Company Focus

9 November 2007 | 20 pages

Omaxe (OMAX.BO)

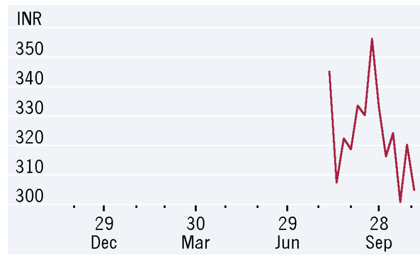
Initiation of coverage

Initiating with Buy: North Centric, Attractive Valuations

- **Aggressive developer in North India** — With expertise in construction, Omaxe has created a highly visible and strong 'Omaxe' brand in a short time. We initiate at Buy/High Risk (1H) with Rs386 target price, based on 10% discount to our estimated NAV of Rs429. The discount is attributed to its concentration in tier-II and tier-III cities in the north and its residential-heavy model.
- **India is building out, but challenges exist** — We expect strong build-out across asset classes amid robust economic growth, but believe near-term challenges exist given affordability issues, low volumes and supply risks. This could be addressed by rate cuts, lower prices or regulatory relaxations.
- **Sizeable landbank with construction expertise** — Omaxe has a development landbank of ~146m sq ft, of which a majority is in NCR (36% of portfolio) with a focus on township development. Leveraging its develop-sell model and construction expertise, Omaxe has 95m sq ft of projects currently under construction.
- **Attractive valuations** — The stock has underperformed by 33% over the last three months since listing. While North India outlook remains challenging in light of supply risk and low transaction activity, with stock trading at 31% discount to our NAV and expectation of softer rate environment, we see upside.
- **Key risks** — 1) Execution risks, 2) Delays in getting requisite regulatory approvals for development, and 3) Price, demand and regulatory risks.

Buy/High Risk	1H
Price (08 Nov 07)	Rs290.45
Target price	Rs386.00
Expected share price return	32.9%
Expected dividend yield	0.3%
Expected total return	**33.2%**
Market Cap	Rs50,175M
	US$1,282M

Price Performance (RIC: OMAX.BO, BB: OAXE IN)



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,188	7.91	na	36.7	21.7	84.8	0.1
2007A	2,573	16.60	109.9	17.5	9.6	76.9	0.3
2008E	5,111	29.45	77.4	9.9	3.3	51.5	0.3
2009E	7,026	40.48	37.5	7.2	2.3	37.8	0.3
2010E	9,071	51.98	28.4	5.6	1.6	34.3	0.3

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	36.7	17.5	9.9	7.2	5.6
P/E reported (x)	36.7	17.5	9.9	7.2	5.6
P/BV (x)	21.7	9.6	3.3	2.3	1.6
Dividend yield (%)	0.1	0.3	0.3	0.3	0.3
Per Share Data (Rs)					
EPS adjusted	7.91	16.60	29.45	40.48	51.98
EPS reported	7.91	16.60	29.45	40.48	51.98
BVPS	13.39	30.20	87.34	126.82	177.13
NAVps ordinary	na	na	na	na	na
DPS	0.25	0.86	1.00	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	**1,778**	**3,881**	**8,353**	**11,539**	**15,988**
G&A expenses	-307	-408	-751	-960	-1,376
Other Operating items	-23	-36	-41	-48	-55
EBIT including associates	**1,448**	**3,437**	**7,561**	**10,531**	**14,558**
Non-oper./net int./except.	19	-214	-654	-907	-1,019
Pre-tax profit	**1,467**	**3,223**	**6,907**	**9,624**	**13,539**
Tax	-279	-651	-1,796	-2,599	-4,468
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Reported net income	**1,188**	**2,573**	**5,111**	**7,026**	**9,071**
Adjusted earnings	1,188	2,573	5,111	7,026	9,071
Adjusted EBIT	1,448	3,437	7,561	10,531	14,558
Adjusted EBITDA	1,471	3,473	7,602	10,579	14,613
Growth Rates (%)					
NOI	321.6	118.3	115.2	38.1	38.6
EBIT adjusted	438.6	137.4	120.0	39.3	38.2
EPS adjusted	nm	109.9	77.4	37.5	28.4
Cash Flow (RsM)					
Operating cash flow	**-1,316**	**-7,131**	**-6,653**	**-4,144**	**-2,222**
Depreciation/amortization	23	36	41	48	55
Net working capital	-2,904	-10,690	-11,537	-11,203	-11,332
Investing cash flow	**-59**	**-330**	**-9**	**-10**	**-11**
Capital expenditure	-48	-271	-10	-10	-11
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,929**	**8,073**	**7,889**	**5,064**	**2,277**
Borrowings	2,063	8,899	2,292	5,237	2,452
Dividends paid	-14	-172	-174	-174	-175
Change in cash	**554**	**612**	**1,227**	**910**	**45**
Balance Sheet (RsM)					
Total assets	**12,465**	**25,460**	**39,395**	**52,170**	**66,330**
Cash & cash equivalent	1,039	1,651	2,877	3,787	3,832
Net fixed assets	180	403	372	334	290
Total liabilities	**10,454**	**20,779**	**24,234**	**30,158**	**35,421**
Total Debt	3,723	12,637	14,929	20,166	22,618
Shareholders' funds	**2,011**	**4,681**	**15,160**	**22,013**	**30,909**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	17.8	24.0	30.2	32.1	31.3
ROE adjusted (%)	84.8	76.9	51.5	37.8	34.3
ROA adjusted (%)	13.7	13.6	15.8	15.3	15.3
Net debt to equity (%)	133.4	234.7	79.5	74.4	60.8
Interest coverage (x)	40.7	11.7	10.2	10.5	12.9

