Industry In-Depth

4 December 2006 | 28 pages

India Property

Citigroup India Property Conference: Key Takeaways

Aditya Narain, CFA[1]
+91-22-6631-9879
aditya.narain@citigroup.com

Manish Chowdhary[1]
+91-22-6631-9853
manish.chowdhary@citigroup.com

Himani Shah[1**]
himani.shah@citigroup.com

- Citigroup recently organized a property conference — Covering large and small developers, property consultants, construction companies and other property-related players. The speakers covered a vast range of issues; we highlight some of the key ones, various points of view, developmental plans of specific developers, and some of our inferences. Key issues discussed were:

- Demand: little debate on robustness — The demand dynamics were probably seen as the big given – broad-based, secular with limited fundamental risks. Meaningful debates on affordability – after price and rate increases, with possibly greater demand-affordability at the lower end of the price spectrum, Tier 1 relative to Tier 2 and 3 cities, residential over commercial and retail segments.

- Supply: Scale, and execution ability, the questions — The question marks – Can developers and construction companies actually execute their plans, will this create too much supply at a point in time, and are there particular segments and geographies more exposed? Developers generally confident – most with specific strategies; consultants are more considered.

- Land Banks: How real, important and valuable? — Speaker comment that land banks today are what eye-balls[1] were about six years ago notwithstanding; most suggest there is reality to them, they will be differentiators, and they will be challenging to value. Lack of transparency suggests risks, as also opportunity.

- Property prices – some caution… almost no one calls it a bubble — The relatively strong property price moves were looked at with caution, rather than with alarm or expectations of a meaningful reversal. The property consultants' view of near to medium term – caution, long term – bull, probably the most specific call on prices.

- We discuss these issues in greater detail — And focus on the presenting developers, the backgrounds, track record and plans, and their opinions on market and business trends.

[1] Eye-balls - this term was a commonly used term during the internet boom during 1998-2000. Internet companies during that period were being valued on the basis of how many people viewed or visited the company's website and these views or "eye-balls" were used as a proxy valuation metric.

See page 26 for Analyst Certification and important disclosures.

Contents

What the property conference was all about?

A mix of large and mid-sized developers, property consultant, and site visits

The following companies presented at Citigroups' India Property Tour – Hiranandani Group, Mahindra Gesco, DS Kulkarni, Colliers International (International Property Consultant), Gera Developers, Unitech, Emaar-MGF, GMR industries, Anant Raj Industries and a few others. Their presentations broadly touched on the market potential, its likely growth dynamic, their own plans and positioning, and the potential bottlenecks and risks. The presentations were followed by healthy Q&A sessions, focused on market trends, and company-specific issues. The conference was attended by a mix of investors – primarily equity, in Mumbai and New Delhi, and was rounded off by a day of site visits in Gurgaon, in the National Capital Region (NCR).

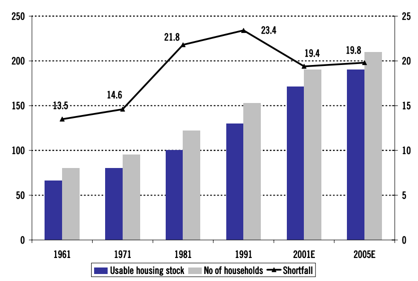
We highlight what appeared to be the more dominant themes and issues, the spread of responses, in cases of data on these issues, and in some cases, our inferences. We also highlight specific company presentations – their backgrounds, developmental track record and plans, and their views on specific issues.

A. Demand – Little debate - structural, here to stay

Fairly consistent and buoyant outlook; rationale - existing shortage, demographics, urbanization, easy availability of finance, and rising incomes

The demand scenario was not the most discussed subject amongst speakers; fairly consistent and buoyant outlook. The rationale for such a positive and non contentious view - existing shortage, demographics, urbanization, easy availability of finance, and rising incomes. Within this space, there appeared a little more comfort with demand in the mass and middle-higher income housing segments, and geographically, a relative preference for Tier 1 and Tier 2 cities.

Figure 1. Housing Stock and Shortage (Millions of units)



Source: HDFC

The key risk to demand seemed to lie in interest rates – though a speaker suggested it would require mortgage rates to rise to 17% (current mortgage rates in 9.5-10% range), before demand would be meaningfully affected (we hold a more conservative view, and believe the threshold is lower). The other risk for the residential segment appeared to be the IT sector; most developers are positioning developments and estimating demand relative to the IT sector – for job creation, income benchmarks, and double-income family estimates.

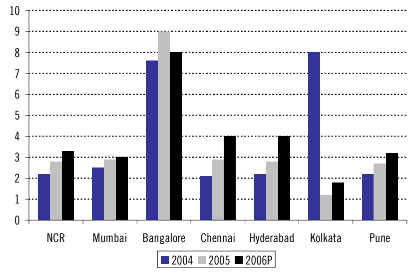
Is affordability an issue? – was the most asked question, and will it impact demand. A spectrum of responses; though there appeared reasonable recognition that meaningfully higher property prices combined with the higher mortgage rates was affecting the market – in different ways. Most developers suggested it was being addressed by buyers investing in smaller houses, moderating aspirations, moving out further, and taking on longer mortgages. In addition, the relatively high confidence in the economy and income growth expectations was pushing buyers to stretch their budgets a little, offsetting some of the demand issues.

Rs1000-Rs3000psf price range was suggested as the most robust segments, others benchmarked it off absolute unit values

Affordability also appeared fairly price band driven; some commentators suggested a Rs1000-Rs3000psf price range as the most robust segments, while others benchmarked it off absolute and per unit cost levels. The luxury end of the market was also perceived as relatively price insensitive given the nature of the demand – the size of that market, however, remains relatively small and a question mark.

The consultant held a sharper view – that unit volume sales across the industry were down by as much as 40%-60% yoy. Developers were ok, but that was because of a meaningful jump in price realization, rather than volumes. This view – that volumes had fallen over the last year was corroborated by a large developer, and refuted by a smaller one. The consultant, however, did add that affordability has always been an issue; and will likely continue to be one, but should not stop people from buying houses.

Figure 2. Commercial real estate - Demand for Office space and IT parks (Million Square Feet)



Source: Ficci -Sept 06

Commercial and Retail are also buoyant, though possibly more exposed to demand risks than Residential.

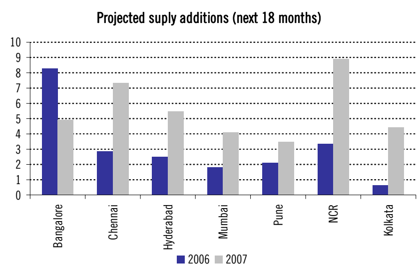
The demand outlook on the commercial space was also seen to be very robust: low stock of Grade A buildings in absolute terms and relative terms, the strong demand for IT/ITES services, and the growing domestic economy itself. There was, however, recognition of the dependence on IT – any reversal there could meaningfully impact broader property development expected in the market space, and the sharp increase in rentals, which could impact demand. The retail growth outlook was also viewed favorably given low levels of organized retail in India: however, aggressive and possibly concentrated build-outs, and very high rentals suggest there could be some pressures in this segment.

