

APRIL 06, 2011

UPDATE

BSE-30: 19,612

**Remain selective.** Launches, absorption and inventory levels have remained stable over the past two months despite funding getting tighter for developers and concerns on demand. Relatively, Gurgaon has been the strongest and Mumbai the weakest. We retain our stance of being selective. Our top picks are (1) Sobha (BUY, TP Rs380) – Bengaluru residential, (2) Oberoi (BUY, TP Rs305) – visible NAV and net cash, and (3) Phoenix (BUY, TP Rs300) – three mall openings in FY2012E are potential triggers.

#### Very few visible cracks as yet

Data up to February 2011 indicates that apart from financial market participants none of the other stakeholders (developers, financiers, customers) are worried about a demand slowdown. Developer launches have been higher mom, housing loans are up 15% yoy essentially in line with trend and sales have also been healthier mom.

- ▶ Fresh residential launches are up 50% mom (total for Mumbai, Gurgaon, Noida and Bengaluru) and sales are up 24% mom and 46% yoy.
- ▶ Gurgaon sales volumes are actually up 50% versus January 2011 and 132% yoy.
- ▶ Mumbai (highest worry market) has seen launches and sales dip marginally (likely due to lack of approvals) but we do not see any confirmation of a slowdown trend. Oberoi has launched Exquisite II as planned while HDIL has not launched any projects in 4QFY11.
- ▶ Pricing change has been in a narrow band with only Mumbai witnessing a 1% average decline. Anecdotally, we hear of developers keeping prices for new projects either flat or 5% lower than prevailing prices to enable volume off-take.
- ▶ Retail loan growth data from RBI also indicates growth remaining stable at around 15%.

#### Stocks have reacted positively as demand has held up and launches have been more than expected

Post a sharp 51% correction in the BSE Realty index over four months, stocks have bounced back 2-36% as (1) launches in the NCR region have been better than expected though still continue to lag company promises, (2) prices have 'soft-landed' against a worry that they could decline and there has been no indicator of developers willing or forced to undertake a significant price correction, (3) retail housing loans have continued to grow (15% yoy in February 2011), (4) demand has sustained (January-February 2011), and (5) there have been no debt restructurings or signals of big trouble.

#### Remain selective – BUY Sobha, Oberoi and Phoenix Mills

We continue to recommend a selective approach as (1) funding is still constrained and our discussion with companies and other sector participants leads us to believe that raising equity at the entity level remains a near-impossible task while raising debt has also become more difficult and effective borrowing costs have increased, (2) impact on developers and consequently prices could be felt with a lag, and (3) company-specific risks continue to remain high. Oberoi, Phoenix and Sobha are our top picks as we believe they are relatively insulated (Oberoi – net cash, Phoenix – retail, Sobha – Bengaluru residential) and have potential upside (Oberoi – NAV accretive land purchases, Phoenix – three mall openings in FY2012E and Sobha – launch of large projects in Bengaluru and Gurgaon).

#### QUICK NUMBERS

- Residential launches up 50% mom (total for Mumbai, Gurgaon, Noida and Bengaluru)
- Gurgaon sales volumes up 132% yoy
- Housing loans up 15% yoy

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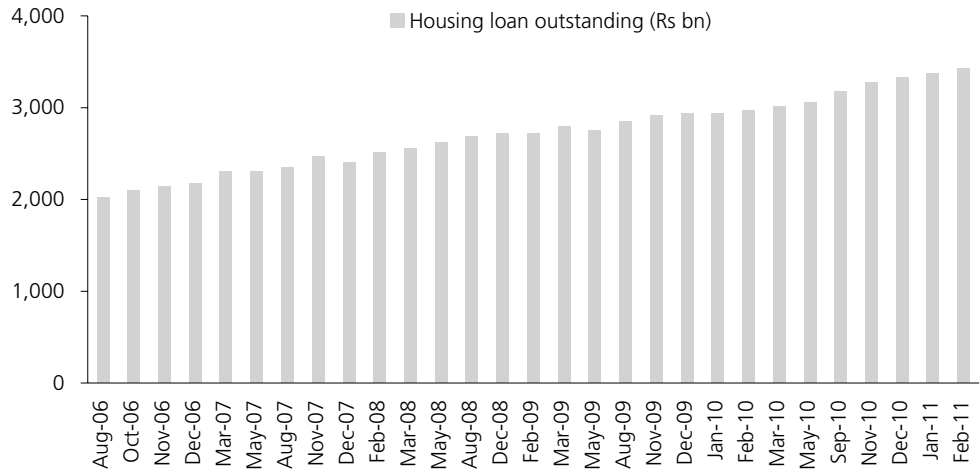
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### Housing loan outstanding is up 15% yoy for February 2011

