

Orbit Corporation (ORBCOR)

Rs 130

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 167 to Rs 159
 EPS (FY11E) Changed from Rs 9.7 to Rs 9.5
 EPS (FY12E) Changed from Rs 13.7 to Rs 13.5
 RATING..... Changed from Buy to Strong Buy

Results largely in line with our estimates...

Orbit Corporation's (Orbit) Q1FY11 results were largely in line with our expectation. Though pre-sales volumes have tapered off at ~54,000 sq ft in Q1FY11 vs. ~125,000 sq ft in Q4FY10, the realisation has improved sharply in the recent transaction. Going ahead, the management has indicated strong pre-sales volumes in the next two quarters on the back of the festive season and strong launch schedule. Furthermore, the private equity deal in the recently acquired Napeansea Road land could act as a key catalyst in the near term. We have upgraded the stock to **STRONG BUY** with a revised price target of Rs 159.

Q1FY11 results largely in line with our expectation

Orbit's net profit grew 11.5% YoY to Rs 20.1, largely in line with our expectation. While revenues fell short of our expectation due to lower than expected contribution from Orbit WTC, the EBITDA margin was better than our expectation due to favourable sales mix.

Management indicates strong pre-sales in next two quarters

Though the pre-sales volume has come down (~54,000 sq ft in Q1FY11 vs. ~125,000 sq ft in Q4FY10), the recent transaction has been at 10-20% higher realisation than the last quarter. Furthermore, the management has indicated strong pre-sales in the next two quarters on account of the festive season and strong project launch.

In talks with private equity player for Napeansea road project

Orbit is currently in talks with a private equity player for its recently announced Napeansea Road project (550,000 sq ft at Kilachand house) and it could raise around Rs 300-350 crore (according to media reports). So far, the company has invested Rs 220 crore for land acquisition and is likely to invest Rs 600 crore in FY11.

Valuation

At the CMP, the stock is trading at 9.6x FY12 earning estimates and 1.3x FY12 P/BV. We have upgraded the stock to **STRONG BUY** and revised our price target to Rs 159 based on NAV methodology (at 1x its NAV).

Exhibit 1: Financial Performance

| Particulars | Q1FY11 | Q1FY11E | Q1FY10 | Q4FY10 | YoY Gr (%) | QoQ Gr (%) |
|-------------------|--------|---------|--------|--------|------------|------------|
| Net sales | 119.5 | 138.8 | 110.3 | 86.5 | 8.3 | 38.2 |
| EBITDA | 52.5 | 52.2 | 47.4 | 41.2 | 10.9 | 27.5 |
| EBITDA Margin (%) | 44.0 | 37.6 | 42.9 | 47.6 | | |
| Depreciation | 1.2 | 1.3 | 1.0 | 1.3 | 13.7 | -5.6 |
| Interest | 24.4 | 24.1 | 23.8 | 25.8 | 2.4 | -5.5 |
| PAT | 20.1 | 20.8 | 18.0 | 20.0 | 11.5 | 0.5 |

Source: Company, ICICIdirect.com Research

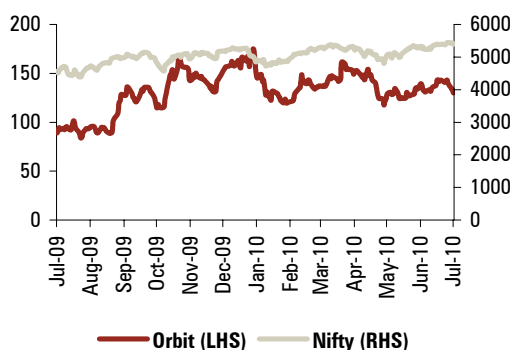
| Rating matrix | |
|------------------|----------------|
| Rating | : Strong Buy |
| Target | : Rs 159 |
| Target Period | : 12-15 months |
| Potential Upside | : 22% |

| Key Financials | | | | |
|-----------------|-------|-------|-------|-------|
| | FY09 | FY10 | FY11E | FY12E |
| Net sales | 283.5 | 487.1 | 576.2 | 694.0 |
| EBITDA | 132.9 | 189.3 | 244.3 | 322.2 |
| Adj. Net profit | 35.5 | 95.0 | 108.2 | 154.9 |

