IPO Note **Subscribe only for medium term gains** December 09, 2009

### Issue Snapshot:

Issue Open: Dec 09 – Dec 11, 2009

Price Band: Rs. 490 – Rs. 530

Issue Size: Rs. 462.1 cr – Rs.499.8 cr

Issue Size: 9,429,750 equity shares

| | |
|---|---|
| *QIB* | *atleast 56,57,850 eq sh* |
| *Retail* | *atleast 28,28,925 eq sh* |
| *Non Institutional* | *atleast 9,42,975 eq sh* |

Face Value: Rs 10

Book value: Rs 49.5 (March 31, 2009)

Bid size: 13 equity shares and in multiples thereof

100% Book built Issue

### Capital Structure:

Pre Issue Equity: Rs. 60.42 cr
Post issue Equity: Rs. 69.85 cr

Listing: BSE & NSE

Lead Manager:
ICICI Securities Ltd, Kotak Mahindra Capital Co Ltd, IDFC-SSKI Ltd, Nomura Fin Advisory & Securities (India) Pvt Ltd

Registrar to issue: Karvy Computershare Pvt Ltd

### Shareholding Pattern

| Shareholding Pattern | Pre issue % | Post issue % * |
|---|---|---|
| Promoter & Promoter Group | 96.87 | 83.78 |
| Non-Institutions | 3.13 | 2.71 |
| Public | - | 13.51 |
| **Total** | **100.00** | **100.00** |

**ICRA IPO grading**: 4/5 indicating above average fundamentals

## Background & Operations:

GPL is one of the leading real estate development companies in India (*Source: Construction World – "India's Top 10 Builders"*) and is based in Mumbai, Maharashtra. It currently has real estate development projects in 10 cities in India, which are at various stages of development. Currently, its business focuses on residential, commercial and township developments. GPL is a fully integrated real estate development company involved in all activities associated with the development of residential and commercial real estate. It undertakes its projects through its in-house team of professionals and by partnering with companies with domestic and international operations.

GPL's parent company, Godrej Industries Limited, currently holds 80.26% of equity share capital. Godrej Industries Limited is the listed flagship company of the Godrej group of companies. The Godrej group of companies includes Godrej & Boyce Manufacturing Company Limited and is one of the leading conglomerates in India.

Its residential portfolio consists of various types of accommodation of varying sizes. In its commercial portfolio, it builds office space catering to blue-chip Indian and international companies, IT parks catering to the requirements of IT/ITES companies and retail space. Its township portfolio includes integrated townships consisting of residential and commercial developments. During FY09, its total revenue contribution from operation of commercial activities, residential activities and other income operations was Rs.167.7 cr, Rs.59.6 cr and Rs.23.01 cr, respectively.

GPL entered into its first project in 1991. It initially concentrated its operations in the Mumbai Metropolitan region and later expanded to include other cities such as Pune, Bengaluru, Kolkata, Hyderabad, Ahmedabad, Mangalore, Chandigarh, Chennai and Kochi.

GPL has entered into memoranda of understanding with certain members of the Godrej group of companies, for developing land owned by them in various regions across the country. This land does not form a part of its Land Reserves and the memoranda of understanding do not constitute definitive agreements for the development of these lands. The details of these memoranda of understanding are as follows:

| Group Company | City | Acreage |
|---|---|---|
| Godrej & Boyce Manufacturing Company Ltd | Mohali (Chandigarh) | 75 |
| Godrej Agrovet Ltd | Bengaluru | 100 |
| Godrej & Boyce Manufacturing Company Ltd | Hyderabad | 10 |
| **Total** | | **185** |

**(Source: RHP)**

**Forthcoming Projects**

| Type | Acreage | Approx Saleable Area (mn sq ft) | Percentage of Saleable Area as per Type of Property |
|---|---|---|---|
| Residential Projects | 66.59 | 6.75 | 37% |
| Commercial Projects | 57.17 | 11.35 | 63% |
| **TOTAL** | **123.75** | **18.09** | **100%** |

**(Source: RHP)**

## Objects of Issue:

The objects of the Issue are to achieve the benefits of listing and to fund requirements for fiscal 2010 and fiscal 2011:

