

## ORBIT CORPORATION

INR 261

*Too compelling to ignore***BUY**

July 11, 2008

**Revenue in line with expectation, but PAT below estimates**

Revenue for the quarter stood at INR 819 mn as against our expectations of INR 824 mn, up 28.7% Y-o-Y, and down 74.5% Q-o-Q. EBITDA was at INR 331 mn as against our expectation of INR 462 mn. EBITDA margins were 40.5% as against our expectation of 56.1%; reduction in margins was primarily due to increase in corporate expenditure, rise in raw material costs and higher cost booking than our expectation. Interest expenditure for the quarter was INR 59 mn compared with our expectation of INR 27 mn. Tax rate for the quarter was 34%, in line with our expectations. PAT for the quarter was INR 182 mn as against our expectation of INR 288 mn, down 85% Q-o-Q.

**PAT estimates reduced with increase in cost assumptions**

Cement, steel, and RMC cost, contributing ~50% to total cost of construction (ex land cost), have increased 25–30%. This cost is ~20% of total direct cost (including land cost). Hence, the total cost of construction has increased by 300bps. To incorporate this increase and to apply conservatism to our estimates, we are increasing our cost estimates by 400bps. Post incorporating the increase in cost, our profit after tax (PAT) has reduced by 1.29% and 1.32, to INR 4,384 mn and INR 6,035 mn, for FY09E and FY10E, respectively.

**Outlook and valuations: Strong growth; maintain 'BUY'**

At CMP of INR 261 on a fully diluted basis, the stock is trading at 2.7x FY09E and 2.0x FY10E earnings. Also the stock is trading below our FY09E book value of INR 289 per share. Based on the huge opportunity in the high-margin redevelopment space and Orbit's established presence in it, we believe the stock should trade in high single-digit multiples on FY10E earnings. We maintain our 'BUY' recommendation on the stock.

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Reuters : ORCP.BO  
Bloomberg : ORB IN

**Market Data**

52-week range (INR) : 1,080 / 247  
Share in issue (mn) : 36.3  
M cap (INR bn/USD mn) : 9.5 / 221.1  
Avg. Daily Vol. BSE/NSE ('000) : 1,276.4

**Share Holding Pattern (%)**

Promoters : 60.5  
MFs, FIs & Banks : 3.2  
FIIs : 10.5  
Others : 25.9

**Relative Performance (%)**

	Sensex	Stock	Stock over Sensex
1 month	(8.3)	(31.1)	(22.8)
3 months	(11.9)	(35.2)	(23.3)
12 months	(6.6)	(16.2)	(9.6)

**Financial**

Year to March	Q1FY09	Q1FY08	% change	Q4FY08	% change	FY08	FY09E
Net rev. (INR mn)	818	636	28.7	3,208	(74.5)	7,055	12,694
EBITDA (INR mn)	331	231	43.2	1,448	(77.1)	3,458	7,029
Net profit (INR mn)	182	183	(0.5)	1,225	(85.1)	2,358	4,384
Diluted EPS (INR)	4.0	4.0	(0.5)	27.0	(85.1)	52.0	96.6
Diluted P/E (x)						5.0	2.7
EV/EBITDA (x)						3.2	0.3
ROAE (%)						55.8	59.8

### Sales during the quarter

During this quarter, the company sold 14,000 sq ft through two of its projects. It sold 10,000 sq ft in 'Orbit Eternia' at INR 19,150 per sq ft, and 4,000 sq ft in 'Orbit Grand' at INR 14,500 per sq ft. The company's realisations were significantly higher this time compared with the previous quarters.

#### Project-wise area sold during the quarter

Project name	Total area	(sq ft)	
		Sold till March 08	Sold in Q1FY09
Orbit Eternia	25,000	15,200	4,000
Orbit Grand	48,000	4,300	10,000

Source: Company, Edelweiss research

#### Sales realisation during the quarter: Better than average

Project name	Avg selling price for Q1FY09	(INR)
		Avg selling price till March 08
Orbit Eternia	14,500	11,671
Orbit Grand	19,150	6,163

Source: Company, Edelweiss research

### Huge presale to help revenue booking in future

The company has managed to presale properties in the past quarters, for which, revenue is still to be recognised; revenue recognition will be in proportion to the company's project completion. Till date, company has sold properties worth INR 15,572 mn against which it has recognised only INR 9,789 mn. Thus, it still has INR 5,783 mn to be recognised, going forward.

