

Contents

Updates

Oil & Natural Gas Corporation: Crude price might be capped at US\$75/bbl for upstream players; Buy ONGC

Real Estate: 1QFY09 results review—Good revenue growth; balance sheet issues remain

News Roundup

Corporate

- Differences have cropped up between **Vodafone**, the world's largest telecom company by turnover, and its Indian joint venture partner, the Ruias of the **Essar Group**, over the latter's plan to set up a wireless telephony firm. (ET)
- The government has rejected French banking major **Societe Generale's** proposed 35:65 joint venture with India's largest bank, the **SBI**, for custodial and depository services, after **RBI** raised concerns about the securities scam in Europe. (ET)
- Talks have failed between the Dhoots of the **Videocon Group** and Mahendra Nahata of **Himachal Futuristic Communications Ltd (HFCL)** to buy out the latter's 36% stake in all India mobile licence holder **Datacom Solutions**. (BS)
- **Reliance Industries** plans to invest about US\$22.75 mn for work on its discovered deepwater Cauvery asset. (BL)

Economic and political

- The **BK-Chaturvedi Committee**, set up to examine the financial position of Rs2.5/litre for **petrol** and Rs0.75/litre for **diesel** every month so that these fully reflect the global price scenario by March 2009 and 2010, respectively. (ET)
- With **China** expected to reopen several hundred bulk drug units after the Olympics, prices of some key **bulk drugs**, including penicillin and paracetamol, have crashed in the Indian market. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	8-Aug	1-day	1-mo	3-mo
Sensex	15,168	0.3	12.6	(9.4)
Nifty	4,530	0.1	11.9	(9.1)
Global/Regional indices				
Dow Jones	11,734	2.7	5.7	(7.9)
FTSE	5,489	0.2	4.3	(11.5)
Nikkei	13,394	1.7	2.7	(1.9)
Hang Seng	22,069	0.8	(0.5)	(11.9)
KOSPI	1,589	1.3	1.4	(12.9)
Value traded - India				
		Moving avg, Rs bn		
	8-Aug	1-mo	3-mo	
Cash (NSE+BSE)	178.3	190.8	186.5	
Derivatives (NSE)	471.2	411.2	289	
Deri. open interest	743.0	701	709	

Forex/money market

	Change, basis points			
	8-Aug	1-day	1-mo	3-mo
Rs/US\$	42.1	0	(81)	3
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US\$mn)

	7-Aug	MTD	CYTD
FIs	(5)	(168)	(6,914)
MFs	(5)	28	2,710

Top movers -3mo basis

Best performers	Change, %			
	8-Aug	1-day	1-mo	3-mo
CIPLA LTD	235	3.5	11.7	14.1
RANBAXY LABORA	505	0.3	(5.1)	7.5
DIVI'S LABORATORI	1,512	3.7	13.3	10.1
MAHANAGAR TELE	109	(1.1)	17.9	6.2
CROMPTON GREAV	257	(0.7)	6.6	5.4
Worst performers				
INDIABULLS REAL E	314	(2.4)	15.2	(42.0)
UNITECH LIMITED	176	(1.7)	3.5	(38.6)
INFRASTRUCTURE D	102	(2.4)	(5.8)	(40.5)
HOUSING DEVELOP	498	3.3	18.1	(31.3)
INDIABULLS FINANC	312	0.5	26.1	(34.0)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Energy**ONGC.BO, Rs1064**

Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	1,225
52W High -Low (Rs)	1387 - 768
Market Cap (Rs bn)	2,276

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,113	1,318	1,307
Net Profit (Rs bn)	198.5	276.5	319.1
EPS (Rs)	92.8	129.3	149.2
EPS <i>gth</i>	9.1	39.3	15.4
P/E (x)	11.5	8.2	7.1
EV/EBITDA (x)	4.4	3.3	2.8
Div yield (%)	3.0	3.4	4.2

Shareholding, March 2008

	% of	Over/(under)	
	Pattern	Portfolio	weight
Promoters	74.1	-	-
FIs	7.6	2.1	(3.4)
MFs	1.6	2.4	(3.1)
UTI	-	-	(5.5)
LIC	2.4	3.1	(2.4)

Oil & Natural Gas Corporation: Crude price might be capped at US\$75/bbl for upstream players; Buy ONGC

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Chaturvedi Committee recommends a ceiling price of US\$75/bbl for upstream players**
- **Recommendations are positive for ONGC as its historical net realization has been far lower**
- **FY2009E earnings may have large upside risk whether crude realization is capped at US\$75/bbl or subsidy loss is capped at Rs450 bn for upstream companies**

We view the recent recommendations by the BK Chaturvedi Committee concerning under-recoveries and sharing of subsidy burden as providing increased confidence about our earnings estimates for ONGC. As per press reports, the committee has recommended a ceiling price of US\$75/bbl for upstream companies operating in non-NELP environment and all revenues above US\$75/bbl would go to the government as 'special oil tax' for payment of subsidy. These recommendations, if implemented by the government, will be significantly positive for ONGC given that its net price after providing for subsidy loss for the past few years has varied between US\$45-55/bbl. We see significant upside to our FY2009E EPS for ONGC if the government accepts the recommendations of the Chaturvedi Committee. We reiterate our BUY rating on ONGC with a 12-month fair value of Rs1,225 (based on 9X normalized FCF); we highlight that our fair value assumes a normalized crude price of US\$50/bbl.