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Investment Strategy

Initiate with Buy/High Risk and target of Rs386

We believe a 10% discount to our core NAV estimate of Rs429 is fair

We initiate coverage of Omaxe shares with a Buy / High Risk (1H) rating and a target price of Rs386 (10% discount to our core NAV estimate of Rs429). We believe Omaxe is positioned as a tier-II developer and expect it to trade at a 10% discount to NAV. We attribute the discount to: 1) concentration in NCR (~41% of our gross NAV) where risk of excess supply and price correction over next 2-3 years is high; 2) high dependence (22%) on plotted development which are low value add projects; and 3) its status as a newer developer with significant share (27%) of landbank still to get requisite regulatory approvals for development. The stock has underperformed by 33% over the last three months since listing. While we believe the outlook for North India remains challenging in light of building supply and low transaction activity, with stock trading at significant 31% discount to our NAV and expectation of a softer rate environment ahead, we believe valuations are attractive and see upside.

Indian real estate: growth potential amid challenges for now

India's real estate sector offers a large development opportunity which is structural and sustainable, in our view. However, we believe the sector faces near-term challenges given affordability issues, slowdown in transaction activity, cooling prices (particularly in the residential segment) and supply risks. In this environment, we believe markets will increasingly distinguish between the bigger players, which have established track records, and the large number of smaller developers. We see Omaxe positioned as an aggressive tier-II developer with a North India bias.

Building aggressively with a residential bias

Omaxe is one of North India's newer and more aggressive developers and has created a highly visible and strong 'Omaxe' brand in a short time. The company's strategy is to build scale under a develop-sell model. It plans to develop ~146m sq ft over the next few years. The company is primarily focused on the residential market (83% of asset mix) in the mid-upper end segment with the majority of its developments in the NCR (36% of portfolio) – largely townships spread across about 27 locations in northern India. It is, however, taking initiatives to diversify into other asset classes.

Large landbank concentrated in North India

Omaxe has very rapidly built up a large landbank of ~3,000 acres. This is concentrated in North India, a strategy different from the larger North Indian developers which have sought to go pan-India. While management expects good progress on infrastructure projects to enhance the value of its development projects, we believe job creation that provides sufficient income levels to absorb the expected supply at current prices in these markets will be more critical.

Leveraging its construction expertise

Leveraging its in-house construction expertise, the company has significant projects of ~95m sq ft (65% of its development plans) in various stages of construction, a large part being plotted development. We believe a large part of these developments are already pre-sold (~43m sq ft); however, given the scale, risk of execution delays remains.

Company Strategy

- Develop-sell model — to build scale
- Geographic spread in North India through aggressive expansion in tier-II and tier-III cities; however, mostly focused on NCR for now
- Developments concentrated in township to offer a mix of plotted development, housing projects, commercial and retail

Develop-sell model

Omaxe operates on a develop-sell model for residential developments (83% of total development) and plans to adopt a combination of sale/lease approach for the commercial and retail segments (12% of the portfolio). This is in line with its plans to build aggressively over the next few years and utilize its large land bank of ~3,000 acres. It would primarily look to sell assets – thrust being lower asset cycle risks and improved capital efficiency.

