

October 10, 2011

Monthly: Ears to the ground (Vol. 25) Key takeaways from MCHI Exhibition, Mumbai

Summary

- We visited the Maharashtra Chamber of Housing Industry Property-2011 Exhibition (06-09 October 11) in Mumbai, which saw participation from noted developers in Mumbai. This exhibition was in our view critical to gauge the demand and pricing levels, especially as 1) residential sales volume has hit a 27 month low in Mumbai and 2) the exhibition was scheduled at the start of the auspicious home buying season. The key takeaways from the exhibition were:
- Limited new projects available for sale; delay in approvals significantly impacting fresh launches
- The luxury market is seeing early signs of a small correction in certain micro markets. Developers remain confident on mass-to-mid market homes
- Buyers impacted by high prices (+16% y-y and +8% in past six months); lower sales enquiries for large sized flats and customers conscious of the overall ticket size
- Higher price and lower sales volume environment to continue over next 3-4 months, ie, till civic body election (BMC) in Feb 2012.
- Developers expect correction in home prices, if any, to be a short-term phenomenon.
- We expect price cuts to the extent of 15%-20% in Mumbai when new launches happen next year.
- DLF, Oberoi Realty and Prestige Estate remain our top picks in the sector.

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Key takeaways from MCHI Exhibition (06-09 Oct 2011), Mumbai

- We visited the Maharashtra Chamber of Housing Industry, Property-2011 Exhibition (06-09 October 11) in Mumbai, which saw participation from noted developers in Mumbai. It is the largest property exhibition held in Mumbai, twice every year, and receives the largest foot falls. This particular exhibition was critical to gauge the demand and pricing levels, especially as 1) residential sales volume has hit a 27 month low in Mumbai and 2) the exhibition was scheduled at the start of the auspicious home buying season. The key takeaways from our visit were:
- We were at the exhibition for the better part of Saturday (08 October 11) and there seemed to be a fairly large crowd during the day despite an entry fee being levied for the first time. As always, the latent demand for property in Mumbai continues to be high in our view, though most people seemed disappointed with the high prices being quoted by developers.
- We noticed the absence of some large Mumbai-based developers such as Oberoi Realty, HDIL, Raheja, Wadhwa and Mahindra Lifespace from the exhibition. These developers were present in some of the previous editions of the exhibition.
- The most glaring aspect of this exhibition was the lack of any major new launches being showcased. From our discussion with the developers, unfolding political scams, lack of clarity and delays in upcoming changes in the floor space index (FSI) rules, upcoming civic body elections in Feb'12 and high inventory in the system are delaying regulatory approvals. These delays in approvals have not only impacted the small developers but also some of the large developers, resulting in very limited new launches. Most of the projects that were being showcased were either previously launched projects or upcoming projects which are likely to be launched only 4-8 months down the line, assuming approvals come through.
- In our discussion with developers, they noted that serious enquiries for large-sized apartments, particularly in the 3 BHK category, have been quite low and buyers are now very conscious of the overall ticket size of the apartment rather than just the per sqft rate. Most of the enquiries have been for smaller-sized 1 or 2 BHK apartments. Also we believe there is very limited demand from investors at this moment while end users have been impacted on the affordability front due to high prices and interest rates.
- Some developers mentioned that the luxury residential market is seeing the most noted signs of a slowdown in volume and some softening in prices has started to happen in certain micro markets of South Mumbai. However, for mass to mid market homes, developers don't expect prices to soften going forward.
- For homes in the suburban markets, neither did we notice any project which was available at a rate lower than its previous launch price nor any meaningful discount / deal sweetener such as free car parks, registration etc. being offered. We would though not read too much into this as developers rarely cut their rack rates or offer discounts in exhibitions. Anecdotal evidence suggests that many developers are willing to negotiate at least 10% downwards with serious buyers.
- Developers noted that due to a significant increase in input costs such as land prices, cement and steel, they are left with little room to cut prices. They even cited that as BMC now plans to start charging a premium for the hitherto FSI free areas such as balconies, flower beds, lily pools, this would add further pressure on the project cost making it difficult to cut prices. In addition to this, due to very limited new supply coming through, prices remain firm.
- Prices across projects in Mumbai are now up c17% over the past year. In the past six months, prices have moved up c8%, on relatively lower primary volume impacted by higher mortgage rates, stretched affordability and lesser number of launches due to regulatory approval bottleneck. We expect high price and the weak sales volume environment to continue over the next 3-4 months unless the logjam around regulatory approval clears off, likely after the civic body elections in Feb'12. We expect price cuts to the extent of 15%-20% to come through only when new launches happen next year. We believe this will be the best possible scenario for the industry as volumes will pick up and this will result in releasing some pressure on the developers' cash flow position.

