

DB Realty Ltd.

REALTY

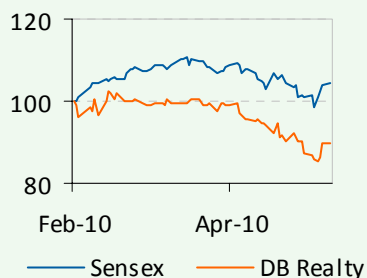
Stock Data

No. of shares	: 243 mn
Market cap	: Rs 97.5 bn
52 week high/low	: Rs. 540/Rs. 385
Avg. daily vol. (1 mth)	: 91,200 shares
Bloomberg code	: DBRL IB
Reuters code	: DBRL.BO

Shareholding (%) Mar-10

Promoters	: 64
FIs	: 7.9
MFs / UTI	: 0.9
Banks / FIs	: 1.4
Others	: 25.8

Relative Performance



Source: ENAM Research, Bloomberg

A play on Mumbai's redevelopment potential

Financial summary

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs.)	Change (YoY %)	Valuation (Rs)
2009	4,644	1,417	5.8	-	NAV 536
2010E	9,512	2,520	10.4	78	Price/ NAV (x) 0.75
2011E	14,259	4,833	19.9	92	
2012E	37,448	18,859	77.6	290	

Source: Company, ENAM estimates

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Investment Summary

❖ Investment argument

- ❑ **Mumbai focused developer with a sustained ability to acquire low cost, high quality, city centric land**
- ❑ **Strong execution track record** (~15mn since inception)
- ❑ **High cash flows visibility** on a/c of ready-to-launch land parcels in the highly lucrative south Mumbai market
- ❑ **Cash reserves of ~Rs 10 bn allow the company to capitalize on the lucrative opportunities** expected in the Mumbai redevelopment space

❖ Group background

- ❑ Founded in 2007 by the Dynamix group (25 yrs exp.) & the Balwas group (95 yrs. exp) which also have a presence in the hospitality and telecom space

❖ Project portfolio totaling 61 mn sq. ft.

- ❑ 11 ongoing and 14 forthcoming/ upcoming projects totaling ~19.5 mn and ~41.5 mn sq. ft. respectively
- ❑ **Recent launches have received a good response with the company selling ~3 mn sq. ft. in FY10 with a total revenue potential of Rs 27 bn.**
- ❑ Several opportunities in prime locations in advanced stages of negotiation

❖ Valuations & Recommendations

- ❑ Mumbai focus land bank, strong land acquisition skills, and outsourced execution model makes DBR a compelling play on Mumbai realty
- ❑ At CMP of Rs 415, the stock trades at a 23% discount to our NAV of Rs 536. Initiating coverage with an **Outperformer** rating and a price target of **Rs 536**.

Portfolio synopsis

Location wise break up	Area (mn sq ft)	%	NAV	Value/ share
South & central Mumbai	6.3	54%	70,954	292
Western Suburbs	27.1	29%	37,942	156
<i>Mira Road</i>	17.9	12%	16,225	67
Eastern suburbs	1.0	0.3%	385	2
TDR	17.9	10%	12,448	51
Pune	8.9	7%	8,568	35
Total	61	100%	130,296	536

Segmental break up	Area (mn sq ft)	%	NAV	Value/ share
Residential	40.65	79%	102,907	423
Commercial & retail	2.51	11%	14,942	61
TDR	17.88	10%	12,448	51
Total	61	100%	130,296	536

Key projects	Area (mn sq ft)	%	NAV	Value/ share
Orchid Turf View, Mahalaxmi	1	21%	27,285	112
Orchid Acre, Mira road	18	12%	16,225	67
Orchid Corporate Park, Andheri	1	7%	8,672	36
Orchid Crown , Lower Parel	1	9%	11,138	46
Orchid Hill Park- TDR, Goregaon	6	5%	6,316	26
Orchid Heights, Mumbai Central	1	5%	6,616	27
Orchid Views, Mumbai Central	1	4%	5,712	23
Orchid Enclave, Mumbai Central	1	4%	5,161	21
Total	30	67%	87,125	358

Source: Company; ENAM Research

Indian realty: Unprecedented growth

Growth drivers

- ▣ **Rapid urbanisation:** Urban population to touch 590 mn by 2030
- ▣ **Decreasing household size:** Average increase in number of nuclear families estimated to be over 300 million (middle class population)
- ▣ Number of rich households growing at CAGR of 21 per cent
- ▣ Increasing working age population (almost 64% in 16-64 age group)
- ▣ **Rising income levels:** Per capita GDP ↑ by 66% in the last 5 years.

Segmentation

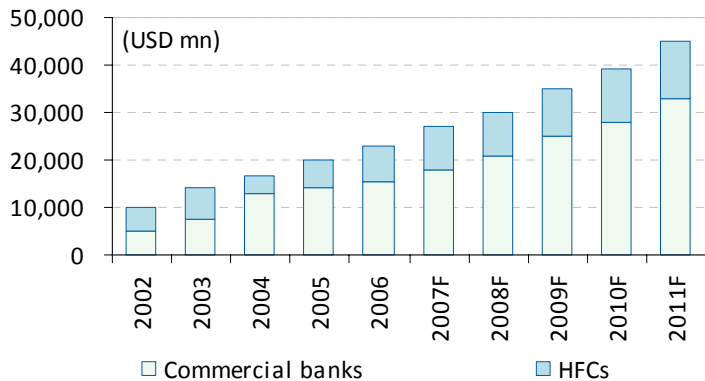
- ▣ Broad categories include low cost/ mid market/ premium housing
- ▣ Luxury segment growing annually at 25 to 30 per cent

Outlook

- ▣ Current shortage close to 19.4 million units, predominantly in the middle and low income groups
- ▣ Expected to grow at a CAGR of 18 to per cent up to 2010
- ▣ Mortgage finance is expected to increase penetration into the urban housing finance sector

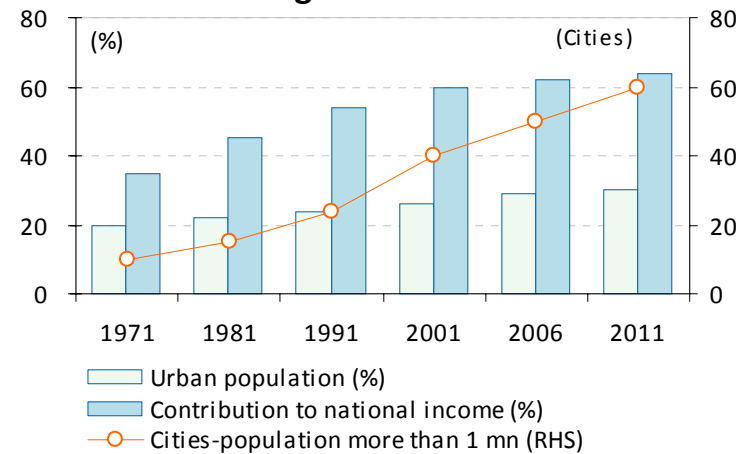
Source: Real Estate Sector Investments: Assessment & Outlook", 2009, ASSOCHAM

Annual home loan disbursal from formal sector



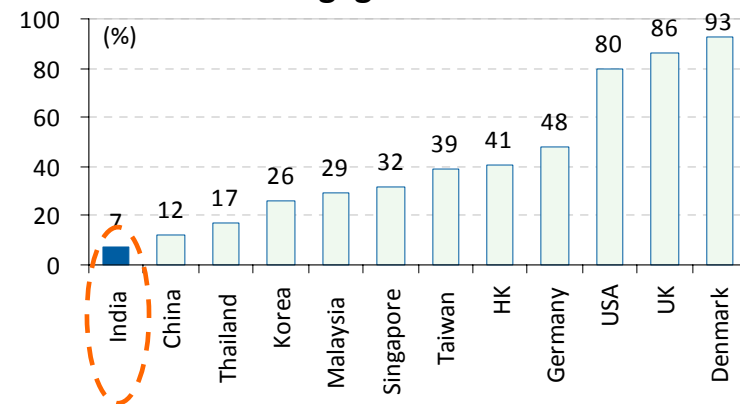
Source: Report of the Eleventh Five Year Plan (2007-2012), Working Group on Urban Housing

Growing urbanization in India



Source: National Institute of Urban Affairs, UNDP, Ernst & Young analysis

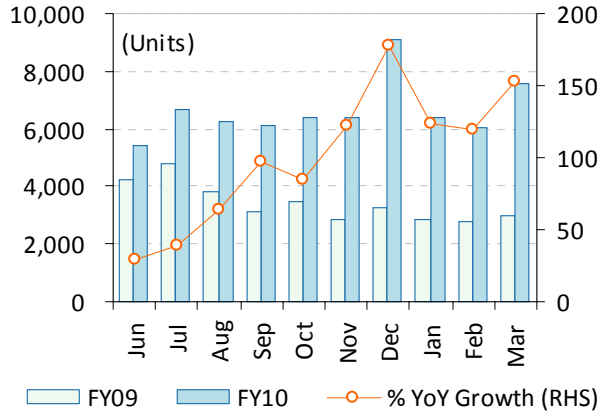
Low penetration implies room for growth in mortgages as a % of GDP