- Acquisition of land development rights for forthcoming projects
- Construction of forthcoming projects
- Repayment of loans
- General corporate purposes

| S.No. | Ependiture Items | Total Estimated Cost | Amount Deployed till November 15, 2009 | Balance Payable as on November 15, 2009 | Proposed to be funded by internal accruals | Amount upto which will be financed from Net Proceeds | Estimated schedule of deployment of Net Proceeds for | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | FY10 | FY11 | FY12 |
| 1 | Acquisition of land development rights for forthcoming projects | 444.82 | 152.5 | 292.32 | Nil | 203 | 203 | - | - |
| 2 | Construction of forthcoming projects | 100.84 | 22.82 | 78.02 | Nil | 75 | 20 | 40 | 15 |
| 3 | Repayment of loans | 172 | Nil | 172 | Nil | 172 | 172 | - | - |
| 4 | General corporate purposes | - | - | - | - | * | * | * | * |
| | **Total** | **717.66** | **175.32** | **542.34** | **Nil** | ***** | ***** | ***** | ***** |

(Source: RHP)

## Triggers:

**Established brand name:**

GPL is a part of the Godrej group of companies, which is one of the leading conglomerates in India. The “Godrej” brand is instantly recognisable amongst the populace in India due to its long presence in the Indian market. The Godrej group was awarded the “Corporate Citizen of the Year” award by the Economic Times in 2003 and the Godrej brand was selected as the fourth best brand in India in The Week magazine’s Mood of the Nation @ 60’s survey published on August 19, 2007. GPL has carried forward this brand name and reputation for quality to the real estate market in its locations of operation. Transparency and efficiency in operations have helped it in developing long-term relationships with its customers as well as investors in the real estate market, business partners, contractors and suppliers. It has received many business awards and recognition, including being featured among “India’s Top 10 Builders” in 2006, 2007, 2008 and 2009 by Construction World and “India’s Best Companies to Work For” (first in construction and real estate) in 2009 by Great Places to Work, India, in partnership with the Economic Times. In 2008, GPL received the Corporate Governance of the Year award by Accommodation Times.

**Land Reserves in strategic locations:**

As of October 31, 2009, GPL has Land Reserves comprising 391.04 acres aggregating approximately 82.74 million sq. ft. of Developable Area and 50.21 million sq. ft. of Saleable Area, located in or near prominent and growing cities across India, such as Mumbai, Pune, Bengaluru and Ahmedabad. These include land parcels, which it owns directly, and land parcels over which it has development rights through agreements or memoranda of understanding.

| City | Estimated Developable Area (in mn sq ft) | Estimated Saleable Area (in mn sq ft) | Acreage |
|---|---|---|---|
| Mumbai | 3.69 | 2.26 | 38.85 |
| Pune | 12.32 | 1.33 | 26.23 |
| Bengaluru | 2.51 | 1.86 | 21.46 |
| Kolkata | 6.93 | 2.82 | 16.72 |
| Hyderabad | 9.60 | 9.60 | 34.00 |
| Mangalore | 0.86 | 0.61 | 4.53 |
| Ahmedabad | 40.43 | 27.38 | 223.51 |
| Chandigarh | 0.68 | 0.31 | 1.84 |
| Kochi | 2.52 | 1.76 | 15.16 |
| Chennai | 3.23 | 2.26 | 8.75 |
| **Total** | **82.77** | **50.19** | **391.05** |

(Source: RHP)

**Business development model:**
Along with selective acquisition of land parcels in strategic locations, GPL 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. The Godrej brand name and the reputation associated with it could contribute in attracting potential joint development partners as well as its existing partners. This business model enables it to undertake more projects without having to invest large amounts of money towards purchasing land. GPL is thereby able to limit the risk through project diversification while maintaining significant management control over its projects. This also helps in earning a better IRR.

This kind of a model is a good de-risking strategy as it helps in reducing their exposure to volatility in land prices, provides economic stability and is beneficial in economic downturn.

**Execution methodology:**
GPL focuses on the overall management of its projects, including land acquisition, project conceptualisation and marketing. It works with service providers, which enables it to access third party design, project management and construction expertise.

It also uses IT software and systems to improve productivity and monitor its projects and sales. For example, GPL uses critical chain project management or "CCPM" methodology to manage the projects. In the real estate industry, where uncertainties, delays and budget overruns are frequent, CCPM builds reliability in the timely completion of projects. To facilitate CCPM, GPL uses "Concerto", a CCPM specialised software, to ensure the effective control and monitoring of projects by the core management team. Concerto software allows multi-site communications and provides critical chain scheduling features, reporting formats and portfolio management features. It aids in reducing losses of time and capacity, dealing with uncertainties and ensuring its commitments are met. GPL has also completed the implementation of SAP enterprise resource planning system to streamline operations, improve productivity and reduce costs. It has recently completed implementation of Sales Force CRM for two of its projects, which captures and tracks lead data, customer communication, campaigns and customer complaints. This software could help to increase the rate of lead conversion, track campaign interest and customer interactions. It also associates with other third party architects, project management consultants, contractors and international property consultants.