#### Recognisable revenue: More than INR 5,700 mn

Particulars	(INR mn)
Sales up to March '08	15,418.7
Less : Revenue recognised till March '08	8,970.8
Total revenue available for recognition till March '08	6,447.9
Add : Sales in Q1FY09	153.5
Less : Revenue recognised in Q1FY09	818.5
<b>Revenue to be recognised, going forward</b>	<b>5,782.9</b>

Source: Company, Edelweiss research

### Expansion through subsidiaries – Orkay mills added to kitty

During this quarter, the company acquired 85% stake in Ahinsa Buildtech at a cost of INR 953.31 mn, which will give the company right to develop the Orkay mills project. Meanwhile, it has floated a wholly-owned subsidiary, Orbit Residency, to primarily focus on acquisition and execution of smaller projects (up to 1,000 sq mtr).

Orkay mills, located at Sakinaka, Andheri, has a total saleable area of 2,75,000 sq ft. Since there is no clarity on the nature of this project and its total cost, we have not incorporated the same in our revenue estimates.

### Outlook and valuations: Strong growth; maintain 'BUY'

At CMP of INR 261 on a fully diluted basis, the stock is trading at 2.7x FY09E and 2.0x FY10E earnings. Also the stock is trading below our FY09E book value of INR 289 per share. Based on the huge opportunity in the high-margin redevelopment space and Orbit's established presence in it, we believe the stock should trade in high single-digit multiples on FY10E earnings. We maintain our 'BUY' recommendation on the stock..

## Financials snapshot

(INR mn)

Year to March	Q109	Q108	% change	Q408	% change	FY08	FY09E	FY10E
Net sales	818	636	28.7	3,208	(74.5)	7,055	12,694	17,057
Cost of construction	(487)	(401)	21.5	(1,755)	(72.3)	(3,580)	(5,036)	(6,936)
Other exp	0	(4)	(100.0)	(4)	(100.0)	(17)	(628)	(796)
Total operating expenses	(487)	(405)	20.4	(1,760)	(72.3)	(3,597)	(5,664)	(7,731)
EBITDA	331	231	43.2	1,448	(77.1)	3,458	7,029	9,325
Depreciation	(6)	0	NA	0	NA	(17)	(21)	(25)
EBIT	325	231	40.5	1,448	(77.5)	3,441	7,009	9,301
Interest expense	(59)	0	NA	0	NA	(560)	(419)	(210)
Other income	3	8	(69.6)	24	(89.6)	52	52	52
PBT	269	240	12.2	1,472	(81.7)	2,933	6,642	9,143
Provision for taxation	(87)	(57)	53.3	(248)	(65.0)	(575)	(2,258)	(3,108)
Tax	(87)	(57)	53.3	(248)	(65.0)	(575)	(2,258)	(3,108)
Net profit from ordinary activities	182	183	(0.5)	1,225	(85.1)	2,358	4,384	6,035
Reported net profit	182	183	(0.5)	1,225	(85.1)	2,358	4,384	6,035

## as % of net revenues

Cost of construction	59.5	63.0		54.7		50.7	39.7	40.7
Other expenses	0.0	0.6		0.1		0.2	5.0	4.7
Total operating expenses	59.5	63.6		54.9		51.0	44.6	45.3
Depreciation	0.8	0.0		0.0		0.2	0.2	0.1
Interest expenditure	7.2	0.0		0.0		7.9	3.3	1.2

## Margins

EBITDA margin	40.5	36.4		45.1		49.0	55.4	54.7
EBIT margin	39.7	36.4		45.1		48.8	55.2	54.5
Net profit margin	22.3	28.8		38.2		33.4	34.5	35.4
Tax rate	32.2	23.6		16.8		19.6	34.0	34.0

## Company Description

Orbit Corporation (Orbit) is a real estate construction and development company with primary focus on redevelopment of existing properties. It specialises in developing, designing, and managing 'build-to-suit' high-end residential and commercial properties. The company's promoter directors have over 18 years of experience in the real estate sector.

## Investment Theme

### Strong play on large redevelopment opportunity

As per the 1969 census, the government declared over 19,642 buildings cessed and dilapidated in the island city of Mumbai (henceforth referred to as Mumbai). According to other informal sources, the number crossed 50,000 by March 2007. Orbit, with its brand equity in the redevelopment segment, is well-positioned to play this huge opportunity. Over the years, the company has reported strong profitability on the back of its strategy of acquiring land parcels at premium locations in the city and low competition in the segment owing to complicated procedures of negotiations and obtaining approvals.

### Strong existing project pipeline

Currently, Orbit has 17 ongoing projects (total area of ~1,136,575 sq ft, area sold ~667,923 sq ft), with 16 expected to attain completion by FY10E. The company expects to add another seven projects (estimated saleable area of 2,119,507 sq ft) before FY10E, for which, most negotiations are nearing completion. It intends to complete all its projects by FY13E.

