

	<b>Report Date</b>		November 20, 2006
	<b>Company Name</b>		<b>Sobha Developers (SDL)</b>
	<b>Price Band / Recommendation</b>		<b>Rs. 550-640</b>
Sector	Construction		<b><u>Investment Rationale</u></b> <ul style="list-style-type: none"> <li>➤ SDL, one of the leading real estate development and construction companies in India, enjoys distinction of being the most preferred contractual developer for Infosys Technologies, leading software company.</li> <li>➤ Unique backward integration model facilitates presence across the project value chain.</li> <li>➤ Has extensive land bank of ~ 118 mn sq. ft. across India currently valued at Rs. 735-776 crore and land arrangement of approximately 117 mn sq. ft. expected to be developed within 7-10 years.</li> <li>➤ Residential, commercial &amp; retail segment of real estate industry will experience robust growth fuelled by rapid expansion of IT &amp; ITeS, BPO industry, retail boom, growth of middle class, etc.</li> <li>➤ Venturing into furnishing &amp; interior retail soon.</li> </ul>
BSE Sensex	13430.71		
<b>Issue Details</b>			
Issue Size	8,893,332 shares		
Shares offered to Public	8,004,032 shares		
Shares reserved for Retail Investors	2,401,282 shares		
Face Value	Rs. 10/-		
Funds to be raised	Rs. 489-569 crore		
Issue opens on	November 23, 2006		
Issue closes on	November 29, 2006		
<b>Utilisation of Issue Proceeds</b>			
Particulars	Rs. Crore		
Financing land acquisition	234.2		
Financing construction and development of existing & proposed projects	142.5		
Repayment of certain loans	132.2		
<b>Shareholding Pattern (%)</b>			
	<b>Pre Issue</b>	<b>Post Issue</b>	
Promoters	99.09%	87.00%	
Employees	0.00%	1.22%	
Others	0.91%	0.80%	
Public	0.00%	10.98%	
<b>Eq. Capital (Rs. Cr.)</b>	<b>64.00</b>	<b>72.90</b>	
			<b><u>Investment Concerns</u></b> <ul style="list-style-type: none"> <li>➤ ~ 2.11% of SDL's land reserves are classified as land falling in 'green belt area' i.e. where no commercial or residential development is permissible.</li> <li>➤ Geographical concentration in and around Bangalore</li> <li>➤ Client concentration – Infosys accounts for 30% of revenues</li> </ul>
			<b><u>Recommendation</u></b> <ul style="list-style-type: none"> <li>➤ SDL is offering shares at 20.6- 24 times FY 2007 expected EPS of Rs. 26.68 and 12-14 times FY 2008 expected earnings of Rs 45.78 on fully diluted equity. Considering SDL's strong positioning in booming real estate market, we recommend to <b>"SUBSCRIBE"</b> to the issue. One can look forward to gain on listing.</li> </ul>

<b>Historical Financial Information</b>	<b>Rs. crore</b>			
<b>Year ended March</b>	<b>2005 A</b>	<b>2006 A</b>	<b>% Inc.</b>	<b>H1 2007</b>
Net Sales	453.06	596.62	<b>31.7%</b>	517.63
EBITDA	65.66	141.48	<b>115.5%</b>	99.98
<b>EBITDA (%)</b>	<b>11.8%</b>	<b>18.4%</b>		<b>16.4%</b>
Interest Expenses / (Income)	10.94	21.94	<b>100.6%</b>	27.95
Depreciation	7.44	11.20	<b>50.5%</b>	10.85
P.B.T.	47.28	108.35	<b>129.2%</b>	61.18
P.A.T.	33.85	89.23	<b>163.6%</b>	53.97
Equity Capital (Rs 10/-)	21.14	21.14		64.00
EPS on year end Equity (Rs)	16.01	42.21		16.87
Diluted Equity Capital (Rs 10/-)	72.90	72.90		72.90
EPS on Diluted Equity (Rs 10/-)	4.64	12.24	<b>163.6%</b>	14.81
Book Value (Rs)	26.53	60.60		28.54
RONW (%)	22.8%	25.3%		11.6%
ROCE (%)	60.4%	69.7%		29.5%
Diluted P/E (x) on Lower Price Band	118.45	44.93		37.14
Diluted P/E (x) on Higher Price Band	137.83	52.29		43.22

