Equity Research
May 21, 2007

INDIA

Indian Real Estate Sector

Opportunities unleashed

Reason for report: Initiating sector coverage

Sobha Developers
BUY (Rs941)

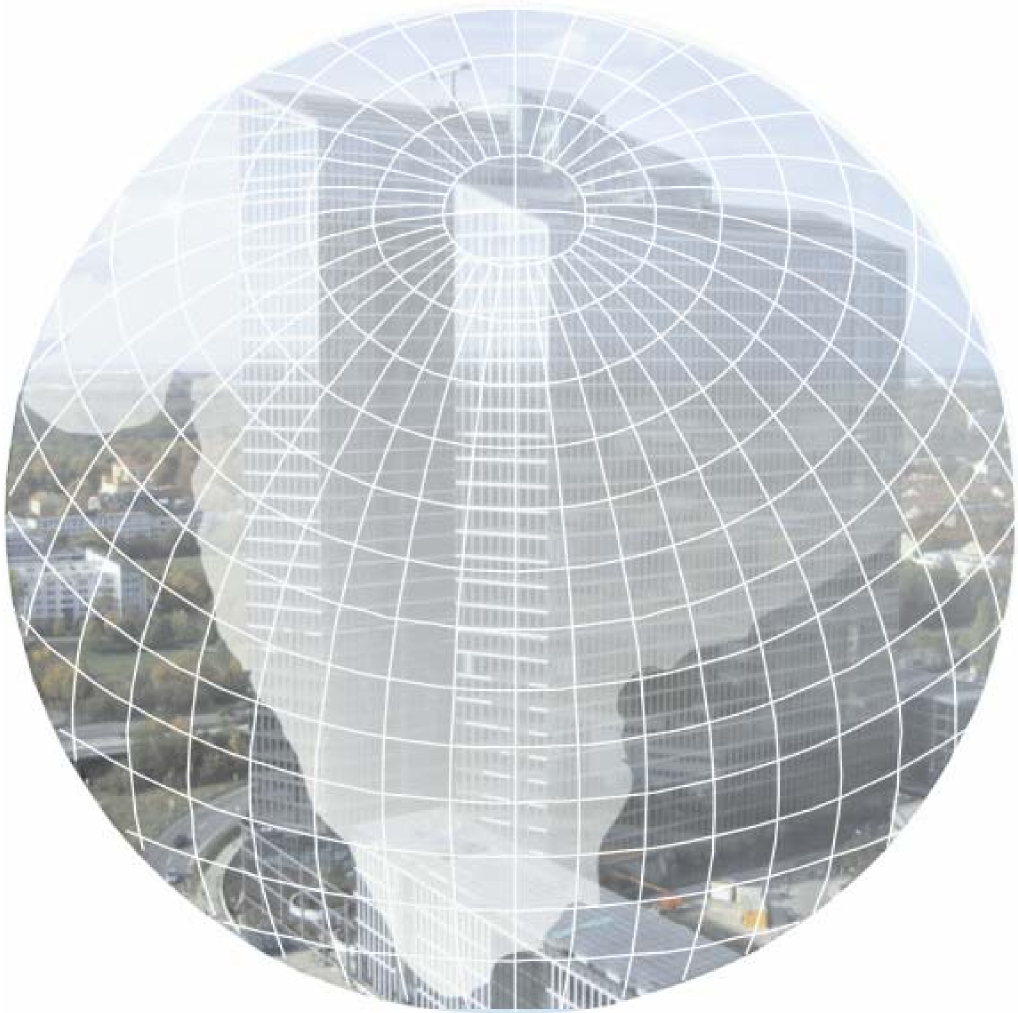
Peninsula Land
BUY (Rs436)

Marg Construction
BUY (Rs161)

Prajay Engineers
BUY (Rs256)

D S Kulkarni Developers
BUY (Rs289)

Arihant Foundations
Unrated (Rs325)



- **Key growth drivers continue to shine**
- **Thriving inflows, emergence of real estate as an asset class**
- **Concerns overdone**
- **Initiating coverage with BUY recommendation on Sobha Developers, Peninsula Land, Marg Construction, Prajay Engineers and D S Kulkarni**

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Please refer to important disclosures at the end of this report

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Indian Real Estate Sector

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Reason for report: Initiating sector coverage

"It's tangible, it's solid, it's beautiful. It's artistic, from my standpoint, and I just love real estate." – Donald Trump

Top picks

- Sobha Developers
- Peninsula Land
- Marg Construction
- Prajay Engineers
- D S Kulkarni Developers

Unrated

- Arihant Foundations

The real estate sector has all the trappings of a winner underpinned by the booming IT/ITES, organised retail, hotels and logistics sectors, and the emergence of India as a global manufacturing hub. Further, resilient economic factors and strong inflows have added muscle to the growth story. Oversupply fears have been overdone, though watch out for changes in Government policies on real estate. Overall, the sector offers lucrative investment opportunity as evidenced in realty companies of South and West India, which are trading at significant discount to their inherent values. We initiate coverage on Sobha Developers, Peninsula Land, Marg Construction, Prajay Engineers and D S Kulkarni with BUY recommendations. Arihant Foundations (Unrated), too, deserves a closer look.

- **Riding the growth wave.** Rising income levels (annual per capita disposable income growth at 8-13% through FY07-12E), growing urban population and burgeoning middle class (15-16% annual growth), all point towards growth in real estate. Further, demand from the booming IT/ITES (25-30% annual growth in FY07-12E), organised retail, hotels and logistics sectors would boost realty. We estimate the sector to grow at 12.8% CAGR through FY07-12E with US$85bn annual investment demand.

- **Thriving inflows** propped by the perception shift of real estate as an asset class indicate healthy dynamics – annual investments of ~US$7-9bn are expected through domestic and overseas real estate funds with ~US$4-5bn via foreign direct investment (FDI). This would finance the investment requirement for office and retail construction in India. Further, developers have raised ~US$4bn via the capital market in the past two years and US$4.7bn is expected to be raised this year.

- **Key risks.** Oversupply concerns are overdone though sporadic drop in prices in overheated markets can not be ruled out. Watch out for changes in Government policies on real estate, particularly those intended to curb inflationary pressure such as changes in interest rate, risk weightage on residential and commercial lending, moves to curb foreign money flow (tightening ECB norms) etc.

- **Valuations.** We have valued real estate companies based on net present valuations (as they are more robust and stable, providing better relative and absolute valuations) rather than P/E-based methodology. We favour companies with diversified business segments, higher value additions, strong annuity flows, comfortable cash situation, low land costs and transparent management/disclosures. We believe there are developers in South and West India, which are trading at attractive discount to their NPV, offering sound investment opportunities. Recommend BUY on Sobha, Peninsula Land, Marg Construction, Prajay Engineers and D S Kulkarni. Arihant Foundations (Unrated) is another upcoming player from the South.

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Investment summary

Riding the growth wave

Key growth drivers for the real estate sector are: i) sustainable economic growth ii) favourable demographics, iii) growth in IT/ITES (with India emerging as global manufacturing hub) and organised retail sectors, iv) increasing demand in hotels and logistics sectors, and v) rising direct and indirect investments in real estate.

We expect the real estate market to grow at 12.8% CAGR (in terms of value) in the next five years, requiring US$85bn annual investments and estimate the annual office and retail space demand at 65mn sqft and 37mn sqft (average) respectively for the next five years. In case of residential units, it is difficult to estimate the demand of the target segment to be addressed by real estate developers – our estimate is 450-550mn sqft, including 100-130mn sqft for the high-end residential segment (properties with ticket-size of >Rs2.5mn).

Going forward, hotels, logistics and warehousing are also likely to create significant demand. Also, development of special economic zones (SEZs) would boost the realty sector, though their contribution should be evaluated on a case-to-case basis as risk-return for each SEZ is different.

Thriving inflows

Real estate has emerged as a lucrative investment alternative against bonds and equity, leading to thriving inflows – we estimate ~US$7-$9bn investments annually through domestic and overseas real estate funds, including ~US$4-5bn via FDI. Further, through capital markets, developers have raised ~US$4bn in the past two years with another US$4.7bn expected this year. Strong inflows in the property market are fuelling growth by increasing the overall liquidity.

Key risks

We believe demand and supply are on an even keel across India and do not perceive significant oversupply in either residential, office or retail segments till end-CY09.

Also, the Government is taking measures to curb the inflationary component of growth by reducing liquidity in the system. Given that such measures were taken mid-way of the real estate cycle, they would help sustain a long-term rally in real estate and prevent overheating. However, minor corrections in property prices can not be ruled out. Further interest rate tightening could reduce demand, leading to lesser absorption of supply.

Valuations

We have valued real estate companies based on net present valuations (as they are more robust and stable, providing better relative and absolute valuations) rather than P/E-based methodology. We favour companies with diversified business segments, higher value additions, strong annuity flows, comfortable cash situation, low land costs and transparent management/disclosures. We believe there are developers in South and West India, which are trading at attractive discount to their NPV, offering sound investment opportunities. Recommend BUY on Sobha, Peninsula Land, Marg Construction, Prajay Engineers and D S Kulkarni. Arihant Foundations (Unrated) is another upcoming player from the South.

Riding the growth wave

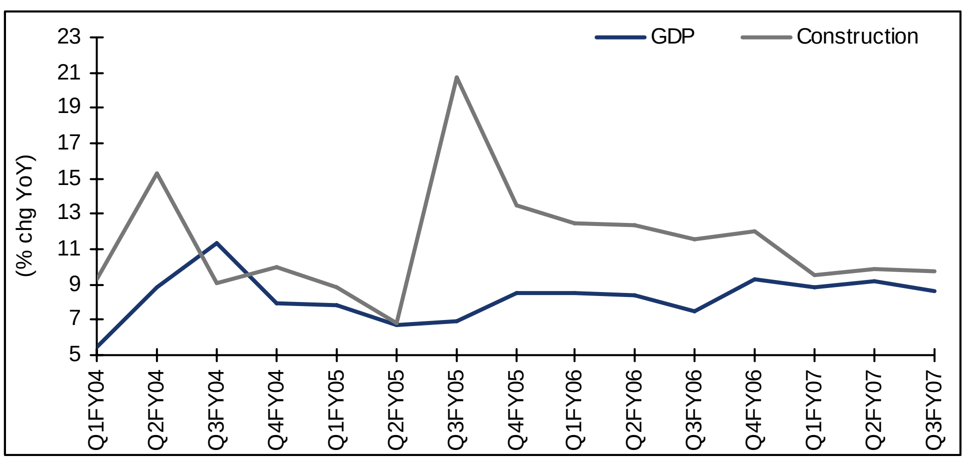
Robust economic growth, improving demographics, and increasing demand in the services, organised retail, hospitality and logistics sectors are the key growth drivers. These drivers would likely remain strong going forward, lending credence to the long-term growth story of the real estate industry.

Robust, sustainable economic growth

The overall economic health (upswing or downswing in the economic activity) is a leading indicator of demand and prices in the sector. Economic growth provides impetus to commercial real estate by improving rentals, reducing vacancy rates and increasing demand for further office space. On the other hand, rising income levels fuel demand for residential and retail real estate.

In India, real estate and economy are deeply interlinked and interdependent for growth. The real estate industry has linkages with various sectors of the economy (associated with 250 industries) as is corroborated by the fact that investment in real estate results in 78% addition to the GDP (source: Report of International Union for Housing Finance). A unit increase in expenditure in this sector has a multiplier effect, generating 5x income growth. As per industry estimates, real estate could generate 3.2mn jobs over a decade, thus adding ~10mn to the current employment base. This makes the realty sector the second largest employer after agriculture. The overall employment generation on the back of additional investment in housing/construction is 8x the direct employment (source: IIM-Ahmedabad Study, '00).

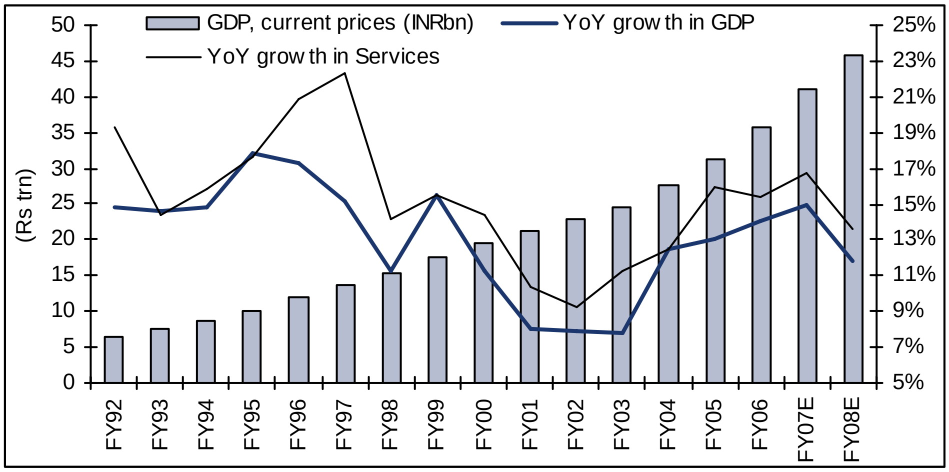
Chart 1: Construction versus GDP



Source: CSO

The Indian economy's impressive performance has been mainly on account of the rise of the services sector (12.8% annual growth in the past five years). The services sector now contributes 60% to the GDP and is still showing unrelenting growth.

Chart 2: Robust growth in Indian GDP and services sector



Source: MOSPI, i-SEC Research

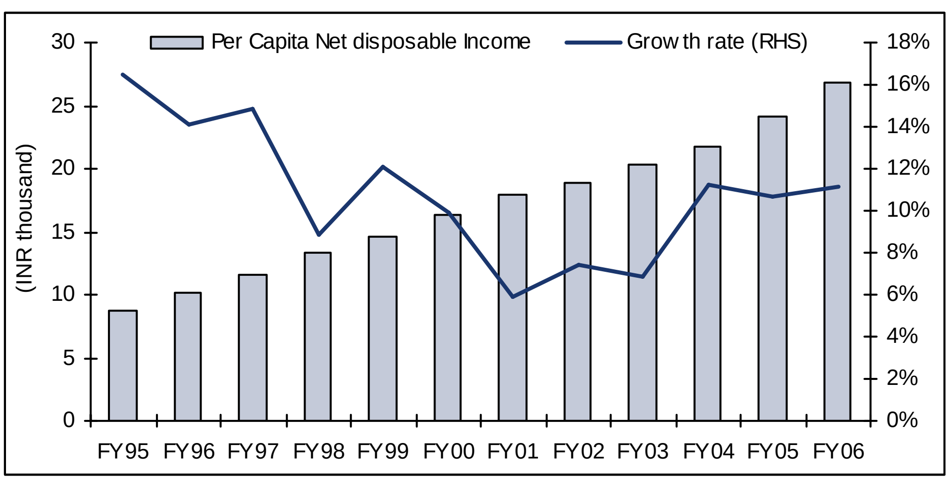
The Indian economy has grown at 11% CAGR in the past five years and is expected to deliver 8%+ real growth going forward. India is the tenth largest economy in the world and fourth largest based on purchasing power parity. Also, India is the second fastest growing economy, well poised to become the third largest economy in the world by '50 (source: PwC). This lends strong base for a robust growth in the real estate market.

Favourable demographics

Rising income levels

India's per capita disposable income has grown 2.6x in the past 10 years and 1.6x in the past five years. From the current levels of Rs29,800, we expect the per capita disposable income to grow 8-13% in the next five years.

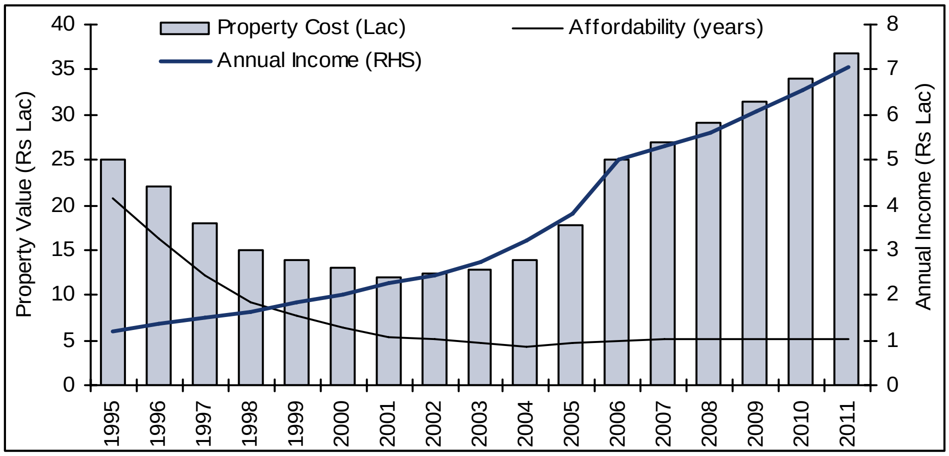
Chart 3: Rising disposable Income



Source: MOSPI, i-SEC Research

Affordability, which measures the number of years' annual income required to buy a house, dipped to as low as 4.3 years in '04 from 20 years in 1995. However, the affordability index has started rising, reaching 5.1 years by '07. We expect a sharper rise in realty prices that would further increase the affordability index. However, affordability, in terms of years of annual income, is still not the key concern – the affordability index was >10 years before 1997-98. Rising financing cost and the impact of increasing mortgage payments are key concerns.

Chart 4: Affordability within comfort zone



Source: HDFC, i-SEC Research

Growing urban population

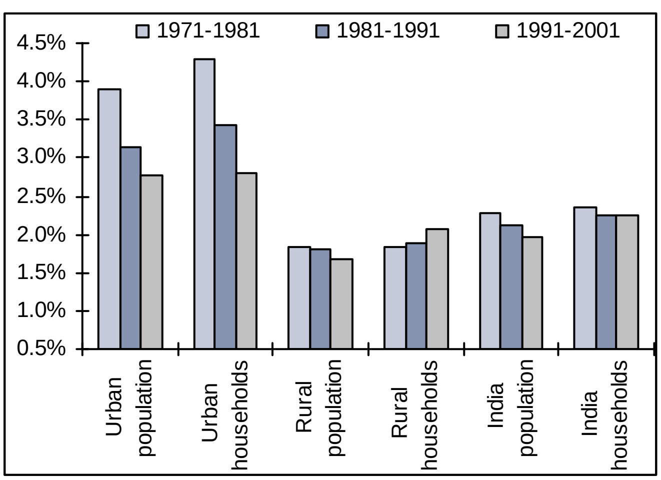
India's urban population has grown ~3% annually to 285mn in '01 from 109mn in 1971. We expect the growth trend to continue, with the urban population touching ~370mn by '11E. Indian cities with >1mn population grew from 12 in 1981 to 35 in '01 and are expected to reach 70 by '25. The urban population in these cities would likely grow to 41% by '25 from 37.8% in '01, implying migration from smaller to larger cities.

Table 1: Rising urban population

	1971	1981	1991	2001	2006	2011
Urban population (mn)	109	159	218	285	325	370
Urban population growth (%)	2.7	3.9	3.2	2.7	2.6	2.7
% urban population	20.0	23.3	25.7	27.8	29.1	31.2
Contribution to national income (%)	35.0	47.0	55.0	60.0	63.0	66.0
Cities – population >1mn	8	12	23	35	45	53

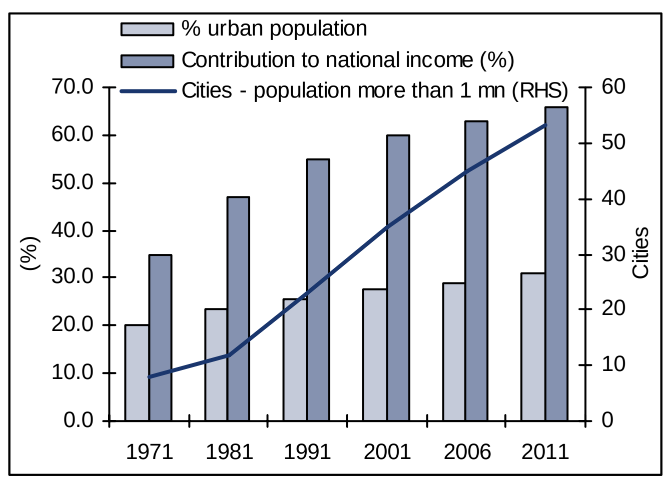
Source: National institute of Urban, UNDP, CPHEEO, i-SEC Research

Chart 5: Urban and rural growth rates



Source: Census India

Chart 6: Urban growth



Source: National institute of Urban Affairs, UNDP, CPHEEO, i-SEC Research

Burgeoning Indian middle class

The number of Indian middle class households with annual income between Rs0.2mn and Rs2mn has quadrupled in the past 10 years from 4.7mn households in 1996 to 17.5mn in ’06. The number of upper-class households with annual income at >Rs2mn has grown 6x from 0.08mn in 1996 to 0.6mn in ’06.

The Indian middle and upper class together stand at ~100mn and are expected to grow 15-16% annually in the next five years, which will drive housing demand further.

Table 2: Population profile

(households ’000s)

Income (mn)	FY96	FY02	FY06 (approx)	FY10E	CAGR % (FY06-FY10)
>10	5	20	52	141	28.3
10 to 5	11	40	103	255	25.4
5 to 2	63	201	454	1,037	22.9
2 to 1	189	546	1,122	2,373	20.6
1 to 0.5	651	1,712	3,212	6,173	17.7
0.5 to 0.2	3,881	9,034	13,188	22,268	14.0
0.2 to .009	28,901	41,262	53,276	75,304	9.0
<0.009	131,176	135,378	132,249	114,394	(3.6)
Total	**164,877**	**188,193**	**203,656**	**221,945**	

Source: NCAER (‘The Great Indian Middle Class’, ’04), i-SEC Research

Young India

India’s median age was 24 in ’05 against China’s 33 years and Japan’s 43 years. As per industry estimates, average age of a home buyer has decreased from 42 years to 31 years. The younger generation is creating further demand for residential units and the trend should continue as the income generation capability of the Indian youth improves.

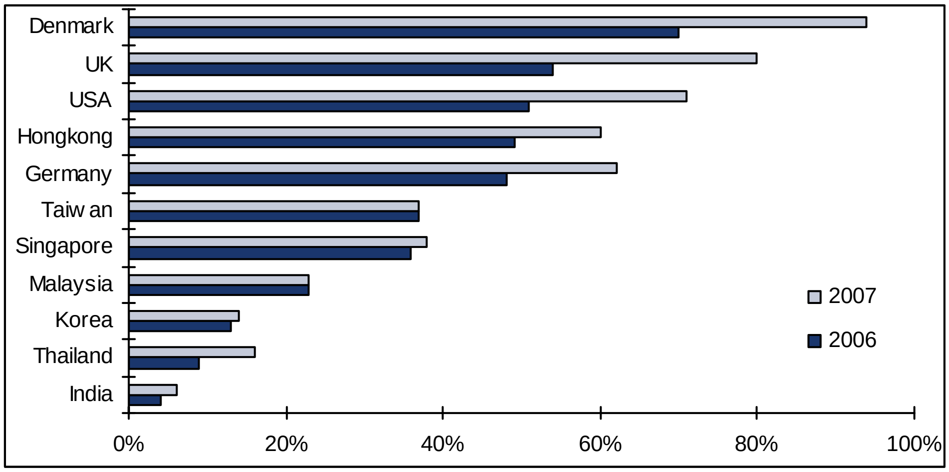
Nuclearisation

Reduction in household size has created additional demand in residential units. The size of an average urban household decreased from 6.06 in ’01 to 5.5 at present against the average household size in Europe varying from 2.3 to 2.8 respectively. Rising income, greater number of income generators per household, especially working women and the younger generation, and changing mindset are the primary reasons for reduction in the household size. We expect the household size to continue to decline 0.5-0.3% annually, reaching ~5.14 in the next 10 years.

Increasing funding options

In India, home loan as a percentage of GDP was at ~6% as of FY07 versus ~4% in FY06. The ratio is still considerably low compared to developed countries – the US (71%), the UK (80%), Denmark (94%) – and other Asian countries. We believe that a sizeable opportunity exists for funding residential units in India, which in turn would propel further residential demand. However, rising interest rates have reduced the attractiveness of home loans.

Chart 7: Home loan as a percentage of GDP



Source: HDFC

Growth in other sectors supporting real estate

IT/ITES and other businesses

The IT/ITES sector grew at a phenomenal pace in the past decade, significantly impacting office real estate in India. The sector comprises ~75-80% of the current commercial demand. In FY06, industry exports grew 33% to US$23.6bn and the sector is expected to grow 25-30% annually in the next few years. At present, the IT/ITES sector employs ~1.3mn people, with more than 350,000 addition expected next year. We estimate the number of employees in the IT/ITES sector at ~4.5mn by FY12E and ~8mn by FY17E. As per industry estimates, ~3.5mn jobs will be outsourced to India by FY17E.

Bangalore is the traditional hub for IT/ITES space in India. In the South, Hyderabad, Pune and Chennai are developing as key centres of commercial development. In the North, Delhi, Noida and Gurgaon are the preferred destinations. As regards the West, Mumbai is grappling with upcoming demand that is pushing up the prices in commercial business districts (CBDs) and peripheral areas. At present, Tier II cities offer more advantages to IT/ITES companies, considering the lower real estate prices. Cities such as Coimbatore, Mangalore, Chandigarh, Vishakapatnam, Madurai, Mangalore, Kochi, Jaipur, Gurgaon, and Nagpur are also in the midst of the IT/ITES-led real estate boom.

Apart from IT/ITES, biosciences, insurance, banking and consulting sectors are also contributing to office space demand. Further, India has emerged as the global manufacturing base, especially for textiles, auto & auto components and light engineering industries.

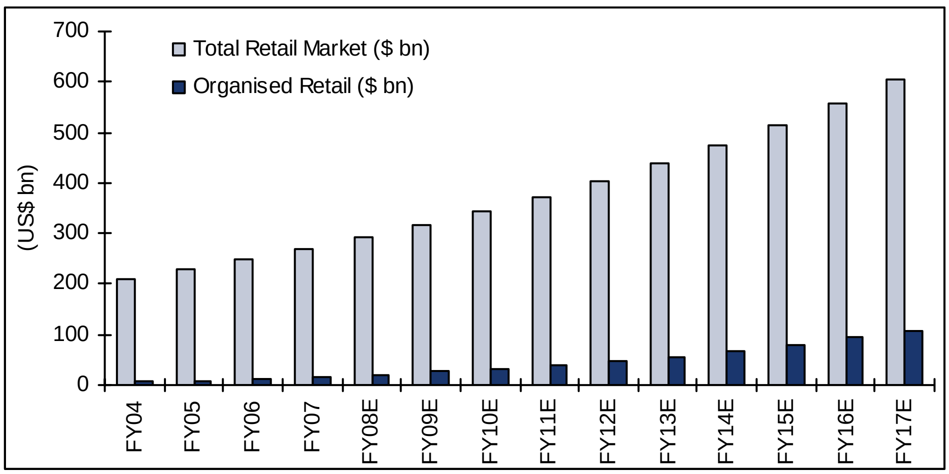
Office space in India currently stands at 135mn sqft, which is low than international peers. Hong Kong alone has more office space than India and Manhattan (New York) has > 430mn sqft.

Organised retail

At present, India's retail market is ~US$270bn and growing ~7-9% annually – we estimate the retail market to be US$600bn by FY17E. And, given that retail is globally the largest industry at ~US$7.2trn, we expect significant action in the space as is evident by the fact that many international retailers and brands are entering the Indian retail market. AT Kearney's recent retail report – Global Retail Development Index, '06 – rated India as the most attractive place for the retail industry.

The size of the organised retail market, as a component of total retail, increased from 2% in FY03 to ~6% in FY07. However, the share of organised retail in India is very low against >15% in China and >40% in other Asian countries. We expect organised retail to grow at 21% CAGR to US$109bn in FY17E. Improving demographics, increasing urbanisation and cultural shift are key reasons for growth in organised retail.

Chart 8: Impressive retail growth



Source: Industry, i-SEC Research

In next three years, ~220 malls are expected to come up in India, including specialised malls catering to automobiles, jewellery, furniture and electronics. Further, many upcoming malls would offer hotel and amusement facilities.

Table 3: Upcoming malls in the next three years

City	Number of malls
Delhi	60
Mumbai	30
Bangalore	10
Chennai	5
Kolkata	10
Hyderabad	15
Pune	11
Ahmedabad	4
Tier III cities	75
Total	**220**

Source: Business Standard

Hotels and logistics

The growth in tourism and business travel, and the emergence of low cost airlines have led to increased demand for hotel rooms. As a result, there is a shortage of quality hotel rooms across all major cities. Occupancy rates are at an all-time high, with luxury hotels in Mumbai, New Delhi and Bangalore quoting room rates higher than the average room rate (ARR) in the US. Further, the mid-tier budget hotel segment, which aptly meets the service demands of the average Indian, is witnessing a supply crunch and is expected to grow 40% through the next 2-3 years.

In '05, 4mn tourists arrived in India, generating US$5.7bn revenue. India's share of international tourism is very low – at 0.84% revenue wise and 0.49% in terms of international tourist arrivals. The country is gradually emerging as one of the key destinations for international tourism. A recent World Travel & Tourism Council (WTTC) tourism annual growth estimate of India is 8.6% for the next 10 years.

According to the Department of Tourism, there are ~105,000 hotel rooms in India, of which only 25% are branded against Manhattan that alone has >100,000 branded hotel rooms. China has >800,000 branded hotel rooms.

The IT/ITES sector has also contributed to the hotel boom. NASSCOM estimates that the sector accounted for 8,900 hotel rooms/day in FY07 and is likely to generate 30,000 rooms/day demand by FY12E.

Real estate developers have aggressively ventured into the hotel business to capture unmet demand. We believe the sectors offers tremendous opportunity and would be a significant growth driver. The usual business model followed by developers is to build and own hotels and multinational hotel chains are tied-up for management, branding, and marketing.

Logistics and warehousing (new territories for real estate developers) offer tremendous growth opportunities. Key segment drivers are growth in overall industrial and manufacturing activity, increasing exports and imports, entry of large retailers in the Indian market, growth in organised retail and increasing reach in rural India. We foresee a paradigm shift in logistics, warehousing and retailing from the unorganised to organised sector. In a developed market, logistics space contributes 10-15% to non-residential real estate demand.

SEZs – Mixed bag

SEZs are a unique proposition in the Indian real estate sector. They provide opportunities for real estate developers to venture into mega projects with better profitability. On the other hand, for an SEZ to be successful, an amalgamation of many success factors and varied skill sets is required, the lack of which can risk the whole project. Also, development of too many SEZs would have a softening impact on the remaining real estate market, especially the office segment. We believe that SEZ investments are a long-term business model – they could be a part of a real estate developer's portfolio but should not be a significant component. Investors should view each SEZ individually as regards viability and risk-return than taking a holistic view on the overall future of SEZs in India.

The Indian Government passed the SEZ Act in June '05 to promote exports and develop alternate cities. Since then, there has been an inundation of companies seeking approvals for SEZs. As on April 17, '07, there were 14 operational SEZs, 91 notified SEZs, 234 approved SEZs and 161 SEZs with in-principle approval (Annexure 2). The total area that has received notification for SEZ development is 28,000 acres. Post the recent Board of Approval meeting, notified SEZs have moved up to 101 from 234 approved.

Of the 91 notified SEZs, 56 belong to the IT/ITES sector; however, these form only 11% of the total notified area. The list includes three multi-product SEZs with cumulative area of 15,000 acres or 54% of the notified SEZ area. The average size of the notified SEZs in India is 308 acres, which is small as compared with other countries. SEZs in Shenzen, Singapore and the Philippines are spread over 79,072 acres, 40,030 acres, and 33,111 acres respectively.