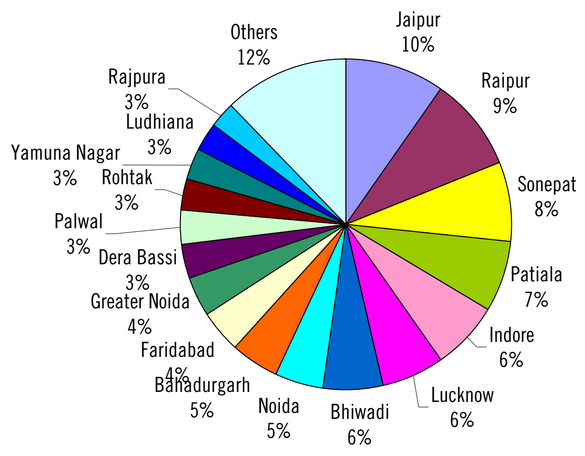
Thrust on scale and geographic spread

Concentrated in NCR so far but fast expanding across NCR and northern India

Omaxe's strategy is to become a more broad-based developer in North India. It has aggressive development plans to build ~146m sq ft. Most of its developments so far have been in the National Capital Region (NCR), in the residential space. It expects to expand on this platform. While the focus will remain the mid-upper residential segment, it has also forayed into the premium segment in selective locations.

Additionally, it is widening its geographic spread across North India and has acquired land and developmental rights in over 27 locations. This is spread across tier-II and tier-III towns in North, all of which management believes offer demand potential; however, we think job creation will be critical in order to absorb the building supply. The company's strategy also tends to differ from the tier-I developers which have sought to go pan-India rather than focus on regional expansion.

Figure 1. Omaxe's Development by Location



Source: Company Reports, Citi Investment Research

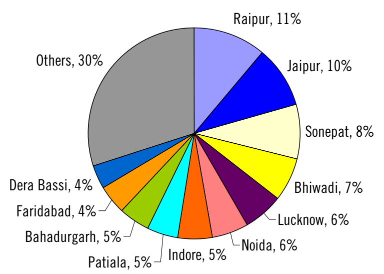
Focus on township development

Move towards township projects with relatively large-scale

A large part of its development plans are focused on township development, which would house a mix of residential projects and plotted development (83%). However, the company is taking initiatives to diversify to other asset classes such as commercial/retail (12%) and hotels. This should help the company diversify and take advantage of growth potential in real estate development across other asset classes. While this will add more value and offer potentially higher returns, we believe this raises the risk-return profile, given larger capital commitments and large scale of development. Focusing on quality, the company has also outsourced key functions of design, architecture and some part of construction to take advantage of the expertise of reputed companies and professionals.

Residential – the core business

Figure 2. Residential by Location



Source: Company Reports, Citi Investment Research

Residential is Omaxe's core business, although it is diversifying into other assets. Given its large-scale plans to develop ~122m sq ft over the next six to seven years, the housing segment will likely remain the company's most important earnings contributor. The company has established high visibility with its licensed brand 'Omaxe'. The company has ~95m sq ft under construction, of which a large chunk is residential projects. The key elements of company's residential strategy are: (1) operate on develop-sell model, (2) position the company as a reputed brand in the mass-premium housing segment, and (3) expand its presence through township development in tier-II and tier-III cities in North India;

Commercial/Retail – the growth area

Omaxe is gearing up to enhance its presence in the fast growing commercial/retail space with plans to develop ~12m sq ft. These segments, in our view, offer growth, relatively higher yields with greater price flexibility and are less sensitive to interest rates than the residential segment. The company is likely to follow a combination of asset sale and lease strategy for this segment. In addition, it is building hotels in Faridabad and in Amritsar, Greater Noida and Patiala – these are a part of its upcoming malls and likely to come on the market only in 2009-10. We have not built in any revenues from this segment into our model. However, in our NAV estimates, we have assumed a capitalization model for valuing the commercial assets.

Competitive Positioning

Aggressive approach and high brand visibility

High visibility of 'Omaxe' brand – primary strategy to develop-sell

A hallmark of Omaxe's recent years is its aggressive approach and high visibility of its 'Omaxe' brand. It has acquired and started to build out large projects, has been among the most aggressive acquirers of land in recent years, and, in our view, will continue to aggressively pursue growth and development opportunities. Its successful launches of premium projects such as the 'Forest' of Noida and 'Nyle' at Gurgaon reflect its ability to create presence in a premium segment. Its primary strategy to aggressively sell down properties as it starts developing them, rather than holding onto assets, provides it with cash flows to develop projects, and in some cases, invest in additional land. This does raise execution and market risk levels which could limit any cushion in the event of market or project slowdowns.

