

# India: Real Estate Developers

Equity Research

## Feet on the Street: Bangalore, Gurgaon growing, Buy Sobha (on CL)

### City momentum – Bangalore, Gurgaon show growth

An analysis of the latest property data by PropEquity suggests Bangalore (35%, 18%) and Gurgaon (43%, 7%) are the only two large cities witnessing positive value and volume yoy absorption momentum. Also an analysis of inventory months suggests relatively stable inventory in Bangalore and Gurgaon as absorption momentum is maintained. Overall demand momentum remains sluggish with value sold declining by 11% over the last 3 months. We believe a combination of lower interest rates, pricing readjustment and better customer confidence is needed for higher residential sales.

### Financing momentum – still slower than overall financing

We believe there is capacity to lend to homebuyers as bank credit to the real estate sector (loans to developers + mortgages) are at a six-year trough at 12.02% (as of December 2011). In 9MFY12, bank credit to real estate grew 12% yoy as compared with overall bank credit growth of 16%.

### Improvement in approval process in Mumbai and Chennai

We note that recent transactions indicate an improvement in the approval process in Mumbai with several land deals being reported in Mumbai by the Times of India, including transaction by Oberoi Realty (Om Metals, Bandra), HDIL (Metro Car shed, Versova) and Sunteck Realty (Goregaon-E). Launches also appear to have resumed in Chennai with Sobha Developers and Prestige Estates launching long delayed projects in January 2012. Latest registration data indicate some demand improvement in Mumbai.

### Top Buy pick remains Sobha Developers (on CL), Oberoi and HDIL

Sobha benefits from exposure to Bangalore and Gurgaon, the fastest growing markets. We are rated Buy on Sobha (on CL) and have a 12-m RNAV-based TP of Rs353. We also believe that Oberoi and HDIL will benefit from a faster approval process in Mumbai. We also have Buy ratings on HDIL with a 12-m RNAV based target price of Rs113 and Oberoi Realty with a 12-m RNAV based target price of Rs315.

### Key risks

Interest rate risk, continued approval delays, property price/rental volatility.

#### FY13E SALES NEEDED TO JUSTIFY CURRENT EV

Ticker	FY13E Sales needed (Rs mn)	LTM Pre-sales (Rs mn)	Sales Coverage
SOBH.BO	13,725	15,328	112%
HDIL.BO	14,998	14,671	98%
OEBO.BO	11,543	10,387	90%
DLF.BO	90,513	58,141	64%
JYPE.BO	29,200	34,308	117%
PREG.BO	16,991	15,567	92%
UNTE.BO	42,599	41,002	96%
INRL.BO	21,981	22,950	104%
GODR.BO	25,206	15,166	60%

Source: Company data, Goldman Sachs Research estimates.

#### RELATED RESEARCH

India: Real Estate Developers: As interest rates decline, sustainable returns the key focus dt. January 20, 2012.

Sobha Developers (SOBH.BO): In line with expectations: Offering operating cashflow yield of 13% dt. January 22, 2012.

Godrej Properties (GODR.BO): Below expectations: Debt increase indicating need to raise equity dt. January 22, 2012

Oberoi Realty (OEBO.BO): Below expectations: Lower-than-expected pre sales dt. January 23, 2012.

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## Pre-sales coverage (FY13E Sales needed/LTM pre-sales)

### Exhibit 1: LTM pre-sales for most companies not a concern in context of FY13E sales needed to justify FY13E EV

FY13E development sales to justify FY13E EV

Rs mn	FY13E EV	FY13E Net Recurring income	FY13E EV from development property	FY13E Fixed cost	FY13E Cash profit needed	Cash margin	FY13E Sales needed	LTM Pre-sales	Sales coverage
SOBH.BO	37,449	604	31,411	2,000	5,490	40%	13,725	15,328	112%
HDIL.BO	67,481	-	67,481	1,501	8,999	60%	14,998	14,671	98%
OEBO.BO	72,803	1,613	56,668	630	6,926	60%	11,543	10,387	90%
DLF.BO	613,769	26,000	353,769	15,000	54,308	60%	90,513	58,141	64%
JYPE.BO	103,121	472	98,398	747	11,680	40%	29,200	34,308	117%
PREG.BO	52,485	2,290	29,580	2,660	5,947	35%	16,991	15,567	92%
UNTE.BO	120,868	1,063	110,238	4,791	17,040	40%	42,599	41,002	96%
INRL.BO	67,769	1,562	52,148	1,899	7,693	35%	21,981	22,950	104%
GODR.BO	58,761	480	53,961	306	6,301	25%	25,206	15,166	60%