Ceiling price of US\$75/bbl for upstream players. As per press reports, the Chaturvedi Committee has recommended a ceiling price of US\$75/bbl for upstream companies operating in non-NELP environment. Incremental revenues over US\$75/bbl would go to the government as 'special oil tax' for payment of subsidy. We view these recommendations as a very big positive for ONGC given that its net price after providing for subsidy loss has varied between US\$45-55/bbl in recent years (see Exhibit 2). We see significant upside from current levels given that the stock price is currently reflecting net crude realization of US\$47/bbl. The committee has also recommended that private players will have to give 50% of the incremental revenues earned beyond US\$75 a barrel to the government as part of subsidy-sharing scheme. However, we note that this applies only to blocks allocated in the pre-NELP regime.

We would be surprised if the government manages to impose a ceiling of US\$75/bbl for private upstream companies even for pre-NELP blocks. Our understanding is that all these blocks operate under specific production sharing contracts (PSC) and thus, any change in government policy may violate the provisions of the PSCs.

Cap crude price or subsidy burden, ONGC stands to benefit in either case. We see significant upside to our FY2009E EPS for ONGC in either scenario of (1) implementation of Chaturvedi Committee's recommendation capping crude realization at US\$75/bbl for upstream players or (2) government restricting the share of gross under-recoveries of upstream companies to Rs450 bn and to about Rs380 bn for ONGC.

If the recommendations of the Chaturvedi Committee are accepted, then at US\$75/bbl Dated Brent crude price and no subsidy burden, ONGC's consolidated FY2010E EPS would jump to Rs188 and our fair valuation would rise to Rs1,900. Exhibit 3 gives the range of valuation of ONGC at various levels of normalized crude price. At US\$50/bbl Dated Brent crude price and no subsidy burden, ONGC's consolidated FY2010E EPS would come to Rs113 (Exhibit 4). We note that ONGC reported bumper profits in 1QFY09 (equivalent of Rs124 EPS for the full year on standalone basis) with net crude realization of US\$69/bbl.

If the government restricts the subsidy loss for upstream companies at Rs450 bn (as decided in its June 4, 2008 meeting), our FY2009E EPS for ONGC would jump to Rs190 assuming crude oil price at US\$120/bbl (Dated Brent) and ONGC's subsidy amount at Rs380 bn. We conservatively assume share of upstream companies at 33.33%. We currently model US\$110/bbl crude price (Dated Brent) for FY2009E and ONGC's subsidy burden at Rs500 bn (85% of 33.33% share of upstream oil companies as per historical formula), which results in consolidated EPS of Rs129. ONGC's subsidy burden for 1QFY09 was at Rs98.1 bn which is based on Rs450 bn subsidy burden on upstream companies for FY2009.

We value ONGC stock at Rs1,225 on US\$50/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
A. Core business valuation			
Normalized crude price assumption (US\$/bbl)	50.0	50.0	50.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	(39,027)	75,792	136,244
Add: OCF after normalizing natural gas price	33,209	25,799	22,802
Add: OCF after removing subsidies	341,591	240,644	202,766
Recurring OCF	335,773	342,236	361,812
Recurring capex			
Production per annum (mn bbls)	397	390	392
Replacement or F&D costs (US\$/bbl)	9.0	9.0	9.0
Recurring capex	149,943	145,624	144,749
Free cash flow	185,830	196,612	217,063
Free cash flow multiple (X)	9	9	9
Enterprise value	1,672,470	1,769,509	1,953,568
(Net debt)/cash	421,778	591,438	769,418
Investments	89,396	94,339	99,280
Equity value	2,183,644	2,455,285	2,822,266
Equity value of core business (Rs/share)	1,021	1,148	1,319
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	49	55	62
MN-DWN-98/3 block (Rs/share)	15	16	18
Equity value of new discoveries (Rs/share)	64	71	80
Total equity value per share (Rs/share)	1,085	1,219	1,399

Source: Kotak Institutional Equities estimates.

ONGC's net realization has varied between US\$45-55/bbl in the recent quarters

ONGC's net crude price realization, March fiscal year-ends, 2003-2008 (US\$/bbl)

	Net realization (US\$/bbl)
FY2003	28.5
FY2004	27.1
FY2005	39.3
FY2006	43.8
FY2007	46.1
FY2008	52.3
1Q 2009	69.1

Source: Company

ONGC's valuation is highly leveraged to normalized crude prices

Valuation sensitivity of ONGC to normalized crude price (Rs/share)

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US\$90/bbl	2,305	89
US\$80/bbl	2,037	67
US\$75/bbl	1,902	56
US\$70/bbl	1,812	49
US\$60/bbl	1,562	28
US\$50/bbl	1,219	
US\$45/bbl	1,018	(16)
US\$40/bbl	889	(27)

Source: Kotak Institutional Equities estimates.

ONGC's earnings have high leverage to crude prices

Sensitivity of earnings for ONGC at various levels of net crude price

Crude price (US\$/bbl)	50	60	70	75
Net profit for ONGC (Rs bn)	243	306	369	401
EPS	113	143	173	188

Source: Kotak Institutional Equities estimates.

