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Product Overview

HDFC AMC PMS - REAL ESTATE PORTFOLIO - I

Managed By:

HDFC AMC - Portfolio Management Services

Introduction

HDFC Asset Management Company Limited ('HDFC AMC') is a joint venture between Housing Development Finance Corporation Limited ('HDFC') and Standard Life Investments Limited, UK. HDFC AMC is registered with SEBI as a Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993. HDFC AMC has launched a Real Estate Portfolio ('Portfolio'), which will make investments in listed/unlisted securities of companies engaged in real estate sector in India. The investment objective of the Portfolio is to provide superior and consistent risk-adjusted returns for investors by investing in Securities* offered by unlisted and listed companies involved in, investing in, developing, constructing, owning, real estate management, project/facility management and operating Real Estate Assets.

Though every endeavor will be made to achieve the objectives of the product, HDFC AMC and/or its Promoters do not guarantee that the investment objectives of the product will be achieved. No assured or guaranteed returns are being offered under this product.

* Securities of asset level special purpose vehicles, all marketable securities including equity shares, quasi equity shares, preference shares, debentures, convertible securities, depository receipts, bonds, secured premium notes, government securities, pass-through certificates, treasury bills, units, derivatives, equity linked products, debt, hybrid products, mortgage-backed securities, commercial papers, notes, and any other instrument included within the definition of "security" under Section 2(h) of the Securities Contract (Regulation) Act, 1956.

India - An attractive Market Opportunity

India is the third¹ largest economy in the world based on purchasing power parity-adjusted Gross Domestic Product ("GDP") and has been experiencing strong growth over the last decade with an annual GDP growth rate of 9.40% in FY07 and an annual projected GDP growth rate of 9.0% for FY08. Factors such as the rapid growth in the services sector, rising personal disposable incomes, low dependency ratios, cost competitiveness in the Information Technology and related areas and rapidly increasing investments in manufacturing & infrastructure sector make India an attractive investment destination. This has created a strong platform for the growth of the real estate sector in India.

Indian Real Estate Market

The Indian real estate market has been growing at the rate of 30% per annum with steady growth across the residential, commercial, hospitality and retail sector and is estimated to grow to US\$ 45 - 50 billion by 2010², as per industry estimates. Continued economic growth, infrastructure development and emergence of real estate as an organized sector are likely to spur this growth in the industry.

Opportunities in the real estate sector include:

- **Residential** : This sector is marked by huge demand across segments particularly in the area of middle and low income housing. It is estimated that approximately 25 million new units need to be built over the next five years to meet the current shortfall in available housing³. In addition, growth in demand is likely to continue due to increasing affordability, the easier availability of finance for housing purchase and massive urbanization.
- **Commercial**: The growth in the services sector, especially in the Information Technology ('IT') and IT enabled services ('ITES'), coupled with demand from the manufacturing sector, has created a huge demand for commercial real estate in India. The expected demand for commercial space from the IT & ITES sectors alone for the next 5 years is ~25 million square feet per annum⁴.
- **Retail** : The share of organized retailing as a percentage of total retailing in India is expected to grow at a rate of 40% per annum, from 5% of the total market to 14% of the total market by 2015 and further to 24% of the total market by 2025⁵. This is expected to create significant demand for additional retail space in India.

- **Hospitality:** There is a huge gap between the estimated demand and current supply of hotel rooms across segments in this sector. For e.g.: Five star room availability is expected to increase from ~25,000 rooms in FY06 to ~31,000 rooms⁶ in FY10 to cater to the increased demand. The prime drivers of the demand in this sector are - exponential increase in tourism and business travel to the country, increased investments in airport infrastructure, advent of low-cost airlines and higher personal disposable incomes.

The Portfolio Manager and the Advisor

The Portfolio Manager - HDFC AMC is the investment manager to HDFC Mutual Fund. HDFC AMC has put together an experienced team of professionals from the HDFC group and the industry as part of the Portfolio Management team to manage the Portfolio. Over the years, HDFC AMC has established a formidable infrastructure in the areas of fund management, investor servicing, operations, systems, compliance, marketing and distribution. With a corpus of Rs. 46,752 crores across 32 mutual fund schemes (as at November 30, 2007), the Fund, co-sponsored by HDFC and Standard Life Investments Limited, the investment arm of The Standard Life Group, UK, has emerged as one of India's preferred investment destinations. It is today one of India's leading asset management companies. HDFC AMC also has Portfolio Management Business which advises/manages assets in excess of Rs. 13,000 crores as on November 30, 2007.

The Investment Advisor – The Portfolio Manager proposes to appoint HDFC as the investment advisor to HDFC AMC PMS - Real Estate Portfolio. The Investment Advisor will be acting through an Advisory Board, which shall comprise senior executives of HDFC. HDFC will provide inputs to assist the Portfolio Manager in the decision making process for investment in Securities of companies engaged in real estate sector.