Source: Company data, Goldman Sachs Research estimates.

## Quarterly residential launches

### Exhibit 2: Slowdown in launches following delayed property approvals, lower demand

Area launched (sqft mn) and value launched (Rs bn)

Area launched (sqft mn)

Company	FY2009				FY2010				FY2011				FY2012	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
DLF	4.4	4.0	5.1	0.0	1.9	4.4	6.4	3.6	0.0	0.0	1.1	3.0	5.1	2.0
Unitech	0.1	3.6	1.3	1.0	10.3	4.4	0.8	1.8	2.8	1.8	1.6	4.3	3.0	3.0
HDIL	0.0	0.0	0.0	1.6	0.4	0.0	1.3	0.4	1.0	0.7	5.8	0.0	0.9	0.0
Indiabulls Real estate	0.0	0.0	1.5	1.5	1.9	7.8	0.8	0.2	0.1	4.6	5.1	0.8	1.0	1.0
Sobha	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.6	0.7	2.6	0.3	7.2	0.4
Oberoi							1.5	0.0	0.0	0.0	0.3	2.0	0.0	0.0
Prestige Estates									1.5	0.5	0.2	0.7	4.8	2.3
Godrej Properties	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.5	0.5	2.4	1.9	0.6	0.0
<b>Total</b>	<b>5.1</b>	<b>7.6</b>	<b>7.8</b>	<b>4.1</b>	<b>14.5</b>	<b>16.6</b>	<b>11.6</b>	<b>6.4</b>	<b>6.5</b>	<b>8.8</b>	<b>19.1</b>	<b>13.0</b>	<b>22.5</b>	<b>8.7</b>

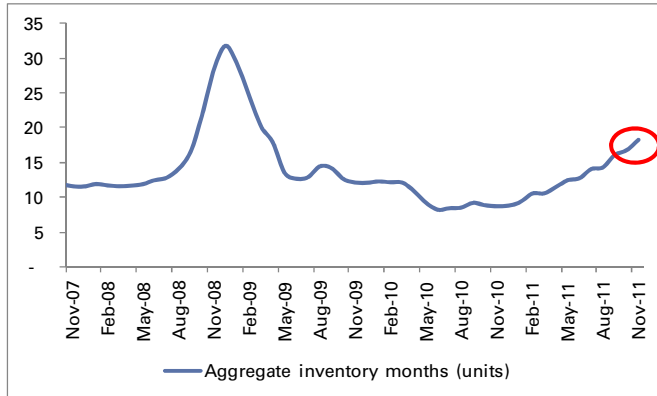
Value launched (Rs bn)

Company	FY2009				FY2010				FY2011				FY2012	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
DLF	11.7	9.0	11.9	0.0	10.5	21.4	36.5	20.6	0.0	0.0	7.6	8.1	17.0	7.0
Unitech	0.2	21.5	3.4	3.8	33.1	21.7	7.0	6.5	10.4	7.5	6.7	18.7	12.0	14.6
HDIL	0.0	0.0	0.0	12.6	2.0	0.0	7.5	1.1	8.4	4.9	15.6	0.0	6.5	0.0
Indiabulls Real estate	0.0	0.0	4.8	3.7	0.4	32.6	16.7	0.3	0.3	40.3	38.9	3.5	4.0	4.0
Sobha	2.7	0.0	0.0	0.0	0.0	0.0	0.0	1.3	4.2	2.7	10.9	1.0	33.6	2.0
Oberoi							18.0	0.0	0.0	0.0	3.1	22.7	0.0	0.0
Prestige Estates									24.1	2.1	0.9	2.3	12.9	10.3
Godrej Properties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>14.6</b>	<b>30.5</b>	<b>20.1</b>	<b>20.1</b>	<b>45.9</b>	<b>75.7</b>	<b>85.7</b>	<b>29.8</b>	<b>47.5</b>	<b>57.6</b>	<b>83.7</b>	<b>56.3</b>	<b>86.1</b>	<b>37.8</b>

Source: PropEquity, Company data, Goldman Sachs Research.

