May 25, 2009

ICICI Securities

India Update

Market data as on May 22, 2009

INDICES

		% chg (DoD)
BSE Sensex	13887	1.10
S&P CNX Nifty	4239	0.66
BSE 100	7242	1.15
BSE 200	1684	1.12

OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	8277	(0.18)
Nasdaq Comp.	1692	(0.19)
S&P 500	887	(0.15)
Hang Seng	16925	(0.81)
Nikkei	9331	1.14

ADVANCES/DECLINES (BSE)

Group	A	B	S
Advances	121	1286	330
Declines	78	363	86
Unchanged	0	33	6

FII TURNOVER (BSE+NSE)* (Rs mn)

Bought	Sold	Net
38,960	37,500	1,470

NEW HIGHS AND LOWS (BSE)

Group	A	B	S
High	8	23	7
Low	0	14	1

CURRENCY

US$1 = Rs47.19

* FII turnover (BSE + NSE) as on May 21, 2009

Contents

Highlights

Sector/event	Impact
FMCG: **ITC** – Q4FY09 results review	ITC's cigarette business continued the good show, with net Cigarette sales increasing 16.3% YoY to Rs20.1bn. This reflects strong resilience of the Indian cigarette industry in general and ITC in particular, whereby volumes recovered, despite withdrawal of the non-filter segment contributing to 20% Cigarette volumes. Cigarettes EBIT margin increased a whopping 310bps YoY resulting in Cigarettes EBIT rising 24.3% YoY to Rs10.8bn. In line with our expectations, with aggressive marketing spends on the Personal Products portfolio continuing, the non-cigarette FMCG business reported loss of Rs1.17bn in Q4FY09. The ongoing economic slowdown led to EBIT of the hotels segment declining 50% YoY. Dismal performance in these two segments negated the strong performance in the agri segment (43.4% YoY increase in EBIT) and improved performance of the paper segment (23.8% YoY increase in EBIT). Overall, operating profit increased 12.6% YoY to Rs13bn and recurring net profit rose 10% YoY to Rs8.1bn in Q4FY09. We expect losses in Other FMCG to decrease Q1FY10E onwards and the hotels business to improve by H2FY10E. Notably, given a normal tax regime (excise increase of 0-8%), the cigarettes business is likely to boost the company's bottomline growth ~20% in FY10E. Maintain BUY with 12-month fair value of Rs210/share.

News Snippets

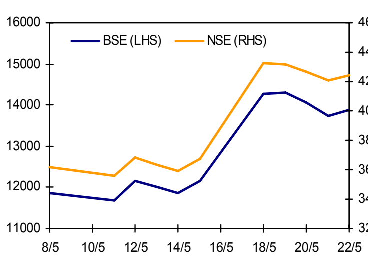
Sectoral

- The new UPA government plans capping profits of crude oil producers such as ONGC, Oil India, Reliance Industries and Cairn India as part of a transparent and sustainable subsidy-sharing system for the sector. (The Economic Times)

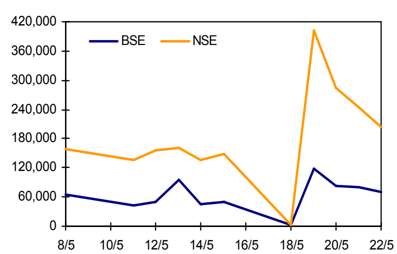
Corporate

- Malvinder Singh stepped down as chairman & CEO of Ranbaxy Laboratories, paving way for Daiichi Sankyo to take complete control. A senior Daiichi Sankyo executive, Tsutomu Une, was appointed Ranbaxy chairman, and the company's COO Atul Sobti was named MD for a three-year term. (The Economic Times)
- Reliance Infrastructure has announced selling 42.9mn convertible warrants to its promoters, Reliance-Anil Dhirubhai Ambani Group, for Rs42.9bn. (The Economic Times)

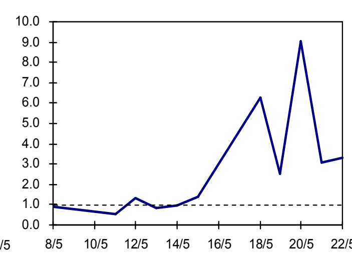
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



ICICI Securities Limited, ICICI Centre, H.T. Parekh Marg, Churchgate, Mumbai – 400 020, India.
Phone: +91 22 2288 2460/70 **Fax**: +91 22 2288 2448
ICICI Securities Inc, 461 Fifth Avenue, 16th Floor, New York, NY 10017.
Phone: +1 212 921 2344 / +1 212 453 6704 **Fax**: +1 212 453 6710

ITC (Buy) FMCG

Q4FY09 RESULTS REVIEW

Improved performance **Rs184**

Sanjay Singh (+91 22 6637 7386) sanjay_singh@isecltd.com
Sunil Teluja (+91 22 6637 7312) sunil_teluja@isecltd.com

