Mumbai realty: Opportunities seen post sell out

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Mumbai realty: Be conservative, stick to quality

We see opportunities emerging post a sharp sell out since Nov 2010, particularly in Mumbai-based developers. We initiate coverage on Oberoi with a Buy rating and PO of Rs290 – least impacted by residential prices with a liquid balance sheet. We reiterate our Buy on Indiabulls Real Estate Ltd (IBREL) with a PO of Rs142, as the stock looks compelling from a risk-return perspective. We have downgraded HDIL to Neutral with a PO of Rs175 given our expectation of delays in redevelopment projects and unexciting cashflow in FY12.

Residential: A sense of déjà vu; 15-20% correction ahead

We expect a challenging six months with low volumes followed by a 15-20% correction in prices. We are unlikely to see a steeper correction, which the stocks are already factoring in, as the economy continues to do well while developers in general are in better financial health unlike in 2008-09. A 15% correction in Mumbai will bring the rise in property prices of the last six years in line with income growth.

Commercial: Recovery well entrenched

In Mumbai, we expect the commercial sector to outperform the residential in 2011 given the strong demand for office assets from financial and IT/ITeS sectors. Since rentals in most micro markets in Mumbai continue to be at the lows of 2009 (25-30% lower than the peak) the downside risk is also factored in. We believe supply concerns are overdone and expect further delay in completions, due to a tighter liquidity environment, to reduce vacancies to 10% (15% currently) by FY13.

Higher regulatory oversight to delay projects

The recent incidents of corruption in India have led to higher regulatory oversight, leading to delays in approvals with the real estate sector bearing the brunt of it. We believe the state government will be extra cautious in approving projects which may look to favor any particular developer. HDIL is likely to be the worst impacted due to delays in its flagship rehabilitation project at the airport.

Oberoi Realty: Best placed to benefit from slowdown

Oberoi's top-notch corporate governance and strong NAV visibility make it a benchmark developer to gain exposure to Mumbai real estate. Oberoi's balanced mix of assets with just 34% NAV contribution from residential makes it least sensitive to residential prices. The correction in prices will offer Oberoi great opportunity to deploy its Rs16bn of cash in land assets at reasonable valuation.

Risks: High inflation and interest rates, sub 7% GDP

The persistent high inflation leading to mortgage rates higher than 12% and sub 7% GDP growth could lead to sharper than expected cut in residential prices.

Table 1: Mumbai Developers snapshot

	Rating	Price	PO	Upside	NAV
Oberoi	Buy	240	290	21%	290
IBREL	Buy	107	142	32%	167
HDIL	Neutral	160	175	9%	206

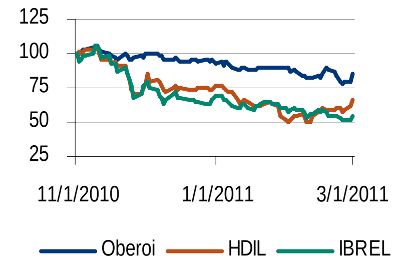
Source: BofA Merrill Lynch Global Research

Table 2: Key parameters

	Oberoi	HDIL	IBREL
NAV sensitivity to Resi prices	0.5%	2.0%	0.6%
Cash generation in FY12E - Rs mn	4,309	1338	827
Net Debt FY11E- Rs mn	-16000	31200	6500
Leverage	NA	40%	10%
% of NAV in 5 years	92%	75%	100%

Source: BofA Merrill Lynch Global Research

Chart 1: Stock performance since Nov 2010



Source: BofA Merrill Lynch Global Research

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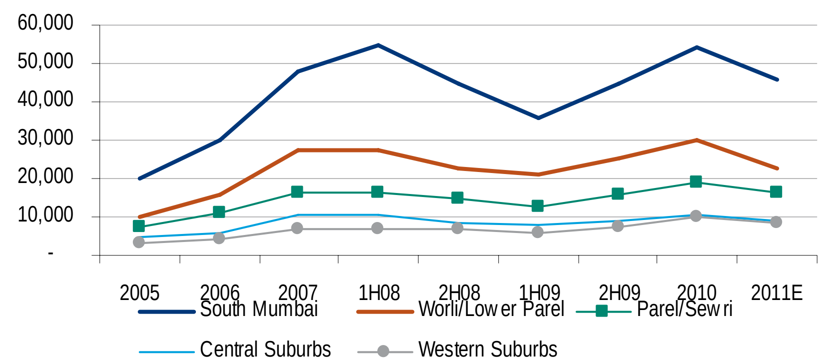
Residential: Sense of Deja vu

The residential segment in Mumbai remains a key concern in 2011 due to unaffordable prices and rising mortgage rates. The present scenario is very similar to what we experienced in early 2008 but the correction in prices is unlikely to be as sharp. We expect a painful six months in the residential segment with very low volume and launches, followed by a 15-20% correction leading to a surge in volume. We believe residential prices in most of the micro markets, post the expected 15-20% correction in 2011, would record a 15% CAGR since 2005 which would be mostly in line with income growth in India (average nominal GDP growth of xx%).

Chart 2: Residential prices expected to correct by 15-20% in Mumbai



Source: BofA Merrill Lynch Global Research

Our channel checks with brokers and the trend of new launches suggest a sharp slowdown in volume offtake since November 2010, but developers have not started reducing prices as yet.

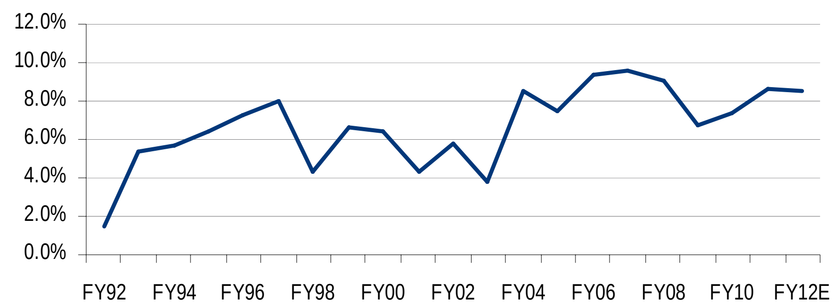
Our experience tells us that developers in India are very reluctant to reduce prices, unless pushed to the wall. And with banks reluctant to lend to developers and rising mortgage rates, we expect that in another six months some of the smaller developers will be forced to sell their inventory at lower prices to generate liquidity, forcing an all-round correction in Mumbai. But, we are unlikely to see any sharp cut in prices similar to 2008, which the stock prices are factoring in currently. The main reasons, in our opinion, are:

- Consumer affordability and not confidence is in question since income growth remains in double-digit.
- Dearth of ready supply as the inventory in most of the projects nearing completion was absorbed in 2009-10, which will keep prices of completed apartments high.
- High land prices are forcing developers to hold on to their inventory rather than sell at a lower price due to reinvestment risk.
- Developers' balance sheets are not stretched like in 2008, since not many developers have invested extensively in land or commercial assets in the last 24 months.

Risks – High Mortgage rates, lower GDP growth

The only risk to our above call of a soft landing in residential prices is the derailment of GDP growth to sub 7%, which could impact demand similar to what we saw in 2008. If growth falls below 7% and the outlook becomes uncertain, the recovery in volume may take longer than our expectation of six months (12-15 months and a deeper cut in prices of 25-30%).

Chart 3: GDP growth remains robust



Source: BofA Merrill Lynch Global Research

Commercial: Consolidating its position

We continue to be positive on the office and retail segment and believe the asset class will outperform residential property in 2011. The rentals and capital value are very attractive and still near the lows of 2009. The growing demand, both from businesses and retailers, and lagging supply has helped to reduce vacancy across micro markets in Mumbai. Therefore, we do not expect any downside to rentals over the next 12-18 months while demand is expected to remain robust. While we are bullish on volume, we believe rental growth in the office segment is still 12 months away since supply in 2011 is expected to be sufficient to meet demand. In the retail segment, while new malls may see soft rentals, the established malls will see a 10-15% increase on renewals.

Chart 4: Robust office demand to keep vacancies under check

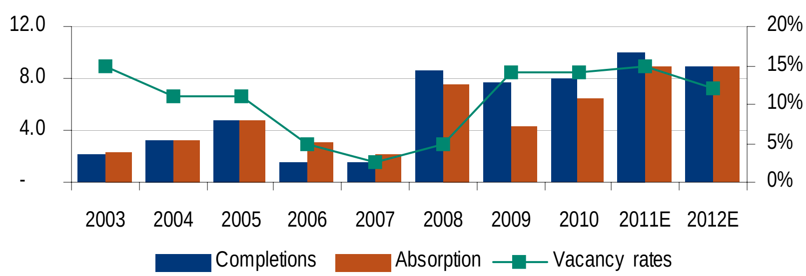


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Table 3: Key parameters for stock selection

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% of NAV in 5 years	92%	75%	100%

Source: BofA Merrill Lynch Global Research

Preferred picks to play Mumbai: Oberoi and IBREL

Our preferred stocks capture our view on the following key factors:

- Sensitivity to residential prices;
- Cashflow and liquidity;
- Regulatory risk to projects.

Our preferred picks for playing Mumbai real estate for the next 12 months are:

Oberoi Realty – Buy, PO of Rs290

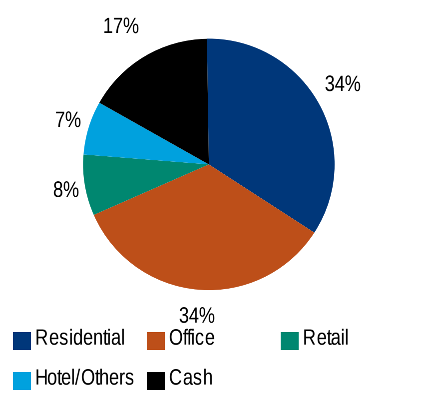
- The NAV is least sensitive to a correction in residential prices – 1% reduction in residential prices impact NAV by 0.5%.
- Rs16bn of cash with no leverage offers a good opportunity for investment in new projects when land prices correct in Mumbai.
- Its projects have the least risk of delays due to regulatory oversight.

Indiabulls Real Estate – Buy, PO of Rs142

- Trades at an extremely cheap valuation, implying good downside protection as it prices in over 45% correction in Central Mumbai projects which is highly unlikely.
- Remains comfortable on liquidity with a low leverage.
- Very conservative NAV since we have only valued Lower Parel projects (at a 25% discount to current prices), launched projects in Panvel/Gurgaon, and the investment in power assets (1 x P/B).

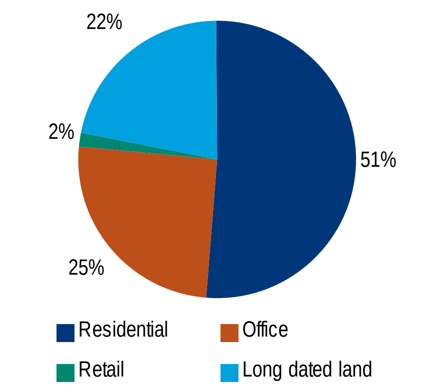
We are **Neutral on HDIL with PO of Rs175**, post the 25% gain in the last month and we believe most of the positive from FSI sale of Rs13bn, expected to be concluded in 4QFY11, is already in the price. HDIL is highly sensitive to changes in residential prices, while the absolute debt remains high. Also we do not expect any good news on its flagship project – airport rehab over the next 12 months.

Chart 5: Oberoi NAV contribution



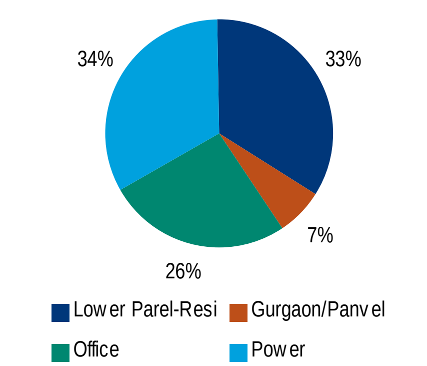
Source: BofA Merrill Lynch Global Research

Chart 6: HDIL NAV contribution



Source: BofA Merrill Lynch Global Research

Chart 7: IBREL NAV contribution



Source: BofA Merrill Lynch Global Research

Table 4: India Real Estate Coverage

Company	Ticker	QRQ	Price Rs	Mkt cap (US$ m)	Upside	NAV Rs	Target disc to NAV	Current disc to NAV	P/E FY11E	P/E FY12E	P/B FY11E	P/B FY12E	ROE FY11E	ROE FY12E
Mumbai														
Oberoi	XRXOF	C-1-8	240	1,747	21%	290	0%	17%	14	13	2.4	2.1	22%	17%
HDIL	XGHSF	C-1-7	160	1,468	9%	206	15%	22%	7	7	0.7	0.6	12%	10%
Indiabulls Real Estate	IBELF	C-2-8	107	975	32%	167	15%	36%	24	21	0.5	0.5	2%	2%
NCR														
DLF	XVDUF	B-1-8	219	8,232	48%	324	0%	33%	20	14	1.4	1.3	7%	10%
Unitech	UTKIF	B-2-8	35	1,981	168%	106	10%	66%	9	7	0.7	0.7	9%	10%
Jaypee Infra	XJAYF	C-1-8	59	1,808	77%	123	15%	52%	5	6	1.6	1.3	43%	22%
Anant Raj	XNRJF	C-1-7	79	520	103%	189	15%	58%	12	7	0.6	0.6	6%	9%
Omaxe	XOMXF	C-3-9	133	512	-35%	122	30%	-9%	21	17	1.4	1.3	7%	8%
APIL	ANSFF	C-3-8	36	125	73%	89	30%	60%	5	4	0.3	0.3	7%	8%
Bangalore														
Sobha	SBDRF	C-1-7	265	596	70%	529	15%	50%	13	10	1.5	1.3	11%	14%
Puravankara	XPJVF	C-1-7	105	491	29%	159	15%	34%	16	12	1.4	1.3	9%	11%
Brigade	XBDGF	C-1-7	97	274	60%	195	20%	50%	12	9	1.1	1.0	10%	12%

Source: BofA Merrill Lynch Global Research

Mumbai Resi: Poor affordability

We expect the residential segment to perform poorly over the next six months in Mumbai given the high prices and general expectation among end-users of a correction leading to deferment of purchases. Due to rising interest rates, investors have also moved out of the market. But, we remain bullish on volume post a 15-20% correction in the next six months because this would bring the prices in most micro markets back to the peak of 2008, implying flattish prices for the last four years. The prices then would have recorded 15% CAGR since 2005, very much in line with income growth.

Dearth of ready supply

The dearth of supply has allowed developers to raise residential prices sharply in Mumbai. The drop in price in 2009 led to absorption of most of the under-construction units. The new launches since 2H09 will be ready for delivery only by 2012-13 and even these projects saw very good absorption due to relatively cheaper prices. Therefore most developers have very limited units available in their under-construction projects coming up for delivery over the next 2-3 years. So currently they are not hard pressed to cut prices to offload the inventory.

High land prices, limited supply

The limited supply of land in Mumbai is further putting pressure on prices. Thus, land prices have consistently increased in the last 18 months as developers flushed with funds from strong pre-sale were scouting for land. Most of the land auctions have been fiercely contested in recent times. Also, most of the developers in Mumbai have landbanks which will not last more than 3-4 years, while cost of new land is substantially high, with limited supply. Oberoi, Peninsula, Indiabulls have all struggled to ink good land deals though they were sitting on large funds.

Developers not overstretched like in 2008

Developers' balance sheet is not stretched like in 2008, since not many developers have invested extensively in land or commercial assets in the last 24 months. Also the short cycle of 18 months implied that developers have not yet invested substantial capital in the construction of launched residential projects. As far as restructured loans are concerned, the developers have managed to repay a good amount of the same by raising fresh construction debt on new projects launched in 2010.

Redevelopment: Gaining ground

Redevelopment projects have gained pace in the last 12 months as developers look to redevelop old residential projects to get access to the otherwise scarce land resource in Mumbai. The government's push to redevelop older housing societies by providing higher FSI has also helped the cause. The recent relaxation of Coastal Regulation norms will further add to the pace of redevelopment projects. But we believe we are still in the initial phases, and the projects require 4-6 years to develop, with substantial initial investments.

Which micro markets are more vulnerable?

South Mumbai: The dearth of supply in the micro market will continue to keep property prices high, though central Mumbai/Worli is trying to compete by offering developments with best-in-class amenities at prices which are 30-40% lower. But we believe South Mumbai will continue to remain the most-sought-after property market in India for the next 4-5 years at least (Central Mumbai could pose a challenge if the announced projects are delivered and infrastructure improves)

Central Mumbai – Lower Parel: The influx of oversized luxury apartments is a bigger issue than the price itself in the micro market. While the market is abuzz with supply, it has more to do with launch and not ready supply. Therefore, the ready apartments will continue to command high prices while the under-construction projects will come under pressure. We expect prices to drop to Rs20,000/sq ft from the current Rs25,000/sq ft and above in the near term. Execution of the announced projects over the next 2-3 years would be a key differentiator and determine the success of the project.

Western Suburbs: We expect the western suburbs to see a correction of around 10-20% as the region has seen a sharp increase in prices since 2009 while supply remains adequate. The region is much preferred by the middle class and, thus, demand is very strong. Any correction is expected to bring back volumes strongly. We are bullish on the region given the improving infrastructure, availability of better and larger office space, and residential complexes offering good facilities.

Central Suburbs: The central suburbs compete with the western suburbs but have lagged behind in the past due to poor connectivity to South Mumbai and poor infrastructure. But we expect the upcoming infrastructure in next 3-4 years will lead to higher demand in the region. We there fore expects lower correction of 5-15% though supply particularly along the LBS Marg – Bhandup, Mulund, etc remain high.

Mumbai outskirts: Locations like Panvel, Dombivili, and Virar are investor-driven markets and tend to perform well only when houses in the mainland become unaffordable. Therefore, while currently these markets are doing well on volume, we expect a sharper correction in these markets in the next 6-9 months as investors' focus shifts back to established markets.

