

Real Estate



‘Tug of war’ nearing critical stage

Contents

	Page No.
'Tug of war' nearing critical stage	5-7
Incumbents in residential vertical at a disadvantage	8-11
Developers' reluctance to reduce prices delaying recovery	12-14
Wave towards mid-income housing	15-17
Outlook and view	18-22

Real Estate

BSE Sensex: 14,899

S&P CNX: 4,448

4 September 2008

'Tug of war' nearing critical stage

Since the beginning of 2QFY08, developers and buyers of residential property have been engaged in a tug-of-war. While buyers are holding back their purchase decisions due to low affordability and expectations of price correction, developers are unwilling to bring down list prices. This has resulted in significant slowdown in property transactions. In the next 6-12 months, we expect buyers to gain an upper hand. Tight liquidity, weak end-demand at current prices, and aggressive product launches by large pan India players would force the incumbent real estate developers to give in.

Incumbents in residential vertical at a disadvantage

Incumbents in the residential vertical are at a disadvantage. They are already committed to several projects, with varying sales levels. They fear that price reductions in a particular project could (1) have a ripple effect on their other projects within the city, and (2) antagonize existing investors/buyers in the project (leading to cancellations or uncertainty regarding cash flows from pre-sales). We believe that financially strong players such as DLF, which have low exposure to the residential vertical, are at an advantage. They can aggressively price new residential offerings across cities to stimulate pent-up demand.

Developers' reluctance to reduce prices delaying recovery

Most developers are holding on to list prices despite fall in transactions. This has resulted in transactions declining to a trickle and the property cycle coming to a standstill, leading to increased debt, higher inventory and more debtors. Market participants are of the opinion that demand is unlikely to rebound unless real estate prices moderate. The developers' reluctance to lower prices is delaying the process of recovery and also enhancing their risk profile.

Outlook and view

In our last update, we had noted that the 'risk-reward was favorable for long-term investors', as the NAV valuations for real estate companies appeared attractive post the sharp correction. Notwithstanding the recent bounce back, industry fundamentals over the last few months have continued to worsen. While cheap valuations could provide a floor on the downside, in the absence of any fundamental revival in the real estate market, valuations alone cannot continue to be the catalyst. We believe companies which currently have low exposure towards residential vertical such as DLF, HDIL and IBREL are at an advantage compared to companies with large exposure towards residential such as Unitech, Parsvnath, Omaxe, Sobha, etc.

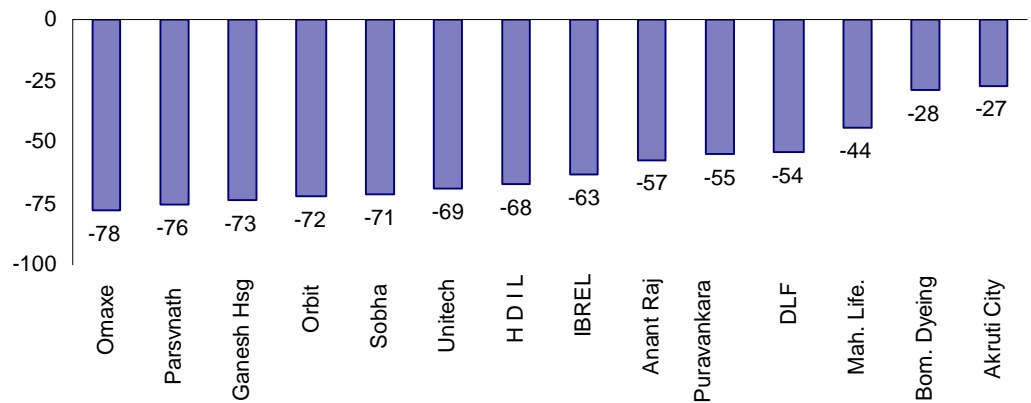
RE VALUATION SUMMARY

COMPANY	CMP (RS)	RECO	NAV (RS)	PREMIUM/ DISC TO NAV %	TP PREMIUM/ DISC %	TARGET PRICE (RS)	UPSIDE TO TARGET PRICE (%)
DLF	523	Buy	547	-4	-	547	5
Unitech	165	Neutral	200	-18	15	170	3
IBREL	290	Buy	453	-36	10	408	41
HDIL*	315	Neutral	488	-35	20	390	24
Mahindra Lifespaces*	477	Buy	903	-47	15	768	61
Puravankara	200	Buy	324	-38	20	259	30
Bombay Dyeing*	581	Buy	1,256	-54	20	1,005	73
Century Textiles	505	Neutral	668	-24	20	668	32
Ganesh Housing	187	Buy	376	-50	25	282	51

HDIL- includes Rs185/sh from MIAL; Bombay Dyeing - Real Estate Rs1,179/sh and Textiles Rs76/sh; Century Textiles - includes RE valued at Rs476/sh

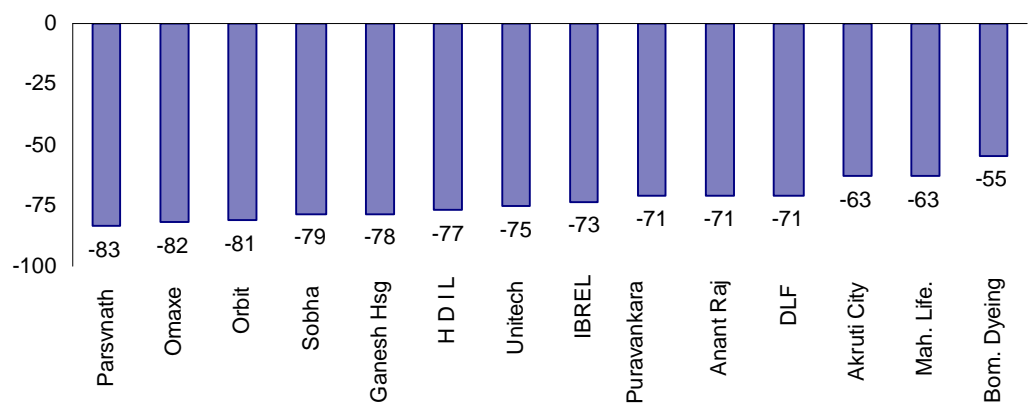
Source: Motilal Oswal Securities

YTD PERFORMANCE OF RE STOCKS (%)



RE stocks continue to be under pressure amidst macro concerns

RE STOCKS PRICE CORRECTION FROM PEAK TO LOW (% CHANGE 52-WEEK HIGH/LOW)



RE stock prices had corrected significantly from their peak

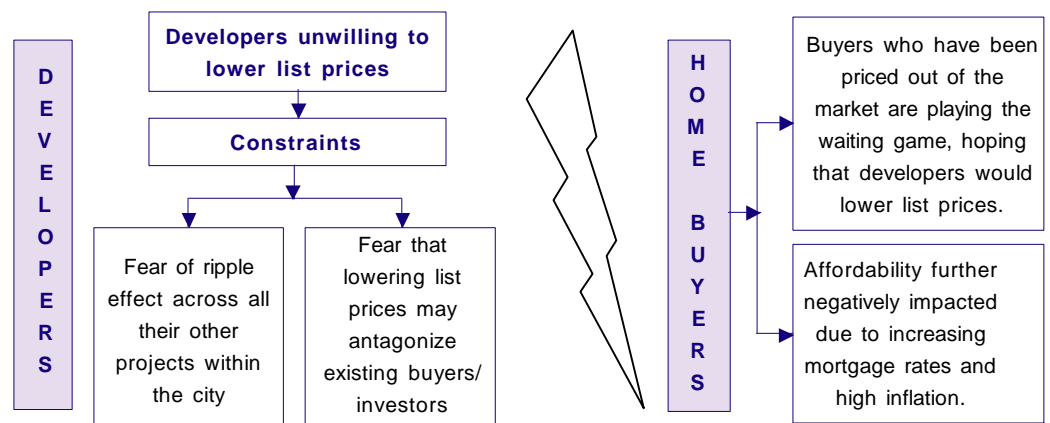
Source: Bloomberg/Motilal Oswal Securities

'Tug of war' nearing critical stage

Since the beginning of 2QFY08, developers and buyers of residential property have been engaged in a tug-of-war. While buyers are holding back their purchase decisions due to low affordability and expectations of price correction, developers are unwilling to bring down list prices. This has resulted in significant slowdown in property transactions. In the next 6-12 months, we expect buyers to gain an upper hand. Tight liquidity, weak end-demand at current prices, and aggressive product launches by large pan India players would force the incumbent real estate developers to give in.

