Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
3i Infotech	06-Oct-05	132	**180**	244
BEL	26-Sep-06	1,108	**1,124**	1,525
India Cements	28-Sep-06	220	**218**	315
Lupin	06-Jan-06	403	**506**	565
UTI Bank	24-Feb-05	229	**480**	490

Sharekhan Special

India-USA nuclear deal

Key points

- On November 17, 2006 the US Senate passed the bill to implement civilian nuclear energy cooperation with India. During July 2005, India and the USA had reached an agreement on the separation of civil and military nuclear plants and technology transfer for civil nuclear plants.
- The Indo-US nuke deal brings a reliable source of nuclear technology that can be exploited to set up nuclear power plants in India. This in turn could possibly go a long way in quenching India's current and projected thirst for power. Needless to say that the companies like BHEL, Larsen & Toubro, KSB Pumps and Honeywell Automation that provide products and services for nuclear power plants would be the primary beneficiaries in this scenario.
- India's power generation today is approximately 15% below the actual consumption. As per the energy and resources institute (TERI) the projected economic growth of 7-8% over the next 20 years will quadruple India's energy needs.
- Coal, the main source of India's energy needs today, is peaking its exploitation and the gas supply from Iran via a pipeline is unlikely to materialise due to the US opposition.
- Hence if India's power generation has to keep pace with the burgeoning economy, nuclear power has to provide a significant component of it, as opposed to its current contribution of 3%. A very plausible scenario to look at is the building of nuclear power plants with the help of the USA.

Background of the Indo-US nuke deal

On November 17, 2006 the US Senate passed the bill to implement civilian nuclear energy cooperation with India, with a majority of 85:12. A total of 18 amendments were proposed during the debate and all "Killer" amendments were rejected. The amendments that would have either wrecked the deal, forced renegotiation or made the implementation stage quite difficult, were part of the rejected "Killer" changes.

Circa July 2005: India and the USA reached an agreement on the separation of civil and military nuclear plants and technology transfer for civil nuclear plants. The USA would help develop the civil nuclear power programme in India in return for New Delhi placing its civil nuclear facilities under safeguards of the International Atomic Energy Agency (IAEA).

Circa March 2006: India and the USA crossed a major milestone in civil nuclear cooperation after the Prime Minister, Dr Manmohan Singh, and the visiting US President, Mr George Bush, reached an understanding on the implementation of the July 2005 agreement on this issue. India had agreed that 14 of its civilian nuclear reactors would be open to international safeguards.

Since the meeting in March this year there has been much debate on both sides about the logic, benefit and timing of the deal. The placing of the fast-breeder programme, the bedrock of India's strategic weapons programme, under IAEA was the bone of contention for India. There were also internal differences on the possible impact of the deal on our nuclear programme. For the USA, there was a furore about making exceptions about declassifying nuclear secrets to a nation that was not a signatory to the Non Proliferation Treaty (NPT).

The USA also needed approval of both the houses to waive some provisions of the Atomic Energy Act to ratify the treaty. Finally given the trust placed on India due to its relatively clean past in terms of non proliferation and the geo-economical importance of India to the USA, the deal was passed.

So what's next?

Now that the Senate has approved the bill, it will have to reconcile the differences with the House of Representatives' version of the bill, and then both the chambers would have to vote again on a final bill in December 2006. Once this is done the Nuclear Supplier Group will be approached to adjust its guideline for India and the IAEA will be persuaded to fashion an appropriate India-specific safeguards agreement.

Indo-US nuke deal—benefits for India

The Indo-US nuke deal brings three key advantages for India.

1) A reliable source of commercial nuclear technology will open up for India that could possibly go a long way in quenching India's current and projected thirst for power.
2) US interests in India will be tied down for a long time to come.
3) India will be at the receiving end of huge foreign direct investment (FDI) into the country. Needless to say that the companies providing products and services for nuclear power plants would be the primary beneficiaries.

Current power generation in India—around 15% short of consumption...

India's power generation today is approximately 15% below the actual consumption. This results in perpetual power shortages and outages. This gap will grow in the next 10 years, as India moves up the ladder towards the developed world. The projected economic growth of 7-8% over the next 20 years will quadruple India's energy needs as per TERI.

About 65% of the power in India is generated by coal fired thermal power stations. Gas, hydropower, wind and nuclear power plants generate the remaining 35% of the power. Hydroelectric power provides 15% of India's power needs with gas providing an additional 10%. A mere 3% of the power is generated by nuclear energy. A cluster of local captive power plants built to meet local needs provide the remaining power needs. The above situation is unlikely to change in the near future unless an un-interrupted very cheap supply of gas comes to India or nuclear power plants are built in quick succession.

...nuclear energy—inevitable for bridging shortage gap

Coal, the main source of India's energy needs today, has peaked its exploitation. The gas supply from Iran via a pipeline is unlikely to materialise due to the US opposition and the unpredictable behaviour of Pakistan, the middleman in the gas supply scenario. As a result a host of supply sources like nuclear energy have to be explored. Hence if India's power generation has to keep pace with the burgeoning economy, nuclear power has to provide a significant component of the deficit. A very plausible scenario to look at is the building of nuclear power plants with US aid.

So what does the deal bring in for Indian Inc???

A nuclear power project requires many conventional items apart from the nuclear reactor components. However, the projects are also required to meet more stringent quality requirements and subjected to elaborate inspection and testing. In a typical nuclear power plant, the design and supply of the nuclear reactor is the onus of the technology provider. However its erection and other engineering and installation works is the area of expertise of an EPC contractor. In India, Larsen & Toubro and BHEL are the foremost EPC contractors that have the expertise and experience of erecting a nuclear power plant. In the following exhibit we have indicated the key products and services that are required for the erection of a nuclear power plant. Also we have given an indicative list of the companies that are capable of supplying these products and services. While preparing the indicative list we have considered the past supply experience of these companies as far as nuclear power plants are concerned.

In a nutshell

The Indo-US nuclear deal is a golden opportunity to tie down US interests in India. The economic development will receive a much-needed shot in the arm. The US businesses will consider India as a better place to do business and divert FDI funds from China to India. In addition the nuclear power plants will go a long way to quench India's growing thirst for power. Needless to say that the companies like BHEL, L&T, KSB Pumps and Honeywell Automation that provide products and services for nuclear power plants would be the primary beneficiaries in this scenario.