–Most developers concurred with the view that price corrections, if any, due to a deterioration of the macro environment would be short-term.

We remain positive on de-leveraging plays like DLF and developers who have high visibility on cash flows and NAV like Oberoi Realty and Prestige Estates. We remain positive on Mumbai-based developer HDIL on extremely cheap valuations.

Fig. 1: Change in property prices in Mumbai

Developer	Project Name	Location	Oct-10	Apr-11	Oct-11	6m change (%)	YoY change (%)
			Price (INR psf)	Price (INR psf)	Actual / Expected launch Price (INR psf)		
Lodha	Casa Rio	Palava, Kalyan Shil Road	3,069	3,735	4,050	8%	32%
	Casa Rio Gold	Palava, Kalyan Shil Road	NA	NA	3,420	NA	NA
	Casa Bella	Palava, Kalyan Shil Road	3,550	3,950	4,600	16%	30%
	Casa Bella Gold	Palava, Kalyan Shil Road	3,366	4,113	4,212	2%	25%
	Imperia	Bhandup	8,100	8,100	8,600	6%	6%
	Aqua Universe	Dahisar	5,931	6,200	6,600	6%	11%
Ackruti	Sunstone	Bandra	17,100	17,500	20,000	14%	17%
	Siddhi	Thane (W)	6,300	7,400	7,400	0%	17%
	Shikhar	Andheri (E)	10,500	NA	14,000	NA	33%
	Vedant	Sion	11,000	11,500	11,500	0%	5%
	Hillcrest	JVLR	NA	NA	10,900	NA	NA
Rustomjee	Meridian	Kandivali (W)	NA	NA	8,000	NA	NA
	Elanza	Malad (W)	14,500	14,500	14,000	-3%	-3%
	Urbana	Thane (W)	6,400	6,400	6,500	2%	2%
	Summit	Borivali	NA	NA	9,000	NA	NA
Hiranandani	Estate	Thane (W)	7,000	7,425	8,000	8%	14%
	Heritage	Kandivali (W)	11,200	11,400	12,000	5%	7%
	Meadow s	Thane (W)	7,000	7,400	8,800	19%	26%
	Palace Garden	Panvel	3,700	4,100	4,200	2%	14%
	Maitri Park	Chembur	15,000	NA	15,000	NA	0%
Godrej	Platinum	Vikhroli	NA	NA	10,700	NA	NA
	Serenity	Chembur	NA	NA	14,000	NA	NA
Kalpataru	Aura	Ghatkopar (W)	8,550	9,000	9,900	10%	16%
	Pinnacle	Goregaon (W)	13,000	13,250	14,000	6%	8%
	Crest	Bhandup (W)	NA	7,650	8,100	6%	NA
Sheth	Vasant Oasis	Andheri (E)	9,700	9,850	10,500	7%	8%
Nirmal	US Open apartments	Mulund	8,100	8,100	8,991	11%	11%
	Turquoise	Mulund	7,776	8,703	9,198	6%	18%
	Lifestyle City	Kalyan	2,755	3,798	3,800	0%	38%
Ekta	Parksville	Virar	3,350	3,600	3,800	6%	13%
	Bhoomi	Borivali (E)	NA	NA	9,000	NA	NA
Tata Housing	Amantra	Thane Kalyan Road	NA	NA	4,200	NA	NA
Neptune	Flying Kite	Bhandup	8,000	8,500	7,800	-8%	-3%
	100 feet above	Bhandup	NA	7,191	8,400	17%	NA
	Olive	Mulund	NA	NA	10,500	NA	NA
Kanakia Spaces	Smarpan Exotica	Borivali (E)	8,700	9,000	9,500	6%	9%
	Eternity	Thane (W)	NA	NA	10,000	NA	NA
Acme	Ozone	Thane	5,100	6,200	7,000	13%	37%
	Oasis	Kandivali (E)	7,000	8,500	8,500	0%	21%
Dosti	Ambrosia	Wadala	14,100	14,500	15,500	7%	10%
	Vihar	Thane (W)	NA	NA	6,800	NA	NA
	Imperia	Thane (W)	5,000	5,590	6,600	18%	32%
Gundecha	Symphony	Andheri (W)	12,600	14,000	15,000	7%	19%
	Zenith	Mulund (W)	7,200	7,400	10,000	35%	39%
	Altura	Kanjurmarg	7,500	8,200	9,286	13%	24%
	Heights	Kanjurmarg	7,800	8,200	9,286	13%	19%
MAN	Opus	Dahisar	NA	NA	5,750	NA	NA
	Shilpa Terraces	Kandivali	NA	9,000	10,500	17%	NA
Nahar	Yonne	Chandivali	NA	NA	10,300	NA	NA
Neev	Bellevue	Malad (E)	NA	NA	9,200	NA	NA
	Contour	Kandivali (E)	NA	NA	9,500	NA	NA
Jaycee Homes	Bhagtani Sapphire	Dahisar	NA	NA	5,926	NA	NA
	Bhagtani Riyo	Mira Road	NA	NA	5,000	NA	NA
Mantri	Serene	Goregaon (E)	6,800	7,200	8,000	11%	18%
	Park	Goregaon (E)	NA	7,650	8,000	5%	NA
DS Kulkarni	Madhukosh	Saki Naka	NA	NA	10,500	NA	NA
Mayfair	Virar Gardens	Virar (W)	4,000	4,500	4,615	3%	15%
Average						8%	17%

