



# Indiabulls Real Estate IBREL IN

INDIA / REAL ESTATE

TARGET	INR210.00	<b>BUY</b>
PRIOR TP	INR210.00	
CLOSE	INR176.50	
UP/DOWNSIDE	+19.0%	
	UNCHANGED	

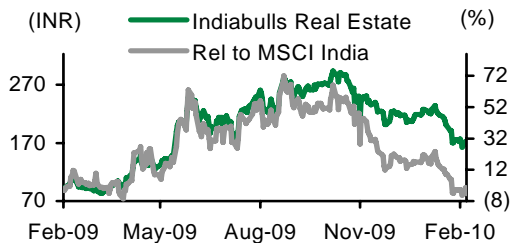
## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	210.00	285.00	(26.3)
EPS 2010 (INR)	0.43	2.86	(84.9)
EPS 2011 (INR)	6.13	5.72	6.9

	Positive	Neutral	Negative
Market Recs.	18	3	1

## KEY STOCK DATA

YE Mar (INR m)	2010E	2011E	2012E
Revenue	2,983	11,821	16,970
Rec. net profit	171	2,459	6,969
Recurring EPS (INR)	0.43	6.13	17.36
Prior rec. EPS (INR)	0.43	6.13	17.36
Chg. in EPS est. (%)	0.0	0.0	0.0
EPS growth (%)	(62.7)	nm	183.4
Recurring P/E (x)	nm	27.3	9.6
Dividend yield (%)	0.0	0.2	0.4
EV/EBITDA (x)	70.8	19.2	15.5
Price/book (x)	0.8	0.8	0.7
Net debt/equity	(0.6)	9.2	8.3
ROE (%)	0.2	3.0	7.9



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(24.0)	(27.8)	80.1
Relative to country (%)	(16.4)	(26.3)	(0.7)

Next results	April 2010
Mkt cap (USD m)	1,440
3m avg daily turnover (USD m)	23.0
Free float (%)	72
Major shareholder	Promoter (17%)
12m high/low (INR)	293.65/84.05
3m historic vol. (%)	62.1

Sources: Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

Risk-reward compelling .....	1 Feb 2010
Limited triggers, balanced risk-reward .....	4 Nov 2009
Turnaround in the downturn? Not yet.....	14 Sep 2009
BNP Black box: Slum rehab revealed! .....	3 Sep 2009

## INDUSTRY OUTLOOK

## NEW INFORMATION

# Nashik SEZ site visit

- **Nashik SEZ: Long gestation project with good value proposition.**
- **SEZ notification can fast-track asset monetization.**
- **Construction ramp-up yet to be seen in the SEZ (inc power plant).**
- **Maintain BUY; TP of INR210 based on 1x P/BV FY11E.**

**Nashik: A good long-term value proposition**

We visited Indiabulls' multi-product SEZ (~2,470 acres) situated in Nashik, Maharashtra. We also met key officials including the Chairman of Sinnar Municipal Corporation, site in-charge of IBREL SEZ and Deputy Collector of the land acquisition department. IBREL's Nashik SEZ seems to be a good long-term value proposition as it meets three important requirements for industrial activity: water, power and accessibility. Sinnar Municipal Corporation (currently assisting IBREL in setting up the SEZ) is temporarily providing the water connection; a permanent connection from the Godavari River is expected. Power connection has been secured from the Maharashtra State Electricity Board (MSEB) until IBREL's captive power plant becomes operational, by FY13E (anticipate a one-year delay). In terms of connectivity, the SEZ is situated on the main Nashik - Shirdi highway. The nearest airport and railway station are approximately 40-50km away, while Nava Sheva seaport is 140km from the site.