Developers are hoping for a recovery in real estate transactions around the festive period (October 2008 – January 2009). Our interactions with property agents suggest that consumers are holding back their purchase decisions and are unlikely to turn buyers unless prices correct meaningfully. We expect price moderation in the residential real estate vertical around 4QFY09. Once prices have corrected, we believe demand would improve, given that the scenario of overall acute housing shortage remains.

TUG OF WAR BETWEEN DEVELOPERS AND BUYERS



Source: Company/Motilal Oswal Securities

Credit tightening to impact demand with a lag, prices to moderate by 4QFY09

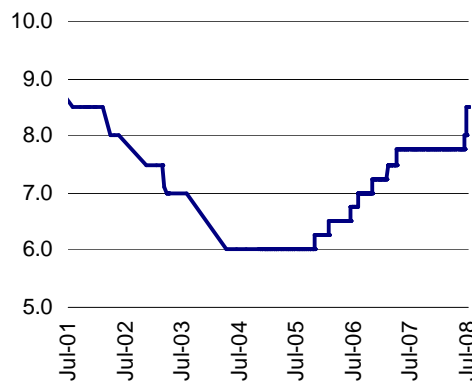
The sharp increase in property prices in the last few years and the recent rise in mortgage rates along with faltering consumer confidence has adversely impacted the affordability factor. As a result, there has been a sharp decline in effective demand. Getting mortgage financing has become difficult, as banks have made the terms of the loans much stricter, lowered the approved percentage of financing, and require more collateral against loans.

The declining internal cash generation for real estate companies has been accompanied by a progressive drying up of funding options. Stringent Reserve Bank of India (RBI)

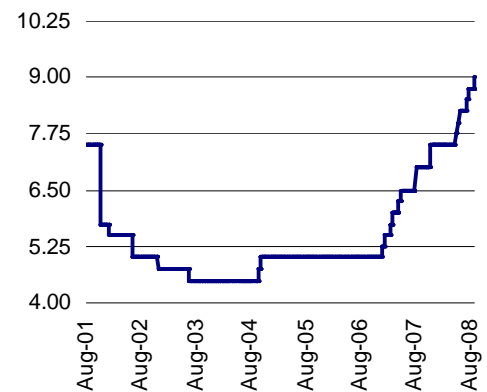
norms for bank loans to real estate and higher interest rates have made bank borrowings less attractive. Restrictions on external commercial borrowings (ECBs) and classification of preference shares as debt (announced in May 2007) have cut down two other funding sources. Furthermore, foreign direct investment (FDI) norms do not allow real estate investments below a certain size and value. Compounding the effect, the recent fall in equity markets has derailed the plans of many real estate companies to access the domestic or international market for equity issues.

RBI HAS BEEN AGGRESSIVE IN INCREASING RATES

RBI REPO RATE



RBI CASH RESERVE RATIO (CRR)

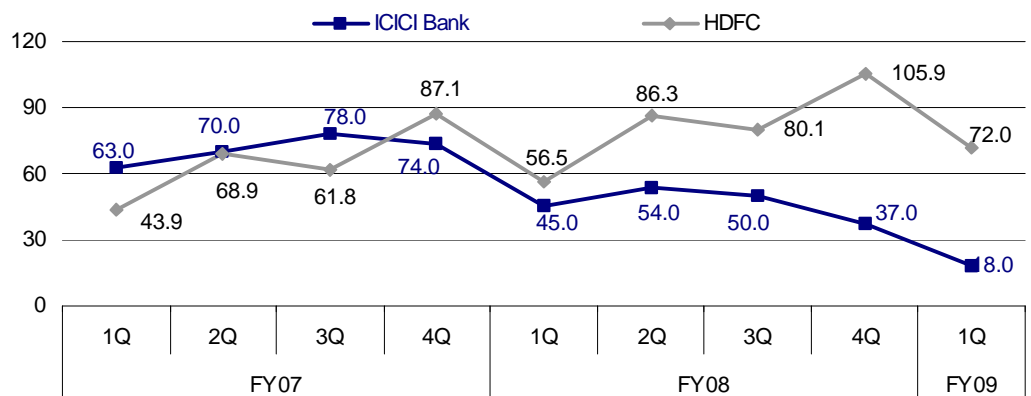


Since April 2008, RBI has increased CRR by 125bp and repo rates by 150bp, signaling higher interest rates to counter inflation

Source: RBI

Demand for RE is inversely related to interest rates; we expect rising interest rates to further impact demand with a lag. Since April 2008, RBI has increased CRR by 125bp and repo rates by 150bp, signaling higher interest rates to counter inflation. Subsequently, banks have increased their lending rates by 50-100bp in 2QFY09.

MORTGAGE LOAN DISBURSALS SLOWING (RS B)

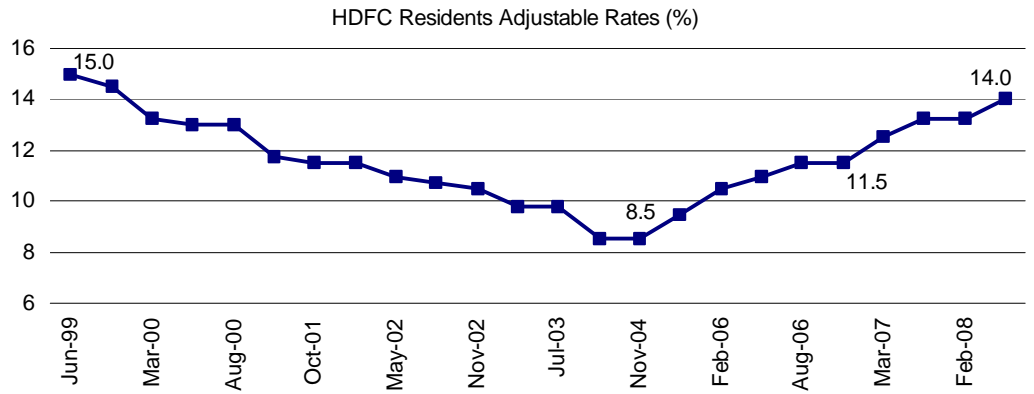


Mortgage loan disbursements registered sharp decline in 1QFY09

Source: LIC/ICICI/Motilal Oswal Securities

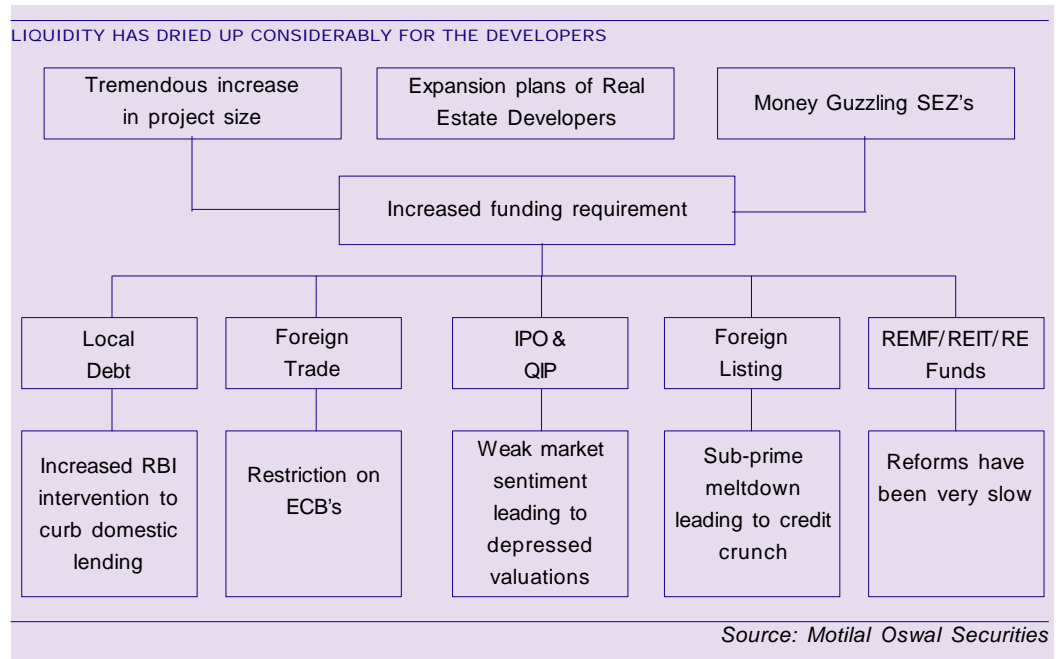
MORTGAGE RATES HAVE MOVED UP BY 600BP SINCE NOVEMBER 2004

Mortgage rates have moved up by 600bp since November 2004



Source: HDFC

Unfavorable real estate and financial market conditions have coincided with a sharp increase in the scale and size of projects executed and planned over the past two years. As a result, many builders—mainly small and medium-sized ones—are operationally stretched, besides being financially leveraged. In such a scenario, companies with adverse leverage ratios and significant near-term bullet repayment obligations may be worst hit.