Mumbai Office: Turning around

Mumbai Office: Facts

Current stock: 56mn sq ft

Projects under construction: 30mn sq ft

Locations with excess supply: Lower Parel, Navi Mumbai/Thane

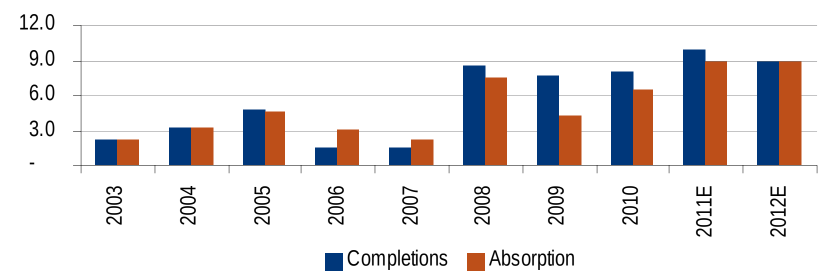
Current vacancy: 15%

Office demand has steadily improved in the last 12 months across India, and particularly in Mumbai, due to a revival in financial and IT/ ITeS businesses. But due to strong supply matching the improving demand, the rentals and capital values remain at the bottom in most of the micro markets. We expect demand to remain strong over the next 12 months but new supply and current vacancies would be sufficient to meet the rising demand. Therefore, rentals would continue to remain stable at current levels, almost 25-30% lower than the peak of 2007. We expect the demand-supply equation to change from 2012 in Mumbai with demand expected to be higher than supply, leading to an increase in rentals in some micro markets. (Bangalore should see the inflection this year itself due to a shorter supply pipeline).

Supply being deferred but still sufficient

The expected office supply of about 30mn sq ft in Mumbai over the next three years will take it past Bangalore in terms of total office stock. Even though developers have continuously deferred new supply and delayed construction, the supply continues to match growing demand, leading to persistent high vacancy rates. The under-construction office space in Mumbai is ahead of even Bangalore and the National Capital Region (NCR). Hence, we expect rental recovery in Mumbai office to lag these markets. But the current tight liquidity and rising interest rates would impact supply as developers further cut down cashflow allocation to construction of commercial space.

Chart 8: Mumbai office demand catching up with supply



Source: BofA Merrill Lynch Global Research

Also the under-construction pipeline is getting shorter as developers have not been launching new office projects in the last two years. We believe this will lead to stabilization of rentals and capital values at current levels for the next 12-15 months, except certain micro markets with limited supply which could see appreciation of 5-15% – ie, the Central Business District (CBD) and Bandra Kurla Complex (BKC).

Table 5: Large pipeline in suburban markets

	Total Stock	Vacant Stock	Under Construction
CBD	5.6	0.2	0.2
SBD Central	5.4	0.9	5.6
SBD BKC	5.7	0.2	3.4
SBD North	10.3	1.0	6.0
West Suburbs	10.3	2.2	3.8
East Suburbs	7.6	1.1	2.7
Thane/Navi Mumbai	8.7	2.2	10.0
Total	53.6	7.7	31.7

Source: BofA Merrill Lynch Global Research

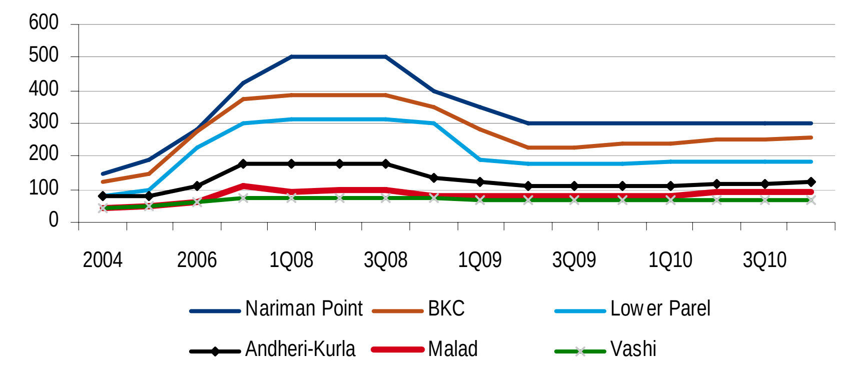
Rising demand on good economic growth

The demand for office space from financial institutions, IT/ITeS and small entrepreneurs continue to rise on the back of strong economic growth. The absorption is expected to average about 9-10mn sq ft annually over the next two years, ahead of other cities like Bangalore/ NCR, to match the supply. Around 35% of the supply is expected in the outskirts – Navi Mumbai/Thane belt, catering to IT/ITeS demand, which is expected to remain very strong as current rentals are very competitive (rentals in Navi Mumbai/Thane belt is similar to rentals in Pune. Thus companies prefer to be located in Mumbai rather than setting up in Pune).

Rentals: Unlikely to attain past glory

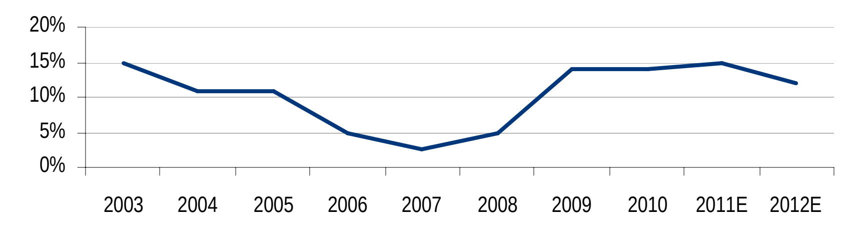
We believe the office segment is unlikely to attain the past glory in a hurry when capital values for offices used to be 10-15% higher than residential. Residential is expected to trade at a premium to office for another couple of years in most of the micro markets due to the expected strong office-supply pipeline. The 10-30% discount to residential prices is discouraging developers from committing to new office development. In the last 12 months, all the new land purchases have been earmarked for residential development, and this we believe will bode well for the appreciation of office rentals from 2012-13.

Chart 9: Rentals remains stable on strong supply pipeline



Source: BofA Merrill Lynch Global Research

Chart 10: Vacancy to drop from 2012



Source: BofA Merrill Lynch Global Research

Micro market analysis

Nariman Point: The CBD, with no significant supply and lack of Grade A facility, is losing its previous sheen as large financial institutions are shifting their base to BKC/ Lower Parel and other suburban locations for want of better facilities and cost savings. But rentals are expected to increase by 5-6% due to very low supply and improved demand from existing tenants.

Central Mumbai - Lower Parel: The location will continue to see oversupply for the next two years and the rentals are expected to remain at Rs150-170/sq ft. Even after many developers converted their planned office projects into residential, the under-construction projects will almost double the office stock in the next three years. Also, the vacancy levels are expected to increase from around 20% currently to over 25% in 2011. Some of the key projects in advance stages of construction include those by Indiabulls Real Estate, Peninsula Developers, Marathon, Kohinoor and Lodha.

Bandra Kurla Complex: The micro market has been the favorite among financial institutions, offering among the best infrastructure and connectivity in Mumbai. Due to low vacancy and limited supply, we expect BKC to see the highest rental appreciation in Mumbai office space, of 7-10%, in 2011.

Suburbs: The suburban locations include Andheri, Malad, Goregaon, Powai and Kurla primarily. The suburbs offer a cheaper alternative to CBDs and have rentals ranging from Rs60-120/sq ft and are mostly preferred by financial institutions like banks and insurance companies, SMEs and companies related to other sectors like telecom, and consumer. These areas continue to see good supply but selectively have started seeing appreciation in rentals in locations around Andheri-Kurla Road while other locations have seen good leasing.

Navi Mumbai/Thane: The Navi Mumbai/ Thane micro market primarily caters to the IT/ITeS industry and with rentals at Rs30-35/sq ft gives good competition to the Pune office market. These micro markets have a strongest pipeline of 10mn sq ft of supply, though we believe the supply will be mostly dependent on demand and unlikely to put pressure on rentals. Therefore, even though demand for IT/ITeS space has moved up sharply, rentals are expected to remain at the current levels of Rs30-33/sq ft/month.

Mumbai Retail: Rational growth

Mumbai Mall: Facts

Current stock: 10.3mn sq ft

Announced projects: 8.5mn sq ft

Location with excess supply: Central suburbs

Current vacancy: 9%

Table 6: Upcoming malls in Mumbai

Property	Location	Area - m sq ft
Market City	Kurla	1.1
Infinity	Malad	0.85
R City	Ghatkopar	0.6
Glomax	Kharghar	0.5

Source: BofA Merrill Lynch Global Research

Mumbai has a large presence of malls and is second only to NCR in terms of mall development. Some of the most successful malls in India are located in the city – Phoenix Mills, Lower Parel, Inorbit and Oberoi Mall in Goregaon. The demand for retail space has been very buoyant and has steadily grown in 2010, but retailers have been more rational and selective in their expansion plans unlike 2006-07.

Natural correction in supply underway

We expect the under-construction supply to be phased out over next 3-4 years, with 2-3mn sq ft of deliveries annually. Developers have slowed construction wherever demand for leasing is low. Most of the developers have stretched the construction period for the malls from 3-4 years to over five years. Only those malls which have seen leasing upwards of 65-70% are being commissioned while no new malls have been launched by any developer since the last two years. Some of the large malls from reputed developers, like DLF, Indiabulls, DB Realty, have been converted to residential in South Mumbai – leading to limited choices for retailers in South Mumbai.

Table 7: Supply of mall consistently short of expectation

Year	Anticipated Supply	Actual Supply
2006	4.64	0.36
2007	7.33	1.05
2008	3.67	3.13
2009	8.02	2.93
2010	6.48	1.4

Source: BofA Merrill Lynch Global Research

Rentals to increase selectively

But the upcoming supply may not necessary imply stable rentals. We expect successful malls will continue to see appreciation in rentals of 7-10% annually, especially for the vanilla stores. Some of these malls became operational in the last two years at rock-bottom rentals and, thus, would see appreciation once the leases come up for renewals in the next 12-24 months. We expect average rentals for successful operational malls to be upwards of 15-20% over the next two years.

The new malls may take another couple of years to stabilize and, therefore, would continue to see soft rentals – especially from anchor tenants in particular, since only a limited number of large-format retailers operate in India currently.

Table 8: Range for mall rentals in Mumbai - Rs/sq ft/month

	Anchor rentals		Vanilla rentals	
	Min	Max	Min	Max
Island City	55	120	140	350
Western Suburbs	30	85	80	200
Central Suburbs	30	117	40	160
Navi Mumbai	30	50	60	170

Source: BofA Merrill Lynch Global Research

Physical market outlook
In consolidation phase

In the next couple pages, we present our views and outlook on the movement in property prices and rents in India. We include all major product types (residential, commercial, and retail) in this section. We have covered the 10 most important geographical clusters, which help to convey a comprehensive view on the physical real estate market in India.

The commentary on observed trends and our outlook are based on a comprehensive investigation, which includes multiple site visits and discussions with property consultants and agents, brokers, and company sales personnel. The key takeaways are as follows.

Residential property: Heading for some rough weather

We expect residential property to face some rough weather heading into 2011, due to the high residential prices (Mumbai and Gurgaon) while rising mortgage rates will also deter the decision to buy property.

In 2010, we saw sharp increase in property prices in Mumbai and NCR (Gurgaon in particular), surpassing the previous peaks reached in 2007-08. This has led to a slowdown in sales volume, particularly in Mumbai. Also, 2010 saw a clear shift of focus among developers from the high-volume low-margin mid-income segment to low-volume high-margin luxury housing. Also the Reserve Bank of India's (RBI) clampdown on teaser-rate loans and the higher provisioning for large ticket loans has led to an increase in mortgage rates from the low of 8% to 9.5-10%. All the above factors have led to slowdown in offtake of residential units in two of the large markets – Mumbai and NCR.

We believe 2011 will see a consolidation with residential prices remaining soft in Mumbai and Gurgaon (could see a correction of 15-20% in some overheated micro markets) with a modest flat to 5% increase expected in other markets – Bangalore, Noida. The demand for housing remains strong on the back of strong GDP growth and rising income levels. We believe any correction in prices will see a sharp rebound in volume in Mumbai in particular.

In our view, Bangalore and Noida will outperform other markets in terms of volume and price as both have seen a modest increases in 2010 and residential prices are very affordable. Also, the strong IT/ITeS sector augers well for both markets.

Commercial property: Revival underway

The IT/ITeS sector accounts for 70-75% of commercial property demand. Financial services in Mumbai and Delhi make up the bulk of the rest. Rents fell dramatically from late 2007 to 1H09, driven by the broader economic downturn, specifically in the financial services and IT/ITeS sectors.

Our channel checks suggest continued strong hiring in major cities such as Mumbai, Delhi/ NCR and Bangalore. We believe the expectation of strong GDP and IT/ITeS sector growth will lead to a record leasing of office space in 2011 of over 35-38mn sq ft, and growth of over 20-25% compared to 2010. Though supply of upcoming/half-finished commercial buildings is likely to cap rents for the next 6-9 months, these may start inching up by the end of 2011, particularly in Bangalore. Some of the CBD locations have already seen a modest rental increase of 3-7% in the last three months and we expect the trend to gain strength through 2011.

While supply remains a concern, the pipeline is getting shorter as incremental launches are lower. This would imply a strong rebound in rentals in 2012, provided that IT/ITeS growth continues to remain strong.

Retail property: Some rays of hope

Massive store roll-out plans by domestic and foreign retailers led to a flurry of supply in 2005-07. However, it also led to skyrocketing of rentals till supply actually hit the market. The market, therefore, saw rents fall dramatically, driven by a high-base effect, oversupply, and the downturn in the economy. As retailers move back into expansion mode, we are seeing volumes pick up in some areas such as Mumbai and select micro markets.

Rents have stabilized in most of the markets with some of the large malls lined up to open in 2011. The well-designed and managed malls are running on very low vacancies and may even start seeing an increase in rentals for new leases that come up for renewals. We expect a large supply of malls in cities other than Mumbai and NCR where there are still few malls. The performance of these malls will lay the stepping stone for further expansion and demand for retail malls, particularly in locations other than Mumbai and NCR which account for over 70% of the mall space in India.

Chart 11: Physical market outlook for the next 12 months – By geography and product type

	Residential		Commercial		Retail		Hospitality	SEZ
	Volume	Price	Volume	Rents	Volume	Rents		
Mumbai- South	↓	↓	↑	↔	↑	↔	↑	
Mumbai- Suburbs	↔	↓	↑	↔	↑	↔	↔	
NCR-Delhi	↔	↔	↑	↔	↔	↔	↑	
NCR-Other	↓	↔	↑	↔	↔	↓	↔	
Pune	↔	↔	↑	↔	↔	↔	↔	
Bangalore	↑	↑	↑	↑	↑	↔	↔	
Hyderabad	↔	↔	↔	↔	↓	↔	↓	
Chennai	↑	↑	↑	↔	↔	↔	↔	
Kolkata	↑	↑	↔	↔	↓	↓	↓	
Tier 2/3 cities	↑	↔	↔	↔	↔	↓	↔	
Overall	↔	↔	↑	↔	↔	↔	↔	↔

Unattractive	↓	**Implies slow down in offtake or negative growth in prices/ rents**
Neutral	↔	**Implies stable offtake or flat growth in prices/ rents**
Attractive	↑	**Implies higher offtake or positive growth in prices/ rents**

Source: BofA Merrill Lynch Global Research

Companies

Housing Development and Infrastructure

Rating Change NEUTRAL

Equity | India | Real Estate/Property
08 March 2011

Redevelopment woes; cut to Neutral

Bank of America Merrill Lynch

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Downgrade to Neutral on lack of triggers, cut PO to Rs175

We downgrade HDIL to Neutral and sharply lower our PO to Rs175 from Rs340, implying 8% potential upside. We have not assigned any value to the airport rehab project (Rs174/sh earlier) in our current estimate. We believe most of the downside from the delay in airport rehabilitation and the expected slowdown in Mumbai residential is already priced in. But upside likely capped as airport project approvals are unlikely in the next 12 months and cash flows would be unexciting given substantial investments in redevelopment / commercial projects in FY12.

Airport rehab to face significant delays

The indefinite delay in the airport project will severely impact cash flows and earnings near term. The project's future is dependent primarily on government's change in eligibility norm in the slum rehab policy which we think could well take over 9-12 months. Moreover, HDIL has already invested the surplus funds in other projects, and therefore would need to raise more equity/debt whenever approvals come through, a scenario which looks difficult for the next 12 months.

Unexciting cash flows in FY12 to cap upside

We expect HDIL's cash flow to be unexciting in FY12 due to drop in TDR sales, and investment in construction of commercial assets and in recently acquired redevelopment projects. However, the company is unlikely to face challenges on debt servicing since debt repayments start from FY13 while FSI sale for Rs13bn in 4QFY11 will take care of funding requirement for FY12.

Affordable housing and FSI sale protect downside

HDIL's increased focus on affordable housing and residential development will help reduce its dependence on volatile TDR/FSI and sustain earnings and cashflow over the next two years even in the absence of TDR sales. The sale of FSI for Rs13bn in 4Q will provide further comfort on liquidity in near term.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	7,874	5,709	9,544	9,944	10,804
EPS	28.37	15.75	23.00	23.96	26.03
EPS Change (YoY)	-56.7%	-44.5%	46.0%	4.2%	8.6%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(47.34)	(31.24)	(29.94)	0.363	10.93

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	5.79x	10.42x	7.14x	6.85x	6.31x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	11.93x	12.07x	8.08x	7.56x	6.56x
Free Cash Flow Yield*	-19.15%	-16.46%	-18.24%	0.221%	6.66%

* For full definitions of *iQmethod* SM measures, see page 55.

Stock Data

Price	Rs164.15
Price Objective	Rs175.00
Date Established	8-Mar-2011
Investment Opinion	C-2-8
Volatility Risk	HIGH
52-Week Range	Rs122.20-Rs329.40
Mrkt Val / Shares Out (mn)	US$1,512 / 415.0
Average Daily Volume	9,751,036
BofAML Ticker / Exchange	XGHSF / BSE
Bloomberg / Reuters	HDIL IN / HDIL.BO
ROE (2011E)	11.7%
Net Dbt to Eqty (Mar-2010A)	47.0%
Est. 5-Yr EPS / DPS Growth	-2.1% / NA
Free Float	61.0%

Key Changes

(Rs)	Previous	Current
Inv. Opinion	C-1-8	C-2-8
Inv. Rating	BUY	NEUTRAL
Price Obj.	342.00	175.00
2011E EPS	25.98	23.00
2012E EPS	38.60	23.96
2013E EPS	44.50	26.03
2011E EBITDA (m)	14,693.1	12,307.3
2012E EBITDA (m)	21,853.9	13,156.9
2013E EBITDA (m)	26,988.1	15,166.0

Refer to important disclosures on page 56 to 60. Analyst Certification on Page 52. Price Objective Basis/Risk on page 52. Link to Definitions on page 52.

