

Setting new benchmarks; new Buy with Rs290 PO

**Bank of America
Merrill Lynch**

Gagan Agarwal >>
Research Analyst
DSP Merrill Lynch (India)
gagan.agarwal@baml.com

+91 22 66328691

Best placed to benefit from slowdown

We initiate coverage on Oberoi Realty with Buy rating and PO of Rs290, offering 20% upside potential. Oberoi's top-notch corporate governance and strong NAV visibility make it a benchmark developer for gaining exposure to the highly lucrative Mumbai real estate market. We expect Oberoi to be least impacted by correction in residential prices in Mumbai due to its balanced mix of assets. Further, tighter liquidity environment will offer Oberoi great opportunity to deploy its Rs16bn of cash in land assets in Mumbai at reasonable valuations.

Balanced mix of assets should reduce NAV volatility

Oberoi has a balanced mix of assets, which we believe would help it wade through the slowdown relatively unscathed, since the demand pick up in office/retail space should offset the slowdown in residential market. It derives only 34% of its NAV from residential market and so it is least sensitive to changes in residential prices. Every 1% reduction in price impacts its NAV by just 0.5% against 1-3% impact on other developers.

Cash deployment, key upside trigger

We expect the current weakness in Mumbai residential segment and rising interest rates to lead to a drop in land prices over the next 6-9 months. Oberoi, with a cash chest of Rs16bn, is best placed to benefit from the softness in land prices in Mumbai. We think Oberoi also has an edge over other developers to win redevelopment projects due to its strong balance sheet and premium positioning.

Slowdown in Mumbai residential market priced in

The expected slowdown in residential segment in Mumbai remains the key headwind for the stock's performance over next six months. Also the low free float of 12% could lead to volatility in stock performance.

Stock Data

Price	Rs236.90
Price Objective	Rs290.00
Date Established	8-Mar-2011
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs210.00-Rs306.60
Mrkt Val / Shares Out (mn)	US\$1,726 / 328.2
Average Daily Volume	75,899
BofAML Ticker / Exchange	XRXOF / NSI
Bloomberg / Reuters	OBEO IN / OEBO.NS
ROE (2011E)	21.8%
Net Dbt to Eqty (Mar-2010A)	-19.5%
Est. 5-Yr EPS / DPS Growth	23.6% / 35.0%
Free Float	12.0%

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	2,521	4,582	5,652	6,170	9,846
EPS	969.39	15.87	17.22	18.80	30.00
EPS Change (YoY)	NA	-98.4%	8.5%	9.2%	59.6%
Dividend / Share	2.00	0.200	3.44	3.76	9.00
Free Cash Flow / Share	(330.06)	10.66	4.39	13.13	22.66

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	0.244x	14.93x	13.76x	12.60x	7.90x
Dividend Yield	0.844%	0.084%	1.45%	1.59%	3.80%
EV / EBITDA*	25.50x	13.50x	9.59x	8.64x	5.11x
Free Cash Flow Yield*	-1.10%	3.96%	1.85%	5.54%	9.56%

* For full definitions of *iQmethod*SM measures, see page 20.

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Refer to important disclosures on page 21 to 24. Analyst Certification on Page 18. Price Objective Basis/Risk on page 18. Link to Definitions on page 18.11027734

08 March 2011

iQprofileSM Oberoi Realty Ltd

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	4,254	7,836	10,742	12,196	19,559
Gross Profit	2,658	4,811	6,989	7,715	12,971
Sell General & Admin Expense	(87)	(70)	(261)	(301)	(391)
Operating Profit	2,401	4,582	6,342	6,937	11,842
Net Interest & Other Income	291	218	550	973	1,286
Associates	NA	NA	NA	NA	NA
Pretax Income	2,692	4,800	6,892	7,910	13,128
Tax (expense) / Benefit	(177)	(226)	(1,241)	(1,740)	(3,282)
Net Income (Adjusted)	2,521	4,582	5,652	6,170	9,846
Average Fully Diluted Shares Outstanding	3	289	328	328	328

Key Cash Flow Statement Data

Net Income	2,515	4,574	5,652	6,170	9,846
Depreciation & Amortization	73	91	234	368	493
Change in Working Capital	(1,150)	87	(1,511)	1,396	2,205
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	(1,265)	(122)	(2,030)
Cash Flow from Operations	1,438	4,751	3,111	7,812	10,515
Capital Expenditure	(2,297)	(1,675)	(1,669)	(3,503)	(3,078)
(Acquisition) / Disposal of Investments	3,692	(640)	750	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	1,395	(2,315)	(919)	(3,503)	(3,078)
Shares Issue / (Repurchase)	0	2,861	10,286	0	0
Cost of Dividends Paid	(5)	(16)	(69)	(1,334)	(1,456)
Cash Flow from Financing	(1,334)	2,738	10,217	(1,334)	(1,456)
Free Cash Flow	(858)	3,076	1,442	4,309	7,437
Net Debt	(1,562)	(3,631)	(16,040)	(19,015)	(24,996)
Change in Net Debt	(2,828)	(5,281)	(12,409)	(2,975)	(5,981)

Key Balance Sheet Data

Property, Plant & Equipment	6,586	8,171	9,605	12,740	15,325
Other Non-Current Assets	157	792	42	42	42
Trade Receivables	272	404	404	545	736
Cash & Equivalents	1,669	3,631	16,040	19,015	24,996
Other Current Assets	9,852	12,483	13,916	14,940	14,466
Total Assets	18,536	25,480	40,006	47,282	55,564
Long-Term Debt	107	0	0	0	0
Other Non-Current Liabilities	31	97	1,361	1,483	3,513
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	3,962	6,746	5,404	7,844	7,736
Total Liabilities	4,100	6,843	6,765	9,327	11,249
Total Equity	14,436	18,637	33,241	37,955	44,316
Total Equity & Liabilities	18,536	25,480	40,006	47,282	55,565

iQmethodSM - Bus Performance*

Return On Capital Employed	15.3%	24.8%	19.5%	14.6%	20.4%
Return On Equity	18.9%	27.7%	21.8%	17.3%	23.9%
Operating Margin	56.4%	58.5%	59.0%	56.9%	60.5%
EBITDA Margin	58.2%	59.6%	61.2%	59.9%	63.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.6x	1.0x	0.6x	1.3x	1.1x
Asset Replacement Ratio	31.6x	18.5x	7.1x	9.5x	6.2x
Tax Rate (Reported)	6.6%	4.7%	18.0%	22.0%	25.0%
Net Debt-to-Equity Ratio	-10.8%	-19.5%	-48.3%	-50.1%	-56.4%
Interest Cover	NM	NM	NA	NA	NA

Key Metrics

* For full definitions of iQmethodSM measures, see page 20.

