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25 January 2007

India Property

Top pick

Unitech (BUY)

Mid-cap picks

Anant Raj

Mahindra Gesco

Prajay

Other stocks inside

APIL

BF Utilities

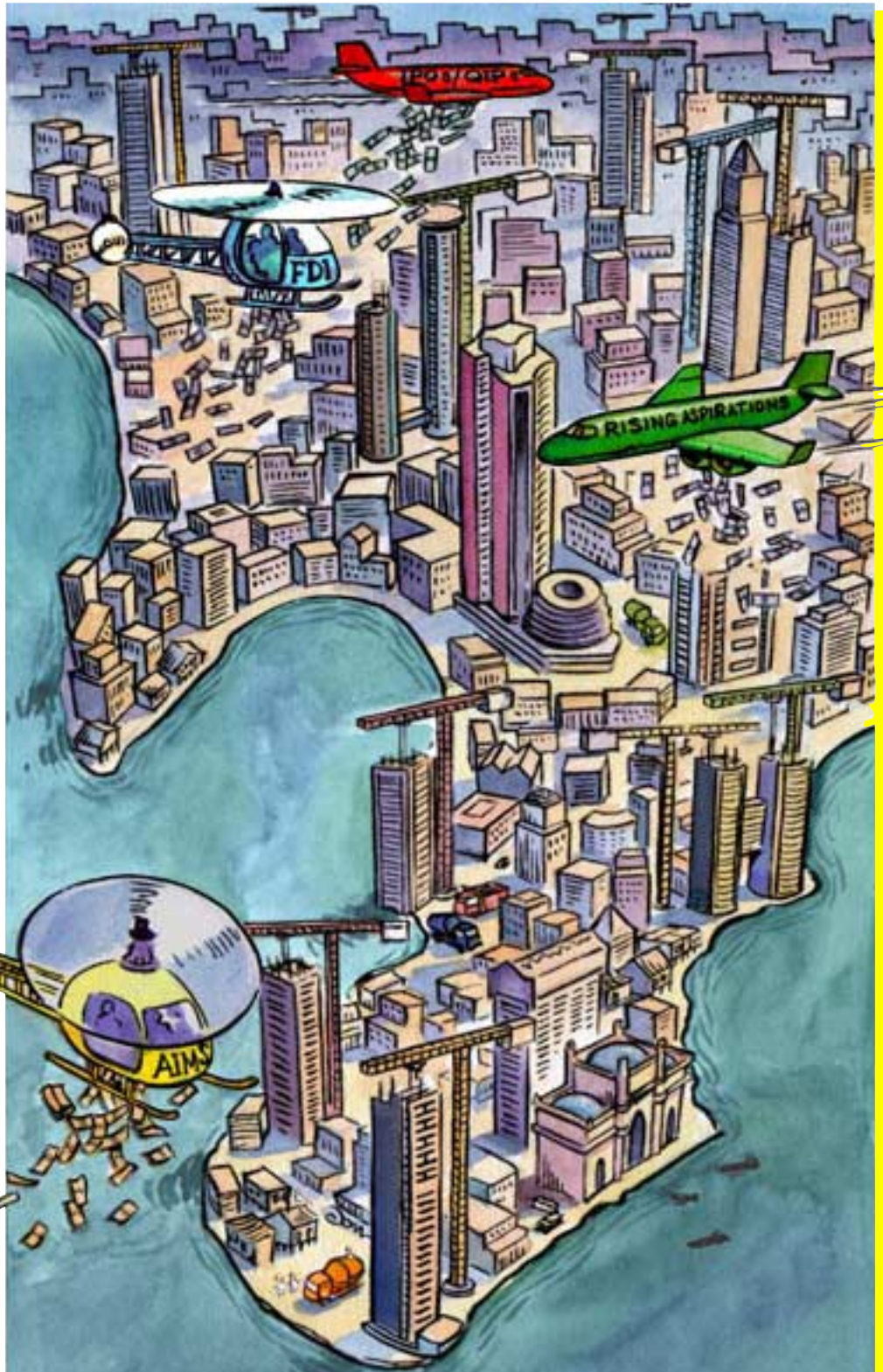
Bombay Dyeing

DS Kulkarni

Peninsula Land

Shree Precoated Steel

Accompanying report



Changing landscape

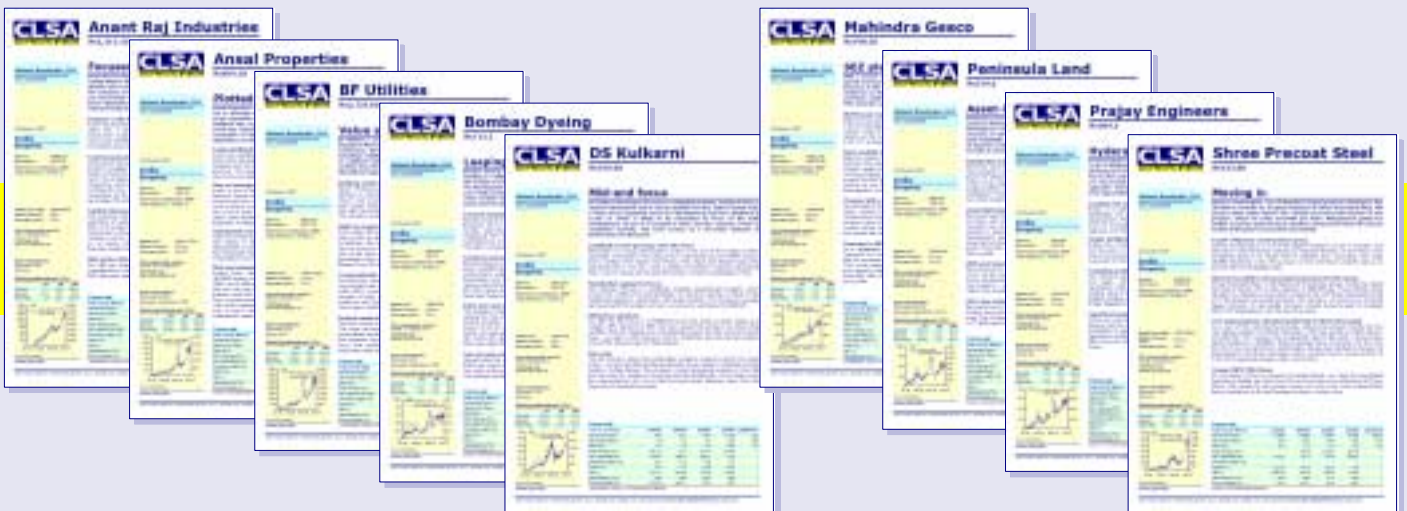
Demand shifting to a higher gear

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All prices quoted herein are as at close of business 23 January 2007, unless otherwise stated

Also inside. . .



Changing landscape

Since emerging from a seven to eight-year property bear cycle two years ago, Indian real-estate prices have doubled on rising incomes and an increasing propensity to spend. While a decline in housing affordability and potential oversupply could weaken prices in the near term, the long-term outlook remains attractive due to continued strength in key demand drivers. We like Unitech, Prajay, Anant Raj, Mahindra Gesco for their track record, brand image and discount to NPV.

Housing on solid ground

The housing market has grown rapidly in the past few years fed by demand growth stemming from the services-industry-led economic boom, lower interest rates and a changing consumer mindset. The residential segment makes up 90-95% of the market by volume. The premium housing subsegment is shifting up a gear, and is set to grow into a US\$200bn market over the next four years.

New growth drivers in place

Organised-retail and office-space creation have emerged as the two key growth drivers. Taken together with the hospitality sector, the non-residential segment accounts for about 15% of the market by value. We estimate the IT sector to demand new office space of nearly 150m sf over the next five years, and the organised-retail industry could require a similar amount. While the non-residential business has turned out to be quite lucrative in the past couple of years, the return on capital is likely to be lower if property prices stabilise.

Valuation methodology and key risks