Sandeep Mathew  
+65 6210 1952  
sandeep.mathew@asia.bnpparibas.com

Avneesh Sukhija  
+91 22 6628 2432  
avneesh.sukhija@asia.bnpparibas.com

IBREL can fast track the asset monetisation process. IBREL SEZ site in-charge indicated that it was in an advanced stage of negotiation with hospitality and pharma companies to lease approx 400 acres of land. Checks revealed land parcels in Sinnar region can now fetch rates of INR600/sq mt versus IBREL purchase price of ~INR65/sq mt. IBREL's business model centres around project divestments, and SEZ notification sets the stage for the asset monetization process in our view.

**Execution/poor track record can play spoil sport**  
We saw minimal construction activity on the ground in Nashik. Channel checks revealed that soil testing for the power plant was in progress. Our Utilities analyst estimates another 30-36months for power plant construction to be complete versus management's estimate of 24months.

**Not counting our chickens before they hatch**  
As Nashik SEZ is in the early stages of execution, we believe incremental upside will only accrue as execution ramps up. We maintain our BUY rating and our TP of INR210.00, which we believe can incrementally re-rate to base case NAV of INR255 (Nashik contributing 6.3%) when visibility on sales improve and confidence on execution returns. Our TP of INR210 is derived from 1x FY11E P/BV. We use the lower end of the mid-cycle valuation range (1-2x P/BV) of developer stocks for IBREL to reflect the weaker execution and the project profile.

**Exhibit 1: Key Takeaways From Our Meetings**

Key personnel	Takeaway
<b>Chairman of Sinnar Municipal Corp</b>	<ul style="list-style-type: none"> <li>Sinnar Municipal Corporation is supplying water on a temporary basis until IBREL secures a permanent connection from the Godavari River, which can take more than a year</li> <li>A few farmers need to be relocated. Entire shifting of the farmers can take as long as 9-12 months</li> <li>No infrastructure work has started at the site; this may take four months to more than a year</li> <li>Given the current state of the SEZ, IBREL may not accrue significant value by leasing out land</li> <li>Indicative ongoing lease rate in the Sinnar region is INR600/sqm vs IBREL purchase price of ~INR65/sqm</li> </ul>
<b>Site in-charge of IBREL SEZ</b>	<ul style="list-style-type: none"> <li>We have just commenced construction activity. Development contracts are being finalised – full fledged work is expected to start in 3 months</li> <li>Water connection on a permanent basis has to be sorted out in the next 3-6 months</li> <li>IBREL has started leasing negotiations with hospitality and pharma companies and is in the process of signing lease agreement for a 400 acre land parcel</li> <li>Indiabulls Power is currently conducting soil testing for its power plant. The first power plant is expected to be completed in the next 2-3 years</li> </ul>
<b>Deputy Collector, Special Land Office</b>	<ul style="list-style-type: none"> <li>33 hectares of land still need to be compulsorily acquired from farmers</li> <li>IBREL is planning to acquire additional 600 acres of land for its Nashik SEZ</li> <li>IBREL has got all the approvals/NOCs in place and can start the leasing activities</li> </ul>