Natural gas price increase and moderate volume growth are key earnings drivers

Key assumptions, March fiscal year-ends, 2003-2012E

	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Rs/US\$ rate	43.6	45.6	47.6	48.4	46.0	45.0	44.3	45.3	40.3	42.0	41.5	41.0	40.0
Subsidy share scheme loss (Rs bn)	—	—	—	—	26.9	41.0	119.6	170.2	220.0	500.0	350.0	290.0	290.0
Import tariff on crude oil (%)		13	10	10.0	10.0	9.7	5.1	5.1	5.2	0.9	—	—	—
Crude/natural gas prices													
Crude price													
Crude price, WTI (US\$/bbl)									78.9	112.0	97.0	92.0	92.0
Crude price, Dated Brent (US\$/bbl)	21.4	28.9	24.6	27.0	28.7	40.6	57.2	64.8	78.9	110.0	95.0	90.0	90.0
Net crude price, ONGC-India (Rs/ton)	3,302	3,705	3,705	7,284	6,255	9,196	10,390	10,692	10,314	9,022	9,913	10,446	9,827
Net crude price, ONGC-India (US\$/bbl)		11.1	10.7	20.6	18.6	28.0	32.1	32.4	35.1	29.4	32.7	34.9	33.7
Natural gas price													
Ceiling natural gas price, India (Rs/cu m)		2.85	2.85	2.85	2.85	2.85	3.52	4.21	4.25	4.25	4.75	5.00	5.25
Ceiling natural gas price, India (US\$/mn BTU)		1.67	1.60	1.57	1.66	1.69	2.12	2.49	2.82	2.70	3.06	3.26	3.51
Net natural gas price, ONGC-India (Rs/cu m)	2.3	2.17	2.17	2.24	2.18	2.18	3.11	3.76	3.79	3.79	4.24	4.47	4.69
Net natural gas price, ONGC-India (US\$/mn BTU)		1.27	1.22	1.24	1.27	1.29	1.88	2.22	2.52	2.41	2.73	2.91	3.13
International operations													
Net natural gas price, OVL-Vietnam (Rs/cu m)		—	—	3.4	3.2	3.2	3.1	3.2	2.8	3.0	2.9	2.9	2.8
Net crude price, OVL-Sudan (Rs/ton)		—	—	4,253	4,285	5,893	8,118	9,384	10,142	14,710	12,567	11,767	11,480
Net crude price, OVL-Russia (Rs/ton)		—	—	—	—	—	8,320	9,633	10,434	15,177	12,951	12,122	11,826
Sales volumes—Domestic fields (a)													
Crude oil (mn tons)	23,353	23.4	22.9	23.9	23.9	24.1	22.5	24.4	24.1	25.0	25.0	24.9	24.8
Natural gas (bcm)	20,028	20.5	20.4	21.1	21.1	20.6	20.5	20.3	20.4	20.6	19.6	19.2	17.9
Sales volumes—Overseas fields													
Crude oil (mn tons)	—	—	—	0.2	3.3	3.7	4.6	5.8	7.8	8.8	8.6	8.6	8.6
Natural gas (bcm)	—	—	—	0.0	0.5	1.3	1.8	2.1	2.1	2.4	2.6	2.8	2.8
Total sales													
Crude oil (mn tons)		23.4	22.9	24.1	27.3	27.8	27.0	30.2	31.9	33.8	33.6	33.5	33.4
Natural gas (bcm)		20.5	20.4	21.1	21.6	22.0	22.3	22.5	22.6	23.0	22.2	22.0	20.7
Total sales (mn toe)		41.7	41.1	42.9	46.6	47.4	46.9	50.3	52.0	54.3	53.4	53.2	51.9
Total sales (mn boe)		304	300	313	340	346	342	367	380	397	390	388	379
Crude oil (%)		56	56	56	59	59	58	60	61	62	63	63	64
Natural gas (%)		44	44	44	41	41	42	40	39	38	37	37	36

(a) Includes ONGC's share of production from joint venture fields.

