kotak® Institutional Equities

INDIA DAILY

February 21, 2008

EQUITY MARKETS

India	20-Feb	1-day	1-mo	3-mo
		Change, %		
Sensex	17,618	(2.5)	(7.3)	(8.6)
Nifty	5,154	(2.4)	(9.7)	(10.8)
Global/Regional indices				
Dow Jones	12,427	0.7	2.7	(4.5)
Nasdaq Composite	2,327	0.9	(0.6)	(10.4)
FTSE	5,894	(1.2)	(0.1)	(5.3)
Nikkie	13,591	2.1	2.0	(8.4)
Hang Seng	23,591	(2.2)	(1.0)	(11.4)
KOSPI	1,711	1.4	1.6	(5.3)

Value traded - India

	20-Feb		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	174.8		193.8	145.5
Derivatives (NSE)	439.9		728.5	732
Deri. open interest	755.9		1,310	1,089

Forex/money market

	20-Feb	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	40.1	(13)	52	67
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.7	4	7	(27)

Net investment (US$mn)

	19-Feb		MTD	CYTD
FIIs	393		1,249	(4,271)
MFs	(82)		(69)	1,923

Top movers -3mo basis

Best performers	20-Feb	1-day	1-mo	3-mo
		Change, %		
Punjab Tractors	249	(0.5)	-	27.1
Rashtriya Chem	81	(2.5)	(31.0)	17.4
Tata Power	1,336	3.1	7.5	15.3
BPCL	430	(4.6)	4.6	13.3
BoB	401	(1.2)	4.1	12.2
Worst performers				
Tvs Motor	38	(2.3)	(22.1)	(38.6)
Moser Baer	169	(0.7)	(23.5)	(36.3)
MRF	4,635	(0.6)	(9.7)	(32.1)
Balaji Telefilms	220	0.9	(21.2)	(31.7)
Arvind Mills	48	(3.5)	(11.1)	(29.4)

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News Roundup

Corporate

- In a concerted move, four public sector banks cut their benchmark prime lending rates (PLRs). SBI and Canara Bank cut their PLRs bu 25 bps for the second time in just over a week while Bank of India and Union Bank lowered their PLRs by 50 bps. (BS)
- The Reserve Bank of India has issued a restricted banking licence to American Express Bank to conduct credit card and travel-related businesses in India following a proposal to merge its banking businesses in India with Standard Chartered as part of an US$860 mn global deal. (BS)
- For the Rs40 bn, Mumbai Trans Harbour Project (MTHP), the Maharashtra State Road Development Corporation (MSRDC) has selected the Reliance Energy Ltd-Hyundai consortium over the Reliance Industries Ltd-promoted SKIL Infrastructure-IL&FS-John Laing consortium. (FE)

Economic and political

- The Department of Telecommunications has approved industry regulator Trai's recommendations to allow service providers to share active infrastructure. The move will help telcos lower tariffs and reduce their expenditure by well over 50%. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

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Property

DLF.BO, Rs815	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,220
52W High -Low (Rs)	1225 - 506
Market Cap (Rs bn)	1,389

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	39.2	152.7	203.9
Net Profit (Rs bn)	19.4	93.9	123.4
EPS (Rs)	12.7	55.1	72.4
EPS gth	*1.0*	*333.6*	*31.4*
P/E (x)	64.2	14.8	11.3
EV/EBITDA (x)	52.9	12.3	9.2
Div yield (%)	-	0.6	0.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	88.2	-	-
FIIs	7.3	1.1	(2.2)
MFs	0.3	0.3	(2.9)
UTI	-	-	(3.3)
LIC	-	-	(3.3)

DLF Limited: We address key investor concerns; Mid-income housing continues to see huge success

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- **Delay in DOT listing unlikely to change business momentum—a question of issue timing**
- **Good traction in all business verticals; area under development increases to 65+ mn sq. ft**
- **Reiterate BUY with a target price of Rs1,220/share**

We address key issues regarding DLF emanating from our recent discussions with investors. Investors appear concerned about (1) the delay in the DLF Offices Trust (DOT) listing on commercial business, (2) DLF's financial leverage, (3) DLF's ability to ramp up its residential segment, and (4) financial estimates. We would like to highlight that the leasing/construction of commercial properties and subsequent exit are two distinct events. Commercial segment continues to see strong momentum and monetizing this through DOT will just be a timing issue. On the residential front, DLF has shifted its focus to mid-income housing and large pre-sales provide revenue visibility. We have adjusted our model for faster execution on mid-income housing while factoring some slack in the luxury segment. As a result, our revenue estimates stands revised to Rs152.7 bn for FY2008E (Rs152.9 bn earlier), Rs203.9 bn for FY2009E (Rs201 bn earlier), and Rs255.1 bn for FY2010E (Rs241.4 bn earlier). Our PAT estimates are revised to Rs93.9 bn for FY2008E (Rs93.8 bn earlier), Rs123.4 bn for FY2009E (Rs123.3 bn earlier), and Rs141.5 bn for FY2010E (Rs143.6 bn earlier). The consensus expectations for PAT for FY2008E stand Rs68 bn and we expect large upgrades for DLF. Our target price of Rs1,220/ share is based on our Mar'09-based NAV of Rs815/share and a terminal value of Rs406/share (based on 1.5X FY2011E P/B discounted to Mar'09).

DLF is well capitalized—any delay in DOT listing will not affect business momentum

In our recent discussions with investors, several were concerned that the delay in the listing of DOT on account of volatile global markets could affect commercial businesses adversely. We would like to highlight that leasing/construction of properties and their subsequent exit are two distinct events. We first discuss key drivers for DLF's commercial business.

1) **Pre-leasing**—DLF has been able to pre-lease more than 10 mn sq. ft in the first three quarters of FY2008. We believe high pre-leasing volumes indicate location superiority as well as the faith of clients in DLF's execution capability (Exhibit 1).

2) **Execution**—DLF has now got 39.4 mn sq. ft of commercial space under construction. DLF has established a dominant position in key IT/ITES locations like Chennai, National Capital Region, Pune, and Chandigarh. Even in new upcoming locations like Gujarat, Nagpur and Bhubaneshwar, DLF has already established its presence.

3) **Rentals**—In most locations, DLF has been able to attract clients at Rs45-60/sq. ft.

4) **Financing**—At the end of 3QFY08, DLF has a very healthy balance sheet with D/E of 0.5X (Exhibit 2). We also highlight that DLF has limited outstanding payments for land. DLF can therefore easily raise resources through debt financing for construction even if the listing of DOT gets delayed.

We believe that exit from commercial properties is just a question of timing. We have assumed a exit capitalization rate of 7%, which be believe is quite achievable even in the current environment on account of superior location as well as clientele of DLF properties.

We expect consensus earnings upgrades on account of good 3QFY08 results

For the three quarters of FY2008, DLF has already achieved a PAT of Rs56.8 bn whereas the consensus is estimating a PAT of Rs68 bn for the full year FY2008E. Therefore, we expect large consensus upgrades in earnings of DLF in the near future. Currently, we incorporate a cap rate of 7% into our earning estimates. Exhibit 3 shows the sensitivity of PAT to the cap rate. Thus, even if we assume a capitalization rate of 9%, we would be 10% above consensus. Another key investor concern we have encountered is about DLF's ability to show PAT growth after its commercial business reaches a steady state. We believe the other businesses of DLF will help it achieve 22% CAGR in the FY2008-11E period. Exhibit 4 highlights that growth in FY2009E and FY2010E will be driven by residential segment while retail will contribute significantly to PAT growth in FY2011E. Furthermore, we expect hotel business to start contributing significantly beyond FY2011E.

