

Institutional Equities
 India Research

Kolte Patil Developers

INITIATION REPORT

 Bloomberg: KPDL IN
 Reuters: KOLT.BO

BUY

Multiple triggers: Multiple re-rating -II

KPDL share has appreciated 65% since our coverage dated 16th Oct 2012 outperforming the BSE Realty index by 26%, as highlighted in our note, "multiple triggers - I" have led to a partial "multiple re-rating" and over course of FY14-15E we see further expansion playing out. Despite a recent run up we believe that stock still offers 82% upside to reach our increased DCF based target of Rs180 per share (10% discount to NAV of Rs200).

Multiple triggers – Multiple Re-rating

We see (i) 6.5mn sqft residential sales (in value Rs22bn of which Rs12bn unrecognized with Rs1.8bn profit potential) over past 30months advancing to revenue recognition, throwing surplus cash-flows; (ii) 9-11mn sqft of new launches over next 12-18months providing visibility beyond FY14-15E; & (iii) D/E – 0.2x leaving scope for future land acquisition to replenish sales delivery. In true sense, KPDL is witnessing strong transformation with recent talent acquisition (VP-Marketing joining from Prestige Estates), Mumbai foray & Bangalore expansion, whilst in Pune the focus is to consolidate market share beyond 9-11% (3mn sqft).

Focus on strengthening corporate governance, sharing profits

We see major corporate governance improvement with changes in few SPVs Internal Auditors to Big-4 and we believe that with growing size the company may need to change its own internal/statutory auditors as well. Besides this, KPDL is one of few realty companies which has a stated dividend policy of distributing 15-25% of annual profits.

Strong balance sheet - not pricing in premium valuation

Despite a strong balance sheet D/E-0.2x (Bank debt – Rs900mn, Net debt Rs2bn), valuation are undemanding at 4.7x FY15EPS. KPDL has a very conservative approach to debt which reflects in strong private equity partnership with ICICI Venture, IL&FS & Portman Holdings, with no guaranteed IRR's structure (only plain vanilla equity). Besides KPDL's new land acquisition have been largely JDA's

Maintain our BUY stance: Increase our NAV Target to Rs180

We value KPDL on NAV based target of Rs180 (giving a 10% NAV discount). At CMP the KPDL trades at 4.7x FY15E EPS.

Key Financials (Consolidated)

Y/E Mar (Rs. mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	2,028	2,492	7,018	9,488	8,895
EBITDA	846	677	1,792	2,593	3,018
Adjusted profit	479	341	918	1,287	1,592
EPS (Rs)	6.3	4.5	12.1	17.0	21.0
RoCE (%)	5.8	5.2	11.9	15.0	16.3
RoE (%)	7.0	4.8	12.1	15.2	16.6
P/E (x)	15.7	22.0	8.2	5.8	4.7

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs99
Target Price:	Rs180
Upside (%)	82%

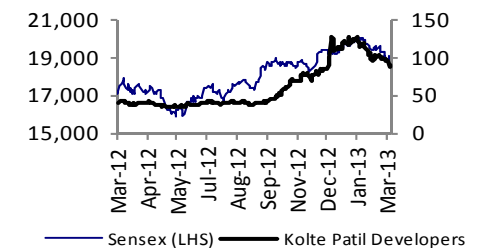
Stock Information

Market Cap. (Rs bn / US\$ mn)	8/138
52-week High/Low (Rs)	136/34
3m ADV (Rs mn /US\$ mn)	135/2.5
Beta	1.0
Sensex/ Nifty	19,253/5,819
Share outstanding (mn)	76

Stock Performance (%)

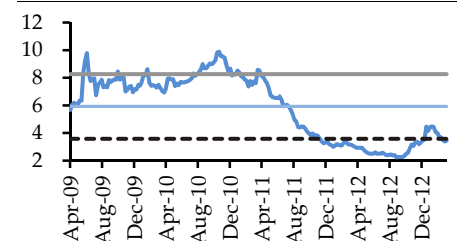
	1M	3M	12M	CYTD
Absolute	(6.4)	15.5	140.9	(12.1)
Rel. to Sensex	(4.6)	17.0	114.9	(11.3)

Performance



Source: Bloomberg

1 Year Forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Analysts Contact

Parikshit Kandpal
 022 6184 4311
 parikshit.kandpal@karvy.com

Varun Chakri
 022-6184 4326
 varun.chakri@karvy.com

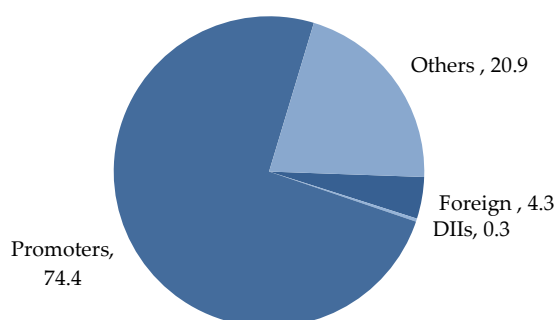
Kolte Patil Developers
Company Financial Snapshot

Profit & loss			
Rs. mn	FY13E	FY14E	FY15E
Net sales	7,018	9,488	8,895
EBIDTA	1,792	2,593	3,018
Depreciation	48	55	61
Interest Expense	388	286	184
PBT	1,637	2,392	2,949
Tax	537	786	968
Adj. PAT	918	1,287	1,592
EPS (Rs)	12.1	17.0	21.0
DPS (Rs)	12.1	17.0	21.0
Profit and Loss Ratios			
EBIDTA Margin %	25.5	27.3	33.9
Adj Net Margin %	13.1	13.6	17.9
Valuation Multiples			
P/E (X)	8.2	5.8	4.7
EV/EBIDTA (X)	5.4	2.8	2.5

Balance Sheet

Rs. mn	FY13E	FY14E	FY15E
Total Assets	11,893	12,042	13,704
Net Fixed Assets	625	645	666
Net Current Assets	10,502	10,631	12,272
Other Assets	766	766	766
Total Liabilities	11,893	12,042	13,704
Networth	7,945	8,975	10,249
Debt	2,282	1,082	1,082
Minority & Others	1,663	1,983	2,371
Deferred Tax	2	2	2
Balance Sheet Ratios			
RoCE %	11.9	15.0	16.3
RoE %	12.1	15.2	16.6
Net Debt/Equity	0.3	(0.0)	(0.0)
Equity/Total Assets	0.7	0.8	0.8
P/BV (X)	0.9	0.8	0.7

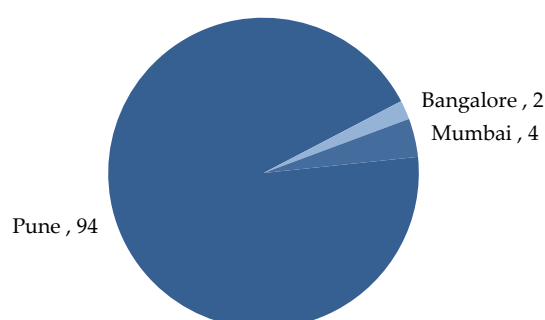
Note: All financials are consolidated

Shareholding Pattern (%)

