

RETAIL

RESEARCH 

# Sobha Developers Ltd.

Sector: Construction

Initial Public Offering Prospectus Extracts

## Company overview

Sobha Developers Ltd. (SDL) is one of the leading real estate development and construction companies in India, which focuses on residential and contractual projects. They have constructed residential projects in Bangalore, in the south Indian state of Karnataka and constructed other projects on a contractual basis in eight states of India, namely, Karnataka, Kerala, Andhra Pradesh, Orissa, Tamil Nadu, Punjab, Haryana and Maharashtra.

Their residential projects includes presidential apartments, villas, row houses, super luxury apartments and luxury apartments along with amenities such as clubhouse, swimming pool and shopping complex. They have obtained ISO 9001 (1994 series) company in the real estate and construction industry, and ISO 9001 (2000 series) for adhering to global standards in quality, from Bureau Veritas Quality International.

### Issue Details

Type of Issue	: Book Building
Issue Size	: 8.89m Equity Shares
Price	: Rs.550 – Rs.640
Issue Opens	: November 23, 2006
Issue Closes	: November 29, 2006
Minimum Bid Lot	: 10 Equity shares and in multiples of 10 thereafter
Listing	: BSE and NSE
Book Running Lead Managers	: <ul style="list-style-type: none"> <li>• Kotak Mahindra Capital Company Ltd.</li> <li>• Enam Financial Consultants Pvt. Ltd.</li> </ul>
Co-Book Running Lead Managers	: <ul style="list-style-type: none"> <li>• IL &amp; FS Investsmart Ltd.</li> </ul>
Registrar to the Issue	: Intime Spectrum Registry Ltd.

## Profile

### ■ Unique 'backward integration' model

Sobha Developers Ltd. (SDL) has a unique 'backward integration' model, which means that they have the key competencies and in-house resources to deliver a project from its conceptualization to completion. Their backward integration includes an architectural and design studio for their team of qualified architects, concrete block making plant, metal and glazing factory, interiors and wood working factory, mechanical, electrical and plumbing division, and project implementation team. Backward integration ensures that products and services required for development and construction of a project meets their quality standards and are delivered in a timely manner.

They believe that the backward integration model has been one of the important contributing factors to their successful completion of a number of projects in a timely manner, without compromising on quality.

### ■ Quality of construction

The company believes that the quality of their construction differentiates them from other real estate developers. They place a special emphasis on ensuring that their quality standards are adhered to at every stage of a project and for every product provided to a client. Their quality standards are documented and their work force is trained to ensure that their quality standards are met. They have employed technologically advanced tools from Germany and processes for ensuring and monitoring quality at each stage of construction.

### ■ Access to skilled labour

Their well-trained and skilled workforce is a key strength. Their ability to recruit, train and retain skilled labour and tradesmen is critical for them to meet their growth plans and also to meet any immediate need for skilled labour in future. The company has set-up an academy to train tradesmen in specialized fields of the construction business, a majority of which join their ranks upon completion of the training.

The company is committed to the development of the expertise and know-how of their employees through regular technical seminars and training sessions that they organize / sponsor.

### Retail Research

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### Production & Database

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### ■ Ability to construct innovative structures

The company has the ability to construct modern and innovative structures that customers demand. SDL benefits from their significant experience in design and construction, their unique backward integration model and their skilled design and construction team. The company possess requisite strengths at each stage of the project, right from the conceptualization stage to the construction and delivery of the project.

### ■ Ability to identify emerging trends in customer requirements

The company believes that their ability to identify emerging trends in customer requirements and developing projects to suit such requirements is their strength. Their marketing and sales team along with their Customer Relationship Management Team ('CRM') is their interface to potential customers and clients. This interface provides them an insight into the customer requirement trends in terms of type, location and price of the product and guides them to plan their promotional activities.

### ■ Extensive land reserves

SDL believes that land reserves form an important asset for their business. Their Land Reserves aggregating approx. 2,593 acres of land, representing an aggregate of approximately 118m sq.ft of developed or potential developed area, over 78 locations in 7 cities across India, and Land Arrangements aggregating approx. 3,456 acres of land, representing an aggregate of approx. 117m sq.ft of developed or potential developed area, over 13 locations in 3 cities across India. They have made partial payments for the lands comprising their Lands Reserves and Land Arrangements.