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iQprofile℠ Housing Development and Infrastructure

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	17,284	15,021	21,500	25,886	30,319
Gross Profit	8,706	8,550	11,931	13,286	15,318
Sell General & Admin Expense	(604)	(658)	(806)	(906)	(1,061)
Operating Profit	8,296	7,514	12,239	13,091	15,016
Net Interest & Other Income	(582)	(462)	(740)	(660)	(610)
Associates	0	(13)	0	0	0
Pretax Income	7,715	7,039	11,499	12,430	14,405
Tax (expense) / Benefit	159	(1,330)	(1,955)	(2,486)	(3,601)
Net Income (Adjusted)	7,874	5,709	9,544	9,944	10,804
Average Fully Diluted Shares Outstanding	275	359	415	415	415
Key Cash Flow Statement Data					
Net Income	7,874	5,709	9,544	9,944	10,804
Depreciation & Amortization	41	724	68	66	150
Change in Working Capital	(19,775)	(15,311)	(17,863)	(7,597)	662
Deferred Taxation Charge	9	28	41	52	76
Other Adjustments, Net	(616)	(1,075)	(1,183)	(777)	(910)
Cash Flow from Operations	(12,467)	(9,925)	(9,392)	1,689	10,782
Capital Expenditure	(576)	(1,286)	(3,033)	(1,538)	(6,244)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	362	345	1,183	777	910
Cash Flow from Investing	(214)	(941)	(1,851)	(762)	(5,335)
Shares Issue / (Repurchase)	612	1,614	(218)	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	9,924	18,029	5,135	0	(5,000)
Free Cash Flow	(13,043)	(11,212)	(12,425)	151	4,538
Net Debt	40,678	33,099	31,207	30,280	24,833
Change in Net Debt	13,062	(7,579)	(1,892)	(927)	(5,448)
Key Balance Sheet Data					
Property, Plant & Equipment	598	1,830	1,762	3,127	8,258
Other Non-Current Assets	3,128	5,248	8,282	8,389	9,352
Trade Receivables	1,669	2,030	4,712	3,546	4,153
Cash & Equivalents	755	7,918	1,810	2,737	3,184
Other Current Assets	86,225	103,244	133,225	142,540	143,739
Total Assets	92,375	120,270	149,791	160,339	168,687
Long-Term Debt	41,433	41,017	33,017	33,017	28,017
Other Non-Current Liabilities	30	63	104	157	233
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	6,693	8,761	23,562	24,113	26,581
Total Liabilities	48,156	49,841	56,683	57,287	54,831
Total Equity	44,218	70,429	93,108	103,052	113,856
Total Equity & Liabilities	92,375	120,270	149,791	160,339	168,687
iQmethod*℠ - Bus Performance					
Return On Capital Employed	9.7%	6.2%	8.5%	8.0%	8.1%
Return On Equity	19.5%	10.0%	11.7%	10.1%	10.0%
Operating Margin	48.0%	50.0%	56.9%	50.6%	49.5%
EBITDA Margin	48.2%	54.8%	57.2%	50.8%	50.0%
iQmethod*℠ - Quality of Earnings					
Cash Realization Ratio	-1.6x	-1.7x	-1.0x	0.2x	1.0x
Asset Replacement Ratio	14.1x	1.8x	44.7x	23.2x	41.6x
Tax Rate (Reported)	NM	18.9%	17.0%	20.0%	25.0%
Net Debt-to-Equity Ratio	92.0%	47.0%	33.5%	29.4%	21.8%
Interest Cover	14.3x	16.3x	16.5x	19.8x	24.6x
Key Metrics					

* For full definitions of *iQmethod*℠ measures, see page 55.

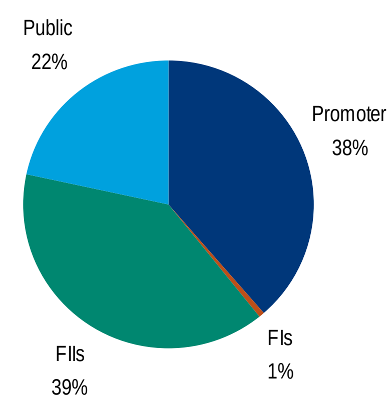
Company Description

HDIL is part of Wadhawan group which has been involved in real estate development in Mumbai Metropolitan region since last three decades. It is among the leaders in slum rehabilitation projects in Mumbai. It also has presence across all verticals including residential, office and retail

Investment Thesis

We believe most of the downside from delay in airport rehab and expected slowdown in Mumbai residential market is already in the stock. But the upside is likely capped as airport project approvals are unlikely in next 9-12 months and the cash flows would be unexciting given substantial investments required in redevelopment and commercial projects in FY12. Hence our Neutral

Chart 1: Shareholding as on Dec 2010



Source: BSE

Stock Data

Price to Book Value	0.7x

Downgrade to Neutral; PO of Rs175

We downgrade HDIL to Neutral rating and cut our PO to Rs175 from Rs340, offering 12% potential upside. Our PO is based on 15% discount to our NAV of Rs.206. The sharply lower NAV primarily factors in no value for the airport rehab project (earlier accounted for Rs174/sh or 38% of NAV) due to uncertainty on the subsequent phases and higher discount to longer dated land bank in outskirts of Mumbai. We believe most of the downside from the delay in this project and the expected slowdown in Mumbai residential market is already in the stock post a sharp 40% correction in the last six months. But the upside is likely capped as airport project approvals are unlikely in the next 9-12 months and cash flows would be unexciting given substantial capital investments in FY12.

Table 1: Expected positives and negatives triggers over next 12 months

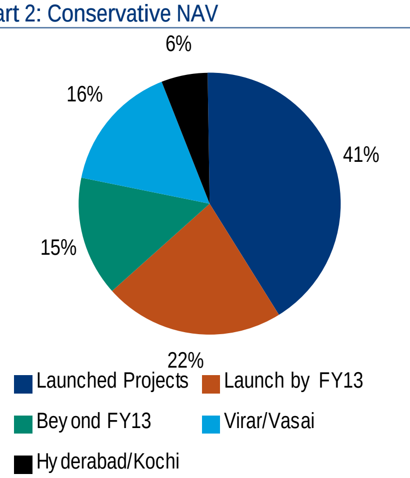
Key positives	Key negatives
Sale of FSI for Rs13bn in 4QFY11	Delay in approvals for Airport rehab project for next 12 months
Strong sales volume in affordable housing projects in FY12	Unexciting cash flows in FY12 to disappoint the street
No debt repayments over FY12, thus comfortable on liquidity	Sales volume in Mumbai projects to remain muted
Diversified cash flow stream as compared to 2008-09	

Source: BofA Merrill Lynch Global Research

NAV valuation - conservative approach

We have now valued only the projects where the regulatory risks are minimal and have provided higher discount to land banks expected to be monetized beyond 5-6 years, like the Vasai / Virar land bank or Kochi/Hyderabad. We have not assigned any value to the airport rehab project due to lack of clarity on the timing of the approval for the subsequent phases. Our PO of Rs175 is based on 15% discount to NAV of Rs206. We expect the stock to trade at 15% discount given its strong position in redevelopment/ rehab projects in Mumbai, high margin and comfortable liquidity. While the redevelopment projects are prone to delays, we believe our NAV factors in most of the risk.

Chart 2: Conservative NAV



Source: BofA Merrill Lynch Global Research

Launched projects account for Rs119/sh or 41% of the NAV for HDIL while the long dated land bank in Vasai/Virar and Hyderabad/Kochi account for Rs63/sh or 22% of the NAV. The remaining 35% is from projects which HDIL has acquired in the last six months or is expected to be launched over the next 2-3 years.

The NAV is highly sensitive to drop in residential prices as every 1% drop in residential price assumption leads to a 2% drop in NAV. But we have already factored in a 15-20% drop in prices for HDIL's projects in Mumbai.

Key changes from earlier NAV estimate

We highlight the key changes to our NAV estimate below-

- Airport rehab project not included in the valuation while earlier it accounted for Rs174/sh or 38% of our NAV
- Lower valuation for Virar/Vasai and Hyderabad/Kochi projects– We have lowered our valuation for longer dated projects/ land bank like Virar/ Vasai projects and Hyderabad/Kochi projects since we expect the monetization to remain very slow in these region and cash flows expected only post FY15-16. We have reduced the value by 35% by increasing the discount by 20-30% for these assets.

- We have increased the valuation of the residential assets by 10% given the acquisition of the new projects in 3Q and launch of the affordable housing project.
- Higher debt estimate given the recent investment in the new projects.

Table 2: NAV Summary

	Value (Rs m)	Value per share (Rs)	% of NAV (pre debt)
Projects in Mumbai			
-Residential projects	58,911	142	50.5%
-Retail projects	2,257	5	1.9%
-Commercial projects	29,255	70	25.1%
Projects in Vasai and Virar	19,163	46	16.4%
Projects in Hyderabad, Pune and Kochi	7,070	17	6.1%
Gross NAV	116,656	281	
Less			
- Debt/ (cash)	31,207	75	
- Outstanding land payments	0	0	
Net NAV	85,449	206	
Assuming 15% discount to NAV		175	
Price Objective		175	

Source: BofA Merrill Lynch Global Research

Table 3: India Real Estate Coverage

Company	Ticker	QRQ	Price	Mkt cap	Rating	NAV	Target disc to NAV	Current disc to NAV	P/E		P/B		ROE	
			Rs	(US$ m)		Rs			FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Mumbai														
Oberoi	XRXOF	C-1-8	240	1,747	Buy	290	0%	17%	14	13	2.4	2.1	22%	17%
HDIL	XGHSF	C-1-7	160	1,468	Neutral	206	15%	22%	7	7	0.7	0.6	12%	10%
Indiabulls Real Estate	IBELF	C-2-8	107	975	Buy	167	15%	36%	24	21	0.5	0.5	2%	2%
NCR														
DLF	XVDUF	B-1-8	219	8,232	Buy	324	0%	33%	20	14	1.4	1.3	7%	10%
Unitech	UTKIF	B-2-8	35	1,981	Neutral	106	10%	66%	9	7	0.7	0.7	9%	10%
Jaypee Infra	XJAYF	C-1-8	59	1,808	Buy	123	15%	52%	5	6	1.6	1.3	43%	22%
Anant Raj	XNRJF	C-1-7	79	520	Buy	189	15%	58%	12	7	0.6	0.6	6%	9%
Omaxe	XOMXF	C-3-9	133	512	U/p	122	30%	-9%	21	17	1.4	1.3	7%	8%
APIL	ANSFF	C-3-8	36	125	U/p	89	30%	60%	5	4	0.3	0.3	7%	8%
Bangalore														
Sobha	SBDRF	C-1-7	265	596	Buy	529	15%	50%	13	10	1.5	1.3	11%	14%
Puravankara	XPJVF	C-1-7	105	491	Buy	159	15%	34%	16	12	1.4	1.3	9%	11%
Brigade	XBDGF	C-1-7	97	274	Buy	195	20%	50%	12	9	1.1	1.0	10%	12%

Source: BofA Merrill Lynch Global Research

Why not a Underperform

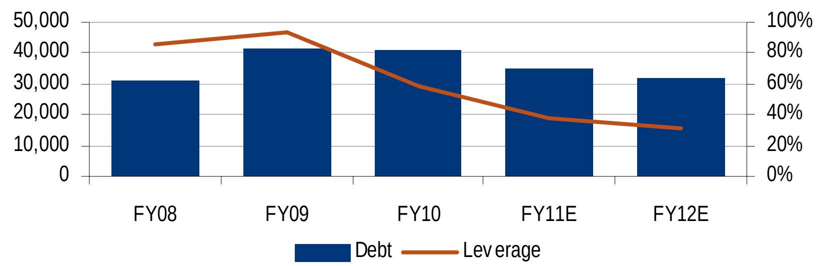
Delay in the airport project priced in

The sharp correction in the stock since November 2010 already discounts the delay and uncertainty over the airport rehab project. We have removed the project from our NAV valuation and therefore we do not expect any negative news flow on the project to impact HDIL's valuation.

Liquidity is comfortable

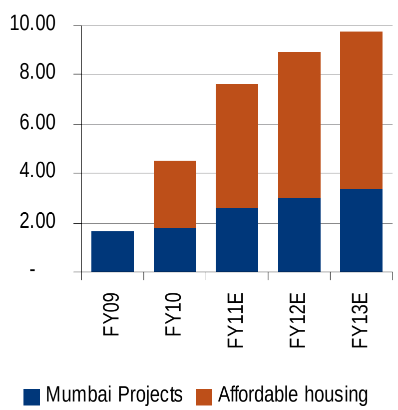
HDIL remains comfortable on liquidity as its debt repayments start beyond FY12. Unlike in FY09, majority of the firm's debt is longer term as HDIL, over the last 12-18 months, has refinanced most of its shorter-term debt to longer-term debentures/ debt with maturity of 3-5 years. The company will have sufficient funds from the recent FSI sale (around Rs11bn expected in the next 2-3 months) to prepay debt which is maturing in FY12. The balance sheet is in much better shape compared to FY09 as HDIL has raised substantial capital over the last two years, though debt at absolute levels remains high. HDIL is also targeting 20% reduction in debt over the next few quarters but it will be dependent on whether it invests in new redevelopment projects (Sion, Andheri).

Chart 3: High absolute debt levels but better maturity profile



Source: BofA Merrill Lynch Global Research

Chart 4: Increasing launches in development business (mn sq ft)

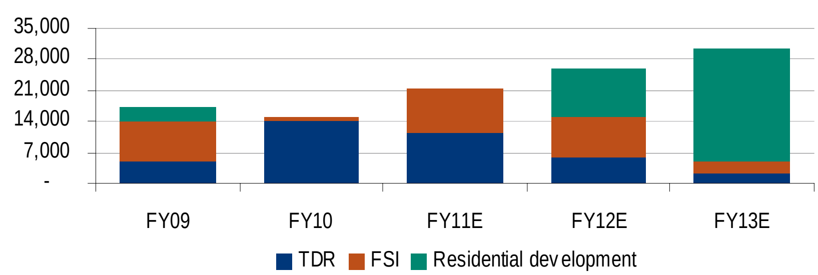


Source: BofA Merrill Lynch Global Research

Diversified cash flow stream – Moving away from TDR model

Over the last two years, HDIL has changed its model from being entirely dependent on highly volatile TDR/FSI sale to a more stable development and sale model. The sale of TDR and FSI are highly dependent on the liquidity with developers and thus tends to dry up as interest rates increase sharply and residential sales volume drop. But HDIL has slowly diversified its cash flow by launching 12mn sq ft (9mn sq ft pre sold) of residential projects with sale value of Rs55bn in the last two years. It is looking to further launch 18mn sq ft over the next 12-18 months to boost its development business.

Chart 5: Expect higher contribution from the stable residential developments (Rs mn)



Source: BofA Merrill Lynch Global Research

Therefore, cash flows from these projects and upcoming launches will help the firm fund the construction of projects, service its debt obligations and sustain earnings unlike in 2009 when it was entirely dependent on TDR/FSI sales for cash flows and earnings.

Trading at cheap P/E and P/B

HDIL is currently trading at 6x FY12E earnings and 0.6x FY12E book value, which compares well with other real estate developers which are trading at 13x FY12E earnings and 1.1x FY12E book value. During the last cycle, HDIL went as low as 0.35x forward book value but we believe it is much better placed this time around, given it has

- No liquidity issues
- Better earnings profile

Chart 6: Stock cheap on P/B multiple of 0.6x FY12

Source: BofA Merrill Lynch Global Research

Chart 7: Near to the bottom multiple

Source: BofA Merrill Lynch Global Research

Why not a Buy
Unexciting cash flows in FY12

We expect HDIL to continue to disappoint on cash flows in FY12 given large investments in commercial and redevelopment projects and lower TDR sales. We have cut our free cash flow estimate for FY12 and FY13 to Rs1.5bn and Rs5bn from Rs8bn and Rs18bn, respectively. In the absence of TDR sales, residential sales will be the key driver. But the construction expenses on the redevelopment and commercial projects are likely to eat up most of the surplus from the residential sales. There is a downside risk to our estimate for FY12 given that HDIL is looking to add more redevelopment projects in suburban Mumbai, such as with the projects in Sion and Andheri. Table 2 lists all the estimated cash inflow and outflows for HDIL for FY12 and FY13.

Table 4: Detailed Analysis of cash flows

	Area	Total	4QFY11E	FY12E	FY13E
Cash Inflows	mn sq ft	Rs mn	Rs mn	Rs mn	Rs mn
TDRs	3.3	9,240	1,400	5,600	2,240
Pre sold projects	9.0	30,000	2,500	12,500	12,500
Pre Sales - FY12	7.0	28,898		7,225	10,114
Pre Sales- FY13	10.0	33,274			8,319
FSI sale		11,000	8,000	3,000	
Total			11,900	28,325	33,173
Cash Outflow					
Rehab - airport			1,000	3,000	1,000
Construction Cost -Launched projects	12.2	18,000	1,350	5,400	5,400
Construction cost - New projects	17.2	21,536		3,230	6,461
Redevlopment cost	5.8	8,814	661	2,644	2,644
Commercial assets	5.7	11,440	858	3,432	3,432
Andheri/Malad redevelopment				2,000	2,000
Taxes			2,380	2,484	3,606
Interest Cost			1,400	4,610	3,860
Total			7,649	26,801	28,404
Cash Surplus			4,251	1,524	4,769

Source: BofA Merrill Lynch Global Research

Lack of TDR sales to impact cash inflow

TDRs have been a major source of cash inflow for HDIL in the last two years. We expect the sale of TDR to fall from 3.8mn sq ft in FY11 to 2mn sq ft in FY12 due to delay in approval for the airport project. This in turn would lead to sharply lower cash flows at Rs6bn in FY12 as against Rs11.5bn in FY11 from TDR sales.

Table 5: TDR sales

	FY10	FY11E	FY12E	FY13E
Sales Value - Rs mn	14,138	11,400	6,000	2,400
Sale Area mn sq ft	6.5	3.8	2.0	0.8

Source: BofA Merrill Lynch Global Research

Table 6: Large investment in Commercial Assets over next 3 years

Commercial Projects	Area - m sq ft	Investment Rs mn
Metropolis - Andheri	1.22	2440
Premier Kurla	2	4000
IT SEZ, Kochi	2.5	5000
Hotel	Keys	
Conrad Mumbai	240	1400
Crown Plaza Andheri	200	1500
Total		14340

Source: BofA Merrill Lynch Global Research

Investment in commercial assets a drag

HDIL continues to invest in creating office/hotel/commercial assets which require substantial investment during the construction phase. This, we believe, will be a drag on its cash flows. Also some of the investments– like hotel projects in Mumbai, IT SEZ in Kochi – are not very lucrative. Kochi is still struggling to establish itself as an IT destination and we don't expect rentals to be higher than Rs30-34/sq ft/month, while hotels are not a very high return / cash flow business. We expect HDIL to invest Rs3.5bn annually on the announced projects over the next three years.