Large landbank – meaningful scale in North India

Bulk of its landbank in the NCR region – plans to develop ~146m sq ft

Omaxe has a large landbank of ~3,000 acres, built up in the past few years. The bulk of this landbank is in the NCR region, though more recent acquisitions are better diversified in other North India markets. This should cover Omaxe's development plans of ~146m sq ft over the next few years. A large portion of this landbank is held through associates, subsidiaries and founding shareholders and their family members, which are backed with agreements providing sole development rights to the company. It is also developing a significant amount of land (17.55%) through Joint Development Agreements (JDAs).

Strong presence in Noida, Gr.Noida and Faridabad (13% of total development)

Management believes close proximity to developed urban communities and good progress on infrastructure projects (i.e., road network, metro-rail connectivity and new airport in the region) will significantly enhance the value of its development projects going forward. It is present in Noida, Gr.Noida and Faridabad (13% of total development), high economic activity zones for IT/ITES and manufacturing sectors. While benefits of infrastructure are positive, we believe job creation that provides sufficient income levels to support current high price levels and expected supply in these markets will be more critical.

Significant projects in construction phase

Leveraging on its in-house construction expertise, the company has projects of ~95m sq ft (65% of its development plans) in various stages of construction, of which plotted housing is expected to be completed over next few years. We believe a large part of these developments are already pre-sold (~43m sq ft); however, given the scale, risk of execution delays remain high.

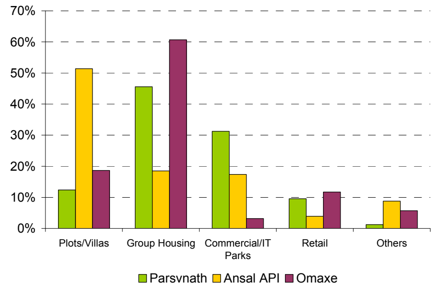
Tier-II developer with North India bias

A tier-II developer with North India bias, focused on residential space but looking to diversifying across asset classes

Omaxe's developments have largely been in the residential space in North India. We see it positioned as a tier-II developer with North India bias, taking initiatives to diversify across asset classes and widen its geographic spread in the region, with the primary focus on township development. Further, its de-leveraged balance sheet adds to the competitive positioning of the company amid the liquidity-strained environment.

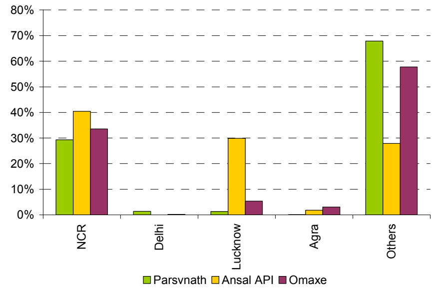
Omaxe's development mix and geographic spread vs. other tier-II developers like Parsvnath and Ansal Properties

Figure 3. Development by Segment Comparison



Source: Citi Investment Research

Figure 4. Development by Location Comparison



Source: Citi Investment Research

Financials

Strong growth expected ahead

Revenues will largely be dominated by the residential segment in near-term

Omaxe's key earnings stream going forward will be from the real estate business as earnings from the construction business, its original line of business, will be discontinued. We expect revenues will largely be dominated by the residential segment in near-term, while contribution from commercial/retail assets will be more back ended. We are not factoring in any returns from the hotels as these are yet to take off, and our ability to forecast revenues at this stage is relatively limited.

Figure 5. Omaxe Revenue Mix (Rs Millions)

	FY08E	FY09E	FY10E
Plots	6,905	7,157	2,438
Villas/Group Housing	17,304	23,074	37,784
Commercial/Retail	831	2,627	6,325
Total Revenues	**25,040**	**32,857**	**46,547**

Source: Citi Investment Research estimates

We forecast strong revenue and profit CAGR of 48% and 52% respectively over FY07- FY10E

We forecast strong revenue and profit growth for Omaxe: 48% revenue growth and 52% net profit growth over FY07- FY10E. A significant portion of the profits is likely to come from residential housing and plot sales. While near-term profit growth is likely to come from the residential segment already pre-sold (~43m sq ft) at higher prices, the retail business is likely to contribute significantly to earnings over a slightly longer time horizon. Further, lower tax rates of 26% in FY08E-FY09E due to tax benefits under section 80 IB for some of Omaxe's housing projects also contribute towards this growth. We are not factoring in any substantial earnings from the company's retail mall developments as development is likely to take time; most of the retail malls will be ready only by 2009E.