Source: Company data, Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)									
Net sales	467,124	707,083	807,603	966,542	1,112,856	1,318,269	1,306,779	1,357,689	1,359,565
EBITDA	196,494	281,195	310,054	358,001	396,431	491,757	511,291	541,720	516,836
Other income	23,752	17,595	27,350	45,378	55,402	54,641	65,954	75,396	90,523
Interest	(5,028)	(2,512)	(537)	394	(8,705)	(6,782)	(4,460)	(4,552)	(5,228)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(131,142)	(126,468)	(104,045)	(95,812)	(92,818)
Pretax profits	149,693	222,813	239,141	284,222	311,986	413,148	468,740	516,752	509,313
Tax	(46,101)	(74,690)	(71,196)	(88,986)	(103,319)	(128,296)	(144,346)	(149,316)	(148,281)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(7,799)	(2,597)	(2,110)	(6,127)	(4,762)
Net profits	95,523	143,175	154,596	178,414	203,543	282,255	322,284	361,310	356,270
Net profits after minority interests	94,219	140,670	153,542	176,922	200,230	276,471	319,149	359,026	354,163
Earnings per share (Rs)	44.1	65.8	71.8	82.7	93.6	129.3	149.2	167.9	165.6
Balance sheet (Rs mn)									
Total equity	415,582	488,912	578,830	670,137	791,309	979,588	1,184,768	1,406,230	1,622,596
Deferred tax liability	54,250	57,911	71,557	80,976	88,775	91,371	93,481	99,607	104,370
Liability for abandonment cost	80,292	80,941	128,675	151,857	151,857	151,857	151,857	151,857	151,857
Total borrowings	60,961	39,028	28,767	21,826	33,342	33,765	53,392	80,292	68,692
Current liabilities	85,376	128,346	142,435	187,051	126,940	116,134	116,629	118,746	122,448
Total liabilities and equity	696,461	795,138	950,264	1,111,847	1,192,223	1,372,714	1,600,127	1,856,733	2,069,964
Cash	95,721	101,843	90,743	206,262	296,582	455,543	644,830	849,710	1,083,099
Current assets	133,039	178,421	240,210	192,652	200,490	207,427	206,350	233,633	236,360
Total fixed assets	419,213	471,543	565,722	643,219	619,259	633,852	668,115	687,617	664,732
Goodwill	11,661	10,753	14,172	27,686	27,686	27,686	27,686	27,686	27,686
Investments	30,811	26,961	35,753	36,888	43,066	43,066	48,006	52,947	52,948
Deferred expenditure	6,017	5,617	3,663	5,141	5,141	5,141	5,141	5,141	5,141
Total assets	696,461	795,138	950,264	1,111,848	1,192,223	1,372,715	1,600,127	1,856,734	2,069,966
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	236,515	288,103	315,830	350,622	328,993
Working capital changes	25,630	18,787	46,461	(4,990)	(66,300)	(80,989)	32,541	(4,147)	976
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(53,154)	(74,700)	(94,098)	(81,369)	(38,938)
Investments	(10,608)	(9,887)	(28,912)	53,822	(6,179)	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	54,402	55,016	65,954	75,396	90,523
Free cash flow	101,749	105,532	135,083	186,976	165,284	187,430	315,286	340,503	381,553
Ratios (%)									
Debt/equity	14.7	8.0	5.0	3.3	4.2	3.4	4.5	5.7	4.2
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(33.3)	(43.1)	(49.9)	(54.7)	(62.5)
RoAE	21.6	28.0	25.9	25.5	24.8	28.7	27.6	26.2	22.2
RoACE	20.6	24.6	22.0	22.1	21.3	25.4	24.5	23.6	20.4
Key assumptions									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	42.0	41.5	41.0	40.0
Crude fob price (US\$/bbl)	28.7	40.6	57.2	64.8	78.9	110.0	95.0	90.0	90.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	4,211	4,250	4,250	4,750	5,000	5,250
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	500.0	350.0	290.0	290.0

Source: Kotak Institutional Equities estimates.

Real Estate

Sector coverage view Neutral

Company	Rating	Price, Rs	
		8-Aug	Target
MLife	BUY	488	810
Sobha	REDUCE	285	400
DLF	BUY	550	660
Unitech	REDUCE	176	190
HDIL	BUY	498	780
Puravankara P	REDUCE	198	220
Phoenix Mills	BUY	200	350
IVR Prime	BUY	184	360

1QFY09 results review—Good revenue growth; balance sheet issues remain

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **Key parameters to track for the companies—Operating cashflow, new launches, balance sheet strength**
- **Operating margins volatile—varying sharply qoq**
- **Tracking balance sheets—Leverage remains a concern**

Real estate companies under coverage universe for 1QFY09 showed 24% increase yoy in revenues and 25% increase yoy in PAT on an aggregate basis. However, we highlight that most companies had negative operating cash flow largely on account of pre-committed land payments. Various managements have indicated that they would slow down on land purchases in future and we would watch this trend closely in future. Low operating cashflow resulted in debt levels increasing for most companies under coverage. Post 1QFY09 results, we observe largest consensus downgrades in Puravankara, Sobha and HDIL. Companies that made progress in new project launches are DLF and HDIL.

Importance of quarterly results—indicates direction of NAV movement

We highlight that quarterly results of real estate companies have been difficult to forecast and compare on account of various factors (1) revenue mix between commercial, vertical and residential, (2) uneven launch schedules, (3) different accounting policies, (4) land/FSI sales, and (5) geographical mix of revenues. As a result EBIDTA margins of various companies have been very volatile. Exhibit 2 showcases the volatile movement EBIDTA margins of various companies. Therefore, it is important to observe trend of past few quarters vis-à-vis consensus expectations while reaching various conclusions. We note that continuous underperformance will indicate slower-than-expected monetization of land bank and hence this will result in NAV downgrades. Since December 2007, we observe largest earnings downgrades in Unitech, Puravankara and Parsvnath.

Post 1QFY09, we see marginal downgrades in various companies with largest downgrades being in Puravankara Projects and Sobha Developers. We would also like to highlight that Sobha has changed its accounting policy for revenue recognition. Sobha would now recognize the full land cost (plus margins) for the sold portion as and when the level of collection exceeds 20%. We note that such an accounting policy raises issues regarding the proportion of margins from a sale of project that will get recognized on account of land revenues.

We see new launches for DLF, HDIL—would like to observe more of these for all companies

Exhibit 4 shows the performance of real estate companies in 1QFY09. We list the project launches by companies.

DLF—New launches seen in Lucknow and New Gurgaon. Management is guiding for launches in FY2009 in Bangalore, Kasauli, Panchkula, Indore, Hyderabad, Goa, Kakkannad and Sriperumbudur. Currently, we are not modeling project launches in Kasauli, Goa, Hyderabad and Sriperumbudur. We also observe good progress in the hotel vertical.