**Emphasis on innovation:**
GPL believes that innovation is a key success factor in the property development business. GPL was one of the early developers in India to extensively implement the joint development model with land owners for real estate development and that it was one of the first companies to implement Stern Stewart's Economic Value Added concept of measuring financial performance in the real estate business in India. It also undertakes regular satisfaction surveys to measure the satisfaction level of customers as well as joint venture partners. It is one of the few property development companies in India to provide its customers with an online interactive portal allowing customers to access critical information regarding their property including accounts and progress of project development. In addition, it is a founding member of the Indian Green Building Council, which is actively involved in promoting the green building concept in India with a vision to serve as a single point solutions provider and facilitator for green building activities in India.

**Qualified and skilled employee base and human resource practices:**
GPL believes that a motivated and empowered employee base is the key to its competitive advantage. Its Board includes a combination of executive as well as independent members who bring significant business experience. Its key management personnel are qualified professionals many of who have spent a number of years in various functions of real estate development. Its employee value proposition is based on a strong focus on employee development, an exciting work culture, empowerment and competitive compensation. The Godrej Organization for Learning and Development, e-MBA, "Young Executive Board" and "Think Tank" are its key internal human resource initiatives for the development of talent. Various processes such as performance improvement, talent management and competency management are supported online by a Peoplesoft® Human Resource Management System. GPL believes that the skills and diversity of its employees gives it the flexibility to adapt to the future needs of its business.

## Business Strategy:

**Enhance and leverage the Godrej brand and the group resources:**
One of GPL's key strengths is its affiliation and relationship with the Godrej group and the strong brand equity generated from the "Godrej" brand name. Its customers and vendors perceive the Godrej brand to be that of a trusted provider of quality products and services.

The strength of the Godrej brand and its association with trust, quality and reliability helps GPL in many aspects of its business, including land sourcing, expanding to new cities and markets, formulating business associations and building relationships with customers, service providers, process partners, investors and lenders. In addition, its association with the Godrej group helps it leverage group resources, including corporate governance best practices. For example, it is actively involved in a group-wide branding initiative that was conducted by Interbrand, a London-based brand consultant, in which Godrej Properties was identified, along with the personal grooming, furniture and aerospace divisions, as one of the "hero" businesses of the group. It intends to leverage the brand equity that it enjoys as a result of the relationship with the Godrej group of companies to expand its business. To further this strategy, it has engaged Brand Finance India, an independent brand valuation and strategy firm, to conduct a branded business valuation exercise to measure the economic value added by the Godrej brand to its business and to demonstrate how the Godrej brand can be used to attract future joint ventures and partners in order to build its pipeline of projects.

**Continue to utilize effective development model to optimize resources:**
GPL intends to continue to develop most of its projects through joint development agreements with land owners. As of October 31, 2009 many of its projects have been or are being executed on a joint development basis. GPL enters into revenue, profit or area sharing agreements with the land owners, instead of outright purchase of the land, which reduces its debt exposure and corresponding risk. This model has been beneficial for GPL in economic downturns and has provided stability to its business. In cases where GPL owns a percentage interest in the development, it could selectively and opportunistically decide to sell its interest in such property where it perceives significant revenues from such transactions may be recognized.

**Maintain its presence in metros and upcoming growth centers:**
GPL currently has a presence in 10 cities across India. It intends to maintain its presence in metropolitan cities and other high growth cities across the country. GPL has either acquired or is in the process of acquiring development rights in Mumbai, Bengaluru, Chennai, Hyderabad, Pune, Kolkata, Ahmedabad, Kochi, Chandigarh and Mangalore for residential, commercial and integrated township projects. The economic growth in these cities could result in increased demand for residential housing, as well as retail and commercial spaces. GPL recognises that continuing to build on its land reserves in its existing markets is critical to its growth strategy.

**Focus on execution**
GPL intends to continue to scale up the size of its operations and its project teams. It recognises the importance of delivering quality projects on a timely basis. It intends to increase the scale of its business while staying focused on quality. Selective outsourcing of the development process enables it to undertake more projects and source best-in-class development partners, while optimally utilising its resources. For example, GPL has entered into a memorandum of understanding with Larsen & Toubro Limited for its appointment as a contractor for the development of some of its future projects. It intends to continue to outsource activities such as design, architecture and construction to the best possible partners. For example, GPL has commissioned Pelli Clarke Pelli Architects, who have worked on prestigious projects around the world, such as the Petronas Towers in Kuala Lumpur, One Canada Square at Canary Wharf in London and the International Finance Center in Hong Kong, to master plan and design its Vikhroli development, and intend to commission them for designing the first commercial building within the development. In addition, GPL has a dedicated team from P.G. Patki Architects working on some of its projects.