Figure 6. Omaxe Income Statement (Rs Millions)

Year to 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
Total Revenues	8,143	14,313	25,040	32,857	46,547
YoY Growth (%)	106%	76%	75%	31%	42%
EBITDA	1,471	3,473	7,602	10,579	14,613
Margin (%)	18%	24%	30%	32%	31%
Depreciation & Amortization	(22.8)	(35.9)	(41.3)	(47.5)	(54.6)
Other income	55	84	92	101	112
EBIT	1,503	3,521	7,653	10,633	14,670
Interest income(expense)	(36.2)	(297.8)	(746.4)	(1,008.3)	(1,130.9)
Profit before tax	1,467	3,223	6,907	9,624	13,539
Tax	(278.9)	(650.6)	(1,795.7)	(2,598.6)	(4,467.8)
Profit after tax	1,188	2,572	5,111	7,026	9,071
Min Int & Share of Ass	0.00	0.13	0.00	0.00	0.00
Adj PAT	1,188	2,573	5,111	7,026	9,071

Source: Company Reports, Citi Investment Research estimates

Key risks to earnings

Risks to earnings will mainly arise from a) projects not getting completed on time, b) price risks, and c) demand risks in the particular segment in which the property is available for sale.

Margins are rising, but lower than peers

Estimate normalized EBITDA margins of 30-32%

We estimate Omaxe's EBITDA margins to be in the 30-32% range in FY08E-10E, largely supported by recent gains in property prices and some efficiency from its construction expertise. Omaxe is one of few developers in India with in-house construction abilities. We, however, believe its margins will be lower than some of its competitors which have lower cost land holdings.

Leverage expected to decline

Omaxe is relatively leveraged at 1.1x debt to equity

Historically, real estate in India has received limited bank funding and has relied on equity as the primary mode of financing. This is likely to change as the market grows and the sector accesses the capital markets and new funding options. Omaxe, post IPO, has de-leveraged itself from 2.7x debt/equity in March 2007 to 1.1x currently. However, should management continue to invest aggressively in land or hold properties, leverage levels could be higher. Normalized land investments should require relatively modest debt levels in FY09E.

Figure 7. Omaxe Balance Sheet (Rs Millions)

Year to 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
Source of Funds					
Equity Share Capital	775	1,550	1,736	1,736	1,736
Share Application Money	0	228	0	0	0
Reserves	1,236	2,832	13,313	20,151	29,032
Net Worth	2,011	4,610	15,049	21,887	30,768
Minority Interest	0	1	1	1	1
Long Term Debt	3,604	11,837	14,049	19,199	21,554
Short Term Debt	118	800	880	968	1,065
Total Debt	3,723	12,637	14,929	20,166	22,618
Capital Employed	**5,734**	**17,247**	**29,979**	**42,054**	**53,387**
Application of Funds					
Gross Block	269	524	533	543	553
Depreciation	92	130	171	219	273
Net Fixed Assets	177	394	362	324	280
Capital WIP	3	9	10	10	11
Investments	2	0	0	0	0
Deferred Tax Assets	7	14	14	14	14
Goodwill	70	209	209	209	209
Inventories	8,764	19,082	30,048	40,414	53,529
Sundry Debtors	170	116	250	591	884
Other Current Assets	2,234	3,913	5,513	6,694	7,430
Cash and Bank	1,039	1,651	2,877	3,787	3,832
Current Assets	12,206	24,762	38,689	51,488	65,676
Current Liabilities	-6,731	-8,143	-9,305	-9,991	-12,802
Net Current Assets	5,475	16,620	29,383	41,496	52,873
Total Net Assets	**5,734**	**17,247**	**29,979**	**42,054**	**53,387**

Source: Company Reports, Citi Investment Research estimates

Large Opportunity Amid Challenges

- We believe India's real estate opportunity is structural, large and sustainable
- Near-term challenges include declining affordability, significant slowdown in transaction activity and some cool-off in property prices
- Potential supply risks remain — IT SEZs is the new mantra
- What if the IT/ITES industry faces a slowdown?

Structurally, a large development opportunity

The Indian real estate development opportunity is large and will last a long while, in our view. The drivers are a severe housing shortage, economic momentum creating new demand, favorable demographics supported by a fast-evolving financial system and rising household aspirations. While structurally we see a large development opportunity, we believe the sector is in for some cyclical pain in the near-term.