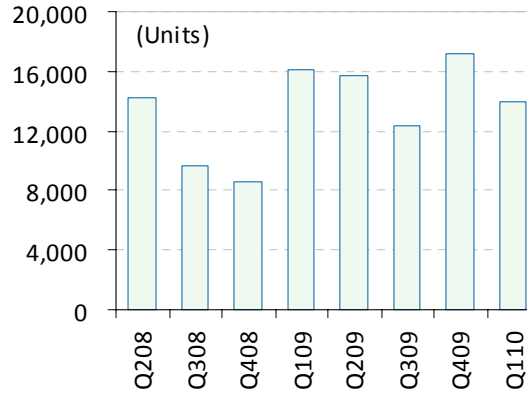
Source: HDFC

Mumbai realty: Resilience proven yet again

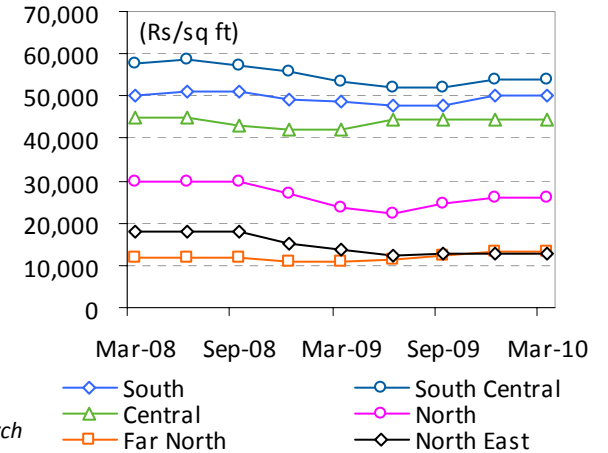
Registration volumes made a comeback



Absorption remains strong

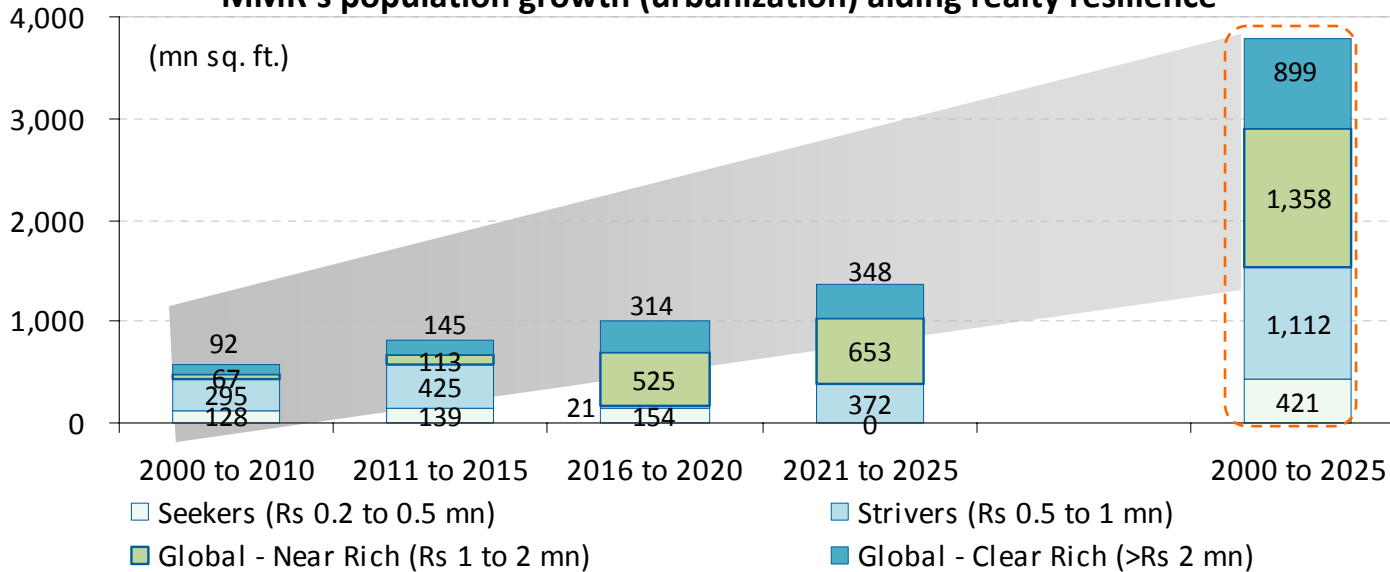


Prices: Inching upwards again



Source: Registration data; Prop Equity Research; Bloomberg; ENAM Research

MMR's population growth (urbanization) aiding realty resilience



Mumbai realty prices: First to bounce back



- Multi-fold growth in the share of projects recording an increase in prices in H2 over H1 2009
- A staggering 30% average increase
- Negligible share of projects records a price decrease

- Clear majority of projects have witnessed an increase in price during H2
- The quantum of increase, however, is the least among the 3 price segments for Mumbai

- Wide base of projects recording an increase in price
- A very healthy 15% average increase

Source: Prop Equity Research

New launches receive robust response

Developer Name	Project Name	Micro Market	Launched Units	BSP (Rs/Sqft)	% Absorbed	Launch Date
Vijay Associates	The Address	Ghatkopar(W)	600	9191-9360	45	Jan-10
Rustomjee Group	Elita	Juhu	168	14500	16	Jan-10
HDIL	Residency Park	Virar	659	2650	85	Jan-10
National Builders	National Piazza	Panvel	28	3650	43	Jan-10
Ajmera	Rosewoods	Kalyan(W)	90	2520	30	Jan-10
Rustomjee Group	Residential Project	Andheri(W)	150	13170	16	Feb-10
Mayfair Housing	Palms	Details Awaited	39	15000	69	Feb-10
Akruti Nirman	Akruti Shikhar	Andheri(E)	74	12500	20	Mar-10
Home Builders	Sea Winds	Nerul	42	7000	70	Mar-10
Suntek Developers	Signia Oceans	Airoli	72	5670	40	Mar-10
Arkade Developers	Wallace Fortuna	Mazgaon	186	19800-22200	10	Apr-10
Suntek Developers	Signia Isles	Bandra Kurla Complex	40	33000	60	Apr-10
Lodha Group	Excellencia	Wagle Estate	160	6000-6100	10	May-10

Source: Industry sources

Year 2010 starts off with significant absorption in a slew of new project launches

DB Realty: An established player

❖ Rich promoter pedigree

- ❑ **Dynamix group:** Founded by Mr. KM Goenka in the late 1970s and currently led by Mr. VK Goenka, the Dynamix group owns large parcels of land in suburban Mumbai (Goregaon and Kandivali)
 - ▶ The group has also diversified into businesses such as food processing, granite & marble and other construction materials
- ❑ **Balwas group:** Led by Mr. Usman Balwa and Mr. Shahid Balwa, the group is present in the real estate sector for the last 95 years
 - ▶ The group is known for its landmark hospitality projects such as Le Royal Meridien, Hotel Balwas International and Le Meridien in Mumbai and Ahmedabad
- ❑ Both the groups together own a 64% stake in DBRL with 22% held by PE investors (22%) and the balance by others (14%)
 - ▶ PE investors include IL&FS Trust Company Limited, IIRF Holdings VI Limited, Trinity Capital (Eleven) Ltd., Bollywood Mauritius Holdings and Walkinson Investments Ltd.