HDIL is regarded as a redevelopment play and we believe there are better ways to play the commercial story – DLF/ Oberoi. Thus, investment by HDIL in commercial assets is not a positive for the stock in the medium term.

Redevelopment projects - capital intensive

HDIL is developing two redevelopment projects and recently added two more large projects. Earlier HDIL was predominantly into slum rehabilitation. We believe initial investment and expenses for the slum rehab project is lower than that for the redevelopment project. First, the developer has to pay to the current owners upfront fees, secondly the redeveloped units are much larger in size as compared to the slum rehab units and thirdly the competition is higher in redevelopment projects as compared to slum rehab projects.

The recent projects acquired by HDIL are expected to be capital intensive over the next 12-18 months, particularly the SVP Nagar – Andheri and Malad project. HDIL has already invested Rs6bn for acquiring the rights for redevelopment of these projects. We expect it to further invest Rs3-4bn over the next two years to create the redevelopment units before it could commercially sell its share of FSI/ or launch project for free sale.

Airport project key to turnaround

The airport project is the key for the fortune of HDIL and the indefinite delay will impact cash flows and earnings severely in the near term. The project had accounted for Rs175/sh of NAV and we believe the uncertainty is likely to be a drag on the stock performance. The future of the project is now dependent primarily on the government's change in slum rehab policy, which we think could well take over 9-12 months. We are removing the project from our valuation since there is no visibility on the approval of the subsequent phases and relocation of slum dwellers.

Approval dependent on change in eligibility norms

The subsequent phases and the relocation are now primarily dependent on the eligibility norm of the slum dwellers for the rehab unit. Currently only those slum dwellers who are residing in the slum since year 2000 are eligible for rehab units. But as per media reports only 60-65% of the families in the airport rehab may have been residing since 2000. Therefore, in order make the project a success, the government would need to relax the eligibility norm. This, we believe, is a major issue and the government in unlikely to decide in a hurry since it could also impact other slum rehab projects – like Dharavi rehab and the ones which are being undertaken by other developers.

Good news unlikely for next 9-12 months

The project has faced significant delays in the last 12-18 months. Even if the government decides on the policy, it will take a further 3-6 months for completing the survey to determine the eligible slum dwellers. Looking at the current political environment, it is unlikely that the government will take any decision which may appear to hugely benefit any particular developer.

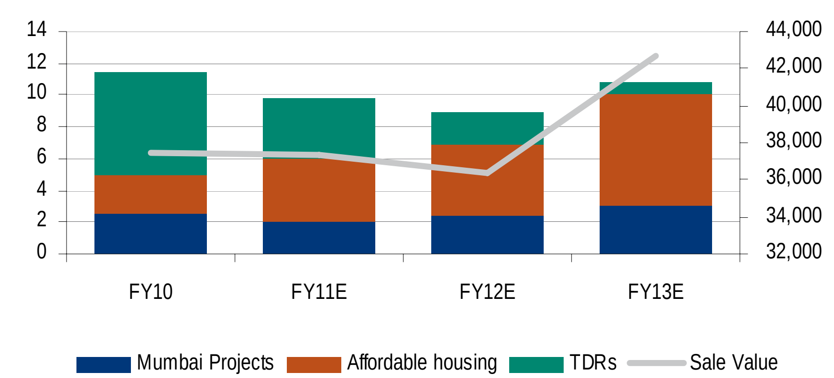
Ascribing no value to the project

In light of the above, we are now not ascribing any value to the project and would wait for the government's decision on the matter. HDIL will receive another 3mn sq ft of TDRs from the current phase over the next 12-15months, while we estimate it has to spend over Rs5bn for the construction of the 33,000 units. The sale of TDR from the project accounted for Rs14bn and Rs10bn of revenue in FY10 and 9MFY11, respectively. We now estimate this to fall to Rs6bn in FY12 and Rs2.4bn in FY13.

Affordable boost to sales volume in FY12

We have built in sales volume of 8.9mn and 10.8mn for FY12 and FY13, respectively, for HDIL, lower by 25% from our earlier estimate, primarily to factor in lower TDR sales for the next two years in the absence of approval for subsequent phases of the airport project. Further, we have increased the proportion of affordable housing in overall residential sales. Therefore we, expect the pre-sale value to remain flat in FY12 and grow by 15% in FY13. We think the strong volume from affordable housing will not be sufficient to drive the stock higher from current levels.

Chart 8: Sales volume breakup and flattish sales value in FY12



Source: BofA Merrill Lynch Global Research

But volume in Mumbai projects more important

HDIL plans to launch 12mn sq ft of affordable housing project and 6mn sq ft of Mumbai residential projects in the next 12-18 months. We believe the performance of the stock is dependent on the higher-margin Mumbai projects. In the last two years, the company has sold around 2-2.5mn sq ft annually in Mumbai, and we expect FY12 to be no different even though it plans to launch 6mn sq ft of projects over the next 12-18 months. Most of the Mumbai projects are redevelopment projects and hence prone to delays (Kandivili project was expected to be launched in 1HFY11, but still not launched). Secondly, the currently launched phases already have inventory, and so the subsequent launches will be delayed.

Table 7: Sale price for key projects

Project Location	Rs/sq ft
Kandivili	6,500
Goregaon	8,000
Andheri West	9,000
Kurla	7,000
Mulund	6,850
Santa Cruz	10,000

Source: BofA Merrill Lynch Global Research

The company's recent affordable housing project in the outskirts of Mumbai received very good response, having sold over 3.75mn sq ft in 3Q. Riding on this success, it is looking to launch similar projects over the next 12 months. We expect the demand to remain strong in these projects as HDIL had priced these attractively at around Rs2,000/sq ft.

Pricing correction factored in

We don't see any downside risk to our pricing assumptions since our estimates are already 15-20% lower than the current prevailing prices and only 15-20% higher than the bottom prices we saw in 2009.

Financials - Cut estimates to factor delays

We have cut our earnings estimate for FY12 and FY13 by 40-45% on the back of 30-35% reduction in our revenue estimate to factor in

- Sharply lower TDR sales - We are now factoring TDR sales of Rs6bn in FY12, against our earlier estimate of Rs15.6bn, and Rs2.5bn in FY13, against our earlier estimate of Rs15.6bn.
- Lower sales estimate for Mumbai projects – We have cut our pre-sales estimate for Mumbai projects from FY11-12 and built in higher sales from affordable housing projects.
- Lower EBIDTA margin – We have lowered our EBIDTA margin estimate for FY12/13 from 55% to 48% due to lack of TDR sales and higher contribution from affordable housing projects.

Table 8: Earnings Snapshot

	FY07A	FY08A	FY09A	FY10E	FY11E	FY12E	FY13E
Total operating income	12,042	23,804	17,284	15,021	21,500	25,886	30,319
-growth	0%	0%	0%	-13%	43%	20%	17%
EBITDA	6,620	16,921	7,797	7,893	11,125	12,380	14,256
-growth	0%	0%	0%	1%	41%	11%	15%
Net Income	5474	14037	7815	5653	9544	9944	10804
-growth		157%	-44%	-27%	67%	4%	9%
Margins							
Gross margin	57%	73%	52%	59%	57%	53%	52%
EBIDTA margin	55%	71%	45%	53%	52%	48%	47%
Net Income margin	45%	59%	45%	38%	44%	38%	36%

Source: BofA Merrill Lynch Global Research

Proposing change in accounting

HDIL currently follows project completion accounting unlike other developers who follow percentage completion. It is currently evaluating options to move to percentage completion from FY12. This, we believe, would also imply restatement of financials for earlier years and could lead to sharp increase in FY11 earnings. The change in accounting will also lead to change in our earnings estimates but is not likely to impact cash flows or valuation.

FSI sale to cushion some impact

HDIL had signed MOUs with a couple of developers to sell FSI in two of its projects in the last six months for around Rs13bn. It expects to complete the transaction as well as recognize the revenues in 4Q. But we expect one of the transactions to spill over to FY12. The FSI sale should help HDIL report 4% growth in FY12. But we don't expect more such deals as with falling volume and tighter liquidity, developers would be cautious on committing funds to new land purchases.

Indiabulls Real Estate Ltd

Price Objective Change BUY

Equity | India | Real Estate/Property
08 March 2011

Downside protected; Reiterate Buy

Bank of America Merrill Lynch

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Quality assets at deep discount; valuation compelling

We reiterate our Buy rating on IBREL with PO of Rs142, as we believe that post 45% correction from the Nov' 10 peak, the share price more than adequately reflects the near term challenges. We cut our NAV estimate by 32% to Rs167 as we now only value the company's key projects where there is visibility on launch and execution over the next 2 years. We believe the stock looks compelling from a risk-return perspective as downside risk to our NAV estimates are very low. We have also cut our earnings by 20-25% to reflect lower sales volume in FY11-13E.

Lower Parel: All is not lost, execution will be key

IBREL derives 60% of its valuation from projects located in Lower Parel, Mumbai. The stock is currently factoring in over 45% correction in residential prices, which we believe is very unlikely. While we do believe developers have gone overboard in the luxury quotient in the micro market leading to short term oversupply. But IBREL being the first mover, is at least 12-15 months ahead of competition on execution which will be key factor in determining the future sales in these projects.

Power business: On-ground progress

We value the power business at 1x P/B and believe this subsidiary has achieved substantial progress on execution of projects in the last 12 months, having placed most of the orders with reputed contractors like BHEL. It has also achieved financial closure for the 5,400MW project and has started to draw down the debt for construction. The restructuring of power investment will further add value to IBREL shareholders though it is still 3-4 months away.

Investment in new land assets key risk

IBREL has consistently invested in land in the last 3-4 years and we believe an increase in debt due to further investment in land assets is the key risk to our call.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	278	(160)	1,794	2,068	2,723
EPS	1.08	(0.399)	4.47	5.15	6.78
EPS Change (YoY)	-93.5%	NM	NM	15.3%	31.7%
Dividend / Share	0	0	0	0.515	1.02
Free Cash Flow / Share	(151.20)	(125.72)	(75.38)	(17.68)	(22.70)

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	101.13x	NM	24.45x	21.21x	16.11x
Dividend Yield	0%	0%	0%	0.471%	0.931%
EV / EBITDA*	51.37x	142.84x	27.25x	26.05x	20.63x
Free Cash Flow Yield*	-88.76%	-115.08%	-69.00%	-16.19%	-20.77%

Stock Data

Price	Rs109.25
Price Objective	Rs142.00
Date Established	8-Mar-2011
Investment Opinion	C-1-8
Volatility Risk	HIGH
52-Week Range	Rs99.20-Rs218.55
Mrkt Val / Shares Out (mn)	US$974 / 401.5
Average Daily Volume	4,419,290
BofAML Ticker / Exchange	IBELF / BSE
Bloomberg / Reuters	IBREL IN / INRL.BO
ROE (2011E)	1.9%
Net Dbt to Eqty (Mar-2010A)	2.7%
Est. 5-Yr EPS / DPS Growth	58.3% / NA
Free Float	77.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	208.00	142.00
2011E EPS	5.42	4.47
2012E EPS	6.79	5.15
2013E EPS	8.49	6.78
2011E EBITDA (m)	3,995.3	3,285.4
2012E EBITDA (m)	4,498.1	3,437.5
2013E EBITDA (m)	5,500.9	4,340.0

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Refer to important disclosures on page 56 to 60. Analyst Certification on Page 52. Price Objective Basis/Risk on page 52. Link to Definitions on page 52.11027745

iQprofile SM Indiabulls Real Estate Ltd

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	4,399	2,992	11,582	13,426	18,871
Gross Profit	3,757	2,247	3,768	3,996	5,134
Sell General & Admin Expense	(1,735)	(1,620)	(483)	(558)	(794)
Operating Profit	1,635	501	3,083	3,269	4,205
Net Interest & Other Income	(244)	(97)	(200)	(200)	(200)
Associates	(17)	0	0	0	0
Pretax Income	1,374	404	2,883	3,069	4,005
Tax (expense) / Benefit	(698)	(337)	(1,009)	(921)	(1,201)
Net Income (Adjusted)	278	(160)	1,794	2,068	2,723
Average Fully Diluted Shares Outstanding	258	402	402	402	402
Key Cash Flow Statement Data					
Net Income	278	(160)	1,794	2,068	2,723
Depreciation & Amortization	108	126	203	169	135
Change in Working Capital	(23,076)	(12,283)	(12,428)	1,681	5,251
Deferred Taxation Charge	2	0	0	0	0
Other Adjustments, Net	(2,313)	(1,708)	(849)	(1,019)	(1,223)
Cash Flow from Operations	(25,001)	(14,025)	(11,281)	2,899	6,887
Capital Expenditure	(13,935)	(36,456)	(18,987)	(10,000)	(16,000)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	2,313	1,699	849	1,019	1,223
Cash Flow from Investing	(11,622)	(34,758)	(18,138)	(8,981)	(14,777)
Shares Issue / (Repurchase)	16	(2,034)	0	0	0
Cost of Dividends Paid	0	0	0	(238)	(470)
Cash Flow from Financing	21,422	48,718	15,000	5,762	5,530
Free Cash Flow	(38,936)	(50,482)	(30,268)	(7,101)	(9,113)
Net Debt	(25,227)	3,176	22,595	23,915	30,775
Change in Net Debt	23,768	364	29,419	6,320	8,360
Key Balance Sheet Data					
Property, Plant & Equipment	1,540	1,414	1,212	1,043	908
Other Non-Current Assets	15,522	79,486	88,474	93,474	107,974
Trade Receivables	878	190	1,764	2,039	2,901
Cash & Equivalents	38,559	10,454	6,035	10,716	9,856
Other Current Assets	27,439	43,028	69,646	73,128	78,724
Total Assets	83,938	134,573	167,131	180,400	200,363
Long-Term Debt	13,331	13,631	28,631	34,631	40,631
Other Non-Current Liabilities	9	0	0	0	0
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,702	4,320	20,084	25,522	37,232
Total Liabilities	15,042	17,951	48,714	60,153	77,862
Total Equity	68,896	116,624	118,417	120,248	122,501
Total Equity & Liabilities	83,938	134,574	167,132	180,401	200,364
iQmethod* SM - Bus Performance					
Return On Capital Employed	1.1%	0.2%	1.4%	1.5%	1.9%
Return On Equity	0.6%	-0.2%	1.9%	2.1%	2.8%
Operating Margin	78.4%	38.7%	28.7%	26.3%	23.8%
EBITDA Margin	39.6%	21.0%	28.4%	25.6%	23.0%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	NM	NM	-6.3x	1.4x	2.5x
Asset Replacement Ratio	NM	NM	NM	NM	NM
Tax Rate (Reported)	50.8%	83.3%	35.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	-36.6%	2.7%	19.1%	19.9%	25.1%
Interest Cover	6.7x	5.2x	15.4x	16.3x	21.0x

Key Metrics

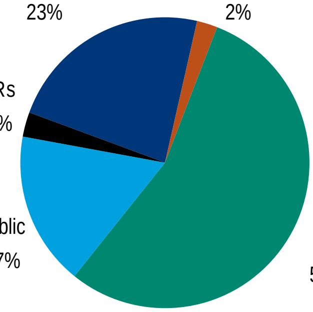
Company Description

Indiabulls Real Estate is part of Indiabulls group with interest in diverse businesses. Indiabulls Real Estate is focused on real estate development and power generation. It is developing projects across residential and office space. The company has 45% stake in business trust listed in Singapore Exchange which is developing 7mn sq ft of property in Mumbai. In power, it has 58% stake in Indiabulls Power,which is planning to create generation capacity of more than 5000MW over next 3-4years.

Investment Thesis

We believe the correction in residential prices in Central Mumbai will not be as sharp as expected by the market while its superior execution will give it an edge over competition leading to better demand. The progress in power sub is also reasonable and likely to surprise the market on the upside. We believe stock looks compelling given strong balance sheet and very low downside risks. Hence Buy rating.

Chart 1: Shareholding as on Dec 2011

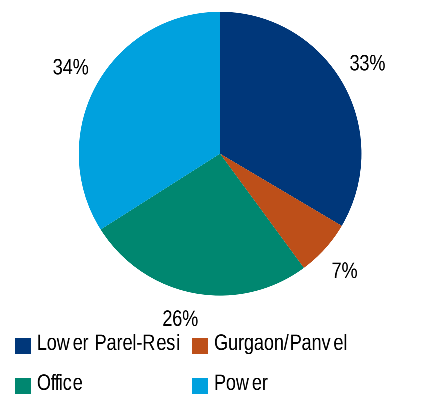


Source: BSE

Stock Data

Price to Book Value	0.5x

Chart 2: IBREL NAV breakdown



Source: BofA Merrill Lynch Global Research

Reiterate Buy, PO of Rs142

We reiterate our Buy rating on IBREL with a price objective of Rs142 offering 30% potential upside from the current levels. Our PO if based on 15% discount to our NAV of Rs167. We have cut our PO by 32% as we are now valuing only the key projects with visibility on launch and execution over the next two years in our NAV estimates.

We believe the stock offers value even after we build in a sharp cut of 25-30% in sale price in its key real estate projects. Further, the market is ignoring considerable execution progress made by its power subsidiary where IBREL holds a 58.5% stake. In our revised NAV, we are valuing only the Lower Parel projects (with lower prices), the power subsidiary at 1x P/B, and other real estate projects in Panvel and Gurgaon that have already been launched for sale by IBREL leading to 32% drop in NAV.

Table 1: NAV Snapshot

	Value (Rs m)	Value per share (Rs)	% of NAV (pre debt)
Indiabulls Bleu	16,894	42	22.9%
Other resi projects	4,862	12	6.6%
IPIT	27,163	68	36.9%
Power business	24,730	62	33.6%
Gross NAV	73,649	183	
Less			
- Debt/ (cash) in the parent entity	6,500	16	
Net NAV	67,149	167	
Assuming 15% discount to NAV		142	
Price Objective		142	

Source: BofA Merrill Lynch Global Research

Limited downside risk to our NAV

The downside risks to NAV are limited as we have factored in most of the negatives while there remains upside risks from launch/execution of projects not included in our valuation. We believe 15% discount to NAV is reasonable given we have valued all the projects very conservatively.