Company Background

Kolte-Patil Developers Limited (KPDL) was incorporated on November 25, 1991 as a private limited company engaged in the business of a real estate development. The company has key presence in the Pune market which accounts for about 94% land bank, Bangalore accounts for 2% & recent (FY13) foray into Mumbai market accounts for 4% land bank. In the Pune market KPDL enjoys 9-11% market share. KPDL hit the secondary market with the IPO offering (Rs125-145 price band) in Jan 2008. IPO was oversubscribed by 47x with listing at Rs230/share. KPDL is a closely held Company promoted by Mr Rajesh Patil, Mr Naresh Patil (looks after Bangalore operation predominantly), Mr Milind Kolte & Ms Sunita Kolte. With onset of financial meltdown KPDL exited the commercial segment and now has 10:90 commercial and residential mix. KPDL is a pure play residential focused now and develops commercial properties at prime location only to exit by selling out.

Cash Flow

Rs. in mn	FY13E	FY14E	FY15E
PBT	1,637	2,392	2,949
Depreciation	48	55	61
Others	(430)	(640)	(960)
Change in Wkg Cap	(1,146)	1,031	(1,884)
CF from Operations	109	2,839	166
Capex	(113)	(75)	(83)
Others	281	141	176
CF from Investing	168	65	93
Change in Equity	-	-	-
Change in Debt	-	(1,200)	-
Dividends & others	(572)	(543)	(502)
CF from Financing	(572)	(1,743)	(502)
Change in Cash	(295)	1,161	(244)

Land bank* distribution (%)


Outlook & Valuation

Target Price of Rs180 implies 82% upside

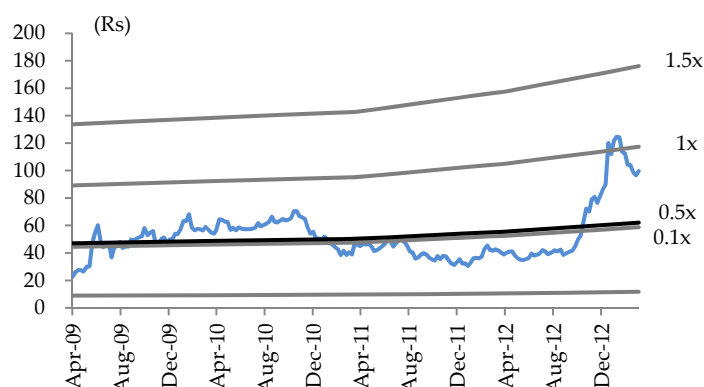
We have valued KPDL using DCF and arrive at a target price of Rs180/share. Our valuation is based on 0.9x our end-FY14E NAV forecast

Exhibit 1: NAV calculation

	Rs mn	Comments
Gross NAV	14,473	NAV based on the methodology above
Less Net debt	(247)	Net Debt as on Mar 14
Current Investments	406	Investment in Marketable securities
NAV	15,126	
Shares outstanding (mn)	76	As of Dec-13
NAV/share	200	
Discount to NAV	10%	
Target Price	180	

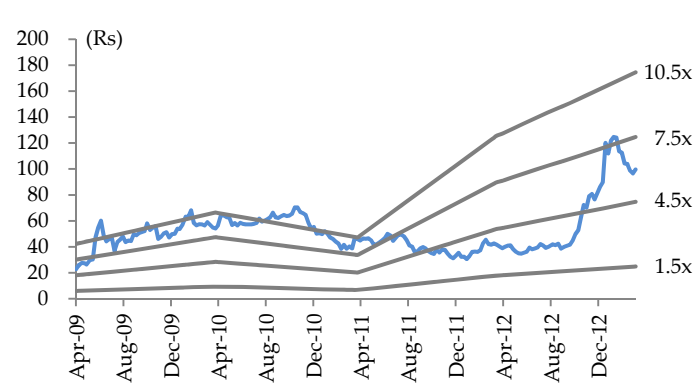
Source: Karvy Institutional Research

Exhibit 2: One year forward P/BV band



Source: Bloomberg, Karvy Institutional Research

Exhibit 3: One year forward P/E band



Source: Bloomberg, Karvy Institutional Research

On KPDL's FY14E P/E of 5.8x, it is trading at a 23% discount to its historical crosscycle average P/E of 7.5x.

Absolute & Relative Performance

Exhibit 4: Stock Performance

Company	Absolute Return (%)					Relative to Sensex (%)				
	1m	3m	6m	12m	Ytd	1m	3m	6m	12m	Ytd
Brigade Enterprises Ltd	(10.1)	(13.0)	48.4	19.4	(23.8)	(8.4)	(12.1)	39.6	7.2	(22.8)
DLF Ltd	1.9	25.0	35.3	38.0	19.4	3.7	26.0	26.6	25.8	20.4
Godrej Properties Ltd	(5.9)	(14.7)	8.5	(12.6)	(12.0)	(4.1)	(13.7)	(0.2)	(24.7)	(11.0)
Oberoi Realty Ltd	(1.3)	(5.7)	21.0	1.0	(2.8)	0.5	(4.7)	12.3	(11.1)	(1.8)
Prestige Estates Projects	(5.1)	9.4	50.4	84.3	(1.0)	(3.3)	10.3	41.6	72.1	(0.0)
Puravankara Projects Ltd	(0.8)	(2.3)	54.0	46.4	(0.0)	0.9	(1.4)	45.3	34.2	0.9
Sobha Developers Ltd	(4.1)	12.2	23.6	53.9	9.0	(2.4)	13.1	14.8	41.7	10.0
Kolte-Patil Developers Ltd	(6.0)	14.9	143.2	135.9	(13.5)	(4.3)	15.9	134.4	123.7	(12.5)

Source: Bloomberg, Karvy Institutional Research

Investment Rationale

Our investment thesis is based on the following premise

- Strong growth traction – locally & now in newer markets
- The only formidable play on Pune realty market
- Conservative on debt; improving corporate governance
- Strong project pipeline lends visibility beyond FY15E
- Partnerships & JV's – has been the key game changer
- Valuations – Rs180/share & key triggers

Strong growth traction – locally & now in newer markets

KPDL has a Gross saleable area of 53mn sqft and Net saleable area of 30mn sqft

KPDL has gross saleable area of 53mn sqft with a net economic interest of 30mn sqft. Currently the company has ongoing and planned project pipeline of 26.7mn sqft with a net economic interest of 15.1mn sqft. Besides KPDL has acquired land through the JDA mode encompassing 26.3mn sqft gross saleable area and 14.9mn sqft economic interest. This gives sufficient visibility on near term growth. The likely FSI increase in the 'Life Republic Township' (from 0.5x to 1x), can add 10mn sqft to the total gross saleable area and 4.5mn sqft to the total net saleable area. With hard work of 6.5mn sqft residential sales (in value Rs22bn of which Rs12bn unrecognized with Rs1.8bn profit potential) over past 30months advancing to revenue recognition, we expect FY12-15E earnings CAGR of 67.1%.