Source: Industry Participants

**Exhibit 2: Entry To SEZ**



Sources: Indiabulls Real Estate; BNP Paribas

**Exhibit 3: Equipments For Preliminary Construction Work**



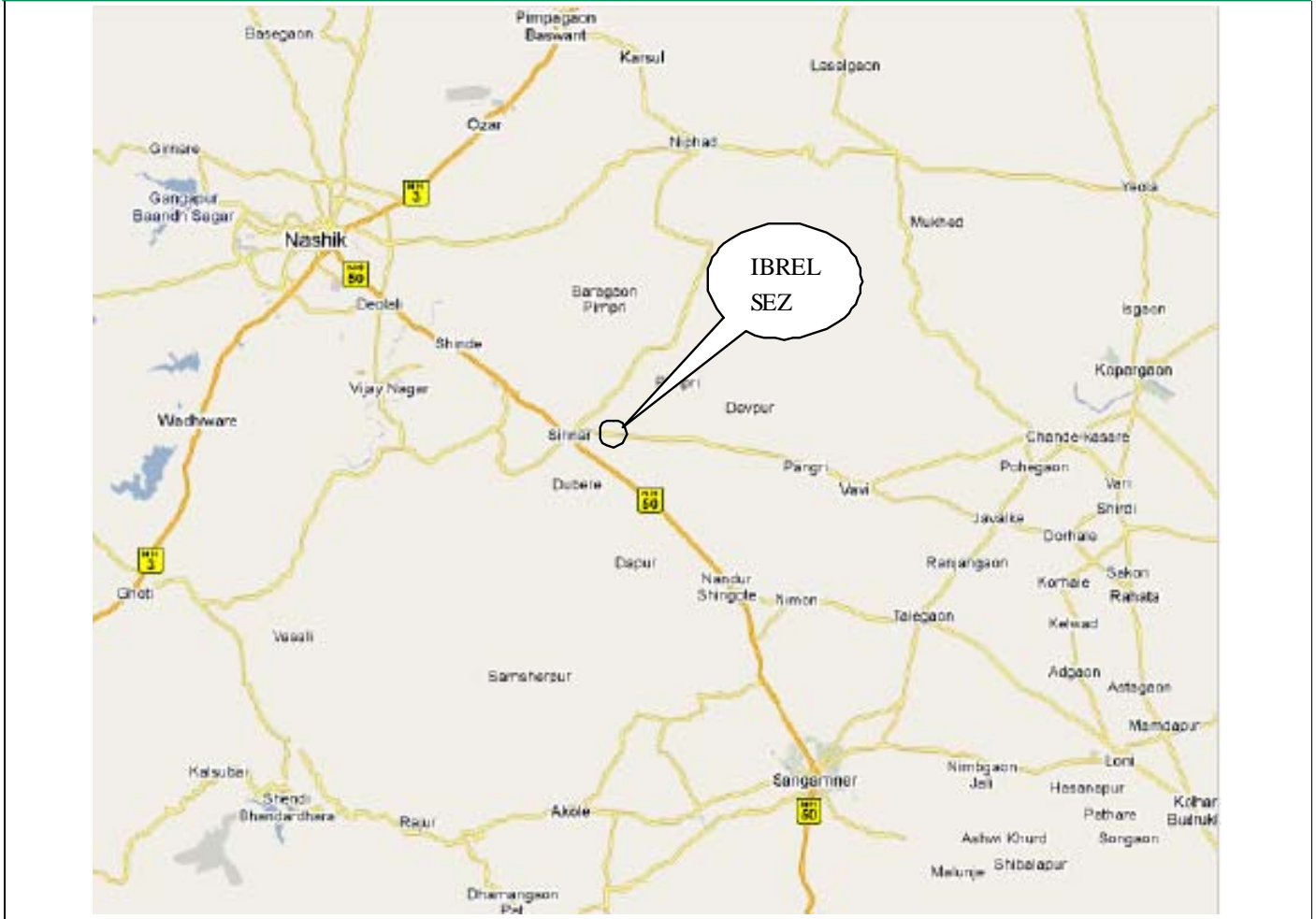
Sources: Indiabulls Real Estate; BNP Paribas

