chandigarh, which include sectors 4 to 10, command the highest values, ranging between Rs.5,000-7,750/sqf. Other sectors command a price of Rs.3,300-4,400/sqf. Residential Land Rate in Chandigarh is available between Rs. 25,000-30,000 per sqyd.

Exhibit 14: Punjab State Market

City	Residential Rs/sqf	Commercial Rs/sqf
Amritsar	3300-5600	6000-8000
Chandigarh	5000-7700	7000-10000
Mohali	1800-3250	3500-4150
Ludhiana	2250-3500	3750-4500
Derabassi	1500-2000	2200-2500

Source: Industry; FQ Research

Rajasthan region update

Company's Rajasthan plans consist of development of properties in Ajmer, Jaipur, Bhiwadi and Kishangarh.

The city development plan for Ajmer and Pushkar has advocated the creation of new housing stock through active participation of private property developers. Consequently, Ajmer is moving towards modern townships too as real estate development grips Rajasthan. The Urban Development and Housing Ministry of the Rajasthan Government has submitted a detailed plan to improve on the civic services in the twin religious cities of Ajmer and Pushkar under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). An Asian Bank Development Project will also make investments to improve the infrastructure for tourists to Ajmer and Pushkar as part of its Rs. 17.5bn urban tourism development plan.

Few upcoming projects at Ajmer

The Era Group and Omaxe Limited have also evinced interest in setting up mega residential projects in Ajmer.

Parsvnath has 2 proposals for Special Economic Zones (SEZ) in proximity to Ajmer – one on the Ajmer-Beawar Road, and another on the Ajmer-Jaipur Road.

Ansal Properties & Infrastructure Ltd's 'Sushant City' will spread over 125 acres, 12 kms from the heart of the town on Jaipur Road.

Residential rate in Ajmer ranges between Rs 1500-1800 psqf, while commercial rates Rs 1800-2500 psqf and rentals from Rs 20-30 psqf/mnth.

Jaipur update

Mega real estate projects in Jaipur include the Rs. 10,000 cr Mahindra World City project in collaboration with RIICO, which will be a multi-product Special Economic Zone.

Parsvnath Developers to come up with mega township in Jodhpur, 'Parsvnath City' spread over an area of 110.4 acres.

Similarly, Omaxe Limited, Suncity Builders, Panchsheel Colonisers, Era Group and Melange are offering integrated townships of international standards.

Jaipur attracts residential rates between Rs 2300-3250 psqf, commercial properties are between Rs 4000-4700 psqf and rental values of Rs 35-55 psqf/mnth.



Bhiwadi

Bhiwadi is a fast growing industrial town in Rajasthan situated in the north of the state in Alwar district. Bhiwadi with proximity to Delhi now enjoys the status of Regional Centre or Priority Town of the National Capital Region (NCR). Most of the renowned real estate developers in India are foraying into Bhiwadi real estate.

Bhiwadi Sunshine City is a joint venture between BDI Group (Berry Development & Infrastructure Pvt. Ltd.) and Bhaskar Media Conglomerate.

Omaxe has got major plans for this region as it plans development of group housing projects totaling ~ 9mn sqf.

Private real estate developers like Piyush Group, Nishita Builders, etc. have huge plans lined up for this region making Bhiwadi home to a new age township

Exhibit 15: Rajasthan State Market

City	Residential Rs/sqf	Commercial Rs/sqf
Jaipur	2550-3950	3500-4750
Bhiwadi	2155-3200	2000-3500
Ajmer	1700-2100	1500-2300

Source: Industry; FQ Research

Advantage Omaxe

The suburbs of New Delhi Gurgaon, Noida and others have witnessed significant growth recently. Also, developments in the region like extension of metro to new suburbs especially Gurgaon, expansion & widening of national highways, airport modernization is set to benefit Omaxe in a big way. The company's development activities have been primarily concentrated in the National Capital Region and other northern states like Punjab, Rajasthan amongst others. Notification of Gurgaon- Manesar master plan is one of the key reasons why developers are optimistic about development progress in the region.