❖ Strong execution track record

- ❑ Both promoter groups have jointly executed 14.4 mn sq. ft. of real estate development consisting mainly of western suburban projects in the Andheri to Kandivli belt

❖ Group presence

- ❑ **Hospitality:** DB Hospitality – currently operates 2 hotels (Le Royal Meridien in Mumbai and Le Meridien in Ahmedabad) and is developing hotels in Pune, Goa, Delhi and an iconic tower in south Mumbai
- ❑ **Telecom:** JV (45% stake) with Etisalat to form Etisalat DB Telecom

DB group's completed portfolio

S No	Name	Location	Type	Area (msf)
1	Kandivali Project	Kandivali (W)	Resi & Comm	3.7
2	Yashodham	Goregaon (E)	Resi & Comm	1.2
3	Gokuldharm	Goregaon (E)	Resi & Comm	3.0
4	Upper Govind Nagar	Malad (E)	Resi	0.4
5	Srishti	Mira Road	Resi & Comm	1.8
6	Orchid Apartment	Mumbai Central	Resi	0.1
7	Orchid Tower Wing 'A'	Mumbai Central	Resi	0.1
8	Orchid Tower Wing 'B'	Mumbai Central	Resi	0.03
9	Orchid City Centre Mall	Tardeo	Retail	0.2
10	Shagun Arcade	Goregaon (E)	Retail	0.1
11	DB Mall	Juhu	Retail	0.1
12	Milan Mall	Vile Parle	Retail	0.1
13	Le Royal Meridien	Andheri (E)	Hospitality	0.2
14	Aldeia De Goa	Goa	Resi	3.5
15	Le Meridien	Ahmedabad	Hospitality	0.1
Total				14.4

Source: Company

Unique land acquisition skill

Key land acquisition strategies followed by the company are:

Mode of acquisition	Methodology explained	Cost of land to DB Realty	DB Realty projects under this approach
Urban Renewal - under Sec 33 (9) of the Development Control Regulations	In lieu of redeveloping old and dilapidated structures on a parcel of land larger than 4,000 sq mtrs (~1 acre), the govt. shall allow a FSI of 4x on the said land	Cost of building for rehabilitating displaced tenants, usually in the range of Rs 1,250 to Rs 1,500/ psf	Turf View - 1.5 mn sq. ft. (1st project to be approved under this scheme)
Joint Development/ Joint Ventures	Access to part of the development rights on the said land in lieu of constructing the project. Cost of construction to be borne partly/ fully by DB Realty depending on the project	Cost of building landowner's share of area as well as any non-refundable deposit or interest cost of any non-refundable deposit paid upfront	Orchid Crown - 0.9 mn sq. ft. Orchid Ozone - 1.6 mn sq. ft.
Public Private partnership	In lieu of building housing for the government, the company is compensated by land provided free of cost (some schemes may also include the govt. paying the company for building the govt. component of the project)	Negative land cost where the govt. usually pays the developer for building its component of the project, else cost equals the construction cost of govt. housing,	Orchid Town - 6.7 mn sq. ft. Orchi Hill Park - 7.9 mn sq. ft. Orchid Centre - 0.5 mn sq. ft.
TDR (Transferable Development Rights)	Govt. issues TDRs in lieu of the developer constructing low cost housing for the govt. to house displaced slum dwellers	Cost of building rehab component	Mahul - 8.7 mn sq. ft. Orchid Hills - 2.8 mn sq. ft. Orchid Apartment* - 1.2 mn sq. ft.

Source: Company, ENAM Research; Note: Areas represent DB Realty's economic share; *Provided area is aggregate of saleable area and TDR

Urban Renewal: Huge opportunity canvas

❖ Redeveloping Mumbai

- ❑ Mumbai's large number of old and dilapidated structures offer a vast opportunity canvas for urban renewal projects
- ❑ The number of dilapidated structures has increased from ~19,600 (1969 survey) to an estimated >50,000 currently.
- ❑ The state govt. plans to announce 20 redevelopment projects in the island city which can be highly value accretive for developers such as DB Realty

❖ DB Realty: A head start

- ❑ While this scheme has been applicable since 2007, not many developers have sought to execute such projects
- ❑ **With 1 project already approved, DB Realty is ahead of the curve in terms of its understanding and ability to acquire land parcels under this scheme**

❖ Key features of urban renewal projects

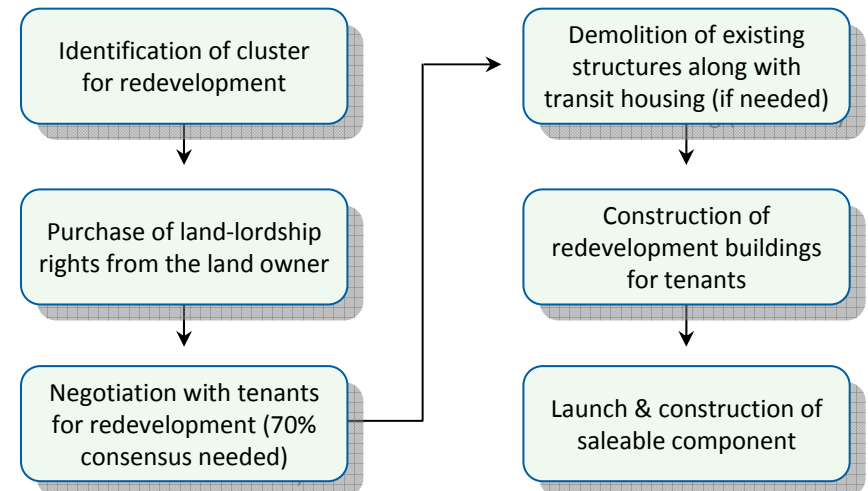
- ❑ Prime land parcels in central and south Mumbai can be acquired at a negligible cost
- ❑ Given the land scarcity in Mumbai, **redevelopment of old structures is the only way to unlock high potential land at a reasonable cost for commercial exploitation**

Urban renewal projects: Opportunity canvas (as of 1969)

Category	Year of construction	No of dilapidated buildings
A	Before 01.09.1940	16,502
B	Between 01.09.1940 to 31.12.1950	1,489
C	Between 01.09.1951 to 30.09.1969	1,651
Total		19,642

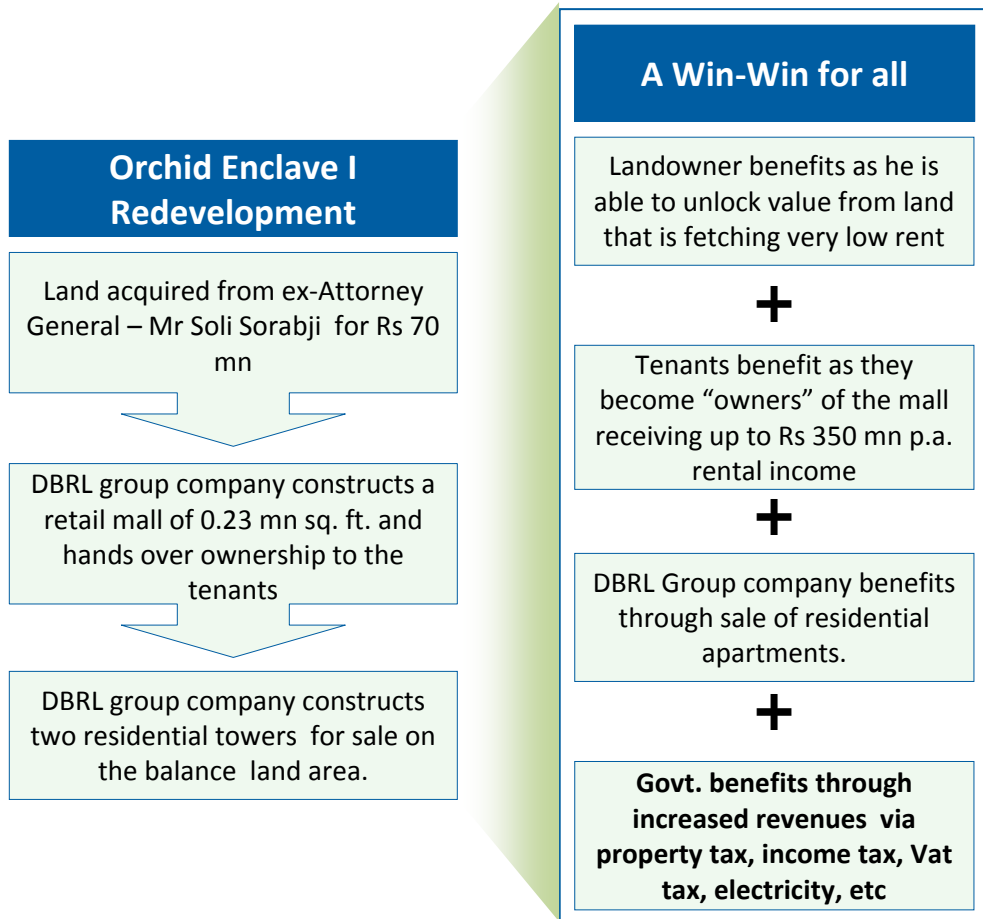
Source: Industry sources

Urban Renewal: The process flow



Source: ENAM Research

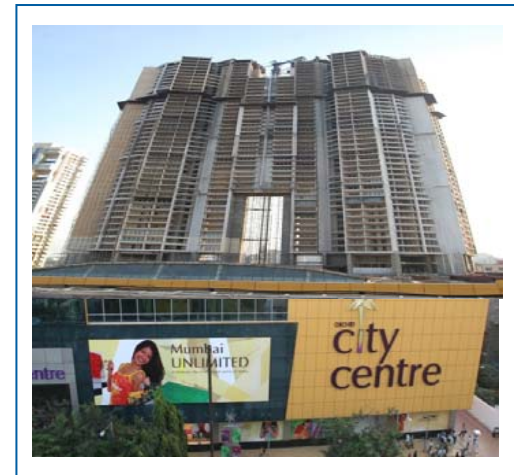
Orchid Enclave I: Successfully redeveloped



Before redevelopment



After redevelopment



The project was made into a case study which facilitated in the implementation of the Urban Renewal Policy.

