

IBREL ----- Maintain NEUTRAL

Turning cautious in a slowing environment

EPS: ◀▶ TP: ▶▶

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- IBREL reported a consolidated profit of Rs39 mn (EPS of Rs0.15) for 2Q FY09, helped by interest income on unutilised cash.
- IBREL has realigned its real estate plans and slowed the pace of execution. It is now looking to avoid investing capital and is only taking up projects which could be self-funded from the sale proceeds. On its Jupiter and Elphinstone office project, IBREL reiterated that no leases will be signed below Rs275/sq ft/m and approx 1.2 msf of the 1.5 msf at Jupiter is already committed.
- IBREL has plans to execute power projects totalling 6,772 MW. Land for three of these projects has already been acquired and 525 MT of coal reserves secured. Financial closure for Amravathi project is expected by November 2008 and Bhaiyathan project by April 2009.
- IBREL is now trading at 0.57x its September 2008 adjusted book value. The concern for investors has been the management's inability to give a clear answer of the treatment of Jupiter and Elphinstone stake in the consolidated accounts and the use of cash received on IPIT listing. Maintain NEUTRAL rating on the stock.

While IBREL made loss at the EBITDA level, interest income enabled it to report a consolidated profit of Rs39 mn (EPS of Rs0.15) for 2QFY09.

Real estate- significant change in plans

IBREL has realigned its real estate plans and slowed the pace of execution. It is now looking to avoid investing any capital and is only taking up projects which could be self-funded from the sale proceeds. It has scrapped the plan to develop and lease 17 retail malls in Tier III cities (seven-eight malls to be delivered in FY09 earlier) and is instead looking to develop and sell small market projects in those locations. The first of these projects will be launched in Baroda in Oct. 2008. Even on residential, IBREL is adopting a risk-averse approach. It is launching small phases of projects and selling in blocks with the intention to start construction only where the costs can be met from the pre-bookings on those projects. IBREL recently launched a project each in Chennai and Sonapat, in addition to the existing Tehkhand housing project.

On its Jupiter and Elphinstone office project, IBREL re-iterated that no leases will be signed below Rs275/sq ft/m and approx 1.2msf of the 1.5msf at Jupiter is already committed. However, IBREL seems to have slowed down construction in order to match the absorption rate with Jupiter delayed by three-four months and Elphinstone by nine-12 months.

Power venture – some progress but still at inception stage

Indiabulls Power Services Limited (IPSL), a 71.4% subsidiary of IBREL, has plans to execute power projects totalling 6,772MW. Land has already been acquired for three of these projects (Figure 2) and a total of 525 MT of coal reserves secured (sufficient for executing 4,000 MW of projects). Financial closure for the 2,640 MW Amravathi project is expected by November 2008 and the 1,320 MW Bhaiyathan project by April 2009.

Bbg/RIC	IBREL IN / INRL.BO	Price (9 Oct 08, Rs)	118.50
Rating (prev. rating)	N (N) [V]	TP (Rs) (prev. TP)	308 (308)
Shares outstanding (mn)	257.52	Est. pot. % chg. to TP	160
Daily trad vol-6m avg (mn)		52-wk range (Rs)	815.65 - 118.50
Daily trad val-6m avg (US\$ mn)		Mkt cap (Rs/US\$ mn)	30,516.2/ 762.3
Free float (%)	73.9	Performance	1M 3M 12M
Major shareholders	Promoter group	Absolute	(59.0) (55.5) (80.1)
	(26.06%)	Relative	(45.9) (47.6) (69.3)
NAV (Rs)	352.7	Prem./disc to NAV (%)	(66.4)
3 yr EPS CAGR (%)	515.4	Dividend yield (%)	11.4
Year	3/06A	3/07A	3/08E 3/09E 3/10E
EBITDA (Rs mn)		(4)	(20) (293) 1,576
Net profit (Rs mn)		140	4,002 1,051 2,101
EPS (Rs)		0.0	15.9 3.6 7.4
- Change from prev. EPS (%)		n.a.	0 0 0
- Consensus EPS (Rs)		n.a.	14.0 17.4 40.2
EPS growth (%)		n.a.	49,978.8 (77.6) 108.2
P/E (x)		3,724.9	7.4 33.3 16.0
DPS (Rs)		0.0	13.5 13.5 13.5
EV/EBITDA (x)		n.m.	(861.8) (78.9) 30.7
ROE (%)		2.4	12.9 1.9 3.4
Net debt/equity (%)		net cash	net cash net cash 30

Note 1: Indiabulls Real Estate (IBREL) was de-merged from Indiabulls Financial Services. IBREL's projects include high-end office and commercial spaces, premium residential developments, integrated townships, luxury resorts and special economic zones.

