

Industry

14 August 2009 | 9 pages

Per Sq Ft Portable

 Equity

India Property Weekly

- New Direct Tax Code, no material impact** — Although we see positives from tax savings as a result of widened tax slabs, and the increased threshold limit for wealth tax to Rs500m (vs. Rs3m) and lower wealth tax rates of 0.25% (vs. 1%) encouraging investment in property, removal of Rs0.15m interest deduction on housing loans and lower 20% deduction on rental housing would largely offset these benefits. Restriction on tax holiday for SEZ developers w.e.f 1st Apr-2011, could adversely impact growth ahead, but this is a grey area given limited details.
- Holding changes: Promoters reduce stakes while FIIs build exposure** — Post the recent QIPs/stake sale promoters holdings in the Top 6 property companies are down by 9-26ppts over the last 1-year. Unitech (-26ppts to 49%), IBREL (-9ppts to 16.7%), HDIL (-10ppts to 52%), and DLF (-9.8ppts to 78.6%). However, FIIs have hiked their exposures (Figure 8). Promoter stake sales have addressed balance sheet and liquidity concerns, although we expect to see increased volatility.
- New launches in pipeline** — 1) DLF focusing on city centre is expected to launch 1400 apts in phase-II of SBM, a Delhi project at Rs7000-8000/sf at a ~30% premium over phase-I; 2) Unitech's Uni Homes is coming up with 1000 apts in a suburb 30km to the south of Chennai, offering 700-715sf apts at a ticket size of Rs1.29-1.32m. We expect to see more launches by other developers by end-Sept.
- More this week** — 1) HDFC cuts Rs3-5m loan rate to 9%, targeting to take advantage of coming festive season; 2) DLF and Unitech bid for 350-acre plot in Gurgaon, with reserve price of ~Rs1,700 crore, although no confirmations; 3) Consortium of DLF and IL&FS bagged contract for construction of metro extension in Gurgaon – will invest Rs9bn, with DLF holding a 26% stake, and SPV looking to raise Rs7bn in next six months. This could significantly benefit DLF's properties.

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Figure 1. India Real Estate Universe – Statistical Abstract

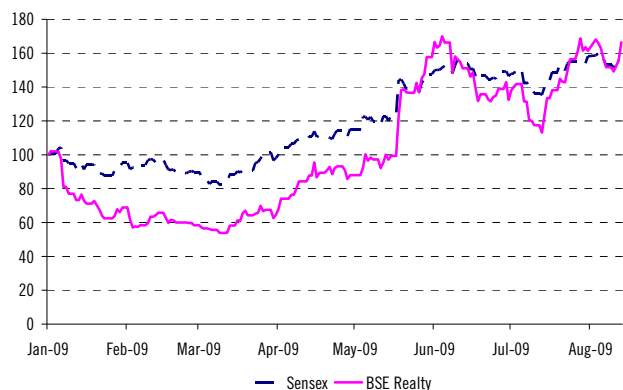
	RIC	Price (Rs)	Mkt Cap	Rating	Target	Est. NAV		1-wk Perf	
		13-Aug	(US\$ M)		Price	Rs/Sh	Disc	Absolute vs. BSE Realty	
DLF	DLF.BO	400	14,105	1L	464	546	-27%	2%	-3%
Unitech	UNTE.BO	95	4,695	3M	66	88	8%	2%	-3%
IBREL	INRL.BO	245	2,044	3M	185	220	11%	7%	1%
HDIL	HDIL.BO	302	1,728	3M	212	282	7%	13%	7%
Omaxe	OMAX.BO	108	391	3H	68	105	3%	-1%	-7%
Ansal Prop	ANSP.BO	66	155	3H	53	82	-20%	1%	-4%

Source: Citi Investment Research and Analysis Estimates

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

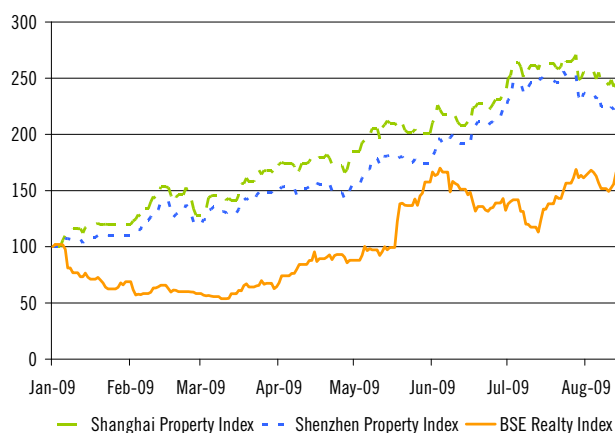
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Figure 2. Performance of Real Estate Index vs. Sensex