Project portfolio



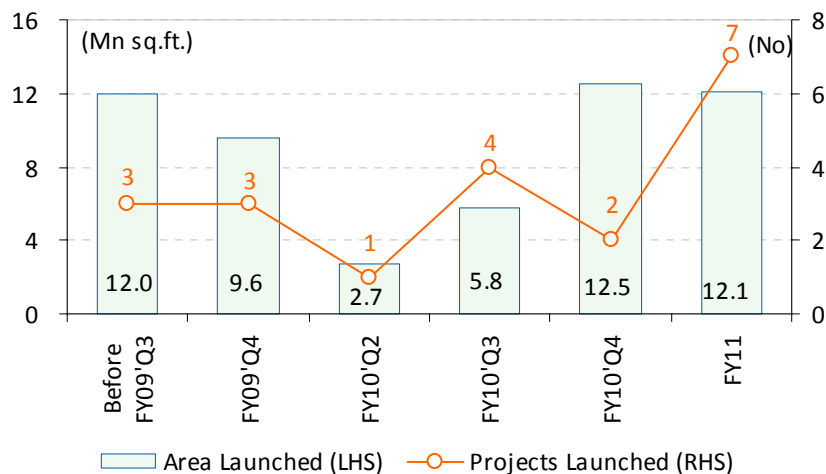
Source: Company, ENAM Research; In addition, company also has projects in Pune

Project portfolio: Segmental breakup

Segment	Ongoing	Forthcoming	Upcoming	Total
Residential	6.9	12.9	20.8	40.6
Commercial	1.6	0.2	0.4	2.1
Retail	0.03	–	0.4	0.4
TDR	10.9	6.2	0.7	17.9
Total	19.5	19.3	22.2	61

Source: Company

DB Realty: Launch schedule



Source: Company

South & Central Mumbai projects

- ❖ DB Realty's portfolio consists of ~6.3 mn sq. ft. of projects in south and central Mumbai contributing ~50% of the Net Asset Value for the company

Project portfolio: South & Central Mumbai

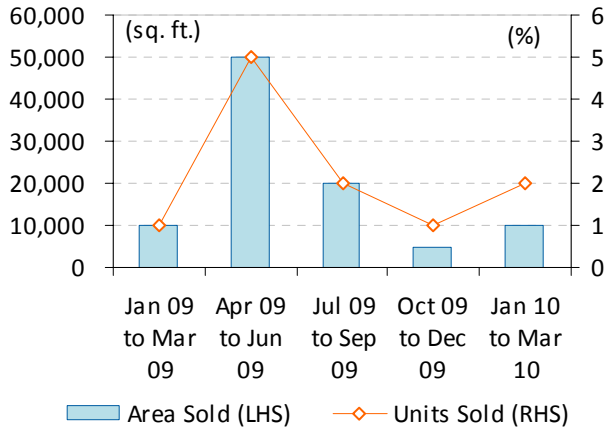
Sr No	Project Name	Location	Type	Size (mn sq. ft.)	Project cost (Rs mn)	Sale price (Rs/ psf)	Project revenues (Rs mn)	Gross profit (Rs mn)	Start date	End date
1	Orchid Turf View	Mahalaxmi	Residential	1.5	6,754	51,000	75,858	69,104	Jan-10	Mar-13
2	Orchid Crown	Lower Parel	Residential	0.9	5,670	27,000	24,233	18,563	Jan-10	Dec-12
3	Orchid Heights	Mumbai Central	Residential	0.6	5,065	22,500	14,003	8,938	Nov-09	Mar-13
4	Orchid Enclave II	Mumbai Central	Residential	0.7	2,720	21,000	14,511	11,791	Jul-10	Dec-12
5	Orchid Splendour	Mumbai Central	Residential	0.4	1,697	20,000	8,487	6,790	Apr-10	Mar-13
6	Orchid Park	Mumbai Central	Residential	0.6	2,675	21,000	13,438	10,763	Sep-10	Mar-13
7	Orchid Skyz	Mumbai Central	Residential	0.3	2,440	21,000	6,344	3,904	Sep-10	Aug-13
8	Orchid Central	Mumbai Central	Residential	0.3	1,205	20,000	6,780	5,575	Jul-10	Dec-12
9	Orchid Views	Mumbai Central	Residential	0.7	4,761	22,000	15,090	10,329	Apr-10	Mar-13
10	DB Tower	BKC	Commercial	0.2	5,823	30,000	6,159	336	Apr-10	Mar-13
Total				6.3	38,810		184,903	146,093		

Source: Company, ENAM Research

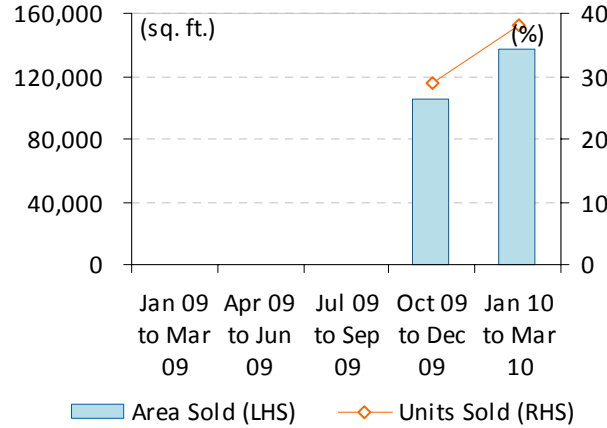
With minimal upfront payment for land, we believe addition of such projects shall be highly value accretive for the company

Sales momentum holding strong

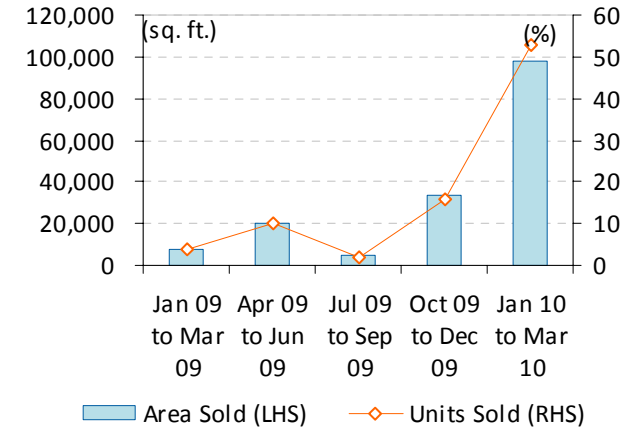
Orchid Turf View



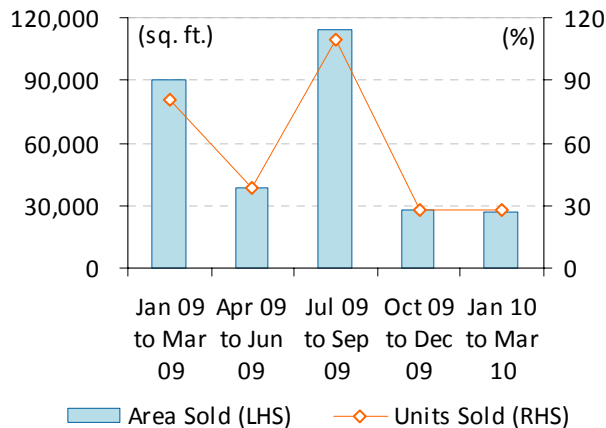
Orchid Heights



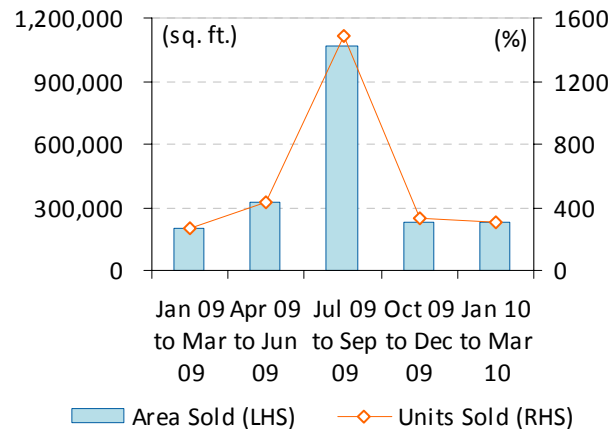
Orchid Woods



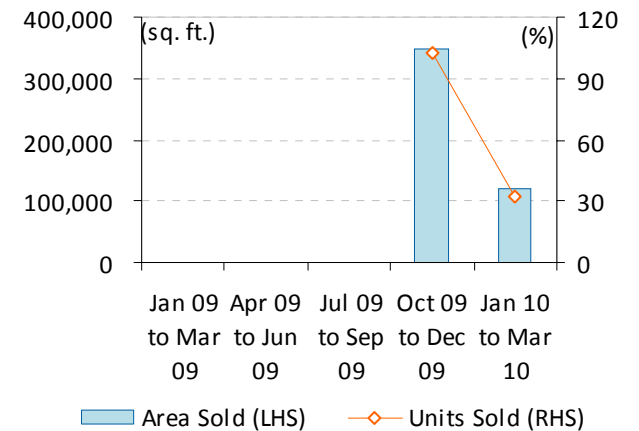
Orchid Suburbia



Orchid Ozone



Orchid Crown



Source: Company

Bandra project: A key trigger

❖ **Bandra Govt. colony redevelopment project**

- ❑ Redevelopment of ~93 acres of prime land on the Western Express Highway outside the upcoming CBD of Bandra Kurla Complex (BKC)
- ❑ To be executed in JV with Ackruti City & Kakade Builders, wherein DBRL's share stands at ~60 acres