Near-term challenges

There is some consensus that interest rates are peaking or are likely to fall 25-50bps over the next few months. However, sustained high mortgage rates of ~10%-plus (vs. lower residential rental yields of 2-5%) with high prices for residential apartments across cities appear to have damaged near-term affordability. We understand from our channel checks that developers are finding it difficult to pre-sell residential projects in the face of high monthly installments. Declining growth in mortgage loans also indicates a similar trend.

Significant slowdown, particularly in residential volumes

With affordability hit, buyers now prefer to postpone purchases

Real estate agents suggest that home buyers are staying away from pre-launches. This is backed by: a) the mortgage portfolios of most banks showing a significant slowdown, suggesting volumes are down; and b) independent agents are fairly consistent about the sharp slowdown in transaction levels. Until recently, projects pre-sold much before the start of construction was the norm. However, with affordability now hit, buyers prefer to postpone purchases. Lower pre-sales are forcing developers to push back the launch of projects. The slowdown in volumes has also prompted some developers to change the mix of their township projects. Taking into account the lower affordability of end-users, residential complexes that were earlier designed to have 4-5 bedroom apartments are now being redesigned to have 2-3 bedroom apartments.

Some cool-off in property prices

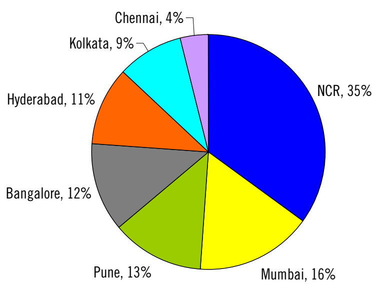
Softness in prices expected in the near-term

With affordability on the decline and a slowdown in the level of actual transactions, property prices are cooling off, largely in the residential segment where absolute prices are coming down by 5-20%. Developers are offering freebies and flexible funding options. In our view, this will be more pronounced in pockets, where build-out plans were aggressive and speculative interest of investors was high.

Corporates have better ability to absorb the impact of high rentals and interest rates than individuals

The outlook for commercial/IT SEZs and retail rentals is relatively better. Given the low stock of Grade A buildings, the strong demand for IT/ITES services and a growing economy, we believe commercial office space rentals are likely to hold at current levels because most of the supply is two years away. Further, corporates have better ability to absorb the impact of high rentals and interest rates compared to individuals. Retail, however, is also likely to witness mixed trends. While the outlook for life-style malls of large developers looks promising, one could expect some erosion in rentals for a few locations with excess supply and relatively poorly structured/organized retail malls.

Figure 8. New Residential Supply by 2009-10E



Source: Knight Frank, Citi Investment Research

Potential supply risks

Most real estate developers are looking for a significant ramp-up in their development business over the next four to five years, much higher than they have delivered so far. While execution remains a challenge for most developers, should the large developers' development plans be executed as expected, we see a potential supply glut in certain markets, especially the NCR, where we believe the build-out is aggressive. This is also substantiated by a recent Knight Frank report, which suggests the residential market will witness a supply of 530.5m sq ft by 2009-10, a significant part (35%) of which is expected in the NCR. However, there is an absolute lack of data on potential supply in the market place given that it is a fairly fragmented market with many small/mid-sized developers.

IT SEZs the new mantra for most developers – we cannot rule out potential supply risks

With residential segment witnessing a slow down, the sector is witnessing a developmental shift, IT SEZs has become the new mantra with most developers focusing on this segment. Further, as IT SEZs is given infrastructure status, it does offer potential upsides from some cap rate compression on sale of assets to REIT structures. This shift in development plans could result in significant supply risks and adversely impact rentals going forward. Again, the problem of absolute lack of data on potential supply remains.

What if IT/ITES industry faces a slowdown?

We believe an IT slowdown will impact overall real estate demand across markets

The IT/ITES industry is an important driver of real estate demand, and in event of the sector facing a significant slowdown, we could potentially see a scale-down in real estate demand. We believe a large part of the potential real estate development being planned — residential, commercial/office or retail — is targeting the growth in the IT/ITES sector. A slowdown would dampen growth and sentiment in the real estate sector.

Valuation

- Valuation benchmarks for Indian property sector are still evolving. We believe NAV is the most appropriate valuation method; P/E multiples are more a secondary tool
- Why the 10% discount for Omaxe?
- Our target of Rs386 is based on a 10% discount to our NAV of Rs.429/share

Valuation benchmarks still evolving in India

Globally, there are varying benchmarks for valuing property companies with no standard fit. Net Asset Values (NAVs), P/E multiples and dividend yields are the most commonly used valuation methodologies for the sector. The property sector in India, from an equity market valuation perspective, is underdeveloped, and hence valuation benchmarks are still evolving. Recent listings have yet to create benchmarks, in part because of still only modest disclosures and the lack of earnings estimates in the marketplace. We see this changing as the sector grows, the market widens, and as disclosures increase and become standardized. Private equity transactions are also likely to provide some valuation support to the sector.

