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Industry : Real Estate

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**IPO Price : Rs.550-640**
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Scrip Scan		Key Data		Shareholding (post issue)	
				(%)	
Face Value (INR)	10.00	No of Shares to be issued (mn)	8.89	Promoters	86.88
Premium (INR)	540-630	No of fresh shares issued (mn)	8.89	Public (incl of employee)	13.12
Equity Capital (Rs.mn) (pre issue)	640.05	Total issue size (Rs.mn)	5691.73	<b>Total</b>	<b>100.00</b>
Equity Capital (Rs.mn) (post issue)	728.98	Issue Opens on	23rd Nov'06		
Market Cap.*(Rs.bn)	46.65	Issue Closes on	29th Nov'06		
*(at cut-off price)		Listing	BSE, NSE		

## Company Profile

Sobha Developers Ltd (SDL) is one of the leading real estate development and construction companies in India, which focuses on residential and contractual projects. SDL has developed and constructed 21 residential projects in premium real estate space of Bangalore covering approximately 2.98 million square feet, 75 contractual projects in eight Indian states covering approximately 8.42 million square feet, and two commercial projects on turnkey basis aggregating 0.11 million square feet in Bangalore. Hitherto, the residential projects are limited to Bangalore only. To diversify the risk associated with a single location, SBL is now in a process to expand to other leading cities of India in line with the strategy adopted by other leading realty players, namely, Unitech, DLF, Parsvnath etc. As of 31<sup>st</sup> March 2006, nearly 2/3<sup>rd</sup> of the revenue was contributed by residential and commercial projects, while the balance 1/3<sup>rd</sup> was contributed by contractual projects.

## About the issue

The issue proceeds will be used to part-finance the on-going and future projects besides repayment of some of corporate loans.

### Deployment schedule of issue proceeds

Particulars	Rs in mn	% to total
Land acquisition Cost	2342.6	41.2
Construction & Development Cost of existing and proposed residential projects	1424.9	25.0
Repayment of certain Loans	1321.8	23.2
General Corporate purposes*	602.5	10.6
<b>Total</b>	<b>5691.7**</b>	

\*\*cut-off price is considered

\* left-over after other item of cost

## Business Segment I - Residential & Commercial projects

This is the first line of business, which is the cash-cow of SDL, under which it develops projects over its owned land. SDL is currently having a land bank of 2593 acres, whereas it is in the process to acquire 3456 acres of land in future. After the acquisition of land, the geographic presence in terms of its operation is set to change. Currently, land bank of SDL is mostly centered on Bangalore, whereas in coming years, its area of activity would be shifted to Chennai and Pune, giving a back-seat to Bangalore. Apart from the said three locations, it is having small presence in a few south-Indian cities like, Cochin, Trissur, Coimbatore and Mysore, where except Cochin, SDL has not shown interest to acquire further lands. SBL has indicated in RHP to disperse to other cities like, NCR, Mumbai, Mangalore, Jaipur, Goa and Hyderabad, but land is yet to be acquired in these places. The current developed/potential developed areas over its owned land banks is 118mn sq ft, spread over 78 locations. Through the land arrangement deals, another 117mn sq ft developable area would be added.

## Current and future residential projects

Currently SDL is undertaking 15 residential projects covering 4.97mn sq ft of area in Bangalore, which is likely to be completed during FY-07. Over next 5 months starting from December 2006, SDL will commence development of 13 residential projects in Bangalore aggregating an area of 5.17mn sq ft to be completed over 2 years.