### Expertise in planning strategic acquisitions

A majority of the company's redevelopment projects are in Napean Sea Road, Nana Chowk, Prarthana Samaj, and Lower Parel, where demand for high-end property is significantly higher than its supply. The company creates premium properties in such locations by using advanced quality raw material like stainless steel rods, double, and triple-glazed windows. Superior quality enables Orbit to command a premium on its properties over peers in the same locations.

## Key Risks

### Unique problems associated with redevelopment projects

Orbit's business requires getting consent from at least 70% of the tenants, consensus between various groups of tenants, providing accommodation to the tenants during the interim period of demolition and construction, and rehabilitation of the occupants. Delay in any of the aforesaid activities could have adverse financial implications on the company.

### Development Control Regulations - under court review - are subject to change

The provisions of Development Control Regulation (DCR) 33(7), under which some of Orbit's projects are developed, are under court's review. Any negative change or modification in DCR may adversely affect its business.

### Subject to extensive laws and regulations

Orbit has to comply with extensive and intricate regulations for acquisition and land development. These regulations could impose additional costs and delays on the company, which could adversely affect its business and operations. In particular, orbit is required to obtain approvals from local governmental authorities regulating matters such as permitted land uses, the installation of utility services like electricity, water, sewage, etc. This could result in increase of costs and even delay in prospective or existing projects, and therefore, could adversely affect the company's business and operations.

## Financial Statements

Income statement					(INR mn)
Year to March	FY06	FY07	FY08	FY09E	FY10E
Income from operations	7	1,915	7,055	12,694	17,057
Direct costs	4	964	3,580	5,036	6,936
Other expenses	1	211	17	628	796
Total operating expenses	5	1,175	3,597	5,664	7,731
EBITDA	2	740	3,458	7,029	9,325
Depreciation and amortisation	2	8	17	21	25
EBIT	0	732	3,441	7,009	9,301
Interest expenses	0	101	560	419	210
Other income	2	18	52	52	52
Profit before tax	2	649	2,933	6,642	9,143
Provision for tax	1	77	575	2,258	3,108
Core profit	1	572	2,358	4,384	6,035
Profit after tax	1	572	2,358	4,384	6,035
Adjusted net profit	1	572	2,358	4,384	6,035
Equity shares outstanding (mn)	27	27	36	41	45
EPS (INR) basic	0.0	21.1	65.0	107.4	133.0
Diluted shares (mn)	27	27	45	45	45
EPS (INR) fully diluted	0.0	21.1	52.0	96.6	133.0
Dividend per share	0.1	0.0	5.4	8.9	11.0
Dividend payout (%)	250.3	0.0	10.0	10.0	10.0

### Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08	FY09E	FY10E
Operating expenses	70.6	61.4	51.0	44.6	45.3
Depreciation	25.4	0.4	0.2	0.2	0.1
Interest expenditure	0.0	5.3	7.9	3.3	1.2
EBITDA margins	29.4	38.6	49.0	55.4	54.7
Net profit margins	15.2	29.9	33.4	34.5	35.4

### Growth metrics (%)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenues		26,568.0	268.4	79.9	34.4
EBITDA		34,955.9	367.3	103.3	32.7
PBT		28,223.7	352.0	126.4	37.7
Net profit		52,199.5	312.1	85.9	37.7
EPS		52,199.5	146.8	85.9	37.7

**Balance sheet****(INR mn)**

<b>As on 31st March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Equity share capital	216	363	363	408	454
Reserves & surplus	793	2,671	4,793	11,423	19,539
Shareholders funds	1,009	3,033	5,155	11,831	19,993
Secured loans	440	763	1,069	1,069	534
Unsecured loans	156	155	2,155	2,155	1,077
Borrowings	596	918	3,223	3,223	1,612
Minority interest	0	2	0	0	0
<b>Sources of funds</b>	<b>1,605</b>	<b>3,953</b>	<b>8,379</b>	<b>15,055</b>	<b>21,605</b>
Gross block	27	54	150	180	216
Depreciation	4	12	29	35	42
Net block	23	42	121	146	175
Total fixed assets	23	43	121	146	175
Investments	1	1	1	1	1
Inventories	1,205	1,673	6,959	6,107	11,911
Sundry debtors	55	1,085	0	0	0
Cash and equivalents	155	1,832	1,686	11,418	13,526
Loans and advances	594	1,090	1,145	1,202	1,262
Total current assets	2,009	5,680	9,789	18,727	26,698
Sundry creditors and others	425	1,702	736	1,137	1,572
Provisions	5	83	811	2,696	3,711
Total CL & provisions	430	1,785	1,547	3,833	5,283
Net current assets	1,579	3,895	8,243	14,894	21,415
Misc expenditure	3	14	14	14	14
<b>Uses of funds</b>	<b>1,605</b>	<b>3,953</b>	<b>8,379</b>	<b>15,055</b>	<b>21,605</b>
Book value per share (INR)	37	111	142	289	440

