

IPO Watch – Nitesh Estates Limited

ISSUE DETAILS:

Issue Particulars:	7.23 – 7.5 crore equity shares of face value of Rs. 10
Issue Size:	Rs. 405 crore
Price Band:	Rs 54 – Rs 56
Issue opens on:	April 23, 2010
Issue closes on:	April 27, 2010

The net issue shall constitute 50.5% - 51.4% of the fully diluted post – issue paid – up capital of the company.

OBJECTS OF THE ISSUE:

Particulars	Amount (In Crs)
Acquire joint development rights	21.00
To fund their existing subsidiaries and Associate companies for repayment / prepayment of loans, redemption of debentures, finance ongoing projects and finance the acquisition of joint development rights	303.44
Repay certain loans	35.69
General Corporate purposes	44.87
Total	405.00

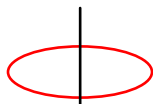
COMPANY BACKGROUND

Nitesh Estates Limited, incorporated in 2004, is in the business of real estate development and is primarily engaged in the development of residential projects in Bengaluru. They are also developing a residential and an office project in Kochi and a hospitality project, the first Ritz – Carlton brand hotel in Bengaluru, in which the company holds 20.7% stake. They are in the process of diversifying into the development of shopping malls and are expanding their geographic reach to Chennai, Goa and Hyderabad.

Since inception, the company has developed three residential projects totaling 0.55 million square feet (sq ft) of Saleable Area and Developable Area.

The completed projects include:

- Nitesh Garden Enclave (formerly referred as Nitesh Long Island) completed in 2009, is a corporate residential project developed for ITC Limited in Bengaluru.
- Nitesh Wimbledon Park, completed in 2007, is a premium residential project in Bengaluru.
- Nitesh Mayfair, completed in 2007, is a premium residential project in Bengaluru.



The company is currently developing 7 projects:

- 5 residential projects (out of which 4 projects are in Bengaluru and 1 project in Kochi)
- 1 commercial project in Kochi
- 1 hospitality project (Ritz – Carlton) in Bengaluru.

They undertake most of their projects through joint – development model.

The company's financial investors include among others AMIF (ADCB Macquarie Infrastructure Fund), which holds 14.4% of the pre-Issue equity share capital of the company. Citi Property Investors holds 74.0% of the equity share capital of Nitesh Residency, the SPV developing the 'Ritz-Carlton' brand hotel in Bengaluru. HDFC AMC, through its portfolio management services division, recently subscribed to 10.1% of the equity share capital of the subsidiary, Nitesh Housing, whose current portfolio includes four of the company's ongoing projects, one of the forthcoming projects and two of the land parcels available for future development. Brand Equity Treaties Limited holds 1.48% of the pre-issue share capital in the company.

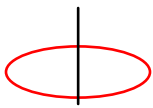
FINANCIALS:

(In Rupees Crores)

Particulars	For the financial period ended on			
	31 st March 08	31 st March 09	Growth (%)	9M ended 31.12.09
Income from operations	63.40	87.70	38.33%	48.46
Other Income	5.50	0.10	-98.18%	18.10
Total Income	68.90	87.80	27.43%	66.57
Total Expenditure	66.60	83.75	25.75%	64.67
Net Profit	1.30	2.77	113.80%	(1.33)
Diluted EPS	0.09	0.19	111.11%	(0.09)

KEY POINTS:

- The company has taken up only luxury housing projects in Bengaluru, till date. Now, it is venturing into mid – income housing segment, where there is a huge competition given its main market being Bengaluru. Also the company is venturing into new geographies and new segments which poses a significant execution risk.
- Un-consolidated income from operations for the nine month period ended December 2009 stood at Rs 47.84 crore while the net profit during this period was Rs 7.21 crore. The annualized un-consolidated EPS during this period is estimated at Rs 0.67 on a post issue likely equity. The P/E multiple at the higher price band is approximately 83.6x and at the lower price band is 80.6x.



- The company has experienced negative cash flows during the past 3 financial years as well as the 9 month period ended December 2009. Also for the 9 month ended December 2009 the company had negative operating margins. The company did not make any income from property development during the 9 month period ended December 09 as well as the financial year ended March 09 and 08. The income during this period is the income from contractual activity from Nitesh Garden Enclave Project.
- The percentage of equity dilution is fairly on the higher side, as the company is issuing 7.23 – 7.5 crore equity shares against its base of 7.08 crore equity shares. This will lead to the promoters' stake dilution to around 41% from 84%.

We recommend our investors to **AVOID** the issue.