| Valuation summary | | | | |
|-------------------|------|------|-------|-------|
| | FY09 | FY10 | FY11E | FY12E |
| EPS (Rs) | 4.9 | 8.6 | 9.5 | 13.6 |
| PE(x) | 26.6 | 15.0 | 13.7 | 9.6 |
| Target PE(x) | 32.5 | 18.4 | 16.7 | 11.7 |
| EV/EBITDA(×) | 12.1 | 12.1 | 9.4 | 7.2 |
| P/BV(x) | 1.7 | 1.7 | 1.5 | 1.3 |
| RoNW(%) | 5.5 | 13.6 | 11.7 | 14.4 |
| RoCE(%) | 10.9 | 12.4 | 13.2 | 16.3 |

| Stock data | |
|-----------------------|-----------------|
| Market Capitalisation | Rs 1469 crore |
| Debt | Rs 889.3 crore |
| Cash | Rs 70.5 crore |
| EV | Rs 2287.8 crore |
| 52 week H/L | 178/83 |
| Equity capital | Rs 110 Crore |
| Face value | Rs. 10 |
| MF Holding (%) | 2.8 |
| FII Holding (%) | 18.5 |

Price movement



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Orbit's revenues at Rs 119.5 crore were below our estimates of Rs 138 crore mainly due to lower than expected booking from Orbit WTC

Revenues fall below expectation on lower revenues from Orbit WTC

- Orbit's revenues grew 8.3% YoY to Rs 119.5 crore, below our estimates of Rs 138 crore mainly due to lower than expected booking from Orbit WTC of Rs 23.4 crore (our expectation was Rs 78.9 crore).
- We highlight that Orbit has booked revenues from three projects, which are currently below the threshold limit of 25%. The management has indicated that they expect these projects to cross the threshold limit by the end of this fiscal. Hence, the revenues were booked in this quarter.

Exhibit 2: Project wise revenue break-up

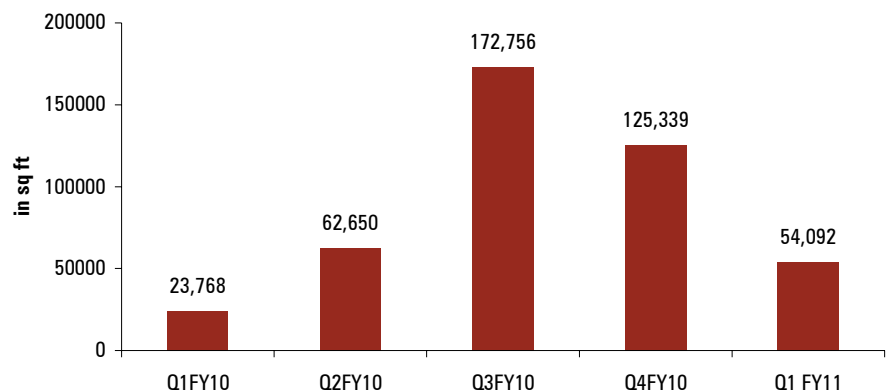
| Project Name | Q1FY11 | Q1FY10 | YoY% | Q4FY10 | QoQ% |
|-------------------|--------------|--------------|------------|-------------|-------------|
| Orbit Eternia | 2.4 | 7.9 | -69.5 | 2.3 | 5.0 |
| Orbit Height | | 6.2 | | | |
| Orbit WTC | 23.4 | 64.0 | -63.4 | 23.0 | 1.8 |
| Orbit Terrace | 22.1 | -1.4 | -1657.1 | 33.4 | -33.9 |
| Orbit Grand | 10.5 | | | | |
| Orbit Arya | 3.8 | 33.8 | -88.8 | 5.4 | -29.1 |
| Orbit Residency 1 | 8.9 | | | | |
| Villa Orb Annexe | 28.5 | | | | |
| Orbit Haven | 16.5 | | | 22.7 | -27.3 |
| Total | 116.1 | 110.4 | 5.2 | 86.8 | 33.8 |