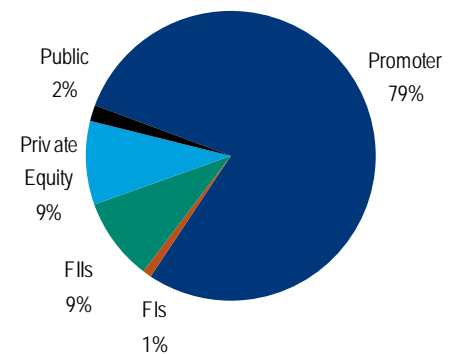
Company Description

Oberoi Realty is a premium developer in Mumbai with 20mn sq ft of development pipeline which it plans to develop over next 5-6 years. It has projects across residential, office, retail and hospitality with over 1mn sq ft of operational assets

Investment Thesis

We believe Oberoi Realty is a benchmark developer for gaining exposure to highly lucrative Mumbai real estate market. We expect Oberoi to be least impacted due to expected correction in residential prices in Mumbai due to balanced mix of assets. Also tighter liquidity environment will offer Oberoi great opportunity to deploy its Rs16bn of cash in land assets in Mumbai at reasonable valuations. Key catalyst would be acquisition of new project over next 6 months. Hence our Buy

Chart 1: Shareholding as on Dec 2010



Source: BSE

Stock Data

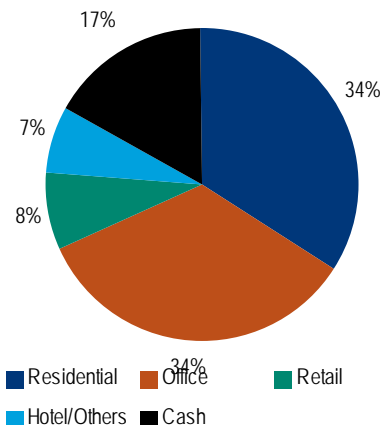
Price to Book Value 2.3x

Bull & Bear case

Obero Realty	Bull case	Bear case	BofAML view
Residential Prices	■ Residential prices in Mumbai remain flat in FY12 leading to an increase in our NAV by 9%	■ Residential prices in Mumbai correct by 25-30% in FY12 leading to 6% reduction in our NAV	■ We have built in 15% correction in residential prices in FY12
Residential Volume	■ Surge in residential volume in the new launches leading to higher than expected cash flows	■ Higher than expected drop in volumes in the residential project leading to lower than expected cash flows	■ We have built in 1mn sq ft of new sales in FY12 and cash surplus of Rs4bn
Office rentals	■ The office rentals increase by 10% in FY12 leading to increase in NAV by 5%	■ The office rentals corrects by 10% in FY12 will lead to 5% reduction in NAV	■ We have estimated flat rentals in office in FY12 and have taken 10% correction in the new office leasing
Investment of surplus cash	■ Investment of surplus cash of Rs16bn in NAV accretive land/ projects.	■ Investment of surplus cash in very expensive land/ project leading to reduction in NAV ■ Investment of cash in non related business	■ We have valued the cash at 1x book and have not considered any NAV accretion due to investment in new land asset

Source: BofA Merrill Lynch Global Research

Chart 2: Balance mix of assets (NAV)



Source: BofA Merrill Lynch Global Research

Investment thesis

Best play on Mumbai realty; New Buy

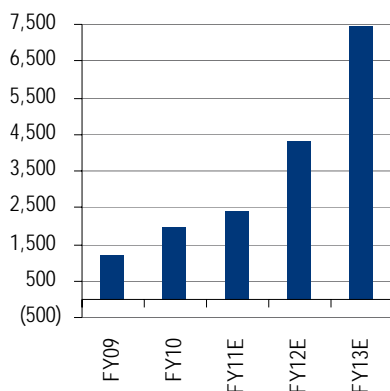
We initiate coverage on Obero Realty with Buy and PO of Rs290, offering 20% upside potential. Our PO is based on our FY12 NAV of Rs290, comprising of Rs241 from real estate and Rs49 from cash in books. We value Obero at a premium to its peers given its benchmark position in Mumbai real estate sector, strong balance sheet, and higher visibility on NAV. We like the story of Obero Realty with great land bank, strong cash flows and unlevered balance sheet, coupled with top-notch corporate governance and disclosures.

- Obero is currently the only Mumbai real estate play offering investors exposure to all the premium segments of real estate, unlike HDIL (slum redevelopment play) or IBREL (primarily central Mumbai).
- We believe the current tight liquidity environment will provide Obero with great opportunity to invest surplus cash in NAV-accretive lands/projects, while a balanced mix of assets will cushion NAV impact due to the expected weakness in residential segment. Our NAV already factors in the impact of sluggish volumes and prices in residential segment.
- Obero is the only developer to have shown consistent cash generation, while other developers have struggled to generate cash from operations, whether it is due to investments in new projects/lands (in spite of sitting on large land bank) or restructuring.

Key triggers over the next six months -

- Investment of surplus cash in NAV-accretive projects
- Launch of Mulund and Worli projects
- Sale of under-construction office property - Prisma

Chart 3: Consistent cash generation



Source: BofA Merrill Lynch Global Research

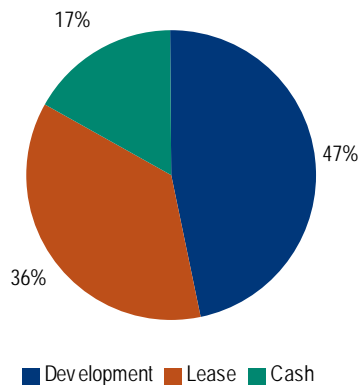
Good visibility on NAV

We expect Oberoi to execute its current projects over the next 6-7 years, with over 90% of the land bank in prime locations in Mumbai. This increases the visibility and confidence in its NAV, unlike other developers where only 40-50% of their NAV is expected to be realized over the next 5-6 years. Further, NAV quality is strong, as around 18% of its NAV is from cash sitting in the balance sheet and 18% from rent-generating leased assets. Its land bank does not carry any risk of change in regulation or litigation since it holds clear titles for most of the land parcels. Barring two projects which are in the final stages of approval, most other projects have all the approvals in place.

Strong cash flow - rarity in Indian realty

Oberoi Realty is expected to generate strong cash flows over the next 2-3 years as its key projects are launched over FY12. Since the land cost is historical (most of the lands were purchased in 2003-05, when land prices were low in Mumbai), and residential prices have seen a great run in Mumbai since 2005, we expect the company to generate an EBITDA margin in excess of 60% even after factoring in flat to 10% drop in residential prices in FY12. Further, its premium positioning and exceptional brand value have enabled it to charge a premium to its competition. We estimate Oberoi to generate surplus cash of Rs4.3bn in FY12 and Rs7.4bn in FY13 (post investment in construction of commercial assets which are expected to be leased).