We do not see any weakness in outstanding retail housing loans. Housing loans are up 15% yoy in February 2011 which is similar to the growth trend of the previous few quarters and only 100 bps below the high growth rates achieved in August 2007.

#### Housing loan outstanding does not reflect any slowdown

Housing loan data, Aug 2006 – Feb 2011 (Rs bn)



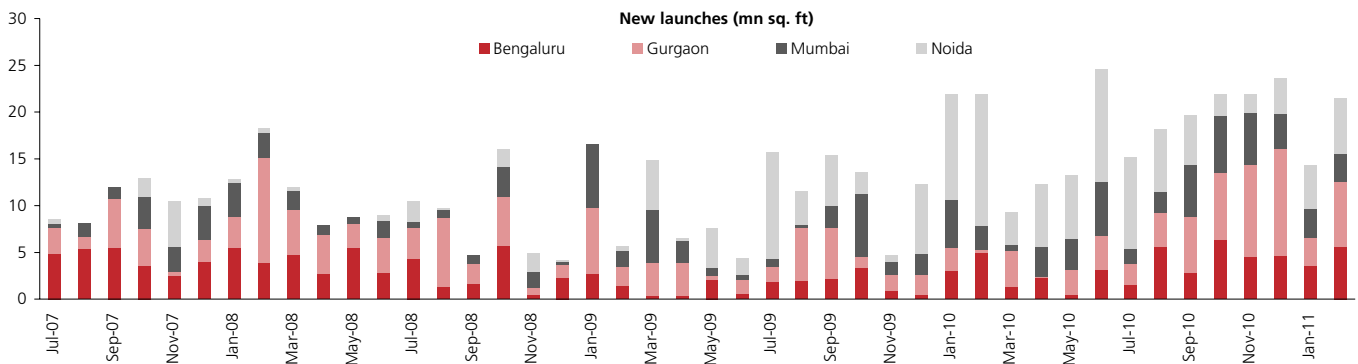
Source: RBI, Kotak Institutional Equities

### Despite skepticism, absorption and launches have remained healthy

Total launches have increased to 21.5 mn sq. ft in February 2011, up 50% yoy. Mumbai was the only region where launches declined mom partly due to a slower pace of approvals. Anecdotally, with DLF, UT and PVKP launching projects in March 2011, it seems unlikely that data for March 2011 will show any significant downtick.

#### No letdown in new launches

New launches, Bengaluru, Gurgaon, Mumbai and Noida, July 2007 – Feb 2011 (mn sq. ft)

