



INDEPENDENT **EQUITY** **RESEARCH**

Omaxe Ltd

Q2FY12 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade). The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals). The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Omaxe Ltd

Rising input cost and interest burden lowers profitability

Fundamental Grade 2/5 (Moderate fundamentals)
Valuation Grade 2/5 (CMP has downside)

Industry Real Estate Management & Development

Omaxe Ltd's Q2FY12 consolidated revenues were broadly in line but PAT was below CRISIL Research's expectations. Rising input costs and higher interest burden impacted profitability. Although Omaxe has a strong project pipeline and brand recall in the North Indian market, after considering the high interest rate environment, subdued demand outlook and Omaxe's high debt repayment obligations, we maintain the fundamental grade of **2/5**.

Q2FY12 result analysis

- Consolidated revenues grew by 28.1% y-o-y and 38.0% q-o-q to Rs 4.5 bn, driven by faster execution of the ongoing projects. Omaxe Grand Woods, Noida, Omaxe City, Bhiwadi and Omaxe Connaught Place, Greater Noida were some of the major projects which have contributed to this quarter's revenue.
- EBITDA margin contracted by 867 bps y-o-y and 356 bps q-o-q to 13.8% due to rising input costs and lower realisation in incremental bookings. Omaxe sold 2.25 mn sq.ft. of new space in Q2FY12 at an average realisation of Rs 2,016 per sq.ft. registering a mere ~1% q-o-q growth.
- PAT fell by 25.7% y-o-y (up 36.3% q-o-q) to Rs 273 mn driven by the decline in EBITDA margin and higher interest cost. However, lower provisioning of taxes offset the impact of the sharp fall in EBITDA margin on overall profitability.

Earnings estimates revised downwards

We continue to maintain our revenue estimates given Omaxe's exposure to tier II and III cities where the demand for plots and independent floors remain healthy. However, as the rise in input costs and high interest rates continue to impact the margins of developers, we have reduced our earnings estimates by factoring in lower margins. Accordingly, we have reduced our EBITDA margin estimates by 500 bps for FY12 to 14.9% and by 470 bps for FY13 to 15.7%. Consequently, we have lowered our EPS estimate by 34.5% to Rs 6.1 for FY12 and 31.4% to Rs 9.6 for FY13.

Valuations: Current market price has downside

We continue to use the sum-of-the parts method (net asset value method for the real estate business and price-to-earnings multiple for the construction business) to value Omaxe. Due to downward revision in earnings, we have revised our fair value by ~14% to Rs 125 per share.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	8,789	10,046	15,284	17,974	22,239
EBITDA	1,553	2,015	2,197	2,682	3,495
Adj PAT	444	902	888	1,063	1,658
Adj EPS-Rs	2.6	5.2	5.1	6.1	9.6
EPS growth (%)	(91.0)	103.4	(1.6)	19.7	56.0
Dividend yield (%)	-	-	-	-	-
RoCE (%)	4.2	5.7	6.4	8.0	9.7
RoE (%)	3.1	5.9	5.4	6.1	8.7
PE (x)	55.1	27.1	27.5	23.0	14.7
P/BV (x)	1.7	1.5	1.5	1.3	1.2
EV/EBITDA (x)	27.7	20.2	17.5	14.0	11.8

NM: Not meaningful; CMP: Current market price

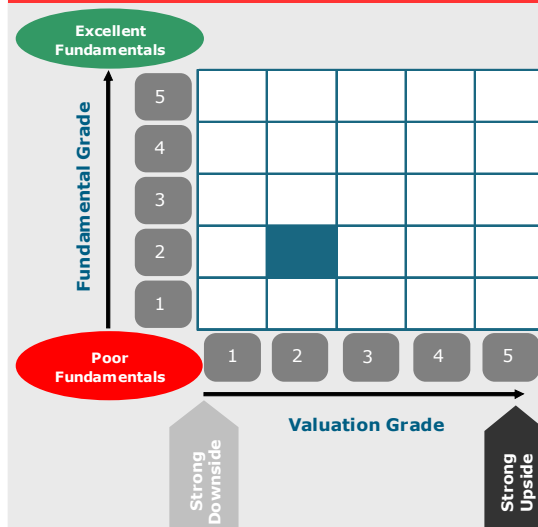
Source: Company, CRISIL Research estimate

