Moneywise. Be wise.

OBEROI REALTY LIMITED

October 05, 2010

SMC Ranking ★★½

OBEROI REALTY

Issue Highlights

Industry	**Real estate**
Issue Size (Cr.)	1000.92-1028.61
Price Band in (₹)	253-260
Offer Date	6-Oct-10
Close Date	8-Oct-10
Face Value	10
Lot Size	20
IPO Grade	**ICRA IPO Grade 4** Indicating above average fundamentals

Issue Composition

	In shares
Total Issue*	39,562,000
QIB	23,737,200
NIB	3,956,200
Retail	11,868,600

Book Running Lead Manager

Enam Securities Private Limited

Kotak Mahindra Capital Company Ltd.

J.P. Morgan India Pvt.Ltd.

Morgan Stanley India Pvt. Ltd.

Name of the registrar

Link Intime India Pvt.Ltd.

Shareholding Pattern (%)

Particulars	Pre-issue	Post issue
Promoters and promoters group	89.24	78.14
QIB	10.76	16.62
NIB	-	1.20
Retail	-	4.04*
Total	**100**	**100**

* inclusive of assuming full dilution on account of vesting and exercise of ESOP 09.

Analyst

Shilpi Agarwal
shilpiagarwal@smcindiaonline.com

Business Profile

Oberoi Realty Limited (ORL) formerly known as *Kingston Properties Private Limited* was incorporated as a private limited company in May 1998. The company is promoted by Mr. Vikas Oberoi. The Promoter and the Promoter Group have been developing real estate since 1983, initially as a proprietorship firm and, since 1993, through various project-specific entities.

The company is into the business of real estate development operating in Mumbai with a focus on premium developments. They develop residential, office space, retail, hospitality and social infrastructure projects in mixed-use and single-segment developments.

Strengths

Established brand and reputation: The company enjoys an established and recognizable brand strength which enables them to influence the buying decision of the customers and helps in attaining a premium price for the projects. The company has long-standing relationships with service providers such as architects, landscape planners and contractors and outsources all of the construction and design work. This has given an opportunity to work with several international architects, such as SCDA Architects, Singapore and Bentel and Associates, South Africa, and with domestic contractors, such as Larsen & Toubro Limited.

Strong presence in Mumbai: Most of the completed, ongoing and planned projects of the company are in Mumbai. Mumbai being the commercial capital of India is an attractive real estate market due to high-income customer base and an expanding segment of young upwardly mobile professionals. As of June 30, 2010, the company completed 33 projects covering approximately 5,018,234 square feet of Saleable Area spread across Mumbai.

Financial Strength: The company maintains a conservative debt policy. As of June 30, 2010, there are no secured or unsecured loans. It follows the sale model for residential projects and a lease model for a portion of office space and retail projects that ensures stable cash flows in different market cycles. The company's first hotel "The Westin Mumbai- Garden City" has commenced operations on May 1, 2010 adding new revenue stream. In hospitality projects, currently it follows an operating agreement model, whereby the hotel is owned by the company and operated by a hotel chain.

Strong project pipeline providing near term cash flow visibility: The company has 13 ongoing projects with 10,122,504 sq. ft. saleable area (5 residential, 5 office space, 1 retail, 1 Hospitality and 1 social infrastructure) and 11 Planned Projects with 10,132,310 sq.ft. saleable area (4 residential, 2 office space,1 retail, 1 Hospitality, 3 social infrastructure) which are expected to be in the market over the next 3-5 years. The company receives 20% of the purchase price as down payment and balance through periodic payments linked to certain other construction milestones while the project is being developed ensuring steady cash flows.

Strategies

Continued focus on large developments in Mumbai: The company intends to continue to focus on Mumbai with a preference for large projects such as the Oberoi Garden City, Oberoi Springs and Oberoi Splendor developments. The company's development sites are located in distinct areas of Mumbai, with different target markets, and it intend to continue to tailor its projects to the particular requirements of each

Objects of the Issue

Particular	Amt. (₹Cr.)
Construction of Ongoing projects	741
Acquisition of land or land development rights	225
General Corporate purpose	[.]
Total	**[.]**

market. Besides significant growth potential for acquiring land and land development rights, such as free-sale components of slum rehabilitation schemes and cluster redevelopment schemes in Mumbai, the company aims to continue evaluating growth opportunities in other parts of India on a case by case basis.