Unitech—We see increased pace of new launches—(1) Gurgaon commercial (600,000 sq. ft), (2) Lucknow commercial (125,000 sq. ft) and (3) launched Aqua & Terra in Grande, Noida, (4) Woodstock Floors in Nirvana Country, Gurgaon, (5) exclusive floors at Uniworld City, Mohali and (6) villas at Kolkata West International City project. We would see these launches in a positive light as launches for Unitech have been delayed significantly in the past. However, Unitech would need to increase launch momentum to meet consensus as well as our expectations.

Sobha—no new launches this quarter.

Puravankara—2 commercial projects in Bangalore (0.35 mn sq. ft), Chennai (Purva Windmere)

IVR Prime—Launch of residential projects in Nagpur, Vishakapatnam and Minjur (North Chennai)

Key balance sheet items—financial leverage, receivables

Exhibit 5 shows the balance sheet of real estate companies in 1QFY09. We believe financing will likely remain a constraint for this sector and we would prefer companies with healthy balance sheet. We discuss company specific developments below.

DLF. While receivables on account of sales to DLF Assets increased by Rs14 bn to Rs33 bn at the end of the quarter, receivables on account of third party sales declined by Rs14 bn. A decrease in sundry debtors by third party indicates that customer payments linked to construction are flowing in as per payment schedules. Though receivables on account of sales made to DAL have increased, it would decline as and when DAL raises funds. We observe increase in debt of Rs19 bn for which was used largely to fund pre-committed land purchases. Going forward we will track this closely.

HDIL. We observe that loans and advances for HDIL increased from Rs16.3 bn in 4QFY08 to Rs23.7 bn in 1QFY09 largely because of land acquisition for the next phase for airport SRA project. This has resulted in increase in HDIL's D/E to 1 and this would need monitoring as HDIL invests for airport slum rehabilitation project.

Sobha. Sobha announced a rights issue of Rs3.5 bn which we believe is a positive development considering the highly levered balance sheet of Sobha (D/E of 1.9X as of Jun'08). However we would like to highlight that ROCE of Sobha has been on a declining trend for the past two years with ROCE dipping significantly to 13.3% in FY2008. We note that rights issue is unlikely to change capital efficiency of Sobha.

Puravankara. We highlight that PVKP has amongst healthiest balance sheet in our real estate coverage with D/E of 0.5 as of end-1QFY09.

Key things to watch in future quarters

Movement in EBIDTA margins. As discussed earlier, EBIDTA margins have been volatile and have displayed uncertain trend. However, going forward, in the long term we would expect them to come down on account of higher construction costs and more proportion of revenues accruing from mid-income housing.

Consensus estimates. Exhibit 6 summarizes consensus expectations for FY2009-10E period and performance vis-à-vis expectations in 1QFY09. We highlight that consensus is expecting growth to pick up in FY2010 and for this to happen number of new launch would need to pick up especially for Unitech and Sobha Developers.

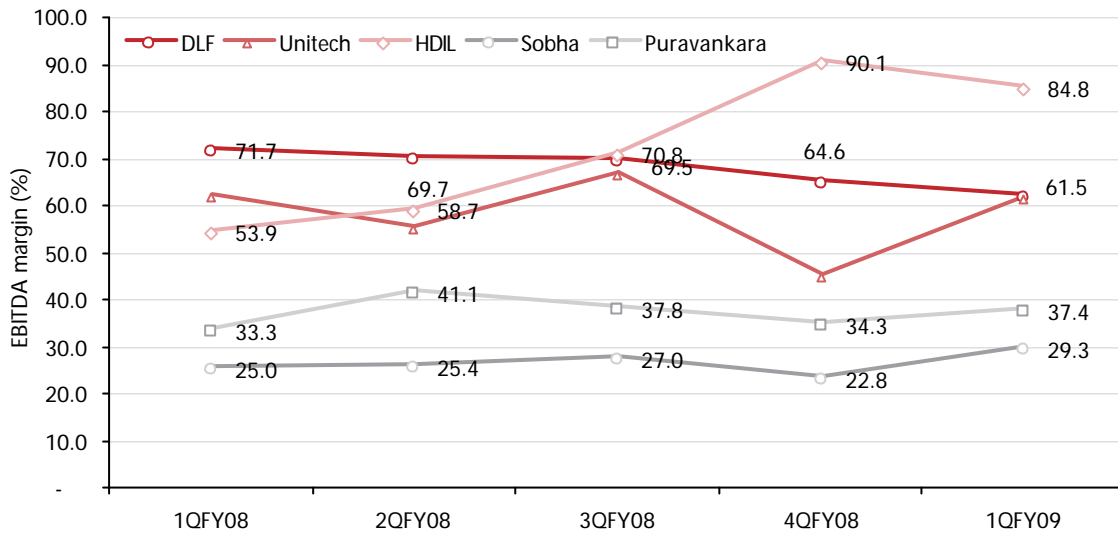
Residential selling prices. We observe sale volumes in areas where companies have reduced prices. We would monitor demand in Bangalore as companies have raised prices.

Construction costs. We have taken a construction cost increase of 15% for FY2009E.

