

VISIT NOTE

Major shareholders (%)

Promoters	26
FII's	45
MF's	1
Public & Others	28

Note: As per IBFSL shareholding – 1:1 swap ratio for de-merger.

Indiabulls Real Estate Ltd.

Not Rated

Price: Not Listed

BSE Index: 12697

7th March 2007

We recently met the management of Indiabulls Real Estate Limited (IBREL) and following are the key takeaways from the meeting:

- Primarily a retail financial services group, Indiabulls ventured into real estate business in the year 2005 through its associate companies.
- IBREL which would be the umbrella company of the group's investments in real estate undertakings has been de-merged from Indiabulls Financial Services Limited (IBFSL) w.e.f. 20th December 2006 and 9th January 2007 was fixed as the record date for the same. The swap ratio for the de-merger is 1:1 (for every one share of IBFSL of face value Rs. 2, investors will get one share of IBREL of face value Rs. 2).
- IBREL has number of subsidiaries engaged in development of real estate and construction. Prominent among them are: Indiabulls Properties Private Limited (IPPL), Indiabulls Real Estate Company Private Limited (IRECPL), Indiabulls Estate Limited (IEL), Indiabulls Infrastructure Limited (IIL) and Indiabulls Infrastructure Development Limited (IIDL).
- The company currently is focusing on Tier I cities and its peripheral areas. It currently has exposure to Mumbai, Raigarh, Delhi, Gurgaon and Sonapat.
- The company plans to develop ~265 mn sq.ft. (msf) of saleable area comprising of residential developments (0.5% of total saleable area), office space (1.3% of total saleable area), townships (6.4% of total saleable area) and SEZ (91.8%).

Indiabulls group has established a strong foothold with its initial projects in Mumbai and Delhi. To grow this business on a larger scale, the company has embarked on an ambitious multi-product SEZ in Raigarh, Maharashtra. With little clarity on the Government's SEZ policy and its very proximate location to the Reliance Mahamumbai SEZ, we feel that this project might take a longer period to see the light of the day. Besides, being a new entrant in the sector, its execution capabilities are also yet to be established. Currently, we do not have rating on the stock.

Background

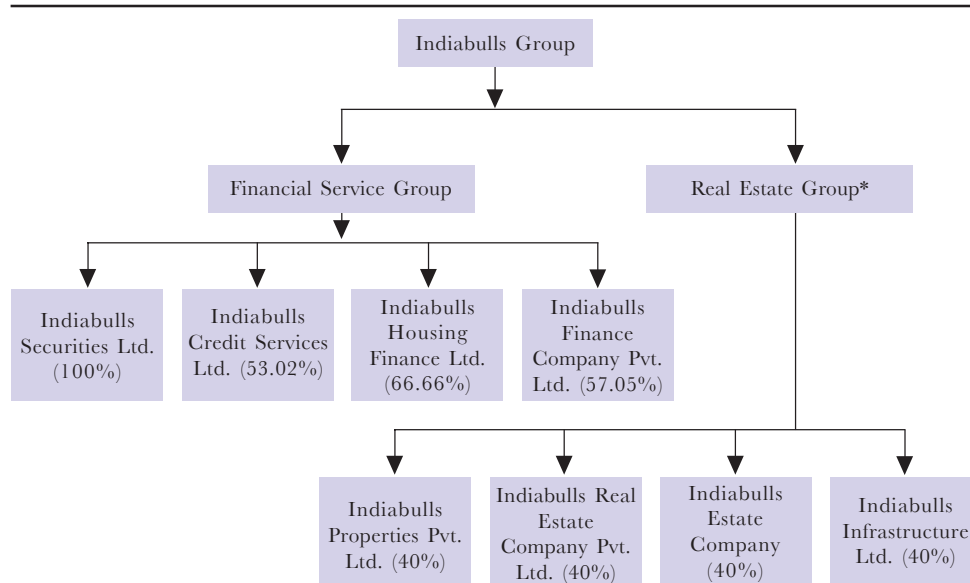
Indiabulls group through its associate companies entered into real estate development in March 2005 to exploit opportunities in an unorganised industry with attractive margins. It became the first company to bring Foreign Direct Investment (FDI) in Indian real estate through a joint venture with Farallon Capital Management LLC, a US-based investment firm. Farallon Capital made the first real estate related FDI investment in Indiabulls to buy Jupiter Mills immediately after the new FDI guidelines were introduced by the Government of India for real estate development in March 2005. The company till date has received FDI to the tune of US\$ 550 mn.