November 29, 2011

Fair Value Rs 125

CMP Rs 141

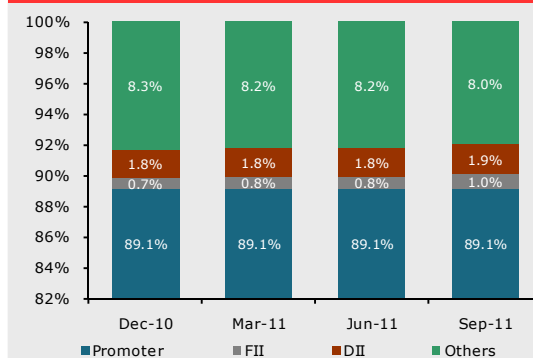
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	4851/16167
NSE / BSE ticker	OMAXE
Face value (Rs per share)	10
Shares outstanding (mn)	174
Market cap (Rs mn)/(US\$ mn)	24,438/471
Enterprise value (Rs mn)/(US\$ mn)	38,458/740
52-week range (Rs) (H/L)	153/116
Beta	1.6
Free float (%)	10.9%
Avg daily volumes (30-days)	155,863
Avg daily value (30-days) (Rs mn)	23

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Omaxe	-4%	12%	10%	3%
NIFTY	-10%	2%	-11%	-16%

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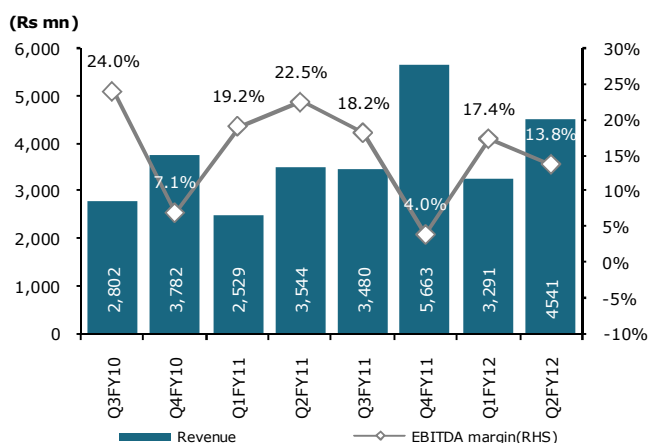
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Q2FY12 Result Summary

(Rs mn)	Q2FY12	Q1FY12	Q2FY11	q-o-q (%)	y-o-y (%)	H1FY12	H1FY11	y-o-y (%)
Net sales	4,541	3,291	3,544	38.0	28.1	7,832	6,073	29.0
Raw materials cost	3,636	2,465	2,525	47.5	44.0	6,101	4,373	39.5
Raw materials cost (% of net sales)	80.1%	74.9%	71.3%	515bps	881bps	77.9%	72.0%	590bps
Employees cost	144	124	97	16.0	48.0	268	185	45.1
Other expenses	133	129	124	3.1	7.4	262	233	12.1
EBITDA	629	573	798	9.8	(21.2)	1,201	1,283	(6.3)
EBITDA margin	13.8%	17.4%	22.5%	-356bps	-867bps	15.3%	21.1%	-578bps
Depreciation	14	12	11	17.9	21.1	26	22	17.0
EBIT	615	561	786	9.6	(21.8)	1,176	1,261	(6.7)
Interest and finance charges	328	311	289	5.3	13.3	639	505	26.5
Operating PBT	287	249	497	15.0	(42.3)	536	755	(29.0)
Other Income	84	48	39	75.0	114.3	132	74	77.1
PBT	371	297	536	24.7	(30.9)	668	830	(19.5)
Tax	98	97	169	0.6	(42.1)	195	245	(20.5)
PAT	273	200	367	36.3	(25.7)	473	585	(19.0)
Adj PAT	273	200	367	36.3	(25.7)	473	585	(19.0)
Adj PAT margin	6.0%	6.1%	10.4%	-7bps	-436bps	6.0%	9.6%	-358bps
No of equity shares (mn)	173.6	173.6	173.6	-	-	173.6	173.6	-
Adj EPS (Rs)	1.6	1.2	2.1	36.3	(25.7)	2.7	3.4	(19.0)

