

Company

31 August 2010 | 12 pages

DB Realty (DBRL.BO)

Analyzed Non-Rated Snapshot

- Company Overview** — DB Realty is the third-largest company in the Indian Property space, as per market cap. It is largely a Mumbai play- with exposure to both high-value (south & central Mumbai) and high-volume developments (Mumbai suburbs), with >60msf of saleable area. Promoters own 64% of the capital. Though the stock has had a good run in last 2-months (up 15%), it has underperformed Sensex by 9% since its listing in Feb-10.
- An asset-light, de-leveraged business model...** — It typically follows a JV/JD model and also has sizeable presence and experience in redevelopment and urban renewal projects. This enables an asset-light model, reducing inherent risks while keeping leverage in control (D/E at 0.21 in Q1FY11).
- ... with a healthy development portfolio mix** – DB Realty is largely a residential developer with a presence across the spectrum (luxury to mass housing). In FY10, TDR sales were 55% of revenue and this is to become less significant going forward as 1) the company is looking to use for itself a chunk of the TDRs generated and 2) its resi projects have begun recognizing revenue.
- Looking to grow as a strong regional player ...-** looking to grow in its niche market (Mumbai) using its strong brand value. Other than Mumbai, it has a presence in Pune. Besides the ~60msf in place, management has recently indicated a further ~44msf in the visible acquisition pipeline within MMR.
- ... with visible thrust on execution** – Of the ~60msf projects, it has 19.5msf ongoing due for completion within next 3-years. Another ~19msf is waiting on the sidelines with designs/plans in place and approvals either existing or applied for. Also, company has tie-ups with marquee players like L&T, ManInfra, MQA and Hafeez Contractor for ensuring proper execution of its projects, especially given the sizeable, high-scale project line-up.

Price (31 Aug 10)	Rs428.35
Shares Outstanding	243M
Free Float (%)	15
Fiscal Year End	31 Mar
Market Cap	Rs104,200M US\$2,221M

Price Performance (RIC: DBRL.BO, BB: DBRL IN)



Figure 1. Project Pipeline of DBRL (in msf)

Location	Area(msf)
Mumbai South/Central	6.3
Mumbai Suburbs	24.1
Others in MMR	21.7
Pune	8.9
Total	61

Figure 2. Asset Split (in msf)

Asset Class	Area(msf)
Residential	46.3
Commercial	1.6
Mixed Use	4.0
TDR	8.7

Source: Company Reports

Surendra Goyal, CFA

+91-22-6631-9870
surendra.goyal@citi.com

Vidhi Sodhani

vidhi.sodhani@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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DB Realty so far has delivered over 14 msf in real estate projects mostly in Mumbai spread over 600 acres. (Eg: Yashodham, Gokuldham, Upper Govind nagar in Malad).

Competitive Analysis —

- 1) **A proven track record** - the promoters and their group companies have so far delivered over 14 msf in real estate projects, mostly in Mumbai spread over 600 acres (including Yashodham, Gokuldham, Upper Govind nagar in Malad).
- 2) **Overall superior land bank** vs many other Mumbai real estate players- their key upcoming projects are well located (Jacob Circle, Mahalaxmi, Prabhadevi, Goregaon, Kandivili and Dahisar).
- 3) **Concentrated and focused growth in Mumbai and its suburbs**- which is one of the strongest performing real estate markets: 6.3msf in Mumbai South/Central, 24.1msf in Suburbs and balance in MMR and Pune (~9msf). Management is of the opinion that real estate is more of a “local business”, given different regulatory environments in different parts of the country. Hence it is looking to grow within its niche of MMR- with 44msf in acquisition pipeline.
- 4) **Business model supports de-risked balance sheet** with D/E at 0.21, lower to the industry. It typically follows a JV/JD model and also has sizeable presence in redevelopment/urban renewal projects. *Management indicated that it intends to follow this model going forward.*
- 5) **Cost + margin = pricing**: Recent interaction with management suggests that DB Realty believes in cost plus mark-up pricing rather than going after market pricing blindly. This has led to encouraging pre-sale response for its projects (e.g. Orchid Heights at Jacob Circle where 44% was sold while excavation was going on) at a time when Mumbai market was seeing some slack due to sharp price hikes.

