

OBEROI REALTY

REAL ESTATE

BUY

Target Price: Rs 471

Thane deal value-accretive, to diversify portfolio

Oberoi Realty is to buy GSK Pharma's 60 acre land parcel at Thane for Rs 5.5 bn. The deal is in line with company's strategy of continued focus on the Mumbai Metropolitan Region (MMR). Adding a new micro-market to the portfolio will boost sales traction FY19 onwards. While we await further clarity on the transaction, our preliminary analysis suggests the project can add ~Rs 56/ share of value. Our revised TP stands at Rs 471 (vs. Rs 415 earlier). Upgrade to BUY (from HOLD earlier).

The deal: Management highlighted the consideration of Rs 5.5 bn may seem low, but the cost of conversion of land usage from industrial (currently) to residential can push it up at par with the market value (Rs 16-18 bn). The deal will get closed after signing of definitive agreement and receipt of all statutory and regulatory approvals.

CMP : Rs 407
Potential Upside : 16%

MARKET DATA

No. of Shares : 340 mn
Free Float : 28%
Market Cap : Rs 138 bn
52-week High / Low : Rs 436 / Rs 256
Avg. Daily vol. (6mth) : 328,268 shares
Bloomberg Code : OBER IB Equity
Promoters Holding : 72%
FII / DII : 25% / 1%

Key highlights

- Management said it is difficult to ascertain the exact cost of land due to payments for statutory and regulatory approvals for conversion of land usage from industrial to residential. However, it highlighted that after all these payments, the cost can be at par with the market value of the land (Rs 16-18 bn)
- It plans to mainly build residential apartments on the land. It plans some affordable housing units (carpet area of 60 sq.m.) at the location, which will diversify its product portfolio
- Net D/E of 0.1x will enable Oberoi Realty (ORL) fund this acquisition through debt (similar to Borivali land acquisition)
- Presales at its relatively newer projects at Borivali and Mulund have been sluggish. Thus, launch of a greenfield project augurs well for presales traction FY19 onwards
- Our preliminary estimates show that ORL will be able to generate net cash flows of Rs 40-45 bn over next 10 years from this project

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	14,162	11,138	24,012	23,752
Adj PAT (Rs mn)	4,356	3,786	7,418	8,587
EPS (Rs)	12.8	11.2	21.8	25.3
Change YOY (%)	32.9	(13.1)	95.9	15.8
Net Debt (Rs mn)	1,447	4,868	18,922	19,143
Networth (Rs mn)	52,840	56,689	63,413	71,196
RoE (%)	8.8	6.9	12.4	12.8
RoCE (%)	11.0	8.5	14.4	10.6
P/E (x)	31.7	36.5	18.6	16.1
P/B (x)	2.6	2.4	2.2	1.9

Source: Company, Axis Capital

Key drivers (Rs bn)

	Q1'18	Q1'17	YoY	Q4'17	QoQ
Area sold (msf)	0.10	0.15	-34%	0.14	-28%
Avg. realization (Rs)	29,327	27,601	6%	25,513	15%
Sales value (Rs bn)	2.9	4.1	-29%	3.5	-17%
Collections (Rs mn)	1.0	2.4	-57%	4.6	-78%

Price performance

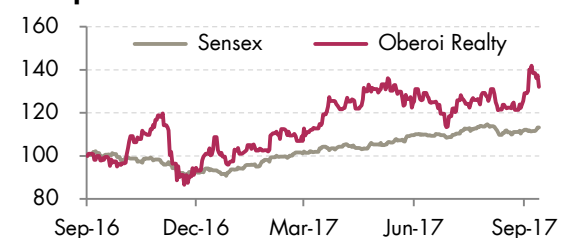


Exhibit 1: Development potential of Thane land

	(Rs mn)
Land area (acres)	60.0
Land area (msf)	2.6
Base FSI (1.0)	2.6
TDR (1.3)	3.4
Additional FSI (0.3)	0.8
Total carpet area (msf)	6.8
Loading (%)	65%
Saleable area (msf)	11.2

Source: Company, Axis Capital

Exhibit 2: Cash flow potential of Thane land

	Cost of FSI	FSI (x)	Area (msf)	Cost	
				Rs mn	Rs psf
Land area (acres)	Cost of land (assuming cost of conversion from industrial to residential will bring it at par with the market rates)		60.0	18,000	
Base FSI		1.0	2.6	18,000	1,605
TDR	As per market rate	1.3	3.4	16,988	1,515
Additional FSI	60% of ready reckoner rates for land	0.3	0.8	4,234	378
Total FSI		2.6	6.8		
Loading (%)			65%		
Saleable area			11.21		
Construction cost	As per market rate/ product			56,062	5,000
Total cost				95,284	8,498
Sales potential	Expected avg. selling price of Rs 16,000 psf over the life of the project			179,398	16,000
Gross profit				84,113	7,502
Gross margin (%)				47%	47%
Overheads	10% of sales			17,940	1,600
Interest cost	Assumed land funded by 80% debt @ 9.5%			3,990	356
Project lifecycle (no of years)				10	10
PBT				62,184	5,546
PBT margin (%)				35%	35%
Taxes	Tax rate of 34%			21,142	1,886
Net profit				41,041	3,660
Net margin (%)				23%	23%

Source: Company, Axis Capital

While we await further clarity on the transaction, our preliminary analysis suggests that this project can add ~Rs 56/ sh of value.

