Real Estate : Banking on Mumbai

Be fearful when others are greedy. Be greedy when others are fearful - Warren Buffett

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Real Estate Sector

Banking on Mumbai

We expect a 30-35% fall in India's residential prices from the peak, with the Mumbai Metropolitan Region (MMR) estimated to witness the lowest fall of 20-30% until April 2009. Of this, MMR has already seen property prices slump by 10-15% over last six months in the secondary market. We expect affordability to re-emerge in Mumbai with further 15-20% fall in prices and favourable demand-supply dynamics vs other metros, which would ensure volume growth and lower the asset cycle risk. Moreover, Mumbai offers unique opportunities in the high-margin slum rehabilitation and redevelopment space. We initiate coverage on the real estate sector with an Outperformer rating, and Buy rating on Mumbai-centric companies such as HDIL, Orbit Corporation, Ajmera Realty and IndiaBulls Real Estate. Each of these companies offers a unique business model and has robust cash flows that will help them tide over the current liquidity crunch in the sector. The stocks under our coverage look attractive despite factoring in a fall in asset prices, execution delays, higher construction cost and higher capitalization rate of 12-13%.

Decline in real estate asset prices to boost demand

We believe a 30-35% fall in prices of real estate assets in India from the peak prices and 20-30% fall in MMR would bring back affordability and boost demand. The boost would come from end users, waiting for prices to fall, especially in Mumbai, which continues to have the highest employment in the higher income bracket within metros. Also, corporate demand for office space continues to be strong at 22mn sq ft over FY08-10E, with expected 25-35% correction in lease rentals. The steep rise in property prices since 2003 had impacted affordability levels, which rose to 81% in CY07 from 55% in CY03.

Favourable demand-supply shields against steep correction in Mumbai

A steep correction in Mumbai seems unlikely, owing to favourable demand-supply dynamics, in our view. Our analysis reveals that around 87mn sq ft (of which 55mn sq ft is residential) of supply would be available across Mumbai over CY08-10E, which would be adequate to meet the strong underlying demand in the city. Comparatively, National Capital Region (NCR) should see 390mn sq ft of supply over CY08-10, in our view, almost 50% higher than the estimated demand. Owing to its geography and high population density, Mumbai has limited land area and demand for quality properties tends to far outstrip supply, resulting in high property prices.

Slum rehabilitation, redevelopment unique business opportunity in Mumbai

Mumbai provides opportunity to real estate players participating in the highly lucrative slum rehabilitation and redevelopment businesses, considering that half of Mumbai's 12mn population lives in slums (Census 2001). We expect companies such as HDIL and Orbit Corporation (Orbit) to benefit from SRS and redevelopment projects (these companies have expertise in these areas), as the cost involved in development of such projects is lower. Plus, there are over 19,000 dilapidated buildings awaiting redevelopment.

Strong cash flow visibility for Mumbai-focused property developers

Stable cash flows of Mumbai-focused developers within our coverage will help these companies tide over the current liquidity crunch in the sector. Higher demand from end-users has aided pre-sales, which has led to these companies generating robust internal accruals. Moreover, these companies deal in high quality projects at prime locations, which would help them procure funding at competitive rates. Also, builders in Mumbai have a greater holding power.

Compelling valuations

The stocks under our coverage look attractive over the medium to long term, despite factoring in a fall in asset prices, execution delays, higher construction cost and higher capitalization rate of 12-13%. We have valued the companies on NAV, which we believe is a more appropriate method to value real estate companies, as it fully captures the value of a company's land bank and execution plans. Our target price for individual companies is based on 25-40% discount on Net Asset Value (NAV) to reflect cyclical slowdown risk, execution delays and scale of operations. However, Orbit , is valued on P/E multiple, as it is not a land bank story. Only projects with definite development plans are considered in our valuation and upside potential from SEZ development and other nascent businesses have been excluded.

Exhibit 1: Valuations within our coverage universe

Company	Rating	Market Cap (Rs mn)	CMP (Rs)*	NAV (Rs)*	Target Price (Rs)	% Upside/ Downside from CMP	Potential Upside from SEZ/Other business (Rs/sh)	P/E (x) FY09E	P/E (x) FY10E
HDIL	BUY	52,373	190	415	311	64	88	2.9	2.6
IBREL	BUY	49,247	185	469	328	77	234	9.2	4.0
Orbit Corp	BUY	6,461	178	298	298	67	NA	3.4	3.0
SPSL (Ajmera Realty)	BUY	7,807	66	195	131	98	NA	2.4	2.3

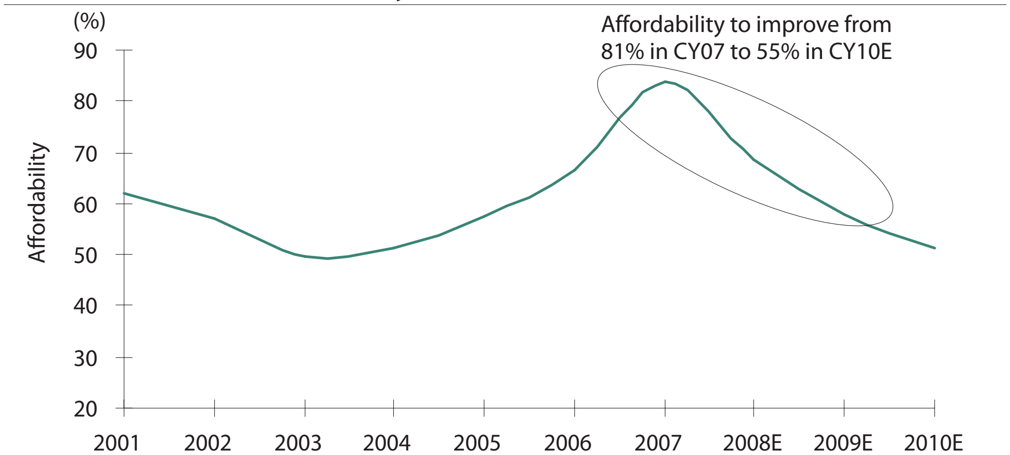
*As on 26 Sep 2008; *Source: Centrum Research*

Investment Arguments

Decline in real estate prices to improve affordability

We believe a 30-35% fall in prices of real estate assets in India from the peak prices and 20-30% fall in MMR would bring back affordability and boost demand. The boost would come from end users, waiting for prices to fall, especially in Mumbai, which continues to have the highest employment in the higher income bracket within metros. Also, corporate demand for office space continues to be strong at 22mn sq ft over FY08-10E, with expected lease rental correction of 25-35%. The steep rise in property prices since 2003 had impacted affordability levels, which rose to 81% in CY2007 from about 55-60% in CY2003-04.

Exhibit 2: Mumbai affordability index

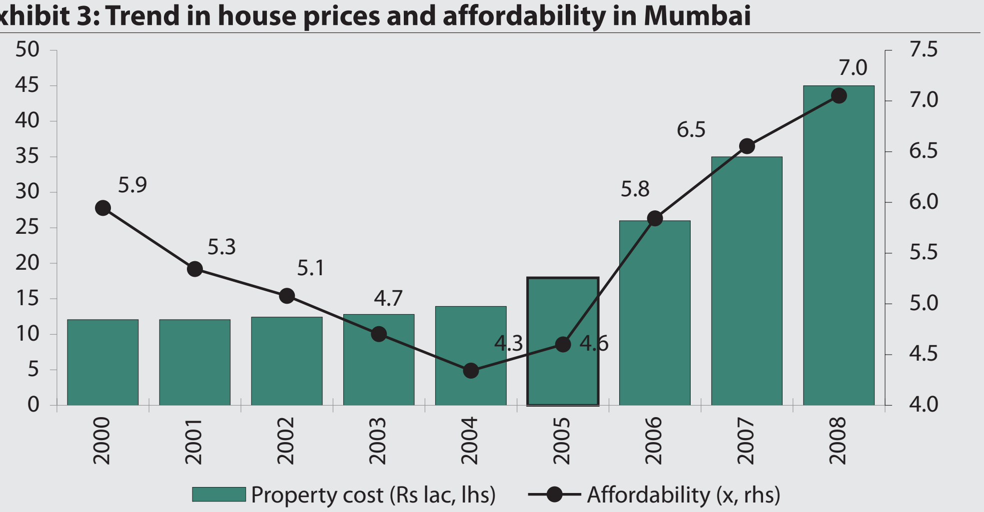


Note: We define affordability as the monthly outgo for an equated monthly instalment (EMI) as a percentage of monthly income. *Source: Centrum Research Estimates, Census 2001*

We expect strong demand to emerge post the expected 20-30% correction in the MMR market. Our analysis of the affordability index reveals that there is a lot of underlying demand in Mumbai's residential space currently as compared to 1996 when prices fell sharply, which supports our argument that a price correction is inevitable.

Average incomes have failed to keep pace with rising home prices and EMIs. This is reflected in the sharp rise in affordability measures (including affordability index and home price/annual income ratio) rising to the current peaks. This suggests lack of interest despite structural factors pointing to significant long-term demand. For an average home buyer, we estimate home price/annual income ratio in cities like Mumbai have risen to over 7x in 2008 compared with 4.3x in 2005. Assuming an additional 20% spending on home furnishing and up-gradation takes the multiplier to 8.4x.

Exhibit 3: Trend in house prices and affordability in Mumbai



Note: Affordability measured as average property price/average household annual income
Source: HDFC, Centrum Research

Affordability index sensitivity

Assuming that inflationary pressures continue to keep interest rates up and there is moderate increase in income levels, residential property prices would fall by 20-30% over CY2008-10E from peak levels, which would bring back affordability to 2004 level of 55-60%. Although we have assumed a moderate salary increase, the fact remains that Mumbai being the financial capital of India, the average salary levels continues to be among the highest in the country and the demand from the salaried class makes Mumbai a safe bet.

Exhibit 4: Sensitivity analysis CY08E

	CY08						
	Price Change (%)						
Interest Rate (%)	-	(15.0)	(20.0)	(25.0)	(30.0)	(35.0)	(40.0)
	10.0	57.0	53.0	50.0	47.0	43.0	40.0
	11.0	61.0	57.0	53.0	50.0	46.0	43.0
	12.0	65.0	61.0	57.0	53.0	49.0	46.0
	13.0	69.0	65.0	61.0	57.0	53.0	49.0
	14.0	73.0	69.0	64.0	60.0	56.0	52.0
	15.0	77.0	73.0	68.0	64.0	59.0	55.0

Source: Centrum Research Estimates

Our sensitivity analysis of the Mumbai affordability index reveals that a price fall of 15% in CY08 followed by another fall of 10-15% in CY09 shall make houses affordable following which buying should come back into the market at our base case affordability level of 55%.

Exhibit 5: Sensitivity analysis CY09E

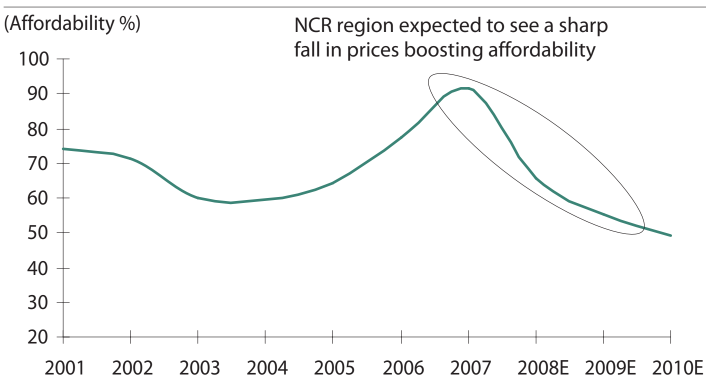
	CY09						
	Price Change (%)						
Interest Rate (%)	-	(5.0)	(10.0)	(15.0)	(20.0)	(25.0)	(30.0)
	10.0	47.4	44.9	42.4	39.9	37.4	34.9
	11.0	50.7	48.0	45.3	42.7	40.0	37.3
	12.0	54.0	51.2	48.4	45.5	42.7	39.8
	13.0	57.5	54.5	51.4	48.4	45.4	42.4
	14.0	61.0	57.8	**54.6**	51.4	48.2	45.0
	15.0	64.6	61.2	57.8	54.4	51.0	47.6

Source: Centrum Research Estimates

Affordability index of other metros

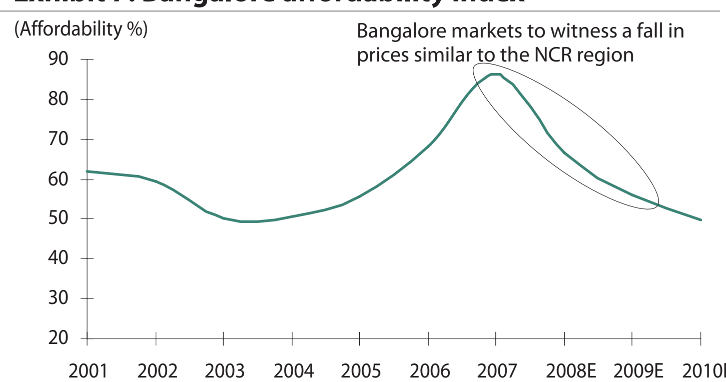
As depicted in Exhibits 5 and 6, affordability in key residential markets such as NCR and Bangalore were much higher than in Mumbai at 92% and 86% in CY07. This clearly points to a higher correction in property prices in these areas compared to MMR.

Exhibit 6: NCR affordability index



Source: Centrum Research Estimates

Exhibit 7: Bangalore affordability index



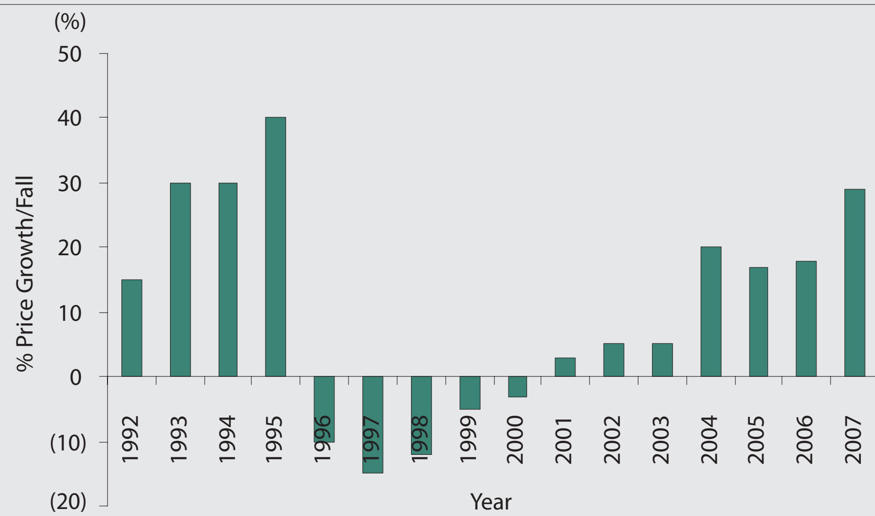
Source: Centrum Research Estimates

Cyclical nature of India's real estate market

Due to the cyclical nature of the real estate market in India, it is useful to study previous downturns. Mumbai has seen two positive cycles and one depression in the last two decades. The first boom, which lasted from 1991 to 1995, saw property prices rise by over 100% in a span of five years. This was followed by a depression that lasted for 7 years from 1996 to 2002.

The market revived once again in 2003-04 and property rates have since doubled in most parts of Mumbai with some micro markets seeing property prices triple in the last five years. The underlying causes for the two boom periods are different in nature and are not strictly comparable. While the 1991-95 boom was fuelled more by market speculation and lack of transparency in dealings, the recent boom is a result of the country's strong GDP growth, rise in disposable incomes and improved transparency and professionalism in property dealings.

Exhibit 8: Price growth in Mumbai's residential property



Source: Knight Frank; Centrum Research

Favourable demand-supply shields against deep correction

Mumbai's favourable demand-supply dynamics will likely prevent a steep correction in this market, in our view. Over CY08-10E, Mumbai is likely to see a supply of around 87mn sq ft (of which 55mn sq ft is residential), which would be adequate to meet the underlying demand in the city. Comparatively, NCR should see supply of 390mn sq ft over 2008-10E, in our view, almost 50% higher than the estimated demand.

Residential demand estimated at 66mn sq ft vs 55mn sqft supply

Our estimated demand of about 66mn sq ft of residential space over 2008-10 for Mumbai takes into account population growth and net migration but not the slum population. Owing to its geography and high population density, Mumbai has limited land area and demand for quality properties tends to far outstrip supply, resulting in high property prices.

Exhibit 9: Mumbai – Historical population trends

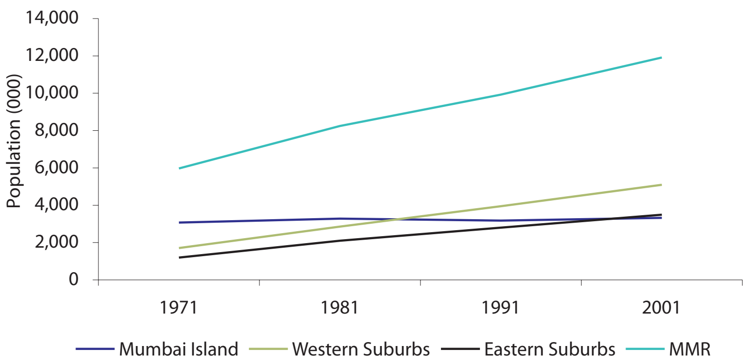
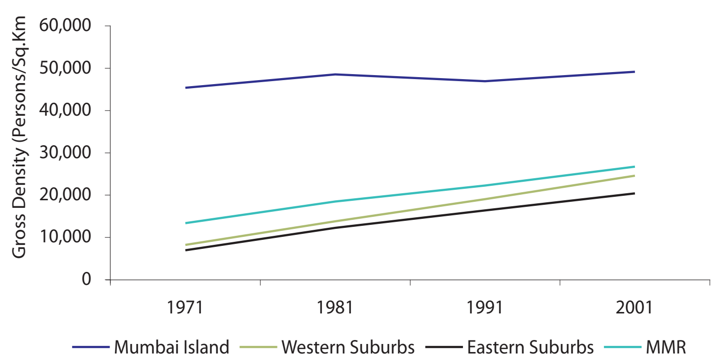


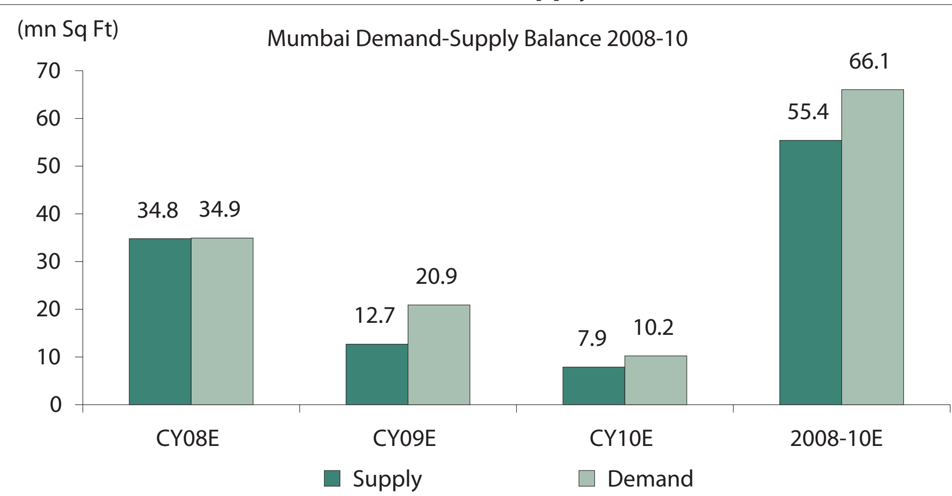
Exhibit 10: Mumbai – Population density trends



Source: Mumbai Redevelopment Plan, Centrum Research

On the supply front, of the 55mn sq ft due until CY10E, the MMR market may see a major chunk of 36mn sq ft supply in 2008 due to delayed projects. This coupled with lower affordability may push back purchase decisions, resulting in developers being forced to lower property prices. This explains the short-term 15-20% correction in this market correction until April 2009. We estimate demand to taper off on account of lower transaction volumes at a high price point. In the medium term, we may see a supply shortfall as compared to the estimated demand , which would safeguard against any sudden plunge in property prices.

Exhibit 11: Mumbai residential demand-supply scenario (2008-2010E)

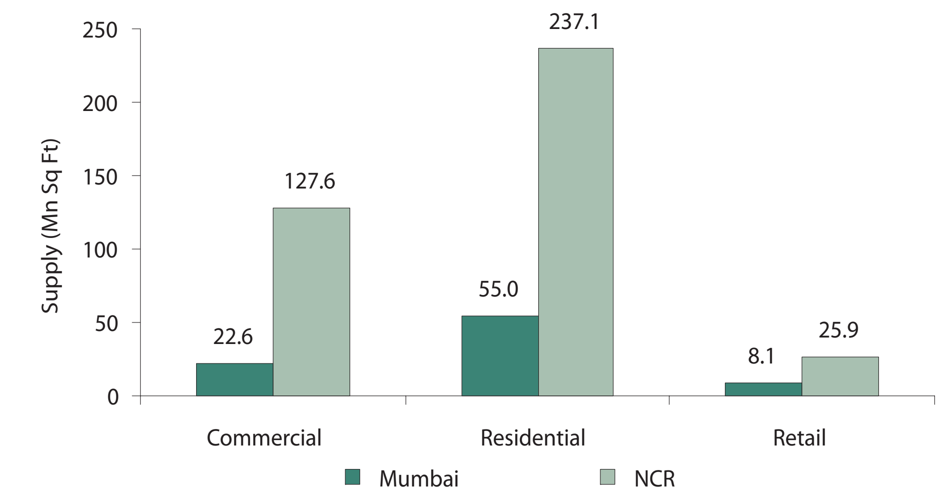


Source: Knight Frank, Centrum Research

Mumbai better insulated vs other metros against asset cycle risk

A comparison of Mumbai with NCR reveals a huge supply is likely in the NCR market between 2008 and 2010, in the residential and commercial space, where about 237mn sq ft and 127mn sq ft, respectively, of development is scheduled for completion. Thus, MMR is relatively better insulated against the asset cycle, owing to the equilibrium in demand and supply.

Exhibit 12: Mumbai-NCR real estate supply (2008-2010E)

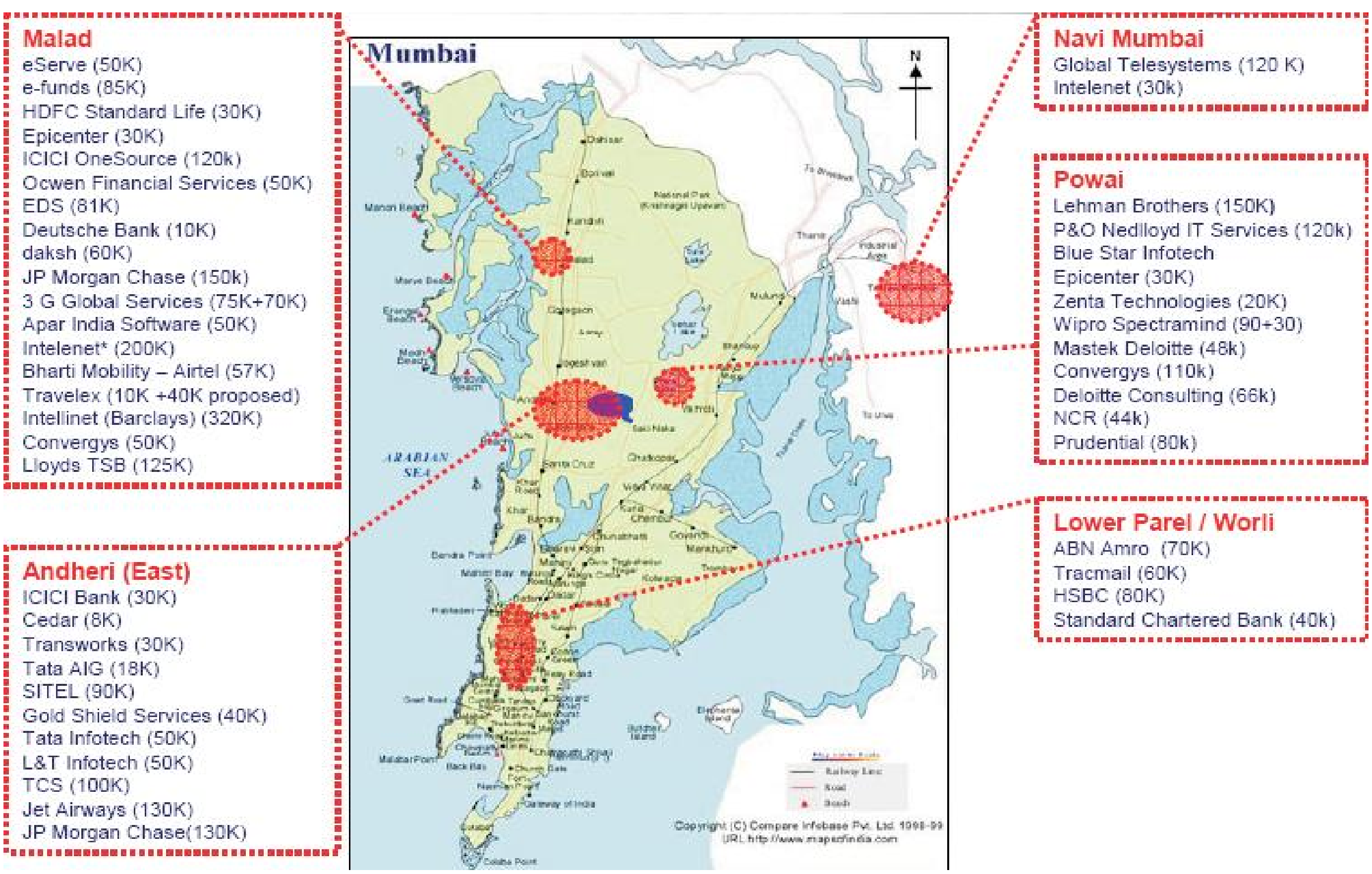


Source: Knight Frank, Centrum Research

Commercial demand to remain buoyant in Mumbai…

The demand for commercial precincts is expected to remain buoyant with IT, ITES & financial services firms likely to be the primary demand drivers.

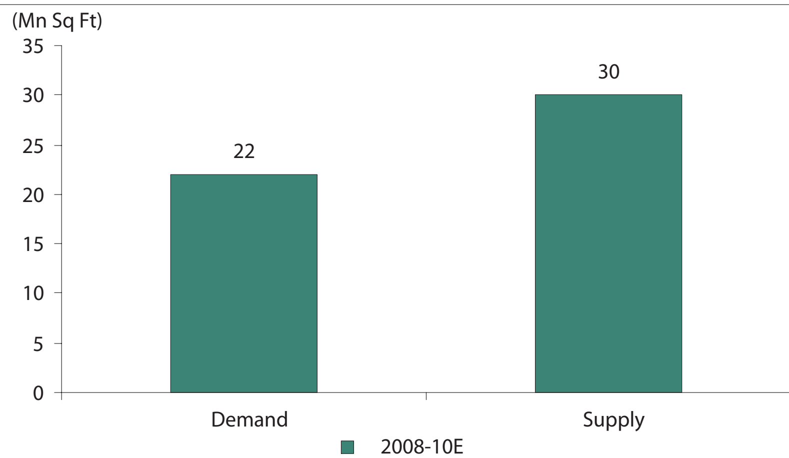
Exhibit 13: IT&ITES locations in Mumbai (Occupied area in '000 sq ft)



Source: Cushman Wakefield, Centrum Research

Our estimates show that for every Rs100mn of infrastructure investment in Mumbai over 2002-06, demand for commercial and retail real estate absorption stood at Rs119mn. We thus arrived at a total commercial and retail space of 30mn sq ft at a capitalization rate of 13% and average rate of Rs13,000 per sq ft. This assumes that 65% of the proposed infrastructure investment of Rs505bn in Mumbai is spent over 2006-10. With 8mn sq ft of this space already absorbed in CY06 and CY07, our total demand estimate for CY08-10 stands at 22mn sq ft. As of June 2008, Maharashtra's on-going infrastructure projects stood at Rs1759.92bn - the highest investment across regions in India.

Exhibit 14: Mumbai commercial & retail demand-supply(2008-10E)



Source: Knight Frank, Centrum Research

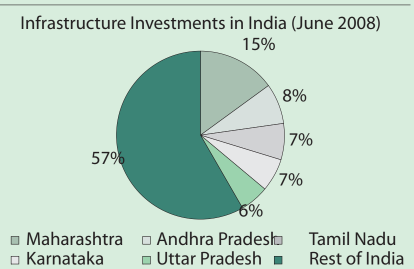
MMR accounts for 22% of the state's population, contributes 40% to the state's GDP and has almost double the state's per capita income. Additionally, the state generates 70% of all its taxes and ~75% of sales tax from MMR. With a number of projects scheduled to be completed in Mumbai and the surrounding areas over the next five years, we believe Mumbai would become an attractive destination for property purchases.