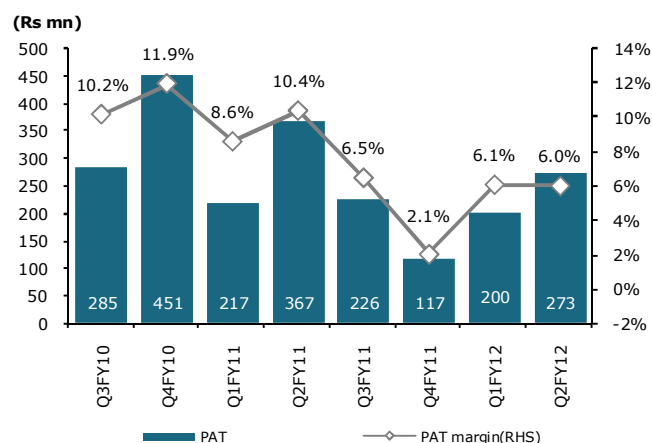
Source: Company, CRISIL Research

High input costs hurt margins...



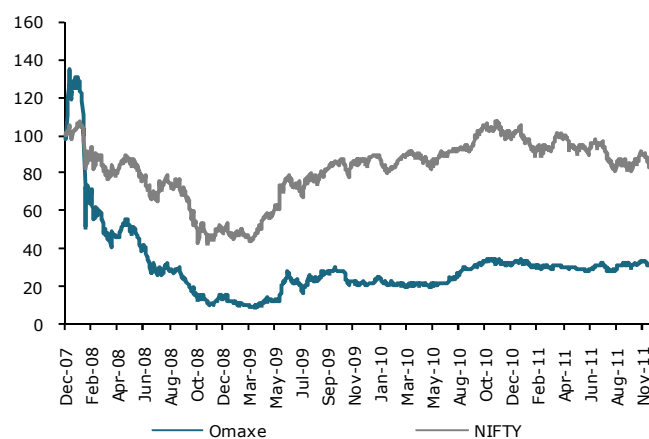
Source: Company, CRISIL Research

... leading to fall in profitability



Source: Company, CRISIL Research

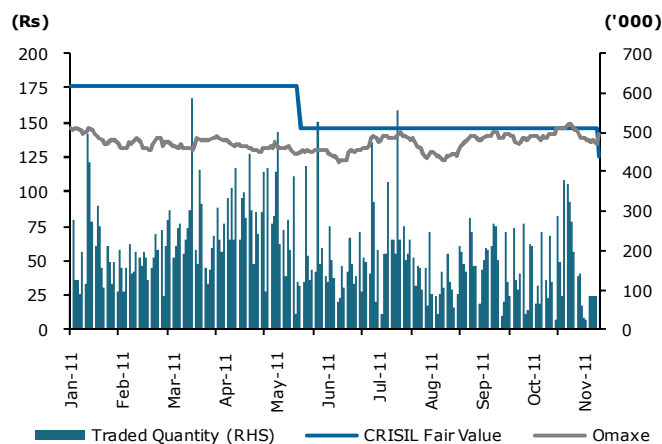
Share price movement



-indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

KEY DEVELOPMENTS

- Omaxe sold 2.25 mn sq.ft. of new space in Q2FY12 at an average realisation of Rs 2,016 per sq.ft. registering a flat growth of ~1% q-o-q. Plot sale during the quarter contributed ~54% to new bookings.
- Going forward, the management has indicated that due to weak demand in metros and tier I cities for group housing projects, the company will continue to focus on the sale of plots and independent floors in tier II and III cities. Plots and independent floors are low ticket projects and are faster to execute. This will help the company to improve its liquidity.
- As on September 30, 2011, 43.9 mn sq.ft. of the company's total outstanding project pipeline of 113.3 mn sq.ft. has been booked. During the reported quarter, the company launched three new independent floor projects, one each in Jaipur, Ludhiana and Chandigarh, totalling ~1.4 mn sq.ft. of saleable area.
- During the quarter, it repaid Rs 2.1 bn debt but also took a fresh loan of Rs 1.7 bn. Total outstanding debt as on September 30, 2011 is Rs 14.4 bn of which Rs 2.4 bn is scheduled for repayment in H2FY12 and Rs 4.8 bn is to be repaid in FY13. The net gearing of the company has reduced to 0.7x compared to 0.9x as on September 30, 2011.