Foray in the Mumbai market through less capital intensive JDA Model

KPDL has forayed into the Mumbai market winning the first redevelopment project on KHAR linking road. KPDL will develop 0.1mn sqft, of which its free sale area will be 25,000sqft. The scope covers rehabilitation existing occupants in lieu of that it gets to sell the free commercial area. KPDL expects to realize about Rs250-300mn profits from the proceeds. Besides the company has signed two MOU's for Joint Development (JDA) with the land owners in Navi Mumbai. The first project is MMRDA rental housing in Panvel-Matheran road with a total saleable area of 1.9mn sqft (55% area share) and second project will come in Palaspe Village (New Panvel) encompassing an area of 1.2mn sqft (51% area share). Further, KPDL has entered into a JDA at URSE near Lonavala for 475acres land parcel.

Under researched and limited coverage had led to KPDL trading at distressed multiple

KPDL has been under researched and had limited investor interaction post it's IPO (Rs125-145 price band) in Jan 2008. IPO was oversubscribed by 47x with listing at Rs230/share. With the onset of FY09-10 recession, slowdown hit the realty sector, KPDL underperformed in line with other real estate developers. Since then KPDL has launched 15 projects and most of these projects have entered into advance stages of revenue recognition. There was postponement of Rs3bn of revenue recognition during FY12 on account of change in ICAI real estate revenue recognition guidance. With strong unexecuted order book of Rs21bn and slew of new launches planned over FY13-15E, **KPDL is a case of "strong investment opportunity" available at "distressed valuation"**.

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The only formidable play on the Pune realty market

KPDL with gross saleable area of 53mnsqft and net saleable area of 30mn sqft is the only formidable & listed play on Pune realty market. Amongst the realty players, KPDL is the leader with 9-10% market share in the Pune market, 2nd biggest player enjoys a market share of ~5% (we estimate Pune market to have an annual demand of 30,000 housing units and for ~1000sqft/average apartment area the total market size is 30mn sqft). When compared to Pune, Bangalore (the IT capital of India) is 60mn sqft market size, with Prestige Estates (PEPL IN) being the largest company by market capitalization (\$1.1bn) with 9-10% market share, Sobha developer 2nd highest market cap at \$747mn & 5-6% market share. In comparison, KPDL has market capitalization of \$134mn despite enjoying 9-10% market share. Pune's economy is IT/ITES and Manufacturing (Auto/Auto Anc.) driven and offers huge demographic dividend, KPDL has strong regional presence close to these industrial/service corridor and being a quality/market leader offers a robust proxy to the underlying realty demand.

Exhibit 5: Sales & Delivery

mn sqft	FY11	FY12	FY13E	FY14E
Sales	2	2.9	2.6	3.4
Delivery	0.5	1.5-1.8	2.5	2.2
Market Share (%)	8	9.5	7.8	8.5

Source: Company, Karvy Institutional Research

We expect Pune Realty Market to grow at 15% CAGR FY12-14E and KPDL market share will remain in the 7-9% over the same period.

Exhibit 6: Key townships in Pune Realty Market

Developers	Township Name	Location	Land Area (Acres)
Paranjape	Blue Ridge	Hinjewadi - Phase 1	138
Kumar Urban Developers	KUL Ecoloch	Mahalunge, Baner Annexe, near Hinjewadi IT Park Pune	110
DSK Kulkarni	Sundarban Township	Hadapsar, Near Magarpatta city	250
Kolte Patil	Kolte Patil I Ven Township	Hinjewadi - Phase II	383
Sahara Home	Sahara City Homes	Dhanori Vishrantwadi Road Pune	107
Joint Venture of Avinash Bhosale & Kumar Properties	Megapolis	Hinjewadi, Pune	150

Source: Karvy Institutional Research

In **Exhibit 6** we highlight major townships projects across Pune. KPDL has the biggest township under execution at Hinjewadi Phase II constituting 383acres of free hold land. KPDL currently has Phase I of 147acres under execution with a total saleable area of 3.2mnsqft (of which 80% is sold out). The prevailing prices in the Hinjewadi Phase I is Rs5,200-6,000/sqft and Hinjewadi Phase II is Rs4,300-4,500/sqft. KPDL expects to launch the new Block in the 'Life Republic' at ~Rs4,500-5,000/sqft. With the recent proposal of increase in FSI from 0.5x to 1x for 'Special Townships' project in Maharashtra (proposal listed for public discussion final gazette to come by 1QFY14), KPDL stands to be a major beneficiary. We expect the FSI cost to be Rs500/sqft and increased saleable area (~8.9mn sqft) shall add about Rs29/share to our GNAV.

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Conservative on debt financing; high dividend payout

KPDL has a very conservative approach on availing debt for funding growth. Our interaction with the Promoters suggests a clear strategy of dissociating growth and means of financing, with loan funds for expansion being the last option. Whilst real estate investors are wary of increasing debt levels in the portfolio companies, KPDL is one amongst few which has judiciously stayed away from the 'greed mirage' of acquiring land parcels and utilizing projects cashflows to keep servicing banks/financial institution. To show solidarity with its own philosophy, KPDL has stated policy of distributing 15-25% of annual profits as dividend and utilize balance cash for land acquisition purpose. The preferred mode for land acquisition would be JDA, JVs, Private Equity and lastly loan funds.

Exhibit 7: Debt: Equity ratio (%)

FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
21.4	8.9	19.1	19.2	25.2	26.6	-2.8	0.0

Source: Company, Karvy Institutional Research

Stable to improving corporate governance

Board quality and independence improving

Since its listing on December 13, 2007, promoter family representation as a percentage of the board has remained at 50%.

Board/managerial compensation in line with earnings

Except for FY10 the direction of board compensation growth has been in line with the PBT growth direction. Since FY10, the board's compensation has remained stable at 7-9% of PBT. Managerial remuneration increased by 29.2% in FY11 v/s earnings growth of 53.5%. Managerial remuneration declined by 16% in FY12, directionally in-line with earnings shrinkage of 39%.

Change in Internal Auditors of few SPVs to Big-4

As the Company gains scale it has changed the internal auditors of few SPVs to Big-4. This may be the precursor to KPDL changing its own 'internal' & 'statutory' auditors. In our interaction with the managements there has been the intent to improve corporate governance & internal controls/best practices. In the long term this shall augur well for the minority investors, especially in a sector which is considered opaque.

