

**Price Band:**

**Rs. 490-530**

**Recommendation:**

**AVOID**

8th December 2009

Issue Details	
Shares Offered	9,429,750
Price band (Rs.)	490-530
Lot Size	13 shares
Face Value (Rs.)	10
Listing	BSE/NSE
Offer Opens	9-Dec
Offer Closes	11-Dec
Issue Size (Rs. Cr)	462.1 - 499.8
M.Cap (Rs. Cr)	3702.1

Shareholding Pattern (%)		
	Pre-Issue	Post-Issue
Promoters & Promoter Group	96.9	83.8
Public & Others	3.1	16.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Financial Summary		
Godrej Properties (Rs Cr)	FY08	FY09
Revenues	227.4	205.3
EBITDA	119.9	70.4
EBITDA (%)	52.7%	34.3%
PAT	75.0	75.6
PAT (%)	33.0%	36.8%
Basic EPS	12.4	12.5
Diluted EPS	10.7	10.8
PE (x) @ Rs. 490	39.5	39.1
PE (x) @ Rs. 530	42.7	42.3

Godrej Properties, part of Godrej Group, is Mumbai based one of the leading real estate development companies in India. The company currently has real estate development projects spread across 10 cities in India at various stages of development. The company is more focused on development of residential, commercial and township projects. It is a fully integrated real estate development company undertaking all the activities with regards to development of residential and commercial real estate. The company has undertaken various projects on its own and also by partnering with companies with domestic and international operations.

The Company's residential portfolio consists of various types of accommodation of varying sizes. The commercial portfolio consists of office space catering to blue-chip Indian and International companies, IT parks etc. The township portfolio comprises of integrated townships consisting of residential and commercial developments.

As on October 31, 2009 the company has completed a total of 23 projects comprising of 16 residential and 7 commercial projects, aggregating ~5.13 million sq.ft. of developable area.

The Company has a total land reserves of 391.04 acres, aggregating to ~82.74 million sq.ft. of developable area and 50.21 million sq.ft. of saleable area, including ongoing projects and forthcoming projects.

## Objects of the Issue

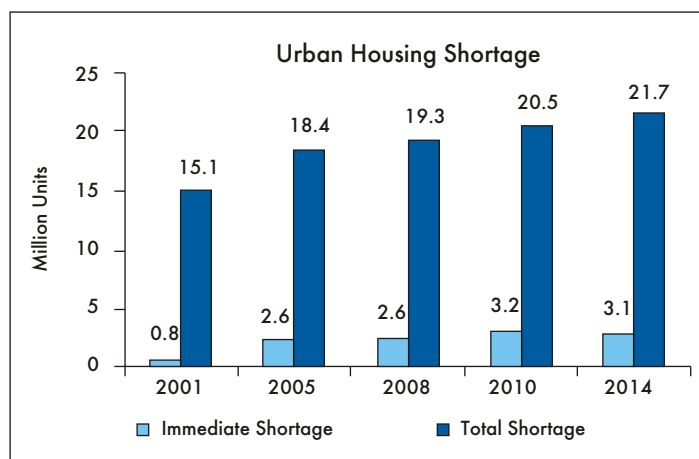
(Rs.Crs.)

Objects of the Issue	Total Estimated Cost	Cost to be financed from Net Proceeds
Acquisition of Land development rights for Forthcoming Projects	444.8	203.0
Construction of Forthcoming Projects	100.8	20.0
Repayment of Loans	172.0	172.0
General Corporate Purposes	-	-

## Industry Overview

- India is a growing economy. According to the CIA World Factbook, India's estimated population was ~1.16 billion people as of July 2009. India's estimated GDP on a purchasing power parity basis was ~\$3.297 trillion in 2008, making it the fifth largest economy in the world after the European Nation, United States, China & Japan.
- The real estate sector has moved towards a more organized regime with various regulatory reforms coming into play bringing in more transparency.
- India has been growing at 7% YoY in the first half of fiscal 2009. Given the revival in the economy, the disposable income of individuals will increase leading to pick-up in the real estate demand.

- According to CRISIL Research's Annual Review on Housing, July 2009, there is likely to be substantial shortage in the housing segment due to increasing demand outpacing the supply.