Source: Company, ICICIdirect.com Research

Strong pre-sales volumes ahead backed by new project launches

- The pre-sales volume tapered off for the second consecutive quarter at ~54,000 sq ft (our expectation was ~76,000 sq ft) for a value of Rs 115 crore compared to ~1,25,000 sq ft aggregating Rs 327 crore in Q4FY10
- In terms of realisation, the company witnessed an ~20% price hike in realisation for South Mumbai, ~15% for Central Mumbai and ~10% in the Andheri region

Exhibit 3: Trend in pre-sales (in sq ft)



Source: Company, ICICIdirect.com Research

Sales volumes have tapered off but the management has indicated strong sales volume in the next two quarters on account of the festive season and new project launches

- In Q1FY11, Orbit launched two new projects, namely, Orbit Ocean Parque (sold 4800 sq ft at Rs 55,000 psf) and Orbit Laburnum (sold 16,475 sq ft at Rs 27,630 psf)

Exhibit 4: Pre-sales details in Q1FY11

| Project Name | Area sold (in sq ft) | Sales value (Rs cr) | Realisation psf |
|-------------------|-----------------------|---------------------|-----------------|
| Orbit Residential | 18642 | 15.4 | 8261 |
| Orbit Laburnum | 16475 | 45.5 | 27618 |
| Ocean Parque | 4800 | 26.4 | 55000 |
| Orbit Terrace | 9080 | 16.9 | 18612 |
| Orbit Grand | 5080 | 8.7 | 17126 |
| Total | 54092 | 115.0 | 21260 |

Source: Company, ICICIdirect.com Research

- Though the pre-sales volume remained weak during the quarter, the management has indicated that the pre-sales volume will improve significantly from the current level in the next quarters primarily due to festive season ahead and new project launches
- We expect the pre-sales volumes to pick up strongly with the series of project launches lined up aggregating 1.3 million sq ft in CY10. Q2FY11 is expected to see a spike in pre-sales with the slated launch of Mandwah expected during the quarter (total saleable area 0.9 million sq ft). Pricing point for the Mandwah project is expected to be in the range of Rs 7500-10000 psf, which is much higher than our expectation of Rs 5000 psf

Q2FY11 is expected to see a spike in pre-sales with the slated launch of Mandwah

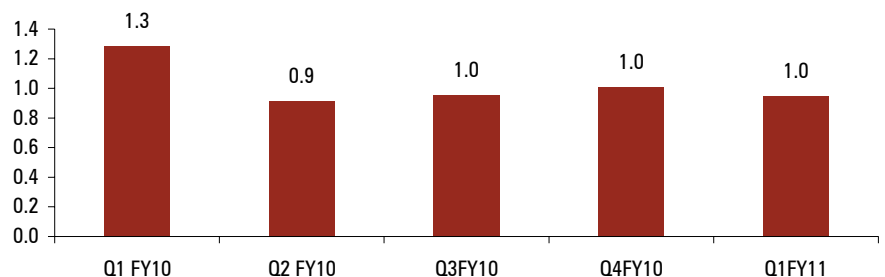
Exhibit 5: Details of projects to be launched in CY10

| Project Name | Area in sq ft |
|-----------------------------------|------------------|
| Orbit Ocean Parque (Sky Cheauteu) | 34,000 |
| Villa Orb - Annex | 45,000 |
| Orbit Laburnum (Gamdevi) | 50,000 |
| Orbit Enclave | 23,000 |
| Orbit Residency 2 | 250,000 |
| Mandwa 1 | 914,760 |
| Total | 1,316,760 |