❖ **Key project specifications**

- ❑ FSI of 4.0x (based on the car parking policy under Section 33 (24) of the DCR)
- ❑ Total saleable area (DBRL's share) is ~8 mn sq. ft.
 - ▶ Current plans entail a development of ~4 mn of commercial and ~4 mn of residential space
- ❑ Total project cost stands at ~Rs 70-75 bn
 - ▶ Includes upfront premium to MMRDA, redevelopment costs, purchase of TDR/ FSI and construction of saleable area

❖ **Valuation upside**

- ❑ Key assumptions
 - ▶ Average selling price: Rs 20,000/ psf
 - ▶ Cost of construction (saleable area): Rs 4,500/ psf :
 - ▶ Timeline considered: 7 years
- ❑ As per our calculations, this project alone adds ~Rs 36 bn of value or Rs 149 per share

Key project specifications	
Total land area (acres)	93.6
DB Realty's share (acres)	60
Potential saleable area @ 4 FSI (mn sq. ft.)	8.0
Residential portion (50%)	4.0
Commercial portion (50%)	4.0

Source: Company

Potential Value Creation	
Total revenue potential @ Rs. 20,000/ psf (Rs mn)	160,725
Total land cost @ Rs. 5,000/ psf (Rs mn) **	40,181
Total construction cost @ Rs. 4,000/ psf (Rs mn)	32,145
Total profit potential post tax @ 33% (Rs mn)	59,227
Project cycle (no. of years)	7
NAV @ 14% discount rate	36,283
No. of shares (mn)	243
Value/ share (Rs)	149

Source: ENAM Research: ** Note: Includes upfront premium,

Management Evaluation

❖ Efficient management structure

- ❑ Qualified team of professionals, many of whom possess over 15 years of experience
- ❑ Management’s in-depth understanding of the Mumbai realty market shall enable it to take advantage of both current and future market opportunities

❖ Promoter background

- ❑ DBRL’s promoter groups, M/S Goenka and Balwa, have more than 25 and 95 years of experience in the realty business, respectively
- ❑ **Mr. V K Goenka** (Chairman): Has over 21 years of experience in the field of construction and building materials as well as project management and execution of various townships and hospitality projects
- ❑ **Mr. Shahid Balwa** (Managing Director): Possesses more than 10 years of experience in the hospitality and construction industries and has led the group’s foray into hospitality.

Mr. Asif Balwa CFO	Has over 20 years experience. Prior to DB Realty, he was in the restaurant business, involved with Balwas International and operation of Holiday Inn, USA.
Mr. Rajiv Agarwal COO	Holds a bachelors degree in science with over 25 years of experience. Prior to joining DB Realty, he was with the Dynamix Group of Companies in various managerial capacities.
Mr. Vijay Mathankar Senior VP	Holds a masters degree in arts (Economics), Certificate in demography, International Population Centre (an initiative of UNO, Gol and Tata Trust). Has over 20 years of experience. Prior to DB Realty, he was an IAS officer.
Mr. Rajendra Chourse Senior VP	Holds bachelors degree (Chemical Engineering), PG (Economics), & diploma in business management. He has ~30 yrs of exp. Prior to DB Realty, he was with Geetanjali group, Indian Bureau of Mines, Bank of India and Hico Products Ltd.
Mr. S.A.K. Narayanan VP- Company Secretary	Company secretary from ICSI. Has over 45 years of experience. Prior to DB Realty, he was with Intergold India Pvt. Ltd, Prag Bosimi Synthetics Ltd, Conwood Group, Vijay Flexible Containers Ltd and Bombay Oxygen Corp. Ltd.
Mr. Narendra Agarwal VP- Finance	Company secretary from ICSI , CA from ICAI. Has over 16 years of experience. . Prior to DB Realty, he was with SKS Ispat & Power Ltd, Global Group Of Companies, GMM Pfaudler LT, Kuoni Travels and Acme Manufacturing.
Ms. Jessie Kuruvilla VP- Sales	Holds masters degree. She has 21 years of experience. Prior to DB Realty, she was employed with the Dynamix Group of Companies.
Mr. K N Gupta Jt. CFO	Bachelor of Law, a CA and a Company Secretary with 20 yrs of exp. Previously, he was with Omaxe, Baderwal group and Tourism Finance Corp. of India.

Source: Company

❖ Execution challenges

- ❑ Significant challenge ahead in scaling up to reach its desired steady state
 - ▶ Developed a total of ~14.4 mn sq. ft. (as a group) and now looking to develop ~18.6 mn sq. ft. of ongoing projects and launch an additional ~42 mn sq. ft. (forthcoming/ upcoming)

❖ Land title risk

- ❑ Uncertainty of title to land makes the acquisition and development process complicated, which may impede the transfer of title, exposing DBRL to legal disputes.
 - ▶ DBRL has entered into MoUs, partnership and JV agreements, wherein it does not acquire ownership or land development rights until a formal transfer of title or land development rights is completed

❖ TDR market: Significant supply ahead

- ❑ ~18 mn sq. ft. of TDR to be generated results in significant supply of TDR which may result in a dampening of TDR prices, thereby impacting profitability and cash flows

❖ Asset/ Business Cycle Risk

- ❑ Any increase in prices threatens to dampen the market hereon with customers adopting a wait-and-watch approach before booking new properties

❖ Lack of adequate infrastructure in Mumbai

- ❑ With Mumbai already facing a water shortage, it is pertinent that the city finds a long term solution in order to ensure sustainable water supply for new projects.

Company Financials

Profit & Loss (Rs. mn)

Y/E Mar	2009	2010E	2011E	2012E
Net sales	4,644	9,512	14,259	37,448
Other operating income	0	0	0	0
Total income	4,644	9,512	14,259	37,448
Cost of goods sold	2,064	5,470	6,067	7,495
Contribution (%)	0	0	0	0
Advt/Sales/Distrn O/H	322	387	464	557
Operating Profit	2,258	3,655	7,727	29,396
Other income	68	291	0	0
PBIDT	2,326	3,947	7,727	29,396
Depreciation	74	96	94	96
Interest	747	726	879	704
Other pretax	0	0	0	0
Pre-tax profit	1,505	3,125	6,754	28,596
Tax provision	67	413	1,621	9,437
(-) Minority Interests	22	192	300	300
Associates	0	0	0	0
Adjusted PAT	1,417	2,520	4,833	18,859
E/o income / (Expense)	42	0	0	0
Reported PAT	1,459	2,520	4,833	18,859

Key ratios (%)

Y/E Mar	2009	2010E	2011E	2012E
Sales growth	-	104.8	49.9	162.6
OPM	48.6	38.4	54.2	78.5
Oper. profit growth	-	61.9	111.4	280.4
COGS / Net sales	44.4	57.5	42.6	20.0
Overheads/Net sales	6.9	4.1	3.3	1.5
Depreciation / G. block	24.6	30.8	29.7	29.7
Effective interest rate	8.1	7.8	14.0	14.0
Net wkg.cap / Net sales	3.3	2.5	1.9	0.6
Net sales / Gr block (x)	19.9	31.1	45.5	117.2
Incremental RoCE	25.3	18.4	(177.6)	(371.5)
RoCE	12.9	13.2	19.1	58.0
Debt / equity (x)	1.4	0.2	0.2	0.1
Effective tax rate	4.4	13.2	24.0	33.0
RoE	17.2	12.6	14.4	41.5
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	5.8	10.4	19.9	77.6
EPS Growth	-	77.8	91.8	290.2
CEPS (Rs.)	6.1	10.8	20.3	78.0
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, ENAM Research

Company Financials

Balance sheet (Rs. mn)

Y/E Mar	2009	2010E	2011E	2012E
Total assets	21,023	37,510	42,343	58,703
Gross block	301	310	316	323
Net fixed assets	208	181	94	4
CWIP	15	37	37	37
Investments	2	8,941	8,941	8,941
Wkg. cap. (excl cash)	20,028	27,490	25,285	19,542
Cash / Bank balance	769	860	7,987	30,179
Others/Def tax assets	0	0	0	0
Capital employed	21,022	37,510	42,343	58,703
Equity capital	91	2,433	2,433	2,433
Reserves	8,570	28,802	33,635	52,495
Borrowings	12,357	6,278	6,278	3,778
Others	4	(2)	(2)	(2)