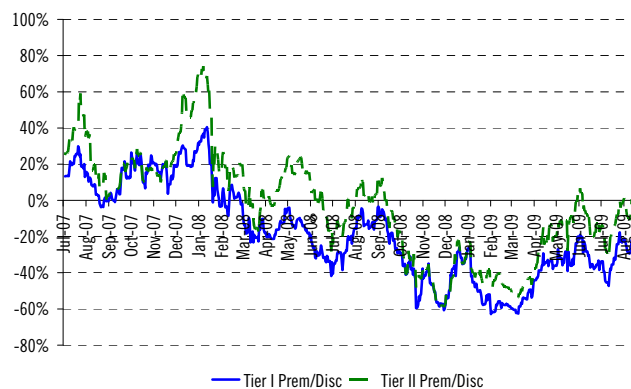
Source: Bloomberg, Citi Investment Research and Analysis

Figure 3. BSE Realty vs. Shanghai & Shenzhen Property Index



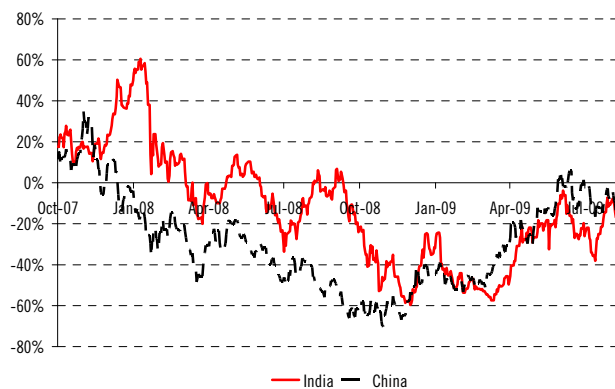
Source: Bloomberg, Citi Investment Research and Analysis

Figure 4. NAV Discount Trend for Indian Tier I & Tier II Developers



Source: Citi Investment Research and Analysis

Figure 5. NAV Discount Trend for Select India & China Developers



Source: Citi Investment Research and Analysis

Figure 6. Price Performance of Real Estate Stocks

BSE Realty	RIC	Absolute						Relative to Sensex						Relative to BSE Realty					
		15d	1m	3m	6m	9m	12m	15d	1m	3m	6m	9m	12m	15d	1m	3m	6m	9m	12m
DLF	DLF.BO	-2%	44%	56%	142%	68%	-22%	-4%	26%	20%	52%	1%	-26%	-5%	-2%	-9%	-4%	-20%	-1%
Unitech	UNTE.BO	3%	44%	89%	193%	118%	-45%	1%	25%	46%	83%	32%	-47%	0%	-2%	11%	16%	3%	-29%
IBREL	INRL.BO	-1%	38%	64%	123%	140%	-20%	-3%	20%	26%	39%	45%	-24%	-4%	-6%	-4%	-12%	14%	2%
HDIL	HDIL.BO	11%	57%	62%	239%	166%	-11%	9%	36%	25%	112%	60%	-15%	8%	7%	-5%	34%	26%	14%
Anant Raj	ANRA.BO	0%	45%	64%	135%	182%	-11%	-1%	26%	27%	47%	70%	-15%	-3%	-1%	-4%	-7%	34%	14%
Akruti City	ACKR.BO	-8%	30%	43%	-49%	-18%	-28%	-10%	13%	10%	-68%	-51%	-32%	-11%	-12%	-16%	-80%	-61%	-8%
Peninsula	PENL.BO	21%	53%	96%	288%	292%	17%	19%	33%	51%	143%	136%	12%	17%	4%	14%	53%	85%	49%
Sobha	SOBH.BO	-3%	19%	90%	153%	133%	-23%	-4%	3%	47%	58%	41%	-27%	-5%	-19%	11%	0%	10%	-2%
Omaxe	OMAX.BO	-2%	39%	88%	119%	92%	-20%	-4%	21%	45%	37%	16%	-23%	-5%	-6%	10%	-13%	-9%	3%
Mahindra Life	MALD.BO	10%	41%	68%	159%	92%	-29%	8%	23%	29%	62%	16%	-32%	7%	-4%	-2%	2%	-9%	-9%
Orbit	ORCP.BO	8%	59%	126%	258%	200%	-32%	7%	39%	74%	124%	81%	-35%	5%	8%	32%	41%	42%	-12%
Ansal Prop	ANSP.BO	0%	40%	81%	109%	57%	-40%	-1%	22%	40%	31%	-5%	-42%	-3%	-5%	6%	-18%	-25%	-23%
IVR Prime	IVR.BO	-10%	25%	60%	115%	81%	-60%	-11%	9%	23%	34%	9%	-62%	-13%	-15%	-7%	-15%	-14%	-48%

Source: Bloomberg, Citi Investment Research and Analysis

Research Update

New Direct Tax Code - We see no major impact on residential housing, with negatives of removal of interest deduction up to Rs0.15m on housing loans for self occupied property offset by increase in tax slabs.

