

**MARCH 2, 2010**
**UPDATE**

Coverage view: **Cautious**

Price (Rs): **160**

BSE-30: **16,430**

**More disclosures would help reduce discount to fair valuations.** We place our rating and target price on IBREL under review given our limited access to new information from the management. We reiterate key concerns, which have led to a sharp discount to fair valuations. These concerns include intergroup transactions, cash usage pattern, progress on business and issuance of structured instruments. However, we highlight that our fair value remains at Rs288, though the discount to fair value may persist until concerns subside.

**Company data and valuation summary**

Indiabulls Real Estate

**Stock data**

52-week range (Rs) (high,low) 299-83

Market Cap. (Rs bn) 64.3

**Shareholding pattern (%)**

Promoters 16.7

FIs 72.9

MFs 1.5

**Price performance (%)**

Absolute 1M 3M 12M (7.3) (28.4) 78.8

Rel. to BSE-30 (7.7) (22.9) (3.2)

**Forecasts/Valuations**

2010 2011E 2012E

EPS (Rs) 1.6 4.0 8.0

EPS growth (%) 109.7 151.7 101.7

P/E (X) 101.0 40.1 19.9

Sales (Rs bn) 3.5 10.6 16.9

Net profits (Rs bn) 0.6 1.6 3.2

EBITDA (Rs bn) (0.3) 0.7 2.6

EV/EBITDA (X) (66.7) 33.5 8.6

ROE (%) 0.8 1.8 3.5

Div. Yield (%) 0.0 0.0 0.0

**QUICK NUMBERS**

- **IBREL has Rs22.7 bn of ICDs as of March 2009**
- **Continuous depletion of cash balances**

**More disclosures could allay concerns, reduce stock volatility**

We understand that IBREL held a meeting with select analysts to address investor concerns that have arisen after the recent EGM notice. We do not yet have the management's view on key concerns—we were not privy to this meeting—but outline these concerns and our views on them.

**Concern #1. Intergroup transactions.** We believe that this is a big concern for investors, who would be more comfortable with limited inter-group transactions between IBREL and group companies. IBREL, as of March 2009, had outstanding intercorporate deposits (ICDs) of Rs22.7 bn, down from the March 2008 level of Rs48.2 bn. The annual report of FY2009 indicates that Rs19.3 bn of ICDs have been given to subsidiary companies and we would like the management to give details of the same. IBREL doesn't consolidate certain subsidiaries as it indicates investments in equity shares of certain subsidiary companies and certain step down subsidiary companies have been acquired exclusively with the intention of disposal in the near future. Such companies have been excluded from consolidated financial statements.

As per FY2008 annual report, investment in the stepdown subsidiary companies of Shoxell Holdings Limited, Fornex Properties Limited and Indiabulls Wholesale Services Limited were held with the intention of 'subsequent disposal in the near future' and hence were not consolidated.

**Concern #2. Cash level in IBREL and its usage.** We have modeled cash balances of Rs24 bn, which is equivalent to equity raised in the last QIP adjusted for investments made in the rights issue of IPIT. This cash level is equivalent to Rs60/share. Concern with cash level is primarily on non-deployment of cash over the last nine months. We believe that this concern will likely remain till IBREL discloses latest balance sheet. Amongst our coverage universe DLF, HDIL, Sobha and Puravankara have started disclosing balance sheet while Unitech discloses key balance sheet items. We would also like IBREL to disclose land bank details at the end of each quarter in order for various market participants to better understand deployment of cash.

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**Concern #3. Progress on businesses and land bank details.** IBREL does not give official details of their land bank. This leads to various market participants taking different estimates of land bank and creates uncertainty. Also, progress on business is currently not reflected in financial results as most of project launches over the past 12 months have still not reached the threshold of revenue booking. Quarterly results for IBREL will become more meaningful in the next 2-3 quarters as a larger number of projects start contributing to revenue booking.

We would like to highlight that that IBREL has received a strong response to its projects launched in Mumbai with its premium project Indiabulls Sky in Lower Parel completely sold out and Indiabulls Green in Panvel seeing healthy sales. Management has guided for more than 20 mn sq. ft of projects to be launched by end of FY2010E. Exhibit 1 shows the residential projects under execution/launched by IBREL. We estimate sales volume of 2.7 mn sq. ft in FY2010E and 4.9 mn sq. ft in FY2011E.

IBREL disclosed progress on project launches and sales at end-October 2009. Quarterly disclosures would help investors understand progress in the business and the ability to forecast for FY2011E and FY2012E.