Exhibit 15: Investment & financing for Mumbai makeover plan

(Rs bn)	2006-20	2006-10
Total investment	2,280	505
Financed by:		
User charges, GoI investment and private equity	1,200	250
Development charges (and share of stamp duty)	810	120
JNNURM (Jawaharlal Nehru National Urban Renewal Mission)	120	50
Borrowing	150	85

Source: Mumbai Makeover Plan Document, Centrum Research

Exhibit 16: Infrastructure investm.(as of June 08)

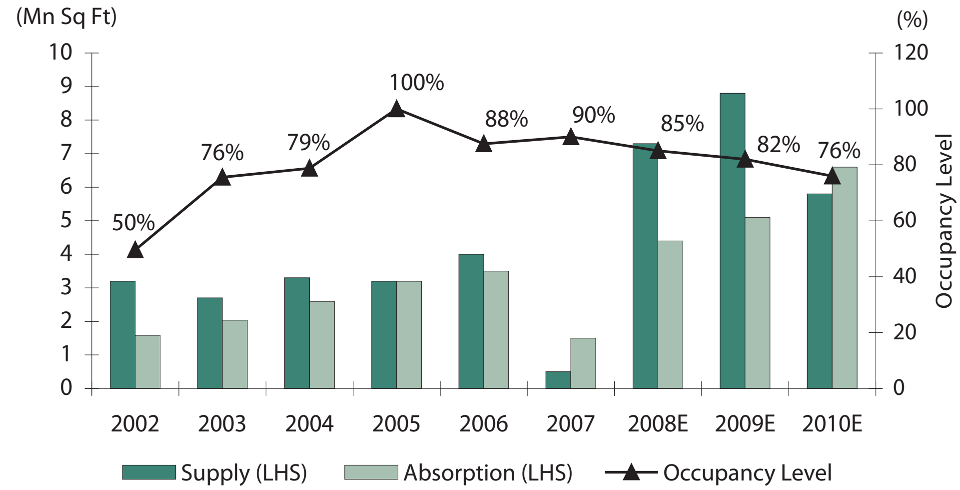


Source: Project Investment Survey, Centrum Research

…but lease rentals to fall by 25-35% due to excess supply and higher base

We expect occupancy levels, which were at around 92% in 2007 to gradually decline due to rising operating cost pressures in the rental segment and lower transaction volumes. The decline in transaction volume is estimated at 20-25%, which will likely drag rental values by 25-35% from current levels. We expect strong corporate demand to continue on the back of strong expansion plans and limited supply of quality office space. However, a demand-supply mismatch is likely, with excess supply in the market, given the expected commercial and retail supply of over 30mn sq ft over 2008-10E and demand of 22mn sq ft. We expect to see fresh investments from corporates at our derived lease rental of Rs120 per sq ft per month and vacancy rate of 15%.

Exhibit 17: Office demand-supply trends in Mumbai



Source: Knight Frank, Centrum Research

Central Mumbai to witness huge supply

The trend for suburbanization is likely to continue, with suburban locations (as well as Central Mumbai) capturing demand for small to medium format spaces. Central Mumbai is expected to witness supply of approximately 4.5mn sq ft over the next two years. Significant additions to supply levels are expected through 2008 to 2009 and the proposed sale of mill lands are expected to infuse additional supply in central Mumbai, which may lead to prices stabilising in the medium term. With new land parcels being released in Lower Parel as well as in Bandra Kurla Complex, supply is expected to rise in the medium term.

Economy perspective

Expect 25-30% decline in median prices

Our credit growth and price sensitivity analysis, wherein we have factored in slower credit growth and addition in supplies in the residential space over the next two years in Mumbai, suggest a likely 25-30% correction in median price from current levels, assuming mortgage loan growth slows to 12-15%. We expect the slowdown in home loan growth in the housing sector to continue due to asset quality concerns by banks in the retail loan segment. We believe a 25-30% correction staggered over the next couple of years will be sufficient to bring down the affordability index to 50% (from 70% currently), which coupled with monetary easing in FY10 will resurge demand into the next growth cycle.

Exhibit 18: Sensitivity of house price change to declining credit growth (Mumbai)

Outstanding loans Mar 08 (Rs. bn)	Credit CAGR (%) 09-10 E	Incremental loan growth (Rs bn)			Proj. housing supply (Mn Sq Ft)	Implied Price (Rs per Sq Ft)	Change in house price (%)
		FY09E	FY10E	Total FY09-10E			
460	20	92	110	202	36	5,622	2
460	18	83	98	181	36	5,014	(9)
460	**15**	**69**	**79**	**148**	**36**	**4,121**	**(25)**
460	12	55	62	117	36	3,251	(41)
460	10	46	51	97	36	2,683	(51)
	Base year price (Mar 08, Rs/sqft)					**5,500**	

Note: Price indicated above is for super built-up area
Assuming banks disburse 80% of property value;
Source: Centrum Research

Expected softening of demand in the current price scenario implies weakening market conditions for existing stock of housing units and upcoming projects, which would result in significant price correction.

The current backdrop is structurally different and the expected correction would be more like a short bear phase than a prolonged housing market bust. Our conclusions are based on:

- **Low NPA levels:** Unlike developed markets, the ability of the financial system in India to withstand the correction in asset prices is significantly better due to low NPA levels (estimated to have risen to a moderate level of around 3% of mortgage portfolio in FY08).
- **Stringent regulations:** Early risk-mitigating measures taken by RBI to contain bank exposure to the housing market and associated asset bubble have been successful in ensuring financial stability.
- **Stable economic growth despite the cyclical downturn:** While we expect income growth to slow and credit availability to tighten (GDP growth expected at 7% in FY09 and mortgage credit growth at 10-15%), incremental growth will only be lower compared to near term trend levels rather than negative. While below trend income and credit growth implies a correction in housing prices, these will be sufficient to provide demand support at lower price levels
- **More domestic participation:** Unlike the boom phase prior to 1995-96, which was largely supported by NRI flows (accelerated from East Asia), the recent boom phase has been driven predominantly by domestic participation.
- **Leveraging conditions comfortable:** Despite the rapid growth in mortgage credit and signs of it being partly contributed by rising prices in the recent years, the average leveraging conditions remain comfortable.
- **Financial distress unlikely:** The incremental financial liabilities to incremental savings for Indian households rose sharply during FY03-07 to 40% from 15% due to strong growth in mortgage and other liabilities. While the pace of increase in leveraged indicators is notably sharp and supports the boom in the housing market (nearly 50% of retail loans are mortgage loans), the same is not high enough to cause financial distress.

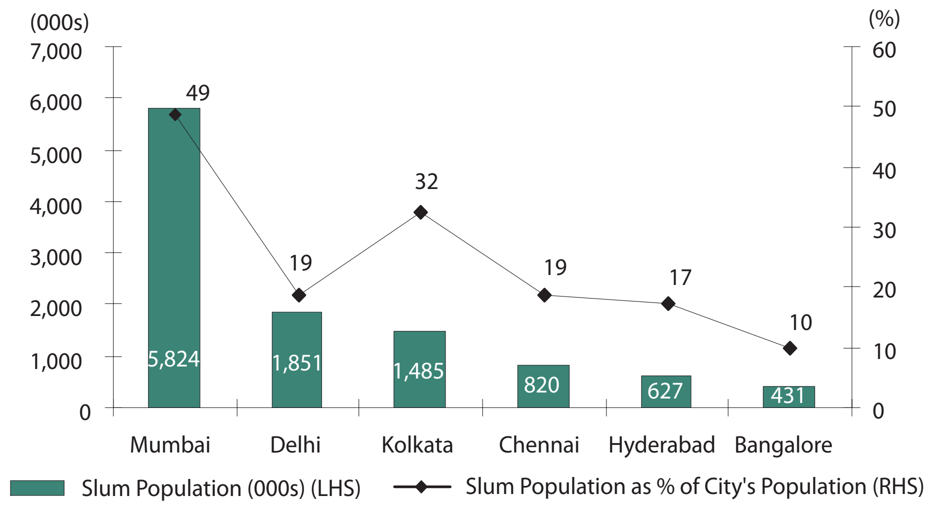
Huge opportunity in slum rehab and redevelopment

Mumbai provides opportunity to real estate players participating in the highly lucrative slum rehabilitation and redevelopment businesses, with about half of its 12mn people living in slums. We expect companies such as HDIL and Orbit Corporation to benefit from SRS and redevelopment projects (these companies have expertise in these areas), as the cost involved in development of such projects is lower. Plus, there are over 19,000 dilapidated buildings awaiting redevelopment.

Slum rehabilitation scheme

SRS is a unique segment of real estate development and is particularly applicable to the Mumbai property market. Mumbai provides huge potential in SRS for developers, as nearly half its 12mn population (Census 2001) resides in slums. In such a scenario, developers having expertise in the slum rehabilitation space, namely HDIL, Akruti City (Not Rated) are poised to benefit from the relatively lower costs associated with SRS projects.

Exhibit 19: Estimated slum population in India as of 2001



Source: Census 2001, Centrum Research

Exhibit 20: Mumbai – % of slum population

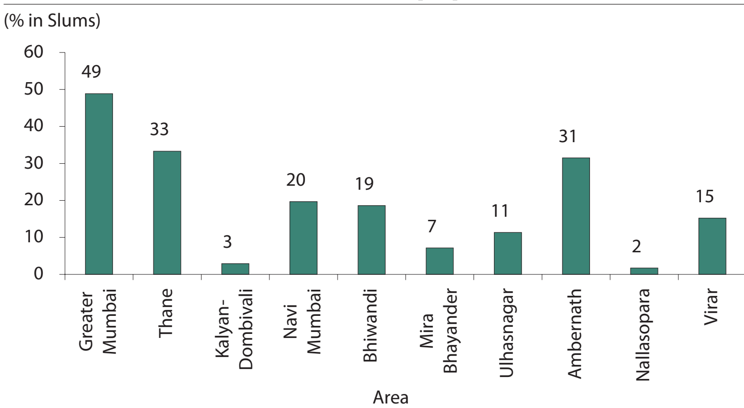
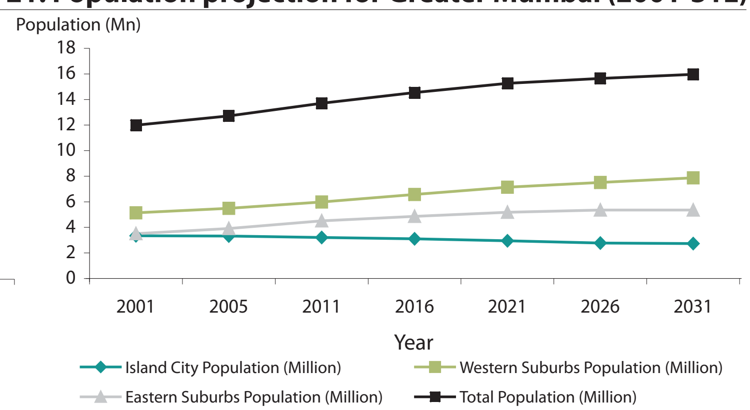


Exhibit 21: Population projection for Greater Mumbai (2001-31E)



Source: Mumbai Makeover Plan Document, Centrum Research Estimates

Redevelopment of properties

Mumbai holds huge opportunity for developers in the redevelopment space. According to a survey done by the Maharashtra Housing Area Development Authority (MHADA) in 2006, Mumbai has 19,642 old, dilapidated buildings that are 40-100 years old.

Further, the recent Supreme Court judgment allowing unlimited FSI to developers for redevelopment of dilapidated buildings under Development Control Regulation (DCR) 33 (7) and the proposed Cluster Development Scheme under DCR 33 (9) are long term triggers.

Of the companies under our coverage, Orbit is well poised to grab the opportunities in this business segment, as it has a strong presence with proven execution track record.

Exhibit 22: Redevelopment scenario in Mumbai

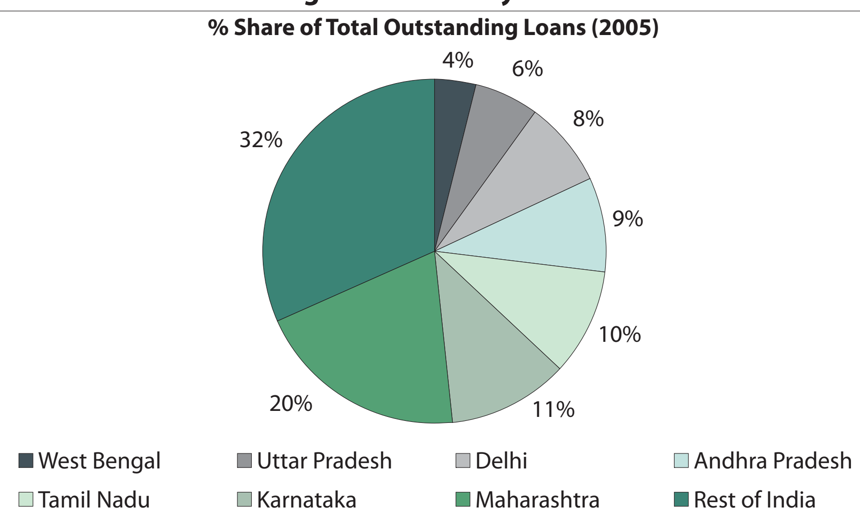
Category	Year of construction	No of buildings
A	Before to 01.09.1940	16,502
B	Between 01.09.1940 to 31.12.1950	1,489
C	Between 01.01.1951 to 30.09.1969	1,651
Total		**19,642**

Source: MHADA website (as on 8 June 2006)

Strong cash flow visibility for Mumbai focused property developers

Stable cash flows of Mumbai-focused developers within our coverage will help these companies tide over the current liquidity crunch in the sector. Most of the companies under our coverage have stable cashflows, as most of the pre-sales has resulted in robust internal accruals, given that a higher proportion of this demand is from the end-user. This coupled with quality projects will attract funding from financiers. The property market in MMR will absorb the incremental supply expected due to strong underlying demand in Mumbai, resulting in higher sales and profitability for Mumbai-focused developers.

Exhibit 25: Share of outstanding home loans by scheduled commercial banks



Source: National Housing Bank, Centrum Research

Exhibit 23: Funding gap analysis for our coverage universe (2009-10E)

Company	Debt requirement (Rs mn)	Internal accruals (Rs mn)	Funding gap (Rs mn)
HDIL	28,281	22,511	5,770
Indiabulls Real Estate	46,545	37,854	8,690
Orbit Corporation	7,213	8,754	(1,541)
Ajmera Realty (SPSL)	14,144	10,693	3,451

Source: Centrum Research

Valuations

We have initiated coverage on Mumbai-centric companies – Housing Development Industries (HDIL), Orbit Corporation (Orbit), Ajmera Realty (Ajmera, listed as Shree Pre-Coated Steel) and IndiaBulls Real Estate (IBREL) – with a Buy rating. Each of these companies offers a unique business model and has robust cash flows that will help them tide over the current liquidity crunch in the sector. The stocks under our coverage look attractive despite factoring in the fall in asset prices, execution delays, higher construction costs and higher capitalization rate of 12-13%.

We have valued HDIL, Ajmera and IBREL on NAV as we believe these companies are in the expansionary phase and with execution set to rise significantly in the coming years, benefits of a historically low cost land bank would be realized eventually. However, Orbit is valued on P/E multiple, as its business model is concentrated towards redevelopment of old, dilapidated properties where the company does not need to incur significant capex and land purchase costs compared to pure real estate developers.

In the current macro-economic environment, with rising interest costs and declining affordability, a slowdown in the real estate prices is inevitable. In such a scenario, we believe companies with access to relatively low-cost land banks, presence in resilient property markets, strong project execution track records and visibility in cash flows in the medium term would be able to tide over the current pessimism surrounding real estate stocks. Our top picks include:

HDIL – A leader in the SRS space

We have valued HDIL using the NAV approach and assumed that the ongoing projects would be developed over 5-6 years. We expect HDIL to register 36% and 20%revenue and net profit CAGR over FY08-10E and have valued its core business GAV at Rs161/sh, the MIAL project at Rs283/sh, SRS TDRs at Rs73/sh to arrive at the total GAV of Rs517/sh. Adjusting for FY09E net debt and providing a 25% discount to NAV to reflect execution risk, we arrive at a discounted NAV of Rs311/sh. Our price target of Rs311 provides 64% upside from current levels.

HDIL's strong execution track record in the lucrative Mumbai market and significant expertise in slum rehabilitation under SRS makes HDIL one of our top picks in the real estate space. HDIL currently has a land bank of 196mn sq ft (including TDRs) of which, work on 88mn sq ft is currently under progress. Also, the Mumbai International Airport (MIAL) rehabilitation project and HDIL's portfolio of 64mn sq ft of TDRs provide significant upside potential to the stock.

Indiabulls Real Estate – Present across all facets of realty

We have valued IBREL using the NAV approach by discounting its free cash flow of all projects and valuing the retail business on capitalization of FY10 revenues from organized retail business. We have valued IBREL's core real estate business at a GAV of Rs415/sh and have valued the retail business using capitalization rate of 13% for FY10E retail sales to arrive at a value of Rs43.3/sh. On our SOTP valuation for the real estate and retail businesses, we arrive at a price target of Rs328/sh after adjusting for FY09E net debt and providing a 30% discount to NAV. The discounted NAV of Rs328 provides a 77% upside potential from current levels.

IBREL is the de-merged real estate entity of Indiabulls Financial Services Limited (IBFSL) and one of the largest Indian real estate development companies focused on project management, investment advisory and development of commercial and residential properties. It has a land bank of 219mn sq ft with operations spanning all aspects of real estate development with strong execution capabilities, especially in the commercial space as seen in the Jupiter and Elphinstone Mills projects in Mumbai. The company's foray into organized retail through the Pyramid Retail acquisition and planned power plant provide added potential for the stock.

Orbit Corporation – Tapping the redevelopment opportunity
We have valued Orbit on P/E basis as opposed to NAV method as we believe its valuations are not driven by land bank accumulation. At CMP of Rs178, the stock trades at a P/E multiple of 3.0x FY10E, which we believe is undervalued considering the company's ability to cash in on the redevelopment opportunity. Our target price of Rs298, an upside potential of 67%, is based on 5x FY10E P/E and the stock looks significantly undervalued at a P/E (assuming 50% warrant conversion in FY09 and FY10 respectively) of 3.0x FY10E at the current price.

A majority of the company's ongoing projects are in the resilient South Mumbai market, which insulate the company against the asset cycle. The huge redevelopment opportunity presented by over 19,000 cessed buildings in Mumbai coupled with the company's cash flow visibility over the next five years where it is developing 3mn sq ft.

Ajmera Realty – An emerging realty developer
Ajmera Realty is an emerging realty developer transforming itself from a steel manufacturer. We have valued the company's two businesses, real estate development and steel on SOTP methodology. The real estate business is valued on NAV, giving it a 40% discount at Rs96/sh and the steel business on P/E multiple of 4x FY10 EPS of Rs8.63 at Rs35/sh to arrive at our target price of Rs131/sh, implying an upside potential of 98%.

The company has a strong execution track record of over 25 years in property development in Mumbai having developed nearly 17mn sq ft until FY07. It has one of the largest land banks in Mumbai situated in upcoming localities like Wadala in Central Mumbai and the upcoming Central Business District (CBD) at Kanjur Marg in the eastern suburbs. The land bank is comparatively low risk as most of the land is already in the company's possession and the acquisition cost of the land is low at Rs75/sq ft. Also, the company's international presence through its Bahrain Bay project and portfolio of on-going projects make it a compelling Buy.

Exhibit 24: Valuations within our coverage universe

Company	Rating	Market Cap (Rs mn)	CMP (Rs)*	NAV (Rs)*	Target Price (Rs)	% Upside/ Downside from CMP	Potential Upside from SEZ/Other business (Rs/sh)	P/E (x)	
								FY09E	FY10E
HDIL	BUY	52,373	190	415	311	64	88	2.9	2.6
IBREL	BUY	49,247	185	469	328	77	234	9.2	4.0
Orbit Corp	BUY	6,461	178	298	298	67	NA	3.4	3.0
SPSL (Ajmera Realty)	BUY	7,807	66	195	131	98	NA	2.4	2.3

*As on 26 Sep 2008
Source: Centrum Research

Key Assumptions

Exhibit 25: Property price assumptions for Mumbai (2008-10)

Property Segment	Price Increase/(Decrease) %		
	CY08E	CY09E	CY10E
Residential	(15.0)	(10.0)	(5.0)
Commercial	(10.0)	(10.0)	(10.0)
Retail	(10.0)	(10.0)	(5.0)

Source: Centrum Research

Exhibit 26: Assumptions for Mumbai 2008-10

Parameter	Details
Prices	Fall of 20-30% across micro-markets
Delays	Delays in Project Execution of 12-18 months
Costs	YoY increase of 7% in construction costs
Cap Rate	12-13%
Exclusions	SEZ Valuations, Ancillary businesses

Source: Centrum Research

Valuation Assumptions - Mumbai

Exhibit 27: Residential Capital Values (Rs/sq ft)

	CY08	CY08E Rise/ (Fall in Prices)	CY09E	CY09E Rise/ (Fall in Prices)	CY10E	CY10E Rise/ (Fall in Prices)	CY11E	CY12E
Cuffe Parade	40,000		36,000		34,200		30,685	30,685
Worli	25,000		22,500		21,375		19,178	19,178
Bandra	20,000	(15%)	18,000	(10%)	17,100	(5%)	15,343	15,343
Borivali	6,000		5,400		5,130		4,603	4,603
Thane	5,000		4,500		4,275		3,836	3,836
Vashi	5,000		4,500		4,275		3,836	3,836

Exhibit 28: Commercial Capital Values (Rs/sq ft)

	CY08	CY08E Rise/ (Fall in Prices)	CY09E	CY09E Rise/ (Fall in Prices)	CY10E	CY10E Rise/ (Fall in Prices)	CY11E	CY12E
Nariman Point	38,500		34,650		31,185		26,334	26,334
Worli	33,000		29,700		26,730		22,572	22,572
Andheri	17,600	(10%)	15,840	(10%)	14,256	(10%)	12,038	12,038
Malad	13,200		11,880		10,692		9,029	9,029
Vashi	5,500		4,950		4,455		3,762	3,762
Thane	6,600		5,940		5,346		4,514	4,514

Exhibit 29: Retail Capital Values (Rs/sq ft)

	CY08	CY08E Rise/ (Fall in Prices)	CY09E	CY09E Rise/ (Fall in Prices)	CY10E	CY10E Rise/ (Fall in Prices)	CY11E	CY12E
Colaba	40,250		36,225		34,414		27,531	27,531
Lower Parel	28,750		25,875		24,581		19,665	19,665
Bandra	23,000	(10%)	20,700	(10%)	19,665	(5%)	15,732	15,732
Andheri	18,400		16,560		15,732		12,586	12,586
Malad	13,800		12,420		11,799		9,439	9,439
Mulund	9,200		8,280		7,866		6,293	6,293

Note: Lease rentals for office and retail properties derived from capital values at cap rates of 12-13%
Source: Centrum Research

Annexure

Annexure 1A: Mumbai (SRS and TDR)

Slum rehabilitation scheme

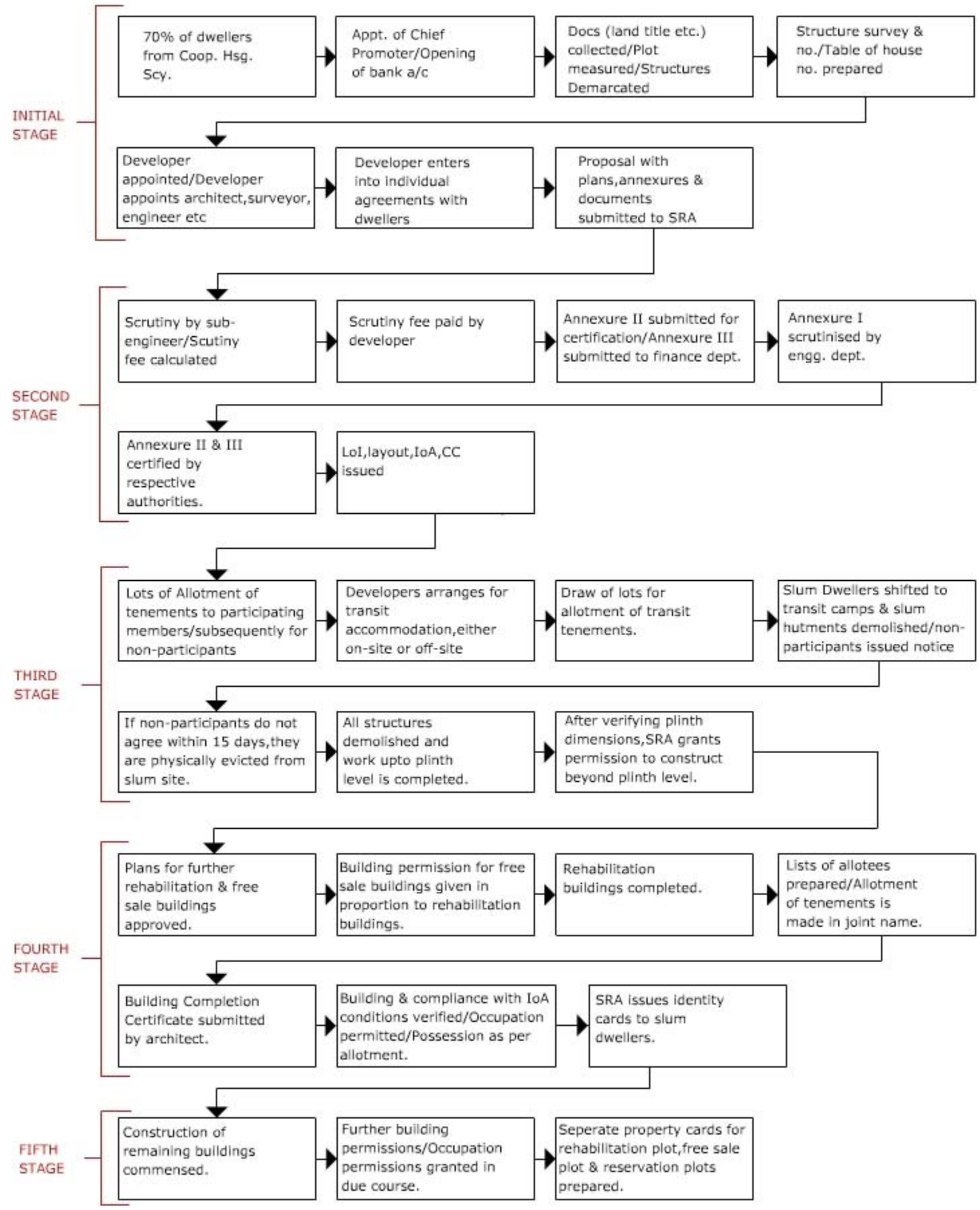
In 1995, the Maharashtra government initiated SRS to be administered by the slum rehabilitation authority (SRA). The objective of SRS is to redevelop slums in Mumbai. According to this scheme, every slum structure existing prior to January 1995 is treated as protected structure and is eligible for rehabilitation. Eligible residential slum structure is provided with an alternative tenement measuring 225 sq ft of carpet area preferably at the same site, irrespective of the area of slum structure. To pursue a SRS project, a minimum of 70% of the eligible slum dwellers are required to agree with the project and come together to form a co-operative housing society for implementation of SRS. The carpet area for each residential tenement provided to slum dwellers has been increased to 269 sq ft in 2007.

The SRS process involves appointing a developer by slum dwellers for execution of SRS, who puts in resources in the form of money, men and material for construction of free houses for slum dwellers. The developer is compensated for his efforts in the form of free sale component which the developer can use at the same site or transfer to other developments through sale in the open market, termed as transferable development rights.

The area allowed for sale in the open market is equal to the area of tenements constructed for rehabilitation of slum dwellers. Floor space index (FSI) up to 2.5 is allowed for normal SRS projects. In most cases, the developer is required to construct the rehabilitation tenements on the same plot and the balance is allowed for construction of free sale tenements. The plots reserved for public purposes and over run by slums can also be taken up in SRS.

This innovative subsidy mechanism of the SRS has spurred redevelopment activity in deprived areas of Mumbai, which were previously unattractive to real estate developers. This mechanism also helps fulfil the government's social obligations, without any capital costs.