It also uses Information Technology (IT) to support its execution capabilities. All its projects are currently operational on SAP. GPL has implemented several initiatives and processes to enhance its execution capabilities by engaging Goldratt Consulting in implementing their “Theory of Constraints” with CCPM. GPL has also implemented Sales Force Customer Relationship Management (CRM) system for managing leads and tracking customer interactions.

**Focus on sustainable development:**
GPL intends to bring sustainable design to all of its projects. For example, the Ahmedabad township project has been chosen as one among sixteen projects around the world by the Clinton Climate Initiative to work towards being climate positive. In addition, GPL has commissioned Atelier Ten, a well regarded sustainability consulting firm, to guide GPL in achieving environmentally responsible design that will result in reduced operating costs for the Vikhroli development. Reduced operating costs are particularly important for the Vikhroli development because it intends to hold the commercial space.

## Industry:
Historically, the real estate sector in India was unorganised and characterised by various factors that impeded organised dealing, such as the absence of a centralised title registry providing title guarantee, a lack of uniformity in local laws and their application, non-availability of bank financing, high interest rates and transfer taxes and the lack of transparency in transaction values. In recent years however, the real estate sector in India has exhibited a trend towards greater organisation and transparency by various regulatory reforms.

The trend towards greater organisation and transparency has contributed to the development of reliable indicators of value and organised investment in the real estate sector by domestic and international financial institutions and has also resulted in the greater availability of financing for real estate developments. Regulatory changes permitting foreign investment are expected to further increase investment in the Indian real estate sector. The nature of demand is also changing, with heightened consumer expectations that are influenced by higher disposable incomes, easy availability of credit, increased globalisation and the introduction of new real estate products and services.

These trends have been reinforced by the substantial recent growth in the Indian economy, which has stimulated demand for land and developed real estate across its business lines. Demand for residential, commercial and retail real estate is rising throughout India, accompanied by increased demand for improved infrastructure. In addition, tax and other benefits applicable to special economic zones are expected to result in a new source of demand.

**Residential Real Estate Development**
According to CRISIL Research's "Housing Annual Review" (July 2009), the growth in the residential real estate market in India has been largely driven by the continuous growth in population, migration towards urban areas, growing income levels, rise in nuclear families and easy availability of finance.

Housing stock grew in India during fiscal years 2005-2008, which generally corresponded with rising demand. There was also an increase in housing prices during this period. This increase in urban housing is due to accelerated urbanisation and demand created by the IT sector during fiscal years 2003-2008. The substantial rise in prices and demand for IT employees attracted developers, which also led to considerably greater supply in major urban areas. The rate of increase in housing stock peaked in 2008. At the national level, housing stock grew at a compound annual growth rate ("CAGR") of 2.6% between fiscal years 2001 and 2008. CRISIL Research's "Housing Annual Review" (July 2009) estimates that annual additions in units are expected to grow from 70 million units in 2008 to reach 81 million units in 2014. Estimated annual additions in units in rural areas are estimated to grow from 174 million units in 2008 from 198 million units in 2014. (Source: CRISIL Research's "Housing Annual Review" (July 2009))

The housing demand across ten major cities is expected to increase from 0.8 million units in 2009 to 1.1 million units in 2011. The demand for houses is highest for Mumbai region followed by Kolkata.

According to CRISIL Research's Annual Review on Housing, July 2009, the housing shortage is expected to grow in urban areas. The housing shortage in India is estimated at 78.7 million units by the end of 2008 and further estimates the housing shortage to be 79.2 million units in fiscal 2009. The economic slowdown has resulted in lower growth in the residential sector over the past two years, but is expected to improve in early 2010. The growth in the sector is expected to be assisted by the rising penetration of housing finance and favourable tax incentives.

Demand in the Indian residential segment has consistently outpaced supply as a result of India's favourable demographics, which has led to a housing shortage. Immediate housing shortage is caused by oversupply in the premium segment and a substantial shortage in affordable housing for mid-income and low-income households, meaning that supply does not cater to where the potential demand lies. Total shortage is a result of more long term factors, such as continued urbanisation and the growing trend of nuclear families. (Source: CRISIL Research's "Housing Annual Review" (July 2009))

According to CRISIL Research's Annual Review on Housing, July 2009, the macroeconomic factors supporting housing demand in India will be population growth, a demographic trend towards a younger majority population in India (between the ages of 20 and 69), an increase in urbanisation and shrinking household size. Some of the factors behind the demand supply mismatch for the sector have been highlighted below:

**Rapid urbanisation:** Historically, India has witnessed increasing urbanisation, with the urban population increasing over the years as shown in the graph below. This trend has given rise to increased need for quality housing within urban areas.