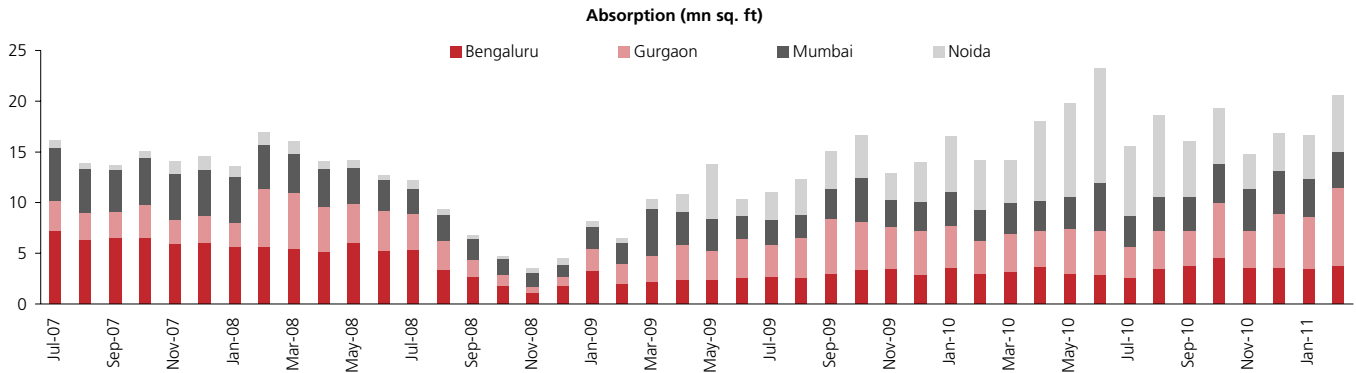


Source: Propequity, Kotak Institutional Equities

Total absorption of 20.6 mn sq. ft is the highest since June 2010. This has been led by NCR (Gurgaon + Noida) while Mumbai has seen a marginal softening.

**Absorption remains robust despite market pessimism**

Absorption, Bengaluru, Gurgaon, Mumbai and Noida, July 2007 – Feb 2011 (mn sq. ft)

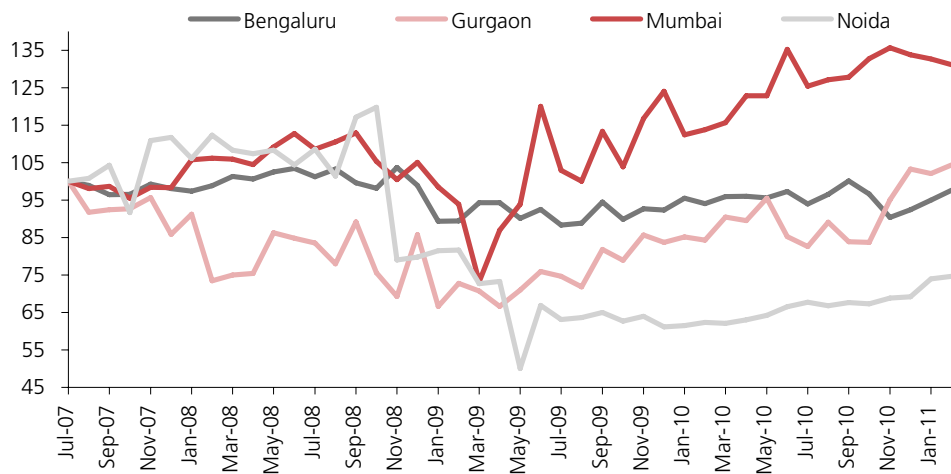


Source: Propequity, Kotak Institutional Equities

Prices have also essentially remained stable in CY2011E indicating that volume growth is not at the expense of prices.

**Mumbai has seen the highest price rise**

Price change relative to July 2007, Bengaluru, Gurgaon, Mumbai and Noida, July 2007 – Feb 2011



Source: Propequity, Kotak Institutional Equities

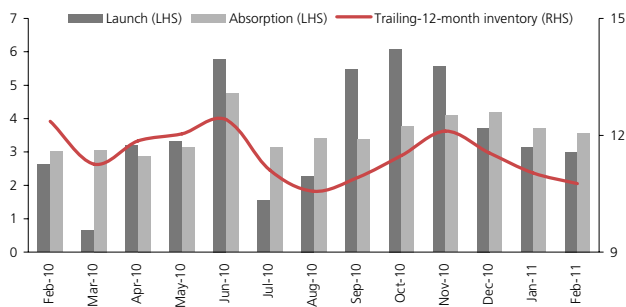
**Region-wise analysis – Gurgaon the strongest, Mumbai the weakest**

**Gurgaon.** After a weak January 2011, February 2011 has seen launches pick up back to October 2010 levels. While a certain proportion among this would be plots (DLF, Unitech and others), we still see this as an indication that developer confidence remains steady. Absorption at 7.7 mn sq. ft is the highest since September 2009. Our channel checks indicate that developers have been pricing projects aggressively with prices flat to 5% lower than current prevailing prices. Within our coverage universe, DLF has launched 3-4 mn sq. ft in Gurgaon and Mullanpur (Chandigarh) while Unitech has launched six projects across Gurgaon, Noida and Mohali.