Flexibility in capital investment and mode of development: The company focuses on acquiring land for development in the near- to medium-term. They purchase land for development by making upfront payments for the land, but they also develop projects through alternative structures that reduce the upfront capital commitment.

Balanced revenue generation model for cash flow visibility: The company intends to continue maintaining a balance of assets developed for sale, ownership and lease to third parties to mitigate cyclical risks and achieve steady cash flow. The leased properties provide them with a stable income stream which helps to compensate for volatility in sales of residential and other projects for sale. As of June 30, 2010, the company owns three projects, Oberoi Mall, Commerz I and the Oberoi International School for lease.

Aspirational developments: ORL plans to create aspirational developments with distinctive designs or functionalities, quality construction and finishing to sell the units quickly and at a premium owing to enhanced brand image and reputation. It has created “destination developments” such as Oberoi Garden City by creating an integrated mixed-use development which is anchored by a shopping mall, a hotel and an international school.

Risks

Timely execution of the construction and development: The company has not yet formulated the financing plans for its ongoing and planned projects, other than with respect to the purchase of land, and has not applied for any regulatory consents or approvals for some of these projects. Scheduled completion of the ongoing projects is quite crucial for the company as delay in construction inherently poses the risk of increasing cost of construction.

Significant dependence on the residential business: The residential business segment constituted approximately 60.91% of the total estimated Saleable Area in the Ongoing and Planned projects. The inability of the company to provide customers with distinctive designs or functionalities and quality construction or the failure to anticipate and respond to customer needs may affect the business and prospects.

Expansion into new market segments: The company is expanding into new market segments such as expansion into the hospitality and social infrastructure segments. The company may not be able to successfully expand in new market segment of hospitality that entails the risk of fluctuating occupancy level that depends on location, design of the project prevailing rates and competition in the target market.

Industry risk: The Indian hospitality industry was adversely affected in 2008 and 2009 due to a combination of factors including the global economic downturn and the related fall in domestic and international business and leisure travel, the terrorist attacks in Mumbai on November 26, 2008 and the pandemic caused by the outbreak in 2009 of the H1N1 swine flu virus, which had an impact on tourism and business travel in India. Such developments could have a material adverse effect on the hospitality business, results of operations and financial condition.

Industry Overview

The Real Estate sector in India: The real estate sector in India involves the development of residential housing, commercial buildings and office space, industrial facilities and warehouses, hotels, restaurants, cinemas, trading spaces such as retail outlets and the purchase and sale of land and land development rights.

Historically, the real estate market in India has been characterized by various factors that impeded organized dealing, such as the absence of a centralized title registry providing title guarantee, a lack of uniformity in local laws and their application, non-availability of bank financing, high interest rates and transfer taxes and a lack of transparency in transaction values. However, in recent years, the real estate market in India has exhibited a trend towards greater organization and transparency in light of various regulatory reforms that have contributed to organized investment in the real estate market by both domestic and international financial institutions.

Regulatory changes liberalizing FDI inflows are expected to further facilitate investment in the Indian real estate sector. The Government in March 2005 amended existing legislation to allow 100% FDI in the construction business. The increase in FDI inflows is expected to help meet the demand for financing in the real estate industry.

Peer Comparison

Company name	Mcap	EPS	P/E	P/BV	Face value	Price
DLF Limited	65827.11	10.28	37.72	2.69	10	388
Unitech Limited	23768.5	2.77	34.09	2.25	2	94
Indiabulls Real Estate Ltd	7113.87	0.72	246.48	0.76	2	180
HDIL	11321.2	13.79	19.79	1.34	10	273
Oberoi Realty Limited*	**8571.59**	**13.88**	**18.73**	**2.96**	**10**	**260**

*Calculated at upper price band

Valuation

On the upper price band of ₹260, the stock is priced at P/E of 16.40x on pre issue FY10 EPS of ₹15.85. At post issue FY10 EPS of ₹13.88, the P/E multiple will be 18.73x. Accordingly, the stock is priced at pre-issue P/B of 4.03x on its book value of ₹64.56. Post issue, the stock is priced P/B of 2.96x on its post issue book value of ₹87.73.

