

India Property

Retail FDI- Marginally positive. Relaxation in single brand criteria maybe more helpful than allowance of multi brand

Retail mall development in India over the last 5 years has oscillated from euphoria to pessimism to now a more measured optimism. The transition has changed the business model (towards more revenue share), constrained financing given heavy capex, long gestation, lower visibility, thus shaking up the industry so much so that only a few handful RE developers are currently executing large format retail stores. These then should be the ones to benefit if the new proposed regulation esp. on relaxation in single brand FDI comes. Amongst the listed players we identify below 4 cos which should benefit at the margin, given this notification.

- **DLF** has plans to develop India's largest mall in Gurgaon of 3-4 msf but had suspended this given low visibility on demand for such a large space. Co had indicated that they will look to restart this project if retail FDI notification came in. We note that the state government of Haryana has already welcomed this regulation which bodes well for this mega project. Currently the co is developing a large format mall in Noida of ~1.8 msf (Delivery in 2H13). Construction of Gurgaon mall in our view should be a significant booster for the rentco (FY13 Rs 20B annuities). The rentco, in our view, even at current subdued levels, grows by 15% based on 5% inflation and 10% volume growth.
- **Prestige** is currently developing 5 malls (3.3 msf) in Bangalore/ Mysore/ Chennai and Hyderabad. It could potentially accelerate plans for other developments since equity funding via CAPL JV is already in place. Given a significant portion of company's upcoming portfolio of annuity assets is pre-leased we remain reasonably comfortable in believing company's guidance of increasing rents to Rs 5-5.5B in the next 3 years from Rs 2B currently.
- **Unitech** has the largest pipeline of small format malls (~12) which it is developing in various locations mostly in Tier 2 cities. UT had restarted its mall development in 2010/11 but given funding issues last year it was going slow. However, in an environment of improved pre leasing, some of its tier 2 city mall projects should get a fillip. Unlike peers, we note that UT normally leases and sells its retail development projects
- **Phoenix** has a delivered portfolio of 5 retail malls all of which are significantly (>70%) pre-leased and hence not contingent on FDI notification. As co's portfolio of retail malls/hotels stabilize over a 1 year period, we think co is well placed to increase its share of rent by 2x and also reduce debt given success in pre-sales of its residential portfolio.

Real Estate

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Table 1: Retail rents of key players

	Retail Rent (Rs B)	Project rent in 2 years
DLF	2.5	4.3
Phoenix	1.9	3.5
Prestige	0.5	1.5
Unitech	0.6	*sale model

Source: Company reports and J.P. Morgan estimates.

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 DLF Limited (DLF.BO/Rs216.60/Neutral), Phoenix Mills (PHOE.BO/Rs179.95/Overweight), Prestige Estate Projects Limited (PREG.BO/Rs117.65/Overweight), Unitech Ltd (UNTE.BO/Rs21.30/Overweight)

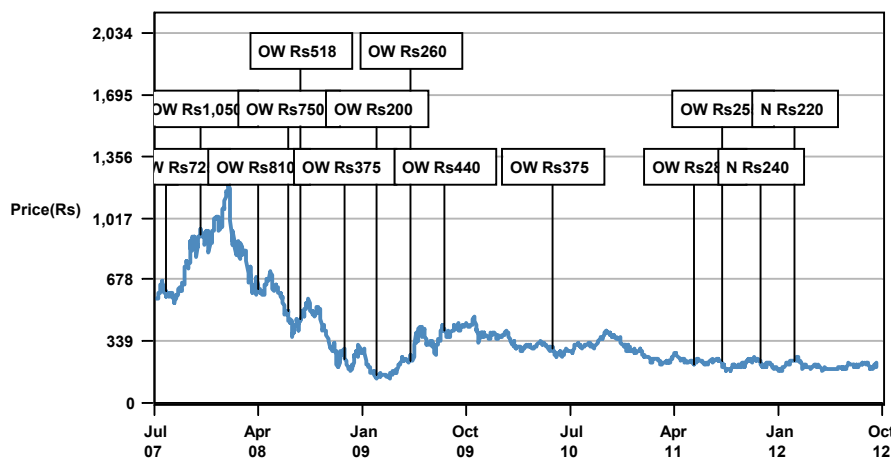
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DLF Limited (DLF.BO, DLFU IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
01-Aug-07	OW	611.70	725.00
01-Nov-07	OW	927.95	1050.00
01-Apr-08	OW	627.00	810.00
18-Jun-08	OW	505.90	750.00
21-Jul-08	OW	457.05	518.00
12-Nov-08	OW	244.60	375.00
03-Feb-09	OW	153.20	200.00
04-May-09	OW	230.90	260.00
03-Aug-09	OW	396.15	440.00
16-May-10	OW	298.55	375.00
26-May-11	OW	210.05	280.00
03-Aug-11	OW	227.80	255.00
13-Nov-11	N	223.40	240.00
12-Feb-12	N	230.90	220.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 01, 2007.

