IPO Note — OBEROI REALTY LTD.

Recommendation	NOT RATED	
Issue Price	253-260	
Bidding Date	6th Oct-8th Oct 2010.	
Lead Manager	Kotak, ENAM, JP Morgan, Morgan Stanley	
Sector	Real Estate	
Number of Shares	380	
Application Money	98800	
Amount Payable	98800	
Financials (Rs in Crs)	**FY09**	**FY 10**
Revenue	351.80	805.5
EBIDTA	276.8	489.0
PAT	252.1	457.3
EPS	8.7	15.84
Book Value	59.92	64.56
P/BV (U-L)	4.03-3.92	
Diluted PE (U-L)	18.65-18.14	

No of Equity Shares Offered	3.96 Crs
Post Issue Promoter Holding	78.5%
Offer structure for different categories	
QIB (Excluding Mutual Fund)	57%
Mutual Fund	3%
Non-Institutional	10%
Retail	30%
Lot Size	20
Post issue Equity (Rs. in crore)	328
Issue Size (Rs. in crore)	1000.9-1028
Face Value (Rs.)	10
Promoter & Promoter Group	78.5%
Public	21.5%

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Company Background

Incorporated in 1983, Oberoi Realty Limited (ORL) is Mumbai based real estate developer mainly focusing on premium segment. It has developed strong brand & have a successful track record in the real estate industry through its contemporary architecture, developing innovative projects, quality construction & strong execution of projects. ORL mainly focuses on residential projects, but it has diversified portfolio across covering key segments mainly office space, hospitality, retail, social infrastructure etc., targeting upper end of income respective segment. As on June 30, 2010 promoter & promoter group have completed 33 projects covering approximately 5 msf of Saleable Area, which include landmark project like Oberoi Springs, Oberoi sky heights (Andheri west), Oberoi Woods, Mall & The Westin Hotel in Goregaon (w).

ORL currently follow a sale model for residential projects and a lease model for office space and retail projects which provides with stable cash flows. It has strong presence in Mumbai with over 90% of land bank. It has total 20.3 msf across 24 projects.

Object of the Issue

Company will raise Rs.1028 Crs at Upper price band of offer. The proceeds will be utilized as follows:-

Particular	Amount (Rs. In crore)
Construction of ongoing Projects & Planned Projects	741
Acquisition of Land & land development Rights	225
General Corporate purpose	(*)
Total	966

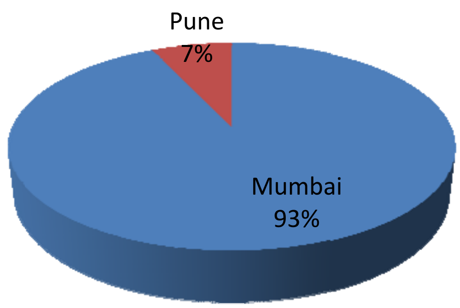
(Sources:- RHP, NB Research)

- **Strong Presence across Mumbai**

Mumbai being an island city faces huge land shortage for building residential properties. The city has per sq km population density of ~ 24,500 people compared to ~14,500 persons in other metros. Being the financial capital, Mumbai faces immigration problems and is also the most congested city in India. Hence housing shortage and rising population ensure strong demand. Real estate prices in Mumbai were the least impacted during the 2008 slowdown - prices corrected 5-10% in residential segment compared to 25-30% correction in cities across the country. Similarly, recovery and price escalation was faster compared to other metro cities.

(ORL) is a Mumbai based real estate developer mainly focusing on premium segment. ORL have completed 33 projects covering approximately 5 mn square feet of Saleable Area spread across Mumbai. Most of ORL's completed; Ongoing and Planned projects are located in Mumbai, which is an attractive real estate market in terms of returns on investment, product positioning and depth of demand for real estate developments across segments and price points. Development sites are located in distinct areas of Mumbai, with different target markets, and ORL's intend to continue to tailor our projects to the particular requirements of each market.