B. Supply, execution and data – The unknowns

Varied views – a strong one suggesting too many constraints for meaningful supply to come to market

The issue of supply elicited – almost no data – and a fairly divergent set of views. One end of the spectrum was that there were far too many constraints in delivering housing stock - regulatory, approvals, and executions, for there to be any meaningful oversupply (bar the odd market). This was backed by the view that, apart from a few markets, there was no meaningful supply coming on. In addition, in-spite of the aggressive build-out plans of developers, what will come to the market would only be a fraction of what was needed, and oversupply concerns were completely overdone for most markets. This view also suggested that the shortage in residential would take a good 5-10 years to be absorbed, and oversupply until this happens would at worst be limited to a few markets, rather than be national or generic in nature.

Figure 3. Projected supply over the next 18 months (Mn Sq.Ft)



Source: Ficci & CIR Estimates

A more time-defined view was from the consultant; no large supply over the next two years, though 2-4 years from here there are visible signs of oversupply in enough markets to be a concern. Consensus, however, tended to suggest that supply was reasonably balanced with demand – and over- and under-supply would at most be limited to a few markets, rather than in a pan-India context.

Execution – recognized by all as the big challenge – developers devising multiple strategies

The execution challenges – of building out as much as developers are planning, were, however, apparent. To start with, most developers see execution as the primary challenge – and most appear to have a strategy to address this issue. This ranged from falling back on their own construction backgrounds, getting into Joint Ventures with larger companies, to tying up and contracting with smaller construction companies, who would be more committed than the larger ones with enough orders on their hands. There was also recognition of rising construction costs. Who will actually manage to execute; track record suggested some, though we do believe time is probably what will best tell.

Scale planned - should be unprecedented in the Indian Context

Why are the execution challenges real; because as the consultant put it 'developers are talking about building 15-16x of what they have built so far, and will probably achieve about 5-6x of what they have done'. Whatever they achieve, the numbers are large, and the scale (planned or what is achieved), is likely to be unprecedented in the Indian context.

Absolute lack of data in the market place

What, however, was very apparent was the absolute lack of data in the market place; no formal data on housing starts, geographical stock, or planed developments in different locations. The fact that it is a fairly fragmented market, and there are many small and mid-sized developers, suggests the level of supply in the market – local or aggregate level, remains an unknown. So much so that most participants, including consultants, were not prepared to come up with a number on estimated supply. This does suggest that there could be a meaningful – over- or under-estimation of supply coming to the market, in the residential segmental. This is most likely true for the market, and fairly likely for developers themselves.

Even developers seem to lack data, in their playing areas

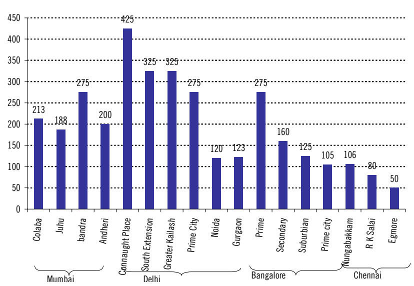
One of the developers stated they have appointed research agencies to do a bottom-up survey, on a monthly basis, on developments and potential supply in their area of business. And they were surprised by the data that they got, though the surprise was on how strong the demand was, rather than anything on the supply side. With the large levels of development planned for various markets, we do believe most developers are probably getting much more organized in their data collection – though data gaps remain significant, most clearly at the market level, and most likely at the operator level.

C. Property prices … Some caution, but almost no one calls it a bubble

Popular question - Are prices too high – varied responses, but none extreme

A popular question – are prices too high, will they fall, or could they continue to go up? A reasonably varied mix of answers – none extreme. And the only one who posed the 'is it a bubble' question was one of the smaller developers himself; we are not quite sure of his answer to his own question, but it sounded more like a 'no' than a 'yes'.

Figure 4. Average Retail Rentals (Rs. Per Sq. ft. per month)



Source: JLL

On residential prices, most developers did not see too much risk; while recognizing the recent strong run-up, most expect relatively normalized 10-15% appreciation to continue. The sharp increases in prices over the last 2 years are, however, done, and not expected to repeat themselves. This is particularly so for the Tier 1 and Tier 2 cities.

There was a little more caution on the Retail and to a lesser extent on the commercial segments, on the part of the developers. The general view was that all retail prices would clearly not hold – and one could expect meaningful erosion in a few markets, segments, and relatively poorly structured/organized retail malls. There was a certain level of caution on the commercial segments too – though less than in the case of retail. The middle end of the market – primarily the IT/ITES, was seen as relatively stable given demand expectations, with a level of caution at the higher end, which is seen to have become more expensive.

Land prices generally viewed as extreme, bubbly

Substantially greater caution on land prices: one developer put his foot forward and suggested land prices were clearly in bubble territory, while most suggested land prices had moved substantially ahead of end product prices, and were clearly not sustainable. This was particularly in the context of the lack of transparency in land purchases; and various other risks in land acquisitions and securing end use developmental rights.

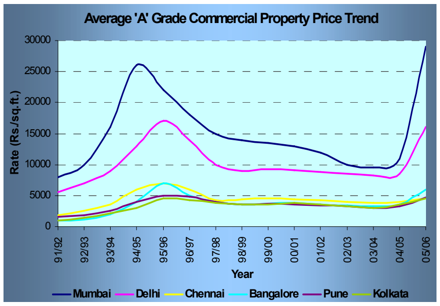
Consultant – cautious near to medium term, bullish long term

The consultant had the most specific view: cautious over the near to medium term, while bullish over the longer term. Very specifically, he was cautious over the next two years, expected prices to fall over the next 2-4 years with supply coming to the market. And was bullish beyond these years, given the underlying breadth of demand.

Consultant: Volumes have fallen fairly sharply – being made up by price

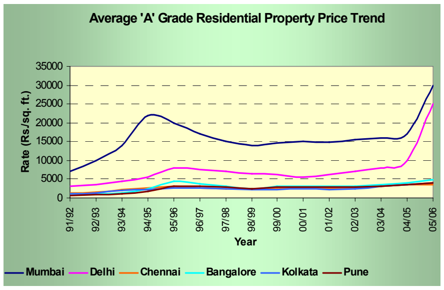
In his view, prices had already flattened out, and unit sales volumes growth was down 40-60% yoy in some instances; though it was being more than made up the appreciation in prices over this period, hence not impacting cash flows of developers. Over the near term, the best case scenario was of prices holding at current levels (a reasonable likelihood given relatively strong holding power and the continued influx of money); a most likely scenario would be a 5-20% drop in prices, while a worst case scenario would be a 20-30% drop in prices, which he believed was unlikely.

