Company Focus

4 October 2007 | 28 pages

Puravankara Projects (PPRO.BO)

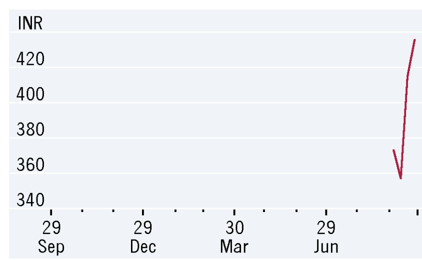
Initiation of coverage

Initiate With Buy: Leveraged Play on South India

- **Strong franchise** — Puravankara has a strong brand and a proven record. We initiate coverage of the stock with a Buy/Medium Risk rating and a target price of Rs536, based on a 5% discount to our estimated core NAV of Rs564. We attribute a discount to the stock for the company's overdependence on Bangalore (~73% of Gross NAV) and residential projects.
- **India property has potential, but challenges exist** — We see structural opportunities in the Indian property market, which faces near-term challenges that can be addressed by falling interest rates, lower prices or relaxation in regulations.
- **What differentiates Puravankara?** — 1) Quality landbank of 107m sq ft, largely within the city limits of Bangalore; 2) a direct sales model, which tends to reduce speculative activity; and 3) in-house construction expertise. These factors should drive a 3-year EPS CAGR of 65%, positioning it as a quality mid-scale developer.
- **High exposure to South India an advantage** — Puravankara's large exposure to Bangalore and Chennai is in our view an advantage over North India-based developers. South India appears to have lower supply risks, more reasonable property prices and lesser speculation.
- **Key risks** — 1) Concentrated in Bangalore, 2) large build-out raises execution risks, and 3) price, demand and regulatory risks.

Buy/Medium Risk	**1M**
Price (03 Oct 07)	Rs426.10
Target price	Rs536.00
Expected share price return	25.8%
Expected dividend yield	0.2%
Expected total return	**26.0%**
Market Cap	Rs90,940M US$2,292M

Price Performance (RIC: PPRO.BO, BB: PVKP IN)



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	735	3.83	93.3	111.3	73.4	90.2	0.0
2007A	1,304	6.79	77.4	62.7	36.9	78.3	0.2
2008E	2,527	11.83	74.3	36.0	6.9	32.9	0.2
2009E	4,868	22.80	92.7	18.7	5.1	31.6	0.4
2010E	6,477	30.34	33.0	14.0	3.8	31.3	0.5

Source: Powered by dataCentral

Ashish Jagnani[1]
+91-22-6631-9861
ashish.jagnani@citi.com

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

Karishma Solanki[1]
karishma.solanki@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	111.3	62.7	36.0	18.7	14.0
P/E reported (x)	111.3	62.7	36.0	18.7	14.0
P/BV (x)	73.4	36.9	6.9	5.1	3.8
Dividend yield (%)	0.0	0.2	0.2	0.4	0.5
Per Share Data (Rs)					
EPS adjusted	3.83	6.79	11.83	22.80	30.34
EPS reported	3.83	6.79	11.83	22.80	30.34
BVPS	5.80	11.55	61.49	82.80	111.13
NAVps ordinary	na	na	na	na	na
DPS	0.00	0.71	1.00	1.50	2.00
Profit & Loss (RsM)					
Net operating income (NOI)	**992**	**1,558**	**3,461**	**6,240**	**9,506**
G&A expenses	-98	-198	-257	-334	-501
Other Operating items	8	115	-32	-39	-47
EBIT including associates	**902**	**1,476**	**3,173**	**5,867**	**8,958**
Non-oper./net int./except.	-65	-12	-285	-303	-322
Pre-tax profit	**837**	**1,463**	**2,887**	**5,564**	**8,636**
Tax	-71	-172	-361	-695	-2,159
Extraord./Min. Int./Pref. Div.	-31	13	0	0	0
Reported net income	**735**	**1,304**	**2,527**	**4,868**	**6,477**
Adjusted earnings	735	1,304	2,527	4,868	6,477
Adjusted EBIT	891	1,336	3,173	5,867	8,958
Adjusted EBITDA	894	1,361	3,204	5,906	9,005
Growth Rates (%)					
NOI	85.7	57.1	122.1	80.3	52.3
EBIT adjusted	91.3	49.9	137.5	84.9	52.7
EPS adjusted	93.3	77.4	74.3	92.7	33.0
Cash Flow (RsM)					
Operating cash flow	**-247**	**-5,720**	**-1,195**	**1,107**	**1,688**
Depreciation/amortization	3	25	32	39	47
Net working capital	-861	-5,968	-3,763	-3,800	-4,836
Investing cash flow	**-344**	**-379**	**-26**	**-28**	**-30**
Capital expenditure	-112	-239	-8	-9	-9
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**615**	**5,892**	**6,365**	**-20**	**-106**
Borrowings	615	5,139	-2,008	300	321
Dividends paid	0	-137	-213	-320	-427
Change in cash	**25**	**-207**	**5,144**	**1,059**	**1,552**
Balance Sheet (RsM)					
Total assets	**7,520**	**14,043**	**25,161**	**31,456**	**40,236**
Cash & cash equivalent	444	374	5,517	6,576	8,129
Net fixed assets	175	389	365	334	297
Total liabilities	**6,406**	**11,825**	**12,033**	**13,780**	**16,511**
Total Debt	1,622	6,761	4,753	5,052	5,373
Shareholders' funds	**1,114**	**2,218**	**13,128**	**17,676**	**23,725**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	31.9	32.0	36.8	38.3	39.7
ROE adjusted (%)	90.2	78.3	32.9	31.6	31.3
ROA adjusted (%)	13.3	12.1	12.9	17.2	18.1
Net debt to equity (%)	105.7	288.0	-5.8	-8.6	-11.6
Interest coverage (x)	12.4	110.9	11.2	19.5	27.9

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

Powered by: dataCentral

Contents

Investment Strategy

Real estate development: Bright prospects amid challenges

We expect the market to distinguish between the large number of small and bigger developers

The opportunity in India's real estate development market is structural, large and sustainable, in our view. But the sector faces some near-term challenges from affordability issues; a volume slowdown; cool-off in pricing, particularly in the residential segment; and supply risks. In this scenario, we expect the market to distinguish between the large number of small developers and the bigger players, which can manage cycles better. We see Puravankara as a quality mid-scale developer with a proven record.

Puravankara: Strong franchise, focus is residential segment

'Purva' looks well positioned in the mid-upper end of the housing market in Bangalore; its JV with Keppel Land strengthens its franchise

Puravankara is one of Bangalore's leading real estate developers with a strong brand Purva and a proven record. We believe its relatively long track record in the mid-upper housing segments has given it the visibility to be treated as a premium developer in quality and reliability. With the bulk of its development in the residential segment and concentrated in Bangalore, the company is taking initiatives to diversify into other asset classes and other large markets in South India. Its JV (49:51) with Keppel Land of Singapore offers scalability potential, management creditability and strengthens Purva's franchise.

Quality landbank; direct sale model the differentiator

Direct marketing model ensures direct user sales that are more stable and potentially less speculative

Growth for Puravankara's residential-heavy model stems from its quality landbank of ~107m sq ft. Its clear development titles, acquired at a low cost of ~Rs100/sq ft and a large part already paid, differentiates it from other developers. We believe its competitive strength lies in some of its operating virtues: it runs primarily a direct marketing model, which ensures end-user sales that are more stable and potentially less speculative; supports its development with its own construction capabilities; has relatively high levels of in-house execution; and has a strong execution and post-delivery record.