## Objects to the issue

- Land Acquisition
- Development and construction costs for existing projects and for forthcoming projects.
- Repayment of loans of the Company.
- General Corporate Purposes.

## Financial history

### ■ Profit & loss account

(Rs m)

Year-end: March	FY02	FY03	FY04	FY05	FY06
<b>Income</b>					
Residential & Commercial Projects	507.6	683.0	815.8	1,642.7	3,942.4
Contractual Projects	793.3	404.4	1,135.1	2,888.0	2,023.7
<b>Net Sales</b>	<b>1,300.9</b>	<b>1,087.4</b>	<b>1,950.9</b>	<b>4,530.6</b>	<b>5,966.2</b>
Other Income	33.2	89.7	95.0	120.6	318.2
<b>Total</b>	<b>1,334.1</b>	<b>1,177.1</b>	<b>2,045.9</b>	<b>4,651.3</b>	<b>6,284.4</b>
Expenditure	1,173.8	1,078.4	1,806.3	3,994.7	4,869.5
<b>EBIDTA</b>	<b>160.3</b>	<b>98.8</b>	<b>239.6</b>	<b>656.5</b>	<b>1,414.8</b>
Interest	68.3	58.0	47.6	109.4	219.4
Depreciation	16.6	16.1	26.7	74.4	112.0
<b>Profit Before Taxation</b>	<b>65.4</b>	<b>24.7</b>	<b>165.4</b>	<b>472.8</b>	<b>1,083.5</b>
Provision for Income Tax	2.8	13.6	73.2	122.9	188.4
Provision for Wealth Tax	0.1	0.1	0.1	0.2	0.2
Fringe Benefit Tax	-	-	-	-	2.5
Deferred Tax	3.4	(1.3)	3.2	11.2	0.1
<b>Reported PAT</b>	<b>59.1</b>	<b>12.3</b>	<b>88.8</b>	<b>338.5</b>	<b>892.3</b>

Source: Company data, IDBI Capital Market Services

## Balance sheet

(Rs m)

Year-end: March	FY02	FY03	FY04	FY05	FY06
Share Capital	69.7	211.4	211.4	298.7	298.7
Reserves and Surplus	65.7	77.3	82.7	349.4	1,069.6
<b>Total Shareholders Funds</b>	<b>135.3</b>	<b>288.7</b>	<b>294.1</b>	<b>648.1</b>	<b>1,368.3</b>
secured Loans	282.9	245.7	534.1	2,209.0	4,208.1
Unsecured Loans	283.2	49.0	23.6	23.6	23.0
Deferred Tax Liabilities	3.4	3.5	8.1	18.1	22.6
Total Debt	569.5	298.3	565.9	2,250.7	4,253.7
<b>Net Worth</b>	<b>704.8</b>	<b>587.0</b>	<b>859.9</b>	<b>2,898.8</b>	<b>5,622.0</b>
Net Block	68.6	109.7	189.5	415.1	999.1
Capital WIP	12.4	-	-	122.9	31.4
Investments	0.2	0.2	190.2	0.2	27.0
Current Assets	1,202.8	1,606.9	2,344.5	4,571.6	8,963.4
Current Liabilities	579.8	1,131.1	1,867.1	2,212.4	4,404.7
Net Current Assets	623.0	475.8	477.4	2,359.2	4,558.7
Deferred Tax Asset	-	1.3	2.7	1.5	5.9
<b>Net Worth</b>	<b>704.8</b>	<b>587.0</b>	<b>859.9</b>	<b>2,898.8</b>	<b>5,622.0</b>

Source: Company data, IDBI Capital Market Services

## Ratios

Year-end: March	FY02	FY03	FY04	FY05	FY06
<b>Basic Ratios</b>					
EPS	8.5	0.6	4.2	11.3	29.9
CEPS	61.5	13.0	90.1	341.0	896.0
BV	19.4	13.7	13.9	21.7	45.8
<b>Profitability Ratios</b>					
OPM (%)	9.8	0.8	7.4	11.8	18.4
NPM (%)	4.5	1.1	4.6	7.5	15.0
RoNW (%)	43.7	4.2	30.2	52.2	65.2
<b>Leverage Ratios</b>					
Debt / Equity Ratio	4.2	1.0	1.9	3.4	3.1

Source: Company data, IDBI Capital Market Services

IDBI Capital Market Services Ltd. (A wholly owned subsidiary of IDBI Ltd.)

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