Exhibit 30: Stages of SRS



Source: Slum Rehabilitation Authority (SRA) Website

Transferable development rights

The transferable development rights (TDR) is the floating FSI. The development potential of a plot of land separated from the land itself is made available for use in another area or land in the form of TDR. TDR is generated on plots reserved for public amenities like roads, playgrounds, gardens, schools, markets, etc, which are acquired by Brihanmumbai Municipal Corporation (BMC) free of cost. As compensation, the land owner is granted TDR. It is also generated on slum redevelopment projects where an owner or builder redevelops slums free of cost and gets TDR as an incentive. The plot where TDR is created is called the 'originating plot' and the plot where the TDR is actually used is called the 'receivable plot'.

Rationale for introducing TDRs

The concept of TDR was introduced in Development Control (DC) Regulations for Greater Bombay 1991. Regulation 34 (Appendix VII) of the DC regulations defines and governs the use of TDR. The BMC is responsible for developing public amenities like roads, gardens, playgrounds, schools, hospitals, libraries, etc. on lands reserved for the same. However, owing to paucity of funds, the civic body was unable to acquire such lands from private owners. And in some cases, the corporation's attempt to acquire such lands by paying monetary compensation to the owner got embroiled in litigation as owners/lessees felt that the payment was inadequate. In the meantime, many reserved plots were encroached by slums.

To overcome this situation, TDR was introduced as an alternative to monetary compensation. Later, when the Maharashtra government decided to rehabilitate slums, TDR was used as an incentive to attract developers to the slum redevelopment project.

Types of TDR

There are four types of TDR categorised according to the purpose for which it has been granted:

- Road TDR: Granted to owners in lieu of land surrendered for building new roads or widening existing roads.
- Reserved Plots TDR: Granted to owners for surrendering land reserved for public amenities like playground, market, school, etc.
- Slum TDR: Granted to owners/developers for surrendering land and redeveloping slums and re-housing slum dwellers free of cost under the Slum Redevelopment Scheme.
- Heritage TDR: Granted to owners/builders who cannot utilize the entire FSI potential in the same plot owing to heritage regulations.

The total FSI in the receivable plot including TDR cannot be more than 2. The base FSI permissible in the suburbs has recently been increased to 1.33 from 1.

Eligibility for TDR

TDR is granted only for prospective development and not for past developments. TDR will not be granted if there is an existing user of the plot of land. The owner or lessee of a plot reserved for any public amenity in the development plan is eligible for road/reserved plot TDR after he surrenders the plot to BMC or any competent authority free of cost and encumbrances. TDR credit will be equal to the gross area of the reserved plot to be surrendered. It will proportionately increase or decrease depending on the FSI permissible from where the TDRs originated. However, if the owner or lessee also develops the amenity on the surrendered plot as required and hands it over to BMC free of cost, he may then be granted additional TDR equal to the area of the construction carried out.

Any owner or builder who re-houses slum dwellers free of cost is eligible for slum TDR, which he can utilize to cross-subsidize the costs of developing the slums. Likewise, owners/developers of heritage buildings are entitled to Heritage TDR. All these TDRs, however, are granted under certain terms and conditions.

Development rights certificate
Development rights certificate (DRC) is a certificate issued by the Municipal Commissioner to individuals who are granted TDR. The certificate states that the FSI credit in square meter of the built-up-area to which the owner or lessee of the reserved plot is entitled, the place and user zone in which the development rights are earned, and the areas in which they may be utilized.

A holder of DRC who desires to use the FSI credit on a particular plot of land must apply for development permission to the commissioner. The commissioner will then grant permission accordingly. When the development is complete, the commissioner will endorse the DRC with the quantum of DRs actually utilized and the balance remaining thereafter, if any, before issuance of occupation certificate.

TDR can be utilized by the original recipients or transferred to any other person. If a DRC holder intends to transfer it to another individual, he must submit the DRC to the Municipal Commissioner with an appropriate application for endorsement of the new holder's name on the certificate. Without such an endorsement, the transfer will be invalid and the certificate will continue to be in the name of the original holder.

Place of use
While TDR can originate either in the island city or suburbs, it can only be used in the suburbs, i.e. between Bandra and Dahisar in the western line, Kurla and Mulund in the central suburbs, and between Tilak Nagar and Mankhurd in the harbour line. In the suburbs, it can be used either in the same ward where it had originated or on any plot lying to the north of the originating plot. For example, a TDR generated in Goregaon can be utilized in Goregaon or in Malad, Kandivali and beyond. But it cannot be used in Jogeshwari, Andheri, etc.

TDR cannot be utilized in the island city of Mumbai. Likewise it cannot be used in plots falling under the Coastal Zone Regulation, No Development Zones, Tourism Development Zones, in gaothans, and in plots abutting narrow roads as specified in DC rules. TDR was earlier not allowed on lands between Western Railway lines and Swami Vivekananda Road, between Western Railway lines and Western Express Highway and between Central Railway Lines and Lal Bahadur Shastri Road. This ban was lifted by a court order in 2007. Earlier, TDR could be used for adding more floors to an existing building but this was banned in June 2003 by the BMC.

TDR rates
As TDRs are transferable, those who have acquired them and have no use for it can sell it to developers at the prevailing market rate. The market rate for TDRs, which used to range between Rs250 and Rs400 per sq ft in 2000-01, has appreciated substantially and touched levels of Rs4,000 per sq ft in CY07. However, with the increase in FSI in the suburbs, from 1 to 1.33, TDR rates are reportedly falling. The TDR rates, which vary from suburb to suburb, also fluctuate depending on other factors, including the kind of TDR required, area it is being utilized, and whether it is required immediately or later.

The present TDR rates are: Slum TDR: Rs. 2400-2700 per sq ft; Road/Reserved Plots TDR: Rs2,000-2,400 per sq ft; and Heritage TDR is not available now.

Annexure 1B: Mumbai real estate details

Mumbai: Retail Market

Exhibit 31: Mumbai – Key high street retail locations

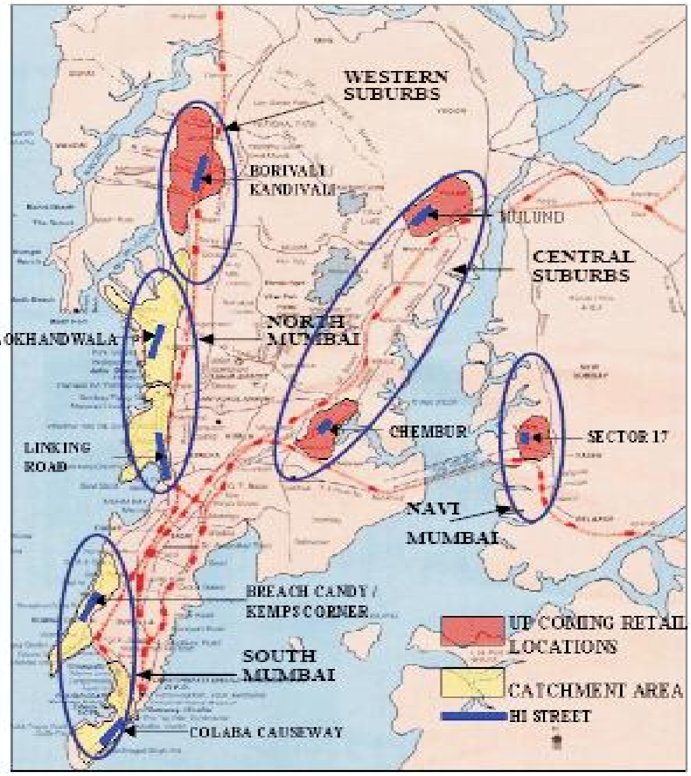
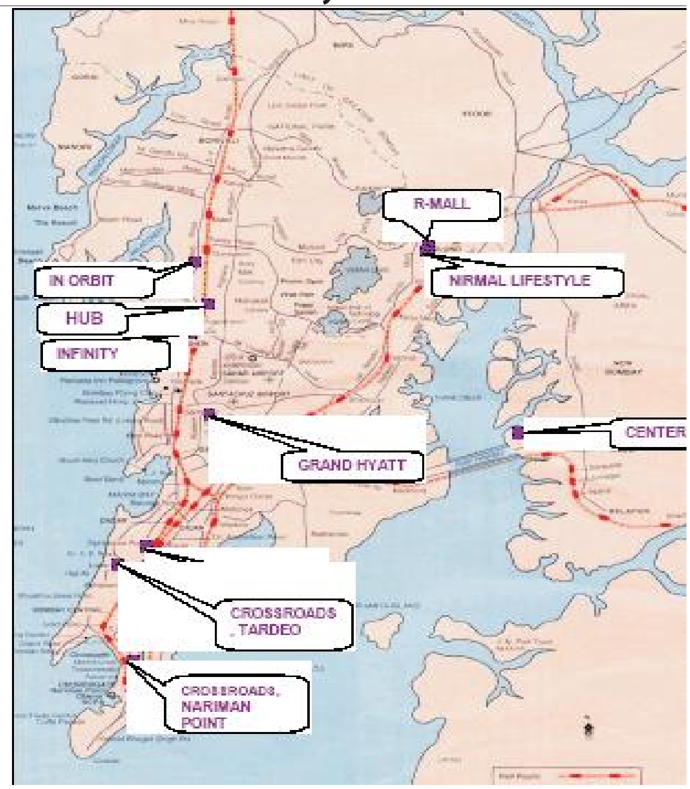


Exhibit 32: Mumbai – Key mall locations



Source: Cushman Wakefield, Centrum Research

Exhibit 33: Mumbai high street retail rental values

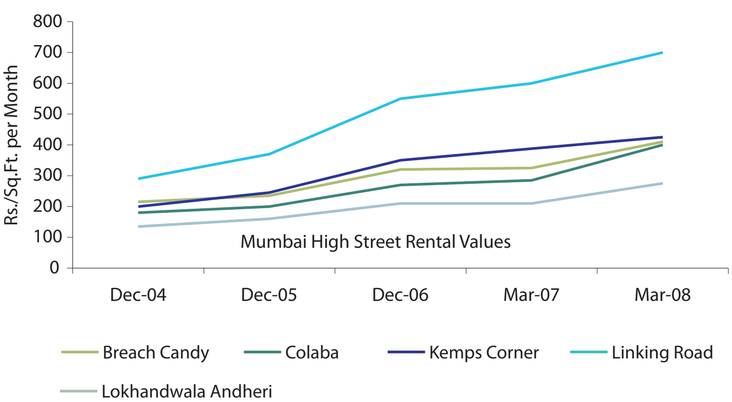
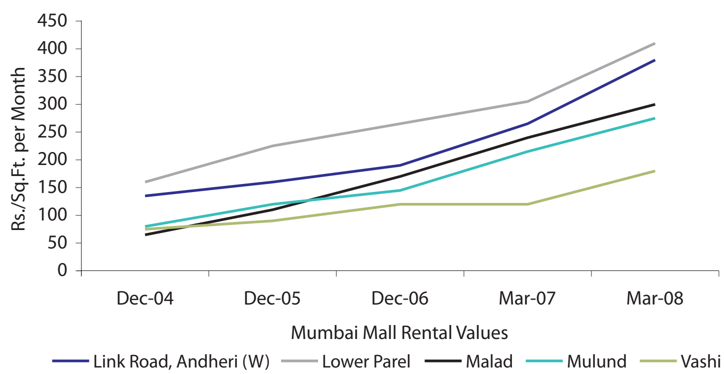


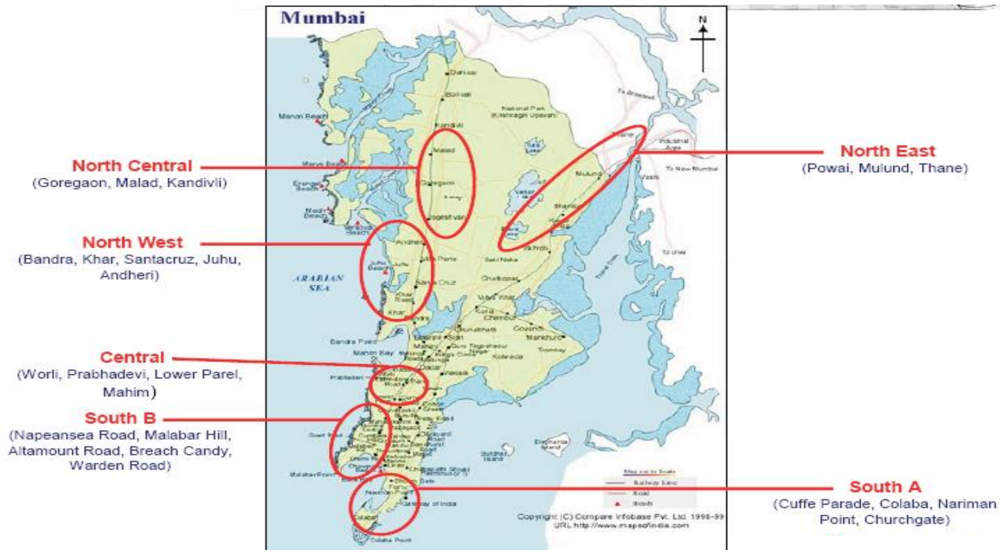
Exhibit 34: Mumbai mall retail rental values



Source: Bloomberg, Centrum Research

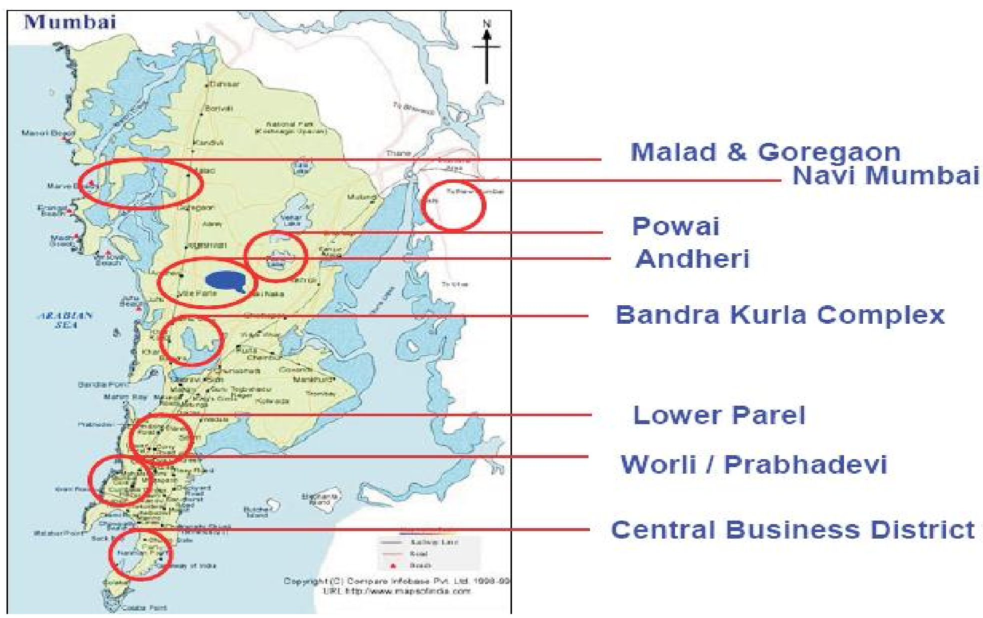
Mumbai: Residential market

Exhibit 35: Mumbai – Prime Residential Areas



Source: Cushman Wakefield, Centrum Research

Exhibit 36: Mumbai – Prime commercial micromarkets



Source: Cushman Wakefield, Centrum Research

Initiating Coverage

Housing Development & Infrastructure

BUY

Flying high

CMP: Rs190*

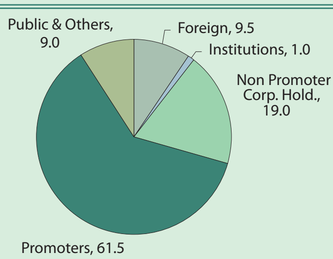
Target Price: Rs311

Key Data	
Bloomberg Code	HDIL IN
Reuters Code	HDIL.BO
O/S Shares (mn)	275.5
Diluted Shares (mn)	275.5
Market Cap (Rs bn/US$ bn)	52.4/1.1
52 Wk H / L (Rs)	1,114/185
Daily Vol. (3M NSE Avg.)	34,80,040
Face Value (Rs)	10

1 US$ = Rs46.6

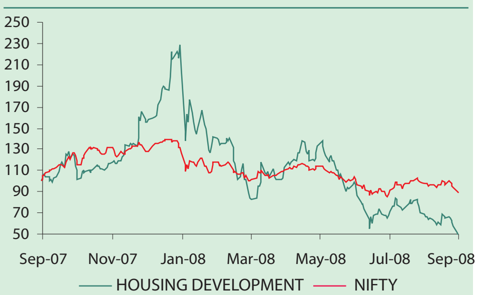
Source: Bloomberg

Shareholding Pattern (%)



As on 30th June 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	**1M**	**6 M**	**1 Yr**
HDIL	(36.5)	(57.8)	(60.4)
Nifty	(5.2)	(14.9)	(16.8)

Source: Bloomberg, Centrum Research

*As on 26 September 2008

Housing Development & Infrastructure (HDIL) has a significant presence in the MMR (landbank of 160mn sq ft). This coupled with its expertise in SRS, through the Mumbai Airport project, makes us positive on the stock. We initiate coverage on HDIL with a Buy rating, implying potential upside of 64% to our target price of Rs311 from current levels.

Sizeable land reserves in Mumbai shields HDIL against asset cycle

HDIL has acquired sizeable land reserves at relatively low costs, which insulates it against falling property prices. We believe the company will be able to sustain net profit margin of 52.3% and 45.0% in FY09E and FY10E, respectively. About 86% of HDIL's land reserves of 196mn sq ft (saleable area including Transferable Development Rights (TDRs) is located in the MMR. These include land parcels aggregated over a long period and land allotted to the company under SRS.

Major player in SRS projects

With nearly 50% of Mumbai's 12mn population residing in slums (the highest in India), HDIL should be able to cash in on the slum rehabilitation (SRS) opportunity, given its strong execution track record in SRS and goodwill with government agencies and slum rehabilitation authorities. HDIL is an established developer in slum rehabilitation in the MMR, having developed approximately 3.57mn sq ft to date.

MIAL project provides maximum upside: GAV at Rs283 per share

We value HDIL's Mumbai International Airport (MIAL) project at a GAV of Rs283 per share on the basis of 45mn sq ft of TDR and 7.5mn sq ft FSI from land development. The project involves developing 276 acres of land close to Mumbai's Chatrapati Shivaji International Airport and rehabilitating 85,000 slum dwellers. The company plans to execute this project over FY09-13.

A compelling Buy

We expect HDIL to register 36% and 20%revenue and net profit CAGR over FY08-10E. We have valued HDIL's core business GAV at Rs161per share, the MIAL project at Rs283 per share, SRS TDRs at Rs73 per share to arrive at the total GAV of Rs517 per share. Adjusting for FY09E net debt and providing a 25% discount to NAV to reflect execution risk, we arrive at an NAV of Rs311 per share. Our valuations do not include the Vasai-Virar SEZ (2,500 acres) which provide a potential upside of Rs 88 per share. At our target price of Rs311, the stock provides 64% upside potential.

Key Financials

Y/E March (Rs mn)	**FY07**	**FY08**	**FY09E**	**FY10E**
Net Sales	12,165	24,323	34,046	45,267
YoY growth (%)		99.9	40.0	33.0
EBIDTA	6,633	17,419	21237	24,454
EBIDTA Margin (%)	54.5	71.6	62.4	54.0
PAT (adjusted)	3,846	860	17,803	20,362
Growth (%)		(77.6)	1969.9	14.4
PAT (Adjusted) Margin (%)	31.6	3.5	52.3	45.0
EPS (diluted) (Rs)	30.1	69.2	64.6	73.9
P/E (x)	6.3	2.7	2.9	2.6
RoE (%)	74.5	38.8	32.6	27.9
ROCE (%)	53.1	22.9	22.1	20.5

Source: Company, Centrum Research

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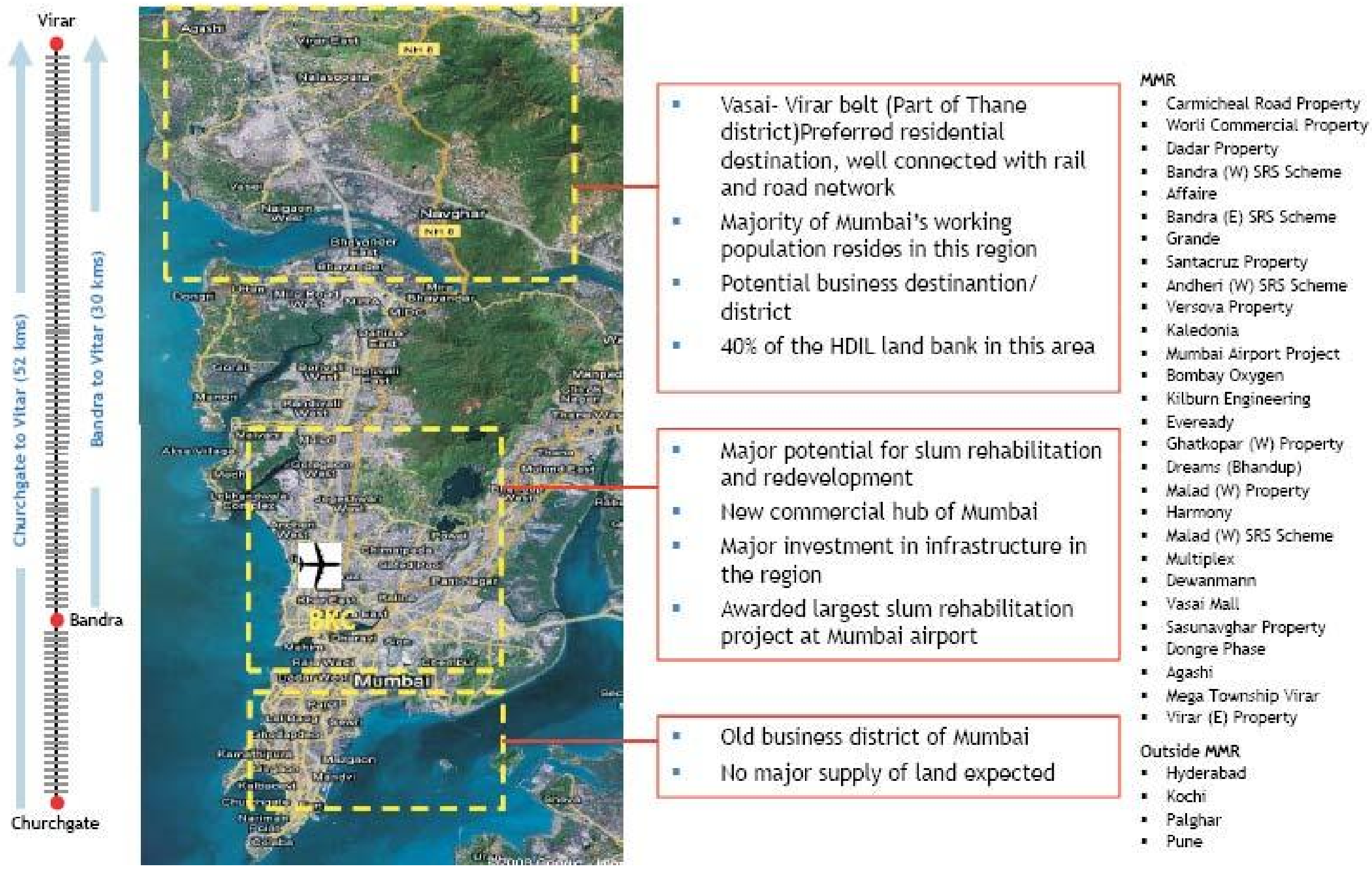
Investment rationale

Sizeable land reserves in Mumbai insulate against asset cycle

HDIL has a strong foothold in the Mumbai property market and has also acquired large parcels of land through SRS. The company has 163.3mn sq ft of land in MMR. Its sizeable land bank has made the company among the largest developers in the Mumbai region. It has acquired land at an average cost of Rs200 per sq ft and most of it is situated in urban locations (especially Mumbai), where realisations are high.

Exhibit 37: HDIL: Project details



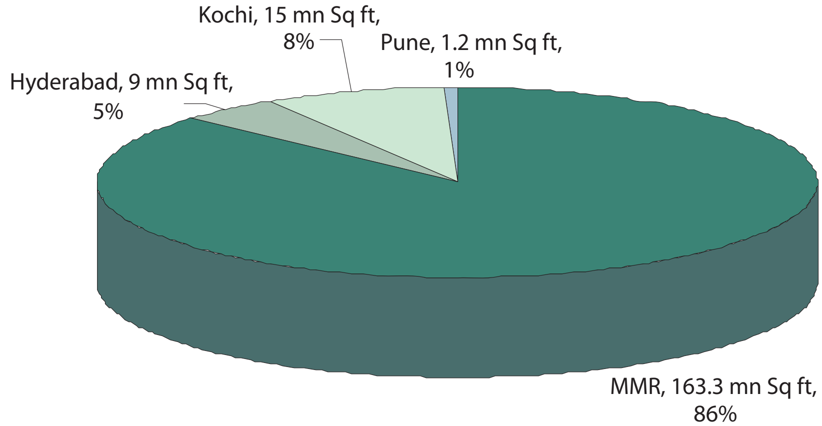
Source: Company, Centrum Research

Exhibit 38: HDIL's land reserves (as of 30 June 2008)

Land Reserves	Estimated Developable Area (mn sq.ft)	% of Developable Area
Land Owned By the Company	94.54	48.1
Land over which the company has sole Development rights/TDR	67.15	34.2
Memorandum of Understanding/ Agreements to acquire/ letters of acceptance	21.10	10.8
Joint Development With Partners	13.50	6.9
Total	196.29	100

Source: Company, Centrum Research

Exhibit 39: HDIL: Location-wise land reserves (as of 30 June 2008)



Source: Company, Centrum Research

Healthy project pipeline

The company intends to develop around 88mn sq ft of saleable area over FY09-12 with SRS projects accounting for around 50mn sq ft. The first phase of the MIAL (Mumbai International Airport) SRS project consists of 6-8mn sq ft rehab area and rehabilitation process in 5mn sq ft of saleable area has already begun in FY09 with the rehabilitation of 22,000 families scheduled to be completed over the next 15-18 months.

Exhibit 40: HDIL: On-going projects (30 June 2008)

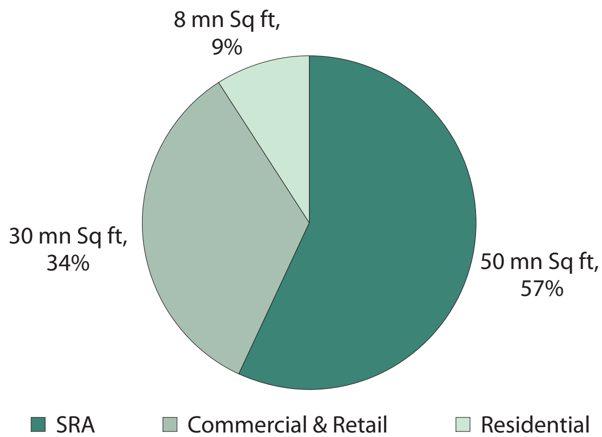
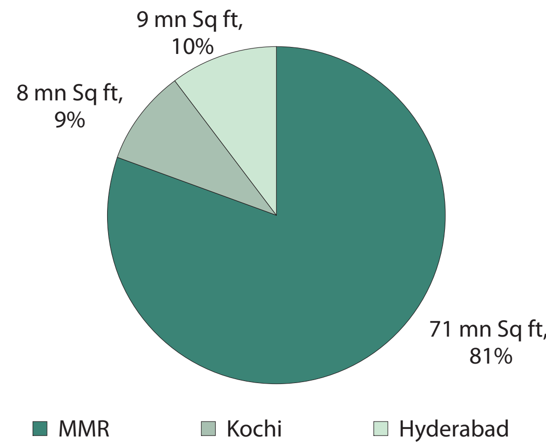


Exhibit 41: HDIL: On-going projects (region-wise breakup)

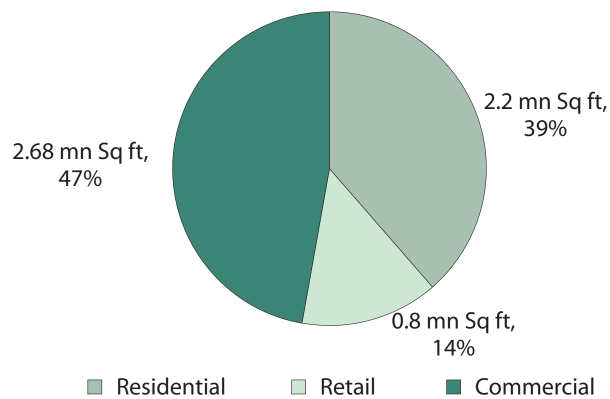


Source: Company, Centrum Research

Major player in SRS projects

HDIL is an established developer in slum rehabilitation, which primarily involves construction of residential buildings for slum dwellers and clearing public and private land for development of residential, commercial, retail and infrastructure purposes. The slum rehabilitation scheme allows HDIL to acquire premium city-centric land parcels at a reasonable cost making it a very lucrative proposition. Currently, SRS projects contribute ~ 22% of its land reserves in Mumbai (BKC, Santacruz, Andheri, Ghatkopar, etc). HDIL has also leveraged its leadership in executing projects under SRS to win the Mumbai Airport slum rehab project. Under SRS, rehabilitation flats are built free of cost for the slum dweller by cross-subsidisation provided by free-sale flats.