Mid-income housing kicks off in a big manner—large volumes at a reasonable price

The recent launches in the mid-income housing segment in Chennai, Kolkata, Kochi, Indore and New Gurgaon (Manesar) have received very good response. DLF has been able to sell 6,000+ apartments including 2,500 in New Gurgaon and 2,000 in Old Mahabalipuram Road (OMR). We have been highlighting the fact that housing has started to become unaffordable on account of high prices even though the underlying demand remains strong. As DLF has rationalized prices (its launches in Chennai and New Gurgaon are at 15-20% discount), it has been able to capture significant volumes and establish strong presence. DLF is also trying to minimize speculative interest by putting restrictive clauses like one house per family and a minimum 1 year lock-in (no resale).

We believe that DLF has launched significant volumes as it plans to focus on ramping up its execution ability on residential segment in a big manner. It has already ramped up its commercial execution and hence can now focus on ramping up its residential execution. Success of mid-income housing will likely help DLF launch similar projects in other metros like Bangalore, Chandigarh and Hyderabad.

Exhibit 4 highlights the break-up of residential revenues from super luxury, luxury and mid-income housing while Exhibit 5 highlight city-wise distribution of residential sales for the FY2008-11E period.

Retail—DLF will likely have lease revenues of Rs31 bn in FY2011

We highlight the fact that DLF has secured prime retail destinations in key locations in India—Delhi, Gurgaon, Mumbai, Hyderabad, Chennai, Kolkata, Bangalore, Pune, Ahmedabad, Goa, Kochi, Jaipur etc. This has resulted in DLF being able to negotiate with large brands as it can provide them a pan-India presence at attractive locations.

DLF is constructing 12 mn sq. ft of malls in prime shopping locations, which will become operational in FY2011 and will likely generate lease rentals of Rs31 bn. DLF booked 0.15 mn sq. ft of retail space in 3QFY08 compared to 1.1 mn sq. ft in 2QFY08. Two malls—DLF Promenade and DLF Emporio, both in Vasant Kunj, were handed out for fitouts during the quarter. As of end December, DLF had 11.6 mn sq. ft of retail projects under development. DLF expects to handover four malls in 4QFY08 amounting to 1.4 mn sq. ft (Exhibit 7).

Large commercial pre-leases indicate location superiority and better execution capability of DLF

3QFY08 results highlighted the strong momentum of commercial business of DLF (Exhibit 1). DLF booked 3.3 mn sq. ft of commercial space compared to 2.5 mn sq. ft in 2QFY08. During this quarter, DLF handed over a portion of Cyber City, Gurgaon and Phase-II of the Noida IT park. DLF launched the construction of 7 mn sq. ft of commercial space, thus increasing the area under construction to 39.8 mn sq. ft, an increase of 15% qoq.

Large investment pipeline ahead to help reinvest large cashflows generated

We expect DLF to start generating large free cash flows from FY2009E. DLF has already lined up various ventures to invest in new projects that include townships, hotels and Special Economic Zones. We expect DLF to generate IRRs of 20%+ on its investments into new projects. We describe below various investments likely to be undertaken by DLF in the near future.

Hotels: The management has indicated that the company is in the process of acquiring 125 sites with a potential of 25,000 rooms. The potential capital outlay in this business is estimated to be US$5 bn. This business vertical continues to make extremely strong progress. DLF acquired Aman resorts in 3QFY08 to gain a foothold in the international luxury hotel segment (see our note *'Acquisition of Aman resorts adds luxury resorts to its hospitality portfolio'* dated November 29, 2007). DLF has also signed a Letter of Intent with "Four Seasons" for its first super luxury hotel in Gurgaon. DLF currently has 51 sites that have been acquired and are in various stages of design, development and execution. DLF intends to supply 4,000-5,000 rooms each year from 2010. The first hotel, Hilton Garden Inn is set to open in Saket (New Delhi) by end 2008.

Special Economic Zones: The management has indicated that it continues to make progress on land acquisition for two 20,000 acre townships to be set up at Gurgaon and Southern Maharashtra. These large townships are going to be set up in partnership with Nakheel group. The JV for South Maharashtra is looking to set up a "resort city" to attract a large number of domestic as well as international tourists. Each of the SEZs will likely require investments greater than US$3 bn.

Land bank for building future projects. DLF will likely require large investments to purchase land in prime locations as indicated by these deals, (1) 38 acre land from Shivaji Marg properties (SBM) for Rs16 bn, (2) 26 acre plot in Chennai for Rs6.6 bn, and (3) 25 acre plot in Raidurg for Rs4.5 bn. We expect opportunities for deals to increase in the near term as municipal corporations of various cities auction land to fund infrastructure projects. Also, increases in land prices have resulted in corporates putting up surplus land in prime locations for sale.

Retail. DLF's strategy in the retail segment is to acquire properties in key locations and in the recent past has acquired attractively located land parcels in Ludhiana, Dwarka, Banjara Hills and SBM-Delhi.

Other investments. DLF intends to invest in healthcare and financial services through its joint ventures.

We retain our BUY rating and target price of Rs1,220/share

Our Mar'09-based NAV for DLF is revised to Rs815/share (Rs804 earlier). Since DLF has shown a track record of investing in new projects at high IRRs we have assigned a terminal value of Rs406/share based on 1.5X FY2011E P/B discounted back to Mar'09. We highlight that DLF is already investing in new large projects like hotels, SEZs and townships that will start contributing to revenues in a few years. Our revised target price of Rs1,220/share provides an upside of 48% and we retain our BUY rating.

DLF has now got 39.4 mn sq. ft of commercial space under construction

Commercial office lease/sales booked during 3Q08

	3QFY08				2QFY08				1QFY2008			
	Super Metros	Metros	Others	Total	Super Metros	Metros	Others	Total	Super Metros	Metros	Others	Total
Sales Booked (mn sq. ft)												
Opening Balance	8.5	1.1	1.9	11.5	8.3	1.0	1.9	11.3	5.1	1.7	1.5	8.3
Add: Lease booked during qtr	0.4	—	0.6	0.9	0.8	0.0	0.1	0.9	1.1	0.1	—	1.4
Add: Sales booked during qtr	1.2	0.7	0.5	2.3	0.6	0.1	0.9	1.6	2.1	0.5	—	2.9
Less: Handed over	1.4	—	0.0	1.4	1.3	—	1.0	2.3	0.0	1.3	—	1.3
Closing Balance	8.6	1.8	3.0	13.4	8.5	1.1	1.9	11.5	8.4	1.0	1.9	11.3
Under Construction (mn sq. ft)												
Opening Balance	14.5	9.1	10.8	34.4	11.8	9.1	8.7	29.5	10.9	9.4	5.5	25.8
New launch/ adjustments (a)	6.6	0.0	—	6.8	4.0	—	3.1	7.1	0.9	1.0	3.2	5.1
Handed Over	1.4	—	—	1.4	1.3	—	1.0	2.3	0.0	1.3	—	1.3
Closing Balance	19.8	9.1	11.0	39.8	14.5	9.1	10.8	34.4	11.8	9.1	8.7	29.5
For sale business												
Wt. Average Rate (Sale Price in Rs)	11,392	6,289	6,174	8,769	9,364	5,547	5,146	6,865	6,375	5,860	4,540	6,131
Wt. Avg. Land + Const. Cost	1,814	1,499	1,668	1,689	2,117	1,274	1,451	1,708	1,966	1,294	1,344	1,793
Margins	9,578	4,790	4,506	7,080	7,247	4,273	3,695	5,157	4,409	4,566	3,196	4,338
For lease business												
Wt. Average Rate (Sale Price in Rs)	65	—	30	43	61	—	31	57	56	41	22	49
Wt. Avg. Land + Const. Cost	2,222	—	1,391	1,702	1,897	—	1,391	1,832	309	1,796	1,391	1,922

Note:
(a) Adustments done due to change in the business preposition (i.e. some part of NTC Mumbai retail mall is now converted to IT office).