Figure 5. Commercial Prices



Source: Knight Frank

Figure 6. Residential Prices



Source: Knight Frank

D. Land Banks – How real, important, and valuable?

Importance is high – value, strategically, and in presentations

The importance of Land Banks was evident by the fact that most developers (though not all) chose to specifically highlight the land / developable area they held, and the importance of it in their scheme of things. The range of these land banks was large – from substantial acreage, to relatively small and specific properties. There was a fair level of reference to Land Banking strategies; type of land owned targeted, process of buying, quantum, and their own skills in acquiring these developmental lands. Most suggested this was a key element of their competitive strengths, while maintaining the challenges and risks in this space, both from their own, and from a competitive perspective. One of the smaller developers – who did not profess or disclose a land bank, however did state that the importance of land banks today was very similar to the importance given to eye-balls a few years ago (he happened to be part of a dot com business then).

How real? Developers confident of the numbers they are releasing

How real are these land banks – can they be developed in the time frame, at prices and with modest risk as suggested by most? Almost all expressed significant confidence in the numbers that they have themselves released. Most managements also suggested an ongoing land acquisition program; with reasonable amounts of partly contracted or not fully secured tracts of land. These – under acquisition properties, are however not part of their disclosed land banks, and largely stating that disclosed land-banks are largely clean and free from encumbrances.

Valuing land banks: Consultant – Conservatism currently required

How valuable are these lands, and how should one value them. The developers stayed away from valuation aspects – there was not a single NAV disclosure. The consultant offered fairly definitive views on the basis on which land banks should be valued. According to him: a) At-least 35-40% of the land should be paid for (till fully paid, atleast 30-40% chance the land will not come through) – the exception being Government auctioned land where there is a deferred payment plan; b) Full valuation and credit should only be given to fully paid land; c) Agricultural lands – there should be very large discounts; d) Location of the land - and benchmark valuations in that area are important to know; and e) Conservatism is currently required, in valuing land. He however clearly stated that there was value to land banks, whether as much as some exercises or publicly disclosed values suggest, remained debatable.

E. SEZs – Will they happen, add value?

The successful one plans more, while the consultant suggests the current policy probably needs to change

The only developer to have set up an SEZ is doing more of them: believes the gestation period is long, the capital required is large, but the returns are higher than stand alone developments. They are following up on this opportunity more aggressively, and given their track record, are getting relatively favorable Governmental and user responses. Almost all the larger developers are also foraying into this space; none however ventured to add definitive plans, capital requirements or expected returns. That it remains a fluid space; in terms of regulations, and processes, and the sheer level of interest, suggests greater policy certainty and definitive plans are needed before opportunity can be meaningfully valued.

Figure 7. SEZ Types and Minimum Size Requirements

Type	Minimum Size(Hectares)	Comments
Multi-Product SEZ	1,000	Reduced to 200 hectares for North East States, Himachal Pradesh, Uttaranchal and Goa. Min Area for Services is 100 hectares
Sector Specific SEZ	100	Reduced to 50 hectares for specific states. Minimum size for Electronic hardware and software sectors, including IT, Biotechnology, solar energy equipment, gems and Jewellery is 10 hectares
Free Trade & Warehousing Zone	40	Built up area of 100,000 sq mt
Port/Airport based SEZ	100	

Source: SEZ Rules 2006

The consultant also lent his views to the SEZ opportunity / debate. Suggested that: a) in its current form, the SEZ rush was a land grab; b) regulations going forward would get easier; c) while many of them would not happen, there are a few that could do very well; and importantly, d) most of them are fairly dependent on IT services – If the current STPI concessions which give tax breaks to IT companies are extended (and according to some newspapers and the consultant, it has been happening), then SEZ's might become redundant.

We highlight below the companies and participants at the conference, some background of their business, their track record and developmental plans, and some of their views based on their presentations or over the Q&A session.

Figure 8. Ten Large SEZs as per area have received in-principle approvals as of August 2006

Company	Location	State	Type	Area - Hectare
M/s. Reliance Industries Ltd.	Jhajjar	Haryana	Multi-product	10,000
M/s. D.S. Constructions Ltd.	Palwal	Haryana	Multi-product	5000
M/s. Unitech Haryana SEZ Ltd.	Sonepat-Kundli	Haryana	Multi-product	4000
Emaar MGF Land Private Ltd.	Village Boda Kalan	Haryana	Multi-Product	4000
Sterling Erection and Infrastructure Private Limited	Jambusar	Gujarat	Multi-Product	3380
M/s. Purva Special Economic Zone	Purva	Uttar Pradesh	Multi-product	3287
M/s. Essar Jamnagar SEZ Ltd.	Jamnagar	Gujarat	Multi-product	2470
Reliance Energy Generation Ltd.	Dadri	Uttar Pradesh	Multi-Product	2023
M/s. Raheja Harayana SEZ Developers Pvt. Ltd.	Dharuhera	Haryana	Multi-product	2000
Emaar MGF Land Private Ltd.	Jahajpur	Haryana	Multi-Product	2000

Source: Ministry of Commerce and Industry

Hiranandani Developers (Unlisted)

Company Background

The company was started in 1980 by Niranjan Hiranadani and his brother, first generation entrepreneurs. One of the first companies in India to develop large volumes of mixed use space involving residential, commercial and retail. They have developed and are currently developing townships in Powai and Thane near Mumbai, both of which are landmark developments and have been very successful from a scale and quality perspective. Focused on residential, it has historically done over 90% of developments in this segment. The group is also one of the developers of 23 Marina, Dubai, a 380m tall residential building.

Development Record and Plans

Did not divulge acreage details but gave some idea on past and present scale of developments

- Developed about 7m sqft of total space in Powai near Mumbai
- Currently developing two townships in Thane, near Mumbai
- Developed about 2m sqft development of commercial / IT space
- To grow in cities like Chennai, Jaipur, Hyderabad and Bangalore

What the Management said on...

Demand

Optimistic on the residential segment - on demand being the primary driver and current shortage to take 5-10 years to be satisfied even on increased supply

Mr. Hiranandani believes the strong growth environment is likely to continue for residential segment; given underlying demand, strong economic and social drivers, and an acute shortage of supply. Believes it will be at-least 5-10 years before the shortage for housing is covered. Does not believe any meaningful demand or affordability issues currently exist. Overall, optimistic on the outlook.

Prices

On the rise, especially residential, but slight correction in the retail and commercial property prices expected. However, believes that top end of the market in each segment is price insensitive.

Execution Capability

Building scale – quality will be biggest challenge

Scale is important in future developments, will take on large scale projects. Believes volumes not a concern in scaling, maintaining quality while increasing scale on a geographically diverse portfolio is much more challenging.