Concentrated in the South: an advantage in current scenario

South India's property market appears 1) relatively less speculative, 2) housing there is more affordable, and 3) potential supply risks are lower

Puravankara's focus on South India, in the larger markets of Bangalore (73% of gross NAV) and Chennai (8%), is in our view an advantage over developers with a National Capital Region (NCR) bias given the current sluggish demand. We believe South India's property market appears less speculative, more affordable (house prices at Rs3,000-3,500/sq.ft), offers greater potential for capital appreciation than Gurgaon and Noida's Rs4,000-5,000/sq.ft, and carries fewer supply risks. Further, benefits of the New Master Plan and ongoing infrastructure projects in Bangalore and Chennai are still to be discounted, in our view. We expect these initiatives to enhance the development value of the company's projects in the region.

Initiating with Buy/Medium Risk and target price of Rs536

We believe a 5% discount to our core NAV estimate of Rs564 is fair

We initiate coverage with a Buy (1M) and a target price of Rs536 (5% discount to our core NAV estimate of Rs564). Although we do not put Puravankara in the league of large developers having scale, a diversified asset portfolio and a pan-India footprint, we view it as a quality developer with a proven record.

Company Strategy

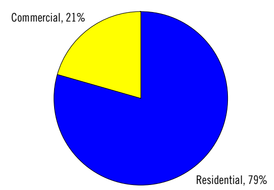
- Focus on scale, leveraging on high quality landbank
- Diversifying into commercial, retail and hospitality assets but focused on the residential segment — offers a mix of mass and premium housing
- Expanding into the larger markets of South India; Bangalore-centric for now
- Direct Sales Model — potentially less speculative and higher end-user sales
- JV with Keppel Land, Singapore, adds financial strength, provides scalability potential, and supports credibility.

Focus on scale

Plans to develop ~107m sq.ft, operating on develop-sell model

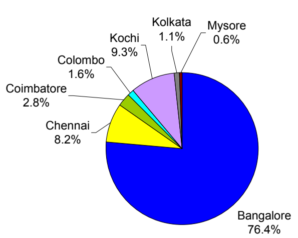
Puravankara's strategy is to increase the scale of its developments. It plans to develop ~107m sq ft and operate a develop-sell model. The company's growth stems from high quality landbank in prime locations, development rights for which are acquired and substantially paid for. Most of its developments so far have been in Bangalore in the residential space targeting the mid-upper housing segment. The company expects to expand on this platform and has entered the premium segment. While its primary focus remains the residential segment, it is looking to diversify across other asset classes as well.

Figure 1. Puravankara Development by Segment



Source: Company Reports and CIR

Figure 2. Residential Landbank by Location



Source: Company Reports and CIR

Diversifying across asset classes, but residential-heavy model

Puravankara has a residential-heavy model with a mix of mass (2/BHK apartments) and premium housing (3/4 BHK), accounting for ~79% of total development portfolio. However, the company is taking initiatives to diversify to other asset classes such as commercial/IT Parks/IT SEZs (21%) and hotels. This should help the company de-risk its business model and take advantage of growth potential in real estate development across other asset classes.

Residential segment — the mainstay

The residential segment has been the mainstay for Puravankara, but it is expanding in newer segments. Given its large-scale plans to develop ~85m sq ft over the next 5-6 years, the housing segment will likely remain the company's most important earnings contributor. Puravankara's developments have been visible and have strengthened the Purva brand. The company has ~14m sq ft under construction, of which ~91% are residential projects and ~57% pre-sold.

Bangalore remains a core residential market for Puravankara, accounting for 73% of Puravankara's Gross NAV based on our estimates. The company is among the beneficiaries of Bangalore's Draft Master Plan 2015, which has increased enhanced FAR (Floor Area Ratio) to a maximum of 3.25 and, in special cases, to 4.00. This change has increased Puravankara's development volumes by ~16m sq ft (15% of its total portfolio). The key elements of Puravankara's residential strategy are: 1) position the company as a reputed brand in the mass-premium housing segment; 2) expand presence in the other large markets of South India; and 3) focus on locations within the city limits, rather than on the outskirts. This should differentiate the company from other developers.

Commercial segment — a recent entrant

Plans to develop ~22m sq ft

Puravankara is a new entrant to the commercial segment. It plans to develop ~22m sq ft of commercial/IT Parks/IT SEZs and retail mall space. We expect commercial developments to be a large segment of Puravankara's development portfolio over the next few years. These segments, in our view, offer growth, relatively higher yields with greater price flexibility and are less sensitive to interest rates than the residential segment. We expect good infrastructure connectivity to drive rental/capital values for these assets.

The company is likely to follow a combination of asset sale and a lease strategy for this segment. Most of the commercial development is likely to come on the market only in 2009-10E. Factoring this, we have not built in high revenues from this segment. However, in our NAV estimates, we have assumed a capitalization model for valuing the commercial assets.

Hospitality — plans under way

Exploring various options to enter into strategic alliances — plans to build hotels (~750 rooms)

Puravankara has large plans for entering the hospitality business. Encouraged by the demand for quality hotels and growth in business/tourist traffic, the company plans to build hotels (~750 rooms). This is likely to be spread across key cities Kochi, Chennai and Bangalore. It is exploring various options to enter into strategic alliances with some major international hotel chains for development/management of hotel properties. With these initiatives still at a preliminary stage, we do not expect any major contributions to earnings in the near term.

Widening footprint, Bangalore-centric for now

Expanding presence into growth cities, particularly in South India — Chennai, Kochi and Mysore

Puravankara is widening its footprint beyond Bangalore, though in a measured way, by initially expanding into growth cities, particularly in South India. It focus cities include Chennai, Kochi, Mysore and Coimbatore. The company believes these cities offer stable demand and relatively affordable prices. It has also acquired land in Colombo, Sri Lanka for developing a luxury residential project. Puravankara's strategy differs from developers' models with a North India bias, which have sought to go pan-India.

Figure 3. Puravankara Total Development Plan (Million sq. ft.) by Location and Segment

	Residential	Commercial	Total
Bangalore	64.84	13.46	78.30
Chennai	6.99	2.02	9.01
Coimbatore	2.36	0.00	2.36
Colombo	1.38	0.00	1.38
Hyderabad	0.00	0.40	0.40
Kochi	7.86	5.25	13.12
Kolkata	0.94	0.00	0.94
Mysore	0.52	0.78	1.30
Total	**84.89**	**21.91**	**106.80**

Source: Company Reports and Citi Investment Research

Direct sales model — a differentiator

Limited use of agents for selling inventory tends to keep sales stable and reduces speculation

Puravankara has a direct sales model that we think is among the more resilient models in the industry. It is organized as an in-house function with limited sales through sales agents. The company has its own sales offices at various locations in India and the UAE, and has representatives in the US and the UK.

The limited use of agents for selling inventory tends to keep sales stable and less speculative in nature. The company takes a relatively higher upfront payment at the time of booking, suggesting a higher proportion of sales to end-users than to investors. We believe this unique marketing model differentiates Puravankara from the pack and provides 1) high transaction transparency, 2) relatively lower price volatility and 3) shorter cash-flow cycles than its peers. However, risks to this model could be slower sales when the market is sluggish.