Source: Company data, Kotak Institutional equities.

Consolidated summary statement of assets and liablities (in Rs mn)

DLF's balance model at end of Mar-07, Jun-07, Sep-07, Dec-07

Particulars	Mar-07	Jun-07	Sep-07	Dec-07
Net fixed assets	41,851	41,461	49,125	53,935
Investments	2,107	2,196	32,834	13,489
Current assets, loans and advances	128,344	245,549	198,625	243,415
Stocks	56,800	62,085	74,177	94,272
Sundry debtors	15,057	37,478	38,936	64,790
Cash and bank balances	4,155	94,692	17,932	7,760
Other current assets	74	110	256	215
Loans and advances	52,258	51,184	67,324	76,378
Goodwill	8,935	8,935	16,298	16,223
Total use of funds	**181,237**	**298,141**	**296,882**	**327,062**
Total loans	99,327	103,466	77,854	92,403
Secured loans	92,053	94,946	68,657	66,286
Unsecured loans	7,274	8,520	9,197	26,117
Current liabilities and provisions	46,072	56,119	58,567	53,495
Deferred tax liability (net)	197	210	357	463
Shareholders funds	35,641	138,346	160,104	180,701
Total sources of fund	**181,237**	**298,141**	**296,882**	**327,062**

Source: Company data, Kotak Institutional Equities.

DLF's FY2008E PAT would decrease by 10% for a 1% increase in cap rate

Sensitivity of PAT (Rs mn) to cap rate

	PAT (Rs mn)		
Capitalization rate (%)	FY2008E	FY2009E	FY2010E
7	93,871	123,366	141,535
8	84,114	111,647	129,503
9	76,530	102,540	120,154

Source: Kotak Institutional Equities.

Revenue model of DLF, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Housing							
Housing volumes (mn sq. ft)	1.4	1.5	1.9	5.1	12.7	20.8	31.0
Revenues	2,953	3,818	9,819	28,292	72,315	109,503	139,682
Rate/sq. ft	2,111	2,624	5,163	5,513	5,712	5,255	4,508
Revenues (Super luxury)				5,964	26,315	47,445	44,154
Revenues (luxury)				17,202	24,379	22,138	26,423
Revenues (Mid income)				5,126	21,622	39,920	69,105
Commercial							
Commercial volumes (mn sq. ft)	—	0.5	4.8	10.2	11.5	13.8	13.3
Revenues	—	3,997	18,439	95,410	106,410	122,208	116,720
Rate/sq. ft	—	—	3,867	9,373	9,225	8,876	8,783
Retail							
Retail volumes (mn sq. ft)	0.4	0.1	0.7	1.5	0.8	0.6	1.0
Revenues	1,068	213	7,216	21,212	11,294	4,890	8,115
Rate/sq. ft	2,905	2,742	10,067	14,220	15,018	8,055	7,956
Retail (leased)							
Cumulative volumes (mn sq. ft)	—	—	—	—	1.3	1.3	13.4
Revenues	—	—	—	—	4,382	4,601	31,301
Rate/sq. ft/month	—	—	—	—	285	300	195
Commercial (leased)							
Cumulative volumes (mn sq. ft)	—	—	3.0	3.0	5.4	7.7	15.4
Revenues	375	422	1,546	2,160	4,201	6,399	11,511
Rate/sq. ft/month	—	—	50	60	63	82	83
Revenue from real estate	**4,462**	**9,622**	**37,020**	**147,075**	**198,601**	**247,600**	**307,329**
Others	1,620	1,915	2,200	5,671	5,262	7,547	11,264
Revenues	**6,082**	**11,536**	**39,220**	**152,746**	**203,862**	**255,147**	**318,593**
% growth	20.2	89.7	240.0	289.5	33.5	25.2	24.9
Revenue mix (%)							
Housing	48.5	33.1	25.0	18.5	35.5	42.9	43.8
Commercial	—	34.6	47.0	62.5	52.2	47.9	36.6
Retail	17.6	1.8	18.4	13.9	5.5	1.9	2.5
Leased property	6.2	3.7	3.9	1.4	4.2	4.3	13.4
Others	26.6	16.6	5.6	3.7	2.6	3.0	3.5
Total	**99**	**90**	**100**	**100**	**100**	**100**	**100**

Note:

(a) For FY2004-FY2006, full details of revenues by category is not available. Thus, the sum of indivudal revenue categories does not add up to reported revenues.

Source: Kotak Institutional Equities.

DLF has already sold 15+ mn sq. ft of residential space

City-wise breakup of residential volumes booked in P & L account (mn sq. ft)

	Volume booked (mn sq. ft)				% Volume share			
	FY2008E	FY2009E	FY2010E	FY2011E	FY2008E	FY2009E	FY2010E	FY2011E
Bangalore	0.0	1.0	1.5	2.2	0.4	7.6	7.4	7.0
Chandigarh	-	0.8	1.2	2.1	-	6.2	5.6	6.9
Chennai	0.3	0.8	1.6	2.1	5.6	6.7	7.5	6.7
Delhi	0.5	1.2	2.1	2.0	8.9	9.4	9.9	6.3
Goa	-	-	0.6	0.9	-	-	3.0	2.7
Gurgaon	3.3	6.6	7.9	11.9	64.2	52.4	38.1	38.5
HP	-	-	0.0	0.0	-	-	0.0	0.1
Hyderabad	-	-	0.3	0.7	-	-	1.4	2.3
Kerala	-	0.2	0.7	2.0	-	1.4	3.1	6.5
Kolkata	0.4	0.9	3.0	5.6	8.3	7.2	14.2	17.9
Lucknow	-	-	0.2	0.3	-	-	1.0	1.1
Indore	0.7	1.2	1.4	0.6	12.7	9.2	6.5	1.9
Mumbai	-	-	0.2	0.3	-	-	0.9	0.9
Nagpur	-	-	0.2	0.2	-	-	0.7	0.6
Orissa	-	-	-	-	-	-	-	-
Pune	-	-	0.1	0.1	-	-	0.5	0.4
Total	**5.1**	**12.7**	**20.8**	**31.0**	**100**	**100**	**100**	**100**

Source: Kotak Institutional Equities, DLF

DLF has sold 10 mn sq. ft of residential space over the past two months

Recent launches in residential segment

						Gross sales price realised	
		Area sold in Q3		Sold till mid Feb'08		At launch	Current
Project	**Location**	**(mn sq. ft)**	**No.**	**(mn sq. ft)**	**No.**	**(Rs/ sq. ft)**	**(Rs/ sq. ft)**
Apartments							
New town heights	Kolkata	0.9	571	0.1	69	3,137	3,662
DLF Riverside	Vytilla	0.2	67	0.0	5	4,052	4,168
Garden city OMR	Chennai	-		3.3	2,100	3,180	3,398
New Gurgaon	NCR			5.0	3,000	2,750	2,900
Plots							
Garden city	Indore	0	0	0.5	202	736	800

Source: Company, Kotak Institutional Equities.