Outlook

ORL enjoys strong and established brand image in the residential business across Mumbai. Quality construction entails the company to demand pricing premium for its projects in various locations. Owing to 13 ongoing projects in diverse sectors with minimal debt there is a strong earning visibility, going forward. Diversification into hospitality sector would add to its revenue in the near term. The inherent risk of boom and bust in the real estate business and company's concentrated market presence are of concerns.

Moneywise. Be wise.

Annexure

Profit & Loss

₹ in Cr.

Particulars	Qtr ending Jun-10	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06
Total Operating Income	159.90	783.65	425.41	511.20	235.18	80.88
Total expenditure	75.43	316.43	178.02	253.72	113.39	45.19
Operating Profit	84.47	467.22	247.39	257.47	121.79	35.69
OPM%	**53%**	**60%**	**58%**	**50%**	**52%**	**44%**
Other Income	5.93	21.85	29.48	47.37	12.24	0.07
PBDIT	**90.40**	**489.07**	**276.87**	**304.84**	**134.03**	**35.76**
Depreciation	4.48	9.06	7.27	1.94	1.58	0.18
PBIT	**85.92**	**480.01**	**269.60**	**302.90**	**132.45**	**35.58**
Interest	0.10	0.03	0.36	0.02	0.33	0.00
Profit/loss Before Tax and EO	85.82	479.98	269.24	302.88	132.12	35.58
Extraordinary expenses	0.00	(0.83)	0.17	0.61	50.50	0.03
Tax	6.03	22.62	17.73	6.91	3.38	0.47
Net Profit before adjustments	79.79	458.18	251.35	295.37	78.24	35.08
Change in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00
Other material adjustments	0.00	(0.56)	0.20	(0.21)	0.92	(0.16)
Net profit	**79.80**	**457.62**	**252.34**	**295.16**	**79.16**	**34.92**

Balance Sheet

₹ in Cr.

Particulars	Jun-10	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06
Net Block	586.93	306.82	273.59	44.60	38.01	24.35
Capital WIP	243.98	510.26	385.06	391.65	206.45	117.76
Total Fixed Assets	**830.92**	**817.07**	**658.65**	**436.25**	**244.46**	**142.11**
Deferred tax assets	-1.42	0.20	0.70	-0.71	0.00	0.01
Investments	115.34	78.98	14.96	384.16	0.00	0.00
Current assets, Loans & Advances	1,709.40	1,651.73	1,179.32	899.11	1,269.08	97.72
Total Assets	**2,654.23**	**2,547.99**	**1,853.63**	**1,718.80**	**1,513.54**	**239.84**
Liabilities & Provisions	711.26	684.26	410.01	498.39	587.68	182.14
Net Worth	**1,942.97**	**1,863.73**	**1,443.62**	**1,220.41**	**925.86**	**57.70**
Represented by:						
Share Capital	288.67	288.67	2.60	2.60	2.60	2.30
Preference share capital	35.90	35.90	57.10	78.30	78.30	0.00
Reserves & Surplus	1,618.40	1,539.16	1,383.92	1,139.51	844.96	55.40
Net Worth	**1942.97**	**1863.73**	**1443.62**	**1220.41**	**925.86**	**57.70**

Moneywise. Be wise.

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

E-mail: researchfeedback@smcindiaonline.com

Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Dheeraj Sagar, 1st Floor,
Opp. Goregaon sports club, link road
Malad (West), Mumbai - 400064
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
"Poddar Court", Gate No. 4,
4th Floor, Kolkata - 700001
Tel: 91-33-39847000, Fax: 91-33-39847004