Likely implications of new Direct Tax Code – Neutral for housing but SEZ developers could be adversely impacted

Positives

- Substantial increase in tax slabs will reduce overall tax payout for individuals, thus increase cash flows for investment purposes.
- Increase in threshold limit for wealth tax to Rs500m from Rs3m currently, and decrease in wealth tax rate to 0.25% from 1%, would encourage investments in property. Although financial assets will be included in the definition of wealth, henceforth.

Negatives

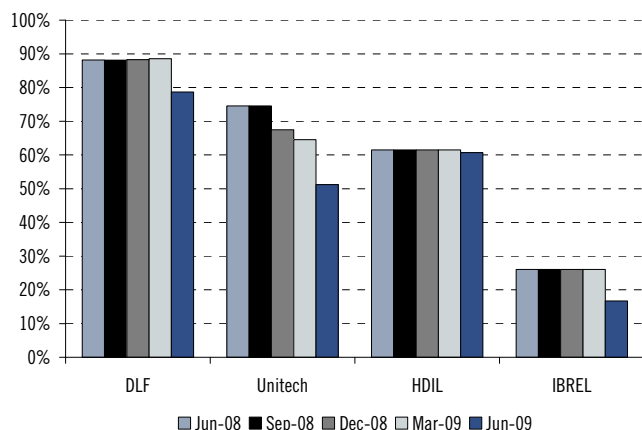
- Removal of interest deduction of up to Rs0.15m on housing loans for self occupied property.
- In case of let-out house properties, deduction for repairs and maintenance will be reduced to 20% of annual value vs. 30% currently.
- For SEZ developers, tax holiday will be restricted w.e.f 1st April-2011 to the period consumed in recovering all capital and revenue expenditure (except expenditure on land, goodwill and financial instruments) vs. current benefit of 10-year tax holiday. IN our view this could discourage new large SEZ developments, although it is still a grey area given the limited details available

Promoters' holding in Top 6 realty companies takes beating

(*Magicbricks.com: 11 August 2009*)

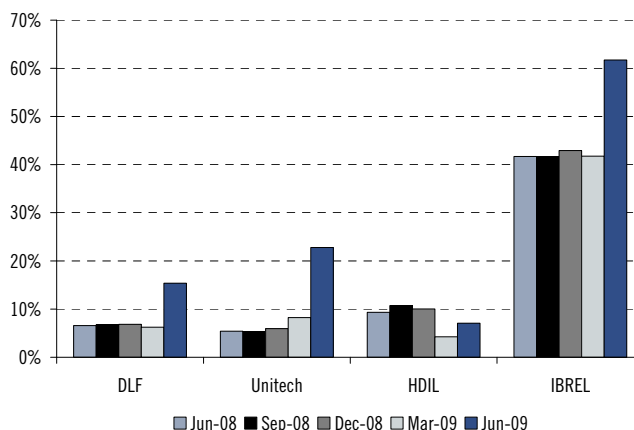
Promoters' equity holdings in the Top 6 real estate companies fell up to 23% over a one year period, on account of stake sale and issue of fresh shares to institutional investors. Unitech promoters saw their holding decline to 49%, from 74% a year ago, post two QIPs and issue of warrants to promoters, while DLF promoters sold a ~10% stake in the company. IBREL also saw promoter shareholdings fall to 16.7% from 26% a year ago.

Figure 7. Promoter Shareholding in Key Property Stocks



Note: Unitech shareholding as at 30 June 2009 does not factor in second QIP. HDIL shareholding as at 30 June 2009 does not factor in QIP.
Source: BSE, Citi Investment Research and Analysis

Figure 8. FII Shareholding in Key Property Stocks



Note: Unitech shareholding as at 30 June 2009 does not factor in second QIP, HDIL shareholding as at 30 June 2009 does not factor in QIP.
Source: BSE, Citi Investment Research and Analysis

News

Unitech launches affordable housing project in Chennai

(Business Line: 10 August 2009)

Unitech has launched its Uni Homes affordable housing project in Chennai. According to market sources, Uni Homes is coming up at Nallambakkam on the Kelambakkam-Vandalur road, about 30km to the south of Chennai off National Highway 45. This project is linked to UniWorld City, a 250-acre township to be launched later. Uni Homes is coming up on an 11.5-acre plot with 1,000 apartments in blocks of ground plus three floors. Each 2BHK apartment of 700 or 715 sq ft will cost Rs1.29-1.32m. The apartments are on offer at a launch price of Rs1,845/sq ft, ~Rs200 less than what it could cost when formally launched after approvals are in place shortly. Delivery is planned for end 2011.