**Growing population:** According to CRISIL Research' s Annual Review on Housing, July 2009, India's growing population is one of the demand drivers for segment as a majority of population in the earning age bracket (in the 20-59 age bracket) is expected to increase, which will give rise to demand for housing.

**Rising disposable income and trend towards ownership:** The high economic growth rate that India has experienced in recent years has led to an increase in disposable income and greater consumption. This, in turn, has led to enhanced aspirations and a desire to own homes.

**Growing middle class and favourable demographics:** Increased demand for housing from the middle income segment is expected to be a key feature in the growth of the Indian real estate industry. India's growing population in the earning age bracket, coupled with the increase in disposable income in this bracket, is recognised as a key driver of growth in housing demand.

**Nuclear families:** Indian families are gradually moving away from the concept of joint families to nuclear single household families, which has resulted in an increased demand for housing within the country.

**Fiscal incentives:** Income tax incentives on housing loans are another contributing factor in boosting the growth of residential housing property. Fiscal incentives are provided to the borrowers of housing loans in the form of exemptions and rebates on interest and principal repayments. These have a significant impact on the housing budgets of individuals and provide a boost to the spending on housing facilities.

**Housing finance:** Housing finance and low interest rates have been prevalent in recent years, leading to an increase in construction activity. However, interest rates have increased recently as a result of the global economic slowdown. Nevertheless, these are now re-adjusting in line with the gradual recovery of the global economy. The graph below shows movement in the indexed demand for financed houses. According to CRISIL Research?s Annual Review on Housing, July 2009, overall, demand is expected to pick up in late 2009-2010, with awaiting buyers returning to the market and improvements in affordability due to a decline in market value and improving loan-to-value ratios.

**Commercial space**

The unprecedented growth in the industry and services sectors (particularly in the IT and ITES sectors) in India during 2005-2008 led to a huge demand for office space across cities, resulting in high absorption rates and increased rents in several micro-markets This demand was largely driven by banking, financial services and insurance companies ("BFSI") and IT and ITES companies; two of the most prominent office space occupiers in India. However, forced by the global economic slowdown, IT and ITES companies have recently had to curtail their expansion.Commercial real estate demand is essentially driven by the performance of the economy, infrastructure developments, an inherent talent pool and state level policies which encourage investment.

## Concerns:

**Dependent upon a few contractors and third party entities for the development and sale of its projects:**

GPL enters into agreements with third party entities to design, construct and sell its projects in accordance with its specifications and quality standards and under the time frames provided by them. It requires the services of other third parties, including architects, engineers, and other suppliers of labour and materials. The timing and quality of construction of the projects GPL develops depends on the availability and skill of these third parties, as well as contingencies affecting them, including labour and raw material shortages and industrial action such as strikes and lockouts. It may only have limited control over the timing or quality of services and sophisticated machinery or supplies provided by such third parties and is highly dependent on the services of such third parties. GPL may not be able to identify appropriately experienced third parties and cannot assure that skilled third parties will continue to be available at reasonable rates and in the areas in which it undertakes its projects, or at all. As a result, it may be required to make additional investments or provide additional services to ensure the adequate performance and delivery of contracted services. Any consequent delay in project execution could adversely affect its profitability and reputation.

**Uncertainty of title to its lands, which could impede the transfer of title, expose to legal disputes and adversely affect its land valuations:**

The difficulty of obtaining title guarantees in India means that title records provide only for presumptive rather than guaranteed title. The original title to lands may often be fragmented, and land may have multiple owners. Certain lands may have irregularities of title, such as non-execution or non-registration of conveyance deeds and inadequate stamping and may be subject to encumbrances and litigation of which GPL may not be aware. Additionally, some of its projects are being executed through development agreements in collaboration with third parties. In some of these projects, the title to the land may be owned by one or more of such third parties, and as such GPL cannot assure that the persons with whom it enters into development agreements have clear title to such lands.