We believe NAV is the most appropriate valuation method

We believe NAV is the most appropriate and primary valuation method as it factors a) landbanks; b) size of the overall development opportunity, and differences based on market segments, location, scale and spread-out-time frames; and c) execution. P/E multiple is more of a secondary method because the near- and medium-term earnings of developers in India like Omaxe are at super-normal levels (i.e., a large part of the gains are due to appreciation of their landbanks rather than development). In effect, the current 7.2x FY09E PE would be on a gain made on a land acquisition made much earlier. This risks overstating the value as gains made on land acquisitions will moderate.

Why the 10% discount for Omaxe?

We see tier-I developers trade at premium to NAVs, while tier-II developers such as Omaxe trade at a discount – we believe a 10% discount is fair

Property markets globally often trade at a discount to NAV (calculation of NAV, however, tends to vary between regions). Markets at the earlier stages in their evolution tend to trade at premium to underlying NAVs. We would probably expect India to go through a similar cycle. Furthermore, we believe in the current challenging environment, there is clearly a distinction amongst the tier-I developers and other developers. We expect tier-I developers to trade at premium to NAVs, given their scale, pan-India footprint and ability to manage cycles better, while tier-II/smaller developers will likely trade at discounts.

Figure 9. India Real Estate – Valuation Comparison

Name	Price (Rs)	USDmn Mkt Cap	RIC Code	Rating	Area m sq ft	NAV	Prem/Disct to NAV	FY08E EPS	FY09E EPS	FY08E P/E	FY09E P/E
DLF	925	40,268	DLF.BO	1M	615	530	75%	40.73	58.17	22.7	15.9
Unitech Ltd	380	15,757	UNTE.BO	3M	593	273	39%	10.09	16.97	37.7	22.4
Puravankara	409	2,231	PPRO.BO	1M	107	564	-27%	11.83	22.8	34.6	18
Parsvnath	319	1,502	PARV.BO	3H	183	418	-24%	36.87	67.59	8.6	4.7
Omaxe	297	1,312	OMAX.BO	1H	146	429	-31%	29.45	40.48	10.1	7.3
Ansal API	243	704	ANSP.BO	3H	195	300	-19%	31.79	53.99	7.6	4.5

Source: Citi Investment Research estimates

We see Omaxe positioned as tier-II developer with North India bias

We see Omaxe positioned as tier- II developer with North India bias with primary focus on townships and expect it to trade at 10% discount to NAV. While the level of NAV discount is a matter of subjective assessment, we believe that a 10% discount to the core NAV estimates is fair. This is in line with our valuation methodology for Citi's India real estate universe. We attribute the discount to the following: 1) concentration in NCR (~41% of our gross NAV) where risk of excess supply over next two to three years is high, which is likely to keep property prices in check; 2) high proportion (22% of development mix) of plotted development which are low value add projects; and 3) its status as a relatively new developer with significant share (27%) of landbank still requiring requisite approvals for development.

Our target of Rs386 offers potential upside

Our target price of Rs386 is based on a 10% discount to an estimated core NAV of Rs429. We believe an NAV-based valuation methodology is most appropriate for developers, as it factors the varied development projects and spread out time frame. Our NAV estimate of Rs429 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume of 117m sq ft (as ~29m is already/to be recognized as revenue till FY08); 3) all projects undertaken by Omaxe will be completed largely on schedule, though we expect risk of delays; 4) an average cost of capital of 14%; and 5) a tax rate of 33%.

Figure 10. Omaxe NAV Summary

Gross NAV of Residential Development (Rs m)	83,633
Gross NAV of Commercial Development (Rs m)	56,848
Gross Total NAV (Rs m)	**140,481**
Less: Amt outstanding for land (Rs m)	8,356
Less: Tax @ 33% (Rs m)	43,601
Less: Debt Outstanding (Rs m)	10,100
Less: Customer Advances (Rs m)	8,250
Add: Cash (Rs m)	4,250
Net NAV (Rs m)	**74,424**
No. of Shares Outstanding (Millions)	174
NAV Per Share (Rs)	**429**

Source: Citi Investment Research estimates

Figure 11. NAV Sensitivity

Price Change	**0%**	**5%**	**10%**
NAV (Rs.)	429	472	516
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rs.)	435	429	423
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rs.)	411	395	363

Source: Citi Investment Research estimates

The stock is currently trading at Rs.290, below its recent IPO price of Rs310. The stock has underperformed by 33% over the last three months since listing. While we believe the outlook for North India remains challenging in the light of building supply and low transaction activity, with the stock trading at a significant 31% discount to our NAV and expectation of a softer rate environment ahead, we believe valuations are attractive and see upside potential.