ITC's cigarette business continued the good show, with net Cigarette sales increasing 16.3% YoY to Rs20.1bn. This reflects strong resilience of the Indian cigarette industry in general and ITC in particular, whereby volumes recovered, despite withdrawal of the non-filter segment contributing to 20% Cigarette volumes. Cigarettes EBIT margin increased a whopping 310bps YoY resulting in Cigarettes EBIT rising 24.3% YoY to Rs10.8bn. In line with our expectations, with aggressive marketing spends on the Personal Products portfolio continuing, the non-cigarette FMCG business reported loss of Rs1.17bn in Q4FY09. The ongoing economic slowdown led to EBIT of the hotels segment declining 50% YoY. Dismal performance in these two segments negated the strong performance in the agri segment (43.4% YoY increase in EBIT) and improved performance of the paper segment (23.8% YoY increase in EBIT). Overall, operating profit increased 12.6% YoY to Rs13bn and recurring net profit rose 10% YoY to Rs8.1bn in Q4FY09. We expect losses in Other FMCG to decrease Q1FY10E onwards and the hotels business to improve by H2FY10E. Notably, given a normal tax regime (excise increase of 0-8%), the cigarettes business is likely to boost the company's bottomline growth ~20% in FY10E. Maintain BUY with 12-month fair value of Rs210/share.

Table 1: Valuation summary

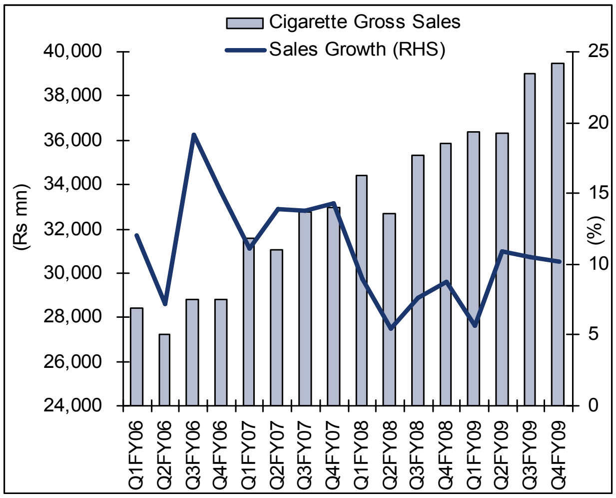
		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (22/5/09) (Rs)	184	2007	7.1	25.8	17.6	BSE Sensex	13887
52 wk Range (Rs)	231/132	2008	8.2	22.3	15.3	M.Cap (Rs bn)	692.2
DPS FY10E (Rs)	5.2	2009E	8.7	21.2	12.8	M.Cap (US$ bn)	14.4
Dividend yield (%)	2.8	2010E	10.4	17.7	10.6	Shares Out (mn)	3774
Face value (Rs)	1.0	2011E	12.2	15.0	9.1	Float (%)	100

Source: Company data, I-Sec Research

Cigarettes – Spectacular performance; unprecedented buoyancy in Indian cigarette industry. Cigarettes volumes declined 3.5% YoY but net sales grew 16.3% YoY to Rs20.1bn. The difference in value growth vis-à-vis volume growth is mainly owing to uptrading to a complete filter portfolio and increase in realisation. This robust sales growth reflects strong resilience of the Indian cigarette industry in general and ITC in particular, whereby volumes recovered, despite withdrawal of the non-filter segment contributing to 20% Cigarette volumes. This momentum was also witnessed in FY08 when, in spite of 22% increase in prices (due to 35% rise in incidence of tax in FY08), volumes declined only 0.7%. In the modest tax regime during FY04-07, Cigarettes witnessed volume CAGR of 7.4% (filter cigarettes saw 10% volume CAGR through FY04-07). Going forward, with expected improvement in the tax regime (excise increase of 5-10%), we expect volume growth of ~5%.

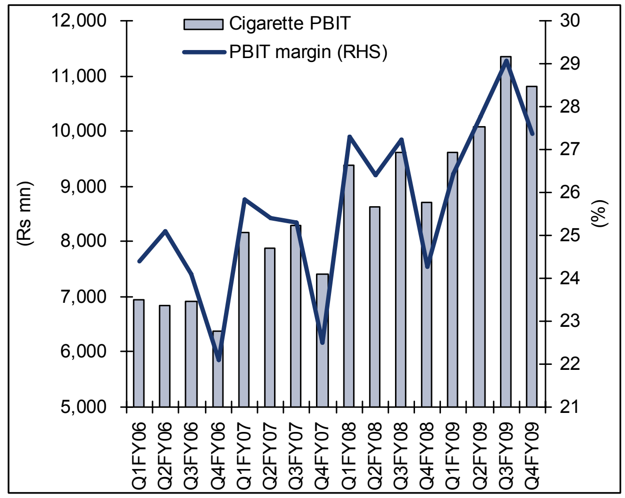
Cigarette EBIT margin increases a whopping 310bps YoY. ITC's cigarette segment margins improved a whopping 310bps YoY to 27.4% in Q4FY09. This was mainly owing to a complete filter portfolio and price increases affected during the year (total weighted price rise of 8%). The cigarettes segment's EBIT increased 24.3% YoY to Rs10.8bn.