Chart 4: NAV contribution



Source: BofA Merrill Lynch Global Research

Balanced mix of assets

Oberoi has a balanced mix of assets, whether it is residential or commercial mix or development and leasing mix. The NAV contribution from various segments is evenly balanced. We believe this strategy will help reduce the impact of the property cycles. While for the next 12 months we expect demand for residential space to remain soft due to high prices and rising interest rates, demand for office/retail space is expected to remain strong, cushioning the impact on NAV. Oberoi's sensitivity to change in residential prices is relatively low compared to its peers. For every 1% reduction in residential prices, the impact on its NAV is just 0.5% against 1-3% for its peers.

Table 1: Impact on NAV due to 10% change in residential prices

Oberoi	5%
DLF	10%
Unitech	17%
HDIL	20%
Sobha	30%

Source: BofA Merrill Lynch Global Research

Table 2: launches picking pace

Launch Date	Project	Area - m sq ft
3QFY10	Exquisite I	1.45
3QFY11	Grande	0.28
4QFY11	Exquisite II	1.33
1QFY12	Exotica - I	1.62
3QFY12	Oasis	0.46

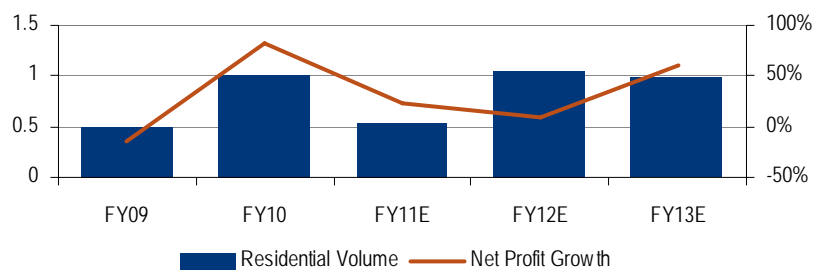
Source: BofA Merrill Lynch Global Research

Earnings story to play out from FY13

The earnings story for Oberoi will play out from FY13 when all its projects reach the revenue recognition stage (it starts recognizing revenue only when 20% of the construction cost is spent). We expect Oberoi Realty to show an earnings CAGR of 38% over FY10-13. In FY13, almost 6-7 projects will approach recognition stage, against just three currently, as four new projects are in the process of being launched in the next six months. It typically takes 12-15 months for a project to reach the revenue-recognition stage from launch. Further, since most of these projects will take at least four years for completion, we expect the earnings momentum to sustain beyond FY13 also.

The earnings growth for FY12 is highly dependent on the sale of its office project Prisma, for which it is currently negotiating with a large business house for sale of the entire block. Other than Prisma, we expect only Exquisite Ph-II to reach the revenue-recognition stage by 4QFY12, leading to a modest 9% earnings growth in FY12.

Chart 5: Strong earnings growth from FY13



Source: BofA Merrill Lynch Global Research

PO based on NAV of Rs290

Our PO of Rs290 is based on 1x NAV and offers 20% upside potential. We expect Oberoi to trade at its NAV compared to other developers due to its top-notch brand and corporate governance, premium quality assets with monetization over the next 6-7 years and a strong balance sheet with high cash balance.

Valued at premium to its peers

We expect Oberoi Realty to trade at premium to its other Mumbai peers (no discount to NAV compared to 15% discount for IBREL and HDIL) given –

- Strong balance sheet with Rs16bn cash, investment of which in new assets will lead to increase in NAV
- Better disclosure and more clarity on monetization of assets
- Low risk of delays in the projects since most approvals are in place

NAV valuation factors in uncertainty

Our NAV is based on the following assumptions -

- Development period of seven years
- 15% drop in residential prices in FY12 and an increase of 5% each year thereafter
- Leased assets valued at 10% capitalization rate, while under-construction assets valued at 11% capitalization rate
- The cash in the balance sheet forms 17% of its NAV and its deployment in NAV-accretive projects is the key for stock performance.
- WACC of 14%

Table 2 and 3 lay out the key components of our NAV calculation and sensitivities.

Key assumptions underlying our NAV estimates

Table 3: NAV Summary

Detail	Rs m	Comment
Home	30,324	10mn sq ft to be developed over next 7 years
Office	27,659	4.2mn sq ft to be developed over 5 years, Cap rate of 11% assumed
Leased Assets/Hotel	16,426	1.3 mnsq ft of leased assets and hotel
Other Land/Inventory	4,771	Ready inventory and social infra
Total Real Estate NAV	79,180	
Total NAV	79,180	
Less Net Debt	(16,040)	Expected cash as on Mar '2011
RNAV	95,220	
Shares O/S - mn #	328	
RNAV / share - Rs	290	

Source: BofA Merrill Lynch Global Research

Key NAV sensitivities

Table 4: Oberoi Realty highly sensitive to cap-rate changes

1% Change in	% Change in NAV	Current Assumption
WACC	2.0%	14%
Cap Rate	5.0%	10% for ready assets/11% for under construction
Sale Price	0.5%	10% lower residential prices in FY12
Cost	0.4%	5% increase from FY12

Source: BofA Merrill Lynch Global Research

Table 5: India Real Estate Coverage

Company	Ticker	QRQ	Price Rs	Mkt cap (US\$ m)	Rating	NAV Rs	Target disc to NAV	Current disc to NAV	P/E		P/B		ROE	
									FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Mumbai														
Oberoi	XRROF	C-1-8	240	1,747	Buy	290	0%	17%	14	13	2.4	2.1	22%	17%
HDIL	XGHSF	C-1-7	160	1,468	Neutral	206	15%	22%	7	7	0.7	0.6	12%	10%
Indiabulls Real Estate	IBELF	C-2-8	107	975	Buy	167	15%	36%	24	21	0.5	0.5	2%	2%
NCR														
DLF	XVDUF	B-1-8	219	8,232	Buy	324	0%	33%	20	14	1.4	1.3	7%	10%
Unitech	UTKIF	B-2-8	35	1,981	Neutral	106	10%	66%	9	7	0.7	0.7	9%	10%
Jaypee Infra	XJAYF	C-1-8	59	1,808	Buy	123	15%	52%	5	6	1.6	1.3	43%	22%
Anant Raj	XNRJF	C-1-7	79	520	Buy	189	15%	58%	12	7	0.6	0.6	6%	9%
Omaxe	XOMXF	C-3-9	133	512	U/p	122	30%	-9%	21	17	1.4	1.3	7%	8%
APIL	ANSFF	C-3-8	36	125	U/p	89	30%	60%	5	4	0.3	0.3	7%	8%
Bangalore														
Sobha	SBDRF	C-1-7	265	596	Buy	529	15%	50%	13	10	1.5	1.3	11%	14%
Puravankara	XPJVF	C-1-7	105	491	Buy	159	15%	34%	16	12	1.4	1.3	9%	11%
Brigade	XBDGF	C-1-7	97	274	Buy	195	20%	50%	12	9	1.1	1.0	10%	12%

Source: BofA Merrill Lynch Global Research

What will drive NAV growth - Investment of Cash

Oberoi currently has Rs16bn of cash with no debt in its balance sheet. It can further raise over Rs8-10bn of debt against its operating commercial assets like mall/office and hotel. Therefore, deployment of these funds over the next 6-12 months in acquiring new projects/lands would be the key for Oberoi's NAV growth. We believe the current environment of low residential volume and tight liquidity with rising interest rates will reduce competition for Oberoi in land/project auctions and negotiations. A drop in residential prices by 3QFY12 should also lead to a drop in land prices.