Retail lease/sales booked during 3QFY08

	3QFY08				2QFY08				1QFY08			
	Super Metros	Metros	Others	Total	Super Metros	Metros	Others	Total	Super Metros	Metros	Others	Total
Sales Booked (mn sq. ft)												
Opening Balance	4.5	0.2	0.3	5.0	3.4	0.2	—	3.9	2.8	—	0.3	3.2
Add: Booked during Qtr	0.1	—	0.0	0.2	1.1	0.0	—	1.1	0.6	0.1	—	0.7
Closing Balance	4.6	0.2	0.3	5.1	4.5	0.2	—	4.7	3.4	0.2	—	3.6
Under Construction (mn sq. ft)												
Opening Balance	10.5	2.7	0.2	13.4	11.1	1.7	0.2	13.0	10.0	1.5	0.2	11.7
New launch/ adjustments *	(0.8)	(0.2)	—	(1.0)	(0.6)	1.1	—	0.5	1.1	0.1	—	1.2
Handed Over	0.8	—	—	0.8	—	—	—	0.0	0.0	—	—	0.0
Closing Balance	8.9	2.5	0.2	11.6	10.5	2.7	0.2	13.4	11.1	1.7	0.2	13.0
For sale business												
Wt. Average Rate (Sale Price in Rs)	19,453	—	5,424	14,828	15,237	—	—	15,237	23,292	—	—	23,292
Wt. Avg Land + Const Cost	5,150	—	3,194	4,505	5,375	—	—	5,375	5,463	—	—	5,463
Margins	14,303	—	2,230	10,323	9,862	—	—	9,862	17,829	—	—	17,829
For lease business												
Wt. Average Rate (Sale Price in Rs)	326	—	115	321	319	—	100	313	132	54	—	115
Wt. Avg Land + Const Cost	9,239	—	2,680	9,091	7,579	—	2,665	7,437	4,003	5,144	—	4,250

* Note:
Adustments done due to change in the business preposition (i.e. some part of NTC Mumbai retail mall is now converted to IT office).

Source: Company data, Kotak Institutional equities.

Our estimate for DLF's NAV is Rs815/ share

NAV sensitivity to different growth rate in selling prices

		March '09 based NAV			
		Growth rate in selling prices			
	Valuation Methodology	0%	3%	5%	10%
Valuation of land reserves		**902**	**1,089**	**1,244**	**1,659**
Residential		266	345	406	598
Retail		269	324	366	491
Commercial		381	433	471	580
Add: 22 Hotel sites	2X land acquisition cost	50	50	50	50
Add: Construction JV	15X FY2009E P/E	29	29	29	29
Add: Other properties (plots in Gurgaon - 7.2 mn sq. ft, hotel site in Gurgaon)	Current Market value	22	22	22	22
Add: Present value of project management fees		8	8	8	8
Add: Investments as on March 31, 2008		20	20	20	20
Add: Bidadi township		65	65	65	65
Less: Net debt as on March 31, 2008		(5)	(5)	(5)	(5)
Less: Land cost to be paid as on March 31, 2008		(30)	(30)	(30)	(30)
NAV (Rs bn)		**1,062**	**1,249**	**1,404**	**1,818**
NAV/share (Rs)		**617**	**725**	**815**	**1,056**
Terminal value (Rs bn)	1.5X FY2011E P/B discounted to March 2009	**698**	**698**	**698**	**698**
Total no. of shares including ESOPs of 17 mn shares (mn)					1,722
Valuation/share (Rs)					**1,221**

Source: Kotak Institutional Equities.

Profit model of DLF, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Total revenues	**6,082**	**11,536**	**39,233**	**152,746**	**203,862**	**255,147**	**318,593**
Land costs	(2,517)	(4,416)	(6,319)	(8,235)	(12,985)	(21,440)	(24,034)
Construction costs	—	—	—	(23,869)	(35,700)	(49,749)	(64,835)
Employee costs	(446)	(397)	(922)	(2,009)	(2,873)	(3,929)	(5,187)
SG&A costs	(1,435)	(1,966)	(3,958)	(4,580)	(5,929)	(7,265)	(8,922)
EBITDA	**1,684**	**4,757**	**28,034**	**114,052**	**146,374**	**172,764**	**215,615**
Other income	178	883	1,108	1,479	2,650	3,562	6,890
Interest	(390)	(1,685)	(3,076)	(2,861)	(609)	(1,571)	(1,729)
Depreciation	(333)	(361)	(571)	(1,190)	(1,396)	(3,349)	(4,787)
Pretax profits	**1,138**	**3,594**	**25,494**	**111,480**	**147,020**	**171,407**	**215,989**
Profit/(loss) share of associates	—	—	—	—	—	—	—
Current tax	(490)	(2,537)	(6,058)	(17,659)	(23,816)	(29,817)	(46,166)
Deferred tax	231	870	—	50	162	(55)	443
Net income	**879**	**1,927**	**19,436**	**93,871**	**123,366**	**141,535**	**170,266**
Reported net income	**865**	**1,917**	**19,425**	**93,871**	**123,366**	**141,535**	**170,266**
EPS (Rs)							
Primary	6.3	12.7	13.0	56.5	72	83	100
Fully diluted	6.3	12.7	13.0	56.0	72	82	99
Shares outstanding (mn)							
Year end	140	1,511	1,530	1,705	1,705	1,705	1,705
Primary	140	152	1,496	1,661	1,705	1,705	1,705
Fully diluted	140	152	1,496	1,678	1,722	1,722	1,722
Cash flow per share (Rs)							
Primary	5	18	4	54	72	85	102
Fully diluted	5	18	4	53	71	84	101
Growth (%)							
Net income (adjusted)	61	122	913	383	31	15	20
EPS (adjusted)	59	103	2	331	28	15	20
DCF/share	39	273	(77)	1,170	34	19	20
Cash tax rate (%)	43	71	24	16	16	17	21
Effective tax rate (%)	23	46	24	16	16	17	21

Source: Kotak Institutional Equities estimates.

Balance sheet of DLF, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Equity							
Share capital	35	378	3,059	3,409	3,409	3,409	3,409
Reserves/surplus	7,437	9,122	36,613	212,291	322,052	444,152	591,095
Total equity	**7,472**	**9,500**	**39,672**	**215,700**	**325,461**	**447,561**	**594,504**
Deferred tax liability/(asset)	963	93	187	137	(25)	30	(413)
Liabilities							
Secured loans	7,951	39,560	92,053	39,328	9,328	9,328	9,328
Unsecured loans	1,724	1,760	7,275	-	-	-	-
Total borrowings	**9,675**	**41,320**	**99,328**	**39,328**	**9,328**	**9,328**	**9,328**
Currrent liabilities	9,342	18,469	42,429	61,652	80,800	100,426	124,611
Total capital	**27,494**	**69,435**	**181,708**	**316,909**	**415,656**	**557,436**	**728,122**
Assets							
Cash	424	1,950	4,155	21,548	55,051	177,463	332,619
Current assets	15,939	35,113	124,639	220,495	241,354	226,573	223,796
Gross block	8,253	11,237	17,787	29,749	34,889	83,728	119,674
Less: accumulated depreciation	1,549	1,891	2,412	3,804	5,199	8,549	13,336
Net fixed assets	6,704	9,346	15,375	25,945	29,690	75,180	106,339
Capital work-in-progress	3,506	6,239	26,497	19,784	50,424	29,083	16,231
Total fixed assets	**10,210**	**15,585**	**41,872**	**45,729**	**80,114**	**104,263**	**122,570**
Intangible assets	—	—	—	—	—	—	—
Investments	921	16,789	11,042	28,935	38,935	48,935	48,935
Misc. expenses	—	—	—	202	202	202	202
Total assets	**27,494**	**69,437**	**181,708**	**316,909**	**415,656**	**557,436**	**728,122**
Leverage ratios (%)							
Debt/equity	114.7	430.7	249.2	18.2	2.9	2.1	1.6
Debt/capitalization	53.4	81.2	71.4	15.4	2.8	2.0	1.5
Net debt/equity	109.7	410.4	238.8	8.2	(14.0)	(37.6)	(54.4)
Net debt/capitalization	52.3	80.4	70.5	7.6	(16.3)	(60.2)	(119.4)
RoAE	**10.7**	**21.3**	**78.6**	**73.4**	**45.6**	**36.6**	**32.7**
RoACE	**5.3**	**4.5**	**22.9**	**48.8**	**41.9**	**36.1**	**32.3**

Source: Kotak Institutional Equities estimates.