Source: Nomura research, Propequity

Fig. 2: Valuation comparison of real estate companies

Ticker	Co Name	Rating	Target Pric	CMP (INR)	NAV/share (INR)	Disc. To NAV	Mcap (INR bn)	PE(FY11A)	PE(FY12E)	PE(FY13E)	P/B (FY11A)	P/B (FY12E)	P/B (FY13E)	EV/EBITDA(FY11A)	EV/EBITDA(FY12E)	EV/EBITDA(FY13E)
DLFU IN Equity	DLF	BUY	270	218	270	-19%	370	22.6	21.4	19.9	1.5	1.4	1.3	13.5	11.9	10.9
UT IN Equity	Unitech	BUY	42	26	52	-60%	68	11.9	12.6	10.9	0.6	0.6	0.5	11.6	11.5	9.5
PV/KP IN Equity	Puravankara Projects	BUY	168	63	168	-62%	13	8.8	4.9	NA	0.8	0.7	NA	12.1	6.0	NA
HDIL IN Equity	HDIL	BUY	235	93	235	-60%	39	4.1	5.7	4.1	0.4	0.4	0.3	4.2	5.3	3.9
GFL IN Equity	Godrej Properties	REDUCE	630	653	525	24%	46	34.8	31.0	14.0	4.9	4.4	3.5	24.5	23.5	10.9
PEPL IN Equity	Prestige Estates	BUY	122	87	143	-39%	29	14.8	17.1	9.2	1.4	1.3	1.1	9.1	9.2	6.4
OSER IN Equity	Oserot Realty	BUY	284	230	284	-19%	76	13.7	13.9	8.8	2.3	2.0	1.6	10.0	9.0	5.6
DBRL IN Equity	DB Realty	Not Rated		51			12	3.3	2.5	2.1	0.4	0.4	0.3	3.0	2.1	1.9
IBREL IN Equity	Indiabulls Real Estate	Not Rated		71			28	13.8	10.7	7.4	0.3	0.3	0.3	15.7	11.9	8.3
SOBHA IN Equity	Sobha	Not Rated		212			21	11.1	11.1	8.0	1.1	1.0	0.9	10.0	8.9	7.3
ARCP IN Equity	Anant Raj	Not Rated		54			16	8.9	7.4	5.2	0.4	0.4	0.4	7.8	5.9	3.8
PARSV IN Equity	Parsvnath	Not Rated		65			28	16.5	10.5	7.9	1.1	1.0	0.9	11.6	8.5	7.4
MLIFE IN Equity	Mahindra Lifespace	Not Rated		284			12	10.7	8.9	6.7	1.0	1.1	0.8	7.9	6.3	4.7
PHNX IN Equity	Phoenix Mills	Not Rated		202			29	30.1	21.9	18.2	1.7	1.6	1.5	27.2	17.9	12.6

Source: Prices as of 07October 2011, Nomura estimates for rated stocks; Bloomberg estimates for not rated stocks