**Cash flow statement****(INR mn)**

<b>Year to March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Net profit	1	572	2,358	4,384	6,035
Add: Depreciation	2	8	17	21	25
Gross cash flow	3	580	2,375	4,405	6,060
Less: Changes in W. C.	1,424	640	4,493	(3,080)	4,413
Operating cash flow	(1,421)	(59)	(2,118)	7,485	1,647
Less: Capex	25	27	96	45	54
<b>Free cash flow</b>	<b>(1,446)</b>	<b>(87)</b>	<b>(2,214)</b>	<b>7,440</b>	<b>1,593</b>

**Cash flow metrics****(INR mn)**

<b>Year to March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Operating cash flow	(1,421)	(59)	(2,118)	7,485	1,647
Financing cash flow	1,561	1,774	2,070	2,292	515
Investing cash flow	(25)	(27)	(96)	(45)	(54)
Net cash flow	115	1,687	(145)	9,732	2,108
Capex	(25)	(27)	(96)	(45)	(54)
Dividend paid	(3)	0	(236)	(438)	(604)
Share issuance/(buy back)	968	1,452	0	2,730	2,730

**Ratios**

Year to March	FY06	FY07	FY08E	FY09E	FY10E
ROAE (%)	0.2	28.4	57.8	51.7	38.0
ROACE (%)	0.0	26.3	55.8	59.8	50.7
Debtors (days)	1,400	109	28	0	0
Current ratio	4.7	3.2	6.3	4.9	5.1
Debt/Equity	0.6	0.3	0.6	0.3	0.1
Inventory (days)	54,262	545	440	474	474
Payable (days)	19,118	403	124	68	71
Cash conversion cycle (days)	36,544	251	344	406	403
Debt/EBITDA	282.1	1.2	0.9	0.5	0.2
Adjusted debt/Equity	0.6	0.3	0.6	0.3	0.1

**Operating ratios (x)**

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Total asset turnover	0.0	0.7	1.1	1.1	0.9
Fixed assets turnover	0.6	58.4	86.2	95.1	106.5
Equity turnover	0.0	0.9	1.7	1.5	1.1

**Du pont analysis**

Year to March	FY06	FY07	FY08E	FY09E	FY10E
NP margin (%)	15.2	29.9	33.4	34.5	35.4
Total assets turnover	0.0	0.7	1.1	1.1	0.9
Leverage multiplier	1.6	1.4	1.5	1.4	1.2
ROAE (%)	0.2	28.4	57.8	51.7	38.0

**Valuation parameters**

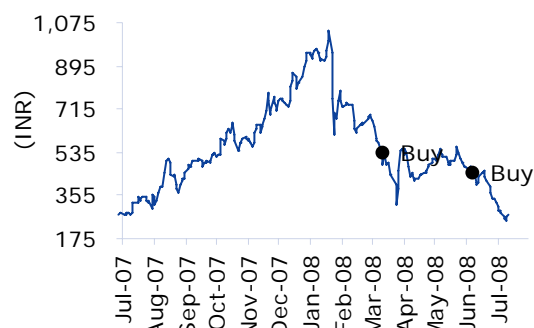
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Diluted EPS (INR)	0.0	21.1	52.0	96.6	133.0
Y-o-Y growth (%)	0.0	52,199.5	146.8	85.9	37.7
CEPS (INR)	0.1	21.4	65.5	107.9	133.6
Diluted P/E (x)	6,482.1	12.4	5.0	2.7	2.0
Price/BV(x)	7.0	2.3	1.8	0.9	0.6
EV/Sales (x)	1,048.8	3.2	1.6	0.2	(0.0)
EV/EBITDA (x)	3,567.8	8.3	3.2	0.3	(0.0)
Diluted shares O/S	27.2	27.2	45.4	45.4	45.4
Dividend yield (%)	0.0	0.0	2.1	3.4	4.2

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### Coverage group(s) of stocks by primary analyst(s): Real Estate:

DLF, Orbit Corporation and The Phoenix Mills

#### Orbit Corporation



#### Recent Research

Date	Company	Title	Price (INR)	Recos
06-Jun-08	<b>Orbit Corporation</b>	Growing is good; <i>Result Update</i>	452	Buy
12-May-08	<b>DLF</b>	Standing its ground; <i>Company Update</i>	621	Buy
09-May-08	<b>Real Estate</b>	Regulatory changes & MCHI Thane property Exhibition; <i>Sector Update</i>		
29-Apr-08	<b>Real Estate</b>	SEBI guidelines - Key takeaways <i>Sector Update</i>		

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	101	62	14	2	188

\* 8 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	77	70	41

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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