The enormous scale-up in operations and phenomenal growth in real-estate prices make historical comparisons meaningless, as such, discounted NPV is the best method for valuing these stocks. Our NPV is based on discounted cashflow from each developer's individual projects. These are estimated broadly from the development schedule for each property. While many regional stocks under coverage trade at about a 10-15% discount to NPV, others continue to trade at premiums of more than 25%. We believe that Indian companies should, generally, trade at a premium to NPV given the pace of growth and probability of NPV upgrades. The actual premium or discount depends on the certainty of NPV and sensitivity to factors such as changes in property prices.

Stocks to play

We like Unitech (see our accompanying *Solid foundation* report) for its superior brand image, long-term value-development strategy and diversified landbank. Among the mid-caps we like Prajay, Anant Raj, and Mahindra Gesco for their discount valuations and visibility on potential NPV upgrades.

Indian property stock valuations

Company	Price (Rs)	Mkt cap (US\$m)	Landbank (m sf of saleable area)	Landbank (acre)	Current NPV/sh (Rs)	Prem/(disc) to NPV (%)
Anant Raj Industries	1,313	1,460	48.0	na	1,709	(23.2)
Ansals Properties	859	1,119	170.0	5,500	1,040 ¹	(17.4)
BF Utilities	2,724	2,319	632.0	20,000	5,554	(51.0)
Bombay Dyeing	713	623	3.7	42	1,040	(31.4)
DSK Developers	351	174	17.5	na	494	(29.0)
Mahindra Gesco	799	669	60.0	3,600	1,003	(20.4)
Peninsula Land	519	494	25.0	330	576	(9.9)
Prajay Engineering	284	135	18.0	650	300	(5.3)
Shree Precoated	533	1,158	11.5	na	543	(1.9)
Unitech	457	8,371	469.0	10,765	447	2.2

¹ Knight Frank. Source: CLSA Asia-Pacific Markets

Premium housing - set to grow into a US\$200bn market in four years

Prices have increased at 40% Cagr in last two years

Prime locations in Delhi & Mumbai are nearly 3x rates elsewhere

Current property prices in Mumbai are closer to the peak of 1995

Housing on solid ground

The housing market has grown rapidly in the last few years fed by demand growth stemming from the services-industry-led economic boom, lower interest rates and a changing consumer mindset. The residential segment makes up 90-95% of the market by volume. The premium housing subsegment is shifting up a gear, and is set to grow into a US\$200bn market over the next four years. While a decline in housing affordability and potential oversupply may weaken the near-term property-price outlook, the long-term picture remains attractive thanks to continued strength in key demand drivers.