Cash flow statement of DLF, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Operating							
Pre-tax profits before extraordinary items	1,138	3,595	25,495	111,480	147,020	171,407	215,989
Depreciation	334	362	571	1,190	1,396	3,349	4,787
Taxes paid	(448)	(751)	(6,078)	(17,659)	(23,816)	(29,817)	(46,166)
Other income	(1)	98	(13,857)	—	—	—	—
Interest expenses	315	970	3,076	2,861	609	1,571	1,729
Interest paid	(645)	(1,483)	(2,898)	(8,930)	(3,044)	(1,571)	(1,729)
Working capital changes (a)	4,415	(15,225)	(66,758)	(70,564)	724	34,407	26,962
Total operating	**5,108**	**(12,436)**	**(60,449)**	**18,378**	**122,888**	**179,346**	**201,572**
Operating, excl. working capital (b)	**693**	**2,789**	**6,309**	**88,942**	**122,164**	**144,939**	**174,610**
Investing							
Fixed assets	(8,299)	(3,863)	(18,878)	(5,249)	(35,781)	(27,498)	(23,094)
Investments	618	(14,797)	14,044	(17,893)	(10,000)	(10,000)	-
Total investing (c)	**(7,681)**	**(18,660)**	**(4,834)**	**(23,142)**	**(45,781)**	**(37,498)**	**(23,094)**
Financing							
Issue of share capital	—	—	—	91,875	—	—	—
Borrowings	2,734	32,638	58,007	(60,000)	(30,000)	—	—
Dividend (d)	(16)	(16)	(18)	(9,718)	(13,605)	(19,436)	(23,323)
Total financing	**2,718**	**32,622**	**67,487**	**22,157**	**(43,605)**	**(19,436)**	**(23,323)**
Net increase in cash and cash equivalents	146	1,526	2,204	17,393	33,503	122,413	155,156
Beginning cash	279	424	1,951	4,155	21,548	55,051	177,463
Ending cash	**424**	**1,951**	**4,155**	**21,548**	**55,051**	**177,463**	**332,619**
Gross cash flow (b)	693	2,789	6,309	88,942	122,164	144,939	174,610
Free cash flow (b) + (a) + (c)	**(2,572)**	**(31,096)**	**(65,283)**	**(4,764)**	**77,107**	**141,848**	**178,478**
Excess cash flow (b) +(a) + (c) + (d)	(2,588)	(31,112)	(65,301)	(14,482)	63,503	122,413	155,156

Source: Kotak Institutional Equities estimates.

DLF's land reserves have increased marginally in 3QFY08
DLF's land reserves as of Dec-2008 (in mn sq. ft)

	3QFY08					2QFY08					qoq change				
Segment	**Total**	**Super Metros**	**Metros**	**Tier- I**	**Tier- II**	**Total**	**Super Metros**	**Metros**	**Tier- I**	**Tier- II**	**Total**	**Super Metros**	**Metros**	**Tier- I**	**Tier- II**
Office	151	53	71	21	6	141	58	42	30	11	10	-5	29	-9	-5
Retail	88	31	35	13	9	106	35	41	14	16	-18	-4	-6	-1	-7
Super Luxury	4	4	—	—	—	4	4	—	—	—	—	—	—	—	—
Luxury	48	40	6	1	—	48	38	7	2	—	—	2	-1	-1	—
Mid-income/Villas/Plots*	440	129	230	67	14	439	121	243	59	15	1	8	-13	8	-1
Hotel/Convention center/Service Apt	17	7	4	4	2						17	7	4	4	2
Total	**748**	**264**	**346**	**106**	**31**	**738**	**256**	**333**	**105**	**42**	**10**	**8**	**13**	**1**	**-11**
% of total		36	47	14	4		35	45	14	6					

Note:
Super Metros: Delhi, Metropolitan region & Mumbai.
Metros: Chennai, Bangalore, Kolkata.
Tier-I: Chandigarh, Pune, Goa, Cochin, Nagpur, Hyderabad, Coimbatore & Bhubneshwar.
Tier-II: Vadodara, Gandhi nagar, Ludhiana, Amritsar, Jalandhar, Sonepat, Panipat, Lucknow, Indore & Shimla.

Source: Company, Kotak Institutional Equities.

Technology

HCLT.BO, Rs269	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	320
52W High -Low (Rs)	366 - 180
Market Cap (Rs bn)	186.6

Financials

June y/e	2007	2008E	2009E
Sales (Rs bn)	60.3	75.2	94.2
Net Profit (Rs bn)	12.9	13.0	15.4
EPS (Rs)	18.9	18.7	22.1
EPS gth	*65.7*	*(1.0)*	*18.5*
P/E (x)	14.2	14.4	12.1
EV/EBITDA (x)	12.8	10.6	8.6
Div yield (%)	2.9	3.0	3.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.5	-	-
FIIs	14.5	0.3	(0.2)
MFs	4.2	0.6	0.1
UTI	-	-	(0.5)
LIC	2.4	0.3	(0.2)

HCL Technologies: Capital Stream—interesting acquisition at an interesting time

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- **Expensive acquisition, interesting timing**
- **Expands the range of service offerings in the lending segment for commercial banks**
- **Provides a foothold in some of the large US BFS accounts**

HCL Technologies (HCLT) has announced an all-cash acquisition of Capital Stream, Inc. for US$40 mn. Capital Stream (CST) is a US-based provider of loan origination and straight through processing (STP) systems to US commercial banks. The acquisition at 2X EV/Sales and 36XEV/EBITDA (on a trailing basis) appears expensive, especially in the wake of recent turmoil faced by the US BFS companies. However, we believe the acquisition is more strategic in nature and has been done primarily to (1) complete the lending solutions/ services portfolio; and (2) gain a foothold in some of the marquee banking accounts in the US. We await the management conference call on the acquisition (Friday, Feb 22) for further details on the strategic rationale and valuations. We maintain our REDUCE rating on the stock.

An interesting (and on the face of it, expensive) acquisition at an interesting time. HCLT has announced an all-cash acquisition of US-based Capital Stream, Inc. for a consideration of US$40 mn. We do not have details on whether there are any earn-out considerations in the deal nor on the timeline of consummation of the deal. CST is a provider of lending (origination and STP) solutions, based on its proprietary platform FinanceCenter, to US commercial banks. We find the valuations (2X EV/Sales and 36X EV/ EBITDA, both on a trailing 12M basis) expensive, and the timing (amid the troubled times facing the US banking industry) interesting. We believe the acquisition may have the following strategic objectives:

- Complete the range of service offerings for the lending segment of the commercial banks
- Have a product in the overall portfolio to drive non-linear revenue growth (tough in our view, given that CST's product/platform addresses a relatively small portion of a commercial banks' IT spend)
- Gain a foothold in some of the large US BFS accounts and vie for a cross-sell of its other service offerings (applications, infrastructure management, BPO) to these clients. CST has a reasonable client portfolio including the likes of Bank of America, Bank of the West, TD Bank, RaboBank, National Bank of Canada and ScotiaBank, among others.