### Land Bank Details as on 30<sup>th</sup> June,2006

Place / (Land in Acres)	Land with Title	% to total	Land arrangement	% to total	Future Land Bank	% to total
Bangalore	1758	67.8	0	0.0	1758	29.1
Chennai	330	12.7	2670	77.2	3000	49.6
Pune	256	9.9	727	21.0	983	16.2
Cochin	155	6.0	60	1.7	215	3.5
Thrissur	55	2.1	0	0.0	55	0.9
Cloimbatore	26	1.0	0	0.0	26	0.4
Mysore	12	0.5	0	0.0	12	0.2
Total	2593		3456		6049	

After 30<sup>th</sup> June, 2006, in four months period ended 30<sup>th</sup> September'06 SDL has added 154 acres of land to the land reserves cited above, whereas land arrangement is decreased by 83acres.

### Payment schedule

(Rs.mn)	Land Reserve	Land Arrangement	Total Amount
Amount paid	5704.58	390.35	6094.93
As % to total	28.7	4.8	21.8
Amount to be paid	14150.93	7712.97	21863.9
As % to total	71.3	95.2	78.2
Total	19855.51	8103.32	27958.83

## Business Segment II - Contractual Projects Business

This is the second line of business of SDL, which is less profitable compared to the residential project. Under this business, SDL undertakes contractual assignments from third parties to develop properties over their owned lands at pre-set terms and conditions. In FY06 this segment had contributed 34% to the total revenues. Through this business, SDL has showcased its repertoire in creation of diverse commercial spaces. Tech major, Infosys is the chief client for SDL having a big-share of 85.33% of the total contractual business. It has also executed projects for prestigious clients like Taj Group of Hotels, MICO etc. SDL has executed 75 projects till September, 2006 in 8 states covering 8.42mn sq ft of area. Currently, SDL is executing 23 contractual projects worth Rs.5291.85mn for various clients executable within one year.

This business' share to the total revenue has declined YoY (from 61% in FY02 to 34% in FY06), which bode well for SDL, as more share of profitable residential projects has bolstered margin, besides reducing the risk of single client concentration in the contractual business. It is noteworthy to mention here, that the EBIDTA margin has significantly improved from 12.1% in FY05 to 19.5% in FY06 due to increasing share of residential and commercial projects (from 36.3% in FY05 to 66.1% in FY06)

## Business Segment III - Manufacturing business

From the current year, SDL will have a unique model. Towards this end, it has gone for a backward integration drive with an architectural and design studio, a concrete block making plant, metal and glazing factory, interiors and joinery factory, mechanical, electrical and plumbing division and a project implementation team. This will ensure timely execution of projects without compromising on quality. To some extent, this will reduce dependency on vendors for specific materials. During the H1FY07 this backward venture changed the revenue mix of SDL, contributing 16.8% to the total revenues.

## Revenue Mix Summary

Gross Sales (Rs in mn)	FY02	FY03	FY04	FY05	FY06	H1FY06	H1FY07
<b>I. Residential &amp; Commercial</b>	<b>507.55</b>	<b>683.0</b>	<b>815.8</b>	<b>1642.7</b>	<b>3942.4</b>	<b>1535.8</b>	<b>2805.69</b>
<i>% to total</i>	<b>39.0</b>	<b>62.8</b>	<b>41.8</b>	<b>36.3</b>	<b>66.1</b>	<b>61.0</b>	<b>53.7</b>
<i>YoY Growth %</i>		34.6	19.4	101.4	140.0		82.7
<b>II. Contractual</b>	<b>793.3</b>	<b>404.41</b>	<b>1135.12</b>	<b>2887.99</b>	<b>2023.71</b>	<b>981.26</b>	<b>1539.16</b>
<i>% to total</i>	<b>61.0</b>	<b>37.2</b>	<b>58.2</b>	<b>63.7</b>	<b>33.9</b>	<b>39.0</b>	<b>29.5</b>
<i>YoY Growth %</i>		-49.0	180.7	154.4	-29.9		56.9
<b>III. Manufacturing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>877.56</b>
<i>% to total</i>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16.8</b>
<i>YoY Growth %</i>							NA
<b>Total</b>	<b>1300.85</b>	<b>1087.43</b>	<b>1950.9</b>	<b>4530.64</b>	<b>5966.15</b>	<b>2517.04</b>	<b>5222.41</b>
<i>YoY Growth %</i>		-16.4	79.4	132.2	31.7		107.5