Products and services	Companies who provide them
Project handling (EPC contractor)	L&T, BHEL
Civil construction works	L&T, HCC, Gammon
Nuclear reactor	L&T
Boiler	BHEL
Boiler feed pumps	KSB, Kirloskar Brothers, Mather & Platt, Jyoti Ltd, Bharat Pumps and Compressors
Steam turbine	BHEL
Valves	BHEL, L&T, KSB
Cooling water condenser	BHEL, L&T
Heat exchanger	Alpha Laval, GEI Hammon
Pipes	Maharashtra Seamless, Ratnamani Metals and Tubes
Control panels	Honeywell Automation
Consulting and engineering service	Rolta India (technological tie-up with Stone & Webster)

Real estate

Sharekhan Sector Special

Realty rules

Things couldn't have been better for the real estate companies. The property prices have skyrocketed on the back of a robust demand environment. On the other hand, their ability to raise financial resources has also improved considerably, given the huge amount of foreign investments flowing into the Indian real estate sector, through real estate private equity funds and project specific joint ventures with leading overseas real estate companies. No wonder, ambitions have also soared and many domestic real estate players are looking at significantly scaling up their operations to effectively monetise the large land bank amassed by them.

Right on cue, the real estate companies have caught the fancy of investors on the domestic bourses. The valuation of the listed real estate companies with large land banks are piercing through the skies and the public offerings are also being lapped up with real enthusiasm. For instance, the recent initial public offering from Parsvnath Developers to raise close to Rs1,000 crore received a stupendous response with oversubscription of around 62 times! Many other real estate developers like Sobha Developers and DLF have also lined up their public offers. With so much happening, one could ignore the sector at his peril and so a comparative study was carried out by our research team to identify some promising investment options. This report also presents summarised profiles of prominent players in the sector.

Comparative analysis

In this report, we have also ranked some of the listed companies with reasonably large land banks based on quantitative as well as qualitative parameters. The transparency of a company's management and its ability to effectively monetise the available land bank are important qualitative factors that influence the valuations of its stock and have been given 25% weightage.

In case of quantitative parameters, we have estimated the potential revenues and earnings that could be generated from the existing land bank of a company. The ratio of the current market capitalisation to the discounted value of the estimated earnings is the key parameter used for the comparative analysis and carries 50% weightage in determining the overall ranking. The potential upside from the large projects in the pipeline, like the proposed special economic zones (SEZs) and information technology (IT) parks, has also been assigned 25% weightage for the comparison.

Cheaper is not always better, qualitative factors also matter

Companies	Saleable area (msf)	Mcap/ DV* of earnings	Comments
Ansal Housing	18.3	2.4	Relatively lower valuations as bulk of its land bank is located in suburbs of tier-II and tier-III cities; integrated township projects have higher gestation period.
Ansal API	125.5	2.6	Significant size of land bank (around 6,000 acre) consolidated under listed entity but highly dependent on its 2,000-acre mega township project at Lucknow.
Unitech	473.0	3.0	Huge land bank of 10,330 acre which is well diversified and spread largely across tier-I and tier-II cities; proven track record in terms of execution skills to manage large projects and superior quality of construction.
Anant Raj	23.5	3.4	Low-cost land bank concentrated in lucrative market of NCR; rental income from already leased commercial properties to provide steady and alternate source of revenues.
DS Kulkarni	9.1	3.6	Established name in Pune with large low-cost land bank but lack of transparency in transfer pricing among group companies is a drag on stock's valuations.
Arihant Foundation	6.8	4.0	Largely concentrated in Chennai and heavy dependence on success of two large projects.
Prajay Engineers	18.0	4.2	Limited geographical diversification and higher execution risk; has advantage of steady income from hotel business.

*DV: discounted value of estimated earnings from the existing land bank

Notes: - Estimated earnings (from the existing land bank) discounted at 15% for seven years in case of all the companies
- Equity dilution already announced is factored in the calculations

Possible value boosters

There is huge value in the large projects (especially the SEZs) that have been proposed (and in some cases, that have also received the in-principle approval) by the companies under our coverage. If these projects do materialise, the same can result in a significant re-rating of the stocks. For instance, the success of the proposed mega SEZ projects could significantly influence Unitech's valuations in future.

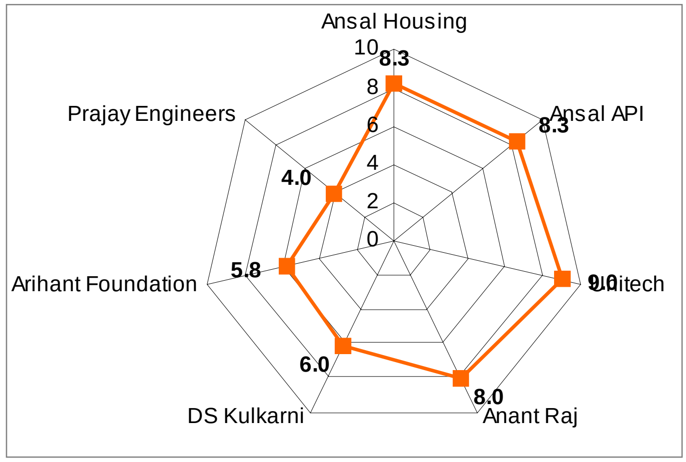
Additional factors (option value)

	SEZ		Other value/comments
	Nos	Total acre	
Ansal Housing	-	-	Is aggressively looking at further augmenting its land bank in tier-III cities.
Ansal API	1	75	Looking at developing an SEZ spread over 2,500 acre in Rajasthan.
Unitech	2	58,000	Has received in-principle approval for 20,000-acre SEZ in Haryana; another 38,000-acre SEZ is planned in West Bengal as part of a three-way consortium.
Anant Raj	3	708	Second SEZ of 600 acre has not been approved yet.
DS Kulkarni	3	300	130acre land bank with promoter group companies and associate companies.
Arihant	-	-	IT parks included in the saleable area.
Prajay Engineers	-	-	Project to develop golf course and villas spread over 190 acre on BOT basis; also operates two hotels.