Growth

Said they are not likely to change business mix and will continue to do mix use developments, though on a larger scale. Management expects strong growth of about 300% per annum expected for the next 3 years.

Opportunities

Sees opportunities in rental residential market and strategic SEZs

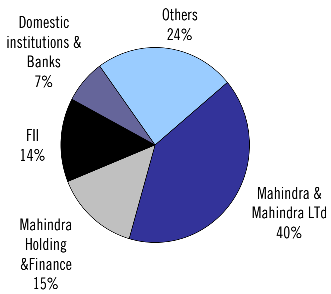
He suggested the rental housing market offered very large opportunities; currently non-existent due to regulations, expects opening of development on a meaningful scale over the next 5 years or so. Also expects the REIT market to develop; was less definitive on the time frame of this though. SEZs also offer a large opportunity in multi use developments and will explore opportunities co-located with the planned townships to leverage on available synergies.

Mahindra Gesco Developers Ltd (MGDL.BO, Rs981, NR)

Figure 9. Price Performance (Jan06 to date)

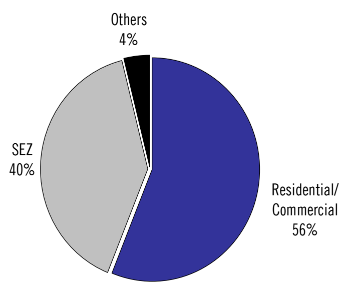
Source: Powered by DataCentral

Figure 10. Shareholding as at Sep'06, Percent



Source: NSE

Figure 11. Revenue Share FY06, Percent



Source: Company Reports

Company Background

The real estate and infrastructure development arm of Mahindra Group, the company started operations about 10 years ago. The company was focused only on residential developments in the initial years, has since then also developed commercial / IT Parks and has been one of the first to develop an SEZ in the country. The Chennai Special Economic Zone, a JV with the state government, is built over 1400 acres and currently has over 4000 people employed. Mahindra Gesco has developed over 3.5m sqft of space across segments in Mumbai, Bangalore, Pune and the NCR (Delhi). The company has recently completed a follow on equity offering for Rs5bn to augment its land bank.

Development Plans

- 6700 acres of land bank including two SEZs of 3000 acres each in Jaipur, Rajasthan and Karla, Maharashtra.
- Jaipur SEZ - 1000 acres of land has already been acquired and the process of acquiring the balance is under progress.
- Plans to develop residential housing in the Chennai SEZ over 250 acres
- Proposes to extend the Chennai SEZ by another 1980 acres
- Plans for a biotech SEZ at Thane, near Mumbai spread over 72 acres
- Expects a total investment of Rs200bn in these projects.

What the Management said on...

Demand

Estimates significant demand for the residential development in Chennai, believes it has created a captive user base with the employment generated in the SEZ. The total projected employment level in the Chennai SEZ is 50,000 employees by 2010, should take care of the planned residentials in the SEZ.

Margins

Believes developer's margin in the range of 20-25%. Returns on integrated developments like SEZs higher than a standalone development due to available synergies. Management believes that margins should be protected and even be higher on the planned SEZs in Jaipur and Karla as compared to the Chennai SEZ as they have also moved up the learning curve.

According to the management, the increase in real estate prices have not increased the margins for the developer as costs (including land prices) have also increased proportionately, leaving margins same.

Growth

Likely to grow significantly relative to own history. Also planning to acquire more land bank in Tier 2 cities with a view to expand operations in such locations.

Figure 12. Profit & Loss Account (Rupees Million, FY2004 -2006)

Year to March	2004	2005	2006
Income from Operation of commercial complexes	158	88	114
Income form Projects	445	719	1,006
Profject management fees	73	55	48
Business centre revenue	38	40	42
Profit on sale of properties	-	13	
Other Income	293	35	30
Total Income	**1,007**	**949**	**1,241**
Expenses			
Cost of Construction/Development	626	621	866
Employee expenses	40	44	64
Depreciation	25	24	23
Other Expenses	93	66	70
Financial expenses	145	61	44
Total Expenses	930	816	1,066
Profit Before Tax	**77**	**133**	**175**
Tax	13	55	65
Profit After Tax	**64**	**79**	**110**

Source: Company Reports

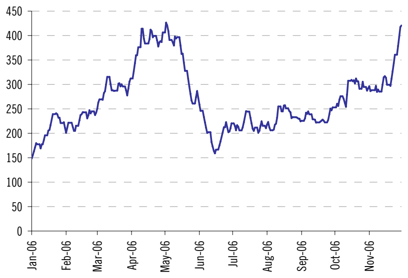
Figure 13. Balance Sheet (Rupees Million, FY2004 -2006)

Year	2004	2005	2006
Net Fixed Assets	426	376	343
Capital WIP	635	601	1623
Investments	840	936	958
Cash and Bank balances	294	239	161
Debtors	158	125	189
Inventory	75	64	39
Loans and Advances	1122	1079	933
Others	368	320	256
Total Assets	**3918**	**3740**	**4501**
Secured Loans	227	24	183
Unsecurred Loans	469	506	1090
Total Loans	696	530	1273
Other Liabilities	1097	1262	1301
Share Capital	1046	960	960
Reserves and Surplus	1079	987	968
Total Networth	**2125**	**1947**	**1928**
Total Liabilities	**3918**	**3739**	**4501**

Source: Company Reports

D S Kulkarni Developers Ltd. (DKULF.PK, Rs314, NR)

Figure 14. Price Performance (Jan06 – Nov06)



Source: Powered by dataCentral

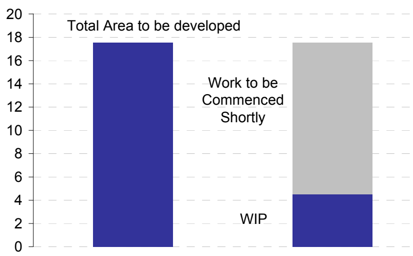
Company Background

Started in 1991 by a first generation entrepreneur, the company focuses on the residential housing market in Pune. The DSK group has completed over 15,000 tenements with a total developed area of 12.5m sqft so far. It has established a reasonable brand name in Pune through its customer orientation and is planning to increase its presence in other parts of the country. Recently completed a Rs2.1bn capital raising in May 2006.

Development Plans

- Currently developing projects in Pune, Mumbai and Bangalore - total saleable area of around 4.5m sqft, significant proportion being located in Pune
- Recently launched a 100% subsidiary to develop residential properties in the USA, land for the project has already been identified
- Plans to build 182 apartments near Connecticut and 600 near Washington / New York. Average value of an apartment would be US$775,000
- Planning similar forays into Middle East and Australia for residential segment
- Land bank representing a potential development of 17.5m sqft. Management expects the current land bank to be fully developed by 2012

Figure 15. Land Bank (Mn Sq. ft.)-Work to be completed by 2012.