Spread of Land Bank



(Sources:- RHP, NB Research

- **Strong Brand & execution capabilities.**

  ORL's Reputation as leading developer enables to work with quality service providers, particularly in times when demand for their services is high. Company also believes that strong brand and reputation has enabled and will enable it to obtain development rights, pursuant to which it can develop land owned by a third party on a revenue-share basis. ORL's strong brand reputation and track record of developing projects which emphasize contemporary architecture, strong project execution and quality construction have enabled to achieve bookings for an average of 365 units annually.

- **Robust Project in Pipeline providing cash flow visibility**

  ORL has a strong project pipeline consist of 8 ongoing and 19 planned projects, which expected to provide a total Saleable Area of approximately 20.54 msf, & near term cash flow visibility. Some of its key projects in Mumbai includes Oberoi Garden City (11.2 msf) in Goregaon, Oasis (2.1 msf) in Worli, Oberoi Exotica (3.2 msf) in Muland & Oberoi Splender (3.1 msf) in Andheri.

Project Type	Ongoing Project		Ongoing estimated salable area (in %)	Planned Projects		Ongoing estimated salable area (in %)	Total	
	Estimated Saleable area in (Sq.ft)	No. Of projects		Estimated Saleable area in (Sq.ft)	No. Of projects		Estimated Saleable area in (Sq.ft)	No. Of projects
Residential Projects	5,820,830.00	5.00	57.50%	6,516,171.00	4.00	64.31%	12,337,001.00	9.00
Office	3,659,990.00	5.00	36.16%	373,812.00	2.00	3.69%	4,033,802.00	7.00
Retail	121,095.00	1.00	1.20%	279,939.00	1.00	2.76%	401,034.00	2.00
Hospitality	215,280.00	1.00	2.13%	1,289,787.00	1.00	12.73%	1,505,067.00	2.00
Social Infra	305,309.00	1.00	3.02%	1,672,602.00	3.00	16.51%	1,977,911.00	4.00
Total	**10,122,504.00**	**13.00**	**100%**	**10,132,311.00**	**11.00**	**100%**	**20,254,815.00**	**20.00**

(Sources:- RHP, NB Research)

Of the total land bank, ORL owns around 75% (15msf) directly while balance is through sole development rights, JDA's & MOU's. ORL generally follow a sale model for residential projects in which it receives 20% advance at time of booking & balance payment are linked to development of project. On Office space & retail property front, ORL follow lease model, which provides stable steam of cash flow.

- **Acquisition of Land at Low Cost:-** ORL procured most of the current land at prime locations in Mumbai at very cheap cost during 2002-2005 ahead of surge in prices. Considering increasing prices scenario, ORL is expected to command higher realizations

- **Risk Concern:-**

1. *Concentration risk:* - ORL is a Mumbai based developer. Demand slowdown and oversupply can lead to lower-than-estimated sales
2. *Slowdown in Real Estate sector especially in premium housing:-* Historically, ORL's target group has been upper middle class and its project typically command a premium compare to its peers. The company's inability to sustain pricing in residential projects owing to slowdown in demand for premium housing or competition from other developers remains a key risk.
3. *Timely Execution*: Promoter & promoter group have completed 33 projects covering approximately 5 msf of Saleable Area. With current land bank gives revenue visibility of next 5 years (which is 4x total land develop), scheduled completion of the ongoing projects is quite crucial for the company.

Outlook

Oberoi Realty Limited (ORL) is Mumbai based real estate developer mainly focusing on premium segment. It has developed strong brand & have a successful track record in the real estate industry through its contemporary architecture, developing innovative projects, quality construction & strong execution of projects. ORL has a strong project pipeline consist of 8 ongoing and 19 planned projects, which expected to provide a total Saleable Area of approximately 20.5 msf, which provides near term cash flow visibility.

Despite experiencing severe downturn over past 2 years, ORL's Balance Sheet (BS) has remained healthy. Company has delivered robust and consistent results over the last 3-4 years. Total income has grown at a CAGR of 76%; EBITDA at 90% and net profit at 91% over FY06-10 respectively. ORL's consistency can be gauge by its profitability which has been over Rs 250 cr in each of the last 3 Fiscal years with positive cash flows, considering down turn of Real Estate Industry from past 2-3 years. Such a strong performance speaks of the company's capabilities to manage its profits and business during stifling period and presents a sense of security and visibility to shareholders.