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	14,162	11,138	24,012	23,752
Other operating income	-	-	-	-
Total operating income	14,162	11,138	24,012	23,752
Cost of goods sold	(6,867)	(5,013)	(12,179)	(13,190)
Gross profit	7,294	6,124	11,833	10,562
<i>Gross margin (%)</i>	<i>51.5</i>	<i>55.0</i>	<i>49.3</i>	<i>44.5</i>
Total operating expenses	(531)	(423)	(445)	(489)
EBITDA	6,763	5,701	11,389	10,073
<i>EBITDA margin (%)</i>	<i>47.8</i>	<i>51.2</i>	<i>47.4</i>	<i>42.4</i>
Depreciation	(490)	(495)	(522)	(533)
EBIT	6,273	5,206	10,866	9,540
Net interest	(68)	(56)	(106)	(425)
Other income	428	473	480	480
Profit before tax	6,632	5,623	11,240	9,594
Total taxation	(2,293)	(1,869)	(3,822)	(3,262)
<i>Tax rate (%)</i>	<i>34.6</i>	<i>33.2</i>	<i>34.0</i>	<i>34.0</i>
Profit after tax	4,340	3,755	7,418	6,332
Minorities	-	-	-	-
Profit/ Loss associate co(s)	16	31	-	2,255
Adjusted net profit	4,356	3,786	7,418	8,587
<i>Adj. PAT margin (%)</i>	<i>30.8</i>	<i>34.0</i>	<i>30.9</i>	<i>36.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	4,356	3,786	7,418	8,587

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	3,393	3,395	3,395	3,395
Reserves & surplus	49,447	53,293	60,017	67,801
Net worth	52,840	56,689	63,413	71,196
Borrowing	4,565	8,385	22,385	22,385
Other non-current liabilities	(673)	(377)	(370)	(362)
Total liabilities	57,303	65,268	85,999	93,790
Gross fixed assets	11,855	12,030	12,270	12,516
Less: Depreciation	(2,085)	(2,580)	(3,103)	(3,635)
Net fixed assets	9,770	9,450	9,168	8,880
Add: Capital WIP	488	1,095	1,095	1,095
Total fixed assets	10,258	10,545	10,263	9,975
Total Investment	14,511	18,243	18,243	18,243
Inventory	33,392	37,664	35,781	33,991
Debtors	1,122	1,058	2,001	1,979
Cash & bank	3,119	3,517	3,463	3,242
Loans & advances	691	1,337	19,538	22,468
Current liabilities	16,314	18,098	12,861	5,680
Net current assets	31,134	35,049	57,493	65,572
Other non-current assets	1,401	1,431	-	-
Total assets	57,303	65,268	85,999	93,790

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	6,632	5,623	11,240	9,594
Depreciation & Amortisation	490	495	522	533
<i>Chg in working capital</i>	<i>(43)</i>	<i>(3,517)</i>	<i>(22,498)</i>	<i>(8,300)</i>
Cash flow from operations	3,392	864	(14,451)	1,246
<i>Capital expenditure</i>	<i>(382)</i>	<i>(782)</i>	<i>(241)</i>	<i>(245)</i>
Cash flow from investing	(1,420)	(4,292)	1,198	(238)
<i>Equity raised/ (repaid)</i>	<i>3,120</i>	<i>417</i>	-	-
<i>Debt raised/ (repaid)</i>	<i>(4,450)</i>	<i>3,820</i>	<i>14,000</i>	-
<i>Dividend paid</i>	<i>(408)</i>	<i>(354)</i>	<i>(694)</i>	<i>(804)</i>
Cash flow from financing	(1,806)	3,826	13,199	(1,229)
Net chg in cash	166	398	(54)	(221)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	12.8	11.2	21.8	25.3
CEPS (Rs)	14.3	12.6	23.4	26.9
DPS (Rs)	1.0	0.9	1.7	2.0
Dividend payout ratio (%)	8.0	8.0	8.0	8.0
GROWTH				
Net sales (%)	53.5	(21.4)	115.6	(1.1)
EBITDA (%)	31.6	(15.7)	99.8	(11.6)
Adj net profit (%)	37.3	(13.1)	95.9	15.8
FDEPS (%)	32.9	(13.1)	95.9	15.8
PERFORMANCE				
RoE (%)	8.8	6.9	12.4	12.8
RoCE (%)	11.0	8.5	14.4	10.6
EFFICIENCY				
Asset turnover (x)	0.3	0.2	0.3	0.3
Sales/ total assets (x)	0.2	0.1	0.3	0.2
Working capital/ sales (x)	2.0	2.7	1.8	2.4
Current ratio (x)				
	2.9	2.9	5.5	12.5
Interest cover (x)				
	91.8	93.5	102.2	22.4
VALUATION				
PE (x)	31.7	36.5	18.6	16.1
EV/ Net sales (x)				
	9.9	12.9	6.5	6.6
PB (x)				
	2.6	2.4	2.2	1.9
Dividend yield (%)				
	0.3	0.2	0.4	0.5
Free cash flow yield (%)				
	2.2	0.1	(10.6)	0.7

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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