Source: Company Reports

What the Management said on...

Land Bank

Management was uncomfortable with the notion of land banks. Believes that value depends on the realizability of the land. Also, said that they have agreements for land of 6000 acres in Alibaugh and 1000 Ambernath (in the state of Maharashtra), but is not in the name of the company, and not something he would consider as part of his land bank yet. Was of the view that current land prices, were exorbitant, unviable, and reflected signs of a bubble.

Land Acquisition Strategy

The key skills of land identification and acquisition lies with the promoter himself. Most of the land is therefore acquired by Mr Kulkarni through associates and group companies and at an opportune time (closer to the development) it is transferred to the company for development of the same. Transfer price is calculated using a formula – Costs + Add ons + 15% margin.

Customer Profile and Demand Outlook

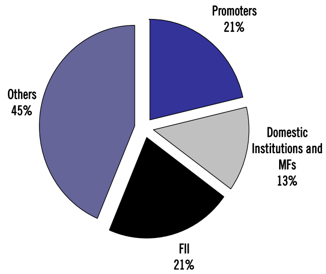
Management sees a change their customer profile – average age of buyers has reduced to 24-25 from 35-36 earlier, most buyers are currently working couples in the IT/ITES industry with average monthly household income of Rs80,000 – Rs100,000. Expects demand creation from IT/ITES sectors to continue in Pune and expects prices to continue to rise at 10-15% annually.

Business Model

Concentrated so far in the residential housing with 90-95% of total developments being residential. The balance is largely commercial and some local retail shopping facilities.

Mr Kulkarni believes in a limited number of partnerships and only in cases where it adds value to the company. One of the current large projects, spread over 250 acres in Pune is expected to be developed through an SPV with a financial partner.

Figure 16. Shareholding as at Sep'06, Percent



Source: NSE

Strategy and Execution

Sells all its developments directly and does not use marketing agents, which minimizes incidence of investor purchases. Also they do not believe in pre-launch sales and sells only after all approvals are in place.

On execution – all projects in Pune are developed in-house, however, outside Pune projects are contracted to third parties, to overcome complexities of execution in a different location.

Margins and Prices

Historical IRR of about 35% on projects, management expects to maintain these. Believes Pune and Mumbai should continue to see continued price increases of about 10-15% annually. Any decline in residential prices not expected to be significant, but commercial and to some extent retail properties might be slightly impacted.

Figure 17. Profit & Loss Account (Rupees Million FY2004 -2006)

Year	**2004**	**2005**	**2006**
Sale of Tenements	297	351	166
Increase in inventories/WIP	214	183	1,164
Other Income	2	2	5
Total Income	**513**	**536**	**1,335**
Cost of Construction/Development	423	443	1,040
Employee expenses	6	6	15
Depreciation	2	2	3
Other Expenses	48	19	59
Financial expenses	18	28	21
Total Expenses	**497**	**497**	**1,138**
Profit Before Tax	**15**	**39**	**197**
Tax	1	3	21
Profit After Tax	**15**	**37**	**176**

Source: Company Reports

Figure 18. Balance Sheet (Rupees Million FY2004 -2005 and December 2005)

Year	**2,004**	**2,005**	**Dec-05**
Net Fixed Assets	12	14	17
Cash and Bank balances	32	20	90
Inventory	877	1,060	1,595
Loans and Advances	74	15	113
Others	32	43	36
Total Assets	**1,028**	**1,152**	**1,850**
Secured Loans	321	581	664
Unsecurred Loans	51	47	37
Total Loans	372	628	701
Other Liabilities	464	305	814
Share Capital	110	110	110
Reserves and Surplus	81	109	228
Less: Misc Expenditure	-	-	3
Total Networth	191	219	335
Total Liabilities	**1,028**	**1,152**	**1,850**

Source: Company Reports

Colliers International India Property Services (Unlisted, Property Consultant)

Company Background

One of the first international property consultants to start operations in India in 1995, with offices in Mumbai, Bangalore, Chennai and New Delhi. Colliers International is a full service property consultant providing services to property investors and occupiers.

What the management said on...

Liquidity

About US$1bn of funds have already been invested and another US$10bn are scouting for investable opportunities

Mr Akshaya Kumar, Chairman said that there are surplus funds available to most developers in the country. Sources of funds are various, including an influx of the foreign money, for the first time, in Indian real estate. He estimates that about US$1bn of funds have already been invested and another US$10bn are scouting for investable opportunities. A continuation of the currently strong liquidity situation could provide ample holding power to the investors and prevent a decline in property prices in the event of a slowdown.

Sales and investments

Slowdown in unit sales by 40-60% but developers not strained for cash as prices have doubled

Believes that the market has flattened and there have been no price increases in the last couple of months, barring exceptions. One of the few, who said that unit sales have slowed down significantly over the last few months, he even estimated the extent of slowdown to be 40-60% of the peak; but added that unit prices have doubled since last year and therefore not straining the developers for cash.

Responding to the presence and extent of speculation in real estate, Mr Kumar said that investor purchases were significant and could be anywhere in the range of 30-70% in various markets. He estimates such sales to be 30% in Mumbai (one of the lowest such incidence of the larger markets), about 50-70% in Bangalore and over 50% in Gurgaon.

Execution

Execution a challenge – geographical experience will be mixed and volumes to fall short of current projections

On one of the biggest concerns relating to execution capabilities of the developers - Mr Kumar said it a) represented a significant challenge for most. Somewhat scpetical of efforts for geographical expansion; b) anticipates difficulties and maintained such an expansion will not succeed for all developers – the bigger players though will be better placed to absorb shocks due to balance sheet strength; and c) developers today are talking about developing 15x of what they have achieved historically and most would end up trying to achieve 5-7x of what they have done in the past.

Supply and prices

Colliers on prices: Caution in the near term, bearish over the medium term and bullish over the longer term

Even a scale up of 5-7x of historical volumes is large relative to current levels. He believes this supply could come to market in the next 2 years, creating a supply overhang on prices. He estimates that in the best case prices could remain flat due to high liquidity levels in the system, however expects prices to decline 5-20% in most markets and even up to 20-30% in the worst case, but is quick to add that he does not expect the worst to pan out. Advice on prices therefore is for caution in the near term, bearish over the medium term and bullish over the longer term.

Regulations and transparency

Regulations remain a concern as do the lack of transparency in market data as well as from the developers themselves. Believes that lack of proper regulations do not stop developments but do significantly delay them and add to costs, fueling price increases. The most needed easing in regulations therefore would add to transparency and will bring increased supply to market.

SEZs

SEZ rush – a land grab?