Appendix A-1

Analyst Certification

We, Aatash Shah and Vineet Verma, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
DLF	DLFU IN	221.00 INR	30-Sep-2011	Buy	Not Rated	
OBEROI REALTY LTD	OBER IN	231.55 INR	30-Sep-2011	Buy	Not Rated	
Prestige Estates Projects	PEPL IN	92.05 INR	30-Sep-2011	Buy	Not Rated	

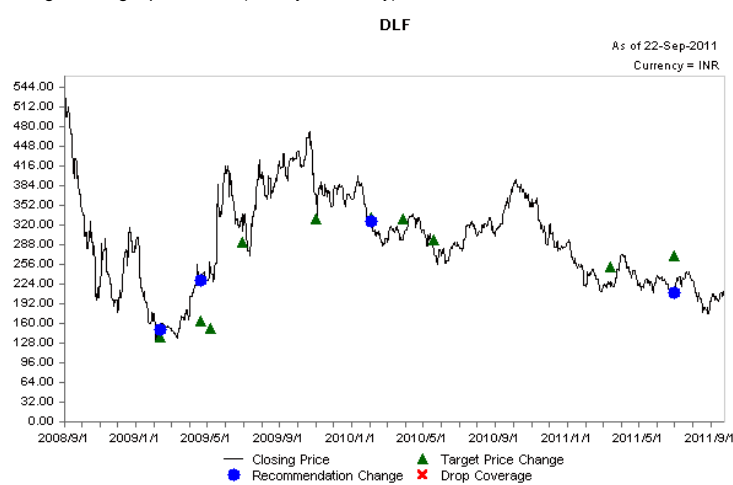
Previous Rating

Issuer name	Previous Rating	Date of change
DLF	Neutral	29-Jun-2011
OBEROI REALTY LTD	Not Rated	21-Sep-2011
Prestige Estates Projects	Not Rated	21-Sep-2011

DLF (DLFU IN)

221.00 INR (30-Sep-2011) Buy (Sector rating: Not Rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
29-Jun-2011		270.00	209.50
29-Jun-2011	Buy		209.50
14-Mar-2011		253.00	228.30
20-May-2010		296.00	271.05
29-Mar-2010		330.70	299.15
02-Feb-2010		331.00	326.20
02-Feb-2010	Neutral		326.20
02-Nov-2009		330.00	370.00
29-Jun-2009		292.00	338.00
06-May-2009		152.00	245.95
20-Apr-2009		164.00	230.80
20-Apr-2009	Reduce		230.80
11-Feb-2009		138.00	150.85
11-Feb-2009	Neutral		150.85

For explanation of ratings refer to the stock rating keys located after chart(s)

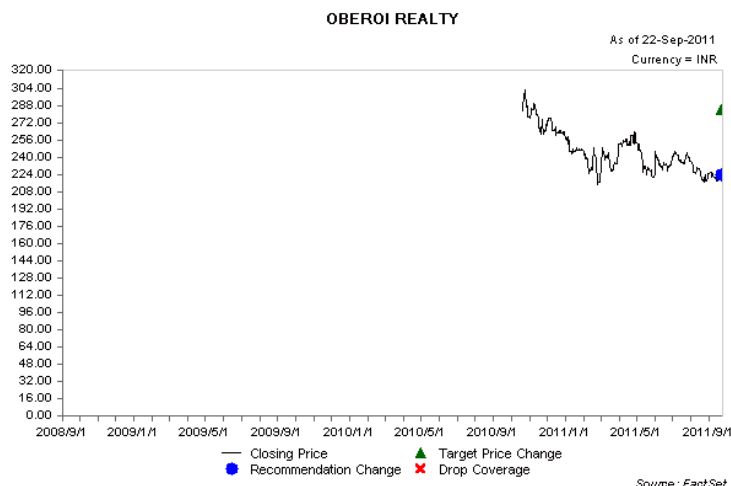
Valuation Methodology We value DLF Ltd using a net asset value (NAV) methodology, which is a DCF valuation of the development potential of the company's land reserves and developed property. We do not offer any premium or discount to this NAV to arrive at our target price. Our target price of INR270 per share is based on INR219 for the land bank NAV, INR29 for non-core assets and land and INR21 for its 57% stake in DLF Cyber City Developers Ltd(DCCDL).

Risks that may impede the achievement of the target price Downside risks include: 1) further rapid increases in interest rates; 2) below-expectation growth in the economy; 3) execution lagging expectations; 4) a credit-crunch like environment resulting in developers being unable to refinance their debt; 5) equity dilution to repay debt and 6) inability to sell non-core assets.