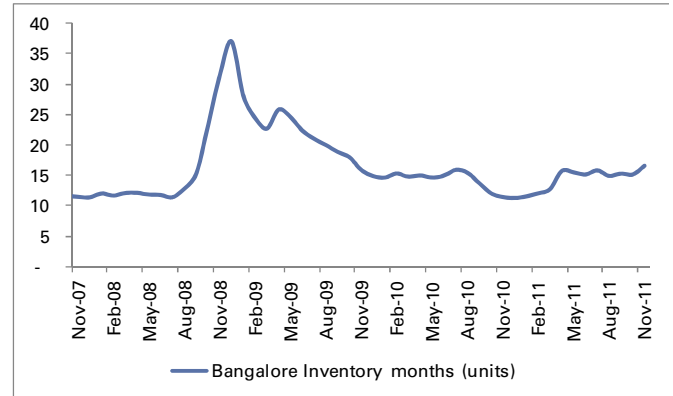


**Exhibit 5: Aggregate inventory has increased**  
Inventory months (Overall)



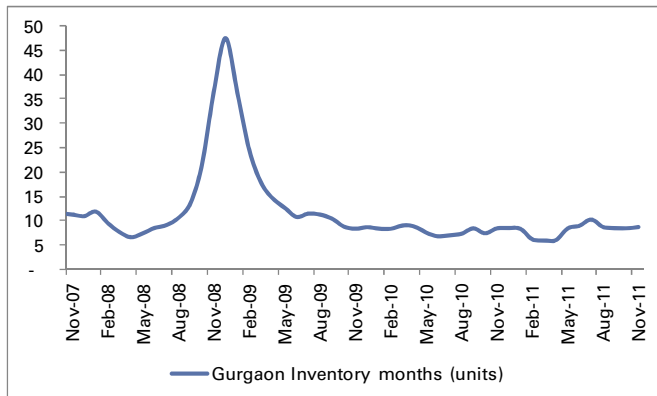
Source: PropEquity, Goldman Sachs Research.

**Exhibit 6: Bangalore inventory level stable**  
Inventory months (Bangalore)



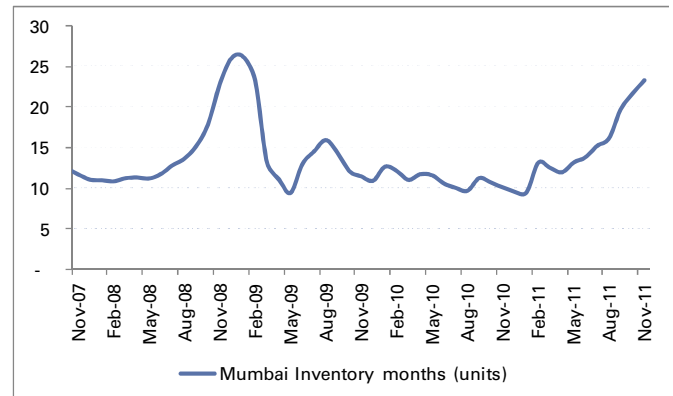
Source: PropEquity, Goldman Sachs Research.

**Exhibit 7: Steady inventory in Gurgaon**  
Inventory months (Gurgaon)



Source: PropEquity, Goldman Sachs Research.