**Exhibit 4: Infra Development Yet To Kick-Start On Ground**



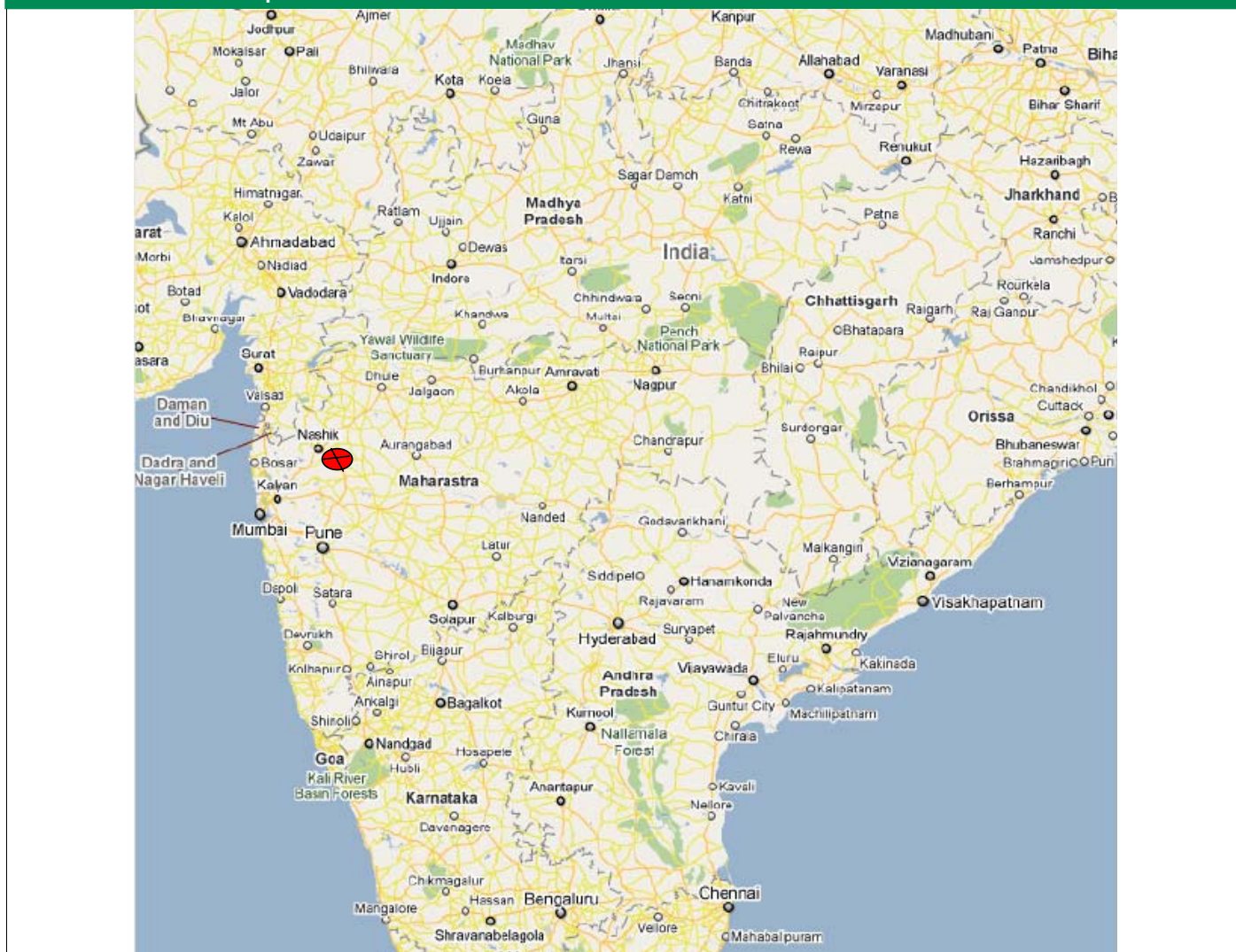
Sources: Indiabulls Real Estate; BNP Paribas

Exhibit 5: IBREL SEZ Map – Nashik District



Note: Map is not drawn to scale and we have tried to highlight only the location of the SEZ and not its size  
Source: BNP Paribas estimates



**Exhibit 6: IBREL SEZ Map - Maharashtra**

Source: BNP Paribas estimates Note: Map is not scale adjusted and the Area highlighted in red is the approximate location of IBREL SEZ