Chart 1: Cigarettes sales growth on upward trend



Source: Company data, I-Sec Research

Chart 2: Cigarettes PBIT margins continue to improve



Source: Company data, I-Sec Research

Significant price rises implies strong pricing and market power. In current fiscal, the company has increased prices of several Filter brands; total price increase was 8% on a weighted basis. This is despite no change in excise rates for Filter cigarettes. The ability to raise prices irrespective of competition marks the strong pricing power of ITC.

Table 2: Price increases in FY09

Brand	New Price	Old Price
Classics	Rs44	Rs40
Gold Flake King	Rs44	Rs38
Flake Filter	Rs19	Rs17
Berkeley Filter	Rs19	Rs17
Gold Flake Filter	Rs30	Rs24
Gold Flake Premium Filter	Rs29	Rs24

Source: Company data, I-Sec Research

Non-Tobacco business – Strong performance in paper and agri businesses negated by downturn in Hotels and ongoing losses in Other FMCG. Improvement in the paper segment and sharp margin increase in the agri segment was offset by steep decline in the hotels segment and ongoing losses in Other FMCG. On the back of sharp dip in Agri sales, sales of the non-cigarette business witnessed 15% YoY decline to Rs23bn in Q4FY09. EBIT of the non-tobacco business declined 14% YoY to Rs1.6bn in Q4FY09.

- **Paper, paperboard & packaging.** Owing to excise benefits and increased capacity, the segment's net sales grew 25.7% YoY to Rs7.1bn in Q4FY09. PBIT margins in the paper division improved 53bps YoY (370bps QoQ increase) to 20.3% in Q4FY09.

- **Hotels.** The overall economic slowdown took its toll on the hotels business as segment sales declined 29.3% YoY to Rs2.2bn in Q4FY09. In line with our expectations, EBIT margin declined 1262bps YoY to 29.5% in Q4FY09 and EBIT dipped 50.2% YoY to Rs 711mn. Construction activity as regards the super deluxe luxury hotel projects at Bangalore and Chennai is already progressing and the new Bangalore hotel is expected to be commissioned by Q2FY10.

- **Agri business.** Agri business registered sharp revenue decline of 51.2% YoY to Rs5.3bn in Q4FY09. This was mainly on account of lower soya exports, which were necessitated due to high volatility in Agri commodities. However, due to strong improvement in margins of leaf tobacco exports (EBIT margin spiked 666bps YoY to 10.1% in Q4FY09), EBIT increased 43.4% YoY to Rs531mn in Q4FY09.

- **Non-cigarette FMCG business.** Sales of the non-cigarette FMCG business grew only 13.5% YoY to Rs8.4bn in Q4FY09. The muted growth was mainly on account of: 1) decline in sales of matches division (due to issues with conversion from 50paise to Re1) ii) marginal sales growth of *John Players* iii) flat sales of *Bingo!* iv) planned pullback in non-profitable food products packaged salt and Glucose biscuits. Continuous inputs for all brands in the personal products business along with increased raw material cost pressures in the foods business resulted in Q4FY09 witnessing similar losses as in the past four quarters. PBIT losses declined 0.5% to Rs1.17bn.

EBITDA growth at 12.6% YoY and net profit growth at 10%. ITC's overall OPM improved 406bps YoY to 33.4% on account of lower raw material costs. Raw material-to-sales decreased 634bps YoY to 40.5% in Q4FY09. Operating profit increased 12.6% YoY to Rs13.0bn. On account of higher depreciation charge and lower Other Income, profit-before-tax increased only 9.9% to Rs11.9bn in Q4FY09. The effective tax rate remained flat at 32.1% in Q4FY09 leading to recurring net profit increasing 10% YoY to Rs8.09bn in Q4FY09.

Maintain BUY. We expect losses in Other FMCG to decrease Q1FY10 onwards and the hotels business to improve by H2FY10. Importantly, given a normal tax regime (excise rise of 0-8%), the cigarettes business will help register ~18% bottomline growth in FY10E. Maintain BUY with 12-month fair value of Rs210/share.