**Inability to acquire ownership of or development rights over large contiguous parcels of land could affect its future development activities:**

Certain of its projects are being built on large contiguous parcels of land. For example, its Godrej Genesis project in Hyderabad has an estimated Saleable Area of approximately 9.60 million sq. ft. Although in the past GPL has not experienced difficulties in acquiring ownership of or development rights over large contiguous parcels of land, it cannot assure that it will be able to continue to acquire ownership of or development rights over large contiguous parcels of land on terms that are acceptable to it or at all. This could prohibit it from developing additional large projects or could cause delays or force it to modify the development of the land at a particular location, which in turn could result in failure to maximise return from such parcels of land. Accordingly, its inability to acquire ownership of or development rights over contiguous parcels of land could adversely affect its business prospects, financial condition and results of operations.

**Majority of its Land Reserves are not registered in the name of the Company:**

As of November 15, 2009, 0.82% and 3.48% of its Land Reserves are registered in GPL's name and in the names of its Subsidiaries, respectively. GPL cannot assure that it will be able to assess or identify all risks and liabilities associated with the land that is not registered in its name, such as faulty or disputed title, unregistered encumbrances or adverse possession rights. Consequently, if there is any such encumbrance on the land or any other liability or risk associated with the land, GPL may be required to write off the expenditure that it has incurred in respect of the development.

**Increase in prices of, shortages of, or delays or disruptions in the supply of building materials could harm its results of operations and financial condition:**

GPL procures building materials for its projects, such as steel, cement, flooring products, hardware, bitumen, sand and aggregates, doors and windows, bathroom fixtures and other interior fittings from third party suppliers. The prices and supply of such building materials depend on factors not under its control, including general economic conditions, competition, production levels, and import duties. Its ability to develop and construct projects profitably is dependent upon its ability to source adequate building supplies for use by its construction contractors. During periods of shortages in building materials, especially cement and steel, GPL may not be able to complete projects according to its construction schedules, at its estimated property development cost, or at all, which could harm its results of operations and financial condition.

**Subject to a penalty clause under its sale agreements entered into with its customers for any delay in the completion and hand over of the units that are a part of its projects:**

The sale agreements into which GPL enters with its residential and commercial customers contain penalty clauses wherein it is liable to pay a penalty for any delay in the completion and hand over of the units to the customers. In terms of the residential sale agreement, the penalty payable by GPL varies between 9% to 18% per annum. Accordingly, in large residential projects, the aggregate of all penalties in the event of delays could adversely impact the overall profitability of the project and therefore adversely affect its results of operations. As of October 31, 2009, the total amount of penalty paid by GPL under its sales agreements in the last four years is approximately Rs.0.71 cr.

**Competes with a number of real estate developers:**

GPL operates its business in an intensely competitive and highly fragmented industry with low entry barriers. It faces significant competition in its business from a large number of Indian real estate development companies who also operate in the same regional markets as GPL. The extent of the competition GPL faces in a potential property market depends on a number of factors, such as the size and type of property development, contract value and potential margins, the complexity and location of the property development, the reputations of the customer, and the risks relating to revenue generation.

**Experience difficulties in expanding its business into new geographic areas:**

As a part of its strategy GPL intends to expand its geographic reach to other locations in India. GPL initially concentrated its real estate business in the Mumbai Metropolitan region and later expanded its operations to include other cities such as Pune, Bengaluru, Kolkata and Hyderabad. Recently, it has diversified into Ahmedabad, Mangalore, Chandigarh, Chennai and Kochi. The level of competition, regulatory practices, business practices and customs, customer tastes, behavior and preferences in cities where GPL plans to expand its operations could differ from those in the Mumbai Metropolitan region, Pune, Bengaluru, Kolkata and Hyderabad and its experience in such cities may not be applicable to new cities. In addition, as GPL enters new markets, it is likely to compete with local developers who have an established local presence, are more familiar with local regulations, business practices and customs, and have stronger relationships with local contractors and relevant government authorities, all of which could collectively or individually give them a competitive advantage.

**Subject to extensive government regulation with respect to land development:**

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. For example, GPL is subject to various land ceiling regulations, which regulate the area of land that can be held under single ownership. Additionally, in order to develop and complete a real estate project, developers must obtain various approvals, permits and licences from the relevant administrative authorities at various stages of project development, and developments may have to qualify for inclusion in local “master plans”. GPL could encounter major problems in obtaining the requisite approvals or licences, may experience delays in fulfilling the conditions precedent to any required approvals and it may not be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the real estate sector. If GPL experiences material problems in obtaining or fail to obtain the requisite governmental approvals, the schedule of development and sale or letting of its projects could be substantially disrupted.