On the debate on SEZs, he suggested that, a) in its current form, the SEZ rush was a land grab; b) regulations going forward would get easier; c) while many of them would not happen, there are a few that could do very well; and importantly, d) most of them are fairly dependent on IT services – If the current STPI concessions which give tax breaks to IT companies are extended (and there has been some talk of it happening), then SEZ's might become redundant

Valuations

Suggests conservatism currently required in valuations

According to Colliers most industry players are still coming to terms with the various issues with valuations. His views on stock and land bank valuations - a) At-least 35-40% of the land should be paid for (till fully paid, atleast 30-40% chance the land will not come through) – the exception being Government auctioned land where there is a deferred payment plan; b) Full valuation and credit should only be given to fully paid land; c) Agricultural lands – there should be very large discounts; d) Location of the land- and benchmark valuations in that area are important to know; and e) Conservatism is currently required, in valuing land. He however clearly stated that there was value to land banks, and they needed to be considered and not ignored.

Gera Constructions (Unlisted)

Company Background

Relatively small, unlisted developer, Gera Constructions is in the real estate business since 1970. It is largely focused on residential developments in the Western Region, mainly in Pune. One of the few companies that have in-house construction abilities and the company does a large proportion of its own developments. It has an integrated end to end approach to development with all functions from product development and design to construction and marketing done in-house.

Development Plans

- 2.1m sqft under construction. All current projects are residential housing
- 0.4m sqft is in Goa and the balance is in various projects in Pune.
- Looking to acquire more land bank in the western region
- Not looking at an IPO

What the Management said on...

Demand

Locations doing well economically should benefit disproportionately

Mr Rohit Gera, Executive Director, is confident about longer term demand. He believes locations doing well economically should benefit disproportionately. Broad economic growth and decreasing age of home buyers will also likely accelerate residential demand.

Supply of stock

Additional supply of 1.5x – 2x of current could lead to supply overhang

Mr Gera believes that there is a large amount of supply waiting to come to the market in the medium term, especially in the residential market. According to his estimates, the additional supply could be in the range of 1.5x – 2x of the current market supply. This could lead to a supply overhang on the market, holding prices constant in the medium term.

Price Bubble

He also debated if there was price bubble in some parts of the market. Suggested that current scenario had some characteristics (but not all) of the formation of bubble and viewed it as giving mixed signals. Overall, maintained a strong price outlook.

Transparency

Lack of transparency, data and corporate governance

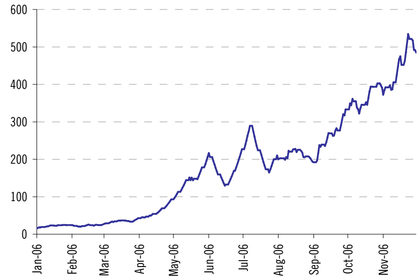
Mr Gera also touched upon the lack of transparency of market and industry data. Where availability is usually dated and there is no authentic aggregator of industry data on a local or national level. They have mandated an external data collection agency to collect primary data in their projects vicinities. He said that corporate governance was an issue and needed to be strengthened.

Risks

Highlighted some of the risks in the Indian scenario - starting from the land acquisition, securing clear titles, getting various sanctions and approvals before development and right down to the transparency in marketing the projects.

Unitech Ltd (UNTE.BO, Rs485, NR)

Figure 19. Price Performance (Jan06 – Nov06)



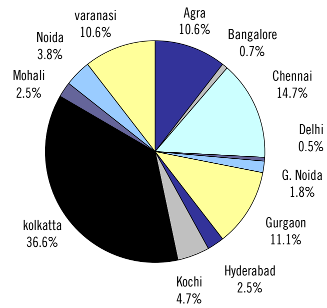
Source: Powered by dataCentral

Company Background

One of the largest real estate companies in India in terms of land bank, and the largest listed real estate developer in India. It has a pan India presence and interests across all segments of development. The company was listed in 1986 and has about 20 years of experience in developing real estate. The company started with consultancy in real estate and moved to taking construction contracts for different developers and then expanded into development of real estate. Unitech still has a small construction business but management has decided to stop taking more projects and focus efforts on the real estate development business.

Initially focused on the Gurgaon market, in the National Capital Region, the company has expanded in the last few years and acquired a large land bank across the country. It has won the contract for building the expressway between Kolkata and Haldia, a flagship project of the West Bengal government, and also for setting up of two large scale multi product SEZs in the state.

Figure 20. Land bank -Regional Distribution



Source: Company Reports

Development Plans

- Land bank of over 14,000 acres spread across India with potential developments of 524m sqft and 11.5m sq yards of developed plots
- Management envisages a time period of 7-8 years for its development.
- In-principle approvals for sector specific SEZs for autos and apparels of 250 and 350 acres of land respectively. Both of these are located in Gurgaon.
- In-principle approvals for 3 mega SEZs – Kundli, Harayana (20,000 acres) and two in Haldia (10,000 acres and 12,500 acres), West Bengal
- Part of the New Kolkata International Development Project in which it has 40% stake Salim Group and Universal Success of Indonesia having the 40% and 20% respectively.
- JV will receive land from the state government for the SEZs and townships in Haldia (5,000 acres) and Rajarhat (1650 acres in total)
- The total available land for the project would be about 38,000 acres.
- The Kundli SEZ and one of the Haldia SEZ are likely to have state governments taking stake in them.

What the Management said on...

Land acquisition strategy

A large proportion of land bank acquired over last two years. Management confident of costs remaining low for the SEZs, as land is to be acquired by state governments. Management seeks to avoid land acquisitions in open auctions and bids (given irrational bidding in the market place), and prefers negotiated transactions with Governments, and aggregating land from the market.

Looking to acquire more land over the next few years, to focus on Tier 2 and Tier 3 cities. Management prefers to acquire significant land holdings to smaller parcels as in Chennai and Kochi, where it is one of the largest land owners currently.

Business Model

Largely focused on the residential segment, but also has significant presence in the commercial, retail and entertainment segments. For residential, focus is on middle and upper middle income segments and on the suburbs vs. main cities.

For commercial and retail - the strategy is to develop and sell. Management does not intend to hold and lease properties; argument being to turn capital faster, giving higher returns.

Execution

Management is confident of scaling operations by 100% annually for next two years. It has plans for recruiting required expertise for managing the expansion and has also hired engineers from Philippines. It currently employs 1700 people of which about 650 are professionals.

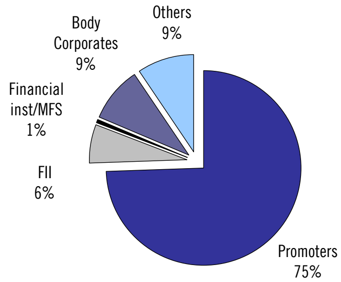
Other Business Segments

Unitech has started development on 4 hotel sites. Company will own land and operations outsourced to an international hotel management firm. Unitech is also building amusement parks / entertainment centers in Delhi on 147 acres and 62 acres respectively. No fresh projects to be added in the construction business as management focuses on real estate development.