Promoter Background

KPDL is a closely held Company promoted by Mr Rajesh Patil, Mr Naresh Patil (looks after Bangalore operation predominantly), Mr Milind Kolte & Ms Sunita Kolte. The Promoter Group holds 74.44%, FII's hold 4.34% and 21.22% is held by Public shareholders. The group started operations as civil contracting company with projects in Jalgaon, a small town in Maharastra. Mr Rajesh Patil post his Civil Engineering moved to Pune in 1989 and started undertaking Real estate projects. The earlier focus was on 50:50 commercial and residential mix, with onset of financial meltdown KPDL exited the commercial segment and now has 10:90 commercial and residential mix. KPDL is a pure play residential focused and develops commercial properties at prime location only to exit by selling out.

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Strong project pipeline lends visibility beyond FY15E

Projects under execution

KPDL has 8.1mn sqft of land bank currently under execution. The Company has already achieved sales of 6.5 mnsqft which translates into execution order book of Rs22bn with Rs12bn yet to be recognized on P&L. KPDL expects to deliver 8.1mn sqft over 24-30months.

Exhibit 8: Ongoing Projects

Projects	Saleable Area in Sq. Ft	Location	KPDL Share %
Corolla Ph II	1,927,202	Pune	37
Life Republic Township	2,341,553	Pune	45
Downtown	850,000	Pune	51
Tuscan	415,000	Pune	51
Allura	528,440	Pune	100
Margosa Heights	709,963	Pune	51
Glitterati	475,000	Pune	100
City Bay	98,627	Pune	100
City Space	139,780	Pune	100
Green Groves LLP	64,200	Pune	70
Green Olive Venture	117,266	Pune	100
Utsava Raaga	196,020	Bangalore	100
Alyssa	43,000	Bangalore	100
Kormangala	198,000	Bangalore	100
TOTAL	8,104,051		

Source: Company, Karvy Institutional Research

Projects under approval stage

Exhibit 9: Future Projects

Projects	Saleable Area in Sq. Ft	Location	KPDL Share %
Corolla PH 3	2,282,000	Pune	37
Life Republic Township PH 2	6,000,000	Pune	45
Downtown PH 2	1,509,300	Pune	51
Tuscan PH 2	350,000	Pune	51
Allura PH2	150,000	Pune	100
Margosa Heights PH 3	250,000	Pune	51
Jazz	600,000	Pune	100
Atria	150,000	Pune	100
Green Olive PH 2	119,397	Pune	100
GIGA Residency	430,000	Pune	51
Panvel MMRDA Rental housing	1,900,000	Panvel	55
TOTAL	13,740,697		

Source: Company, Karvy Institutional Research

KPDL has 13.7mn sqft of land bank currently under different stages of approval. We expect these projects to approach launch stage over the period of next 12-18months.

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Partnership & JV's – has been the key game changer

KPDL's conservative approach to acquire debt for land acquisition has led to private equity tie-ups. Pre IPO, ICICI Ventures entered into a plain vanilla equity JV for a 383acre land parcel in Hinjewadi Phase II. The KPIT (Kolte Patil I-Ven Township) has launched the Phase I of township on 147acres with a saleable area of 3.2mn sqft which is 80% sold. Besides this KPDL has entered into a JV with Portman Holdings (Portman has recently invested in Tata Housing project in Bangalore) for two projects. IL&FS is a partner in another project. All the PE investments are plain-vanilla structure so this doesn't bring guaranteed IRR/exit risks to the balance sheet. These Partnership & JVs has been the biggest game changer for the KPDL as it has helped Company aggregate historical land bank, which should not have been possible with limited capital it had. KPDL is sitting on huge inventory gains on historical land banks, which eventually shall lead to fruition as and when these land parcels move to launches and revenue recognition.

Exhibit 10: Partnerships

Subsidiary	Company name	Shareholder	Area	Location	Projects	Saleable area	Structure	Shareholding Structure
Associate - Proportionate consolidation	Corolla Realty	ICICI Venture, Kolte, Land lord	73 acres	Wagholi Pune	Umang, IVY Estate, 80 acres, Wagholi Pune		Associate	37% KPDL, 37% ICICI Venture, 26% Mr Ishwar Goyal - Land provider
Subsidiary	IVEN Township - Life Republic - Sylvan Acres	ICICI Venture + KPDL	400 acres	Hinjewadi	Life Republic		JV	50% through Sylvan (90% holding) , 50% ICICI, 5% Manish Doshi
Subsidiary	Tuscan	Portman + KPDL	12 acres	Kharadi, Pune	Tuscan	129,400	JV	51% KPDL, ICICI sold 49% to Portman
Subsidiary	KPRE	ILFS + KPDL		Kharadi, Pune			JV	51% KPDL
Subsidiary	Bell Flower	Portman + KPDL	35 acres	Mohamad Wadi	Margosa, Florence, NIBM road pune		JV	50.00%
Partnership Firm/JV	Ankit Enterprises	KPDL + Rajesh Patil - 75% + 25%			Pimple Gurav, Undri, Wanowarie etc		JV	75% KPDL , 25% Promoter group

Source: Company, Karvy Institutional Research

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Future Land bank – not considered in valuation

Besides the 26.7mn sqft of land under execution and approval stage, KPDL has potential future land bank with a saleable area of 37.3mn sqft. These parcels have been acquired through a mix of JDA's (joint development agreements) and owned historical land bank. Strong execution in the 'Life Republic' (383acres Township with ICICI Venture) has led to private Pharma, FMCG companies to enter into JDA's with KPDL for their land banks. In our valuation estimates we have not considered the future land parcels as there is limited visibility on the launch front and there is no major upfront investment, with most of these engagements through a JV or JDA.

Exhibit 11: Future development potential

Particulars and Location of Land	Total Project Area (In Acres)	Saleable Area (sq.ft)	Title/MOU/DAPA /Saled deed/JV	Share of KPDL	KPDL's Share of Area (in Acres)*	Status
Urse Township	475.00	15,000,000	DAPA	50%	237.50	Near to Lodha Township Contour 9, Urse Township is in the BS. It's a 50:50 Profit sharing (launch target by FY14E end) with Sanjivani Remedies a Pune based Pharma firm
Ghotawade	70.17	3,228,529	JV	50%	35.09	This is a JV with Petroleum Company - Vibhu. Earlier the KPDL had plans to make a SEZ now they would be looking to want to do residential project (will target by 1QFY15E)
Jambhe Township	383.00	8,341,740	JV	50%	118.50	JV with ICICI, 45% equity stake, we expect the FSI increase from 0.5x to 1x may result in the incremental addition of 10.3mn sqft to the saleable area
Sadapur (Lonavala)	101.00	4,000,000	MOU	33.33%	33.66	Rs160mn is the total deposit to be paid of which paid Rs50mn. KPDL will have 34% profit share in the township. This project is with Kothari Products Limited
Lohgad (Lonavala)	90.00	200,000	MOU	33.33%	30.00	
Fursungi Township	120.00	4,477,200	Saled deed/MOU	100%	120.00	Land acquisition started in 2009, 35acres sale deed paid, remaining to be paid over 3 years (Rs1,200mn is the total cost paid Rs400mn, Rs800 mn to be paid over three years
Kalus-Kharpudi	32.12	1,399,147	Saled deed	100%	32.12	Paid For
Kalus-Kharpudi	11.52	501,811	Saled deed	100%	11.52	Paid For
Yavat (Vakhri)	6.50	225,627	Saled deed/POA	100%	6.50	Paid For
Total	1,289.3	37,374,055			698	