**Government could exercise rights of compulsory purchase or eminent domain over its or its development partners’ lands:**

The Land Acquisition Act, 1894 allows the central and state governments to exercise rights of compulsory purchase which, if used in respect of its land or its development partners’ land, could require GPL or its development partners to mandatorily relinquish land without judicial recourse and with minimal compensation. The likelihood of such actions could increase as the central and state governments seek to acquire land for the development of infrastructure projects such as roads, airports and railways. Any such action in respect of one or more of its current or proposed developments could adversely affect its business.

**Restrictions on foreign direct investment in the real estate sector could hamper its ability to raise additional capital:**

While the GoI has permitted FDI of up to 100% without prior regulatory approval in townships, housing, builtup infrastructure and construction and development projects, it has issued a notification titled Press Note No. 2 (2005 Series), dated March 3, 2005, which subjects such investment to certain restrictions. GPL’s inability to raise additional capital as a result of these and other restrictions could adversely affect its business and prospects.

**Cyclical nature of the Indian real estate market could result in fluctuations in property values over time:**

Historically, the Indian real estate market has been cyclical, a phenomenon that can affect the optimal timing for both the acquisition of sites and the sale of its projects. GPL cannot assure that real estate market cyclicality will not continue to affect the Indian real estate market in the future. As a result, GPL could experience fluctuations in property values over time, which in turn may adversely affect its business, financial condition and results of operations.

## Consolidated P&L:

Rs.Cr.

| Particulars | H1FY10 | FY09 | FY08 | FY07 | FY06 | FY05 |
|---|---|---|---|---|---|---|
| Sales | 15.2 | 125.9 | 196.5 | 117.3 | 56.8 | 33.9 |
| Operating Income | 15.7 | 20.1 | 31.0 | 20.0 | 13.0 | 7.7 |
| Total Income | 30.9 | 146.0 | 227.4 | 137.2 | 69.8 | 41.6 |
| Expenditure | | | | | | |
| Cost of sales | 14.1 | 64.5 | 86.8 | 75.8 | 42.5 | 26.1 |
| Employee remuneration & benefits | 1.4 | 3.8 | 9.8 | 7.0 | 2.3 | 1.9 |
| Admin Exps | 5.2 | 10.0 | 10.9 | 3.5 | 2.0 | 1.2 |
| Total Expenditure | 20.7 | 78.2 | 107.5 | 86.3 | 46.8 | 29.2 |
| *% of sales* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| **Operating Profit** | **10.2** | **67.8** | **119.9** | **50.9** | **23.0** | **12.5** |
| *OPM %* | *67.0%* | *53.9%* | *61.0%* | *43.4%* | *40.5%* | *36.8%* |
| Other Income | 58.4 | 42.1 | 0.1 | 0.0 | 0.1 | 0.2 |
| Interest & Financial Charges | 1.7 | 2.9 | 3.8 | 4.2 | 5.3 | 3.6 |
| Depreciation | 1.0 | 1.1 | 0.9 | 0.7 | 0.5 | 0.3 |
| PBT | 65.9 | 106.0 | 115.3 | 46.1 | 17.2 | 8.8 |
| *PBTM %* | *433.6%* | *84.2%* | *58.7%* | *39.3%* | *30.4%* | *25.9%* |
| Tax (incl. FBT & DT) | 18.3 | 31.4 | 40.4 | 16.9 | 5.7 | 3.0 |
| *Effective Tax Rate %* | *27.7%* | *29.6%* | *35.0%* | *36.6%* | *33.3%* | *34.3%* |
| **PAT** | **47.6** | **74.7** | **74.9** | **29.2** | **11.5** | 5.8 |
| *PATM %* | *313.4%* | *59.3%* | *38.1%* | *24.9%* | *20.3%* | *17.0%* |
| Equity | 60.4 | 60.4 | 60.4 | 6.4 | 6.4 | 6.4 |
| **EPS (on pre-issue equity)** | **7.9** | **12.4** | **12.4** | **45.4** | **17.9** | **9.0** |
| **EPS (on fully diluted equity)** | **6.8** | **10.7** | **10.7** | **-** | **-** | **-** |

(Source: RHP)