Also, states like Punjab & Rajasthan where Omaxe holds ~ 33 percent or 50 mn sqf of its properties are on development radar. Various initiatives taken up by respective Governments of these two states have interested major real estate developers from across the country. Rajasthan Government's plans for Ajmer & Pushkar under the JNNURM & Asian Development Banks investment of Rs 17.5bn are couple of noteworthy developments in the region. Also, the Rajasthan Government's approval of 2 SEZs, one to Omaxe spread over 12,500 acres in Alwar District & another to Ansal API at Neemrana spread over an area of 2,500 acres can provide positive trigger for the state. Omaxe plans few of its important projects in the Punjab region of Amritsar, Derabassi, Ludhiana, Mohali and others where Grade-A development are coming up under mega projects scheme. With key developments and investments happening in the region of Omaxe's plans, it will benefit the company in a major way going forward.

Real Estate Scenario

The property market has undergone significant change. The projects have become bigger and more capital-intensive. Commercial/retail development has changed from a build-sell to a build-lease model, while residential development has seen a shift from standalone projects to integrated townships. A strong and sustained GDP growth led by the services sector; favourable demographics with existing shortage of housing, growing urbanisation and reduction in average household size; an IT/ITES and knowledge industry led emergence of a new middle class with rapidly rising income levels and willingness to spend. All these are fundamentally strong macro economic factors implying a long-term opportunity in the sector. Transparency levels in the sector are improving due to increasing exposure to global capital markets which is also encouraging professionalism in the developer community.

Increasing funding options

India's home loan as a percentage of GDP was at ~6% as of FY07, which is still by a long way low compared to developed countries like the US (71%), the UK (80%), Denmark (94%) – and other Asian countries. We sense great opportunity exists for funding residential units in India, which in turn would propel further residential demand.

Residential segment

As per the National Housing Bank (NHB), there was a housing shortage of 19.4mn units (12.7mn units in rural areas and 6.7mn units in urban areas) in FY03. As per the 10th 5 year plan, there would be a shortage of ~23mn housing units by '07, and the requirement is growing to 10 million housing units per year by 2030. This is based on the new housing demand created by rising middle and upper income households. The number of Indian middle class households with annual income between Rs0.2mn and Rs2mn has quadrupled in the past 10 years from 4.7mn households in 1996 to 17.5mn in '06.

IT/ITES

Commercial demand remains strong; due to the significant space requirements of the IT/ITES sector. The sector grew with exceptional pace in the past decade, significantly impacting office real estate in India. The sector comprises ~75% of the current commercial demand. As per industry estimates, ~3.5mn jobs will be outsourced to India by FY17E.

Organised retail

India's retail sector is evolving at breathtaking speed, fuelled by a strong economy, favourable demographics, rising wealth levels, and the rapidly changing lifestyles and consumer aspirations of an ever growing middle class. Total retail sales in India are estimated to be US\$300 bn this year and likely to reach US\$430 bn by 2010. The total organized retail space supply is estimated to be around 95-100 mn sqf. by the end of 2008.

Thus overall, macro economic fundamentals are very much favourable for real estate developers as India is undergoing paradigm shift in real estate sector. Organised and established brand players like Omoxe are set to benefit from the rising opportunity.

Concerns

Focused on NCR and Tier III cities in the north

Omoxe's land holdings are focused primarily in the north, particularly in the NCR. A large proportion of its development of townships is in Tier III cities in the NCR, Haryana, Punjab, Uttar Pradesh and other northern cities. This approach tends to differ from some of the larger north Indian developers like DLF and Parsvanath which have pan-India presence, rather than focus on the northern states.

Execution risks remain, but scale will be significant

There exists a significant execution and cost overrun risks as development plans of building ~15x of what developers have historically built. However, developers with in-house construction expertise are to some extent better off than their counterparts outsourcing a lot of their construction activities. As exponential growth in order books of developments companies, the risk of execution signals a caveat.

Liquidity crisis for developers

Government of India's proposal to stiff liquidity, increase provision on loans to the real estate sector have led to funding constraints and rising interest costs for most developers. Introduction of new regulatory norms for real estate IPO's with regards to greater disclosure on ownership of land banks, valuations method and restrictions on use of ECBs have begun to have an impact.

Competition in the local market

The real estate industry in India, while fragmented, is highly competitive. The company might face competition from domestic as well as international property development and construction companies. Also, in the regions where Omaxe does not have significant presence but would plan to expand in such new markets, it might face the risk from competitors being better known in these markets, thereby enjoying better relationships with landowners & regulators. Competition is likely to increase acquisition of large plots of land suitable for development, thus inflating land prices.

Financials

Omaxe's total income for the quarter ended September 30, 2007 stood at Rs 7121mn a growth of 108% QoQ. EBIDTA for the quarter stood at Rs 2482.6 mn. The net profit of the company was reported at Rs 1604mn presenting a growth of 119%. The company has posted an EPS of Rs 9.8 for Q2FY2007. We judge the ongoing development and future plans would enhance the earnings of the company.