In order to maximise shareholders wealth, the company decided to de-merge its real estate business into a separate entity so that shareholders can participate directly in both financial services and real estate development business. With effect from 20th December 2006, the umbrella company for the real estate business "Indiabulls Real Estate Limited (IBREL)" has been de-merged from the flagship company IBFSL.

Plans to develop ~265 msf of saleable area

Currently, the company's real estate business has presence in NCR market and Mumbai metropolitan and, is developing office space, high end residential apartments, townships and SEZs. The company plans to develop ~265 msf of saleable area.

Business overview



*As on 31st March 2006. Source: Annual Report.

The realty company IBREL which would be the umbrella company of the group's investments in real estate undertakings has been de-merged from IBFSL w.e.f 20th December 2006 and 9th January 2007 was fixed as the record date for the same. The swap ratio for the de-merger scheme is 1:1; i.e., for every one share of IBFSL, investors will get one share of IBREL. The company has plans to develop residential developments, office space, townships and SEZ.

Group's real estate undertakings

Indiabulls Properties Private Limited (IPPL): IPPL was incorporated on 18th March 2005. As on 31st March 2006, IBFSL owned 40% stake in the company, whereas the balance 60% was held by FIM Limited, a company incorporated in Mauritius (wholly owned by Farallon Capital partnerships). IPPL acquired the 11 acre site of Jupiter Mills auctioned by NTC in Mumbai for a total consideration of Rs. 2,765 mn and is currently developing a world-class IT office complex on the site with an expected leasable square footage of over two million square feet. Jupiter Mills was acquired for a consideration of Rs. 250 mn per acre.

Indiabulls Real Estate Company Private Limited (IRECPL): Incorporated on May 10, 2005, IRECPL participated in the bid of Elphinstone Spinning & Weaving Mill carried out by NTC and successfully acquired the 8 acre site for a total consideration of Rs. 4,418 mn. It is currently developing a world-class IT office complex on the site with an expected leasable square footage of ~1.5 msf. As on 31st March 2006, IBFSL owned 40% of IRECPL and FIM Ltd. owned 60%. IBFSL in December 2006 increased its equity stake in (IRECPL) to 50.5% through conversion of optionally convertible debentures held by the company in IRECPL amounting to Rs. 823 mn. The rest of the stake of 49.5% stake in IRECPL is held by FIM Ltd.

Indiabulls Estate Limited (IEL): IEL (incorporated on 21st November 2005) has acquired around 150 acre land in Sonapat, a part of the National Capital Region and a rapidly developing suburb of Delhi. The company plans to build a mega township on the site. As on 31st March 2006, IBREL owned 40% of IEL and FIM Ltd. owned 60%. Under certain conditions, Indiabulls can exercise its right to purchase shares from FIM Ltd. and increase its ownership to 50.5%.

Indiabulls Infrastructure Limited (IIL): IIL (incorporated on 21st November 2005) through its wholly owned subsidiary owns 50% shareholding in Kenneth Builders & Developers Private Limited (a 50:50 joint venture with DLF) a company that recently won the auction of 35.8 acres of residential land located in South Delhi offered in a public-private partnership project by the Delhi Development Authority (DDA). The JV acquired this land for the consideration of Rs. 4,500 mn and would be developing a premium-end residential property in NCR. Effective share of the company IBREL in this project stands at 25.5%.

Indiabulls Infrastructure Development Limited (IIDL): IIDL has received an “in-principle” approval from Department of Commerce (SEZ Section), Ministry of Commerce & Industry, Government of India for development of a multi-product Special Economic Zone (SEZ) in the State of Maharashtra. The project would be spread over 6,000 acres in Raigarh, Maharashtra. As per the company’s announcement, Karrick and FIM Holding B have bought 13.33% equity in IIL for Rs. 4,470 mn. While, Karrick has bought 3.33% equity in IIDL for Rs. 1,118 mn on behalf of LN Mittal, FIM Holding B has acquired 10% equity in IIL for Rs. 3,352 mn.

Indiabulls Buildcon Limited (IBL): FIM Limited holds 36% stake in IBL with an investment of Rs. 150 mn, whereas the balance 64% is held by IBFSL. The company has been incorporated primarily with the object of engaging and participating in the construction development projects of the company.

Noble Realtors Limited: The company has also acquired 100% of the equity share capital of Noble Realtors Pvt. Ltd. The company is engaged in the business of construction and development of real estate projects.