Table 3: Q4FY09 results review

(Rs mn, year ending March 31)

	Q4FY09	Q4FY08	% chg (YoY)	FY09	FY08	% chg (YoY)
Gross sales	**58,707**	**58,461**	**0.4**	**231,435**	**213,559**	**8.4**
Excise + Local taxes	19,789	19,117	3.5	77,554	74,084	4.7
Net sales	**38,918**	**39,344**	**(1.1)**	**153,881**	**139,475**	**10.3**
Other operating income	356.0	1,082	(67.1)	1,946	2,345	(17.0)
Total income	**39,274**	**40,426**	**(2.8)**	**155,827**	**141,820**	**9.9**
Raw material cost	15,777	18,445	(14.5)	64,468	60,167	7.1
Staff cost	2,222	1,911	16.3	8,909	7,333	21.5
Other expenditure	8,293	8,542	(2.9)	31,919	27,936	14.3
Total expenditure	**26,291**	**28,897**	**(9.0)**	**105,296**	**95,436**	**10.3**
EBITDA	**12,983**	**11,529**	**12.6**	**50,532**	**46,384**	**8.9**
Other income	522.5	555	(5.9)	3,403	3,764	(9.6)
Finance charges	136.8	27	406.7	183	46	297.4
Depreciation	1,451	1,215	19.4	5,494	4,385	25.3
Profit before tax	**11,918**	**10,842**	**9.9**	**48,257**	**45,718**	**5.6**
Provision for tax	3827.8	3,485	9.8	15,622	14,517	7.6
Recurring PAT	**8,090**	**7,356**	**10.0**	**32,636**	**31,201**	**4.6**
Extraordinary items						
Profit after tax (reported)	**8,090**	**7,356**	**10.0**	**32,636**	**31,201**	**4.6**
			chg (bps)			**chg (bps)**
EBITDA margin (%)	33.4	29.3	406	32.8	33.3	(42)
Net profit margin (%)	20.8	18.7	209	21.2	22.4	(116)
Other income/PBT (%)	4.4	5.1	(73)	7.1	8.2	(118)
Tax rate (%)	32.1	32.1	(3)	32.4	31.8	62
Raw material as percentage of sales	40.5	46.9	(634)	41.9	43.1	(124)
Staff cost as percentage of sales	5.7	4.9	85	5.8	5.3	53
Other expense as percentage of sales	21.3	21.7	(40)	20.7	20.0	71

Source: Company data, I-Sec Research

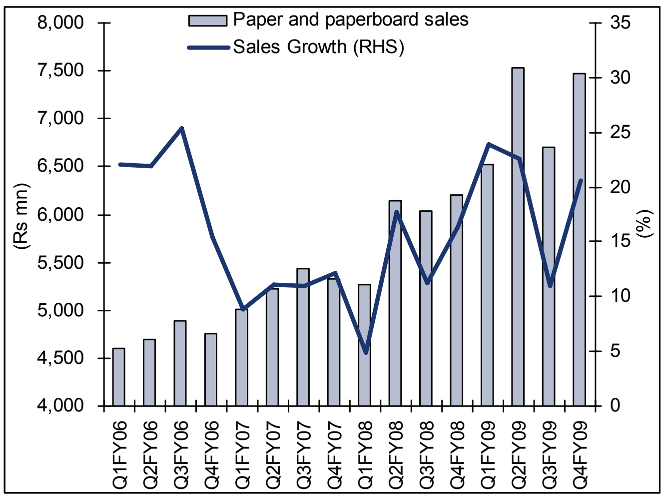
Table 4: Segment-wise financials

(Rs mn)

Segment	Net sales			PBIT			PBIT margin (%)		
	Q4FY09	Q4FY08	% chg (YoY)	Q4FY09	Q4FY08	% chg (YoY)	Q4FY09	Q4FY08	chg (bps)
FMCG – Cigarettes	20,115	17,302	16.3	10,814	8,701	24.3	27.4	24.3	310
- Others	8,368	7,373	13.5	(1,173)	(1,179)	(0.5)	(14.0)	(16.0)	198
Total FMCG	**28,483**	**24,675**	**15.4**	**10,071**	**8,966**	**12.3**	**20.1**	**17.4**	**273**
Hotels	2,210	3,125	(29.3)	711	1,428	(50.2)	29.5	42.1	(1,262)
Tobacco & Agri commodities	5,259	10,781	(51.2)	531	370	43.4	10.1	3.4	666
Paper & Packaging	7,136	5,677	25.7	1,519	1,227	23.8	20.3	19.8	53
Total	**43,089**	**44,259**	**(2.6)**	**12,401**	**10,547**	**17.6**	**19.7**	**16.6**	**309**
Less : Inter-segment revenue	4,171	4,915	(15.1)						
Less: Interest				137	27	406.7			
Other unallocable expense				347	(322)	(207.7)			
Net sales/income from operations	**38,918**	**39,344**	**(1.1)**	**11,918**	**10,842**	**9.9**			