Unitech leads in the overall ranking

In terms of the overall ranking (on a scale of 1 to 10), Unitech (9) leads the pack followed by Ansal Properties & Infrastructure (8.3) and Anant Raj Industries (8). On the other hand, Prajay Engineers (4.5) and Arihant Foundation (5.5) trail at the lower end of the overall ranking.

Overall ranking (based on weights assigned to 3 categories)



Some are not really comparable

Please note that some of the prominent real estate companies that are not strictly comparable haven't been included in the study for various reasons including the relatively smaller size of their saleable area (concentrated in tier-I cities) and much lesser period of execution.

Real estate companies with land bank relatively smaller but concentrated largely in tier-I cities

	Saleable area (msf)	Mcap/DV of earnings	Comments
Peninsula Land	4.0	2.9	Proposed development of over 9msf of saleable area in three SEZs; launch of real estate venture fund.
Bombay Dyeing	3.9	3.2	Significant value in its textile business that includes backward integration into DMT and PSF.
Mahindra Gesco	3.3	7.9	First company to have an operational SEZ; committed customers for two proposed SEZs (3,000 acre each).

Notes:
- Not strictly comparable with the companies covered above due to relatively smaller size of saleable area (concentrated in tier-I cities) and much lesser period of execution.
- Plus these companies have much bigger component of additional value in terms of large SEZ projects or manufacturing business.

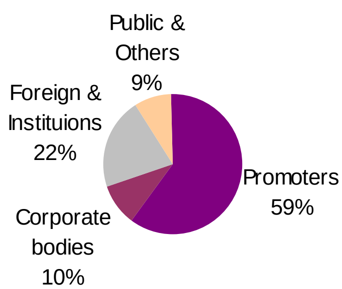
Anant Raj Industries

CMP: Rs1,176

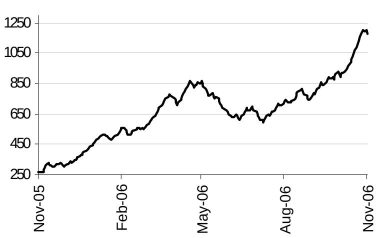
Company details

Market cap:	Rs2,940 cr
52 week high/low:	Rs1,215/1,190
NSE volume: (No of shares)	7,328
BSE code:	515055
NSE code:	ANANTRAJ
Sharekhan code:	ANANTRAJ
Free float: (No of shares)	1.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	29.0	66.2	41.9	348.1
Relative to Sensex	23.4	40.7	23.3	181.1

Anant Raj Industries Ltd (ARIL), part of the Anant Raj Group, was established in 1969 by setting up an enterprise for third-party construction services under the name Anant Raj Agencies. It started operations as a construction company that was also involved in manufacturing of ceramic tiles. But over the years, the company has transformed itself into one of the leading real estate developers in the National Capital Region (NCR).

Consolidating its real estate assets

The Anant Raj group is consolidating its real estate assets through the amalgamation of the group companies with real estate holdings into the listed company. The restructuring would bring about 1,000 acre of land bank under the listed entity. A large part of its land bank (around 700 acre) is concentrated in the lucrative NCR market. The company also has the advantage of having a relatively much lower acquisition cost of land bank as around 75% of the land was acquired before three years.

Projects: Hotels, IT parks, commercial complexes et al

The company is likely to develop saleable area of around 23 million square feet (msf) over the next six to eight years, split across various residential and commercial projects. The commercial projects include: 11 hotels, two IT parks, and three office and commercial complexes. Some of the notable projects are: 1.8msf of IT park at Manesar and a 4.5msf IT park in Rai (Chandigarh-Delhi highway), a tie-up with China's Schezwan province to set up a centre-cum-mall complex to house about 600 companies from China and a 108-acre SEZ in Manesar.

Focus on rental income

ARIL follows a rental-based model and currently has around ten commercial buildings leased out in Delhi and NCR. The management intends to continue with this model that would result in significant ramp-up in the recurring income over the next few years. Among the forthcoming projects, the company is likely to lease out a large part of the commercial property whereas the residential property is likely to be sold on outright basis. The combination of outright sales and rental income model provides a unique balance to the company's business model and (to an extent) protects it from the cyclical nature of the industry.

Valuation

At the current market price the stock trades at 91.2x FY2006 earnings and enterprise value (EV) per saleable area (sf) of Rs1,104, which is relatively higher than that of its peers due to the premium location of its projects, low acquisition cost of land and the continued recurring income from the already leased-out commercial properties in NCR.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006
Net sales (Rs cr)	18.2	28.7	22.6	58.3
Net profit (Rs cr)	3.9	0.6	0.3	28.1
Shares in issue (cr)	1.3	1.9	1.9	2.2
EPS (Rs)	2.9	0.3	0.1	12.9
% y-o-y growth		*-89.0*	*-53.7*	*8614.2*
PER (x)	406.5	3682.3	7951.2	91.2
Book value (Rs)	11.3	11.3	11.4	39.9
P/BV	103.7	104.5	103.1	29.5
EV/EBITDA	270.7	524.5	655.5	63.4
ROCE (%)	20.8	6.4	4.2	31.4
RONW (%)	25.5	2.8	1.3	32.3

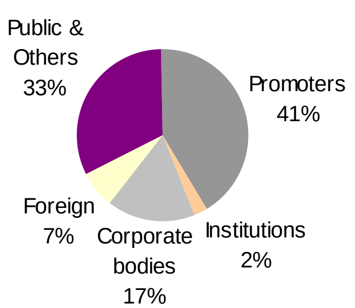
Ansal Housing and Construction

CMP: Rs338

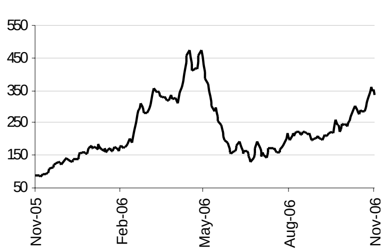
Company details

Market cap:	Rs608 cr
52 week high/low:	Rs500/84
NSE volume: (No of shares)	1.9 lakh
BSE code:	507828
NSE code:	ANSALHSG
Sharekhan code:	ANSALHSG
Free float: (No of shares)	1.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	46.1	61.9	-21.2	310.8
Relative to Sensex	39.7	37.0	-31.5	157.7

Ansal Housing and Construction Ltd (AHCL) is a leading real estate developer based in north India. Traditionally, the company has been focused on developing residential projects in the suburbs of the NCR, especially the Noida and Ghaziabad regions of Uttar Pradesh. It specialises in developing low- and medium-range residential properties.