Source: Company, Karvy Institutional Research

Kolte Patil Developers

Gross Net Asset Value – Rs191/share

KPDL currently has 53mn sqft of gross saleable area as ongoing & planned and a net area of 30mn sqft. We have valued the projects using the DCF Methodology and arrive at Gross NAV of Rs191/share. We have valued projects which have next 5 years visibility with total Gross area of 26.7mn sqft and Net area of 15.1mn sqft.

Exhibit 12: Gross Net Asset Value – Rs191/share

Name	Location	Sale area (mn sq ft)	Total GNAV (Rs mn)	KPDL share (%)	KDPL GNAV (Rs mn)	KDPL Saleable area (mn sqft)	NAV/ sqft (Rs)	NAV/ share (Rs)
Corolla	Wagholi	4.4	2,097	37	776	1.6	477	10.2
Life Republic	Hinjewadi	9.7	6,439	45	2,897	4.4	664	38.2
Downtown KPDL	Kharadi	1.9	1,917	51	978	0.9	1,036	12.9
Tuscan	Kharadi	1.0	709	51	362	0.5	706	4.8
Allura	Undri - NIBM	0.5	576	75	432	0.4	1,067	5.7
Margosa Heights	Mohamad Wadi	1.0	287	51	146	0.5	290	1.9
Glitterati	Aundh Annexe	0.5	289	100	289	0.5	628	3.8
Citybay	Boat Club Road	0.1	215	100	215	0.1	2,180	2.8
City Space	Viman Nagar	0.2	437	50	218	0.1	2,298	2.9
Green Groves LLP	Kharadi Annexe	0.1	39	50	19	0.0	605	0.3
Green Olive	Hinjewadi	0.3	288	60	173	0.2	908	2.3
Utsava Raaga	Kannur Road	0.2	114	100	114	0.2	581	1.5
Koramangla	Koramangla - Block III	0.2	421	100	421	0.2	2,124	5.5
Jazz	Aundh Annexe	0.9	1,190	100	1,190	0.9	1,352	15.7
Atria	Pune	0.2	339	100	339	0.2	1,992	4.5
Giga Residency	Viman Nagar	0.4	930	100	930	0.4	2,164	12.3
Hosur Road	Bangalore	0.6	910	100	910	0.6	1,569	12.0
Aundh	Pune	1.0	1,821	100	1,821	1.0	1,821	24.0
Kalyani Nagar	Pune	0.6	1,291	100	1,291	0.6	2,151	17.0
Panvel	Navi Mumbai	1.9	855	55	470	1.0	450	6.2
Bavdhan	Pune	1.1	777	62	482	0.7	706	6.4
Grand Total		26.7	21,940		14,473	15.1	961	191.0

Source: Company, Karvy Research Estimate

Life Republic Township - Optional value can add Rs29/share

With the recent proposal of increase in FSI from 0.5 to 1 for Special Townships project in Maharashtra (Proposal listed for Public discussion final Gazette to come by 1QFY14) KPDL, stands to be a major beneficiary. We expect the FSI cost to be Rs500/sqft and shall add about Rs29/sqft to our NAV.

Exhibit 13: Life republic township - has an optional value of Rs29/share

Name	Location	Sale area (mn sq ft)	Total GNAV (Rs mn)	KPDL shares (%)	KDPL GNAV (Rs mn)	KDPL Saleable area (mn sqft)	GNAV/ Share (Rs)
Life Republic	Hinjewadi	9.7	6,439	45%	2,897	4.4	38
Old Total		26.7	21,940		14,473	15.1	191
Life Republic - Increase FSI	Hinjewadi	8.9	4,924	45%	2,216	4.0	29
New Grand Total		35.6	26,864		16,689		220

Source: Karvy Research Estimate

Kolte Patil Developers

Peer Group – Multiple based valuation –Rs175/share

On Peer Group multiple valuation we find that KPDL is trading at undemanding valuation of 4.7x FY15E EPS and 0.7x FY15E P/BV. On average multiple of the peer group (to adjust for the size effect) the stock should trade at 9.5x FY15E implying a valuation of Rs200/share. On average P/BV of the peer group the stock should trade at 1.1x P/BV FY15E, implying a valuation of Rs150/share. The average of two (Rs175) converges to our NAV based target on the stock of Rs180/share (adjusted for 10% NAV discount). We expect KPDL to get re-rated as projects under execution cross the revenue recognition threshold over FY13-15E. *On the comparative matrix KPDL has one of the lowest Net debt/Equity amongst peer, strongest revenue & net profit growth forecast CAGR & strong branding in the Pune Market.*