#### Residential projects under execution/planned by IBREL

Project	City	Location	Units	Unit size (sq. ft)	Basic Pricing (Rs/sq. ft)	Other charges (Rs/sq. ft)	Total volume (mn sq. ft)	Sold volumes (mn sq. ft)	Avg. pricing (Rs/sq. ft)	Sold value (Rs mn)	Total value (Rs mn)	Cash flow (Rs mn)
Riverside	Ahmedabad	Shahibagh Road (Jupiter Saraspur)	1200	675-1,525	1,750	Car parking: Rs0.1 mn, IBMS: Rs50/sq. ft; club fees: Rs0.05	1.5	0.2	2,000	420	3,000	1,125
Central Park	Ahmedabad	(Himadri Mills)	800	517-796	1,400		0.5	0.0	1,500	24	750	350
Central Park	Indore	Opp.Hukumch and Mill	850 (Ph I-128)	1,030-1,675	2,000	Car parking : Rs0.1 mn, club house:Rs0.05 mn, Maintenance: Rs1/sq. ft/month for 2 years	1.9	0.1	2,200	132	4,180	1,805
Centrum Park	Gurgaon	Sec-103	500	971-1,788	1,950	IDC: Rs34/sq. ft; car parking Rs0.175 mn; PLC of Rs150/sq. ft for 1st floor; Rs100/sq. ft for 2nd floor	1.5	0.2	2,300	460	3,450	1,500
Indiabulls Green	Chennai		900	685-1,615	2,700	IBMS: Rs25/sq. ft; car parking Rs0.2 mn; PLC of Rs50/sq. ft for pool/park facing	1.5	0.2	2,850	684	4,275	2,022
Central Park	Hyderabad	Netha mills			3,200		0.3	0.0	3,300	92	990	600
Central Park	Panvel				2,650		5.4	1.0	2,700	2,700	14,580	7,290
Indiabulls Sky	Mumbai	Lower parel			25,000		0.4	0.3	25,000	6,300	10,000	8,000
Central Park	Vadodara	Ambika Mill Co	288	1,125-1,530	2,300	PLC: Rs100/sq. ft; car parking: Rs0.1 mn, club fees: Rs0.175	0.6	0.1	2,400	120	1,440	720
<b>Planned Projects to be launched in FY2010E</b>							<b>Total</b>	<b>13.6</b>	<b>2.1</b>	<b>10,932</b>	<b>42,665</b>	<b>23,412</b>
Central Park	Madurai						0.3					
Lake View Park	Chennai						0.9					
Indiabulls Paramo	Sec 104, Gurgaon						2.6					
Hillside View	Vishakapatnam						0.5					
Indiabulls Metrop	Sec 110, Gurgaon						1.5					
Indiabulls Orion	Sec-109, Gurgaon						0.7					
	Sonepat						1.0					
							<b>Total</b>	<b>7.5</b>				

Source: Company, Kotak Institutional Equities

**Concern #4. Issuance of structured instruments.** IBREL's subsidiaries have issued Rs13.8 bn of various structured instruments (compulsorily convertible preference shares, compulsorily convertible debentures, optionally convertible dentures). Exhibit 2 summarizes subsidiary-level analysis of issuance of these structured instruments. Of the nine subsidiaries which issued these instruments, we have been able to identify corresponding projects for seven. These seven subsidiaries have issued total structured instruments of Rs10 bn while our NAV contribution from these subsidiaries is Rs6.5 bn.

These financial instruments may have been issued to achieve better RoEs from these projects, however, we believe market participants would like more clarity on the exact nature of these instruments so that cash flows accruing from these subsidiaries can be estimated accurately. Key details that could be disclosed include (1) exact nature of these instruments, (2) valuations of the subsidiaries at which these investments were made, and (3) duration of these investments and special clauses, if any.

**IBREL subsidiaries have issued Rs13.4 bn of various structured instruments**  
**Details of structured instruments issued by various subsidiaries**

Subsidiary	Description	Stake (%)	Instrument			Total equity (Rs mn)	Total assets (Rs mn)	Sales (Rs mn)	PBT (Rs mn)	NAV (Rs mn)		
			RCCPs	CCPs	OCDs						15% CCDs	
Indiabulls Estate Ltd	51% ownership of 150 acres in Sonepat	51	206	742	878	1,741	3,465	—	(9)	1,855		
Indiabulls Infrastructure Ltd	Owens 100% of Tehkand residential project	51	355	1,145	2,312	3,695	7,348	473	4	1,891		
Airmid Developers Ltd	IT/ITES, SEZ project at Sector-106 near village Pawala Khusropur, Gurgaon, Haryana	51		593	1,320	624	2,627	41	40	707		
Athena Infrastructure Ltd	Sec 110, Gurgaon	51		314	700	312	1,636	0	(2)	576		
Citra Properties	Dombivili	51		170		182	746	14	5			
Fomax Real Estate Ltd		51		548	1,119	683	2,385	178	171			
Juventus Estate Ltd		51		356	772	349	1,786	0	(1)			
Selene Construction Ltd	Centrum Park, Gurgaon	51		392	850	20	48	0	(0)	649		
Selene Estate Ltd	OMR, Chennai	51		192	417	188	864	0	(4)	814		
<b>Total</b>			<b>561</b>	<b>2,564</b>	<b>1,887</b>	<b>8,368</b>	<b>#</b>	<b>7,794</b>	<b>20,904</b>	<b>705</b>	<b>204</b>	<b>6,491</b>