The recent relaxation in norms for redevelopment of properties in Coastal regulation zone and higher FSI for redevelopment of old residential societies has opened up a large opportunity for Oberoi Realty. Its strong balance sheet and premium positioning should further help Oberoi win redevelopment projects against its competitors.

Compression of Cap Rates in Office

Oberoi is developing a large portfolio of office assets, and 33% of its NAV is derived from this segment. We expect the demand for office space to remain strong over the next 12-18 months, with rentals increasing from FY12. We believe the strong performance by office segment over the next one year should lead to compression in cap rates. We have currently valued the under-construction office assets at 11% capitalization rate and leased assets at 10%. Every 1% change in capitalization rate should lead to 5% change in NAV for Oberoi Realty.

Headwinds - Weakness in residential segment

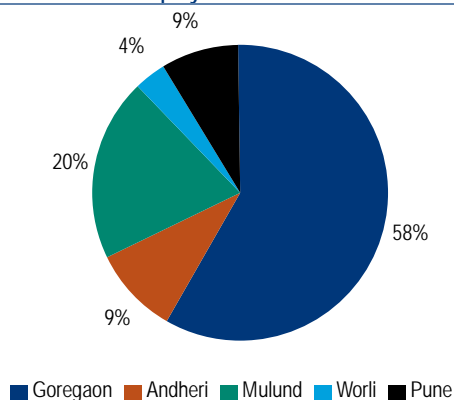
We expect the weakness in Mumbai's residential segment to continue for the next couple of quarters, with low volumes, as developers try to hold on to high prices. We expect correction in prices before the onset of the festive season in September 2011 and subsequent recovery in volumes. But correction would be limited to 10-20%, depending on the micro market.

For Oberoi, we have already built in 15% lower prices for its upcoming new launches in FY12 and don't expect realizations to fall sharply. But the negative news flow on low volumes and expected correction will likely put pressure on the stock's performance. Even post correction, we don't expect the residential prices in Mumbai to rebound very sharply. The residential prices are unlikely to see the run we saw in the past 5-6 years in Mumbai. Our expectation is that in the long run (next 3-4 years), residential prices in Mumbai will see only modest gains of 5-10%, lower than the income growth given the improving supply due to large redevelopment projects.

Low free float

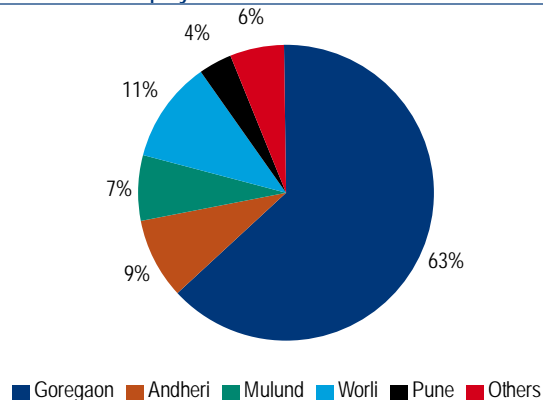
The stock was listed in October 2011 and has just 12% of its equity shares as free float. This increases the volatility in the medium to short term. The promoter and the private equity share holding is in the lock in period till October 2011, though post that we could see increase liquidity as and when the private equity investor looks to exit.

Chart 6: Land bank break up by location



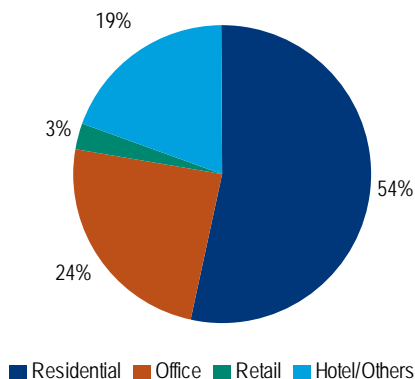
Source: BofA Merrill Lynch Global Research

Chart 7: NAV break up by location



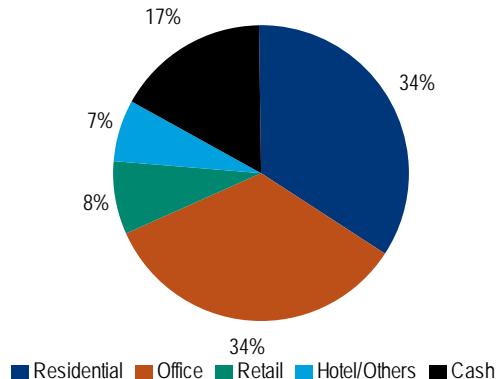
Source: BofA Merrill Lynch Global Research

Chart 8: Land bank break up by segment



Source: BofA Merrill Lynch Global Research

Chart 9: NAV break up by segment



Source: BofA Merrill Lynch Global Research

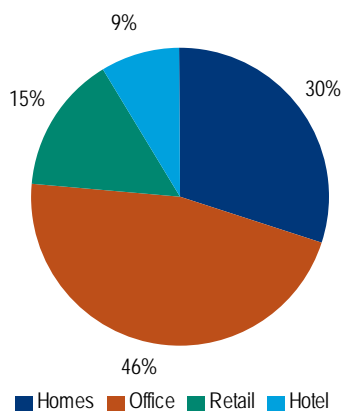
Table 6: Oberoi - Land bank details

	Area	NAV
Goregaon	9.0	49,612
Andheri	1	7,242
Mulund	3	5,690
Worli	1	8,978
Pune	1	2,887
Others	3	4,771
	18.7	79,180

Source: BofA Merrill Lynch Global Research

Note : Area excludes Splendor project of 1.2mn sq ft since it is nearing completion.

Chart 10: NAV mix for Goregaon project



Source: BofA Merrill Lynch Global Research

Key projects

Obero Realty primarily has five projects (four in Mumbai and one in Pune), with a total development area of 20mn sq ft. It has already started development on two of the projects, while another two are expected to be launched in the next six months.