Table 2: Conservation assumptions protect downside

Projects	Assumptions
Lower Parel Residential	NAV includes 25-30% lower prices, don't expect further downside
Lower Parel Office	Rental assumption of Rs140-165/sq ft/month, leasing in 3 years
Power	15% discount to P/B of 1x, power utilities trading in the range of 1.5-2.2x

Source: BofA Merrill Lynch Global Research

Key triggers –

- The improving execution in its Lower Parel projects over next 6-12 months will help establish its ability to deliver the project and we believe will also improve sales volume
- Increased leasing at the Lower Parel projects where currently only 50% is leased
- Restructuring of the power subsidiary in next 6 months

Table 3: India Real Estate Coverage

Company	Ticker	QRQ	Price Rs	Mkt cap (US$ m)	Rating	NAV Rs	Target disc to NAV	Current disc to NAV	P/E FY11E	P/E FY12E	P/B FY11E	P/B FY12E	ROE FY11E	ROE FY12E
Mumbai														
Oberoi	XRXOF	C-1-8	240	1,747	Buy	290	0%	17%	14	13	2.4	2.1	22%	17%
HDIL	XGHSF	C-1-7	160	1,468	Neutral	206	15%	22%	7	7	0.7	0.6	12%	10%
Indiabulls Real Estate	IBELF	C-2-8	107	975	Buy	167	15%	36%	24	21	0.5	0.5	2%	2%
NCR														
DLF	XVDUF	B-1-8	219	8,232	Buy	324	0%	33%	20	14	1.4	1.3	7%	10%
Unitech	UTKIF	B-2-8	35	1,981	Neutral	106	10%	66%	9	7	0.7	0.7	9%	10%
Jaypee Infra	XJAYF	C-1-8	59	1,808	Buy	123	15%	52%	5	6	1.6	1.3	43%	22%
Anant Raj	XNRJF	C-1-7	79	520	Buy	189	15%	58%	12	7	0.6	0.6	6%	9%
Omaxe	XOMXF	C-3-9	133	512	U/p	122	30%	-9%	21	17	1.4	1.3	7%	8%
APIL	ANSFF	C-3-8	36	125	U/p	89	30%	60%	5	4	0.3	0.3	7%	8%
Bangalore														
Sobha	SBDRF	C-1-7	265	596	Buy	529	15%	50%	13	10	1.5	1.3	11%	14%
Puravankara	XPJVF	C-1-7	105	491	Buy	159	15%	34%	16	12	1.4	1.3	9%	11%
Brigade	XBDGF	C-1-7	97	274	Buy	195	20%	50%	12	9	1.1	1.0	10%	12%

Source: BofA Merrill Lynch Global Research

Lower Parel: Execution to decide the winner

IBREL's projects in Lower Parel, Mumbai account for Rs110/share or 60% of its NAV and thus is most important for stock performance. The micro market has seen a number of residential launches in the last two years in the super luxury segment. This has led to concern on absorption of the residential units and expectation of a sharp drop in prices in the near future. We try and address some of these concerns below and have built in very conservative estimates for our NAV calculation of the projects located in the micro market. The residential developments account for 56% of NAV while office developments 44% of NAV. We have built in a sale price of Rs18,000-20,000/sq ft for the residential developments (25-30% drop from the current ASP) and believe prices are unlikely to fall below these levels.

Oversupply but all under construction

While there is talk about oversupply, it is only in terms of launches and not ready supply of apartments. As of now, very few projects are expected to be completed over the next two years and even in those pre-sales are above 70%. Therefore, prices for ready apartments will continue to remain high at over Rs30,000/sq ft, which we believe would provide support to under-construction projects.

Ready supply only post FY15

In the last 18 months, we have seen around 6-7 projects being launched offering over 3,000 apartments for sale, but the construction on most of the projects has only started in the last six months. This would imply the ready stock will come in the market only four years from now. Even in these projects, over 40% of inventory is sold. Since most of the projects are promising over 70 floors (being developed in India for the first time), we expect execution delays of 12-18 months.

Launches getting staggered due to approval delays

We expect another 3-4 projects to be launched in 12 months but these projects were expected in 2010 itself and have now been delayed due to lack of approvals. The visibility beyond these projects is not great and we are unlikely to see any big launches since the land supply is mostly coming from auction of old mill land by government entity. Further, the state government is no longer granting higher FSI under the parking policy (developers in recent projects have managed to increase FSI from 1.33 to almost 4 under this policy).

Is FSI under threat? Unlikely for approved projects

Residential projects in the micro market have been granted higher FSI of up to 4 against the normal FSI of 1.33 under the public parking policy. As per our conversation with developers, all planned projects have already got approval from the local authorities for the higher FSI. The state government is currently reviewing the policy and is not granting new approvals, but is not looking to change the policy retrospectively.

Execution will be key differentiator

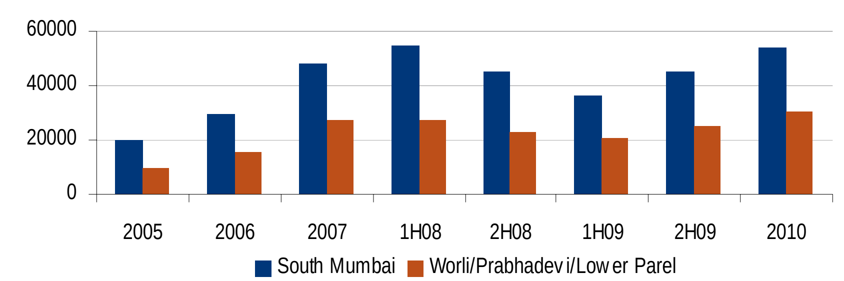
We believe the success of announced projects will be largely dependent on the execution progress since there is a lot of concern on the ability of developers to execute projects offering over 70 floors. We believe IBREL has a distinct advantage over its peers on this aspect because its project was the first to be launched and hence is almost 12 months ahead of competition in terms of execution. Secondly, none of the company's projects are offering 90-110 floors, and have mostly around 50 habitable floors with the first 20 floors being car parks. This, we believe, will substantially reduce the execution challenge and costing of the project as compared to its competitors.

Also, as seen in the office development in the micro market, IBREL has managed to launch the project much ahead of competition.

Pricing cheap relative to South Mumbai

If we compare the prices in Lower Parel to those in South Mumbai, they are still 35-40% cheaper and therefore offer a good alternative to those aspiring to stay in South Mumbai. Most of these apartments are offering best-in-class amenities like private swimming pools, private escalators, private garden etc, which India is experiencing for the first time.

Chart 3: Lower Parel prices 35-40% lower than South Mumbai



Source: BofA Merrill Lynch Global Research

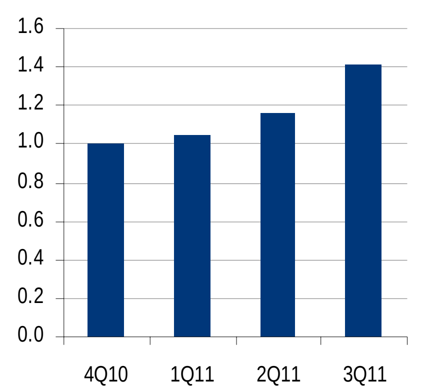
We do not expect prices to fall below Rs18,000-20,000/sq ft since the construction cost for most of these projects would be upward of Rs6,000/sq ft with land cost upwards of Rs7,000/sq ft (NTC plans to auction extra FSI of 0.2mn sq ft with a base price of Rs11,000/sq ft), and developers would be unwilling to cut prices below these levels. Like in office projects, even in worst of the times, developers refused to reduce rentals below Rs150/sq ft. Similarly, developers are unlikely to cut residential prices below Rs20,000/sq ft. Most developers have deep pockets and are in no hurry to sell their projects cheap.

Residential: Near-term challenges, but factored in

Sky Residences - 3.3mn sq ft – This project, which accounts for 12% of our NAV for IBREL, was launched in 2009 and comprises three towers. It has pre-sold over 1.5mn sq ft with average realization of Rs25,000/sq ft. The construction is in full swing across the three towers with the first tower expected to be completed in the next four years. We have assumed a sale price of Rs18,000/sq ft with sales spread across the next five years. We do expect sales to remain soft over the next 12 months due to the current high prices (exceed Rs25,000/sq ft) and on expectations of a price correction. But the sales volume will improve as execution becomes visible in the next 12 months and prices stabilize at lower levels.

Indiabulls Bleu - Worli - We have assumed a normal FSI of 1.33 for this project and expect it to be launched in FY12 with a development period of five years. IBREL has invested Rs21bn for the land, though we are ascribing only Rs16bn for the project due to lower FSI and conservative sale price assumptions. The project is better located as compared to its Sky project, and other projects in the vicinity are commanding over Rs30,000/sq ft. We have assumed sale price of Rs20,000/sq ft and construction cost of Rs6,000/sq ft for the project.

Chart 4: Office leasing by IBREL



Source: BofA Merrill Lynch Global Research

Office leasing at steady pace

IBREL has leased 1.4mn sq ft of its 3.8mn sq ft of office development with rentals averaging around Rs160-170/sq ft. The firm expects to complete 1.2mn sq ft of development in the next 6-9 months while the remaining 0.5mn sq ft is under planning. We have valued the currently ready asset – One Indiabulls centre at Rs165/sq ft /month and the Indiabulls Financial Centre at Rs140/sq ft / month with a 11% cap rate, which we believe is conservative.

Supply to cap rental recovery

The location will continue to see oversupply for the next two years and the rentals are expected to remain at Rs150-170/sq ft. Even after many developers converted their planned office projects into residential development, the under-construction projects will almost double the office stock in the next three years. Also, vacancy levels are expected to increase from around 20% currently to over 25% in 2011. Some of the key projects in advance stages of construction include those by Indiabulls Real Estate, Peninsula Developers, Marathon, Kohinoor and Lodha.

Power: Visible progress in projects

Indiabulls Power accounts for Rs62/sh or 34% of our NAV estimate, and we believe our valuation is conservative given the on-ground progress achieved by this vertical in project implementation. IBREL has a 58.5% stake in Indiabulls Power is planning to demerge its investment in the power subsidiary into a separate entity and subsequently merge it with Indiabulls Power. This will make IBREL a pure real estate play. The shareholders of IBREL will receive 2.97share of Indiabulls Power on completion of the restructuring exercise.

We have valued the power subsidiary at 1x P/B while arriving at our NAV for IBREL. Most of the pure utility players are currently trading at 1.5-2x price to book multiple. Our valuation at 30-50% discount factors in most of the downside from likely delays in commissioning of the projects and expected correction in power tariffs from FY13. Indiabulls Power's first plant is expected to start operations from FY13. During the last 2-3 quarters, the power subsidiary has made considerable progress in implementation of projects, which makes us believe that our valuation at 1x P/B is conservative. We highlight some of the steps taken by the management below.

Orders in place – Indiabulls has placed the order for BTG with BHEL for 20 sets of 270MW, making it the second-largest customer of BHEL providing credibility to its plans and assuring quality and timely implementation of the order. The first of the power plants is expected to come on stream as early as FY13. Orders for other segments of the power plant have also been placed with different reputed contractors like Shapoorji for BTG civil and structures, L&T for the coal handling plant, and Areva for the power transformer.

Financial closure and approvals in place- IBREL has achieved financial closure for all the two phases of the both the projects and has started the draw down for Phase 1 of the project. It has so far drawn Rs4.25bn for the Amravati and Rs3bn for the Nashik projects. Other approvals like coal and water linkages are also in place while the land was acquired way back in 2008-09.

The company has signed a power purchase agreement (PPA) with the Maharashtra government for Phase 1 of the 1200MW Amravati project at 3.26/unit for 25 years. It plans to sign further deals as the plants near commissioning.

Other land bank

IBREL's other land banks include the ones in Panvel and Gurgaon. The company has already launched residential projects in these two locations. We have valued these projects at prices which are at a 15-20% discount to current prices and contribute Rs12/sh or 7% of our NAV.

Gurgaon - IBREL has launched two projects in Gurgaon, a location where it has two more land parcels. Its land bank is located along the upcoming Gurgaon - Dwarka expressway where the residential price is around Rs3,000-3,200/sq ft. We have assumed a realization at Rs2,700/sq ft.

Panvel - The project has seen very good response in the last 18 months with prices increasing from Rs2,000/sq ft to over Rs3,700/sq ft currently. The approval for setting up of the second Mumbai airport close to the project led to a sharp run-up in prices. We have assumed average realization of Rs3,000/sq ft. Apart from the current project, IBREL has a large land parcel in Panvel which we have not valued.

Key land banks not considered for valuation

Delhi - The project was among the first few that IBREL launched, but has been delayed due to litigation. It has now got all the approvals from the court and we expect IBREL to launch the project within the next 12-18 months.

The Panvel project has additional development potential of over 15mn sq ft, which we believe is extremely valuable given the progress on development of the second airport in Navi Mumbai.

Earnings to remain unexciting

We have cut our earnings estimate for FY11-13 by 15-20% to factor in lower sales volume and prices. We expect the EBIDTA margin to also drop from 23% in FY11 to 19% in FY12/13 as IBREL launches its premium project Indiabulls Bleu, which will make a very thin margin due to very high land cost paid by IBREL. We have also built in a drop in sales volume to 3.2mn sq ft in FY12 from 4.5mn sq ft in FY11

IBREL has started recognizing revenue from real estate development in FY11 only and since one of its flagship projects in Central Mumbai/ Lower Parel is parked in IPIT, a REIT listed in Singapore, it is not reflected in its earnings. The company owns a 45% stake in IPIT and will receive dividend once IPIT's cash flows improve, which we think is unlikely before FY13. We have not built in any earnings from IPIT in our model for FY12-13.

Table 4: Earnings Snapshot

	FY09A	FY10E	FY11E	FY12E	FY13E
Total operating income	2,086	1,294	10,733	12,407	17,648
-growth	48%	-38%	730%	16%	42%
EBITDA	(570)	(1072)	2436	2418	3117
-growth	nm	nm	nm	-1%	29%
Net Income	278	- 160	1,794	2,068	2,723
-growth	-93%	-158%	-1219%	15%	32%
Margins					
Gross margin	90%	92%	32%	28%	27%
EBIDTA margin	-27%	-83%	23%	19%	18%
Net Income margin	13%	-12%	17%	17%	15%

Source: BofA Merrill Lynch Global Research

Cash flows to remain muted

The cash flow is expected to remain muted given the large projects are parked in IPIT and we have taken conservative assumption on volume. In real estate business we expect IBREL to show marginally positive cash flow over next two years. We estimate free cash flow of Rs0.8bn and Rs2.7bn in FY12 and FY13 respectively.

The consolidated debt will show an increase given the investment in power projects by Indiabulls Power. This also leads to large negative cash flow for next couple of years at the consolidated level.

Oberoi Realty Ltd

Initial Opinion BUY

Equity | India | Real Estate/Property
08 March 2011

Setting new benchmarks; new Buy with Rs290 PO

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Research Analyst
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Best placed to benefit from slowdown

We initiate coverage on Oberoi Realty with Buy rating and PO of Rs290, offering 20% upside potential. Oberoi's top-notch corporate governance and strong NAV visibility make it a benchmark developer for gaining exposure to the highly lucrative Mumbai real estate market. We expect Oberoi to be least impacted by correction in residential prices in Mumbai due to its balanced mix of assets. Further, tighter liquidity environment will offer Oberoi great opportunity to deploy its Rs16bn of cash in land assets in Mumbai at reasonable valuations.

Balanced mix of assets should reduce NAV volatility

Oberoi has a balanced mix of assets, which we believe would help it wade through the slowdown relatively unscathed, since the demand pick up in office/retail space should offset the slowdown in residential market. It derives only 34% of its NAV from residential market and so it is least sensitive to changes in residential prices. Every 1% reduction in price impacts its NAV by just 0.5% against 1-3% impact on other developers.

Cash deployment, key upside trigger

We expect the current weakness in Mumbai residential segment and rising interest rates to lead to a drop in land prices over the next 6-9 months. Oberoi, with a cash chest of Rs16bn, is best placed to benefit from the softness in land prices in Mumbai. We think Oberoi also has an edge over other developers to win redevelopment projects due to its strong balance sheet and premium positioning.

Slowdown in Mumbai residential market priced in

The expected slowdown in residential segment in Mumbai remains the key headwind for the stock's performance over next six months. Also the low free float of 12% could lead to volatility in stock performance.

