



Oberoi Realty

BSE SENSEX	S&P CNX	CMP: INR248	TP: INR295	Buy						
16,739	5,049									
Bloomberg	OBER IN									
Equity Shares (m)	328.2									
52-Week Range (INR)	273/205									
1,6,12 Rel. Perf. (%)	12/15/13									
M.Cap. (INR b)	81.4									
M.Cap. (USD b)	1.6									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
End	(INR M)	(INR M)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
3/10A	7,836	4,582	14.0	81.7	-	-	27.7	28.9	-	-
3/11A	9,960	5,172	15.8	12.9	15.7	2.4	19.9	23.6	6.8	11.7
3/12E	7,992	4,314	13.1	-16.6	18.9	2.2	12.2	15.9	8.4	14.7
3/13E	15,886	7,512	22.9	74.1	10.8	1.8	18.3	24.4	4.2	7.2

- Oberoi Realty has reported 3QFY12 results with EBITDA in line with our estimates. However revenue recognition was below our estimate and declined by 53%YoY to IN1.9b. EBITDA margin improved QoQ due to recent price appreciation across ongoing projects and one-time cost adjustment effect in 2QFY12.
- Sales declined sharply QoQ, to 0.12msf (~INR1.8b) as against ~0.19msf (INR2.3b) in 2QFY12 and 0.21msf (INR2.6b) in 1QFY12. Esquire (Goregaon Garden City) and Grande (JVL R) continues to be key sales driver with ~77%/72% volume/value contribution on 3QFY12 sales. 9MFY12 residential sales stood at 0.52msf/INR6.5b (up from 0.4msf in 9MFY11) as against our estimate of 0.7msf/INR10.6b in FY12.
- During 3QFY12, OBER has repaid ~INR170m of loan of I-Ven Realty, while net cash and cash equivalent stood at INR13.2b as against INR13.4b in 2QFY12.
- Revenue contribution from Esquire is likely to be delayed by a quarter to 1QFY13 (as against earlier expectation of 4QFY12). Therefore, we are downgrading our FY12 revenue estimate by ~24% and PAT estimate by 17% due to shifting of revenue recognition of Esquire from 4QFY12.
- OBER has established strong brand equity among Mumbai developers due to its 1) focus on destination development, 2) superior product quality and 3) management goodwill, which enable it to command a premium pricing and enjoy a customer preference. Strong cash surplus of ~INR13.2b offers a huge opportunity to acquire value-augmenting projects at competitive prices in the backdrop of low competition from cash-strapped competitors and rationalizing land prices. While successful launch of its super premium project Oasis (Worli) would be a key sales booster, sustained delay in MoEF approval for Mulund project remains a major overhang. The stock is currently trading at 10.8x FY13E EPS of INR22.9 and 1.8x FY13E BV and ~24% discount our NAV of INR325. Maintain **Buy**.

Consolidated Quarterly Performance

(INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Revenue	1,602	1,701	3,987	2,668	1,609	2,226	1,873	2,284	9,960	7,992
Change (%)	7.3	-34.7	88.7	64.2	0.5	30.9	-53.0	-14.4	27.1	-19.8
Total Expenditure	754	694	1,518	1,218	706	1,071	739	909	4,190	3,425
EBITDA	847	1,006	2,469	1,449	903	1,156	1,134	1,375	5,770	4,567
Change (%)	8.9	-33.6	82.3	41.5	6.6	14.8	-54.1	-5.2	23.5	-20.9
As of % Sales	52.9	59.2	61.9	54.3	56.1	51.9	60.5	60.2	57.9	57.1
Depreciation	45	58	61	73	65	66	68	128	237	327
Interest	1	2	3	0	1	0	1	0	2	0
Other Income	57	70	218	286	542	343	310	205	627	1,399
PBT	858	1,017	2,623	1,657	1,374	1,432	1,375	1,447	6,159	5,640
Tax	60	62	570	291	316	317	354	338	983	1,325
Effective Tax Rate (%)	7.0	6.1	21.7	17.5	20.0	22.2	25.8	23.3	16.0	23.5
Reported PAT	798	955	2,052	1,367	1,058	1,114	1,021	1,122	5,176	4,314
Adj PAT	798	955	2,052	1,367	1,058	1,114	1,021	1,122	5,172	4,314
Change (%)	9.6	-36.1	56.7	30.2	32.5	16.7	-50.3	-17.9	12.9	-16.6