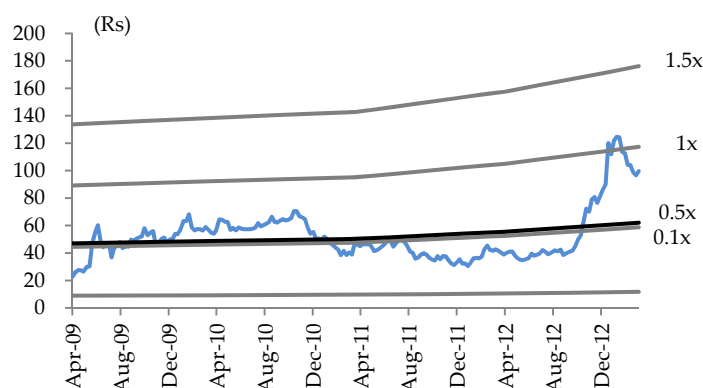
Exhibit 14: Peer group valuation

Name of company	Mkt Cap Rs bn	CMP Rs	EPS		P/BV (x)		P/E (x)		ROE (%)	
			FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Anant Raj	18.8	64	9.3	8.7	0.4	0.4	6.9	7.3	5.8	5.8
Ansal Properties	4.4	28	5.0	7.5	0.3	0.2	5.5	3.7	3.3	6.3
Brigade Enterprises	7.9	71	5.6	22.1	0.6	0.5	12.6	3.2	5.1	17.9
DLF	458.8	270	8.9	13.8	1.6	1.6	30.2	19.5	5.3	7.7
Godrej Properties	44.0	563	29.5	42.4	2.5	2.2	19.1	13.3	13.9	17.5
Oberoi Realty	93.3	284	26.8	34.1	1.9	1.5	10.6	8.3	18.7	20.9
Omaxe	26.5	152	9.9	27.0	1.2	1.0	15.5	5.7	8.5	19.5
Parsvnath	18.7	43	2.0	2.4	0.7	0.7	21.5	17.9	3.1	3.8
Prestige Estates	60.8	174	11.1	14.8	2.1	1.8	15.7	11.7	13.8	16.4
Puravankara	21.6	101	13.7	24.7	1.0	0.7	7.4	4.1	13.3	19.4
Sobha Developers	40.4	412	32.2	43.7	1.7	1.4	12.8	9.4	13.3	15.9
Suntech Realty	29.8	474	54.5	68.9	2.1	1.5	8.7	6.9	28.9	26.1
Unitech	70.9	27	1.7	2.1	0.6	0.5	16.3	12.7	3.4	4.1
Average					1.3	1.1	14.1	9.5	10.5	13.9
Kolte Patil	7.5	99.0	17.0	21.0	0.8	0.7	5.8	4.7	15.2	16.6

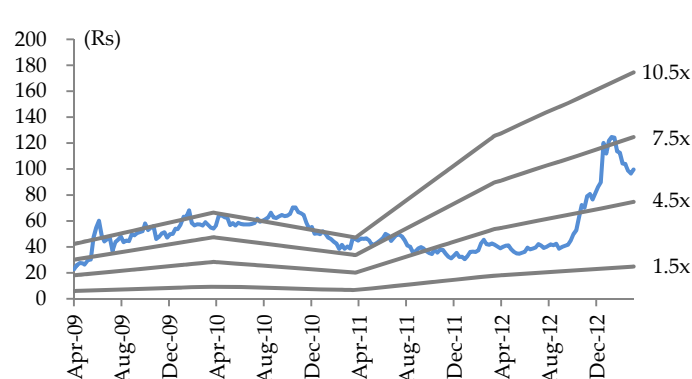
Source: Karvy Institutional Research, Bloomberg

Valuation Charts

On KPDL's FY14E P/E of 5.8x, it is trading at a 23% discount to its historical crosscycle average P/E of 7.5x.

Exhibit 15: One year forward P/BV band


Source: Bloomberg, Karvy Institutional Research

Exhibit 16: One year forward P/E band


Source: Bloomberg, Karvy Institutional Research

Key assumptions and estimates

Exhibit 17: Summary of key assumptions and estimates

	Estimates				Growth (%)			Comments
	FY12A	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	
Volume assumptions								
Residential (mn sqft)	0.8	2.1	2.5	2.0	157	21	(22)	We forecast strong pick up in the residential sales until FY14E. Volume degrowth in FY15E on account of back ended launches
Total	0.8	2.1	2.5	2.0	157	21	(22)	
Realization								
Residential (Rs/sqft)	3,100	3,400	3,800	4,560	9.7	11.8	20.0	Over FY12-14E blended realization to improve in line with property price appreciation, FY15E realization to grow at 20% on account of higher share of commercial property sale
Earnings forecast								
Sales (Rs mn)	2492	7018	9488	8895	182	35	(6)	
Total	2,492	7,018	9,488	8,895	182	35	(6)	Slower overall growth mainly on back ended launches
Construction cost (Rs/sqft)	1,615	2,215	2,421	2,481	37.1	9.3	2.5	To increase on account of change in mix and higher residential component during FY14E comes down in FY15E
EBIDTA (Rs mn)	677	1,792	2,593	3,018	165	45	16	
EBIDTA Margin (%)	27.2	25.5	27.3	33.9	(164)bp	179bp	661bp	FY14E margin increase on account of better realization, FY15E increase on account of higher share from commercial property sales
Net interest expense*	263	388	286	184				Expected to come down due to reduction in debt
Avg. interest rate (%)	11.5	17.0	13.2	8.5				Interest rates are expected to remain muted with a downward bias
PAT (Rs mn)	341	918	1,287	1,592	169	40	24	
PAT Margin (%)	13.7	13.1	13.6	17.9	(60)bp	49bp	434bp	Increase in PAT margins in line with overall estimates
EPS (Rs)	4.5	12.1	17.0	21.0	169	40	24	
Cash flows forecast								
CFO - a	154	109	2,839	166				
CFI - b	27	168	65	93				
FCF - a+b	181	276	2,904	259				
CFF-c	(130)	(572)	(1,743)	(502)				
Total change in cash - a+b+c	52	(295)	1,161	(244)				

Source: Company, Karvy Institutional Research

Kolte Patil Developers

Valuation

We initiate coverage on Kolte Patil Developers Limited (KPD) with a valuation of Rs180/share. Our valuation is based on 0.9x our end-FY14E NAV forecast (see exhibit 18). Our NAV calculation is based on the following methodology:

- We have divided KPD's entire land bank into residential projects (based on the information given by the company)
- We have arrived at the sale price/sq ft. and the anticipated sales volumes for each project based on our discussions with industry experts
- We have deducted the cost of construction based on our assumed cost estimates which have been arrived at after discussions with industry experts
- We have further deducted marketing and other costs which have been assumed at 8% of the sales revenue
- We have then deducted income tax based on the tax applicable for the project
- The resultant cash inflows at the project level have been discounted based on WACC of 16% (cost of equity 18% based on beta of 1.5, cost of debt 14% & debt/equity ratio of 0.2x). All the project level NAVs have then been summed up to arrive at the NAV of the company
- From the NAV, we have deducted the net debt as of FY14E to arrive at the final valuation of the company

Exhibit 18: NAV calculation

	Rs mn	Comments
Gross NAV	14,473	NAV based on the methodology above
Less Net debt	(247)	Net Debt as on Mar 14
Current Investments	406	Investment in Marketable securities
NAV	15,126	
Shares outstanding (mn)	76	As of Dec-13
NAV/share (Rs)	200	
Discount to NAV	10%	
Target Price (Rs)	180	

Source: Karvy Institutional Research

Key valuation assumptions

In exhibit 19 we highlight our sales and cost inflation forecasts. We expect property price appreciation in line with WPI inflation i.e. 6% and cost inflation of slightly higher at 7%. We forecast other costs including marketing, SGA and employees' costs at 18% of sales. We have discounted the cash flows using 16% as hurdle rate.

Exhibit 19: Base case assumptions

Assumptions	%
Discount rate	16
Annual rate of inflation - sales price	6
Annual rate of inflation - cost of construction	7
Other costs - marketing, SGA, employee cost (as % sales)	18
Tax rate	33

Source: Karvy Institutional Research

In the exhibit 20 we highlight our sale price and construction cost forecasts. Our pricing assumptions are moderate and at a 10-20% discount to the current prevailing prices.