Strategy to exploit potential in the tier-II and III cities

In addition to its stronghold in the NCR, the company is expanding its presence in several tier-II and tier-III cities of the neighbouring states like Haryana (Karnal, Kurukshetra), Rajasthan (Alwar, Riwari) and Uttar Pradesh (Agra, Meerut).

As part of its business strategy also, the company scouts for cheap land available on the outskirts of the tier-II and tier-III cities, and then develops a township in a lead-time of three to four years. It provides better construction quality and amenities (as compared with city-specific developers) and consequently commands a premium.

Land bank/projects: Building 18 townships in six years

AHCL has a land bank of around 1,200 acre (a large part of it is developed under joint ventures). It is mostly concentrating on building integrated township projects and is expected to develop 18 township projects over the next six years. It has already commenced work on 15 projects and would launch three more township projects in FY2009. These projects would contribute the bulk of its revenues over the next five years.

The company also has some residential projects in tier-I cities like Mumbai (Worli, Mulund), Bangalore and Delhi where the land was acquired couple of year ago. It would reap the benefits of the steep appreciation in real estate prices for these projects.

Valuation

At the current market price the stock trades 24x FY2006 earnings and EV per saleable area (sf) of Rs379, which is relatively cheaper than that of its peers as the bulk of its land bank is located on the outskirts of tier-II (and even tier-III) cities. Moreover, the township projects have a higher gestation period and the company is likely to dilute its equity to fund the projects on hand.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006
Net sales (Rs cr)	116.3	137.1	192.2	234.7
Net profit (Rs cr)	0.2	-0.8	6.4	21.1
Shares in issue (cr)	1.3	1.3	1.3	1.5
EPS (Rs)	0.2	-0.6	5.0	14.1
% y-o-y growth		*PL*	*LP*	*183.0*
PER (x)	1986.0	-539.3	67.9	24.0
Book value (Rs)	21.7	21.7	43.7	57.3
P/BV	15.6	15.6	7.7	5.9
ROCE (%)	6.1	7.5	14.4	20.7
RONW (%)	0.8	-2.9	11.4	24.6

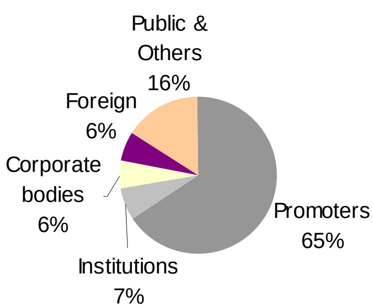
Ansal Properties & Infrastructure

CMP: Rs920

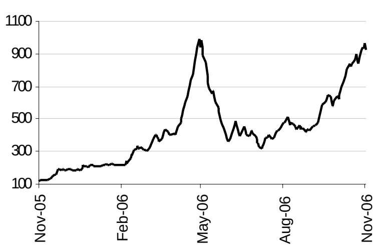
Company details

Market cap:	Rs3,220 cr
52 week high/low:	Rs976/226
NSE volume: (No of shares)	2.1 lakh
BSE code:	500013
NSE code:	ANSALINFRA
Sharekhan code:	ANSALPRP
Free float: (No of shares)	1.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	51.6	108.1	3.3	698.0
Relative to Sensex	45.0	76.1	-10.3	400.6

Incorporated in 1967, Ansal Properties is one of the leading real estate developers in north India. It has significant presence in Delhi and surrounding areas, and is now looking at developing a number of residential projects in tier-II cities situated in the bordering states like Uttar Pradesh, Haryana, Rajasthan and Punjab.

Amalgamation of a group company

Ansal Properties is merging Ansal Township and Projects (ATPL) with itself to expand its land bank from 4,000 acre to around 6,000 acre under the listed entity. However, the amalgamation would result in the dilution of its equity base by 1.58 crore shares. The amalgamation would provide an enhanced footprint to the company in states of Punjab and Rajasthan.

Land bank and projects: Large part of land bank located in NCR

A substantial part of its consolidated land bank of 6,000 acre (which translates into around 125.5msf of saleable area) is located in the NCR and was acquired few years ago at relatively much cheaper rates. This is likely to bring in windfall gains for the company. It has already launched two large township projects in the NCR, named Sushant Lok and Palam Vihar.

In addition to this, the company has diversified into tier-II and tier-III cities like Jaipur, Agra, Lucknow, Jodhpur and part of Punjab. One of its larger township projects is located in Lucknow, spread over 2,000 acre and known as Hitech city. The project is expected to get completed over the next five to six years and would include both residential and commercial space (IT park and biotech park). The company has also formed joint venture with various other smaller players to develop around 1,000 acre of land over the next seven to eight years.

The commercial property development plans include four shopping malls (in line with Ansal Plaza), two new office complexes and two IT parks (one in Lucknow and another at Greater Noida).