**Mumbai** has been the weakest market for launch and absorption with new launches and absorption declining marginally. However, a part of the weak launches is explained by an uncertain regulatory environment (car park FSI, extra FSI in suburbs) and slower pace of approvals. Among our coverage universe, Oberoi has launched Exquisite II (1.3 mn sq. ft in Goregaon E) while HDIL has not launched any new project in 4QFY11E.

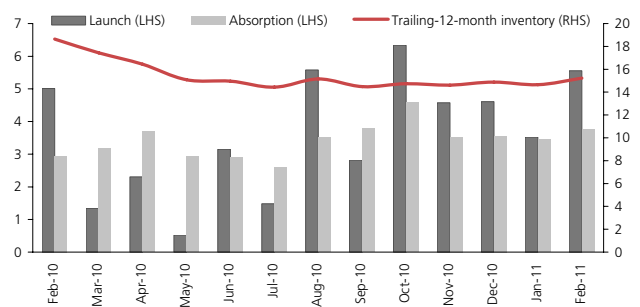
**Bengaluru.** While launches have picked up and absorption is resilient, we have not seen an uptick. Sobha and Puravankara, the two Bengaluru-centric stocks in our coverage universe, had not launched any projects until end-February 2011. Puravankara has launched one small project (227,000 sq. ft) in March 2011, towards the end of the quarter.

**Mumbai: Launches, absorption and inventory months**  
Feb 2010 – Feb 2011 (mn sq. ft, months)



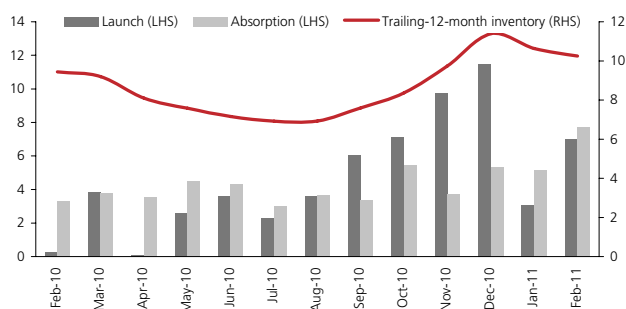
Source: Propequity, Kotak Institutional Equities

**Bengaluru: Launches, absorption and inventory months**  
Feb 2010 – Feb 2011 (mn sq. ft, months)



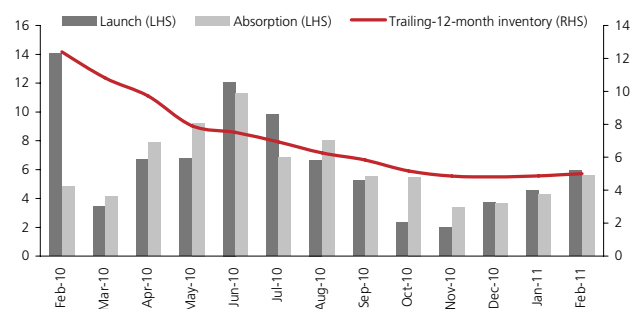
Source: Propequity, Kotak Institutional Equities