Strengths —

DB Realty's strengths: Differentiated land acquisition ability, a strong thrust on execution, Mumbai centric projects, experience in redevelopment projects, an unleveraged balance sheet and the brand DB Realty

- 1) **Differentiated land acquisition ability**: a) Urban Renewal pioneers- Old tenant rehabilitation and free sale area to be developed by DB Realty e.g Orchid Turf view, Mahalaxmi; b) Generation of TDRs e.g Mahul Nagar; Mankhurd, Powai; c) Low-cost land acquisition and JV with land owners e.g. Dahisar, Prabhadevi; d) Free sale component received on behalf of construction for govt bodies, e.g. Pune projects).
- 2) **Strong thrust on execution**: Company has hired experienced international professionals for its engineering team to enable smooth execution of 65-75 floor high-rises and in-time completion within 4-5 years. Also, it has in place strong existing relationships with marquee contractors like L&T and Man Infra (they handle almost all their projects) and architects like MQA and Hafeez Contractor.
- 3) **Experience in redevelopment projects**: the company has a track record in this real estate segment and this comes to play when they successfully pitch for differentiated urban renewal projects (eg Turf View in Mahalaxmi).
- 4) **Mumbai centric projects** (both current and in pipeline): Mumbai is one of the fastest growing cities, with untapped demand potential. Given most DB projects are in Mumbai city centre or upcoming suburbs, this does reflect value in the making.

- 5) **Unleveraged balance sheet:** Current debt equity at 0.21x gives comfort on the balance sheet position, considering the aggressive growth plans company has in place. Management indicated that it has the option to look at debt funding (it currently has Rs 15bn of un-utilized but approved funding line from banks) and private equity at SPV level to finance the capex requirements.
- 6) **Brand DB Realty-** A strong visible brand in Mumbai today which can help the group to seek premium for its projects.

Weaknesses/Risks —

DB realty when incorporated in 2007 has 12msf of developments planned. Today it has over 60msf in its kitty with another 44msf in the acquisition pipeline...*too much on its plate?*

- **1) Too much on its plate?** DB Realty when incorporated in 2007 had 12msf of developments planned. Today it has over 60msf in its kitty, with another 44msf in the acquisition pipeline. We believe the company runs the risk of ongoing project line-up becoming too aggressive and hence posing an execution challenge, particularly the rehabs and redevelopments.
- **2) Geographic concentration to MMR** can pose problems. Absorption potential (especially in Mumbai central) will judge the pricing bandwidth with the developer, given the impending high-end resi supply.
- **3) Regulatory risks with exposure to TDRs and car parking FSI** – The TDR market and recently the additional FSI under MCGM parking is always under the regulatory scanner, which will remain an overhang for this real estate segment. Having said that, DB Realty's TDR exposure is smaller than some peers in the local market and is mostly intended for its own use. Also, management states that it has approved MCGM parking clause, wherever applicable.
- **4) Limited operating history of the company** – While the promoters and promoter-led companies have carried out real estate business separately for some time, the merged entity by the name DB Realty came together, and was incorporated, in Feb-07. So it's fairly a new start-up, and the risks of two partnering promoters (Vinod Goenka and Shahid Balwa) will always remain.
- **5) Real Estate paper on the block-** Several Mumbai players are waiting to enter the market with their IPOs- Currently, as per news reports, approx. USD 3.8bn of proposed equity offerings is on the table, and many players are sitting with SEBI approvals too. The pipeline has several established Mumbai players and this, we feel, could reduce the premium which DB Realty can today demand from investors.