JV with Keppel Land; adds scale, credibility

Puravankara should gain from the structure, scale and opportunity offered by the venture

Puravankara has built one of the first few operational FDIs in the Indian real estate sector. It has entered into a JV with Keppel Land (a subsidiary of Keppel Corp., a company that is owned by Temasek Holdings). Keppel Land controls the venture with a 51% stake, and Puravankara owns the balance. While this is not an exclusive deal, and Keppel Land could enter into similar arrangements with other developers, we believe the tie-up with Keppel Land is a significant step forward. The JV has 2 projects in Bangalore and one in Kolkata — all in the construction stage, positioning itself at the higher end. We expect the venture to provide scalability and financial muscle to bid jointly for larger projects at a later date. This also reflects positively on management credibility and strengthens to Puravankara's franchise.

Competitive Positioning

Experienced developer...focused and visible

Focused approach, and strong and long track record distinguish the Purva brand

Puravankara has over two decades of experience in real estate development in Bangalore. Its relatively long history has built up a strong reputation for its brand 'Purva' as a reliable and quality developer. The company's relatively transparent processes and dealings, and good track record stand out in an industry that is still largely unorganized with continued developer defaults and gaps between product promises and delivery. The company's ability to charge a premium for its properties over peers is in our view a testimony of its strong brand equity.

Quality landbank — reasonable scale

The bulk of its landbank is in Bangalore with clear development titles, acquired at low costs and substantially paid for

Puravankara's landbank has a reasonable size, built up in the past few years. The bulk of this landbank is in Bangalore, closer to the city limits rather than in the outskirts. More importantly, the company has clear development titles (the bulk is directly held) all acquired at very low costs of ~Rs100/sq.ft. Further, a large part of the land cost is fully paid, with the outstanding amount at only ~Rs630m. Its recent acquisitions have been in relatively larger growth cities in the South, where prices are more reasonable and demand relatively sustainable. We believe its ability to hold land in an environment of spiraling land prices has strengthened its competitive positioning. We expect the company to further expand its land holdings and scale.

South-centric — an advantage

South India bias has advantages over developers with a focus on North India in the current sluggish environment

We believe Puravankara's concentration in South India, particularly in the residential markets of Bangalore (73%), Chennai (8%), Kochi (12%) and Mysore will provide advantages over developers with a North bias, particularly the NCR, in the current sluggish demand environment. In our view the southern market is 1) less speculative, 2) house prices at Rs3,000-3,500/sq ft are more affordable than Gurgaon's and Noida's Rs4,000-5,000/sq ft, and 3) potential supply risks are relatively lower. Further, we believe benefits of the New Master Plan (Annexure III) and ongoing infrastructure projects in Bangalore (see Annexure I) and Chennai as triggers that are still to be discounted. We expect these initiatives to enhance development value of the company's projects in the region.

Integrated model: in-house construction expertise, direct sales channel

The company's in-house construction expertise and a direct marketing channel differentiate its business model from those of other developers. We believe this ensures consistent quality standards, better control on execution and delivery schedule for projects. Further, Puravankara's direct selling model targets end-users, which we think will keep speculative activity low and provide the company with a more stable demand outlook for launching new projects. This approach should help in keeping profits stable.

Financials

Rapid growth forecast for revenues and earnings

Residential sales to drive near-term revenues; contribution from commercial business back-ended

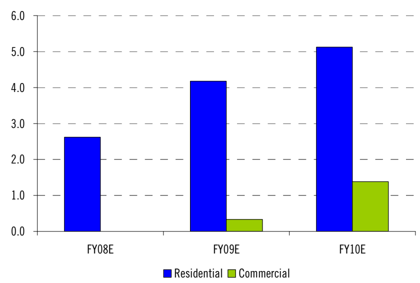
Given the company's large development plans, we expect rapid growth in Puravankara's revenues. This will likely be dominated by the residential segment in the near-term, while revenue contribution of commercial asset sale/lease is expected to be more back-ended. With the hotel business still to take off, we have not factored any revenues from this vertical in our estimates.

Figure 4. Consolidated Revenue Mix, FY08E-10E (Rs in Millions)

	FY08E	FY09E	FY10E
-Residential	8,585	13,845	16,891
-Commercial		1,424	5,627
Revenue from Projects	8,585	15,269	22,518
Rental Income	23	25	28
Income from Interiors	6	6	7
Total Revenues	**8,613**	**15,301**	**22,553**

Source: Citi Investment Research estimates

Figure 5. Sales Volumes Recognized (M sq ft)



Source: Citi Investment Research estimates

We forecast exponential growth in Puravankara's profitability, with an earnings CAGR of 65% in FY07-10E. This would likely be driven by a significant increase in volumes and higher prices, primarily on residential projects already pre-sold but now being recognized as revenues; quite a few projects are in the critical second or third year of completion. Further, lower tax rates of 12.5% in FY08-09E on the back of tax benefits under Section 80 IB for some of Puravankara's housing projects would also contribute toward this growth. The new businesses, however, are likely to contribute to earnings over a slightly longer time horizon. The company's initiatives to operate on a percentage completion method for all projects should boost profitability.

Figure 6. Puravankara Income Statement, FY06-10E (Rs in Millions)

Year to 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
Total Revenues	**2,797.0**	**4,168.6**	**8,613.4**	**15,300.9**	**22,553.3**
YoY Growth (%)	85%	49%	107%	78%	47%
EBITDA	894.1	1,360.8	3,204.2	5,906.1	9,005.4
Margin (%)	32%	33%	37%	39%	40%
Depreciation & Amortization	(3.1)	(25.3)	(31.6)	(39.5)	(47.3)
Other income	7.2	0.0	0.0	0.0	0.0
EBIT	898.1	1,335.6	3,172.6	5,866.7	8,958.0
Interest income(expense)	(72.0)	(12.3)	(285.2)	(303.1)	(322.4)
Profit before tax	826.1	1,323.3	2,887.5	5,563.5	8,635.6
Tax	(70.7)	(172.4)	(360.9)	(695.4)	(2,158.9)
Profit after tax	755.4	1,150.9	2,526.5	4,868.1	6,476.7
Min Int & Share of Ass	11.0	140.1	0.0	0.0	0.0
Adj PAT	766.4	1,291.0	2,526.5	4,868.1	6,476.7
Extra-ordinary Items	(31.4)	13.0	0.0	0.0	0.0
Reported Net Income	**735.0**	**1,304.0**	**2,526.5**	**4,868.1**	**6,476.7**

Source: Company Reports and Citi Investment Research estimates

Key risk to earnings

Risks to earnings would mainly arise from projects not being completed on time, price risks given the building supply and demand risks in the particular segment that the property is available for sale.

EBITDA margins: Consistent and sustainable

We estimate EBITDA margins to be in the 37-40% range in FY07-10E

Puravankara's margins have consistently been around 32-33% over the past four years. We expect EBITDA margins in the 37-40% range in FY07E-10E – supported by recent gains in property prices and some efficiency from its in-house construction background. Puravankara's margins appear more sustainable over the longer term as it continues to acquire land at attractive prices. If property prices reversed, its margins could come under lesser pressure than those of its peers given its low land acquisition prices.