OBEROI REALTY LTD (OBER IN)

231.55 INR (30-Sep-2011) Buy (Sector rating: Not Rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Sep-2011		284.00	224.25
21-Sep-2011	Buy		224.25

For explanation of ratings refer to the stock rating keys located after chart(s)

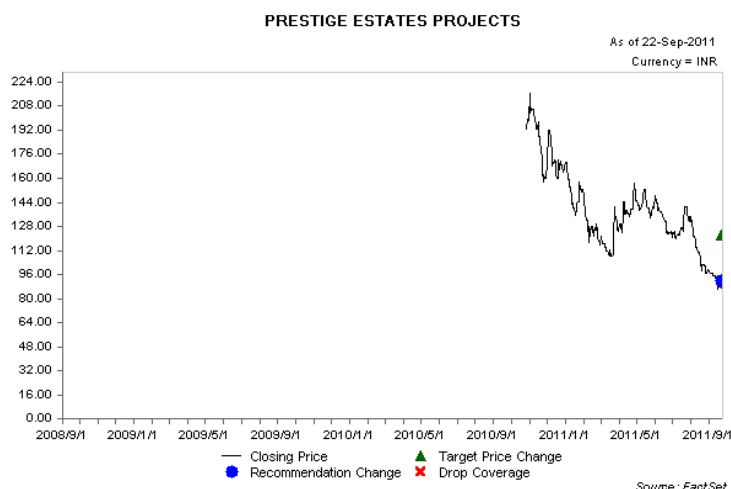
Valuation methodology: We used net asset value methodology to arrive at our NAV estimate of INR275 per share. We estimate additional value accretion of INR 8 per share to arrive at our target price of INR 284 per share. We don't ascribe any discount to our target NAV of INR 284 per share due to high level of transparency and corporate governance and strong balance sheet.

Risks that may impede the achievement of the target price Investment risks: 1) Oberoi Realty is largely a Mumbai-based developer; hence any slowdown in sales volume or correction in home prices / correction in commercial rents due to worsening macroeconomic scenario would impact our NAV estimates. 2) Given Worli and Sangman City projects which contribute nearly 16% to our GAV estimate are being executed with JV partners. Any problems arising from JV partners due to their chequered history can lead to stalling of these projects. 3) Inability to deploy cash in value accretive land acquisition can have significant impact to our estimates

Prestige Estates Projects (PEPL IN)

92.05 INR (30-Sep-2011) Buy (Sector rating: Not Rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Sep-2011		122.00	92.35
21-Sep-2011	Buy		92.35

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We adopt a NAV-based valuation method to arrive at a one-year forward NAV of INR143. To arrive at our target price of INR122 per share we apply a 15% discount to our NAV. This discount is on account of the uncertainty involved in forecasting given the volatility induced by the JDA model and the fact that the company has several commercial assets under construction which would suck out cash from the residential projects.

Risks that may impede the achievement of the target price 1) Prestige Estate is primarily a Bangalore-based developer, so any deterioration of global macroeconomic fundamentals will result in a slowdown in the IT/ITES industry which will have a direct impact on the property market of Bangalore. 2) Prestige has accumulated sundry debtors of around INR9.3bn on the balance sheet. Cash realisation from these debtors is important to fund ongoing construction. If realisation takes time or takes place only partly due to bad debts, then our net debt estimate will see upside risk.

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STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.

A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.

A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.

A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

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SECTORS

A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.

A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.

A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.

Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

A '**Buy**' recommendation indicates that potential upside is 15% or more.

A '**Neutral**' recommendation indicates that potential upside is less than 15% or downside is less than 5%.

A '**Reduce**' recommendation indicates that potential downside is 5% or more.

A rating of '**Suspended**' indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy**', indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.

A rating of '2' or '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '3' or '**Neutral**', indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.

A rating of '4' or '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '5' or '**Sell**', indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.

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SECTORS

A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A '**Strong buy**' recommendation indicates that upside is more than 20%.

A '**Buy**' recommendation indicates that upside is between 10% and 20%.

A '**Neutral**' recommendation indicates that upside or downside is less than 10%.

A '**Reduce**' recommendation indicates that downside is between 10% and 20%.

A '**Sell**' recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A '**Neutral**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A '**Bearish**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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