E: MOSL Estimates

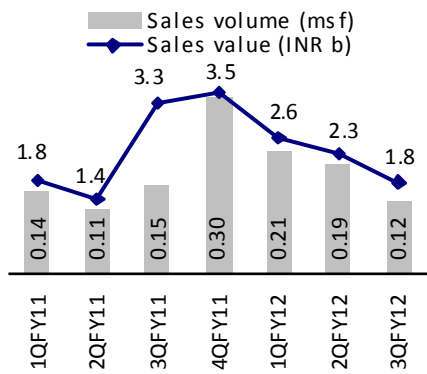
Key result highlights

- **Revenue** declined by 53%YoY to INR1.9b (v/s. est. of INR2.2b) due to lower than expected recognition.
- **EBITDA** down by 54%YoY to INR1.1b (est. of INR1.2b), while margin improves to 60.5% (v/s. 52% in 2QFY12) due to a) Price escalation across all ongoing projects and b) effect of one-time cost escalation adopted in 2QFY12 in Exquite and Grande on account of change in specification. Also with completion of the Splendor (the highest margin project), 100% revenue recognition from all incremental sales from this project has also boosted EBITDA margin in 3QFY12.
- **PAT** increased by 17%YoY to INR1b (v/s. est. of INR1.1b).
- **QoQ sales volume declined sharply to 0.12msf:** During 3QFY12 OBER witnessed sharp a decline in QoQ sales volume to ~0.12msf (INR1.8b) as against 0.19msf (INR2.2b) in 2QFY12 and ~0.15msf (INR3.2b) in 3QFY11. Esquire and Grande continue to remain key sales driver with 55% and 22% contribution respectively. While challenging macro remains the major attributable factor, the company has raised prices across all its ongoing projects by ~10%, which could be the other factor for sales decline. 9MFY12 residential sales stood at 0.52msf/INR6.5b (up from 0.4msf in 9MFY11) as against our est. of 0.7msf/INR10.6b in FY12E.
- **Lower incremental sales continues in revenue contributing projects:** During 3QFY12, OBER's revenue stood at INR1.9b, comprising a) INR575m of annuity income (v/s. INR510m in 2QFY12) and b) INR1.2b from (v/s. INR1.6b in 2QFY12) recognition of sales from residential projects. The key revenue contributing residential projects are:
 1. **Exquisite** (INR0.3b v/s. INR0.6b in 2QFY12) - sales of 0.01msf (8units)
 2. **Splendor** (INR0.5b v/s. INR0.7b in 2QFY12) - sales of 0.01msf (14 units)
 3. **Grande** (INR0.3b v/s. INR0.3b in 2QFY12) - sales of 0.03msf (15 units)
- **Contribution from Esquire to be delayed to FY13:** OBER's FY12 sales have been largely driven by Esquire, which contributed for ~69%/64% of sales volume/value during 9MFY12. However, the project is unlikely to cross the recognition threshold of 20% in 4QFY12 and is expected to be delayed till 1QFY13. Esquire has achieved sales of ~INR7.5b till 3QFY12, which offers a strong revenue visibility in 1QFY13. Nonetheless, we are downgrading our FY12 revenue estimate by ~24%, due to shifting of revenue recognition of Esquire by a quarter.
- **Annuity income improves QoQ:** During 3QFY12, OBER's annuity income stood at INR555m v/s INR497m in 2QFY12 and INR518m in 3QFY11. While uptick in contribution is largely attributable to higher ARR (~14% up QoQ) and occupancy at Westin. However the occupancy of 64% is far below the management's expected steady state level of ~70% - which kept the EBITDA margin for Westin subdued at ~24%.

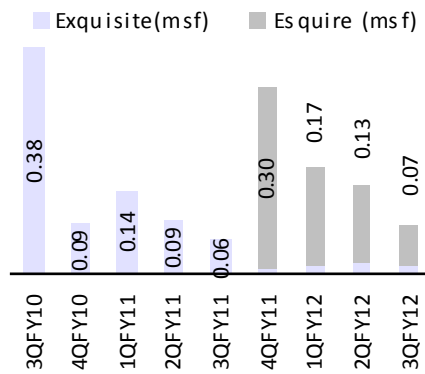
Key con-call takeaways:

- The management expects a brighter period for Real Estate sector with several regulatory improvements and potential softening of rate-cycle. It expressed extreme satisfaction with new amendments in DCR, which creates a level playing field across companies. The Mulund project could see a ~15% increase in saleable area with new plan.