Exhibit 42: HDIL's Ongoing SRS projects (excluding MIAL)



Source: Company, Centrum Research

Exhibit 43: Cities in India with largest slum population

Municipal Corporation	State	Population (000s)	Slum Population (000s)	% of Total Population Living in Slums
Greater Mumbai	Maharashtra	11,978	6,475	49
Delhi	Delhi	9,879	1,851	19
Kolkata	West Bengal	4,573	1,485	32
Chennai	Tamil Nadu	4,344	820	19
Nagpur	Maharashtra	2,052	737	36
Hyderabad	Andhra Pradesh	3,637	627	17
Surat	Gujarat	2,434	508	21
Pune	Maharashtra	2,538	492	19
Faridabad	Haryana	1,056	491	46
Ahmadabad	Gujarat	3,520	474	13
Meerut	Uttar Pradesh	1,069	472	44
Bangalore	Karnataka	4,301	431	10
Jaipur	Rajasthan	2,323	369	16
Kanpur	Uttar Pradesh	2,551	368	14
Thane	Maharashtra	1,263	351	28

Source: State Governments, Centrum Research

HDIL currently has over 5mn sq ft ongoing SRS projects

The company plans to bid and hopes to win other significant value accretive projects such as the redevelopment of Dharavi (Asia's largest slum). Under SRS, the government has permitted an FSI of about 2.5 vs normal FSI of 1.33. Moreover, SRS projects enable a developer to acquire land in prime locations in Mumbai, a city where the scarcity of land is a constraint on real estate development. The acquisition can be made at a lower cost (the cost of constructing replacement housing for the slum dwellers) than traditional purchases of land for cash, thereby reducing the asset cycle risk for the developer between land acquisition and sale of developed property.

Ongoing SRS projects valued at Rs 73 per share

We value HDIL's ongoing SRS projects at Rs 73 per share with a GAV of Rs 32,231mn (adjusted for operating costs and taxes) on the assumption that the revenues from the projects shall flow over FY09-11. We have not included any value accruing from HDIL's planned SRS projects or the potential upside from the Dharavi slum redevelopment project.

Mumbai airport project valued at GAV of Rs283 per share

We value HDIL's Mumbai International Airport (MIAL) project at Rs77.92bn or Rs283 per share, based on an estimated development of 7.5mn sq ft of land and 45mn sq ft of TDR generation. We have assumed rentals of about Rs170/sq ft, capitalization rate of 13%, discount rate of 15% and an effective tax rate of 25%.

In October 2007, HDIL bagged the Mumbai Airport Slum Rehabilitation project awarded by MIAL. Under the deal, HDIL would re-settle the slum dwellers and hand over the 276-acre cleared land to MIAL in return for development rights in the same place (the size of such developable area is unspecified). According to the company, the rehabilitated land itself amounts to 25mn sq ft, which means that the development rights could be much more.

We expect the company to benefit significantly from such development rights as projects in land surrounding the airport have the potential to generate high returns. Further, slum rehabilitation projects carry a higher internal rate of return (40-42%) than typical real estate projects, given that the deal involves low budget construction in return for high value land.

Slum rehabilitation projects are ridden with risks and uncertainties, given the regulatory issues difficulties in evacuation of dwellers. However, that HDIL has won this project in a competitive bidding process highlights its technical qualification in dealing with such projects. The company has a track record of rehabilitating close to 30,000 families in Mumbai under rehab schemes. In the present project, the company has already tied up for clearing 180 acres of land. It has also identified parcels of land for rehabilitation.

Exhibit 44: Mumbai airport project valuation

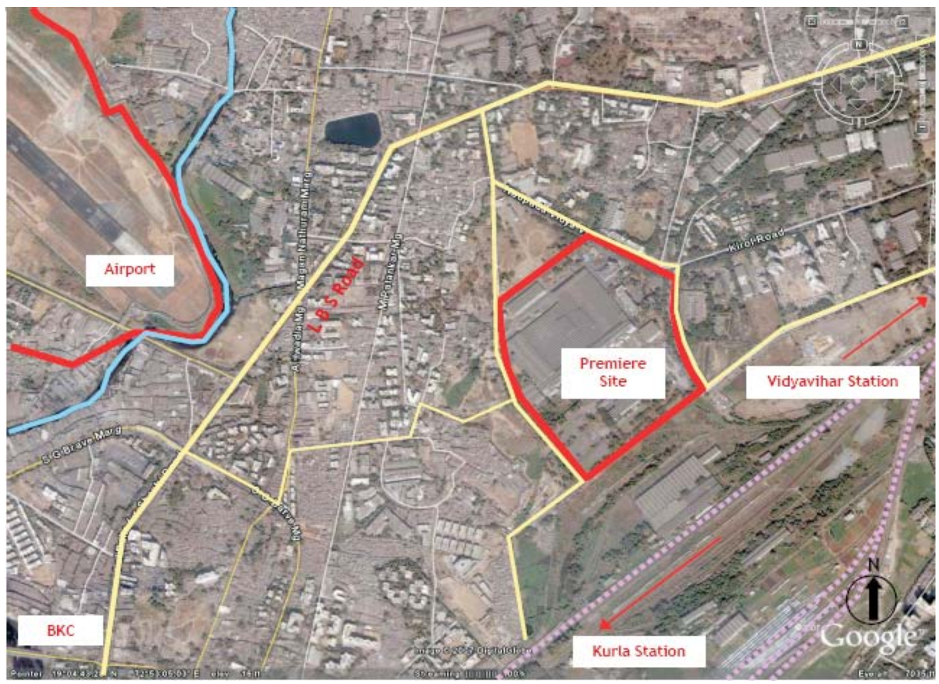
	Total	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17-23E
Project details		1	2	3	4	5	6	7	8	
Land development										
Land acquired for rehab (acres)	180	100	50	30						
Land acquired for rehab (mn sqft)	8	4.4	2.2	1.3	0.0					
TDRs generated (mn sqft)	10	2.0	2.2	1.3	3.6	0.9				
TDR Rate per sq ft		2,400	2,200	2,000	2,000	2,000				
TDR sold (Rs mn)	48,152	4,800	4,792	2,614	7,200	1,800				
Rehabilitation of slum dwellers										
Rehab (mn sqft)	35	7	6.5	6.5	6	5	4			
Rehab YoY (mn sqft)			20%	20%	20%	20%	20%			
Rehab cost (Rs mn)	32,550.0	7,000.0	6,825.0	6,955.0	6,420.0	5,350.0	4,280.0			
TDR generated (mn sqft)	35	6.3	3.4	6.3	6.1	6.2	7.1			
TDR selling price (Rs/sqft)	2,500.0	2,500.0	2,500.0	2,300.0	2,300.0	2,300.0	2,300.0			
Cash inflow (Rs mn)	84,800.0	16,250.0	8,750.0	14,950.0	14,260.0	14,260.0	16,330.0			
Commercial development at airport										
Airport land (mn sqft)		7.5								
Development schedule				25%	25%	25%	25%			
Construction schedule (mn sqft)				1.9	1.9	1.9	1.9			
Construction cost (Rs/sqft)	2,500.0	2,650.0	2,809.0	2,977.5	3,156.2	3,345.6	3,546.3			
Construction cost (Rs mn)	24,423.0			5,582.9	5,917.9	6,272.9	6,649.3			
Lease rental (Rs/pm/sqft)	175.0	170.0	170.0	185.0	185.0	185.0	185.0	185.0	194.3	1,660.7
Lease property (mn)						1.875	3.75	5.625	7.5	52.5
Rentals cash inflow (Rs mn)	60814.13					4162.5	8325.0	12487.5	17,482.5	1,49,459.8
Cash outflow (Rs mn)		25,000.0	11,825.0	16,537.9	12,337.9	11,622.9	10,929.3	1248.8	1,748.3	14,946.0
Cash inflow (Rs mn)		21,050.0	13,550.0	17,563.6	21,460.0	20,222.5	24,655.0	12487.50	17,482.50	1,49,459.8
Net cash flow (Rs mn)		(3,950.0)	1,725.0	1,025.7	9,122.1	6,799.6	13,725.7	11238.8	15,734.25	1,34,513.8
Discounting		0.87	0.76	0.66	0.57	0.50	0.43	0.38	0.33	
Present value		(3,434.78)	1,304.35	674.42	5,215.61	4,280.59	5,934.00	4225.06	5,143.55	24,338.5
Valuations										
NPV (Rs mn)	47,814									
Equity Shares (mn)	275.5									
NPV/share (Rs)										
Capitalisation rate	13%									
Discount rate	15%									
Tax rate	25%									
Capitalised rental value (Rs mn)	30,104									
Total value (Rs mn)	77,918									
Value/share (Rs)	**282.8**									
Assumptions										
No. of tenements encroaching airport land		85,000								
Saleable area per tenement (built-up area		350								

Source: Centrum Research

Recent developments in MIAL project

- The Company has acquired 53 acres of land from ILFS in Kurla (Premier Auto Factory) for Phase 1 of rehabilitation. The land cost of Rs19,000mn has been fully paid in Fy08.
- An FSI of 4 has been approved for the airport project
- Approximately 20,000 families would be rehabilitated in Phase 1
- Construction started in Q1 FY09 for approximately 6-8mn sq ft of rehab area and approximately 5mn sq ft of saleable area has been rehabilitated
- Phase 1 has a construction time line of 15-18 months
- The first tranche of TDR sale launched
- More than 3000 workers, ten contractors and over 100 engineers deployed on Kurla site
- Launch of another 2,000 families slum rehabilitation in July 2008

Exhibit 45: MIAL Project Rehab Site at Kurla



Source: Company Presentation

Future initiatives

Vasai-Virar SEZ

HDIL has announced plans to set up a 5,547-acre SEZ in the Vasai-Virar region near Mumbai. The company plans to set up a 2,500-acre multi-product SEZ in the first phase. It has already received an in-principle approval from the state for this development. To support this project, the company also plans to set up a power plant and a jetty for coal import.

Entertainment

HDIL Entertainment, a 100% subsidiary of HDIL, was incorporated in July 2007. It decided to enter the entertainment sector under the brand name Broadway. HDIL will invest close to Rs10bn to fund its organic as well as inorganic expansion in the country's multiplex market.

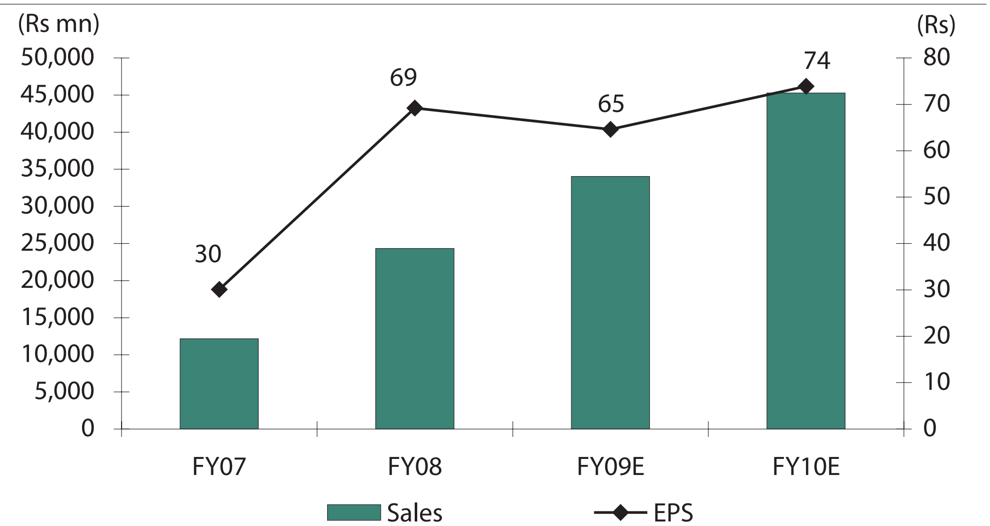
As its first venture, HDIL Entertainment will develop and operate multiplexes with 17 screens at Kandivali, Vasai, Bhandup and Goregaon. The Vasai multiplex has been launched in FY08 and has 3 screens and 1,000 seats capacity. The Kandivali and Goregaon multiplexes will be launched by the end of FY09, each having 4 screens with 900 seats and 950 seats respectively. Additionally, HDIL entertainment will also handle food court and other entertainment business in malls built by HDIL and other developers.

Financials

Robust revenue, net profit growth

We estimate HDIL to register 36% revenue and 20% net profit CAGR over FY08-10E. Revenues are estimated to increase to Rs45,268mn in FY10 from Rs24,323mn in FY08 and net profit to Rs20,362mn from Rs14,105mn over the same period. While we believe the company will progressively scale up its execution capabilities, we have assumed a decline in sales realisations and an increase in construction costs to be on conservative side.

Exhibit 46: HDIL Sales and EPS (FY07-10E)

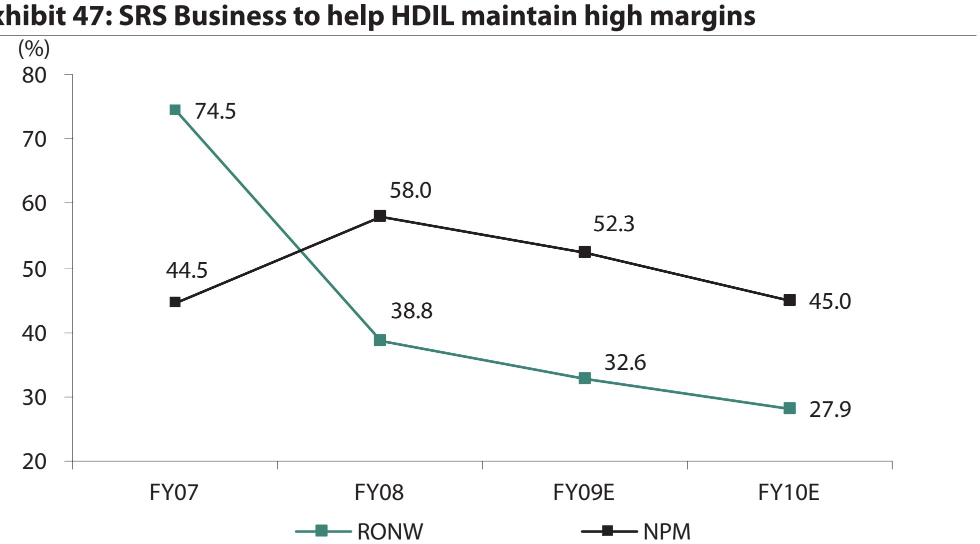


Source: Company, Centrum Research

Higher margins to boost profitability further

The company is expected to perform well on the net margin front despite the cost pressures and falling realizations and its return on net worth (RoNW) will be around 32.6% in FY09E. The net profit margins shall remain steady in FY09E and then fall to 45% in FY10E. However, the margins shall continue to remain relatively healthy due to higher profit contribution from slum rehabilitation business. HDIL's net profit margins are highest in the industry which clearly depicts the management ability and robust business model. SRS projects usually have margins of 72-75% and normal residential projects have margins of 40- 42%.

Exhibit 47: SRS Business to help HDIL maintain high margins



Source: Company, Centrum Research

Valuation

We have valued HDIL using the NAV approach and assumed that the ongoing projects would be developed over 5-6 years. We have derived the gross asset value (GAV) after deducting taxes for individual projects and factored in 20-30% fall across micro-markets in which HDIL operates. We believe that the NAV approach is superior to the P/E approach, as the company is an expansionary phase and with execution set to rise significantly in the coming years, the benefits of a historically low cost land bank would be realized eventually.

NAV calculation

Discounting the cash flows from residential, commercial and retail projects at 15%, we arrive at a GAV of Rs161 per share. Further, we have valued HDIL's SRS projects at a GAV of Rs73 per share and the MIAL project at a base GAV of Rs283 per share. Adjusting for the estimated debt and cash balance as of end FY09 and giving a 25% discount to NAV to reflect the execution risk , we arrive at a discounted NAV of Rs311 per share, giving a potential upside of 64%.

Exhibit 48: NAV of different asset class

	Gross Asset Value (Rs bn)	No. of Shares (mn)	Per Share Value (Rs)
Retail	10.39	275.5	37.71
Commercial	3.57		12.97
Residential	30.41		110.37
SRS TDR	20.08		72.91
MIAL Project	77.92		282.82
Total GAV	142.37		516.78
Less: Debt as on Mar 09E			117.50
Add: Cash Balance as on Mar 09E			15.61
NAV per share			414.89
Less: 25% Discount to NAV			103.72
NAV per share		275.5	311.17

Source: Centrum Research

Vasai-Virar SEZ business valued at Rs88 per share

We have valued Vasai-Virar SEZ based on 268mn sq ft of development over the next 12 years. We have taken a time delay of 3 years for the SEZ as there is lot of legal and governmental formalities involved in it. We have taken a discount rate of 15%. We have not included the SEZ value in our target NAV but have considered the required fund investment for the SEZ in our valuation.

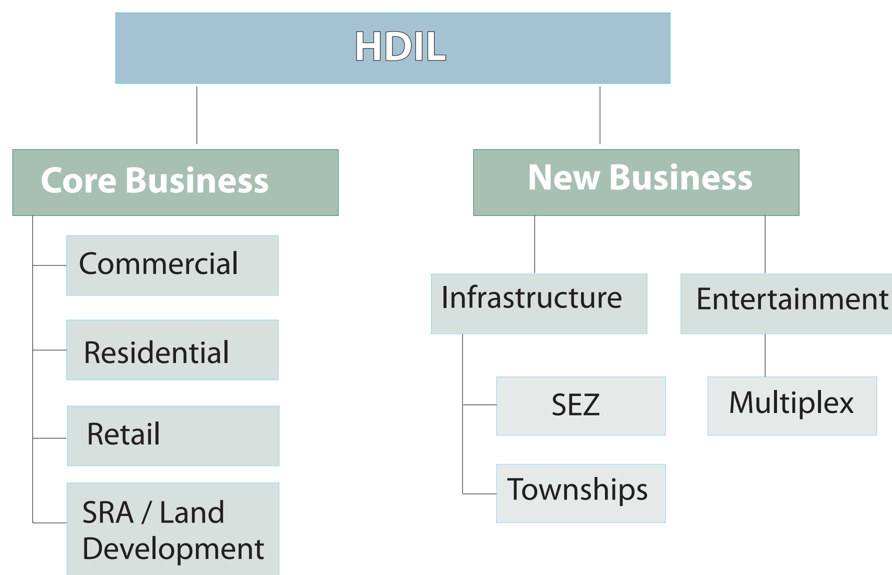
Company Background

Housing Development and Infrastructure Ltd (HDIL) was incorporated in July 1996 as Housing Development and Improvement India Private Ltd. It became a public limited company in February 2005. The name was changed to HDIL on August 29, 2006. The company focuses on developing large-scale real estate projects including residential, commercial and retail projects such as shopping malls, multiplexes and integrated townships.

HDIL has also undertaken slum rehabilitation projects under a government scheme administered by the Slum Rehabilitation Authority (SRA), whereby developers are granted development rights in exchange for clearing and redeveloping slum lands, including providing replacement housing for the dislocated slum dwellers.

Since 1996, the Company has developed and constructed 27 projects covering approximately 23.37 million sq ft of saleable area, including approximately 12.73 million sq ft of land sold to other builders after land development, all in the MMR. The company also has constructed around 3.57 million sq ft of rehabilitation area under slum rehabilitation schemes.

Exhibit 49: HDIL Business Verticals



Source: Company, Centrum Research

Presence across all real estate segments

HDIL has three lines of businesses: (1) real estate development of residential, commercial and retail projects; (2) slum rehabilitation and development; and (3) land development, including creation of infrastructure for sale for other developers.

Residential project pipeline

This involves construction of multi-storied apartment buildings. HDIL also develops and constructs township projects, which are self-contained planned communities with mixed residential and commercial or retail space.

Exhibit 50: On-going residential projects

Ongoing Projects	Location	Saleable Area (sq ft)	Completion Year
Affaire	Bandra	35,235	2009
Dreams	Bhandup	221,566	2009
Kochi	Cochin	6,299,640	2011
Kukatpally I	Hyderabad	1,019,304	2011
Kukatpally II	Hyderabad	5,227,200	2012
Sasunavghar Property	Vasai	16,661,700	2012

Source: Company, Centrum Research Estimates

Exhibit 51: Planned Residential Projects

Planned Projects	Location	Saleable Area (sq ft)	Completion Year
Agashi	Agashi	3,400,000	2014
Carmichael Road Property	Malabar Hill	63,615	2010
Virar (East) Property	Virar	3,666,666	2014
Dewan Mann	Vasai	3,745,958	2014
Dongre (Phase I)	Virar	2,597,402	2014
Dongre (Phase II)	Virar	4,961,484	2014
Panvel Property	Kalamboli	6,664,689	2014
Mega Township Virar I	Virar	12,874,662	2014
Mega Township Virar II	Virar	15,882,810	2014
Palghar	Palghar	1,490,793	2014
Kharadi	Pune	400,000	2010
Kalamssary	Kochi	2,000,000	2011

Source: Company, Centrum Research Estimates

Commercial project pipeline

These are medium-sized projects and targeted at companies established in the financial and services sector. HDIL also builds multiplexes, either as standalone structures or within malls. Post construction, it invariably sells the commercial space to individual buyers and retains no ownership or management responsibilities.

Exhibit52: On-going commercial projects

Ongoing Projects	Location	Saleable Area (sq ft)	Completion Year
Kandivali Multiplex	Kandivali	20,000	2008
Worli Commercial Property	Worli	110,000	2010

Source: Company, Centrum Research Estimates

Exhibit 53: Planned Commercial Projects

Planned Projects	Location	Saleable Area (sq ft)	Completion Year
Kilburn	Bhandup	1,000,000	2010
Eveready Inds.	Navi Mumbai	1,500,000	2010
Kalamssary	Kochi	5,000,000	2011
Kharadi	Pune	544,000	2010

Source: Company, Centrum Research Estimates

Retail project pipeline

HDIL currently sells retail space to retail store operators, rather than retaining ownership and leasing the space.

Exhibit 54: On-going retail projects

Ongoing Projects	Location	Saleable Area (sq ft)	Completion Year
Dreams	Bhandup	432,010	2009
Harmony	Oshiwara	349,456	2009
Versova Property	Andheri	1,542,691	2011
Kochi	Kochi	699,960	2011
Kukatpally I	Hyderabad	113,256	2011
Kukatpally II	Hyderabad	1,306,800	2012
Sasunavghar Property	Vasai	2,940,300	2012
Vasai Mall	Vasai	44,560	2008

Source: Company, Centrum Research Estimates

Exhibit 55: Planned retail projects

Planned Projects	Location	Saleable Area (sq ft)	Completion Year
Dadar Property	Dadar	9,009	2010
Agashi	Agashi	600,000	2014
Virar (East) Property	Virar	916,667	2014
Dewan Mann	Vasai	936,490	2014
Dongre (Phase I)	Virar	649,351	2014
Dongre (Phase II)	Virar	875,556	2014
Panvel Property	Kalamboli	1,176,122	2014
Mega Township Virar I	Virar	2,271,999	2014
Mega Township Virar II	Virar	2,802,849	2014
Palghar	Palghar	993,862	2014

Source: Company, Centrum Research Estimates

Risks & Concerns

Long gestation period of SRS projects

Building consensus among slum dwellers, getting govt. approvals, clearance of encroachments and rehabilitation, require significant time. Any delay or stalling of a project can lock working capital / create a cash crunch; affecting the company's ability to complete existing projects or start new projects. Slum rehabilitation projects are ridden with risks and uncertainties, given the regulatory issues difficulties in evacuation of dwellers.

Changes in SRS regulations

Any change in critical regulations regarding SRS will directly affect HDIL's profitability. Also a change in regulations affecting the sale of TDRs received from projects under SRS will have a significant impact.

Execution risk

As HDIL currently has a land bank of around 196 million sq ft, the Company faces challenges in executing its multiple planned projects over the next 6-8 years.

Geographical concentration

A regional slowdown in construction/ infrastructure industry in Mumbai and the surrounding area, or external developments which make projects in the Mumbai area less economically beneficial will have an adverse effect. Moreover, as large portions of HDIL's land bank is concentrated in the Vasai-Virar belt, the Company may face difficulties as price realizations in these areas are significantly lower than other prime localities of the MMR.

High interest rate scenario

Over the past 2003-08, interest rates have moved up by 300-500 bps which has led to home buyers delaying their purchases. This has led to a drop in transaction volumes and has had a dampening effect on the residential real estate market. Additionally, the interest burden for builders has also risen considerably which has led to funding pressure.