Valuation

At the current market price the stock trades at 86.1x FY2006 earnings and EV per saleable area (sf) of just Rs507 (on fully diluted equity base of 5.1 crore shares including issuance of shares due to amalgamation of ATPL). However, some of its projects (such as Hitech City at Lucknow) would require huge investments and have a higher gestation period.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006
Net sales (Rs cr)	169.1	179.0	221.2	361.5
Net profit (Rs cr)	10.5	6.1	13.3	37.4
Shares in issue (cr)	2.3	2.3	2.3	3.5
EPS (Rs)	4.5	2.6	5.7	10.7
% y-o-y growth		*-0.4*	*119.4*	*86.9*
PER (x)	204.5	353.1	161.0	86.1
Book value (Rs)	44.8	46.7	47.0	43.0
P/BV	20.5	19.7	19.6	21.4
EV/EBITDA	48.4	68.9	55.0	38.1
ROCE (%)	15.9	12.6	15.9	28.7
RONW (%)	10.0	5.6	12.2	24.8

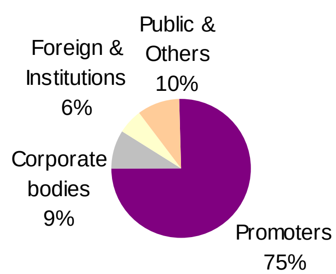
Unitech

CMP: Rs452

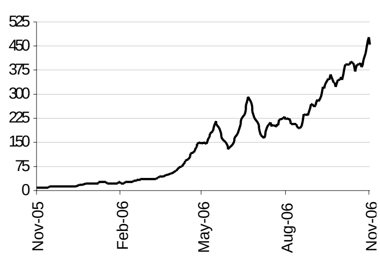
Company details

Market cap:	Rs36,612 cr
52 week high/low:	Rs488/10
NSE volume: (No of shares)	14.2 lakh
BSE code:	507878
NSE code:	UNITECH
Sharekhan code:	UNITECH
Free float: (No of shares)	20.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	37.3	108.7	229.9	4696.5
Relative to Sensex	31.3	76.6	186.6	2909.2

Unitech is one of the largest, highly reputed and fairly diversified players in terms of its geographical presence. It has a proven track record of over 30 years and has an established name in the NCR and Kolkata markets. The company has primarily positioned itself as developers of residential property and commands a substantial premium over the regional and existing players.

To reap the benefits of low-cost land

In addition to its reputed name and a proven track record, Unitech has the advantage of building a huge land bank of 10,300 acre at an extremely attractive acquisition cost. The total cost of its land bank is around Rs5,000 crore which translates into an average acquisition cost of just Rs125/sf.

Captive construction skills

Unlike some of its peers, the company also has the benefit of having captive construction skills. The company is leveraging its origin as a construction company to successfully scale up its operations by redeploying the existing workforce for the captive projects.

Land bank and projects: Sitting on a massive landbank of 10,300 acre

Unitech has built a massive land bank of 10,300 acre that translates into a saleable area of around 470msf. The land bank is spread over Kolkata (18%), Chennai (26%), Delhi/NCR (20%), Kochi (8%), Varanasi (10%) and Agra (15%), making it one of the most geographically diversified land banks.

A large part of the land bank (around 75%) would be utilised to develop residential projects. The company also plans to undertake various commercial property development projects including three SEZs (two in West Bengal and one in Kundli).

Apart from the real estate development, the company is involved in the execution of large industrial projects on a turnkey basis both in India and overseas. It also has tie-ups with some of the leading hospitality companies like Radisson Hotels and Carlson Hospitality to manage their hotels.

Valuation

At the current market price the stock trades at 210.5x FY2006 earnings and EV per saleable area (sf) of Rs794. With its huge land bank of 10,300 acre (built at an extremely attractive acquisition cost), proven track record and reputed name, the company is well positioned to exploit the boom in the real estate sector.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006
Net sales (Rs cr)	349.1	512.8	657.3	941.2
Net profit (Rs cr)	72.6	87.9	102.0	174.3
Shares in issue (cr)	81.2	81.2	81.2	81.2
EPS (Rs)	0.9	1.1	1.3	2.1
% y-o-y growth		*21.0*	*16.0*	*71.0*
PER (x)	505.5	417.3	359.8	210.5
Book value (Rs)	1.9	2.1	2.4	3.1
P/BV	240.3	213.4	187.5	147.7
EV/EBITDA	644.9	531.5	398.2	189.8
ROCE (%)	13.8	17.1	14.2	14.3
RONW (%)	47.5	51.1	31.1	35.3

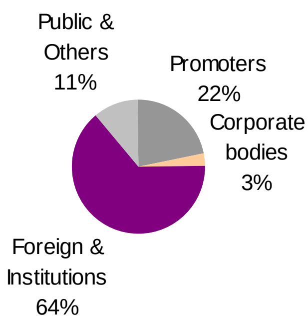
DS Kulkarni Developers

CMP: Rs299

Company details

Market cap:	Rs329 cr
52 week high/low:	Rs446/120
NSE volume: (No of shares)	92,679
BSE code:	523890
NSE code:	DSKULKARNI
Sharekhan code:	DSKULK
Free float: (No of shares)	0.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.5	23.2	-12.6	204.3
Relative to Sensex	-2.9	4.3	-24.1	90.9

DS Kulkarni Developers has been focused on the development of residential property in the Pune region. It has a strong brand equity in the lucrative tier-II city of Pune. The company sold 2,200 flats developed in the first three phase of its housing development project, DSK Vishwa, in a record time. It is well poised to benefit from the huge expansion by the IT/IT enabled services (ITES) companies in Pune.

Land bank/projects: Focusing on residential projects

The company aims to develop over 9msf saleable area over the next five to six years. It continues to focus primarily on residential projects, with further development of around 4.2msf of saleable land at its on-going DSK Vishwa project. The project includes development of around 8,000 flats, an IT park (0.6msf) and a shopping mall-cum-multiplex, making it one of the largest integrated township projects in the region. The upcoming phases of the Vishwa project are likely to be more profitable due to the development of luxury residential properties and commercial space.

In addition to around 18 projects, the company is looking at developing three SEZs spread of 300 acre (of 100 acre each). The company has still not got the approval for the SEZ projects.

Apart from the existing land bank (that is likely to generate revenues of Rs2,000 crore over the next few years), the company has the advantage of having an extremely cheap land bank of around 130 acre with the promoter group companies and associate entities. However, there is no clarity on the possible transfer pricing of the land bank between the group companies.

