Property | India

Oberoi Realty OBER IN

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COMPANY QUICK COMMENT

As per a news article in the Economic Times, 29 September 2011, Oberoi Realty is in talks to buy the 50% stake held by ICICI Venture in a residential project located at Annie Besant Road in Worli for INR 3.0bn. This land parcel is currently owned by Vikas Oberoi and I-Ven Realty and was facing litigation over the last 6-7 years on title issues. While this deal is primarily to provide an exit to I-Ven Realty, if the litigation issue is resolved as claimed by mgmt, then the IRR generated could be high at 36%.

Price target: 284.0 INR **Price (28 Sep 2011): 222.55 INR**

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ICICI Venture deal: NAV accretive; achievable IRR ~36%

As per a news article in the Economic Times, dated 29 September 2011, Oberoi Realty is in talks to buy the 50% stake held by ICICI Venture in a residential project located at Annie Besant Road in Worli for INR3.0bn. After the deal, 50% of the project will be held by Oberoi Realty (BUY, PT INR 284) while the remaining 50% will be held by the Oberoi Realty promoter Vikas Oberoi.

As background, in 2004 Oberoi Constructions (promoter Group Company) and ICICI Venture jointly bought the land parcel from GSK SmithKline for INR 1.07bn. Later, the project entered into a legal tussle after the Brihanmumbai Municipal Corporation (BMC) raised a claim of ownership of the land claiming that the land was given to GSK only on lease. BMC refused to give the mandatory no-objection certificate and demanded INR1.34 bn because the land had originally belonged to it. The Supreme Court of India has recently ruled against the BMC. *Source: Times of India, "Saga of twin tower project" dated 14 December 2010*.

On our initial assessment, the price of INR 8,238 psf (based on saleable area) that is being paid by Oberoi Realty is attractive as this acquisition is likely to provide Oberoi Realty an IRR of around ~36%. Additionally, 100% stake in the project by Oberoi Group will provide operational synergies in terms of execution given the project got stalled due to government approvals in the past.

Exhibit 1: Snapshot of project and IRR for Oberoi Realty

Land area (acres)	4.1
Avg. FSI	2.7
Developable area (mn sq ft)	0.5
Loading	1.8
Saleable area (mn sq ft)	**0.85**
ICICI Venture stake	50%
Selling price (INR bn)	3.0
Price (INR psf) based on saleable area	7,061
Payment to BMC (INR bn)	1.0
Effective land cost (INR psf) based on saleable area	8,238
Assumptions	
Construction cost (INR psf)	6,000
Current selling price (INR psf)	34,000
IRR	**36%**

Note: Payment to BMC is our assumption based on the claims raised

Source: Economic Times, Nomura estimates

As the construction of the project couldn't take off after the land deal was concluded in 2004, we see delay in launch of the project as one of the significant risks associated with the project. It is quite possible that the project could see significant delays in approval from the BMC and also Oberoi's claim of FSI of 2.7 on the land could be under question if the proposed changes in the FSI regulations go through. We assume the project launch will only be possible by 2014, as Oberoi Realty has another luxury project (~2.1 mn sq ft, ~3x the current project size) in Worli which is targeted for the launch by Mar 2013. The launch could be further delayed if the Oasis project does not do as well as anticipated. The below table provides the sensitivity of IRR that Oberoi Realty would be able to achieve, accounting for delay in the project and correction in the Mumbai home price. If the launch is delayed by a year and property prices fall 10%, the IRR will go down to 26%.

Exhibit 2: Sensitivity analysis of IRR return

Correction in home prices	Project take off (year)					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
-20%	32%	32%	23%	19%	11%	6%
-15%	39%	29%	24%	21%	13%	7%
-10%	42%	31%	26%	22%	14%	9%
-5%	45%	34%	27%	23%	15%	10%
0%	49%	**36%**	29%	24%	17%	11%
5%	52%	38%	30%	26%	18%	12%

Source: Nomura estimates

Further, comparing the current deal with Oasis Worli JV project (saleable area of 2.1mn sq ft) where Oberoi Realty will receive 25-40% of net revenues based on the sale price per sqft. Assuming INR 34,000 psf as the selling price for Oasis Worli project, Oberoi Realty will be paying INR 6,418 psf of implied land cost (based on saleable area) to the JV partners, on our numbers. The land cost of INR 8,238 psf (based on saleable area) for the current deal is attractive as land prices have nearly moved up by 40% since Sep2009 when Oasis Worli project deal was signed. We think such an attractive deal for Oberoi Realty has only been possible because ICICI Venture needs an exit given that the timeline for its fund is nearing an end, though it has made nearly 6x return on the investment.

This deal could add INR19 per share to our NAV if all goes as per plan. We maintain BUY on Oberoi Realty as it is trading at 28% discount to our PT of INR 284.

Valuation Methodology and Investment Risks: Valuation methodology: We used net asset value methodology to arrive at our NAV estimate of INR 275 per share. We estimate additional value accretion of INR 8 per share to arrive at our target price of INR 284 per share. We don't ascribe any discount to our target NAV of INR 284 per share due to high level of transparency and corporate governance and strong balance sheet.Investment risks: 1) Oberoi Realty is largely a Mumbai based developer; hence any slowdown in sales volume or correction in home prices / correction in commercial rents due to worsening macroeconomic scenario would impact our NAV estimates. 2) Given Worli and Sangman City projects which contribute nearly 16% to our GAV estimate are being executed with JV partners. Any problems arising from JV partners due to their chequered history can lead to stalling of these projects. 3) Inability to deploy cash in value accretive land acquisition can have significant impact to our estimates.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
OBEROI REALTY LTD	OBER IN	222.55 INR	28 Sep 2011	Buy		

Previous Rating

Issuer name	Previous Rating	Date of change
OBEROI REALTY LTD	Not Rated	21 Sep 2011

OBEROI REALTY LTD (OBER IN) **222.55 INR (28 Sep 2011)** Buy

Rating and target price chart (three year history)

Date	Rating	Target price	Closing price
21-Sep-2011		284.00	224.25
21-Sep-2011	Buy		224.25

For explanation of ratings refer to the stock rating keys located after chart(s)

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