**Exhibit 8: Mumbai inventory months have spiked**  
Inventory months (Mumbai)

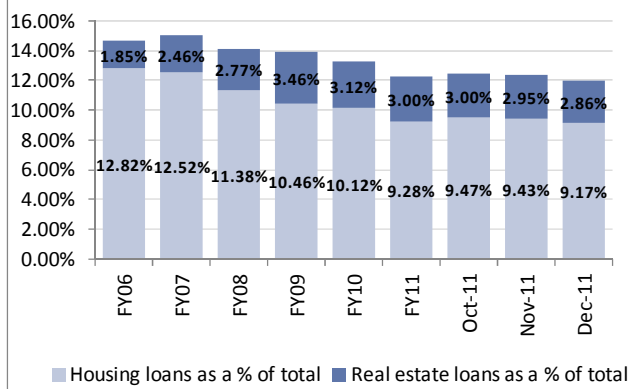


Source: PropEquity, Goldman Sachs Research.

## Financing (Mortgages as well as overall bank credit)

**Exhibit 9: Current lending to sector lower than past 5 years**

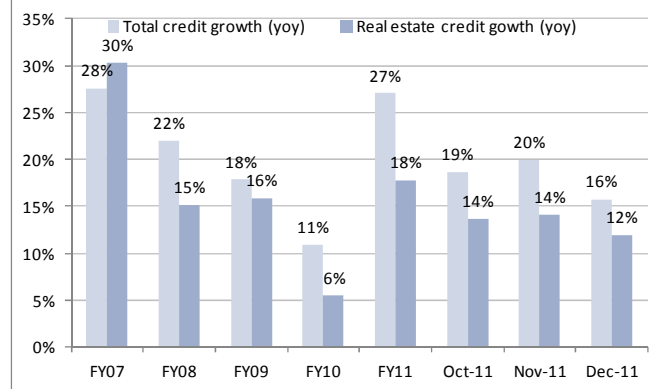
Proportion of loans to real estate sector of total lending



Source: Reserve Banks of India, Goldman Sachs Research.

**Exhibit 10: Real estate credit growth has lagged overall credit growth**

Real estate credit growth and total credit growth



Source: Reserve Banks of India, Goldman Sachs Research.

**Exhibit 11: We maintain our Buy rating on Sobha Developers (on CL), Oberoi Realty and HDIL**

Summary of estimates, valuations and ratings

Company	Ticker	Rating	12-mo TP	Current price	Potential upside / downside	FY13E RNAV	Prem. / disc. To FY13E RNAV	Mkt. cap	FY13E NAV	FY13E EV	Revenues (Rs bn)				EBITDA margin				Net income (Rs bn)			
											FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E
Sobha Developers	SOBH.BO	Buy*	353	271	30%	392	-31%	0.5	0.8	0.8	15	16	20	24	21%	22%	22%	24%	1.8	1.9	2.5	3.4
HDIL	HDIL.BO	Buy	113	96	17%	188	-49%	0.8	1.7	1.4	18	26	32	39	60%	48%	45%	43%	8.2	8.6	9.7	11.6
Oberoi Realty	OEOB.BO	Buy	315	271	16%	315	-14%	1.8	2.1	1.5	10	9	15	21	58%	59%	61%	60%	5.2	4.8	6.9	9.5
DLF	DLF.BO	Neutral	252	231	9%	280	-18%	7.9	10.2	12.4	96	98	112	129	40%	45%	48%	50%	16.4	15.2	19.7	26.9
Jaypee Infratech	JYPE.BO	Neutral	54	46	17%	90	-49%	1.3	2.5	2.1	28	38	47	50	65%	49%	49%	50%	14.4	12.7	10.8	12.4
Prestige Estates	PREG.BO	Neutral	98	111	-12%	123	-9%	0.7	0.8	1.1	15	15	21	25	24%	32%	29%	27%	1.7	2.0	2.9	3.6
Unitech	UNTE.BO	Neutral	32	29	9%	46	-37%	1.6	2.6	2.4	32	32	40	46	29%	26%	27%	28%	5.7	5.4	6.5	7.8
Indiabulls RE	INRL.BO	Neutral	71	73	-3%	118	-38%	0.6	1.3	1.4	14	15	21	23	23%	28%	28%	32%	1.6	2.8	3.7	4.8
Phoenix Mills	PHOE.BO	Sell	227	194	17%	284	-32%	0.6	0.8	0.5	2	2	2	3	71%	71%	72%	74%	0.9	0.9	1.0	1.2
Godrej Properties	GODR.BO	Sell	552	641	-14%	552	16%	0.9	0.8	1.2	5	9	14	18	36%	28%	27%	31%	1.3	1.4	2.1	2.8
<b>Coverage</b>								<b>16.8</b>	<b>23.7</b>	<b>24.7</b>	<b>236</b>	<b>259</b>	<b>323</b>	<b>378</b>	<b>41%</b>	<b>41%</b>	<b>41%</b>	<b>42%</b>	<b>57.1</b>	<b>55.7</b>	<b>65.8</b>	<b>83.8</b>