Real estate prices climb steeply across India

Real estate prices in India have realised a 40% Cagr over the last two years. The extent of the price increase has varied across cities, and in certain areas in Delhi/Mumbai prices have more than doubled. Prices of prime residential properties in Mumbai and Delhi are currently the highest at c. Rs22,000/sf (US\$500/sf), about 20% lower than Shanghai and around 40% lower than Hong Kong and Singapore.

Figure 1

Trend in real estate price across key Indian cities

(Rs/sf)	2001	2002	2003	2004	2005	2006
Mumbai - South	12,000	10,000	9,500	10,000	12,000	20,000
Mumbai - North	4,110	4,320	4,430	4,320	5,180	7,000
Delhi - CP	9,000	8,800	9,270	9,570	10,930	18,000
Delhi / Gurgaon	2,000	2,400	2,650	3,370	3,500	5,000
Bangalore - Indira Nagar	2,500	2,560	2,630	2,990	3,350	5,000
Chennai			3,750	4,500	5,500	6,000
Pune			3,000	3,500	4,200	5,200
Hyderabad			2,300	2,500	3,400	4,000

Source: Knight Frank, CB Richard Ellis, CLSA Asia-Pacific Markets

Figure 2

Comparison of capital values across cities internationally

City	Prime residential prices (US\$ / sf)
Mumbai	500-550
Hong Kong	900-950
Singapore	950-1,000
Kuala Lumpur	280-300
Taipei	900-950
Tokyo	1,000-1,100
Shanghai	680-720
London	1,900-2,000
New York	2,000-2,200

Source: CLSA Asia-Pacific Markets

While property prices in India have risen drastically, current prices are not too different from those seen in the previous peak of 1995. For example, a recent (Jan-06) deal by Reliance that valued the Bandra-Kurla complex (BKC) plot at approx Rs18,000/sf or Rs11.0bn was still lower than the peak price it fetched in 1995. In 1995, Hotel Leela Venture was awarded the hotel-cum-convention centre for Rs13.3bn. Hotel Leela eventually backed out of the deal; however, it still gives us some context for current pricing.

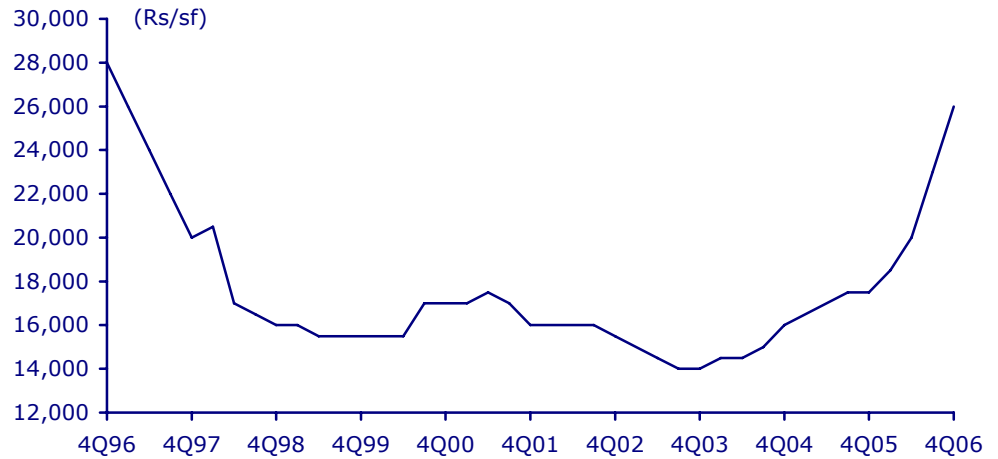
Prime residential prices have nearly doubled from their lows in 2004

Further price appreciation unlikely in near-term

GDP growth has accelerated from 5% cagr between FY98-03 to 8%+ cagr over the past 4 years

Figure 3

Mumbai real estate prices (capital values¹)



¹ South Mumbai prices. Source: Cushman & Wakefield, CLSA Asia-Pacific Markets

In the near term, we are unlikely to see price appreciation similar to what we have seen in the recent past, however; in the longer term we remain bullish on the property price outlook. In the subsections to follow, we identify and discuss seven factors driving continued growth in property prices in the longer term (see also Figure 4).

Figure 4

Key issues affecting residential segment

Key issue	Comments
Income effect	Disposable incomes have been growing at c. 12% per annum for last five years. Growing middle class who have capacity to purchase a house.
Rising mortgage penetration	Average loan size has been rising to reach at Rs0.7m while average age of borrower has fallen to 34. Increasing competition among banks is making the availability of a home loan easier.
Increasing affordability	Post-tax EMIs have fallen from c. 150% to c. 40% of the monthly salary making it easier for younger individuals to purchase a house.
Shortfall in housing	Notwithstanding the growth in housing credit, there is huge unmet demand. NCAER estimates a shortfall of 22.5m housing units.
Favourable demographics	Working age group (20-59 years) population is expected to increase from 46% in 1996 to 55% by 2016. This is bound to fuel the demand for housing, especially premium housing.
Urbanisation and nuclear families	The concept of 'joint family' is fading away, thereby increasing the need for multiple housing locations per family. Over the past 10 years, the average number of persons per household has come down from 5.52 to 5.1, or by a 1% Cagr.
Regulatory changes	Relaxations in Urban Land Ceiling, easing of stamp duty, and introduction of FDI in real estate are the key highlights.
SEZ trigger	A number of SEZs have been planned and even if some of them materialise, they will give a strong thrust to growth of economy.