Source: Motilal Oswal Securities

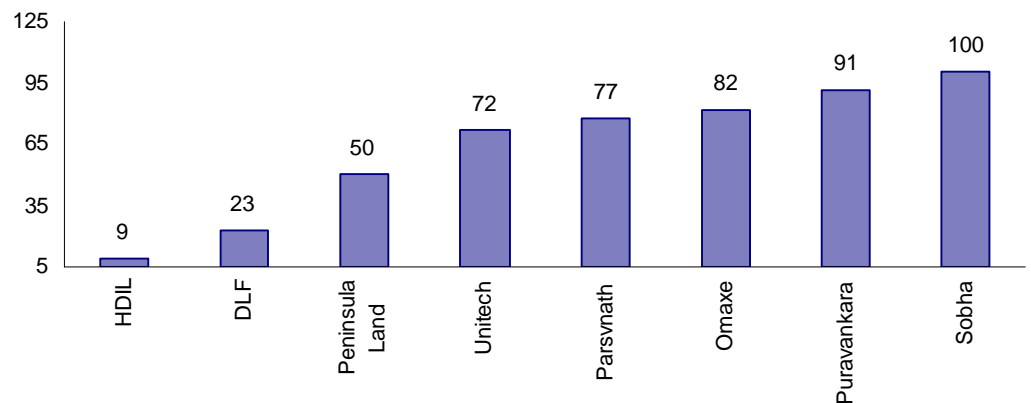
Incumbents in residential vertical at a disadvantage

Over the last several years, the residential vertical has been a sellers' market, with developers enjoying operating margins of 35-75% and negative working capital. Majority of these developers are obsessed with prices. They are unwilling to lower list prices, even though volumes have declined sharply and frequent price increases coupled with rising mortgage rates have negatively impacted affordability levels.

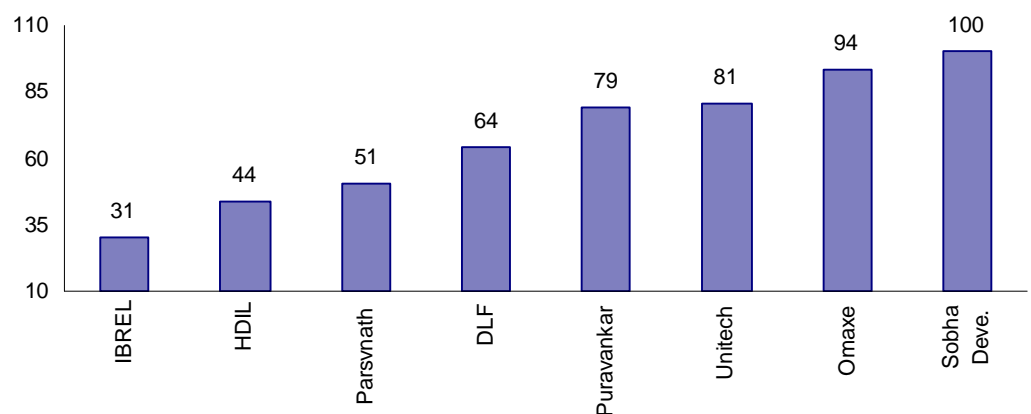
Incumbents in the residential vertical are at a disadvantage. They are already committed to several projects, with varying sales levels. They fear that price reductions in a particular project could (1) have a ripple effect on their other projects within the city, and (2) antagonize existing investors/buyers in the project (leading to cancellations or uncertainty regarding cash flows from pre-sales).

Players like DLF, HDIL currently have low exposure to residential projects in their total area under construction

RESIDENTIAL PROJECTS UNDER CONSTRUCTION AS A PERCENTAGE OF TOTAL PROJECTS UNDER CONSTRUCTION



RESIDENTIAL AS % TOTAL DEVELOPMENT PLANS (MSF)



Source: Company/Motilal Oswal Securities

VERTICAL-WISE DEVELOPMENT PLANS OF KEY RE COMPANIES

COMPANY	RESIDENTIAL	COMMERCIAL	RETAIL	HOTELS	OTHERS	TOTAL
DLF	483	161	92	19	-	755
Unitech	556	93	34	7	-	690
Puravankara	99	26	-	1	-	125
HDIL	89	27	20	-	66	202
Omaxe	146	9	-	1	-	156
Parsvnath	107	23	-	-	81	211
Sobha Developers	220	-	-	-	0	220
Mahindra Lifespaces	6	-	-	-	47	53
Indiabulls Real Estate	69	11	14	-	131	224
Bombay Dyeing	0	9	-	-	-	9
Ganesh Housing	36	23	8	-	-	67
Peninsula Land	6	14	-	-	-	19
Total	1,816	395	168	28	324	2,731

Source: Company/Motilal Oswal Securities

CITY-WISE DEVELOPMENT PLANS OF KEY RE COMPANIES

COMPANY	NCR	MUMBAI	BANGALORE	CHENNAI	KOLKATA	HYDERABAD	PUNE	OTHERS	TOTAL
DLF *	272	11	161	46	98	15	3	149	755
Unitech	103	4	8	117	149	49	-	261	690
Puravankara	-	-	78	9	1	7	-	30	125
HDIL	-	187	-	-	-	9	-	6	202
Omaxe	56	-	-	-	-	-	-	100	156
Parsvnath	78	-	-	-	-	-	1	131	211
Sobha	9	-	91	30	-	4	10	76	220
Mahindra Lifespaces	2	3	-	12	-	-	2	34	53
IBREL	18	11	-	15	-	-	-	180	224
Bombay Dyeing	-	9	-	-	-	-	-	-	9
Ganesh Hosuing	-	-	-	-	-	-	-	67	67
Peninsula Land	-	3	-	-	-	7	6	3	19
Total	538	228	339	228	247	93	21	1,037	2,731

* as per June presentation

Source: Company/Motilal Oswal Securities

We believe that financially strong players such as DLF, which have low exposure to the residential vertical, are at an advantage. They can aggressively price new residential offerings across cities to stimulate pent-up demand. The success of new entrant, Jaiprakash Associates (JAL) in Noida over the incumbent, Unitech is a case in point.

Jaypee Greens (1,250 acres) v/s Unitech Grande (347 acres), Noida

Unitech Grande's sales adversely impacted post JAL's launch

Unitech Grande is a super premium project, consisting of 8 Signature towers and 4 Gateway towers. The company launched ~450 units at an average rate of Rs7,750/sf (with inaugural discount Rs500/sf) in June 2007. Currently, the base price for the project is maintained at the same rate of Rs7,750/sf (discount of Rs150/sf being offered on booking). Despite the substantial promotion drive undertaken for this project, bookings till date stand at ~220 units over a period of 14 months. Further, Unitech has launched

two iconic towers at this site – Aqua and Terra in June 2008 at Rs8,000/sf. Of the total offering of 172 units at these two iconic towers, ~20% units have been sold till date. The completion time for all these towers is 40 months.