Project Offering Details

Figure 3. Ongoing and Forthcoming Projects

Project	Location	Type	Total (msf)
Ongoing Projects, where excavation has begun:			
Orchid Ozone	Dahisar East, Mumbai	Resi + Retail	1.6
Orchid Woods	Goregaon East, Mumbai	Resi	0.9
Orchid Heights	Jacob Circle, Mumbai	Resi	0.6
Orchid Subarbia	Kandivili West, Mumbai	Resi	0.1
TDRs	Mahul Nagar, Chembur	Mass Housing (TDRs)	8.7
Orchid Hills	Andheri (Chandivai), Mumbai	Resi	0.5
TDRs	Andheri (Chandivai), Mumbai	TDRs	2.2
Ascot Centre II	Sahar Andheri East, Mumbai	Commercial	0.3
Orchid Turf View	Mahalaxmi, Mumbai	Resi	1.5
Orchid Corp Park	Andheri East, Mumbai	Commercial	1.2
Orchid Centre	Yerawada, Pune	Resi + Retail	0.5
Orchid Crown	Dadar South, Mumbai	Resi	0.9
Forthcoming Projects			
Orchid Hill Park	Goregaon E, Mumbai	Resi	1.7
TDRs	Goregaon E, Mumbai	TDRs	6.2
Orchid Garden	Dahisar East, Mumbai	Resi	2.2
Orchid West View	Malad, Mumbai	Resi	0.7
Orchid Views	Shantinagar, Mumbai Central,	Resi	0.7
Orchid Enclave II	Bacchuwadi, Mumbai Central	Resi	0.6
Orchid Skyz	Byculla, Mumbai	Resi	0.3
DB Tower	BKC, Mumbai	Resi + Commercial	0.2
Orchid Town	Pimpri Chinchwad, Pune	Resi	6.7
Orchid Acre	Mira Rd, Mumbai	Resi	17.9
Orchid Enclave III	Mumbai Central, Mumbai	Resi	0.7
Orchid Aprts	Mankhurd, Mumbai	Resi	0.4
TDRs	Mankhurd, Mumbai	TDRs	0.7
Orchid Splendor	Jubille Compound, Byculla, Mumbai	Resi	0.4
Orchid Central	Mumbai Central, Mumbai	Resi	0.3
Orchid lawn	Sangamwadi, Pune	Resi + Commercial+Retail	1.7
TOTAL			60.6

Source: Company

Management has mentioned the following projects (Figure 2) which are either acquired or in process. This would incrementally add to the 60.6msf mentioned during the IPO.

Figure 4. New Project Acquisition post IPO

Project	Location	Status	Stake	Gross Total Area (msf)	FY11 Outflow for land (Rs m)
Government Colony	Bandra (East), Mumbai***	Acquired	100%	8.00	8030
MIG Colony, Bandra (East)	Bandra (East), Mumbai**	Acquired	100%	1.02	1200
Abhyudaya Nagar Colony	Parel-Sewri, Mumbai	In-process	60%	4.61	0
Prem Nagar	Goregaon West, Mumbai	In-process	51%	6.00	2000
Mahal Pictures- Free sale - TDR	JVLR Jogeshwari, Mumbai	Acquired	33%*	6.26	1700
Urban Renewal Project	Mumbai Central, Mumbai	In-process	85%	8.34	9000
Total				38.76	21930

Source: Company (* proposed 40% stake, ** Outflow to be funded from pre-sales, *** Co. contemplating to raise Rs 12bn PE leading to 20% dilution at SPV level)

Financials – summary

Figure 5. Consolidated Profit and Loss Account (in Rs Millions)