**Exhibit 7: Tangible Net Asset Value**

	(INR m)	(INR/share)
Cash + cash equivalents (only real estate)	45,124	112
Less: Cash used for IPIT rights issue	(3,060)	(8)
Less: Debt	(11,956)	(30)
Less: Other current liabilities	(1,508)	(4)
Net cash and cash equivalents	28,600	71
IPIT valuation (at CMP of SGD0.27)	14,047	35
Land value	16,807	42
Project management fees	7,220	18
Less: Minority interest	(11,333)	(28)
Less: Preference share capital of subsidiary companies	(2,577)	(6)
Net asset value (real estate)	52,763	131
Current IPOWER valuation (at CMP of INR33)	39,105	97
Less: Holding company discount (25%)	(9,776)	(24)
IPOWER valuation	30,218	73
NAV (real estate + power)	82,981	204

Sources: Indiabulls Real Estate; BNP Paribas estimates

**Exhibit 8: Base Case Net Asset Value**

	(INR m)	(INR/share)
<b>Cash + Cash equivalents (only Real Estate)</b>	45,124	112
<b>Less: Cash used for IPIT rights issue</b>	(3,060)	(8)
<b>Less: Debt</b>	(11,956)	(30)
<b>Less: Other current liabilities</b>	(1,508)	(4)
<b>Total cash and cash equivalents</b>	28,600	71
<b>IPIT fair value (post rights Issue, RNAV of SGD0.34/share)</b>	17,453	43
<b>Retail malls</b>	7,038	18
<b>Residential</b>	19,208	48
<b>Nashik SEZ (received SEZ notification on October 2009)</b>	6,430	16
<b>Project management fees</b>	7,220	18
		0
<b>Less: Minority interest</b>	(11,333)	(28)
<b>Less: Preference share capital of subsidiary companies</b>	(2,577)	(6)
<b>NAV/share (real estate)</b>	72,038	179
<b>Fair IPOWER valuation (at INR34)</b>	40,290	100
<b>Less: Holding company discount (25%)</b>	(10,073)	(25)
<b>IPOWER valuation</b>	30,218	75
<b>NAV (real estate + power)</b>	102,256	255

*Note: Our base case NAV does not include any value accruing from Panvel SEZ (9.8m sq ft) and Mantralaya project (1m sq ft)  
Source: BNP Paribas estimates*

