



August 1, 2012

# BILKING INDIA

## COMPANIES MENTIONED:

### IndiaBulls Real Estate Limited

NSE - IBREL

Previous Close: INR 55.85

### IndiaBulls Power Limited

NSE - IBPOW

Previous Close: INR 12.8

### IndiaBulls Financial Services Limited

NSE - IBULL

Previous Close: INR 227.3

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## BILKING INDIA

We believe that disclosures at IndiaBulls Real Estate Limited (“IBREL” or the “Company”) and IndiaBulls Power Limited (“IBPOW”) are unreliable and that the sole purpose of IBREL is to bilk institutional and retail investors for the benefit of select insiders. The controlling shareholders (“CS”) are running the organization as a piggybank, while proclaiming propriety and espousing credibility. The association of reputed institutions, individuals and organizations with the Company is vexing to say the least.

Given our findings (based on analyzing 57 group companies including private companies of CS, 201 financial and legal documents including annual reports, annual returns, various schemes of arrangements filed in Indian courts, stock exchange filings etc., details in the annexure), any valuation opinion on either IBREL and IBPOW is bound to be erroneous. Institutions and individuals should SELL all IndiaBulls group stocks on the principle that corporate governance has been sacrificed to enrich the CS. We also believe that investors should make use of all remedies available in the Indian legal system to claw back the ill-begotten gains of CS.

Not only do we believe that the merger of Indiabulls Infrastructure Development Limited (“IIDL”) with IBPOW is a means of transferring value from the public shareholders of IBPOW to a select few, but also that any boost to net worth of IBPOW claimed by management post-merger is unverifiable.

In allotting equity to FIM Limited (“FIM”) and Hexagram Investments Private Limited (“Hexagram”), IIDL’s fair value was established at INR 1.23B (\$U.S. 22.5M) – allotment date of May 12, 2011 for 41.6M shares at a price of INR 10 per share aggregating INR 416.4M (\$U.S. 7.6M)<sup>1</sup> – compared to the merger-ascribed fair value of INR 10.5B (\$U.S. 190.6M) to IIDL by management, prior to its amalgamation with IBPOW (Appendix 1, Page 22). How can the fair value of a questionable entity, IIDL, increase by a multiple of 8.45x in less than 10 months post-allocation of equity to FIM and Hexagram should be explained by management. (*Exchange rate 1USD = 54.8125 INR July 03, 2012 as per RBI throughout the report*)

Given the exchange ratio of 3.37 shares of IBPOW for each share of IIDL established by the board of IBPOW/IBREL, post-closing, the ownership of IBREL and by extension public its investors in IBPOW declined from 62.34% to 52.54%<sup>2</sup>. To add insult to injury, at the current stock price of approximately INR 13.6 per share of IBPOW<sup>3</sup>, FIM and Hexagram earned a return of 4.58x the original investment in less than a year.

Financial institutions providing debt funding to IBPOW should check reported net worth with a fine tooth comb. We also believe that IBREL filed company application convening a meeting of equity shareholders – dated March 03, 2012 – in the high court of Delhi vide application number 155, for merging IIDL and IBPOW contains statements that can be characterized as misleading<sup>4</sup>.

The CS of IBREL own 29.25% in the Company, split in the ratio of 50:25:25. We believe that in order to profit at the expense of the shareholders of IBREL,

<sup>1</sup> Source: IIDL FORM 2 – Return of Allotment.

<sup>2</sup> Source: Page 9, Company Application No. 155 of 2011, Court Convened Meeting of Shareholders, March 03, 2012.

<sup>3</sup> Source: Bloomberg, IBPOW stock price as of the close of the market on June 25, 2012.

<sup>4</sup> Source: Page 11, 1.3. (ii).

***Sell all IndiaBulls  
Group Stocks***

***IIDL & IBPOW  
merger needs to be  
explained***

***Indian Financial  
Institutions better  
watch out***

**CS are siphoning funds from public companies**

IBPOW and IndiaBulls Properties Investment Trust ("IPIT"), management has promoted two flow-through entities, namely IIC Limited<sup>5</sup> ("IIC") and IINFC Limited ("IINFC"). IINFC is a 100% subsidiary of IIC. The ownership of IIC is split between CS in the same proportion as their equity ownership in IBREL<sup>6</sup>.

