

Industry Flash

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Indian Real Estate

Maharashtra Repeals ULCRA: More Land up for Development

- **Maharashtra Repeals ULCRA** — The Maharashtra government has repealed ULCRA (Urban Land Ceiling Regulation Act) which restricted ownership of vacant land by a single private entity to 500sq mts. Other states that are yet to repeal this act are West Bengal and Andhra Pradesh.
- **Scarcity of Land to Reduce** — Scarcity of land in and around Mumbai is likely to reduce. Around 15,000-17,000 acres of land is expected to be unlocked in cities such as Mumbai, Thane, Pune, Nasik, Nagpur, Kolhapur, Solapur, Sangli and Aurangabad. Further, the regulatory process for new development is expected to be eased, thereby enabling greater volume growth.
- **Land Prices Likely to Stabilize** — Asset prices (especially land) within Maharashtra will likely stabilize, but we do not expect significant correction in property prices in Mumbai city centre given the limited availability of land.
- **Impact** — The move is expected to be positive for sentiment for long-term development in the Maharashtra region. Developers with significant presence in the Maharashtra region should benefit from greater volume growth going forward. Corporates with large land parcels include Godrej Industries (GODI.BO – Rs282; NR) Bombay Dyeing (BDYN.BO – Rs704; NR), Century Textiles (CNTY.BO – Rs1,150; NR) and Raymond (RYMD.BO – Rs417; 1L).

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¹Citigroup Global Markets India Private Limited

Raymond Ltd.

Valuation

Our target price of Rs475 (vs Rs365 earlier) based on our target 10.3x FY09 EV/EBITDA. We believe EV/EBITDA is a suitable valuation tool since net profit will be depressed in the near-term until the company's JVs and new retail stores become accretive. Our target multiple places the stock at a 40% premium to our India textile universe, which we argue is justifiable given Raymond's strong brand portfolio, retail network and leadership in worsted fabric. Further, the stock trades at 9x EV/EBITDA for FY09E and 1.6x P/BV, at the lower end of its 2-year EV/EBITDA band of 9-14x and a P/BV band of 1.5-2.0x.

Risks

We rate Raymond Low Risk based on our quantitative risk rating system that measures the stock volatility over a 260-day period. The main company-specific risks are: 1) Slower than anticipated turnaround in the denim and other loss-making JVs, 2) Lower than anticipated margins in the branded apparel business, 3) High priced acquisitions to dilute cash reserves and adversely impact ROCEs. Acquisitions in non-core business would hinder a re-rating; 4) Sharp increase in cotton prices by 10-12% from current levels and any decline in denim price realization would impact profitability of the denim business (13% of FY07 consolidated revenues), with cotton costs constituting 43% of denim revenues. If any of these risk factors plays out, Raymond's share price will likely have difficulty attaining our target price.

Appendix A-1

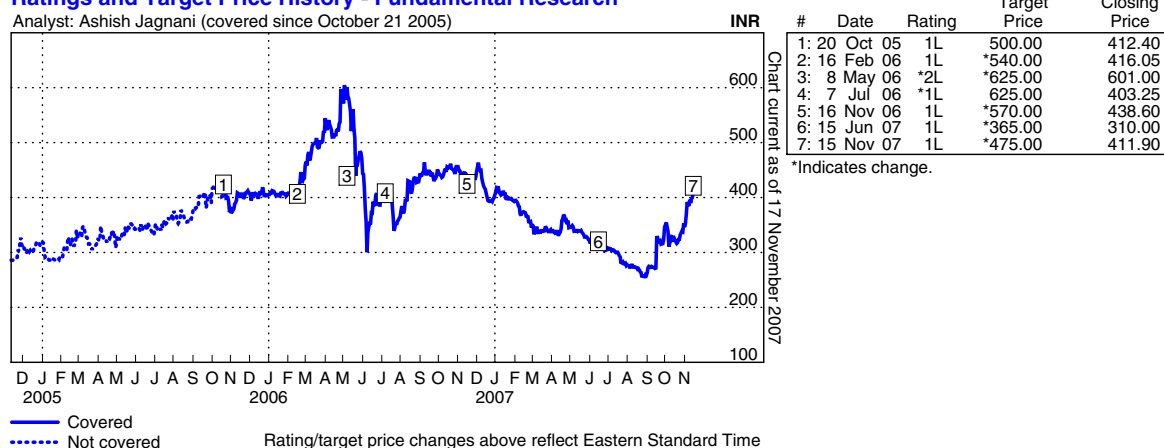
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Analyst: Ashish Jagnani (covered since October 21 2005)



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Data current as of 30 September 2007

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