SEZs offer significant development potential for real estate companies. According to the Ministry of Commerce, if all approved SEZs are developed, they would require an investment of US$71bn through the next five years. However, we estimate the overall investments required for SEZ development through the next five years at ~US$13.4bn, including US$3.3bn for land acquisition, US$4.1bn for land development and US$5.8bn for construction of residential and commercial buildings.

Table 4: SEZ investments

(Rs mn)

Investments in next five years	Developable Area (mn sqft)	Acquisition cost	Land development cost	Construction cost	Total cost
Free Space	470	1,005	1,256		2,260
Industrial Area	784	1,674	2,093		3,767
Commercial/residential development	314	670	837	**5,835**	7,342
Total Investments	**1,568**	**3,349**	**4,186**	**5,835**	**13,370**

Source: i-SEC Research

SEZs have the potential to add another 314mn sqft of commercial and residential space by FY12E. Such a substantial supply would lead to softening in the market.

Risks

- **Large number of IT/ITES SEZs notified for development will have a softening impact on real estate.** Within the current list of notified SEZs, we estimate that cumulative development of office space will be ~100mn sqft. Given that the development timeframe for such SEZs is small, we estimate supply to hit the market in the next three years. This would imply an additional supply of 33mn sqft/annum. Our estimate of intrinsic demand for office space in India is ~65mn sqft and the 33mn sqft created through SEZs will form a significant component of the overall office supply in India.
- **Land acquisition** is a key concern as many sections of the Government, non-government organisations and farmer associations are opposing SEZ development. Projects without complete land acquisition would find it difficult to execute the SEZ.
- **Considerable Government interference** at the policy and execution level increases the risk to the SEZ business model.
- **Other factors.** An SEZ's success is dependent on many critical factors and any factor going awry could derail the whole project – for example, proximity to markets and other inputs, infrastructure (physical, utility and social), connectivity through multi-modal transport systems, overall appeal, the right anchor tenants and resource availability.

Fiscal benefits of an SEZ

1. Benefits for developers
    a. Direct tax incentives
        i. 10-year tax holiday
        ii. Exemption from dividend distribution tax
        iii. Exemption from tax on interest on long-term finance
        iv. Exemption from tax on long-term capital gains for transfer of shares to developers
        v. No minimum alternative tax
    b. In-direct tax incentives
        i. No import duty
        ii. No excise duty
        iii. Exemption from central sales tax on purchase from DTA
        iv. Exemption from service tax
        v. Exemption from tax on sale of electricity for self generated and purchased power
        vi. SEZ developer is allowed to sell up to 100% equity of the project company after receiving approval for the SEZ
2. Benefits for manufacturers – Income tax incentives
    i. 100% for the first five years of operations
    ii. 25-50% for the second five years
    iii. 25-50% of the reinvested profits for the subsequent five years
    iv. Other incentives related to local production tax and sales tax
    v. Other negotiable incentives
    vi. No capital gain tax on shifting units to SEZ

Thriving inflows

The emergence of real estate as a lucrative investment option against bonds and equity has led to strong inflows in the sector – we estimate US$7-9bn annual investments through domestic and overseas real estate funds, of which ~US$4-5bn is expected through the FDI route. This amount is large enough to finance total cumulative investments required for office and retail construction in India. Further, through the capital markets, developers have raised ~US$4bn in the past two years and are expected to raise US$4.7bn this year. There is a considerable money flow, which is fuelling further growth by increasing liquidity in the market.

In the past two years, many real estate developers raised substantial funds through various routes (PE/IPO/FCCB/QIP/FPO) at corporate or SPV level. We estimate that real estate developers raised ~US$4bn in the past two years. By year-end, another US$4.7bn is expected to be raised by DLF, Omaxe and Emaar MGF.

Table 5: Funds raised by real estate companies

(Rs mn)

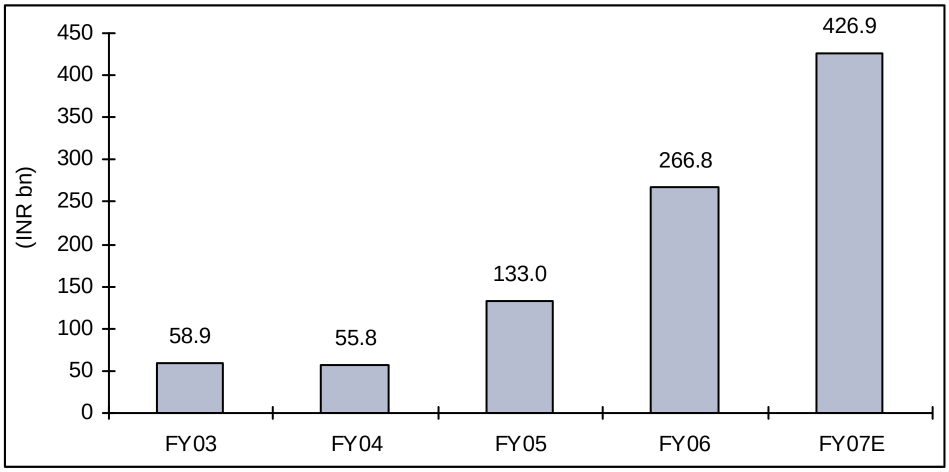
Companies		Instrument	Status
Hiranandani	33,750	AIM	Completed
Unitech (Unitech Corporate Park)	31,900	AIM	Completed
K Raheja (Ishaan)	17,100	AIM	Completed
India Bull real estate (Dev Property dev.)	12,000	AIM	Completed
Parsvnath	10,900	IPO	Completed
Ansal Properties	10,000	QIP	Completed
Anant Raj	6,840	PE - Morgan Stanley, GIC, Quantum	Completed
Oberoi Constructions	6,750	PE - Morgan Stanley	Completed
Sobha	5,692	IPO	Completed
DSK	5,500	FPO	Completed
Mahindra Gesco	4,725	QIP	Completed
Akruti Nirman	3,600	IPO	Completed
Mantri Developers	3,000	PE - Morgan Stanley	Completed
Lodha Group	2,684	PE - JPMorgan	Completed
Prajay	2,640	FCCB	Completed
RR Industries	1,980	PE - Old Lane	Completed
Peninsula Land	1,700	QIB	Completed
Nitesh Group	1,350	PE	Completed
Orbit	1,000	IPO	Completed
Ansal housing	1,000	QIP	Completed
Lokhandwala Builders	968	PE - Trinity Capital	Completed
Kapstone Constructions	882	PE - Trinity Capital	Completed
Emaar MGF	90,000	IPO	Expected
DLF	100,000	IPO	Ongoing
Omaxe	6,750	IPO	Ongoing
Total	**362,711**		

Source: Industry, i-SEC Research

Recent moves by the Reserve Bank of India (RBI) and the central Government to curb overheating in the real estate sector have slowed down the flow of money through traditional channels such as bank loans. However, foreign flow into the Indian realty market is the only funding option that the Government has not been able to block successfully. We expect strict measures by the RBI to curb the flow; some action has already commenced. Recently, foreign investments through partial, optional and non-convertible preference shares have been classified as external commercial borrowings (ECBs). Further, norms for investments through the ECB route have been tightened. This has significantly impacted developers' capital raising plans; other such stringent norms are likely to follow. Reduction of foreign capital flow into the Indian real estate market would affect the overall health of the sector and jeopardise many large development plans.

The Indian banking sector has not historically funded real estate; however, the situation has changed in the past three years. The banks have now become comfortable with lending to real estate companies due to improving demographics and transparency. We estimate the total commercial real estate loans to the sector at Rs427bn or US$10bn by end FY07; real estate lending grew 101% in FY06 and ~60% in FY07. Given the stringent moves by the RBI to curb real estate lending, we expect the growth in real estate loans to slow down significantly.

Chart 9: Commercial real estate loans



Source: RBI, i-SEC Research

Real estate funds play a significant role in shaping the sector. They provide liquidity for large realty projects, bring in transparency and professionalism, and provide support to the sector in a downturn.

As per industry estimates, there are ~100-120 India-specific global and domestic real estate funds, either operating or looking at setting up operations in the near future. These funds are not just looking at investment opportunities in Tier I but also in Tier II and Tier III cities. The funds’ average corpus is US$250-300mn, most of which would be directed towards commercial, retail and large township projects. Further, real estate developers are launching their own real estate funds, thus allowing investors to gain from their expertise. Going forward, real estate funds are likely to invest >US$57bn in the sector; however, the timelines could vary from a single transaction to a staggered investment over a decade. We estimate that US$7-9bn would be pumped into the Indian real estate market annually through these funds.

Table 6: Proposed investments in Indian realty sector

Overseas Investments	Investments (US$ mn)	Country	Project
Macquire Bank	25,000	Australia	Modern integrated township spread over 65,000 acres in Andhra Pradesh; JV with three partners
Al Nakheel LLC	20,000	Dubai	Two townships spread over 20,000 acres; JV with DLF
Royal Indian Raj	2,900	US	Royal Garden City, Bangalore, over 10 years
Tishman Speyer Properties	2,000	US	Township spread over 400 acres near Hyderabad; JV with ICICI and Nagajuna Constructions
Carlyle	1,000	US	Multiple/commercial
Blackstone Group	1,000	US	Multiple
Emmar Properties	800	Dubai	Township Hyderabad & Commercial
HDFC	720	India	Unknown
Sun Apollo Ventures	630	US-India	Unknown
ILFS	525	India	Unknown
Trikona Capital	450	AIM	Unknown
Peninsula Realty Fund	200	India	Unknown
IDFC	345	India	Unknown
Hines and Maia	250	US	Unknown
Ascendas Fund	230	Singapore	Commercial Projects
IREO	180	US	Pune - office & residential
Pegasus Realty	150	US	Unknown
Citigroup Property Investors	125	US	Unknown
Lee Kim Tah Holdings	115	Singapore	Township Chennai
Kotak Mahindra Realty Fund	115	India	Unknown
Morgan Stanley	70	US	Housing Bangalore
Dewan Housing	69	India	Unknown
GE Commercial Finance Real Estate	63	US	Unknown
Kshitij	57	India	Unknown
Fire Capital	50	India	Unknown
Edelweiss Capital	35	India	Unknown
Keppel Land	Unknown	Singapore	Condominium - Bangalore
Universal Success Enterprise	Unknown	Indonesia	Housing Kolkata
Capitaland	Unknown	Singapore	Housing Mumbai
Evan Lee & Co Pte Ltd	Unknown	Singapore	Township Vizag
Salim Group	Unknown	Dubai	Township Kolkatta
Merrill Lynch	Unknown	US	Unknown
Tata, Kotak, ICICI, UTI and others	Unknown	India	Unknown

Source: Assocham, Industry, i-SEC Research

FDI in the Indian real estate market has grown significantly in the past four years. This is largely attributable to Government's initiatives of opening up the sector to FDI in February '05 and to the strong fundamentals driving the sector. We estimate FDI in the Indian real estate market at US$4-5bn annually for the next five years. A recent AT Kearney report rated India as the second best destination for FDI investments after China.

Table 7: FDI in India

Year	US$ bn	Share of real estate	US$ bn
2003-2004	4.3	4.5	0.2
2004-2005	6.1	10.6	0.6
2005-2006	7.7	16.0	1.2
2006-2007E	15.0	26.0	3.9

Source: DIPP Ministry of Commerce and Industry, Assocham, i-SEC Research

Indian real estate pie

We estimate the current size of Indian real estate market at US$57bn or 6.2% of India's GDP. In terms of value, the real estate market would likely grow at 12.8% CAGR in the next five years to US$105bn or 7.1% GDP by FY12E. In the next five years, the average annual investments required in the real estate sector are ~US$85bn, of which the residential segment constitutes 88% at US$74bn. We estimate annual investments for office space at US$5.7bn and retail segment at US$4.8bn. These are based on requirements of investment in land and construction cost to meet the intrinsic real estate demand in India and not on sales as the mark up on costs could vary with market conditions.

Table 8: Demand forecast

(US$ bn)

	Demand in FY07	Demand in FY12E	Average demand in next five years	CAGR (%)
Residential	51.7	90.6	74.1	11.9
Office	3.0	7.7	5.7	20.9
Retail	2.7	6.5	4.8	19.5
Total	**57.3**	**104.9**	**84.7**	**12.8**
Investments as a % of GDP	6.2	7.1	6.8	

Source: i-SEC Research

As of end-FY07, the stock estimates (in terms of constructed area) are as follows – residential - ~38bn sqft, office - ~135mn sqft and retail - ~90mn sqft. In FY07, ~1.8bn sqft residential, 35mn sqft office and 24mn sqft retail space was added. We estimate the market to grow at 4.6% CAGR with 4.2%, 15.2% and 14.3% CAGR in residential, commercial and retail segments respectively. Also, we expect the next five-year average annual demand for residential, office and retail space at 2bn sqft, 65mn sqft and 37mn sqft respectively.

Table 9: Demand forecast (mn sqft)

(mn sqft)

	Current stock	Development in FY07	Demand in FY12E	Average demand for next five years	CAGR (%)
Residential	37,822.5	1,763.4	2,165.7	1,998.2	4.2
Office	135.0	39.8	80.6	64.8	15.2
Retail	89.8	23.9	46.6	36.5	14.3
Total	**38,047.3**	**1,827.1**	**2,292.9**	**2,099.5**	4.6
Share of residential	99.4	96.5	94.4	95.2	

Source: i-SEC Research

Going forward, hotels, logistics and warehousing would create significant real estate demand. As per industry estimates, 100,000-125,000 hotel rooms would be added in the next five years, with setting up of around 100 economy hotels in India.

There is tremendous opportunity for developers to capture the burgeoning real estate market. However, the developers need to re-invent themselves to meet changing customer needs and offer differentiated, quality products at the right price point.

Current demand and supply

We believe that demand and supply are on an even keel across India and estimate that there would not be significant oversupply in either residential, office or retail segments till end-CY09. However, further tightening of interest rate could reduce demand, leading to lesser absorption of supply.

We believe that there would not be a sharp correction in real estate prices, although a mild correction can not be ruled out. However, such a correction should not last long and would be predominantly confined to a few overheated locations. Given the significant capital appreciation in the past two years and higher operating margins enjoyed by developers (50-80%), a marginal drop in prices should not impact the sector significantly.

Residential segment

Residential markets are stabilising and we do not expect prices to rise beyond the normal inflationary growth. Given the current supply scenario and recent hikes in interest rate, home buyers have adopted a wait and watch stance, implying that differentiated product offerings and brand name would play a critical role in closing a sale. Further, this would increase the possibility of a sporadic drop in prices in certain pockets. However, once the interest rates stabilise, improving demographics and the latent housing demand would again push up the residential demand. We believe that as this market in various Indian cities matures (i.e. no supply-side constraints for quality homes), developers with business competencies/skills will differentiate themselves and move forward.

As per the National Housing Bank (NHB), there was a housing shortage of 19.4mn units (12.7mn units in rural areas and 6.7mn units in urban areas) in FY03. As per the X five-year plan, there would be a shortage of 22.7mn housing units by ’07. Industry estimates of cumulative demand supply gap stand at 4.1bn sqft.

We estimate demand for residential units in urban India at ~2bn sqft/annum. Although, it is difficult to estimate residential demand within the target segment of real estate developers, we estimate the demand at ~450-550mn sqft. This is based on the new housing demand created by rising middle and upper income households. Demand for the high-end residential segment (properties with a ticket size >Rs2.5mn) is 100-130mn sqft. As per a recent AC Neilson report, supply from the high-end residential segment is ~120mn sqft. This implies that the demand & supply situation is comfortably matched; we do not expect the equilibrium to shift significantly.

Office segment

Currently, demand for office space is far exceeding supply in most locations across India. This can be gauged by the large number of pre-leases and the low vacancy rates. Office properties have hardly seen drop in prices except in Whitefield, Bangalore, where poor infrastructure was a damper. We estimate that the current supply pipeline would not lead to an oversupply; however, the rentals might not move further, signalling an end to capital appreciation on office properties. The development of IT/ITES SEZs remains a key risk to our estimate, which could create additional 33mn sqft supply annually.

We estimate office space demand in India at 65mn sqft/annum, 67% of which is from the IT/ITES sector. We estimate the demand from the sector to be driven by an annual 565,000 employee addition over the next five years.

We estimate office space supply in India at ~50-55mn sqft in CY07. The cumulative development pipeline for the key seven cities is ~105mn sqft.

Table 10: Cumulative office supply across seven key cities

(mn sqft)

	CY03	CY04	CY05	CY06	CY07E	Supply in '07	Development pipeline
Bangalore	8	13	17	29	33	4	12
Mumbai	10	13	17	20	30	10	14
Chennai	4	11	14	22	36	14	26
Pune	3	4	7	10	17	7	16
Hyderabad	1	3	5	8	14	6	12
Kolkatta			1	2	6	4	15
Delhi	5	6	10	14	20	6	11
Total	**31**	**50**	**71**	**105**	**156**	**51**	**105**

Source: JLLS, i-SEC Research

Retail segment

We estimate retail sector demand at 37mn sqft/annum; currently, there is high demand for quality retail space across India. We estimate supply to exceed demand in the next two years as many large projects would come on stream across most metros. In the next two years, we expect rentals to remain flat or drop marginally. However, we remain wary of the possible oversupply situation post CY09. Oversupply is likely to hit retail before office and residential segments and would have a more severe impact given the high land and construction cost (input costs).

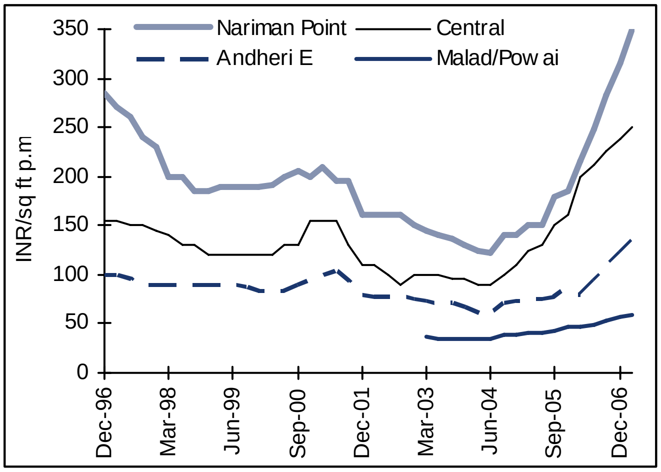
Table 11: Addition in retail space

City	Year	Current Rental (Rs/sqft/mth)	Space addition (mn sqft)	Total Space (mn sqft)
Mumbai	FY06	300-100	4	14
	FY07		10	21
	FY08		4	26
Bangalore	FY06	200-100	1	3
	FY07		2	5
	FY08		3	8
Chennai	FY06	90-60	1	2
	FY07		2	4
	FY08		3	6
Pune	FY06	80-110	1	5
	FY07		4	8
	FY08		1	9
Hyderabad	FY06	90-60	1	2
	FY07		2	4
	FY08		6	10

Source: Industry, i-SEC Research

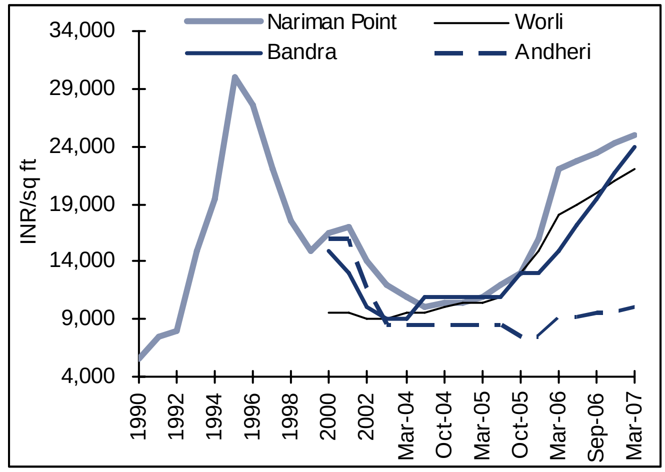
Property price charts across cities

Chart 10: Mumbai – Rental value



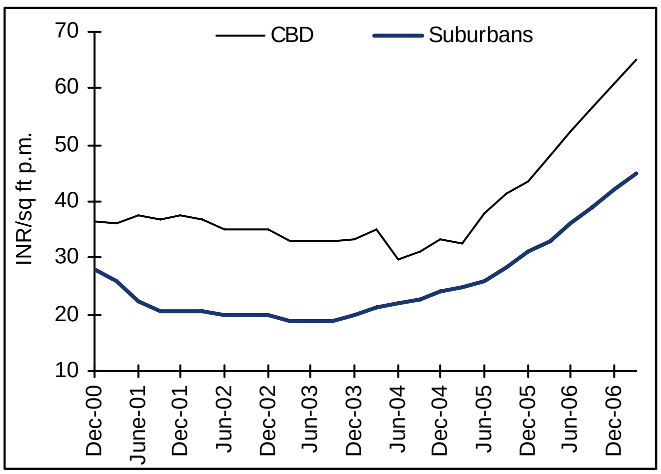
Source: Industry, i-SEC Research

Chart 11: Mumbai – Capital value



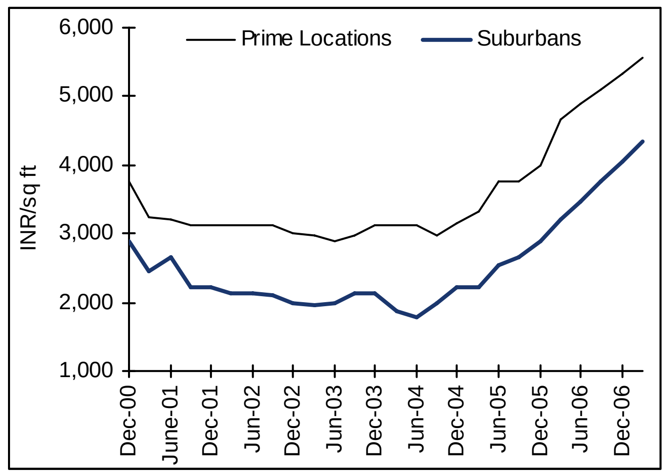
Source: Industry, i-SEC Research

Chart 12: Pune – Rental value



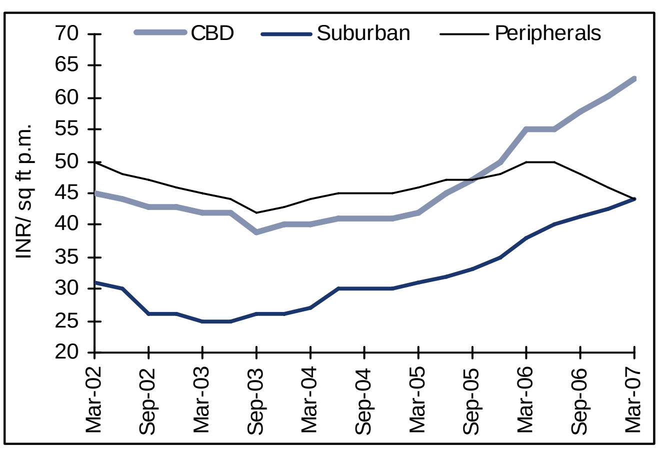
Source: Industry, i-SEC Research

Chart 13: Pune – Capital value



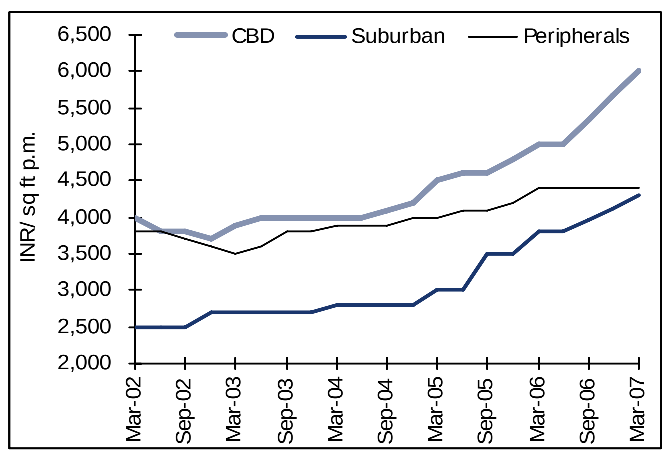
Source: Industry, i-SEC Research

Chart 14: Bangalore – Rental value



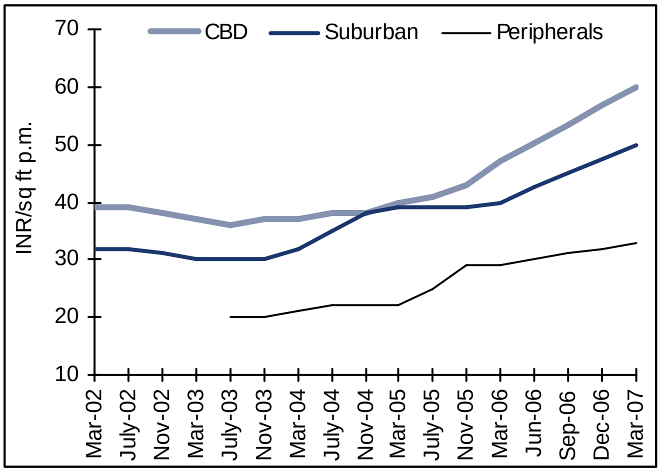
Source: Industry, i-SEC Research

Chart 15: Bangalore – Capital value



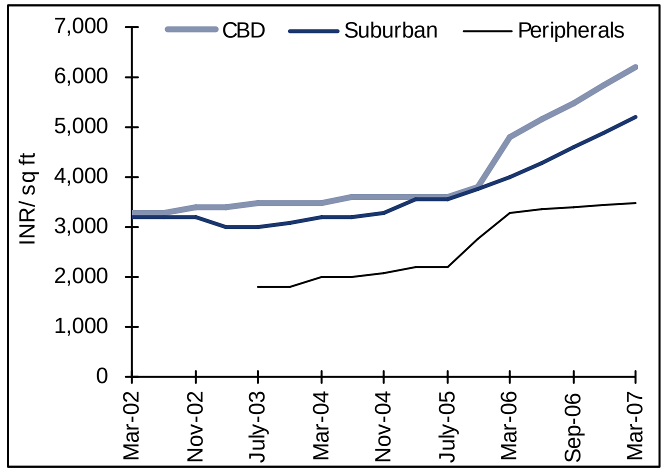
Source: Industry, i-SEC Research

Chart 16: Chennai – Rental value



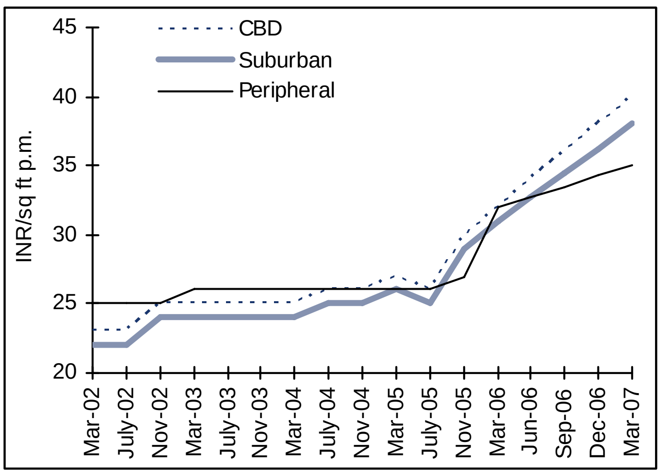
Source: Industry, i-SEC Research

Chart 17: Chennai – Capital value



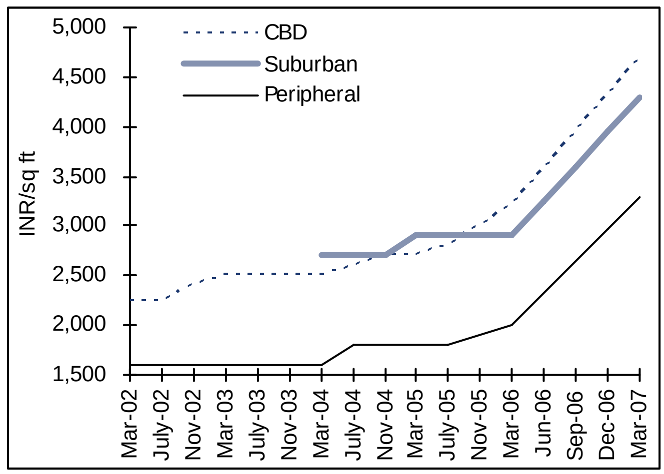
Source: Industry, i-SEC Research

Chart 18: Hyderabad – Rental value



Source: Industry, i-SEC Research

Chart 19: Hyderabad – Capital value

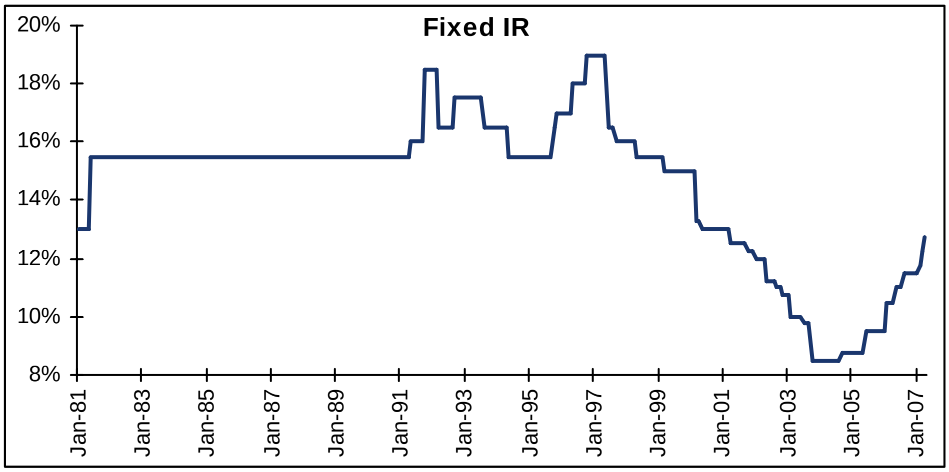


Source: Industry, i-SEC Research

Key risks

- **Increase in interest rates** is the biggest threat to the sector as it reduces the purchasing potential of home buyers, affecting the demand of new homes significantly. Assuming no change in loan tenor, a 1% increase in interest rate could reduce buying capacity by ~5-7%. Further, taking an equivalent drop in the selling price (to compensate for decrease in buying potential), the discounted profitability of a project can decrease 13-16%. However, due to rise in loan tenor and increasing salaries, the actual impact of interest rate hike is not as high.

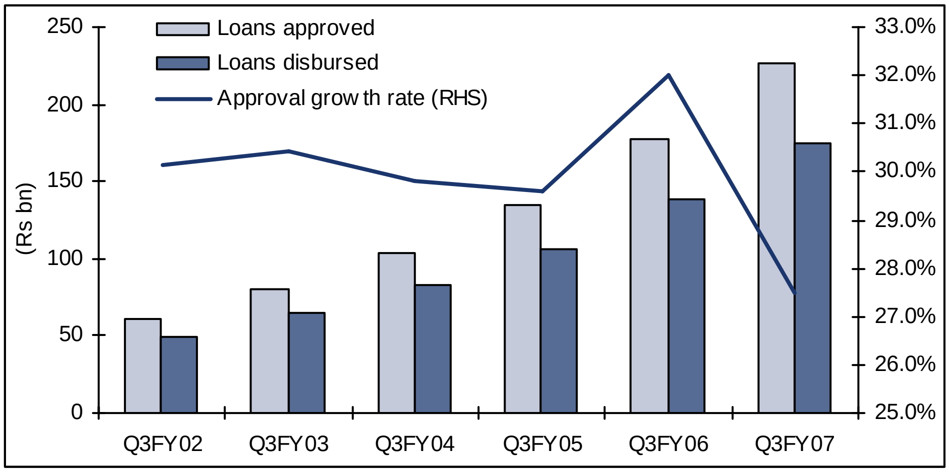
Chart 20: Interest rate movement for 25 years



Source: RBI, i-SEC Research

Recent moves by the RBI to increase cash reserve ratio (CRR) & repo rates and raise risk weightage of home & commercial real estate loans have pushed home loan rates up by 300-400bps. ICICI Bank increased its floating reference rate of consumer loans (including home loans) to 12.75% and HDFC hiked its key lending rates to 14.25%. Growth in housing loan disbursal has also slowed down. Total home loan disbursals, that grew from Rs537.37bn in March '04 to Rs1,132.3bn in September '06 (up 111%), have slowed down since March '07 when they reached ~Rs1,350.52bn. Growth in home loans disbursal by HDFC (second largest home loan originator) has also fallen.