Source: CRISIL Research's "Housing Annual Review", July 2009

- The demand for commercial spaces is also growing with the growth in the services sector (particularly IT and ITES Sector) in India. With the revival in the global economy, companies are going in for expansion which could result in increased demand for commercial real estate.

## INVESTMENT ARGUMENTS

- Strategical Location of Land Reserves:** As on October 31, 2009 the company has total land bank of 391.04 acres aggregating ~82.74 million sq. ft. of developable area and 50.21 million sq. ft. of Saleable Area located in near prominent and growing cities across India. The land bank includes land parcels owned directly and land parcels over which the company has development rights.

City	Total Area (Acres)	Estimated Developable Area (mn sq. ft)	Estimated Saleable Area (mn sq. ft)
Mumbai	38.9	3.7	2.3
Pune	26.2	12.3	1.3
Bengaluru	21.5	2.5	1.9
Kolkata	16.7	6.9	2.8
Hyderabad	34.0	9.6	9.6
Mangalore	4.5	0.8	0.6
Ahmedabad	223.5	40.4	27.4
Chandigarh	1.8	0.7	0.3
Kochi	15.2	2.5	1.8
Chennai	8.8	3.2	2.3
<b>Total</b>	<b>391.0</b>	<b>82.7</b>	<b>50.2</b>

Source: RHP

- Strong Business Model:** The Company along with acquiring the land for own development, enters into development agreements with land owners to acquire development rights to their land in exchange for a pre-determined portion of revenues, profits or developable area generated from the projects. This business model enables the company to undertake more projects without having to invest large amounts of money towards purchasing land. It thus limits the risk the company is exposed to, through project diversification while maintaining significant control over the projects.
- Foray in Affordable Housing Segment:** The company is in a process of developing a township in Ahmedabad over 30 million sq. ft. It plans to execute a lot of projects in the affordable housing segment as the demand in this segment outpaces the supply.

- **Strong Parentage:** The company is a part of the Godrej Group, one of the leading conglomerates in India. The Godrej brand is quite reputed and popular brand in India due to its long presence in the Indian market and the trust it has developed over 112 years of its operations. The Company can reap the benefits of the strong repute and populace of the brand in the form of premium valuations.

## RISKS & CONCERNS

- **Executorial Delays:** Real Estate projects and integrated township projects generally requires long gestation periods and any delay in the execution of the proposed projects may lead to cost overruns. Also, land acquisition is the key issue which if not tackled on time may delay the project significantly.
- **Stability in real Estate Market:** The company is involved in the construction of residential and commercial real estate projects. Some revival is seen in the residential segment; however, the commercial segment is which accounts for ~30-35 % of the area under development is facing problems of oversupply and less demand. If the demand for commercial spaces fails to pick-up, it could materially impact the operational results of the company.
- **Real Estate subject to Stringent Government Regulations:** The real estate sector in India is heavily regulated by the central, state and local governments. Real estate developers must comply with a number of requirements mandated by Indian laws and regulations, including policies and procedures established and implemented by local authorities. Any adverse change in the regulatory norms could hamper the execution capabilities of the company thereby affecting the profitability.
- **Interest Sensitive Sector:** The real estate is a capital intensive sector. In order to fund their working capital needs companies generally depend on bank funding. As the interest rates have bottomed out and is expected to inch up in the coming quarters, companies may face the risk of rise in their borrowing costs. Inability of the company to pass on the increased costs could adversely impact the margins of the company.

## COMPARATIVE ANALYSIS OF PEERS

Name of Company	CMP (Rs.)	EPS (Rs.)	Book Value (Rs.)	P/E Ratio (x)	P/BV (x)	RoNW (%)
Godrej Properties	530.0	12.5	49.5	42.3	10.7	25.31
Puravankara Projects	97.2	6.2	61.5	15.6	1.6	10.1
Parsvnath Developers	116.5	6.1	103.9	19.0	1.1	5.9
Peninsula Land	81.6	5.2	37.8	15.7	2.2	13.7
Sobha Developers	230.8	14.9	149.5	15.5	1.5	10.0
HDIL	347.5	30.1	162.2	11.5	2.1	18.6

Source: Capitaline

(Note: All the figures are based on FY09 basis)