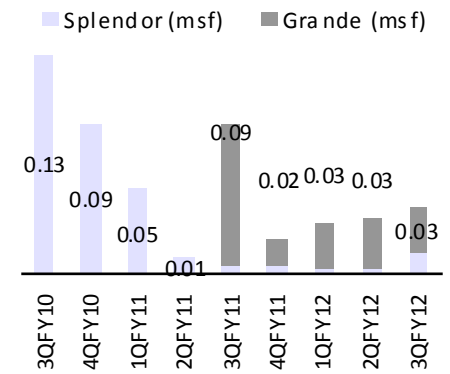
Sales declined sharply



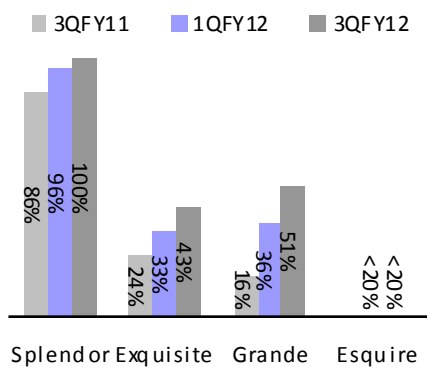
New phases key sales driver: Esquire at Goregaon



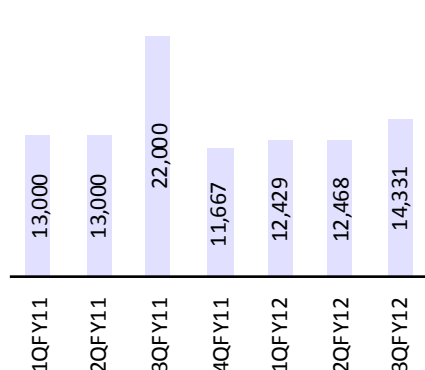
and Grande at JVLR



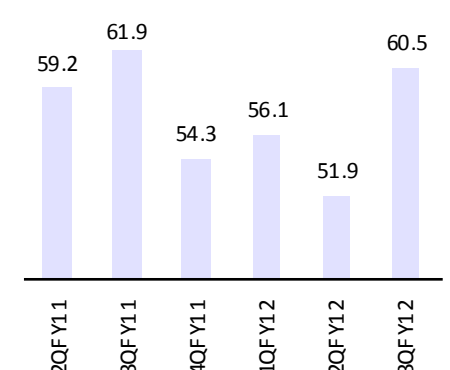
Esquire to cross revenue recognition threshold in 1QFY13



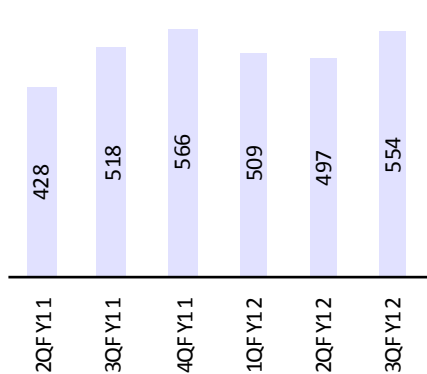
Realization improved due to price appreciation (INR/sf)



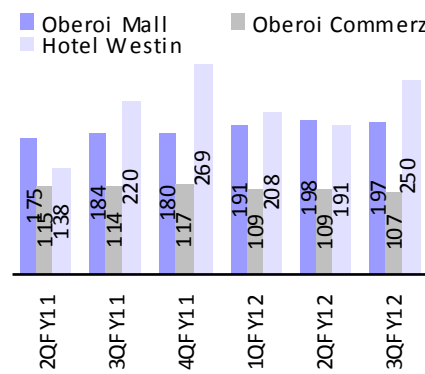
So is EBITDA margin (%)



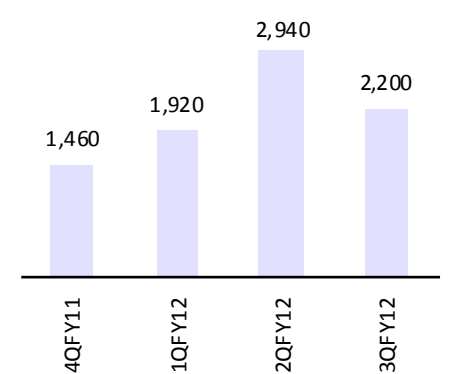
Annuity income increased (INR m) ...