Three key projects driving its NAV are:

- Oberoi Garden City –Goregaon east
- Oasis Worli
- Oberoi Exotica – Mulund

Garden City, Goregaon #1

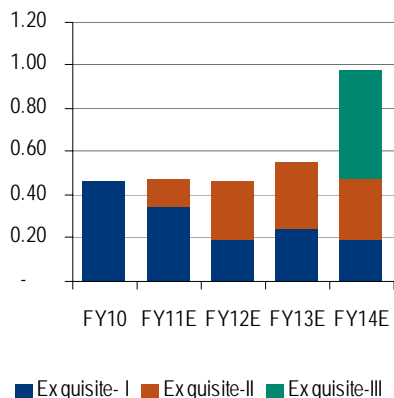
Development area 9mn sq ft; 58% of the land bank

NAV of Rs49.6bn; 63% of total NAV

Obero Realty is developing a large township in Goregaon, spread over 75 acres. It has already developed over 2mn sq ft of residential, office, retail and hospitality in the location, while it has plans to further develop 7.7mn sq ft over the next 6-7 years. The township is expected to contribute Rs49.6bn or 63% of its NAV and thus the success of the project would be the key driver of the stock. The currently leased and operational assets contribute 33% to the NAV of the project.

It plans to develop 5.33mn sq ft of residential space for sale and 2.4mn sq ft of office space for leasing, in addition to the 1.66mn sq ft of commercial development which is already operational and generating rental income. Oberoi has followed a unique model for township development, where it has developed amenities, infrastructure and commercial developments like retail mall, 5-star hotel, international school and office space prior to developing the residential space. This, we believe, has helped Oberoi to command a premium of 10-15% for its residential developments over its competition.

Chart 11: Flat sales volume in Exquisite in FY12



Source: BofA Merrill Lynch Global Research

Residential - earnings/cash flow driver

Development area 5.32mn sq ft; 28% of the land bank
NAV of Rs15bn; 16% of total NAV

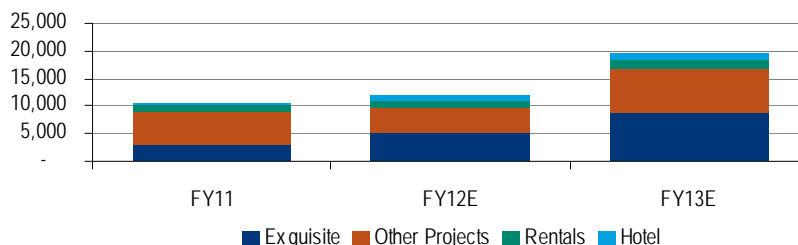
Oberoi launched the first phase of its residential development – Exquisite – in 3QFY10, spanning 1.45mn sq ft. The project met with very good response, having sold over 50% with ASP of Rs12000/sq ft, but sales volume slowly tapered off in recent quarters. The project was launched with an ASP of Rs10000/sq ft, which increased to Rs14300/sq ft in 3QFY11, partly due to the increase in base prices (from Rs9000/sq ft to Rs12000/sq ft). As of now, only the higher floors are available, which attracts an additional 1% charge per floor. Further, since 25% of construction of the project has already been completed, buyers have to pay over 50% down payment on booking the apartments.

Therefore, it plans to launch the 2nd phase of 1.3mn sq ft in 4Q with a lower base price of Rs10000/sq ft (already soft-launched) to bring back the volume. We expect the 5.2mn sq ft of residential component to be developed by 2018.

45% of Oberoi's revenue from the project over FY12-13

The project is expected to be the key contributor to Oberoi's revenue for the next several years. The EBIDTA margin in the project across phases would be over 60% due to the historical land cost. We expect the EBIDTA margin to decline in subsequent phases due to the cost of additional FSI that Oberoi would need to purchase through TDR and premium to government. We have built additional cost of Rs2000/sq ft for the same in Phase-3.

Chart 12: 45% of revenue from Goregaon Residential in FY12-13



Source: BofA Merrill Lynch Global Research

Price rise capped in the near term

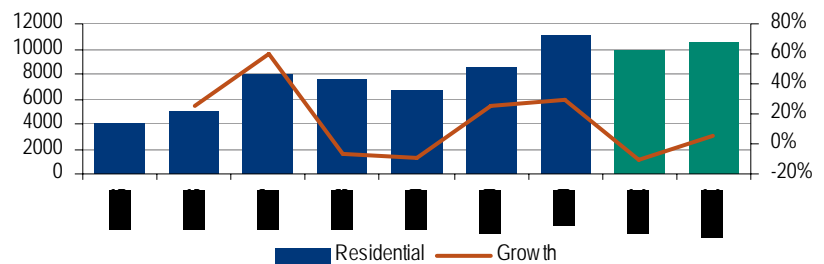
We believe prices in the near term are capped, as the rates have increased sharply (by over 60%) in the past two years. Further, the supply is expected to be strong, with a large number of projects planned by local developers including DB Realty, Lodha developers, and Omkar (slum redevelopment). But we do believe Oberoi's project holds distinctive advantages over others, it would continue to command a premium and is likely to see least correction in the near term. Few reasons for the same are-

- Its strong brand name and execution capability – Oberoi commands a definitive edge over its competition due to its superior brand name, and has successfully demonstrated its execution skills through the previous downturn.
- Superior location of the project – Its project commands a superior location compared to its competition, due to close proximity to the highway (better connectivity) and uninterrupted view of the vast expanse of green area.

- Township development leading to premium to competition – The project is being developed as a township, with a mix of residential, office, retail, hotel and school, with most of the developments other than residential already operational.
- Well-funded to support execution even if volume is low for 6-9 months – It is well-funded to execute the project, even if sales are muted for the next 6-9 months, thus providing an edge over competition during rebound in demand.

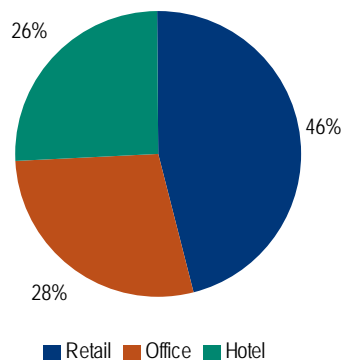
But we have built in flat pricing over the next 12 months for Ph-I, which was launched in FY10, and 10% lower prices for Ph-II, which is expected to be launched in 4Q.