Strong balance sheet

Strong balance sheet with 0.36x debt-to-equity ratio

Puravankara's recent primary offering has provided it with strong cash reserves of Rs5.8bn. This has significantly de-leveraged the company's balance sheet with a debt/equity of 0.36x in FY08E vs. its high gearing of 3.0x in FY07. More importantly, these cash reserves and de-leveraged balance sheet come at a time when the real estate sector is facing severe funding constraints. However, if management continues to invest heavily in land, or hold properties, leverage levels could well go higher.

Figure 7. Puravankara — Balance Sheet, FY06-10E (Rs in Millions)

As at 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
Source of Funds					
Equity Share Capital	80.0	960.1	1,067.4	1,067.4	1,067.4
Reserves	1,034.2	1,257.5	12,060.2	16,608.1	22,657.9
Net Worth	1,114.2	2,217.6	13,127.6	17,675.5	23,725.3
Deferred Liability	1.4	10.7	10.7	10.7	10.7
Long Term Debt	1,530.0	5,639.2	3,518.6	3,695.0	3,880.3
Short Term Debt	91.9	1,121.9	1,234.0	1,357.4	1,493.2
Total Debt	1,622.0	6,761.1	4,752.6	5,052.4	5,373.4
Capital Employed	**2,737.5**	**8,989.4**	**17,890.9**	**22,738.6**	**29,109.4**
Application of Funds					
Gross Block	211.2	443.2	450.3	458.1	466.7
Depreciation	36.0	61.2	92.8	132.2	179.6
Net Fixed Assets	175.2	381.9	357.5	325.9	287.1
Capital WIP	0.0	7.1	7.8	8.6	9.5
Investments	231.4	371.5	390.1	409.6	430.0
Inventories	5,036.7	10,153.5	15,934.8	20,656.2	27,064.0
Sundry Debtors	446.4	458.8	516.8	765.0	1,353.2
Other Current Assets	1,185.9	2,296.1	2,436.7	2,714.3	2,963.4
Cash and Bank	444.2	373.7	5,517.4	6,576.3	8,128.8
Current Assets	7,113.2	13,282.1	24,405.7	30,711.9	39,509.4
Current Liabilities	(4,782.2)	(5,053.2)	(7,270.2)	(8,717.3)	(11,126.5)
Net Current Assets	2,331.0	8,228.9	17,135.6	21,994.6	28,382.8
Total Net Assets	**2,737.5**	**8,989.4**	**17,890.9**	**22,738.6**	**29,109.4**

Source: Company Reports and Citi Investment Research estimates

Large Opportunity Amid Challenges

- We believe India's real estate opportunity is structural, large and sustainable
- Near-term challenges — significant slowdown in transaction activity, some cool-off in property prices and potential supply risks
- In the current environment, we believe South India is a better market than North India on price environment, demand potential, benefits from on-going infrastructure and supply risks
- What if the IT/ITES industry faces a slowdown?

Structurally, a large development opportunity

The Indian real estate development opportunity is large and will last a long while, in our view. The drivers are a severe housing shortage, economic momentum creating new demand, favorable demographics supported by a fast-evolving financial system and rising household aspirations. While structurally we see a large development opportunity, we believe the sector is in for some cyclical pain in the near-term.

Near-term challenges....

There is some consensus that interest rates are peaking or are likely to fall 25-50bps over the next few months. However, sustained high mortgage rates of ~10%-plus (vs. lower residential rental yields of 2-5%) with high prices for residential apartments across cities appear to have damaged near-term affordability. We understand from our channel checks that developers are finding it difficult to pre-sell residential projects in the face of high monthly installments. Declining growth in mortgage loans also indicates a similar trend.

Significant slowdown, particularly in residential volumes

With affordability hit, buyers now prefer to postpone purchases

Real estate agents suggest that home buyers are staying away from pre-launches. This is backed by: a) the mortgage portfolios of most banks showing a significant slowdown, suggesting volumes are down; and b) independent agents are fairly consistent about the sharp slowdown in transaction levels. Until recently, projects being pre-sold much before the start of construction was the norm. However, with affordability now hit, buyers prefer to postpone purchases. Lower pre-sales are forcing developers to push back the launch of projects. The slowdown in volumes has also prompted some developers to change the mix of their township projects. Taking into account the lower affordability of end-users, residential complexes that were earlier designed to have only 4-5 bedroom apartments are now being redesigned to include 2-3 bedroom apartments.

Some cool-off in property prices

Softness in prices expected in the near-term

With affordability on the decline and a slowdown in the level of actual transactions, property prices are cooling off, largely in the residential segment absolute prices are coming down by 5-20%, developers are offering freebies and flexible funding options are being made available. In our view, this will be more pronounced in pockets, where build-out planned was aggressive and the speculative interest of investors was high.

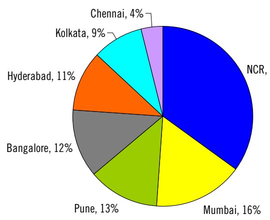
Corporates have better ability to absorb the impact of high rentals and interest rates than individuals

The outlook for commercial/IT SEZs and retail rentals is relatively better. Given the low stock of Grade A buildings, the strong demand for IT/ITES services and a growing economy, we believe commercial office space rentals are likely to hold at current levels because most of the supply is 2 years away. Further, corporates have better ability to absorb the impact of high rentals and interest rates compared to individuals. Retail, however, is also likely to witness mixed trends. While the outlook for life-style malls of large developers looks promising, one could expect some erosion in rentals for a few locations with excess supply and relatively poorly structured/organized retail malls.

Potential supply risks

Most of the real estate developers are looking for a significant ramp-up in their development business over the next 4-5 years, much higher than they have delivered so far. While execution remains a challenge for most developers, should the large developers' development plans be executed as expected, we see a potential supply glut in certain markets, especially the NCR, where we believe the build-out is aggressive. This is also substantiated by a recent Knight Frank report, which suggests the residential market will witness a supply of 530.5m sq ft by 2009-10E, a significant part (35%) of which is expected in the NCR. What, however, is very apparent is the absolute lack of data on potential supply in the market place given that it is a fairly fragmented market and there are many small and mid-sized developers.

Figure 8. New Residential Supply by 2009-10E



Source: Knight Frank, CIR

South India appears a relatively better market

In the current environment, where supply risks are building, transaction activity has slowed and property prices are cooling, we believe the larger cities in South India such as Bangalore and Chennai are relatively better property development markets than the NCR (ex.Dellhi). This is largely due to 1) relatively higher demand potential in South given higher concentration of IT/ITES companies and higher per-capita income, 2) lower potential supply risks, 3) benefits of the New Master Plan (higher FAR – Annexure III) and on-going infrastructure projects (Metro rail, Outer ring Roads, new air port – Annexure I) are still to be discounted, and 4) South India is a relatively less speculative market.