Exhibit 20: Base property price and construction cost assumptions

Location	City	Saleable area mn sqft	Prices Rs/sqft	Cost Rs/sqft
Wagholi	Pune	4.4	3,650	2,000
Hinjewadi	Pune	10.0	4,500	2,200
Kharadi	Pune	2.9	5,000	2,400
Undri-NIBM	Pune	0.5	5,000	2,400
Mohamad Wadi	Pune	1.0	4,000	2,100
Aundh Annexe	Pune	1.3	5,500	2,600
Boat Club Road	Pune	0.1	9,000	3,200
Viman Nagar	Pune	0.6	9,500	4,500
Aundh	Pune	1.0	7,500	2,700
Kalyani Nagar	Pune	0.6	8,000	2,700
Bavdhan	Pune	1.1	4,800	2,100
Atria	Pune	0.2	7,500	3,500
Panvel	Navi Mumbai	1.9	5,500	2,500
Koramangla Block III	Bangalore	0.2	7,000	2,100
Hosur Road	Bangalore	0.6	6,000	2,300
Kannur Road	Bangalore	0.2	3,100	1,800
Total		26.7		

Source: Company, Karvy Institutional Research

NAV sensitivity analysis

Sensitivity to our assumption of property price

Obviously, our model is sensitive to changes in the assumptions regarding property prices. For every 1% change in the base property prices (see exhibit 21 for base price assumptions), the NAV would change by approximately 2.9%.

Exhibit 21: NAV sensitivity to change in base sale price

% change in sale price	-10	-5	0	5	10
NAV/share (Rs)	126	153	180	206	233
Change in NAV (%)	(29.9)	(14.9)	0	14.4	29.4

Source: Karvy Institutional Research

Sensitivity of NAV to changes in sale inflation

In our base case we have assumed annual sale price inflation of 6% (see exhibit 22). For every 100bps increase in the annual sale price inflation, the NAV would increase by approximately 7%.

Exhibit 22: NAV sensitivity to change in sales inflation

Sales inflation rates (%)	4	5	6	7	8
NAV/share (Rs)	155	167	180	193	206
Change in NAV (%)	(13.8)	(7.1)	0	7.3	14.5

Source: Karvy Institutional Research

Sensitivity of NAV to changes in cost inflation

In our base case we have assumed cost inflation to be 7% (see exhibit 23). For every 100bps increase in construction cost inflation, the NAV would change by approximately 5%.

Exhibit 23: NAV sensitivity to change in cost inflation

Cost inflation rates (%)	5	6	7	8	9
NAV/share (Rs)	195	188	180	171	162
Change in NAV (%)	8.4	4.7	0	(4.8)	(9.9)

Source: Karvy Institutional Research

The combined impact of a 100bps increase in sale price inflation and cost inflation would be a NAV increase of 2.5%.

Sensitivity of NAV to changes in discount rate

In our base case we have assumed a discount rate of 16%. For every 100bps increase in the discount rate, the NAV would fall by 1.6%.

Exhibit 24: NAV sensitivity to change in WACC

WACC rates (%)	14	15	16	17	18
NAV/share (Rs)	186.1	183.1	180	177.1	174.2
Change in NAV (%)	3.4	1.7	0	(1.6)	(3.2)

Source: Karvy Institutional Research

Key Catalysts

Success of new launches

KPDL has planned 9mn sq ft of new launches over FY14E with 80% of the launches in Pune. Whilst we forecast the FY14E new sales run-rate from the existing projects to be ~1.7mn sq ft, we build in ~1.4mn sq ft addition from proposed new launches over the course of FY14E. We believe that KPDL can surprise the street on the upside with a sales number closer to ~3.3mn sq ft.

Locational clearance of Life Republic Township

KPDL is awaiting 'locational clearance' for the Phase II of the 'Life Republic' township encompassing an area of 200acres. Currently the Phase 1 – comprising 147acres has been launched, with residual inventory of 0.6mn sqft, (from total saleable area of 3.2mn sqft) expected to be launched during 1QFY14E. The approval of Phase II now becomes pertinent for the sales visibility beyond FY14E. We expect the locational clearance to come by May'13 and thereafter the launch near CY13E end.

Improvement/Strengthening corporate governance

KPDL has recently strengthened its internal controls with change in Internal Auditors in some of the SPVs to Big-4. KPDL has indicated similar steps to be taken for the listed entity with likely changes in auditors. Besides the dividend policy of distributing 15-25% of the annual profits augurs well for the minority investors.

Key Risks to our BUY stance

Oversupply situation in the Pune market may lead to a price correction

Pune is a crowded Township market with multiple developers vying for market share. Whilst the end user prices still remain affordable at Rs3,500-5,500/sqft any volume oversupply situation may result in 10-15% price correction. For every 1% correction in base residential prices (exhibit 21), our NAV estimate for KPDL will be negatively impacted by 2.9%.

Delays in new project approvals

Whilst we have sufficient visibility on the FY14E financial estimates, we are cautious on the launch approvals for FY14E as any delays may result in decelerating revenue estimates/profitability for FY15E.

High mortgage rates/slowdown in IT/ITES sector

Pune is typically an end user market with investors comprising about 25-30% of overall sales volumes. An end user market which is 60-65% driven by IT/ITES sector is highly sensitive to direction of IT/ITES job scenario & mortgage rates. A negative direction could adversely impact the real estate sales.

Financials

Exhibit 25: Profit & Loss Statement (Consolidated)

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	2,028	2,492	7,018	9,488	8,895
growth	37%	23%	182%	35%	-6%
Operating expenditure	1,182	1,815	5,226	6,896	5,876
EBITDA	846	677	1,792	2,593	3,018
growth	45%	-20%	165%	45%	16%
Depreciation	17	21	48	55	61
EBIT	828	656	1,744	2,538	2,957
Interest expenditure	68	263	388	286	184
Non-operational income / Exceptional items	62	105	281	141	176
PBT	822	498	1,637	2,392	2,949
Tax	298	140	537	786	968
PAT / Net profit - reported	525	358	1,100	1,607	1,981
Minority	46	17	182	319	388
Adjusted PAT / Net profit	479	341	918	1,287	1,592
% growth	59%	-29%	169%	40%	24%

Source: Company, Karvy Institutional Research

Exhibit 26: Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Cash & equivalents	411	464	169	1,330	1,086
Debtors	358	443	1,123	1,556	1,512
Inventory	8,738	9,892	10,391	9,129	10,253
Loans & advances	2,057	2,429	2,794	3,353	4,861
Miscellaneous	107	357	357	357	357
Total Current Assets	11,670	13,585	14,833	15,725	18,069
Current liabilities & provisions	3,003	3,934	4,331	5,093	5,798
Net current Assets	8,667	9,651	10,502	10,631	12,272
Investments	788	725	725	725	725
Gross Block	690	625	750	826	908
CWIP	-	-	12	-	-
Net Block	630	559	625	645	666
Miscellaneous	13	41	41	41	41
Total assets	10,099	10,977	11,893	12,042	13,704
Debt	1,755	2,282	2,282	1,082	1,082
Minority Interest	1,348	1,484	1,665	1,985	2,373
Total liabilities	3,103	3,766	3,948	3,067	3,455
Shareholders' equity	758	758	758	758	758
Reserves & surpluses	6,237	6,453	7,187	8,217	9,491
Total networth	6,995	7,211	7,945	8,975	10,249
Total liabilities & equity	10,098	10,977	11,893	12,042	13,704
Net debt (cash)	1,344	1,818	2,113	(247)	(3)