Profit & Loss A/c	FY06	FY07	FY08	FY09	FY10	Q1FY11
Income from Projects	79.31	232.48	510.86	351.79	700.30	126.96
Income from Rooms, Rent etc.						6.92
Income from Rent	1.58	2.70	0.34	73.74	83.35	26.02
Non Operating Income	0.07	12.24	47.37	29.48	21.85	5.93
Total Income	**80.96**	**247.42**	**558.56**	**455.02**	**805.50**	**165.83**
Total Exp.	45.19	113.39	253.72	178.14	316.43	75.43
Cost of Construction/ Development	44.61	110.50	248.14	159.61	302.59	66.57
Employee Cost	0.41	1.93	3.29	8.68	6.99	5.03
Administrative Cost	0.17	0.96	2.29	9.86	6.84	3.82
EBIDTA	35.77	134.03	304.84	276.87	489.07	90.40
EBIDTA Margin (%)	**44.2%**	**54.2%**	**54.6%**	**60.8%**	**60.7%**	**54.5%**
Dep	0.18	1.58	1.94	7.27	9.06	4.48
EBIT	35.58	132.45	302.90	269.60	480.01	85.92
Interest	0.00	0.33	0.00	0.36	0.03	0.10
PBT	35.58	132.12	302.90	269.24	479.98	85.82
Tax	0.47	3.38	6.91	17.73	22.62	6.03
Less:- Pre acquisition profit of subsidy	-	50.45				
PAT	35.11	78.29	295.99	251.51	457.36	79.79
Adjustment on account of Restatement				0.63		
Adj. PAT	35.11	78.29	295.99	252.14	457.36	79.79
Adj. NPM (%)	**43.4%**	**31.6%**	**53.0%**	**55.4%**	**56.8%**	**48.1%**
Equity	2.30	2.60	2.60	2.60	288.67	
EPS	152.67	301.01	1,137.99	969.39	15.84	

Balance Sheet	FY06	FY07	FY08	FY09	FY10
Equity	2.30	2.60	2.60	288.67	288.67
Pref. share	-	78.30	78.30	57.10	35.90
Reserve & Surplus	55.41	844.98	1,139.50	1,383.95	1,539.16
Net Worth	57.71	925.88	1,220.40	1,729.72	1,863.73
Total Loan	93.18	314.34	143.54	10.71	-
Secured loan	42.05	214.00	110.10	0.01	-
Unsecured Loan	51.13	100.34	33.44	10.70	-
Total Liabilities	**150.89**	**1,240.21**	**1,363.94**	**1,740.43**	**1,863.73**
Assets					
Gross Block	25.68	40.34	47.69	283.66	325.79
Less:- Acc. Dep	1.33	2.33	3.10	10.08	18.97
Net Block	24.35	38.01	44.60	273.59	306.82
Capital Work in progress	117.70	206.45	391.65	385.06	510.26
Investments	-	-	384.16	14.96	78.98
Current Assets	*97.33*	*1,269.08*	*899.10*	*1,179.35*	*1,651.73*
Inventories	85.04	575.66	549.84	712.22	622.57
Sundry Debtors	3.30	19.75	50.06	27.21	40.38
Cash & Bank	0.04	547.35	46.11	166.91	363.05
Loans & Advances	8.43	125.80	252.57	272.48	624.00
Other Current Assets	0.52	0.52	0.52	0.52	1.73
Current Liabilities & Provision	88.92	273.32	354.83	399.30	684.26
Net Current Assets	8.41	995.75	544.27	780.06	967.47
deferred tax assets (net of Liab)	0.01	0.00	0.71	(0.70)	(0.20)
Total Assets	**150.89**	**1,240.21**	**1,363.94**	**1,454.43**	**1,863.73**