Source: CLSA Asia-Pacific Markets

Income effect

India's GDP growth has accelerated from a 5% Cagr between FY98-03 to an 8%+ Cagr over the past four years. This trend is set to continue going forward and is likely to drive significant improvement in income levels. The income effect is already visible in the rising residential property prices as housing is one of the first asset classes that draws new money.

Higher growth in households at top end of income group

Figure 5

Income distribution trend

	Household income ('000) ¹	No. of households ('000s)				Annual growth rate (%)		
		FY96	FY02	FY06	FY10	FY96 - FY02	FY02 - FY06	FY06 - FY10
Deprived	<90	131,176	135,370	132,249	114,390	0.5	(0.6)	(3.6)
Aspirers	200	28,901	41,260	53,276	75,304	6.1	6.6	9.0
Seekers	500	3,881	9,030	13,813	22,268	15.1	11.2	12.7
Strivers	1,000	651	1,710	3,212	6,170	17.5	17.1	17.7
Near rich	2,000	189	546	1,122	2,370	19.3	19.7	20.6
Clear rich	5,000	63	200	454	1,037	21.2	22.7	22.9
Sheer rich	10,000	11	40	103	255	24.0	26.7	25.4
Super rich	>10,000	5	20	53	141	26.0	27.6	27.7

¹ 2002 income data.

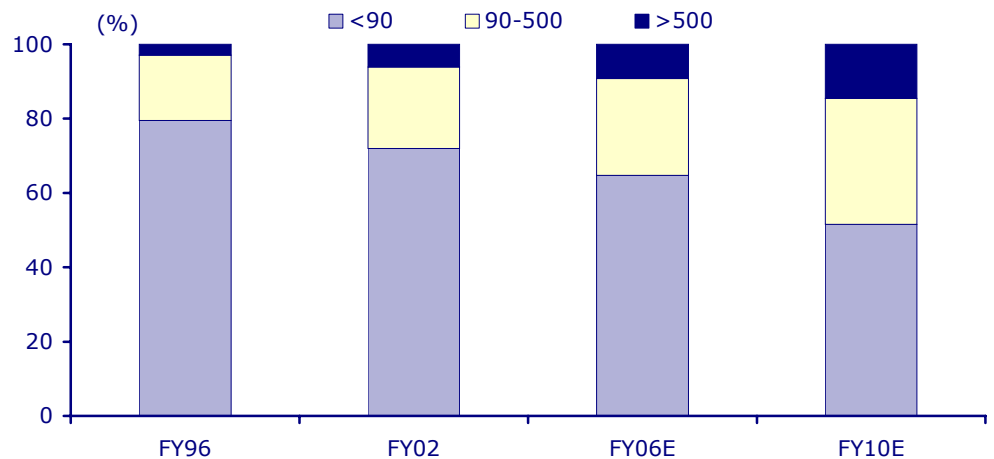
Source: NCAER's report *The great Indian middle class* (2004-05), CLSA Asia-Pacific Markets

The chart below highlights that the overall improvement in income levels is driving a reduction in the number of deprived households (annual household income less than Rs90,000) while the number of rich households (annual household income greater than Rs2m) is increasing at a roughly 22% Cagr.

Number of rich households to increase at 20%+ Cagr

Figure 6

Urban population distribution by annual household income in US\$'000



Source: NCAER's report - "The Great Indian Middle Class" 2004-05, CLSA Asia-Pacific Markets

US\$150bn+ demand for premium houses over the next four years

Figure 7

Demand estimation for premium housing

	More than 1.5m/annum	750k - 1.5m/annum	Total
No. of new households entrants in the income brackets over FY06-10 (mil)	2.1	3.0	
% of the above buying a new house	30	30	
No of houses bought (m)	0.6	0.9	1.5
Avg house area (sf)	1,500	1,200	
Total demand (m sf)	932	1,065	1,997
Avg rate/sf	4,000	3,000	
Value of a house (Rsm)	6.0	3.6	
Total value (Rsbm)	3,727	3,195	6,922

Source: CLSA Asia-Pacific Markets

Demand estimation for premium housing

We have modified the NCAER data (2002 income levels) mentioned above to reflect the current (2006) income levels. Over the period of FY06-10, 2.1m new households will enter the Rs1.5m/year income bracket and 3.0m households (net) will enter the Rs750,000-1.5m/year income bracket. Assuming that nearly 30% of these "novae rich" households buy new houses, a total of 1.5m premium houses (value greater than Rs4m) will be required, at a total value of Rs6.9tn or US\$154bn.