\* denotes stock is on Asia Pacific Conviction list

Company	Net income margin				Book value (Rs/share)				Price / Book				Price / Earnings				Return on average Equity				Enterprise Value / EBITDA			
	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E
Sobha Developers	12%	12%	13%	14%	189	204	224	251	1.4X	1.3X	1.2X	1.1X	15X	14X	10.6X	7.9X	10.2%	9.9%	12%	14.4%	14X	12X	8X	6X
HDIL	44%	33%	31%	30%	229	244	264	288	0.4X	0.4X	0.4X	0.3X	5X	5X	4.2X	3.5X	10%	9%	9%	10%	12X	6X	5X	4X
Oberoi Realty	52%	52%	47%	44%	102	114	130	154	2.7X	2.4X	2.1X	1.8X	16X	19X	12.8X	9.4X	20%	14%	17%	20%	NA	14X	8X	5X
DLF	17%	16%	18%	21%	144	151	160	173	1.6X	1.5X	1.4X	1.3X	24X	26X	20.0X	14.6X	6%	6%	7%	9%	19X	14X	11X	9X
Jaypee Infratech	52%	34%	23%	25%	35	42	48	54	1.3X	1.1X	1.0X	0.9X	4X	5X	5.9X	5.2X	42%	24%	17%	17%	NA	6X	4X	4X
Prestige Estates	11%	13%	14%	14%	64	69	75	83	1.7X	1.6X	1.5X	1.4X	19X	18X	12.6X	10.2X	12%	9%	12%	14%	NA	10X	8X	7X
Unitech	18%	17%	16%	17%	44	46	48	51	0.7X	0.6X	0.6X	0.6X	13X	14X	11.8X	9.9X	5%	5%	5%	6%	25X	15X	11X	9X
Indiabulls RE	11%	18%	18%	21%	232	178	187	198	0.3X	0.4X	0.4X	0.4X	NM	11X	8.5X	6.6X	2%	3%	4%	4%	NM	11X	8X	6X
Phoenix Mills	52%	46%	45%	46%	111	116	122	128	1.7X	1.7X	1.6X	1.5X	31X	30X	28.3X	24.3X	6%	6%	6%	6%	25X	19X	17X	11X
Godrej Properties	24%	16%	15%	16%	131	145	169	201	4.9X	4.4X	3.8X	3.2X	34X	32X	21.3X	16.1X	15%	15%	19%	22%	27X	23X	15X	10X
<b>Coverage</b>	<b>24%</b>	<b>21%</b>	<b>20%</b>	<b>22%</b>					<b>1.2X</b>	<b>1.1X</b>	<b>1.1X</b>	<b>1.0X</b>	<b>15X</b>	<b>15X</b>	<b>12.6X</b>	<b>9.9X</b>	<b>8%</b>	<b>8%</b>	<b>9%</b>	<b>10%</b>	<b>17X</b>	<b>12X</b>	<b>9X</b>	<b>7X</b>

Source: Datastream, Company data, Goldman Sachs Research estimates.

All prices updated as of market close on February 10, 2012.

Our target prices are based on March 2013E RNAV. Key downside risks are interest rate risk and continued weakness in commercial demand. Interest rate risk remains the key upside risk and downside risk.

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