JAL benefitted at the expense of Unitech

JAL has benefited from the mega promotion drive undertaken by Unitech for Unitech Grande. While Unitech has positioned its project as “super premium” with base pricing at Rs7,750/sf (Rs7,250/sf post inaugural discount Rs500/sf in June 2007), JAL priced its premium residential offering, Imperial at Rs6,100/sf (~20% discount to Unitech). Consequently, while Unitech’s project has witnessed little progress on bookings, JAL has managed to sell ~90% of this phase (~1,350 units of 1,400 units launched). JAL has raised prices by 5% to Rs6,400/sf in June 2008. It must be noted that the price increase has been undertaken after selling ~90% of the units launched.

JAL also launched its second offering, Pavillion in April 2008 at lower price points of Rs4,850/sf (golf course facing) and Rs4,550/sf (river facing), targeting the middle income group. The company has sold ~60% at the Pavillion (out of 1,500 units on offer). JAL has raised prices for Pavillion Court to Rs5,100/sf and to Rs5,400/sf for Pavillion Heights. Further, the company is also offering a unique funding scheme for all the non-golf facing apartments (1,000 units, both in Kalypso and Pavillion). Under this scheme, the customer is required to pay only 3% of the total interest cost for the first 30 months; the remaining would be borne by JAL. This scheme is currently on for September 2008 for non-golf facing apartments. Its premium and mid-income offering has enabled JAL to broaden its customer mix.

UNITECH/JAYPEE GREENS, NOIDA

PROJECT	TOTAL UNITS	SOLD UNITS	SOLD (%)	LAUNCH	BASE RATE (RS/SF)	RATE/UNIT (RS M)	POSS- ESSION
Jaypee							
Imperial	360	342	95.0	Nov-07	6,400 21.1	14.7	Dec-10
Kalypso	1,040	884	85.0	Nov-07	6,400 21.1	14.7	Dec-10
Pavillion Court	1,500	900	60.0	Apr-08	5,100	8.2	Apr-11
Pavillion Heights				Apr-08	5,400	8.6	Apr-11
Total	2,900	2,126	73.0				
Unitech							
Unitech Grande Phase I	450	220	48.9	Jun-07	7,750	16.4	40 months 29.4
Iconic tower I, Aqua	172	34	20.0	Jun-08	8,000	38.4	40 months 64.6
Iconic tower II, Terra				Jun-08	8,000	37.8	40 months 62.8
Total	622	254	40.8				

JAL has sold 2,126 units till date, since its launch in November 2007, which is 8x of what Unitech has managed to sell since its launch in June 2007

Source: Motilal Oswal Securities

FORTHCOMING PLANNED LAUNCHES BY KEY DEVELOPERS ACROSS GEOGRAPHIES

DLF	PARSVNATH	UNITECH	MLL	PURAVNKARA	SOBHA	IBREL
Kasauli	Panipat	Noida	Faridabad	Coimbatore	Bangalore	Chennai
Panchkula	Lucknow	Gurgaon	Delhi NCR	Colombo	Thrissur	NCR
Gurgaon	Indore	Mohali	Nagpur	Cochin	Mysore	MMR
Indore	Bhiwadi	Kolkata	Chennai	Bangalore	Pune	
Hyderabad	Rajpura	Lucknow		Mysore	Gurgaon	
Goa	Pune					
Bangalore	Dharuhera					
Kakanad	Moradabad					

Source: Company/Motilal Oswal Securities

Forthcoming Launches

MAHINDRA LIFESPACES

PROJECT	LOCATION	AREA (MSF)
Mahindra Chloris	Faridabad, Haryana	0.4
Project	Palam Vihar, Delhi NCR	1.4
JV	MIHAN, Nagpur	2.0
JV with Alaya	MWC, Chennai	55acres
Total		4.5

ANANT RAJ'S MAJOR NEW LAUNCHES IN DELHI

LOCATION	TYPE	LAND (ACRES)	BUA (MSF)	COMPLETION
Hauz Khas	Service Apts	2.3	0.274	Current
Kapashera	Service Apts	2.94	2.9	Current
South Delhi	Apts along with retail project	35	-	Current
Narela	Apts along with retail project	25	-	Current

PARSVNATH'S PROPOSED NEW LAUNCHES

PROJECT	LOCATION	EXPECTED LAUNCH
Parsvnath Royal Villas	Panipat	Aug-08
Parsvnath Royal Floors	Lucknow	Sep-08
Parsvnath Group Housing	Indore	Aug-08
Parsvnath IT Park	Sohna	Sep-08
Parsvnath Prominence	Bhiwadi	Sep-08
Parsvnath Mall	Goa	Aug-08
Parsvnath King City Villas	Rajpura	Sep-08
Parsvnath Premium Housing	Pune	Aug-08
Parsvnath Pragati Group Housing	Dharuhera	Sep-08
Parsvnath residency Housing	Moradabad	Aug-08

SOBHA'S PROPOSED NEW LAUNCHES

LOCATION	TYPE	NO OF PROJECTS	SUPER BUA (MSF)
Residential			
Bangalore	Apartments	7	8.5
Bangalore	Row houses	2	0.7
Thrissur	Apartments	1	0.5
Mysore	Apartments	2	1.1
Mysore	Villas (Plots)	1	0.2
Pune	Apartments	3	1.6
Gurgaon	Apartments	2	2.7
Gurgaon	Integrated Township	1	3.4
Total		19	18.7

PROVIDENT HOUSING INFRASTRUCTURE'S PHASE I DEV. DETAILS (PHIL)

LOCATION	NO OF HOMES	AREA (MSF)	AREA/UNIT (SF)
Bangalore	19,500	19.3	990
Chennai	16,000	14.4	900
Hyderabad	15,000	13.5	900
Mysore	7,000	6.3	900
Coimbatore	7,000	6.3	900
Total	64,500	59.8	927

PHIL is 100% subsidiary of Puravankara Projects

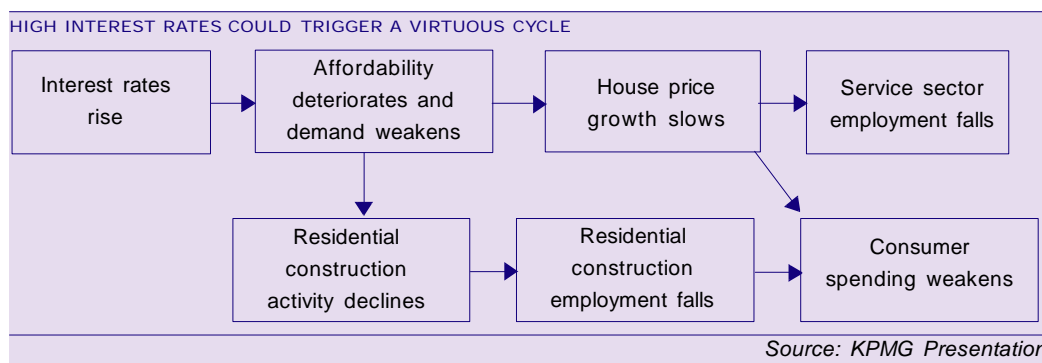
DLF NEW LAUNCHES

LOCATION	TYPE
Kasauli	Luxury
Panchkula	Mid Income
Gurgaon	Mid Income
Indore	Mid Income
Hyderabad	Mid Income
Goa	Super Luxury
Bangalore	Mid Income
Kakanad	Mid Income

Source: Company/Motilal Oswal Securities

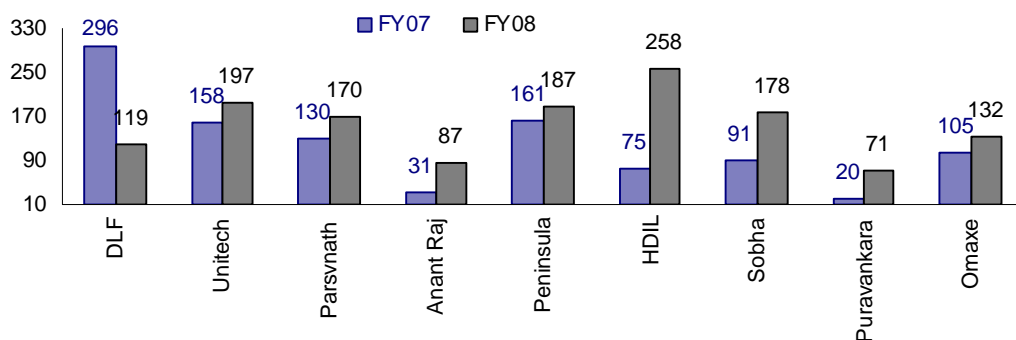
Developers' reluctance to reduce prices delaying recovery

Most of the developers are holding on to list prices despite fall in transactions. This has resulted in transactions reducing to a trickle and the property cycle coming to a standstill, leading to increased debt, higher inventory and more debtors. We believe that demand is unlikely to rebound, unless prices moderate. Developers' reluctance to lower prices is delaying the process of recovery and also increasing their risk profile. The primary sources of funding for most developers are inflows from pre-sales in the residential vertical and project-wise bank loans. Currently, both the sources are under pressure as: (i) inflows from pre-sales are down due to lower sales and delayed payments, while (ii) bank loans have become both difficult to get and expensive.