Stock Data

Price	Rs236.90
Price Objective	Rs290.00
Date Established	8-Mar-2011
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs210.00-Rs306.60
Mrkt Val / Shares Out (mn)	US$1,726 / 328.2
Average Daily Volume	75,899
BofAML Ticker / Exchange	XRXOF / NSI
Bloomberg / Reuters	OBER IN / OEBO.NS
ROE (2011E)	21.8%
Net Dbt to Eqty (Mar-2010A)	-19.5%
Est. 5-Yr EPS / DPS Growth	23.6% / 35.0%
Free Float	12.0%

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	2,521	4,582	5,652	6,170	9,846
EPS	969.39	15.87	17.22	18.80	30.00
EPS Change (YoY)	NA	-98.4%	8.5%	9.2%	59.6%
Dividend / Share	2.00	0.200	3.44	3.76	9.00
Free Cash Flow / Share	(330.06)	10.66	4.39	13.13	22.66

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	0.244x	14.93x	13.76x	12.60x	7.90x
Dividend Yield	0.844%	0.084%	1.45%	1.59%	3.80%
EV / EBITDA*	25.50x	13.50x	9.59x	8.64x	5.11x
Free Cash Flow Yield*	-1.10%	3.96%	1.85%	5.54%	9.56%

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to important disclosures on page 56 to 60. Analyst Certification on Page 52. Price Objective Basis/Risk on page 52. Link to Definitions on page 52.11027734

iQprofile SM Oberoi Realty Ltd

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	4,254	7,836	10,742	12,196	19,559
Gross Profit	2,658	4,811	6,989	7,715	12,971
Sell General & Admin Expense	(87)	(70)	(261)	(301)	(391)
Operating Profit	2,401	4,582	6,342	6,937	11,842
Net Interest & Other Income	291	218	550	973	1,286
Associates	NA	NA	NA	NA	NA
Pretax Income	2,692	4,800	6,892	7,910	13,128
Tax (expense) / Benefit	(177)	(226)	(1,241)	(1,740)	(3,282)
Net Income (Adjusted)	2,521	4,582	5,652	6,170	9,846
Average Fully Diluted Shares Outstanding	3	289	328	328	328
Key Cash Flow Statement Data					
Net Income	2,515	4,574	5,652	6,170	9,846
Depreciation & Amortization	73	91	234	368	493
Change in Working Capital	(1,150)	87	(1,511)	1,396	2,205
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	(1,265)	(122)	(2,030)
Cash Flow from Operations	1,438	4,751	3,111	7,812	10,515
Capital Expenditure	(2,297)	(1,675)	(1,669)	(3,503)	(3,078)
(Acquisition) / Disposal of Investments	3,692	(640)	750	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	1,395	(2,315)	(919)	(3,503)	(3,078)
Shares Issue / (Repurchase)	0	2,861	10,286	0	0
Cost of Dividends Paid	(5)	(16)	(69)	(1,334)	(1,456)
Cash Flow from Financing	(1,334)	2,738	10,217	(1,334)	(1,456)
Free Cash Flow	(858)	3,076	1,442	4,309	7,437
Net Debt	(1,562)	(3,631)	(16,040)	(19,015)	(24,996)
Change in Net Debt	(2,828)	(5,281)	(12,409)	(2,975)	(5,981)
Key Balance Sheet Data					
Property, Plant & Equipment	6,586	8,171	9,605	12,740	15,325
Other Non-Current Assets	157	792	42	42	42
Trade Receivables	272	404	404	545	736
Cash & Equivalents	1,669	3,631	16,040	19,015	24,996
Other Current Assets	9,852	12,483	13,916	14,940	14,466
Total Assets	18,536	25,480	40,006	47,282	55,564
Long-Term Debt	107	0	0	0	0
Other Non-Current Liabilities	31	97	1,361	1,483	3,513
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	3,962	6,746	5,404	7,844	7,736
Total Liabilities	4,100	6,843	6,765	9,327	11,249
Total Equity	14,436	18,637	33,241	37,955	44,316
Total Equity & Liabilities	18,536	25,480	40,006	47,282	55,565
iQmethod* SM - Bus Performance					
Return On Capital Employed	15.3%	24.8%	19.5%	14.6%	20.4%
Return On Equity	18.9%	27.7%	21.8%	17.3%	23.9%
Operating Margin	56.4%	58.5%	59.0%	56.9%	60.5%
EBITDA Margin	58.2%	59.6%	61.2%	59.9%	63.1%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	0.6x	1.0x	0.6x	1.3x	1.1x
Asset Replacement Ratio	31.6x	18.5x	7.1x	9.5x	6.2x
Tax Rate (Reported)	6.6%	4.7%	18.0%	22.0%	25.0%
Net Debt-to-Equity Ratio	-10.8%	-19.5%	-48.3%	-50.1%	-56.4%
Interest Cover	NM	NM	NA	NA	NA

Key Metrics

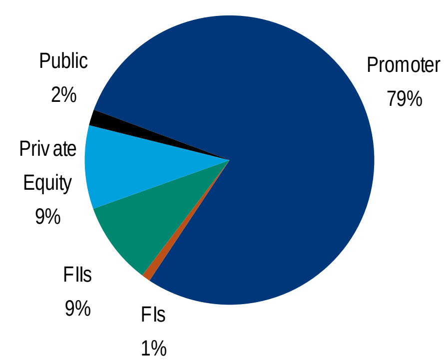
Company Description

Oberoi Realty is a premium developer in Mumbai with 20mn sq ft of development pipleline which it plans to develop over next 5-6 years. It has projects across residential, office, retail and hospitality with over 1mn sq ft of operational assets

Investment Thesis

We believe Oberoi Realty is a benchmark developer for gaining exposure to highly lucrative Mumbai real estate market. We expect Oberoi to be least impacted due to expected correction in residential prices in Mumbai due to balanced mix of assets. Also tighter liquidity environment will offer Oberoi great opportunity to deploy its Rs16bn of cash in land assets in Mumbai at reasonable valuations. Key catalyst would be acquisition of new project over next 6 months. Hence our Buy

Chart 1: Shareholding as on Dec 2010



Source: BSE

Stock Data

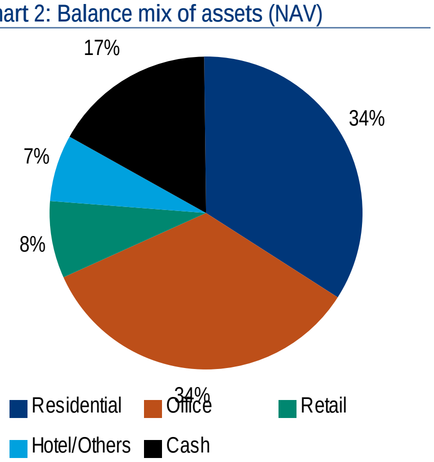
Price to Book Value	2.3x

Bull & Bear case

Oberoi Realty	Bull case	Bear case	BofAML view
Residential Prices	■ Residential prices in Mumbai remain flat in FY12 leading to an increase in our NAV by 9%	■ Residential prices in Mumbai correct by 25-30% in FY12 leading to 6% reduction in our NAV	■ We have built in 15% correction in residential prices in FY12
Residential Volume	■ Surge in residential volume in the new launches leading to higher than expected cash flows	■ Higher than expected drop in volumes in the residential project leading to lower than expected cash flows	■ We have built in 1mn sq ft of new sales in FY12 and cash surplus of Rs4bn
Office rentals	■ The office rentals increase by 10% in FY12 leading to increase in NAV by 5%	■ The office rentals corrects by 10% in FY12 will lead to 5% reduction in NAV	■ We have estimated flat rentals in office in FY12 and have taken 10% correction in the new office leasing
Investment of surplus cash	■ Investment of surplus cash of Rs16bn in NAV accretive land/ projects.	■ Investment of surplus cash in very expensive land/ project leading to reduction in NAV ■ Investment of cash in non related business	■ We have valued the cash at 1x book and have not considered any NAV accretion due to investment in new land asset

Source: BofA Merrill Lynch Global Research

Chart 2: Balance mix of assets (NAV)



Source: BofA Merrill Lynch Global Research

Investment thesis

Best play on Mumbai realty; New Buy

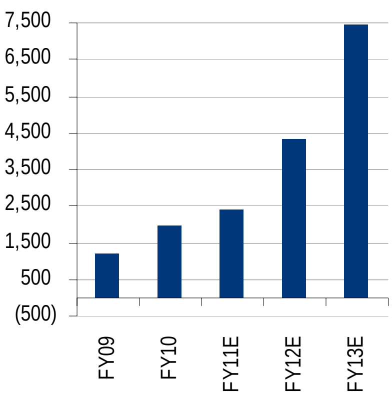
We initiate coverage on Oberoi Realty with Buy and PO of Rs290, offering 20% upside potential. Our PO is based on our FY12 NAV of Rs290, comprising of Rs241 from real estate and Rs49 from cash in books. We value Oberoi at a premium to its peers given its benchmark position in Mumbai real estate sector, strong balance sheet, and higher visibility on NAV. We like the story of Oberoi Realty with great land bank, strong cash flows and unlevered balance sheet, coupled with top-notch corporate governance and disclosures.

- Oberoi is currently the only Mumbai real estate play offering investors exposure to all the premium segments of real estate, unlike HDIL (slum redevelopment play) or IBREL (primarily central Mumbai).
- We believe the current tight liquidity environment will provide Oberoi with great opportunity to invest surplus cash in NAV-accretive lands/projects, while a balanced mix of assets will cushion NAV impact due to the expected weakness in residential segment. Our NAV already factors in the impact of sluggish volumes and prices in residential segment.
- Oberoi is the only developer to have shown consistent cash generation, while other developers have struggled to generate cash from operations, whether it is due to investments in new projects/lands (in spite of sitting on large land bank) or restructuring.

Key triggers over the next six months -

- Investment of surplus cash in NAV-accretive projects
- Launch of Mulund and Worli projects
- Sale of under-construction office property - Prisma

Chart 3: Consistent cash generation



Source: BofA Merrill Lynch Global Research

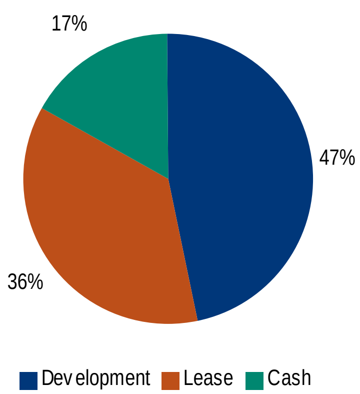
Good visibility on NAV

We expect Oberoi to execute its current projects over the next 6-7 years, with over 90% of the land bank in prime locations in Mumbai. This increases the visibility and confidence in its NAV, unlike other developers where only 40-50% of their NAV is expected to be realized over the next 5-6 years. Further, NAV quality is strong, as around 18% of its NAV is from cash sitting in the balance sheet and 18% from rent-generating leased assets. Its land bank does not carry any risk of change in regulation or litigation since it holds clear titles for most of the land parcels. Baring two projects which are in the final stages of approval, most other projects have all the approvals in place.

Strong cash flow – rarity in Indian realty

Oberoi Realty is expected to generate strong cash flows over the next 2-3 years as its key projects are launched over FY12. Since the land cost is historical (most of the lands were purchased in 2003-05, when land prices were low in Mumbai), and residential prices have seen a great run in Mumbai since 2005, we expect the company to generate an EBIDTA margin in excess of 60% even after factoring in flat to10% drop in residential prices in FY12. Further, its premium positioning and exceptional brand value have enabled it to charge a premium to its competition. We estimate Oberoi to generate surplus cash of Rs4.3bn in FY12 and Rs7.4bn in FY13 (post investment in construction of commercial assets which are expected to be leased).

Chart 4: NAV contribution



Source: BofA Merrill Lynch Global Research

Balanced mix of assets

Oberoi has a balanced mix of assets, whether it is residential or commercial mix or development and leasing mix. The NAV contribution from various segments is evenly balanced. We believe this strategy will help reduce the impact of the property cycles. While for the next 12 months we expect demand for residential space to remain soft due to high prices and rising interest rates, demand for office/retail space is expected to remain strong, cushioning the impact on NAV. Oberoi's sensitivity to change in residential prices is relatively low compared to its peers. For every 1% reduction in residential prices, the impact on its NAV is just 0.5% against 1-3% for its peers.

Table 1: Impact on NAV due to 10% change in residential prices

Oberoi	5%
DLF	10%
Unitech	17%
HDIL	20%
Sobha	30%

Source: BofA Merrill Lynch Global Research

Table 2: launches picking pace

Launch Date	Project	Area - m sq ft
3QFY10	Exquisite I	1.45
3QFY11	Grande	0.28
4QFY11	Exquisite II	1.33
1QFY12	Exotica - I	1.62
3QFY12	Oasis	0.46

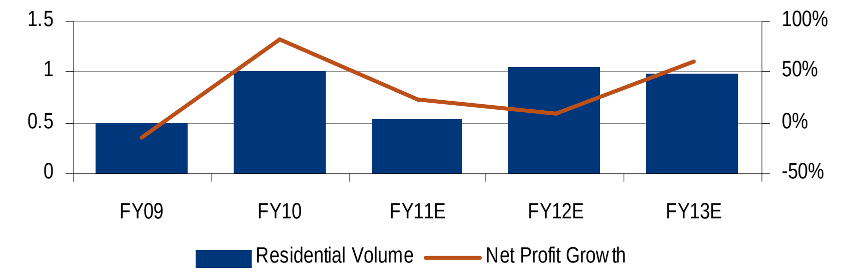
Source: BofA Merrill Lynch Global Research

Earnings story to play out from FY13

The earnings story for Oberoi will play out from FY13 when all its projects reach the revenue recognition stage (it starts recognizing revenue only when 20% of the construction cost is spent). We expect Oberoi Realty to show an earnings CAGR of 38% over FY10-13. In FY13, almost 6-7 projects will approach recognition stage, against just three currently, as four new projects are in the process of being launched in the next six months. It typically takes 12-15 months for a project to reach the revenue-recognition stage from launch. Further, since most of these projects will take at least four years for completion, we expect the earnings momentum to sustain beyond FY13 also.

The earnings growth for FY12 is highly dependent on the sale of its office project Prisma, for which it is currently negotiating with a large business house for sale of the entire block. Other than Prisma, we expect only Exquisite Ph-II to reach the revenue-recognition stage by 4QFY12, leading to a modest 9% earnings growth in FY12.

Chart 5: Strong earnings growth from FY13



Source: BofA Merrill Lynch Global Research

PO based on NAV of Rs290

Our PO of Rs290 is based on 1x NAV and offers 20% upside potential. We expect Oberoi to trade at its NAV compared to other developers due to its top-notch brand and corporate governance, premium quality assets with monetization over the next 6-7 years and a strong balance sheet with high cash balance.

Valued at premium to its peers

We expect Oberoi Realty to trade at premium to its other Mumbai peers (no discount to NAV compared to 15% discount for IBREL and HDIL) given –

- Strong balance sheet with Rs16bn cash, investment of which in new assets will lead to increase in NAV
- Better disclosure and more clarity on monetization of assets
- Low risk of delays in the projects since most approvals are in place

NAV valuation factors in uncertainty

Our NAV is based on the following assumptions -

- Development period of seven years
- 15% drop in residential prices in FY12 and an increase of 5% each year thereafter
- Leased assets valued at 10% capitalization rate, while under-construction assets valued at 11% capitalization rate
- The cash in the balance sheet forms 17% of its NAV and its deployment in NAV-accretive projects is the key for stock performance.
- WACC of 14%

Table 2 and 3 lay out the key components of our NAV calculation and sensitivities.

Key assumptions underlying our NAV estimates

Table 3: NAV Summary

Detail	Rs m	Comment
Home	30,324	10mn sq ft to be developed over next 7 years
Office	27,659	4.2mn sq ft to be developed over 5 years, Cap rate of 11% assumed
Leased Assets/Hotel	16,426	1.3 mnsq ft of leased assets and hotel
Other Land/Inventory	4,771	Ready inventory and social infra
Total Real Estate NAV	79,180	
Total NAV	79,180	
Less Net Debt	(16,040)	Expected cash as on Mar '2011
RNAV	95,220	
Shares O/S - mn #	328	
RNAV / share - Rs	290	

Source: BofA Merrill Lynch Global Research

Key NAV sensitivities

Table 4: Oberoi Realty highly sensitive to cap-rate changes

1% Change in	% Change in NAV	Current Assumption
WACC	2.0%	14%
Cap Rate	5.0%	10% for ready assets/11% for under construction
Sale Price	0.5%	10% lower residential prices in FY12
Cost	0.4%	5% increase from FY12

Source: BofA Merrill Lynch Global Research

Table 5: India Real Estate Coverage

Company	Ticker	QRQ	Price Rs	Mkt cap (US$ m)	Rating	NAV Rs	Target disc to NAV	Current disc to NAV	P/E FY11E	P/E FY12E	P/B FY11E	P/B FY12E	ROE FY11E	ROE FY12E
Mumbai														
Oberoi	XRXOF	C-1-8	240	1,747	Buy	290	0%	17%	14	13	2.4	2.1	22%	17%
HDIL	XGHSF	C-1-7	160	1,468	Neutral	206	15%	22%	7	7	0.7	0.6	12%	10%
Indiabulls Real Estate	IBELF	C-2-8	107	975	Buy	167	15%	36%	24	21	0.5	0.5	2%	2%
NCR														
DLF	XVDUF	B-1-8	219	8,232	Buy	324	0%	33%	20	14	1.4	1.3	7%	10%
Unitech	UTKIF	B-2-8	35	1,981	Neutral	106	10%	66%	9	7	0.7	0.7	9%	10%
Jaypee Infra	XJAYF	C-1-8	59	1,808	Buy	123	15%	52%	5	6	1.6	1.3	43%	22%
Anant Raj	XNRJF	C-1-7	79	520	Buy	189	15%	58%	12	7	0.6	0.6	6%	9%
Omaxe	XOMXF	C-3-9	133	512	U/p	122	30%	-9%	21	17	1.4	1.3	7%	8%
APIL	ANSFF	C-3-8	36	125	U/p	89	30%	60%	5	4	0.3	0.3	7%	8%
Bangalore														
Sobha	SBDRF	C-1-7	265	596	Buy	529	15%	50%	13	10	1.5	1.3	11%	14%
Puravankara	XPJVF	C-1-7	105	491	Buy	159	15%	34%	16	12	1.4	1.3	9%	11%
Brigade	XBDGF	C-1-7	97	274	Buy	195	20%	50%	12	9	1.1	1.0	10%	12%

Source: BofA Merrill Lynch Global Research

What will drive NAV growth –

Investment of Cash

Oberoi currently has Rs16bn of cash with no debt in its balance sheet. It can further raise over Rs8-10bn of debt against its operating commercial assets like mall/office and hotel. Therefore, deployment of these funds over the next 6-12 months in acquiring new projects/lands would be the key for Oberoi's NAV growth. We believe the current environment of low residential volume and tight liquidity with rising interest rates will reduce competition for Oberoi in land/project auctions and negotiations. A drop in residential prices by 3QFY12 should also lead to a drop in land prices.

The recent relaxation in norms for redevelopment of properties in Coastal regulation zone and higher FSI for redevelopment of old residential societies has opened up a large opportunity for Oberoi Realty. Its strong balance sheet and premium positioning should further help Oberoi win redevelopment projects against its competitors.

Compression of Cap Rates in Office

Oberoi is developing a large portfolio of office assets, and 33% of its NAV is derived from this segment. We expect the demand for office space to remain strong over the next 12-18 months, with rentals increasing from FY12. We believe the strong performance by office segment over the next one year should lead to compression in cap rates. We have currently valued the under-construction office assets at 11% capitalization rate and leased assets at 10%. Every 1% change in capitalization rate should lead to 5% change in NAV for Oberoi Realty.

Headwinds –
Weakness in residential segment

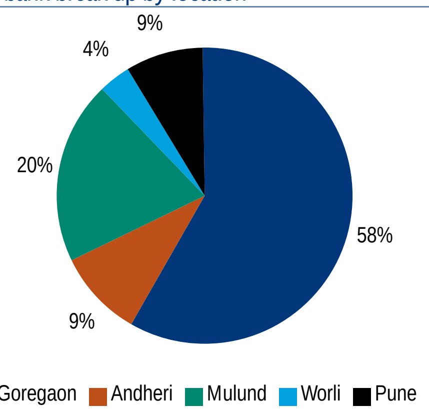
We expect the weakness in Mumbai's residential segment to continue for the next couple of quarters, with low volumes, as developers try to hold on to high prices. We expect correction in prices before the onset of the festive season in September 2011 and subsequent recovery in volumes. But correction would be limited to 10-20%, depending on the micro market.