Chart 13: Goregaon has seen sharp increase in prices in 2009-10



Source: BofA Merrill Lynch Global Research

Chart 14: NAV from leased assets



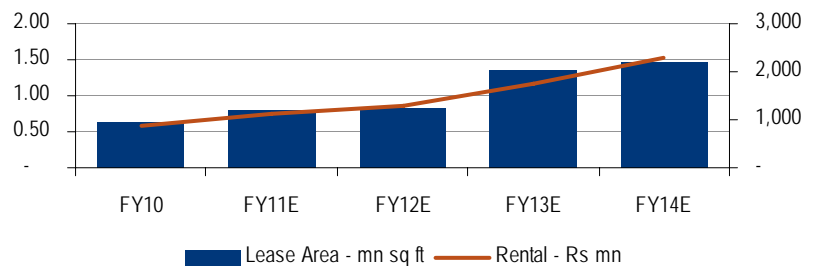
Source: BofA Merrill Lynch Global Research

Commercial - strength to balance sheet

Development area 3.7mn sq ft; 20% of the land bank
NAV of Rs22.9bn; 24% of total NAV

Obero currently has 0.9mn sq ft of office space and retail malls under lease, and hotel property managed by Westin with 269 keys is operational. The leased assets are expected to generate rentals of Rs1.3bn in FY12, growing to Rs1.8bn in FY13. It is currently constructing 2.39mn sq ft of office projects to add to its leased assets. All the properties are located in Goregaon project and Oberoi may eventually plan to do a REIT to capitalize these assets. We expect capex of Rs2.5bn annually over the next three years for construction of these assets. We have used a capitalization rate of 10% for assets under lease and 11% for under-construction assets for NAV valuation.

Chart 15: Strong rental growth from Office/Retail area from FY13



Source: BofA Merrill Lynch Global Research

Commerze Offices – The Ph-I, comprising 0.36mn sq ft, is operational with ~77% leased on average rental of Rs135/sq ft. The leasing has been slow as Oberoi is charging almost 30-40% premium to its competitors in the same micro market. The second phase is expected to be completed by end of FY12, while the third phase has just been launched for construction. The expected supply in the vicinity will keep demand and rentals under check over the next couple of years. Therefore, we have assumed Rs125/sq ft of rentals in FY13 when the next phase becomes operational, with just 3-4% increase annually. Further, to be conservative, we have built in leasing of 2.4mn sq ft only by FY15.

Oberoi Mall – The Mall has been operational for the past two years and has become one among the few successful malls in the city. The rentals are currently at Rs100/sq ft, with vacancy of around 10%. We expect the vacancy to fall further as demand for quality retail space continues to increase. Further, since the mall became operational just before the financial crisis, the rentals are low. But as leases come up for renewal over the next couple of years, we expect rentals to increase by over 15-20% as there are no new malls planned in the vicinity and as more residential developments come up in the micro market, the footfalls are expected to increase further.

Hotel - Westin – The hotel, managed by Westin with 269 keys, became operational in FY10 and is already generating operational surplus. Being the only 5-star hotel in the vicinity, we expect good demand for its services both for rooms and food and beverages. More importantly, as more office properties become operational over the next 2-3 years, we expect the demand to grow further.

Goregaon East-Upcoming Suburb

Goregaon is located in Northern Mumbai, and over the past 3-4 years it has developed into one of the prominent suburbs of Mumbai due to large-scale development of offices (catering particularly to IT/ITeS). Further, availability of land helped development of large residential projects. Oberoi's Goregaon project is located in Goregaon East and enjoys superior connectivity to airport and other parts of Mumbai as it is located close to the highway, leading to premium valuation.

Some of the key factors which we think will lead to strong demand for its project in Goregaon are-

Growing office will attract residential demand – The vicinity of the project is expected to see commercial developments in excess of 5mn sq ft in the next 4-5 years, with Oberoi itself developing 2.5mn sq ft. The growing office space is expected to further add to the demand for residential space in the near future.

Superior Connectivity – The project offers superior connectivity as it is located close to the Western Express highway that connects the suburbs to South Mumbai.

Vast green area - The project is located across the Sanjay Gandhi National Park, thus offering unobstructed view of the vast greens, a rarity in Mumbai.

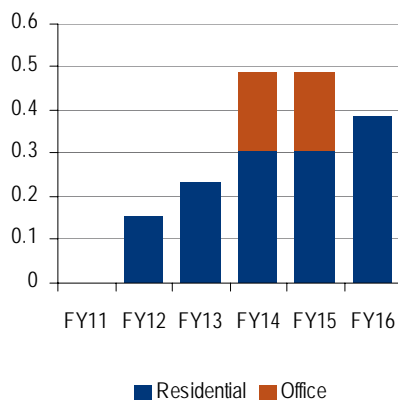
Township development – Oberoi is developing the project as a township with large open spaces, and all modern facilities including retail malls, 5-star hotel, international school and Grade A office spaces. More importantly, most of the facilities are already in place and thus the residential development is commanding a premium over its competitors.

Table 7: Snapshot of Worli Project

Worli	Area mn sq ft	Obero Share	ASP Rs/sq ft	NAV Rs mn
		%		
Residential	1.5	30%	36,000	7,388
Office/Retail				
/Hotel	0.4	30%	32,727	1,590
Total	1.9			8,978

Source: BofA Merrill Lynch Global Research

Chart 16: Sales estimate for Worli Project



Source: BofA Merrill Lynch Global Research

Oasis Worli #2

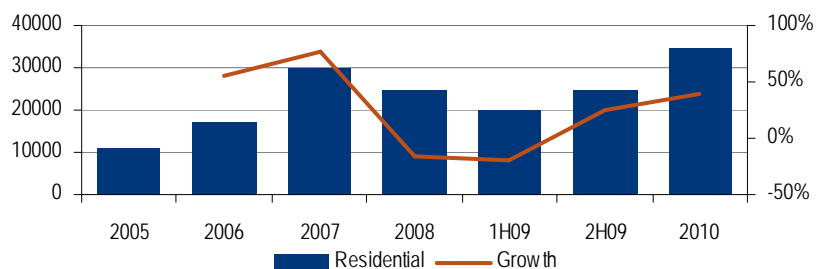
**Development area 0.6mn sq ft; 3% of the land bank
NAV of Rs9bn; 9.4% of total NAV**

Obero is developing the Worli project in partnership with a local developer and has 25-35% share in the project depending on the realization achieved in the project. It is a slum redevelopment project, where the rehabilitation of slums is the responsibility of its partner. Oberoi has advanced Rs3.3bn to the partner, which will be adjusted against his share of cash flows. The land has already been cleared and Oberoi has started the preliminary construction work. It plans to develop an iconic property and is looking to partner with international hospitality chain like St. Regis to offer a super-premium residential product. It is awaiting clearance from the civil authorities to build the 375mts tall building, which is expected within the next six months.

We expect the project to be launched in FY12 and completed by FY16, with an expected launch price of around Rs31000/sq ft. The project also showcases Oberoi's ability to get into redevelopment projects at lucrative terms due to its superior brand name and ability to execute large premium projects. While we do believe there is oversupply in the luxury segment in Central Mumbai, the project enjoys some key advantages over its competition –

- Superior location when compared to other Central Mumbai projects located in Lower Parel, since it is located in Worli and on the main road connecting South Mumbai to suburbs.
- International partnership, which will increase the credibility of the project and bring the required expertise to create super-luxury residences.
- A mixed-use development which will include offices, retail space and hotel, and will thus help in further enhancing the value of the project.
- Due to Oberoi's strong brand image, the marketability of the project further increases.