- The current order book of the infrastructure business is Rs 13.7 bn of which 34% has been recognised as revenues up to Q2FY12.

EARNINGS ESTIMATES REVISED DOWNWARDS

Particulars	Unit	FY12E			FY13E		
		Old	New	% change	Old	New	% change
Revenues	(Rs mn)	17,974	17,974	0.0%	22,239	22,239	0.0%
EBITDA	(Rs mn)	3,484	2,682	-23.0%	4,532	3,495	-22.9%
EBITDA margin	%	19.4	14.9	-500bps	20.4	15.7	-470bps
PAT	(Rs mn)	1,624	1,063	-34.5%	2,418	1,658	-31.4%
PAT margin	%	9.0	5.9	-310bps	10.9	7.5	-340bps
EPS	Rs	9.4	6.1	-34.5%	13.9	9.6	-31.4%

Source: CRISIL Research estimate

We continue to maintain our revenue estimates given Omaxe's exposure to tier II and III cities where the demand for plots and independent floors continue to remain healthy. However, since the rise in input costs and high interest rates continue to impact the margins of developers, we have reduced our earnings estimates by factoring in lower margins. Accordingly, we have reduced our EBITDA margin estimates by 500 bps for FY12 to 14.9% and 470 bps for FY13 to 15.7%. Consequently, we have lowered our EPS estimate by 34.5% to Rs 6.1 for FY12 and 31.4% to Rs 9.6 for FY13.

VALUATION

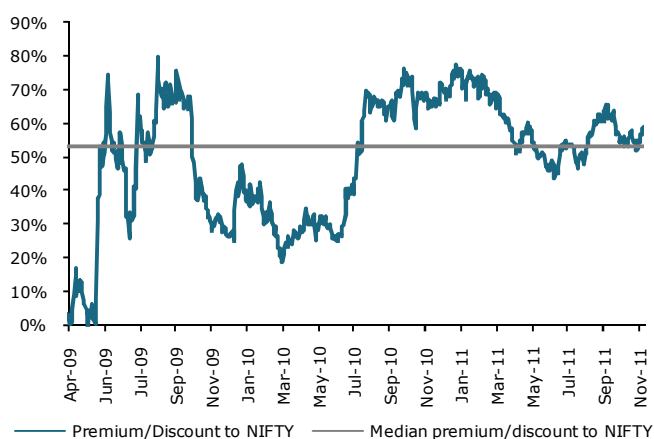
We continue to use the sum-of-the parts method to value Omaxe. However, after factoring in the impact of rising construction costs and high interest rate environment on earnings, we have consequently lowered our fair value by ~14% to Rs 125 per share. Based on the current market price, we assign a valuation grade of **2/5**.