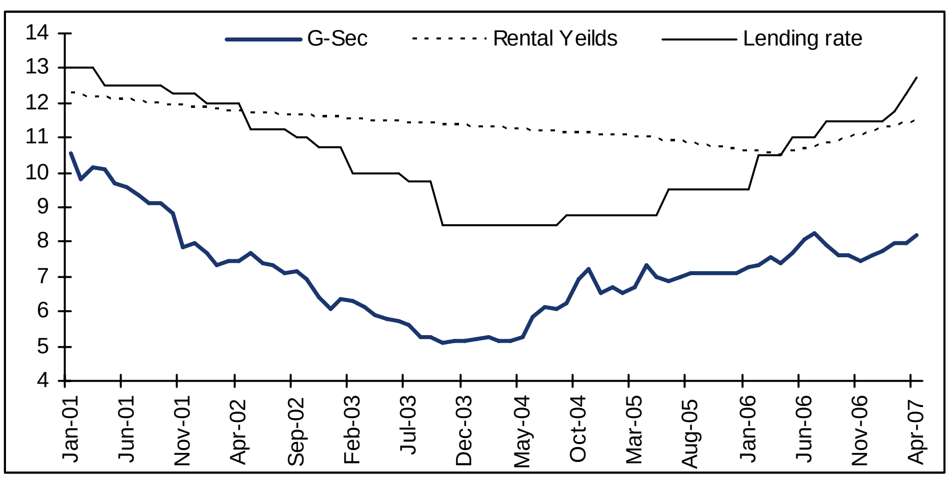
Chart 21: HDFC home loan disbursement



Source: HDFC Bank

- **Decreasing spreads between rental yields versus lending rate and g-sec.** G-sec yields have moved up significantly from <6% two years ago to >8% as on date; lending rates have increased even more sharply. On the other hand, rental yields have not moved up more than 100bps. Given the regulated scenario of g-sec and lending rates, money flow (particularly from foreign investors) into the real estate market has been easier. That aside, reducing spreads also imply the assumption of capital gains priced into the real estate assets or a possibility of rental yields moving upward. Currently, the trend of reducing spread between rental yields and other risk-free asset classes has been witnessed across the globe. This highlights that in the long term, investors world over view real estate as lower risk asset class.

Chart 22: Decreasing spreads



Source: Bloomberg, HDFC, i-SEC Research

- **Government intervention.** The central and state governments have been impeding the natural developments in the real estate sector. Changes in policies/regulations, tax incentives and bureaucratic processes are significant risks to the sector.

- **Oversupply.** Real estate has a long duration cycle; hence, oversupply and undersupply in different phases of the realty cycle is inevitable. India's real estate cycle has witnessed a bull run since '03. We estimate the cycle to remain on the upswing till end-CY09.
- **Land ownership.** A check on the title and historical land record is crucial. Occasionally, realty companies sign development agreements with land owners and claim development rights as a part of their land bank. However, this is not the best practice as the risk to execution of projects based on development rights is higher as against owned land. Inaccuracy in disclosures of fully-owned, agreement to purchase, JVs and development rights poses a key risk.
- **Management/transparency risk.** Another crucial risk area is the level of transparency/disclosures by the management, which include the developer's track record, litigations, professional management, best practices and under capitalised balance sheets (high leverage).

Valuations

We have valued real estate companies on NPV methodology instead of P/E multiple. The earnings of most companies will remain in flux till FY09, by when they will stabilise. Therefore, P/E valuations may distort the picture, making company comparison difficult. On the other hand, asset valuations would not have significant variations, providing better relative and absolute valuations.

As many companies have land parcels with development horizon of more than three years, their full value is not showcased in an earnings-based valuation. Moreover, the business models of companies are not similar, with each having its own mix of developmental formats (residential, commercial, malls, SEZs, construction, townships, hotels), rental incomes and price positioning. Ascribing similar earnings multiples would not justify the valuations of these companies. The valuations are further complicated due to want of proper management disclosures, lack of clarity on land banks and status of payments and receivables.

In more developed markets, P/E and asset valuation methodologies are used for valuing real estate companies. P/E multiples can be used in developed markets as the business models are robust and the companies have an extensive track record. However, asset valuation still remains the underlying benchmark, given that globally, real estate investment trusts (asset owners) have larger market-cap compared with real estate developers having higher earnings.

We have mentioned the average earnings multiple of various developers (Table 12) and highlighted the P/E charts of the companies (Appendix 3).

Table 12: Global average valuation multiple

Real estate Sectors	P/E Ratio	Profit Margin	RoE
Real estate developers	27.17	6.01	16.31
REITs	44.43	36.65	11.57
Homebuilders	14.78	9.74	21.21
Weighted average	**32.30**	**17.76**	**15.05**

Source: Bloomberg

What is net present value?

We calculate the net present value (NPV) based on the sum of the net asset value (NAV) of a company's discounted **post tax** project cash flows, **terminal value** based on the annual sqft construction and average realisation and the sum of other assets on the balance sheet. Our NPV calculation does not include the return on excess cash generated as the projects get executed; however, it is marginally accounted for in the terminal value calculation.

NAV of projects is based on assumptions of **realisable** sales price, operating margins (dependent on construction cost) and estimated development timelines. However, globally, NAVs are calculated for projects under construction and not for projects that are planned for future development.

Divergence in business models

The biggest fallacy while valuing real estate companies is to look for common parameters to value these companies. Each company has a different business model and its own core competencies and skill set. Each company should be valued independently to ascertain the value of the assets and overall competency of the business model.

Business models being unique for all companies, we have listed a few differences:

1) **Location of land bank.** Land bank cannot be valued purely on acreage basis. The value and quality of the land bank are more important. For example, one acre in CBD area of a Tier I city is equivalent to 100 acres in peripheral areas of a Tier III city. The development potential of the land bank is also a key deciding factor.

2) **Low land cost.** A developer's aptitude to identify under-valued land with development potential is crucial for a company's success. In this regard, a regional player has more advantage in locating such areas and executing deals.

3) **Construction capability.** Developers with strong in-house construction capability have greater project execution certainty and are likely to attain higher margins over the long run.

4) **Product offering:**

   a. **Plot sales.** Few developers have significant higher plot sales, which helps ease cashflow. However, this reduces the realisation from the project.

   b. **Focus on residential, commercial or retail.** Each segment has its own risk-return profile and should be looked at independently.

   c. **Pricing.** A high-end product may fetch higher margins in a bull phase but could be a bigger risk in the downturn. Absorption capacity of each segment is also different and increases exponentially with decrease in price range.

   d. **Brand value, quality and innovation in construction** vary as per each company.

   e. **Dependence on other segments/projects** such as SEZs, hotels, slum rehabilitation and rehabilitation of dilapidated buildings has to be considered independently and valued on a standalone basis.

5) **Asset owner versus developer.** Real estate companies can be split into: i) real estate investment trusts (REITs) – asset holders earning lease rentals, ii) homebuilders – pure play developers focussed on building and selling units, and iii) mixed developers – leasing and selling real estate assets.

What we prefer in a developer

- **Diversified business segments.** This offers greater flexibility and lower volatility of earnings.
- **Owned assets versus outright sales.** We firmly believe that leasing assets is a more robust business model, best suited for a downturn. Rentals are more sticky and do not fall as sharply as sale prices, providing steady cashflows to asset owners. Further, asset owners have greater market-cap creation capability over the long term.
- **Management quality.** The level of disclosures, greater clarity on the balance sheet and land bank, drive and skill for creating sustainable earnings growth as against dependence on capital appreciation are crucial attributes of a good developer.
- **Product differentiation.** As the market matures across most Indian cities, understanding market demand and products with better value addition would be a key success factor.
- **In-house construction against outsourcing.** As capital gains reduce, companies with construction done in-house would have better margins, execution and quality of construction.
- **We favour developers with greater exposure to residential and commercial sectors** against developers with greater exposure to large SEZs or mega-malls.
- **Developers with lower average land costs have competitive advantage** due to lower input costs and lower breakeven point in a market downturn.
- **We prefer developers with operations in Tier II cities or suburban areas of Tier I cities** as they offer higher capital appreciation potential and lower downside risk.

Annexure 1: Real estate regulations

Table 13: Key regulations in the real estate sector – A snapshot

Legislation	Remarks
Urban Land (Ceiling and Regulation) Act, 1976/Rent Control Act	ULCRA, which was an impediment to the consolidation of land for private development, has been repealed by all states except West Bengal, Maharashtra and Andhra Pradesh. This would enable the development of land parcels >500sq metres in metros.
Land Acquisition Act, 1894	This Act, to a large extent, still governs the procurement of raw land. Its provisions need to be reviewed to enable private developers (certified by a designated authority) to procure land directly from farmers for public purposes and to obviate need for hundreds of entities to be created to procure a large parcel of land.
Registration Act, 1908 and Indian Stamp Act, 1899	Registration and Other Related Laws (Amendment) Act, '01 received the assent of the President on September 24, '01 and was notified in the official gazette as Act 48 of '01. But the official press release states that it will come into force from a date to be notified by the Government. A de-materialised form of execution of land titles to promote a healthy property market. Urgent need to review the laws and focus on stamp and registration laws, restrictive conditions in leasehold properties, lender protections vis-à-vis leasehold properties, transfer facilitation in restructuring and mergers and/or de-mergers. In several states, stamp duty on transfer of land continues to be high at 14-15%. While many states have reduced this to 6-8%, the industry expects it to be rationalised further to 2-3% over the medium term.
Public-private partnership for amenities	A regulatory framework that encourages private sector participation in formulating and delivery of basic amenities such as water, sanitation, sewerage, transport and electricity is necessary.
Foreclosure laws	Existing laws are cumbersome and time consuming for a resolution in instances of default. Amendment of National Housing Board (NHB) Act has been initiated and implementation must be expedited.
Real Estate Investment Trusts (REIT)	Although there has been a lot of talk about REITs in India, it seems it will be quite some time before we see any active play from them. The current regulatory environment in the form of high stamp duties and other impediments are still a burden for them.
Real Estate Mutual Funds	The SEBI, in June '06, approved guidelines for real estate mutual funds, allowing them to invest directly in real estate properties in India. These funds would initially be close-ended schemes. Their units would be compulsorily listed on stock exchanges and NAVs of the schemes would be declared daily. However, they are yet to take off in any significant way.

Source: FICCI, i-SEC Research

Central laws

Laws relating to land acquisition

The Urban Land (Ceiling and Regulation) Act, 1976 prescribes the limits to urban areas that can be acquired by a single entity. It has, however, been repealed in some states and union territories under the Urban Land (Ceiling and Regulation) Repeal Act, 1999. Further, land holdings are subject to the Land Acquisition Act, 1894, which provides for the compulsory acquisition of land by the central Government or the appropriate state Government for public purposes, including planned development and town and rural planning. However, any person with an interest in such land has the right to object to such compulsory acquisition and the right to compensation.

Laws regulating transfer of property

Transfer of Property Act, 1882

Transfer of property, including immovable property, between living persons, as opposed to the transfer of property by the operation of law, is governed by the Transfer of Property Act, 1882 (TP Act). The TP Act establishes the general principles relating to the transfer of property, including among other things, identifying the categories of property that are capable of being transferred, the persons competent to transfer property, the validity of restrictions and conditions imposed on the transfer, and the creation of contingent and vested interest in the property.

Registration Act, 1908

The Registration Act, 1908 ('Registration Act') has been enacted to provide public notice of the execution of documents affecting transfer of interest in immoveable property. The purpose of the Registration Act is to conserve evidence, assurances, title, and publish documents and prevent fraud. It details the formalities for registering an instrument. Section 17 of the Registration Act identifies documents for which registration is compulsory and includes, among other things, any non-testamentary instrument which purports or operates to create, declare, assign, limit or extinguish (whether in present or in future) any right, title or interest (whether vested or contingent) in immovable property of the value of Rs100 or more, and a lease of immovable property for any term exceeding one year or reserving a yearly rent. A document will not affect the property comprised in it, nor be treated as evidence of any transaction affecting such property (except as evidence of a contract in a suit for specific performance or as evidence of part performance under the T.P. Act or as collateral), unless it has been registered.

The Indian Stamp Act, 1899

There is a direct link between the Registration Act and the Indian Stamp Act, 1899 ('Stamp Act'). Stamp duty should be paid on all documents specified under the Indian Stamp Act and at the rates specified in the Schedules there under. The rate of stamp duty varies from state to state. The stamp duty is payable on instruments at the rates specified in Schedule I of the said Act. The applicable rates for stamp duty on these instruments, including those relating to conveyance, are prescribed by the state legislation. Instruments chargeable to duty under the Stamp Act, which are not duly stamped, are incapable of being admitted in court as evidence of the transaction contained there in. The Stamp Act also provides for impounding of instruments which are not sufficiently stamped or not stamped at all.

Table 14: Stamp duty and legal costs

(%)

City	Stamp Duty	Registration Charge
Delhi	8*	1.25
Mumbai	10	1
Bangalore	8.6	1
Chennai	8	1

*6% for women purchasing residential property
Source: JLLS

The Easements Act, 1882

The law relating to easements is governed by the Easements Act, 1882 (‘Easements Act’). The right of easement is derived from the ownership of property and has been defined under the Easements Act as a right which the owner or occupier of land possesses for the beneficial enjoyment of that land and which permits him to do or to prevent something from being done in respect of certain other land not his own. Under this law an easement may be acquired by the owner of immovable property, i.e. the dominant owner, or on his behalf by the person in possession of the property. Such a right may also arise out of necessity or by virtue of a local custom.

Laws relating to employment

The employment of construction workers is regulated by a wide variety of generally applicable labour laws, including the Contract Labour (Regulation and Abolition) Act, 1970, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 and the Payment of Wages Act, 1936.

State laws

Urban development laws

State legislations provide for the planned development of urban areas and the establishment of regional and local development authorities charged with the responsibility of planning and development of urban areas within their jurisdiction. Real estate projects have to be planned and developed in conformity with the norms established in these laws and regulations made there under and require sanctions from the government departments and developmental authorities at various stages. For instance, in certain states such as Haryana, for developing a residential colony, a licence is required from the relevant local authority. In cases where projects are undertaken on lands which form part of the approved layout plans and/or fall within the municipal limits of a town, generally the building plans of the projects have to be approved from the concerned municipal or developmental authority. Building plans are required to be approved for each building within the project area. Clearances with respect to other aspects of development such as fire, civil aviation and pollution control are required from appropriate authorities, depending on the nature, size and height of the projects. The approvals granted by the authorities generally prescribe a time limit for completion of the projects. These time limits are renewable upon payment of a prescribed fee. The regulations provide for obtaining a completion/occupancy certificate upon completion of the project.

Agricultural development laws

The acquisition of land is regulated by state land reform laws, which prescribe limits up to which an entity may acquire agricultural land. Any transfer of land which results in the aggregate land holdings of the acquirer in the state to exceed this ceiling is void, and the surplus land is deemed, from the date of the transfer, to have been vested in the state government free of all encumbrances. When local authorities declare certain agricultural areas as earmarked for townships, lands are acquired by different entities. After obtaining a conversion certificate from the appropriate authority with respect to a change in use of the land from agricultural to non-agricultural for development into townships, commercial complexes etc. such ceilings are not applicable. While granting licences for development of townships, the authorities generally levy development/ external development charges for provision of peripheral services. Such licences require approvals of layout plans for development and building plans for construction activities. The licences are transferable on permission of the appropriate authority. Similar to urban development laws, approvals of the layout plans and building plans, if applicable, need to be obtained.

Salient features for FDI flow into Indian real estate markets

- Proposals will be cleared through the automatic route and will no longer have to be routed through the foreign investment promotion board (FIPB) for clearances
- 100% FDI allowed in the construction sector
- Non-resident Indian investments allowed under all categories
- Direct FDI allowed in residential townships of more than 25 acres with minimum paid-up equity capital of US$10mn and US$5mn, if invested in a joint venture
- Direct and automatic approval for IT park and hotel investments
- Foreign and domestic venture capital investment in real estate allowed with prior approval of the Securities & Exchange Board of India (SEBI)
- Dividends can be freely repatriated; three-year lock-in for equity repatriation
- Within SEZs, free capital and dividends allowed with many specific tax exemptions on profits (5-10 years) and local taxes
- Foreign investors allowed investment positions in greenfield/brownfield developments.

Annexure 2: List of SEZs

Table 15: SEZs notified as on April 17, '07

Sr. No.	Developer	Location	State	Type of SEZ	Area (hectare)
1	Divi's Laboratories	Visakhapatnam	AP	Pharmaceuticals	105.5
2	Wipro	Hyderabad	AP	IT	6.5
3	Apache	Hyderabad	AP	Footwear	126.9
4	Hyderabad Gems Sez Ltd.	Hyderabad	AP	Gems & jewellery	80.9
5	M/s Satyam	Bahadurpalli	AP	IT/ITES	10.5
6	M/s Satyam	Hyderabad	AP	IT/ITES	12.1
7	Raheja IT Park	Rangareddy District	AP	IT/ITES	16.3
8	CMC Ltd.	CMC	AP	IT/ITES	20.6
9	Sanghi	Rangareddy	AP	IT/ITES	202.4
10	Whitefield Papers	Kovvur	AP	Paper Mill	109.8
11	A.P. Techno Projects	Hyderabad	AP	IT/ITES	10.0
12	Brahmani	Rangareddy District	AP	IT/ITES	60.70
13	APIIC	Visakhapatnam	AP	IT/ITES	36.0
14	APIIC	Krishna District	AP	IT/ITES	12.0
15	APIIC	Visakhapatnam	AP	IT/ITES	16.0
16	Hetero Drugs	N.Narsapura	AP	Pharmaceuticals	100.0
17	FAB City	Hyderabad	AP	FTWZ	120.1
18	Brandix	Visakhapatnam	AP	Textile	404.7
19	Lanco	Rangareddy District	AP	IT /ITES	11.8
20	APIIC	Visakhapatnam	AP	Multi-Product	2,206.0
21	Indu Techzone	Rangareddy District	AP	IT/ITES	60.7
22	Emaar Hills	Rangareddy District	AP	IT/ITES	10.3
23	Chandigarh Administration	Chandigarh	CH	Electronics	31.5
24	Meditab	Ponda	GOA	Pharmaceuticals	123.2
25	Reliance	Jamnagar	GJ	Petroleum	440.0
26	Dahej SEZ Limited	Dahej	GJ	Multi-	1,718.0
27	Gujarat Adani Port	Mundra	GJ	Multi-	2,406.0
28	Zydus Finance	Ahmedabad	GJ	Pharmaceuticals	48.0
29	GIDC	Ahmedabad	GJ	Apparel	38.0
30	GIDC	Gandhinagar	GJ	Electronics	28.0
31	Essar	Hazira	GJ	Engineering	247.5
32	Uppal	Gurgaon	HR	Multi-services	108.9
33	Dr. Fresh Healthcare	Gurgaon	HR	IT/ITES	23.4
34	Orient Craft	Gurgaon	HR	Textile	114.8
35	DLF	Gurgaon	HR	IT/ITES	12.1
36	DLF Cyber	Gurgaon	HR	IT/ITES	10.7
37	Selecto systems	Faridabad	HR	IT / ITES	3.3
38	Adityapur Industrial	Adityapur	JH	Automobiles	36.0
39	Wipro	Bangalore	KN	IT	6.0
40	Wipro	Bangalore	KN	IT	5.0
41	Vikas Telecom	Bangalore	KN	IT/ITES	36.0
42	Adarsh Prime	Hubli	KN	IT/ITES	27.9
43	Biocon	Bangalore	KN	Biotechnology	36.0
44	Shyamaraju	Krishnarajapuram	KN	IT/ITES	21.8
45	Manyata	Bangalore	KN	IT/ITES	22.3

(cont'd...)

(...cont'd) SEZs notified as on April 17, '07

Sr. No.	Developer	Location	State	Type of SEZ	Area (hectare)
46	Cessna	Bangalore	KN	IT/ITES	19.3
47	Tanglin Development	Bangalore	KN	IT/ITES	26.7
48	Information Technology Park	Whitefield	KN	IT/ITES	10.9
49	KIADB	Hassan	KN	Textiles	233.3
50	HCL	Jigani	KN	IT/ ITES	11.0
51	Karnataka Industrial	Hassan	KN	Food	159.7
52	Electronics Technology Park	Trivandrum	KL	IT/ITES	12.6
53	Cochin Port	Ernakulam	KL	Port Based	115.3
54	Cochin Port	Ernakulam	KL	Port Based	285.8
55	Infopark	Ernakulam	KL	IT/ITES	30.8
56	Electronics Technology Park	Trivandrum	KL	IT/ITES	34.0
57	Kerala Industrail Infrastructure Dev. Corp.	Trivandrum	KL	IT	10.1
58	M.P. Audoyogik	Indore, M.P	MP	IT/ITES	8.0
59	Medicaps IT	Indore, M.P	MP	IT Park	11.9
60	Manjari	Pune	MH	IT/ITES	15.8
61	EON Kharadi	Pune	MH	IT/ITES	18.0
62	Serum Institue of India Limited	Pune	MH	Pharmaceutical & Biotech	23.2
63	MIDC	Aurangabad	MH	Aluminium	118.1
64	Wipro Ltd	Pune	MH	IT/ ITES	20.2
65	Royal Palms India	Goregaon	MH	IT/ITES	10.1
66	MIDC	Latur	MH	Agro	200.0
67	Syntel	Pune	MH	IT/ITES	16.0
68	Hiranandani	Powai	MH	IT/ITES	12.6
69	Bajaj Auto	Aurangabad	MH	Automobile	100.0
70	Wokhardt	Shendre Industrial areas	MH	Pharmaceutical	107.3
71	MIDC	Nanded	MH	Pharmaceutical	150.0
72	Quarkcity	Mohali	PB	IT	13.8
73	Ranbaxy	Mohali	PB	Pharmaceutical	32.0
74	Mahindra Gesco	Jaipur	RJ	IT/ITES	262.13.8
75	Flextronics	Chennai	TN	Electronics	101.0
76	TCS	Siruseri, Chennai	TN	IT/ITES	28.5
77	ETL Infrastructure Services	Pallikarnai	TN	IT/ITES	10.5
78	Hexaware	Siruseri, Chennai	TN	IT/ITES	11.0
79	Syntel	Siruseri, Chennai	TN	IT/ITES	11.0
80	Shriram	Perungalathur	TN	IT/ITES	10.0
81	Coimbatore Hi-tech Infrastructure	Coimbatore	TN	IT/ITES	34.7
82	DLF Info	Chennai	TN	IT/ITES	13.3
83	State Industries Promotion Corp. Tamil Nadu	Sriperumbudur	TN	Electronics / Telecom Logistics	190.4
84	Electronics Corp. pf Tamil Nadu	Kancheepuram	TN	IT/ITES	152.66.5
85	Electronics Corp. pf Tamil Nadu	Vilankurichi	TN	IT/ITES	11.8
86	Haaciendaa Infotech	Mahabalipurm	TN	IT/ITES	26.6
87	Lotus	Thiruvannamalai	TN	Footwear	111.3
88	Moser Baer India	Greater Noida	UP	Non-conventional Energy source	11.9
89	Ansal Properties	Greater Noida	UP	IT/ITES	30.4
90	HCL	Noida	UP	IT/ ITES	16.9
91	Dalmiya and Company	Kolkata	WB	IT/ITES	48.0
	Total Area				**11,697.3**

Source: sezindia.nic

Table 16: Formal approvals granted by the Board of Approvals

Sr. No.	Developer	Location	State	Type of SEZ	Area (hectare)
1	M/s Divi's Laboratories	Visakhapatnam	AP	Pharmaceutical	101.0
2	Wipro	Hyderabad	AP	IT	6.0
3	Apache	Hyderabad	AP	Footwear	101.0
4	Hyderabad Gems Sez Ltd	Hyderabad	AP	Gems & jewellery	80.9
5	Ramky Pharma city	Visakhapatnam	AP	Pharmaceutical	243.0
6	Raheja IT Park	Rangareddy District	AP	IT/ITES	16.3
7	IT&C	Visakhapatnam	AP	IT/ITES	16.0
8	Satyam	Visakhapatnam	AP	IT/ITES	20.2
9	M/s Satyam	Bahadurpalli	AP	IT/ITES	10.5
10	M/s Satyam	Hyderabad	AP	IT/ITES	12.1
11	A.P. Techno Projects	Hyderabad	AP	IT/ITES	10.0
12	Computer Associates	Rangareddy District	AP	IT/ITES	12.1
13	IT&C	Visakhapatnam	AP	IT/ITES	36.0
14	IT&C	Krishna District	AP	IT/ITES	12.0
15	APIIC	Rangareddy District	AP	IT/ITES	20.5
16	Hetero Drugs	N.Narsapura	AP	Pharmaceutical	100.0
17	CMC Ltd	CMC	AP	IT/ITES	20.6
18	Sanghi	Rangareddy	AP	IT/ITES	202.4
19	Kakinada SEZ	Kakinada	AP	Port based	4,134.0
20	FAB City	Hyderabad	AP	FTWZ	486.0
21	APIIC	Visakhapatnam	AP	Multi-Product	2,309.0
22	Bavana Sai	Uppaluru	AP	IT/ITES	25.0
23	Whitefield Papers	Kovvur	AP	Paper Mill	121.4
24	Brandix	Visakhapatnam	AP	Textile	404.7
25	APIIC	Rangareddy District	AP	Electronic Hardware	111.0
26	Divyasree	Rangareddy District	AP	IT/ ITES	15.2
27	Lanco	Rangareddy District	AP	IT /ITES	11.8
28	DLF	Rangareddy District	AP	IT/ITES	10.6
29	IT&C	Rangareddy District	AP	IT/ITES	47.6
30	Neogen	Anantpur	AP	Apparel	141.6
31	APIIC	Medak	AP	Biotech	40.5
32	Brahmani	Rangareddy District	AP	IT/ITES	60.70 H
33	Indu Techzone	Rangareddy District	AP	IT/ITES	60.7
34	Topnotch	Rangareddy District	AP	IT/ITES	11.7
35	Emaar Hills	Rangareddy District	AP	IT/ITES	10.3
36	J.T.	Rangareddy District	AP	IT/ITES	28.3
37	Rudradev	Rangareddy District	AP	IT/ITES	12.4
38	Mahaveer	Rangareddy District	AP	IT/ITES	40.5
39	Stargaze	Rangareddy District	AP	IT/ITES/	69.0
40	Lahari	Rangareddy District	AP	Services	100.0
41	Maytas	Rangareddy District	AP	IT/ITES	29.9
42	Maytas	Rangareddy District	AP	IT/ITES	14.2
43	APIIC	Rangareddy District	AP	Pharmaceutical	101.2
44	Maytas	Rangareddy District	AP	IT/ITES	15.9
45	A.P. Techno Projects	Hyderabad	AP	IT/ITES	10.0
46	Chandigarh Administration	Chandigarh	CH	Electronics	45.0
47	Chandigarh	Chandigarh	CH	IT/ITES	42.5
48	Delhi Metro	Delhi	DL	IT	6.0
49	Meditab	Ponda	GOA	Pharmaceutical	123.2
50	Paradigm	Verna	GOA	IT/ITES	40.3
51	K. Raheja	Goa	GOA	Services	107.2
52	Peninsula	Sancoale	GOA	Biotech	20.4
53	Reliance	Jamnagar	GJ	Petroleum	440.0
54	GIDC	Dahej	GJ	Multi-	1,768.0
55	Mundra SEZ	Mundra	GJ	Multi-	1,081.9
56	Gujarat Adani Port	Mundra	GJ	Multi-	2,658.2
57	Gujarat Hira Bourse	Ishhapor	GJ	Gems and	100.0
58	Zydus Finance	Ahmedabad	GJ	Pharmaceutical	48.0
59	GIDC	Ahmedabad	GJ	Apparel	38.0
60	GIDC	Gandhinagar	GJ	Electronics	28.0

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Formal approvals granted by the Board of Approvals (cont'd)

Sr. No.	Developer	Location	State	Type of SEZ	Area (hectare)
61	Essar	Hazira	GJ	Engineering	247.5
62	CPL	Moujhe	GJ	Pharmaceuticals	200.0
63	Essar	Jamnagar	GJ	Multi-	2,470.0
64	GIDC	Jhagadia	GJ	Ceramic and	170.7
65	Jubilant	Bharuch	GJ	Chemical	160.0
66	Aqualine	Mouje	GJ	IT/ITES	27.9
67	Calica	Gandhinagar	GJ	IT/ITES	16.0
68	Kandla Port Trust	Kandla	GJ	Port based	640.0
69	Adani	Village	GJ	Multi-	293
70	Mugdha	Dascroi	GJ	IT/ITES	10.2
71	Welspun	Anjar	GJ	Textile & Garments	284.0
72	Haryana Technology Park	Faridabad	HR	IT	3.0
73	Uppal	Gurgaon	HR	Multi-	108.9
73	Luxor	Sikohpur	HR	IT/ITES	28.0
74	Sunwise	Gurgaon	HR	IT/ITES	10.1
75	Fresh Healthcare	Gurgaon	HR	IT/ITES	30.4
76	Orient Craft	Gurgaon	HR	Textile	113.4
77	Ansal Properties	Murthal	HR	Engineering	100.0
78	Assotech	Gurgaon	HR	IT/ ITES	10.6
79	DLF	Gurgaon	HR	IT/ITES	12.1
80	Pioneer	Gurgaon	HR	IT/ITES	40.5
81	DLF Cyber	Gurgaon	HR	IT/ITES	12.5
82	Global Health	Gurgaon	HR	Biotechnology	17.4
83	Suncity	Gurgaon	HR	IT	41.3
84	Metro Valley Business	Gurgaon	HR	IT	10.0
85	Parsvnath	Gurgaon	HR	IT/ITES	46.1
86	Ansal Properties	Gurgaon	HR	IT/ITES	10.9
87	Ascendant	Gurgaon	HR	IT/ITES	15.2
88	Bentex Towers	Gurgaon	HR	Multi-	168.0
89	Ireo	Gurgaon	HR	Electronic Hardware/ITES	40.0
90	Adityapur Industrial	Adityapur	JH	Automobiles	36.0
91	Biocon	Bangalore	KN	Biotechnology	36.0
92	Shyamaraju	Krishnarajapuram	KN	IT/ITES	30.0
93	Manyata	Bangalore	KN	IT/ITES	22.0
94	Wipro	Bangalore	KN	IT	6.0
95	Wipro	Bangalore	KN	IT	5.0
96	Vikas Telecom	Bangalore	KN	IT/ITES	36.0
97	Adarsh Prime	Hubli	KN	IT/ITES	24.5
98	Karnataka Industrial Areas	Mangalore	KN	IT/ITES	203.0
99	Cessna	Bangalore	KN	IT/ITES	19.2
100	Tanglin Development	Bangalore	KN	IT/ITES	27.2
101	Infosys	Kurunadu	KN	IT / ITES	125.0
102	Information Technology Park	Whitefield	KN	IT/ITES	10.9
103	Karnataka Industrial	Shimoga	KN	Engineering	169.6
104	KIADB	Hassan,	KN	Textiles	202.0
105	Infosys	Hebbal	KN	IT/ITES	31.0
106	San Engineering	Bangalore	KN	IT/ ITES	10.0
107	HCL	Jigani	KN	IT/ ITES	11.1
108	Golden Gate	Bangalore	KN	IT/ ITES	26.3
109	Primal Projects	Bangalore	KN	IT/ITES	10.4
110	Concord Investments	Bangalore	KN	IT/ITES	13.4
111	Ittina Properties	Bangalore	KN	Electronic	15.7
112	Karnataka Industrial	Hassan	KN	Food	157.9
113	Bagmane Developers	Bangalore	KN	IT/ITES	15.5
114	Divyasree Infrastructure	Bellandur	KN	IT/ITES	47.5
115	Chaitanaya Infrastructure	Bangalore	KN	IT/ITES	20.2
116	Karnataka Industrial	Hassan	KN	Pharmaceuticals	281.2
117	Karnataka Biotechnolgy Information	Bangalore	KN	Biotechnology	37.0
118	Cochin Port	Puthuvypeen	KL	Port Based	115.0
119	Infopark	Ernakulam	KL	IT/ITES	37.0
120	Electronics Technology Park	Trivandrum	KL	IT/ITES	34.0