Financial Statements

Profit & Loss Account (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**12,165**	**24,323**	**34,047**	**45,268**
Growth in revenues (%)		99.9	40.0	33.0
Operating expenses	5,532	6,903	12,809	20,813
% of net sales	45.5	28.4	37.6	46.0
EBITDA	**6,633**	**17,420**	**21,238**	**24,454**
y-o-y growth (%)		162.6	21.9	15.1
EBITDA Margin (%)	54.5	71.6	62.4	54.0
Depreciation & Amortisation	6	14	7	181
EBIT	**6,627**	**17,406**	**21,231**	**24,273**
y-o-y growth (%)		162.7	22.0	14.3
EBIT Margin (%)	54.5	71.6	62.4	53.6
Interest expenses	445	1,385	1,450	1,695
EBT before extraordinary items	**6,182**	**16,021**	**19,781**	**22,578**
EBT	**6,182**	**16,021**	**19,781**	**22,578**
Provision for tax	764	1,916	1,978	2,216
Effective tax rate (%)	12.4	12.0	10.0	9.8
Net Profit before minority interest	**5,418**	**14,105**	**17,803**	**20,362**
Net Profit after minority interest	**5,418**	**14,105**	**17,803**	**20,362**
Extra-ordinary income/ (expenses)	1,572	13,245	0	0
Adjusted Net Profit	**3,846**	**860**	**17,803**	**20,362**
y-o-y growth (%)		(77.6)	1969.9	14.4
Adjusted Net Profit Margin	31.6	3.5	52.3	45.0

Source: Company, Centrum Research

Balance Sheet (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Share Capital	1,800	2143	2755	2755
Reserves	5,468	34,229	51,780	70,106
Shareholders' fund	7,268	36,372	54,535	72,861
Debt	3,757	31,127	32,372	34,632
Deferred Tax Liability	8	15	15	15
Total Capital Employed	**11,033**	**67,515**	**86,922**	**107,509**
Total Fixed Assets	239	579	682	4,130
Investments	1,650	2,126	2,126	2,126
Inventories	11,525	51,028	66,515	69,392
Debtors	3,103	558	1,673	2,232
Cash and bank balances	48	3,494	4,301	3,915
Loans and Advances	2,152	16,343	27,493	45,993
Total current assets	16,827	71,423	99,982	121,531
Current liabilities and provisions	7,864	6,629	15,883	20,294
Net current assets	8,963	64,795	84,099	101,238
Misc. Expenditure	180	15	15	15
Total Assets	**11,033**	**67,515**	**86,922**	**107,509**

Source: Company, Centrum Research

Cash flows Statement (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash flow from operating activities:				
Profit before tax	6,182	16,021	19,781	22,578
Depreciation	6	14	7	181
Interest expenses	55	43	1,450	1,695
Other Non operating (income)/expenses	3	(372)	(65)	(245)
Operating profit before working capital change	6,246	15,706	21,173	24,209
Working capital adjustment	(7,253)	(53,439)	(16,279)	(17,524)
Gross cash generated from operations	(1,006)	(37,733)	4,894	6,685
Less: Direct taxes paid	199	1,608	1,978	2,216
Cash generated from operations	**(1,206)**	**(39,341)**	**2,916**	**4,469**
Cash flow from investing activities:				
Capex	(186)	(353)	(110)	(3,629)
Investment	(518)	(363)	0	0
Other Income	0	266	65	245
Cash generated from investment activities	**(703)**	**(451)**	**(45)**	**(3,384)**
Cash flow from financing activities:				
Proceeds from share capital and premium	0	17,136	0	0
Borrowings/ (Repayments)	1,792	27,371	1,244	2,260
Interest paid	(55)	(43)	(1,450)	(1,695)
Dividend paid	0	(491)	(1,859)	(2,036)
Others	(178)	(734)	0	0
Cash generated from financing activities	**1,559**	**43,238**	**(2,064)**	**(1,471)**
Net cash increase/ (decrease)	**(350)**	**3,446**	**807**	**(386)**

Source: Company, Centrum Research

Ratio Analysis (Consolidated)

Y/E March	FY07	FY08	FY09E	FY10E
Margin Ratios (%)				
EBITDA Margin	54.5	71.6	62.4	54.0
PBIT Margin	54.5	71.6	62.4	53.6
PBT Margin	50.8	65.9	58.1	49.9
PAT Margin	44.5	58.0	52.3	45.0
Growth Ratio (%)				
Revenue	-	99.9	40.0	33.0
EBITDA	-	162.6	21.9	15.1
Net Profit	-	-77.6	1753.7	14.9
Return Ratios (%)				
ROCE	53.1	22.9	22.1	20.5
ROIC	53.4	24.2	23.3	21.3
ROE	74.5	38.8	32.6	27.9
Per share (Rs)				
Basic EPS	30.1	69.2	64.6	73.9
Fully diluted EPS	30.1	69.2	64.6	73.9
Book value	33.3	166.8	198.0	264.5
Gearing Ratio (x)				
Debt-equity	0.5	0.9	0.6	0.5
Interest coverage ratio	14.9	12.6	14.6	14.3
Valuation (x)				
P/E	6.3	2.7	2.9	2.6
P/BV	5.7	1.1	1.0	0.7
EV/EBITDA	12.1	4.6	3.8	3.3
EV/Sales	6.6	3.3	2.3	1.8
M-cap/Sales	4.3	2.2	1.5	1.2

Source: Company, Centrum Research

Initiating Coverage

Indiabulls Real Estate

BUY

The bull charges

CMP: Rs185*

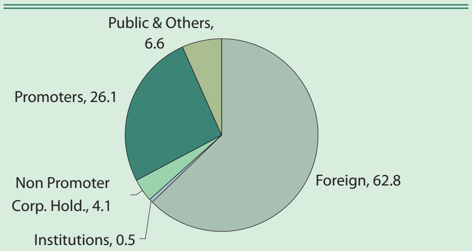
Target Price: Rs328

Key Data	
Bloomberg Code	IBREL IN
Reuters Code	INRL.BO
O/S Shares (mn)	257.5
Diluted Shares (mn)	279.7
Market Cap (Rs bn/US$ bn)	47.6/1.1
52 Wk H / L (Rs)	850/175
Daily Vol. (3M NSE Avg.)	36,19,421
Face Value (Rs)	2

1 US$ = Rs46.6

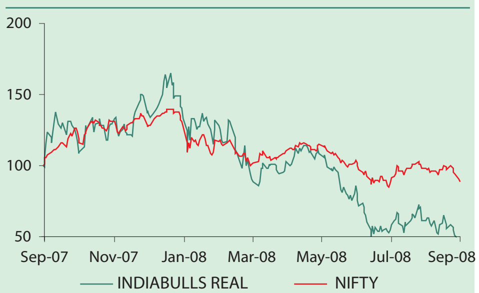
Source: Bloomberg

Shareholding Pattern (%)



As on 30th June 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	**1M**	**6 M**	**1 Yr**
Indiabulls Real	(35.5)	(62.0)	(69.9)
Nifty	(5.2)	(14.9)	(16.8)

Source: Bloomberg, Centrum Research

*As on 26 September 2008

Indiabulls Real Estate (IBREL) is among the largest real estate developers in India, having amassed substantial land bank of 219mn sq ft (including SEZs) in a short span. We believe IBREL's prime mill land in Mumbai, strong balance-sheet and healthy project pipeline would cushion it against concerns over the real estate sector like funding challenges, tapering demand and slowing launches. Potential upside from organised retail and growing property asset management business are added positives. We initiate coverage with a Buy rating and target price of Rs328 per share, a 77% upside potential from current levels. We have not factored in the valuation of the SEZ in our valuation.

Vast land bank with low asset cycle risk

Despite being a newcomer in the Indian real estate market, IBREL is among the largest real estate developers in India, having amassed substantial land bank of 219mn sq ft (including SEZs) in a short span. We estimate IBREL's residential, commercial and retail GAV (after taxes) at Rs110, Rs47 and Rs258 per share, respectively. The low cost of land on the outskirts of cities (Rs250–400/psf) insulates the company against asset cycle risk. IBREL is developing about 3.6mn sq ft of its projects at Jupiter and Elphinstone mills in prime locations of Central Mumbai. Its ongoing projects in the commercial, retail and residential space ensure cash flow visibility over FY09-11. We expect 79% revenue and 85% net profit CAGR over CAGR over FY08-10E. In FY10, we expect retail properties to contribute more than 25% of overall revenues.

Strong balance sheet with strategic backing by financial partners

IBREL has a healthy balance sheet with negative net debt of Rs13.05bn as of March 2008 and has received multiple rounds of funding from renowned entities such as Farallon Capital and LNM India to be able to execute its plans. It has an unpaid land bank obligation of mere Rs1.50bn compared to its vast land bank of 219mn sq ft.

Potential upside from organized retail and other businesses

IBREL's presence in the organized retail market has been enhanced through its acquisition of a 63.9% stake in Pyramid Retail at Rs2.1bn. Its access to inexpensive retail space through its own retail properties and its growing property asset management business augur well for the company.

Attractive valuations; Buy at a target price of Rs328

We have valued IBREL's core real estate business at an NAV of Rs415 per share. We have valued the retail business using capitalization rate of 13% for FY10E retail sales to arrive at a value of Rs43.3 per share. On our SOTP valuation for the real estate and retail businesses, we arrive at a price target of Rs328 per share, after adjusting for FY09E net debt and giving a 30% discount to NAV, giving a 77% upside potential from current levels. We have not included the valuation of the SEZs at Navi Mumbai, Nasik and Raigarh in our valuation, which provide additional upside of Rs234 per share.

Key Financials

Y/E March (Rs mn)	**FY07**	**FY08**	**FY09E**	**FY10E**
Net Sales	455	7,647	10,257	24,617
YoY growth (%)	-	1581.0	34.1	140.0
EBIDTA	311	6,220	7,985	18,184
EBIDTA Margin (%)	68.4	81.3	76.9	73.7
PAT (Adjusted)	6	3,842	5,630	13,102
Growth (%)	-	67,474.7	46.5	132.7
PAT Margin (%)	1.3	50.2	54.9	53.2
EPS (diluted) (Rs)	0.0	15.8	20.0	46.7
P/E (x)	-	11.7	9.2	4.0
RoE (%)	0.0	10.0	11.7	21.4
RoCE (%)	1.0	7.6	8.7	16.4

Note: 279.7mn fully diluted shares have been considered for diluted EPS and NAV estimates
Source: Company, Centrum Research

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Investment rationale

Vast land bank with low asset cycle risk

IBREL is among the largest real estate developers in India having amassed substantial land bank of 219mn sq ft (including SEZs) in a short span. Of this, over 90% of the land bank (200mn sq ft) is located in Maharashtra, NCR and Tamil Nadu across major cities like MMR (including Panvel), New Delhi (NCR) and Chennai.

Exhibit 56: IBREL: Land bank break-up in key locations (mn sq ft)

Locations	Residential	Commercial	Retail	SEZ	Total	% of total
Maharashtra	31	3	1	125	160	73
NCR	24	0	2	0	26	12
Tamil Nadu	15	0	0	0	15	7
Others	6	0	12	0	18	8
Total	**76**	**3**	**15**	**125**	**219**	**100**

Source: Company, Centrum Research

Low risk, balanced land acquisition strategy

As IBREL follows a strategy of acquiring land through government auctions, the acquired land has a clear title and helps the company to chart out a clear development schedule. Out of the 15 sites acquired by IBREL for retail projects, 10 have been though auction, which reduces the title risk for the land and helps to scale up the execution of projects.

The company acquires high value land in tier-I cities at premium locations with the objective if developing and selling office space, malls or IT parks. These projects have quick turnaround times which results in accelerated cash flows and enable IBREL to invest the money in longer term projects.

For longer term projects, IBREL acquires large tracts of land at the outskirts of emerging cities with the intention of developing these into residential townships and SEZs over the next five-ten years. The low cost of land on the outskirts of cities (Rs250–400/psf) provides the company insulation against an asset cycle risk.

Healthy project pipeline boosts visibility

The company is currently executing two flagship commercial projects in central Mumbai –Jupiter Mills and Elphinstone Mills. Jupiter Mills is expected to be completed by March 2009 while we expect work on the Elphinstone Mills project to be completed by September 2009. Although we have not included the value of SEZs in our target price, our estimates suggest a potential upside of Rs234 per share.

Exhibit 57: Potential upside from SEZs

Project	Valuation Upside (Rs/share)
IT SEZs in Navi Mumbai	37.78
Nasik SEZ	63.26
Raigarh SEZ	133.06
Total potential upside to our valuation	**234.10**

Source: Centrum Research

Jupiter Mills project

The Jupiter Mills project, spread over 11 acres, is a premium commercial and retail development consisting of 2mn sq ft (0.5mn sq ft retail and 1.5mn sq ft IT park) of leasable area. Named as One Indiabulls Centre, the project has 2 towers of 18 storeys In Q4FY08, a leading Indian company signed up for 70,000 sq ft office space at Jupiter Mills office complex (One Indiabulls Centre) at a monthly lease rental of Rs325 per sq ft. We estimate that till date 60-65% of the total space has been pre-leased at rentals of Rs225-275 per sq ft per month, due to the expected slowdown in the Mumbai commercial market. As the towers are completed and occupancy rises as the property is situated in a prime location, we expect revenues from the Jupiter Mills property to rise significantly.

Elphinstone project

This land is spread over 8 acres of land at Lower Parel in South Mumbai We have assumed monthly rentals of Rs175-190 per sq ft for this project, given the expected delay, which is factored into our estimates.

Retail

IBREL intends to develop 17 malls across 16 Indian cities with a combined leasable area of approx 15mn sq ft. All the mall sites are at various stages of the development process and the company expects majority of malls to be completed and leased out by late 2009. We have assumed a delay of 10-12 months in the launch of these retail projects and have assumed a fall of 25-30% in the monthly lease rentals for the properties from the prevailing market rates.

Residential Projects

IBREL has around 76mn sq ft of saleable area across 8 cities, the largest projects among them being the three large townships of Panvel near Mumbai (31.12mn sq ft), Sonepat (16.30mn sq ft of which IBREL holds 50% stake) and Chennai (14.63mn sq ft).

IT SEZs

IBREL's other commercial projects include IT SEZs totaling ~9.8mn sq ft in Navi Mumbai (2 in Panvel and 1 in Kharghar) on 25 acres of land, each which has already been acquired. IBREL plans to undertake a phased development of these 3 projects with the first one expected to be delivered by early 2010 and the remaining to be delivered at a lag of 1 year each.

Exhibit 58: IBREL: GAV of ongoing projects

Project	Segment	Location	Area (Mn Sq Ft)	Est. GAV after taxes (Rs Mn)	Status
Jupiter Mills	Commercial / Retail	Lower Parel, Mumbai	2.00	11,025	Delay of 8-10 months
Elphinstone Mills*	Commercial	Lower Parel, Mumbai	1.2	5,132	Delay of 8-10 months
Castlewood	Residential	Tehkhand, Delhi	1.19	3,270	Delay of 6 months
Sonepat Phase I	Residential	Sonepat, Delhi	3.86	2,508	Delay of 3-6 months
Chennai	Residential	Jalladianpet, Chennai	1.66	1,608	Delay of 3 months

*We have excluded residential component of Elphinstone Mills project, GAVs have been adjusted for IBREL's stake and execution delays in the projects

Source: Centrum Research

Strong BS with strategic backing by financial partners

The Indiabulls group has an established track record in securing funding from strong financial partners like Farallon Capital and LNM India Internet Ventures (LNM India is an entity backed by Lakshmi Mittal, promoter of Arcelor Mittal). Despite its limited track record in real estate, the company has been able to show strong execution capabilities in its limited period of operations.

Exhibit 59: Equity stakes held by Farallon and LNM India in IBREL

		Farallon Capital (%)	LNM India (%)
Entity level	IBREL	5.60	1.10
	IPIT	42.80	3.90
SPV level	Power company	17.90	10.70

Source: Company, Centrum Research

The de-merger of IBREL from IFSL (Indiabulls Financial Services) in August 2006 has enabled IBREL to have better focus in terms of raising funds for multiple projects. This is evident from the fact that the company has been to acquire significant land bank of over 200mn sq ft over mere 2-3 years and has used a variety of funding options like FDI investment through SPV (Special Purpose Vehicle), GDR issues (US$400mn in July 2007) and through development funds (Dev Property Development, US$250mn in January 2007) on the London-based AIM exchange. Dev Property Development has since been merged into IBREL as poor liquidity for real estate listings on AIM has affected the value of DPD.

Another factor in IBREL's favour is that in an environment where other established Indian real estate companies like DLF and Unitech have delayed their plans for listing in the Singapore REIT market, IBREL is the only Indian real estate company to list two of its SPVs – the Jupiter Mills and Elphinstone Mills projects in Mumbai. The REIT listed entity, Indiabulls Property Investment Trust (IPIT) raised US$170mn in June 2008.

Strong balance sheet augurs well for IBREL's execution plans

The ability of IBREL to raise adequate funds in a time of tightening liquidity and where institutions are increasingly reluctant to lend money to developers, places it in an enviable position compared to other listed real estate developers.

Exhibit 60: IBREL: Analysis of cash balance

March 2008 annual report figures	FY07 (Rsmn)	FY08 (Rsmn)
Cash & Cash Equivalents (1)	15,912	16,435
Investments*..(2)	2,162	459
Loans & Advances*(3)	3,583	49,542
- Advances for Land	3.086	10,867
- Inter Corporate Deposits	0	37,324
Debt on Books(4)	1,420	3,389
Net Debt(1-4)	(14,492)	(13,046)

Note: Liquid investments have been included in cash and cash equivalents for FY07 & FY08, respectively, loans and advances have also been adjusted similarly
Source: Company, Centrum Research

As of 31 March 2008, IBREL had a negative net debt of Rs13,046mn (Indiabulls Financial Services has taken a short-term borrowing of Rs30bn to at 10.5% from IBREL), an ideal situation in a tightened liquidity environment. IBREL's strong balance sheet coupled with an almost fully paid land bank (around Rs1500mn is left unpaid as of March 2008) enables IBREL to use its surplus cash to fund its other forays such as power and retail.

Fund infusion through warrant conversion likely

Further, IBREL has issued warrants in two tranches of 15mn and 43mn shares in August 2007 and November 2007 at an exercise price of Rs300 and Rs540, respectively. Of this, the promoters have already paid 10% of the amount. While we do not expect the second tranche to be converted, as it would be significantly out of the money. Thus, there is a good chance of the first tranche being converted in FY09. We have assumed conversion of the first tranche of warrants (13.5mn warrants) in FY09 and have considered the same in our NAV and EPS estimates.

Exhibit 61: Details of outstanding share warrants issued to promoters

Issue Date	Exercise Price (Rs)	No. of Warrants (mn)	Total Amount (Rs mn)	Outstanding Amount – 90% (Rs mn)
August 2007	300	15	4,500	4,050
November 2007	540	43	23,220	20,898

Source: Company, Centrum Research

Potential upside from organised retail and other businesses

We expects Indiabulls Retail Services (a 100% subsidiary of IBREL) to contribute more than 25% of IBREL's revenue in FY10. Indiabulls Retail is one of the fastest growing retailers having broad national brand presence with 47 stores located in 7 cities. IBREL acquired a 63.9% stake in Pyramid Retail in December 2007 for Rs2.08bn, whereby which gave it access to 42 stores. These are now operated megastores under Indiabulls Megastores (9 Lifestyle stores), 36 super mart stores under Indiabulls Mart and upcoming cash & carry stores under Indiabulls Wholesale. The company plans to expand to 160 stores across India by December 2009. However, pressure on margins in the retail business and delay in the construction of malls in which Indiabulls Retail is set to be an anchor tenant may impede its target.

Indiabulls Megastores: These is a one-stop lifestyle shopping destination offering extensive assortment across apparels, accessories, fragrances, cosmetics, footwear, home furnishing and décor products. With a covered area of around 530,000 sq ft, these stores are mostly located in malls in Pune, New Delhi, Jaipur, Ahmedabad, Ludhiana and Nagpur.

Indiabulls Marts: These are neighborhood stores selling groceries and other daily need products in Mumbai, Pune, Nagpur, Ahmedabad, Jaipur and Indore. Currently, 36 such stores are operational covering an area of 130,000 sq ft.

Indiabulls Wholesale: Offers over 18,000 articles at wholesale prices for hotels, restaurants, caterers, food and non-food traders, institutional buyers and professionals.

Exhibit 62: IBREL: Retail plans

Formats	Average store size (sq ft)	Number of stores currently	Current area under operations (mn sq ft)	Number of stores by March 2008	Number of stores by March 2009	Total area by March 2009 (mn sq. ft)
IB Mart	5,000	35	0.15	50	100	0.5
IB Megamart	50,000	7	0.35	10	35	1.75
IB Wholesale Xpress	30,000	0	0	0	15	0.45
IB Wholesale	200,000	0	0	0	10	2
Total		**42**	**0.5**	**60**	**160**	**4.7**

Source: Company, Centrum Research

Indiabulls multiplex: IBREL has also planned an investment of Rs0.75bn to set up a chain of multiplex properties under the brand, 'Bulls Eye', which will also act as an anchor tenant in all Indiabulls malls when operational.

Core business areas

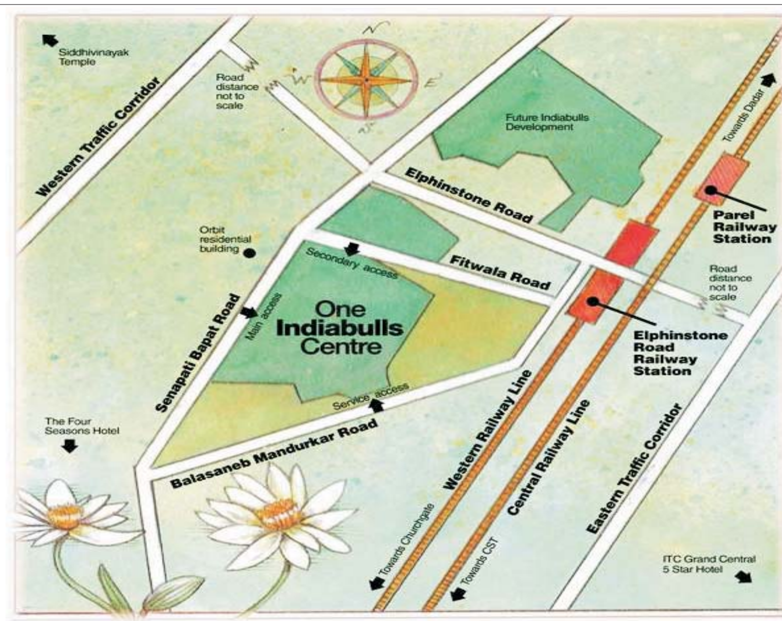
Commercial Projects

IBREL's entry into commercial property development started in March 2005 when it acquired Jupiter Mills (11 acres) and Elphinstone Mills (8 acres) land in Mumbai at the National Textile Corporation (NTC Mills) auction at Rs1,400 psf. IBREL currently holds 45% stake in both the above projects, with the balance being held by the units of the IPIT Trust listed on the Singapore Stock Exchange (15%) & Farallon Capital (40%).

Jupiter Mills project (One Indiabulls Centre)

The Jupiter Mills project, spread over 11 acres, is a premium commercial and retail development consisting of 2mn sq ft (0.5mn sq ft retail and 1.5mn sq ft IT park) of leasable area. Named as One Indiabulls Centre, the project has 2 towers of 18 storeys and has been designed by the renowned architect Hafeez Contractor. The project will include 3,500 car parks, a large central landscaped plaza, fine dining restaurants, food courts, a club house and recreation areas, besides world class corporate offices. In Q4FY08, a leading Indian company signed up for 70,000 sq ft office space at Jupiter Mills office complex (One Indiabulls Centre) at a monthly lease rental of Rs325 per sq ft.

Exhibit 63: Jupiter Mills (One Indiabulls Centre) project layout



Source: Company Website

Although the Jupiter Mills project has made an impressive beginning, we estimate that 65% of the space has been pre-leased at rentals of Rs225-275 per sq ft per month, due to the expected slowdown in the Mumbai commercial market.

Exhibit 64: Development Pipeline for One Indiabulls Centre (Jupiter Mills)

Building	Phase	Total Leasable Area (sq ft)	Actual/Expected Completion Date
Tower 1	1	458,000	31-Dec-08
Tower 2	1a	89,000	31-Mar-09
	1b	197,000	
	2	250,000	
	3a	27,000	
	3b	120,000	
	4	146,000	
	5	146,000	
Mall	1	438,000	30-Jun-09

Source: IPIT Prospectus, Centrum Research Estimates

Although the initial fit-out date for the first and second tower was 31st March 2008 and 31st May 2008 respectively, our visit to the site suggests that there is a delay of 8-10 months in the project and the towers shall be ready for fit-outs only in the last quarter of FY09. Accordingly, we have only included revenues for Q4FY09 in our FY09 sales estimates where we estimate that rental income shall accrue from the completion of the towers. As the towers are completed and occupancy rises as the property is situated in a prime location, we expect revenues from the Jupiter Mills property to rise significantly.

Elphinstone Mills project

This land is spread over 8 acres of land at Lower Parel in South Mumbai and consists of premium office space with provision of open and covered parking for around 3,000 vehicles. We expect a similar delay of 8-10 months in the launch of the project and we have factored this in our assumptions. We have assumed monthly rentals of Rs 175-190 per sq ft.

Exhibit 65: Development pipeline for Elphinstone Mills

Building	Phase	Total leasable area (sq ft)	Expected fit-out period
Tower 1	1	215,000	01-Jun-09
	2	108,000	01-Jul-09
	3	108,000	01-Aug-09
Tower 2	1	259,000	01-Sep-09
	2	130,000	01-Oct-09
	3	130,000	01-Nov-09
Tower 3	1	147,000	01-Oct-09
	2	292,000	01-Nov-09
	3	147,000	01-Dec-09

Source: IPIT Prospectus, Centrum Research Estimates

Retail Projects

IBREL intends to develop 17 malls across 16 Indian cities with a combined leasable area of approx 15mn sq ft. All the mall sites are at various stages of the development process and the company expects majority of malls to be completed and leased out by late 2009. Land for 13 mall sites out of 17 has been fully paid for and is under possession of the company.

Exhibit 66: IBREL: Retail project portfolio

Location	Auction / Private	Estimated Delivery	Leasable Area (sq ft)
Netha Mills -Hyderabad	Auction	Late 2009	436,036
Chandigarh	Private		1,486,485
Jupiter Textile Mills-Ahmedabad	Auction	Late 2009	1,226,350
Kanpur	Auction	Mid 2009	371,621
Agra	Auction	Mid 2009	202,162
Jodhpur	Auction	Mid 2009	1,005,855
Jupiter Mumbai - Lower Parel	Auction		437,503
Kothandaram Mills- Madurai	Auction	Late 2009	401,351
Swadeshi Mills- Indore	Auction	Late 2009	990,990
Ludhiana	Private	Late 2009	891,891
Gurgaon- Sector 109	Private	Mid 2010	1,231,305
Dombivali - Mumbai MMR	Private		1,800,000
Kota	Auction	Late 2009	520,270
Vishakhapatnam	Auction	Mid 2010	867,116
Vadodara	Private	Mid 2010	951,350
Amritsar	Private	Mid 2010	1,189,188
Total			**14,009,473**

Source: Company, Centrum Research

We have assumed a delay of 10-12 months in the launch of these retail projects and have assumed a fall of 25-30% in the monthly lease rentals for the properties keeping in mind two important factors – our anticipation of slowdown in the retail property space and the fact that as Indiabulls Hypermarkets could be the anchor tenant in many of these malls, the space may have to be leased out at concessional rates to Indiabulls Retail.

IBREL has launched companion leasing for all 17 malls being developed. The company is in early stages of negotiations with some leading international single product retailers who wish to establish a pan India presence.

Residential projects

IBREL has around 76mn sq ft of saleable area across 8 cities, the largest projects among them being the three large townships of Panvel near Mumbai (31.12mn sq ft), Sonepat (16.30mn sq ft of which IBREL holds 50% stake) and Chennai (14.63mn sq ft). The majority of IBREL's offerings are concentrated in the affordable housing segment ranging between Rs2,000 to Rs5,000 psf.

Exhibit 67: IBREL: Residential project portfolio

Residential: land already acquired and licensed		
Residential	**Saleable area (sq ft)**	**Assumed Base Sale Rate (Rs/sq ft)**
MMR-Panvel	31,222,980	2,200
Delhi-Tehkhand	1,188,346	12,750
NCR-Sonepat	16,300,477	2,500
Gurgaon- Sector 18	1,755,196	5,000
Gurgaon- Sector 104	1,226,171	5,000
Gurgaon- Sector 103	1,953,156	5,000
Gurgaon- Sector 110	1,772,348	5,000
Chennai- Jalladianpet	1,662,250	3,000
Chennai- Elavur	12,965,416	1,400
Jupiter Textile Mills-Ahmedabad	1,440,533	2,200
Swadeshi Mills Indore	1,371,435	2,200
Vishakhapatnam	3,430,350	2,400

Source: Company, Centrum Research Estimates

Key residential projects

Sonepat Township

The project entails residential and commercial development near Delhi, spread over 150 acres. The township and housing project will comprise of 108.87 acres of group housing, 6 prime commercial lots aggregating 24.85 acres and an Info-Tech Park entailing 16.88 acres. A total of 7,000 covered car parks have been proposed, out of which 6,000 will be in the residential development and 1,000 in the commercial development. Work on the project is expected to finish in phases over FY09-12.

Castlewood, Tehkhand New Delhi

The Castlewood project entails development of 550 premium luxury apartments in New Delhi. Pre-sales at Castlewood Luxury Apartments (Tehkhand) in South Delhi was launched during Q4FY08 at rates of Rs. 12500-13000 per sq ft, a decline of 10-15% from the rates prevailing at the beginning of CY08. We have assumed a 15% YoY fall in property prices. IBREL has recently hiked its stake from 26% to 51% by paying around Rs4bn to DLF.

Gurgaon Housing

The project entails development of a housing enclave in the National Capital Region (NCR) covering a total area of 1.97mn sq ft. The project mix consists of 68.8% residential and 31.3% commercial and aims at having a mix of condominium type blocks and premium penthouse towers. The two condominium blocks, having a maximum built-up area of 1.12mn sq. ft. will have a maximum of 12 levels over a podium with 840 saleable units of 2 and 3 bedrooms. The towers will have penthouses with a maximum built-up area of 0.48 million sq. ft. with 18 levels and 240 saleable units of 3 and 4 bedrooms. The construction of the project is expected to be completed by June 2010.

Panvel Township, Mumbai

The integrated township development in Panvel spans over 600 acres and is strategically located along the Mumbai-Pune expressway. Out of these 600 acres, 240 acres will be for residential purposes and 150 acres will be parks and open spaces; industrial and commercial areas, roads and amenities will be 30 acres, 60 acres & 120 acres respectively. The residential township will have group housing schemes for low, middle & high income groups with IT spaces, office buildings and trade and business towers. This development will also comprise multiplexes, shopping malls, schools, colleges and super specialty hospitals & sports complexes.

SEZ – Potential upside to our base target price

IT SEZs

IBREL's other commercial projects include IT SEZs totaling ~9.8mn sq ft in Navi Mumbai (2 in Panvel and 1 in Kharghar) on 25 acres of land, each which has already been acquired. IBREL plans to undertake a phased development of these 3 projects with the first one expected to be delivered by early 2010 and the remaining to be delivered at a lag of 1 year each.

Exhibit 68: Planned IT SEZs (not including Nasik and Raigarh)

Location	Leasable Area (sq ft)	Assumed Monthly Rental (Rs/psf)
Navi Mumbai	3,267,000	50
Navi Mumbai	3,267,000	50
Navi Mumbai	3,267,000	50

Source: Company, Centrum Research

Nasik SEZ

The Nasik SEZ is a multi-product Special Economic Zone measuring 3,000 acres. The development will have 1,050 acres of industrial area, 750 acres of residential area, 450 acres of commercial area, 300 acres dedicated to green spaces and 450 acres for roads and amenities. Facilities shall include a captive power plant, water filtration plant, warehousing & cold storage facilities and an International Business Center.

Raigarh SEZ

This multi-product Special Economic Zone (SEZ) project spans over 6,000 acres in Thane district, Maharashtra. It comprises of an industrial processing area of 2,100 acres, a commercial area of 900 acres, a residential area of 1,500 acres, and open space of 1,500 acres. So far, IBREL has acquired a total of ~1,000 acres with the rest to be acquired over the next 2-3 years.