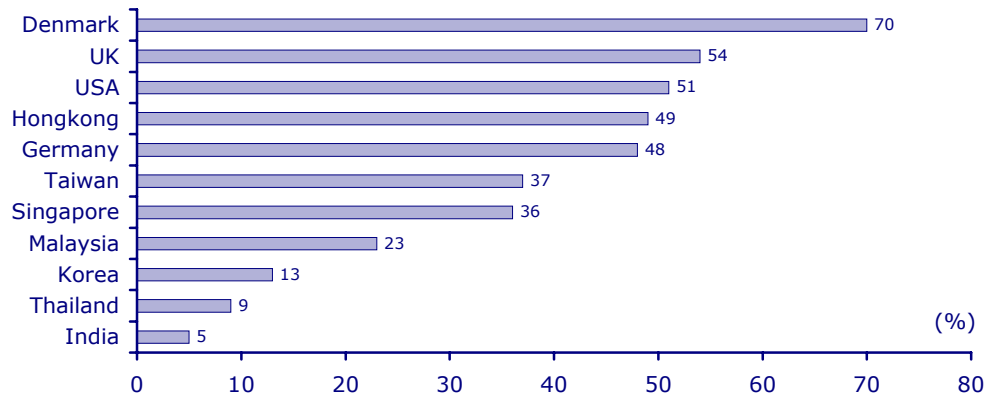
Penetration to rise from 5% currently to 8% by FY10

Increasing mortgage penetration

While the Indian mortgage market has realised a c. 150% Cagr over the last five years to Rs1864bn in FY06, India still lags other developing and developed nations in terms of mortgage penetration. As indicated in the chart below, mortgages as a percentage of GDP stand at 5%, which is one quarter of the Asian average of around 20%. We expect mortgage penetration to increase to 8%+ by FY10 driven by a 29% Cagr in the mortgage industry.

Figure 8

Mortgages as percentage of GDP

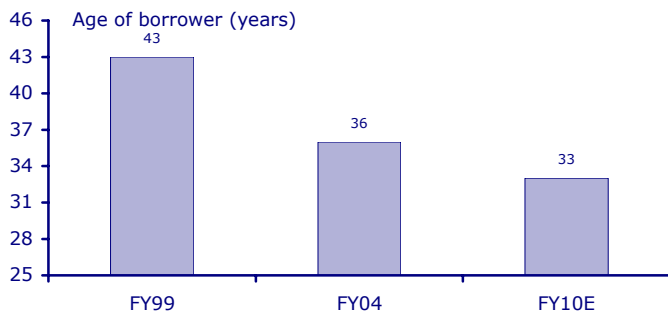


Source: HDFC presentation, CLSA Asia-Pacific Markets

The aggressive increase in penetration sought by private sector banks and financial institutions, lowering of interest rates, fiscal incentives offered by the government and a gradual change in the mindset of consumers have been the key drivers for rising mortgage penetration.

Figure 9

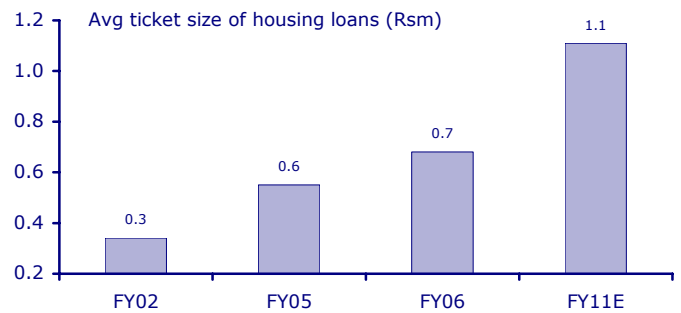
Average age of the borrower is coming down . . .



Source: LIC housing Finance, CRIS Infac

Figure 10

. . . but the average loan amount is going up



Mortgage as % of total bank credit has risen from 2% to 12% in FY05

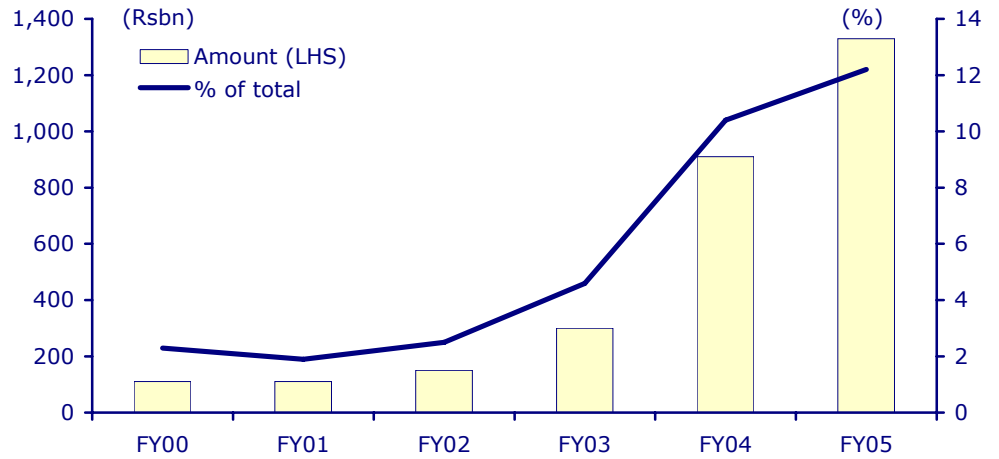
Mortgages as a percentage of total bank credit, which stood at about 2% in FY00, increased to 12% as of FY05. Additionally, mortgage lending as a percentage of total value of the house has increased in the past five years from 72% to c.80%. In fact, mortgage lending increasingly includes a component for furnishing the house. The increased risk-taking capability, coupled with greater penetration by housing finance companies has driven down the average age of borrowers and increased the average tick size for the loan.