**Gurgaon: Launches, absorption and inventory months**  
Feb 2010 – Feb 2011 (mn sq. ft, months)



Source: Propequity, Kotak Institutional Equities

**Noida: Launches, absorption and inventory months**  
Feb 2010 – Feb 2011 (mn sq. ft, months)



Source: Propequity, Kotak Institutional Equities

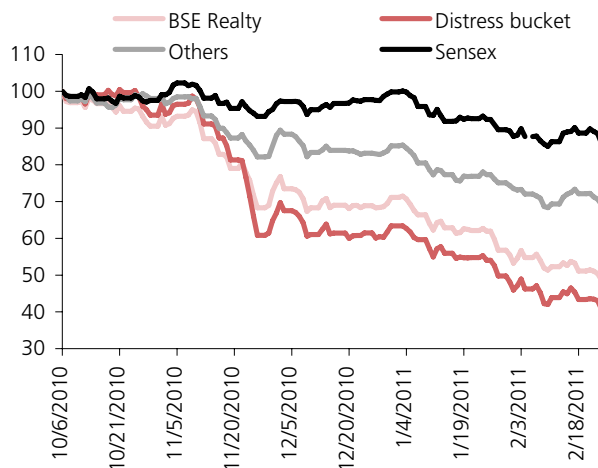
### Stock prices have bounced back; we continue to recommend 'quality'

From its recent peak (October 6, 2010), the BSE Realty index lost 51% in a little more than four months due to multiple worries—(1) RBI steps on November 2, 2010 to increase cost and restrict flow of credit for residential real estate mortgages, (2) weaker-than-expected 2Q-3QFY11 results and launches raising concerns on demand in CY2011E, (3) regulatory overhaul and uncertainty in Mumbai, (4) the 2G telecom license issue impacting Unitech and DB Realty, and (5) Central Bureau of Investigation's (CBI) arrests following a probe into 'illegal gratification' and improper loan disbursements that seemed to involve some real estate developers.

Post that, stocks have bounced back 2-36% as (1) launches in the NCR region have been better than expected though still continue to lag company promises, (2) prices have 'soft-landed' versus a worry that they could decline and there has been no indicator of developers willing or forced to undertake a significant price correction, (3) retail housing loans have continued to grow (15% yoy in February 2011), (4) demand has sustained (January-February 2011), and (5) there have been no debt restructurings or signals of big trouble.

#### The meltdown ...

Relative performance, real estate stocks, 6 Oct 2010 – 24 Feb 2011



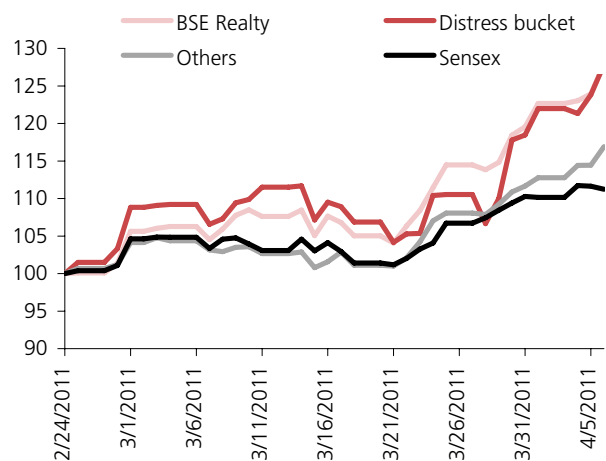
Note:

(1) Distress bucket consists of Unitech, HDIL, Indiabulls real estate and DB Realty

Source: Bloomberg, Kotak Institutional Equities

#### ... and the bounce back

Relative performance, real estate stocks, 24 Feb 2011 – 6 April 2011



Note:

(1) Distress bucket consists of Unitech, HDIL, Indiabulls real estate and DB Realty