## FINANCIAL STATEMENTS

## Indiabulls Real Estate

Profit and Loss (INR m) Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Revenue	3,902	4,399	2,983	11,821	16,970
Cost of sales ex depreciation	0	(214)	(1,170)	(6,118)	(9,407)
<b>Gross profit ex depreciation</b>	<b>3,902</b>	<b>4,186</b>	<b>1,812</b>	<b>5,703</b>	<b>7,563</b>
Other operating income	0	0	0	0	0
Operating costs	(1,426)	(2,443)	(861)	(1,235)	(1,723)
<b>Operating EBITDA</b>	<b>2,475</b>	<b>1,743</b>	<b>952</b>	<b>4,468</b>	<b>5,840</b>
Depreciation	(33)	(108)	(122)	(146)	(189)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>2,442</b>	<b>1,635</b>	<b>829</b>	<b>4,322</b>	<b>5,651</b>
Net financing costs	(522)	(244)	(143)	(179)	(179)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	3,745	0	0	0	0
<b>Profit before tax</b>	<b>5,665</b>	<b>1,390</b>	<b>686</b>	<b>4,143</b>	<b>5,472</b>
Tax	(1,586)	(698)	(171)	(1,036)	(1,368)
<b>Profit after tax</b>	<b>4,079</b>	<b>692</b>	<b>514</b>	<b>3,107</b>	<b>4,104</b>
Minority interests	(65)	(398)	(127)	(432)	3,081
Preferred dividends	(208)	0	(216)	(216)	(216)
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>3,806</b>	<b>295</b>	<b>171</b>	<b>2,459</b>	<b>6,969</b>
Non recurring items & goodwill (net)	(2,696)	0	0	0	0
<b>Recurring net profit</b>	<b>1,109</b>	<b>295</b>	<b>171</b>	<b>2,459</b>	<b>6,969</b>
<b>Per share (INR)</b>					
Recurring EPS *	4.55	1.14	0.43	6.13	17.36
Reported EPS	17.29	1.14	0.43	6.13	17.36
DPS	13.50	0.13	0.02	0.25	0.72
<b>Growth</b>					
Revenue (%)	757.7	12.8	(32.2)	296.3	43.6
Operating EBITDA (%)	694.9	(29.6)	(45.4)	369.5	30.7
Operating EBIT (%)	704.9	(33.1)	(49.3)	421.2	30.7
Recurring EPS (%)	14,387.2	(74.9)	(62.7)	1,335.0	183.4
Reported EPS (%)	50,050.7	(93.4)	(62.7)	1,335.0	183.4
<b>Operating performance</b>					
Gross margin inc depreciation (%)	-	92.7	56.7	47.0	43.5
Operating EBITDA margin (%)	63.4	39.6	31.9	37.8	34.4
Operating EBIT margin (%)	62.6	37.2	27.8	36.6	33.3
Net margin (%)	28.4	6.7	5.7	20.8	41.1
Effective tax rate (%)	28.0	50.2	25.0	25.0	25.0
Dividend payout on recurring profit (%)	296.6	11.5	4.1	4.2	4.2
Interest cover (x)	4.7	6.7	5.8	24.1	31.5
Inventory days	-	nm	nm	nm	1,297.6
Debtor days	57.3	84.8	86.3	41.6	60.5
Creditor days	-	nm	335.2	69.1	82.5
Operating ROIC (%)	7.0	2.3	1.0	4.4	5.0
Operating ROIC – WACC (%)	(11.3)	(16.0)	(17.3)	(13.9)	(13.2)
ROIC (%)	6.2	2.0	0.7	3.0	3.6
ROIC – WACC (%)	(12.1)	(16.3)	(17.6)	(15.3)	(14.7)
ROE (%)	3.9	0.6	0.2	3.0	7.9
ROA (%)	3.3	1.0	0.6	2.9	3.6

\* Pre exceptional, pre-goodwill and fully diluted

Sources: Indiabulls Real Estate; BNP Paribas estimates

Includes dividend income from its Singapore-listed Property Trust

Margins to decline due to shift in product mix to mid-income residential

## Indiabulls Real Estate

Cash Flow (INR m)					
Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Recurring net profit	1,109	295	171	2,459	6,969
Depreciation	33	108	122	146	189
Associates & minorities	65	0	0	0	0
Other non-cash items	0	0	0	0	0
<b>Recurring cash flow</b>	<b>1,207</b>	<b>403</b>	<b>294</b>	<b>2,605</b>	<b>7,157</b>
Change in working capital	(43,901)	(4,167)	(8,102)	(8,098)	(1,394)
Capex - maintenance	(751)	0	(1,291)	(3,016)	(4,016)
Capex – new investment	(1,364)	(1,997)	(1,000)	(1,000)	(1,000)
<b>Free cash flow to equity</b>	<b>(44,808)</b>	<b>(5,761)</b>	<b>(10,100)</b>	<b>(9,509)</b>	<b>747</b>
Net acquisitions & disposals	0	0	0	0	0
Dividends paid	(163)	(3,629)	(10)	(144)	(408)
Non recurring cash flows	8,317	(1,076)	(20,000)	0	0
<b>Net cash flow</b>	<b>(36,654)</b>	<b>(10,466)</b>	<b>(30,110)</b>	<b>(9,653)</b>	<b>340</b>
Equity finance	38,775	0	26,709	0	0
Debt finance	1,969	608	0	0	0
<b>Movement in cash</b>	<b>4,090</b>	<b>(9,858)</b>	<b>(3,401)</b>	<b>(9,653)</b>	<b>340</b>

Free cash flows should turn positive in FY12E on higher recurring rental income and management fees from IPIT

### Per share (INR)

Recurring cash flow per share	5.48	1.57	0.73	6.49	17.83
FCF to equity per share	(203.61)	(22.37)	(25.16)	(23.68)	1.86