Loan size to value likely to rise

Over past 10 years, housing affordability has improved c.4 times

Figure 11

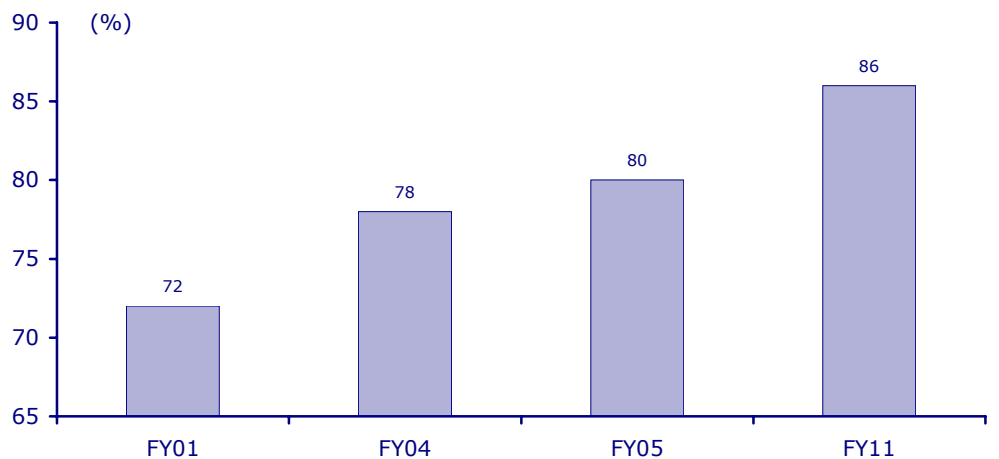
Housing loan as percentage total bank credit



Source: NHB, CLSA Asia-Pacific Markets

Figure 12

Loan to value



Source: CRIS Infac, CLSA Asia-Pacific Markets

Increasing affordability

Due to rising incomes and greater availability of mortgages, housing is now much more affordable compared to the previous decade. The charts below display the temporal trend in the affordability level in terms of:

- ❑ Average property value divided by average annual income; and
- ❑ Post-tax EMI divided by average monthly income.

Despite the recent upturn in property prices and hardening of interest rates, housing affordability (measured as EMI as a percentage of monthly gross salary) is still better than in FY00. As compared to FY96, housing during FY07 is nearly four times as affordable thanks to lower interest rates and higher income levels.

Figure 13

Affordability: Property value/annual income

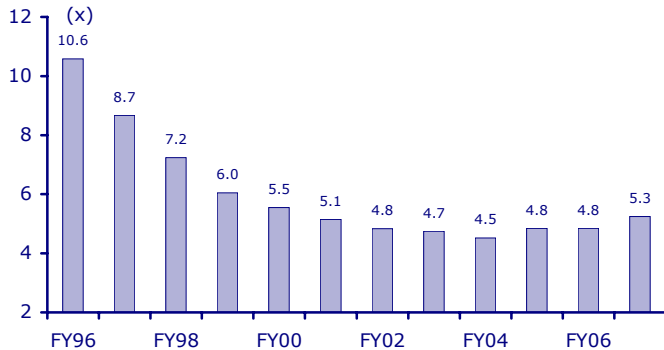
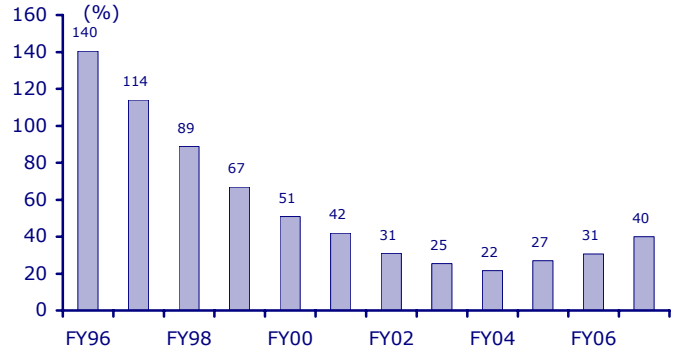


Figure 14

Affordability: Post Tax EMI/monthly salary



Source: Census 2001, CLSA Asia-Pacific Markets

Nearly half of the 200m households live in temporary/semi-permanent shelters

10th Five-Year Plan estimates a housing shortage of 22.4m units

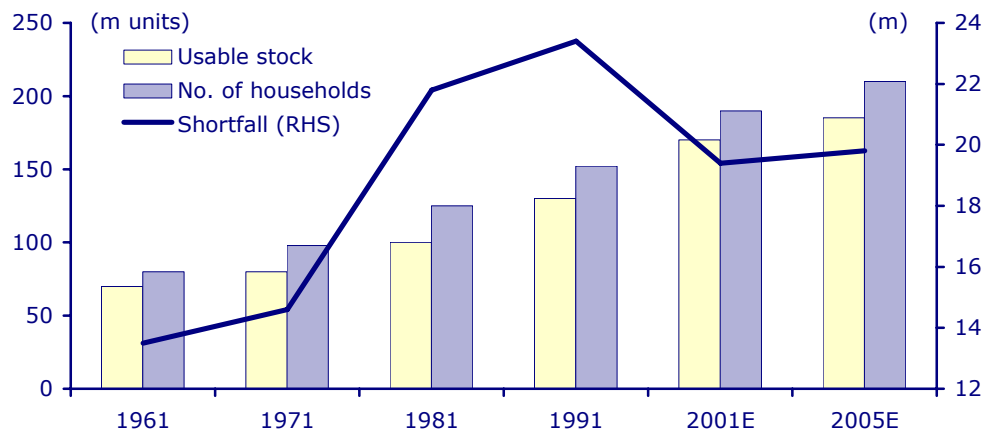
Shortfall in housing - Huge unmet demand

The National Building Organisation estimates unmet housing demand at about 20 million units. The fact that nearly half of the 200m households in India still live in temporary or a semi-permanent structure suggests huge potential for housing demand to grow in both the middle-income and high-income segments.