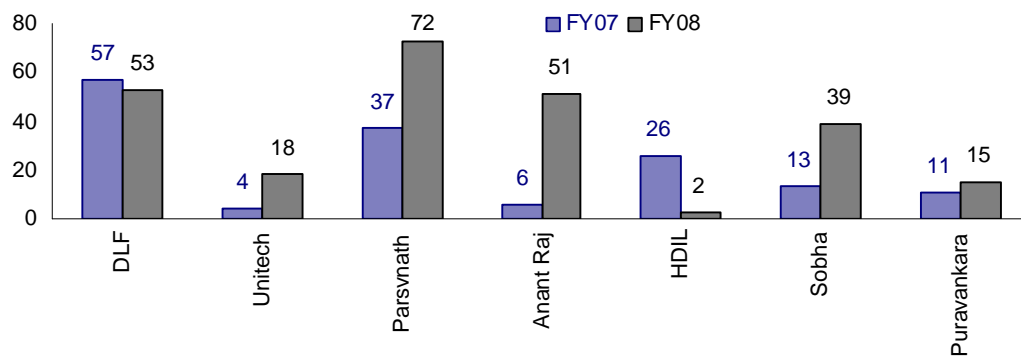
The business model for the residential real estate market in India is likely to witness a significant shift. We expect the negative working capital 'self-financing' or 'pre-sale' model to be under threat as a result of: (1) entry of large organized real estate players, (2) evolved mortgage market, and (3) significant supply pipeline. Recent financing schemes from leading real estate companies such as Unitech, JAL, Ansal etc, wherein pre-EMI interest payments (EMI payments usually begin after the residential unit is completed) are waived for buyers and instead borne by the developer until the project is completed, could increasingly gain traction.

STRAIN ON FINANCIALS VISIBLE
NET WORKING CAPITAL AS % OF SALES

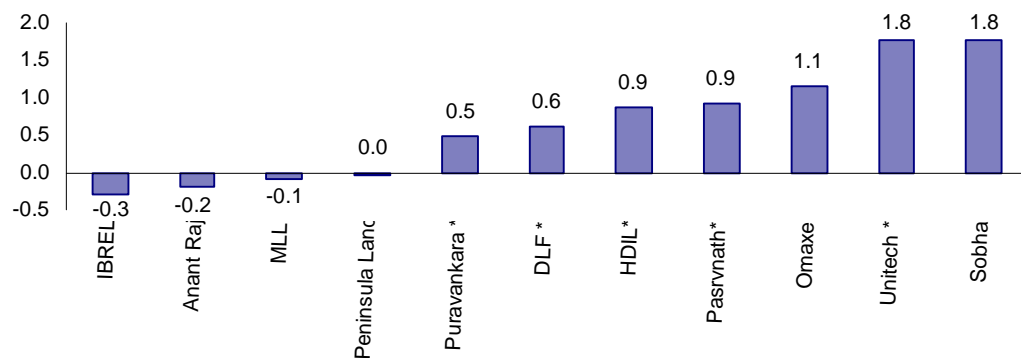


Source: Company/Motilal Oswal Securities

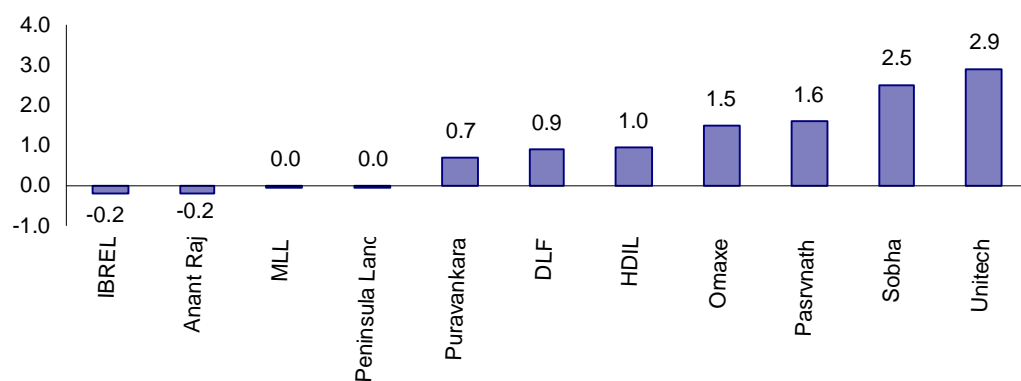
DEBTORS AS % OF SALES



NET DEBT/EQUITY (X)



NET DEBT/EQUITY INCLUDING LAND COST OUTSTANDING (X)



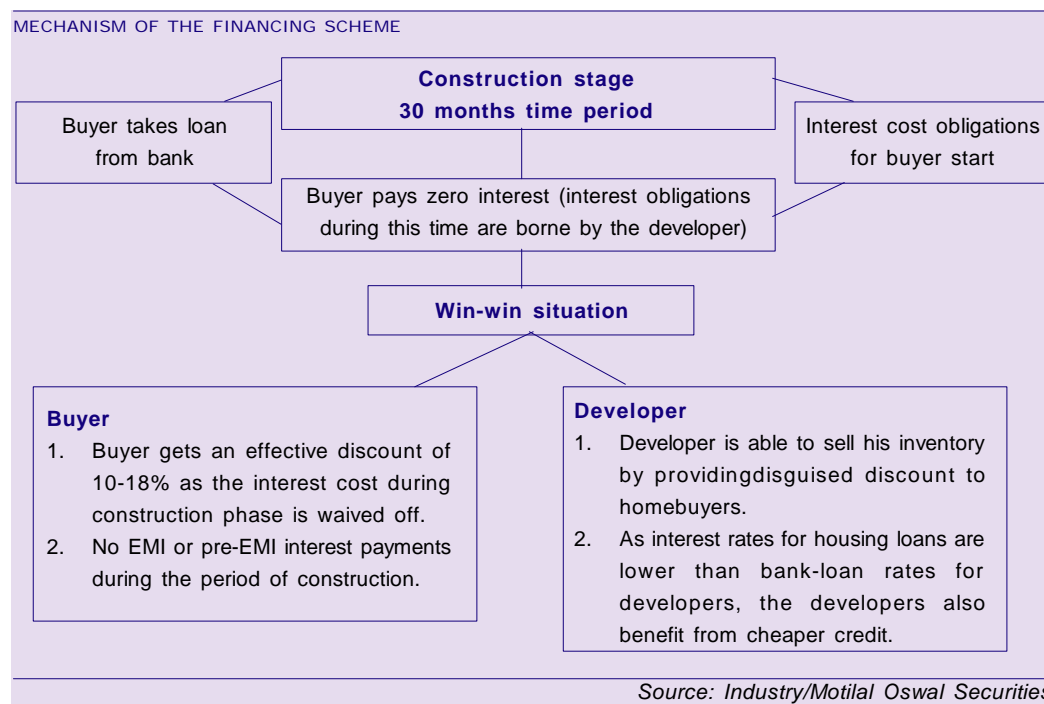
Source: Company/Motilal Oswal Securities

Various measures being adopted by developers to boost sales

Offering various sops and discounts: Most developers are offering various sops and discounts in various disguises often on a case-by-case basis to push transactions. These sops and discounts include waiving of registration, providing free parking area and waiving of floor-rise charges, offering amenities, etc.