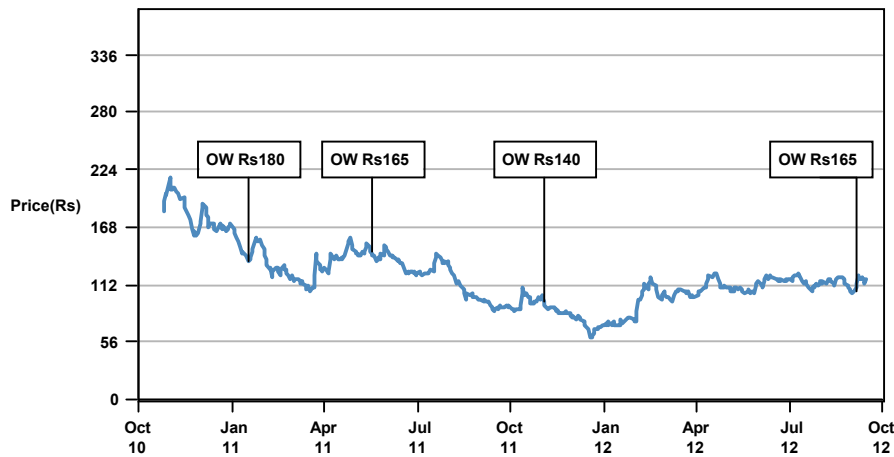
Phoenix Mills (PHOE.BO, PHNX IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Nov-10	OW	206.10	280.00
29-Jun-11	OW	192.00	260.00
15-Nov-11	OW	207.70	250.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Nov 30, 2010.

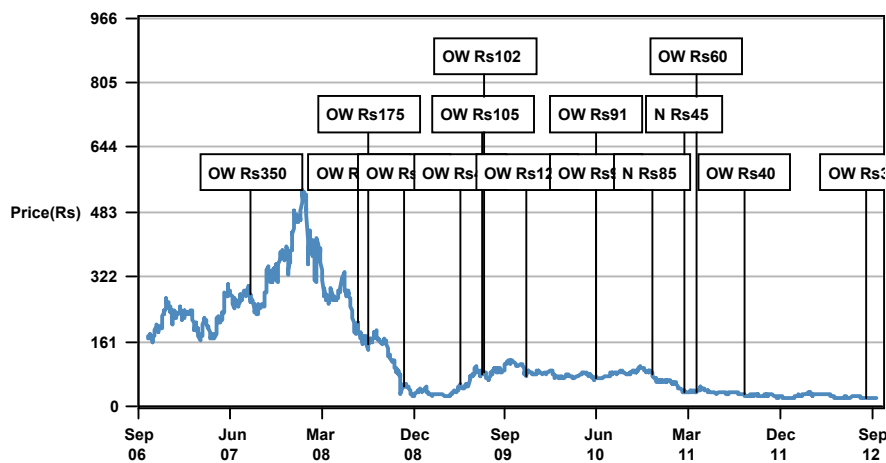
Prestige Estate Projects Limited (PREG.BO, PEPL IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
17-Jan-11	OW	135.35	180.00
18-May-11	OW	143.45	165.00
03-Nov-11	OW	95.70	140.00
04-Sep-12	OW	105.90	165.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jan 17, 2011.

Unitech Ltd (UNTE.BO, UT IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
01-Aug-07	OW	279.42	350.00
18-Jun-08	OW	207.10	330.00
21-Jul-08	OW	152.60	175.00
02-Nov-08	OW	49.00	75.00
17-Apr-09	OW	52.60	48.00
25-Jun-09	OW	78.00	105.00
28-Jun-09	OW	85.30	102.00
01-Nov-09	OW	74.70	120.00
30-May-10	OW	73.50	96.00
01-Jun-10	OW	69.00	91.00
15-Nov-10	N	79.45	85.00
15-Feb-11	N	34.95	45.00
23-Mar-11	OW	36.95	60.00
14-Aug-11	OW	27.75	40.00
15-Aug-12	OW	21.30	33.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 01, 2007.

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