About Capital Stream, Inc. CST, established in 1995, is a US-based provider of loan origination and STP systems to the commercial banks in the US. It had revenues of US$20 mn and EBITDA of US$1 mn for CY2007. The company had private-equity investments from the likes of FT Ventures, Banc of America Technology Investments, Polaris Venture Partners, Mobius Venture Capital, Voyager Capital, and Benaroya Capital.

Construction

PUJL.BO, Rs371	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	500
52W High -Low (Rs)	589 - 142
Market Cap (Rs bn)	119.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	31.8	82.7	111.1
Net Profit (Rs bn)	1.4	3.3	5.7
EPS (Rs)	5.2	10.4	17.8
EPS gth	*151.9*	*98.4*	*72.4*
P/E (x)	71.1	35.8	20.8
EV/EBITDA (x)	34.6	20.2	12.8
Div yield (%)	0.1	0.2	0.4

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	47.5	-	-
FIIs	27.3	0.3	0.1
MFs	11.2	0.7	0.5
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Punj Lloyd: Revise earnings and estimates downwards, management reiterates ambitious growth trajectory

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- **Management reiterates ambitious growth trajectory—larger ticket size orders, newer segments, tie-ups, ramping up engineering design and oil field services subsidiaries**
- **Managing execution in relatively newer segments and geographies would be a challenge**
- **Revise estimates downwards based on lower-than-expected execution and order booking in 9MFY08**
- **Reduce DCF-based target price to Rs450 (from Rs500 earlier) and revise our rating to ADD from BUY earlier**

We highlight that in a recent meeting, the management reiterated its vision to be among the top engineering and construction players globally in the next five years. Key levers for its strong growth ambitions are larger ticket size orders, newer segments, tie-ups with infrastructure and real estate developers and ramping up engineering offshore and oil field services subsidiaries. We highlight challenges related to management bandwidth, availability of skilled employees, financial resources and managing newer segments and geographies. We revise our execution and earnings estimates downwards following lower-than-expected execution and order booking in 9MFY08. We revise our DCF-based target price to Rs450 (from Rs500 earlier) and rating to ADD from BUY earlier. We had previously revised our rating to BUY from REDUCE (on January 25, 2008) related to opportunities offered by significant correction in the stock.

Management reiterates ambitious growth trajectory—larger ticket size orders, newer segments, tie-ups, ramping up engineering offshore and oil field services subsidiaries

We highlight that in a recent meeting, the management reiterated its vision to be among the top engineering and construction players globally in the next five years. Key levers to achieve the vision included (a) increased ticket size of each individual order to about US$250 mn from US$150 mn currently, (b) enter newer segments like hydro-power and nuclear power plant construction, (c) leverage fabrication strength in PSL for offshore platforms, process vessels etc., (d) tie ups with other players for infrastructure development opportunities such as its recent tie-up with GMR for roads and the Bharti group for airport development to originate large construction contracts, (e) building strong engineering offshore services practice for in-house as well as third party work by ramping up Simon Carves India in terms of scope and client base, (f) increasing presence in oil field development services through its subsidiary, Punj Upstream Ltd. and (g) leveraging spending in geographies such as Middle East, South-East Asia, etc. apart from spending in India.

Managing execution in relatively newer segments and geographies with strong growth expectations would be a challenge

We highlight that managing execution of strong growth expectations would remain a challenge as (a) Punj Lloyd expands/ramps up presence in new geographies, (b) picks up larger projects in relatively newer segments, exposing itself to project related execution risks. Management bandwidth, availability of skilled employees, financial resources (high working capital involvement in the business) would also be significant constraints.

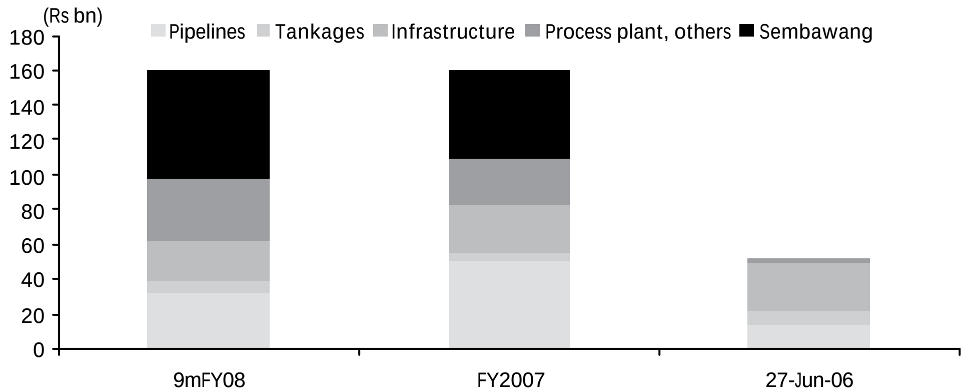
Revise estimates downwards based on lower-than-expected execution and order booking in 9MFY08

We revise our execution assumptions downwards following lower-than-expected execution in 3QFY07 as well as the decline in order backlog for Punj Lloyd group excluding Sembawang. We have lowered our revenue estimate for FY2008E and FY2009E to Rs82.7 bn and Rs111 bn, respectively, versus Rs89 bn and Rs121.5 bn earlier. We have revised our EPS estimate downwards to Rs10.4 and Rs17.8 for FY2008E and FY2009E, respectively, from Rs13.2 and Rs19.6 earlier. Other changes include lower interest and depreciation costs related to lower net debt levels and capital expenditure so far versus our expectation (Exhibits 1-4).

Reduce DCF-based target price to Rs450 (from Rs500 earlier) and revise rating to ADD from BUY earlier

We revise our DCF-based target price to Rs450 (from Rs500 earlier) and rating to ADD from BUY earlier (Exhibit 5). We had previously revised our rating to BUY from REDUCE on Punj Lloyd related to the opportunity offered by significant correction in the stock. We highlight relative valuations of Punj Lloyd —it trades at a significant premium to its construction peers such as Nagarjuna and IVRCL (21X FY2009E P/E versus 15-16X for Nagarjuna) and at a significant discount to Larsen and Toubro (26X P/E for FY2009E) (Exhibit 6). We have not adjusted our valuation of Punj Lloyd for any upside from potential IPO of Pipavav Shipyard. Our ADD rating is based on likely strong growth in both Punj Lloyd group as well as Sembawang led by order inflows (such as recent order for buildings in Singapore at Marina Bay) across various geographies and business segments.

Exhibit 1. Order backlog has increased substantially with the inclusion of Sembawang
Order backlog position of Punj Lloyd group, (Rs bn)



Source: Company, Kotak Institutional Equities.

Exhibit 2. We assume margin expansion for Sembawang as new orders (likely at higher margins) are booked
Snapshot of our estimates for Sembawang, March fiscal year-ends 2007-2010E, (Rs mn)

	FY2007	FY2008E	FY2009E	FY2010E	FY2011E	FY2012E
Revenues	21,321	32,648	46,545	57,845	72,889	90,181
Operating profit excluding other income	227	490	2,560	3,905	5,102	6,313
EBITDA margin (%)	*1.1*	*1.5*	*5.5*	*6.7*	*7.0*	*7.0*
Revenue growth (%)		38	43	24	26	24
Order booking (Rs mn)	25	46	60	78	98	117
Order backlog (Rs mn)	49	63	77	97	122	149

Source: Compnay data, Kotak Institutional Equities estimates.