## VALUATIONS

Godrej Properties has seen a slowdown in its core business caused by the demand slack in the real estate segment, following the crash of US housing bubble. The demand for real estate has seen some revival in the residential segment; however, the commercial segment is still suffering from oversupply. As the commercial segment accounts for a significant portion of the company's revenues, it is likely to post subdued numbers for the next few quarters. Also, the company's stock is priced at a premium in comparison to its peers. At the upper band, the stock is priced at 42.3x & 10.7x its FY09 EPS of Rs. 12.5 and BV of Rs. 49.5 which is quite expensive. **We therefore recommend AVOID for the issue.**

## FINANCIALS

Godrej Properties (Rs Cr)	FY07	FY08	FY09	H1FY10
Net Sales	117.3	196.5	185.2	41.0
Other Operating Income	20.0	31.0	20.1	15.7
<b>Total Revenue</b>	<b>137.2</b>	<b>227.4</b>	<b>205.3</b>	<b>56.7</b>
Employee Cost	7.0	9.8	3.8	1.4
Other Expenses	79.9	97.7	131.1	45.1
<b>Total Expenditure</b>	<b>86.9</b>	<b>107.5</b>	<b>134.8</b>	<b>46.5</b>
(% of Revenues)	63.3%	47.3%	65.7%	82.0%
<b>EBITDA</b>	<b>50.4</b>	<b>119.9</b>	<b>70.4</b>	<b>10.2</b>
EBITDA (%)	36.7%	52.7%	34.3%	18.0%
Depreciation	0.7	0.9	1.2	1.1
<b>EBIT</b>	<b>49.7</b>	<b>119.0</b>	<b>69.3</b>	<b>9.1</b>
EBIT (%)	36.2%	52.3%	33.7%	16.1%
Interest	4.1	3.8	5.3	1.3
Other Income	0.0	0.1	45.0	58.5
Extraordinary Income	-	-	-	-
<b>PBT</b>	<b>45.6</b>	<b>115.3</b>	<b>108.9</b>	<b>66.3</b>
PBT (%)	33.3%	50.7%	53.1%	116.9%
Current Tax	16.9	40.3	32.3	18.4
Fringe Benefit Tax	0.1	0.1	0.2	-
Deferred Tax	(0.1)	(0.0)	(0.1)	(0.0)
<b>Total Tax</b>	<b>16.9</b>	<b>40.4</b>	<b>32.4</b>	<b>18.4</b>
% PBT	37.1%	35.1%	29.7%	27.8%
Minority Interest	(0.1)	(0.2)	0.9	0.1
<b>PAT</b>	<b>28.8</b>	<b>75.0</b>	<b>75.6</b>	<b>47.7</b>
PAT (%)	21.0%	33.0%	36.8%	84.2%
Equity @ Rs.10	6.4	60.4	60.4	60.4
Basic EPS (Rs.)	44.8	12.4	12.5	-
Diluted EPS (Rs.)	4.1	10.7	10.8	-
PE (x)				
- @ Rs.490	10.9	39.5	39.1	-
- @ Rs.530	11.8	42.7	42.3	-
BV (Rs.)	69.3	39.9	49.5	-
PB (x)				
- @ Rs.490	7.1	12.3	9.9	-
- @ Rs.530	7.6	13.3	10.7	-
ROE (%)	64.6%	31.1%	25.3%	-

Source: Company



**Latin Manharlal Securities Pvt Ltd**  
VIEW - VISION - VALUE - WEALTH

Corporate Office : 4th Floor Janmabhoomi Bhavan, Janmabhoomi Marg, Fort, Mumbai 400 001.  
Tel.: (022) 4082 4082, Fax (022) 2282 4242, E-mail: research@lmspl.com Website: latinmanharlal.com

This document is for information only and is meant for the use of the recipient & not for circulation. The information contained in this document has been taken from publicly available information, trade and statistical services & other sources. While the information contained herein is from sources believed to be reliable, we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates included in this report constitute our judgement as of this date and are subject to change without notice. Investors are expected to use the information contained in this report at their own risk. This report is not and should not be construed as an offer or the solicitation of an offer to buy or sell any securities. M/s Latin Manharlal Securities Pvt. Ltd. and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein and may sell them to or buy them from customers on a principal basis.

Disclosure of Interest Statement

1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with Company covered

**GODREJ PROPERTIES LIMITED**

No  
No  
No