Source: Company, Karvy Institutional Research

Kolte Patil Developers
Exhibit 27: Cash Flow Statement (Consolidated)

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
PBT	822	341	1,637	2,392	2,949
Depreciation	17	21	48	55	61
Interest	68	263	388	286	184
Tax	(447)	(285)	(537)	(786)	(968)
(Incr) / decr in net working capital	1,317	(140)	(1,146)	1,031	(1,884)
Others	(7)	(46)	(281)	(141)	(176)
Cash flow from operating activities	1,771	154	109	2,839	166
(Incr) / decr in capital expenditure	(12)	(125)	(113)	(75)	(83)
(Incr) / decr in investments	(521)	59	-	-	-
Others	56	93	281	141	176
Cash flow from investing activities	(476)	27	168	65	93
Incr / (decr) in borrowings	(1,011)	263	-	(1,200)	-
Issuance of equity	12	-	-	-	-
Dividend paid	(130)	(130)	(184)	(257)	(318)
Others	(68)	(263)	(388)	(286)	(184)
Cash flow from financing activities	(1,198)	(130)	(572)	(1,743)	(502)
Net change in cash	96	52	(295)	1,161	(244)
Closing cash balance	412	464	169	1,330	1,086

Source: Company, Karvy Institutional Research

Exhibit 28: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
EBITDA margin (%)	41.7	27.2	25.5	27.3	33.9
EBIT margin (%)	40.8	26.3	24.8	26.7	33.2
Net profit margin (%)	23.6	13.7	13.1	13.6	17.9
Dividend payout ratio (x)	0.3	0.4	0.2	0.2	0.2
Net debt: equity (x)	0.2	0.3	0.3	(0.0)	(0.0)
Working capital turnover (x)	0.2	0.2	0.6	0.8	0.6
Gross block turnover (x)	2.9	4.0	9.4	11.5	9.8
RoCE (%)	5.8	5.2	11.9	15.0	16.3
RoE (%)	7.0	4.8	12.1	15.2	16.6

Source: Company, Karvy Institutional Research

Exhibit 29: Valuation Parameters

	FY11	FY12	FY13E	FY14E	FY15E
EPS (Rs)	6.3	4.5	12.1	17.0	21.0
Diluted EPS (Rs)	6.3	4.5	12.1	17.0	21.0
Book value per share (Rs)	92.3	95.2	104.9	118.4	135.3
P/E (x)	15.7	22.0	8.2	5.8	4.7
P/BV (x)	1.1	1.0	0.9	0.8	0.7
EV/EBITDA (x)	10.5	13.8	5.4	2.8	2.5
EV/Sales (x)	4.4	3.7	1.4	0.8	0.8

Source: Company, Karvy Institutional Research

Institutional Equities Team

Rangachari Muralikrishnan	Head – Institutional Equities / Research / Strategy	+91-22 61844301	muralikrishnan@karvy.com
K. Anant Rao	Head - Sales-Trading & Derivatives	+91-22 61844303	k.anantrao@karvy.com
Uday Raval	Karvy Inc. USA	+1 212 2674334	udayr@karvy.com
INSTITUTIONAL RESEARCH			
Analysts	Industry / Sector	Desk Phone	Email ID
Amey Chalke	Research Associate - Pharmaceuticals	+91 -22 61844325	amey.chalke@karvy.com
Dwaipayan Poddar	Chief Technical Strategist	+91-22 61844372	dwaipayan.poddar@karvy.com
Hatim Broachwala, CFA	Banking	+91-22 61844329	hatim.broachwala@karvy.com
Kruti Shah	Economist	+91-22 61844320	kruti.shah@karvy.com
Manoj Kumar Manish	Derivatives and Quant Analyst	+91-22 61844327	manojkumar.m@karvy.com
Maruti Kadam	Research Associate	+91-22 61844326	maruti.kadam@karvy.com
Mitul Shah	Automobiles	+91-22 61844312	mitul.shah@karvy.com
Naveen Trivedi	FMCG	+91-22-61844316	naveen.trivedi@karvy.com
Paresh Jain	BFSI	+91-22 61844324	paresh.jain@karvy.com
Parikshit Kandpal	Infra / Real Estate / Strategy	+91-22 61844311	parikshit.kandpal@karvy.com
Rahul Sharma	Pharmaceuticals	+91-22 61844310	rahul.sharma@karvy.com
Rahul Singh	MidCap	+91-40-44857911	rahulsingh@karvy.com
Rajesh Kumar Ravi	Cement & Logistics	+91-22 61844313	rajesh.ravi@karvy.com
Rupesh Sankhe	Power/Capital Goods	+91-22 61844315	rupesh.sankhe@karvy.com
Varun Chakri	Research Associate	+91 22 61844326	varun.chakri@karvy.com
Vinay Nair	Oil & Gas	+91-22 61844319	vinaynair@karvy.com
INSTITUTIONAL SALES			
Dinesh Bajaj	Sales	+91-22 61844341	dinesh.bajaj@karvy.com
R. Sriram	Sales	+91-22 61844340	sriram.rangarajan@karvy.com
Shabbir Dahodwala	Sales (USA)	+1-212-2674334	shabbir@karvy.com
Tejash Gandhi	Sales	+91-22 61844345	tejash.gandhi@karvy.com
INSTITUTIONAL SALES TRADING & DEALING			
Bhavesht Gandhi	Institutional Dealer	+91-22 61844368 /69	bhavesht.gandhi@karvy.com
Prashant Oza	Institutional Dealer	+91-22 61844370 /71	prashant.oza@karvy.com
Parag Shah	Sales Trader	+91-22 61844364 /65	parag.shah@karvy.com
Sriram Jagdish	Sales Trader	+91-22 61844366 /67	sriram.jagdish@karvy.com
Gurdarshan Singh Kharbanda	Sales Trader	+91-22-61844368 / 69	gurdarshansingh.k@karvy.com
PRODUCTION			
Asim Kumar Mohapatra	Editor	+91-22 61844318	asim.mohapatra@karvy.com
Vijayalaxmi L. Moolya	Production	+91-22 61844328	vijayalaxmi.m@karvy.com

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-6184 4300

Disclosures Appendix

Analyst certification

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Karvy Stock Broking Limited

Institutional Equities

Office No. 702, 7th Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

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