For Oberoi, we have already built in 15% lower prices for its upcoming new launches in FY12 and don't expect realizations to fall sharply. But the negative news flow on low volumes and expected correction will likely put pressure on the stock's performance. Even post correction, we don't expect the residential prices in Mumbai to rebound very sharply. The residential prices are unlikely to see the run we saw in the past 5-6 years in Mumbai. Our expectation is that in the long run (next 3-4 years), residential prices in Mumbai will see only modest gains of 5-10%, lower than the income growth given the improving supply due to large redevelopment projects.

Low free float

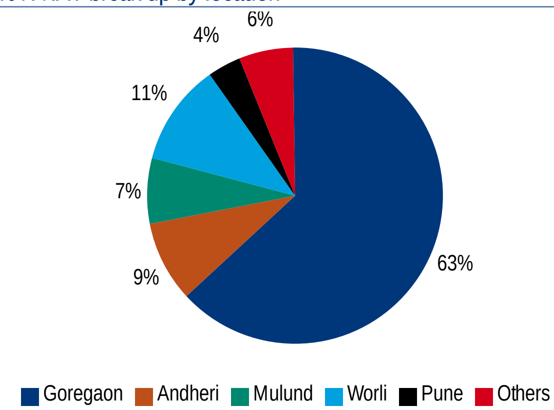
The stock was listed in October 2011 and has just 12% of its equity shares as free float. This increases the volatility in the medium to short term. The promoter and the private equity share holding is in the lock in period till October 2011, though post that we could see increase liquidity as and when the private equity investor looks to exit.

Chart 6: Land bank break up by location



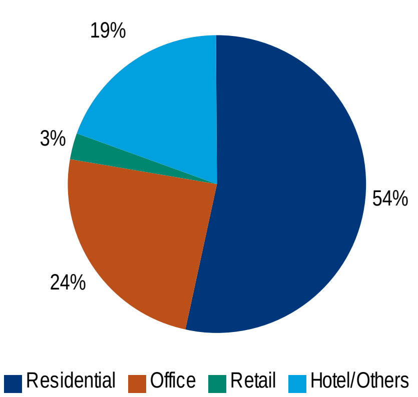
Source: BofA Merrill Lynch Global Research

Chart 7: NAV break up by location



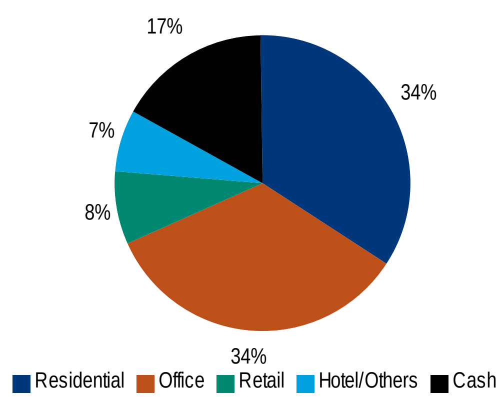
Source: BofA Merrill Lynch Global Research

Chart 8: Land bank break up by segment



Source: BofA Merrill Lynch Global Research

Chart 9: NAV break up by segment



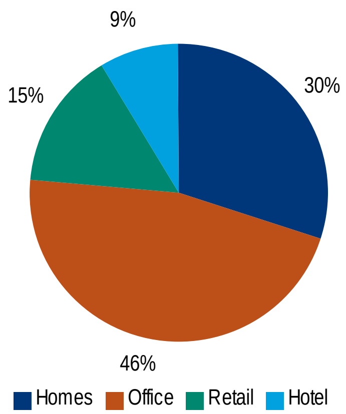
Source: BofA Merrill Lynch Global Research

Table 6: Oberoi - Land bank details

	Area	NAV
Goregaon	9.0	49,612
Andheri	1	7,242
Mulund	3	5,690
Worli	1	8,978
Pune	1	2,887
Others	3	4,771
	18.7	79,180

Source: BofA Merrill Lynch Global Research
Note : Area excludes Splendor project of 1.2mn sq ft since it is nearing completion.

Chart 10: NAV mix for Goregaon project



Source: BofA Merrill Lynch Global Research

Key projects

Oberoi Realty primarily has five projects (four in Mumbai and one in Pune), with a total development area of 20mn sq ft. It has already started development on two of the projects, while another two are expected to be launched in the next six months.

Three key projects driving its NAV are:

- Oberoi Garden City –Goregaon east
- Oasis Worli
- Oberoi Exotica – Mulund

Garden City, Goregaon #1

Development area 9mn sq ft; 58% of the land bank
NAV of Rs49.6bn; 63% of total NAV

Oberoi Realty is developing a large township in Goregaon, spread over 75 acres. It has already developed over 2mn sq ft of residential, office, retail and hospitality in the location, while it has plans to further develop 7.7mn sq ft over the next 6-7 years. The township is expected to contribute Rs49.6bn or 63% of its NAV and thus the success of the project would be the key driver of the stock. The currently leased and operational assets contribute 33% to the NAV of the project.

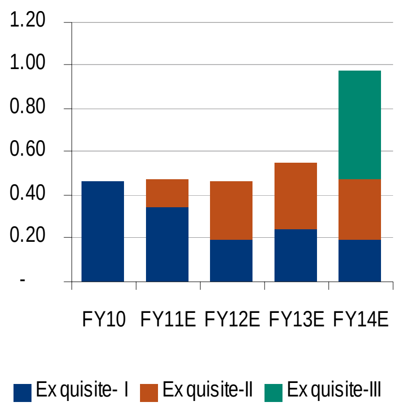
It plans to develop 5.33mn sq ft of residential space for sale and 2.4mn sq ft of office space for leasing, in addition to the 1.66mn sq ft of commercial development which is already operational and generating rental income. Oberoi has followed a unique model for township development, where it has developed amenities, infrastructure and commercial developments like retail mall, 5-star hotel, international school and office space prior to developing the residential space. This, we believe, has helped Oberoi to command a premium of 10-15% for its residential developments over its competition.

Residential - earnings/cash flow driver
Development area 5.32mn sq ft; 28% of the land bank
NAV of Rs15bn; 16% of total NAV

Oberoi launched the first phase of its residential development – Exquisite – in 3QFY10, spanning 1.45mn sq ft. The project met with very good response, having sold over 50% with ASP of Rs12000/sq ft, but sales volume slowly tapered off in recent quarters. The project was launched with an ASP of Rs10000/sq ft, which increased to Rs14300/sq ft in 3QFY11, partly due to the increase in base prices (from Rs9000/sq ft to Rs12000/sq ft). As of now, only the higher floors are available, which attracts an additional 1% charge per floor. Further, since 25% of construction of the project has already been completed, buyers have to pay over 50% down payment on booking the apartments.

Therefore, it plans to launch the 2nd phase of 1.3mn sq ft in 4Q with a lower base price of Rs10000/sq ft (already soft-launched) to bring back the volume. We expect the 5.2mn sq ft of residential component to be developed by 2018.

Chart 11: Flat sales volume in Exquisite in FY12

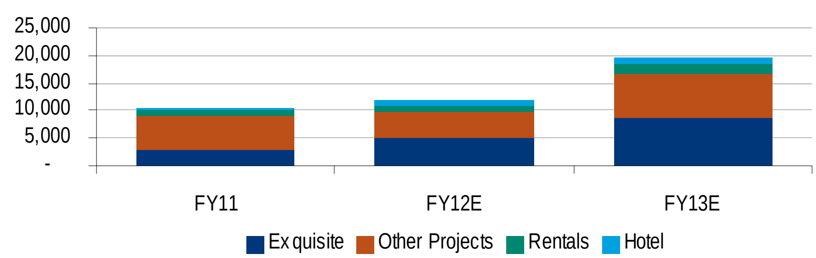


Source: BofA Merrill Lynch Global Research

45% of Oberoi's revenue from the project over FY12-13

The project is expected to be the key contributor to Oberoi's revenue for the next several years. The EBIDTA margin in the project across phases would be over 60% due to the historical land cost. We expect the EBIDTA margin to decline in subsequent phases due to the cost of additional FSI that Oberoi would need to purchase through TDR and premium to government. We have built additional cost of Rs2000/sq ft for the same in Phase-3.

Chart 12: 45% of revenue from Goregaon Residential in FY12-13



Source: BofA Merrill Lynch Global Research

Price rise capped in the near term

We believe prices in the near term are capped, as the rates have increased sharply (by over 60%) in the past two years. Further, the supply is expected to be strong, with a large number of projects planned by local developers including DB Realty, Lodha developers, and Omkar (slum redevelopment). But we do believe Oberoi's project holds distinctive advantages over others, it would continue to command a premium and is likely to see least correction in the near term. Few reasons for the same are-

- Its strong brand name and execution capability – Oberoi commands a definitive edge over its competition due to its superior brand name, and has successfully demonstrated its execution skills through the previous downturn.

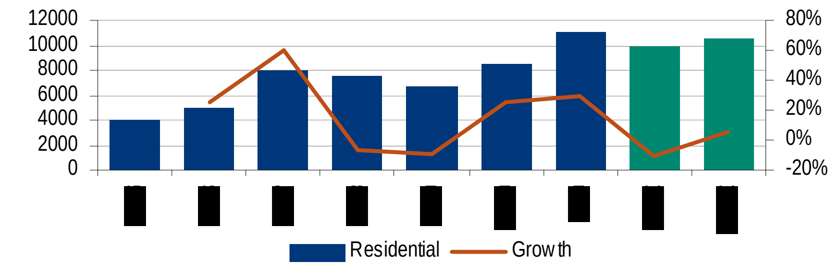
- Superior location of the project – Its project commands a superior location compared to its competition, due to close proximity to the highway (better connectivity) and uninterrupted view of the vast expanse of green area.

- Township development leading to premium to competition – The project is being developed as a township, with a mix of residential, office, retail, hotel and school, with most of the developments other than residential already operational.

- Well-funded to support execution even if volume is low for 6-9 months – It is well-funded to execute the project, even if sales are muted for the next 6-9 months, thus providing an edge over competition during rebound in demand.

But we have built in flat pricing over the next 12 months for Ph-I, which was launched in FY10, and 10% lower prices for Ph-II, which is expected to be launched in 4Q.

Chart 13: Goregaon has seen sharp increase in prices in 2009-10



Source: BofA Merrill Lynch Global Research

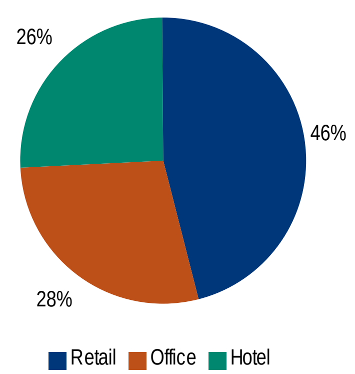
Commercial - strength to balance sheet

Development area 3.7mn sq ft; 20% of the land bank

NAV of Rs22.9bn; 24% of total NAV

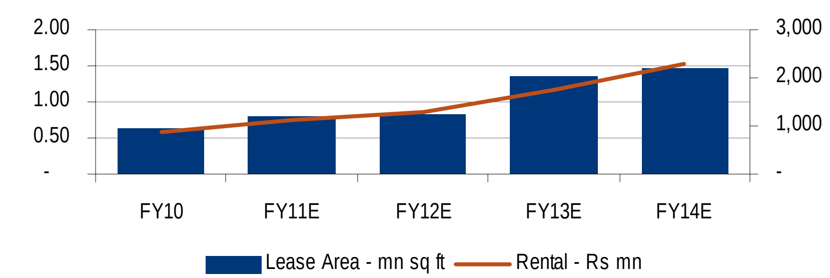
Oberoi currently has 0.9mn sq ft of office space and retail malls under lease, and hotel property managed by Westin with 269 keys is operational. The leased assets are expected to generate rentals of Rs1.3bn in FY12, growing to Rs1.8bn in FY13. It is currently constructing 2.39mn sq ft of office projects to add to its leased assets. All the properties are located in Goregaon project and Oberoi may eventually plan to do a REIT to capitalize these assets. We expect capex of Rs2.5bn annually over the next three years for construction of these assets. We have used a capitalization rate of 10% for assets under lease and 11% for under-construction assets for NAV valuation.

Chart 14: NAV from leased assets



Source: BofA Merrill Lynch Global Research

Chart 15: Strong rental growth from Office/Retail area from FY13



Source: BofA Merrill Lynch Global Research

Commerze Offices – The Ph-I, comprising 0.36mn sq ft, is operational with ~77% leased on average rental of Rs135/sq ft. The leasing has been slow as Oberoi is charging almost 30-40% premium to its competitors in the same micro market. The second phase is expected to be completed by end of FY12, while the third phase has just been launched for construction. The expected supply in the vicinity will keep demand and rentals under check over the next couple of years. Therefore, we have assumed Rs125/sq ft of rentals in FY13 when the next phase becomes operational, with just 3-4% increase annually. Further, to be conservative, we have built in leasing of 2.4mn sq ft only by FY15.

Oberoi Mall – The Mall has been operational for the past two years and has become one among the few successful malls in the city. The rentals are currently at Rs100/sq ft, with vacancy of around 10%. We expect the vacancy to fall further as demand for quality retail space continues to increase. Further, since the mall became operational just before the financial crisis, the rentals are low. But as leases come up for renewal over the next couple of years, we expect rentals to increase by over 15-20% as there are no new malls planned in the vicinity and as more residential developments come up in the micro market, the footfalls are expected to increase further.

Hotel - Westin – The hotel, managed by Westin with 269 keys, became operational in FY10 and is already generating operational surplus. Being the only 5-star hotel in the vicinity, we expect good demand for its services both for rooms and food and beverages. More importantly, as more office properties become operational over the next 2-3 years, we expect the demand to grow further.

Goregaon East-Upcoming Suburb

Goregaon is located in Northern Mumbai, and over the past 3-4 years it has developed into one of the prominent suburbs of Mumbai due to large-scale development of offices (catering particularly to IT/ITeS). Further, availability of land helped development of large residential projects. Oberoi's Goregaon project is located in Goregaon East and enjoys superior connectivity to airport and other parts of Mumbai as it is located close to the highway, leading to premium valuation.

Some of the key factors which we think will lead to strong demand for its project in Goregaon are-

Growing office will attract residential demand – The vicinity of the project is expected to see commercial developments in excess of 5mn sq ft in the next 4-5 years, with Oberoi itself developing 2.5mn sq ft. The growing office space is expected to further add to the demand for residential space in the near future.

Superior Connectivity – The project offers superior connectivity as it is located close to the Western Express highway that connects the suburbs to South Mumbai.

Vast green area - The project is located across the Sanjay Gandhi National Park, thus offering unobstructed view of the vast greens, a rarity in Mumbai.

Township development – Oberoi is developing the project as a township with large open spaces, and all modern facilities including retail malls, 5-star hotel, international school and Grade A office spaces. More importantly, most of the facilities are already in place and thus the residential development is commanding a premium over its competitors.

Oasis Worli #2

Development area 0.6mn sq ft; 3% of the land bank
NAV of Rs9bn; 9.4% of total NAV

Oberoi is developing the Worli project in partnership with a local developer and has 25-35% share in the project depending on the realization achieved in the project. It is a slum redevelopment project, where the rehabilitation of slums is the responsibility of its partner. Oberoi has advanced Rs3.3bn to the partner, which will be adjusted against his share of cash flows. The land has already been cleared and Oberoi has started the preliminary construction work. It plans to develop an iconic property and is looking to partner with international hospitality chain like St. Regis to offer a super-premium residential product. It is awaiting clearance from the civil authorities to build the 375mts tall building, which is expected within the next six months.

Table 7: Snapshot of Worli Project

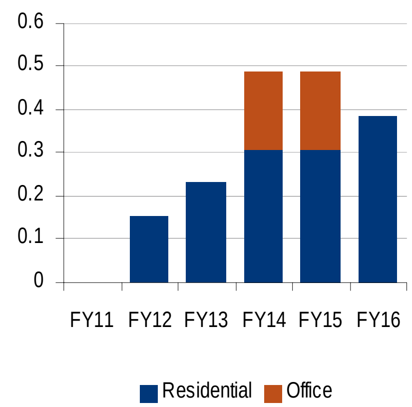
Worli	Area mn sq ft	Oberoi Share %	ASP Rs/sq ft	NAV Rs mn
Residential	1.5	30%	36,000	7,388
Office/Retail /Hotel	0.4	30%	32,727	1,590
Total	1.9			8,978

Source: BofA Merrill Lynch Global Research

We expect the project to be launched in FY12 and completed by FY16, with an expected launch price of around Rs31000/sq ft. The project also showcases Oberoi's ability to get into redevelopment projects at lucrative terms due to its superior brand name and ability to execute large premium projects. While we do believe there is oversupply in the luxury segment in Central Mumbai, the project enjoys some key advantages over its competition –

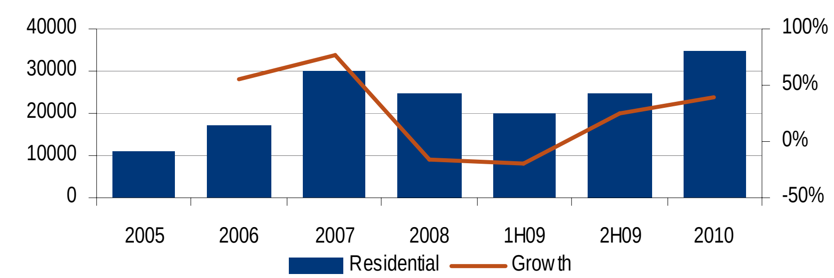
- Superior location when compared to other Central Mumbai projects located in Lower Parel, since it is located in Worli and on the main road connecting South Mumbai to suburbs.
- International partnership, which will increase the credibility of the project and bring the required expertise to create super-luxury residences.
- A mixed-use development which will include offices, retail space and hotel, and will thus help in further enhancing the value of the project.
- Due to Oberoi's strong brand image, the marketability of the project further increases.