Exhibit 3. Profit, balance sheet and cash flow model of Punj Lloyd consolidated, March fiscal year-ends 2007-2012E, (Rs mn)

Profit model	2007	2008E	2009E	2010E	2011E	2012E
Operating Income	**51,266**	**82,732**	**111,061**	**141,449**	**182,087**	**227,385**
PBDIT	**3,744**	**6,249**	**10,302**	**13,937**	**18,752**	**23,463**
Other Income	794	1,401	702	406	334	399
EBIDTA (incl other income)	**4,538**	**7,650**	**11,004**	**14,343**	**19,086**	**23,862**
Interest & Finance charges	1,185	1,347	1,266	1,404	1,637	1,819
Depreciation	1,062	1,394	1,596	1,832	2,094	2,392
Profit Before Tax	2,291	4,909	8,142	11,107	15,354	19,652
Tax	690	1,589	2,420	3,247	4,507	5,778
PAT	**1,969**	**3,320**	**5,722**	**7,861**	**10,847**	**13,873**
Ratios (%)						
Operating profit margin	*7.3*	*7.6*	*9.3*	*9.9*	*10.3*	*10.3*
EBIDTA margin	*8.9*	*9.2*	*9.9*	*10.1*	*10.5*	*10.5*
PAT margin	*3.8*	*4.0*	*5.2*	*5.6*	*6.0*	*6.1*
Growth (%)						
Sales	*204.3*	*61.4*	*34.2*	*27.4*	*28.7*	*24.9*
Operating profit	*96.0*	*66.9*	*64.8*	*35.3*	*34.5*	*25.1*
PAT	*264.1*	*68.6*	*72.4*	*37.4*	*38.0*	*27.9*
Balance sheet model						
Share Capital	523	601	601	601	601	601
Reserves & Surplus	12,267	25,896	30,948	37,889	47,467	59,717
Total shareholder's funds	**12,789**	**26,497**	**31,550**	**38,490**	**48,068**	**60,318**
Secured and unsecured loans	11,570	8,070	8,070	9,570	9,570	9,570
FCCB	5,423	5,423	5,423	5,423	5,423	5,423
Loan funds	**16,992**	**13,492**	**13,492**	**14,992**	**14,992**	**14,992**
Total Sources of Funds	**30,201**	**40,409**	**45,461**	**53,902**	**63,480**	**75,730**
Net Block	**13,182**	**13,573**	**15,228**	**16,896**	**18,801**	**20,910**
Investments	1,698	5,195	5,195	5,195	5,195	5,195
Cash and Bank Balances	10,027	6,080	410	(683)	44	1,793
Net current assets (excl. cash)	**5,146**	**15,412**	**24,480**	**32,345**	**39,290**	**47,684**
Total	**30,201**	**40,409**	**45,461**	**53,902**	**63,480**	**75,730**
Ratios						
Return on average Equity (%)	*16.4*	*16.9*	*19.7*	*22.4*	*25.1*	*25.6*
Return on average capital employed (%)	*9.1*	*11.1*	*14.5*	*16.9*	*19.5*	*20.8*
Book value per share (Rs)	*45.5*	*82.6*	*98.4*	*120.1*	*149.9*	*188.1*
Cash flow model						
Cashflow from operating activities						
Net profit before tax and extraordinary items	2,291	4,909	8,142	11,107	15,354	19,652
Add: Depreciation	1,062	1,394	1,596	1,832	2,094	2,392
Tax paid	(690)	(1,589)	(2,420)	(3,247)	(4,507)	(5,778)
Change in working capital	3,536	(10,266)	(9,069)	(7,865)	(6,945)	(8,393)
Net cashflow from operating activites	**6,199**	**(5,552)**	**(1,751)**	**1,827**	**5,996**	**7,872**
Cash from investing activites						
Fixed Assets	(7,223)	(1,786)	(3,250)	(3,500)	(4,000)	(4,500)
Investments	(1,283)	(3,497)	-	-	-	-
Cash (used) / realised in investing activities	**(8,506)**	**(5,283)**	**(3,250)**	**(3,500)**	**(4,000)**	**(4,500)**
Cash flow from financing activities						
Issue of share capital	(78)	10,679	-	-	-	-
Borrowings	11,427	(3,500)	-	1,500	-	-
Dividend and Dividend Tax paid	(92)	(291)	(669)	(920)	(1,269)	(1,623)
Cash (used) /realised in financing activities	**11,258**	**6,888**	**(669)**	**580**	**(1,269)**	**(1,623)**
Cash generated /utilised	9,112	(3,947)	(5,670)	(1,093)	727	1,749
Net cash at begn of year	1,122	10,027	6,080	410	(683)	44
Net cash at end of year	**10,233**	**6,080**	**410**	**(683)**	**44**	**1,793**

Source: Compnay data, Kotak Institutional Equities estimates.

Exhibit 4. Strong order inflows continue for Punj Lloyd so far in this financial year
Key orders won by Punj Lloyd in FY2008 so far (Rs mn)

Date	Segment	Area	Client	Value (Rs mn)	Group entity	Description
14-Feb-08	Civil, Infrastructure and Power	Buildings	Marina Bay Sands Pte Ltd, Singapore	11,192	Sembawang Engineers and Constructors	Construction of the North Podium in the integrated resort comprising casino, theatres and retail arcade
12-Dec-07	Process	Process	Indian Oil Corporation	5,900	Punj Lloyd	Construction of coker unit & block for the Vadodara refinery in Gujarat
30-Nov-07	Civil, Infrastructure and Power	Infrastructure	Land Transport Authority, Singapore	12,720	Sembawang Engineers and Constructors	Construction of the MRT station in Marina Bay in Singapore
5-Nov-07	Process	Process	Jurong Aromatics Corporation Pte Ltd, Singapore	17,700	Sembawang Engineers and Constructors	EPC work for a new mega aromatics plant at Jurong island
12-Oct-07	Oil and Gas	Pipeline	Qatar Petroleum	3,890	Punj Lloyd	EPC on LSTK basis of 46 km of 18" multi-product pipeline
6-Aug-07	Process	Process	Bharat Oman Refineries Limited	5,900	Punj Lloyd	Lump-sum turnkey contract for building a sulphur block at Bina Refinery
2-Aug-07	Civil, Infrastructure and Power	Buildings	Sentosa Pte Ltd, subsidiary of Genting Group	6,660	Sembawang Engineers and Constructors	Sub-structural works at Sentosa Integrated Resort Development
27-Jul-07	Oil and Gas	Pipeline	Reliance Gas Transportation Infrastructure Ltd	3,180	Punj Lloyd	Laying of pipeline & associated facilities for East-West Pipeline project
23-Jul-07	Oil and Gas	Tankage	Saudi Kayan Petrochemical Company (SABIC)	1587(a)	Dayim Punj Lloyd Construction Contracting Company Ltd	EPC of tanks at Jubail Industrial city, Saudi Arabia
20-Jul-07	Process	Process	Gulf Fluor	500(b)	Simon Carves Ltd.	Fluorides plant incorporating a new Sulphuric Acid plant
14-May-07	Oil and Gas	Pipeline	GAIL (India) Ltd	1,227	Punj Lloyd	Phase II of Panvel — Dabhol Pipeline
16-Apr-07	Oil and Gas	Pipeline	Oman Gas Company	5,300	Punj Lloyd	24", 40 Km pipeline
19-Apr-07	Oil and Gas	Pipeline	Ras Laffan Olefins Company Ltd, USA	1,935	Punj Lloyd	Ethylene pipeline
23-Apr-07	Oil and Gas	Pipeline	Reliance Gas Transportation Infrastructure Ltd	1,802	Punj Lloyd	48", 122 Km pipeline
Total				**79,492**		

(a) Estimated share of Punj Llyod

(b) Estimated order value

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 5. Punj Lloyd Consolidated- DCF model, March fiscal year-ends (Rs mn)

Rs mn	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	**51,266**	**82,732**	**111,061**	**141,449**	**182,087**	**227,385**	**279,286**	**338,594**	**402,981**	**463,428**	**532,942**	**612,883**
Revenue growth (%)		61.4	34.2	27.4	28.7	24.9	22.8	21.2	19.0	15.0	15.0	15.0
EBITDA	**3,744**	**6,249**	**10,302**	**13,937**	**18,752**	**23,463**	**28,884**	**35,055**	**41,747**	**48,660**	**55,959**	**64,353**
EBITDA (%)	7.3	7.6	9.3	9.9	10.3	10.3	10.3	10.4	10.4	10.5	10.5	10.5
Depreciation	(1,062)	(1,394)	(1,596)	(1,832)	(2,094)	(2,392)	(2,707)	(3,022)	(3,337)	(3,671)	(4,038)	(4,441)
EBIT	2,682	4,855	8,706	12,105	16,658	21,071	26,177	32,033	38,410	44,989	51,921	59,911
Tax	(543)	(1,449)	(2,439)	(3,376)	(4,680)	(5,931)	(7,384)	(9,045)	(10,852)	(14,846)	(17,134)	(19,771)
Change in net working capital	**3,536**	**(10,266)**	**(9,069)**	**(7,865)**	**(6,945)**	**(8,393)**	**(11,743)**	**(13,359)**	**(14,930)**	**(12,421)**	**(14,284)**	**(16,426)**
Capex	(7,223)	(1,786)	(3,250)	(3,500)	(4,000)	(4,500)	(4,500)	(4,500)	(4,500)	(4,634)	(5,329)	(6,129)
Free cash flow	**(485.5)**	**(7,251.6)**	**(4,456.1)**	**(804.5)**	**3,127.4**	**4,638.6**	**5,257.4**	**8,150.9**	**11,464.9**	**16,758.5**	**19,211.7**	**22,026.9**
PV of each cash flow		(7,251.6)	(4,456.1)	(715.1)	2,471.0	3,257.9	3,282.1	4,523.1	5,655.3	7,348.0	7,487.7	7,631.0
Capex (% of sales)		2.2	2.9	2.5	2.2	2.0	1.6	1.3	1.1	1.0	1.0	1.0

PV of cash flows	29,233	21%
PV of terminal value	106,834	79%
EV	136,067	100%
Debt	5,267	
Equity value	130,800	
Shares outstanding (mn)	300.6	
Equity value (Rs/share)	**435**	
Equity value (US$ mn)	**2,847**	
Exit FCF multiple (X)	**14.0**	
Exit EBITDA multiple (X)	**4.8**	

FCF in terminal year (Rs mn)	22,027
Exit FCF multiple: (1+g)/(WACC-g)	14.0
Terminal value of FCF (Rs mn)	308,376
Exit EBITDA multiple	4.8

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	7.5
Market risk premium—(Rm-Rf) (%)	5.5
Beta (x)	1.1
Cost of equity-Ke (%)	13.6
Cost of debt-Kd (%)	12.0
Tax rate (%)	33.9
Debt/Capital (%)	41.4
Equity/Capital (%)	58.6
WACC (%)	11.2
Used WACC (%)	12.5

Sensitivity of DCF value to WACC, Terminal Growth rate

		WACC				
		11.5	**12.0**	**12.5**	**13.0**	**13.5**
Terminal Growth rate (%)	**4.0**	469	427	390	358	329
	5.0	532	480	**435**	396	362
	6.0	618	551	494	445	404
	7.0	742	649	574	511	458
	8.0	937	797	689	603	533

Source: Company data, Kotak Institutional Equities estimates

Exhibit 6. Construction stocks trade at an average P/E of about 18X and EV/EBITDA of 11X based on FY2009 earnings

Comparison of valuation of various construction companies in India, March fiscal year-ends 2007-2009E (Rs bn)

	Revenues			EBITDA			EPS (Rs)			P/E (X)			EV/EBITDA (X)			EV/Sales (X)		
Company	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**
Nagarjuna Construction Company	28.7	36.0	49.0	2.7	4.2	5.6	7.3	9.2	12.7	26.4	20.9	15.1	19.8	12.3	9.5	1.9	1.4	1.1
Punj Lloyd Ltd.	51.3	82.7	111.1	3.7	6.2	10.3	6.1	10.4	17.8	60.4	35.8	20.8	33.6	20.2	12.8	2.5	1.5	1.2
IVRCL Infrastructure	23.1	35.1	49.0	2.3	3.6	5.2	10.5	13.5	20.4	30.9	24.1	15.9	17.8	10.9	7.9	1.8	1.1	0.8
Larsen & Toubro standalone	176.1	242.0	328.7	17.8	28.6	40.2	49.5	73.4	99.8	51.7	34.9	25.7	42.1	26.5	19.1	4.2	3.1	2.3
Sadbhav Engineering	4.9	8.5	13.4	0.6	1.0	1.7	23.7	45.0	74.0	37.1	19.5	11.9	21.2	11.2	6.6	2.5	1.4	0.8
Consolidated Construction Co.	8.6	17.1	24.1	0.7	1.7	2.5	14.3	32.6	48.1	63.9	28.1	19.1	44.6	18.7	12.6	3.8	1.9	1.3
Average										**45.1**	**27.2**	**18.1**	**26.9**	**16.2**	**11.2**	**2.6**	**1.7**	**1.3**

Note:

(1) For Nagarjuna - we have adjusted value of land bank (about Rs39/share), other BOT projects (Rs25/share) and investments (Rs20/share) for a total of Rs84/share

(2) For Punj Lloyd estimates are based on consolidated estimates as the company does not have any BOT projects

(3) For IVRCL we have adjusted value of IVR Prime (Rs70/share corresponding to IVR Prime price of Rs250/share) and other BOT projects for a total adjustment of Rs130/share

(4) For L&T we have deducted Rs900 per share as the value of subsdiaries/associates/JVs

(5) For Sadbhav Engineering we have deducted Rs385 per share (the value of BOT projects)

Source: Bloomberg, Kotak Institutional Equities

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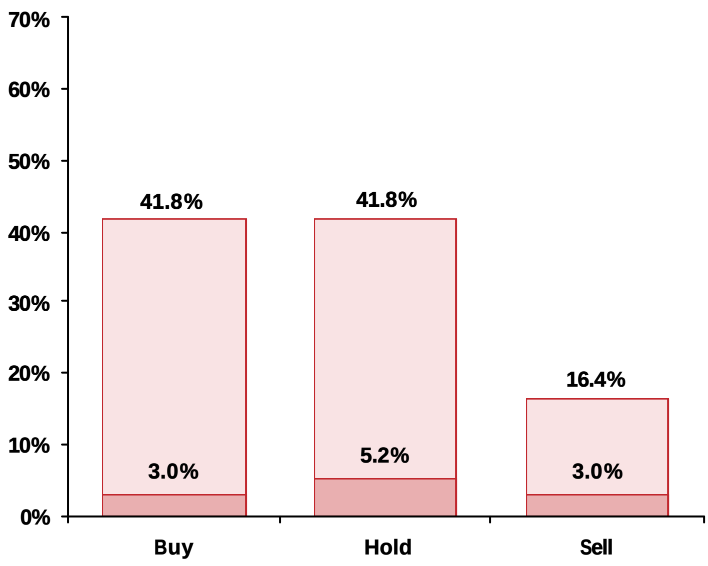

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