Other business initiative

Power projects

IBREL has forayed into the power business by winning the bid for a 1,320 MW thermal pit-head power plant at Bhaiyathan, Chhattisgarh. The project includes development of captive coal mines with proven reserves of 349mn tonnes in Korba district of Chhattisgarh which is adequate to low cost coal supply to the planned power plant as well as an additional similar sized unit. Under terms of the contract, 35% of power produced from the Bhaiyathan project is available for merchant sale at market rates and the remaining 65% has to be sold to CSEB at the quoted levelised tariff.

Apart from this, IBREL is also looking to sanction power plants at Amravati (2,640 MW) and at its Nasik SEZ (1,320 MW) and has also signed Memorandum of Association with the State Governments of Jharkhand and Madhya Pradesh. We have not included any value accruing from the power business at this stage as IBREL is yet to show power generation capabilities. However, we do not see funding as an issue as the Company has received funding from Rs15,800mn from Farallon Capital and LNM India Ventures.

Exhibit 69: Funding by Farallon & LNM India in Indiabulls Power

Investments in Power	Amount Invested	% Stake
Farallon Stake	9,875	17.9
LNM India Stake	5,925	10.7
Total	**15,800**	**28.6**

Source: Company, Centrum Research

Asset management business

IBREL is the sponsor and investment manager of Dev Properties, a GBP 138mn AUM fund listed on the AIM, London. In 2007, IBREL sold a stake in 3 of its projects to Dev Properties, namely, Jupiter Mills (13%), Elphinstone Mills (13%) and its Raigarh SEZ project (8.1%) for Rs 10.6bn. As the investment manager, IBREL is entitled to an investment management fee of 2% of the AUM and a performance fee based on the project IRR achieved, above a hurdle rate. IBREL has recently announced the acquisition of the entire stake in Dev Properties in a GBP 138mn (Rs 10.9bn) share swap deal, wherein IBREL shall issue 0.12091 of a Global Depository Receipt (GDR) for each share of Dev Properties.

Apart from this, IBREL's 45% stake in the Singapore Stock Exchange listed Indiabulls Properties Investment Trust (IPIT) entitles it to receive 0.25-0.50% per annum of the total value of IPIT as management fees and 4% of IPIT's Net Property Income as performance fees. IBREL is also entitled to property management fees from IPIT.

Dombivli-Kalyan SEZ

IBREL has successfully bid for 134 acres of land belonging to Pal Peugeot for Rs 6.76bn in an auction conducted by the Court Receiver of the Honourable High Court of Mumbai. The land is situated in the Dombivli-Kalyan belt of the Mumbai Metropolitan Region, northeast of Mumbai and can be reached through train in approx one hour and fifteen minutes from the VT train station, South Mumbai. IBREL plans a mixed use development on the site with a large part of the 134 acres dedicated towards a proposed IT SEZ.

Risks & Concerns

Execution risk

Although IBREL has displayed strong execution capabilities in its initial real estate projects, the company is set to execute a number of projects across diversified locations over FY09-13. Of its total land bank of ~219 mn sq. ft., around 50% is accounted for by the 3,000 acre Nashik SEZ while another 27% is accounted for by the township projects in Panvel, Sonepat and Chennai. As execution of SEZ projects typically span over a period of 5-10 years, any delay in these projects may negatively impact the company.

High interest rate scenario

Over the last few years (FY03-08), interest rates have moved up 300-500 bps which has led to home buyers delaying their purchases. This has led to a drop in transaction volumes and has had a dampening effect on the residential real estate market. Additionally, the interest burden for builders has also risen considerably which has led to funding pressure.

Simultaneous diversification into multiple business segments

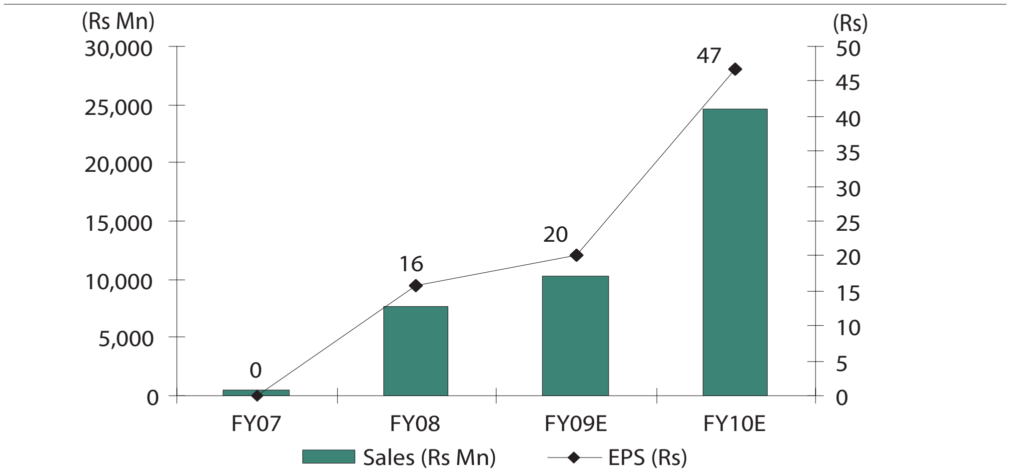
IBREL plans to execute several diverse projects on a large scale, such as power generation and retailing. These initiatives are being undertaken in addition to its aggressive expansion plans in real estate which includes the development of several large scale SEZs and townships. With margins of retailers dwindling and power projects having a long gestation period, the company faces significant challenges in executing its expansion plans.

Financials

Robust growth in revenues, net profit

We expect 79% revenue CAGR over FY08-10E to Rs 24,617mn from Rs 7,647mn. Net profit is expected to increase at a 85% CAGR to Rs 13,102mn from Rs 3,842mn over the same period. While we believe the company will progressively scale up its execution capabilities, the majority of revenues in FY09 shall accrue from residential projects and stake sale of its Jupiter & Elphinstone Mills properties. In FY10E, we expect retail properties to contribute more than 25% to overall revenue.

Exhibit 70: IBREL Sales & EPS Growth



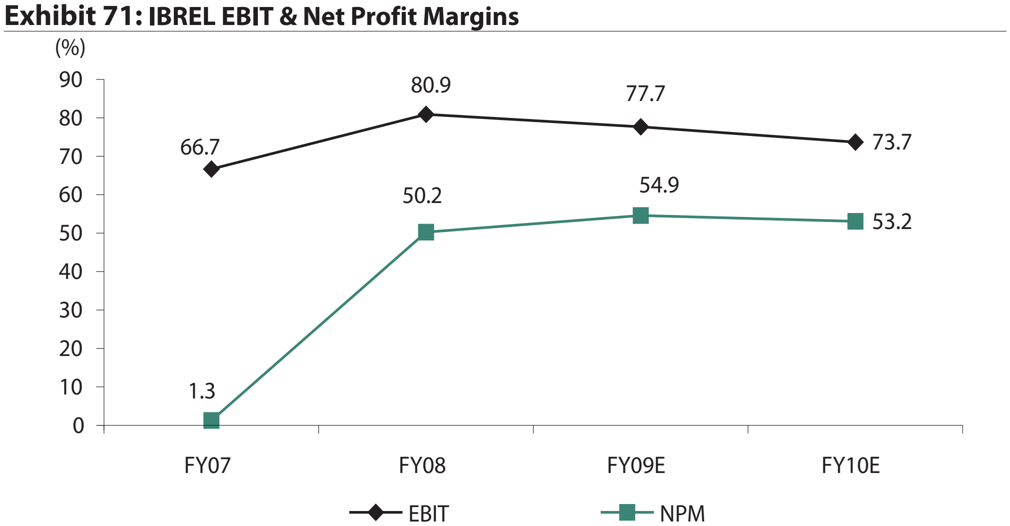
Source: Company, Centrum Research

High margins to boost profitability

We believe net profit margins would not see a steep drop as two of the company's premium properties in Mumbai, Jupiter and Elphinstone Mills set to contribute significantly to revenues operations in FY09-10E.

The company is expected to perform well on the net margin front and its operating margins are also expected to hold firm over FY09E and FY10E.

Exhibit 71: IBREL EBIT & Net Profit Margins



Source: Company, Centrum Research

RoE and RoCE to improve FY10E onwards

We estimate IBREL's ROE and ROCE ratios to improve from 10% and 8% in FY08 to 21% and 16% in FY10E, respectively, on account of rental income, which would accrue from the Jupiter & Elphinstone Mills commercial projects in Mumbai from FY10E onwards and lower interest outgo.

Valuation

We have valued IBREL using the NAV approach by discounting its free cash flow of all projects and valuing the retail business on capitalization of FY10 revenues from organized retail business.

NAV calculation

Discounting the cash flows from residential, commercial and retail projects at 15%, we arrive at a GAV of Rs415 per share post taxes.

Exhibit 72: GAV of core real estate business

Asset Class	Gross Asset Value (Rs mn)	No. of shares (mn)	Per share GAV (Rs)
Retail	72,064	277.9	258
Commercial	13,172		47
Residential	30,767		110
Total	**116,004**		**415**

Source: Centrum Research

Organized retail business valued at Rs43 per share

We have valued the organized retail business on a capitalization rate of 13% of FY10E lease rentals of Rs 2,108mn and adjusting for a debt component of Rs 4,112mn. As the company is yet to demonstrate it ability to drive the business with a large number of stores, we have assumed higher capitalization rate and a 3-10 months delay in project execution. The retail business is valued at Rs. 43 per share.

Exhibit 73: Sum of parts valuation at Rs328 per share

Asset Class	Value (Rs mn)	No. of shares (mn)	Per share GAV (Rs)
Real Estate GAV		277.9	415
Retail Business			43
Total GAV			**458**
Less: Est. Debt as on Mar 09	3,389		12
Add: Est. Cash Balance as on Mar 09	6,384		23
NAV per share			**469**
Less: 30% Discount			141
Discounted NAV per share			**328**

Source: Centrum Research

SOTP discounted NAV of Rs328 per share

Adjusting for the estimated debt and cash balance on the Company's books at the end of FY09, we get a discounted NAV of Rs328 per share at discount of 30%.

Using SOTP valuation, we arrive at a per share value of Rs. 328 per share, giving an upside of 77% from current levels. We have been conservative in estimating realizations from real estate business and factored in a 7% upside in construction costs annually. We have not included the valuation of the SEZs at Navi Mumbai, Nasik and Raigarh in our valuation but these may provide significant upside when they come to fruition.

Exhibit 74: Potential upsides to our valuation

Project	Valuation Upside (Rs. per share)
IT SEZs in Navi Mumbai	37.78
Nasik SEZ	63.26
Raigarh SEZ	133.06
Total potential upside to our valuation	234.10

Source: Centrum Research

Company Background

Indiabulls Real Estate (IBREL) is the de-merged real estate entity of Indiabulls Financial Services Ltd (IBFSL). IBREL is one of the largest Indian real estate development companies focused on project management, investment advisory and development of commercial and residential properties. The Company has also forayed into development of SEZs, hotels and resorts.

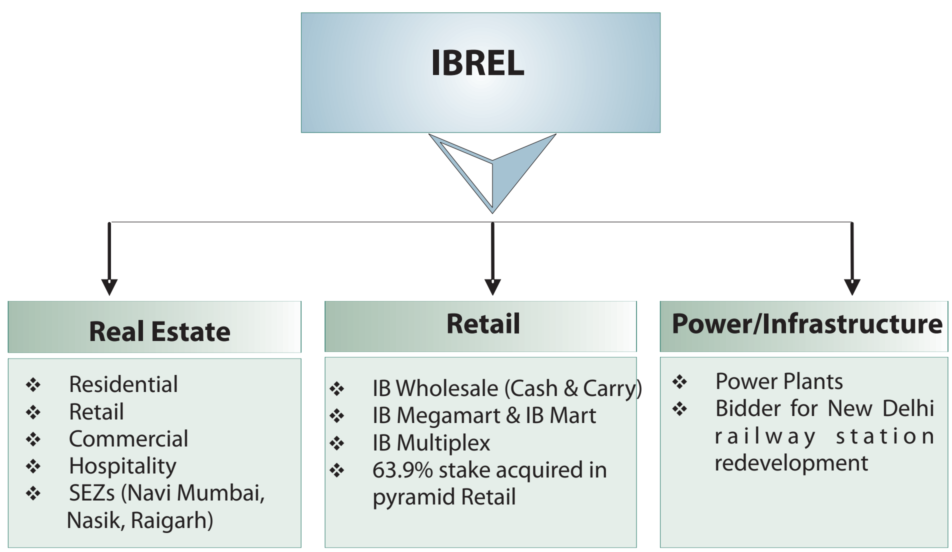
IBREL was formed in 2005 with the acquisition of 2 commercial properties in central Mumbai. IBREL has a land bank of about 219mn sq ft with operations spanning all aspects of real estate development, from the identification and acquisition of land to execution, marketing and management of its completed developments. IBREL also recently completed its REIT on the Singapore Stock Exchange in June 2008.

Diversified Play

In order to avail of the lucrative organised retail opportunity in India and has formed a 100% subsidiary, Indiabulls Wholesale Services for this purpose. Indiabulls Wholesale Services plans to operate around 4.7 mn sq ft of retail space in the next few years across three retail formats – Indiabulls Megastores (lifestyle), Indiabulls Marts (neighbourhood stores) and Indiabulls Wholesale (wholesale cash-n-carry). IBREL has also acquired a 63.9% stake in Piramyd Retail (includes Megastores and Marts) giving it a sizeable presence with 42 operational stores.

IBREL has also entered the asset management business by sponsoring Dev Properties, an AIM (Alternate Investment Market) listed fund. IBREL is also the investment manager for the fund. Apart from this, IBREL has also ventured into the power business through its subsidiary – Indiabulls Power Services Limited (IBPSL). IBPSL intends to set up power plants having a capacity of around 4,000 MW.

Exhibit 75: IBREL: Business Segments



Source: Centrum Research

Annexure 2

Annexure 2A: IBREL Project Portfolio

Source: Centrum Research

Annexure 2B: IBREL Land Bank Break-up

Exhibit 76: City-wise & segmental break-up of land reserves (mn sq. ft.)

Locations	Residential	Commercial	Retail	SEZ	Total	%
Agra	0	0	0.19	0	**0.19**	0
Ahmedabad	1.44	0	2.97	0	**4.41**	2
Amritsar	0	0	1.19	0	**1.19**	1
Chennai	14.63	0	0	0	**14.63**	7
Delhi	0.6	0	0	0	**0.6**	0
Gurgaon	6.71	0	2.33	0	**9.04**	4
Hyderabad	0	0	0.44	0	**0.44**	0
Indore	1.37	0	1.49	0	**2.86**	1
Jodhpur	0	0	1.02	0	**1.02**	1
Kanpur	0	0	0.37	0	**0.37**	0
Kota	0	0	0.53	0	**0.53**	0
Ludhiana	0	0	1.52	0	**1.52**	1
Madurai	0	0	0.4	0	**0.4**	0
Mumbai	0	3	0.5	0	**3.5**	1
Nashik	0	0	0	108.6	**108.6**	50
Navi Mumbai	0	0	0	9.8	**9.8**	4
Panvel	31.22	0	0	6.6	**37.72**	17
Sonepat	16.25	0	0	0	**16.25**	7
Vadodara	0	0	0.95	0	**0.95**	0
Vishakhapatnam	3.43	0	1.49	0	**4.92**	2
Total	**76**	**3**	**15**	**125**	**219**	**100**
%	33	1	7	58	**100**	

Source: Company, Centrum Research

Annexure 2C: IBREL Subsidiary/Associate Companies

Exhibit 77: Subsidiary/Associate companies

Company Name	Promoters/Partners	Project description
Indiabulls Properties Private	Indiabulls and Farallon Capital	Commercial Development with a total construction of ~3.3mn sq ft
Indiabulls Real Estate Company Private	Indiabulls and Farallon Capital	Commercial Development with a total construction of ~2.3mn sq ft
Indiabulls Estate	Indiabulls and Farallon Capital	Residential and commercial development near Delhi spread over 150 acres
Indiabulls Infrastructure Development	Indiabulls, Farallon Capital & L.N. Mittal	Multi-Product SEZ at Raigarh district of Maharashtra spanning over 6,000 acres
Indiabulls Industrial Infrastructure	Indiabulls & Maharashtra Industrial Development Corporation (MIDC)	Multi-product SEZ, spanning 3,000 acres in Maharashtra's Nashik district
Kenneth Builders and Developers	Indiabulls and DLF Group	High-end residential development near Okhla, Delhi
Noble Realtors	Indiabulls	Premium residential development at Gurgaon
Diana Buildwell Private	Indiabulls	Luxury resort sprawling over 21 acres along Vagator Beach, Goa
Indiabulls Builders	Indiabulls	Multi-product SEZ spanning an area of 6,000 acres in the Thane District of Maharashtra
Selene Estate Private	Indiabulls	Integrated residential project at Chennai, located next to the I.T. Corridor at Old Mahabalipuram Road (OMR)
Fama Land Development Private	Indiabulls	Integrated mixed-use project located near National Highway 5 in the Northern area of Chennai
Indiabulls Real Estate	Indiabulls	Integrated township at Panvel, Mumbai.

Source: Company, Centrum Research

Financial Statements

Profit & Loss Account (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**139**	**1,407**	**9,875**	**24,206**
Growth in revenues (%)		910.8	602.1	145.1
Operating expenses	144	1,426	2,272	6,432
% of net sales	103.1	101.4	23.0	26.6
EBITDA	**(4)**	**(20)**	**7,603**	**17,774**
y-o-y growth (%)		NM	NM	133.8
EBITDA Margin (%)	(3.1)	(1.4)	77.0	73.4
Depreciation & Amortisation	8	33	20	49
Other Income	316	6,240	382	411
EBIT	**303**	**6,187**	**7,965**	**18,136**
Interest expenses	53	522	403	470
EBT before extraordinary items	250	5,665	7,561	17,665
EBT	**250**	**5,665**	**7,561**	**17,665**
Provision for tax	119	1,598	1,866	4,499
Effective tax rate (%)	47.7	28.2	24.7	25.5
Net Profit before minority interest	**131**	**4,067**	**5,695**	**13,167**
Minority interest	(9)	65	65	65
Net Profit after minority interest	**140**	**4,002**	**5,630**	**13,102**
Extra-ordinary income/ (expenses	134	160	0	0
Adjusted Net Profit	**6**	**3,842**	**5,630**	**13,102**
y-o-y growth (%)	0.0	67,474.7	46.5	132.7
Adjusted Net Profit Margin (%)	1.3	50.2	54.9	53.2

Source: Company, Centrum Research

Balance Sheet (Consolidated)

Y/E March (Rs mn)	FY07	FY08A	FY09E	FY10E
Share Capital	3,437	4,629	8,712	8,712
Reserves	11,065	37,943	43,541	56,610
Shareholders' fund	14,502	42,572	52,253	65,322
Minority Interest	3,418	14,248	14,248	14,248
Debt	1,420	3,389	3,389	3,389
Deferred Tax Liability	7	7	7	7
Total Capital Employed	**19,346**	**60,216**	**69,897**	**82,966**
Total Fixed Assets	249	2,246	2,998	4,822
Goodwill	0	213	213	213
Investments	2,162	459	459	459
Inventories	1,993	11,441	10,516	19,488
Debtors	59	1,165	1,544	4,071
Cash and bank balances	15,912	16,435	6,384	4,206
Loans and Advances	3,645	49,716	52,548	55,169
Total current assets	21,608	78,757	70,991	82,933
Current liabilities and provisions	4,672	21,458	4,764	5,462
Net current assets	16,936	57,299	66,227	77,471
Total Assets	**19,346**	**60,216**	**69,897**	**82,966**

Source: Company, Centrum Research

Cash flows Statement (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash flow from operating activities				
Profit before tax	250	5,665	7,561	17,665
Depreciation	8	33	20	49
Interest expenses/(income)	(83)	(1,110)	(186)	(200)
Other Non operating (income)/expenses	(10)	(4,354)	207	259
Operating profit before working capital change	166	234	7,603	17,774
Working capital adjustment	(5,457)	(39,261)	(18,979)	(13,423)
Gross cash generated from operations	(5,291)	(39,027)	(11,376)	4,350
Direct taxes paid	(82)	(1,845)	(1,866)	(4,499)
Others	0	0	(65)	(65)
Cash generated from operations	**(5,374)**	**(40,872)**	**(13,307)**	**(213)**
Cash flow from investing activities				
Capex	(257)	(2,114)	(772)	(1,873)
Investment	4,374	(424)	(1)	0
Other Income	8,680	3,898	382	411
Cash generated from investment activities	**12,797**	**1,360**	**(391)**	**(1,463)**
Cash flow from financing activities				
Proceeds from share capital and premium	7,191	38,775	4,083	0
Borrowings/ (Repayments)	1,420	1,969	0	0
Interest expenses	(52)	(518)	(403)	(470)
Dividend paid	(70)	(191)	(33)	(33)
Cash generated from financing activities	**8,488**	**40,035**	**3,647**	**(503)**
Net cash increase/ (decrease)	**15,912**	**523**	**(10,051)**	**(2,179)**

Source: Company, Centrum Research

Ratio Analysis (Consolidated)

Y/E March	FY07	FY08	FY09E	FY10E
Margin Ratios (%)				
EBITDA Margin	(3.1)	(1.4)	77.0	73.4
PBIT Margin	66.7	80.9	77.7	73.7
PBT Margin	55.1	74.1	73.7	71.8
PAT Margin	1.2	50.2	54.9	53.2
Growth Ratio (%)				
Revenue	-	910.80	602.08	145.13
EBITDA	-	NM	NM	133.78
Net Profit	-	67,474.7	46.5	132.7
Return Ratios (%)				
ROCE	1.0	7.6	8.7	16.4
ROIC	5.4	10.5	9.6	17.3
ROE	0.0	10.0	11.7	21.4
Per share Ratios (Rs)				
Basic EPS	0.0	17.5	23.6	55.2
Fully diluted EPS	0.0	15.8	20.0	46.7
Book value	62.3	157.7	172.0	218.7
Gearing Ratio (x)				
Debt-equity	0.1	0.1	0.1	0.1
Interest coverage ratio	5.7	11.8	19.8	38.6
Valuation (x)				
P/E (Fully Diluted)	5,966.8	11.7	9.2	4.0
P/BV	3.0	1.2	1.1	0.8
EV/EBITDA	NM	NM	5.1	2.2
EV/Sales	278.1	27.5	3.9	1.6
M-cap/Sales	371.9	36.8	5.2	2.1

Source: Company, Centrum Research

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INDIA

29 September 2008

Initiating Coverage

Orbit Corporation

BUY

Cashing on redevelopment

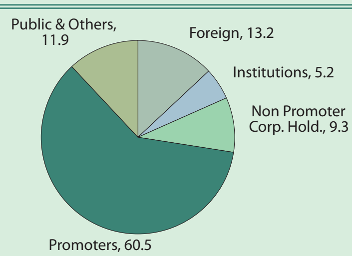
CMP: Rs178*

Target Price: Rs298

Key Data	
Bloomberg Code	ORB IN
Reuters Code	ORCP.BO
O/S Shares (mn)	36.3
Diluted Shares FY10E (mn)	45.4
Market Cap (Rs bn/US$ mn)	6.4/138.3
52 Wk H / L (Rs)	1,080/176
Daily Vol. (3M NSE Avg.)	2,22,199
Face Value (Rs)	10
1 US$ = Rs46.6	

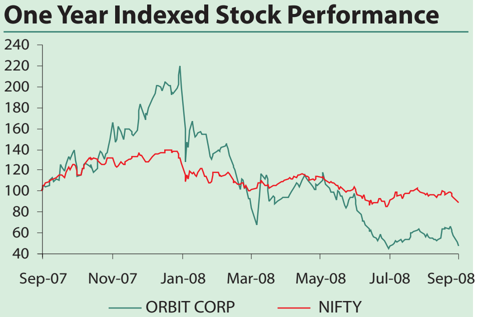
Source: Bloomberg

Shareholding Pattern (%)



As on 30th June 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	**1M**	**6 M**	**1 Yr**
Orbit Corp.	(30.8)	(61.5)	(66.4)
Nifty	(5.2)	(14.9)	(16.8)

Source: Bloomberg, Centrum Research

*As on 26 September 2008

Orbit Corporation is a real-estate developer with focus on redevelopment of residential properties in Mumbai. It specialises in converting old, dilapidated buildings into premium high-end apartments — a highly profitable business with high margins. The stock looks undervalued, given the company's strong presence in the upmarket south Mumbai area, execution capabilities and robust project pipeline. We initiate coverage with a Buy rating and target price of Rs298, an upside of 67% from current levels.

Strong presence in resilient south Mumbai limits downside

The potential downslide in property prices in South Mumbai is unlikely to be as pronounced compared to the other pockets of Mumbai. Around 64% (740,242 sq ft saleable area) of Orbit's ongoing projects are concentrated in this upmarket area that has faced a continuous shortfall in supply over the FY03-08. South Mumbai is home to India's super-rich and is also a preferred choice for many expats.

Major player in high-margin redevelopment projects

Orbit is an established developer in the niche market of redevelopment projects, which primarily involves redevelopment of dilapidated buildings and converting them into residential and commercial properties. The market for redevelopment in Mumbai is pretty substantial with 19,642 old and dilapidated buildings, most of them build pre-1940. We estimate a redevelopment opportunity of over Rs100bn for Orbit in the next seven-eight years.

Execution capability, robust project pipeline boosts earnings visibility

We do not see Orbit facing a cash crunch on the back of healthy earnings visibility, with most of its on-going projects expected to be completed over FY09-10. Redevelopment projects also require lower costs. The company plans to develop over 3mn sq ft over FY09-14 and most of these would be in the upmarket south Mumbai area.

Undervalued, Buy for target of Rs298

We have valued Orbit on P/E basis as opposed to NAV method as we believe its valuations are not driven by land bank accumulation. At a CMP of Rs178, the stock currently trades at a P/E multiple of 3.0x FY10E, which we believe is undervalued considering the company's ability to cash in on the redevelopment opportunity. We initiate coverage on the Company with a BUY rating and a target price of Rs298 based on a 5x FY10E P/E multiple basis.

Key Financials

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net Sales	1,933	7,107	8,796	10,368
YoY growth (%)		267.7	23.8	17.9
EBIDTA	758	3,517	3,603	4,178
EBIDTA Margin (%)	39.2	49.5	41.0	40.3
PAT (Adjusted)	572	2,358	2,152	2,704
Growth (%)		312.1	(8.7)	25.7
PAT Margin (%)	29.6	33.2	24.5	26.1
EPS (diluted) (Rs)	22.1	65.0	52.7	59.6
P/E (x)	8.0	2.7	3.4	3.0
RoE (%)	28.2	45.7	25.3	21.8
RoCE (%)	22.8	28.0	21.4	21.2

Source: Company, Centrum Research

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Investment Rationale

Strong presence in resilient south Mumbai limits downside

We believe the potential downslide in property prices in upmarket South Mumbai is unlikely to be as pronounced compared to other pockets of Mumbai. Around 64% (740,242 sq ft saleable area) of Orbit's ongoing projects is concentrated in the upmarket south Mumbai area, a region that has faced continuous shortfall in supply over last four to five years. Although we expect prices in South Mumbai to remain steady even in the face of a downturn in property markets, we have been conservative in our price realisations outlook and have assumed a 25% fall from peak rates for residential and commercial properties in this area in our valuations over CY08-10E.

Exhibit 78: Price assumptions for residential properties in south Mumbai

Area (Rs/sq ft)	CY08E	CY09E	CY10E
Napean Sea Road	40,000	34,000	32,300
Nana Chowk	25,000	21,250	20,188
Worli	25,000	21,250	20,188
Lower Parel	20,000	17,000	16,150

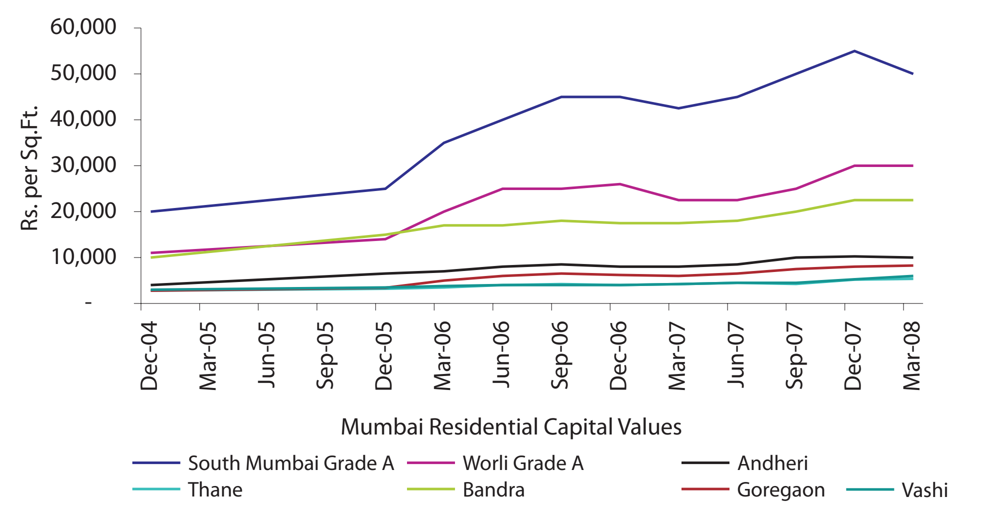
Source: Centrum Research

Areas falling in south Mumbai, such as Nariman Point, Napean Sea Road, Breach Candy, Lower Parel and Worli, command a much higher price of Rs20,000-Rs50,000 per sq ft vs. other parts of Mumbai, where prices of residential properties range between Rs3,000 and Rs20,000 per sq ft.