Chart 16: Sales estimate for Worli Project



Source: BofA Merrill Lynch Global Research

Chart 17: Residential prices in Worli



Source: BofA Merrill Lynch Global Research

We expect the project to start contributing to the top-line only from FY13, and will not be cash flow-accretive before FY14, as Oberoi plans to launch the project for sale once the construction is in full swing, so as to generate superior realization. Further, we expect the sales to be slower in the initial couple of years due to large supply of luxury apartments in the vicinity. But the project is expected to generate very high ROE as Oberoi did not invest in land, which in itself forms 60-70% of the cost in Mumbai, and has only provided a refundable deposit to its project partner.

Mulund Exotica #3

Development area 3.1mn sq ft; 17% of the land bank NAV of Rs5.7bn; 6% of total NAV

Oberoi is planning a premium residential project in Mulund, located in eastern suburb of Mumbai, over ~20 acres of land. Oberoi is planning to launch the project in 1QFY12 and is likely to price it around Rs8000/sq ft. But we think the project is unlikely to perform well when compared to the Goregaon project, due to a large supply in the micro market. Further, the project does not enjoy any edge to competition in the micro market, similar to its other projects like Goregaon and Worli projects.

Table 8: Snapshot for Mulund Project

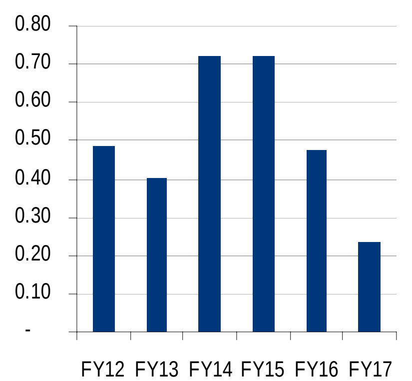
	Area mn sq ft	ASP Rs/sq ft	NAV Rs mn
Residential	3.1	7,225	5,690

Source: BofA Merrill Lynch Global Research

Large supply in the vicinity

LBS Marg is dotted with large number of residential projects. Earlier, the micro market used to be an industrial belt. But for the past 4-5 years, most of the factories have relocated outside Mumbai and sold the land to developers. Most of the prominent developers in Mumbai have projects in the micro market – HDIL, Mahindra, Lodha, etc. The property prices range from Rs6000-8000/sq ft. But the location is also gaining preference due to improving infrastructure in the eastern suburbs, thus providing better connectivity to Southern Mumbai. The appreciation in this micro market has been slower than western suburbs in the past two years, with prices increasing from Rs5500 to Rs7500/sq ft on an average.

Chart 18: Mulund sales volume estimate

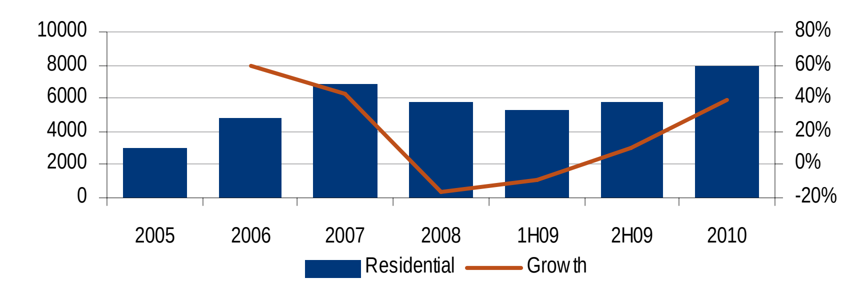


Source: BofA Merrill Lynch Global Research

Low land cost, key advantage for Oberoi

Oberoi enjoys the advantage of low cost of lands since it purchased this land a few years back at a relatively low price. This would help it to generate a reasonable margin of around 50%.

Chart 19: Mulund prices have seen more measured growth due to supply



Source: BofA Merrill Lynch Global Research

Financial forecast and assumptions

Earnings story to play out from FY13

The earnings story for Oberoi will play out from FY13 when all its projects reach the revenue-recognition stage (it starts recognizing revenue only when 20% of the construction cost is spent). We expect Oberoi Realty to show an earnings CAGR of 38% over FY10-13. In FY13, almost 6-7 projects will approach revenue-recognition stage against just three currently, as four new projects are in the process of being launched in the next six months. It typically takes 12-15 months for a project to reach the revenue-recognition stage from launch. Further, since most of these projects will take at least four years for completion, we expect the earnings momentum to sustain beyond FY13 also.

Table 9: launches picking pace

Launch Date	Project	Area - m sq ft
3QFY10	Exquisite I	1.45
3QFY11	Grande	0.28
4QFY11	Exquisite II	1.33
1QFY12	Exotica - I	1.62
3QFY12	Oasis	0.46

Source: BofA Merrill Lynch Global Research

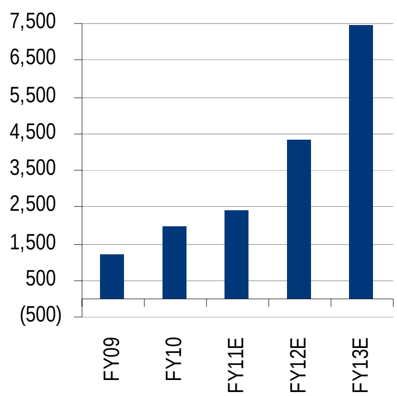
Table 10: Earnings profile (Rs mn)

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	5,112	4,254	7,836	10,742	12,196	19,559
-growth		*-17%*	*84%*	*37%*	*14%*	*60%*
EBIDTA	2,575	2,474	4,672	6,576	7,305	12,335
-growth		*-4%*	*89%*	*41%*	*11%*	*69%*
Net Income	2,954	2,521	4,582	5,652	6,170	9,846
-growth		*-15%*	*82%*	*23%*	*9%*	*60%*
Margins						
EBIDTA margin	50%	58%	60%	61%	60%	63%
Net Income margin	58%	59%	58%	53%	51%	50%

Source: BofA Merrill Lynch Global Research

The earnings growth for FY12 is highly dependent on the sale of its office project Prisma, for which it is currently negotiating with a large business house for sale of the entire block. Other than Prisma, we expect only Exquisite Ph-II to reach revenue-recognition stage by 4QFY12, leading to a modest xx% earnings growth in FY12.

Chart 20: Consistent cash generation



Source: BofA Merrill Lynch Global Research

Strong cash flow growth on upcoming launches

Oberoi Realty is expected to generate strong cash flow over the next 2-3 years as its key projects are launched over FY12. Since the land cost is historical (most of the lands were purchased in 2003-05 when land prices in Mumbai were low) and residential prices have seen a great run in Mumbai since 2005, we expect it to generate EBIDTA margin in excess of 60% even after factoring in flat to10% drop in residential prices in FY12. Further, its premium positioning and exceptional brand value has enabled it to charge a premium to its competition. We estimate Oberoi will generate surplus cash of Rs4.3bn in FY12 and Rs7.5bn in FY13 (post investment in construction of commercial assets which are expected to be leased).

Best-in-class ROE justifies high P/B

Oberoi has the highest ROE among its peers due to substantially lower investments in land assets. While most developers possess land banks which can last them well over 15 years, Oberoi's land bank will be exhausted in the next 6-7 years. We expect the ROE to fall in FY11 and FY12 due to dilution and large cash sitting in the books. We expect the ROE to improve to over 20% in FY13 when most of its projects will get into the revenue-recognition phase.

Table 11: Dupont Analysis

	FY09	FY10	FY11E	FY12E	FY13E
RoCE	18%	28%	22%	17%	24%
RoE	19%	28%	22%	17%	24%
PAT/EBIT	105%	100%	89%	89%	83%
EBIT/Sales	56%	58%	59%	57%	61%
Sales/Assets	24%	36%	33%	28%	38%
Assets/Networth	134%	133%	126%	123%	125%

Source: BofA Merrill Lynch Global Research

Risks

Downside Risks

Mumbai residential volume and prices – All assets of Oberoi Realty are located in Mumbai. Therefore, property demand and prices in Mumbai will drive the stock's performance. We expect the volumes to remain soft in Mumbai over the next six months, with correction in prices of 10-15%.

Investment of surplus cash – Oberoi is currently sitting on Rs16bn of cash which will further increase to Rs19bn by the end of FY12. Therefore, successful deployment of cash is very important to sustain future growth.

Execution delays – It plans to execute over 10mn sq ft over the next five years and utilize the expertise of external companies like L&T to execute the project. Therefore any delays in obtaining approvals or execution by third parties will impact cash flows.

Supply of office – Oberoi plans to construct over 4mn sq ft of office over the next 4-5 years. Currently, the supply of office space is higher than the demand and therefore the rentals in Mumbai are expected to remain flat for the next 12 months.

Low free float - Oberoi currently has free float of just 12% with 78.5% stake held by promoters and 9.5% with the private equity investor. The shareholding of both the promoters and the private equity investor is locked in till October 2011 and therefore unlikely to depress the stock performance, though post October 2011, there is a risk for supply of new equity. Due to low float the stock performance could be volatile.

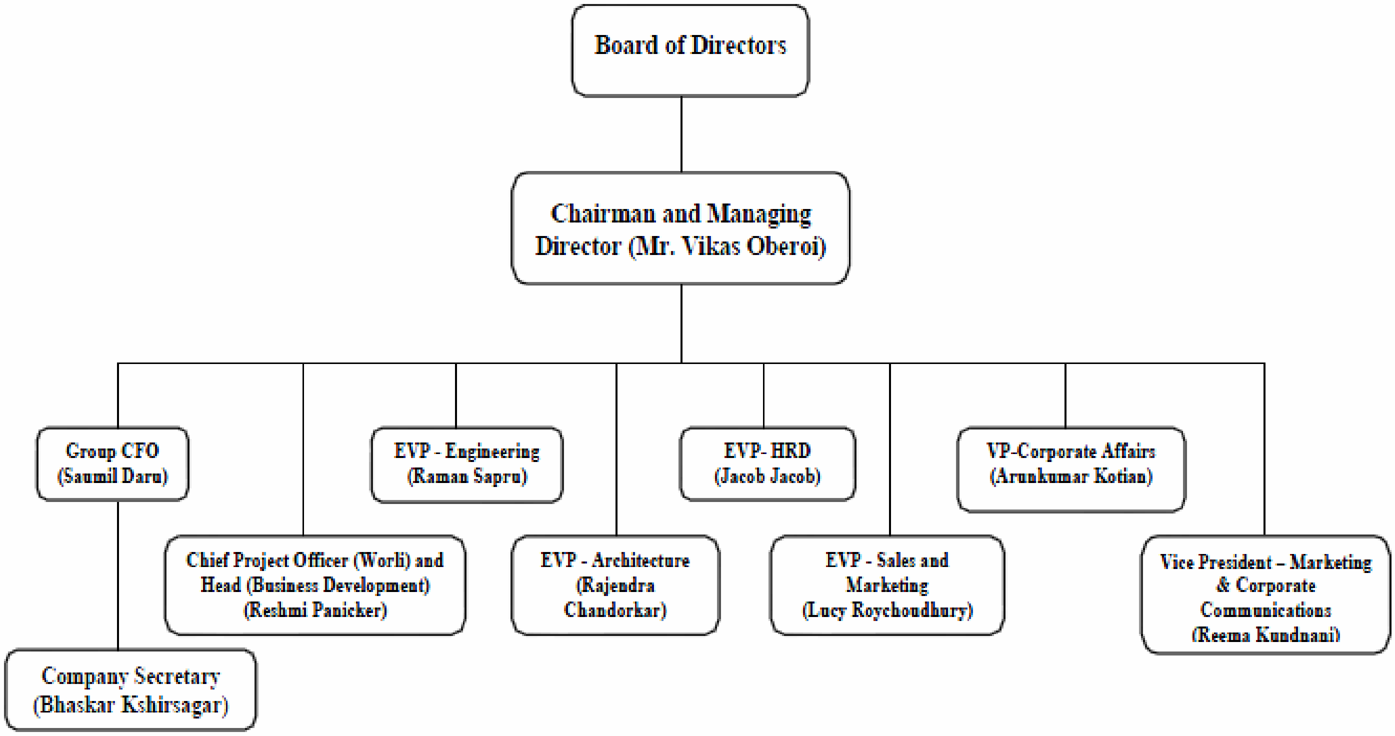
Management

The promoter Vikas Oberoi is the Chairman and MD of the company. He has over two decades of experience in the real estate sector. The promoter group has completed 33 projects covering over 5mn sq ft. The management team has vast experience and most have been with the firm for more than seven years.

Shareholding

The promoter holds a 78.5% stake in the company, while 9.46% is held by a real estate fund advised by Morgan Stanley. They invested Rs6.75bn in January 2007 for their stake in Oberoi Realty.

Chart 21: Management Structure



Source: Oberoi Realty

Price objective basis & risk

Housing Development and Infrastructure (XGHSF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flow from each of the real estate projects.The price objective of Rs175 reflects a discount of 15% to our net NAV estimate of Rs206. We expect HDIL to trade at a discount of 15% to large developers like DLF on a discount to NAV basis, owing to its smaller size and exposure to only one market. Key assumptions underlying our NAV are WACC of 14.7%, capitalization rate of 11-12% and inflation of 5% from FY13 on both selling price and construction costs. On a P/E basis, at our PO of Rs175, the stock would trade at 6x FY12E earnings. Downside risks are lower-than-expected sales in residential projects and cancellation of FSI sale while the upside risks are sooner-than-expected approval for the airport project.

Indiabulls Real Estate Ltd (IBELF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flows from each of the real estate projects. Our price objective of Rs142 is therefore based on a 15% discount to our NAV of Rs167. We expect IBREL to trade at 15% discount to large developers like DLF, on price to NAV multiple, because of its smaller size. Key assumptions underlying our NAV are WACC of 14.7%, capitalization rate of 11-12% and inflation of 5% from FY13 on both selling prices and construction costs. On a P/E basis, at our PO of Rs142, the stock would trade at 28x FY12E earnings. Downside risks are lower-than-expected sales volume and a delay in revival of demand for commercial real estate.

Oberoi Realty Ltd (XRXOF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flows from each of the real estate project. Our price objective of Rs290 is therefore based on our NAV of Rs290. Key assumptions underlying our NAV are WACC of 14%, capitalization rate of 10-11% and inflation of 5% from FY13 on both selling price and construction costs. On a P/E basis, at our PO of Rs290, the stock would trade at 14x FY11E earnings. Downside risks are lower than expected volume and delay in revival of demand for commercial real estate.

Link to Definitions

Financials

Click here for definitions of commonly used terms.

Analyst Certification

I, Gagan Agarwal, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - General Coverage Cluster

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	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Oberoi Realty Ltd	XRXOF	OBER IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy

iQmethod SM Measures Definitions

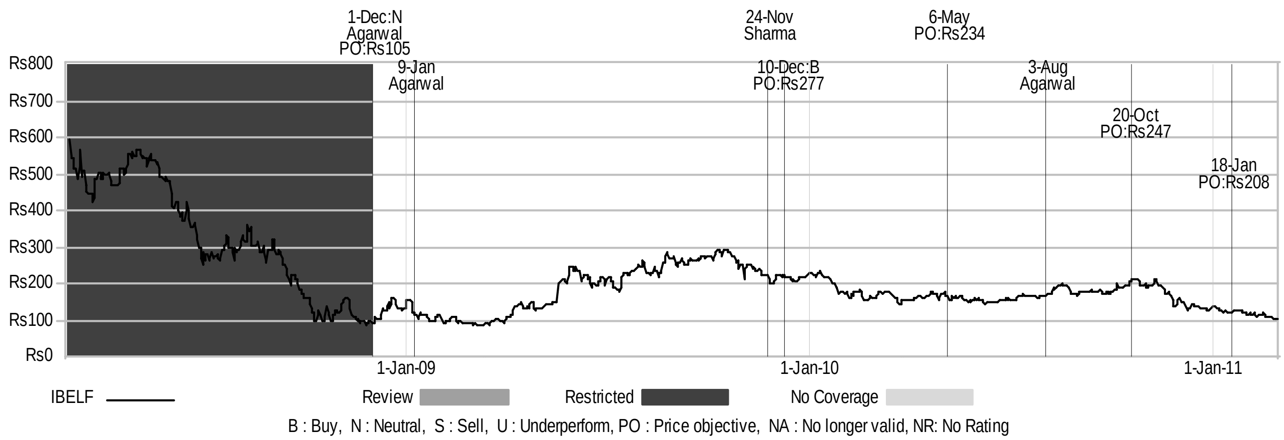
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

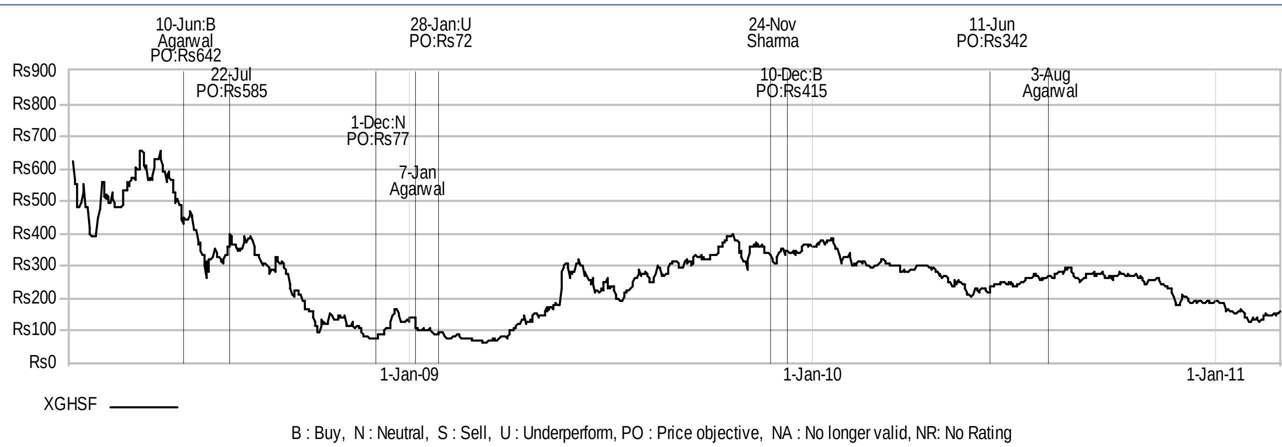
Important Disclosures

IBELF Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of February 28, 2011 or such later date as indicated.

XGHSF Price Chart



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Investment Rating Distribution: Real Estate/Property Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	52.85%	Buy	17	27.87%
Neutral	28	22.76%	Neutral	4	14.29%
Sell	30	24.39%	Sell	6	20.69%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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