Lowering the size of flats: Developers are decreasing the average flat sizes to make them more affordable.

Innovative financing deals: Even large organized developers are offering innovative financing deals to stimulate sales. Examples: Unitech, Puravankara, Ansal, Prasnath.



DEVELOPERS ARE ADOPTING INNOVATIVE FUNDING SCHEMES TO STIMULATE DEMAND

DEVELOPER	PROJECT	LOCATION	OTHERS
Unitech	Uniworld City	Noida	(1) Tie up with HDFC where EMI would begin 30 mths from date of booking. 200apts (of total of 350apts) sold owing to this scheme. (2)Reduced size of apts to lower per unit price. Size of 2bhk =1,200sf (earlier 1,450sf) and 3bhk=1,500sf (earlier 1,900sf)
Parsvnath	Parsvnath City	Sonepat	Only booking charges. EMI to start from date of possession
	Parsvnath Pratibha	Moradabad	Only booking charges. EMI to start from date of possession
Ansal API	-	-	Launched EMI waiver scheme for most of its projects in a tie-up with HDFC Bank. Buyer has to pay 10-15 per cent as the booking fee and the EMI begins only after possession.
Era	-	-	Planning to launch 50% EMI waiver for its future projects
Nahar Group	Nahar Amritshakti	Chandivali, Mumbai	Tie up with HDFC bank. 20% downpayment and EMI from possession date
Jaypee Greens *	Jaypree Greens	Noida	Tie up with HDFC bank, where the customer has to bear only 3% of the total interest cost whereas the balance will be borne by Jaypee for 30months

* The scheme is currently on for September 2008 for non-golf facing apartments

Source: Company/Motilal Oswal Securities

Wave towards mid-income housing

Over the last few months, large real estate players have launched projects classified as affordable housing, mid-income housing or low-income housing. They have priced properties under these projects at 20-25% discount to the prices prevailing in the surrounding areas, and have received encouraging market response. We believe that this trend is more than just product re-classification and signals price corrections. Considering the current slowdown in volumes and stringent financing norms, we also expect the proportion of plots in the development plans of real estate players to increase, as plots offer the advantage of early monetization.

Most real estate companies have the majority of their residential plans focused on apartments, which enjoy high realizations, and very little exposure to plots. However, considering the current slowdown, we believe real estate players may shift focus from apartments to plot developments, as they offer early monetization. However, as plots do not attract lucrative returns like FSI development, the NAVs for real estate companies are expected to plummet, with change in development plans skewed towards plots.

PLOTS AS % OF TOTAL RESIDENTIAL (MSF)

COMPANY	TOTAL RESIDENTIAL DEVELOPMENT PLANS	PLOTS	PLOTS AS % OF TOTAL RESIDENTIAL
DLF*	483	110	23
Unitech	556	37	7
Sobha Developers	220	66	30
Parsvnath	107	29	27
Omaxe	146	32	22
Emaar MGF	435	135	31
Total	1,947	409	21

Note: *DLF plots as per July presentation

Source: Company/Motilal Oswal Securities

RESIDENTIAL LAUNCHES AT LOWER PRICE POINTS

LOCATION	PROJECT	TOTAL UNITS	UNITS SOLD	SOLD (%)	LAUNCH	BASE RATE (RS/SF)
DLF						
Kolkata	New Town Heights	798	748	93.7	26th November 2007, Rs2,500/sf	3,275
Kochi	DLF Riverside	176	96	54.5	-	3,495
Chennai	DLF Garden City, OMR	3,500	2,800	80.0	8th Jan, Rs2,700/sf	3,400
Unitech						
Gurgaon	New Town Heights, Sector 90, near Manesar	1,000	1,000	100.0	March 08, Rs2,700/sf	2,700
Puravankara						
Chennai	Purva Windemere, Palikarni nr Vellachari	2,092	300	14.3	Jan 08, Rs2,790/sf	3,050

Source: Company/Motilal Oswal Securities

Huge demand exists at the right price points

While the real estate industry is witnessing a volume slowdown, we believe that a huge pent up demand exists for the right product at the right price points. This is evident from the recent stupendous response to DDA's housing scheme in August 2008 where,

- (i) DDA launched a housing scheme (open from 6 August - 16 September, 2008) for affordable housing in Delhi, offering ~5,000 apartments. The apartments on offer range from 423sf to 1,700sf and are priced between Rs0.7m/unit to Rs7.7m/unit, an average rate of Rs1,600/sf, significantly lower than prevailing market rates.
- (ii) DDA received a stupendous response to this housing scheme, ~100,000 forms were sold on the first day itself.

Companies have already started eyeing the affordable housing segment and have planned projects targeting this huge market segment.

Targeting the treasure pot at the bottom of the pyramid

While all developers in India keep talking of a huge pent up demand in the Indian RE market at the correct price points or the lower to mid income housing segment, few have taken the initiative to tap the low margin but a very high volume market. Puravankara Projects (PPL) has disclosed its plans to tap the lower mid-income housing segment.

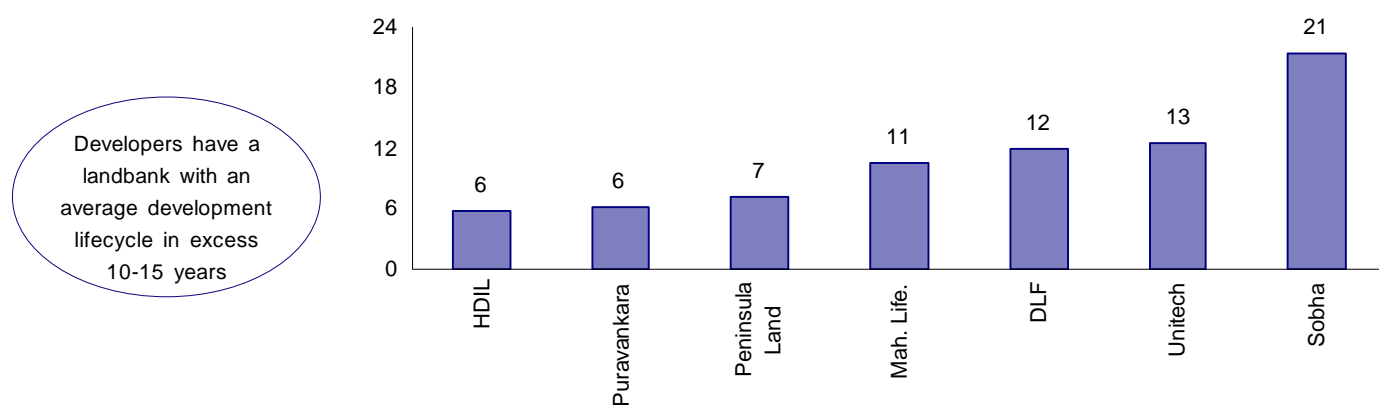
PPL discloses plans to enter social/ lower mid income housing segment: PPL has disclosed plans to enter the social or lower mid income housing segment in India, which promises to be a very high volume market, considering the acute shortage of housing that we have in India. In this regard, PPL is setting up a 100% subsidiary Provident Housing and Infrastructure Limited (PHIL), which in its Phase 1, plans to launch ~65,000 flats at price brackets of Rs1m to Rs2m, comprising of 1-2-3BHK flats. In the phase 1, PHIL would target on three key cities in south, Bangalore, Chennai and Hyderabad, while in phase 2, it would look at replicating its model in several other key cities in India such as Cochin, Pune, Jaipur, Coimbatore, New Delhi, Nagpur, Kolkata, etc.

Volume-value choice: Very few developers in India have taken the initiative to tap the low margin but a very high volume market. This is largely because it would mean moving from a business model which currently enjoys (i) 40-70% operating margins, and (ii) IRR in the range of 50-75% to a business model which would be volume based leveraging on fast turnarounds but enjoying (i) low operating margins in the range of 15-18% and (ii) IRR in the range of 18-22%. In our opinion, PPL's initiative is perhaps an early signal of more such moves by large organized developers in India. Another large RE company that is already working on similar plans is Omaxe.