Share capital on listing

The company as per the de-merger scheme approved by High Court has issued shares in the ratio of 1:1, one share of IBREL of face value Rs. 2 for every share held in IBFSL. Post listing, IBREL will have paid-up share capital of approximately Rs. 337 mn (face value Rs. 2 per share).

Geographical presence

The company currently is concentrating on markets with substantial growth opportunities and demand for commercial as well as residential space. It currently has presence in Delhi (NCR), Mumbai and their peripheral areas like Sonapat, Gurgaon and Raigarh. The demand for real estate in these areas is driven by fundamental of job creation and capital flows.

Post listing share capital of Rs. 337 mn subdivided into 168.7 mn shares

Geographical spread

Geographically present in NCR realty market and Mumbai Metropolitan



Proposed projects

The company recently got a valuation report done for 6 of its real estate properties under development that will be held under IBREL by the real estate consultant, Knight Frank (KF). Projects valued by KF comprise of office space development (Jupiter & Elphinstone), residential development (Tehkhand), townships and SEZ. These 6 projects would lead to development of ~265 msf of saleable area. Apart from the projects valued by KF, the company has few more projects in the pipeline.

Ongoing and proposed projects

Project	Location	Land (acres)	Land status	Type	Saleable area (msf)
Jupiter Mill	Mumbai	11.0	Owned	Office space	2.1
Elphinstone Mill	Mumbai	8.0	Owned	Office space	1.4
Tehkhand Housing	South Delhi	35.8	Owned	Residential	1.2
Sonepat Township	NCR	150.0	Owned	Residential	12.2
				Commercial	2.8
Gurgaon Housing	NCR	–	Owned	Residential	1.2
				Commercial	0.8
Multi-product SEZ	MH	6,000.0	Acquisition in process	Residential	98.0
				Commercial	53.8
				Industrial	91.5
Total					265.0

Source: Company

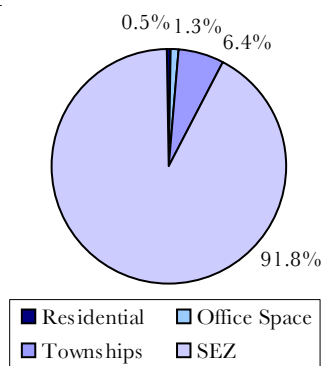
Seeing the long-term growth opportunity in SEZ development space, the company has planned to develop a multi-product SEZ in Raigarh (MH) spread over 6,000 acres. The company has received in-principle approval from Board of Approval (BOA). The company's SEZ is strategically located near Rewas Port, Reliance Industries proposed SEZ in Navi Mumbai, Trans-harbour link and New International Airport which would be beneficial for the company in longer run. This SEZ is situated at a strategic location considering the future point of growth in terms of connectivity from the Mumbai-Pune expressway, the new international airport at Panvel. The Mahamumbai (Reliance Industries SEZ) will further create demand of land for support functions or ancillary business. The company has received in-principle approval and has begun land acquisition.

Business strategy

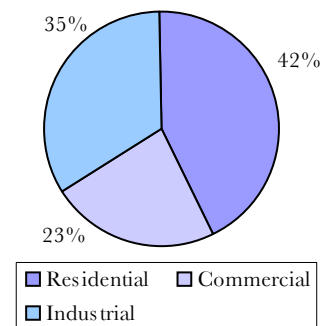
Diversified project portfolio: The company has a diversified project portfolio comprising of residential, commercial, townships and SEZ projects. The company plans to develop around ~265 msf of saleable area. As far as business segments are concerned, standalone apartments would account for ~0.5%, office space accounts for ~1.3%, townships ~6.4% and SEZs ~91.8%. However, within the SEZ, residential space would account for ~42.5% (including standalone apartments, residential development in townships and residential space in SEZ) of the total saleable area, commercial (including office space, commercial space in townships and SEZ) would account for ~23% and industrial development ~34.5%.

SEZ to account for ~91.8% of total saleable area

Break-up – Business segment-wise



Break-up – Usage-wise



Revenue model: The company plans to follow 'Develop and Sell' model with regards to its developed residential projects. For the commercial projects and SEZ, the company would be following 'Develop and Lease' model.