Chart 17: Residential prices in Worli



Source: BofA Merrill Lynch Global Research

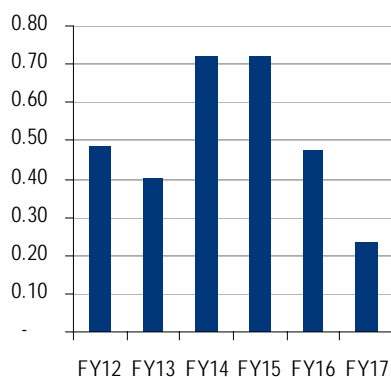
We expect the project to start contributing to the top-line only from FY13, and will not be cash flow-accretive before FY14, as Oberoi plans to launch the project for sale once the construction is in full swing, so as to generate superior realization. Further, we expect the sales to be slower in the initial couple of years due to large supply of luxury apartments in the vicinity. But the project is expected to generate very high ROE as Oberoi did not invest in land, which in itself forms 60-70% of the cost in Mumbai, and has only provided a refundable deposit to its project partner.

Table 8: Snapshot for Mulund Project

	Area mn sq ft	ASP Rs/sq ft	NAV Rs mn
Residential	3.1	7,225	5,690

Source: BofA Merrill Lynch Global Research

Chart 18: Mulund sales volume estimate



Source: BofA Merrill Lynch Global Research

Table 9: launches picking pace

Launch Date	Project	Area - m sq ft
3QFY10	Exquisite I	1.45
3QFY11	Grande	0.28
4QFY11	Exquisite II	1.33
1QFY12	Exotica - I	1.62
3QFY12	Oasis	0.46

Source: BofA Merrill Lynch Global Research

Mulund Exotica #3

Development area 3.1mn sq ft; 17% of the land bank
NAV of Rs5.7bn; 6% of total NAV

Obero is planning a premium residential project in Mulund, located in eastern suburb of Mumbai, over ~20 acres of land. Oberoi is planning to launch the project in 1QFY12 and is likely to price it around Rs8000/sq ft. But we think the project is unlikely to perform well when compared to the Goregaon project, due to a large supply in the micro market. Further, the project does not enjoy any edge to competition in the micro market, similar to its other projects like Goregaon and Worli projects.

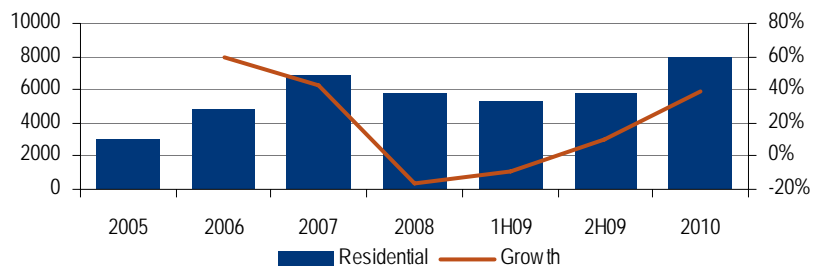
Large supply in the vicinity

LBS Marg is dotted with large number of residential projects. Earlier, the micro market used to be an industrial belt. But for the past 4-5 years, most of the factories have relocated outside Mumbai and sold the land to developers. Most of the prominent developers in Mumbai have projects in the micro market – HDIL, Mahindra, Lodha, etc. The property prices range from Rs6000-8000/sq ft. But the location is also gaining preference due to improving infrastructure in the eastern suburbs, thus providing better connectivity to Southern Mumbai. The appreciation in this micro market has been slower than western suburbs in the past two years, with prices increasing from Rs5500 to Rs7500/sq ft on an average.

Low land cost, key advantage for Oberoi

Obero enjoys the advantage of low cost of lands since it purchased this land a few years back at a relatively low price. This would help it to generate a reasonable margin of around 50%.

Chart 19: Mulund prices have seen more measured growth due to supply



Source: BofA Merrill Lynch Global Research

Financial forecast and assumptions

Earnings story to play out from FY13

The earnings story for Oberoi will play out from FY13 when all its projects reach the revenue-recognition stage (it starts recognizing revenue only when 20% of the construction cost is spent). We expect Oberoi Realty to show an earnings CAGR of 38% over FY10-13. In FY13, almost 6-7 projects will approach revenue-recognition stage against just three currently, as four new projects are in the process of being launched in the next six months. It typically takes 12-15 months for a project to reach the revenue-recognition stage from launch. Further, since most of these projects will take at least four years for completion, we expect the earnings momentum to sustain beyond FY13 also.

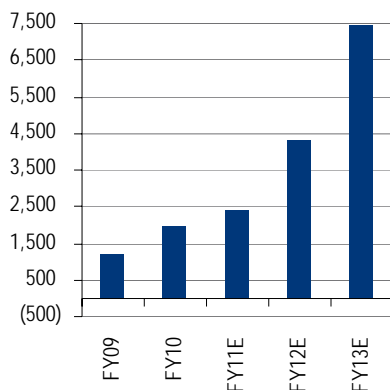
Table 10: Earnings profile (Rs mn)

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	5,112	4,254	7,836	10,742	12,196	19,559
-growth		-17%	84%	37%	14%	60%
EBIDTA	2,575	2,474	4,672	6,576	7,305	12,335
-growth		-4%	89%	41%	11%	69%
Net Income	2,954	2,521	4,582	5,652	6,170	9,846
-growth		-15%	82%	23%	9%	60%
Margins						
EBIDTA margin	50%	58%	60%	61%	60%	63%
Net Income margin	58%	59%	58%	53%	51%	50%

Source: BofA Merrill Lynch Global Research

The earnings growth for FY12 is highly dependent on the sale of its office project Prisma, for which it is currently negotiating with a large business house for sale of the entire block. Other than Prisma, we expect only Exquisite Ph-II to reach revenue-recognition stage by 4QFY12, leading to a modest xx% earnings growth in FY12.

Chart 20: Consistent cash generation



Source: BofA Merrill Lynch Global Research

Strong cash flow growth on upcoming launches

Obero Realty is expected to generate strong cash flow over the next 2-3 years as its key projects are launched over FY12. Since the land cost is historical (most of the lands were purchased in 2003-05 when land prices in Mumbai were low) and residential prices have seen a great run in Mumbai since 2005, we expect it to generate EBIDTA margin in excess of 60% even after factoring in flat to 10% drop in residential prices in FY12. Further, its premium positioning and exceptional brand value has enabled it to charge a premium to its competition. We estimate Oberoi will generate surplus cash of Rs4.3bn in FY12 and Rs7.5bn in FY13 (post investment in construction of commercial assets which are expected to be leased).

Best-in-class ROE justifies high P/B

Obero Realty has the highest ROE among its peers due to substantially lower investments in land assets. While most developers possess land banks which can last them well over 15 years, Oberoi's land bank will be exhausted in the next 6-7 years. We expect the ROE to fall in FY11 and FY12 due to dilution and large cash sitting in the books. We expect the ROE to improve to over 20% in FY13 when most of its projects will get into the revenue-recognition phase.