1QFY09 performance for companies under our coverage universe

(in Rs mn)	1QFY09A	4QFY08	1QFY08	1QFY09E	Change (%)	
					qoq	yoy
DLF						
Revenues	38,106	43,065	30,738	39,458	(11.5)	24.0
EBITDA	23,445	27,829	22,039	26,042	(15.8)	6.4
PAT	18,640	21,768	15,155	18,939	(14.4)	23.0
Unitech						
Revenues	10,317	11,601	8,656	11,568	(11.1)	19.2
EBITDA	6,084	4,818	5,005	5,553	26.3	21.5
PAT	4,233	3,603	3,657	3,924	17.5	15.8
HDIL						
Revenues	5,701	9,751	4,433	5,534	(41.5)	28.6
EBITDA	4,655	8,639	2,364	3,265	(46.1)	96.9
PAT	3,179	7,083	2,027	2,673	(55.1)	56.8
Puravankara						
Revenues	1,576	1,539	1,204	1,522	2.4	30.9
EBITDA	589	527	401	533	11.7	46.9
PAT	619	727	440	535	(14.9)	40.6
Sobha						
Revenues	3,468	4,741	2,677	3,219	(26.9)	29.5
EBITDA	1,016	1,080	670	772	(5.9)	51.6
PAT	505	702	408	470	(28.1)	23.8
IVR Prime						
Revenues	287	2,334	208	415	(87.7)	37.8
EBITDA	62	628	41	166	(90.1)	53.5
PAT	54	420	15	141	(87.1)	261.7
Phoenix Mills						
Revenues	207	231	131	265	(10.3)	58.2
EBITDA	156	46	86	172	240.9	81.7
PAT	110	87	73	137	26.3	51.1
Mahindra Lifespaces						
Revenues	482	596	348	556	(19.1)	38.4
EBITDA	70	214	55	139	(67.2)	26.7
PAT	98	222	121	117	(56.0)	(19.5)
Total						
Revenues	60,144	73,858	48,395	62,537	(18.6)	24.3
EBITDA	36,077	43,782	30,661	36,643	(17.6)	17.7
PAT	27,438	34,612	21,896	26,936	(20.7)	25.3
EBITDA (%)	60.0	59.3	63.4	58.6		
PAT (%)	45.6	46.9	45.2	43.1		

Source: Kotak Institutional Equities.

EBITDA margins have been volatile

Source: Company, Kotak Institutional Equities.

Consensus estimates have gone down over the last month

Company	2009E			Change in 2009E (%)		2010E			Change in 2010E (%)	
	7-Dec-07	18-Jul-08	5-Aug-08	(A)	(B)	16-Apr-08	18-Jul-08	5-Aug-08	(C)	(B)
Coverage companies										
DLF Limited	53.3	54.2	53.2	(0.2)	(1.8)	72.7	66.2	64.1	(11.9)	(3.3)
Unitech	20.3	15.6	15.0	(26.1)	(3.5)	26.0	22.7	21.2	(18.3)	(6.5)
HDIL	77.2	74.1	70.6	(8.6)	(4.7)	111.9	102.7	95.6	(14.5)	(6.9)
Sobha Developers	46.9	42.0	39.8	(15.2)	(5.4)	77.0	55.8	61.9	(19.6)	10.9
Mahindra Lifespace Developers	32.0	32.0	32.1	0.2	—	50.6	48.1	64.1	26.6	33.1
IVR Prime	NA	27.6	15.5		(43.8)	47.8	37.9	17.1	(64.2)	(54.9)
Purvankara	23.0	17.8	15.5	(32.8)	(13.2)	31.4	26.8	22.3	(28.9)	(16.8)
Phoenix Mills		6.8	6.3		(6.7)		11.9	11.6		(2.1)
Non-coverage companies										
Akruti City	98.4	86.7	88.3	(10.3)	1.8	245.0	184.9	138.0	(43.7)	(25.4)
Anant Raj Industries	19.7	22.9	20.2	2.3	(12.0)	42.0	36.5	37.9	(9.9)	3.8
Parsvnath Developers	48.8	34.9	33.8	(30.8)	(3.2)	69.7	57.8	55.0	(21.2)	(5.0)
Omaxe	36.6	42.4	40.5	10.6	(4.5)	69.5	63.1	52.0	(25.2)	(17.6)
Ansal Properties & Infrastructure	45.3	32.1	32.1	(29.1)	—		37.6	37.6		—
Orbit Corp	91.0	89.6	61.4	(32.5)	(31.4)	148.8	103.1	103.1	(30.7)	0.0
DS Kulkarni	25.0	53.0	51.4	105.4	(3.1)	97.9	97.9	76.1	(22.3)	(22.3)
Indiabulls Real estate		14.0	12.6		(9.5)		37.8	36.2		(4.1)

Note:

(A) change (%) is measured from the base date of Dec 7, 2007.

(B) change (%) is measured from August 5, 2008.

(C) change (%) is measured from the base date of April 16, 2008.

Source: Bloomberg, Kotak Institutional Equities.

Some key metrics to look at.....