Fund Raising

Unitech has announced a fund raising plan of upto US$700m through a separate listing of few of its properties on the AIM exchange in London. These will largely be commercial properties that the company would sell to a separate SPV created for this purpose.

Figure 21. Shareholding as at Sep'06, Percent



Source: NSE

Figure 22. Profit & Loss Account (Rupees Million FY2004 -2006)

Year	2004	2005	2006
Construction	1121	1,453	1,982
Consultancy	95	155	324
Real Estate Projects	2524	3,496	5,110
Rooms, Restaurant and Others	0	741	838
Sales of products - transmission tower	0	381	674
Other Income	81	423	617
Total Income	**3,821**	**6,649**	**9,545**
Cost of Construction/Development	3,289	4,739	6,131
Employee expenses	17	249	366
Depreciation	17	113	112
Other Expenses	201	738	1,082
Financial expenses	91	246	465
Total Expenses	**3,615**	**6,085**	**8,155**
Profit Before Tax	206	564	1,390
Tax	65	216	513
Profit After Tax	**141**	**348**	**877**
Minority Interest		(14)	(33)
Profit in associates		11	2
Profit After Minority Interest	**141**	**345**	**846**

Source: Company Reports

Figure 23. Balance Sheet (Rupees Million FY2004 -2006)

Year	2004	2005	2006
Net Fixed Assets	178	1,348	3,620
Investments	848	502	145
Goodwill		845	824
Cash and Bank balances	840	2,718	3,899
Inventory	267	4,651	5,831
Loans and Advances	1,658	1,404	2,860
Others	619	855	1,038
Total Assets	**10,630**	**24,368**	**44,522**
Secured Loans	603	3,258	9,557
Unsecurred Loans	714	506	893
Total Loans	1,317	3,764	10,449
Advances for Customers		100	3,096
Advances against booking of properties	5,845	13,602	20,332
Deferred Liability against Land	0	2,049	1,056
Other Liabilities	1945	2,567	6,603
Deferred Tax	16	121	151
Share Capital	125	125	125
Reserves and Surplus	1382	1,832	2,472
Total Networth	1,507	1,956	2,597
Minority Interest	0	210	237
Total Liabilities	**10,630**	**24,368**	**44,522**

Source: Company Reports

Emaar MGF Ltd (Unlisted)

Company Background

A 50:50 JV between MGF group of India and Emaar of the UAE, the company focused on the development of real estate in India. The JV is operating in the infrastructure and the SEZ segments largely and has a pan-India focus. Apart from presence in the residential, commercial and retail segments, the company also has presence in education, healthcare and hospitality sectors. MGF has been present in the Indian real estate sector since 1998 with development of retail malls in the country. Emaar MGF also has a large land bank with a pan India presence.

Development Plans

Pan India Land bank – but developments have a lead time before it comes to market

- Plans to develop properties across verticals ad pan India
- Developing projects located in Hyderabad, Gurgaon and Mohali
- Completion of the initial projects in another 2 – 2.5 years time
- In-principle approvals for development of 10 SEZs so far
- Proposes to build 30 townships over 100 acres each in addition to the SEZs

What the Management said on...

Land Bank

Land Bank – claims to be comparable with the largest

Management says - a sizeable land bank, that could well be amongst the largest in the market, located pan India. Strategically, is relatively less exposed to the Western Indian markets, as believes it is more exposed to downturns.

For acquisition of land bank – management prefers direct acquisition, and is uncomfortable with the Joint Development Agreements (JDAs) route, where there is lesser control. It does have a few JDA's in strategic cases, but this would account for less than 10% of its developments.

Execution

Execution – to leverage on Emaar resources

Emaar-MGF lends execution strength to the JV, given the parents significant track record, internationally. Several representatives of Emaar at senior levels, impart critical execution skills. Company outsources construction activity to smaller; medium sized domestic companies which can provide more commitment than the larger players. Emaar MGF has already ramped up its manpower and resources, and should continue to expand.

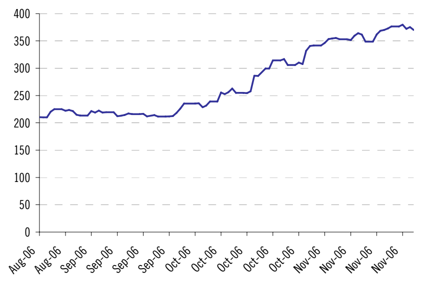
Business Model

Largely residential with presence across segments

Management focusing on luxury, upper and middle income segments for residential. Most developments as part of proposed townships. Developments will be a mix across segments with residential at 60% of expected developments, 20% commercial, 10% in retail and balance 10% in other segments including hospitality, healthcare and education. Developments in the latter segments to be strategic in nature as per management.

GMR Infrastructure (GMRI.BO, Rs370, NR)

Figure 24. Price Performance (Aug06 – Nov06)



Source: Powered by dataCentral

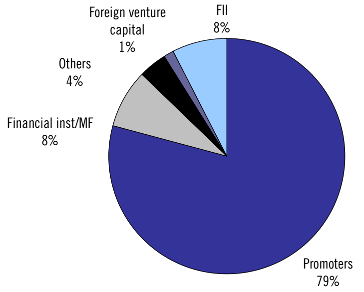
Company Background

An infrastructure company started in 1996, it focuses on the verticals of Airports, Power and Roads. It is currently developing twelve infrastructure projects across the country. The conception, development and operation of its projects are the specialization of the company, while the construction of the projects is outsourced. The company has recently won contracts for the modernization of Delhi and Hyderabad Airports and has access to over 900 acres of developable land bank.

Development Plans

- Land bank of 250 acres in Delhi and 700 acres in Hyderabad
- Permitted developments have to be airport related.
- Currently in the phasing and planning stage of the developments. It has appointed an international property consultant for the Delhi Airport property.
- Mix of hotels, convention centers, offices, retail and tourism related properties to be constructed.
- Expects 4-6 years of completion time.
- Has applied to the Andhra Pradesh Government for a SEZ status for 250 acres of the available land in Hyderabad Airport project.

Figure 25. Shareholding as at Sep'06, Percent



Source: NSE

Management Speak

Land Bank

The company has access to a total land of 5100 acres in the Delhi Airport project, of which 5% or about 250 acres of land can be developed for the company for commercial projects. Similarly it also has access to over 700 acres of land near the Hyderabad Airport for commercial developments. The land is on a lease of 30 years with a permissible extension by another 30 years at the option of the company.

Execution

As with its infrastructure projects, the company would outsource the construction to a developer. The conception, design and operations would be done by GMR.