Cash flow (Rs. mn)

Y/E Mar	2009	2010E	2011E	2012E
Sources	7,183	16,524	4,927	16,455
Cash profit	2,191	3,242	6,106	19,959
(-) Dividends	0	0	0	0
Retained earnings	2,191	3,242	6,106	19,959
Issue of equity	(3)	23,810	0	0
Borrowings	6,327	(6,079)	0	(2,500)
Others	(1,333)	(4,449)	(1,179)	(1,004)
Applications	7,183	16,524	4,927	16,455
Capital expenditure	144	32	6	6
Investments	(1,783)	8,938	0	0
Net current assets	9,132	7,462	(2,206)	(5,743)
Change in cash	(311)	92	7,127	22,192

Source: Company, ENAM Research

Valuations

Y/E March	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Beyond
Square feet sold (Includes TDR)	4.0	7.2	8.8	10.7	13.9	6.2	0.3	0.1
Square feet sold (Only TDR)	1.97	1.23	2.82	2.46	3.26	0.22	-	-
Square feet under construction	3.62	4.60	7.65	11.73	16.29	17.02	15.09	40.92
Operating Cash Flow	16,033	32,742	48,721	53,659	56,831	50,709	26,515	7,309
Less: Overhead Costs	946	1,865	1,834	2,177	2,814	1,837	950	3,685
Net Cash Flow (Pre-tax)	15,088	30,877	46,887	51,482	54,016	48,872	25,565	3,624
Less: Taxation	1,621	9,437	10,476	18,512	20,087	17,627	8,264	3,552
Free Cash Flow	13,467	21,441	36,412	32,970	33,930	31,245	17,300	73

Sensitivity Matrix

(Rs mn)		Selling price escalation (%)				
		0%	2.5%	5%	7.5%	10%
WACC (%)	12%	460	510	563	619	680
	13%	450	498	549	604	663
	14%	441	487	536	589	646
	15%	431	476	524	575	630
	16%	423	466	512	561	615

Note: Discount rate is assumed to be constant

Net Cash Flows	186,836
Discount rate	14.0%
Net Present Value	126,773
Less: Net Debt	(3,523)
Net Asset Value	130,296
No of shares (mn)	243
Value per share (Rs/ share)	536

Key Assumptions

Variable	Assumption
Escalation in selling price	5%
Escalation in construction costs	4%
	0%

Peer Comparison

Company	Period	EARNINGS				RETURNS			Valuation				FIN. STRUCTURE		
		Net Sales (Rs mn)	EBITDA (Rs mn)	Rep. PAT (Rs mn)	EBITDA Margins %	Rep. EPS (Rs)	ROCE (%)	ROE (%)	NAV (Rs)	P/NAV (x)	P/E (x)	P/BV (x)	Eq. Cap (Rs mn)	Net Debt (Rs mn)	Net Debt/ Equity (X)
DLF Ltd (CMP: Rs 282) (MCa p: USD 10.2bn)	FY09	100,354	55,900	44,696	55.7	26.3	16	21			10.7	2.0	3,394	165,205	0.7
	FY10	74,209	35,012	17,300	47.2	10.2	8	7	354	0.8	26.3	1.9	3,394	266,836	1.0
	FY11E	86,497	39,313	20,114	45.5	11.9	8	8			22.2	1.7	3,394	201,491	0.7
	FY12E	99,324	49,476	27,160	49.8	16.0	10	10			16.7	1.6	3,394	160,099	0.5
Unitech Ltd (CMP: Rs 71) (MCa p: USD 3.7bn)	FY09	28,897	15,888	11,964	55.0	5.9	15	27			12.2	2.8	3,247	84,110	1.6
	FY10E	29,313	10,712	6,751	36.5	2.8	7	9	85	0.8	25.2	1.7	4,878	52,810	0.5
	FY11E	37,281	16,763	10,846	45.0	4.4	10	10			16.0	1.4	5,233	38,964	0.3
	FY12E	53,344	24,431	15,612	45.8	6.4	14	12			11.1	1.3	5,233	(2,594)	(0.0)
DB Realty Ltd* (CMP: Rs 401) (MCa p: USD 2.1bn)	FY09	4,644	2,258	1,459	48.6	6.0	13	17			68.8	11.3	91	11,589	1.3
	FY10	9,512	3,655	2,520	38.4	10.4	13	13	536	0.7	38.7	3.1	2,433	5,418	0.2
	FY11E	14,259	7,727	4,833	54.2	19.9	19	14			20.2	2.7	2,433	(1,709)	(0.0)
	FY12E	37,448	29,396	18,859	78.5	77.6	58	41			5.2	1.8	2,433	(26,401)	(0.5)
HDIL (CMP: Rs 232) (MCa p: USD 1.8bn)	FY09	17,284	7,782	7,859	45.0	21.1	11	17			12.8	2.0	2,755	40,678	0.9
	FY10E	15,021	7,893	5,666	52.5	15.2	8	10	333	0.7	15.2	1.2	4,368	33,099	0.5
	FY11E	19,107	10,135	6,990	53.0	18.8	9	9			12.4	1.1	3,718	16,301	0.2
	FY12E	24,767	14,007	9,635	56.6	25.9	12	11			9.0	1.0	3,718	1,758	0.0
Indiabulls Real Estate Ltd (CMP: Rs 157) (MCa p: USD 1.3bn)	FY09	2,086	(570)	295	(27.3)	0.7	2	0			213.4	1.0	515	559	0.0
	FY10	1,294	(1,072)	(160)	(82.9)	(0.4)	0	(0)	219	0.7	(392.6)	0.6	803	6,302	0.1
	FY11E	7,295	2,087	1,343	28.6	3.3	2	1			46.8	0.5	803	7,723	0.1
	FY12E	9,199	2,334	1,605	25.4	4.0	2	1			39.2	0.5	803	4,684	0.0
Century Textile & Industries Lt (CMP: Rs 445) (MCa p: USD 0.9bn)	FY09	37,598	6,167	2,375	16.4	25.5	16	22			5.2	2.8	930	16,918	1.1
	FY10	44,529	9,283	3,395	20.8	36.5	19	26	660	0.7	2.8	2.3	930	23,094	1.3
	FY11E	46,109	9,355	3,501	20.3	37.6	14	18			2.1	2.0	930	37,826	1.8
	FY12E	48,715	10,129	2,806	20.8	30.2	11	13			0.8	1.8	930	45,803	2.0
Sobha Developers Ltd (CMP: Rs 288) (MCa p: USD 0.6bn)	FY09	9,740	2,788	1,078	28.6	11.0	9	10			26.2	2.5	729	19,108	1.7
	FY10	11,299	2,636	1,341	23.3	13.7	8	9	347	0.8	21.1	1.6	981	13,915	0.8
	FY11E	12,984	2,999	1,592	23.1	16.2	9	9			17.8	1.5	981	11,400	0.6
	FY12E	12,773	3,005	1,683	23.5	17.2	9	9			16.8	1.4	981	4,436	0.2
Peninsula Land Ltd (CMP: Rs 67) (MCa p: USD 0.4bn)	FY09	5,656	1,478	1,471	26.1	5.3	12	17	-	-	11.7	1.8	559	1,954	0.2
	FY10	7,609	3,292	2,909	43.3	10.4	21	28	96	0.7	5.8	1.4	559	(1,498)	(0.1)
	FY11E	5,403	2,803	2,027	51.9	7.3	16	14	0	-	9.2	1.2	559	(449)	(0.0)
	FY12E	5,426	1,820	1,191	33.5	4.3	10	8	-	-	15.7	1.2	559	(2,255)	(0.1)

Source: ENAM Research , Note: * DB Realty NAV does not include Rs149/ share upside potential of the Bandra Project