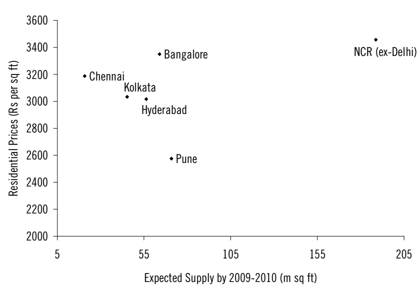
Figure 9. Comp. of NCR vs. Key South cities

	Delhi/NCR	Bangalore	Chennai
No. of IT/ITES Firms	633	978	427
Talent Pool	282,708	341,374	181,528
Resource Pool	37,870	38,130	34,205
No. of Higher Education Institutes	315	445	162
Residential Supply by 2009-10E(m sqft)	191.4	64	20.8

Source: TrammellCrowMeghraj, Knight Frank

Additionally, we believe average house prices of Rs3,000-3,500/sq ft in Bangalore and Chennai are more affordable and offer better prospects of capital appreciation compared to the average prices of Rs4,000-5,000/sq ft in Gurgaon, Noida and in the NCR (average prices of Rs3,500/sq.ft). From an investment perspective as well, we believe rental yields in Bangalore and Chennai are higher at 3-5%, compared with 2-3% in the NCR. Further, given the potential supply expected, we believe the risk of a sharp price correction in South India from current levels is relatively lower than in the North.

Figure 10. Avg Residential Prices vs. Expected Supply by 2009-10E (across key regions)



Source: Citi Investment Research

More so, Bangalore is the largest established hub for the IT/ITES industry, an important driver of real estate demand today; Chennai and Kochi are other emerging IT centres, which are attracting significant FDI. With Bangalore and Chennai accounting for 37% and 15% of the India's IT and BPO exports respectively, we believe there is relatively higher demand potential in South India compared to the NCR, which accounts for 17% of IT and BPO exports.

Puravankara's concentration in South to provide an advantage vs. developers with an NCR bias

We believe Puravankara's concentration in South India, particularly in the residential market of Bangalore (73%), Chennai (8%), Kochi (12%) and Mysore will provide advantages over developers with a North bias, particularly the NCR.

What if IT/ITES industry faces a slowdown?

We believe an IT slowdown will impact overall real estate demand across markets

The IT/ITES industry is an important driver of real estate demand today and in event of the sector facing a significant slowdown, we could potentially see a scale-down in real estate demand. While this is likely to be more prominent in cities like Bangalore, the largest IT hub, we believe this would adversely impact overall real estate demand across markets.

We still see growth potential in South India with biotechnology, large PSUs and manufacturing activity in the region growing rapidly

We believe a large part of the potential real estate development being planned — be it residential, commercial/office or retail — is targeting the growth in the IT/ITES sector. A slowdown would dampen growth and sentiment in the real estate sector. That said, we still see solid demand potential in South India, particularly in cities like Bangalore and Chennai. There are a number of other industries that are growing at a fast pace and have contributed to the growth of these cities; we expect this trend to continue.

- **Bangalore:** Apart from being India's Silicon Valley, it is also an important centre for the biotechnology industry — 47% of India's biotechnology companies are headquartered there. It’s a very large garmenting hub and a branded retail market. It is home to several PSUs — Bharat Heavy Electricals, Bharat Earth Movers, and Hindustan Aeronautics, which are all growing at a fast pace.
- **Chennai:** It has a significant presence in the manufacturing industry. It accounts for 30% of India's automobile and 40% of the auto-component industry. Several auto majors such as Hyundai, Ford, Mitsubishi and Ashok Leyland have their plants in an around Chennai. In addition, it is an emerging electronics/telecom centre with majors such as Nokia, Motorola, Dell, Samsung, Flextronics and Foxconn setting up plants in Sriperumbudur near Chennai.

Valuation and Risks

- Valuation benchmarks for the Indian property sector are still evolving. We believe NAV is the most appropriate valuation method; P/E multiples are more a secondary tool
- Why the 5% discount for Puravankara?
- Our target price of Rs536 is based on a 5% discount to our NAV estimate of Rs564

Valuation benchmarks, still evolving in India

Globally, there are varying benchmarks for valuing property companies. Net Asset Values (NAVs), P/E multiples and dividend yields are the most commonly used valuation methodologies for the sector. The property sector in India, from an equity market valuation perspective, is underdeveloped, and hence valuation benchmarks are still evolving. Recent listings have yet to create benchmarks, in part because of still modest disclosures and the lack of earnings estimates in the marketplace. We see this changing as the sector grows, the market widens, and as disclosures increase and become standardized. Private-equity transactions are also likely to provide some valuation support to the sector.

We believe NAV is the most appropriate valuation method, with P/E being more of a supporting method

We believe NAV is the most appropriate valuation method as it factors in a) landbanks, b) the size of the overall development opportunity, and differences based on market segment, location, scale and spread-out-time frames; and c) Execution. P/E multiple is more of a secondary methodology, in our view. This is because the near- and medium-term earnings of the larger players in India are at super-normal levels; i.e., a large part of the gains are due to appreciation of their landbanks rather than development. In effect, the multiple would be on a gain made on a land acquisition made much earlier. This risks overstating the value as gains made on land acquisitions will moderate.

Why the 5% discount for Puravankara?

We see tier-I developers trading at prem. to NAVs, while mid-scale developers such as Puravankara will likely trade at a discount – a 5% discount seems fair

Property markets globally often trade at a discount to NAV (the calculation of NAV, however, tends to vary between regions). Markets at the earlier stages in their evolution tend to trade at premium to underlying NAVs. We would probably expect India to go through a similar cycle. Furthermore, we believe in the current challenging environment where the Indian property sector is likely in for some cyclical pain in the near-term, there is a distinction being made between tier-I developers and other developers. We expect tier-I developers to trade at premiums to NAVs, largely due to their scale, pan-India footprint and ability to manage cycles better, while mid-scale/smaller developers will likely trade at discounts.

Figure 11. Indian Real Estate Valuation Summary

	DLF DLF.BO	Unitech UNTE.BO	Parsvnath PARV.BO	Ansal ANSP.BO
CIR Rating	1M	3M	3H	3H
Current Price	893	329	365	287
Area (m sq ft)	615	490	151	195
NAV (Rs/share)	530	215	383	300
Prem/Dis to NAV	68%	53%	-5%	-4%
P/E (FY08E)	21.9	32.6	9.9	9.0

Source: Citigroup Investment Research estimates

We expect Puravankara, a quality mid-scale developer, to trade at a 5% discount to NAV. We ascribe the discount to the following: 1) Puravankara's concentration risk in Bangalore (73% of total development), where the potential supply could be large; 2) the company's residential-heavy business model, exposing its business to demand/price risks; 3) possible execution delays, given the large development; and 4) risks of slower than expected sales, given its direct sales model could push back cash flows.

Our target of Rs536 offers 26% upside

Our target price of Rs536 is based on a 5% discount to an estimated core NAV of Rs564. We believe an NAV-based valuation methodology is most appropriate for developers, as it factors the varied development projects and spread out time frame. Our NAV estimate of Rs564 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume will be 105.3m sq ft (as ~1.5m is already recognized as revenue in FY07); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Bangalore and Chennai and 10% for other locations; 4) all projects undertaken by Puravankara will be completed largely on schedule; 5) an average cost of capital of 14%; and 6) a tax rate of 25%.