Valuation

At the current market price the stock trades at 18.7x FY2006 earnings and EV per saleable area (sf) of Rs468. More clarity on transfer pricing of land bank from the promoter and associate companies could result in considerable re-rating of the stock.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006
Net sales (Rs cr)	57.2	29.7	35.1	16.6
Net profit (Rs cr)	1.4	1.5	3.7	17.6
Shares in issue (cr)	1.1	1.1	1.1	1.1
EPS (Rs)	1.3	1.3	3.3	16.0
% y-o-y growth		*4.2*	*148.6*	*378.1*
PER (x)	231.6	222.2	89.4	18.7
Book value (Rs)	16.9	17.4	19.9	31.3
P/BV	17.7	17.2	15.0	9.5
EV/EBITDA	92.9	102.0	56.5	19.2
ROCE (%)	8.8	5.9	7.9	15.7
RONW (%)	7.6	7.7	16.8	51.1

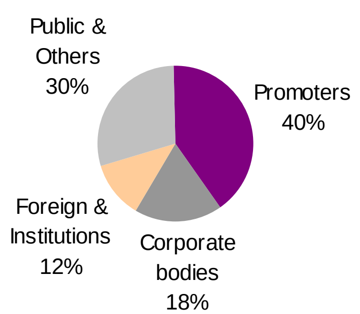
Arihant Foundation and Housing

CMP: Rs480

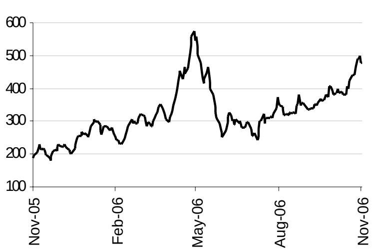
Company details

Market cap:	Rs336 cr
52 week high/low:	Rs600/180
BSE volume: (No of shares)	9,867
BSE code:	531381
Sharekhan code:	ARIHOUSG
Free float: (No of shares)	0.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.6	28.0	-12.0	169.0
Relative to Sensex	16.3	8.3	-23.5	68.8

Arihant Foundation and Housing Ltd (AFHL) is a well-established real estate developer in Chennai. Traditionally, the company has been involved in relatively small-sized residential projects. However, the company is substantially ramping up its scale of operations with 17 projects in hand.

Land bank and projects: 17 projects in five to six years

The company has acquired development rights for 17 projects that would result in development of 6.8msf of saleable area over the next five to six years. The company continues to focus on the residential projects with 15 residential projects and two IT parks. The company is also looking at jointly developing a shopping mall and a hotel with some local builders.

Some of its notable projects include two large township projects (a 2msf project at GST Road, Chennai and another 2.5msf project in partnership with a large developer in Chennai). The success of these two projects would be very critical for the growth of the company.

All projects in and around Chennai—a concern

All the projects are located in and around Chennai. The geographical concentration is a concerning factor especially given the fact that many large developers like Unitech and DLF have also announced large projects in Chennai.

The ambitious plan to launch 17 projects within a period of 24-30 months means significant scale of operations and would test the management's ability to simultaneously manage a number of large projects.

Valuation

At the current market price the stock trades at 17.9x FY2006 nine-month annualised earnings and EV per saleable area (sf) of Rs573. The high level of geographical concentration and dependence on two large projects are the key concerns.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006*
Net sales (Rs cr)	63.2	78.4	124.8	295.3
Net profit (Rs cr)	1.0	0.6	7.5	14.1
Shares in issue (cr)	0.5	0.5	0.6	0.7
EPS (Rs)	2.1	1.2	12.5	20.1
% y-o-y growth		*-44.1*	*974.1*	*60.8*
PER (x)	230.3	411.9	38.3	17.9
Book value (Rs)	31.2	32.3	74.9	-
P/BV	15.4	14.8	6.4	-
EV/EBITDA	115.1	162.8	31.1	16.5
ROCE (%)	3.6	2.2	8.7	-
RONW (%)	6.7	3.6	16.7	-

* 9 month numbers of FY2006

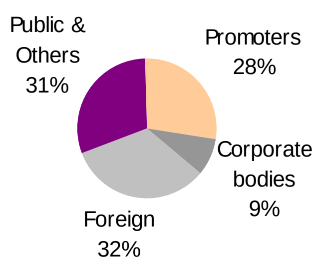
Prajay Engineers Syndicate

CMP: Rs264

Company details

Market cap:	Rs1,056 cr
52 week high/low:	Rs339/70
BSE volume: (No of shares)	2.9 lakh
BSE code:	531746
Sharekhan code:	PRAJAENG
Free float: (No of shares)	2.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	21.9	24.2	-4.3	298.6
Relative to Sensex	16.6	5.1	-16.8	150.1

Prajay Engineers Syndicate Ltd (PESL) is a Hyderabad-based real estate player known for its low-cost, high-quality residential housing development projects in Hyderabad. To cater to the huge demand created from the travel and tourism as well as the growing IT industry in the city, PESL has also ventured into the hospitability business. The company operates a 3-star hotel in Begumpet and a resort on the outskirts of Hyderabad.

Land bank/projects: Developing 18msf of saleable area

The company plans to develop 18msf of saleable area over the next five to seven years, to effectively tap the huge demand being generated from the planned setting up of new development centres (Infosys, Microsift) or the ramping up of the existing capacities by many leading IT/ITES companies in Hyderabad.

In addition to the eight ongoing projects, the company is planning to launch around 30 more projects over the next thee years. The projects are well diversified in terms of being residential projects (premium and low cost), commercial complexes (malls, hotel, multiplexes) and a large integrated automobile showroom. It is also developing an IT park with a saleable area of 1.4msf.

Some of its notable projects are: Megapolis (residential-cum-commercial), Exotica (1.6msf of luxury apartments) and Waterfront City (1.1msf of duplex apartments).

Execution risk is high

PESL is significantly scaling up its operations by targeting to develop 18msf of saleable area in the next five to seven years as compared with the development of a total area of 4.5msf in the past two decades. It essentially means that the execution risk is reasonably high in case of PESL. Moreover, the company's projects are largely concentrated in and around Hyderabad.

Valuation

At the current market price the stock trades at 17.3x FY2006 earnings and EV per saleable area (sf) of Rs624 (based on fully-diluted equity of 4 crore shares). The high level of geographical concentration and the execution risk are key concerns and act as a drag on the overall valuation.