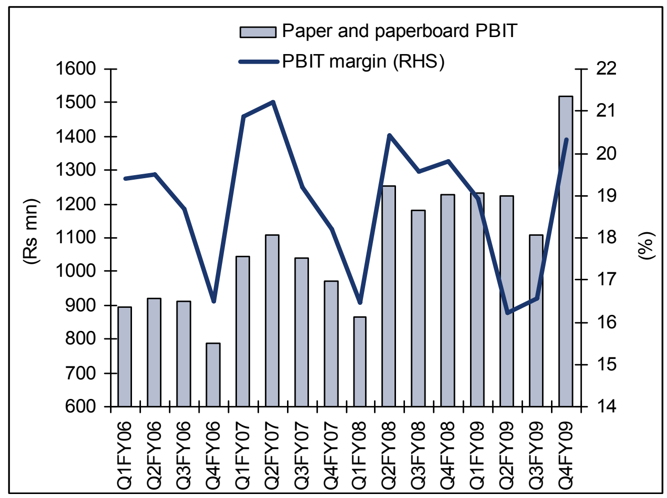
Source: Company data, I-Sec Research

Chart 3: Paper & paperboard – Sales



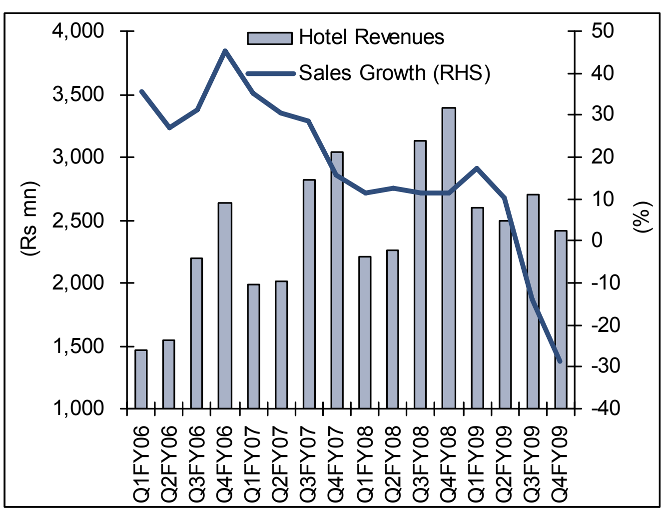
Source: Company data, I-Sec Research

Chart 4: Paper & paperboard – Profits



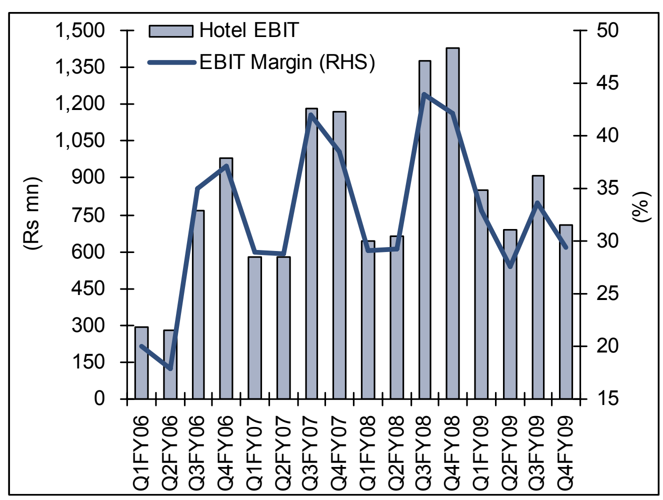
Source: Company data, I-Sec Research

Chart 5: Hotels – Sharp dip in revenues



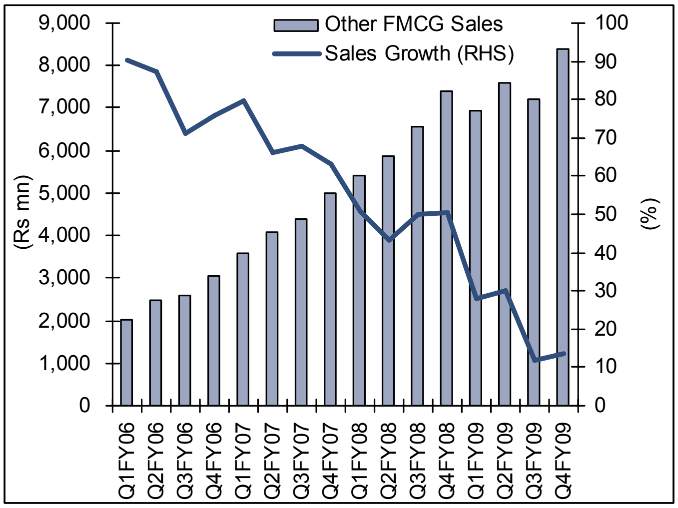
Source: Company data, I-Sec Research

Chart 6: Hotels – Decrease in profit



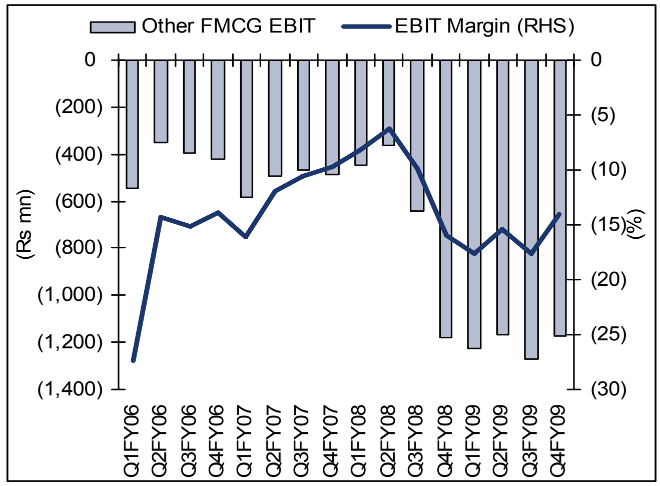
Source: Company data, I-Sec Research

Chart 7: Other FMCG – Revenues



Source: Company data, I-Sec Research

Chart 8: Other FMCG – Losses



Source: Company data, I-Sec Research

Dr. Reddy's Laboratories (Buy) PHARMA

ANALYST MEET UPDATE AND EARNINGS REVISION

On a high Rs661

Rajesh Vora (+91 22 6637 7508) rajesh_vora@isecltd.com

Earnings revision

(%)	FY10E	FY11E
Sales	↑ 5.3	↑ 0.1
EBITDA	↑ 17.3	↑ 15.1
EPS	↑ 12.7	↑ 2.7

We came away positive from Dr. Reddy's Laboratories' (DRL) analyst meet. The management has guided for FY13 revenues and RoCE increasing to US$3bn and 25% from US$1.4bn and 14% at present respectively. This implies 21% revenue CAGR through FY09-13, which would be largely driven by strong sales in the US. Post US FDA approval, DRL would launch generic *Prilosec* OTC in Q3FY10, followed by launch of generic *Arixtra* in Q1FY11. Our back-of-the-envelope calculations suggest that generic *Prilosec* OTC could generate US$30-50mn profit and generic *Arixtra* US$20-35mn profit in the first year of launch itself. Given higher-than-expected Q4FY09 results and likely strong sales of AG *Imitrex,* we upgrade our FY10E & FY11E EPS 13% & 3% respectively. Consequently, we raise our fair value to Rs854/share (under aggressive scenario). BUY.

Table 1: Valuation summary