Valuation & Outlook

At CMP of Rs 547, the stock trades at a P/E of 11.4x FY2009E and 7.4x FY2010E and EV/EBIDTA of 9.1x FY2009E and 6.0x FY2010E. **We Initiate Coverage on OMAXE with a price target of Rs 744. Our price target is at a 10% premium to our NAV estimates.** Our NAV estimate is based on the discounted cash flows from the development schedule for the current landbank. The industry is witnessing a strong growth with an increase in scale and size for most developers. Thus, we believe that there is a strong case for the Indian real estate sector should trade at a premium to NAV. Further, increase in development pipeline is to boost NAV growth. There exists an upside to our NAV estimate as we will revisit our estimate after evaluating further progress on SEZs and also road project execution.

Profit & Loss Statement

Rs mn

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	14313	24463	36143	54085
% chg	73.5	70.9	47.7	49.6
Total Expenditure	10836	16806	24704	36507
EBIDTA	3477	7657	11439	17578
(% of Net Sales)	24.3	31.3	31.7	32.5
Other Income	86	108	146	190
Depreciation & Amortisation	36	43	62	90
Interest	298	383	319	370
PBT	3229	7339	11204	17307
(% of Net Sales)	22.6	30.0	31.0	32.0
Tax	651	1468	2801	4327
(% of PBT)	20.1	20.0	25.0	25.0
PAT	2579	5871	8403	12980
% chg	94.2	127.7	43.1	54.5
Extraordinary Item				

Balance Sheet

Rs mn

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
SOURCES OF FUNDS				
Equity Share Capital	1,550	1,745	1,745	1,745
Reserves & Surplus	3,130	14,865	23,268	36,249
Shareholders Funds	4,679	16,610	25,013	37,994
Total Loans	12,637	10,682	9,182	9,732
Net Deferred Tax	(14)	-	-	-
Total Liabilities	17,302	27,292	34,195	47,726
APPLICATION OF FUNDS				
Gross Block	524	620	882	1,292
Less: Acc. Depreciation	130	173	235	325
Net Block	394	447	647	966
Goodwill	209	168	126	84
Current Assets	24,771	40,266	51,247	70,310
Current liabilities	8,143	13,588	17,824	23,634
Net Current Assets	16,628	26,678	33,422	46,676
Misc expd	70.4	-	-	-
Total Assets	17,302	27,292	34,195	47,726

Cash Flow Statement

Rs mn

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
Profit Before Tax	3,229	7,339	11,204	17,307
Depreciation	36	43	62	90
Change in Working Capital	(456)	1,492	2,263	(2,899)
Direct taxes paid	(658)	1,468	2,801	4,327
Cash Flow from Operations	2,151	4,422	6,202	15,970
Inc./ (Dec.) in Fixed Assets	(8,798)	(7,168)	(5,035)	(1,316)
Free Cash Flow	(6,646)	(2,746)	1,167	14,654
Inc/ (dec) in investment	2	0	-	-
Issue of Equity/ Preference	775	195	-	-
Inc/ (dec) in loans	8,914	(1,954)	(1,500)	-
Others	(2,432)	3,204	(3,209)	(5,102)
Cash Flow from Financing	7,258	1,446	(4,709)	(5,102)
Inc./ (Dec.) in Cash	612	1,698	984	3,753
Opening Cash balances	1,039	1,651	3,349	4,337
Closing Cash balances	1,651	3,349	4,337	8,097

Key Ratios

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
Valuation Ratio (x)				
P/E	32.9	16.3	11.4	7.4
P/E (Cash EPS)	32.4	16.1	11.3	7.3
P/BV	18.1	5.7	3.8	2.5
EV / Sales	7.5	4.3	2.9	1.9
EV / EBITDA	31.0	13.9	9.1	6.0
Per Share Data (Rs)				
EPS	16.6	33.6	48.2	74.4
Cash EPS	16.9	33.9	48.5	74.9
Book Value	30.2	95.2	143.3	217.7
Returns %				
ROE	55.1	35.3	33.6	34.2
ROCE	20.4	28.3	33.7	37.0
Operating Ratio (%)				
Debtors (days)	3.0	5.0	6.6	10.0
Creditors (days)	207.6	202.7	180.0	159.5
Debt / Equity (x)	2.7	0.6	0.4	0.3



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