Valuation table

Particulars	FY2003	FY2004	FY2005	FY2006
Net sales (Rs cr)	18.9	17.8	23.7	73.7
Net profit (Rs cr)	1.0	0.8	4.4	22.7
Shares in issue (cr)	0.8	0.8	0.8	1.5
EPS (Rs)	1.2	1.0	5.6	15.3
% y-o-y growth		*-21.4*	*471.5*	*174.8*
PER (x)	213.6	271.7	47.5	17.3
Book value (Rs)	11.9	12.5	16.1	25.5
P/BV	22.2	21.0	16.4	10.4
EV/EBITDA	64.8	55.1	28.5	14.5
EV/Sq feet	122.4	124.2	124.9	255.7
ROCE (%)	15.1	14.6	26.0	27.8
RONW (%)	10.4	7.7	34.4	59.9

ANNEXURE

Realty realities

The property prices have seen an unprecedented upsurge in the past couple of years. The same have soared on the back of a robust demand environment which, in turn, is driven by a number of factors like the strong growth in the economy (leading to a considerable improvement in the disposable income, rising aspirations and urbanisation), favourable government policies (fiscal incentives on home loans and lower interest rates) and exponential growth in certain industries such as IT, entertainment, retailing, hospitality and tourism (leading to higher demand for commercial space).

Demand drivers

Government Policies
- Fiscal incentives
- Low interest rates

REAL ESTATE BOOM

Socio-economic factors
- Higher disposable income
- Changing demographics
- Urbanisation

Booming service sector
- IT/ITES
- Entertainment
- Retail
- Tourism

Outlook remains positive

The two key concerns that could dampen the demand for residential real estate are the rising interest rates on home loans and the steep appreciation in property prices over the past couple of years. However, we believe that the effective interest rate on home loans post-tax continues to be reasonably attractive for the buyers of residential property. Moreover, the continued strong growth in the home loan disbursements reported by the leading mortgage players indicates that the firming up of interest rates has not materially affected the demand from retail buyers.

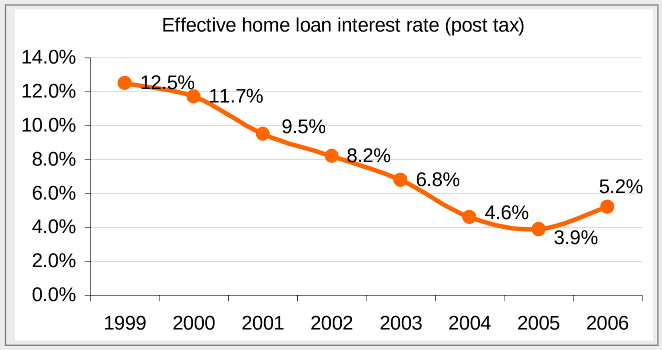
Disbursements continue to be strong

(Rs cr)	Q2FY07	Q2FY06	% yoy chg
HDFC	6895.1	5473.3	26%
ICICI	7100	6000	18%

Source: Sharekhan Research

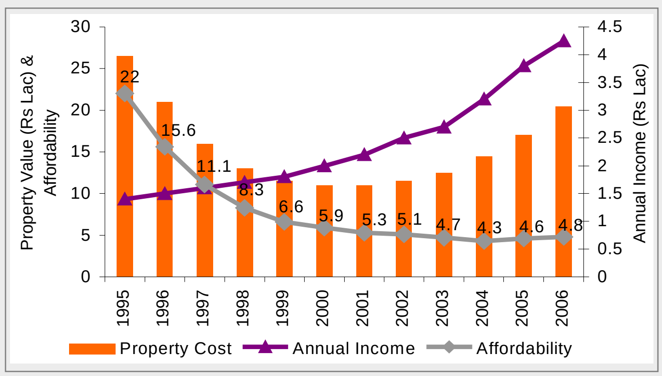
Secondly, the spurt in the average annual income has actually considerably improved the affordability of residential property for the large middle class. According to a study done by the country's largest mortgage player, Housing Development Finance Corporation (HDFC), the price of an average residential property has actually reduced from over 15 times the average annual salary (of a middle class family) to below five times the annual salary over the past one decade.

Lower effective interest rates



Source: HDFC

Rising annual incomes = better affordability



Source: HDFC

Booming service sector

The surging demand for commercial space has been driven by the huge success in offshore outsourcing of services from India, including IT services, ITES (eg accounting, knowledge management and other back office processes), IT hardware manufacturing, pharmaceuticals and automobiles. Apart from this, the robust economic growth and high disposable income are resulting in a huge demand for entertainment, hospitability and other services. Given the robust growth in the service industries, the demand for commercial property is likely to grow from 38msf in 2005 to around 200msf by 2010, according to estimates by leading real estate consulting firms in India.

Sector dynamics

Emergence of pan-India players

Unorganised and city-specific builders have traditionally dominated the Indian real estate sector. Even the presence of the large players was so far limited to particular regions of the country. However, the large players are diversifying geographically to establish a pan-India presence. Moreover, the scale of projects has also increased considerably with most large developers lining up integrated township projects or large commercial complexes.

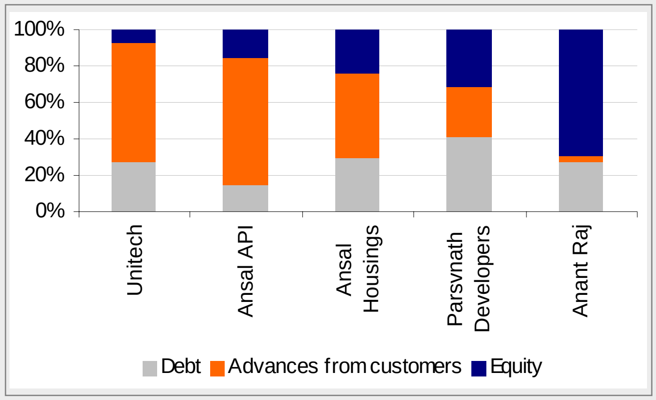
Increasing thrust on commercial properties

As part of their diversification strategy most of the large real estate players are also focusing on development of commercial property, such as multiplexes, shopping malls, office space and hotels, and tapping the huge demand in the segment. Moreover, unlike the residential properties (which are sold outright), commercial space is either leased or sold outright. Under the leasing option, the lease rentals received from the tenants form a source of recurring cash flow for the developer. The rental yield on commercial property is also much higher than that on residential properties. According to real estate consulting firm Trammell Crow Meghraj, the average rental yield on a commercial property has been around 11-12% as compared with 4-6% in case of a residential property.