...largely driven by revenue uptick at Hotel Westin



Customer collection declines post a strong 2QFY12 (INR m)



Source: Company/MOSL

- OBER plans to launch its super luxury Worli project in 4QFY12, and Mulund, Exquisite phase III and a small project (~48000sf) in Bandra in FY13. While commercial market remain challenging, a steady execution at Commerz II (Phase I) has been incommensurate with company's strategy to grasp the benefit of a ready property once the markets recovers.
- According to the management, The impact on price increase on sales volume has been limited, given 70-80% of sales in 3QFY12 has happened at higher prices.

Oberoi Realty: an investment profile

Company description

Oberoi Realty Limited is a Mumbai-based real estate developer. It was incorporated in May 1998 as Kingston Properties Private Ltd. ORL's primary focus is to develop residential property but it has diversified into retail, commercial, hospitality and social infrastructure projects. ORL has undertaken ~5msf of RE development across 35 projects so far.

Key investment arguments

- ORL has a strong brand in Mumbai's RE market due to its (1) diversified products, (2) superior product quality and (3) management goodwill, which enable it to command a pricing premium over peers.
- ORL is expected to successfully monetize its land bank over 6-7 years as its healthy cash position and hassle-free land imply certainty of execution. This provides high cash flow visibility, adding to its net cash surplus of ~Rs16b.
- ORL enjoys steady cash flow from its annuity assets, which insulates it from vagaries of the RE cycle.

Key investment risks

- Land acquisition challenges due to high cost of land in Mumbai. Idle cash for long time could impact RoE
- Sluggish Mumbai market.

Comparative valuations

		Oberoi	DLF	Unitech
P/E (x)	FY12E	18.9	24.1	13.4
	FY13E	10.8	22.6	9.2
P/BV (x)	FY12E	2.2	1.4	0.7
	FY13E	1.8	1.3	0.6
EV/Sales (x)	FY12E	8.4	5.7	3.4
	FY13E	4.2	5.3	2.9
EV/EBITDA (x)	FY12E	14.7	12.6	15.4
	FY13E	7.2	12.0	9.6

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	78.5	78.5	-
Domestic Inst	1.4	1.0	-
Foreign	19.1	19.0	-
Others	1.1	1.5	-

Recent developments

- During 3QFY12 OBER witnessed sharp a decline in QoQ sales volume to ~0.12msf (INR1.8b) as against 0.19msf (INR2.2b) in 2QFY12 and ~0.15msf (INR3.2b) in 3QFY11.
- Work has commenced at Worli project with Samsung. The company invested INR1.4b till date.

Valuation and view

- The stock is currently trading at 10.8x FY13E EPS of INR22.9 and 1.8x FY13E BV and ~24% discount our NAV of INR325. Maintain **Buy**.

Sector view

- RE sector has been a major underperformer over the last 12 months with multiple operational and non-operational headwinds such as volume slowdown (due to declining affordability), monetary tightening, pilling liquidity pressure etc. However, with a buoyant macro-picture, likelihood of interest rate cut and increasing focus on execution, we believe the outlook will improve going forward.

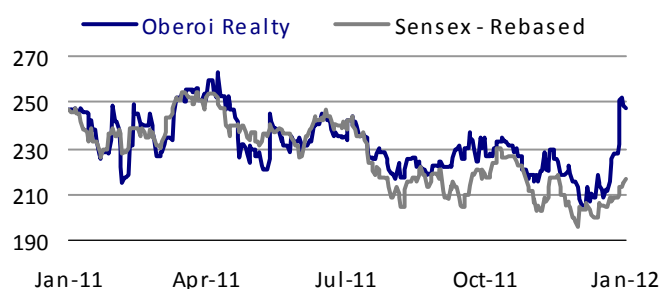
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	13.1	15.8	-17.0
FY13	22.9	23.8	-3.6

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
248	295	19	Buy

Stock performance (since 19 October 2010)