As most of the land in the south Mumbai has already been developed, there is a perennial shortage of land. In such a scenario, the only viable alternative for property developers is to redevelop old, crumbling buildings and develop new ones on the existing land. Orbit is well-placed as the majority of its completed and on-going projects fall in the south Mumbai.

The company has received excellent response for its Villa Orb and Orbit Arya projects, both at Napean Sea Road, with average price realisations of about Rs40,000 per sq ft for the two properties. The blended realisations for its ongoing projects is Rs23,475, which is well above its blended construction cost of about Rs12,600 per sq ft, giving it an average operating margin of 46%. South Mumbai is home to some of India's super-rich and also the preferred choice for many expats.

Exhibit 79: Residential values in south Mumbai



Source: Knight Frank, Centrum Research

Major player in lucrative redevelopment projects

Orbit is an established developer in the niche redevelopment market and plans to develop around 3mn sq ft over the FY09-14. We estimate a redevelopment opportunity of over Rs100bn for Orbit over next 7-8 years. The market for redevelopment in Mumbai is pretty substantial with 19,642 old and dilapidated buildings, most of which have been built prior to 1940. Redevelopment primarily involves reconstructing dilapidated buildings into residential and commercial properties. Of the total dilapidated buildings in Mumbai as of April 2006, 7,075 are located in areas where Orbit has existing developments or where the company wishes to expand. It has already redeveloped 327 buildings and 363 buildings are either under construction or no-objection certificates (NOC) has been obtained. However, these buildings account for about 10% of the cessed buildings, which leaves the potential redevelopment opportunity for OCL at 6,386 buildings.

Exhibit 80: Redevelopment of cessed buildings under various categories

Ward & Area	Dilapidated buildings	Redeveloped	Under process		
			Under Construction	NOC Obtained	Potential Development
A	936	9	5	8	914
D	2,747	71	53	73	2,550
F&G North	2,056	212	93	75	1,676
F&G South	1,336	35	31	24	1,246
Total	**7,075**	**327**	**182**	**180**	**6,386**

Source: Company RHP, Centrum Research (Please refer Annexure for detailed description of ward areas)

Typically, the free-sale area for a redeveloped building is around a third of the permissible built-up-area (BUA) of the building. Between 1984 and 2004, 885 buildings received no-objection certificates (NOCs) for redevelopment for which the average permissible BUA and free-sale area per building works out to 2,597 sq m and 866 sq m respectively. Assuming the same free-sale area per building for 6,386 buildings and an average realisation of Rs20,000 per sq ft, the estimated redevelopment opportunity works out to Rs1,190bn to be implemented over the next 8-10 years.

Orbit has developed around 1.5mn sq ft in prime areas of South Mumbai like Tardeo, Babulnath, Prabhadevi, Worli, and Gamdevi.

Redevelopment scenario in Mumbai and MMR

Exhibit 81: Redevelopment scenario in Mumbai

Category	Year of construction	Number of buildings
A	Before 1 Sept 1940	16,502
B	Between 1 Sept 1940 to 31 Dec 1950	1,489
C	Between 1 Jan 1951 to 30 Sept 1969	1,651
Total		**19,642 Nos**

Source: MHADA website (As on 8 Jun 2006)

The opportunity for redevelopment in Mumbai is huge according to a survey done by the Maharashtra Housing Area Development Authority (MHADA) in 2006. According to MHADA, there are 19,642 cessed buildings in Mumbai between 40 to 100 years old.

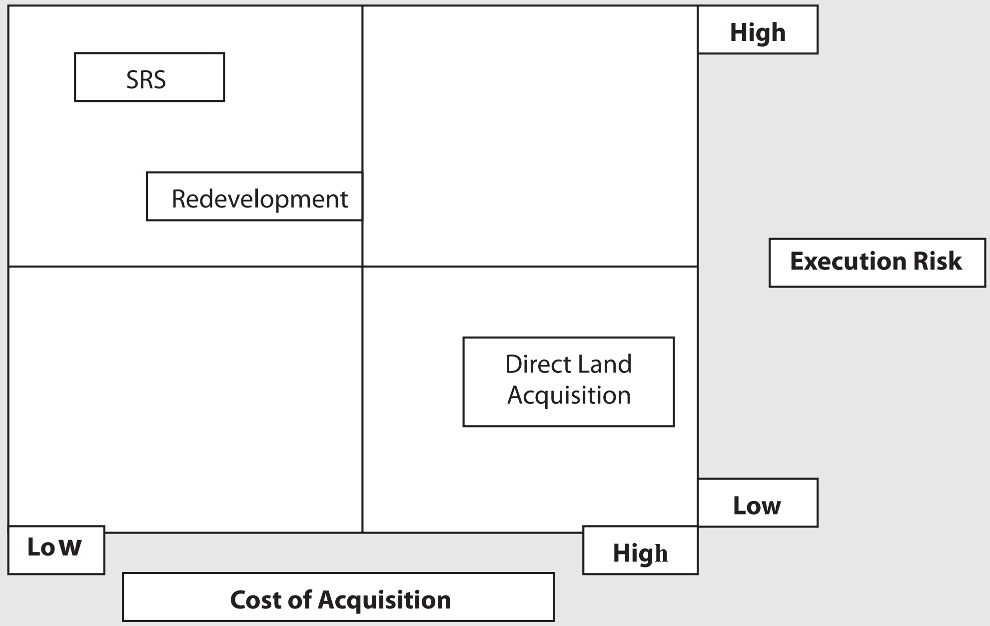
Exhibit 82: The Distribution of Redevelopment NOC Received in Island City from the period of 1984 to 2004

Ward	Number of Buildings	Permissible Built-up Area in Sq mt	Area Available for Free Sale Sq mt
A	22	36,690	12,230
B	39	49,981	16,660
C	61	79,720	26,573
D	190	565,967	188,656
E	104	341,071	113,690
F North	132	222,770	74,257
F South	41	196,700	65,567
G North	243	566,236	188,745
G South	53	239,280	79,760
Total	**885**	**2,298,415**	**766,138**

Source: Liases Foras, Company(Please refer annexure for detailed description of ward areas)

The unique advantage that redevelopment offers a developer is the low cost of land acquisition. Comparged to direct acquisition of land that is an expensive proposition for a developer (especially in a city like Mumbai) under redevelopment schemes, the land cost is limited as the developer provides alternate accommodation to existing owners or tenants in the new construction or at an alternate location. Typically, profit margins for a redevelopment project having a FSI cap of 2.5 range from 45-50% after taking into account the absence of land cost and the cost of rehabilitation of tenants.

Exhibit 83: Comparison of various property development alternatives



Source: Centrum Research

Although redevelopment involves identification of potential redevelopment projects and lengthy rounds of discussions with tenants and landlords and obtaining permission from various regulatory authorities, developers with expertise in executing such projects and having a definitive business strategy for redevelopment are better placed than smaller developers.

DCR 33 (7) – Long term accretive for Orbit Corporation

On 4 September 2008, the Supreme Court of India passed a judgment declaring that cessed buildings undertaken for redevelopment under Development Control Regulation 33 (7) (DCR) are eligible for unlimited FSI. This judgment is significant, as previously the FSI for redevelopment under DCR 33 (7) was capped at 2.5, which reduced the free sale area available to a developer.

We believe that this judgment is long-term accretive for Orbit Corporation owing to its existing expertise in redevelopment projects. However, we do not see any major upside in the medium term owing to various issues such as lack of infrastructure, securing consent of tenants and landlords and public opposition against the ruling.

Execution and robust pipeline to boost earnings

We do not expect Orbit to face a cash crunch on the back of healthy earnings visibility, with most of its on-going projects getting completed over the next two years. Further, redevelopment projects also require lower costs.

Orbit plans to develop around 3mn sq ft over FY09-14. The company's ongoing projects portfolio consists of 16 projects with a total saleable area of 1.16mn sq ft, with majority of these projects in the lucrative South Mumbai market.

Exhibit 84: Orbit: Ongoing project profile

Project	Location	Area-Saleable (Sq Ft)	Residential/Commercial	Completed (%) as on 31 March 2008
Villa ORB	Napean Sea Road	64,167	Residential	100
Orbit Heights	Nana Chowk	82,500	Residential	99.64
Orbit Arya	Napean Sea Road	65,000	Residential	63.54
Orbit Eternia	Lower Parel	25,000	Residential	29.55
Hafeez Contractor House	Lower Parel	226,200	Commercial	23.91
Orbit Grand	Lower Parel	48,000	Residential	0.34
Orbit Enclave	Prathana Samaj	23,000	Residential	0.1
Orbit Haven	Napean Sea Road	35,000	Residential	7.24
Orbit Plaza	BKC	86,547	Commercial	96.23
Orbit View	Worli Sea Face	35,000	Residential	0
Orbit Ambrosia	Altamount Road	34,000	Residential	0.17
Orbit WTC	BKC	333,000	Commercial	35.74
Daruwala Chawl	Lower Parel	25,000	Residential	0
Jenson Veneer	New Breach Candy Rd	10,500	Residential	0
Bhatia House	Tardeo Road	14,375	Residential	0
Villa ORB- Annex	Napean Sea Road	52,500	Residential	0.35
Total		**1,159,789**		

Source: Company, Centrum Research

The company's project execution is on track with three of its projects – Villa Orb (Napean Sea Road), Orbit Heights (Nana Chowk) and Orbit Plaza (BKC) almost nearing completion. The company has also launched the construction of the Hafeez Contractor House (Lower Parel) in 1QFY09 and plans to start construction on the Orbit Haven property (Napen Sea Road) in 3QFY09. Additionally, the work on JSW House (Orbit WTC) consisting of 333,000 sq ft is as per schedule.

Exhibit 85: Orbit's project pipeline

Product pipeline	Area (Sq Ft)	No. of Projects
Open Plot Projects	180,000	1
Redevelopment Projects	1,769,507	6
Total	**1,949,507**	7

	Area (Sq Ft)	No. of Projects
Napean Sea Road	300,000	2
Lalbaug	900,000	3
Bandra Kurla Complex	180,000	1
Santacruz	569,507	1
Total	**1,949,507**	**7**

Projects	Area (Sq Ft)
Commercial	1,114,750
Residential	834,757
Total	**1,949,507**

Source: Company, Centrum Research

Apart from its ongoing projects, Orbit has nearly 2mn sq ft of planned projects which shall be executed over the next four-five years. Of these, the company intends to begin construction on its residential project near Santacruz railway station by 3QFY09 consisting of 175,000 sq ft saleable area.

In addition to these projects, the company has acquired an 85% stake in Ahinsa Buildtech which shall develop the Orkay Silk Mills project at Andheri, Saki Naka over the next three-four years. The property is spread over 9,000 sq m and Orbit expects to generate 275,000 sq ft of saleable area consisting of an office complex and a boutique 5-star hotel. The total cost of the project is estimated at Rs2.1bn excluding interest of which Rs1.2bn is for land payment and construction cost is Rs900mn. We have included the land payment in our estimates for FY09 and FY10 and we estimate the construction costs and realisations from the property shall appear on the company's books from FY11 onwards under the percentage completion method.

Risks & Concerns

Long execution period for redevelopment projects

Building consensus among the residents/tenants of the old buildings, getting the requisite government approvals, provision of alternate accommodation to existing building residents, etc. require significant time. Any delay or stalling of a project can lock working capital and create a cash crunch, impacting the company's ability to complete existing projects or start new projects. Further, redevelopment projects are ridden with risks and uncertainties, given the lengthy time period required in negotiating with residents/tenants.

Changes in zone regulations

Any change in critical regulations in terms of Development Control Regulations (DCR) and Coastal Regulations Zone (CRZ) would directly impact the company's profitability.

Execution risk

A multi-fold jump in planned projects implies huge execution risk.

Asset cycle risk

Prevalent high prices expose Orbit to an asset cycle risk. Also a wait-and-watch approach by customers before booking new properties can impact cash flows and the completion of existing/ new projects.

Financials

Steady growth in revenues, net profit

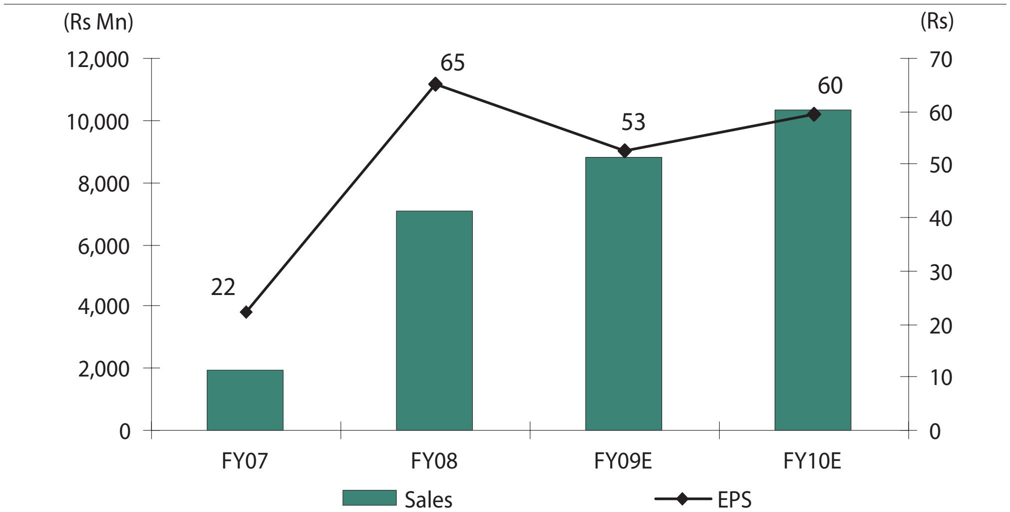
Orbit expects to develop about 3mn sq ft of residential and commercial space by FY14-15. We expect a 21% revenue and 7% net profit CAGR to Rs10,368mn and Rs2,704mn respectively, over FY08-10E. We have assumed declining sales realisations and a 7% increase in construction costs. For FY09-10, the majority of sales shall accrue from Orbit WTC property at BKC, Orbit Arya (Napen Sea Road) and Orbit Eternia (Lower Parel).

A key factor in our sales assumptions is that we have not included any sales in FY09-10 for Orbit's Hafeez Contractor House which is already 25% complete. As soon as the property is sold, we estimate revenue recognition from the property depending on the percentage sold to the buyer.

Margins to remain steady over FY09-10E

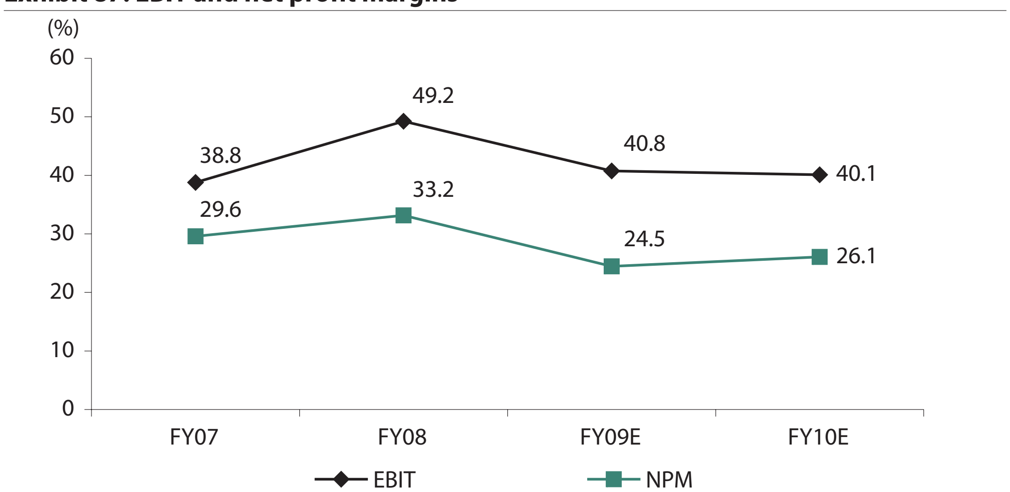
We expect the company to maintain steady operating and net profit margins over FY09-10E. As the company scales up its activities further, we expect margins to improve as it gains access to redevelopment of more properties.

Exhibit 86: Sales and EPS trend



Source: Company, Centrum Research

Exhibit 87: EBIT and net profit margins



Source: Company, Centrum Research

Valuations

Significantly undervalued, Buy with target price of Rs298

Normally, real estate companies are valued on net asset value (NAV). However, as Orbit's business model is concentrated towards redevelopment of old, dilapidated properties where the company does not need to incur significant capex and land purchase costs compared to pure real estate developers, we have valued the stock on P/E multiple.

We believe OCL is insulated from the real estate cycle, as we expect the company to generate steady business from the redevelopment opportunity of ~19,000 cessed buildings that Mumbai provides, which are to be developed over 10-15 years.

We are comfortable with the company's funding requirement for their planned and ongoing projects, given its existing debt-equity of 1.0x, strong cash flow visibility through sales realizations from multiple projects and expected infusion of funds through warrant conversions.

The stock looks significantly undervalued at a P/E (assuming 50% warrant conversion in FY09 and FY10 respectively) of 3.0x FY10E at current price level. We initiate coverage with a BUY rating with a target price of Rs298 based on a 5x FY10E P/E, which provides an upside of 67% to the current price.

Company Background

Orbit Corporation was incorporated in March 2000 as Orbit Cybertech. The company's name was changed to Orbit Corporation in April 2006 and it successfully listed its IPO in April 2007. Orbit is into real estate construction and development with primary focus on redevelopment. The promoters, Mr Ravi Kiran Aggarwal and Mr Pujit Aggarwal, have over 18 years of experience in the real estate sector and were involved in redevelopment in their personal capacities until FY00.

For undertaking redevelopment projects in Mumbai, Orbit primarily operates under 33(6), 33(7) and 33(10) DCR regulations.

Exhibit 88: Potential for redevelopment in Mumbai

Key Elements	33(6)	33(7)	33(10)
Features of Scheme	Existing Built Up Area available for development FSI for the Plot size	Higher of, 2.5 times of Plot area available for development or 50% of the rehabilitation area as incentive	Maximum of 2.5 times of Plot area available for development or 3 times Plot area in case of dense projects.
Identification of Property	Preferably in the CRZ zone	All other parts of the Island City	Slums situated over large areas
Ownership Strategy	Direct ownership	Direct Ownership / Joint Development	Development Agreement
Redevelopment Area per Tenement	Existing BUA (Built up Area)	Minimum 225 sq ft up to a maximum of 750 sq ft per Tenement	Only 225 SFT self-contained apartments.
Tenant Rehabilitation Strategy	Complete Buyout of Tenancy rights	No buyout	No buyout
80I(b) Tax Benefits	Available	Available	Available
Discounted BMC Development Charges	Available	Available	Available
Relative Acquisition Cost	High	Low	Low
Value Realisation	Very High	High	Low

Source: Company, Centrum Research

Exhibit 89: Trend of NOC obtained 2001-2004

Years	NOC granted	Permissible built-up FSI in sq mtrs	Approx FSI for free sale in sq mtrs
2001	80	235,369	78,456
2002	108	228,551	76,184
2003	103	175,767	58,589
2004	110	334,138	111,379
Average	**100**	**243,456**	**81,152**

Source: Liases Foras, Company, Centrum Research

Annexure 3

Exhibit 90: Categories - Potential target locations for Orbit for redevelopment

Ward & Area	Geographic Details			
	East	West	North	South
A 12.50 sq km	Dock Area, Ballard Estate, Shahid Bhagat Singh Road, P D'mello Road, Karnak Bandar Bridge, Ajinkya Chowk to Naval Dock	Netaji Subhash Marg (Marine Drive Sea), Navy Nagar to Foras Rd Jn.	Anandilal Poddar Marg, Lokmanya Tilak Marg & F Road, Karnak Bunder Bridge, Ajinkya Chowk P D'mello Jn.	Colaba (Military Area)
D 6.63 sq km	V P Road, Ardeshit Dadi Street, Timbak Pashuram Street Shuklaji Street	Netaji Subhash Road (Up to Govt. Printing Press), Walkeshwar Road, Bhulabhai Desai Road	Bomaji Behram Marg, Sane Guruji Marg, Keshavrao Khade Marg	Babasaheb Jaikar Marg, M K Road
F & G North				
F-North 12.98 sq km	Thane Creek	Central Railway	M. G. Mankikar Marg	Mumbai Marathi Grantsangrahalaya Marg
G-North 9.07 sq km	S B Road to Sion Convert (Dharavi)	Seashore	Mahim Causeway Aagra Road	Kakasaheb Gadgil Marg & Kasinath Dhuru Road
F & G South				
F – South 14 sq km	Sewree Sea Face	Central Railway	Mumbai Marathi Granth Sangrahalaya Road, Road No 26	Dattaram Lad Marg, Kaka Chawky
G- South 10 sq km	Central Railway	Arabian Sea	S V S Road, K Dhuru Road to K Gadgil Marg	K Khadke Marg & S. G. Marg to Western Railway

Source: Company RHP

Financial Statements

Profit & Loss Account (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**1,915**	**7,055**	**8,796**	**10,368**
Growth in revenues (%)		268.4	24.7	17.9
Operating expenses	1,175	3,591	5,194	6,190
% of net sales	61.4	50.9	59.0	59.7
EBITDA	**740**	**3,465**	**3,603**	**4,178**
y-o-y growth	0.0	368.2	4.0	16.0
EBITDA Margin	38.6	49.1	41.0	40.3
Depreciation & Amortisation	8	17	17	20
Other Income	18	52	0	0
EBIT	**750**	**3,499**	**3,586**	**4,158**
Interest expenses	101	566	717	553
EBT before extraordinary items	649	2,933	2,869	3,605
EBT	**649**	**2,933**	**2,869**	**3,605**
Provision for tax	77	575	717	901
Effective tax rate	11.8	19.6	25.0	25.0
Net Profit before minority interest	**572**	**2,358**	**2,152**	**2,704**
Net Profit after minority interest	**572**	**2,358**	**2,152**	**2,704**
Adjusted Net Profit	**572**	**2,358**	**2,152**	**2,704**
y-o-y growth	0.0	312.1	(8.7)	25.7
Adjusted Net Profit Margin	29.6	33.2	24.5	26.1

Source: Company, Centrum Research

Balance Sheet (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Share Capital	272	363	408	454
Reserves	1,761	4,795	8,084	11,925
Shareholders' fund	2,032	5,157	8,492	12,379
Minority Interest	2	2	2	2
Debt	918	5,302	4,937	2,966
Total Capital Employed	**2,952**	**10,461**	**13,430**	**15,346**
Total Fixed Assets	43	121	145	161
Investments	1	102	102	102
Inventories	1,673	4,123	6,063	6,981
Debtors	1,085	2,986	3,079	3,629
Cash and bank balances	1,832	1,841	1,455	1,280
Loans and Advances	1,091	4,598	5,477	6,514
Total current assets	5,680	13,548	16,074	18,404
Current liabilities and provisions	2,786	3,374	2,954	3,384
Net current assets	2,894	10,174	13,120	15,020
Misc. Expenditure	14	63	63	63
Total Assets	**2,952**	**10,461**	**13,430**	**15,346**

Source: Company, Centrum Research

Cash flows Statement (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash flow from operating activities				
Profit before tax	649	2,933	2,869	3,605
Depreciation	8	17	17	20
Interest expenses	101	566	717	553
Other Non operating (income)/expenses	(4)	(29)	0	0
Operating profit before working capital change	**754**	**3,488**	**3,603**	**4,178**
Working capital adjustment	(607)	(6,758)	(3,332)	(2,075)
Gross cash generated from operations	147	(3,270)	271	2,103
Direct taxes paid	(109)	(195)	(717)	(901)
Others	(16)	(64)	0	0
Cash generated from operations	**22**	**(3,529)**	**(447)**	**1,202**
Cash flow from investing activities				
Capex	(28)	(96)	(41)	(36)
Investment	0	(101)	0	0
Other Income	8	46	0	0
Cash generated from investment activities	**(20)**	**(151)**	**(41)**	**(36)**
Cash flow from financing activities				
Proceeds from share capital and premium	1,453	(19)	1,183	1,183
Borrowings/ (Repayments)	322	4,383	(365)	(1,971)
Others	(101)	(675)	(717)	(553)
Cash generated from financing activities	**1,675**	**3,690**	**101**	**(1,341)**
Net cash increase/ (decrease)	**1,677**	**9**	**(386)**	**(174)**

Source: Company, Centrum Research

Ratio Analysis (Consolidated)

Y/E March	FY07	FY08	FY09E	FY10E
Margin Ratios (%)				
EBITDA Margin	38.6	49.1	41.0	40.3
PBIT Margin	38.8	49.2	40.8	40.1
PBT Margin	33.6	41.3	32.6	34.8
PAT Margin	29.6	33.2	24.5	26.1
Growth Ratio (%)				
Revenue	-	268.4	24.7	17.9
EBITDA	-	368.2	4.0	16.0
Net Profit	-	312.1	(8.7)	25.7
Return Ratios (%)				
ROCE	22.8	28.0	21.4	21.2
ROIC	60.1	33.9	24.0	23.2
ROE	28.2	45.7	25.3	21.8
Per share Ratios (Rs)				
Basic EPS	22.1	65.0	52.7	59.6
Fully diluted EPS	22.1	65.0	52.7	59.6
Book value	78.5	142.1	208.0	272.8
Gearing Ratio (x)				
Debt-equity	0.5	1.0	0.6	0.2
Interest coverage ratio	7.4	6.2	5.0	7.5
Valuation (x)				
P/E	8.0	2.7	3.4	3.0
P/BV	2.3	1.3	0.9	0.7
EV/EBITDA	14.5	3.1	3.0	2.6
EV/Sales	5.4	1.4	1.1	1.0
M-cap/Sales	3.6	1.0	0.8	0.6

Source: Company, Centrum Research

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INDIA

CENTRUM

29 September 2008

Initiating Coverage — Shree Pre-Coated Steel (Ajmera Realty)

BUY

Tempting Valuation

CMP: Rs66*

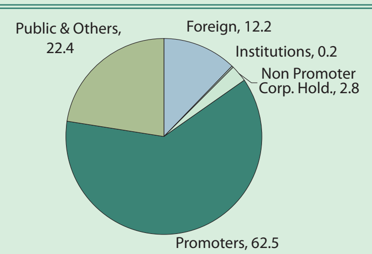
Target Price: Rs131

Key Data	
Bloomberg Code	SRPS IN
Reuters Code	SHPR.BO
O/S Shares (mn)	118.3
Diluted Shares (mn)	118.3
Market Cap (Rs bn/US$ mn)	7.7/165.4
52 Wk H / L (Rs)	487/64
Daily Vol. (3M NSE Avg.)	92,941
Face Value (Rs)	10

1 US$ = Rs46.6

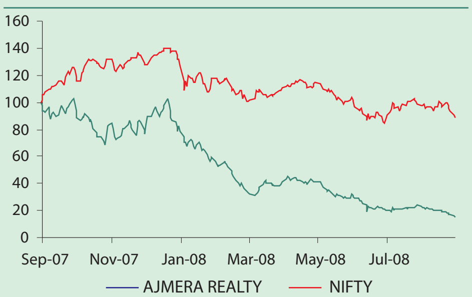
Source: Bloomberg

Shareholding Pattern (%)



As on 30th June 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	1M	6 M	1 Yr
Ajmera Realty	(32.5)	(57.9)	(83.8)
Nifty	(5.2)	(14.9)	(16.8)

Source: Bloomberg, Centrum Research

*As on 26 September 2008

Ajmera Realty's access to inexpensive land bank at prime locations in Mumbai and proven expertise in property development makes the stock one of our favoured picks in the sector. The company plans to develop and sell nearly 19mn sq ft of real estate over FY09-16, majority of which is located in Wadala (Bhakti Park) and Kanjur Marg - two key emerging property markets in Mumbai. While we have valued the realty business on NAV and arrived at a value of Rs96per share at a 40% discount , the steel business is valued on 4x FY10 P/E with a value of Rs35 per share. Initiating coverage on the stock with a Buy rating, a potential upside of 98% to our target price of Rs131, based on SOTP valuation.