Developers sitting on 10-15 years land bank: Most of the developers today are sitting on a land bank, which could have a development lifecycle in excess of 10-15 years, unlike

4-5 years in countries like China or 2-3 years in the developed countries. In our opinion, weak RE demand at current price points may force developers to change their development plans to stimulate the huge user market by foraying into lower/mid income housing vertical.

LAND BANK / AREA UNDER CONSTRUCTION (X) *



* Typically for most companies area under construction is likely to be completed over 3-5 years

Source: Company/Motilal Oswal Securities

The current area under construction for most companies includes projects which are likely to be completed over the next 3-5 years.

VERTICAL-WISE AREA UNDER CONSTRUCTION FOR KEY RE COMPANIES

COMPANY	AREA U/C	RESIDENTIAL	COMMERCIAL	OTHERS
DLF	63.0	14.2	36.4	12.4
Unitech	41.8	30.0	11.8	0.0
Puravankara	20.1	18.3	1.8	0.0
Parsvnath	89.0	69.0	6.9	3.2
Sobha	10.3	10.3	-	0.4
Omaxe	93.0	76.0	10.0	7.0
Peninsula Land	2.6	1.3	1.4	0.0
HDIL	88.0	8.0	20.0	60.0
Total	398.4	227.1	88.3	83.1

Source: Company/Motilal Oswal Securities

Outlook and view

In our last update, we had noted that the ‘risk-reward was favorable for long-term investors’, as the NAV valuations for real estate companies appeared attractive post the sharp correction. Notwithstanding the recent bounce back, industry fundamentals over the last few months have continued to worsen. While cheap valuations could provide a floor on the downside, in the absence of any fundamental revival in the real estate market, valuations alone cannot continue to be the catalyst.

In FY08, the focus was on the real estate sector as a ‘theme’, with all real estate stocks moving in tandem. In FY09, the focus is likely to shift to company-specific within the real estate sector. We expect FY09 to be a year of consolidation, in which the industry leaders would get differentiated from peers. We believe developers with staying power would utilize this consolidation phase to emerge stronger and position themselves in an advantageous manner to capitalize on the growth phase post consolidation. Focus on companies with (1) high visibility on monetization of assets over the next 3-5 years, (2) low leverage and robust financials, and (3) strong execution track record. We believe companies which currently have low exposure towards residential vertical such as DLF, HDIL and IBREL are at an advantage compared to companies with large exposure towards residential such as Unitech, Parsvnath, Omaxe, Sobha etc. Our top picks in the sector are DLF, IBREL in the large caps and Mahindra Lifespaces and Bombay Dyeing in the mid-caps.

VALUATION MATRIX

	DLF	UNITECH	IBREL	HDIL	MAHINDRA PURAVAN- LIFESAPCES	KARA	BOMBAY DYEING	GANESH HOUSING
Apartments	248	115	112	207	158	348	73	281
Villas	22	83	-	-	-	-	-	-
Plots/Inst Plots	59	10	-	-	-	-	-	-
Commercial	273	113	184	162	-	168	1,775	415
Hotels	21	39	-	-	-	3	-	82
Retail	185	34	162	206	-	-	-	176
Others	-	43	60	353	641	-	-	-
Sub-Total	809	438	518	928	800	520	1,848	955
Add: Misc	61	-	-	-	-	-	76	-
Total	869	438	518	928	800	520	1,924	955
Less: Tax	173	96	107	215	-	109	388	210
Add: Cash	12	9	63	7	104	2	-	23
Less: Debt	71	53	41	145	-	31	123	6
Less: Land Cost	19	18	15	15	-	13	-	295
Less: Operating Exp	71	37	47	73	-	44	157	91
Net Asset Value	547	200	453	488	903	324	1,256	376
Premium/Disc. (%)	-	15	10	20	15	20	20	25
Target Price (Rs)	547	170	408	390	768	259	1,005	282

Source: Company/Motilal Oswal Securities

COMPARATIVE FINANCIALS

	Y/E END	CMP (RS)	SALES		EBITDA		NP		NPM (%)
			SALES (RS M)	GR. (%)	EBITDA (RS M)	GR. (%)	NP (RS M)	GR. (%)	
DLF	Mar-07	523	26,374	43.7	14,897	98.6	19,306	370.0	73.2
	Mar-08		144,375	447.4	97,518	552.1	78,108	304.4	54.1
	Mar-09		185,125	28.2	116,171	19.6	83,630	7.1	45.2
	Mar-10		202,205	9.2	130,429	12.3	92,009	10.0	45.5
Unitech	Mar-07	165	32,898	343.9	18,296	985.4	13,058	-	39.7
	Mar-08		41,152	25.1	22,038	20.5	16,686	27.2	40.5
	Mar-09		63,498	54.3	31,411	42.5	17,814	6.8	28.1
	Mar-10		113,640	79.0	45,291	44.2	27,792	56.0	24.5
IBREL	Mar-07	290	139	-	-4	-	140	-	100.5
	Mar-08		1,407	910.8	-20	350.1	4,002	-	284.6
	Mar-09		4,576	225.3	3,935	-	4,524	13.0	98.9
	Mar-10		10,282	124.7	5,071	28.9	5,375	18.8	52.3
Mahindra Lifespaces	Mar-07	477	2,163	0.0	308	-16.4	179	8.4	8.3
	Mar-08		2,311	6.8	654	112.1	664	271.2	28.7
	Mar-09		3,826	65.6	1,681	157.1	991	49.3	25.9
	Mar-10		7,709	101.5	3,667	118.1	2,976	200.3	38.6
HDIL	Mar-07	315	12,042	185.3	6,620	442.9	5,480	390.2	45.5
	Mar-08		23,804	97.7	16,921	155.6	14,098	157.3	59.2
	Mar-09		33,628	41.3	22,742	34.4	13,109	-7.0	39.0
	Mar-10		42,206	25.5	25,062	10.2	15,139	15.5	35.9
Puravankara	Mar-07	200	4,169	86.3	1,336	49.9	1,291	116.5	31.0
	Mar-08		5,658	35.7	2,075	55.3	2,400	85.9	42.4
	Mar-09		8,425	48.9	3,926	89.2	2,946	22.7	35.0
	Mar-10		13,364	58.6	5,974	52.2	4,195	42.4	31.4
Bombay Dyeing	Mar-07	581	4,986	-50.8	678	-2.9	359	-41.5	7.2
	Mar-08		9,337	87.3	648	-4.5	167	-53.4	1.8
	Mar-09		13,166	41.0	2,663	311.2	1,479	785.8	11.2
	Mar-10		14,699	11.6	2,547	-4.3	1,303	-11.9	8.9
Ganesh Housing	Mar-07	187	536	86.6	201	43.4	321	22.1	60.0
	Mar-08		1,274	137.7	1,057	425.1	1,061	650.0	83.2
	Mar-09		2,192	72.0	1,385	31.1	1,184	11.7	54.0
	Mar-10		2,788	27.2	1,573	13.5	1,347	13.7	48.3