Figure 26. Profit & Loss Account (Rupees Million FY2004 -2006)

Profit & Loss Account	**2004**	**2005**	**2006**
Income fro operations	9733	9929	10590
Other Income	301	285	51
Total Income	**10,033**	**10,215**	**10,641**
Generation and Operating	*5329*	*5134*	*5058*
Staff	*552*	*858*	*317*
Depreciation	1880.21	1921.71	2199.8
Others	*0*	*0*	*712*
Financial expenses	1215.63	1129.15	1293.6
Total Expenses	**8,977**	**9,043**	**9,580**
Profit Before Tax	1,056	1,171	1,061
Tax	77	53	125
Profit After Tax	**979**	**1,119**	**936**
Minority Interest	299	430	231
Shares of Associates	0.01	2.17	
Attributable profit	**680**	**690**	**705**

Source: Company Reports

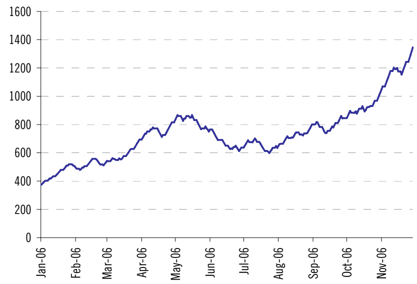
Figure 27. Balance Sheet (Rupees Million FY2004 -2006)

Balance Sheet	**2004**	**2005**	**2006**
Net Fixed Assets	10715	15418	13508
Capital WIP	4,768	7,058	13,868
Investments	366	1,755	2,557
Expenditure during constr.	1,268	890	2,450
Current Assets, Loans and Adv.	7,772	7,188	11,439
Total Assets	**24889**	**32310**	**43822**
Secured Loans	14,005	18,037	25,438
Unsecured Loans	379	1,117	3,778
Total Loans	14384	19155	29217
Other Liabilities	3,151	5,051	4,656
Deferred tax Liability	72	3	2
Share Capital	1,772	1,587	2,644
Reserves and Surplus	2,191	2,806	3,060
Misc. expenses	10.21	0.16	0.03
Total Net worth	3953	4393	5704
Minority Interest	3,330	3,709	4,243
Total Liabilities	**24889**	**32310**	**43822**

Source: Company Reports

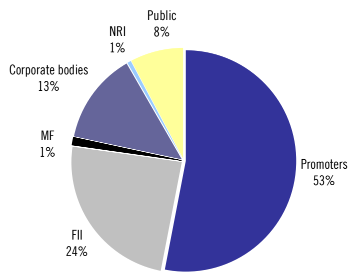
Anant Raj Industries (ANRA.BO, Rs1345, NR)

Figure 28. Price Performance (Jan06 – Nov06)



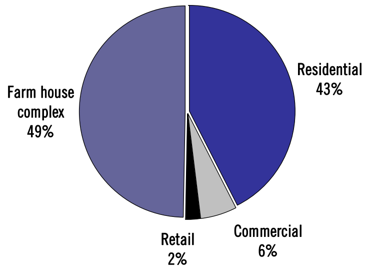
Source: Powered by dataCentral

Figure 29. Shareholding pattern - post conversion of warrants, Percent



Source: Company Reports

Figure 30. Distribution of Land Bank, Percent



Source: Company Reports

Company Background

Anant Raj Industries has a long history of experience in construction of projects and has been doing real estate development for the last 37 years. Amongst the larger developers in the National Capital Region, the company has developed over 11.5m sqft of space across segments of residential, commercial and retail. It also has a ceramic tile manufacturing unit in the NCR.

Development Plans

- Access to over 1000 acres of land spread over 50 sites across the NCR
- About 500 acres representing 70m sqft currently under development
- Projects under development currently include 16 hotels, 3 IT Parks, 2 Commercial offices, Retail malls, 12 housing projects and SEZs
- Specializes in the geographical region of the NCR and would expand within the region in the medium term.

Management Speak

NCR Focus

A different model from the others, the company focuses on development of commercial space. Also management is very confident of its geographical specialization and does not intend in the medium term to spread wings geographically.

Business Model

In terms of the business mix, management estimates commercial (including retail and hotels) to be 70% of total developments with the balance 30% being residential. The company also operates on a lease model for its commercial properties, and expects to continue with this strategy.

Land Acquisition Strategy

Management categorizes land in three categories based on development potential and distance from city centre. The greater the distance, the longer is the time to development and lower the land prices. This provides higher cushion to downturns and higher margins during good times – with the key being identification of the right property a while before development is likely.

Land Bank

Of the total 1000 acres of land available with the company 75 acres is located in prime locations, about 350 acres in the second tier locations, likely to be developed over the 2-5 years and the balance is in the tier 3 locations, which management expect to be developed beyond the 5 year horizon.

Demand

Confident of the growth in the economy and particularly in the NCR, management expects volumes to increase significantly and prices to remain strong in accordance with higher demand. Also the focus of the management is on the suburbs or the outskirts of the NCR

Figure 31. Profit & Loss Account (Rupees Million FY2005 -2006)

	2005	2006
Sales - tiles division	225	206
Sale of assets & investment		345
Rent receipts	1	17
Other Income	7	9
Total Income	**233**	**577**
Cost of Construction/Development	179	149
Employee expenses	19	18
Depreciation	20	29
Financial expenses	12	12
Total Expenses	**229**	**208**
Profit Before Tax	**3**	**369**
Tax	0	88
Profit After Tax	**3**	**281**

Source: Company Reports

Figure 32. Balance Sheet (Rupees Million FY2005 - 2006)

Balance Sheet	**2005**	**2006**
Net Fixed Assets	122	607
Capital WIP	85	85
Investments	0	99
Cash and Bank balances	13	20
Inventory	47	68
Loans and Advances	42	271
Others	69	98
Total Assets	**379**	**1,247**
Secured Loans	93	150
Unsecurred Loans	3	58
Total Loans	96	208
Other Liabilities	53	112
Deferred Tax	10	26
Share Capital	193	245
Reserves and Surplus	27	658
Less: Misc Expenditure		2
Total Networth	220	902
Total Liabilities	**379**	**1,247**

Source: Company Reports

Analyst Certification Appendix A-1

We, Aditya Narain, CFA and Manish Chowdhary, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citigroup Investment Research product ("the Product"), please contact Citigroup Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citigroup Investment Research Ratings Distribution

Data current as of 30 September 2006	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (2914)	46%	40%	14%
% of companies in each rating category that are investment banking clients	44%	43%	32%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citigroup Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citigroup Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citigroup Wealth Advisors Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. If the Product was prepared by Citigroup Investment Research and distributed in Japan by Nikko Citigroup Ltd., it is being so distributed under license. Nikko Citigroup Limited is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Akasaka Park Building, 2-20, Akasaka 5-chome, Minato-ku, Tokyo 107-6122. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citigroup Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. Advice in the Product has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs.