Kotak Institutional Equities

INDIA DAILY

November 30, 2007

EQUITY MARKETS

India	29-Nov	1-day	1-mo	3-mo
		Change, %		
Sensex	19,003	0.3	(4.2)	24.1
Nifty	5,635	0.3	(4.5)	26.2
Global/Regional indices				
Dow Jones	13,312	0.2	(4.0)	0.2
Nasdaq Composite	2,668	0.2	(5.3)	4.1
FTSE	6,349	0.7	(5.3)	3.5
Nikkie	15,698	1.2	(6.2)	(5.3)
Hang Seng	28,751	0.9	(8.3)	19.9
KOSPI	1,910	1.8	(7.5)	2.0

Value traded - India

	29-Nov		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	311.4		278.8	251.1
Derivatives (NSE)	982.3		714.5	765.1
Deri. open interest	1,163.7		972.9	905.9

Contents

Updates

Infosys Technologies: Valuations are attractive. Reiterate BUY

Housing Development & Infrastructure: Revisiting assumptions on slum rehabilitation project post recent Mumbai auction

Real Estate: ULCRA repealed in Maharashtra - Opportunity for developers

Strategy: Closing two trades: Time to skim the cream

Forex/money market

	29-Nov	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	39.8	-	41	(114)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	1	12	1

Net investment (US$mn)

	28-Nov		MTD	CYTD
FIIs	(112)		(1,153)	16,134
MFs	14		269	414

Top movers -3mo basis

Best performers	29-Nov	1-day	1-mo	3-mo
		Change, %		
Neyveli Lignite	210	0.7	50.1	174.7
Reliance Energy	1,664	(2.4)	(10.9)	113.4
Reliance Cap	2,278	(0.4)	7.3	89.9
Engineers India	810	(2.4)	(2.3)	79.9
MRF	6,961	(3.1)	(14.5)	79.8
Worst performers				
i-Flex	1,454	(3.1)	(8.9)	(28.5)
Glaxosmithkline	982	(4.4)	(9.2)	(16.1)
Ingersoll Rand	297	0.7	(2.2)	(15.4)
Infosys	1,570	0.0	(14.7)	(15.4)
Container Corp	1,771	1.2	(10.4)	(15.0)

News Roundup

Corporate

- Reliance Retail has decided to minimise ex;posure to the fruits and vegetables business and position Reliance Fresh as a pure play super market focusing on nine categories inclduing food, FMCG, home, consumer durables, IT, wellness and auto accessories. Food will account for bulk of Reliance Fresh's business. (ET)
- DLF Ltd, the country's largest realty firm, is eyeing the India franchise rights of ultra luxury brand Salvatore Ferragamo. (BS)
- Bharti Airtel and Western Union have decided to jointly develop and pilot a Mobile Money Transfer service in India. (BS)

Economic and political

- The Maharashtra government has repealed the three-decade old Urban Land Ceiling and Regulation Act (ULCRA) yesterday, November 29. (Media reports; KIE comment on Pg11)
- The third package of relief measures announced by the finance ministry for exporters who have been hit by a 15% annual appreciation in the rupee against the dollar appears to have fallen short of exporter's and the commerce ministry's expectations. (Media reports)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Technology

INFY.BO, Rs1570	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	2,200
52W High -Low (Rs)	2439 - 1511
Market Cap (Rs bn)	901.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	138.9	168.9	216.6
Net Profit (Rs bn)	37.5	46.1	56.5
EPS (Rs)	67.0	80.4	98.4
EPS gth	*48.7*	*20.0*	*22.4*
P/E (x)	23.4	19.5	15.9
EV/EBITDA (x)	19.1	15.8	12.1
Div yield (%)	0.8	1.0	1.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	16.5	-	-
FIIs	51.9	6.5	3.8
MFs	2.9	2.3	(0.5)
UTI	-	-	(2.7)
LIC	3.1	2.2	(0.5)

Infosys Technologies: Valuations are attractive. Reiterate BUY

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Valuations—risk-reward continues to be favorable**
- **FY2009 demand/pricing concerns—management exudes confidence on volumes, pricing remains a question mark**
- **Margin management—it comes down to execution, though variable comp may come to the rescue**

We reiterate our BUY rating on Infosys noting attractive valuations. The stock has corrected 15% and 17% over the past one and three months, respectively, and now trades at 19.5X FY2008E and 16X FY2009E earnings. We believe the stock factors in long-term concerns on pricing and margin sustainability. We believe the stock builds in a conservative assumption of revenue growth of 18%, operating margin decline of 13%pts (from FY2008E levels) over the longer term, assuming WACC of 12% and terminal year growth rate of 6%. Also, the company is now trading at 17X 12-month roll-forward PE, a level last seen during the previous tech slowdown in 2001-2002. We find the risk-reward ratio favorable and recommend a BUY. Our recent meetings with the management suggest no negative indicators on the demand front; while more clarity on CY2008 IT budgets will likely filter in only by end-Jan 2008, the company indicates that it has not seen any negative indicators in its initial discussions with clients. We do not see any major risk to our revenue growth estimates for FY2009 (31%, US$ terms), though our pricing assumptions may be at risk.

Valuations—risk-reward continues to be favorable. The lack of meaningful near-term triggers notwithstanding, we believe that the upside potential for Infosys far outweighs the downside risk. The current stock price of Infosys (using reverse DCF with WACC of 12% and terminal year growth rate of 6%) implies modest revenue growth of 18% (CAGR) over the next 10 years and a sharp decline in operating margin (13%pts from FY2008E level of 30.7%). Our worst-case DCF-based fair value for Infosys (assuming a moderate decline in IT budgets will likely result in 5% decline in onsite and offshore pricing in FY2009, Re/US$ rate of 38 and 37 for FY2009 and FY2010, and a 1% p.a. appreciation in the rupee post-FY2010) works out to Rs1,450/share, implying a downside of 7.6% from current levels. Even on relative valuations, Infosys' 12-month roll-forward PE premium over TCS and Satyam has now shrunk to 1.2% and 14.3% respectively, near all-time lows (see Exhibits 1 and 2). We expect the solid business momentum for Infosys to continue and believe that the stock can provide strong returns over the next 12 months.

FY2009 demand/pricing concerns—management exudes confidence on volumes, pricing remains a question mark. Our recent meetings with Infosys management indicate that the company has not seen any negative indicators on CY2008 IT budgets in its initial discussions with clients. However, the continued negative news flow, especially from financial services clients does raise the specter of tightening IT budgets and potential change in pricing. We continue to remain positive on the demand environment even while we await further clarity on CY2008 IT budgets (likely only by end-Jan 2008). We do not foresee a meaningful negative impact on demand for offshore IT services, even in case of slowdown in the US economy (30% volume growth will likely not be a challenge).

The key, in our view, remains the impact of such a slowdown on pricing. We expect the pricing to come under some pressure, if the US economy goes into recession, though things may not get as bad as they did during the last slowdown (pricing decline of 1% onsite and 17% offshore between FY2001 and FY2004) given (1) clients have been far more rational in IT spend along with the fact that there has been no new big technology wave (leading to IT spend excesses) since the last slowdown (2) like-on-like pricing has not gone up substantially since the FY2002 correction; a large part of realization improvement have been driven by business mix changes (see Exhibit 3); (3) pricing levels are far more reasonable now as compared to the pre-FY2002 period, which saw pricing jump on the back of demand spurts led by the dotcom companies and Y2K (4) revenues are more broad-based with lower client/geographic concentration (see Exhibit 4); and (5) clients themselves are in a much better shape financially than they were during the last slowdown. We discuss the margin levers available to Infosys below.

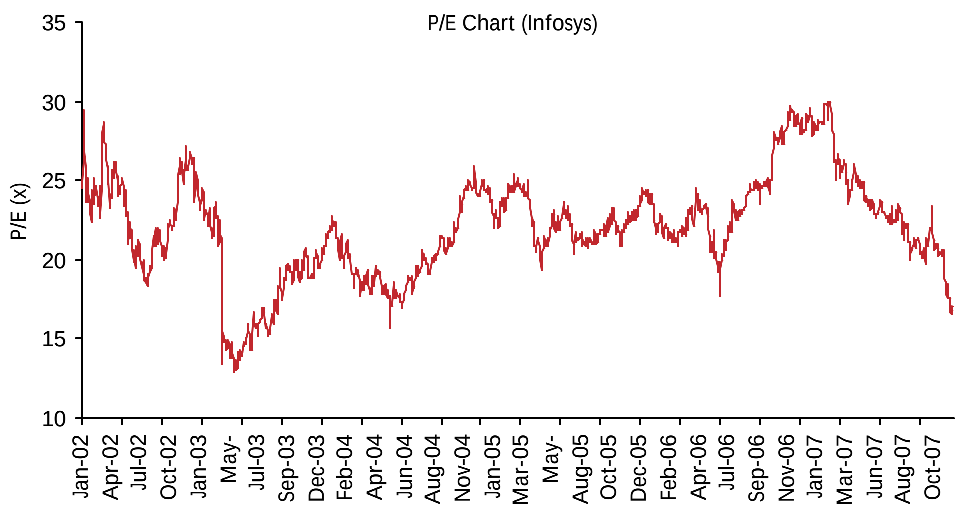
Margin management—it comes down to execution, though variable comp may come to the rescue. Improvement in per capita realizations has been the most critical contributor to Infosys' margin performance over the past few quarters, amid sustained rupee appreciation (see Exhibits 5 and 6). However we believe that the company still has some non-pricing levers available to it, the most important one being variable compensation and utilization rates. Note that Infosys pays out close to 3% of its revenues as variable compensation and this can act as a natural margin lever in a bad year (pricing cuts, appreciation in the rupee, and sustained wage inflation). In addition, the company has scope to raise utilization levels and optimize further on G&A costs.

Worst case scenario EPS. Exhibit 7 gives our EPS estimates at various levels of decline in pricing. In our view, Infosys can still report EPS of Rs88.6 assuming 5% decline in pricing onsite as well as offshore. We have assumed wage inflation to moderate out in such a scenario. Further we have also assumed rupee to appreciate to 38 as against our current base case of 39 for FY2009.

Concerns on Infosys' BFS practice may be exaggerated. We highlight the following points about the banking and financial practice of Infosys

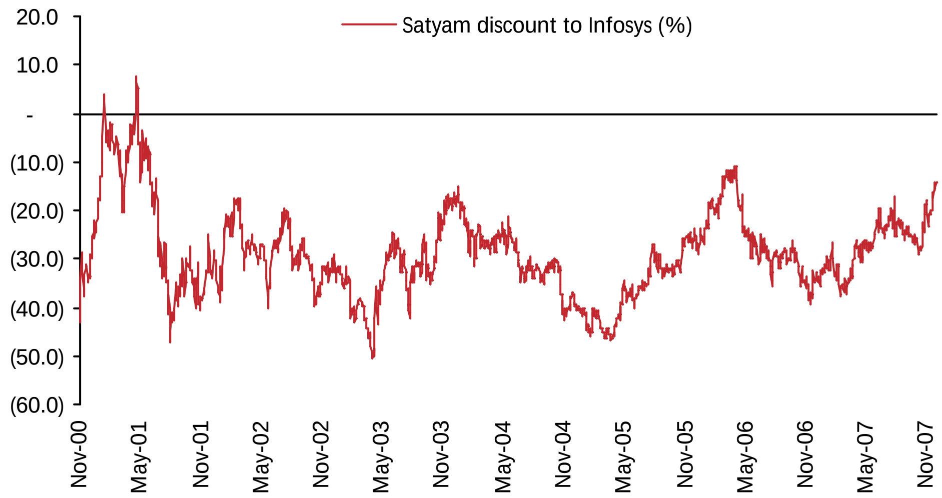
- Infosys has higher exposure to credit card companies, which have not been severely impacted.
- Even within the capital market clients, Infosys' client portfolio is better protected.
- The company derives only 29% of its revenues from the BFS clients, which have grown lower than corporate average. Of the 29% exposure, the company derives 3.7% from banking products and approximately 7-8% from Europe.

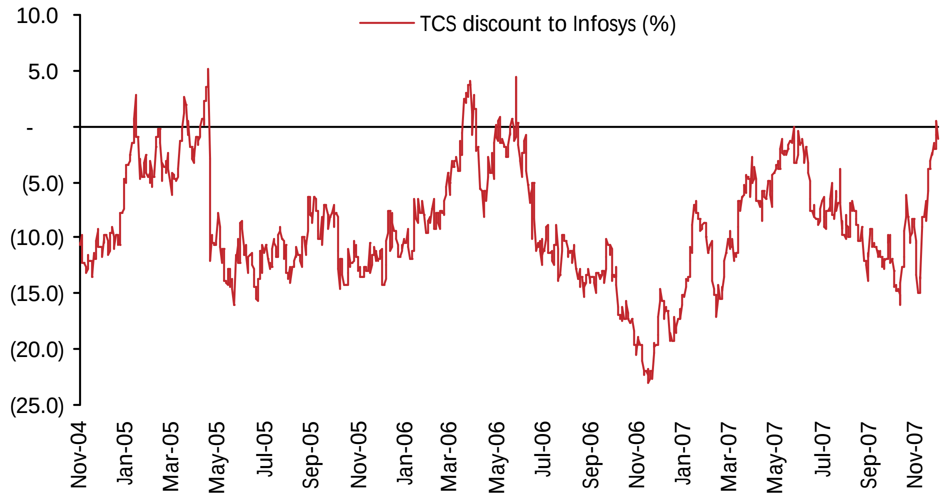
Infosys' 12-month roll-forward PE at a multi-year low



Source: Bloomberg, Kotak Institutional Equities estimates.

Satyam's and TCS' 12-month roll-forward discount to Infosys at multi-year lows





Source: Bloomberg, Kotak Institutional Equities estimates.

Infosys' business mix has changed in favor on non-ADM services over the past few years

% revenues from service line	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	1HFY08
Application development	43.7	40.0	32.0	32.1	25.7	23.2	20.2	21.0	19.9
Application maintenance	28.6	25.4	29.0	28.2	30.1	29.9	30.2	29.3	28.7
Total ADM	**72.3**	**65.4**	**61.0**	**60.3**	**55.8**	**53.1**	**50.4**	**50.3**	**48.6**
Re-engineering	10.1	9.3	10.1	5.5	6.0	6.2	4.7	2.1	1.8
Package Implementation	6.0	7.2	9.8	**11.0**	**14.5**	**15.2**	**16.2**	**17.5**	**18.6**
Consulting	1.6	4.9	4.2	4.3	3.7	3.6	3.5	3.6	5.0
Testing	0.7	2.9	2.9	**3.4**	**5.3**	**5.8**	**5.9**	**6.9**	**7.7**
Engineering Services	2.0	1.7	2.6	2.6	2.2	2.0	1.8	1.6	1.5
Business Process Management	-	-	-	-	1.6	2.7	4.0	4.7	5.3
Other services	4.7	6.1	5.4	8.3	8.1	8.4	9.7	9.4	8.2
Total non-ADM	**25.1**	**32.1**	**35.0**	**35.1**	**41.4**	**43.9**	**45.8**	**45.8**	**48.0**
Total services	**97.4**	**97.5**	**96.0**	**95.4**	**97.2**	**97.0**	**96.2**	**96.1**	**96.5**
Products	2.6	2.5	4.0	4.6	2.8	3.0	3.8	3.9	3.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Kotak Institutional Equities.

Revenues have become broad-based with lower geographic and client concentration

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	1HFY08
Geographical distribution of revenues (%)									
North America	**78.0**	**73.5**	**71.2**	**73.0**	**71.2**	**65.2**	**64.8**	**63.3**	**62.6**
Europe	14.8	18.8	19.5	17.7	19.2	22.3	24.5	26.4	27.1
India	1.4	1.4	2.0	2.1	1.4	1.9	1.7	1.6	1.4
Rest of the world	5.8	6.3	7.3	7.2	8.2	10.6	9.0	8.7	8.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Client concentration (%)									
Top client	7.2	7.3	6.1	5.8	5.0	5.5	4.4	7.0	8.2
Top 5 clients	30.2	26.0	24.1	23.4	22.6	21.0	17.8	19.4	20.4
Top 10 clients	**45.7**	**39.2**	**39.4**	**37.3**	**36.0**	**33.6**	**30.3**	**31.4**	**31.0**

Source: Company, Kotak Institutional Equities.

Pricing was a key factor behind Infosys' impressive margin performance in 2QFY08 (only an 80bps decline despite 13.2% rupee appreciation)

2QFY07 EBITDA margin (%)	**32.1**
Negatives (bps)	(847)
Positives (bps)	761
Net impact (bps) (a)	(86)
2QFY08 EBITDA margin (%)	**31.3**

Currency impact computation	
Avg Re/US$ rate 2QFY07	46.3
Avg Re/US$ rate 2QFY08	40.2
Appreciation (%)	(13.2)
Per % impact (bps)	40
Total impact (bps)	**(527)**

Negatives					
					Margin impact
Wage inflation onsite					(120)
Wage inflation offshore					(200)
Rupee appreciation					(527)
Total negative					**(847)**
Positives					
Buffer	**2QFY07**	**2QFY08**	**Change**		**Margin impact**
Utilization rate (%) (b)	67.4	70.0	260	bps	80
Pricing (US$/ manyear, blended)	81,900	87,019	6.3	%	315
SG&A (% of revenues)	14.7	14.4	36	bps	36
Employee pyramid (c)	55.0	60.0	5	%	150
Onsite offshore mix (d)	47.7	48.9	114	bps	45
Others (variable costs, subsidiary margins, etc.)					135
Total positive					**761**
Net impact in FY2008					**(86)**

Note:
(a) Assuming 4% average onsite and 10% average offshore wage hikes
(b) Net utilization rate excluding support but including trainees
(c) Denotes the # of employees in the 0-3 years experience band
(d) % revenues offshore

Source: Kotak Institutional Equities estimates.

Consistent pricing improvements have served as the most significant margin lever for Infosys

Infosys' per capita revenue productivity (US$/ year), 3QFY06-2QFY08

Per capita revenue productivity	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
Onsite (US$/ year)	130,700	131,499	132,895	134,807	137,418	139,818	141,806	145,985
Offshore (US$/ year)	54,904	55,078	55,180	55,782	56,727	57,510	58,107	59,633
Blended (US$/ year)	78,892	79,477	80,908	81,900	83,086	84,495	85,381	87,019
Growth qoq (%)								
Onsite	(0.1)	0.6	**1.1**	**1.4**	**1.9**	**1.7**	**1.4**	**2.9**
Offshore	0.2	0.3	**0.2**	**1.1**	**1.7**	**1.4**	**1.0**	**2.6**
Blended	0.1	0.7	**1.8**	**1.2**	**1.4**	**1.7**	**1.0**	**1.9**
Growth yoy (%)								
Onsite	0.5	(0.2)	2.6	3.1	5.1	6.3	6.7	**8.3**
Offshore	0.9	0.3	0.9	1.8	3.3	4.4	5.3	**6.9**
Blended	1.4	1.4	3.5	3.9	5.3	6.3	5.5	**6.3**

Source: Company reports.

FY2009 EPS and OPM at various level of changes in pricing (Infosys)

EPS (Rs)		Onsite pricing change (%)				
		(5)	(4)	(3)	(2)	(1)
Offshore pricing change (%)	(5)	88.6	89.1	89.6	90.1	90.6
	(4)	89.5	90.0	90.5	90.9	91.4
	(3)	90.4	90.9	91.3	91.8	92.3
	(2)	91.2	91.7	92.2	92.7	93.2
	(1)	92.1	92.6	93.1	93.6	94.1

OPM (%)		Onsite pricing change (%)				
		(5)	(4)	(3)	(2)	(1)
Offshore pricing change (%)	(5)	28.6	28.7	28.7	28.8	28.9
	(4)	28.7	28.8	28.8	28.9	29.0
	(3)	28.8	28.9	28.9	29.0	29.1
	(2)	28.9	29.0	29.0	29.1	29.2
	(1)	29.0	29.0	29.1	29.2	29.2

	FY2008	FY2009	FY2010
Current estimates			
Base case EPS	80.4	98.4	107.1
Base case OPM (%)	30.7	30.0	29.4
Volume growth - onsite (%)	25.9	25.7	19.8
Volume growth - offshore (%)	30.8	30.6	22.5
Worst case scenario			
EPS		88.6	95.3
EPS - Change from base case (%)		(10.0)	(11.0)
OPM		28.6	27.9
OPM decline yoy worst case (bps)		(210)	(68)

Source: Kotak Institutional Equities estimates.

Real Estate

HDIL.BO, Rs797	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,030
52W High -Low (Rs)	822 - 474
Market Cap (Rs bn)	162.5

Financials

April y/e	2007E	2008E	2009E
Sales (Rs bn)	12.2	18.6	30.4
Net Profit (Rs bn)	5.4	9.8	16.6
EPS (Rs)	30.1	46.0	77.4
EPS gth	*1.0*	*52.7*	*68.5*
P/E (x)	26.5	17.3	10.3
EV/EBITDA (x)	25.1	13.3	7
Div yield (%)	-	1.3	2.6

Housing Development & Infrastructure: Revisiting assumptions on slum rehabilitation project post recent Mumbai auction

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **Based on our assumptions we expect a NAV accretion of Rs290/share**
- **Retain BUY rating with a revised target price of Rs1,030/share**

HDIL has recently won the bid to develop 276 acres of slum land near Chhatrapati Shivaji International Airport in Mumbai, from the GVK group-promoted Mumbai International Airport Pvt Ltd (MIAL). We revisit our estimates for the project and expect the total saleable area (including TDRs of 33 mn sq. ft) of 41 mn sq. ft to be available to HDIL by rehabilitating the slum dwellers. We revise our selling price assumptions as the latest land auctions in similar area indicate much higher prices. We retain our BUY rating with a revised target price of Rs1,030 (Rs800 earlier) which implies a 5% premium to NAV. Our NAV estimate for airport slum rehabilitation project is Rs290/share.

TDR availability will likely be higher than estimated earlier

As per press reports, the airport redevelopment project involves rehabilitation of 85,000 families and development of part of the cleared land. With 300 sq. ft to be constructed for each family, total slum rehabilitation area will likely be 25 mn sq. ft. In addition, HDIL will rehabilitate slum dwellers in 180 acres of lands near the airport and will get 8 mn sq. ft TDR for the same. Thus, the total TDR availability will be 33 mn sq. ft and HDIL is likely to get full revenue share from sale of TDRs. Apart from this, we estimate HDIL will get a 55% share on developable land of 96 acres which will result in a saleable area of 8 mn sq. ft.

Latest auction indicates that high rentals in BKC area are expected to continue—We raise our selling price assumptions for the area

In a recent auction in BKC, MMRDA has sold three plots measuring six acres with total saleable area of 74,000 sq. m for Rs27.8 bn. These three plots have been bought by the Wadhwa group (Rs8.3 bn for 16,521 sq. m.), TCG Infrastructure-Hiranandani combine (Rs10.5 bn for 28,300 sq. m.) and Reliance Industries (Rs9.2 bn for 30,550 sq. m.). The average price paid for land works out to be Rs368,000/sq. m. Based on this rate, various companies will have to lease space at a rate of Rs250+/sq. ft just to break even. The auction has led us to assume a more realistic leasing rate of Rs175/sq. ft or selling price of Rs21,000/sq. ft (Rs15,000 earlier) considering slum rehabilitation is going to release a lot of supply. Exhibits 1 and 2 give our NAV calculation details and we estimate NAV accretion to HDIL at Rs290/share from this project. We highlight that further upside from this project is available on account of the following.

1. **Higher selling prices.** Exhibit 1 gives the sensitivity of NAV from this project with respect to selling prices. We note that if HDIL is able to get higher selling prices in the region as indicated by latest auction, for every Rs2,000/sq. ft increase in selling prices, our NAV estimate for the project increases by Rs32.
2. **Usage of TDRs.** We assume the sale of TDRs in the open market at Rs2,500/sq. ft. Alternatively, HDIL can load this TDR on some of its projects that it is executing north of this location and thus get a higher value.

Mumbai airport slum rehabilitation – A brief description

Out of total Mumbai airport land of 2,000 acres, a total of 276 acres has been encroached upon by slum dwellers, of which 180 acres is required for airport development. As per press reports, 85,000 families occupy these slums and rehabilitating them will likely result in real estate development potential of 25 mn sq. ft. We note that real estate development at the airport will be allowed for aero-related activities but not for residential construction. Thus, the land can be used for hotels, retail and entertainment, offices, convention centre and leasing of office spaces etc. We believe that the area around Mumbai airport is prime real estate considering its central location within the city, proximity to IT/ITES centers and business districts, and nearby prime residential areas. Additionally, with good road and metro-rail connectivity, we believe the property has the potential to fetch good valuations.

We retain our BUY rating with a revised target price of Rs1,030

Our target price of Rs1,030 is based on a 5% premium to March '09 based NAV of Rs982 (including NAV accretion for airport slum rehabilitation). We now include airport slum rehabilitation into our NAV estimates and reduce the premium to 5% from 15%. We note that slum rehabilitation projects should attract a slight discount to NAV on account of the element of risk but believe a 5% premium to NAV for HDIL is warranted on account of the following reasons.

1. **Ability to win large scale rehabilitation/redevelopment projects.** Mumbai airport's slum rehabilitation project clearly demonstrates HDIL's ability to win large scale projects in slum rehabilitation/redevelopment.
2. **SEZ development in Vasai-Virar region.** HDIL's 100% owned subsidiary Privilege Power and Infrastructure Pvt. Ltd has got in-principle approval for 2,245 hectare Special Economic Zone in Vasai-Virar region. As of March 31, 2007, this subsidiary had inventories of Rs1.8 bn—primarily in land. We note that this area is gaining prominence as observed by us during recently held property exhibition in Mumbai on account of better connectivity with mainland Mumbai.
3. **Dharavi.** Another large SRS project, Dharavi redevelopment project, which would generate a saleable area of 44 mn sq. ft is coming up for award. Even though the minimum bid acceptable for the project will be Rs 450/sq. ft of rehabilitation component, the bidding process would likely attract high premiums because of the intense competition.

Dharavi redevelopment project (DRP) – Another large project coming up for award

Dharavi is strategically located in Mumbai, being close to the already established financial centre in Mumbai, Bandra Kurla Complex. This project is likely to generate a saleable area of 44 mn sq. ft (Exhibit 4). The redevelopment scheme, apart from building residential units, also plans to emphasize building modern amenities such as hospitals, schools etc. Dharavi is also being promoted as a base for a number of industries like gems and jewellery, leather and plastic recycling, which will make the area a self-sustaining unit.

Dharavi's total area of 223 hectare (2.2 mn sq. m) has been divided into five sectors for the redevelopment project. An applicant can bid for more than once sector but can get only one sector for redevelopment. We note that though the minimum bid that shall be accepted for DRP will be Rs 450/sq. ft of rehabilitation component, bidding process would likely attract high premiums because of the intense competition. We briefly outline the technical and financial capability required for the project.

Technical capability. The bidding company or consortium should have completed at least one housing/township development project with a minimum of 40 hectares of land area with a minimum built up area of 7 mn sq. ft.

Financial capability. Various sectors of the project have different net worth as well as minimum turnover criteria which have to be satisfied by various bidders.

Large NAV accretion for HDIL on account of the slum rehabilitation project

NAV accretion from slum rehabilitation assuming different selling prices

		NAV	NAV/share
		(Rs bn)	(Rs)
Selling price (Rs/sq. ft)	**15,000**	42	194
	17,000	48	226
	19,000	55	258
	21,000	62	290
	23,000	69	322
	25,000	76	354
	27,000	83	386

Source: Kotak Institutional Equities

We expect large cashflows from slum rehabilitation

		FY2009	FY2010	FY2011	FY2012	FY2013
HDIL has full benefits/ costs						
Rehabilitation area constructed (mn sq. ft)		6.3	6.3	6.3	6.3	
Cost of construction (Rs bn)		(11.3)	(11.3)	(11.3)	(11.3)	
Purchase of land		25.2				
Sale of TDR (mn sq. ft)			8.3	8.3	8.3	8.3
Selling price assumption of TDR (Rs/sq. ft)						
Sale Inflow from TDR (Rs bn)			20.6	20.6	20.6	20.6
NPV (Rs bn)	(1.5)					
HDIL gets 55% share of land						
Saleable area constructed (mn sq. ft)			2.5	3	4	5.5
Selling price (Rs/sq. ft)			21,000	21,000	21,000	21,000
Construction cost(Rs/sq. ft)			2,500	2,500	2,500	2,500
Sale Inflow (Rs bn)			53	63	84	116
Construction cost (Rs bn)			(6)	(8)	(10)	(14)
Taxes (Rs bn)			16	19	25	35
NPV (Rs bn)	64					

Source: Kotak Institutonal Equities, Company

We estimate March 2009E NAV for HDIL at Rs982/share

NAV sensitivity for various growth rate in selling prices

	March '09 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
Valuation of land reserves	**105**	**122**	**134**	**168**
Residential projects	37	46	53	71
Commercial/retail projects	39	44	48	58
Slum rehabilitation projects	29	32	34	39
Add: BKC rental property	2	2	2	2
Add: Investment in subsidiaries	2	2	2	2
Add: Net cash	11	11	11	11
Add: Airport slum rehabilitation project	62	62	62	62
NAV	**181**	**198**	**211**	**244**
Total no of shares				215
NAV/share (Rs)				**982**

Source: Kotak Institutional Equities

Dharavi redevelopment will offer 44 mn sq. ft of real estate development potential
Development plan of different sectors of Dharavi

Description	Sector 1	Sector 2	Sector 3	Sector 4	Sector 5	Total
Gross plot area	**6.1**	**4.2**	**5.2**	**3.7**	**4.0**	**23.3**
Slum rehab component	3.6	6.0	5.9	3.9	1.8	21.1
Renewable rehab component	1.5	0.0	0.1	0.2	0.0	1.9
Buildable reservations (inclusive of additional amenities)	1.0	2.0	2.5	0.9	3.3	9.7
Total rehab component	**6.1**	**8.1**	**8.4**	**5.0**	**5.2**	**32.8**
Slum sale component (inclusive of amenities sale component)	4.7	8.1	7.8	5.1	2.4	28.2
Renewable sale component	2.0	0.0	0.1	0.3	0.1	2.6
Amenities sale component	1.4	2.7	3.3	1.2	4.4	13.0
Total sale component (slum sale+renewal sale+amentities sale)	**8.2**	**10.8**	**11.2**	**6.6**	**6.9**	**43.7**
Total BUA including total sale component, rehab component, rehab renewal component and total buildable amenities	**14.3**	**18.9**	**19.6**	**11.6**	**12.1**	**76.5**
Approximate built up area of temporary transit camp	0.7	1.1	1.1	0.9	0.3	4.1
Approximate cost of development of infrastructure (road, water supply, sewerage etc.) as per MCGM's estimate for entire Dharavi notified area (in Rs mn)						**5,350**

Source:Dharavi Redevelopment Project bid document

Property

Sector coverage view	Neutral

		Price, Rs	
Company	**Rating**	**29-Nov**	**Target**
MGesco	BUY	626	890
Sobha	ADD	863	960
DLF	ADD	882	870
Unitech	REDUCE	372	335
HDIL	BUY	797	1,030

ULCRA repealed in Maharashtra—Opportunity for developers

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **The move will likely hasten the development activity in Mumbai and is likely to provide more opportunities for developers**
- **Prices likely to hold in the near term as release of land for development alone may not affect prices**

The Maharashtra Assembly has repealed the Urban Land Ceiling and Regulation Act (ULCRA). Though we believe that this act is unlikely to release a significant supply of vacant land, the repeal of this act is likely to hasten the development of mill lands. This is going to result in larger opportunity for developers as they can launch larger and better quality projects. We expect companies with large industrial plots to benefit from this development. On the pricing front, we believe the release of land in the near term is unlikely to be large enough to affect prices.

Urban Land Ceiling and Regulation Act'A brief description

The Urban Land Ceiling and Regulation Act, 1976 (ULCRA) imposes ceilings on the ownership and possession of vacant urban lands. As per the Act, land in excess of the prescribed ceiling may be acquired by the relevant state government and utilized for public good. The land ceiling in Mumbai can be as low as 500 sq. m. ULCRA has been repealed in most Indian states, but is in force in a few states in India, including West Bengal and Andhra Pradesh.

Under ULCRA, the municipal authorities, prior to sanctioning the building plans require a No-Objection Certificate ("NOC") from the Competent Authority for permitting re-development of a property, including an NOC when there is no surplus vacant land available in the property which is to be re-developed. In addition, ULCRA also imposes restrictions on the size of residential apartments in new buildings and on the persons to whom such apartments may be sold. Such restrictions under ULCRA are often revised and changed, sometimes with retrospective effect. Further, there are building regulations in force not only in metropolitan cities but also in smaller towns

Repealing of ULCRA would likely hasten the development activity in Mumbai

We believe the repealing of ULCRA would result in hastening of development activity as developers would not need to go through the protracted process of getting NOCs as this used to take a lot of time. It also provides an increased opportunity for developers for tying up with mill land owners in order to launch large projects as there will no restriction on the land area. The repealing of ULCRA would likely result in more supply of land in central and suburban Mumbai as these places have companies with large industrial plots. Already, many of these companies have shifted their industrial bases to cheaper locations or are in the process of doing so and can instead use the land for residential and commercial development.

We also highlight that final provisions of the act will be available over the next couple of days. If land that was earlier declared 'vacant land' has to continue to comply with ULCRA provisions, the impact of repeal of this Act will be limited.

Pricing may not get impacted in the near term

Quantifying the land that could come up for development on account of repeal of this act is very difficult given the lack of authentic data. There are very few 'vacant land' plots in mainland Mumbai and industrial plots, though large in number, are small in size. We roughly estimate that close to 500 acres could become available in central Mumbai, around 4,000 acres in Vikhroli-Bhandup belt in central suburbs and 3,000 acres in western suburbs. Thus, the total increased availability would be about 7,500 acres—less than 10% of Mumbai's total area. Furthermore, this land is going to be released slowly and we believe ULCRA by itself cannot have a material impact on pricing in Mumbai in the near term.

However, in the long term, we could see pressure on real estate prices as a result of the the emergence of alternative destinations like Navi Mumbai and as 'new' supply gets released on account of (1) redevelopment of mill land, (2) airport slum rehabilitation carried out by HDIL and (3) Dharavi redevelopment. Meanwhile, prices in Mumbai continue to rise and have increased by 25% over the past six months as highlighted in our report '*Key takeaways from the property exhibition at Mumbai'* dated *October 30, 2007.*

ULCRA was slowing down development

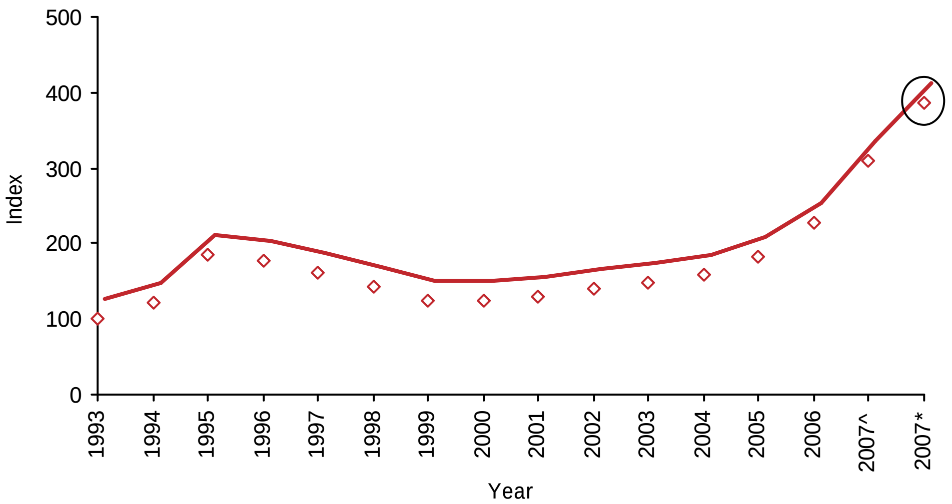
ULCRA—Why did it fail to achieve its purpose? ULCRA failed to provide a mechanism to provide an entry of vacant land into the market. Land owners were not willing to give up the possession of parts of their land holdings to the state government at rates much below market prices, giving rise to protracted legal wrangling and malpractice. This rendered such tracts of land vacant, constraining the supply of urban land for housing and development needs and pushing up land prices, particularly in metropolitan cities.

ULCRA also prevented the reallocation of land for alternative use, particularly industrial land, which was exempt from the Act. The conversion of land from industrial use to residential or commercial use would result in enforcement of the act, compelling excess land to be handed over to the state government.

However, developers continued to build projects as certain sections like Sec. 20/ 21 allowed for exemptions under the act. Sec. 21 allowed land owners to get exemptions on the grounds of constructing dwelling houses for the poor.

Prices have risen by 25% in Mumbai

Mumbai residential price index, 1993 -2007

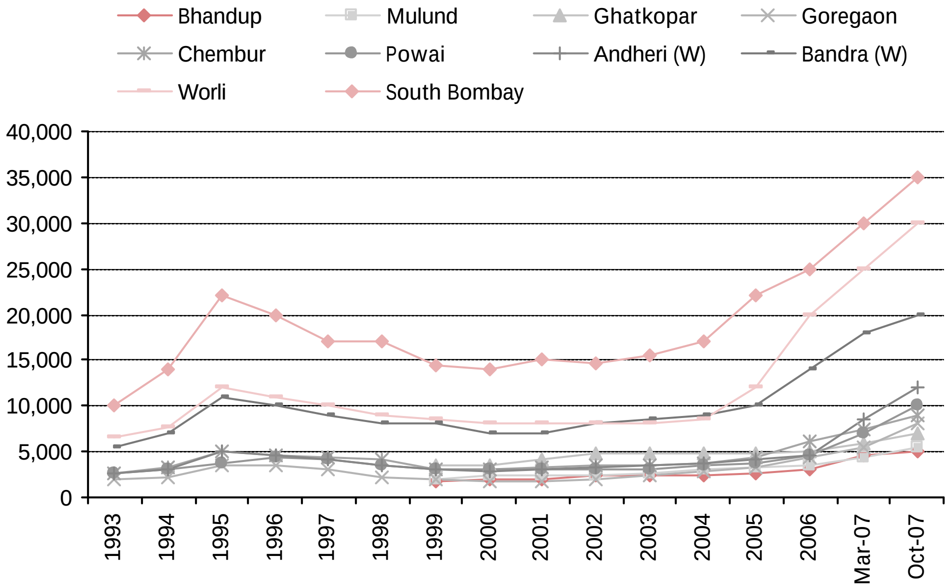


^ March 2007, * Oct 2007

Source: Kotak Institutional Equities, Knight Frank, Cushman & Wakefield

Prices have risen all over Mumbai

Prices at different locations in Mumbai, 1993-2007



Source: Cushman & Wakefield, Industry, Kotak Institutional Equities.

Strategy

Sector coverage view	N/A

Closing two trades: Time to skim the cream

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Bhavesh Shah : bhavesh.shah@kotak.com, +91-22-6634-1498

- **Closing long Bharti, short RCOM trade on 14.7% gross return**
- **Closing long HCL Technologies, short Zee Entertainment Enterprises trade on 13.8% gross return**
- **Trade 1: Long Hindalco and Sesa Goa, short Tata Steel**
- **Trade 2: Long IVRCL and Nagarjuna Construction, short Siemens**

Closing long Bharti, short RCOM trade on 14.7% gross return

We had recommended the trade on the back of unsustainability of RCOM's EV/EBITDA premium over Bharti (17% on the date of inception—has since come down to 11%). Since the inception of the trade, Bharti's stock has appreciated by 6.5% whereas RCOM stock has declined by 8.2%, resulting in a gross return of 14.7%.

Closing long HCL Technologies, short Zee Entertainment Enterprises trade on 13.8% gross return

We had recommended the trade on the back of (1) HCLT's inexpensive valuations and increasing confidence in its earnings visibility led by large order wins and (2) potentially negative news flows for ZEEL with the start of a competing channel in a rapidly-fragmenting Hindi general entertainment segment—Zee's TRPs have remained stable over the past three weeks. However, Zee TV's market share dipped below 30% for the most recent week. Since the inception of the trade, HCLT's stock has appreciated by 3.9% whereas ZEEL stock has declined by 9.9%, resulting in a gross return of 13.8%

We continue to keep open two of our other recommended trades (1) long Hindalco and Sesa Goa, short Tata Steel and (2) long IVRCL and Nagarjuna Construction, short Siemens. Please refer to our *Nov 15 2007 Alpha Bet: 'Initiating new trades with our hands on our hearts'.*

Alpha-Bet trades

Statistics of trades, current price, initiation price, gross expected/actual return

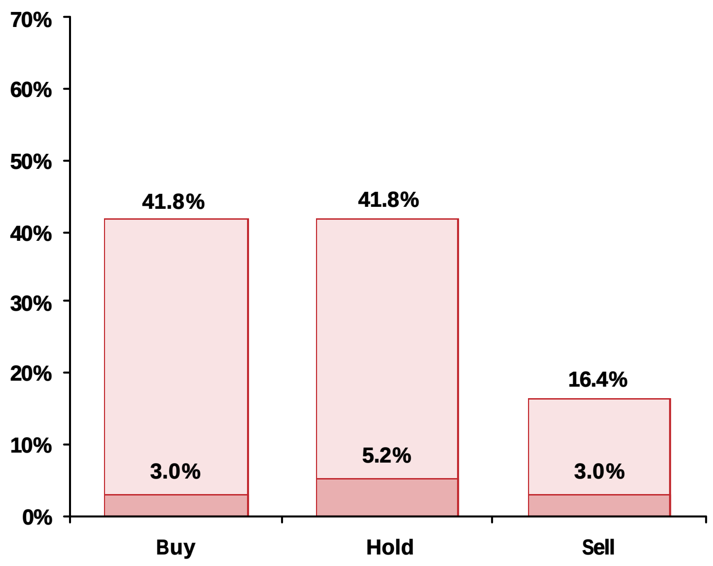
	Stock	Current price (Rs)	Initiation price (Rs)	Return (%)
Trade 1				
Buy	Hindalco Industries	181	218	(16.9)
Buy	Sesa Goa	3,264	3,636	(10.2)
Sell	Tata Steel	802	858	(6.5)
Current return (%)				**(7.1)**
Trade 2				
Buy	IVRCL	460	511	(10.0)
Buy	Nagarjuna Construction Co.	309	292	5.8
Sell	Siemens	1,818	1,881	(3.4)
Current return (%)				**1.3**
Closed trades (14 November-29 November 2007)				
Buy	Bharti Airtel	916	860	6.5
Sell	Reliance Communications	665	725	(8.2)
Return (%)				**14.7**
Closed trades (14 November-29 November 2007)				
Buy	HCL Tech.	313	302	3.9
Sell	ZEEL	282	313	(9.9)
Return (%)				**13.8**

Source: Bloomberg, Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Puneet Jain, Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.
NC = Not Covered. Kotak Securities does not cover this company.
RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA = Not Available or Not Applicable. The information is not available for display or is not applicable.
NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office
Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices
Kotak Mahindra (UK) Ltd.
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.