One-year forward P/E band



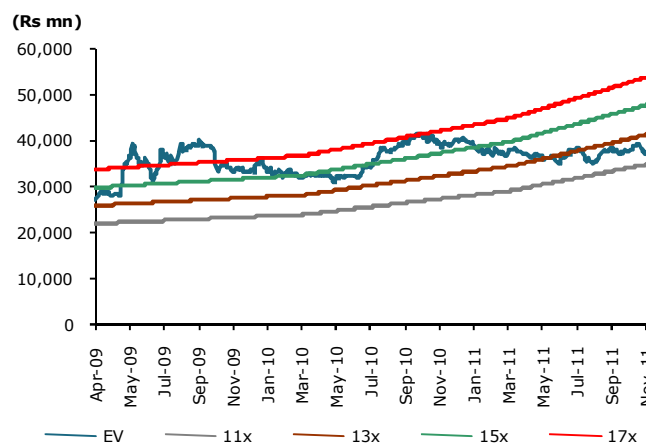
Source: NSE, CRISIL Research

P/E – premium/discount to NIFTY



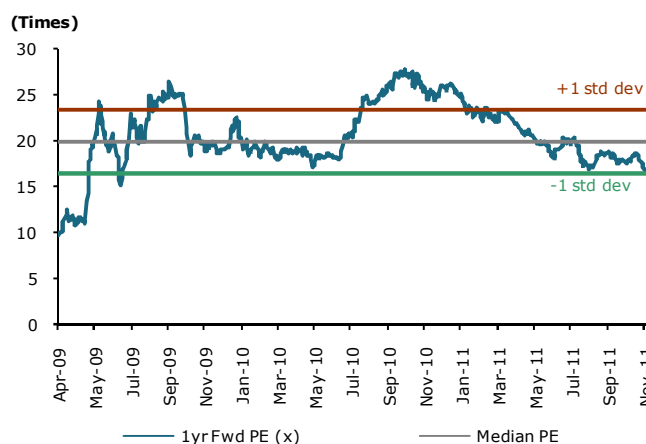
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Omaxe Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
10-Jan-11	Initiating coverage*	2/5	Rs 176	4/5	Rs 146
16-Feb-11	Q3FY11 result update	2/5	Rs 176	5/5	Rs 135
06-Jun-11	Q4FY11 result update	2/5	Rs 146	4/5	Rs 130
11-Aug-11	Q1FY12 result update	2/5	Rs 146	4/5	Rs 128
29-Nov-11	Q2FY12 result update	2/5	Rs 125	2/5	Rs 141

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	8,789	10,046	15,284	17,974	22,239
EBITDA	1,553	2,015	2,197	2,682	3,495
EBITDA margin	17.7%	20.1%	14.4%	14.9%	15.7%
Depreciation	64	61	74	81	109
EBIT	1,489	1,954	2,123	2,600	3,386
Interest	1,084	1,021	1,030	1,075	963
Operating PBT	405	933	1,093	1,525	2,422
Other income	97	101	129	64	46
Exceptional inc/(exp)	30	223	39	-	-
PBT	532	1,258	1,261	1,588	2,468
Tax provision	58	132	334	526	810
Minority interest	-	-	-	-	-
PAT (Reported)	474	1,125	927	1,063	1,658
Less: Exceptionals	30	223	39	-	-
Adjusted PAT	444	902	888	1,063	1,658

Ratios

	FY09	FY10	FY11	FY12E	FY13E
Growth					
Operating income (%)	(61.6)	14.3	52.1	17.6	23.7
EBITDA (%)	(76.5)	29.7	9.0	22.1	30.3
Adj PAT (%)	(91.0)	103.4	(1.6)	19.7	56.0
Adj EPS (%)	(91.0)	103.4	(1.6)	19.7	56.0
Profitability					
EBITDA margin (%)	17.7	20.1	14.4	14.9	15.7
Adj PAT Margin (%)	5.0	9.0	5.8	5.9	7.5
RoE (%)	3.1	5.9	5.4	6.1	8.7
RoCE (%)	4.2	5.7	6.4	8.0	9.7
RoIC (%)	4.9	6.2	6.5	7.1	7.9
Valuations					
Price-earnings (x)	55.1	27.1	27.5	23.0	14.7
Price-book (x)	1.7	1.5	1.5	1.3	1.2
EV/EBITDA (x)	27.7	20.2	17.5	14.0	11.8
EV/Sales (x)	5.4	4.1	2.5	2.1	1.9
Dividend payout ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
B/S ratios					
Inventory days	1,665	1,563	1,009	839	796
Creditors days	322	389	352	298	264
Debtor days	30	45	86	32	27
Working capital days	1,320	1,156	727	608	538
Gross asset turnover (x)	16.4	19.0	23.9	22.2	21.3
Net asset turnover (x)	26.0	35.4	42.5	40.2	40.4
Sales/operating assets (x)	26.0	35.3	41.5	39.5	40.4
Current ratio (x)	5.8	4.6	3.5	3.4	3.5
Debt-equity (x)	1.4	1.1	1.0	0.8	0.9
Net debt/equity (x)	1.3	1.0	0.8	0.7	0.9
Interest coverage	1.4	1.9	2.1	2.4	3.5