	1QFY09	4QFY08	1QFY08	
DLF				New launches planned/comments
Area under construction (mn sq. ft)	63.0	61.0		
Area launched (mn sq. ft)	4.3	4.2	6.4	Residential - New Gurgaon, Bangalore, Delhi (SIBM).
Unpaid land cost (Rs bn)	58.2	66.5		Retail- Mumbai, SBM/SIEL. Unpaid land cost includes Rs30 bn for Bidadi which is not part of NAV estimates
Land bank (mn sq. ft)	755	751		
D/E (X)	0.6	0.6	0.7	
Unitech				
Area under construction (mn sq. ft)	25.0			
Area launched (mn sq. ft)	1.0			
Unpaid land cost (Rs bn)	40.0	40.0		Gurgaon (600,000 sq.ft) and Lucknow (125,000 sq. ft) plus a few residential projects
Land bank (mn sq. ft)	650	650		
D/E (X)	2.3	2.6		
HDIL				
Area under construction (mn sq. ft)	15	10		
Area launched (mn sq. ft)				
Unpaid land cost (Rs bn)	4.0	4.0		Launched 1st tranche of TDR sale (received form transfer of land for the airport SRA project).
Land bank (mn sq. ft)	192	192	112	
D/E (X)	1	0.9		
Puravankara				
Area under construction (mn sq. ft)	18.2	17.4	12.3	
Area launched (mn sq. ft)	0.8			
Unpaid land cost (Rs bn)	2.3	2.3		PPL plans to launch another 15 mn sq. ft of projects in FY2009-10E in Chennai, Kochi, Hyderabad, Coimbatore, Bangalore and Colombo.
Land bank(mn sq. ft)	125	125		
D/E (X)	0.5	0.5	2.8	
Sobha				
Area under construction (mn sq. ft)	10.3	10.3	10.8	
Area launched (mn sq. ft)	0.0	1.1	1.8	
Unpaid land cost (Rs bn)	5.6	7.0		
Land bank (acres)	4,029	4,024		
D/E (X)	1.9	1.8		

Source: Kotak Institutional Equities.

Tracking the balance sheet movement

(in Rs mn)	1QFY09	4QFY08	1QFY08	Change (%)		Comments
				qoq	yoy	
DLF						
Inventory	102,832	94,544	62,085	8.8	65.6	
Sundry Debtors	76,052	76,106	37,478	(0.1)	102.9	Drop in non-DAL receivables qoq indicate indicates that customer payments linked to construction are flowing in as per payment schedules. DAL receivables have however increased which would come down when DAL raises funds.
DAL receivables	33,820	19,360		74.7		
Non-DAL receivables	42,232	56,746		(25.6)		
Loans and Advances	97,893	73,686	51,184	32.9	91.3	For outstanding land payments and to joint venture partners. We expect it to decline in future quarters.
Customer Advances	17,350	22,000		(21.1)		
Cash	10,015	21,422	94,692	(53.2)	(89.4)	
Debt	142,209	122,771	103,466	15.8	37.4	Increase in debt of Rs19 bn for construction related activities.
Unitech						
Inventory	140,000	135,650		3.2		
Sundry Debtors	8,000	7,400		8.1		
Customer Advances	68,000	71,120		(4.4)		High customer advances provide greater revenue visibility
Cash	14,800	14,000		5.7		
Debt	88,000	85,000		3.5		At an average interest rate of 13%, interest payments for FY09 would work out to Rs2.5 bn/quarter.
HDIL						
Inventory	54,448	51,028		6.7		Includes investment made into Phase I of the airport SRA project (Payment of Rs19 bn for 53 acres in Kurla)
Sundry Debtors	572	558		2.5		
Loans and Advances	23,738	16,343		45.2		To subsidiaries like SEZ, Ravijyot for land and also for phase II of airport SRA.
Customer Advances	1,500	1,489		0.7		
Cash	3,484	3,494		(0.3)		
Debt	38,162	31,127		22.6		Additional borrowing of Rs7 bn in 1QFY09 for acquisition of land (stressed assets) and construction of airport SRA project. Need to monitor debt levels.
Puravankara						
Inventory	169	171	226	(1.2)	(25.2)	
Properties under development	4,354	3,958	3,230	10.0	34.8	
Properties held for sale	865	910	520	(4.9)	66.3	High margins can be unlocked through sale of these projects.
Sundry Debtors	863	824	251	4.7	243.8	
Loans and Advances	3,060	2,878	1,969	6.3	55.4	These advances are for land apart from the 125 mn sq. ft of land bank
Properties held for development	13,016	12,919	7,518	0.8	73.1	This includes the Rs4 bn paid for the Hyderabad land.
Customer Advances	2,838	3,149	3,658	(9.9)	(22.4)	
Cash	396	350	418	13.1	(5.3)	
Debt	6,524	6,524	7,474	0.0	(12.7)	PVKP has amongst healthiest balance sheet in our real estate coverage with D/E of 0.5 as of end-1QFY09.
Sobha						
Inventory	8,420	7,879	4,044	6.9	108.2	
Sundry Debtors (net of advances)	4,051	4,384	(195)	(7.6)	(2182.6)	
Loans and Advances	19,791	17,282	14,522	14.5	36.3	
Cash	168	126	192	33.4	(12.3)	
Debt	19,013	17,631	8,991	7.8	111.5	Sobha announced a rights issue of Rs3.5 bn which we believe is a positive development considering the highly levered balance sheet of Sobha.

Source: Kotak Institutional Equities.