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Formal approvals granted by the Board of Approvals (cont'd)

Sr. No.	Developer	Location	State	Type of SEZ	Area (hectare)
121	Kerala Industrail Infrastructure Dev. Corp.	Kizhakuttom	KL	IT	9.2
122	Kerala Industrail Infrastructure Dev. Corp.	Calicut	KL	Food Processing	12.0
123	Technology Parks	TVPM	KL	IT/ITES	12.6
124	Kerala Industrail Infrastructure Dev. Corp.	Cochin	KL	Electronics	12.1
125	Unitech	Ernakulam	KL	IT/ITES	10.0
126	Parsvnath	Ernakulam	KL	IT/ITES	30.8
127	TCG Urban Infrastructure	Cochin	KL	Biotechology	12.0
128	Madhya Pradesh State	Indore	MP	IT	8.0
129	Medicaps IT	Indore, M.P	MP	IT Park	12.3
130	Parsvnath	Indore	MP	IT/ITES	30.8
131	Madhya Pradesh State Electronics	Gwalior	MP	IT/ITES	20.2
132	Maharashtra Industrial Development Corp.	Hinjawadi	MH	IT/ITES	229.3
133	Syntel	Pune	MH	IT/ITES	16.0
134	Serum Institute of India Limited	Pune	MH	Pharma & Biotech	21.0
135	MIDC	Amravati	MH	Multiproduct-	1,010.0
136	MIDC	Jalna	MH	Biotechology	40.3
137	Maharashtra Industrial Development Corp.	Kagal	MH	Textile	104.0
138	MIDC	Krushnoor	MH	Pharmaceuticals	150.0
139	MIDC	Latur	MH	Agro	200.0
140	MIDC	Aurangabad	MH	Automobile	210.0
141	MIDC	Nagpur	MH	Textile	383.0
142	MIDC	Aurangabad	MH	Pharmaceuticals & Biotech	107.0
143	Bajaj Auto	Aurangabad	MH	Automobile	100.0
144	Hiranandani	Powai	MH	IT/ITES	12.6
145	Zeus Infrastructure	Thane	MH	IT/ITES	54.2
146	MIDC	Solapur	MH	Textile	195.0
147	MIDC	Yavatymal	MH	Textile	208.0
148	Claridges Hotels Pvt.	Thane	MH	Multiproduct	242.0
149	New Found Properties	Thane	MH	IT/ITES	21.4
150	Magarpatta	Pune	MH	Electronics	12.0
151	EON Kharadi	Pune	MH	IT/ITES	18.0
152	Wipro Ltd	Pune	MH	IT/ ITES	20.2
153	Viraj	Thane	MH	Stainless	235.0
154	Mahindra Gesco	Thane	MH	Biotechology	28.0
155	Infosys Ltd	Pune	MH	IT/ ITES	79.8
156	Kumar Builders	Hinjawadi	MH	Electronics	49.1
157	Flagship Infrastructure	Hinjwadi	MH	IT	28.0
158	Serene Properties	Thane	MH	IT/ITES	14.1
159	Maharashtra Airport Dev.	Nagpur	MH	Multi	2,086.0
160	Balaji Infra Projects	Raigadh	MH	Multi	100.0
161	International Biotech	Hinjawadi,	MH	Biotech	13.0
162	Gitanjali	Raigad	MH	Gems and Jewellery	10.2
163	MIDC	Thane	MH	IT / ITES	16.5
164	MIDC	Pune	MH	Textile	101.0
165	Royal Palms India	Goregaon	MH	IT/ITES	10.1
166	Maharashtra Industrial Development Corp	Ratnagiri	MH	Pharmaceuticals	200.0
167	MIDC	Bhadravati	MH	Power generation	1,100.0
168	MIDC	Raigarh	MH	Power generation	103.0
169	Chiplun Infrastructure Pvt	Mumbai	MH	FTWZ	40.0
170	City Parks	Pune	MH	Electronics,	30.0
171	Broadway Integrated	Pune	MH	IT/ITES	10.6
172	Muttha Realty	Pune	MH	IT/ITES	10.27 G77
173	Cornell	Thane	MH	IT/ITES	41.0
174	Lodha	Thane	MH	IT/ITES	NA
175	Manjari	Pune	MH	IT/ITES	15.8
176	K. Raheja	Navi	MH	IT/ITES	20.6
177	K. Raheja	Navi	MH	IT/ITES	13.0
178	Marathon	Raigad	MH	Multi	400.0
179	Orissa Industrail Infra. Dev. Corp.	Bhubaneswar	OR	IT	70.0
180	Orissa Industrail Infra. Dev. Corp.	Khurda	OR	IT	101.8

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Formal approvals granted by the Board of Approvals (cont'd)

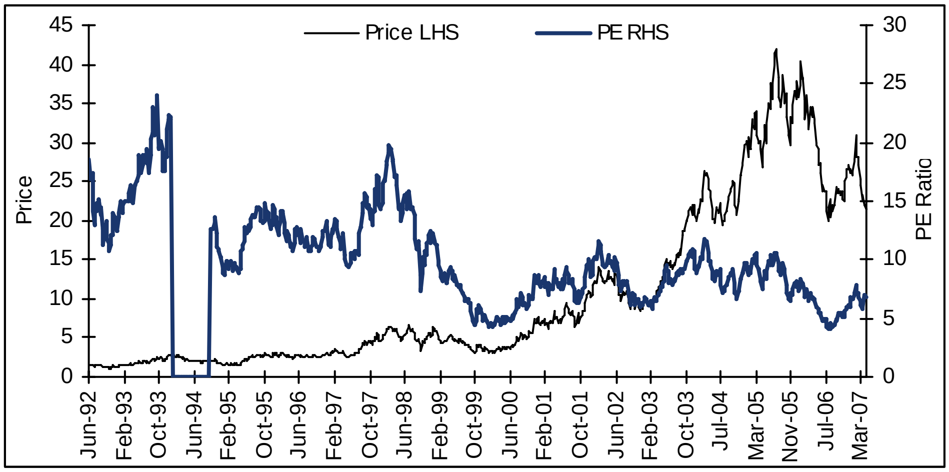
Sr. No.	Developer	Location	State	Type of SEZ	Area (hectare)
181	Orissa Industrail Infra. Dev. Corp.	Bhubaneswar	OR	IT/ITES	26.7
182	Orissa Industrail Infra. Dev. Corp.	Jajpur	OR	Metallurgic	101.2
183	Jindal Stainless	Kalinga	OR	Stainless steel & Ancillary	446.0
184	Pondicherry SEZ	Pondicherry	PON	Multiservices	346.0
185	Quarkcity	Mohali	PB	IT	20.0
186	Ranbaxy	Mohali	PB	Pharmaceuticals	32.0
187	Vividha Infrastructure Pvt.	Rajpura	PB	Engineering	100.0
188	Mridul Infrastructure PVt	Rajpura	PB	Textiles	100.0
189	Mahindra Gesco	Jaipur	RJ	IT/ITES	49.0
190	Vatika Jaipur SEZ developers	Jaipur	RJ	IT/ITES	20.2
191	Somani Worsted	Khushkera	RJ	Electronics Hardware/ITES	20.0
192	Flextronics	Chennai	TN	Electronics	101.0
193	TCS	Siruseri, Chennai	TN	IT/ITES	70.5
194	ETL Infrastructure Services	Pallikarnai,	TN	IT/ITES	10.5
195	Hexaware	Siruseri, Chennai	TN	IT/ITES	11.0
196	Syntel	Siruseri, Chennai	TN	IT/ITES	11.0
197	DLF Info	Chennai	TN	IT/ITES	15.0
198	Xansa	Chennai	TN	IT/ITES	10.0
199	Electronics Corp. pf Tamil Nadu	Sholinganall	TN	IT/ITES	159.0
200	Electronics Corp. pf Tamil Nadu	Vilankurichi	TN	IT/ITES	11.8
201	ETL Infrastructure Services	Uthukuli	TN	Textiles	101.6
202	ETL Infrastructure Services	Chinglepet	TN	IT/ITES	105.0
203	Shriram	Sriperumbudur	TN	IT/ITES	10.0
204	State Industries Promotion Corp. Tamil Nadu	Chennai	TN	Footwear/shoes	60.0
205	State Industries Promotion Corp. Tamil Nadu	Sriperumbudur	TN	Electronics / Telecom Logistics	190.4
206	Coimbatore Hi-tech Infrastructure	Coimbatore	TN	IT/ITES	60.7
207	Cognizant	Siruseri, Chennai	TN	IT/ ITES	11.0
208	Nuziveedu Seeds	Sholinganallur	TN	IT/ ITES	17.3
209	Arun Excello	Kancheepuram	TN	Electronic/ IT /ITES	10.9
210	Span Ventures	Coimbatore	TN	IT/ITES	10.4
211	Anush Infrastructure	Paiyanur	TN	IT/ITES	40.6
212	Haaciendaa Infotech	Mahabalipurm	TN	IT/ITES	26.6
213	Bannari Technopark	Coimbatore	TN	IT/ITES	26.9
214	Lotus	Thiruvannamalai	TN	Footwear	111.3
215	Suzlon	Coimbatore	TN	High tech.	107.3
216	Platinum Holdings	Chennai	TN	Hardware	10.6
217	State Industrial Development Corp.	Udham Singh Nagar	UR	Multi-	440.0
218	State Industrial Development Corp.	Dehradun	UR	IT/ ITES	14.2
219	Parsvnath	Dehradun	UR	IT/ITES	14.0
220	Wipro Ltd.	Greater Noida	UP	IT/ITES	20.0
221	Moser Baer India	Greater Noida	UP	Non-conventional Energy source	11.9
222	Ansal Properties	Greater Noida	UP	IT/ITES	30.4
223	Seaview Developers	Noida	UP	IT/ITES	12.2
224	HCL	Noida	UP	IT/ ITES	16.9
225	NIIT	Greater Noida	UP	IT/ ITES	10.1
226	OSE Infrastructure	Noida	UP	IT	10.1
227	Pvitradham Construction Pvt	Noida	UP	IT/ITES	22.2
228	Dalmiya and Company	Kolkata,	WB	IT/ITES	48.0
229	Dalmiya and Company	Kolkata	WB	Leather	44.0
230	DLF Info	Rajarath	WB	IT/ITES	10.1
231	Oval Dev.	Banagram	WB	Electronic	12.1
232	Riverbank Holdings	Panagarh	WB	IT Sector	10.0
233	Enfield Exports	Panagarh	WB	IT/ ITES	26.0
234	Shapoorji Pallonji	Rajarhat	WB	IT/ ITES	20.0
	Total area				**34,564.5**

Source: sezindia.nic

Annexure 3: P/E charts of international real estate companies

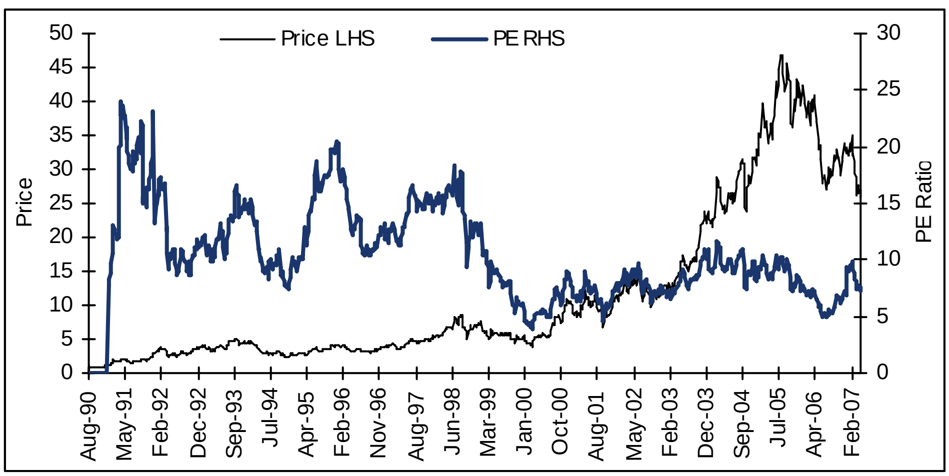
Homebuilders

Chart 23: DR Horton



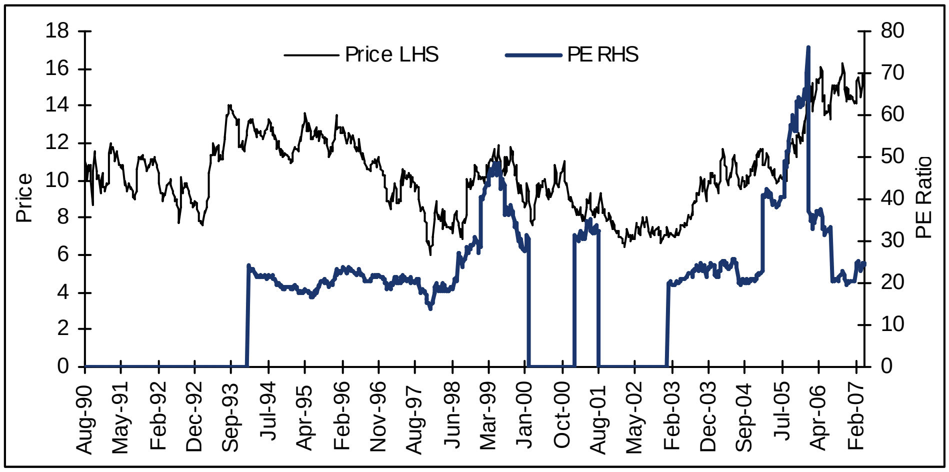
Source: Bloomberg

Chart 24: Pulte Homes



Source: Bloomberg

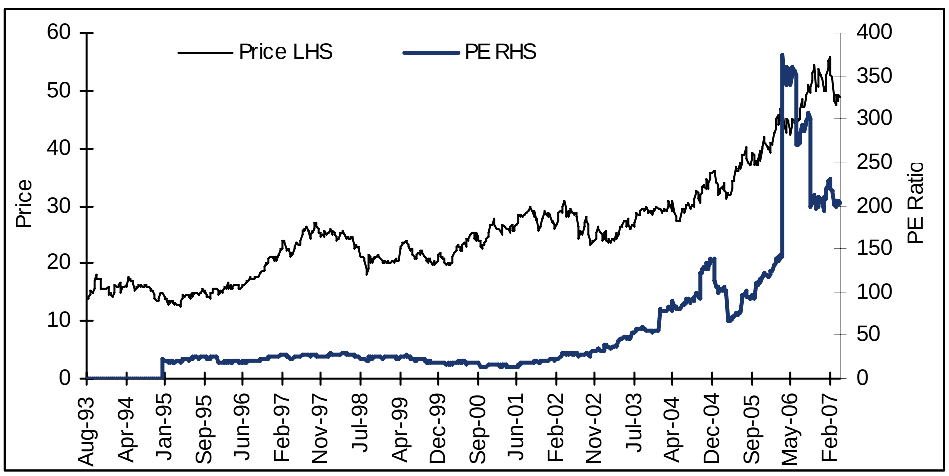
Chart 25: Sekisui



Source: Bloomberg

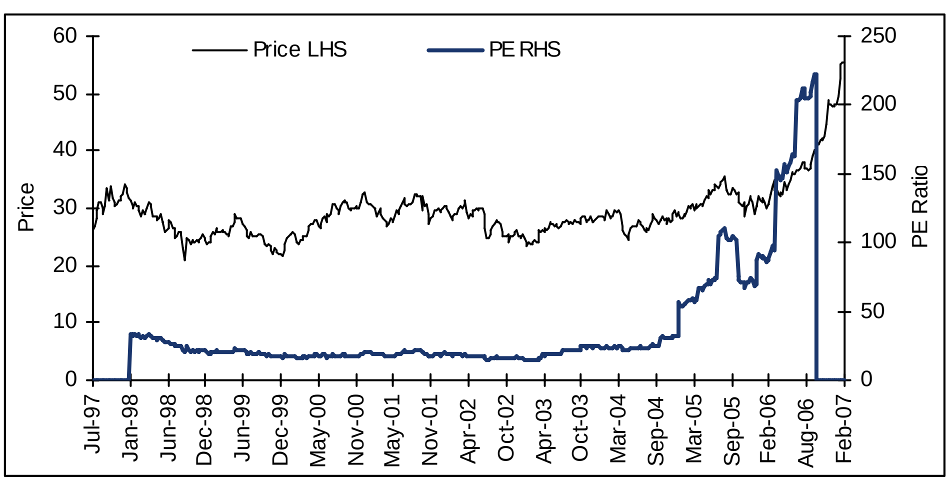
REITs

Chart 26: Equity Residential



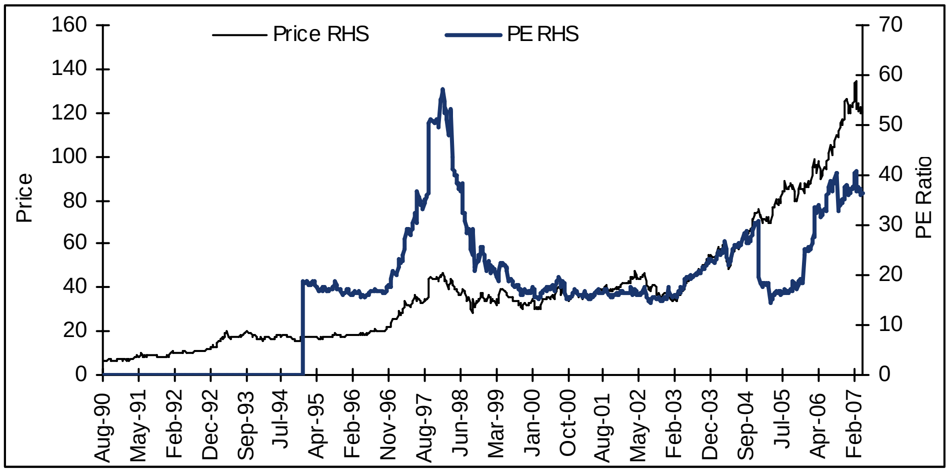
Source: Bloomberg

Chart 27: Equity Office Property



Source: Bloomberg

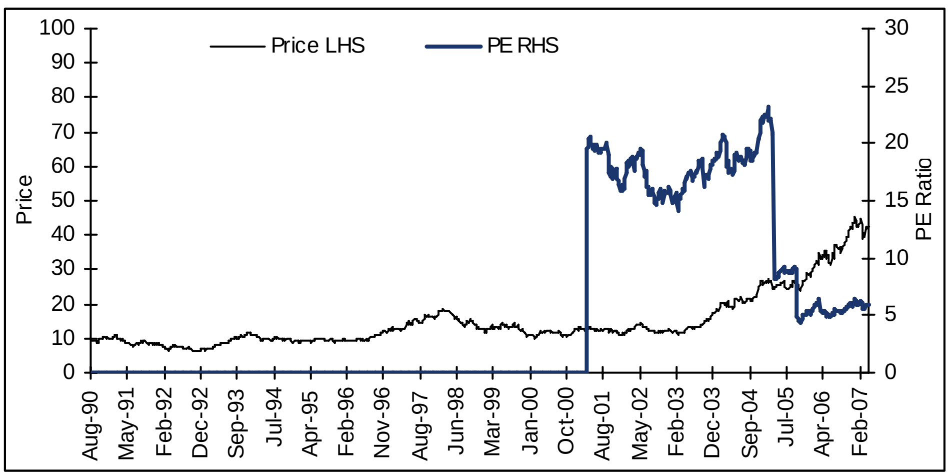
Chart 28: Vornado



Source: Bloomberg

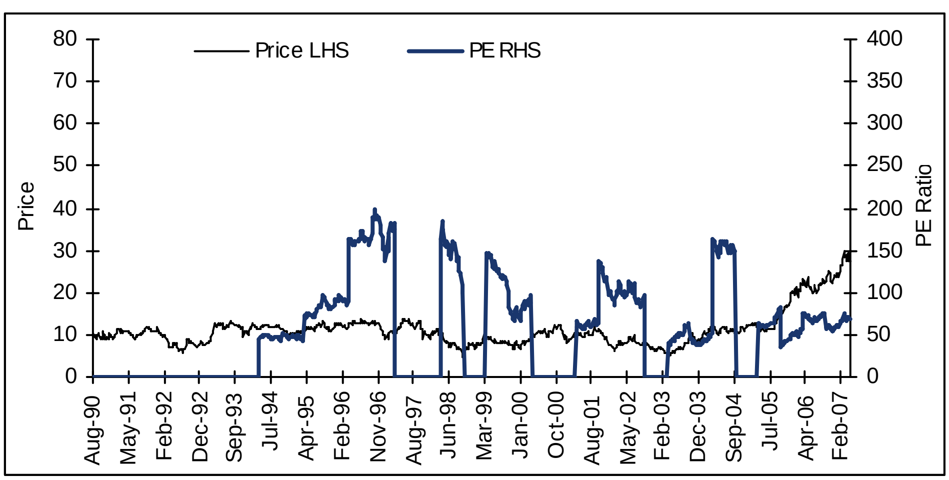
Mixed developers

Chart 29: Land Securities



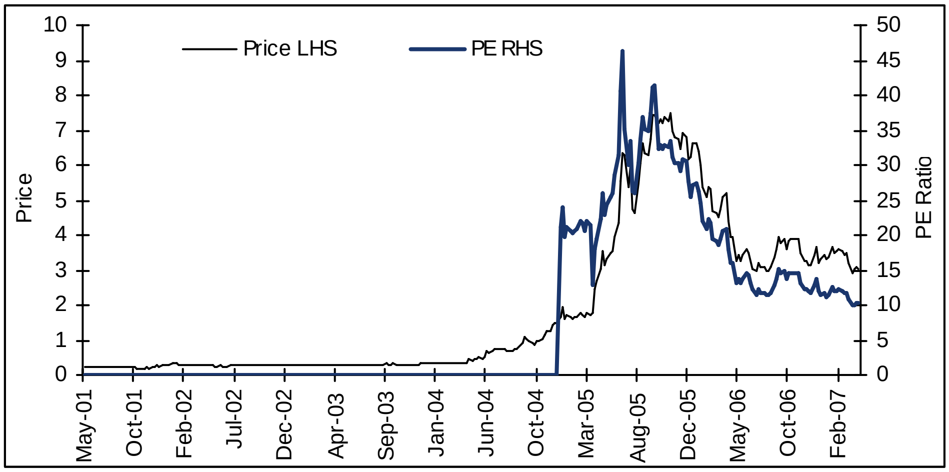
Source: Bloomberg

Chart 30: Mitsui Fudosan



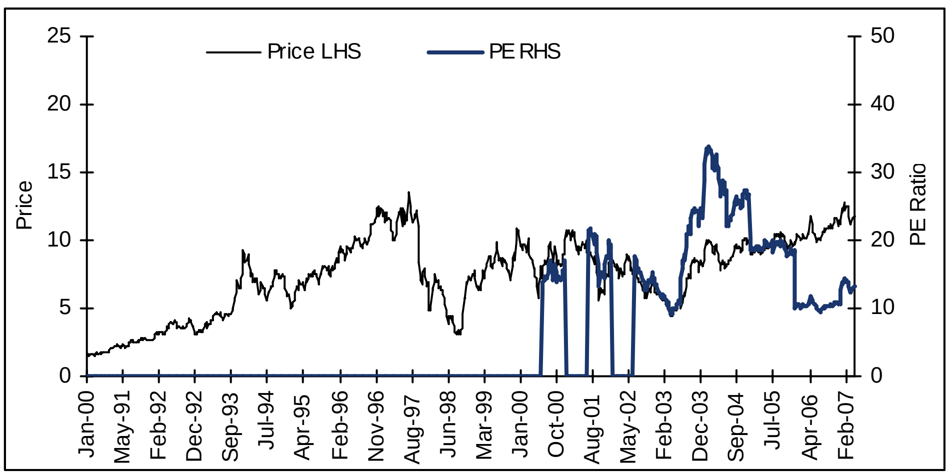
Source: Bloomberg

Chart 31: Emaar



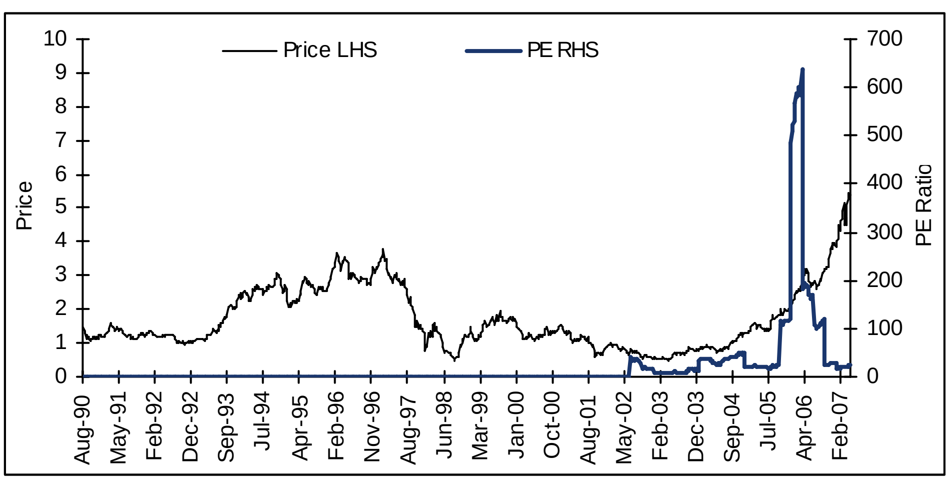
Source: Bloomberg

Chart 32: SHKP



Source: Bloomberg

Chart 33: Capital Land



Source: Bloomberg

Annexure 4: Index of Tables and Charts

Tables

Charts

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Equity Research

May 21, 2007

BSE Sensex: 14303

INDIA

Sobha Developers

BUY

Real Estate

Class act

Rs941

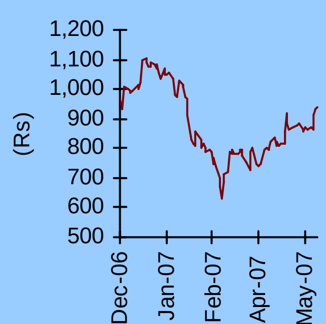
Reason for report: Initiating coverage

Shareholding pattern

	Dec '06	Mar '07
Promoters	87.0	87.0
Institutional investors	4.7	6.8
MFs and UTI	2.4	0.7
Insurance Cos.	0.2	0.1
FIIs	1.83	5.8
Others	13.0	13.0

Source: BSE

Price chart



Sobha Developers is one of the leading real estate developers in India. The Bangalore-based company has excellent reputation for its quality of construction and timely execution. Also, the company has the requisite capability to outperform its peers. Its real estate and contractual businesses are growing at a fast pace supported by sound and visionary management. We estimate Sobha's NPV at Rs96.5bn or Rs1,324/share. The company is among the finest large-cap stocks in the sector and will continue to trade at a premium against peers.

- **Strong core competencies.** Sobha is well known for its quality of construction and superior execution capabilities. Apart from in-house construction, the company follows a unique backward integration model, which helps keep a check on quality standards and execution timelines. The company is led by sound and visionary management.
- **Growing project pipeline.** Till date, Sobha has developed 17mn sqft property with another 18.7mn sqft in the pipeline. The company has a large land bank of 3,489 acres having a saleable area of 134mn sqft, to be developed over the next nine years. We estimate the total NAV of existing projects (137.4mn sqft) at Rs72.9bn or Rs1,001/share.
- **Contractual business, impressive margins and steady growth.** Sobha has developed 10.15mn sqft via contractual projects (93% developed for Infosys). We expect this business to grow at a fast pace, generating steady cashflow without undue risk to the capital. We value the contractual business at Rs10.7bn or Rs143/share.
- **Attractive valuations.** We estimate Sobha's NPV at Rs96.5bn or Rs1,324/share, factoring in the value of current projects and contractual business, Rs6.6bn terminal value and Rs6.6bn of net current assets. The company reported FY07 EPS of Rs22.2; we estimate the earnings to grow at 46% CAGR in the next three years, implying FY08E, FY09E and FY10E EPS of Rs36, Rs47.8 and Rs68.6 respectively. We initiate coverage on Sobha with BUY recommendation and expect the company to be among the top performers in the real estate sector.

Market Cap	Rs68.6bn/US$1.7bn
Reuters/Bloomberg	SOBH.BO/SOBHA IN
Shares Outstanding (mn)	72.9
52-week Range (Rs)	1,105/634
Free Float (%)	13.0
FII (%)	5.8
Daily Volume (US$'000)	900
Absolute Return 3m (%)	13.4
Absolute Return 12m (%)	-
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	30.8

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (Rs mn)	6,891	12,882	19,532	28,609
Net Income (Rs mn)	885	1,615	2,622	3,488
EPS (Rs)	12.1	22.2	36.0	47.8
% Chg YoY	7.0	82.8	62.3	33.0
P/E (x)	77.6	42.5	26.2	19.7
CEPS (Rs)	13.9	25.5	41.6	55.3
EV/E (x)	52.4	28.8	18.0	13.2
Dividend Yield	-	-	-	-
RoCE (%)	24.8	20.2	18.5	18.1
RoE (%)	87.8	32.3	26.4	26.8

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Strong core competencies

Sobha is best known for its quality of construction and superior execution capabilities. The company mainly carries in-house construction, reducing the dependence on third parties. This also keeps a check on quality and timeline. Considering the resource crunch faced by constructors for new projects, having in-house construction capabilities helps Sobha scale up faster than its peers. On the back of competent project management and design teams, the company has developed landmark buildings.

Sobha follows a unique backward integration model, which helps it retain core competencies internally and keep a check on quality standards and execution timelines. This is a key competitive advantage, which differentiates the company from other developers who outsource these activities to third-party vendors. This model also helps Sobha provide better turnkey solutions. Key components of the backward integration model are:

- Infrastructure development
- Block-making
- Steel and aluminium fabrication, glazing
- Wood-working
- Tile & granite laying
- Mechanical, electrical & plumbing
- Mini batching concrete plants
- Tower cranes, cage lifts and other heavy engineering equipment

Sobha boasts of a strong clientele, which includes leading Indian and MNC IT companies, hospitality majors and automotive component manufacturers – Infosys Technologies, Hewlett Packard, Dell, Taj Group, Mico, Timken etc. The company, at present, has 3,400 employees.

Robust pipeline

Until now, Sobha has developed 6.9mn sqft of real estate space, with 1.6mn sqft and 2.08mn sqft in FY06 and FY07 respectively. At present, the company is developing 10.5mn sqft area, including 10.2mn sqft of residential construction. Another 10.7mn sqft land is to be developed going forward.

Table 1: Current project pipeline

	Completed	Ongoing	Forthcoming	Total planned (10 years)
Residential	5.06	10.21	6.92	80.11
Plotted	1.16	0.00		26.00
Commercial	0.68	0.31	3.79	31.31
Total	**6.90**	**10.52**	**10.71**	**137.42**

Source: Company, i-SEC Research

Over the next nine years, Sobha has a project pipeline of 137mn sqft, spread over 3,489 acres of land bank in nine cities, mainly Bangalore, Cochin, Chennai and Delhi. This includes 80mn sqft of residential projects (apartments, row houses and villas), 20mn sqft of plotted development and 31mn sqft of commercial construction.