### Balance Sheet (INR m)

Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Working capital assets	62,322	50,979	58,133	67,265	69,560
Working capital liabilities	(17,245)	(1,508)	(641)	(1,676)	(2,577)
<b>Net working capital</b>	<b>45,077</b>	<b>49,471</b>	<b>57,491</b>	<b>65,589</b>	<b>66,983</b>
Tangible fixed assets	2,246	3,695	5,864	9,734	14,562
<b>Operating invested capital</b>	<b>47,322</b>	<b>53,166</b>	<b>63,355</b>	<b>75,323</b>	<b>81,545</b>
Goodwill	213	489	489	489	489
Other intangible assets	0	0	0	0	0
Investments	675	12,347	32,347	32,347	32,347
Other assets	0	0	0	0	0
<b>Invested capital</b>	<b>48,210</b>	<b>66,002</b>	<b>96,191</b>	<b>108,159</b>	<b>114,381</b>
Cash & equivalents	(16,219)	(15,897)	(12,496)	(2,843)	(3,183)
Short term debt	0	0	0	0	0
Long term debt *	3,389	11,956	11,956	11,956	11,956
<b>Net debt</b>	<b>(12,830)</b>	<b>(3,941)</b>	<b>(540)</b>	<b>9,113</b>	<b>8,773</b>
Deferred tax	7	9	9	9	9
Other liabilities	0	0	0	0	0
Total equity	45,149	58,407	85,277	87,593	94,154
Minority interests	11,671	11,333	11,333	11,333	11,333
<b>Invested capital</b>	<b>48,210</b>	<b>66,002</b>	<b>96,191</b>	<b>108,159</b>	<b>114,381</b>

\* includes convertibles and preferred stock which is being treated as debt

Total assets only include real estate business. Power and retail businesses have not been included

### Per share (INR)

Book value per share	165.32	214.67	204.63	210.39	226.74
Tangible book value per share	164.49	212.78	203.41	209.18	225.52

### Financial strength

Net debt/equity (%)	(22.6)	(5.7)	(0.6)	9.2	8.3
Net debt/total assets (%)	(15.7)	(4.7)	(0.5)	8.1	7.3
Current ratio (x)	4.6	44.3	110.1	41.8	28.2
CF interest cover (x)	(82.2)	(14.4)	(62.4)	(46.4)	10.7

Potential to grow at faster pace without equity dilution

Valuation	2008A	2009A	2010E	2011E	2012E
Recurring P/E (x) *	36.8	146.2	392.0	27.3	9.6
Recurring P/E @ target price (x) *	43.7	174.0	466.5	32.5	11.5
Reported P/E (x)	9.7	146.2	392.0	27.3	9.6
Dividend yield (%)	8.1	0.1	0.0	0.2	0.4
P/CF (x)	30.5	106.9	228.7	25.8	9.4
P/FCF (x)	(0.8)	(7.5)	(6.7)	(7.1)	89.9
Price/book (x)	1.0	0.8	0.8	0.8	0.7
Price/tangible book (x)	1.0	0.8	0.8	0.8	0.7
EV/EBITDA (x) **	13.2	28.1	70.8	19.2	15.5
EV/EBITDA @ target price (x) **	15.3	31.9	79.2	21.5	17.2
EV/invested capital (x)	0.9	0.8	0.8	0.8	0.8

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Indiabulls Real Estate; BNP Paribas estimates



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## ANALYST(S)

Sandeep Mathew, BNP Paribas Securities (Singapore) Pte Ltd, Co. Reg. No. 199801966C, +65 6210 1952, sandeep.mathew@asia.bnpparibas.com.

Avneesh Sukhija, BNP Paribas Securities India Pvt Ltd, +91 22 6628 2432, avneesh.sukhija@asia.bnpparibas.com.

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All share prices are as at market close on 10 February 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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