		Y/E March	EPS* (Rs)	P/E (x)	EV/E (x)		
Price (22/5/09) (Rs)	661	2007	56.3	11.7	74.1	BSE Sensex	13887
52 wk Range (Rs)	740/380	2008	21.7	30.5	41.0	M.Cap (Rs bn)	111
DPS FY09E (Rs)	5.0	2009E	32.5	20.3	7.1	M.Cap (US$ bn)	2.3
Dividend yield (%)	0.8	2010E	39.2	16.9	14.7	Shares Out (mn)	168
Face value (Rs)	5.0	2011E	48.0	13.8	9.9	Float (%)	73.6

* consolidated as per Indian GAAP
Source: Company data, I-Sec Research

- **FY13 guidance – Revenues of US$3bn and RoCE of 25%.** Management indicated increase in focus on consistent & profitable growth vis-à-vis pure-growth stance in the past. The management has guided for FY13 revenues and RoCE increasing to US$3bn and 25% from US$1.4bn and 14% at present respectively. This would mainly be driven by US sales and imply ~21% revenue CAGR versus 39% since the past four years.

- **FY10 revenue growth guidance of 10% YoY.** Management guided for FY10 revenue growth of 10% in rupee terms and 200-400bps expansion in RoCE to 16-18%. The revenue growth will be largely powered by continued robust revenues of AG *Imitrex* and almost certain launch of generic *Prilosec* OTC (Q3FY10E). This would be followed by potential launch of generic *Arixtra* over the next 2-4 quarters (I-Sec estimate: Q1FY11E). Potential combined upside from the first year of sale of the two products is likely to be US$50-85mn. Further, the upside is likely to continue beyond the first year, given favourable competitive environment.
- **Reiterate BUY.** Buoyed by improving visibility of launches of these big products in the US, enhanced focus on base business and improving RoCE, we expect DRL to see strong performance in the next two years. While the stock has run up over 60% since our note *'Big product launches on the anvil'* dated March 16, '09, valuations remain undemanding at FY10E P/E of 17x. Reiterate BUY.