Source: Company, ICICIdirect.com Research

Other highlights

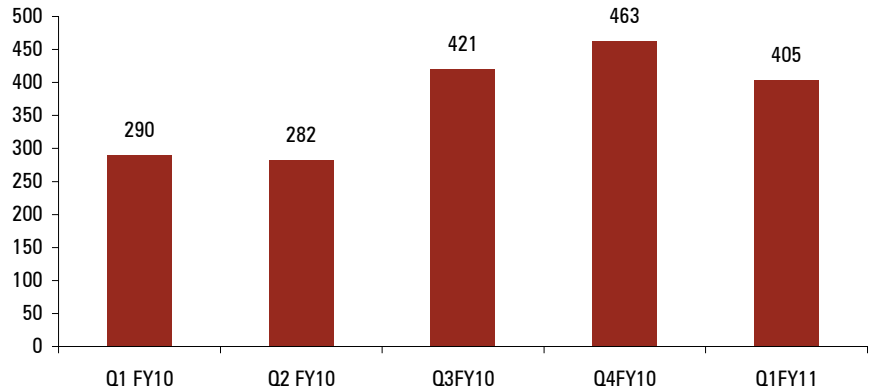
- The debt to equity remained stable at 1.0x. The net debt stood at Rs 889 crore compared to Rs 907 crore last quarter

Exhibit 6: Trend in net debt to equity


The debt to equity remained stable at 1.0x

Source: Company, ICICIdirect.com Research

- Receivables have come down to Rs 405 crore in Q1FY11 from Rs 463 crore in Q4FY10 largely due to collection from the pending debtors from completed projects (Villa ORB – Rs 70 crore). Going ahead, the company expects it to come down further at the end of this fiscal.

Exhibit 7: Trend in debtors (Rs crore)

The concern on rising debtors' amount has eased in Q1FY11 with collection made from the pending debtors from completed projects

Source: Company, ICICIdirect.com Research

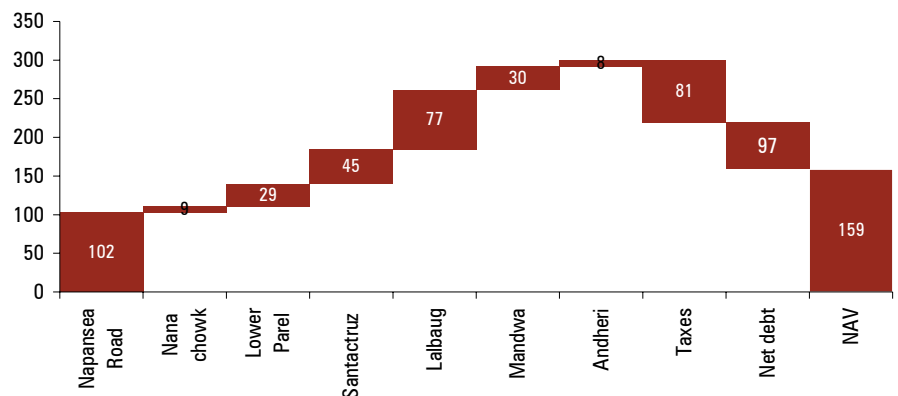
Valuation

We have fine-tuned our earnings estimates to reflect Q1FY11 and audited FY10 financials. At the CMP, the stock is trading at 9.6x FY12 earning estimates and 1.3x P/BV. We continue to value Orbit using NAV methodology and value it at Rs 159 per share. We have upgraded it to **STRONG BUY** and revised our price target to Rs 159 (at 1x its NAV).

Exhibit 8: Valuation Table

| | Sales (Rs cr) | Sales Gr (%) | EPS (Rs) | EPS Gr (%) | P/E (x) | P/BV(x) | RoNW(%) | RoCE(%) |
|-------|---------------|--------------|----------|------------|---------|---------|---------|---------|
| FY09 | 283.5 | -59.8 | 4.9 | -84.9 | 26.6 | 1.7 | 5.5 | 10.9 |
| FY10 | 487.1 | 71.8 | 8.6 | 76.5 | 15.0 | 1.7 | 13.6 | 12.4 |
| FY11E | 576.2 | 18.3 | 9.5 | 9.9 | 13.7 | 1.5 | 11.7 | 13.2 |
| FY12E | 694.0 | 20.4 | 13.6 | 43.2 | 9.6 | 1.3 | 14.4 | 16.3 |

Source: Company, ICICIdirect.com Research

Exhibit 9: Valuation break-up (per share)

We have valued the stock at Rs 159 (1x its NAV)

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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