Table 2: Detailed project pipeline

Cities	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	Total
Bangalore	2.9	3.6	6.4	6.8	6.1	6.9	7.2	8.5	10.5	58.9
Mysore	0.0	0.4	0.8	0.9	0.0	0.0	0.0	0.0	0.0	2.2
Pune	0.0	0.4	1.2	1.9	1.8	1.7	0.8	0.0	0.0	7.9
Cochin	0.0	1.6	2.8	3.7	4.6	4.2	4.3	4.0	1.0	26.2
Chennai	0.0	1.5	2.9	3.8	4.9	4.6	3.6	0.0	0.0	21.2
Hosur	0.0	0.8	2.6	3.6	2.4	0.3	0.0	0.0	0.0	9.7
Trissur	0.3	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Coimbatore	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Delhi	0.0	2.5	5.0	2.5	0.0	0.0	0.0	0.0	0.0	10.1
Total	**3.4**	**11.3**	**22.0**	**23.3**	**19.8**	**17.6**	**15.9**	**12.5**	**11.5**	**137.4**
Type										
Apartmt	1.4	5.1	9.4	8.5	6.6	6.6	7.0	5.9	6.4	56.9
Row House	0.1	0.5	1.2	1.9	1.6	1.5	1.3	0.8	0.9	9.9
Villas	0.3	0.8	1.7	2.3	2.2	1.6	1.6	1.4	1.3	13.3
Plot Dev	1.1	3.3	5.7	6.1	4.1	1.8	1.4	1.4	1.2	26.0
Comml	0.4	1.7	3.8	4.5	5.4	6.1	4.7	2.9	1.7	31.3
Total	**3.4**	**11.3**	**22.0**	**23.3**	**19.8**	**17.6**	**15.9**	**12.5**	**11.5**	**137.4**

Source: Company

Table 3: Project NAV

Cities	Acres	Area (mn sqft)	Total land Cost (Rs mn)	Land Cost/sqft (Rs/sqft)	Amount Paid (Rs mn)	Amount unpaid (Rs mn)	Construction & other cost (Rs mn)	Cost/sqft
Bangalore	1,509	58.9	11,346	193	3,752	7,594	58,701	996
Mysore	50	2.2	157	73	12	146	3,023	1,399
Pune	302	7.9	1,770	225	388	1,381	10,129	1,288
Cochin	528	26.2	3,569	136	677	2,892	23,741	1,119
Chennai	541	21.2	2,509	118	1,923	585	37,825	1,442
Hosur	15	9.7	86	9	86	-	1,738	1,813
Trissur	14	1.0	13	14	13	-	560	2,039
Coimbatore	314	0.3	471	1,716	471	-	10,137	1,044
Delhi	214	10.1	9,680	960	680	9,000	12,284	1,218
Total	**3,489**	**137.4**	**29,601**	**215**	**8,003**	**21,598**	**158,138**	**1,151**

	Discounted values at 5% growth in selling prices				Discounted values at no growth in selling prices			
Cities	Revenue (Rs mn)	Rev/sqft	Pre Tax NAV (Rs mn)	Post Tax NAV (Rs mn)	Revenue (Rs mn)	Rev/sqft	Pre Tax NAV (Rs mn)	Post Tax NAV (Rs mn)
Bangalore	149,025	2,529	78,978	63,182	122,234	2,075	52,188	41,750
Mysore	5,515	2,552	2,334	1,751	4,972	2,301	1,792	1,344
Pune	23,276	2,960	11,377	7,964	19,694	2,504	7,795	5,457
Cochin	45,312	2,136	18,002	12,601	37,763	1,780	10,453	7,317
Chennai	78,194	2,980	37,860	26,502	64,055	2,441	23,721	16,605
Hosur	2,929	3,056	1,105	774	2,816	2,938	992	694
Trissur	856	3,117	283	198	837	3,048	264	185
Coimbatore	18,751	1,932	8,144	5,701	16,292	1,679	5,684	3,979
Delhi	47,954	4,754	25,989	18,193	43,771	4,339	21,807	15,265
Total	**371,811**	**2,706**	**184,072**	**136,865**	**312,435**	**2,274**	**124,695**	**92,595**

Project NAV (Rs mn)	Case I	Case II
Post tax NAV	136,865	92,595
Project delay (months)	9	18
Delay discount	0.89	0.79
Project NAV	**121,485**	**72,953**
NAV/sq ft	884	531
NAV/share	1,666	1,001

Source: i-SEC Research

We estimate the fair value of these projects at Rs72.9bn or Rs1,001/share. The NAV is based on the assumption of zero growth in selling prices, 20-30% tax rate and 16% discount rate. We have assumed an 18 months delay in project execution, to be completed by FY16 at present.

Contractual business, impressive margins and steady growth

Contractual business is a key segment of Sobha's business strategy. The company provides turnkey solutions, including design, civil construction, fittings and interiors, and exteriors of commercial complexes. The company has developed 10.15mn sqft of contractual projects (93% developed for Infosys). Strong association with Infosys has helped the company gain further market share through similar contracts from other IT/ITES companies. We expect this business to grow fast, generating steady cashflow without risking capital.

Table 4: Contractual development

Project status	No. of projects	Area (mn sqft)	Revenue (Rs mn)	Infosys share (%)	Revenue/ sqft
Completed	97	10.15	10,110	93	996.1
Ongoing	30	8.18	7,352	86	898.8
Forthcoming	21	3.96	3,392	99	856.6
Total	**148**	**22.29**	**20,854**	**91**	**935.6**

Source: Company data

We expect revenues from Sobha's contractual business to grow at 20% CAGR in the next three years, touching Rs18.5bn by FY11E. We expect the company to deliver healthy EBITDA margin at over 17% to Rs1.8bn by FY11E.

Table 5: Order book

Order book	FY08	FY09	FY10	FY11
Order Book (Rs mn)	10,744	13,430	16,116	18,533
EBITDA (Rs mn)	1,073	1,301	1,514	1,851

Source: Company data

Further, the contractual business has ample scope for expansion considering the development plans of larger IT/ITES companies, comprising IT parks and IT/ITES SEZs. We have valued Sobha's contractual business at Rs10.4bn or Rs143/share. The valuation is based on assigning 8x multiple to FY09E EBITDA estimate of Rs1.3bn.

Table 6: Contractual business valuation

EBITDA Multiple	10x	8x	6x
FY09 EBITDA (Rs mn)	1,301	1,301	1,301
Valuation (Rs mn)	13,014	**10,411**	7,808

Source: i-SEC Research

NPV valuation

We estimate the NPV value of Sobha at Rs96.5bn or Rs1,324/share. This is based on Rs72.9bn valuation of the company's project pipeline (134mn sqft), Rs10.4bn valuation for the contractual business, Rs6.6bn as the terminal value and Rs6.6bn as the value of other assets.

Table 7: NPV valuation

(Rs mn)

Segments	Case I	Case II
Land Bank	121,485	72,953
Contractual	13,014	10,411
Net other current assets	6,171	6,171
Land reserves	1,000	410
Terminal value	12,326	6,574
Cumulative NPV	**153,996**	**96,520**
NPV/share	**2,112**	**1,324**

Source: i-SEC Research

The terminal value of Sobha at Rs6.6bn is based on the assumption that the company will develop 10mn sqft annually, with PAT realisation at Rs400/sqft.

Sobha has stopped disclosing its land arrangements (MoUs of land acquisition signed with third parties) due the acquisition risk and other uncertainties associated with such arrangements. According to the last estimate, the company had paid Rs410mn towards land arrangements. We believe the value of land arrangement to be more than this and estimate that Sobha has over 3,000 acres as land arrangements, which could potentially become part of the land bank in the next 1-2 years.

Company background

Incorporated in 1965, Sobha Developers is one of the leading premium real estate developers in India. The Bangalore-based company has developed over 6.9mn sqft of residential projects and 10.5mn sqft of contractual projects. Sobha has a land bank of 3,489 acres, encompassing a cumulative area of 134mn sqft. Sobha's 77% of the projects are residential. The company is now mulling diversifying into other geographies and segments. Sobha has a robust order book of 12.2mn sqft construction contracts (it is Infosys' preferred developer). Contractual construction represented 34%, 32% and 62% of its revenues in FY07, FY06 and FY05 respectively.

Risks

- **Negative cashflow.** We expect Sobha to remain free cashflow negative for the next three years. As the projects scale up, inventories will rise and in case of a downturn, it will be difficult to convert inventory into sale, leading to a cash crunch.
- **Dependence on the Bangalore market.** Of the total, 43% of Sobha's future projects are in Bangalore. Any slow down in the Bangalore real estate market will significantly affect Sobha's profitability. The Bangalore real estate market is at present sluggish; however, due to Sobha's brand strength, it will be able to bear the downturn better than other marginal players.

Annexure 1: Financials

Table 8: Profit & Loss statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Gross Sales	4,531	6,891	12,882	19,532	28,609	40,061
Less: Excise Duty	-	-	-	-	-	-
Net Sales	**4,531**	**6,891**	**12,882**	**19,532**	**28,609**	**40,061**
of which Export Sales	-	-	-	-	-	-
of which Domestic Sales	*4,531*	*6,891*	*12,882*	*19,532*	*28,609*	*40,061*
Other Operating Income						
Total Operating Income	**4,531**	**6,891**	**12,882**	**19,532**	**28,609**	**40,061**
Less:						
Raw Material Consumed	3,398	4,394	7,836	12,321	18,773	26,618
Other Manufacturing Expenses	-	-	236	-	-	-
Power and Fuel	-	-	-	-	-	-
Personnel Expenses	221	279	707	920	1,195	1,554
Selling and Distribution Expenses	375	835	1,542	2,004	2,605	3,387
Other Expenses	-	-	-	-	-	-
R&D Expenses	-	-	-	-	-	-
Less Amounts Capitalised	-	-	-	-	-	-
Total Operating Expenses	**3,995**	**5,508**	**10,320**	**15,244**	**22,573**	**31,559**
EBITDA	**536**	**1,383**	**2,562**	**4,288**	**6,035**	**8,501**
Depreciation & Amortisation	74	128	244	411	542	614
Other Income	121	21	29	29	29	29
EBIT	**582**	**1,276**	**2,347**	**3,906**	**5,523**	**7,916**
Less: Gross Interest	109	208	481	708	1,051	1,245
Recurring Pre-tax Income	**473**	**1,067**	**1,866**	**3,198**	**4,472**	**6,671**
Add: Extraordinary Income	-	-	-	-	-	-
Less: Extraordinary Expenses	-	-	-	-	-	-
Less: Taxation	134	182	251	576	984	1,668
--Current Tax	*123*	*188*	*245*	*576*	*984*	*1,668*
--Deferred Tax	*11*	*(5)*	*6*	-	-	-
Net Income (Reported)	**338**	**885**	**1,615**	**2,622**	**3,488**	**5,003**
Recurring Net Income	**338**	**885**	**1,615**	**2,622**	**3,488**	**5,003**

Source: Company data, i-SEC Research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
ASSETS						
Current Assets, Loans & Advances						
Cash & Bank balance	66	450	684	288	1,897	1,079
Inventory	1,905	2,544	3,778	9,687	14,787	17,603
Sundry Debtors	364	803	1,577	2,277	3,277	4,377
Loans and Advances	2,236	5,177	11,818	14,818	18,318	23,818
Operational	2,236	5,177	11,818	14,818	18,318	23,818
Total Current Assets	**4,572**	**8,974**	**17,857**	**27,070**	**38,280**	**46,877**
Current Liabilities & Provisions						
Current Liabilities	**1,998**	**4,010**	**5,288**	**9,788**	**13,788**	**17,788**
Sundry Creditors		256	1,002	2,506	3,758	5,638
Provisions	**215**	**394**	**561**	**561**	**561**	**561**
Total Current Liabilities and Provisions	**2,212**	**4,405**	**5,849**	**10,349**	**14,349**	**18,349**
Net Current Assets	**2,359**	**4,569**	**12,008**	**16,721**	**23,931**	**28,528**
Investments						
Strategic & Group Investments	-	27	528	328	128	128
Other Marketable Investments						
Total Investments	-	**27**	**528**	**328**	**128**	**128**
Fixed Assets						
Gross Block	557	1,252	2,334	3,834	4,834	5,834
Less Accumulated Depreciation	142	252	495	906	1,448	2,062
Net Block	415	999	1,839	2,928	3,386	3,772
Add: Capital Work in Progress	123	21	109	129	149	169
Less: Revaluation Reserve						
Total Fixed Assets	**538**	**1,020**	**1,948**	**3,057**	**3,535**	**3,941**
Total Assets	**2,897**	**5,616**	**14,484**	**20,106**	**27,594**	**32,597**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Borrowings						
Short Term Debt	-	-	-	-	-	-
Non-Convertible Preference Shares	-	-	-	-	-	-
Long Term Debt	2,233	4,231	5,837	8,837	12,837	12,837
Total Borrowings	**2,233**	**4,231**	**5,837**	**8,837**	**12,837**	**12,837**
Deferred Tax Liability	**17**	**17**	**22**	**22**	**22**	**22**
Share Capital						
Paid up Equity Share Capital	*299*	*299*	*729*	*729*	*729*	*729*
No. of Shares outstanding (mn)	*30*	*73*	*73*	*73*	*73*	*73*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*	*10*
Reserves & Surplus						
Share Premium	-	-	5,639	5,639	5,639	5,639
General & Other Reserve	349	1,070	2,257	4,879	8,367	13,370
Net Worth	**648**	**1,368**	**8,625**	**11,247**	**14,734**	**19,738**
Total Liabilities & Shareholders' Equity	**2,897**	**5,616**	**14,484**	**20,106**	**27,594**	**32,597**

Source: Company data, i-SEC Research

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Cash Flow from Operating Activities						
Reported Net Income	338	885	1,615	2,622	3,488	5,003
Add:						
Depreciation & Amortisation	74	111	242	411	542	614
Provisions	124	180	167	-	-	-
Deferred Taxes	11	(5)	6	-	-	-
Less:						
Other Income	121	21	29	29	29	29
Net Extra-ordinary income	-	-	-	-	-	-
Operating Cash Flow before Working Capital change (a)	**428**	**1,149**	**2,001**	**3,005**	**4,001**	**5,589**
Changes in Working Capital						
(Increase) / Decrease in Inventories	(1,134)	(639)	(1,234)	(5,909)	(5,100)	(2,815)
(Increase) / Decrease in Sundry Debtors	(46)	(439)	(774)	(700)	(1,000)	(1,100)
(Increase) / Decrease in Operational Loans & Adv.	(1,090)	(2,941)	(6,641)	(3,000)	(3,500)	(5,500)
(Increase) / Decrease in Other Current Assets	-	-	-	-	-	-
Increase / (Decrease) in current liabilities	221	2,013	1,277	4,500	4,000	4,000
Increase / (Decrease) in Other Current Liabilities						
Working Capital Inflow / (Outflow) (b)	(2,050)	(2,006)	(7,372)	(5,109)	(5,600)	(5,415)
Net Cash flow from Operating Activities (a) + (b)	**(1,622)**	**(857)**	**(5,371)**	**(2,105)**	**(1,600)**	**173**
as a % of Operating Cash Flow						
Cash Flow from Capital commitments						
Purchase of Fixed Assets	(423)	(593)	(1,170)	(1,520)	(1,020)	(1,020)
Purchase of Investments	190	(27)	(501)	200	200	0
Consideration paid for acquisition of undertaking						
Cash Inflow/(outflow) from capital commitments (c)	**(233)**	**(620)**	**(1,671)**	**(1,320)**	**(820)**	**(1,020)**
Free Cash flow after capital commitments (a) + (b) + (c)	**(1,855)**	**(1,476)**	**(7,042)**	**(3,425)**	**(2,420)**	**(847)**
Cash Flow from Investing Activities						
Purchase of Marketable Investments	-	-	-	-	-	-
(Increase) / Decrease in Other Loans & Advances	-	-	-	-	-	-
Sale of Fixed Assets	-	-	-	-	-	-
Sale of Investments	-	-	-	-	-	-
Consideration received for sale of undertaking/division	-	-	-	-	-	-
Other Income	121	21	29	29	29	29
Net Cash flow from Investing Activities (d)	**121**	**21**	**29**	**29**	**29**	**29**
Cash Flow from Financing Activities						
Issue of Share Capital during the year	87	-	430	-	-	-
Proceeds from fresh borrowings	1,675	1,998	1,606	3,000	4,000	0
Repayment of Borrowings	-	-	-	-	-	-
Buyback of Shares	-	-	-	-	-	-
Dividend paid including tax	-	-	-	-	-	-
Others	(72)	(159)	5,211	-	-	-
Net Cash flow from Financing Activities (e)	**1,690**	**1,839**	**7,247**	**3,000**	**4,000**	**(0)**
Net Extra-ordinary Income (f)	-	-	-	-	-	-
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**(44)**	**384**	**234**	**(396)**	**1,609**	**(818)**
Opening Cash and Bank balance	**109**	**66**	**450**	**684**	**288**	**1,897**
Closing Cash and Bank balance	**66**	**450**	**684**	**288**	**1,897**	**1,079**
Increase/(Decrease) in Cash and Bank balance	**(44)**	**384**	**234**	**(396)**	**1,609**	**(818)**

Source: Company data, i-SEC Research

Table 11: Key ratios

(Year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Per Share Data (Rs)						
Diluted Recurring Earning per share (DEPS)	11.3	12.1	22.2	36.0	47.8	68.6
Diluted Earnings per share	11.3	12.1	22.2	36.0	47.8	68.6
Recurring Cash Earnings per share (CEPS)	13.8	13.9	25.5	41.6	55.3	77.1
Free Cashflow per share (FCPS-post capex)	(62.1)	(20.2)	(96.6)	(47.0)	(33.2)	(11.6)
Reported Book Value (BV)	21.7	18.7	118.3	154.3	202.1	270.7
Adjusted Book Value (ABV) **	21.7	18.7	118.3	154.3	202.1	270.7
Dividend per share	-	-	-	-	-	-
Valuation Ratios (x)						
Diluted Price Earning Ratio	83.1	77.6	42.5	26.2	19.7	13.7
Price to Recurring Cash Earnings per share	68.1	67.8	36.9	22.6	17.0	12.2
Price to Book Value	43.4	50.2	8.0	6.1	4.7	3.5
Price to Adjusted Book Value	43.4	50.2	8.0	6.1	4.7	3.5
Price to Sales Ratio	6.2	10.0	5.3	3.5	2.4	1.7
EV / EBITDA	56.5	52.4	28.8	18.0	13.2	9.5
EV / Total Operating Income	6.7	10.5	5.7	4.0	2.8	2.0
EV / Operating Free Cash Flow (Pre-Capex)	(18.7)	(84.6)	(13.7)	(36.7)	(49.7)	464.0
EV / Net Operating Free Cash Flow (Post-Capex)	(16.3)	(49.1)	(10.5)	(22.6)	(32.9)	(94.9)
Dividend Yield (%)	-	-	-	-	-	-
Growth Ratios (% YoY)						
Diluted Recurring EPS Growth	169.8	7.0	82.8	62.3	33.0	43.4
Diluted Recurring CEPS Growth	152.9	0.4	83.7	63.2	32.8	39.4
Total Operating Income Growth	132.2	52.1	86.9	51.6	46.5	40.0
EBITDA Growth	270.6	158.0	85.3	67.4	40.7	40.9
Recurring Net Income Growth	281.1	161.4	82.5	62.3	33.0	43.4
Operating Ratios (%)						
EBITDA Margins	11.8	20.1	19.9	22.0	21.1	21.2
EBIT Margins	0.1	0.2	0.2	0.2	0.2	0.2
Recurring Pre-tax Income Margins	10.2	15.4	14.5	16.3	15.6	16.6
Recurring Net Income Margins	7.3	12.8	12.5	13.4	12.2	12.5
Raw Material Consumed / Sales	75.0	63.8	60.8	63.1	65.6	66.4
SGA Expenses / Sales	8.3	12.1	12.0	10.3	9.1	8.5
Other Income / Pre-tax Income	25.5	2.0	1.5	0.9	0.6	0.4
Other Operating Income / EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
Effective Tax Rate	28.4	17.1	13.4	18.0	22.0	25.0
Return / Profitability Ratios (%)						
Return on Capital Employed (RoCE)-Overall	22.2	24.8	20.2	18.5	18.1	19.7
Return on Invested Capital (RoIC)	29.9	34.6	27.0	25.5	26.5	29.7
Return on Net Worth (RoNW)	71.9	87.8	32.3	26.4	26.8	29.0
Dividend Payout Ratio	-	-	-	-	-	-
Solvency Ratios / Liquidity Ratios (%)						
Debt Equity Ratio (D/E)	347.1	310.4	67.9	78.8	87.3	65.1
Long Term Debt / Total Debt	100.0	100.0	100.0	100.0	100.0	100.0
Net Working Capital / Total Assets	79.2	73.3	78.2	81.7	79.9	84.2
Interest Coverage Ratio-based on EBIT	532.3	612.3	488.1	551.7	525.4	635.8
Debt Servicing Capacity Ratio (DSCR)	(2,240.5)	(1,034.4)	(804.6)	(1,190.2)	(1,623.1)	(1,814.9)
Current Ratio	105.5	86.2	103.2	118.4	139.1	125.7
Cash and cash equivalents / Total Assets	2.3	8.0	4.7	1.4	6.9	3.3
Turnover Ratios						
Inventory Turnover Ratio (x)	2.6	2.0	2.6	1.9	1.6	1.7
Assets Turnover Ratio (x)	2.5	1.6	1.3	1.1	1.2	1.3
Working Capital Cycle (days)	(22.0)	(12.9)	(5.9)	19.6	47.9	47.0
Average Collection Period (days)	27.5	30.9	33.7	36.0	35.4	34.9
Average Payment Period (days)	0.0	8.5	22.2	42.0	50.6	54.3

Source: Company data, i-SEC Research

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Equity Research

May 21, 2007

BSE Sensex: 14303

INDIA

Peninsula Land

BUY

Real Estate

On terra firma

Rs436

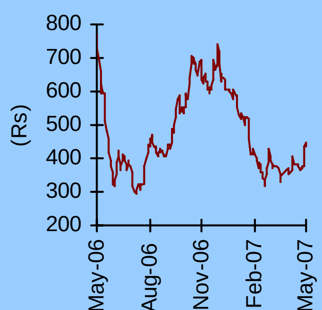
Reason for report: Initiating coverage

Shareholding pattern

	Sep '06	Dec '06	Mar '07
Promoters	65.2	65.4	72.3
Institutional investors	12.4	11.6	5.8
MFs and UTI	4.2	4.4	0.0
Insurance Cos.	6.8	6.8	5.5
FIIs	1.5	0.45	0.3
Others	34.8	34.6	22.0

Source: NSE

Price chart



Peninsula Land (PLL), the erstwhile Morarjee Realties, is a South Mumbai-based real estate developer. The company is well known for its innovative and superior construction. PLL is bestowed with an upbeat management and a strong project pipeline. The company is an interesting play on high-end real estate development, SEZs and townships. We estimate the NPV of the company at Rs28bn or Rs596/share. PLL is among the best developers in West India. There exists an upside to our NPV estimate – we will revisit our estimate after evaluating further progress on SEZs.

- **Current project pipeline generating strong cashflows and capital gains.** At present, PLL has four ongoing projects in Parel (South Central Mumbai), with cumulative saleable area of 3.5mn sqft. The company has gained significantly through 3x rise in land value in the area. Additionally, advance payments from residential projects (~100% sold) have boosted the cash situation considerably.
- **SEZs, real estate mutual fund and townships – Future growth engines.** PLL is developing four SEZs with ~300 acres cumulative area and current estimated value of these projects is at Rs9.4bn. The company is also developing two bio-tech SEZs, a gem & jewelry SEZ in Goa and an IT/ITES SEZ in Pune. These projects are expected to come on stream in the next 4-5 years. Two SEZs – bio-tech (Verna) and the IT SEZ in Pune – have already been approved by the Ministry of Commerce. PLL is developing two large township projects in Pune and Nashik with an estimated total value of Rs2.9bn. The company is also managing a real estate mutual fund (REMF) and has already raised close to Rs100bn.
- **Valuations.** We estimate the NAV value of PLL at Rs28bn or Rs596/share. For the fifteen months ended June '06, the company reported revenues and PAT of Rs2.7bn and Rs1.4bn respectively. On a fully-diluted basis, 15MFY06 EPS was Rs30.6. We estimate FY07E, FY08E and FY09E EPS at Rs40, Rs91, and Rs157 respectively and initiate coverage with BUY recommendation. Also, we believe there will be significant earnings growth in the coming years as SEZs and townships materialise.

Market Cap	Rs20.5bn/US$502.7mn
Reuters/Bloomberg	PENL.BO/PENL IN
Shares Outstanding (mn)	47
52-week Range (Rs)	740/294
Free Float (%)	27.7
FII (%)	0.3
Daily Volume (US$'000)	2,600
Absolute Return 3m (%)	5.1
Absolute Return 12m (%)	(40.3)
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	30.8

Year to June	15m FY06	9m FY07E	FY08E	FY09E
Revenue (Rs mn)	2,748	5,637	10,231	15,152
Net Income (Rs mn)	1,441	1,880	4,279	7,401
EPS (Rs)	30.6	39.9	90.9	157.2
% Chg YoY	245.2	35.6	127.5	73.0
P/E (x)	14.8	10.9	4.8	2.8
CEPS (Rs)	30.8	40.2	91.3	157.7
EV/E (x)	9.1	5.3	4.7	2.4
Dividend Yield	-	-	-	-
RoCE (%)	553.5	140.5	31.6	41.5
RoE (%)	(502.2)	64.1	59.8	57.0

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NAV calculation

We estimate the NAV for PLL at Rs29bn or 596/share based on Rs8.8bn valuation of the four projects in Mumbai, Rs2.9bn valuation of the two township projects in Pune and Nashik, Rs9.3bn valuation for SEZs and Rs2bn terminal value.

Table 1: NAV calculation

(Rs mn)	
Ashok Towers	3,529
Ashok Gardens	983
Peninsula Technopark	730
Peninsula Business Park (Dawn Mills)	3,560
Pune township	1,511
Nashik township	1,437
SEZs - Goa and Pune	9,339
Terminal value	1,989
Fund Management Segment	400
Project management segment	525
Assets on books	1,901
Project NAV (mn)	**25,905**
Net of debt, current assets and cash	2,149
Total NAV	**28,053**
NAV/share	**596**
Market Cap	20,531
Market Cap discount to NAV (%)	**27**

Source: i-SEC Research

Projects

PLL's pipeline consists of nine projects with cumulative saleable area of 34.2mn sqft. This includes 8.8mn sqft of residential development, 3.73mn sqft of commercial construction and 21.7mn sqft of SEZ development.

Table 2: Project pipeline

Projects	Type	Area (mn sq ft)	Completion Date
Ashok Towers	Residential	1.1	Dec-08
Ashok Gardens	Residential	0.9	Dec-08
Peninsula Technopark	Office	0.9	Mar-09
Peninsula Business Park (Dawn Mills)	Office	0.6	Jul-09
Pune township	Residential/mix	4.3	Dec-11
Nashik township	Residential/mix	4.7	Dec-12
Goa I - Bio Tech Verna 1	SEZ	9.8	Dec-11
Goa II - Gem & jewellery (verna)	SEZ	1.8	Dec-11
Goa III - Biotech (App.) - Sancole	SEZ	4.1	Dec-12
Pune IT	SEZ	6	Dec-12
Total		**34.2**	

Source: i-SEC Research

PLL is a well known brand, thereby easily generating advance sales of residential projects. The company generally covers its cost upfront through advance sales. As a business strategy, PLL believes in faster asset turnover and does not accumulate long-term land bank. In line with its strategy, PLL sold Crossroads to Pantaloon Retail for Rs2.5bn.

PLL's wholly-owned property management subsidiary, Peninsula Facility Management Services (PFMS), provides maintenance and management services to PLL properties. We believe there will be significant growth in such services and have ascertained PFMS' value at Rs525mn based on the management fee of current projects and future projects that will come on stream through REMF investments.

PLL has also launched two real estate funds, one overseas and the other for the domestic market. The company has raised ~Rs100bn and is expected to double the corpus going forward. PLL's management fee (2%) and investments in upcoming projects by REMF and PLL will help reduce the capital burden from PLL's balance sheet and at the same time increase the capacity to take on newer projects.

Chart 1: Annual development pipeline

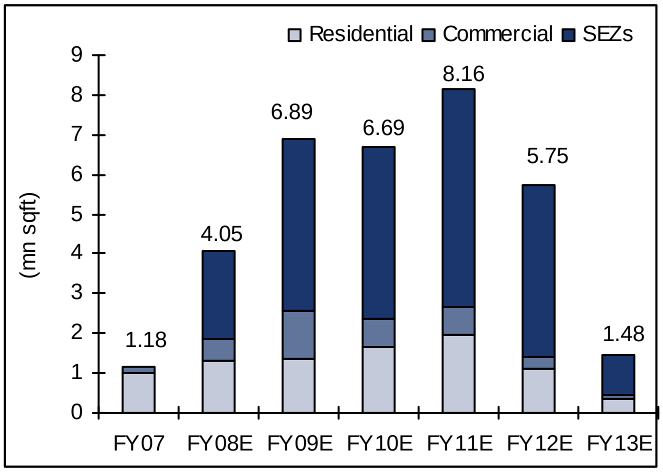
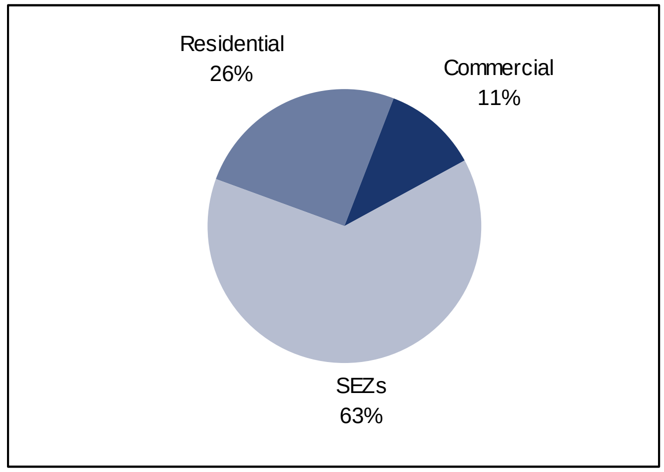


Chart 2: Segmental break-up



Source: i-SEC Research, Company

Company background

PLL, earlier known as Morarjee Realties, is a Mumbai-based real estate developer. The company had restructured its business to focus on its land bank, which was located on prime locations of Mumbai. It is a part of the Ajay Piramal Group led by sound and upbeat management. Starting with high-end residential and commercial development in Mumbai, the company has now forayed into other segments such as SEZs, IT parks and other geographies such as Pune and Goa.

PLL is known for its innovation, quality of construction – it was the first company to build a mall in India, Crossroads. The company has developed 2.36mn sqft land, comprising 0.86mn sqft of residential space, 1.1mn sqft of commercial space and 0.4mn sqft retail space. The company is present across all segments – from high-end to mid-residential, township, SEZs, IT parks and retail. Post the merger of Dawn Mills, fully diluted equity of the company will reach 47.09mn shares with promoter holdings at 65.6%.

Risks

PLL lacks a sufficiently large, low-cost land bank, which is a disadvantage against other developers with lower input costs. However, REMF will invest along with the company in new projects, which will help negate the disadvantage.

PLL lacks in-house construction capabilities, which helps reduce resource requirement; however, lowers margins makes the company dependent on third parties for construction.