Under the 10th Five-Year Plan (2002-07), the shortage has been estimated at 22.4m dwelling units. Annual housing construction is estimated at about 5m units every year. The investment required for construction and related infrastructure is c. US\$100bn (assuming an average size of 600sf and average price of Rs1500/sf). This does not consider incremental demand in coming years. Moreover, affordability among the middle class is increasing due to changing demographics in the country, with a greater proportion of people entering the working age group. This should continue to fuel demand for larger and higher-end residential units.

Figure 15

Shortfall in housing

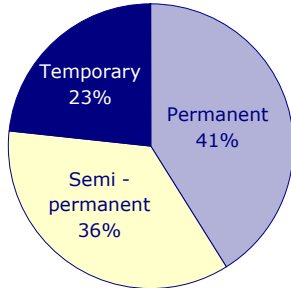


Source: National building organisation

Figure 16

Rural households: Temporary vs permanent structures

Rural: 135m households

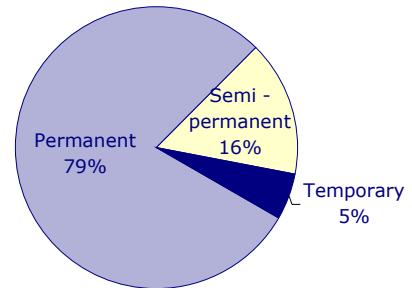


Source: Census 2001

Figure 17

Urban households: Temporary vs permanent structures

Urban: 52m households



Source: Census 2001

About 2.5m new graduates are added to the working force each year

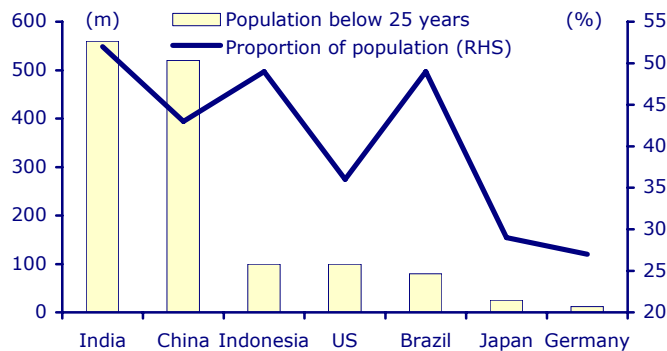
Favourable demographics

India's growth story is based on its huge middle-class working population (more than US\$6000 pa) of 120 million that is growing and set to reach 300 million by 2010. More than 50% of this population is under 25 years of age. The median age of the Indian population is 25 years, as compared to 33 in China and 43 of Japan.

Each year nearly 2.5 million new graduates are added to the working population, with the majority of those possessing language and quantitative skills. This is likely to fuel the growth in personal income, while at the same time reducing the number of dependants, thus paving way for strong growth in residential real estate.

Figure 18

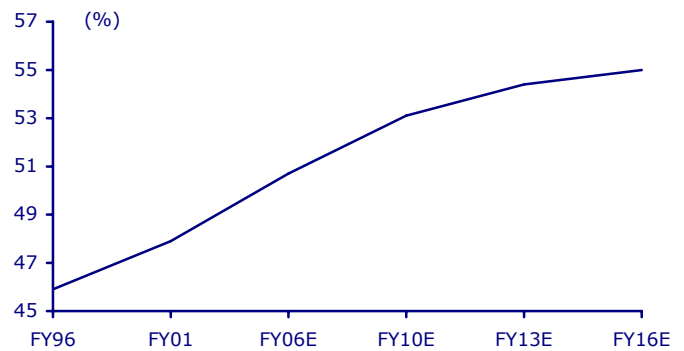
Demographic comparison across countries



Source: HDFC, CLSA Asia-Pacific Markets

Figure 19

Population in age group 20-59 years/total population



Source: NCAER's report *The great Indian middle class* (2004-05)

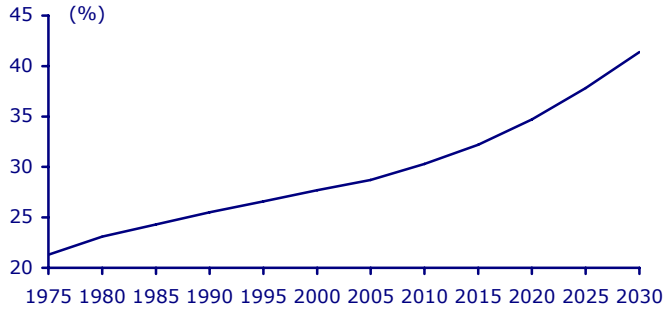
Attitudinal and lifestyle changes driving rise of nuclear family

Changing lifestyle trends - Urbanisation / nuclear family

Increasing urbanisation is driving a change in mindset, leading to the rise of nuclear families. This is evidently driving up the need for additional housing. The 2001 census indicates an urbanisation rate of 27.8% and, as per the 10th Five Year Plan (2002-2007), this is expected to reach c. 40% (based on a population of 1,350 million) by 2025. Simultaneously, the average number of persons in a household has fallen from 5.7 in 1971 to 5.3 in 2001. This trend toward the nuclear family is likely to continue, with the average number of people in a household set to fall to 5.1 by 2011.