DLF launches Phase II of its West Delhi project

(Indian Realty News: 8 August 2009)

DLF is launching the second phase of its West Delhi Swatantra Bharat Mills project at about a 30% premium to the price of the flats it sold in the same project a few months ago. Phase II is expected to be launched by end-August and will have 1,400 apartments priced at Rs7,000/ sq ft. The first phase was sold by DLF in the range of Rs4,500-Rs5,500/sq ft. DLF officials are confident that even at a 35-40% premium over the first phase, it will be able to attract the interest of investors and end-users, considering that during the peak, apartments in the locality were selling at more than Rs15,000/ sq ft.

HDFC cuts rate to 9% for Rs30-50lakh loan

(Economic Times, 14 August 2009)

Housing finance major HDFC has upped the ante for market share in the home loan market by reducing rates by 50 basis points in the Rs30- 50lakh segment. The development comes within a week of the country's biggest bank SBI cutting rates by 50-75 bps for high-value loans and offering loans up to Rs5lakh at an 8% fixed rate for five years. HDFC now offers loans between Rs30-50lakh at 9%, as per the revised rates. The rates will apply only to new customers as the lender has not revised its prime lending rate. HDFC had last cut rates in mid-July and since then there has not been any reduction in policy rates by the Reserve Bank of India. HDFC now wants to take advantage of the festival season spike in business. Several public sector lending institutions, such as Canara Bank, SBI and LIC Housing Finance, have unveiled competitive schemes to attract home loan seekers. Given the tough competition in the segment, private lenders like HDFC have also been forced to cut rates.

Figure 9. Comps of floating rates for home loans between Rs3-5m

	HDFC	SBI	ICICI
1st year	9%	8.00%	9.75%
2nd year	9%	8.50%	9.75%
3rd year	9%	8.50%	9.75%
4th year on-wards	9% PL - 275bps		9.75%

Source: Economic Times (14 August 2009)

DLF-IL&FS consortium bag Rs900-cr Haryana Metro project

(Business Standard: 11 August 2009)

A consortium of DLF and IL&FS has bagged the contract for construction of the metro system in Gurgaon. The consortium will invest Rs9bn in developing the project. DLF will have a 26% per cent stake while IL&FS will hold the rest. The SPV will be raising Rs7bn within the next six months. The mode of raising would, however, be decided in due course. The consortium has a revenue sharing agreement with DMRC (Delhi Metro Rail). While DLF Metro Rail would retain all revenues generated from sale of tickets, all non-ticketing income would be shared with HUDA (Haryana Urban Development Authority) in a certain proportion. For the first five years the company would contribute 5% of the revenue to HUDA, while in each subsequent five years this will be increased by 1% until it reaches 10%.

DLF and Unitech in race for 350-acre Gurgaon land

(Economic Times: 12 August 2009)

DLF and Unitech, the country's top two real estate firms, are understood to have bid for a 350-acre plot in Gurgaon with a reserve price of ~Rs1,700crore. According to sources, DLF and Unitech today bid for the land meant for setting up recreation and leisure project, comprising commercial, residential and sports complexes. The bids were invited by Haryana State Industrial and Infrastructure Development Corporation (HSIIDC). This is the second time the bids were invited. The technical bids for the land were opened today and DLF and Unitech have been short-listed for the financial biddings, which will be opened tomorrow, sources said. When contacted, a HSIIDC spokesperson declined to comment on the bidding process and its participants. Neither DLF nor Unitech officials commented on the issue. Earlier in April, HSIIDC had closed the bids for the same project, in which DLF was the sole bidder. However, according to the HSIIDC advertisement for the bidding process, this time DLF had pointed out certain difficulties likely to be faced during project implementation. After this, HSIIDC made certain relaxations on terms and conditions regarding the payments for the land.

IBREL to build industrial park near Katol

(TNN: 9 August 2009)

IBREL has announced plans to set up a 250 acre industrial park near Katol, 40km from Nagpur. The project entails an investment of Rs50bn and is expected to provide employment to ~25,000 persons. IBREL's senior manager Pramod Rathod said that with a mega project like Mihan coming up near Nagpur, and power projects having total capacity of 7,000 to 8,000 MW coming up in Vidarbha in the three to five years, there is a huge scope for small and medium scale industries. IBREL is planning to sell land at Katol for only Rs75/sq mt. MIDC has already provided land to the Sepset Constructions, the Indiabulls company that would execute the project. IBREL has applied to MIDC to get approval for the industrial park.

Appendix A-1

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