Details in our report '*On a high*' dated May 22, '09

HDIL (Upgrade to Buy) REAL ESTATE

RECOMMENDATION CHANGE

Concerns pacified Rs307

Gaurav Pathak (+91 22 6637 7339) gaurav_pathak@isecltd.com
Sunil Teluja (+91 22 6637 7312) sunil_teluja@isecltd.com

Earnings revision

(%)	FY10E	FY11E
Sales	↑ 3.5	↑ 4.8
EBITDA	↑ 3.7	↑ 10.0
EPS	↑ 4.7	↑ 7.2

Housing Development & Infrastructure's (HDIL) Q4FY09 results were dismal, with revenues and PAT dipping 63% YoY and 91% YoY to Rs3.6bn and Rs619mn respectively. PAT was in line with our estimates, but EBITDA margin dropped sharply to 27%, the lowest in the past eight quarters. During March-April '09, HDIL launched 2mnsqft of residential projects (75% booked). The company is mulling 3-4mnsqft residential launches in Mumbai in the next three months. The Mumbai slum rehabilitation scheme (SRS) is progressing well. The Board has approved raising up to US$600mn and allocating warrants to the promoters. We believe cashflow infusion would reduce the strain on balance sheet, bringing down the gross D/E from 0.9x to <0.5x – it would reduce funding constraints in Mumbai airport SRS and provide capital for new launches. We upgrade HDIL to BUY from Hold with Rs355/share target price (on 20% discount to one-year forward NAV of Rs443/share). HDIL is trading at FY10E & FY11E P/E of 15x & 12x respectively with FY10E P/BV of 1.7x.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (22/5/09) (Rs)	307					BSE Sensex	13887
52 wk Range (Rs)	590/63	2008	51.2	6.0	6.6	M.Cap (Rs bn)	84.5
DPS FY09E (Rs)	0	2009E	28.6	10.7	16.0	M.Cap (US$ bn)	1.7
Dividend yield (%)	0	2010E	20.1	15.2	17.1	Shares Out (mn)	275
Face value (Rs)	10	2011E	24.6	12.4	13.9	Float (%)	38.5

Source: Company data, I-Sec Research

- **Revenue & margin contraction.** HDIL's Q4FY09 revenues dipped 63% YoY (up 14% QoQ) to Rs3.6bn – Rs1.3bn was booked from sale of 1mnsqft TDRs and Rs1bn from FSI sale in Malad slum rehabilitation project; income from booking of *Grande* and land sales contributed the rest. EBITDA margin dropped to 27% versus 45% in FY09 due to lower TDR price and higher operating expenses on a reducing topline.

- **Strong demand in recent project launches.** HDIL launched 2mnsqft of residential projects during March-April '09 at ~30-20% discount to the market price, generating >75% bookings. The company is mulling launches of 3-4mnsqft residential projects in Mumbai in the next three months. Volumes have picked up in the TDR market, with HDIL selling 1mnsqft in Q4FY09 versus 0.3mnsqft in Q3FY09. As per the management, TDR prices have picked to Rs1,400-1,500/sqft (35% rise from the bottom). However, we have factored in Rs1,250/sqft TDR price for FY10E.
- **Capital infusion to help ease debt burden.** HDIL is planning to raise capital through equity dilution and warrants. As per the management, the capital raised will primarily help reduce debt; future growth would be funded only via internal accruals. This will be positive for HDIL and reduction of gross D/E from 0.9x to <0.5x will help reduce balance sheet strain and bring down the rising interest burden. It will also reduce funding concerns in Mumbai airport SRS, a key long-term value driver. HDIL intends to focus on projects which have immediate cash inflow visibility; long-duration projects such as special economic zones are on hold till conditions improve.

Table 2: Q4FY09 results review

(Rs mn, year ending March 31)

	Q4FY09	Q4FY08	% chg (YoY)	Q3FY09	% chg (QoQ)
Gross sales	**3,579**	**9,751**	**(63.0)**	**3,138**	**14.0**
Excise duty	-	-	-	-	-
Net sales	**3,579**	**9,751**	**(63.0)**	**3,138**	**14.0**
Other operating income					
Total operating income	**3,579**	**9,751**	**(63.0)**	**3,138**	**14.0**
Raw materials	1,360	1,112	22.0	1,855	(26.7)
Personnel cost	41	-	-	50	-
Research & development	-	-	-	-	-
Other expenses	1,212	-	-	283	-
Total expenses	**2,614**	**1,112**	**135.0**	**2,188**	**19.5**
EBITDA	**965**	**8,639**	**(89.0)**	**950**	**1.6**
Interest (Net)	297	682	(56.0)	142	109.6
Depreciation	9	9	5.0	18	(50.6)
Other income	309	144	115.0	209	47.6
Recurring pre-tax income	**969**	**8,093**	**(88.0)**	**1,000**	**(3.1)**
Taxation	350	1,011	(65.0)	244	43.5
Recurring net income	**619**	**7,083**	**(91.0)**	**757**	**(18.2)**
Extraordinary item	-	0	-	(1,092)	-
Reported net income	**619**	**7,083**	**(91.0)**	**1,849**	**(66.5)**