*Note:*

RCCPs- Redeemable/convertible, cumulative preference shares  
 CCPs- compulsarily convertible preference shares  
 CCDs- Compulsarily convertible debentures  
 OCDs- Optionally convertible debentures

Source: Company, Kotak Institutional Equities estimates

**Concern #5. Change of auditor.** IBREL has announced its intention to induct "M/s Sharma Goel & Co" in place of "Ajay Sardana Associates". Investors have expressed concerns with respect to motive behind the change in auditor and also timing of the change. We would view auditor change as a positive move as "M/s Sharma Goel & Co" are also auditors to large public sector firms and are also on the panel of Comptroller and Auditor General of India, Reserve Bank of India and Government of India. We believe having more reputed auditors has been a key investor demand which has been addressed.

However, we would like to view audited accounts for FY2010 and any large differences will be a matter of concern.

**Concern #6. Enabling resolution for investment into subsidiaries.** IBREL has sought enabling resolution for investment into various subsidiaries. We believe that this is a normal industry practice as most real estate projects get executed through various subsidiaries. Lands are bought in these subsidiaries and IBREL will likely inject funds as and when any land purchases take place.

**Concern #7. Transfer of shareholding from direct name to holding companies.** IBREL promoters transferred their shareholding from direct names to holding companies. Investors would like to understand the management's rationale for undertaking this move.

### Our fair price as per current available information is Rs285

Based on current available information, our Mar'11-based NAV is Rs288/share. Our NAV comprises Rs91 for real estate development, Rs60 for cash and equivalents, Rs84 for the power business and Rs53 on account of Indiabulls Properties Trust (Singapore REIT). A key downside risk is the valuation of the power business. The direction of NAV movement will also depend on how balance sheet cash is deployed.

We believe the stock will trade at a sharp discount to NAV until investors gain more comfort on business and balance sheet details.

Our March 2011 based NAV is Rs289/share

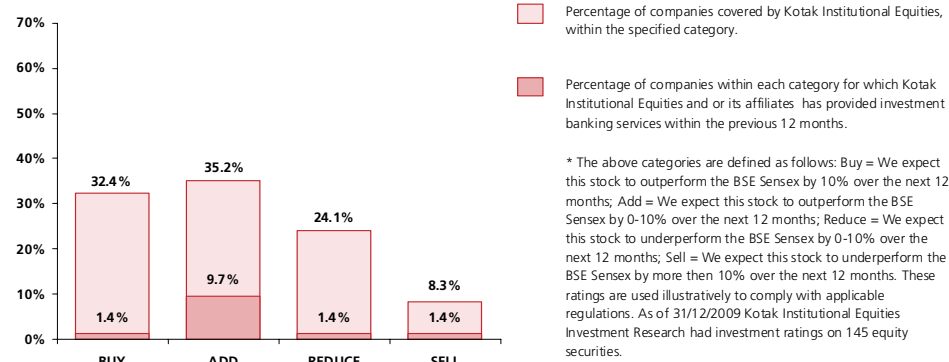
	3%	March' 2011 based NAV Growth in selling prices		10%
		5%		
		(Rs bn)	(Rs/share)	
<b>Valuation of land bank (Rs bn)</b>	<b>27.2</b>	<b>36.3</b>	<b>90.4</b>	<b>68.1</b>
Residential	10.5	21.8	54.3	20.1
Retail	1.3	4.0	10.0	5.2
SEZs/Commercial	2.7	8.0	20.0	11.5
<b>Cash (Rs bn)</b>				
Add: Net cash excluding cash in power business	24.2	24.2	60.2	24.2
Add: Valuation of power business	34.9	34.9	87.1	34.9
<b>From IPIT (Rs bn)</b>				
45% stake in IPIT	12.6	12.6	31.4	12.6
PV of management fees	2.0	2.0	5.0	2.0
PV of trustee fees	5.7	5.7	14.2	5.7
<b>Total</b>	<b>106.5</b>	<b>115.6</b>	<b>288.2</b>	<b>147.4</b>
Total no. of fully diluted shares (mn)			401	
<b>NAV/share</b>	<b>266</b>	<b>288</b>	<b>288</b>	<b>367</b>

Source: Kotak Institutional Equities estimates

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#### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2009

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**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 Sensex by more than 10% over the next 12 months.

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

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