Figure 12. Puravankara NAV Summary

Gross NAV of Residential Development (Rs m)	129,882
Gross NAV of Commercial Development (Rs m)	35,034
Gross Total NAV (Rs m)	**164,916**
Less: Amt outstanding for land & govt. dues (Rs m)	630
Less: Tax @ 25% (Rs m)	41,072
Less: Debt Outstanding (Rs m)	4,974
Less: Customer Advances (Rs m)	3,658
Add: Cash (Rs m)	5,806
Net NAV (Rs m)	**120,389**
No. of Shares Outstanding (Millions)	213.5
NAV Per Share (Rs)	**564**

Source: Citi Investment Research

Figure 13. NAV Sensitivity

Price Change	**0%**	**5%**	**10%**
NAV (Rs.)	564	611	658
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rs.)	578	564	551
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rs.)	545	527	493

Source: Citi Investment Research

The stock is currently trading 6.5% above its recent IPO price of Rs400 and at a 24% discount to our NAV estimate of Rs564. Our target price implies 26% upside from current levels.

Risks

We rate Puravankara Medium Risk, as opposed to the Speculative Risk rating assigned by our quantitative risk-rating system to stocks that have less than 260-day trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's integrated model with in-house construction expertise and direct marketing channel; 2) relatively healthy cash flows, at a time when most developers are facing fund constraints; and 3) the company's large exposure to South India, which we believe is a relatively less speculative market and has strong demand potential.

The main downside risks to our investment thesis and target price include: 1) Concentration in the Bangalore region (73% of development), where excess supply over the next 2-3 years could adversely impact our price realization assumptions; 2) Delays in the execution of projects and planned developments would impact the company's reputation and our NAV assumptions; and 3) A rapidly changing property market environment could lead to property price-demand risks, regulatory risks and potential supply risks.

Company Background

Puravankara's founder, Mr Ravi Puravankara, has over three decades of experience in the construction and development business

Puravankara Projects is one of the leading developers in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business, with Puravankara being incorporated in 1986. The company has self-constructed most of its historical properties developed in Bangalore.

Though Puravankara remains focused on Bangalore, it is also expanding to other regions in South India. These expansions are spread over locations such as Chennai, Coimbatore, Mysore, Cochin and Hyderabad, and to Colombo in Sri Lanka.

Until recently Puravankara focused only on the residential segment and developed its first commercial project in 2003, in Bangalore

Until recently Puravankara focused only on the residential segment and developed its first commercial project in 2003, in Bangalore. The total developments in the commercial segment have been about 0.2m square feet and are currently a small proportion of the total properties developed by the company; this is likely to increase with more developments in this space. The company is also currently developing a commercial project in Chennai with 0.35 million sq. ft. of Saleable Area.

Puravankara has one of first operational FDIs in the real estate development industry through the 'automatic route' in India through a JV (Keppel Puravankara Development Limited) with Keppel Land of Singapore. The JV is developing two projects in Bangalore. The company intends to enter into another JV with Keppel for a proposed project in Kolkata. We believe these JVs bring scale and structure to the developments and add to management's credibility.

Puravankara has, over the years, established a strong brand name in Purva

Puravankara has, over the years, established a strong brand name in Purva. Puravankara focuses on the middle-income housing segment with a few upcoming developments in the luxury housing segment.

Puravankara is largely a founder owned and controlled business with the promoter Mr. Ravi Puravankara holding ~90% stake. Mr. Ravi Puravankara is the Chairman and Managing Director, with Mr. Girish Puravankara, nephew of Mr. Ravi Puravankara, as the Deputy Managing Director and Mr. Ashish Puravankara, the son of Mr. Ravi Puravankara, heading the Chennai operations and is also on the board of the company. The company is professionally managed, with the core team of professionals responsible for different operations. The company recently made a primary offering of 21.5m shares at Rs400 per share.

Annexure I – Bangalore Infrastructure Projects

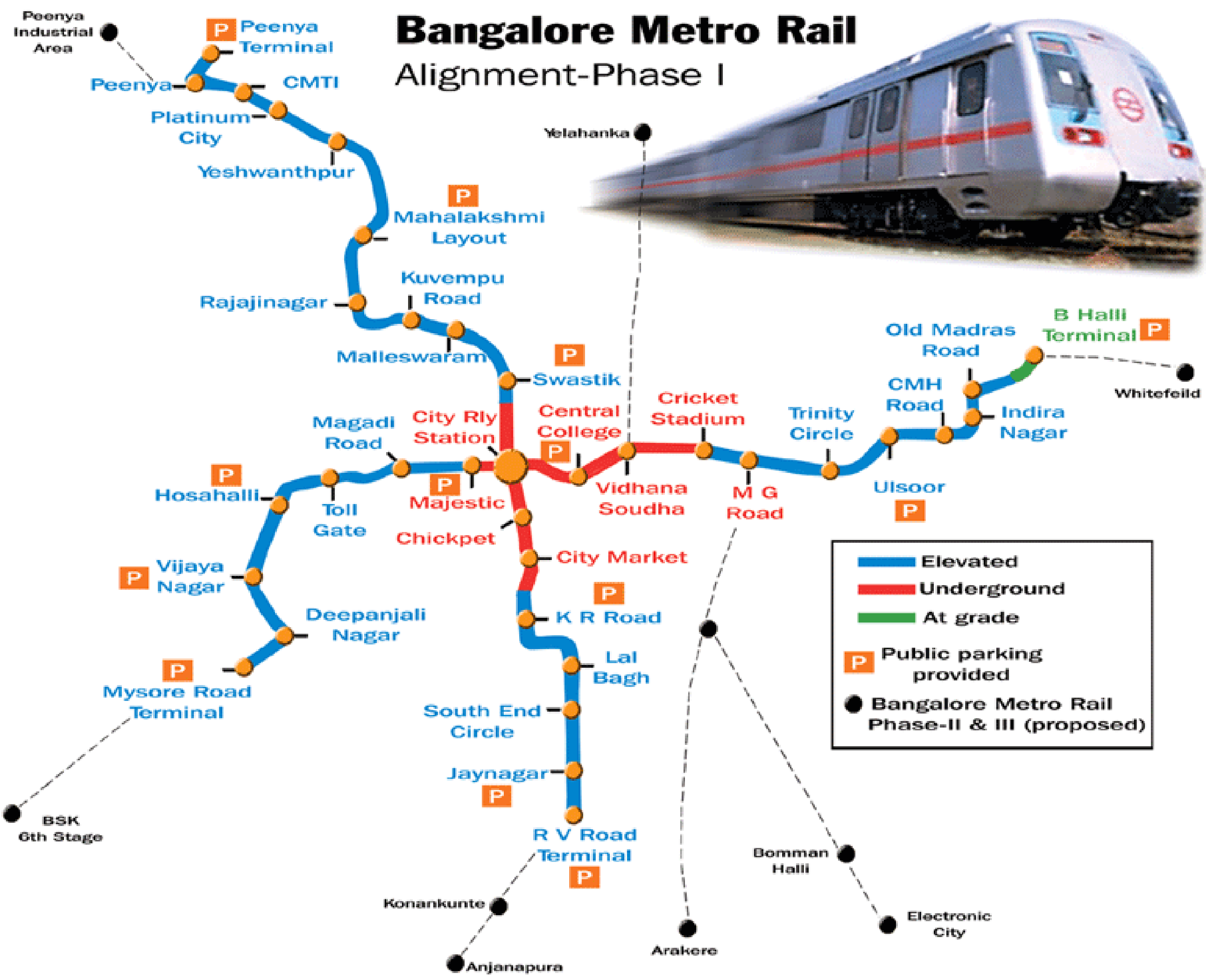
Figure 14. Bangalore Infrastructure Projects