Tracking quarterly performance vis-à-vis consensus expectations

Company	Consensus EPS			Consensus EPS growth		% PAT achieved in 1QFY09
	FY2008	FY2009E	FY2010E	2009E	2010E	
Coverage companies						
DLF	47.0	53.2	64.1	13.3	20.5	20.3
Unitech	10.2	15.0	21.2	46.6	41.2	17.4
HDIL	69.1	70.6	95.6	2.1	35.4	21.0
Phoenix Mills	2.6	6.3	11.6	138.9	84.1	12.1
Puravankara Projects	11.5	15.5	22.3	34.3	43.9	18.8
Sobha Developers	31.7	39.8	61.9	25.4	55.5	17.4
IVR Prime	30.8	15.5	17.1	(49.7)	10.3	5.4

Note:

(A) change (%) is measured from the base date of Dec 7, 2007.

(B) change (%) is measured from August 5, 2008.

(C) change (%) is measured from the base date of April 16, 2008.

Source: Bloomberg, Kotak Institutional Equities.

Coverage valuation summary for real estate sector

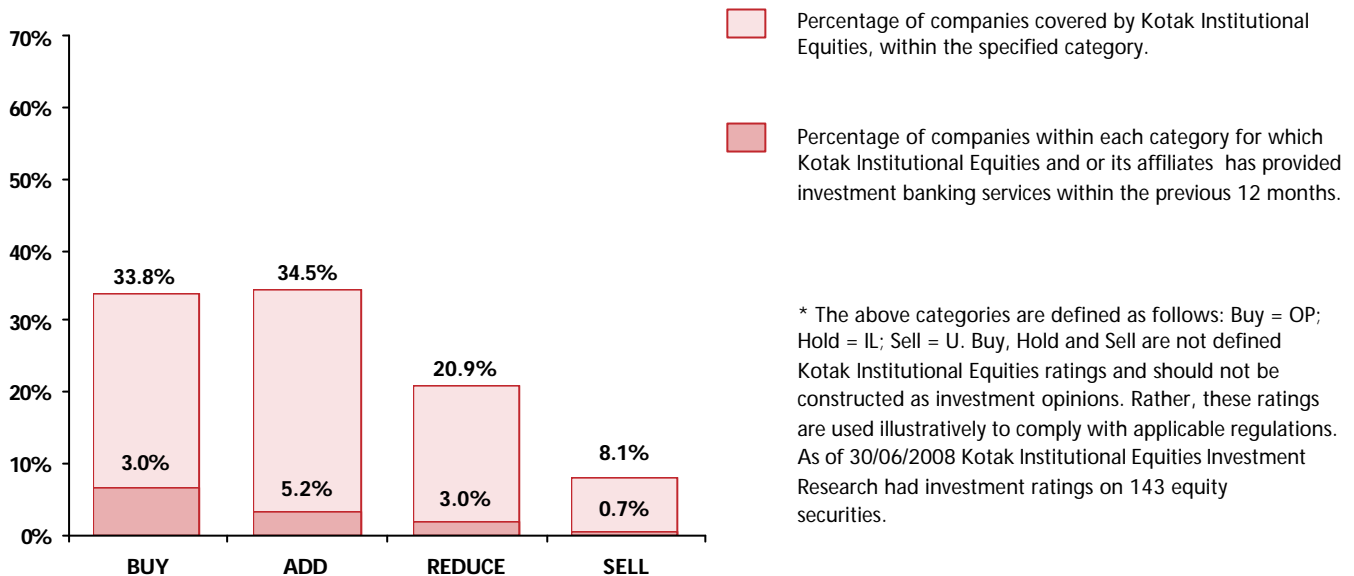
Company name	Land bank (mn sq. ft)	Rating	Target price	Market cap.	EV	Price	P/B	P/E (X)			EV/EBITDA (X)			EBITDA margin	NAV
			(Rs)	(US\$ mn)	(US\$ mn)	(local curr.)	(X)	2008	2009E	2010E	2008	2009E	2010E	(%)	(Rs/ share)
DLF	748	BUY	660	23,059	25,778	550	4.7	11.7	11.1	10.1	10.6	9.7	8.3	68.5	586
Unitech	650	REDUCE	190	7,151	8,561	176	8.5	17.2	14.6	11.7	15.4	11.4	9.3	53.8	166
HDIL	125	BUY	780	2,540	3,230	498	2.8	7.2	6.8	6.1	7.6	6.6	5.9	71.1	785
Phoenix Mills	34	BUY	350	723	690	200	2.0	75.7	45.0	17.2	65.9	28.0	11.0	54.7	390
Puravankara Projects	125	REDUCE	220	1,031	1,191	198	3.3	17.2	14.1	11.9	19.7	14.7	10.1	42.7	273
Sobha Developers	138	REDUCE	250	520	958	285	2.1	9.0	9.3	8.5	10.4	9.0	7.8	25.9	502
Mahindra Lifespaces	67	BUY	890	514	453	488	2.4	30.4	37.1	26.8	47.6	28.6	18.9	22.1	810
IVR Prime	75	BUY	390	263	227	184	1.0	6.0	11.9	10.8	3.9	6.3	4.9	39.0	360

Source: Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Puneet Jain."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of June 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL: We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office
Kotak Securities Ltd.

Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd.

6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.

50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Copyright 2008 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMIInc). However KMIInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.

Kotak Securities Ltd.

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453