Table 11: Dupont Analysis

	FY09	FY10	FY11E	FY12E	FY13E
RoCE	18%	28%	22%	17%	24%
RoE	19%	28%	22%	17%	24%
PAT/EBIT	105%	100%	89%	89%	83%
EBIT/Sales	56%	58%	59%	57%	61%
Sales/Assets	24%	36%	33%	28%	38%
Assets/Networth	134%	133%	126%	123%	125%

Source: BofA Merrill Lynch Global Research

Risks

Downside Risks

Mumbai residential volume and prices – All assets of Oberoi Realty are located in Mumbai. Therefore, property demand and prices in Mumbai will drive the stock's performance. We expect the volumes to remain soft in Mumbai over the next six months, with correction in prices of 10-15%.

Investment of surplus cash – Oberoi is currently sitting on Rs16bn of cash which will further increase to Rs19bn by the end of FY12. Therefore, successful deployment of cash is very important to sustain future growth.

Execution delays – It plans to execute over 10mn sq ft over the next five years and utilize the expertise of external companies like L&T to execute the project. Therefore any delays in obtaining approvals or execution by third parties will impact cash flows.

Supply of office – Oberoi plans to construct over 4mn sq ft of office over the next 4-5 years. Currently, the supply of office space is higher than the demand and therefore the rentals in Mumbai are expected to remain flat for the next 12 months.

Low free float – Oberoi currently has free float of just 12% with 78.5% stake held by promoters and 9.5% with the private equity investor. The shareholding of both the promoters and the private equity investor is locked in till October 2011 and therefore unlikely to depress the stock performance, though post October 2011, there is a risk for supply of new equity. Due to low float the stock performance could be volatile.

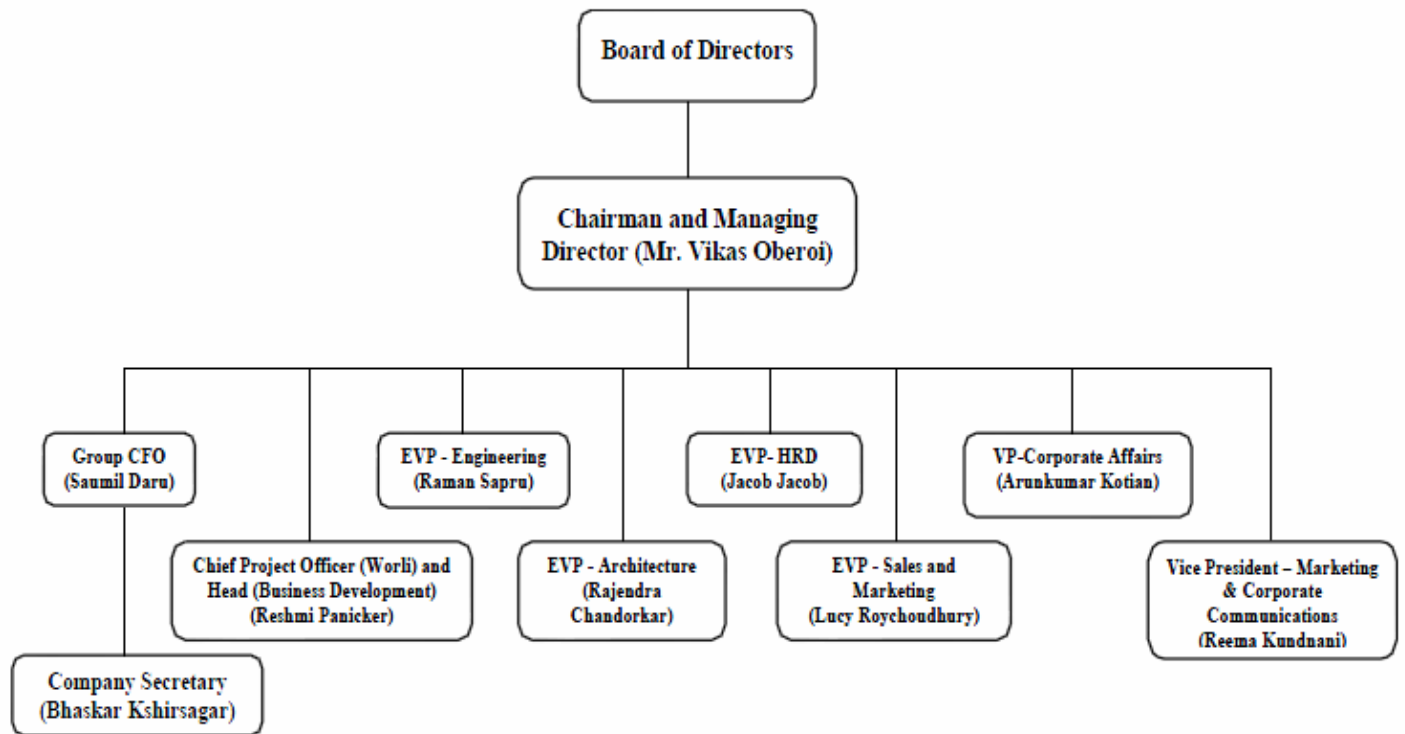
Management

The promoter Vikas Oberoi is the Chairman and MD of the company. He has over two decades of experience in the real estate sector. The promoter group has completed 33 projects covering over 5mn sq ft. The management team has vast experience and most have been with the firm for more than seven years.

Shareholding

The promoter holds a 78.5% stake in the company, while 9.46% is held by a real estate fund advised by Morgan Stanley. They invested Rs6.75bn in January 2007 for their stake in Oberoi Realty.

Chart 21: Management Structure



Source: Oberoi Realty

Price objective basis & risk

Oberoi Realty Ltd (XRXOF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flows from each of the real estate project. Our price objective of Rs290 is therefore based on our NAV of Rs290. Key assumptions underlying our NAV are WACC of 14%, capitalization rate of 10-11% and inflation of 5% from FY13 on both selling price and construction costs. On a P/E basis, at our PO of Rs290, the stock would trade at 14x FY11E earnings. Downside risks are lower than expected volume and delay in revival of demand for commercial real estate.

Link to Definitions

Financials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

I, Gagan Agarwal, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

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Address – Mafatlal Centre, 8th Floor, Nariman Point, Mumbai, India. 400021

Tel : +91 22 6632 8000

India - General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Obero Realty Ltd	XRXOF	OBER IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBD RF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy

08 March 2011

*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Important Disclosures

Investment Rating Distribution: Real Estate/Property Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	52.85%	Buy	17	27.87%
Neutral	28	22.76%	Neutral	4	14.29%
Sell	30	24.39%	Sell	6	20.69%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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