Annexure I

DB Realty: Project portfolio status update

Ongoing projects

Sr No	Project Name & Location	Total Saleable Area (Sq. Ft.)	Category (Saleable Area Sq. Ft.)*	Total Units	Units Sold	Sales Price (Rs./Sq.Ft.)	Area Sold (Sq.Ft.)	Avg Sales Price (Rs./ Sq.Ft.)	Project Cost (Rs.Mn)	Commencement - Completion Date	Ownership (%)*
1	Orchid Ozone (Dahisar)	2,496,807 (DB JDA Share- 2,398,248) 107,561 (DB JDA Share 50,121)	Residential- 1,582,844 Retail- 33,080	3,609	2,808	4,590 12,000	2,039,313	3,475	6,254	Aug - Sep 2009 - 2012	66.00%
2	Orchid Woods (Goregaon)	1,174,000	Residential- 880,500	630	332	10,440	623,905	8,163	5,421	Feb - Jun 2007 - 2011	75%
3	Orchid Heights (Jacob Circle)	1,227,039	Residential- 622,354	240	67	22,500	242,377	18,781	5,065	Nov - Mar 2009 - 2013	50.72%
4	Orchid Suburbia (Kandivali)	982,348	Residential- 491,174	606	461	8,550	487,285	6,453	4,709	Jan - Dec 2009 - 2011	50%
5	Mahul Nagar (Mahul)	8,789,457	TDR- 8,701,562	-	-	2,750	4,302,382	1,944	8,539	Mar - Mar 2007 - 2011	99%
6	Orchid Hills (Chandivali)	6,706,832 1,562,025	TDR- 2,235,387 Residential- 520,623	-	-	2,750 6,500	989,674	1,493	8,780	Mar - Mar 2009 - 2013	33.33%
7	Ascot Centre II (Andheri)	456,400	Commercial- 342,300	-	-	20,000	-	-	1,551	Feb - Dec 2007 - 2012	75%
8	Orchid Turf View (Mahalaxmi)	2,225,416 (Total 240 units)	Residential- 1,483,685	60 (1 tower)	27	51,000	205,000	24,037	6,754	Jan - Mar 2010 - 2013	66.67%
9	Orchid Corporate Park (Andheri)	1,249,062	Commercial- 1,249,062	-	-	23,000	-	-	4,725	Jan - Nov 2010 - 2012	100%
10	Orchid Centre (Pune)	856,385 (DB JDA Share - 471,012)	Residential- 471,012	-	-	8,000	-	-	1,348	Jan 2009 - Jun 2012	100%
11	Orchid Crown (Prabhadevi)	1,795,304 (3 towers)	Residential- 897,652	268 (2 tower)	134	27,000	466,475	22,701	5,670	Jan 2010 - Dec 2012	50%

Source: Company, *DB's Economic Beneficial Interest

Forthcoming projects

Sr No	Project Name & Location	Total Saleable Area (Sq. Ft.)	Category (Saleable Area Sq. Ft.)*	Total Units	Units Sold	Sales Price (Rs./Sq.Ft.)	Area Sold (Sq.Ft.)	Avg Sales Price (Rs./ Sq.Ft.)	Project Cost (Rs.Mn)	Commencement - Completion Date	Ownership (%)*
1	Orchid Hill Park (Goregaon)	2,090,816	Residential-1,672,653	-	-	7,500	-	-	6,827	Aug 2010 - Jul 2013	80%
		6,206,380	TDR-6,206,380	-	-	2,750	-	-			100%
2	Orchid Garden (Dahisar)	2,189,193	Residential-2,189,193	-	-	3,600	-	-	4,609	Jul 2010 - Jun 2013	100%
3	Orchid West View (Malad)	659,087	Residential-659,087	-	-	9,500	-	-	2,602	Apr 2010 - Mar 2013	100%
4	Orchid Views (Shantinagar)	1,371,854	Residential-685,927	-	-	22,000	-	-	4,761	Apr 2010 - Mar 2013	50%
5	Orchid Park (Mumbai Central)	639,912	Residential-639,912	-	-	21,000	-	-	2,675	Sep 2010 - Mar 2013	100%
6	Orchid Skyz (Byculla)	604,178	Residential-302,089	-	-	21,000	-	-	2,440	Sep 2010 - Aug 2013	50%
7	DB Tower (BKC)	895,377	Residential-14,391 Commercial-190,919	-	-	30,000 30,000	-	-	5,823	Apr 2010 - Mar 2013	22.93%
8	Orchid Town (Pune)	10,658,901	Residential-6,715,108	-	-	3,000	-	-	21,371	Apr 2010 - Mar 2014	63%

Source: Company, *DB's Economic Beneficial Interest

Upcoming projects

Sr No	Project Name & Location	Total Saleable Area (Sq. Ft.)	Category (Saleable Area Sq. Ft.)*	Total Units	Units Sold	Sales Price (Rs./Sq.Ft.)	Area Sold (Sq.Ft.)	Avg Sales Price (Rs./ Sq.Ft.)	Project Cost (Rs.Mn)	Commencement - Completion Date	Ownership (%)*
1	Orchid Acre (Mira Road)	17,925,351	Residential-17,925,351	-	-	3,600	-	-	29,096	Apr 2010 - Dec 2013	100%
2	Orchid Enclave II (Mumbai Central)	691,815	Residential-691,815	-	-	21,000	-	-	2,720	Jul 2010 - Dec 2012	100%
3	Orchid Apartment (Mankhurd)	1,465,432	TDR-732,716	-	-	2,500	-	-	4,466	Mar 2011 - Feb 2015	50%
		862,526	Residential-431,263	-	-	5,000	-	-			
4	Orchid Splendor (Mumbai Central)	424,364	Residential-424,364	-	-	20,000	-	-	1,697	Apr 2010 - Mar 2013	100%
5	Orchid Central (Mumbai Central)	338,981	Residential-338,981	-	-	20,000	-	-	1,205	Jul 2010 - Dec 2012	100%
6	Orchid Lawn (Pune)	3,125,550	Residential-9,89,549	-	-	7,500	-	-	9,510	Jan 2011 - Dec 2016	31.66%
		1,110,948	Commercial-351,726	-	-	12,000	-	-			
		1,110,948	Retail-351,726	-	-	12,000	-	-			

Source: Company, *DB's Economic Beneficial Interest

Annexure II

Mumbai Realty: Peculiarity and nuances

Peculiarities of Mumbai realty

Policy	Description
<p>Rent Control Act</p>	<ul style="list-style-type: none"> ❑ An outdated regulation which has resulted in tenants paying a pittance for premium located properties with land owners now experiencing negative cash flows from owning these assets ❑ Landowners happy to sell out rights to the property at reasonable prices → huge scope for developers who are able to negotiate and settle the existing tenants
<p>Mill land development</p>	<ul style="list-style-type: none"> ❑ Mumbai is home to several defunct mills located in highly premium locations in central/ south Mumbai ❑ The govt. has allowed for closing down of these mills and redeveloping the lands in return for mill owners providing 2/3rds of the vacant space for low cost hsg to MHADA and public open spaces ❑ As a result, several mill owners (led by the National Textile Mills) have auctioned/ entered into development agreements with developers for monetization of these land parcels
<p>Slum rehabilitation</p>	<ul style="list-style-type: none"> ❑ ~55% of Mumbai lives in slums (encroached on both govt. as well as pvt. lands) offering a huge potential for rehabilitation schemes giving developers access to prime land parcels at throw-away prices ❑ Central Govt. plans for a slum free India will provide significant impetus to these projects via the JNNURM scheme as well as policy changes at the state level

Source: ENAM Research

Avenues of value creation

Key policy initiatives	Value creation	Key players
<p>Redevelopment of old structures</p>	<ul style="list-style-type: none"> ❑ Sec 33(6): Existing area available for development irrespective of FSI or plot size. Most beneficial for plots in Coastal Zone where FSI is minimal ❑ Sec 33(7): Redevelopment of dilapidated structures (~19,000 at last count) for higher FSI of 2.5x OR 50% of redevelopment space 	<ul style="list-style-type: none"> ❑ DB Realty ❑ Orbit Corporation ❑ HDIL ❑ Kumar Builders
<p>Slum rehabilitation scheme</p>	<ul style="list-style-type: none"> ❑ FSI of 3.0x (4.0x for high density locations) in lieu of rehabilitation of slum tenements post a 70% consensus among slum dwellers ❑ Ratio of 1:1 for free saleable area: rehab area ❑ Additional TDR provided to developers in case of lack of area for own saleable area 	<ul style="list-style-type: none"> ❑ HDIL (airport project is the largest slum rehab project under execution) ❑ Ackruti City
<p>Car parking policy (introduced in Feb 2009)</p>	<ul style="list-style-type: none"> ❑ Higher FSI granted (4.0x) for providing public car parking to the Municipal Corporation of Greater Mumbai (MCGM) ❑ 1 sq ft of additional FSI for every 2 sq ft of parking space 	<ul style="list-style-type: none"> ❑ DB Realty ❑ Lodha Developers ❑ Oberoi Constructions
<p>Clearances/ Approvals for lands locked in no-development zones</p>	<ul style="list-style-type: none"> ❑ Free low cost rental housing provided by developers to MMRDA in lieu of higher FSI ❑ Development of housing for govt. agencies (police force, etc) in return for TDRs as well as higher FSI 	<ul style="list-style-type: none"> ❑ DB Realty ❑ HDIL