### **About SDL**

- SDL is one of the leading real estate development and construction companies in India, focusing on residential (63% of revenues) and contractual projects. They have constructed 21 residential projects in Bangalore covering 2.98 million sq. ft. and 75 contractual projects covering 8.42 million sq. ft. in 8 Indian states.
- Residential projects include apartments, villas, row houses, super luxury apartments with amenities like clubhouses and swimming pools. Contractual projects include office blocks, convention centers, multiplexes, guesthouses, hostels, restaurants, food courts, bungalows and showrooms. SDL is preferred developer and constructor for Infosys. Other corporate clients include Hewlett Packard, Taj Residency, MICO and Timken.
- Currently, company is developing 15 residential projects in Bangalore aggregating 4.97 million sq. ft. and 23 contractual projects for various corporate clients such as school, hospital, software development blocks in various states of India.

### **Investment Rationale**

- SDL is preferred developer for Infosys having executed 66 projects totaling 7.3 million sq. feet of development space, of which 83% were executed for software major. Moreover, it is poised to continue to enjoy Infosys' patronage for later's major expansion, whereby company will be increasing its headcount by 25,000 in FY 2007. Besides, value associated with Infosys name will be a key catalyst in increasing contractual clientele.
- Unique backward integration model facilitates presence across the project value chain. SDL is vertically integrated; i.e. it has competency and resources to deliver a project from conceptualization to completion. It has an Architecture Design Studio, concrete block making facility, metal and glazing unit, mechanical, electrical and plumbing unit, interiors & woodwork division and project management teams. It ensures cost & quality efficiency with ability to deliver the project in timely manner.
- Sobha has extensive land reserves aggregating ~ 2,593 acres of land (~ 118 million sq. ft of developed or potential developed area) over 78 locations in 7 cities across India valued at Rs. 735-776 crore and Land Arrangements aggregating ~ 3,456 acres of land (i.e. ~ 117 million sq. ft of developed or potential developed area), over 13 locations in 3 cities across India, expected to be developed within 7-10 years.
- Residential, commercial & retail segment of real estate industry will experience robust growth. Growth of commercial segment will be fuelled by rapid expansion of IT & ITeS, BPO industry, etc., while changing demographics, growth in disposable income, lower interest rates and increasing urbanization led to growth of residential segment. Growth in per capita income, improved standard of living, changing consumption pattern, infrastructure improvement, etc. are some of the factors which served as catalyst for retail boom.
- To capitalize on massive development and construction opportunities, company is expanding development activities into new geographies as well as diversifying project portfolio to include hotels, integrated townships, malls, multiplexes, shopping complexes, SEZs and plot development. This diversification would enable Sobha to provide full range of product & services across real estate value chain to its customers. Company has signed MoU with Reliance Energy (REL) in May 2006 to participate in consortium in response to expression of interest invited by Andhra Pradesh Industrial Infrastructure Corporation for development of business district and trade towers in Hyderabad. REL and SDL has agreed to form Special Purpose Vehicle (SPV) for this purpose and invest up to 26% of share capital of such SPV
- Though, core business of the company is development of residential and commercial property, SDL is diversifying its product offerings by foraying into retail products in the nature of furnishings and interiors.

### **Investment Concerns**

- ~ 2.11% of SDL's land reserves are classified as land falling in 'green belt area' i.e. where no commercial or residential development is permissible.
- Geographical concentration in and around Bangalore
- Client concentration –30% of total revenues comes for Infosys.
- Limited supply of land, increasing competition, applicable government regulations, fluctuations in market value of real estate, availability of finance to customers, demographic factors, employment levels may adversely affect business operations & financial conditions.

### **Recommendation**

- SDL is offering shares at 20.6- 24 times FY 2007 expected EPS of Rs. 26.68 and 12-14 times FY 2008 expected earnings of Rs 45.78 on fully diluted equity. Considering SDL's strong positioning in booming real estate market. we recommend to "SUBSCRIBE" to the issue. One can look forward to gain on listing.

**Disclosures**

- The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment, information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.