Source: Bloomberg, Kotak Institutional Equities

### Most stocks have outperformed the Sensex over past one month

Absolute and relative price performance of real estate stocks

Company	Price (Rs/share)	Mcap. (Rs mn)	Absolute				Relative to SENSEX			
			1M	3M	6M	12M	1M	3M	6M	12M
Brigade	100	11,259	3.0	(10.6)	(32.3)	(30.5)	(3.1)	(7.7)	(27.7)	(39.9)
DB Realty	113	27,513	(3.9)	(43.3)	(72.6)	(75.0)	(10.0)	(40.5)	(68.0)	(84.3)
DLF	271	459,787	21.7	(2.5)	(31.0)	(17.6)	15.6	0.4	(26.5)	(26.9)
Godrej Properties	703	49,101	16.4	14.2	(5.9)		10.3	17.1	(1.3)	
HDIL	196	81,486	23.4	6.7	(31.0)	(35.0)	17.3	9.5	(26.5)	(44.3)
Indiabulls	139	55,972	25.2	8.4	(30.1)	(12.9)	19.1	11.2	(25.5)	(22.2)
Jaypee Infratech	65	90,767	9.6	(9.4)	(30.4)		3.6	(6.5)	(25.8)	
Mahindra Lifespaces	397	16,226	10.7	9.6	(17.1)	(11.5)	4.7	12.4	(12.5)	(20.8)
Oberoi Realty	250	82,009	0.8	(1.6)			(5.3)	1.2		
Phoenix Mills	205	29,664	18.2	(8.2)	(20.2)	8.5	12.1	(5.3)	(15.6)	(0.8)
Prestige	125	40,976	7.7	(21.3)			1.6	(18.5)		
Puravankara	110	23,573	5.1	-	(16.9)	2.8	(0.9)	2.8	(12.3)	(6.5)
Sobha developers	321	31,488	17.7	(0.7)	(18.3)	9.8	11.7	2.1	(13.7)	0.4
Sunteck Realty	318	20,001	(9.7)	(39.9)	(53.2)	(45.9)	(15.8)	(37.0)	(48.6)	(55.2)
Unitech	45	118,555	24.2	(26.4)	(53.5)	(40.8)	18.2	(23.5)	(49.0)	(50.1)
<b>BSE Realty</b>	<b>2,500</b>		<b>20.3</b>	<b>(7.9)</b>	<b>(37.8)</b>	<b>(27.5)</b>	<b>14.2</b>	<b>(5.0)</b>	<b>(33.2)</b>	<b>(36.8)</b>
<b>Benchmark (SENSEX)</b>	<b>19,612</b>		<b>6.1</b>	<b>(2.8)</b>	<b>(4.5)</b>	<b>9.3</b>				

Source: Bloomberg, Kotak Institutional Equities

- ▶ We continue to recommend a selective approach as (1) funding is still constrained and our discussion with companies and other sector participants leads us to believe that raising equity at the entity level remains a near-impossible task while raising debt has also become more difficult and effective borrowing costs have increased, (2) Impact on developers and consequently prices could be felt with a lag, and (3) company-specific risks remains high. Our top three picks are (1) Oberoi (BUY, TP Rs305, +22% potential upside), (2) Phoenix (BUY, TP Rs300, +47% upside) and Sobha (BUY, TP Rs 380, +18% upside).
- ▶ We find Oberoi relatively better-placed in this environment as (1) Oberoi is the only debt-free developer operating in the lucrative Mumbai region and could actually take advantage of declining land prices by adding to its land bank, (2) NAV realization is relatively more front-loaded than peers, and (3) RoE in the mid-20s is again higher than peers.
- ▶ Phoenix is one of our top picks as we believe (1) reducing execution risk and revenue visibility as the three malls (Pune, Kurla, Bengaluru) get operational over FY2012E, and (2) potential residential launches (Bengaluru and Chennai over FY2012E) of at least 0.5 mn sq. ft could act as potential triggers. We retain our BUY recommendation with a target price of Rs300 at par with our March-2012E NAV.
- ▶ We find three positives for Sobha – (1) a Bengaluru-centric portfolio (which we believe is relatively the most insulated region), (2) almost 100% residential development portfolio, and (3) visibility of two critical project launches over 1QFY12E (Sobha City in Bengaluru and Gurgaon project).