Overt exposure to SEZs is a risk as they are prone to Government intervention. Also, SEZs are long-duration, higher-risk projects. PLL's overall valuations are highly dependent of the success of SEZs.

Annexure 1: Financials

Table 3: Profit & Loss statement

(Rs mn, year ending June 30)

	FY05	15mFY06	9mFY07E	FY08E	FY09E
Gross Sales	622	2,748	5,637	10,231	15,152
Less: Excise Duty					
Net Sales	**622**	**2,748**	**5,637**	**10,231**	**15,152**
of which Domestic Sales	*622*	*2,748*	*5,637*	*10,231*	*15,152*
Other Operating Income					
Total Operating Income	**622**	**2,748**	**5,637**	**10,231**	**15,152**
Less:					
Raw Material Consumed	433	1,199	2,994	4,766	6,084
Other Manufacturing Expenses					
Power and Fuel					
Personnel Expenses	8	104	146	175	192
Selling and Distribution Expenses	32	0	20	24	26
Less Amounts Capitalised					
Total Operating Expenses	**472**	**1,303**	**3,160**	**4,964**	**6,303**
EBITDA	**150**	**1,446**	**2,477**	**5,266**	**8,849**
Depreciation & Amortisation	2	63	14	18	22
Other Income	19	210	0	0	0
EBIT	**167**	**1,593**	**2,463**	**5,248**	**8,827**
Less: Gross Interest	1	202	112	30	16
Recurring Pre-tax Income	**167**	**1,390**	**2,351**	**5,218**	**8,811**
Add: Extraordinary Income	(262)	55	0	0	0
Less: Extraordinary Expenses					0
Less: Taxation	0	4	470	939	1,410
--Current Tax	0	0	0	0	
--Deferred Tax	0	4	0	0	
Net Income (Reported)	**(95)**	**1,441**	**1,880**	**4,279**	**7,401**
Recurring Net Income	**167**	**1,386**	**1,880**	**4,279**	**7,401**

Source: Company data, i-SEC Research

Table 4: Balance sheet

(Rs mn, year ending June 30)

	FY05	15mFY06	9mFY07E	FY08E	FY09E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	7	88	170	367	2,691
Inventory	1,970	2,508	5,508	7,508	8,508
Sundry Debtors	11	2,358	3,358	4,858	6,858
Loans and Advances	396	904	1,904	3,404	5,404
Operational	396	904	1,904	3,404	5,404
Others					
Other Current Assets	14	51	51	51	51
Total Current Assets	**2,398**	**5,908**	**10,990**	**16,187**	**23,511**
Current Liabilities & Provisions					
Current Liabilities	**297**	**520**	**1,520**	**2,520**	**3,520**
Sundry Creditors	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-
Provisions	**-**	**118**	**118**	**118**	**118**
Total Current Liabilities and Provisions	**297**	**638**	**1,638**	**2,638**	**3,638**
Net Current Assets	**2,101**	**5,270**	**9,352**	**13,549**	**19,873**
Investments					
Strategic & Group Investments	-	135	135	135	135
Total Investments	**-**	**135**	**135**	**135**	**135**
Fixed Assets					
Gross Block	54	330	430	530	630
Less Accumulated Depreciation	15	89	103	121	144
Net Block	39	242	328	409	487
Add: Capital Work in Progress	-	-	-	-	-
Less: Revaluation Reserve					
Total Fixed Assets	**39**	**242**	**328**	**409**	**487**
Total Assets	**2,141**	**5,647**	**9,815**	**14,094**	**20,495**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Short Term Debt	-	-	-	-	-
Non-Convertible Preference Shares	-	-	-	-	-
Long Term Debt	3,540	4,799	4,799	4,799	3,799
Total Borrowings	**3,540**	**4,799**	**4,799**	**4,799**	**3,799**
Deferred Tax Liability	-	-	-	-	-
Share Capital					
Paid up Equity Share Capital	*195*	*395*	*471*	*471*	*471*
No. of Shares outstanding (mn)	*20*	*47*	*47*	*47*	*47*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*
Reserves & Surplus					
Share Premium	-	-	-	-	-
General & Other Reserve	1,027	1,234	4,544	8,823	16,225
Less: Misc. Exp. not written off	2,622	782	-	-	-
Net Worth	**(1,400)**	**847**	**5,015**	**9,294**	**16,696**
Total Liabilities & Shareholders' Equity	**2,141**	**5,647**	**9,815**	**14,094**	**20,495**

Source: Company data, i-SEC Research

Table 5: Cashflow statement

(Rs mn, year ending June 30)

	FY05	15mFY06	9mFY07E	FY08E	FY09E
Cash Flow from Operating Activities					
Reported Net Income	(95)	1,441	1,880	4,279	7,401
Add:					
Depreciation & Amortisation	2	74	14	18	22
Provisions	-	118	-	-	-
Deferred Taxes	-	4	-	-	-
Less:					
Other Income	19	210	-	-	-
Net Extra-ordinary income	(262)	55	-	-	-
Operating Cash Flow before Working Capital change (a)	**149**	**1,373**	**1,895**	**4,297**	**7,424**
Changes in Working Capital					
(Increase) / Decrease in Inventories	(259)	(538)	(3,000)	(2,000)	(1,000)
(Increase) / Decrease in Sundry Debtors	(7)	(2,346)	(1,000)	(1,500)	(2,000)
(Increase) / Decrease in Operational Loans & Adv.	29	(508)	(1,000)	(1,500)	(2,000)
(Increase) / Decrease in Other Current Assets	(14)	(37)	0	0	0
Increase / (Decrease) in current liabilities	15	223	1,000	1,000	1,000
Increase / (Decrease) in Other Current Liabilities					
Working Capital Inflow / (Outflow) (b)	(236)	(3,206)	(4,000)	(4,000)	(4,000)
Net Cash flow from Operating Activities (a) + (b)	**(87)**	**(1,833)**	**(2,105)**	**297**	**3,424**
as a % of Operating Cash Flow					
Cash Flow from Capital commitments					
Purchase of Fixed Assets	13	(276)	(100)	(100)	(100)
Purchase of Investments	0	(135)	0	0	0
Consideration paid for acquisition of undertaking					
Cash Inflow/(outflow) from capital commitments (c)	**13**	**(412)**	**(100)**	**(100)**	**(100)**
Free Cash flow after capital commitments (a) + (b) + (c)	**(74)**	**(2,245)**	**(2,205)**	**197**	**3,324**
Cash Flow from Investing Activities					
Purchase of Marketable Investments	-	-	-	-	-
(Increase) / Decrease in Other Loans & Advances	-	-	-	-	-
Sale of Fixed Assets	-	-	-	-	-
Sale of Investments	-	-	-	-	-
Consideration received for sale of undertaking/division	-	-	-	-	-
Other Income	19	210	0	0	0
Net Cash flow from Investing Activities (d)	**19**	**210**	-	-	-
Cash Flow from Financing Activities					
Issue of Share Capital during the year	-	200	75	-	-
Proceeds from fresh borrowings	224	1,259	-	-	(1,000)
Repayment of Borrowings					
Buyback of Shares	-	-	-	-	-
Dividend paid including tax	-	-	-	-	-
Others	26	602	2,212	-	-
Net Cash flow from Financing Activities (e)	**251**	**2,061**	**2,287**	-	**(1,000)**
Net Extra-ordinary Income (f)	**(262)**	**55**	-	-	-
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**(67)**	**81**	**82**	**197**	**2,324**
Opening Cash and Bank balance	**73**	**7**	**88**	**170**	**367**
Closing Cash and Bank balance	**7**	**88**	**170**	**367**	**2,691**
Increase/(Decrease) in Cash and Bank balance	**(67)**	**81**	**82**	**197**	**2,324**

Source: Company data, i-SEC Research

Table 6: Key ratios

(Year ending June 30)

	FY05	15mFY06	9mFY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Recurring Earning per share (DEPS)	8.5	29.4	39.9	90.9	157.2
Diluted Earnings per share	(4.9)	30.6	39.9	90.9	157.2
Recurring Cash Earnings per share (CEPS)	8.6	30.8	40.2	91.3	157.7
Free Cashflow per share (FCPS-post capex)	(3.8)	(47.7)	(46.8)	4.2	70.6
Reported Book Value (BV)	(71.7)	18.0	106.5	197.4	354.5
Adjusted Book Value (ABV) **	(71.7)	18.0	106.5	197.4	354.5
Dividend per share	0.0	0.0	0.0	0.0	0.0
Valuation Ratios (x)					
Diluted Price Earning Ratio	51.1	14.8	10.9	4.8	2.8
Price to Recurring Cash Earnings per share	50.4	14.2	10.8	4.8	2.8
Price to Book Value	(6.1)	24.2	4.1	2.2	1.2
Price to Adjusted Book Value	(6.1)	24.2	4.1	2.2	1.2
Price to Sales Ratio	13.7	7.5	3.6	2.0	1.4
EV / EBITDA	80.2	9.1	5.3	4.7	2.4
EV / Total Operating Income	19.4	4.8	2.3	2.4	1.4
EV / Operating Free Cash Flow (Pre-Capex)	(138.5)	(7.2)	(6.2)	84.0	6.3
EV / Net Operating Free Cash Flow (Post-Capex)	(161.8)	(5.9)	(6.0)	126.6	6.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	(123.1)	245.2	35.6	127.5	73.0
Diluted Recurring CEPS Growth	(128.6)	256.2	30.7	126.8	72.8
Total Operating Income Growth	(90.3)	341.7	105.1	81.5	48.1
EBITDA Growth	267.2	862.5	71.3	112.6	68.0
Recurring Net Income Growth	(123.1)	732.1	35.6	127.5	73.0
Operating Ratios (%)					
EBITDA Margins	24.1	52.6	43.9	51.5	58.4
EBIT Margins	0.3	0.6	0.4	0.5	0.6
Recurring Pre-tax Income Margins	26.0	47.0	41.7	51.0	58.2
Recurring Net Income Margins	26.0	46.9	33.4	41.8	48.8
Raw Material Consumed / Sales	69.5	43.6	53.1	46.6	40.2
SGA Expenses / Sales	5.1	0.0	0.4	0.2	0.2
Other Income / Pre-tax Income	11.5	15.1	0.0	0.0	0.0
Other Operating Income / EBITDA	0.0	0.0	0.0	0.0	0.0
Effective Tax Rate	0.0	0.3	20.0	18.0	16.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	10.5	553.5	140.5	31.6	41.5
Return on Invested Capital (RoIC)	7.4	37.6	32.6	45.1	56.1
Return on Net Worth (RoNW)	(12.2)	(502.2)	64.1	59.8	57.0
Dividend Payout Ratio	0.0	0.0	0.0	0.0	0.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	(253.0)	566.3	95.7	51.6	22.8
Long Term Debt / Total Debt	100.0	100.0	100.0	100.0	100.0
Net Working Capital / Total Assets	97.8	91.8	93.6	93.5	83.8
Interest Coverage Ratio-based on EBIT	33,420.0	787.5	2,193.1	17,610.1	56,946.2
Debt Servicing Capacity Ratio (DSCR)	33,860.0	791.1	205.8	15,871.9	55,490.7
Current Ratio	674.1	784.5	554.8	484.6	497.7
Cash and cash equivalents / Total Assets	0.3	1.6	1.7	2.6	13.1
Turnover Ratios					
Inventory Turnover Ratio (x)	0.2	0.6	0.8	0.7	0.8
Assets Turnover Ratio (x)	0.3	0.8	0.7	0.9	0.9
Working Capital Cycle (days)	942.1	403.2	382.5	313.9	296.5
Average Collection Period (days)	4.7	157.3	185.0	146.5	141.1
Average Payment Period (days)	0.0	0.0	0.0	0.0	0.0

Source: Company data, i-SEC Research

Equity Research

May 21, 2007

BSE Sensex: 14303

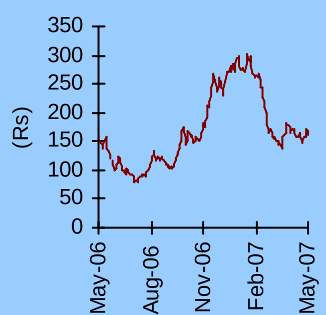
Real Estate

Shareholding pattern

	Sep '06	Dec '06	Mar '07
Promoters	45.1	45.1	50.0
Institutional investors	14.1	13.3	11.0
GDR	-	-	16.3
MFs and UTI	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIIs	14.1	13.3	11.0
Others	40.8	41.5	23.6

Source: BSE

Price chart



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INDIA

Marg Construction

BUY

Triple play

Rs161

Reason for report: Initiating coverage

Marg Construction is a Chennai-based real estate and infrastructure developer. We believe the company has tremendous earnings growth potential from its SEZ and port projects. We estimate Marg's NPV at Rs9.6bn or Rs385/share. Marg is an interesting triple play on real estate, SEZs and port.

- **Attractive SEZ projects.** Marg is developing two SEZs (one each for multi services and light engineering) near Chennai, spread over 612 acres. The SEZs have been approved by the Government in the Board of Approval meeting. We estimate the NPV of both SEZs at Rs2.8bn.
- **Profitable Karaikkal Port project.** Karaikkal Port is a dry cargo port between Chennai and Tuticorn, the second and the third busiest ports in India respectively. While the first phase of the project (4mnte capacity) would commence by October '08, the second phase (7.3mnte capacity) would come on stream by November '09. We estimate Karaikal Port's NPV at Rs4bn.
- **Lucrative real estate ventures.** Marg is developing a mix of real estate projects, including a mall, a township, serviced apartments and villas in Chennai. Further, the company has a significant amount of additional land banks and owned assets. We estimate the cumulative NAV of Marg's real estate projects at Rs3.2bn.
- **Construction business.** Marg is primarily a construction company with its order book encompassing construction cost on infrastructure and real estate projects. We estimate the construction division's NPV at Rs3.4bn. Also, Marg has formed a joint veture – SIGNA – with the Housing and Urban Development Corporation (HUDCO) for participating in infrastructure and urban development projects.
- **Discounted valuations.** We estimate Marg's NPV at Rs9.6bn or Rs385/share. For FY06, the company reported revenue and PAT of Rs576mn and Rs82mn, up 3.6x and 3.5x respectively. We estimate Marg to register FY09E earnings growth of 19x to Rs63.4 from fully-diluted Rs3.3 EPS in FY06. Initiate coverage with BUY recommendation.

Market Cap	Rs4.0bn/US$98.8mn
Reuters/Bloomberg	MARG.BO/MRGC IN
Shares Outstanding (mn)	25
52-week Range (Rs)	303/79
Free Float (%)	50.0
FII (%)	11.0
Daily Volume (US$'000)	700
Absolute Return 3m (%)	(39.0)
Absolute Return 12m (%)	4.5
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	30.8

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (Rs mn)	576	1,301	6,144	13,014
Net Income (Rs mn)	82	282	391	1,584
EPS (Rs)	3.3	11.3	15.7	63.4
% Chg YoY	2.3	245.1	38.7	304.7
P/E (x)	49.3	14.3	10.3	2.5
CEPS (Rs)	4.0	12.1	18.7	67.6
EV/E (x)	34.0	15.9	6.3	2.6
Dividend Yield	-	-	-	-
RoCE (%)	16.3	16.7	13.3	25.8
RoE (%)	45.4	23.8	12.5	32.3

Diverse play

Marg is a diverse play on real estate development with emphasis on infrastructure (SEZs and port) projects. The company has completed three software parks in Chennai and is developing a mall and two SEZs, apart from working on the Karaikkal Port. Land acquisitions for all the projects in hand are completed and the projects are under implementation. Under a joint venture with the HUDCO, the company is bidding for two fishing harbours on the Tamil Nadu coast. Apart from this, the JV also aims at helping Marg in public-private partnership projects.

Seekinakuppam SEZs valuation

The Seekinakuppam SEZ is spread over 612 acres and is split into two adjoining SEZs – light engineering and multi services. We estimate both SEZs to come on stream by FY12E. Marg is making the first multi services SEZ in Chennai.

Table 1: Land bank – Seekinakuppam SEZ

Seekinakuppam SEZ Valuation	Area (acres)
Light engineering SEZ (LES)	312
Multi services SEZ (MSS)	300
Total	**612**

Source: Company data

The SEZs' cumulative cost of development is Rs14.4bn, including land and development & construction costs. We estimate the SEZs' discounted cost of development at Rs10.7bn.

Table 2: SEZs – Cost break-up

Project expense	Costs (Rs mn)	Rs/sqft	Cost NPV (Rs mn)	Rs/sqft
Land cost	643	24.1	643	24.1
Land development cost	931	34.9	755	28.3
Basic infrastructure cost	169	6.3	137	5.1
Commercial const cost	3,797	1,497.6	2,678	1,056.0
Residential cost	7,007	1,018.7	4,941	718.3
Shopping Mall	968	2,200.0	841	1,913.0
Other expenses	744	27.9	603	22.6
Interest Expense	156	5.8	126	4.7
Total expense	**14,415**	**540.7**	**10,724**	**402.3**

Source: Company data, i-SEC Research

We estimate the SEZs' cumulative NAV at Rs3.2bn this is based on sales and rental values mentioned in Table 3. We have assumed a 15% discount on account of other administrative expenses.

Table 3: SEZs – NAV

Land Usage	Built-up area (acres)	Share (%)	FSI	NPV fixed cost (Rs/sqft)	NPV construction cost (Rs/sqft)	Rentals (Rs/sqft/ mth)	Sales (Rs/sqft)	NPV of sales	Project NPV
LES plots (leased)	132.41	22	1.0	449			172	700	251
MSS plots (leased)	98.45	16	1.0	334			172	453	119
School, Conv Centre, Hospital etc	19.58	3	1.0	66			100	52	(14)
MSS commercial and other commercial buildings	58.21	10	2.0	197	2,678	30	3,000	4,664	1,789
Residential - Villas & Apartments	157.90	26	1.2	536	4,941		1,800	7,591	2,114
Shopping Mall	10.10	2	1.0	34	841	35	3,500	1,086	210
Total	**476.64**	**78**							
Vacant - roads, infrastructure, greens	190.78	31	1.0	647					(647)
Total	**667.42**			**2,264**	**8,460**			**14,546**	**3,822**

Source: Company data, i-SEC Research

Karaikkal port valuation

The Government of Pondichery (GoP) awarded the Karaikkal port project to Marg on a Build-Own-Transfer (BOT) basis. The project was executed on January 25, '06. The first phase of the project would have 4mnte capacity, which would come on stream by October '08. The port's capacity will be increased to 7.3mnte by November '09. The port can have a maximum capacity of 10mnte, providing an option for further capacity addition in case required. The key success factor of the project is the minimal royalty (2.6% of the project turnover) paid to the GoP as against royalty of 40-60% turnover for other such BOT projects. Marg has to construct the port and bear all costs associated with it in lieu of the low royalty. Further, the port is strategically located between India's second and third busiest ports – Chennai and Tuticorn – offering significant logistical advantages from many key locations such as Coimbatore, Tamil Nadu. We estimate Kariakkal port's NPV at Rs4bn.

Table 4: Kariakkal port's NAV

Kariakal Port Valuation					
Initial capacity (Oct-08) (mnte)	4				
later capacity (Nov-08) (mnte)	7.3				
Construction Cost (Rs mn)	5,378				
Operating Costs (Annual escalation @ 6%)					
Royalty to GoP (%)	2.6				
Terminal Ops & Maint (Rs/MT)	40				
Equipment Maintenace Costs (of the capital expenditure) (%)	2				
Pilotage ((Rs/MT)	8				
Maintenance Dredging ((Rs/cu mn for 400,000 cu mn/annum)	60				
Admin Exp per year (Rs mn)	20				
Incoming cargo	**FY09E**	**FY10E**	**FY11E**	**FY12E**	**FY13E**
Coal	2.80	3.40	3.63	4.00	4.00
G.Cargo	0.86	2.08	2.85	3.30	3.30
Total	3.66	5.48	6.48	7.30	7.30
Throughput Charges (Rs/MT) (Annual escalation @ 5%)	**FY09E**				
Coal	200				
G.Cargo	225				
Discount Rate	10%	12%	14%	15%	
Port NPV	**5,807**	**4,004**	**2,768**	**2,299**	

Source: Company data, i-SEC Research

Valuation of other assets

Marg is developing an IT/ITES SEZ of 25 acres in Tirupati, Andhra Pradesh; however, the project is on a back-burner. We have assumed a value of Rs100mn for the project. Also, the company derives rentals from buildings on lease (Table 5); we have valued the rented assets at Rs1bn.

Table 5: Valuation of rented assets

Assets on the books	Customer	Share (%)	Marg's share of rentals	Value
Dizital Zone I (SPV)	TCS	100	93.00	775
Dizital Zone II (SPV)	Coke	20		
Marg Square (SPV)	Satyam	20	30.00	250
Capitalisation rate	12%			1,025

Source: Company data, i-SEC Research

Valuation of real estate projects

Marg is developing properties in Chennai, including a mall, a serviced apartment, residential complexes, villas etc. We estimate the value of these projects at Rs2.15bn.

Table 6: Valuation of real estate projects

Projects	Acres	Value
Alathur Village Marg Green	15.87	79.36
Pawanjur – residential villas	95.00	760.00
Riverside Mall	7.30	1100.00
Serviced Apartments (oakwood) (kazipathur)	3.84	38.40
Kodad	140.00	140.00
Residential Complex Kalavakkaum	4.34	34.72
Total	**266.35**	**2152.48**

Source: Company data, i-SEC Research

Valuation of construction business

In-house construction is a critical segment of Marg's business strategy. The construction cost for other projects is the order book for this division. Further, in-house construction increases overall profitability and keeps timelines in check. We have valued Marg's construction business at Rs3.4bn, which is 8x FY08E EBITDA at Rs423mn. EBITDA margin for the division is 14-18% and PAT margin vary between 7% and 14%.

Table 7: Valuation of construction business

(Rs mn)

	FY08E
EBITDA	423
PAT	226
EV/EBITDA multiple (x)	8.0
Valuation	3,386

Source: Company data, i-SEC Research

NPV

We estimate Marg's cumulative NPV at Rs9.6bn or 385/share. This is based on the sum-of-the-parts of the company's various divisions.

Table 8: NPV

(Rs mn)	
Port	2,768
SEZ Seekinapukkam	3,248
SEZ Tirupati	100
Real Estate	2,152
Leased Assets	1,025
Construction business	3,386
Net Current Assets	3,352
Total NPV	16,032
NPV/share	641
Discount due to execution risk (%)	40
Total NPV	**9,619**
NPV/share	**385**

Source: Company data, i-SEC Research

Company background

Marg Construction was incorporated in 1994 and has >12 years experience in the construction sector. The company started as a construction company, undertaking road, civil, power and electrical projects. In the past two years, Marg has made significant progress, venturing into large real estate and infrastructure projects (ports and SEZs). The company has good execution capabilities and a professional management. Marg has an employment base of 150 people at present, which has grown 2.5x in one year. The company recently raised US$15mn GDR and is listed on the Luxemburg Stock Exchange. Post the GDR, fully-diluted shares increased to 25mn, with promoter holding at 50% and FI holding at 34%.

Risks

Valuations are significantly tilted towards infrastructure (port and SEZ) projects. Though there are no apparent concerns on their execution, **derailment of the projects** is likely to have a significant negative impact on valuations

Marg has been diluting its equity in the past and there is a possibility of further dilution. Considering the large scale of projects and the relatively small capital base, equity dilution has been used to fund the projects. We believe Marg requires more funding (~Rs1bn) for its infrastructure projects, which it may obtain through equity dilution.

Annexure 1: Financials

Table 9: Profit & Loss statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
Gross Sales	159	576	1,301	6,144	13,014
Less: Excise Duty					
Net Sales	**159**	**576**	**1,301**	**6,144**	**13,014**
of which Domestic Sales	*159*	*576*	*1,301*	*6,144*	*13,014*
Total Operating Income	**159**	**576**	**1,301**	**6,144**	**13,014**
Less:					
Raw Material Consumed	98	405	843	5,007	9,989
Personnel Expenses	4	16	50	75	113
Selling and Distribution Expenses	11	21	106	159	239
Other Expenses	1	0	-		
Total Operating Expenses	**113**	**443**	**999**	**5,241**	**10,341**
EBITDA	**45**	**133**	**302**	**902**	**2,672**
Depreciation & Amortisation	11	19	19	75	105
Other Income	1	26	172	-	-
EBIT	**36**	**141**	**455**	**827**	**2,567**
Less: Gross Interest	19	38	67	305	455
Recurring Pre-tax Income	**16.50**	**103.20**	**388**	**522**	**2,112**
Add: Extraordinary Income	-	-	-	-	-
Less: Extraordinary Expenses	-	-	-	-	-
Less: Taxation	3.7	21	106	130	528
--Current Tax	*1*	*13*	*101*	*130*	*528*
--Deferred Tax	*2*	*9*	*5*	-	-
Net Income (Reported)	**13**	**82**	**282**	**391**	**1,584**
Recurring Net Income	**13**	**82**	**282**	**391**	**1,584**

Source: Company data, i-SEC Research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	5	18	262	354	155
Inventory	9	83	169	1,169	2,169
Sundry Debtors	24	185	552	1,104	2,208
Loans and Advances	178	211	1,002	2,005	4,010
Operational	178	211	1,002	2,005	4,010
Total Current Assets	**216**	**497**	**1,985**	**4,631**	**8,542**
Current Liabilities & Provisions					
Current Liabilities	**165**	**268**	**561**	**1,403**	**2,806**
Provisions	**1**	**13**	**103**	**153**	**203**
Total Current Liabilities and Provisions	**166**	**281**	**665**	**1,556**	**3,009**
Net Current Assets	**50**	**216**	**1,320**	**3,075**	**5,533**
Investments					
Strategic & Group Investments	16	23	1,308	2,308	2,308
Total Investments	**16**	**23**	**1,308**	**2,308**	**2,308**
Fixed Assets					
Gross Block	567	586	604	904	1,204
Less Accumulated Depreciation	32	50	48	123	296
Net Block	536	536	557	781	908
Add: Capital Work in Progress					
Less: Revaluation Reserve					
Total Fixed Assets	**536**	**536**	**557**	**781**	**908**
Total Assets	**601**	**774**	**3,185**	**6,164**	**8,748**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Short Term Debt	-	-	-	-	-
Non-Convertible Preference Shares	-	-	-	-	-
Long Term Debt	476	520	1,031	2,031	3,031
Total Borrowings	**476**	**520**	**1,031**	**2,031**	**3,031**
Deferred Tax Liability	**5**	**14**	**19**	**23**	**23**
Share Capital					
Paid up Equity Share Capital	40	100	166	250	250
No. of Shares outstanding (mn)	*4*	*25*	*25*	*25*	*25*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*
Reserves & Surplus					
Share Premium	49	30	1,597	3,097	3,097
General & Other Reserve	31	113	371	763	2,347
Less: Misc. Exp. not written off	-	2	-	-	-
Less: Revaluation Reserve	-	-	-	-	-
Net Worth	**120**	**240**	**2,134**	**4,110**	**5,694**
Total Liabilities & Shareholders' Equity	**601**	**774**	**3,185**	**6,164**	**8,748**

Source: Company data, i-SEC Research

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
Cashflow from Operating Activities					
Reported Net Income	13	82	282	391	1,584
Add:					
Depreciation & Amortisation	11	19	(2)	75	173
Provisions	(1)	11	91	50	50
Deferred Taxes	2	9	5	-	-
Less:					
Other Income	1	26	172	-	-
Net Extra-ordinary income	-	-	-	-	-
Operating cashflow before Working Capital change (a)	**24**	**94**	**205**	**517**	**1,807**
Changes in Working Capital					
(Increase) / Decrease in Inventories	(1)	(74)	(85)	(1,000)	(1,000)
(Increase) / Decrease in Sundry Debtors	(19)	(161)	(367)	(552)	(1,104)
(Increase) / Decrease in Operational Loans & Adv.	(73)	(33)	(792)	(1,002)	(2,005)
(Increase) / Decrease in Other Current Assets	-	-	-	-	-
Increase / (Decrease) in current liabilities	57	103	293	842	1,403
Increase / (Decrease) in Other Current Liabilities	-	-	-	-	-
Working Capital Inflow / (Outflow) (b)	(35)	(164)	(951)	(1,713)	(2,706)
Net cashflow from Operating Activities (a) + (b)	**(11)**	**(70)**	**(747)**	**(1,196)**	**(899)**
as a % of Operating cashflow					
Cashflow from Capital commitments					
Purchase of Fixed Assets	(248)	(19)	(19)	(300)	(300)
Purchase of Investments	5	(8)	(1,285)	(1,000)	-
Consideration paid for acquisition of undertaking					
Cash Inflow/(outflow) from capital commitments (c)	**(243)**	**(26)**	**(1,303)**	**(1,300)**	**(300)**
Free cashflow after capital commitments (a) + (b) + (c)	**(254)**	**(96)**	**(2,050)**	**(2,496)**	**(1,199)**
Cashflow from Investing Activities					
Purchase of Marketable Investments	-	-	-	-	-
(Increase) / Decrease in Other Loans & Advances	-	-	-	-	-
Other Income	1	26	172	-	-
Net cashflow from Investing Activities (d)	**1**	**26**	**172**	**-**	**-**
Cashflow from Financing Activities					
Issue of Share Capital during the year	-	60	66	84	-
Proceeds from fresh borrowings	190	44	511	1,000	1,000
Repayment of Borrowings					
Buyback of Shares	-	-	-	-	-
Dividend paid including tax	-	-	(24)	-	-
Others	49	(21)	1,569	1,504	-
Net cashflow from Financing Activities (e)	**239**	**83**	**2,123**	**2,588**	**1,000**
Net Extra-ordinary Income (f)	**-**	**-**	**-**	**-**	**-**
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**(14)**	**13**	**244**	**92**	**(199)**
Opening Cash and Bank balance	**18**	**5**	**18**	**262**	**354**
Closing Cash and Bank balance	**5**	**18**	**262**	**354**	**155**
Increase/(Decrease) in Cash and Bank balance	**(14)**	**13**	**244**	**92**	**(199)**

Source: Company data, i-SEC Research

Table 12: Key ratios

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Recurring Earning per share (DEPS)	3.2	3.3	11.3	15.7	63.4
Diluted Earnings per share	3.2	3.3	11.3	15.7	63.4
Recurring Cash Earnings per share (CEPS)	5.9	4.0	12.1	18.7	67.6
Free Cashflow per share (FCPS-post capex)	(63.4)	(3.9)	(82.0)	(99.8)	(48.0)
Reported Book Value (BV)	29.9	9.6	85.4	164.4	227.8
Adjusted Book Value (ABV) **	29.9	9.6	85.4	164.4	227.8
Dividend per share	-	-	0.8	-	-
Valuation Ratios (x)					
Diluted Price Earning Ratio	50.4	49.3	14.3	10.3	2.5
Price to Recurring Cash Earnings per share	27.5	40.1	13.4	8.6	2.4
Price to Book Value	5.4	16.8	1.9	1.0	0.7
Price to Adjusted Book Value	5.4	16.8	1.9	1.0	0.7
Price to Sales Ratio	4.1	7.0	3.1	0.7	0.3
EV / EBITDA	24.7	34.0	15.9	6.3	2.6
EV / Total Operating Income	7.0	7.9	3.7	0.9	0.5
EV / Operating Free Cashflow (Pre- capex)	(103.1)	(64.5)	(6.4)	(4.8)	(7.7)
EV / Net Operating Free Cashflow (Post- capex)	(4.4)	(47.1)	(2.3)	(2.3)	(5.8)
Dividend Yield (%)	-	-	-	-	-
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	1,146.3	2.3	245.1	38.7	304.7
Diluted Recurring CEPS Growth	287.2	(31.6)	199.9	54.9	261.9
Total Operating Income Growth	3,583.2	263.4	125.8	372.1	111.8
EBITDA Growth	(1,523.2)	194.5	126.7	198.3	196.3
Recurring Net Income Growth	1,146.3	539.1	245.1	38.7	304.7
Operating Ratios (%)					
EBITDA Margins	28.6	23.1	23.2	14.7	20.5
EBIT Margins	0.2	0.2	0.3	0.1	0.2
Recurring Pre-tax Income Margins	10.3	17.1	26.3	8.5	16.2
Recurring Net Income Margins	8.0	13.6	19.2	6.4	12.2
Raw Material Consumed / Sales	61.7	70.3	64.7	81.5	76.8
SGA Expenses / Sales	6.7	3.7	8.2	2.6	1.8
Other Income / Pre-tax Income	5.5	25.5	44.2	0.0	0.0
Other Operating Income / EBITDA	0.0	0.0	0.0	0.0	0.0
Effective Tax Rate	22.4	20.7	27.2	25.0	25.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	5.8	16.3	16.7	13.3	25.8
Return on Invested Capital (RoIC)	9.8	19.7	16.4	20.7	37.1
Return on Net Worth (RoNW)	14.4	45.4	23.8	12.5	32.3
Dividend Payout Ratio	0.0	0.0	7.4	0.0	0.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	401.9	222.3	49.2	50.0	53.6
Long Term Debt / Total Debt	100.0	100.0	100.0	100.0	100.0
Net Working Capital / Total Assets	7.5	25.6	33.2	44.1	61.5
Interest Coverage Ratio-based on EBIT	186.8	373.0	679.8	271.3	564.5
Debt Servicing Capacity Ratio (DSCR)	220.7	401.8	681.1	271.0	562.7
Current Ratio	22.8	101.7	147.8	168.8	150.6
Cash and cash equivalents / Total Assets	0.8	2.3	8.2	5.7	1.8
Turnover Ratios					
Inventory Turnover Ratio (x)	12.4	9.2	6.8	7.6	6.1
Assets Turnover Ratio (x)	0.3	0.9	0.7	1.3	1.7
Working Capital Cycle (days)	(237.1)	(39.1)	45.3	41.2	36.4
Average Collection Period (days)	34.1	66.2	103.4	49.2	46.5

Source: Company data, i-SEC Research

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Equity Research

May 21, 2007
BSE Sensex: 14303

INDIA

ICICI Securities

Prajay Engineers Syndicate

BUY

Real Estate

In fine fettle

Rs256

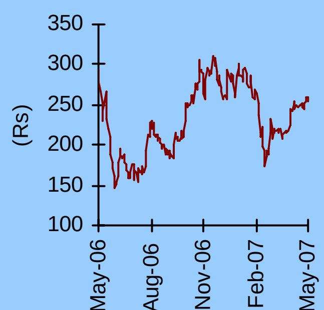
Reason for report: Initiating coverage

Shareholding pattern

	Sep '06	Dec '06	Mar '07
Promoters	19.8	20.2	22.3
Institutional investors	54.0	59.8	58.4
MFs and UTI	0.6	0.3	0.0
Insurance Cos.	0.0	0.0	0.0
FIIs	53.5	59.8	58.3
Others	26.1	20.3	19.3

Source: BSE

Price chart



Prajay Engineers Syndicate is the largest real estate developer in Hyderabad, offering differentiated real estate and hospitality products. The company has made significant capital gains on account of its well located land bank of 850 acres. We estimate Prajay's NAV at over Rs480/share and believe that the company will emerge as one of the fastest growing developers in India.

- **Hyderabad, a sprawling growth opportunity.** Hyderabad has emerged as one of the fastest growing real estate market, led by the booming IT/ITES sector and lower real estate prices. The city boasts of skilled and comparatively cheaper human resources, proactive Government and fewer infrastructural bottlenecks. We remain positive on the Hyderabad real estate market and on the tremendous growth opportunities that the city offers.

- **Strong project pipeline.** Prajay has around 35 projects under various stages of development, with cumulative saleable area of 26mn sqft. These include high-end residential apartments, villas, townships, and retail and entertainment complexes. We estimate the NAV of these projects at Rs8.9bn or Rs226/share.

- **Capital gains on land bank.** Prajay has been acquiring land in the peripheral areas of Hyderabad for the past 10-15 years. With increasing scale of development in the region and the ongoing work on arterial outer ring road, which will reduce the distance from the airport, the capital value of Prajay's land bank has significantly appreciated. The current land bank of the company is 850 acres.

- **Attractive valuation.** We estimate Prajay's NPV at Rs19bn or Rs480/share. In FY07, the company reported revenues and PAT of Rs2bn and Rs772mn, up 2.9x and 3.4x respectively. FY07 fully-diluted EPS of the company was at Rs19.5 against Rs5.7 in FY06. Over the past two years, the company's revenues and PAT have grown 10.5x and 12.4x respectively. We estimate FY08E, FY09E and FY10E EPS at Rs30, Rs55 and Rs78 respectively and initiate coverage with BUY recommendation. Prajay would likely post impressive earnings growth at 59% over the next three years.

Market Cap	Rs10.1bn/US$248.3mn
Reuters/Bloomberg	PRJE.BO/PSE IN
Shares Outstanding (mn)	39.69
52-week Range (Rs)	310/146
Free Float (%)	77.7
FII (%)	58.3
Daily Volume (US$'000)	900
Absolute Return 3m (%)	(2.9)
Absolute Return 12m (%)	(8.8)
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	30.8

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (Rs mn)	730	2,096	4,326	7,716
Net Income (Rs mn)	227	772	1,188	2,164
EPS (Rs)	5.7	19.5	29.9	54.5
% Chg YoY	93.0	239.9	53.8	82.2
P/E (x)	43.6	12.8	8.3	4.6
CEPS (Rs)	6.1	19.8	31.4	56.5
EV/E (x)	8.5	7.9	6.6	3.6
Dividend Yield	-	-	-	-
RoCE (%)	29.7	25.4	16.4	19.7
RoE (%)	64.7	63.0	26.8	26.8

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Impressive project pipeline

Prajay has a pipeline of 35 projects with saleable area of 26mn sqft. The projects are expected to come on stream over the next 4-5 years. Out of the 26mn sqft saleable area, ~72% is residential and the remaining a mix of commercial, retail and entertainment facilities. The company also plans to move towards other Tier II cities in Andhra Pradesh. We estimate Prajay to develop 2.7mn sqft of saleable area in FY08E, which will increase to 4.6mn sqft in FY09E, reaching a steady state development pipeline at ~6mn sqft annually.

Chart 1: Annual development pipeline

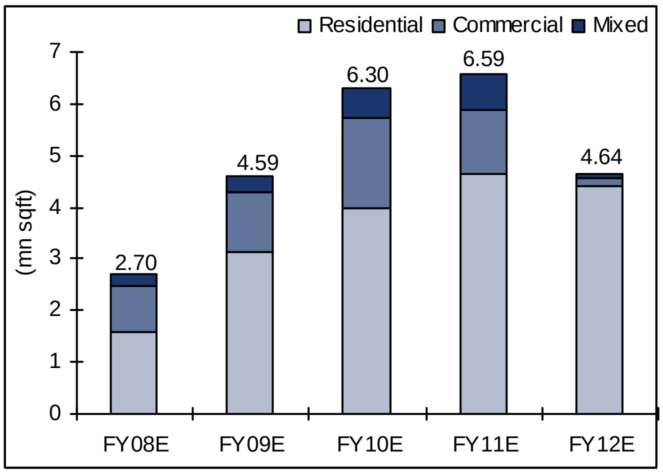
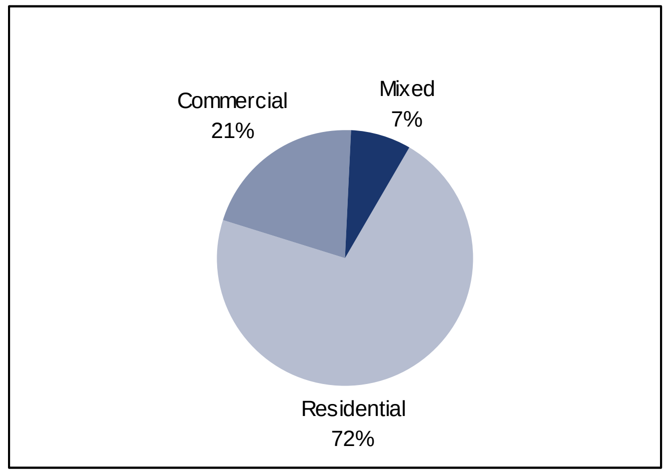


Chart 2: Segmental break-up



Source: Company data, i-SEC Research

Table 1: Project details

Projects	Area (acres)	Ownership (%)	Saleable Area (mn sq ft)	Starting Date	End Date	NAV
Prajay Autopolis Patancheru	35.00	60	2.38	Jun-07	Mar-11	720
Prajay Celebrity Malls Mall with business hotel & multiplex	0.83	100	0.20	Jun-07	Jun-10	236
Prajay Waterfront City duplex housing in gated community100 ac	100.00	89	3.48	Jul-07	May-11	2,164
Prajay Enclave Shamirpet, Duplex housing project	10.33	100	0.38	Aug-06	Feb-10	84
Prajay Ridge wood Premium Residential apartments	1.58	100	0.14	Jun-07	Jun-10	120
Prajay Purva Park MIG Residential apartments	0.90	100	0.08	Sep-07	Sep-09	64
Prajay Bloomingdale at Yapral Residential flats	1.35	100	0.12	Feb-08	Feb-11	70
Prajay Princeton towers Mall, Multiplex and business hotel Including Furnishing	1.60	100	0.62	Jun-07	Mar-10	693
Prajay Littlewoods High end bungalows	0.36	100	0.02	Apr-07	Dec-09	11
Prajay Parkridge Phase I Premium residential apartment	0.41	100	0.04	Jun-07	Jun-09	20
Prajay Ridge wood Premium Residential apartments II	0.11	100	0.01	Jun-07	Jun-09	6
Prajay Ridgewood Premium Residential aptts. III	0.10	100	0.01	Jun-07	Jun-09	6
Prajay Ridgewood Premium Residential aptts. IV	0.11	100	0.01	Jun-07	Jun-09	7
Prajay Technopark IT park at Nacharam	4.49	100	1.24	Jun-07	Jun-09	528
Prajay Serene Valley , Luxury Twin Bungalows	0.28	100	0.01	Sep-06	Sep-09	10
Prajay Sai Vaibhava 302 houses township at Kushaiguda	20.77	100	0.30	Nov-07	Nov-11	122
Prajay Casablanca 325 deluxe golf housing community	24.59	85	0.83	Mar-08	Oct-11	756
Celebrity Villas 80 high end villas as a gated community	8.26	100	0.28	Dec-05	Dec-09	184
Celebrity Homes unsold area to be sold as plots	16.53	100	0.72			194
Country homes unsold area to be sold as plots	17.56	100	0.77			152
Country homes annex unsold area to be sold as plot	5.17	100	0.23			41
Country homes II unsold area to be sold as plots	6.20	100	0.27			45
Prajay Rievera 32 nuclear apptts at Banjara hills	1.16	100	0.11	Oct-07	Jun-10	83
Prajay Gulmohar 302 houses township at Kuntloor	8.88	100	0.26	Sep-08	Nov-11	112
Prajay Gruhtara II Flats to be constructed.	2.07	80	0.12	Jun-07	Oct-10	34
Prajay Windsor park Gated community, shopping mall etc.	6.46	79	0.65	Jun-07	Dec-10	553
Prajay Exotica 1500 high rise condominiums	20.00	91	1.63	Jun-08	Oct-11	1,475
Prajay Ridgewood Premium Residential Aptts V	0.24	100	0.02	Jun-07	Jun-10	10
Prajay Ridgewood Premium Residential Aptt. VI	0.24	100	0.02	Jun-07	Jun-10	10
Prajay Megapolis Mixed Luxury Residential & comm. Dev	20.00	89	2.00	Mar-06	Mar-11	2,973
Prajay Harbour City 1044 houses resid. Gated township	83.12	100	1.30	May-06	Dec-10	532
Land at Maheshwaram	70.00	63	2.58	Aug-07	Aug-11	579
Land at Khosla Garden Maheshwaram	85.80	100	4.55	Aug-07	Mar-12	1,524
Prajay One square, Kukatpally Shopping mall	0.32	100	0.07	Jun-07	Jun-09	61
Prajay Velocity, Moosapet, Shopping mall	3.06	100	0.60	Nov-07	Mar-12	640
Total	**557.86**		**26.05**			**14,819**

Source: Company data, i-SEC Research

Prajay has significant exposure to the hospitality sector, which will likely result in significant growth over the next 3-4 years The company is developing a holiday resort in Shamirpet consisting of luxury cottages, restaurants and leisure & entertainment facilities along with three five star hotels, one four star and one three star hotel and 18 hole PAGA championship class golf course. The golf course is on a BOOT agreement with the Andhra Pradesh Government for 35 years and Prajay will have the right to retain the golf course in the bidding process after 35 years. We estimated the fair value of hospitality segment at more than Rs1.6bn (based on FY08E P/E of 15x), though there exists an upside to this valuation, which can be ascertained once the projects are closer to completion.

Table 2: Pipeline in hospitality & leisure segment

Star / Class	Location	Number of rooms
5 Star deluxe resort hotel	Goa	275
5 Star deluxe hotel	Hyderabad, Hitech City	400 with 150 service apartments
5 Star destination hotel	Hyderabad, Antheypalli near Biotech Park	300 and a convention centre
4 Star hotel	Hyderabad, Shamirpet	144
3 Star hotel	Hyderabad, Abids, Celebrity Mall	140
Business Class Hotel	Hyderabad, near Outer Ring Road within Prajay Princeton Towers	200
18 hole PGA championship class golf course	Antheypalli	

Source: Company data

Valuations

We estimate the fair value of the company at Rs19bn or Rs480/share. This is based on the discounted value of the projects under planning and development over the next 4-5 years at Rs8.9bn or Rs226/share. The company's hospitality segment has been valued at Rs1.6bn or Rs40.8/share. We have assigned Rs5.9bn or Rs150/share as the terminal value, which is based on the assumption of 6mn sqft of steady state annual development by the company.

Table 3: NAV calculation

Assumptions			
Discount Rate (%)	15	15	15
Tax Rate (%)	34	34	34
Other expenses (%)	15	15	15
Drop in selling prices (%)	0	15	30
Increase in construction cost (%)	0	10	15
Delay factor (days)	0	100	200
Project NAV (mn)	**14,819**	**8,972**	**4,096**
NAV (mn)/Acre	29.8	18.0	8.2
NAV (Rs)/sq ft	569	344	157
NAV hotel & resort business	1,800	1,620	1,458
Terminal Value (@ 0% growth rate, 15% WACC)	9,281	5,966	2,652
Net of debt, current assets and cash	(2,500)	(2,500)	(2,500)
Total NAV	**28,399**	**19,058**	**10,706**
NAV/share	**716**	**480**	**270**
Market Cap	9,909	9,909	9,909
Market Cap discount to NAV (%)	**65**	**48**	**7**

Source: i-SEC Research

Company background

Prajay has over 20 years of experience in real estate and construction. The Hyderabad-based developer started as a medium cost residential developer and over the past three years shifted focus to high-end residential, commercial and hospitality sectors. Prajay has completed ~75 projects till date, with cumulative development of 5mn sqft. The company has low-cost land banks on the peripheral areas of the city - Hi Tech City, Shamirpet, Madhapur, Kodapur and Shamshabad. Prajay enjoys strong execution capability with impressive reputation in Hyderabad.

Risks

Frequent equity dilution. Prajay had raised US$14mn through an FCCB issue in '05 at a conversion price of Rs75 to fund expansion. Further, US$60 was raised through another FCCB recently at a conversion price of Rs208. Also, a total of 5.35mn warrants have been issued to the promoters over the past two years. Equity base of the company has grown from 14.9mn to 39.69mn; however, we do not expect further equity dilution in the next two years.

Annexure 1: Financials

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Gross Sales	233	730	2,096	4,326	7,716	10,806
Less: Excise Duty	-	-	-	-	-	-
Net Sales	**233**	**730**	**2,096**	**4,326**	**7,716**	**10,806**
of which Export Sales						
of which Domestic Sales	*233*	*730*	*2,096*	*4,326*	*7,716*	*10,806*
Other Operating Income						
Total Operating Income	**233**	**730**	**2,096**	**4,326**	**7,716**	**10,806**
Less:						
Raw Material Consumed	125	362	1,031	2,379	4,244	5,943
Other Manufacturing Expenses	-	-	-	-	-	-
Power and Fuel	-	-	-			
Personnel Expenses	15	22	26	32	38	46
Selling and Distribution Expenses	15	36	49	59	70	84
Other Expenses	4	-	-	-	-	-
Total Operating Expenses	**159**	**420**	**1,106**	**2,469**	**4,352**	**6,073**
	74	310	990	1,856	3,364	4,733
EBITDA	**74**	**310**	**990**	**1,856**	**3,364**	**4,733**
Depreciation & Amortisation	9	13	14	60	79	79
Other Income	5	7	33	-	-	-
EBIT	**70**	**304**	**1,008**	**1,796**	**3,285**	**4,654**
Less: Gross Interest	18	19	59	99	102	106
Recurring Pre-tax Income	**52**	**285**	**949**	**1,697**	**3,183**	**4,548**
Add: Extraordinary Income	-	-	-	-	-	-
Less: Extraordinary Expenses	-	-	-	-	-	-
Less: Taxation	7	58	177	509	1,019	1,455
--Current Tax	*6*	*50*	-	-	-	-
--Deferred Tax	*1*	*8*	-	-	-	-
Net Income (Reported)	**44**	**227**	**772**	**1,188**	**2,164**	**3,093**
Recurring Net Income	**45**	**227**	**772**	**1,188**	**2,164**	**3,093**

Source: Company data, i-SEC Research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
ASSETS						
Current Assets, Loans & Advances						
Cash & Bank balance	5	43	(792)	858	1,176	3,134
Inventory	148	2,912	6,568	9,048	11,929	13,689
Sundry Debtors	55	451	677	880	1,144	1,487
Loans and Advances	24	273	573	973	1,473	2,073
Operational	24	273	573	973	1,473	2,073
Others						
Other Current Assets	0	26	26	26	26	26
Total Current Assets	**232**	**3,705**	**7,052**	**11,785**	**15,748**	**20,409**
Current Liabilities & Provisions						
Current Liabilities	**91**	**2,511**	**3,515**	**4,570**	**6,389**	**7,979**
Sundry Creditors	49	2,488	3,483	4,527	6,338	7,923
Other Current Liabilities	42	23	33	42	51	56
Provisions	**40**	**98**	**137**	**137**	**137**	**137**
Total Current Liabilities and Provisions	**132**	**2,609**	**3,653**	**4,707**	**6,527**	**8,116**
Net Current Assets	**100**	**1,096**	**3,400**	**7,078**	**9,221**	**12,293**
Investments						
Strategic & Group Investments	-	-	-	-	-	-
Total Investments	-	-	-	-	-	-
Fixed Assets						
Gross Block	222	277	1,777	3,277	3,377	3,477
Less Accumulated Depreciation	32	45	59	120	198	277
Net Block	191	233	1,718	3,158	3,179	3,200
Add: Capital Work in Progress	-	9	-	-	-	-
Less: Revaluation Reserve	-	-	-	-	-	-
Total Fixed Assets	**191**	**242**	**1,718**	**3,158**	**3,179**	**3,200**
Total Assets	**292**	**1,338**	**5,118**	**10,236**	**12,401**	**15,493**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Borrowings						
Short Term Debt	-	-	-	-	-	-
Non-Convertible Preference Shares	-	-	-	-	-	-
Long Term Debt	162	740	3,240	3,240	3,240	3,240
Total Borrowings	**162**	**740**	**3,240**	**3,240**	**3,240**	**3,240**
Deferred Tax Liability	**-**	**25**	**-**	**-**	**-**	**-**
Share Capital						
Paid up Equity Share Capital	*77*	*149*	*217*	*397*	*397*	*397*
No. of Shares outstanding (mn)	*15*	*40*	*40*	*40*	*40*	*40*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*	*10*
Preference Share Capital (convertible)						
Reserves & Surplus						
Share Premium	-	185	693	4,443	4,443	4,443
General & Other Reserve	52	239	969	2,157	4,321	7,414
Less: Misc. Exp. not written off	-	-	-	-	-	-
Less: Revaluation Reserve	-	-	-	-	-	-
Net Worth	**129**	**574**	**1,878**	**6,996**	**9,161**	**12,253**
Total Liabilities & Shareholders' Equity	**292**	**1,338**	**5,119**	**10,236**	**12,401**	**15,493**

Source: Company data, i-SEC Research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Cash Flow from Operating Activities						
Reported Net Income	44	227	772	1,188	2,164	3,093
Add:						
Depreciation & Amortisation	8	13	14	60	79	79
Provisions	20	58	39	-	-	-
Deferred Taxes	1	8	-	-	-	-
Less:						
Other Income	5	7	33	-	-	-
Net Extra-ordinary income	-	-	-	-	-	-
Operating Cash Flow before Working Capital change (a)	**69**	**299**	**793**	**1,248**	**2,243**	**3,172**
Changes in Working Capital						
(Increase) / Decrease in Inventories	236	(2,764)	(3,656)	(2,480)	(2,881)	(1,761)
(Increase) / Decrease in Sundry Debtors	(32)	(396)	(226)	(203)	(264)	(343)
(Increase) / Decrease in Operational Loans & Adv.	90	(249)	(300)	(400)	(500)	(600)
(Increase) / Decrease in Other Current Assets	-	(26)	-	-	-	-
Increase / (Decrease) in current liabilities	(338)	2,420	1,004	1,055	1,819	1,590
Increase / (Decrease) in Other Current Liabilities						
Working Capital Inflow / (Outflow) (b)	(44)	(1,015)	(3,178)	(2,028)	(1,825)	(1,114)
Net Cash flow from Operating Activities (a) + (b)	**24**	**(717)**	**(2,384)**	**(780)**	**418**	**2,057**
Cash Flow from Capital commitments						
Purchase of Fixed Assets	(29)	(64)	(1,491)	(1,500)	(100)	(100)
Purchase of Investments	3	-	-	-	-	-
Consideration paid for acquisition of undertaking						
Cash Inflow/(outflow) from capital commitments (c)	**(27)**	**(64)**	**(1,491)**	**(1,500)**	**(100)**	**(100)**
Free Cash flow after capital commitments (a) + (b) + (c)	**(2)**	**(781)**	**(3,875)**	**(2,280)**	**318**	**1,957**
Cash Flow from Investing Activities						
Purchase of Marketable Investments	-	-	-	-	-	-
(Increase) / Decrease in Other Loans & Advances	-	-	-	-	-	-
Other Income	5	7	33	-	-	-
Net Cash flow from Investing Activities (d)	**5**	**7**	**33**	-	-	-
Cash Flow from Financing Activities						
Issue of Share Capital during the year	0	72	68	180	-	-
Proceeds from fresh borrowings	14	578	2,500	-	-	-
Repayment of Borrowings						
Buyback of Shares	-	-	-	-	-	-
Dividend paid including tax	-	-	-	-	-	-
Others	(16)	163	440	3,750	-	-
Net Cash flow from Financing Activities (e)	**(2)**	**812**	**3,008**	**3,930**	-	-
Net Extra-ordinary Income (f)	-	-	-	-	-	-
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**-**	**38**	**(834)**	**1,650**	**318**	**1,957**
Opening Cash and Bank balance	**4**	**5**	**43**	**(792)**	**858**	**1,176**
Closing Cash and Bank balance	**5**	**43**	**(792)**	**858**	**1,176**	**3,134**
Increase/(Decrease) in Cash and Bank balance	**1**	**38**	**(834)**	**1,650**	**318**	**1,957**

Source: Company data, i-SEC Research

Table 7: Key ratios

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E	FY10E
Per Share Data (Rs)						
Diluted Recurring Earning per share (DEPS)	3.0	5.7	19.5	29.9	54.5	77.9
Diluted Earnings per share	2.9	5.7	19.5	29.9	54.5	77.9
Recurring Cash Earnings per share (CEPS)	3.6	6.1	19.8	31.4	56.5	79.9
Free Cashflow per share (FCPS-post capex)	(0.2)	(19.7)	(97.6)	(57.5)	8.0	49.3
Reported Book Value (BV)	8.6	14.5	47.3	176.3	230.8	308.7
Dividend per share	-	-	-	-	-	-
Valuation Ratios (x)						
Diluted Price Earning Ratio	84.2	43.6	12.8	8.3	4.6	3.2
Price to Recurring Cash Earnings per share	70.0	41.2	12.6	7.9	4.4	3.1
Price to Book Value	29.0	17.3	5.3	1.4	1.1	0.8
Price to Adjusted Book Value	29.0	17.3	5.3	1.4	1.1	0.8
Price to Sales Ratio	1.1	0.3	0.1	0.1	-	-
EV / EBITDA	28.1	8.5	7.9	6.6	3.6	2.1
EV / Total Operating Income	9.0	3.6	3.7	2.8	1.6	0.9
EV / Operating Free Cash Flow (Pre-Capex)	86.1	(3.7)	(3.3)	(15.8)	28.7	4.9
EV / Net Operating Free Cash Flow (Post-Capex)	(905.5)	(3.4)	(2.0)	(5.4)	37.7	5.1
Dividend Yield (%)	-	-	-	-	-	-
Growth Ratios (% YoY)						
Diluted Recurring EPS Growth	197.1	93.0	239.9	53.8	82.2	42.9
Diluted Recurring CEPS Growth	82.1	70.0	227.0	58.6	79.7	41.4
Total Operating Income Growth	31.0	213.7	187.1	106.4	78.4	40.0
EBITDA Growth	109.0	317.9	219.2	87.6	81.2	40.7
Recurring Net Income Growth	477.9	410.8	239.9	53.8	82.2	42.9
Operating Ratios (%)						
EBITDA Margins	31.9	42.5	47.2	42.9	43.6	43.8
EBIT Margins	0.3	0.4	0.5	0.4	0.4	0.4
Recurring Pre-tax Income Margins	21.7	38.7	44.6	39.2	41.3	42.1
Recurring Net Income Margins	18.7	30.8	36.3	27.5	28.1	28.6
Raw Material Consumed / Sales	53.5	49.5	49.2	55.0	55.0	55.0
SGA Expenses / Sales	6.4	4.9	2.3	1.4	0.9	0.8
Other Income / Pre-tax Income	9.1	2.5	3.5	-	-	-
Other Operating Income / EBITDA	-	-	-	-	-	-
Effective Tax Rate	13.7	20.3	18.6	30.0	32.0	32.0
Return / Profitability Ratios (%)						
Return on Capital Employed (RoCE)-Overall	22.4	29.7	25.4	16.4	19.7	22.7
Return on Invested Capital (RoIC)	27.9	39.2	27.5	24.3	32.7	40.1
Return on Net Worth (RoNW)	38.9	64.7	63.0	26.8	26.8	28.9
Dividend Payout Ratio	-	-	-	-	-	-
Solvency Ratios / Liquidity Ratios (%)						
Debt Equity Ratio (D/E)	125.8	133.4	172.5	46.3	35.4	26.4
Long Term Debt / Total Debt	100.0	100.0	100.0	100.0	100.0	100.0
Net Working Capital / Total Assets	32.8	78.7	81.9	60.8	64.9	59.1
Interest Coverage Ratio-based on EBIT	379.9	1,625.7	1,709.7	1,809.8	3,205.8	4,401.7
Debt Servicing Capacity Ratio (DSCR)	(938.4)	(336.6)	(127.7)	(1,129.4)	82.4	1,276.5
Current Ratio	157.4	131.5	177.4	229.7	218.7	225.9
Cash and cash equivalents / Total Assets	1.5	3.2	(15.5)	8.4	9.5	20.2
Turnover Ratios						
Inventory Turnover Ratio (x)	0.5	0.2	0.2	0.3	0.4	0.5
Assets Turnover Ratio (x)	0.9	0.9	0.7	0.6	0.7	0.8
Working Capital Cycle (days)	28.5	224.4	317.7	376.8	327.6	303.4
Average Collection Period (days)	61.3	126.6	98.2	65.7	47.9	44.4
Average Payment Period (days)	137.5	1,102.4	984.7	592.0	455.7	428.6

Source: Company data, i-SEC Research

Equity Research

May 21, 2007

BSE Sensex: 14303

INDIA

D S Kulkarni Developers

BUY

Real Estate

Unlocking value

Rs286

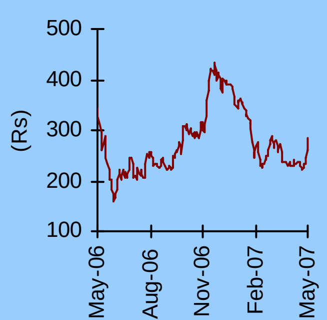
Reason for report: Initiating coverage

Shareholding pattern

	Sep '06	Dec '06	Mar '07
Promoters	21.4	21.4	21.4
Institutional investors	40.8	40.2	34.8
MFs and UTI	8.2	9.6	10.9
Insurance Cos.	0	0.2	2.1
FIIs	32.6	30.3	21.4
Others	37.7	38.4	43.8

Source: NSE

Price chart



D S Kulkarni Developers (DSK) is the largest Pune-based real estate developer and is emerging as one of the fastest growing companies in West India. The company has a land bank of 650 acres with 23mn sqft developable area. DSK's vast project pipeline includes high-end to low-end housing and mega SEZ & township projects. The company boasts of a high-quality management, superior execution capability and robust project pipeline. We estimate DSK's NPV at Rs9.4bn or Rs427/share and believe that the company has immense growth potential on the back of its strong project pipeline.

- **Pune real estate – Potential for further appreciation.** Availability of extensive pieces of land, low real estate prices and presence of a plethora of IT/ITES & manufacturing units and recognised educational institutes in Pune would lead to further price appreciation in the region.

- **Robust project pipeline.** At present, DSK has 17 projects with 23mn sqft cumulative saleable area in various development phases. The majority (97%) of the projects are in the peripheral areas of Pune with a few developments forthcoming in Mumbai and Bangalore. We estimate the projects' NAV at Rs6.3bn or Rs284/share.

- **Rapid earnings growth.** Over the next three years, we estimate earnings CAGR at 87% to Rs1.16bn in FY09E on the back of strong build-up in the project pipeline. Similarly, we expect revenue CAGR at 79% through the next three years.

- **Impressive valuations.** We estimate DSK's NPV value at Rs9.4bn or Rs427/share based on the sum of project, terminal and other asset values at Rs6.3bn, Rs3bn and Rs1.7bn respectively. In FY06, DSK registered Rs1.3bn revenue, Rs176mn PAT and Rs8 EPS. Our FY07E, FY08E and FY09E EPS estimates are at Rs16.3, Rs29.1 and Rs52.5 respectively. We initiate coverage with BUY recommendation on the back of attractive discount to NPV and strong earnings growth.

Market Cap	Rs6.3bn/US$154mn
Reuters/Bloomberg	DSKL.BO/DSK IN
Shares Outstanding (mn)	22.0
52-week Range (Rs)	432/159
Free Float (%)	78.6
FII (%)	21.4
Daily Volume (US$'000)	1,000
Absolute Return 3m (%)	6.3
Absolute Return 12m (%)	(12.7)
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	30.8

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (Rs mn)	1,330	2,310	4,410	7,680
Net Income (Rs mn)	176	323	641	1,160
EPS (Rs)	8.0	14.7	29.1	52.5
% Chg YoY	139.3	103.2	79.3	80.1
P/E (x)	35.7	17.6	9.8	5.4
CEPS (Rs)	8.1	16.5	29.6	53.1
EV/E (x)	19.0	10.8	9.0	4.7
Dividend Yield	-	-	-	-
RoCE (%)	17.5	20.7	24.0	30.1
RoE (%)	64.7	62.9	56.6	57.0

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Projects

At present, DSK has 17 projects in various phases of development with cumulative saleable area of 23mn sqft. Most developments (97%) are in the peripheral areas of Pune, with a few coming up in Mumbai and Bangalore.