Satellite Town Ring Road	364km 8-lane road that will connect five major satellite towns - Bidadi, Ramanagram, Sathanur, Solur and Nandagudi
Peripheral Ring Road	108.96km road that will circumnavigate the city and connect all major highways i.e. Tumkur Road, Mysore Road, Old Madras Road and Hosur Road. Peripheral Ring Road will be at a distance of 2.8km to 11.5km from the existing Outer Ring Road.
Intermediate Ring Road	250km road between Periphera and Satellite Town Ring Roads connecting Nelamangala, Dobbspet, Doddaballapur, Devanahalli, Hoskote, Anekal, Harohalli, Bidadi and Magadi.
Outer Ring Road	62km road that connects all highways around Bangalore - Tumkur Road, Bellary Road, Old Madras Road, Hosur Road, Bannerghatta Road, Kanakpura Road, Mysore Road and Magadi Road.
Bangalore-Mysore Infrastructure corridor	111 km 6-lane expressway between Bangalore and Mysore with a 9.1km link road into downtown Bangalore.
Metro Rail	Two Tracks: 18.1km from Mysore Road to Byappanahalli (East-West) and 18.4km from Yeshwantpur to R.V. Road (North-South). First phase to be completed by December 2011.
International Airport	New international airport at Devanahalli, 30km from Bangalore to be operational by April 2008.

Source: Times of India, The Hindu, Wikipedia, India Together, DiscoverBangalore

Annexure II – Bangalore Metro Map

Figure 15. Bangalore Metro Map



Source: DiscoverBangalore

Annexure III – Bangalore New Master Plan

Figure 16. Highlights of Bangalore Draft Master Plan 2015

FAR (Floor Area Ratio) increased from 2 to 3.25 depending on zone and road width.

FAR increased to 4 for bus terminals by BMTC and around proposed metro stations.

Re-development of central areas mooted by providing additional FAR as incentive

Provision of stilt parking, basement up to 5 levels and multi-level car parking. Parking under stilts and basement parking not included for calculating FAR.

Compulsory Planting of minimum of one and two trees in sites measuring 2400 Sq. ft. and 4000 Sq. ft respectively

~ 518 acres of land earlier identified as - public and semi-public zone in Gasthi Kempanahalli, Agrahara and Kogilu and about 286 acres in Chikkanayakanahalli has now been proposed for Commercial Zone for taking up Commercial Projects by BDA.

Availability of ~3,890 acres of land in the west zone (between Mysore Road and Tumkur Road) for group housing, layout formation and other service projects.

~ 4,560 acres set aside between Hosur Road and Varthur Road for development as an all inclusive composite zone, providing for both workplace and residence in one place and considering the entire area around the industrial zone as a developmental block.

Source: Deccan Herald, OneIndia, Bangalore Development Authority

DLF

Valuation

Our target price of Rs.725 is based on a 25% premium to an estimated core NAV of Rs530, and Rs62 for other asset holdings and new JV businesses (Rs45/share for the existing 4.6m sq.ft leased assets and 7.2m sq.ft plot, and Rs17/share for DLF's share in construction and hotel JVs). We believe an NAV-based valuation methodology is most appropriate for developers, as it factors the varied development projects and spread out time frame. Our NAV estimate of Rs530 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume will be 606m sq.ft (as ~9m is already recognized as revenue in FY07); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 10% for other locations; 4) all projects undertaken by DLF will be completed largely on schedule; though given the scale of the roll-out, we expect risk of delays; 5) an average cost of capital of 14%; and 6) a tax rate of 25%.

Risks

We rate DLF Medium Risk. This is different from the Speculative Risk rating assigned by our quantitative risk-rating system (which measures the stock's volatility over a 260-day period) to stocks that have less than one year's trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's robust business model; 2) pan-India land bank with initiatives to de-risk the business model through new business JVs; and 3) relatively healthy cash flows, at a time when most developers are facing funding constraints. The main downside risks to our investment thesis and target price include: 1) Concentration in the NCR region, particularly Gurgaon (33% of development), where risk of excess supply over the next 2-3 years is high; 2) Related party transaction and conflict of interest risks with DLF Assets; 3) Delays in execution of projects and planned developments would impact the company's reputation and our NAV assumptions; and 4) A rapidly changing property market environment could lead to property price-demand risks, regulatory risks and potential supply risks.

Unitech

Valuation

Our target price of Rs247.5 is based on a 15% premium to our NAV estimate of Rs215, excluding SEZs. The premium is based on high valuation benchmarks for Tier-I developers and recognizing Unitech's - 1) competitive advantage of large diversified land bank, while peers are still aggregating land 2) dynamic business model with thrust on recycling capital faster; 3) strong brand positioning and proven track record. Our assumptions include: a) current market price levels to sustain with no price inflation; b) development volume of 471m sq.ft (~19mn recognized as revenue in FY07) c) all projects undertaken will be completed largely as per schedule though given the scale of the roll-out, we expect risk of delays; d) average cost of capital of 14%; e) tax rate of 28% and f) no value attributed towards SEZs.

Risks

We rate Unitech Medium Risk. Key reasons for Medium Risk rating are: 1) low-risk/high-return business model 2) pan-India land bank with initiatives to reduce weightage on NCR 3) relatively healthy cash flows. Main company-specific risks include: 1) Developments on monetization of retail and hotel assets similar to IT Parks, could result in healthy cash flows and should positively drive profitability and valuations 2) While we have not factored the value of the SEZs, any developments providing higher visibility on execution of these project is likely to create long-term value 3) Any interest rate reversals, would positively impact earnings growth assumption. If any of these risk factors plays out, Unitech's share price is likely to have difficulty attaining our target price.

Parsvnath Developers

Valuation

Our target price of Rs.345 is based on 10% discount to NAV estimate of Rs.383. While the level of NAV discount will be a matter of subjective assessment, we believe that a 10% discount to NAV is fair. We believe a NAV-based valuation methodology is most appropriate as it factors the varied development projects and spread out time frames. Our estimates for the NAV involve the following key assumptions: a) current market price levels to sustain with no price inflation b) development volume of 141m sq.ft after elimination of ~11m which is recognized as revenue till FY07 and some share representing collaborators' share) c) all projects undertaken by Parsvnath will be completed as per schedule provided by management d) average cost of capital of 14%, and e) tax rate of 27%.

Risks

We rate Parsvnath High Risk. This is different from the Speculative Risk rating assigned by our quantitative risk rating system (which measures the stock's volatility over a 260-day period) to stocks that have less than one year's trading history. The main risks to our investment thesis and target price are: 1) Any positive developments on execution of the 7 SEZ projects with developable area of 170m sq ft which have received in-principle government approvals, would enhance the company's NAV and valuations, 2) timely execution on on-going projects, would demonstrate the company's ability to execute the aggressive development plans, 3) any downward revision in interest rates for housing projects, would positively benefit the company, given its high leverage in the residential segment. If any of these risk factors has a greater impact than we expect, the share price would likely move above our target price.