Source: NSE India

Details in our report '*Concerns pacified*' dated May 25, '09

Sector update REAL ESTATE

Guarded optimism

Gaurav Pathak (+91 22 6637 7339) gaurav_pathak@isecltd.com
Sunil Teluja (+91 22 6637 7312) sunil_teluja@isecltd.com

Based on our interaction with MD & CEO of ICICI Home Finance Company, Mr Rahul Mallick, we believe the residential segment will script a recovery in ’10. However, office and retail segments are fraught with oversupply, and might only improve after two years. Developers have been able to wade through short-term liquidity concerns. Prices have corrected 5-20%, dipping to December ’07 levels and could consolidate hereon although with a marginal drop. Delinquencies in corporate and retail lending are low and home loan rates can drop 75-50bps further. Overall, industry dynamics have improved, but advice guarded optimism.

- **Residential transaction volumes better.** As per our interaction, there is significant demand uptick in new mid-income housing projects. Developers are restructuring new projects to better align with ground realities. In case of revival, residential segment would be the first to improve. Latent demand at the right price point is strong, with most of the demand from end users. Developers who have cut prices to match the market reported best sales in the past three months.
- **Existing inventory to cause pain** since demand is sluggish given that repricing is difficult in residential projects with more units sold, due to cancellation risk. Developers will have to face agony in the next 2-4 quarters to absorb existing inventory, wherein net cash inflow is lower; this could lead to construction delay in existing inventory.
- **Developers’ ability to hold inventory is improving** as per Mr Mallick – Small- and mid-sized players have liquidity; only large-sized players have overextended themselves on credit. Developers who had bought property more than 24 months ago have benefited, but those who had bought land in the past two years are in trouble. Most developers have reduced prices only in Q4FY09 to revive sales momentum and are mulling asset liquidation and other measures to raise capital.
- **Do not expect significant defaults by developers.** Developers are under stress, but only short-term liquidity is a concern with long-term cashflow manageable. Developer financing is unaffected, with restructuring limited. Many are raising capital via assets sales, tapping vulture investors, private equity investors, high net worth individuals (HNIs) and through secondary markets.
- **Pan-India price correction within 5-20%.** Q4FY09 was the first quarter when prices declined 5-20% across India and ~40% from the peak in some places. Prices have reached December ’07 levels and could consolidate hereon although with a marginal drop. Mr Mallick expects prices to come down to ’07 levels in most cities and even reduce to ’05 levels in some cases.
- **Home finance companies (HFCs) are tightening lending standards** on income coverage and cashflow adequacy. Expect home financing to grow +10% in FY10E. At present, loan-to-value (LTV) is within 70-80% and it might inch up if prices correct. Home loan rates might reduce 75-50bps further. Refinancing has picked pace. Defaults on home loans have been lower then expected.
- **Commercial segment to remain insipid.** As per Mr Mallick, due to oversupply, the commercial segment may remain in the downturn for the next 2-3 years. Bangalore and Hyderabad would feel the maximum pain. Mr Mallick stated that vacancy rates are now at +10% from 5% and could touch a high of 20%.

Details in our report ‘*Guarded optimism*’ dated May 22, ’09

Recent reports/updates

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Rajesh Vora	Dr. Reddy's Laboratories: On a high	May 22
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Shilpa / Hemant	Bajaj Auto: Mixed bag	May 22
Pallav Agarwal / Abhijt Mitra	Sesa Goa: Positives priced in	May 22
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Prakash / Sanket	Chambal Fertiliser & Chemicals: Global urea prices key	May 18
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		.			**1** .	**2** .
3 .	**4** HDFC	**5** .	**6** .	**7** JSW Steel, Union Bank	**8** Peninsula Land, Alembic	**9** SBI
10 HUL	**11** .	**12** Asian Paints	**13** Balaji Telefilms	**14**	**15** Chambal Fertilisers, Ashok Leyland	**16** .
17 .	**18** Dr. Reddy's Lab., Sobha Developers, HT Media	**19** ENIL, Grasim Industries	**20** Mphasis, PNB, Bharat Forge	**21** Bajaj Auto	**22** NTPC, ITC, CESC	**23** SPARC, HDIL, JK Cement
24	**25** Dishman Pharma	**26** BoB	**27** Cairn, NIIT, JSPL, Indraprastha Gas	**28** Tata Power, SAIL, M&M	**29** BPCL, Lanco, Colgate	**30** Sun Pharma

ANALYST CERTIFICATION

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