HDFC is one of the largest private sector financial institutions in India with a market capitalization of approximately US\$ 14 billion (as of Sep 2007). HDFC, a pioneer in real estate financing in India, is also one of the most experienced players in the industry as it has the unique experience of being on the buyer and seller side for the last 30 years in Indian real estate giving it unparalleled knowledge and understanding of the market. In addition to its traditional lending business, HDFC has also developed strong relationships with over 375 developers across the country through its wide distribution network comprising 240 branch offices in over 60 cities across the country. HDFC is reputed for its high corporate governance standards and is one of the most trusted brand names in the financial services industry in the country.

HDFC has proprietary access to investment opportunities and projects through its nation wide presence with almost 240 branches in India. HDFC has developed close relationships with all major developers in India and has unique insights into the investment opportunities available in the market.

❖ INVESTMENT PHILOSOPHY

The Portfolio Manager aims to provide superior and consistent risk-adjusted returns as a result of its ability and investment philosophy of working with the management of the Portfolio Companies to build and deliver quality real estate solutions.

The basic principles, which serve as the foundation for the investment approach, are as follows:

- ❧ **Focus on the long term:** There is substantive empirical evidence to suggest that investment in Real Estate Securities as an asset class, provide maximum risk adjusted returns over a long period of time. In order to take full advantage of this phenomenon, the idea is to identify superior businesses with predictable, growing cash flows and then allow the power of compounding to work in our favour.
- ❧ **Focus on credible mid-size developer partners:** In essence, the idea is to support and provide risk capital to mid-size developers with a clean track record and reputation in the market and ride the growth curve with them.
- ❧ **Maintain a margin of safety:** The aim is to purchase Securities when it is possible to do so at a price that represents a discount from the long-term intrinsic value of that business.
- ❧ **Value-addition:** The Portfolio Manager aims to provide strategic inputs to the Portfolio Companies and enhance their market perspective.
- ❧ **Diversified Portfolio:** The Real Estate Portfolio shall not be biased towards or against any segment of the real estate market and shall aim to maintain a well-diversified portfolio across various segments of the Real Estate industry.

In summary, the assessment of investment value is a function of extensive research and founded on data and reasoning, rather than current fashion and emotion. The idea is to develop a model that allows us to identify "**good businesses, with good management, at a reasonable price**".

❖ INVESTMENT CRITERIA

The Portfolio Manager will attempt to find Portfolio Companies that meet the following criteria for investment:

- **A talented management team** - The Portfolio Manager will seek entrepreneurs and developers with relevant work experience and high ethics.
- **A real estate project targeting high growth sectors** - Some of the sectors may include information technology, telecommunications, engineering, life sciences, infrastructure, agribusiness, and other competitive sectors. Residential and general commercial property would also be targeted.
- **A sound business plan** that is comprehensive, logical and practically feasible and that demonstrates how the company plans to achieve profitability, including stable returns to investors.
- **A discernible Exit Strategy** - Although there is no guarantee of a successful exit from any investment by the Real Estate Portfolio, the Portfolio Manager at the time of investment in a Portfolio Company, will examine possible exit strategies.

Summary of Principal Terms

| Parameters | Remarks |
|--|---|
| Portfolio investment mandate | <ul style="list-style-type: none"> ❑ The Portfolio will make investments in Securities of asset level special purpose vehicles, holding structures etc across the real estate sector in India ❑ The Portfolio shall seek to attain superior and consistent risk adjusted returns by investing through structured debt; mezzanine funding and innovative equity linked products. |
| Promoter / Advisor | ❑ HDFC AMC proposes to appoint HDFC as the Investment Advisor to the portfolio. The Investment Advisor will act through an Advisory Board represented by senior executives of HDFC |
| Minimum contribution | ❑ The minimum contribution would be Rs.25 lakhs |
| Portfolio life/maturity | ❑ 6 years, with the option of extension by 1 + 1 years |
| Commitment Period for the capital to be invested | ❑ 2 years + 1 year |
| Drawdown | ❑ Within commitment period |
| Hurdle Rate | ❑ 10% p.a. in IRR terms |
| Profit share | ❑ 20% with catch up |
| Fee structure | <ul style="list-style-type: none"> ❑ Management Fees <ul style="list-style-type: none"> • Commitment period : 2% p.a. of the Total Capital Commitment • Balance period : 2% p.a. of the Net capital invested ❑ Entry Load <ul style="list-style-type: none"> • Upto Rs.10 Crores – 2.25% • More than Rs.10 Crores – Nil • Organisation Expense: 0.1% of Total Capital Commitment |
| Investment Manager | ❑ Portfolio shall be managed by HDFC AMC - Portfolio Management Services |
| Registration | ❑ U/s Sebi (Portfolio Managers) Regulations, 1993: Registration Number: PM/INP000000506 |
| Target investor base | ❑ Only domestic Indian residents – Individuals, Corporates and Institutions |

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Investors are advised to read the Disclosure Document for HDFC AMC PMS - Real Estate Portfolio - I including the Risk Factors before executing the Client Documentation.

Sources:

1. World Bank (worldbank.org)
2. Merrill Lynch report on Real estate, 2006
3. HDFC Ltd
4. NASSCOM - McKinsey report, HDFC estimates
5. Enam,
6. Crisil