Figure 1: 2Q FY09 consolidated result summary

(Rs mn)	1Q FY08	2Q FY08	1Q FY09	2Q FY09
Revenues	93	253	459	816
EBITDA	5	(38)	(94)	(95)
Other income	325	529	667	623
Interest expense	32	44	148	80
Depreciation	6	6	25	26
Provision for tax	97	92	134	162
Net income	195	349	266	258
Minority interest	4	7	135	178
Preference dividend	43	20	40	41
PAT after minority	148	321	91	39
EPS (Rs)	0.61	1.33	0.35	0.15

Source: Company data, Credit Suisse estimates.

Figure 2: 6,77 2MW of power projects being pursued by IPSL

Project	Capacity (MW)	% stake	Land acquired	Phase I completion	Project completion
Amravathi	2,640	100%	Yes	Jan-12	Jun-13
Bhaiyathan	1,320	74%	Yes	Dec-12	Aug-13
Nashik	1,320	100%	Yes	Jan-13	Jun-13
Chattisgarh	1,320	100%	No	n.a.	n.a.
Hydro- Arunachal	167	100%	No	n.a.	n.a.
Solar- Punjab	5	100%	n.a.	n.a.	n.a.

Source: Company data, Credit Suisse estimates.

According to the balance sheet disclosed by the company and based on the CMP of Indiabulls Properties Investment Trust, IBREL is now trading at 0.57x its Sept. 2008 adjusted book value. The concern for investors has been the management's inability to give a clear answer of the treatment of Jupiter and Elphinstone stake in the consolidated accounts and the use of cash received on IPIT listing.

Figure 3: IBREL is trading at 0.57x its Sept. 2008 adjusted book value

Particulars	Rs/share
Net cash	129.4
Land and inventory	108.5
Fixed assets and net current assets	11.8
IPIT investment at CMP of S\$0.40	52.2
Less: minority interest	(45.6)
Less: preferred capital	(47.0)
Adjusted book value as of Sep-08	209.3

Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 08 Oct 08)

Indiabulls Real Estate Limited (INRL.BO, Rs118.50, NEUTRAL [V], TP Rs307.60)

Disclosure Appendix

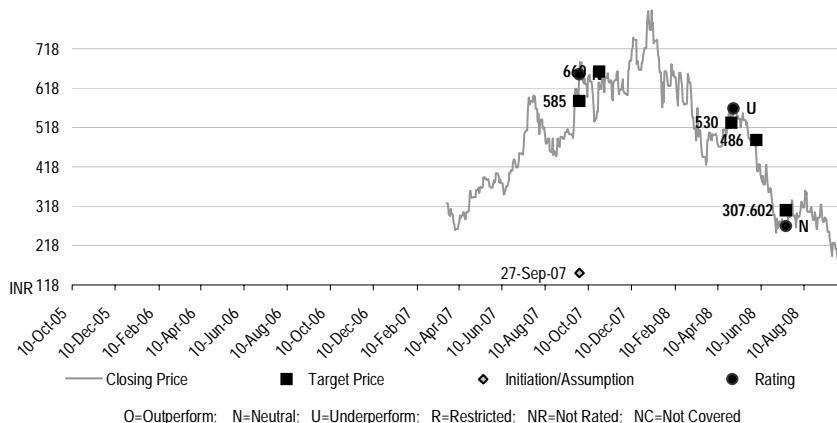
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3-Year Price, Target Price and Rating Change History Chart for INRL.BO

INRL.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
27-Sep-07	653.25	585	N	X
25-Oct-07	627.8	660		
29-Apr-08	557.35	530		
2-May-08	565.65		U	
3-Jun-08	444.45	486		
15-Jul-08	267	307.602	N	



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Price Target: (12 months) for (INRL.BO)

Method: Our price target of Rs308 for Indiabulls Real Estate is on a sum of parts with Rs212 (40% discount to our 12-month fwd NAV) for the real estate business and Rs96 being IBREL's stake in the cash invested in all its other businesses. In addition to its commercial development in Mumbai, planned SEZs, and residential developments, IBREL has also forayed into retailing, screening movies and building power plants which are likely to test its execution capabilities.

Risks: The key risks to our Rs308 target price for Indiabulls Real Estate are: 1) execution risks given that the company is a new entrant and has no experience in real estate development; 2) Land acquisition risks at some of its larger SEZ projects; 3) overall slowdown in economic growth in India in general and IT/ITES sector in particular; and 4) positive surprise to our target price may come from progress on the Raigarh and Thane SEZs and power projects which are not part of our valuation and investment of surplus cash into NAV accretive projects

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