Particulars	Q1FY11	Q1FY10	FY10	Fy09	FY08
Total Income	2647.5	1183.3	9512.1	4644.3	0.0
Project Expenses incurred	1710.5	1046.6	7803.6	3886.9	3545.6
(Inc)/Decrease in Inventories	-104.9	-257.7	-2333.8	-1822.7	-3685.2
Establishment expenses	130.5	23.6	387.0	322.2	267.1
Total Exp	1736.2	812.4	5856.8	2386.5	127.6
Operating income	911.4	370.9	3655.3	2257.8	-127.6
Other income	153.4	11.1	291.3	68.0	63.2
EBITDA	1064.8	382.0	3946.6	2325.9	-64.4
Depreciation / amortization	16.0	22.0	95.5	73.9	15.7
EBIT	1048.8	360.0	3851.1	2252.0	-80.1
Interest and finance charges	161.3	90.3	726.1	746.8	154.5
PBT	887.5	269.7	3124.9	1505.1	-234.6
Less: Provision for Taxation	173.7	10.7	413.1	66.9	1.1
NPAT	713.8	259.0	2711.9	1438.2	-235.7
Less : Minority Interest	-81.3	-6.9	-191.9	-21.6	19.2
Add : Share of associates	0.0	0.1	(0.1)	0.1	(0.9)
Net Profit/(Loss)	632.6	252.1	2,519.9	1,416.8	(217.3)
Adjustments	(14.1)			41.1	(30.3)
Adjusted Net Profit/ (Loss)	618.5	252.1	2,519.9	1,457.9	(247.6)

Source: Company Reports & RHP

Recent Results —

In FY10, revenue came in at Rs9.5bn whereas PAT came in at Rs2.5bn. Q1FY11 reported revenue and bottom-line of Rs 2.6bn (up 124% YoY) and Rs 618m (>2x vs YoY) respectively. It sold 0.5msf in Q1, of total value Rs 6.9bn.

Company mentioned that it expects its sales to grow by about 50% over FY10 towards a sales target of Rs 36bn (3.0msf) - with Q1 and July sales seem to suggesting they are on track - and PAT target of Rs9.0bn.

Comfortable Debt Equity at 0.21x

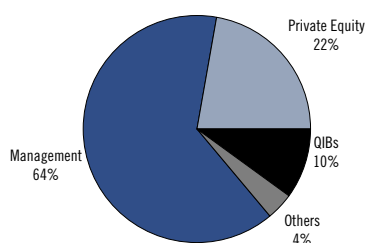
DB Realty raised equity through an IPO earlier this year. Now its business model supports the de-risked and deleveraged balance sheet with D/E at 0.21, relatively lower than the industry peers. While the Company has an approved credit limit extended from banks, management indicated that it intends to follow JV/JD model going forward and always keep debt equity under check.

Figure 6. Balance Sheet (in Rs Millions)

	1HFY10	FY09	FY08	FY07
Gross Block	320.6	300.9	166.6	4.8
Less: Depreciation	(135.5)	(92.4)	(24.0)	(0.2)
Net Block	185.1	208.5	142.5	4.7
Capital Work in progress	9.9	14.7	4.7	15.7
Total Fixed Assets	195.0	223.2	147.2	20.4
Investments	253.6	2.5	1,785.2	113.2
Inventories	11,725.9	10,578.5	5,337.9	1,319.2
Cash and Bank Balances	643.0	768.7	1,037.0	50.0
Sundry Debtors	866.3	426.2	90.8	-
Loans and Advances	13,020.7	12,441.6	9,847.7	1,742.2
Other Current Assets	3.9	-	-	-
Total Current Assets	26,259.9	24,215.0	16,313.3	3,111.4
Total Assets	26,708.4	24,440.7	18,245.7	3,245.0
Secured Loans	5,360.8	5,208.1	2,226.7	495.8
Unsecured Loans	2,152.6	7,149.2	3,803.6	1,415.3
Deferred Tax Liability	4.1	3.6	-	-
Current Liabilities	4,401.3	3,360.2	4,376.2	622.3
Provisions	140.2	60.9	5.4	0.1
Total Liab and Provisions	12,059.0	15,782.0	10,411.8	2,533.5
Share Capital	2,112.1	91.2	91.2	74.6
Share Application Money	-	-	2.5	-
Securities Premium	9,790.7	6,588.2	6,588.2	296.5
Profit and Loss Account	1,786.7	1,203.9	(254.0)	(6.3)
Cap Res on Consolidation :	475.3	227.8	852.0	55.2
Less: Misc Expenditure	(49.2)	(5.4)	-	(0.3)
Net Worth	14,115.5	8,105.7	7,279.9	419.8
Minority Interest	533.9	553.0	553.9	291.7