Our target price for Oberoi is Rs305/share, in line with March 2012E NAV  
NAV-based valuation, Oberoi, March fiscal year-ends (Rs bn)

	March '12 based NAV			
	Growth rate in selling prices per annum			
	0%	3%	5%	10%
<b>Gross real estate valuation (Rs bn)</b>	<b>70</b>	<b>76</b>	<b>81</b>	<b>93</b>
Residential projects	35	39	43	52
Retail/commercial projects	32	33	35	38
Social projects	3	4	4	4
Hospitality project	4	4	4	4
Add: Net cash as on 31st March 2012	14	14	14	14
Add: Liquid investments	1	1	1	1
Add: Centaur advance	0	0	0	0
Add: Stake sale in JV	0	0	0	0
<b>NAV (Rs bn)</b>	<b>89</b>	<b>96</b>	<b>100</b>	<b>113</b>
Total no. of shares (mn)				330
<b>NAV/share (Rs)</b>				<b>304</b>
<b>Target price/share @ par with end FY-2012E NAV (Rs/share)</b>				<b>305</b>

Source: Company, Kotak Institutional Equities estimates

Our target price for Phoenix Mills is Rs300/share, in line with March 2012E NAV  
NAV-based valuation, Phoenix Mills, March fiscal year-ends (Rs bn)

	March '12 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
<b>Valuation (Rs bn)</b>	<b>26.7</b>	<b>27.8</b>	<b>28.5</b>	<b>30.2</b>
Add: (Net debt)/Net cash as on March 31,2012	0.3	0.3	0.3	0.3
Other investments	14.4	14.4	14.4	14.4
<b>NAV (Rs bn)</b>	<b>41.5</b>	<b>42.5</b>	<b>43.2</b>	<b>45.0</b>
Total no. of shares (mn)				145
<b>NAV/share (Rs)</b>				<b>298</b>
<b>Target price @ par with end-FY2012E NAV (Rs/share)</b>				<b>300</b>

Source: Company, Kotak Institutional Equities estimates

Our target price for Sobha is Rs380/share, in line with March 2012E NAV  
NAV-based valuation, Sobha Developers, March fiscal year-ends (Rs bn)

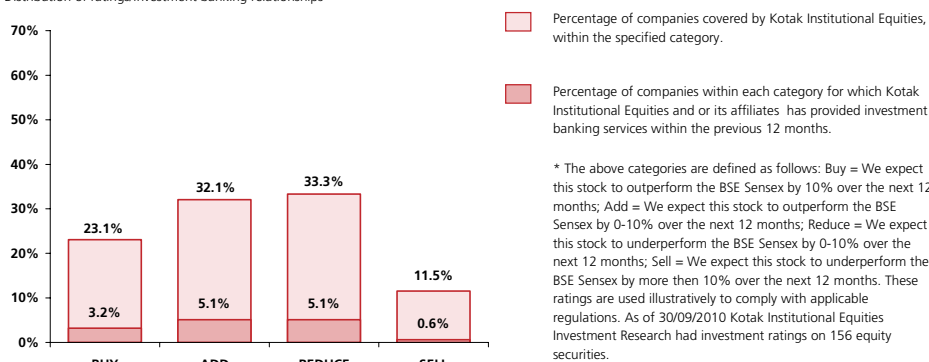
	March '12 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
<b>Gross valuation (Rs bn)</b>	<b>17.0</b>	<b>31.0</b>	<b>41.8</b>	<b>75.2</b>
Residential projects	22.3	28.5	32.9	45.2
Commercial projects	(2.8)	1.7	5.4	17.8
Retail projects	(2.6)	0.8	3.5	12.2
Less: Land cost to be paid	(2)	(2)	(2)	(2)
Less: Net debt	(10)	(10)	(10)	(10)
Add: Land sales / value	2.0	2.0	2.0	2.0
Add: Contractual business	5.0	5.0	5.0	5.0
<b>NAV</b>	<b>12</b>	<b>26</b>	<b>37</b>	<b>71</b>
Total no. of shares (mn)				98
<b>NAV/share</b>				<b>379</b>
<b>Target price @ par with end-FY2012E NAV (Rs/share)</b>				<b>380</b>

Source: Company, Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of September 30, 2010

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