

## Company

1 November 2009 | 8 pages

# Omaxe (OMAX.BO)

 Equity   
 Estimate change 

## 2QFY10: Some Improvement; but Sustainability Key

- 2Q a mixed bag** — Revenues grew 10% YoY, better than expected; while PAT growth of 10% was in line; QoQ was an improved performance as well with earnings up 50%. This is largely on the back of improved volumes and significant savings in costs in the qtr. But for the 215% increase in interest costs, growth would be higher. We would look for sustainability of this trend, before we get constructive.
- Thrust on affordable homes** — Omaxe has aggressive plans to step up its presence in this segment offering smaller sized apartments of 650-800 sq ft priced between Rs1.4-2.5m. Its attractive pricing has enabled it to sell ~1.8msf in the last 3 mths. Additionally, plans are underway to launch 4 projects in Faridabad, Indore, Allahabad and Chandigarh. While this is a move in the right direction, timely execution of these projects will be crucial.
- High debt levels worrying** — Omaxe's debt/equity ratio remains high at 1.13x with gross debt amounting to ~Rs17bn. The company is working on various options to restructure/repay a substantial portion (~Rs9bn) of its debt with high costs of ~14%; we see high debt levels adversely impacting overall profitability.
- Maintain Sell** — Although the stock is down 16% in the past 3 mths, we maintain our Sell/High Risk recommendation since we believe liquidity concerns will continue to be an overhang on the stock price. This apart, its over-dependence on N. India (96% of landbank) raises risks of oversupply, sluggish demand environment and execution delays.

Sell/High Risk	3H
Price (30 Oct 09)	Rs97.95
Target price	Rs68.00
Expected share price return	-30.6%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>-30.6%</b>
Market Cap	Rs17,001M US\$362M

### Price Performance (RIC: OMAX.BO, BB: OAXE IN)



### Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2008A	4,949	28.51	81.1	3.4	1.2	52.6	2.6
2009A	413	2.38	-91.7	41.2	1.2	2.9	0.0
2010E	748	4.31	81.0	22.7	1.1	4.9	0.0
2011E	870	5.01	16.4	19.5	1.0	5.5	0.0
2012E	1,124	6.48	29.2	15.1	1.0	6.6	0.0

Source: Powered by dataCentral

### Ashish Jagnani

 +91-22-6631-9861  
 ashish.jagnani@citi.com

### Vidhi Sodhani

vidhi.sodhani@citi.com

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Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
<b>Valuation Ratios</b>					
P/E adjusted (x)	3.4	41.2	22.7	19.5	15.1
P/E reported (x)	3.4	41.2	22.7	19.5	15.1
P/BV (x)	1.2	1.2	1.1	1.0	1.0
Dividend yield (%)	2.6	0.0	0.0	0.0	0.0
<b>Per Share Data (Rs)</b>					
EPS adjusted	28.51	2.38	4.31	5.01	6.48
EPS reported	28.51	2.38	4.31	5.01	6.48
BVPS	81.47	85.14	89.45	94.46	100.94
NAVps ordinary	na	na	na	na	na
DPS	2.50	0.00	0.00	0.00	0.00
<b>Profit &amp; Loss (RsM)</b>					
<b>Net operating income (NOI)</b>	<b>7,082</b>	<b>1,846</b>	<b>1,842</b>	<b>2,174</b>	<b>2,741</b>
G&A expenses	-539	-364	-204	-254	-317
Other Operating items	-55	-51	-50	-55	-69
<b>EBIT including associates</b>	<b>6,488</b>	<b>1,431</b>	<b>1,588</b>	<b>1,865</b>	<b>2,355</b>
Non-oper./net int./except.	-326	-923	-708	-804	-984
<b>Pre-tax profit</b>	<b>6,162</b>	<b>507</b>	<b>880</b>	<b>1,061</b>	<b>1,371</b>
Tax	-1,441	-94	-132	-191	-247
Extraord./Min. Int./Pref. Div.	228	0	0	0	0
<b>Reported net income</b>	<b>4,949</b>	<b>413</b>	<b>748</b>	<b>870</b>	<b>1,124</b>
Adjusted earnings	4,949	413	748	870	1,124
Adjusted EBIT	6,488	1,431	1,588	1,865	2,355
Adjusted EBITDA	6,543	1,482	1,638	1,920	2,424
<b>Growth Rates (%)</b>					
NOI	82.3	-73.9	-0.2	18.0	26.0
EBIT adjusted	88.6	-77.9	11.0	17.4	26.3
EPS adjusted	81.1	-91.7	81.0	16.4	29.2
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>-8,139</b>	<b>-12,312</b>	<b>-9,648</b>	<b>-9,574</b>	<b>-9,307</b>
Depreciation/amortization	55	51	50	55	69
Net working capital	-15,827	-15,827	-15,827	-15,827	-15,827
<b>Investing cash flow</b>	<b>-1,222</b>	<b>-1,222</b>	<b>-1,222</b>	<b>-1,222</b>	<b>-1,222</b>
Capital expenditure	-61	-61	-61	-61	-61
Acquisitions/disposals	0	0	0	0	0
<b>Financing cash flow</b>	<b>10,977</b>	<b>10,977</b>	<b>10,977</b>	<b>10,977</b>	<b>10,977</b>
Borrowings	5,984	5,984	5,984	5,984	5,984
Dividends paid	0	0	0	0	0
<b>Change in cash</b>	<b>1,615</b>	<b>-2,558</b>	<b>107</b>	<b>180</b>	<b>448</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>42,807</b>	<b>41,863</b>	<b>46,196</b>	<b>49,280</b>	<b>51,844</b>
Cash & cash equivalent	3,266	1,403	1,356	1,536	1,915
Net fixed assets	405	279	398	411	411
<b>Total liabilities</b>	<b>28,659</b>	<b>27,083</b>	<b>30,668</b>	<b>32,882</b>	<b>34,322</b>
Total Debt	21,264	19,832	20,905	19,833	19,833
<b>Shareholders' funds</b>	<b>14,147</b>	<b>14,781</b>	<b>15,528</b>	<b>16,398</b>	<b>17,522</b>
<b>Profitability/Solvency Ratios</b>					
EBIT margin adjusted (%)	28.4	17.9	20.4	19.4	19.6
ROE adjusted (%)	52.6	2.9	4.9	5.5	6.6
ROA adjusted (%)	14.5	1.0	1.7	1.8	2.2
Net debt to equity (%)	127.2	124.7	125.9	111.6	102.3
Interest coverage (x)	11.1	1.4	1.8	1.9	2.0