Risks

We rate Omaxe shares High Risk as opposed to the Speculative Risk rating assigned by our quantitative risk rating system to stocks that have less than 260-day trading history. The key reasons for our assignment of a High Risk rating include: 1) the company's concentration in the NCR, 2) aggressive development plans which raises risk of execution delays, and 3) evolving regulatory and political risks for the sector's growth. However, with strong branding with Omaxe having created high visibility in short span, significant projects (30% of total development) already pre-sold and a relatively strong earnings growth outlook, we believe a High Risk rating is appropriate.

The main downside risks to our investment thesis which could prevent the shares from reaching our target price include:

- **Demand does not materialize to the extent expected:** Omaxe's aggressive land acquisition and development plans presume adequate off-take. An economic slowdown, property over-supply, or skewed geographic or segment growth could hit Omaxe. This could be in the form of inadequate off-take, lower-than-expected prices, and/or high vacancies in its development.

- **Property price weakness:** Omaxe's growth ambitions come in the wake of very strong property price increases across India and across most geographic segments. This could well be followed by substantially lower prices or weak prices over a prolonged period. This could impact profitability and could well impact its aggressive expansion plans.

- **Execution:** Omaxe has a medium scale track record – and it is building out more significantly than it has ever done previously. This build-out takes place amid a strong growth environment characterized by intensive construction activity across the country. The sheer scale, extent of land development, local regulatory interface, and the newer geographies it is entering could raise execution risks. This could result in time, cost and quality over-runs, which could impact profitability, market standing and credibility. Omaxe does, however, have the advantage of historically being a construction company; this could help it mitigate some of these risks and be an advantage over some of its competitors.

- **Land acquisition:** Omaxe has recently acquired a large landbank in a short span of time. Land acquisition, however, is a challenging activity, given regulations, ownership issues and a slow legal system. Omaxe has also acquired significant tracts of land which are held through promoter group companies or associates backed with an agreement for development in favor on Omaxe. Most of the land therefore is not held under the company's name.

- **Regulatory risk:** Land and development are subject to various regulations. These could be subject to change, which could impact the development potential of the land it owns, the property price environment, or in various other ways which could be inimical to Omaxe's interests.

Company Background

Omaxe is largely a founder-owned and -controlled business. The company is headed by Rohtas Goel who started a construction business in 1987 and transformed it into real estate developer in 2001. He spearheads the organization, which also employs other family members as the management team – together they own 89% stake. The group has been beefing up professionals at various levels in the organization. The company is also emphasizing the development of the management team to implement its aggressive execution plans. The company presently employs ~1,093 people. The company recently made a primary offering of 18.6m shares at Rs310 in July 2007.

Appendix A-1

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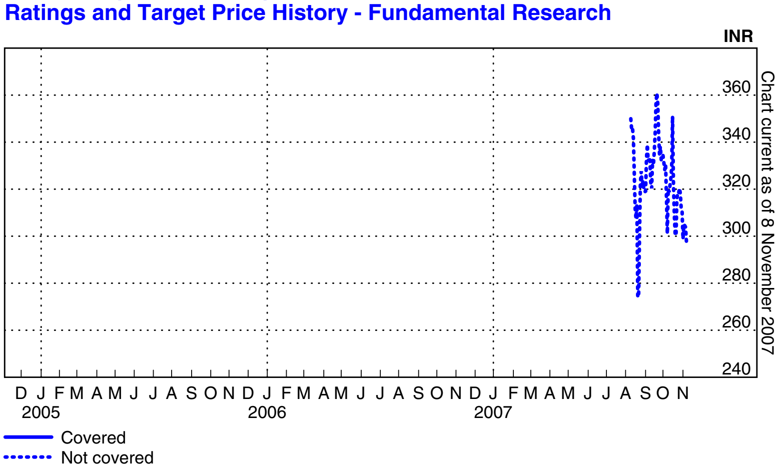
IMPORTANT DISCLOSURES

Omaxe (OMAX.BO)

Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price

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