Per share

	FY09	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	2.6	5.2	5.1	6.1	9.6
CEPS	2.9	5.5	5.5	6.6	10.2
Book value	85.2	91.2	96.7	104.8	114.3
Dividend (Rs)	-	-	-	-	-
Actual o/s shares (mn)	173.6	173.6	173.6	173.6	173.6

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity share capital	1,736	1,736	1,736	1,736	1,736
Reserves	13,045	14,085	15,044	16,446	18,102
Minorities	-	-	-	-	-
Net worth	14,781	15,821	16,780	18,182	19,838
Convertible debt	-	-	-	-	-
Other debt	20,040	18,094	15,965	14,032	17,465
Total debt	20,040	18,094	15,965	14,032	17,465
Deferred tax liability (net)	(102)	(112)	(68)	(104)	(105)
Total liabilities	34,719	33,802	32,677	32,109	37,198
Assets					
Net fixed assets	276	291	427	467	635
Capital WIP	-	2	17	-	-
Total fixed assets	276	294	444	467	635
Investments	105	105	105	105	105
Current assets					
Inventory	30,869	32,143	33,221	33,887	39,652
Sundry debtors	656	1,244	3,586	1,590	1,622
Loans and advances	7,956	7,012	5,745	7,663	8,416
Cash & bank balance	1,403	1,757	1,946	893	596
Marketable securities	-	1	1	-	-
Total current assets	40,884	42,157	44,499	44,034	50,286
Total current liabilities	7,026	9,230	12,861	12,980	14,311
Net current assets	33,859	32,926	31,638	31,053	35,975
Intangibles/Misc. expenditure	478	477	490	484	484
Total assets	34,719	33,802	32,677	32,109	37,198

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	502	1,034	1,222	1,588	2,468
Total tax paid	(35)	(142)	(289)	(562)	(811)
Depreciation	64	61	74	81	109
Working capital changes	(1,325)	1,287	1,477	(469)	(5,218)
Net cash from operations	(794)	2,239	2,483	639	(3,452)
Cash from investments					
Capital expenditure	105	(77)	(237)	(98)	(277)
Investments and others	904	(0)	1	(0)	-
Net cash from investments	1,009	(77)	(237)	(98)	(277)
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2,268)	(1,946)	(2,129)	(1,934)	3,434
Dividend (incl. tax)	-	-	-	-	-
Others (incl extraordinary)	190	138	71	340	(2)
Net cash from financing	(2,078)	(1,808)	(2,058)	(1,594)	3,432
Change in cash position	(1,863)	354	189	(1,053)	(297)
Closing cash	1,403	1,757	1,946	893	596

Quarterly financials

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Sales	3,544	3,480	5,663	3,291	4,541
Change (q-o-q)	40%	-2%	63%	-42%	38%
EBITDA	798	635	228	573	629
Change (q-o-q)	65%	-20%	-64%	151%	10%
EBITDA margin	22.5%	18.2%	4.0%	17.4%	13.8%
PAT	367	226	117	200	273
Adj PAT	367	226	117	200	273
Change (q-o-q)	69%	-39%	-48%	72%	36%
Adj PAT margin	10.4%	6.5%	2.1%	6.1%	6.0%
Adj EPS	2.1	1.3	0.7	1.2	1.6

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Research estimate

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