

22 January 2008

BUY

Price	Target Price
Rs 609	R1179

Sensex	16730
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(28)	12	0	0
Rel. to Sensex	(18)	18	74	-

Stock Details

Sector	Construction
Reuters	ORCP.BO
Bloomberg	ORB@IN
Equity Capital (Rs mn)	363
Face Value	Rs10
52 Week H/L	1,080/90
Market Cap	22.1
Daily Avg Volume (No of shares)	339904
Daily Avg Turnover (US\$)	6.5

Shareholding Pattern (%)

(31st Dec.'06)	
Promoters	60.5
FII	11.5
Institutions	3.0
Private Corp.	9.9
Public	15.1

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Orbit Corporation

Result Update

Improving visibility

Orbit Corporation Ltd. announced its Q3FY08 numbers, which were in line with our expectations. The company reported a significant jump in its revenue to Rs2.2 billion up from Rs1.61 billion in the entire H1FY08 and Rs1.91 billion in last fiscal FY07. The company reported a PAT of Rs551.1 million for the quarter as compared to Rs398.9 million for the first six months of the fiscal and Rs572.2 million for the fiscal FY07.

The company has already sold 0.59 mn sqft of the total saleable area of 1.1 mn sq ft at a total value of Rs13.5 billion and has received advances against the sales to the tune of Rs7.7 billion. We expect the company to report a turnover of Rs 10.9 billion in FY09E growing at a CAGR of 140% over the period of FY07-09E. We also expect the company to report a PAT of Rs3.56 billion growing at a CAGR of 150% over the same period. The company also has identified and is in advanced stages of negotiation to add 2.1 mn sqft of saleable space spread across 16-18 projects, which provides visibility beyond FY09.

The company has created a niche for itself in the redevelopment of old and dilapidated buildings in South Mumbai developing some of the prime location in the financial hub of the country. In a very short span of time, the company has achieved a significant size and is set to attain greater heights. Given the strong growth visibility and considering the peer set in the real estate space, we revise our target price to Rs1,179 based on a P/E multiple of 15x up from 10x earlier assigned by us. We maintain our 'BUY, rating on the stock.

Significant jump in the quarter's revenues

The company reported a very strong set of numbers in Q3FY08 with the revenues at Rs2.2 billion, highest ever recorded by the company much higher than Rs1.61 billion reported in H1FY08 or Rs1.91 billion reported in full year FY07. The company reported a PAT of Rs551.1 million for the quarter as compared to Rs398.9 million for the first six months of the fiscal and Rs572.2 million for the fiscal FY07. The growth in PAT has been slower because of increased effective tax rate to 28% as a large part of the revenue in the current quarter was from the orbit WTC project on which the company had paid full tax. Also the interest cost has risen as the company took a NCD to the extent of Rs2 billion during the quarter.

Orbit WTC reaching revenue recognition threshold

The orbit WTC project in Kalina, which has a total saleable area of 0.33 mn sq ft and was sold to the Jindal group for a whopping sum of Rs8.07 billion recently, has reached the revenue recognition threshold. Hence the company recognised on the project to the extent of Rs1.51 billion during the quarter. The company's revenue now includes revenue from five projects which includes Orbit Heights, Vila Orb, Orbit Plaza and Orbit arya apart from Orbit WTC. In the coming quarter, the company expects to book revenues on two more projects as they achieve a threshold of development for recognition.

New project addition to pick up pace

The company has identified projects spread across 2.1 mn sqft of saleable area and is in advanced stage of negotiation to add them to their list of projects. All of the projects are in the city of Mumbai with almost 60% located in south Mumbai. It also includes a 0.6 mn sqft mix development project in the northern suburb of Mumbai in Santacruz. The company expects to add these projects to its portfolio over the next 3-6 months. As was expected by us earlier, we view this as a very positive development as it gives visibility in earnings beyond FY09 and also re-affirms management's ability to add projects at a rapid pace.

Outlook and Valuation

The company has already sold 0.59 mn sqft of the total saleable area of 1.1 mn sq ft at a total value of Rs13.5 billion and has received advances against the sales to the tune of Rs7.7 billion. We expect the company to report a turnover of Rs 10.9 billion in FY09E growing at a CAGR of 140% over the period of FY07-09E. We also expect the company to report a PAT of Rs3.56 billion growing at a CAGR of 150% over the same period. The company also has identified and is in advanced stages of negotiation to add 2.1 mn sqft of saleable space spread across 16-18 projects, which provides visibility beyond FY09. The company has created a niche for itself in the redevelopment of old and dilapidated buildings in South Mumbai developing some of the prime location in the financial hub of the country. In a very short span of time, the company has achieved a significant size and is set to attain greater heights. Given the strong growth visibility and considering the peer set in the real estate space, we revise our target price to Rs1,179 based on a P/E multiple of 15x up from 10x earlier assigned by us. We maintain our 'BUY' rating on the stock.

Quarterly Financials

Income Statement					
Y/E, Mar (Rs. mn)	Q3FY08	9mFY08	FY08E	FY09E	Y-o-Y Gr.(%)
Net Sales	2236.5	3847.7	8007	10992	37%
Expenses	1484.3	2414.5	4197	5689	36%
EBIDTA	752.1	1433.3	3809	5304	39%
EBIDTA %	33.6	37.2	47.6	48.3	70 bps
Other income	13.6	27.6	50	50	0%
Interest	0.0	0.0	192	242	26%
Depreciation	0.0	0.0	13	17	36%
PBT	765.7	1460.9	3655.0	5095.0	39%
Total Tax	214.6	327.9	1096.5	1528.5	39%
Effective tax rate (%)	28.0	22.4	30.0	30.0	
Adjusted PAT	551.1	1133.0	2558.5	3566.5	39%
E/O items	0.0	0.0	0.0	0.0	
Reported PAT	551.1	1133.0	2558.5	3566.5	39%
Net Margin (%)	24.6	29.4	32.0	32.4	
FDEPS	12.1	25.0	56.4	78.6	39%

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