Fund raising

The company in order to raise funds has recently entered into an agreement with an overseas real estate company Dev Property Development, a company incorporated in Isle of Man and listed at Alternative Investment Market (AIM). Dev Property through its public issue raised around Rs. 12 bn. As per the agreement out of Rs. 12 bn, Dev Property would invest around Rs. 10.55 bn in few development projects of IBREL. Dev Property would subscribe to new shares and also acquire a minority shareholding from the company. As part of the series of transactions, the company would receive a total consideration of Rs. 4,374 mn for sale of partial stake in IPPL and IRECPL. Additionally, IPPL, IRECPL and IIDL will receive a total of Rs. 6,179 mn as fresh equity capital from subsidiaries of Dev.

Dev Property Development to invest Rs. 10.55 bn in IBREL

Concerns

New entrant: The success of real estate business depends on local know how, knowledge of land laws & regulations, player's ability to anticipate and respond to consumers demand both in terms of location and type of projects. Indiabulls being a new entrant to the real estate business might face all these problems which may impact the company's performance going forward. Moreover, the ability to sell projects at a premium is normally on the track record and nature of work undertaken. Indiabulls being a new entrant might face difficulties on this account.

Rising interest rates may impact affordability

Rising interest rate: A large number of customers, especially buyers of residential properties finance their purchases through mortgages. The availing of home loans for residential properties had become particularly attractive due to easier availability, lower interest rates, income tax benefits and high disposable income. The availability of home loans may however, be affected if such income tax benefits are withdrawn or the interest rates on such loans continue to increase or there is decrease in the availability of home loans. Of late, interest rates are continuing to rise which may result in postponement of the decision to purchase residential properties and may consequently affect the demand for properties.

Real estate market prone to cyclicalities

Slowdown in real estate demand: Since 2004, most real estate companies have reported strong growth in profitability on the back of rising property prices. Profitability of the industry being dependent on property prices exposes the companies to vagaries and speculative forces of property market. The real estate market is prone to cyclicalities and a downturn was last witnessed in the late 90s in major urban centres. Release of large supplies of land into a particular locality also has a bearing on realisations. Any such scenario of supply outpacing the demand may have significant impact on prices and margins. Furthermore, the government policies and regulatory changes may also lead to slowdown in real estate demand. Regulations in terms of monetary policy and fiscal incentives also play a crucial role in real estate market.

Valuation by Knight Frank

Knight Frank has estimated the present value of 100% of the six development projects at around Rs. 216 bn. The total present value of IBREL's effective ownership (post conversion of debentures) in the project companies undertaking the proposed developments is Rs. 151 bn. The company would issue 168.7 mn shares in the ratio 1:1, (for every share held in IBFSL one share of IBREL) with record date as 9th January 2007.

KF's valuation summary

Project	Cost (Rs. mn)	PV of proposed development (Rs. mn)	Indiabull's share	
			(%)	(Rs. mn)
Jupiter Mill	2,766	45,647	50.5*	23,052
Elphinstone Mill	4,415	30,834	50.5*	15,571
Tehkhand Housing	4,500	5,195	25.5	1,325
Sonepat Township	–	16,850	51.0	8,594
Gurgaon Housing	–	8,481	100.0	8,481
Multi Product SEZ	–	108,683	86.7	94,228
Total		215,690		151,250

*Considering Indiabulls exercise its right to purchase shares from FIM Ltd. and increase its ownership to 50.5%. Source: <http://www.nseindia.com>

The company recently got a valuation report done by Knight Frank for its real estate properties that will be held under IBREL. As per Knight Frank, the total value of the 6 development projects mentioned above in the table is estimated at approximately Rs. 216 bn. The company's effective share in the total present value of these 6 projects is estimated at approximately Rs. 151 bn. SEZ valuation here accounts for ~62% of the total value of the IBREL. Excluding the valuation of the SEZ project, IBREL's value stands at approximately Rs. 57 bn.

B&K's view

Real estate sector in India is witnessing good opportunities where sustained economic development and strong demand growth from emerging middle class is driving growth. This US\$ 16 bn market is slated to touch US\$ 60 bn by 2010 primarily due to easy availability of loans, increased affordability, reducing household size and increasing urbanisation. However, with the interest rates firming up in the recent past, RBI applying brakes on real estate funding by banks and housing finance companies and sharp run up in the property prices are the key risks to demand for real estate.

Indiabulls group has established a strong foothold with its initial projects in Mumbai and Delhi. To grow this business on a larger scale, the company has embarked on an ambitious multi-product SEZ in Raigarh, Maharashtra. With little clarity on the Government's SEZ policy and its very proximate location to the Reliance Mahamumbai SEZ, we feel that this project might take a longer period to see the light of the day. Besides, being a new entrant in the sector, its execution capabilities are also yet to be established. Currently, we do not have rating on the stock.

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