Funded by customer advances

Traditionally, in addition to debt and equity, the developers to a large extent have depended on advances from customers to fund the construction activity. Moreover, the advances keep the clients committed to the project.

Huge contribution from customer advances



Source: Sharekhan Research

Reforms in the real estate sector

In addition to the traditional sources of funds, the government has taken policy initiatives to promote funding of real estate projects from non-traditional sources like private equity, foreign investment and other project-based institutional funding. Some of the policy initiatives taken by the government are the lowering of the threshold limit on the size of a project (down from 100 acre to 25 acre for township projects) to allow foreign direct investment (FDI). In case of commercial property, the government has allowed 100% FDI for the development of hotels and IT parks.

Apart from this, the Urban Land Ceiling & Regulation Act has been repealed in nine states and many state governments have rationalised taxes on property. Moreover, guidelines are being formulated for setting up of real estate mutual funds; the same is an important step towards the introduction of Real Estate Investment Trusts over the next two to three years.

FDI in residential housing - proposed/under construction projects

Investor	Country	Project	Location
Lee Kim Tah Holdings	Singapore	Township	Chennai
Salim Group	Indonesia	Township	Kolkata
High Point Rendel	UK	Township	Jharkhand
Edaw Ltd	USA	Township	Jharkhand
Kikkem Sekkel	Japan	Township	Jharkhand
CESMA International Pvt Ltd	Singapore	Township	Hyderabad Vijaywada
Emaar group	Dubai	Township	Hyderabad
IJM	Malaysia	Township	Hyderabad
Evan Lim & Co Pte Ltd	Singapore	Township	Visakhapatnam
Ho-Hup Construction Company	Malaysia	Development project	Hyderabad
Keppel Land	Singapore	Condominium project	Bangalore
Royal Indian Raj International Corp	Canada	Integrated township, Royal Garden City	Bangalore
Universal Success Enterprise	Indonesia	Housing project	Kolkata

Source: Knight Frank

Real estate funds planned/raised

Sponsor	Fund size (US $ mn)	Comment
Anand Rathi	112	Real estate venture fund will invest in real estate projects and pre-leased properties
IL&FS Investment Managers	502	A private equity fund with a targeted return of 25%.
Carlyle - Santa Fey	300	
Stargate Capital	186	
CalPERS	400	CalPERS expects a 15% return
Trikona	250	Manages funds raised by Trinity in UK. Trinity fund has been listed on AIM since April 2006.
Morgan Stanley	68	Alreay invested in Matric developers.
Siachen Capital	100	New York based, promoted by *Forbes* magazine group. Fund intends to invest in Nitesh group of Bangalore.
CIG Realty (Unitech group)	400	USD$100 mn. Is a domestic fund and the rest will be raised internationally.
The Chatterjee Group	450	
Ajay Piramal	78	Already raised 2/3rd of the amount from HNIs.
Kshitij Venture Capital Fund (Pantaloon)	57.3	Already made investment by buying Mukand Steel's Kurla unit.
Reliance Group	112	Fund will support the group's foray into the retail, SEZ and real estate sectors.
Dawnay Day	75	To invest in hotel properties and townships of over 100 acres.
American International Group (AIG)	275	
HDFC India Real Estate Fund	223	Launched in March '05.
IDFC	345	
ICICI - Tishman Speyer (India Advantage Fund III)	300	
Mala (NRI Malini Alles)	150	Floated by an NRI, Malini Alles.
Ascendas India IT Parks Fund	230	
Kotak Mahindra Realty Fund	100	1st tranche.
Dewan Housing	55.6	Already received approval from SEBI for a real estate venture fund.

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Stock Ideas

Evergreen

- HDFC Bank
- Infosys Technologies
- Reliance Industries
- Tata Consultancy Services

Apple Green

- Aditya Birla Nuvo
- ACC
- Bajaj Auto
- Balrampur Chini Mills
- Bank of Baroda
- Bank of India
- Bharat Bijlee
- Bharat Electronics
- Bharat Heavy Electricals
- Canara Bank
- Corporation Bank
- Crompton Greaves
- Elder Pharmaceuticals
- Grasim Industries
- Hindustan Lever
- Hyderabad Industries
- ICICI Bank
- Indian Hotels Company
- ITC
- Mahindra & Mahindra
- Marico Industries
- Maruti Udyog
- Lupin
- Nicholas Piramal India
- Omax Autos
- Ranbaxy Laboratories
- Satyam Computer Services
- SKF India
- State Bank of India
- Sundaram Clayton
- Tata Motors
- Tata Tea
- Unichem Laboratories
- Wipro

Cannonball

- Allahabad Bank
- Andhra Bank
- Cipla
- Gateway Distriparks
- International Combustion (India)
- JK Cement
- Madras Cement
- Shree Cement
- Transport Corporation of India

Emerging Star

- 3i Infotech
- Aban Offshore
- Cadila Healthcare
- KSB Pumps
- Marksans Pharma
- Navneet Publications (India)
- New Delhi Television
- Orchid Chemicals & Pharmaceuticals
- ORG Informatics
- Solectron Centum Electronics
- Television Eighteen India
- Thermax
- TVS Motor Company
- UTI Bank
- Welspun Gujarat Stahl Rohren

Ugly Duckling

- Ahmednagar Forgings
- Ashok Leyland
- BASF India
- Deepak Fertilisers & Petrochemicals Corporation
- Genus Overseas Electronics
- HCL Technologies
- ICI India
- India Cements
- Jaiprakash Associates
- JM Financial
- KEI Industries
- NIIT Technologies
- Punjab National Bank
- Ratnamani Metals and Tubes
- Sanghvi Movers
- Saregama India
- Selan Exploration Technology
- South East Asia Marine Engineering & Construction
- Subros
- Sun Pharmaceutical Industries
- Surya Pharmaceuticals
- UltraTech Cement
- Union Bank of India
- Universal Cables
- Wockhardt

Vulture's Pick

- Esab India
- Orient Paper and Industries
- WS Industries India

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