Source: Company RHP

Figure 7. Shareholding Pattern



Source: Company Reports

Shareholding pattern

DB Realty was listed in Feb-10. The promoter group holds 64% of the capital. Since its incorporation in Feb-07, the company has attracted several Private Equity investments at entity and SPV Level from the likes of IL&FS, Trinity Capital, Bollywood Mauritius (Lehman), and Walkison, in order to fund its aggressive growth. As last reported, PE holders own 22% of its equity base at the entity level.

Going forward, management said it is open to the idea of stake sale at SPV level to fund its growth in order to keep leverage in control. *We believe any conflict or intentions of exit could act as a deterrent for the growth path the company has carved out for itself.*

Figure 8. Cash Flow Statement

	1HFY10	FY09	FY08
CASH FLOW FROM OPERATING ACTIVITIES			
Net Profit/(Loss) before tax, as restated	772.9	1,546.1	(264.8)
Adjustments for:			
Depreciation/Amortisation	45.8	68.0	21.6
Interest and Finance charges	660.6	746.8	154.5
Dividend Income	(0.6)		(48.9)
Interest Income	(2.2)	(53.3)	(11.4)
Others	(1.2)	2.4	1.6
Operating Profit / (Loss)	1,475.2	2,310.1	(147.4)
Change in Working capital	(389.3)	(7,287.1)	(8,312.8)
Cash used in Operations	1,086.0	(4,977.0)	(8,460.2)
Direct Taxes Paid	(49.9)	(15.2)	(2.6)
Net cash used in Operating Activities	1,036.1	(4,992.1)	(8,462.8)
CASH FLOW FROM INVESTING ACTIVITIES			
Net Purchase of fixed assets (incl. CWIP)	(26.0)	(125.8)	(188.8)
Net Acq of Subsidiaries/Associates/JVs	18.5	(1,507.8)	(1,079.9)
Purchase of Current Investment	(250.0)		(6,999.4)
Sale of Current Investments	56.7		6,997.7
Others	(16.3)	(22.2)	(10.3)
Interest + div received	2.2	53.3	60.2
Net cash used in Investing Activities	(215.0)	(1,602.6)	(1,220.4)
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital issue	(94.7)	0.8	7,036.5
Net proceeds from borrowings	(189.5)	7,054.3	3,965.6
Interest & Fin charges	(660.6)	(746.8)	(154.5)
Others	(26.6)	(6.5)	(190.9)
Net cash used in Financing Activities	(971.4)	6,301.8	10,656.8
Net change in cash balance	(150.3)	(292.9)	973.6
Opening cash bal.	736.2	1,026.7	50.0
Opening cash bal. of subs/JVs acquired	8.3	2.4	3.0
Closing cash bal.	594.2	736.2	1,026.7

Source: Company RHP

Mumbai Market Overview —

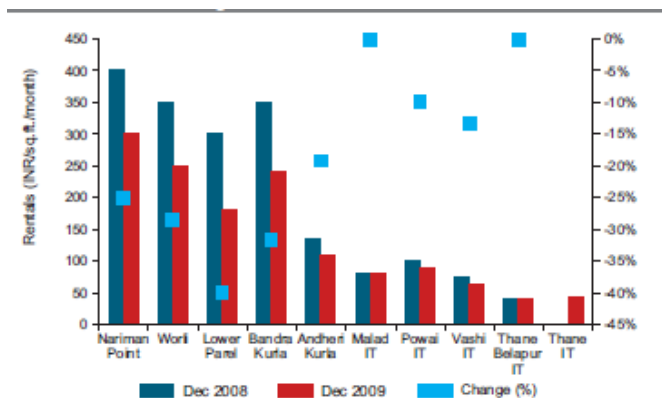
Limited land availability and high per capita income/strong domestic consumption makes Mumbai one of the best markets over the longer term in India. Infrastructure initiatives such as Metro Railway, Trans-Harbour Link, Bandra-Worli Sea Link provide further impetus to the growth. Near term, we are worried about the sharp price increase - ~30-40% more than 2007 highs, which is starting to impact volumes, as per our channel checks. Our recent channel check suggests that commercial recovery has picked pace in the city.