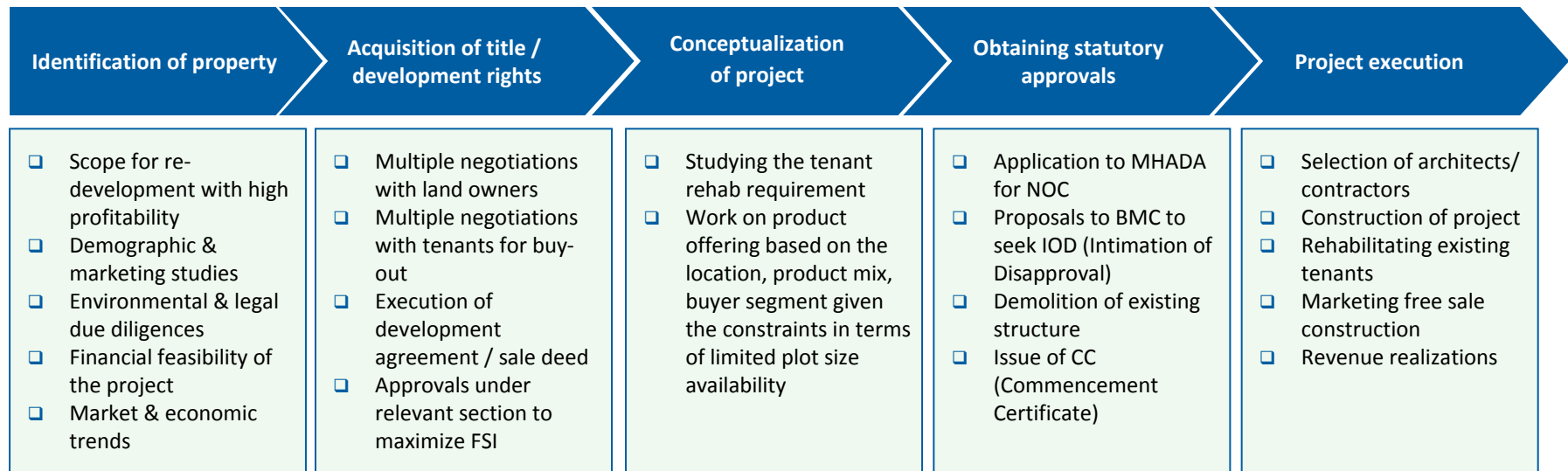
Source: ENAM Research

Understanding redevelopment

❖ History of redevelopment

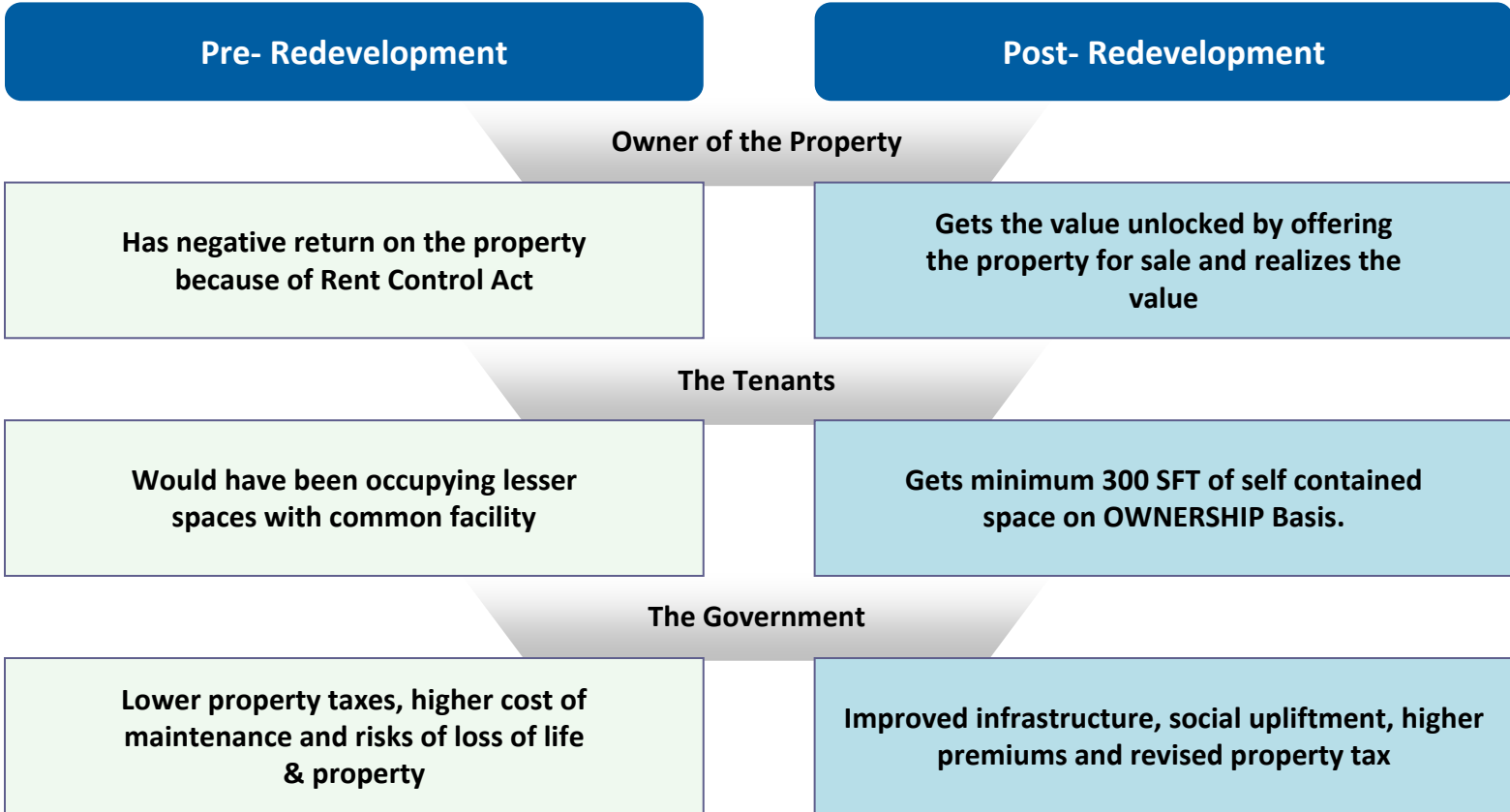
- ❑ 1940s – low quality buildings constructed for textile mill workers
 - ▶ 1948 – Rent Control Act → limits rent chargeable → landlords criminally liable for upkeep → -ve cash flows
- ❑ 1960s – Poor quality of buildings lead to several mishaps of buildings falling
- ❑ 1965 – Cess raised for upkeep – Max spending limit of Rs 150/psf insufficient for desired improvement
- ❑ 1980s – Pvt sector invited to partake in redevelopment – FSI capped at 2.5x making it unviable
- ❑ 1998 – DCR Sec 33(7) introduced increased saleable component – economics now favourable

❖ The redevelopment process - Highly specialized business



Redevelopment projects typically have a longer gestation period of 4 yrs at an avg. !

Redevelopment: A Win-Win for all



Fraught with complexities, choosing right developer is key to the success of the project !

Mumbai realty: Key Rules & Guidelines

Development Control Regulations (DCR)

- ❖ **33(5) – Redevelopment of old MHADA buildings** (<http://maharashtra.gov.in/data/gr/marathi/2008/12/06/20081208143400001.pdf>)
 - ❑ FSI of 2.5x on the gross plot area provided and 70% consensus is taken and 60% shall be built for EWS/ LIG and MIG categories
 - ❑ Incentive FSI provided as per calculations below
 - ▶ Island City: Upto 4,000 sq. mtrs: 50%; Above 4,000 sq. mtrs. : 60%;
 - ▶ Suburbs: Upto 4,000 sq. mtrs: 50%; Above 4,000 sq. mtrs. : 60%;
 - ❑ There are about 104 MHADA colonies all over Mumbai covering a land area of ~1,500 hectares

- ❖ **33(7) – Redevelopment of old and dilapidated structures** (<http://maharashtra.gov.in/data/gr/english/2009/03/02/20090303162127001.pdf>)
 - ❑ Redevelopment of dilapidated structures for FSI of 3.0x OR 50% of redevelopment space, whichever is higher
 - ❑ Eligible tenants to be given a 300 sq. ft. tenement each on an ownership basis

- ❖ **33(9) – Urban renewal policy** (http://www.33nine.com/clause_33_9.pdf)
 - ❑ FSI of 4.0x on redevelopment of old land parcels (housing old and dilapidated structures) with a min. criteria of 4,000 sq. mtrs. or FSI for rehabilitation + an additional incentive FSI whichever is higher. Incentive FSI calculated as follows:
 - ▶ 4,000 – 8,000 sq. mtrs → 55%; 8,001 – 12,000 → 65%; 12,001 – 16,000 → 70%; 16,001 – 20,000 → 75%; Above 20,000 – 80%

- ❖ **33(10) – Slum rehabilitation policy** (<http://www.sra.gov.in>)
 - ❑ FSI of 3.0x (4.0x for high density locations) in lieu of rehabilitation of slum tenements post a 70% consensus among slum dwellers
 - ❑ Ratio of 1:1 for free saleable area: rehab area
 - ❑ Additional TDR provided to developers in case of lack of area for own saleable area

- ❖ **33(24) – Car parking policy**
 - ❑ Higher FSI granted (4.0x) for providing public car parking to the Municipal Corporation of Greater Mumbai (MCGM)
 - ❑ 1 sq ft of additional FSI for every 2 sq ft of parking space

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5. Broking relationship	No

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