From a standing start in F10, IIC and IINFC reported cumulative revenues and profits over two years of INR 10B (\$U.S. 182.5M) and INR 1.31B (\$U.S. 22.8M), respectively. For F11, collectively IIC and IINFC reported revenues of INR 9.61B (\$U.S. 175.4M) and EBITDA of INR 1.84B (\$U.S. 33.6M), at a margin of 19.2%. Since IIC and IINFC are primarily engaged by IBPOW, IBREL, IPIT and other IndiaBulls group entities, it implies that project costs at IBREL, IBPOW and IPIT are inflated by the same amount. (Appendix 2, Page 26)

Therefore, while public shareholders of the Company suffered an erosion of 18% in the value of the stock price in F11, the CS enriched themselves via profit after tax of 1.25B<sup>7</sup> (\$U.S. 22.9M) reported by IIC and IINFC combined. During F12, IBREL's stock declined an additional 51.5%. F12 results for IIC and IINFC are unavailable, but one can safely assume that the profitability of the CS companies went up. Clearly, the IndiaBulls dream is only for select insiders.

Evidently CS, consider it beneath themselves to abide by the Company's "Code of Conduct for Board Members and Senior Management" published on its website. Tenet 4 and 5 of the "Key Requirements of the Code" say the following:

*"Shall not, in his official capacity, enter into business with (a) a relative or (b) a Private Limited Company in which he or his relative is a Member or a Director (c) a Public Limited Company in which he or his relative holds 2% or more paid-up share capital and (d) with a firm in which the relative is a partner, except with the prior approval of the Board unless otherwise permitted by law."*

*"Shall avoid having any personal and/or financial interest in any business dealings concerning the Company".* (Appendix 3, Page 39)

**CS have lost a bundle investing in warrants and shares of group companies.**

**We believe their judgment is compromised**

IIC and IINFC also serve as a conduit for the controlling shareholders to siphon funds via loans and advances from IBREL and IBPOW into other privately owned entities, which then subscribe to warrants and/or buy shares of IndiaBulls Financial Services, ("IBULL"), IBREL and, IBPOW from the open market, thereby boosting the stake of the CS in the public entities. Moreover, given that warrants amounting to INR 5.82B (\$U.S. 105.8M) in IBREL and IBPOW have been forfeited by management since F08, some of the loans and advances to these entities routed through IIC and IINFC are a write-off, thereby calling into question the recoverability of loans and advances on the books of IBREL and IBPOW.

The intricate web of related party dealings woven by the CS is almost impossible to unravel. It is our contention that by not consolidating many subsidiaries in its publicly-filed financial statements, management has cherry picked profits and excluded egregious losses from its publicly-filed

<sup>5</sup> IIC (Indiabulls Infrastructure Company Limited) was incorporated on March 11, 2010.

<sup>6</sup> Of the 2,550,000 shares outstanding, Sameer Gehlaut ("SG") & his holding company, Inuus Infrastructure Private Limited, own 1,274,998 shares, and each of Rajiv Rattan ("RR") & his holding company, Priapus Developers Private Limited, and Saurabh Mittal ("SM") & his holding company, Hespera Realty Private Limited, own 637,499 shares. Source: Annual Return F11 filed 30.09.2011.

<sup>7</sup> During F11, IBREL's stock declined from INR 152 per share to INR 125 per share.

consolidated financials. Investors seeking reliable and credible information on IBREL and IBPOW cannot depend on the reported financials of the two companies.

We wouldn't buy IBREL and other related group entities at any price – unless new management is put in charge and the financials cleansed of malfeasance. IBPOW doesn't have the funds to meet its capital commitments to complete its projects and, therefore, is dependent on Indian financial institutions for funding. IBREL doesn't have the track record of delivering on its promises and is cheating institutional and retail investors. 22% of the book equity of IBULL is exposed to the Employees' Welfare Trust, which doesn't have the cash flow to service its debt, thereby calling into question the credibility of IBULL's loans and advances.

SELL all stocks of IndiaBulls Group. The group has mastered the art of "Bilking India".

*Bring in new  
management*



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