## Financials

The revenue grew at a faster pace from FY03-05. Growth retarded in FY06, in which year, SDL reduced exposure to lesser profitable contractual business. With heightened activity over the residential and commercial projects the growth has been increased to 108% in the current year (H1FY07). This strategy paid off handsomely to SDL with greater profitability. In future, it is expected that, SDL would give more focus to residential and commercial space, which will keep the growth momentum and profitability intact.

## Financials

(Rs in mn)	FY02	FY03	FY04	FY05	FY06	H1FY06	H1FY07
Net Turnover	1271.18	1048.11	1921.12	4417.67	5624.12	2416.09	4847.86
<i>YoY Growth %</i>		-17.5	83.3	130.0	27.3		100.6
Total Operative Exps	1154.16	1039.03	1776.52	3881.75	4527.52	2096.66	4000.21
Operating Profit	117.02	9.08	144.6	535.92	1096.6	319.43	847.65
<i>YoY Growth %</i>		-92.2	1492.5	270.6	104.6		165.4
<i>OPM %</i>	9.2	0.9	7.5	12.1	19.5	13.2	17.5
Finance Charges	68.25	57.97	47.55	109.36	219.38	94.5	279.47
Depreciation	16.6	16.09	26.72	74.38	111.96	48.5	108.47
PBT before Other Income	32.17	-64.98	70.33	352.18	765.26	176.43	459.71
Other Income	33.23	89.67	95.03	120.63	318.21	111.68	152.12
PBT	65.4	24.69	165.36	472.81	1083.47	288.11	611.83
<i>As % to turnover</i>	5.1	2.4	8.6	10.7	19.3	11.9	12.6
Provision for Taxation	6.28	12.43	76.55	134.32	191.19	55.58	72.09
<i>Effective Taxation %</i>	9.6	50.3	46.3	28.4	17.6	19.3	11.8
Net Profit	59.12	12.26	88.81	338.49	892.28	232.53	539.74
<i>YoY Growth %</i>		-79.3	624.4	281.1	163.6		132.1

## Concerns

- For land arrangement only token amount (4.8%) has been tendered to third parties, for which title of the lands are yet to be transferred in its name. Any delay in land acquisition may retard growth.
- Unlike other leading realty players, who have pan-India presence, SDL is yet to penetrate other major cities. To sustain the current growth rate, in future SDL has to aggressively spread its wings in the up-coming cities.
- Any reversal of the prevalent buoyant trend in the real estate sector or downturn in the economy is likely to adversely affect the financials of SBL.
- Withdrawal or reduction of tax-sops by Government of India may impact severely the demand of dwelling units. Any recommendation or advice by RBI to commercial banks to reduce the credit exposure to the realty sector also may dampen the growth prospect of SDL.

## Valuation

Currently SDL is having a land-bank of 120mn sq ft. As on July 7, 2006 net present value (after developer's margin) of the land-bank valued by the international property consultants, Cushman & Wakefield worked out between, Rs.39.72-43.90bn, which results in a price range of Rs.545-602 per share, considering the post-issue equity capital. The cap-price of Rs.640 is being offered at 32x the expected FY07 EPS. Currently, the flavor for the realty sector in Indian bourse has perhaps reached its pinnacle. SDL has no presence in the SEZ business, which is marked by long gestation period and uncertainty. In future, SDL has plans to make foray into hospitality sector, in south-India. The financials are likely to be improved by adopting aggressive move to spread into diverse locations and taking up of selective contractual assignments. We believe, the reputation as a high-quality conscious realty player, SDL would enjoy premium to the offer price post-listing. But, since revenue from most of the current projects would be captured in coming two years, we recommend investors to subscribe to the offer with a long-term perspective.

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