Source: Motilal Oswal Securities

COMPARATIVE VALUATION

	Y/E	CMP	EV	EPS	P/E	EV/ EBITDA	DPS	DIV. YIELD	ROE	ROCE	BV	P/BV
	END	(RS/SH)	(RS M)	(RS/SH)	(X)	(X)	(RS/SH)	(%)	(%)	(%)	(RS/SH)	(X)
DLF	Mar-07	523	986,866	12.6	41.4	66.2	1.3	0.2	54.3	30.6	23.2	22.5
	Mar-08		993,044	45.8	11.4	10.2	9.2	1.8	39.7	43.0	115.5	4.5
	Mar-09		1,013,199	49.1	10.7	8.7	9.8	1.9	34.1	32.7	143.8	3.6
	Mar-10		939,472	54.0	9.7	7.2	10.8	2.1	29.7	33.1	181.5	2.9
Unitech	Mar-07	165	297,865	8.0	20.5	16.3	0.8	0.5	65.5	42.4	24.6	6.7
	Mar-08		339,136	10.2	16.1	15.4	0.3	0.2	46.1	21.5	22.2	7.4
	Mar-09		329,147	11.2	14.8	10.5	1.1	0.7	39.8	23.6	28.1	5.9
	Mar-10		322,164	17.4	9.5	7.1	1.7	1.0	43.9	34.2	39.5	4.2
IBREL	Mar-07	290	41,324	0.5	567.7	-	-	-	1.0	1.6	64.2	4.5
	Mar-08		35,542	14.6	19.8	-	13.5	4.7	11.8	15.8	141.9	2.0
	Mar-09		48,362	16.5	17.5	12.3	8.0	2.8	10.5	13.0	147.1	2.0
	Mar-10		50,652	19.6	14.8	10.0	8.0	2.8	10.5	13.0	147.1	2.0
Mahindra Lifespaces	Mar-07	477	18,049	4.2	113.3	58.5	1.6	0.3	2.3	4.3	188.2	2.5
	Mar-08		21,878	16.0	29.8	33.4	2.5	0.5	7.8	8.0	207.2	2.3
	Mar-09		20,525	24.3	19.6	12.2	4.0	0.8	10.5	15.0	228.7	2.1
	Mar-10		19,041	73.0	6.5	5.2	8.0	1.7	23.9	28.8	305.6	1.6
HDIL	Mar-07	315	71,238	30.4	10.4	10.8	3.0	1.0	74.6	54.4	40.8	7.7
	Mar-08		95,161	65.8	4.8	5.6	5.0	1.6	38.7	23.0	169.8	1.9
	Mar-09		105,719	47.6	6.6	4.6	7.1	2.3	30.9	21.5	153.9	2.0
	Mar-10		88,774	55.0	5.7	3.5	8.2	2.6	30.6	23.5	179.4	1.8
Puravankara	Mar-07	200	22,367	6.0	33.0	16.7	1.0	0.5	58.2	22.8	11.5	17.3
	Mar-08		22,154	11.2	17.8	10.7	2.0	1.0	19.8	15.0	56.8	3.5
	Mar-09		22,475	13.8	14.5	5.7	1.7	0.8	23.5	20.9	58.7	3.4
	Mar-10		24,869	19.7	10.2	4.2	2.4	1.2	29.9	30.9	65.7	3.0
Bombay Dyeing	Mar-07	581	32,586	9.3	62.5	48.1	5.0	0.9	8.3	6.8	104.3	5.6
	Mar-08		36,025	4.3	134.3	55.6	3.5	0.6	4.1	5.1	102.5	5.7
	Mar-09		34,976	38.3	15.2	13.1	5.0	0.9	31.7	14.2	135.9	4.3
	Mar-10		37,844	33.7	17.2	14.9	5.0	0.9	22.5	13.2	164.6	3.5
Ganesh Housing	Mar-07	187	4,343	6.8	27.4	21.6	2.7	1.4	4.4	12.0	77.4	2.4
	Mar-08		5,545	32.5	5.7	5.2	4.5	2.4	29.2	32.5	55.8	3.4
	Mar-09		5,203	36.3	5.1	3.8	5.5	2.9	29.9	35.4	60.8	3.1
	Mar-10		5,267	41.3	4.5	3.3	6.2	3.3	30.4	33.1	68.0	2.8

Source: Motilal Oswal Securities

DEVELOPERS LARGELY TARGETING UPPER TO HIGHER MIDDLE CLASS SEGMENT

PROJECT	DEVELOPER	LOCATION	BASE RATE (RS/SF)	RATE/UNIT (RS M)
North				
Gurgaon				
DLF Park Place	DLF	Phase V, Gurgaon	6,750	12.7 17.2
The Belaire	DLF	Phase V, Gurgaon	7,250	20.3 29.7
Fresco	Unitech	Gurgaon	4,700 4,700	6.3 8.8
The Palm Springs	Emmar MGF	Gurgaon	7,200	18.0
Raheja Atlantis	Raheja	Gurgaon	-	12.7
Parsvnath Gren Ville	Parsvnath	Gurgaon	4,720	35.0
Parsvnath Exotica	Parsvnath	Gurgaon	6,850	16.9 23.2
Woodstalk Floors, Nirvana County	Unitech	Sector 50, Gurgaon	4,650	4.4
Unitech Escape	Unitech	Gurgaon - Sohna Road	4,700	7.3
Unitech Harmony	Unitech	Gurgaon - Sohna Road	4,700	8.1
Independent Homes	DLF	New Gurgaon	2,550	7.3
Twin Homes		New Gurgaon	2,550	7.8
DLF express Greens	DLF	New Gurgaon	2,350	4.6 6.9
Noida/Greater Noida				
Unitech Grande, Aqua	Unitech	Noida, Expressway	8,000	38.4 64.6
Unitech Grande, Terra	Unitech	Noida, Expressway	8,000	37.8 62.8
Omaxe Grand Woods	Omaxe	Noida, Sector 93	5,000	5.6 8.0
Omaxe palm Greens	Omaxe	Greater Noida	2,900	3.2 4.1
Jaypee Moon Court	Jaypee	Paril Chawk, Greater Noida	5,400	6.5 8.6
Faridabad				
Mahindra Chloris	Mahindra Lifespaces	Mathura Rd, Faridabad	4,000	8.0 11.6
Omaxe Spa Village	Omaxe	Faridabad	2,500	4.0 5.9
Era Redwood residency	Era	Faridabad	1,900	2.2 2.8
Delhi				
Castlewoods	IBREL	Tekhhand, Delhi	12,750	25.5 34.4

Most offerings in Gurgaon are in the premium/upper income segment

Developers entering New Gurgaon at lower price offerings

Unitech Grande is expensively priced compared to its competitors' offerings in the vicinity

DEVELOPERS LARGELY TARGETING UPPER TO HIGHER MIDDLE CLASS SEGMENT

PROJECT	DEVELOPER	LOCATION	BASE RATE (RS/SF)	RATE/UNIT (RS M)
South				
Bangalore				
Puva Highlands	Puravankara	Kanakpura Road, Bangalore	2,490	3.3 3.7
Purva Vintage	Puravankara	HSR Layout, Bangalore	4,300	7.9 8.0
Sobha Petunia	Sobha	Hebbel Ring Road, Bangalore		9.0 to 13.0 13.7 to 14.6
Chennai				
DLF Gardency	DLF	OMR, Chennai	3,200	3.7 to 3.9 6.2 to 6.4
Purva Swanlake	Puravankara	OMR, Chennai	3,600	4.0 6.5
Purva Windmere	Puravankara	Pallikarni, South East Chennai	3,090	3.7 4.9
Kochi				
DLF Riverside	DLF	nr Chilavannoor River, Kochi	3,850	7.1 to 12.8
Purva Moonreach	Puravankara	Seaport-Airport Road, . Kochi	3,100	6.0 6.1
Purva Grandbay	Puravankara	Marine Drive, Kochi	3,800	6.8 7.6
West				
Mumbai				
Mahindra Splendor	Mahindra Lifespaces	Bhandup Mumbai	6,950 6,950	9.7 11.1
Hiranandani Brooke Hills	Hiranandani Developers	Off Godbunder Rd,	7,200	10.3
Bombay Dyeing	Bombay Dyeing	Dadar, Mumbai	25,000 25,000	50.6 81.4
RNA Mirage	RNA Developers		-	85.1
Pune				
Blue Ridge	Paranjape Schemes	Hinjewadi, Pune	3,800	5.1 6.6
Kumar Kruti	Kumar Builders	Kalyani Nagar, Pune	4,800	4.9
East				
Kolkata				
New Town Heights	DLF	Rajarhat, Kolkata	3,275 3,275 3,275	4.0 to 4.3 4.8 to 6.4 8.3
Harmony	Unitech	Rajarhat, Kolkata	3,375 3,375	5.3 6.4
The Gateway	Unitech	Howrah, Kolkata	2,675 2,675	3.9 5.1

Prices in North Bangalore continue to be at a discount to South Bangalore

DLF aggressively forayed in Chennai at 25% lower prices compared to competitors

Mumbai continues to have lower unit sizes at high price points

DLF and Unitech have major offerings at Rajarhat, Kolkata

Source: Industry/Company/Motilal Oswal Securities

N O T E S



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