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Figure 1. Omaxe:Q2-FY10 Earnings Summary

(In Rs mn)	1QFY10	2QFY10	YoY	QoQ	1HFY10	YoY	Comments
Revenues	1189	2239	10%	88%	3428	-38%	Increased Volumes
Operating Costs	751	1651	-1%		2403		
EBITDA	438	588	55%	34%	1026	-23%	Cut down admin and employee costs in Q210 vs Q209
EBITDA Margin	37%	26%			30%		
Interest	10	308	21%	2876%	318	-33%	High debt/equity ratio at 1.13x at cost of debt of ~14%
Other Income	256	14	-86%	-95%	270	100%	
Depreciation	26	11			37		
PBT	197	283	37%	44%	480	-50%	
Tax	47	58	1816%	23%	105	-45%	
Tax rate	24%	20%			22%		
PAT before Min Int	150	225	11%	50%	375	-51%	
Minority Int	0	0			0		
PAT after Min Int	150	225	10%	50%	375	-51%	

Source: Company Reports and CIRA Estimates

## Omaxe

### Company description

Omaxe is largely a founder-owned and -controlled business. Rohtas Goel started a construction business in 1987 and transformed it into a real estate developer in 2001. He spearheads the organization, which employs other family members as part of the management team - together they own 89% stake. The group has been hiring professionals at various levels in the organization. It is also emphasizing development of its management team to implement aggressive execution plans. It made a primary offering of 18.6m shares at Rs310 in July 2007.

### Investment strategy

We rate Omaxe Sell/High Risk with a target price of Rs68 based on a 35% discount to our NAV estimate of Rs105/share. Omaxe is one of North India's new and aggressive developers. It plans to develop ~152m sq ft over the next few years and focuses on the residential market (84% of landbank), with most of its developments in the NCR (~36% of landbank). In the current environment, we expect Tier II developers such as Omaxe to trade at discounts to NAV. With no near-term catalysts in sight and risks still high, we believe the risk/reward for the stock is unfavourable

### Valuation

Our target price of Rs68 is based on a 35% discount to our Mar'10E NAV estimate of Rs105/share. The discount reflects lower investor preference for tier-two players with low stock liquidity, high volatility in the capital markets and Omaxe's concentration in Tier I and Tier II cities in NCR and North India where the risk of excess oversupply is high. Price pressures and risk of project execution delays amid sluggish demand conditions add to this. We believe NAV is the most appropriate valuation method for Omaxe as it factors in: a) landbank; b) the size of the overall development opportunity, and differences based on market segments, location, scale and spread-out time frames; and c) execution. Our NAV estimate assumes: 1) development volume of 84m sq ft; 2) an average cost of capital of 14%, and 3) a tax rate of 34%.

## **Risks**

We rate Omaxe shares High Risk. Key reasons for our High Risk rating are: 1) concentration in the NCR; 2) aggressive development plans that raise the risk of execution delays; and 3) risk of sluggish demand. Upside risks to our target price are: 1) Any further downward revision in interest rates for housing loans, which would increase demand in the residential segment; 2) Rapid acquisition of land for the multi-product SEZ at Alwar would enhance NAV and valuations; and 3) Timely execution of ongoing projects, and successful new launches.

## Appendix A-1

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Analyst: Ashish Jagnani

Covered since November 9 2007

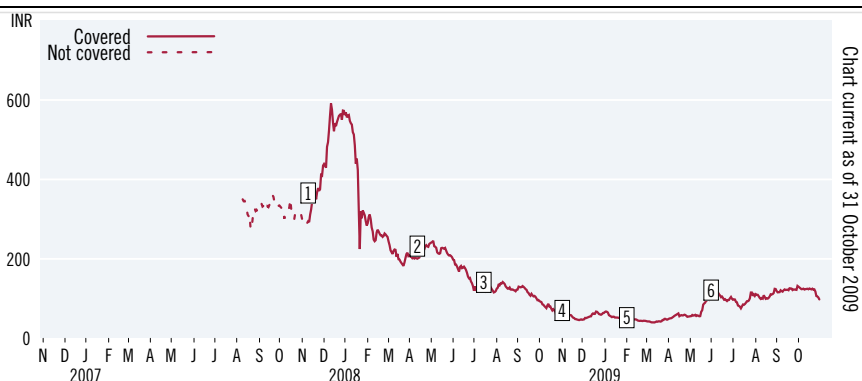


Chart current as of 31 October 2009

	Date	Rating	Target Price	Closing Price
1	9-Nov-07	*1H	*386.00	294.70
2	11-Apr-08	*3H	*221.00	200.50

	Date	Rating	Target Price	Closing Price
3	15-Jul-08	3H	*135.00	121.95
4	2-Nov-08	3H	*52.00	57.85

	Date	Rating	Target Price	Closing Price
5	1-Feb-09	3H	*45.00	48.35
6	1-Jun-09	3H	*68.00	106.45

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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