Financials and Valuations

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	4,255	7,836	9,960	7,992	15,886	
Change (%)	(16.8)	84.2	27.1	(19.8)	98.8	
Construction exp.	1,695	3,094	3,920	3,127	6,279	
Staff Cost	87	70	270	297	327	
EBITDA	2,474	4,672	5,770	4,567	9,280	
% of Net Sales	58.1	59.6	57.9	57.1	58.4	
Depreciation	73	91	237	327	412	
Interest	4	-	2	-	-	
Other Income	295	218	627	1,399	1,148	
PBT	2,692	4,800	6,159	5,640	10,016	
Tax	177	226	983	1,325	2,504	
Rate (%)	6.6	4.7	16.0	23.5	25.0	
Adjusted PAT	2,521	4,582	5,172	4,314	7,512	
Change (%)	(14.6)	81.7	12.9	(16.6)	74.1	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	26	2,887	3,282	3,282	3,282	
Reserves	13,840	15,392	29,834	33,780	40,923	
Net Worth	14,437	18,637	33,476	37,421	44,564	
Loans	107	-	-	-	-	
Capital Employed	14,544	18,637	33,476	37,421	44,564	
Gross Fixed Assets	2,837	3,258	7,996	10,157	10,438	
Less: Depreciation	101	190	415	635	721	
Net Fixed Assets	2,736	3,068	7,581	9,521	9,717	
Capital WIP	3,851	5,103	2,110	2,093	3,230	
Curr. Assets	11,794	16,517	29,538	36,054	39,890	
Inventory	7,127	6,243	7,915	11,548	14,845	
Debtors	272	404	468	559	794	
Cash & Bank Balan	1,669	3,631	13,993	14,356	14,719	
Loans & Advances	2,725	6,240	7,163	9,590	9,531	
Current Liab. & Prov.	3,993	6,843	6,412	10,906	8,932	
Creditors	3,962	6,746	6,002	10,883	8,909	
Provisions	31	97	410	24	24	
Net Current Assets	7,801	9,675	23,126	25,147	30,957	
Misc. Expenses	-	-	-	-	-	
Application of Funds	14,544	18,637	33,476	37,421	44,564	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
Adjusted EPS	7.7	14.0	15.8	13.1	22.9	
Growth (%)	(14.6)	81.7	12.9	(16.6)	74.1	
Cash EPS	7.9	14.2	16.5	14.1	24.1	
Book Value	44.0	56.8	102.0	114.0	135.8	
DPS	0.6	4.0	1.0	1.0	1.0	
Payout (incl. Div. Ta	7.0	28.4	7.1	8.6	4.9	
Valuation (x)						
P/E			15.7	18.9	10.8	
Cash P/E				15.1	10.3	
EV/EBITDA				11.7	7.2	
EV/Sales				6.8	4.2	
Price/Book Value				2.4	1.8	
Profitability Ratios (%)						
RoE	18.9	27.7	19.9	12.2	18.3	
RoCE	19.1	28.9	23.6	15.9	24.4	
Leverage Ratio						
Debt/Equity (x)	-	-	-	-	-	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
PBT before Extraord	2,692	4,800	6,159	5,640	10,016	
Add : Depreciation	73	91	237	327	412	
Interest	4	-	2	-	-	
Less : Direct Taxes I	177	226	983	1,325	2,504	
(Inc)/Dec in WC	1,150	(87)	3,089	1,658	5,447	
CF from Operations	1,448	4,759	2,321	2,983	2,477	
(Inc)/Dec in FA	(2,297)	(1,675)	(1,757)	(2,250)	(1,745)	
(Pur)/Sale of Invest	3,692	(640)	140	-	-	
CF from Investments	1,395	(2,315)	(1,617)	(2,250)	(1,745)	
(Inc)/Dec in Net Wc	(127)	923	10,029	(0)	(0)	
(Inc)/Dec in Debt	(1,328)	(107)	-	-	-	
Less : Interest Paid	4	-	2	-	-	
Dividend Pai	177	1,299	369	369	369	
CF from Fin. Activity	(1,635)	(483)	9,658	(369)	(369)	
Inc/Dec of Cash	1,208	1,961	10,362	363	363	
Add: Beginning Bal	461	1,669	3,631	13,993	14,356	
Closing Balance	1,669	3,630	13,993	14,356	14,719	

E: MOSL Estimates

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Oberoi Realty

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|---|----|
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