## Peer Comparison:

| Company | Net Sales (Rs. Cr) | | OPM % | | NPM % | | Book Value (Rs) | RONW % | P/BV | CMP (Rs) | EPS (Rs) | | P/E (x) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | H1 FY10 | FY09 | H1 FY10 | FY09 | H1 FY10 | FY09 | FY09 | FY09 | FY09 | | H1 FY10 | FY09 | #H1FY10 | FY09 |
| Mahindra Lifespace Developers | 110.8 | 341.8 | 18.7% | 78.8% | 28.0% | 19.2% | 217.3 | 5.2% | 1.6 | 355.2 | 6.8 | 15.8 | 26.1 | 22.5 |
| PurvankaraProjects | 282.4 | 444.9 | 35.5% | 69.3% | 25.2% | 32.5% | 61.5 | 10.7% | 1.5 | 93.8 | 3.3 | 6.8 | 14.1 | 13.8 |
| Parsvanath Developers | 282.2 | 698.4 | 33.8% | 31.5% | 26.7% | 16.2% | 103.9 | 6.1% | 1.0 | 108.2 | 4.1 | 6.1 | 13.3 | 17.7 |
| Peninsula Land | 284.1 | 565.5 | 38.6% | 23.8% | 43.9% | 28.3% | 37.8 | 15.0% | 2.1 | 78.1 | 3.8 | 5.3 | 10.3 | 14.8 |
| Sobha Developers | 400.7 | 967.9 | 22.5% | 72.8% | 10.0% | 11.3% | 149.5 | 10.3% | 1.5 | 229.9 | 4.7 | 15.0 | 24.4 | 15.3 |
| HDIL | 649.0 | 1728.4 | 45.6% | 54.9% | 39.5% | 44.1% | 161.2 | 20.5% | 2.1 | 336.7 | 8.3 | 28.6 | 20.3 | 11.8 |
| Omaxe | 342.8 | 798.8 | 29.9% | 81.4% | 10.9% | 5.2% | 74.6 | 6.3% | 1.3 | 96.2 | 2.2 | 2.4 | 22.3 | 40.4 |
| **GPL** | **15.2** | **125.9** | **67.0%** | **53.9%** | **313.4%** | **59.3%** | **49.5** | **25.3%** | **At Rs. 490-9.9<br>At Rs. 530-11.3** | **490-530** | **6.8** | **10.7** | **At Rs. 490 – 36.0<br>At Rs. 530 – 39.0** | **At Rs. 490 - 45.8<br>At Rs. 530 - 49.5** |

(Source: Capitaline, RHP)

Mahindra, Purvankara, Parsvnath, Peninsula, HDIL, Omaxe = FY09 Consolidated Numbers; Purvankar, Parsvnath, Omaxe = H1FY10 Consolidated Numbers; #= P/E calculated on annualised EPS; EPS of GPL calculated on diluted equity

## Conclusion:

GPL builds properties on a unique joint development model, which acts a de-risking strategy for the company. It is developing projects over a land bank of around 80 million sq. ft in the next few years. The land bank is shared with the original owners of land. Unlike most real estate companies, a substantial amount of the land bank is not owned by GPL. GPL has an asset-light model, which is a good way to spread risk and it need not lock up funds upfront to buy property at high prices. However, the profits will have to be shared with the land owner. As part of its property development business, GPL intend to develop SEZs. As of November 15, 2009 one of its Forthcoming Projects may be developed as a SEZ development.

GPL plans to reduce its debt of around Rs.800 cr by Rs.170 cr from the IPO proceeds. Its post-IPO debt-equity would reduce from 2.2 to about 0.65. The lower ratio could allow it to further leverage its books as and scale up its operations by undertaking more projects in the future.

The positives of the IPO incude successful track record of project execution while maintaining high quality standards; the good market response for GPL's ongoing residential projects, reflected by a high level of bookings and customer advances that has resulted in lower market risk for its projects; and low commitment in terms of land payments due to its business model of entering into Joint Development Agreements (JDA) with the land owners, GPL's strong parentage by virtue of being a subsidiary of Godrej Industries Limited and regular infusion of funds by the promoter in the past. On the other hand, concerns include GPL's high exposure to commercial projects resulting in high funding requirements, and its diversification into newer geographies where its ability to compete and execute projects is yet to be demonstrated, the current slowdown in real estate that poses a challenge to the company to maintain its sales volumes and collection efficiency in its on-going and forthcoming projects expected increase in the funding requirement of the company on account of increase in scale of its operations.

More than 50% of GPL's existing land bank is exposed towards township projects and in one location (Ahmedabad), which will be executed over the next ten years. Any delay in this execution or a fall in property prices in Ahmedabad will impact NAV estimates, as 50% of the street's NAV is derived from this project. The street has arrived at NAV estimates in the band of Rs.450-480. The IPO is priced at a premium to this number. Hence to benefit from the IPO one will have to assume better real estate markets going forward, any potential development of land owned by the parent company (not mentioned in the offer document); successful execution of MoUs (185 acres) which are currently in nascent stages.

When compared to its listed peers, GPL is priced at a premium. Investors wanting an exposure to the sector and a reputed dependable management would find it worthwhile to apply in the IPO for medium term gains.

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