Table 1: Project pipeline

Particulars	Saleable Area (Sq. ft.)	Start Date	End Date	NAV (Rs mn)
DSK Vishwa IT Park	1,200,000	Jun-07	Dec-08	1,176
DSK Garden Enclave	244,176	Jun-05	Dec-07	27
DSK Madhuban	309,024	Jan-06	Dec-08	169
DSK Vishwa Saptsur	475,496	Jul-05	Dec-07	28
DSK Sayanatara - Plots	435,180	Sold	Sold	
DSK Sayanatara - Designer Bunglows	8,716	Dec-05	Jun-07	0
DSK Sayanatara - Villa	50,567	Feb-07	Mar-09	42
DSK Sundarban	626,016	Jul-05	Dec-07	32
DSK Rohan	14,997	Nov-05	Apr-07	(1)
DSK Fortuna	117,394	Jun-07	Dec-09	24
DSK Vishwa Ph. V, VI & VII	1,055,000	Jun-07	Feb-10	318
DSK Frangipani	134,220	Jul-05	Jan-07	(28)
DSK Vishwa Ph. VIII	2,000,000	Jun-08	Jun-13	603
DSK Vishwa Ph. IX	1,664,096	Jul-08	Jun-13	641
DSK Project Balewadi	825,100	Jul-08	Jun-13	253
DSK Project Baner	112,290	Jul-08	Jun-13	25
DSK Meenakshi Bangalore	175,200	Jul-08	Jun-13	46
DSK Empire - SEZ	6,261,750	Jul-08	Jun-13	3,055
DSK Empire - Township	3,539,250	Jul-08	Jun-13	2,170
Integrated Township	3,680,820	Jul-08	Jun-13	2,060
Total	**22,929,292**			**10,641**

Source: Company data, i-SEC Research

DSK's construction is primarily in-house; however, going forward, the company is looking at outsourcing larger projects. DSK has presence across all segments of residential development, from mass housing to super luxury apartments and villas. Recently, as part of its Vishwa project, targetted at lower residential housing, DSK sold 1,000 flats in a single day at Rs0.45mn/flat.

DSK's project portfolio includes mega townships of 7.2mn sqft and SEZ development of 6.3mn sqft. DSK's cumulative land bank is 650 acres, 23% of which is residential and 5% commercial. DSK's work-in-progress is ~3.6mn sqft, and is expected at 4mn sqft by end-FY08.

Chart 1: Annual development pipeline

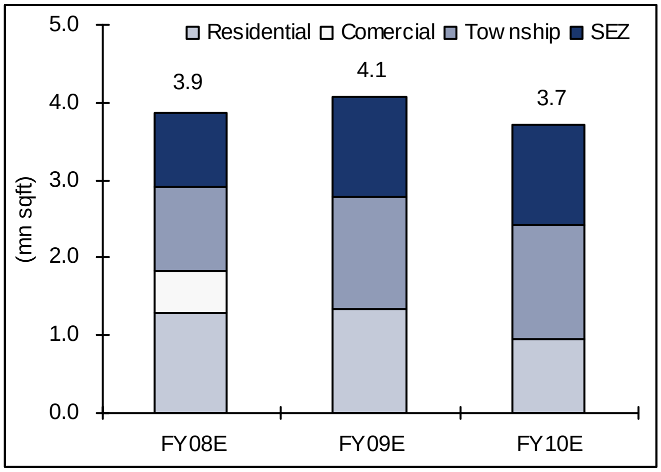
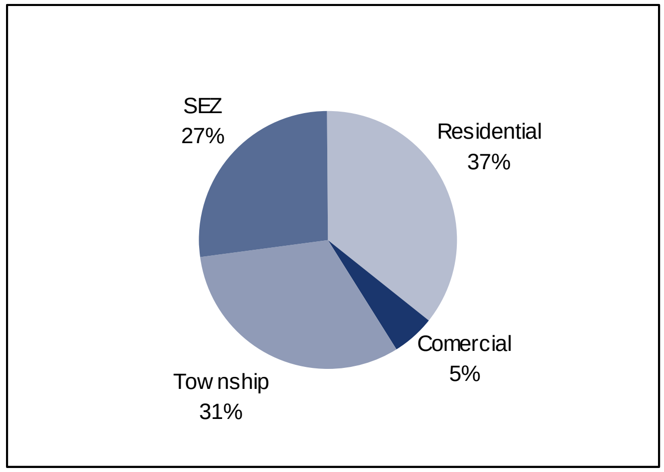


Chart 2: Segmental break-up



Source: Company data, i-SEC Research

Valuations

We estimate DSK's NPV at Rs9.4bn or Rs427/share. We have estimated the project NAV (based on conservative price estimates) at Rs6.3bn with average PAT realisation of Rs273/sqft.

Table 2: NPV calculation

(Rs mn)

Drop in selling prices	0%	15%	30%
Hike in Construction Prices (%)	0	10	15
Tax Rate (%)	30	30	30
Discount Rate (%)	15	15	15
NAV of the projects	10,669	6,256	3,576
Terminal value	5,764	3,026	1,297
Leased assets	667	533	427
US JV	480	360	240
Total NAV	17,580	10,176	5,540
Net of other current assets, Debt & Cash	(777)		
NPV	16,802	9,398	4,762
NPV/share	764	427	216

Source: i-SEC Research

Further, DSK has a 100% subsidiary in the US, which currently manages residential projects in New Jersey. The subsidiary annually executes 10-15 villa projects, making a reasonable profit; we value the subsidiary at Rs360mn. DSK has plans for similar forays in the Middle East and Australia in the long term.

We have ascribed Rs3bn terminal value based on the assumption of 3.5mn sqft annual growth and Rs300/sqft PAT level realisation. Within the current project pipeline, ~7-8mn sqft is covered by tax shelter under Section 80 I B.

Company background

DSK has >25 years experience in residential construction and has delivered 13mn sqft of developed properties. The company was incorporated in 1991 and was listed through an IPO in 1993. DSK is an ISO 9001:2000, 14001:2004 and OHSAS 18001:1999 certified company and boasts of good execution capabilities. The company follows a policy of imposing self-penalty in the presence of its project-related customers for delay in project delivery. DSK has a 650 acres or 23mn sqft land bank, mainly in Pune.

Risk

Valuations predominantly depend on the success of large projects (SEZ and township) and execution bottlenecks could affect company valuations.

DSK is exceedingly reliant on the property market in Pune and a downturn or low absorption in the market could have a severe impact on the company.

Annexure 1: Financials

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
Gross Sales	534	1,330	2,310	4,410	7,680
Less: Excise Duty	-	-	-	-	-
Net Sales	**534**	**1,330**	**2,310**	**4,410**	**7,680**
of which Export Sales	-	-	-	-	-
of which Domestic Sales	*534*	*1,330*	*2,310*	*4,410*	*7,680*
Other Operating Income	-	-	-	-	-
Total Operating Income	**534**	**1,330**	**2,310**	**4,410**	**7,680**
Less:					
Raw Material Consumed	443	1,040	1,747	3,264	5,622
Other Manufacturing Expenses					
Power and Fuel					
Personnel Expenses	6	15	25	48	84
Selling and Distribution Expenses	19	59	113	216	310
Other Expenses	-	-	-	-	-
R&D Expenses	-	-	-	-	-
Less Amounts Capitalised	-	-	-	-	-
Total Operating Expenses	**467**	**1,114**	**1,886**	**3,529**	**6,016**
EBITDA	**67**	**216**	**424**	**881**	**1,664**
Depreciation & Amortisation	2	3	5	10	14
Other Income	2	5	-	-	-
EBIT	**67**	**218**	**419**	**872**	**1,650**
Less: Gross Interest	27	21	40	71	103
Recurring Pre-tax Income	**39**	**197**	**379**	**801**	**1,546**
Add: Extraordinary Income	-	-	-	-	-
Less: Extraordinary Expenses	-	-	-	-	-
Less: Taxation	2	21	57	160	387
--Current Tax	*3*	*21*	*57*	*160*	*387*
--Deferred Tax	*(1)*	*(1)*			
Net Income (Reported)	**37**	**176**	**323**	**641**	**1,160**
Recurring Net Income	**37**	**176**	**358**	**641**	**1,160**

Source: Company data, i-SEC Research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	20	85	165	314	644
Inventory	1,060	2,244	4,455	7,030	9,900
Sundry Debtors	43	22	24	27	30
Loans and Advances	15	243	800	757	853
Operational	15	243	800	757	853
Total Current Assets	**1,138**	**2,594**	**5,444**	**8,129**	**11,427**
Current Liabilities & Provisions					
Current Liabilities	**286**	**1,162**	**3,000**	**4,734**	**6,667**
Provisions	**12**	**75**	**75**	**75**	**75**
Total Current Liabilities and Provisions	**298**	**1,237**	**3,075**	**4,809**	**6,741**
Net Current Assets	**840**	**1,357**	**2,369**	**3,320**	**4,685**
Investments					
Strategic & Group Investments	-	-	-	-	-
Total Investments	-	-	-	-	-
Fixed Assets					
Gross Block	29	34	64	114	174
Less Accumulated Depreciation	15	18	23	33	47
Net Block	14	17	41	82	127
Total Fixed Assets	**14**	**17**	**41**	**82**	**127**
Total Assets	**854**	**1,374**	**2,411**	**3,402**	**4,813**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Short Term Debt	-	-	-	-	-
Non-Convertible Preference Shares	-	-	-	-	-
Long Term Debt	628	1,042	1,592	1,942	2,192
Total Borrowings	**628**	**1,042**	**1,592**	**1,942**	**2,192**
Deferred Tax Liability	**8**	**7**	**7**	**7**	**7**
Share Capital					
Paid up Equity Share Capital	*110*	*110*	*220*	*220*	*221*
No. of Shares outstanding (mn)	*11*	*22*	*22*	*22*	*22*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*
Reserves & Surplus					
Share Premium	2	19	19	19	19
General & Other Reserve	107	215	573	1,214	2,374
Less: Misc. Exp. not written off	-	20	-	-	-
Less: Revaluation Reserve					
Net Worth	**219**	**325**	**812**	**1,453**	**2,614**
Total Liabilities & Shareholders' Equity	**854**	**1,374**	**2,411**	**3,402**	**4,813**

Source: Company data, i-SEC Research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
Cash Flow from Operating Activities					
Reported Net Income	37	176	323	641	1,160
Add:					
Depreciation & Amortisation	2	2	5	10	14
Provisions	1	63	-	-	-
Deferred Taxes	(1)	(1)	-	-	-
Less:					
Other Income	2	5	-	-	-
Net Extra-ordinary income	-	-	-	-	-
Operating Cash Flow before Working Capital change (a)	**37**	**235**	**328**	**651**	**1,174**
Changes in Working Capital					
(Increase) / Decrease in Inventories	(182)	(1,184)	(2,211)	(2,575)	(2,870)
(Increase) / Decrease in Sundry Debtors	(11)	21	(2)	(2)	(3)
(Increase) / Decrease in Operational Loans & Adv.	59	(228)	(557)	43	(96)
(Increase) / Decrease in Other Current Assets	-	-	-	-	-
Increase / (Decrease) in current liabilities	(159)	877	1,838	1,734	1,933
Increase / (Decrease) in Other Current Liabilities	-	-	-	-	-
Working Capital Inflow / (Outflow) (b)	(293)	(515)	(932)	(801)	(1,036)
Net Cash flow from Operating Activities (a) + (b)	**(257)**	**(280)**	**(605)**	**(150)**	**138**
as a % of Operating Cash Flow					
Cash Flow from Capital commitments					
Purchase of Fixed Assets	(4)	(5)	(30)	(50)	(60)
Purchase of Investments	-	-	-	-	-
Consideration paid for acquisition of undertaking					
Cash Inflow/(outflow) from capital commitments (c)	**(4)**	**(5)**	**(30)**	**(50)**	**(60)**
Free Cash flow after capital commitments (a) + (b) + (c)	**(260)**	**(285)**	**(635)**	**(200)**	**78**
Cash Flow from Investing Activities					
Purchase of Marketable Investments	-	-	-	-	-
(Increase) / Decrease in Other Loans & Advances	-	-	-	-	-
Other Income	2	5	-	-	-
Net Cash flow from Investing Activities (d)	**2**	**5**	-	-	-
Cash Flow from Financing Activities					
Issue of Share Capital during the year	-	-	110	-	1
Proceeds from fresh borrowings	255	414	550	350	250
Repayment of Borrowings					
Buyback of Shares	-	-	-	-	-
Dividend paid including tax	(9)	(50)	-	-	-
Others	(0)	(20)	55	-	-
Net Cash flow from Financing Activities (e)	**246**	**344**	**715**	**350**	**251**
Net Extra-ordinary Income (f)	-	-	-	-	-
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**(12)**	**65**	**80**	**150**	**329**
Opening Cash and Bank balance	**32**	**20**	**85**	**165**	**314**
Closing Cash and Bank balance	**20**	**85**	**165**	**314**	**644**
Increase/(Decrease) in Cash and Bank balance	**(12)**	**65**	**80**	**150**	**329**

Source: Company data, i-SEC Research

Table 6: Cash flow statement

(Rs mn, year ending March 31)

	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Recurring Earning per share (DEPS)	3.3	8.0	16.3	29.1	52.5
Diluted Earnings per share	3.3	8.0	14.7	29.1	52.5
Recurring Cash Earnings per share (CEPS)	3.5	8.1	16.5	29.6	53.1
Free Cashflow per share (FCPS-post capex)	(23.7)	(12.9)	(28.8)	(9.1)	3.5
Reported Book Value (BV)	19.9	14.8	36.9	66.0	118.3
Adjusted Book Value (ABV) **	19.9	14.8	36.9	66.0	118.3
Dividend per share	0.7	2.0	-	-	-
Valuation Ratios (x)					
Diluted Price Earning Ratio	85.5	35.7	17.6	9.8	5.4
Price to Recurring Cash Earnings per share	80.7	35.1	17.3	9.7	5.4
Price to Book Value	14.4	19.4	7.7	4.3	2.4
Price to Adjusted Book Value	14.4	19.4	7.7	4.3	2.4
Price to Sales Ratio	0.5	0.2	0.1	0.1	0.0
EV / EBITDA	56.2	19.0	10.8	9.0	4.7
EV / Total Operating Income	7.0	3.1	2.0	1.8	1.0
EV / Operating Free Cash Flow (Pre-Capex)	(14.6)	(14.7)	(7.6)	(52.7)	56.7
EV / Net Operating Free Cash Flow (Post-Capex)	(14.4)	(14.4)	(7.2)	(39.5)	100.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	148.2	139.3	103.2	79.3	80.1
Diluted Recurring CEPS Growth	126.2	129.6	102.7	79.4	79.7
Total Operating Income Growth	4.5	149.0	73.7	90.9	74.1
EBITDA Growth	95.7	223.2	96.6	107.8	88.8
Recurring Net Income Growth	148.2	378.7	103.2	79.3	80.9
Operating Ratios (%)					
EBITDA Margins	12.5	16.2	18.4	20.0	21.7
EBIT Margins	0.1	0.2	0.2	0.2	0.2
Recurring Pre-tax Income Margins	7.3	14.7	16.4	18.2	20.1
Recurring Net Income Margins	6.9	13.2	15.5	14.5	15.1
Raw Material Consumed / Sales	83.0	78.2	75.6	74.0	73.2
SGA Expenses / Sales	3.5	4.4	4.9	4.9	4.0
Other Income / Pre-tax Income	5.5	2.6	-	-	-
Other Operating Income / EBITDA	-	-	-	-	-
Effective Tax Rate	6.3	10.5	15.0	20.0	25.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	8.8	17.5	20.7	24.0	30.1
Return on Invested Capital (RoIC)	9.7	20.3	24.0	33.1	45.9
Return on Net Worth (RoNW)	17.9	64.7	62.9	56.6	57.0
Dividend Payout Ratio	20.9	25.0	-	-	-
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	290.4	323.0	196.9	134.1	84.1
Long Term Debt / Total Debt	100.0	100.0	100.0	100.0	100.0
Net Working Capital / Total Assets	96.0	92.6	91.4	88.4	84.0
Interest Coverage Ratio-based on EBIT	242.7	1,022.3	1,060.4	1,233.6	1,596.3
Debt Servicing Capacity Ratio (DSCR)	(380.2)	(11.8)	(426.5)	(752.8)	(889.8)
Current Ratio	377.1	190.0	151.0	153.3	156.8
Cash and cash equivalents / Total Assets	2.3	6.2	6.8	9.2	13.4
Turnover Ratios					
Inventory Turnover Ratio (x)	0.5	0.6	0.5	0.6	0.7
Assets Turnover Ratio (x)	0.8	1.2	1.2	1.5	1.9
Working Capital Cycle (days)	448.0	266.1	212.0	171.0	152.0
Average Collection Period (days)	25.8	9.0	3.7	2.1	1.3
Average Payment Period (days)	-	-	-	-	-

Source: Company data, i-SEC Research

Equity Research
May 21, 2007
BSE Sensex: 14303

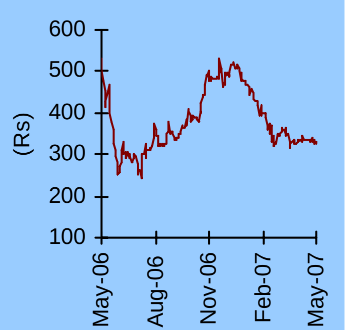
Real Estate

Shareholding pattern

	Jun' 06	Dec '06	Mar '07
Promoters	40.3	39.3	39.5
Institutional investors	11.8	17.6	19.8
MFs and UTI	0.4	0.9	0.7
Insurance Cos.	0.0	0.0	0.0
FIIs	11.6	16.7	19.1
Others	47.8	43.2	40.7

Source: NSE

Price chart



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INDIA

Arihant Foundations & Housing

Unrated

Bedrock of growth

Rs325

Arihant Foundations and Housing (AFHL) is a Chennai-based real estate company with 25 years of track record. On the back of sound management, the company is focussed towards strong and steady growth in South India, particularly Chennai. We estimate the NPV for AFHL at Rs3.2bn or Rs460/share and believe that it can increase further as only the project pipeline for the next three years has been factored in. AFHL is among the best emerging real estate companies from Chennai.

- **Robust Chennai market.** Over the past one year, Chennai has been one of the fastest growing real estate markets with increasing demand for quality residential, commercial and retail properties due to comparatively lower prices, improving demographics and corporate investments in IT/ITES, manufacturing and auto sectors. Other reasons for growth are the availability of skilled manpower and lowest attrition rates across India. Chennai is likely to emerge as a key manufacturing and outsourcing hub of India.

- **Land bank and projects creating significant value.** AFHL has a total land bank of 130 acres, of which 45 acres are strategically located on the IT corridor and another 45 acres are close to the Mahindra City. AFHL is currently developing 15 projects with 10mn sqft saleable area, out of which, the company's share stands at 6.2mn sqft. We estimate the project value of the current land bank at Rs1.6bn. Also, two of AFHL's larger projects are in a JV with Unitech and JP Morgan, lending further credence to timely execution.

- **Attractive valuations.** We estimate the NPV for AFHL at Rs460/share; however, there exists an upside to our NPV as new projects come on stream. For the financial year ended September '06, the company reported revenues and PAT of Rs1.6bn and Rs201mn, up 29% YoY and 167% YoY respectively. The fully-diluted FY06 EPS of the company was Rs28.7. We expect the company to deliver 50%+ earnings growth in the next three years.

Market Cap	Rs2.3bn/US$55.7mn
Reuters/Bloomberg	ARFL.BO/AFH IN
Shares Outstanding (mn)	7
52-week Range (Rs)	529/245
Free Float (%)	60.5
FII (%)	19.1
Daily Volume (US$'000)	100
Absolute Return 3m (%)	(18.9)
Absolute Return 12m (%)	(35.5)
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	30.8

Year to Sept	FY03	FY04	FY05	FY06
Revenue (Rs mn)	654	784	1,248	1,615
Net Income (Rs mn)	10	6	75	201
EPS (Rs)	2.1	1.2	12.5	28.7
% Chg YoY		(44.1)	974.0	129.2
P/E (x)	155.9	278.9	26.0	11.3
CEPS (Rs)	2.3	1.7	13.1	29.2
EV/E (x)	33.6	32.1	21.4	9.6
Dividend Yield	-	-	-	-
RoCE (%)	4.2	2.0	9.5	16.5
RoE (%)	13.4	3.6	24.2	37.0

NPV calculation

We estimate AFHL's NPV at Rs460/share. This is based on Rs226/share discounted project value of 6.2mn sqft saleable area, Rs22.4/share value of assets on lease and Rs167.5/share terminal value.

Table 1: NPV calculation

Assumptions			
Discount Rate (%)	15	15	15
Tax Rate (%)	30	30	30
Other expenses (%)	15	15	15
Drop in selling prices (%)	0	15	30
Increase in construction cost (%)	0	10	15
Delay factor (days)	0	100	200
Project NAV (mn)	**2,642**	**1,582**	**724**
NAV (Rs)/sq ft	262	157	72
Assets on books	182	167	154
Terminal Value (@ 0% growth rate, 15% WACC)	**1,737**	**1,172**	**750**
Net of debt, current assets and cash	**(300)**	**(300)**	**(300)**
Total NAV	**4,861**	**3,221**	**1,929**
NAV/share	**694**	**460**	**276**
Market Cap	2,275	2,275	2,275
Market Cap discount to NAV (%)	**53**	**29**	**(18)**

Source: Company data, i-SEC Research

Projects

AFHL is developing 15 projects with the company's share of saleable area at 6mn sqft. Of this, 13 projects (or 94%) of the saleable area are under the residential segment.

Table 2: Project pipeline

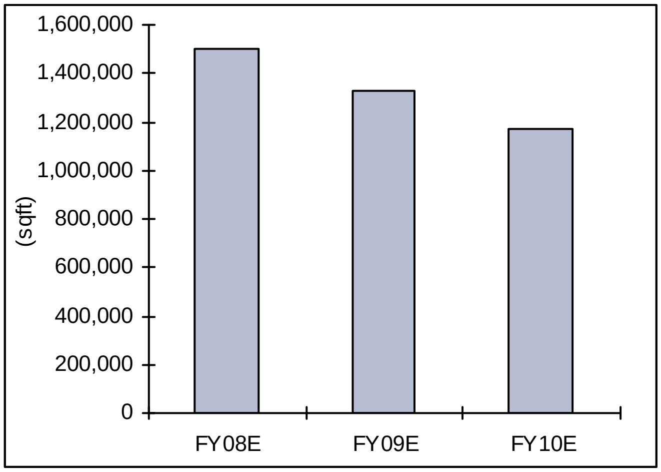
Project Name	Area (sq Ft)	Arihant Ownership (%)	Starting Date	End Date	NAV (Rs mn)
Arihant Insight	330,000	100	Jun-05	Jun-07	1
Arihant Saidapet	125,000	100	Jan-08	Sep-09	137
Arihant T Nagar	15,000	100	Jan-08	Dec-08	29
Arihant Kilpauk - Shloka	57,000	100	Jul-05	Jun-07	1
Arihant Galaxy	25,000	100	Aug-05	Jun-07	0
Arihant Thiruvanmiyur I	30,000	50	Jan-08	Dec-08	41
Arihant Escapade	375,000	50	Apr-06	Mar-08	69
Arihant Thiruvanmiyur II	42,000	100	Jan-08	Dec-09	34
Arihant Thalambur	227,500	100	Jan-07	Mar-08	136
Arihant GST Road	1,100,000	50	Jan-08	Sep-12	930
Arihant Siruseri	160,000	100	Apr-07	Mar-09	113
Arihant Thiruvanmiyur OMR IT Park	100,000	50	Sep-08	Sep-09	46
Arihant Vijayawada	3,700,000	50	Dec-07	Dec-12	980
Arihant Madurai	1,300,000	100	Jan-08	Jan-11	546
Arihant Unitech Realty Projects Ltd	2,500,000	50	Dec-07	Sep-11	1,379
Total	**10,086,500**				**4,441**

Source: Company data, i-SEC Research

For the GST Road project, AFHL has tied up with JP Morgan (50:50 JV), this is a 45 acres residential project and is expected to take four years to complete. Another large 45 acre township project is in a 50:50 JV with Unitech.

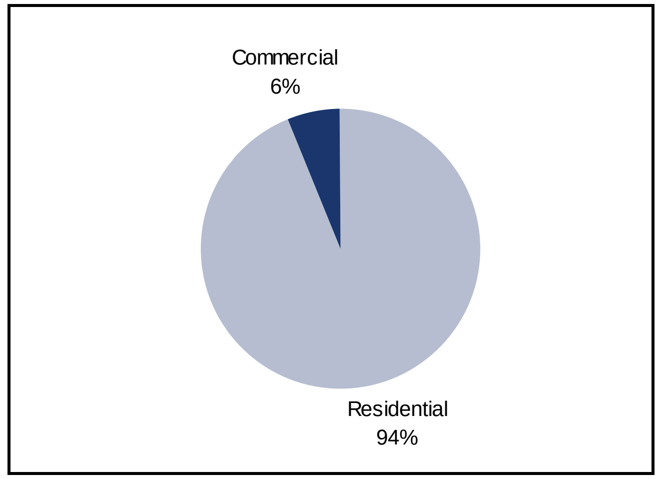
AFHL is also planning to expand to other southern cities such as Vijayawada, Madurai, Hyderabad and Coimbatore. Going forward, the company could acquire another 250 acres, mostly through JVs with land owners.

Chart 1: Construction pipeline



Source: Company data, i-SEC Research

Chart 2: Segmental break-up



Company background

AFHL is one of the finest real estate developers from Chennai. The company has 25 years of experience in real estate development. It started with mid-scale, high-end projects and slowly progressed towards large projects. The company has developed 25 projects, totaling ~5mn sqft of residential and commercial property. The company's customer base includes Verizon Data Services, Hutchison Essar, El Dupont, HCL Technologies, Syntel etc.

Risks

AFHL's execution of its project pipeline has been sluggish in the past one year though we expect the momentum to pick up. However, further delays on key projects will impact the company's performance.

AFHL lacks in-house construction capabilities and is dependent on third parties for construction. Also, the company does not have a sufficiently large low-cost land bank to enjoy capital gains in the long term.

Financial Summary

Table 3: Profit and Loss Statement

(Rs mn, year ending September 30)

	FY03	FY04	FY05	FY06
Operating Income (Sales)	**654**	**784**	**1,248**	**1,615**
of which Domestic	*654*	*784*	*1,248*	*1,615*
Operating Expenses	**638**	**765**	**1,147**	**1,337**
EBITDA	**16**	**19**	**101**	**277**
% margins	*2.5*	*2.5*	*8.1*	*17.2*
Depreciation & Amortisation	1	3	3	4
Gross Interest	5	14	23	48
Other Income	2	6	8	15
Recurring PBT	**12**	**9**	**83**	**241**
Add: Extraordinaries	0	0	0	0
Less: Taxes	2	3	8	40
- Current tax	*2*	*3*	*8*	*40*
- Deferred tax	*0*	*0*	*0*	*0*
Less: Minority Interest	0	0	0	0
Net Income (Reported)	**10**	**6**	**75**	**201**
Recurring Net Income	**10**	**6**	**75**	**201**

Source: Company data, i-SEC Research

Table 4: Balance Sheet

(Rs mn, year ending September 30)

	FY03	FY04	FY05	FY06
Assets				
Total Current Assets	838	978	1,436	1,795
of which cash & cash eqv.	*20*	*12*	*229*	*24*
Total Current Liabilities & Provisions	214	311	343	412
Net Current Assets	**624**	**666**	**1,093**	**1,383**
Investments	**0**	**11**	**1**	**196**
of which				
Strategic/Group	*0*	*11*	*1*	*178*
Other Marketable	*0*	*0*	*0*	*17*
Net Fixed Assets	**94**	**124**	**125**	**122**
Total Assets	**718**	**802**	**1,219**	**1,701**
Liabilities				
Borrowings	**563**	**630**	**770**	**1,065**
Deferred Tax Liability	**0**	**0**	**0**	**0**
Minority Interest	0	0	0	0
Equity Share Capital	50	50	50	60
Face Value per share (Rs)	*10*	*10*	*10*	*10*
Reserves & Surplus*	106	122	399	576
Less: Misc. Exp. #	1	0	0	0
Net Worth	**155**	**171**	**449**	**636**
Total Liabilities	**718**	**802**	**1,219**	**1,701**

Source: Company data, i-SEC Research
*excluding revaluation reserves; # = not written off

Table 7: Quarterly trends

(Rs mn, year ending September 30)

	Jun-06	Sep-06	Dec-06	Mar-07
Net sales	1,048	954	911	1,009
EBITDA	79	75	79	81
Margin (%)	7.6	7.9	8.7	8.0
Other income	2	9	2	3
Add: Extraordinaries				
Net profit	54	60	63	70

Source: Company data, i-SEC Research

Table 5: Cash Flow Statement

(Rs mn, year ending September 30)

	FY03	FY04	FY05	FY06
Operating Cash flow	**17**	**0**	**74**	**230**
Working Capital Changes	(611)	(49)	(214)	(535)
Capital Commitments	(98)	(43)	6	(178)
Free Cash Flow	**(692)**	**(92)**	**(134)**	**(484)**
Cash flow from Investing Activities	**2**	**6**	**8**	**(3)**
Issue of Share Capital	50	0	0	10
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	563	67	139	295
Dividend paid	(5)	0	(8)	(14)
Extraordinary Items	**0**	**0**	**0**	**0**
Chg. in Cash & Bank balance	**18**	**(8)**	**216**	**(205)**

Source: Company data, i-SEC Research

Table 6: Key Ratios

(Year ending September 30)

	FY03	FY04	FY05	FY06
Per Share Data (Rs)				
EPS(Basic Recurring)	2.1	1.2	12.5	28.7
Diluted Recurring EPS	2.1	1.2	12.5	28.7
Recurring Cash EPS	2.3	1.7	13.1	29.2
Dividend per share (DPS)	1.0	0.0	1.4	2.0
Book Value per share (BV)	31.0	34.3	74.8	90.9
Growth Ratios (%)				
Operating Income		20.0	59.1	29.4
EBITDA		19.2	426.8	173.8
Recurring Net Income		(44.1)	1,188.8	167.4
Diluted Recurring EPS		(44.1)	974.0	129.2
Diluted Recurring CEPS		(23.9)	656.7	123.1
Valuation Ratios (x)				
P/E	155.9	278.9	26.0	11.3
P/CEPS	142.9	187.8	24.8	11.1
P/BV	10.5	9.5	4.3	3.6
EV / EBITDA	33.6	32.1	21.4	9.6
EV / Operating Income	0.8	0.8	1.7	1.7
EV / Operating FCF	(0.8)	(6.7)	(16.2)	(5.5)
Operating Ratio				
Raw Material/Sales (%)	95.3	93.6	89.8	80.6
SG&A/Sales (%)	1.8	3.8	1.9	2.0
Other Income / PBT (%)	19.8	72.1	9.9	6.1
Effective Tax Rate (%)	14.0	34.0	10.0	16.6
NWC / Total Assets (%)	84.0	81.6	70.9	79.9
Inventory Turnover (days)	114.1	216.8	181.5	183.6
Receivables (days)	76.9	138.2	100.2	131.2
Payables (days)	0.0	0.0	0.0	0.0
D/E Ratio (x)	3.6	3.7	1.7	1.7
Return/Profitability Ratio (%)				
Recurring Net Income Margins	1.6	0.7	6.0	12.3
RoCE	4.2	2.0	9.5	16.5
RoNW	13.4	3.6	24.2	37.0
Dividend Payout Ratio	48.0	0.0	11.3	6.8
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margins	2.5	2.5	8.1	17.2

Source: Company data, i-SEC Research

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