Ansal Properties & Infrastructure

Valuation

Our target of Rs255 is based on a 15% discount to estimated NAV of Rs300. This discount is attributable to: 1) concentration in the NCR and Tier III cities in north India where the risk of soft property prices in the near-term is high, 2) large exposure to plotted development (45% of development), a low value-add business, and 3) risk of delays for some of its large township projects, particularly the Dadri project where land is still being acquired. Assumptions are: 1) market prices remaining at this level with no price inflation, 2) development volume of ~179m sq.ft (~16.4mn recognized as revenue in FY06-07E), 3) most of the projects are completed as per schedule, except some large township projects where we expect sizeable risks of delays, 4) average cost of capital of 14%, and 5) tax rate of 33%.

Risks

We rate Ansal High Risk based on our quantitative risk rating system, which measures the stock's volatility over a 260-day period. The key reasons for our High Risk rating include: 1) the company's high dependence on plotted development at 45% of the landbank, 2) concentration of landbank in tier-II cities in northern India where risk of excess supply over the next 2-3 years is high, and 3) evolving regulatory and political risks for the sector's growth high. The main upside risks to our investment thesis and target price are:

- Any positive developments on execution of the company's two SEZ projects would enhance the company's NAV and valuations.
- Timely aggregation of land for its Dadri project (23% of total development) will increase visibility and significantly enhance our NAV estimates.
- Geographic diversification of landbank into other parts of India would help alleviate concerns of concentration of landbank in northern India.
- Any downward revision in interest rates for the housing projects would positively benefit the company, given its high leverage in the residential segment.

If any of these risk factors has a greater impact than we expect, the share price would remain above our target price.

Appendix A-1

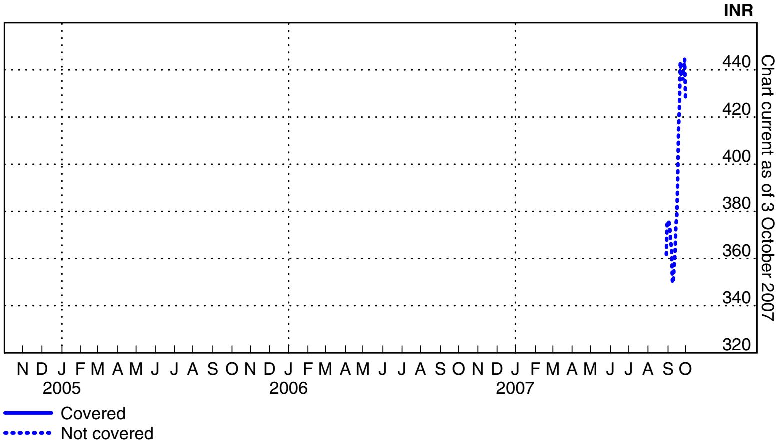
Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Puravankara Projects (PPRO.BO)

Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price

*Indicates change.

Ansal Properties & Infrastructure (ANSP.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)

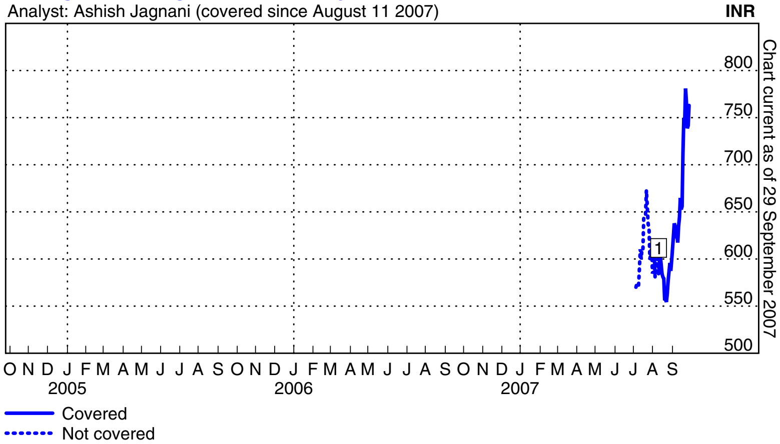
#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3H	255.00	281.05

*Indicates change.

DLF (DLF.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since August 11 2007)



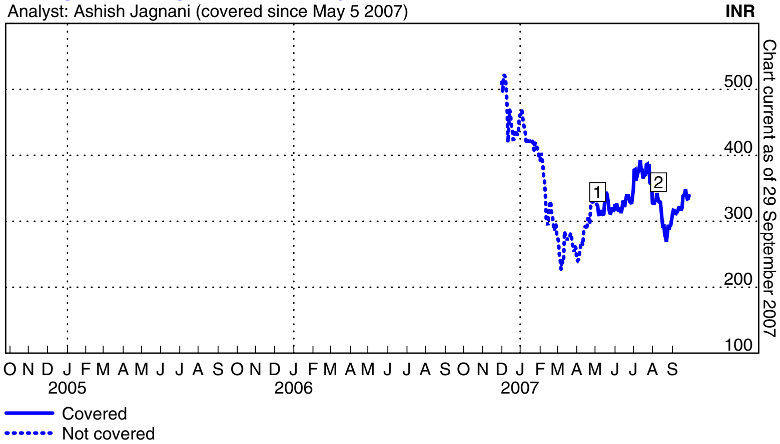
#	Date	Rating	Target Price	Closing Price
1:	10 Aug 07	1M	725.00	584.45

*Indicates change.

Parsvnath Developers (PARV.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)



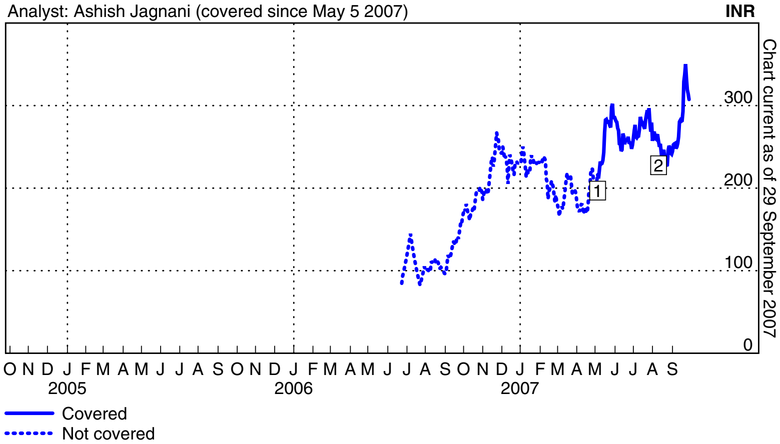
#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3H	295.00	323.35
2:	10 Aug 07	3H	*345.00	330.15

*Indicates change.

Unitech (UNTE.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)



#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3M	215.00	216.08
2:	10 Aug 07	3M	*247.50	256.15

*Indicates change.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Puravankara Projects. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of DLF and Puravankara Projects.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from DLF and Puravankara Projects.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from DLF, Puravankara Projects and Unitech in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): DLF and Puravankara Projects.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Unitech.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: DLF and Puravankara Projects.

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

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

Citi Investment Research Ratings Distribution

Data current as of 30 September 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3358)	50%	38%	12%
% of companies in each rating category that are investment banking clients	53%	55%	42%

Guide to Fundamental Research Investment Ratings:

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

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

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

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

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

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 03 October 2007 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. or its affiliates beneficially owns 5% or more of any class of common equity securities of Puravankara Projects.

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

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

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

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc. or Citigroup Global Markets Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 5574-4860 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

This Product is not intended for distribution in Poland. Any receipt or review of the Product in Poland is not authorized by the Firm.

 The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST