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#### New Release

**Vishal Retail:** Fortified model; funding constraints could impact growth

**Property:** Real Estate Tracker – August 5, 2008

**Consumer Products:** The gravy train

### News Roundup

#### Corporate

- Telecom regulator **TRAI** has recommended allowing Mobile Virtual Network Operators (MVNOs), whose business model involves buying air time from existing operators and then selling it under their own brand, to launch services in India. Mobile users can expect a sharp fall in tariffs and access to a range of sophisticated services if the government accepts this recommendation. (Media)
- **ICICI Bank**, the country's largest two-wheeler financier, is discontinuing loans for two-wheelers offered at the dealer's end from August 15. (ET)
- World's leading pharma and beauty retailer, **Boots Company**, has signed a Bharti-Wal-Mart type agreement with **Reliance Retail** (RRL) to enter India's health and wellness market. (ET)
- Top steel producers like **SAIL**, **Tata Steel**, **JSW** and **Essar** have decided not to raise steel prices even as the three-month price freeze ends on Thursday. (BS)
- Capt GR Gopinath may sell a 2% stake in **Air Deccan**, which is now being merged with **Kingfisher Airlines** (Mr. Gopinath holds 9.11% in Air Deccan, of which 7.11 is locked in). (ET)
- **Bharat Forge** plans to step into the manufacture of ultra heavy forgings catering to the power sector, including nuclear plants. (BL)

#### Economic and political

- The country's oil marketing companies may not get oil bonds in advance, as requested, because the finance ministry thinks a sudden rush of a large amount of these bonds in the credit market would impact their demand. (ET)
- The India-Asean free trade agreement (FTA) - which would result in duty free trade with Asean countries such as Malaysia and Singapore in most agriculture and industrial products over the next 10 years - is finally ready for take off as representatives meet in Brunei on August 7 to give a final push to the FTA and seal the deal. (ET)

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

### EQUITY MARKETS

India	Change, %			
	6-Aug	1-day	1-mo	3-mo
Sensex	15,074	0.8	11.4	(13.1)
Nifty	4,518	0.3	12.1	(12.0)

Global/Regional indices				
Dow Jones	11,656	0.3	3.8	(9.0)
FTSE	5,486	0.6	(0.5)	(12.4)
Nikkei	13,094	(1.2)	(2.0)	(7.2)
Hang Seng	22,039	0.4	0.6	(13.9)
KOSPI	1,562	(1.1)	(1.2)	(15.8)

Value traded - India				
	Moving avg, Rs bn			
	6-Aug	1-mo	3-mo	
Cash (NSE+BSE)	256.6	190.8	186.5	
Derivatives (NSE)	611.8	442.2	329	
Deri. open interest	688.7	688	695	

#### Forex/money market

	Change, basis points			
	6-Aug	1-day	1-mo	3-mo
Rs/US\$	42.1	0	(123)	71
6mo fwd prem, %	0.7	(25)	71	24

#### Net investment (US\$m)

	Change, %		
	5-Aug	MTD	CYTD
FIs	16	(168)	(6,914)
MFs	47	28	2,710

#### Top movers -3mo basis

Best performers	Change, %			
	6-Aug	1-day	1-mo	3-mo
UNITED PHOSPHOR	353	(2.2)	30.6	6.0
RANBAXY LABORA	513	(0.7)	(4.2)	10.0
CROMPTON GREAV	269	4.2	11.1	6.5
GLENMARK PHARV	670	1.6	11.2	(0.4)
CIPLA LTD	224	(0.9)	7.7	4.3

Worst performers				
UNITECH LIMITED	177	(2.6)	5.7	(42.0)
INDIABULLS REAL E	329	5.0	23.7	(39.2)
INDIABULLS FINANC	310	2.3	29.8	(40.7)
INFRASTRUCTURE D	106	1.6	(5.9)	(39.3)
HOUSING DEVELOP	482	(4.6)	14.4	(37.3)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

**Retail****VIRL.BO, Rs390**

Rating	ADD
Sector coverage view	-
Target Price (Rs)	485
52W High -Low (Rs)	1020 - 370
Market Cap (Rs bn)	8.7

**Financials**

Ma y/e	2008	2009E	2010E
Sales (Rs bn)	10.1	18.8	29.3
Net Profit (Rs bn)	0.4	0.5	0.8
EPS (Rs)	18.1	21.6	35.6
EPS gth	38.3	19.8	67.2
P/E (x)	21.6	18.1	10.9
EV/EBITDA (x)	10.9	7.4	5.6
Div yield (%)	0.0	0.0	0.0

**Vishal Retail: Funding constraints could impact growth**

Ravi Agrawal : ravi.agrawal@kotak.com, +91-22-66341348

- **Initiate with an ADD rating, P/E-based target price of Rs485, 23% upside**
- **Proposed 5X growth in retail space could get impacted by funding constraints**
- **Private labels to drive margins, offset by changing product-mix**
- **Key risks: Execution, macro headwinds, competition and political overtures**

Vishal Retail has transformed itself into an integrated retailer, diluting its dependence on apparel and creating a stronger framework for margins by increasing the share of its private labels. However, we believe Vishal's aggressive rollout plans might face funding constraints. We expect (1) 7 mn sq. ft of retail space by FY2011E (30% lower than management estimates) and (2) 44% CAGR in net profit during FY2008-11E.

**Initiate coverage with an ADD rating, P/E-based target price of Rs485, 23% upside**

We initiate with an ADD rating and P/E-based target price of Rs485, valuing Vishal at 12X FY2011E EPS discounted by 15% cost-of-equity over two years. Valuations have declined as markets focus on the pace of its rollouts. We believe Vishal will benefit from its 'value' model which has national scalability which offers it economies of scale.

**Proposed 5X growth in retail space could get impacted due to funding constraints**

We temper expectations for Vishal's aggressive 5X retail rollout plan by FY2011E, which will likely face funding constraints. We estimate total retail space addition of 5 mn sq. ft by FY2011E and total capex of Rs15 bn, fully funded by debt. There is reasonable clarity on retail additions in FY2009E, but future rollouts will also depend on equity infusion. We would await visibility on the pricing and scheduling of these infusions before taking them into account.

**Private labels to drive margins, offset by changing product-mix**

Vishal's product-mix is likely to undergo significant changes in the near future, with negative margin impact of higher FMCG sales offset by higher share of private labels. We expect same-store-sales to remain flat in FY2009E, impacted by negative growth in the apparels segment, moderating to 5% p.a during FY2010-11E. Vishal may also likely benefit in case of any realty slowdown due to its focus on Tier II/III cities.

**Key risks: Execution, macro headwinds, competition and political overtures**

Vishal's expansion plans are aggressive and fraught with execution risks. Inflation and economic slowdown are concerns given Vishal's concentration on lower income categories. The company's limited retail presence excludes a large segment of consumers, while the competition's plans could restrict its growth in smaller towns/cities. Organized retail could also get impacted by political fallout.

**Real Estate**

Sector coverage view Neutral

Company	Rating	Price, Rs	
		6-Aug	Target
MLife	BUY	483	810
Sobha	REDUCE	293	400
DLF	BUY	545	660
Unitech	REDUCE	177	190
HDIL	BUY	482	780
Puravankara P	REDUCE	208	220
Phoenix Mills	BUY	206	350
IVR Prime	BUY	188	360

**Real Estate Tracker—August 5, 2008**

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

**Outperformance.** The BSE Real Estate index gained 20% in the past month, outperforming the Sensex by 9%. 1QFY09 results for real estate companies showed decline in EBITDA margins due to the change in sales mix and increase in cost pressures. We observe EPS downgrades for most of the real estate companies post 1QFY09 results.

**Highlights for the fortnight ended Friday, August 5, 2008**

- Top gainers & losers for the week: Kolte Patil (20.5%), DLF (+17%), IVR Prime (2.5%), Jai Corp (-1.1%)
- The government cleared 29 SEZ proposals, 17 for the IT and ITeS sector in Kerala, Andhra Pradesh, Maharashtra and Karnataka
- Unitech and Parsvnath intend to raise money to fund their development plans

**Key investments**

- Redfort Capital has acquired a 49% stake in Godrej Genesis, an IT park project of Godrej Properties
- HDFC Property Ventures is investing US\$20-25 mn in a retail mall project in Bangalore to be developed by Nitesh Estates
- TAIB Bank picks up 26% stake for Rs2.2 bn in Anant Raj Projects, a subsidiary of Anant Raj Industries

**Key land deals**

- Metropolis Ltd has won an auction for a hotel plot in Navi Mumbai for Rs2.8 bn (at Rs60,000 sq. m)
- Young Builders has bought Delhi Metro's 2 ha land at Vishwavidyalaya metro station in North Delhi for Rs2.2 bn

**Key project announcements**

- DLF-Has launched a commercial project, 'DLF Plaza,' to be developed on 750,000 sq. ft in Lucknow
- Ansal Housing-Group Housing project 'Ansals Elegance' in Ghaziabad
- Uppal Group-Has tied up with Marriot International to set up a 5-star hotel in Gurgaon

## Market performance of Real Estate Companies

	Market cap. (US\$ mn)	Shares (in mn)	Last price (local curr.)	Change %						
				1 day	1 week	1 month	3 months	6 months	1 year	YTD
<b>Indian listed companies</b>										
DLF	22,382	1,705	552	7.3	17.0	32.9	(17.4)	(36.5)	(4.9)	(48.6)
Unitech	7,006	1,621	182	7.6	15.7	9.1	(40.8)	(53.4)	(30.2)	(62.9)
HDIL	2,573	214	505	5.7	13.9	22.5	(35.3)	(48.3)	1.1	(53.1)
BF Utilities	2,064	38	2,304	5.0	27.6	109.8	4.0	42.8	7.9	3.0
Indiabulls Real estate	1,921	258	314	3.5	18.8	12.1	(43.8)	(52.6)	(39.6)	(57.8)
Lanco Infratech	1,804	222	341	4.1	9.4	22.6	(35.2)	(36.2)	35.0	(59.6)
Jai Corp	1,799	178	424	1.3	(1.1)	44.0	(36.9)	(53.9)	85.1	(64.7)
Akruti City	1,190	67	750	2.1	6.5	3.0	(30.7)	(40.8)	44.7	(37.4)
Anant Raj Industries	1,107	295	158	4.6	13.9	20.7	(40.6)	(55.2)	(39.0)	(54.8)
Purvankara	1,061	213	209	0.7	15.7	22.5	(28.1)	(42.2)	-	(54.0)
Phoenix	654	136	203	10.0	9.5	47.4	(48.7)	(52.8)	(49.2)	(57.4)
Omaxe	564	174	137	7.3	18.1	7.2	(41.1)	(54.4)	-	(76.1)
Parsvnath	558	185	127	4.7	13.9	8.1	(44.9)	(56.7)	(61.8)	(71.9)
Sobha	502	73	290	7.4	18.8	13.4	(51.7)	(65.9)	(65.3)	(68.2)
Mahindra Lifespace	481	41	496	6.4	11.0	12.1	(12.8)	(21.2)	(8.9)	(41.5)
Brigade Enterprises	363	112	136	6.9	15.0	31.0	(31.3)	(56.6)	-	(64.2)
IVR Prime	289	64	189	4.0	2.5	7.6	(18.2)	(35.9)	-	(58.3)
Ajmera Realty	277	118	98	(2.1)	0.2	(4.5)	(47.2)	(67.0)	(71.8)	(76.1)
Ansal Properties	255	115	93	3.2	3.4	7.3	(46.5)	(63.0)	(62.3)	(78.1)
Orbit	233	36	270	5.0	11.2	1.7	(49.6)	(63.0)	(31.2)	(71.5)
Ganesh Housing	176	33	227	4.3	4.1	(3.4)	(33.9)	(60.3)	(42.7)	(67.4)
Kolte Patil Developers	154	75	86	0.2	20.5	76.7	(30.6)	(48.5)	-	(66.5)
BSEL Infrastructure	76	83	39	8.1	7.5	27.0	(24.4)	(34.4)	(37.5)	(58.3)
DS Kulkarni	50	22	95	0.6	3.4	0.1	(46.5)	(58.6)	(60.0)	(74.5)
Ansal Housing	41	17	102	8.4	10.5	7.0	(32.9)	(56.8)	(50.6)	(71.8)
<b>Foreign-listed companies</b>										
Indiabulls Properties Investment Trust	1,078	2,357	0.63	5.9	(2.3)	(29.2)	-	-	-	-
Hirco Plc	442	77	295	5.4	13.0	7.4	(20.3)	(21.9)	(23.9)	(22.0)
Ascendas India REIT	438	754	0.80	1.3	0.6	(4.2)	(37.5)	(30.4)	(42.9)	(37.5)
Ishaan	328	207	81	2.5	3.8	8.0	(13.1)	(28.8)	(21.0)	(23.8)
Unitech Corporate Park	313	360	45	(2.7)	(11.4)	(25.2)	(44.7)	(54.6)	(55.3)	(60.8)

Top quartile performers (75% to 100%)  
Bottom quartile performers (0% to 25%)

## Consensus estimates have gone down over the last month

Company	2009E			Change in 2009E (%)		2010E			Change in 2010E (%)	
	7-Dec-07	18-Jul-08	5-Aug-08	(A)	(B)	16-Apr-08	18-Jul-08	5-Aug-08	(C)	(B)
<b>Coverage companies</b>										
DLF Limited	53.3	54.2	53.2	(0.2)	(1.8)	72.7	66.2	64.1	(11.9)	(3.3)
Unitech	20.3	15.6	15.0	(26.1)	(3.5)	26.0	22.7	21.2	(18.3)	(6.5)
HDIL	77.2	74.1	70.6	(8.6)	(4.7)	111.9	102.7	95.6	(14.5)	(6.9)
Sobha Developers	46.9	42.0	39.8	(15.2)	(5.4)	77.0	55.8	61.9	(19.6)	10.9
Mahindra Lifespace Developers	32.0	32.0	32.1	0.2	—	50.6	48.1	64.1	26.6	33.1
IVR Prime	NA	27.6	15.5	—	(43.8)	47.8	37.9	17.1	(64.2)	(54.9)
Purvankara	23.0	17.8	15.5	(32.8)	(13.2)	31.4	26.8	22.3	(28.9)	(16.8)
Phoenix Mills	—	6.8	6.3	—	(6.7)	—	11.9	11.6	—	(2.1)
<b>Non-coverage companies</b>										
Akruti City	98.4	86.7	88.3	(10.3)	1.8	245.0	184.9	138.0	(43.7)	(25.4)
Anant Raj Industries	19.7	22.9	20.2	2.3	(12.0)	42.0	36.5	37.9	(9.9)	3.8
Parsvnath Developers	48.8	34.9	33.8	(30.8)	(3.2)	69.7	57.8	55.0	(21.2)	(5.0)
Omaxe	36.6	42.4	40.5	10.6	(4.5)	69.5	63.1	52.0	(25.2)	(17.6)
Ansal Properties & Infrastructure	45.3	32.1	32.1	(29.1)	—	—	37.6	37.6	—	—
Orbit Corp	91.0	89.6	61.4	(32.5)	(31.4)	148.8	103.1	103.1	(30.7)	0.0
DS Kulkarni	25.0	53.0	51.4	105.4	(3.1)	97.9	97.9	76.1	(22.3)	(22.3)
Indiabulls Real estate	—	14.0	12.6	—	(9.5)	—	37.8	36.2	—	(4.1)

Note:

(A) change (%) is measured from the base date of Dec 7, 2007.

(B) change (%) is measured from August 5, 2008.

(C) change (%) is measured from the base date of April 16, 2008.

Source: Bloomberg, Kotak Institutional Equities.

**Consumer products**

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		6-Aug	Target
Hindustan Unilk	REDUCE	246	260
ITC	BUY	190	230
Nestle India	ADD	1,637	1,900
Colgate-Palmo	ADD	428	420
SmithKilne Cor	BUY	666	800
Asian Paints	ADD	1,238	1,240
Jyothy Laborat	ADD	452	740
Lakshmi	OP	256	338
Tata Tea	BUY	723	1,100
Godrej Consun	ADD	125	140

**The gravy train**

Manoj Menon : manoj.menon@kotak.com, +91-22-6749-3391

- **Trend 1: Foodgrain consumption growing rapidly, to outstrip supply**
- **Trend 1.1: Demographics drive consumption up the food value chain**
- **Trend 2: Dairy becomes the protein of choice**
- **Trend 3: Supply-chain management becomes critical—needs and opportunity**
- **Opportunity for companies in agri-value chain, most visible in agri-inputs**

INDIA's appetite is growing in tandem with its buying power, making it the world's most attractive grocery bazaar. Changing consumption trends are creating opportunities across the food value chain. The higher demographic is eating more protein, fruit, vegetables and dairy and, at the bottom of the pyramid, millions are crossing the critical 'bread line'. Primary beneficiaries: agri-input players, followed by agri-output, processing and distribution.

**Trend 1: Foodgrain consumption growing rapidly, to outstrip supply**

Indian foodgrain production is at an inflection point with the race between production and consumption evenly matched. India will likely face a foodgrain deficit of 140 mn tons in 20 years if recent growth stagnation is not reversed. The poor quality of irrigation and the limitations in cropped area expansion call for a technological revolution in yield improvement.

**Trend 1.1: Demographics drive consumption up the food value chain**

Higher disposable income and urbanization is driving the consumption of protein rich food and fruits and vegetables. Consumption of the non-cereal basket is growing rapidly—with dairy and poultry the key beneficiaries. We see higher demand for fruits and vegetables propelling investment in the agri sector as well as improving rural income.

**Trend 2: Dairy becomes the protein of choice**

We focus on this opportunity as robust growth in demand and the salience of modern retail is driving growth in organized dairy. Higher purchasing power, increasing urbanization and retail modernization are driving China's dairy market—we see similar trends in India which, in our view, will sustain 6% demand growth. We believe opportunities exist for value-added milk product processing and in the more basic switch to packaged milk.

**Trend 3: Supply-chain management becomes critical—needs and opportunity**

We believe the assortment of procurement and distribution models attempted by retail businesses augurs well for the fruits and vegetables supply chain. Higher tax rates, intermediation costs and higher packaging costs keep the costs high and hence trim faster volume growth in food processing sector. Nevertheless, we believe that active private equity interest in the sector reinforces its strong outlook—we see opportunities across the food value chain in agri-input, output, processing enterprises and the agri-distribution sub-system.

**Opportunity for companies in agri-value chain, most visible in agri-inputs**

We believe that shifting food consumption habits, higher disposable incomes and active government support augur well for the agri-value chain, particularly agri inputs (seeds, fertilizer, plant protection and farm equipment). Active private equity interest in the food processing sector underscores the opportunity across the food value chain in agri-input, output, processing enterprises and the agri-distribution sub-system. We pick several listed companies as prime beneficiaries of these trends.

**Seeds, fertilizer and plant protection:** Tata Chemicals (NR), Rallis (NR), Advanta (NR), United Phosphorous (NR), Bayer Cropscience (NR), Monsanto (NR), Syngenta (NR).

**Farm equipment:** Jain Irrigation (NR), Kirloskar Brothers (NR), KSB Pumps (NR), Mahindra & Mahindra (ADD, Rs564, TP: Rs720).

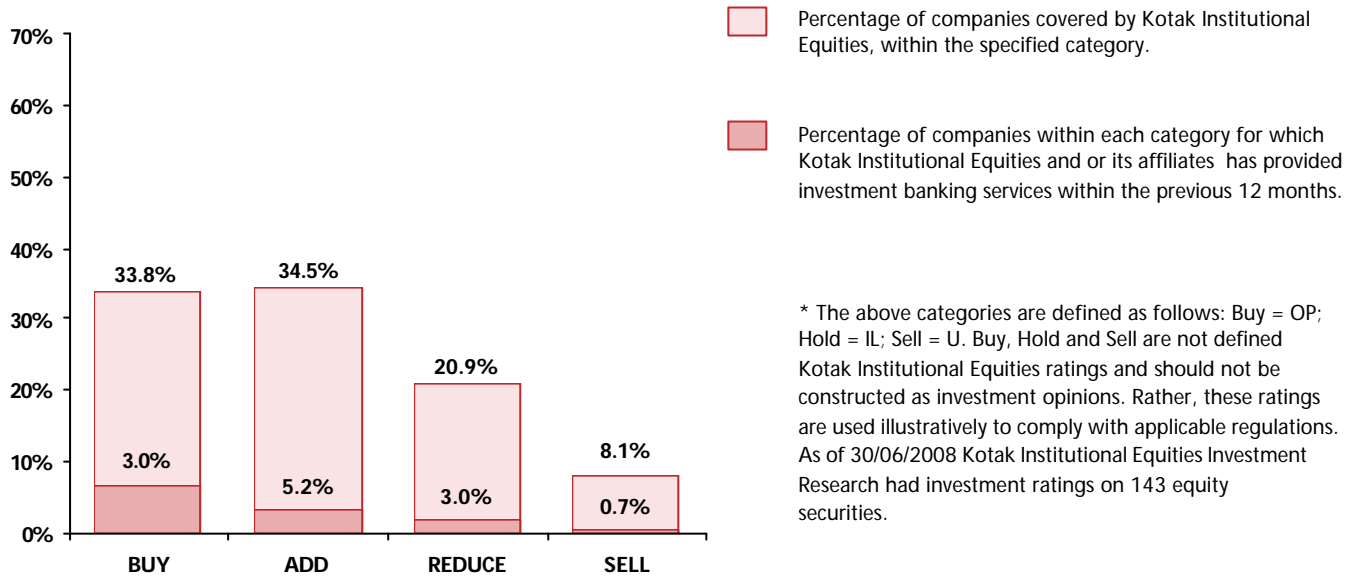
**Dairy and poultry:** Nestle India (ADD, Rs1637, TP: Rs1900), Hatsun Agro (NR), Heritage Foods (NR), Venky's (NR).

**Agri-distribution sub-systems and secondary beneficiaries:** ITC (BUY, Rs190, TP: Rs230), Hindustan Unilever (REDUCE, Rs246, TP: Rs260), Voltas (NR), Blue Star (NR)

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of June 30, 2008

### Ratings and other definitions/identifiers

#### Rating system

Definitions of ratings

**BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

**REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

**SELL:** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

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**Corporate Office  
Kotak Securities Ltd.**

Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

**Overseas Offices****Kotak Mahindra (UK) Ltd.**

6th Floor, Portsoken House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

**Kotak Mahindra Inc.**

50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel: +1-914-997-6120

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**Kotak Securities Ltd.**

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453