Figure 9. Capital Values: Mumbai as of 2Q 2010

Mumbai	2QCY10 (Rs/sq ft)	% Growth	
		3 Month	1-year
High-End			
Colaba, Cuff Parade, Nariman Point, Churchgate	43,000-60,000	2%	7%
Altamount Rd, Carmichael Rd, Malabar Hill, Napeansea Rd, Breach Candy, Peddar Rd	45,000-70,000	6%	11%
Worli, Prabhadevi, Lower Parel/Parel	35,000-55,000	1%	5%
Bandra (W), Khar (W), Santacruz (W), Juhu	24,000-31,000	6%	25%
Andheri (W), Malad, Goregaon	11,000-16,500	4%	25%
Powai	10,000-16,000	0%	0%
Mid-End			
Colaba, Cuff Parade, Nariman Point, Churchgate	30,000-40,000	6%	21%
Altamount Rd, Carmichael Rd, Malabar Hill, Napeansea Rd, Breach Candy Peddar Rd	40,000-48,000	7%	14%
Worli, Prabhadevi, Lower Parel/Parel	15,500-30,000	7%	26%
Bandra (W), Khar (W), Santacruz (W), Juhu	16,000-24,000	0%	25%
Andheri (W), Malad, Goregaon	9,000-12,000	0%	20%
Powai	6,500-8,500	0%	9%

Source: Cushman & Wakefield Market Beat 2Q 2010

Figure 11. Average Rental Values- Office Districts Mumbai



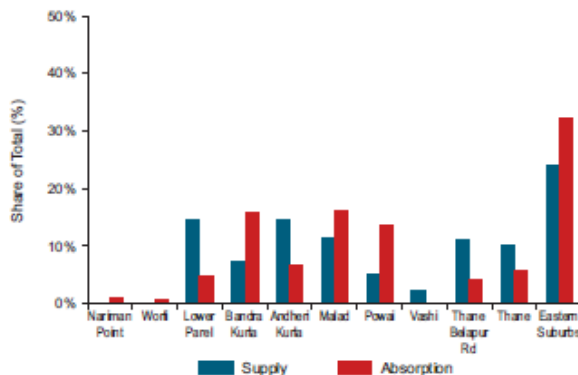
Source: Cushman & Wakefield Outlook 2Q 2010

Figure 10. Capital Values: Pune as of 2Q 2010

Pune	2QCY10 (Rs/sq ft)	% Growth	
		3 Month	1-year
High-End			
Koregaon Park, Bund Garden Rd, Kharadi	6,750-10,500	0%	15%
Aundh	5,500-6,750	0%	5%
Kalyani Nagar	7,000-11,000	0%	16%
Wanowrie	3,200-3,800	0%	24%
Mid-End			
Koregaon Park, Bund Garden Rd, Kharadi	4,500-5,500	0%	18%
Aundh	3,600-4,500	0%	20%
Baner	3,000-4,000	0%	18%
Wakad	2,400-3,000	0%	29%
Kalyani Nagar	4,500-5,500	0%	14%
Wanowrie	3,000-3,200	0%	19%

Source: Cushman & Wakefield Market Beat 2Q 2010

Figure 12. Mumbai Office Supply and Absorption: 2009



Source: Cushman & Wakefield Outlook 2Q 2010

Appendix A-1

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