Low-cost land bank in prime locations to aid margins

Ajmera Realty owns quality land bank in prime locations in Mumbai, where property prices have surged 3-4x over 2003-2008. We expect the company to rake in 45-50% margins in its ongoing projects, despite the escalation in construction costs (7-8% YoY) and expected fall in realisations. This is because, it has acquired land at an average cost of mere Rs75 per sq ft. The company plans to develop and sell nearly 19mn sq ft of real estate over the next 7-8 years , majority of which is located in Wadala and Kanjur Marg - two key emerging property markets in Mumbai.

Bhakti Park, Kanjur Marg projects major value drivers

Ajmera's project in Wadala, called Bhakti Park located in the heart of Mumbai, enjoys average realizations of Rs8.000 per sq ft. The property is strategically and is mere 15minutes drive from Worli and 25 minutes from Churchgate and Bandra Kurla Complex. It offers the dual advantage of location and affordability. Its planned development at Kanjur Marg, Mumbai's third CBD, spread over 8mn sq ft (with potential to increase to 16mn sq ft on additional FSI), is a major value driver.

Excellent track record and rising project execution too make it attractive

The Ajmera Group has an impressive track record of over 25 years in property development in Mumbai, having developed nearly 17mn sq ft until FY07. Moreover, the company has forayed into other Indian cities and is also set to benefit from its Bahrain Bay project in the strong Middle East property market due to sustained demand outlook.

Buy with target price of Rs131 per share

Ajmera Realty is transforming itself from a steel manufacturer to a realty developer. We have valued the real estate business at NAV (net asset value) with a 40% discount at Rs 96 per share and the steel business at Rs 35 at a P/E multiple of 4x FY10 EPS of Rs8.63. We arrive at SOTP target price of Rs131 per share, implying an upside potential of 98%.

Key Financials

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net Sales	16,775	19,538	23,547	29,061
YoY growth (%)	79.1	16.5	20.5	23.4
EBIDTA	3,360	3,439	5,534	6,489
EBIDTA Margin (%)	20.0	17.6	23.5	22.3
PAT (Adjusted)	2,103	2,455	3,257	3,365
Growth (%)	1,265.1	16.8	32.6	3.3
PAT Margin (%)	12.5	12.5	13.8	11.5
EPS (diluted) (Rs)	17.8	20.8	27.5	28.5
P/E (x)			2.4	2.3
RoE (%)	50.4	40.1	35.3	27.0
RoCE (%)	23.6	22.5	23.1	19.5

Source: Company, Centrum Research

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Investment Rationale

Low cost land bank in prime locations to boost margins

Of its total land bank of 19mn sq ft, Ajmera Realty has among the largest land bank of over 14mn sq ft of developable area in Mumbai alone (apart from this, about 1.8mn has already been delivered), which it plans to develop and sell over the next 7-8 years. (in FY09 it plans to develop and sell about 3.8mn sq ft) The land bank is relatively low risk as most of it is already in the company's possession with clear titles. Further, the acquisition cost of the land is low at about Rs75 per sq ft. Ajmera's Kanjur Marg project consisting of 8mn sq ft of developable area has an almost negligible acquisition cost of Rs8 per sq ft.

Ajmera's low acquisition cost would boost shareholder value, going forward, and help the company post decent 45-50% margins vis-à-vis competitors; more so, given the substantial rise in land prices in Mumbai in recent years. .

Exhibit 91: Ajmera Realty's land-bank details

City	Region	Project	Developable area (mn sq ft)
Mumbai	Kanjur Marg	Commercial	8
Mumbai	Wadala (Bhakti Park)	Residential	5.7
Mumbai	Kalyan	Residential	0.7
Mumbai	Andheri	Residential	0.4
Mumbai	Ghatkopar	Residential	1
Mumbai	Kamshet	Residential Villas	100 acres
Bangalore	Bangalore	Residential	2.5
Bahrain	Bahrain Bay Project	Residential and Commercial	0.7

Source: Company, Centrum Research

The company also has projects in Bangalore and presence in the lucrative Middle East market through its Bahrain Bay project. It also plans to develop around275 luxury villas at Kamshet, Maharashtra, which is close to Pune and Navi Mumbai.

Exhibit 92: Ajmera Realty's Mumbai land bank

Red dotted:	Projects completed till date
Green dotted:	Under progress
Sky blue:	Planned projects

Source: Company, Centrum Research

Excellent track record and rising project execution too make it attractive

The Ajmera Group has an impressive track record in property development in Mumbai, having developed nearly 17mn sq ft until FY07 since last 25 years. Among its major achievements are the construction of a residential township of around 7mn sq ft spread over 600 buildings and 15,000 dwelling apartments at Mira Road, MMR. The company has also undertaken mega projects in Pune, Rajkot, Ahmedabad and Surat.

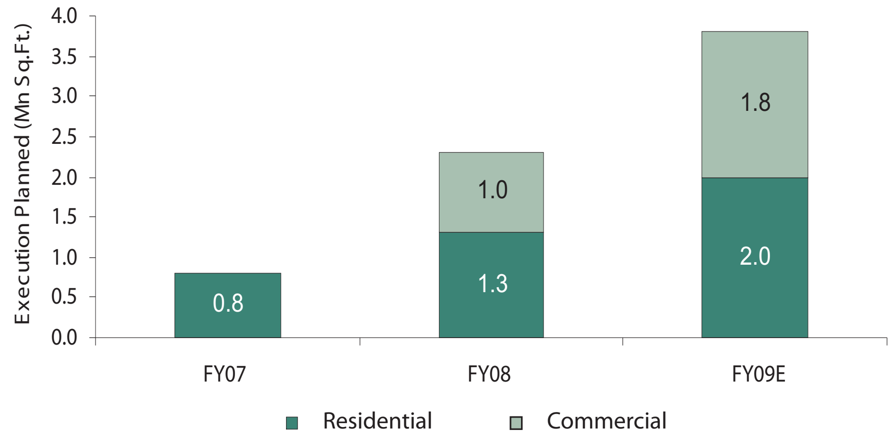
Exhibit 93: Ajmera group's completed projects

Project Name	Region	Period	Residential/ Commercial	Estimated Built-up-Area (mn sq ft)
Gopal Nagar	Bhiwandi, Mumbai	Before 2004	Residential	0.41
Manish Nagar	Andheri West, Mumbai	Before 2004	Residential	0.95
Pramukh Darshan	Ghatkopar, Mumbai	Before 2004	Residential	0.03
Shanti Nagar	Mira Road East, Mumbai	Before 2004	Residential	7
Yogi Hills	Mulund, Mumbai	Before 2004	Residential	0.6
Vijay Nagar	Marol East, Mumbai	Before 2004	Residential	0.6
Ajmera Housing Complex	Pimpri, Pune	Before 2004	Residential	1
Jankalyan Nagar	Rajkot, Gujarat	Before 2004	Residential	0.06
Nilkant Nagar	Bhavani Peth, Pune	Before 2004	Residential	0.2
Parvati Nagar	Pune	Before 2004	Residential	0.35
Shastri Nagar	Rajkot, Gujarat	Before 2004	Residential	0.7
Yogi Park	Koregaon Park, Pune	Before 2004	Residential	0.05
Bhakti Park - Sector I and II	Wadala, Mumbai	After 2004	Residential	0.8
Royal Classic	Andheri West, Mumbai	After 2004	Residential	0.4
Shastri Nagar	Versova Andheri West, Mumbai	After 2004	Residential	1.73
Yogi Nagar	Borivali West, Mumbai	After 2004	Residential	1.16
Yogi Dham - Phase I	Kalyan, Mumbai	After 2004	Residential	0.3
Centre Point, The Software Park	Electronic City, Bangalore	After 2004	Commercial	0.11
Citi Mall	Andheri, Mumbai	After 2004	Commercial	0.2

Source: Company, Centrum Research

Ajmera Realty is set to execute a number of projects across Mumbai and other Indian cities, it also has a lucrative Bahrain Bay project in the Middle East. Tthe Bhakti Park project will be the major contributor to the company's revenues in FY09-10 with estimated realisations of Rs8,150mn .

Exhibit 94: Project Execution Increasing



Source: Company, Centrum Research

Other ongoing key projects

Bahrain Bay – Strategic play in the Middle East

The project, a 60% JV with Mayfair, consists of 730,000 sq ft of constructed space and is located north of Manama, the capital of Bahrain. The entire development is on 43 hectares of reclaimed land. Land prices in the area have doubled in last one year, which augurs well for Ajmera, as it has been able to keep its land acquisition costs in check. The construction will begin in FY09 and is expected to be completed by FY12. Property rates at Bahrain Bay have appreciated by around 25% in CY08 to about Rs15,000-16,000 psf from Rs12,000-13,000 in CY07. However, we have been conservative in our assumptions and factored in an average price of Rs12,500 psf for the project.

Exhibit 95: Bahrain Bay project status details

Status	Will start from FY09
Total developable area (mn sq ft)	0.7
In progress (mn sq ft)	NA
Project duration	3 years
Product mix	Residential apartments and offices

Source: Company, Centrum Research

Ajmera Infinity, Bangalore

The project is located close to Electronic City in Bangalore, which houses several IT companies, including Infosys Technologies and Wipro. The project consists of 17 blocks with 19 floors and provides various amenities like a clubhouse, swimming pool and landscaped gardens.

Exhibit 96: Ajmera: Infinity project details

Status	Ongoing
Total developable area (mn sq ft)	2.5
In progress (mn sq ft)	NA
Project duration	3-4 years
Product mix	Residential

Source: Company, Centrum Research

Bhakti Park and Kanjur Marg properties - key value drivers

Wadala, which looked unattractive until a few years ago on account of its poor infrastructure and surrounding, is now being transformed into an upper middle class locality. However, private property developers like Ajmera and other private developers are focused on building mini-townships with the required infrastructural facilities to combat the negatives. Apart from a distinct locational advantage (its proximity to key commercial business district's (CBD) of Mumbai like Worli, Nariman Point and Bandra Kurla Complex), Wadala is also competitive on pricing compared to other posh residential localities in the Western and Eastern suburbs of Mumbai such as Andheri and Ghatkopar, respectively. Prices in Wadala currently range from Rs8,000 to Rs12,000 psf, comparable to the above-mentioned localities.

Bhakti Park - Locational advantage cum affordability play

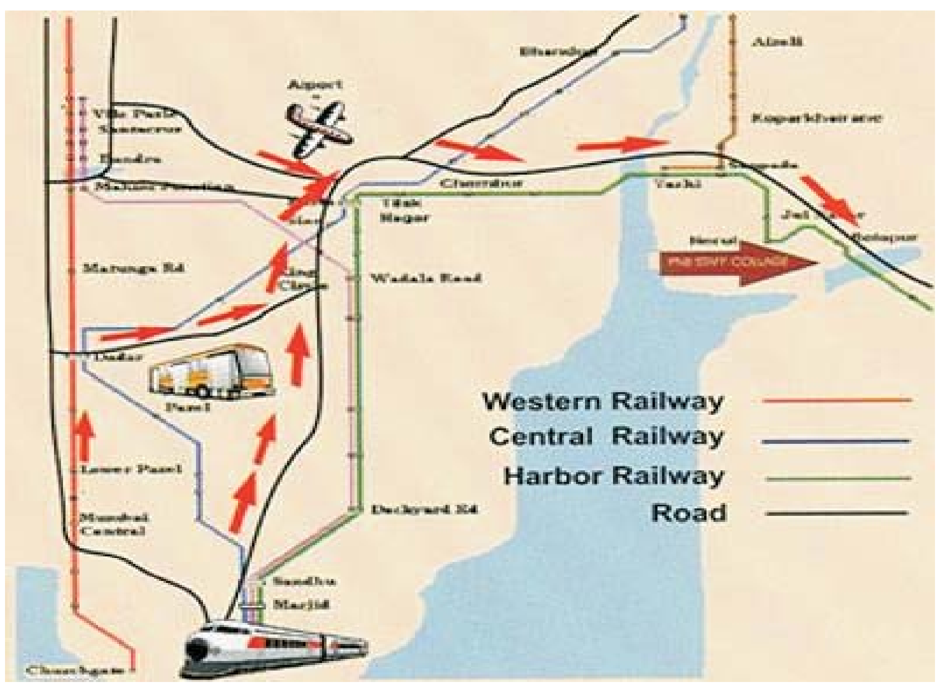
The group's Bhakti Park property is situated at Wadala (the heart of central Mumbai), which is well-connected to Mumbai's central and suburban pockets. The construction of new freeway roads and flyovers adjacent to the land has improved Wadala's connectivity to two major CBDs in Mumbai –Nariman Point and the Bandra-Kurla Complex. The first phase of the project comprising 1.7mn sq ft has been sold out and the company is witnessing a positive response for the second phase. In addition to residential development, development of commercial office space of around 2mn sq ft and retail space of around 1mn sq ft is set to begin in FY10-11.

Exhibit 97: Bhakti Park (Wadala) project details

Status	On-going project
Total developable area (mn sq ft)	5.7
Developed to date (mn sq ft)	1.7
Project duration	4 years (FY09-12)
Product mix	Residential and commercial (office & retail space)

Source: Company, Centrum Research

Exhibit 98: Pictorial representation of Bhakti Park project location



Source: Centrum Research

Kanjur Marg – Potential of 8mn sq ft of extra saleable area

Ajmera Realty is currently awaiting the CBD approval from local authorities. Post approval, FSI is slated to increase to 4 from 2, which will result in the developable area increasing to 16mn sq ft from 8mn sq ft currently. Assuming a FSI of 2 and a discount rate of 15%, we estimate that the Kanjur Marg project to contribute a GAV of Rs38.18 per share.

Kanjur Marg is poised to become the next CBD in Mumbai after Nariman Point and BKC and is well-connected with proper infrastructure and logistics. The area's proximity to the airport as well as the new airport in Navi Mumbai makes Kanjur Marg an ideal choice for corporates. Additionally, the commencement of the Versova-Ghatkopar metro rail link would enable people to comfortably travel to and fro from their home to the workplace. The non-availability of large plots required for large offices and malls in other parts of Mumbai city make Kanjur Marg an attractive option for corporates and retailers.

Exhibit 99: Kanjur Marg project status details

Status	To start in Jan 2009
Total Developable Area (mn sq ft)	8
In Progress (mn sq ft)	NA
Project Duration	5 years
Product Mix	Corporate offices and elite residential homes

Source: Company, Centrum Research

Risks

Interest rate and NAV sensitivity

Any change in property prices and construction costs will have an impact on our valuations. A further increase in interest rates and a steep fall in property realizations may affect the company's NAV.

Kanjurmarg, Bhakti Park account for major share of real estate revenue

The Kanjurmarg and Bhakti Park projects will constitute a major portion of the revenue and any negative impact on prices in these areas will have a significant impact on the cash flows.

Business cycle risk

Real estate prices have risen drastically over last two years and we expect prices to correct in the coming months, which might have a significant bearing on the company's cash flows and profitability.

Execution risks

Multi-fold jump in development activity will pose significant execution challenges for the company. The company's execution plans might be impacted due to shortage of resources.

Regulatory risks

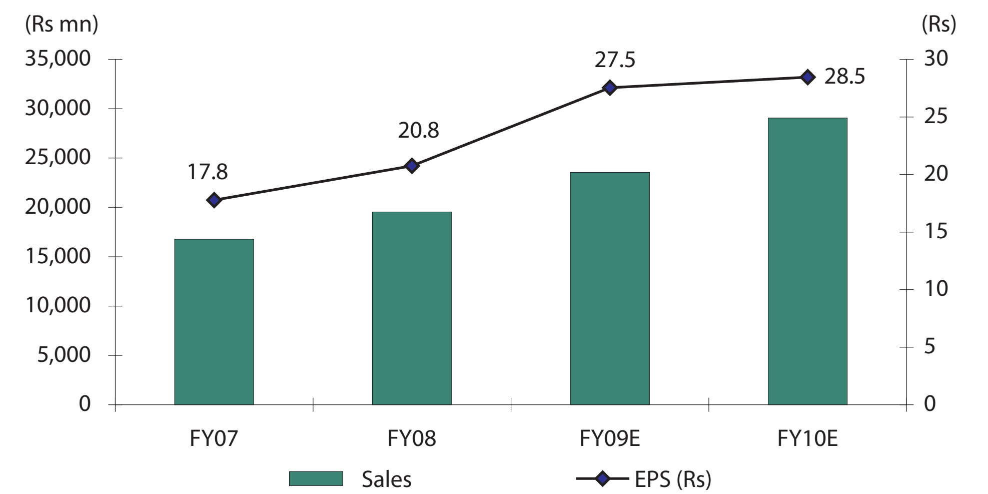
Changes in local land laws or regulations governing the real estate sector can adversely impact a real estate developer, as seen in 2008-09 budget announcement of the withdrawal of tax benefits to real estate developers. With vested interests in the promotion of select regions vis-à-vis others, changes at the helm of the political system can disrupt the equation significantly, especially in the case of the Kanjur Marg project.

Financials

Steady growth in revenues, net profit

Ajmera plans to develop 19mn sq ft of residential and commercial by FY12- 13. We expect 20% revenue and 17% net profit CAGR over FY08-10E to Rs29,061mn and Rs3,365mn, respectively, in FY10. Bhakti Park project would contribute most of the revenues over FY09 and FY10 in Ajmera's real estate business.

Exhibit 100: Ajmera Realty: Sales and EPS growth

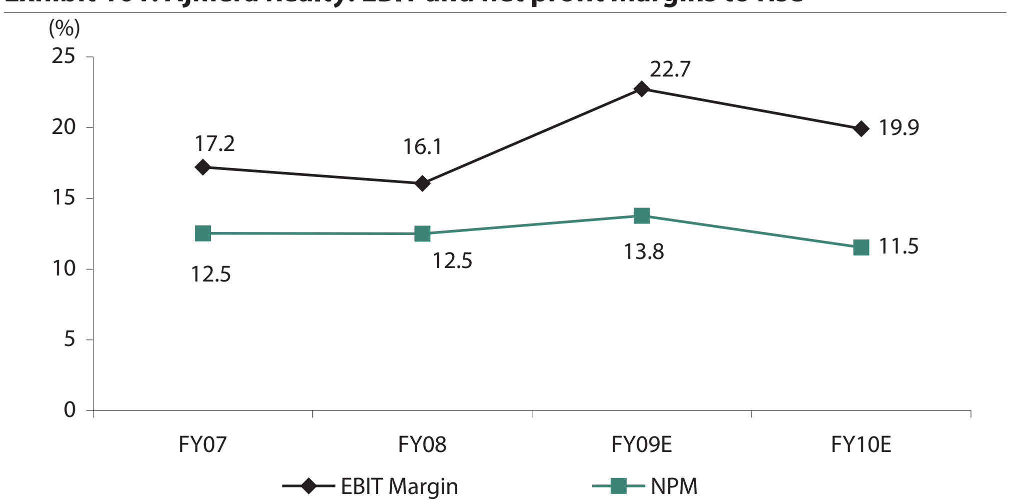


Source: Company, Centrum Research

Higher margins to boost profitability further

We expect Ajmera Realty to post 22.7% EBIT margin in FY10. Higher contribution of the real estate business to total sales and better capacity utilization of the steel business will boost margins. We estimate net profit margin for the steel business at 5% and 4% in FY09E and FY10E respectively. Overall net profit margins are expected to see marginal decline on account of higher interest costs because of debt raised by the company for development activities at its Bhakti Park and Kanjur Marg projects. Going forward, we expect the business mix to slowly turn in favour of real estate development.

Exhibit 101: Ajmera Realty: EBIT and net profit margins to rise



Source: Company, Centrum Research

Valuation

We have valued the company's two businesses, real estate development and steel businesses on SOTP (sum-of-the-parts) methodology. The real estate business is valued on NAV (net asset value) methodology while the steel business is compared to peers on P/E in the industry. In this approach we have calculated the net profit contribution of the steel business to the total net profit. We have arrived at the value of the company's real estate vertical by discounting the free cash flows from all projects.

Real estate business: Discounted NAV of Rs95 per share
We assume the company will develop 19mn sq ft of residential projects by FY13. Discounting the cash flows at 15%, we arrive at a GAV of Rs216 per share.

Exhibit 102: GAV of the realty business

Asset class	Gross asset value (Rs mn)	No. of shares (mn)	Per share GAV (Rs)
Retail	8,395	118.3	70.98
Commercial	8,170		69.08
Residential	8,966		75.81
Total	25,532		216

Source: Centrum Research

Adjusting for the debt and cash balance as at end FY09E and assigning a 40% discount to the NAV per share (as Ajmera Realty is an emerging real estate developer compared to peers), we arrive at a discounted NAV of Rs96 per share.

Steel business
At a P/E multiple of 4x FY10E EPS of Rs8.63, the steel business is valued at Rs35 per share.

Exhibit 103: Value of the steel business

	FY09E	FY10E
Sales (Rs mn)	21,404	25,528
Net profit (Rs mn)	1,070	1,021
EPS (Rs)	9.05	8.63
No. of shares (mn)	**118.3**	**118.3**

Source: Centrum Research

Using SOTP valuation, we arrive at a per share value of Rs131 per share, giving an upside of 98% from current levels. We have been conservative in estimating realizations from the real estate business and factored in a 7% upside in construction costs annually.

Exhibit 104: SOTP of Rs131 per share

Business vertical	Contribution to total value (Rs/share)
Real estate NAV per share	96
Steel business value per share	35
Total value	**131**

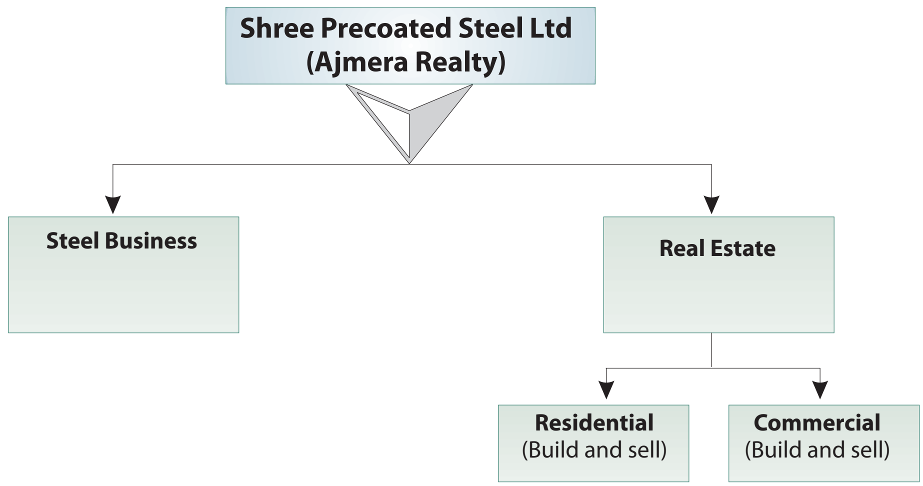
Source: Centrum Research

Company Background

Ajmera Realty, earlier called Shree Precoated Steels(SPSL)) is a member of the Ajmera Group. The group has established itself as one of India's leading residential and commercial property developers. SPSL produces and supplies coated flat steel products. The Ajmera Group's realty arm has successfully completed several mega housing residential complexes catering to various income groups. These mega projects comprise of around 17mn sq ft.

SPSL was promoted as RVS Steels and Allied Industries in March 1985 by V Shah, D Prabhu and others. CS Ajmera and Associates took over the company in 1986 and changed the name to Shree Precoated Steels.

Exhibit 105: Business Chart



Source: Centrum Research

Financial Statements

Profit & Loss Account (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**16,775**	**19,538**	**23,547**	**29,061**
Growth in revenues (%)	79.1	16.5	20.5	23.4
Operating expenses	13,415	16,100	18,014	22,572
% of net sales	80.0	82.4	76.5	77.7
EBITDA	**3,360**	**3,439**	**5,534**	**6,489**
y-o-y growth	*517.5*	*2.4*	*60.9*	*17.3*
EBITDA Margin (%)	20.0	17.6	23.5	22.3
Depreciation & Amortisation	483	388	264	794
Other Income	13	103	110	120
EBIT	**2,889**	**3,153**	**5,380**	**5,815**
Interest expenses	370	523	727	1,007
EBT before extraordinary items	**2,519**	**2,631**	**4,653**	**4,808**
EBT	**2,519**	**2,631**	**4,653**	**4,808**
Provision for tax	313	316	1,396	1,443
Effective tax rate (%)	12.4	12.0	30.0	30.0
Net Profit before minority interest	**2,206**	**2,315**	**3,257**	**3,365**
Net Profit after minority interest	**2,206**	**2,315**	**3,257**	**3,365**
Extra-ordinary income/ (expenses	103	(141)	0	0
Adjusted Net Profit	**2,103**	**2,455**	**3,257**	**3,365**
y-o-y growth (%)	1265.1	16.8	32.6	3.3
Adjusted Net Profit Margin (%)	12.5	12.5	13.8	11.5

Source: Company, Centrum Research

Balance Sheet (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Share Capital	766	1,183	1,183	1,183
Equity Share Suspense	417	0	0	0
Reserves	2,989	4,946	8,050	11,263
Shareholders' fund	4,172	6,129	9,233	12,446
Debt	6,600	6,500	8,000	10,000
Deferred Tax Liability	141	0	0	0
Total Capital Employed	**10,912**	**12,628**	**17,233**	**22,446**
Total Fixed Assets	5,815	6,007	6,994	8,212
Investments	0	7	7	7
Inventories	5,128	4,369	6,147	9,863
Debtors	2,337	4,277	5,089	6,811
Cash and bank balances	533	573	1,420	1,169
Loans and Advances	2,256	2,779	3,319	3,819
Total current assets	10,254	11,997	15,974	21,663
Current liabilities and provisions	5,156	5,382	5,742	7,435
Net current assets	5,098	6,615	10,233	14,228
Total Assets	**10,912**	**12,628**	**17,233**	**22,446**

Source: Company, Centrum Research

Cash flows Statement (Consolidated)

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash flow from operating activities				
Profit before tax	2,519	2,631	4,653	4,808
Depreciation	483	388	264	794
Interest expenses	370	523	617	887
Other Non operating (income)/expenses	4	1	0	0
Operating profit before working capital change	**3,377**	**3,542**	**5,534**	**6,489**
Working capital adjustment	(3,884)	(1,010)	(2,770)	(4,246)
Gross cash generated from operations	**(507)**	**2,533**	**2,764**	**2,243**
Direct taxes paid	(51)	(317)	(1,396)	(1,442)
Others	(377)	(675)	(769)	(1,039)
Cash generated from operations	**(935)**	**1,541**	**598**	**(239)**
Cash flow from investing activities				
Capex	(840)	(1,476)	(1,251)	(2,011)
Investment	(417)	418	0	0
Other Income	3	2	0	0
Cash generated from investment activities	**(1,254)**	**(1,056)**	**(1,251)**	**(2,011)**
Cash flow from financing activities				
Proceeds from share capital and premium	0	0	0	0
Borrowings/ (Repayments)	1,792	(100)	1,500	2,000
Others	0	0	0	0
Cash generated from financing activities	**1,792**	**(100)**	**1,500**	**2,000**
Net cash increase/ (decrease)	**(396)**	**385**	**847**	**(250)**

Source: Company, Centrum Research

Ratio Analysis (Consolidated)

Y/E March	FY07	FY08	FY09E	FY10E
Margin Ratios (%)				
EBITDA Margin	20.0	17.6	23.5	22.3
PBIT Margin	17.2	16.1	22.7	19.9
PBT Margin	15.0	13.4	19.7	16.5
PAT Margin	12.5	12.5	13.8	11.5
Growth Ratio (%)				
Revenue	79.1	16.5	20.5	23.4
EBITDA	517.5	2.4	60.9	17.3
Net Profit	1265.1	16.8	32.6	3.3
Return Ratios (%)				
ROCE	23.6	22.5	23.1	19.5
ROIC	24.8	23.5	25.2	20.5
ROE	50.4	40.1	35.3	27.0
Per share Ratios (Rs)				
Basic EPS	27.4	20.8	27.5	28.5
Fully diluted EPS	17.8	20.8	27.5	28.5
Book value	35.3	51.8	78.1	105.2
Gearing Ratio (x)				
Debt-equity	1.6	1.1	0.9	0.8
Interest coverage ratio	7.8	6.0	7.4	5.8
Valuation (x)				
P/E	3.7	3.2	2.4	2.3
P/BV	1.9	1.3	0.8	0.6
EV/EBITDA	4.1	4.0	2.5	2.1
EV/Sales	0.8	0.7	0.6	0.5
M-cap/Sales	0.5	0.4	0.3	0.3

Source: Company, Centrum Research

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