Figure 20

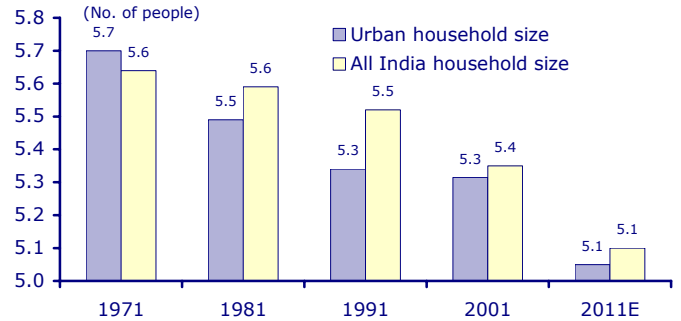
Rising trend in urbanisation



Source: UN database, Census

Figure 21

Decline in persons/household - Nuclear families

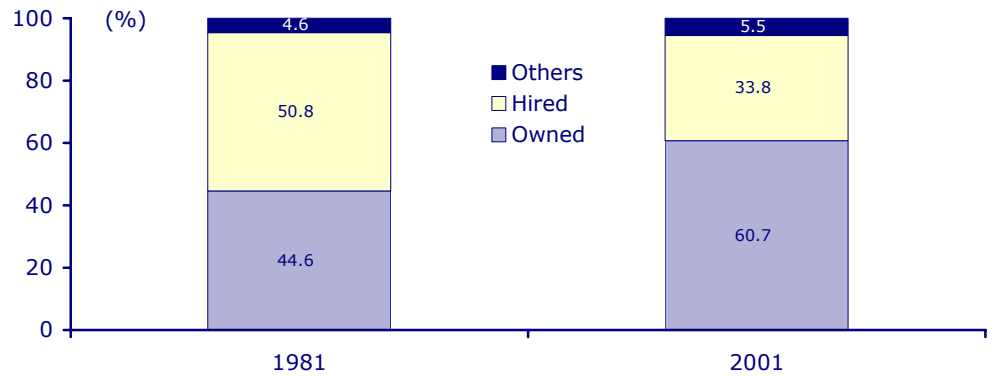


Shift in consumer preferences from renting to ownership of houses

Consumer preferences for bigger houses

Figure 22

Split between owned, hired and others

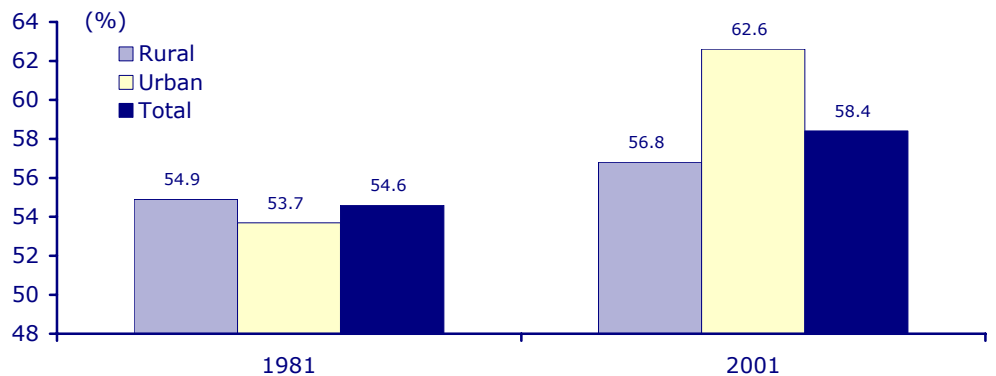


Source: CRIS INFAC, CLSA Asia-Pacific Markets

Consumer preferences have shifted towards home ownership rather than renting. Apart from the convenience of owning a house, this also fits into people’s investment priorities. Among the more affluent households, we are seeing a clear trend towards demanding bigger housing with modern amenities like gyms and swimming pools. Thus, we expect demand for housing to continue to improve in the medium to long term, led by rising income levels and changing consumer mindsets.

Figure 23

No. of households with more than one room as a percentage of total



Source: Census, CLSA Asia-Pacific Markets

Number of regulatory changes driving the real estate market in India

FDI in property sector has been opened subject to certain conditions

SEZs can prove to be a substantial opportunity in the long term

Regulatory changes

While the Indian real estate sector has been subject to a number of regulatory restrictions hindering development, some improvements are taking place at the margin.

The Urban Land (Ceiling & Regulation) Act prescribes the limits on urban areas that can be acquired by an entity. It was introduced in 1976 with the objective of preventing hoarding of land in private hands and facilitating the government in the execution of social and common welfare schemes. It was repealed in some states and union territories in 1999. States like Punjab, Haryana, Uttar Pradesh, Madhya Pradesh, Rajasthan, Gujarat and Karnataka have followed suit, also repealing the archaic law. Thus, real estate developers can now acquire consolidated pieces of land for development. However, a number of states including Maharashtra and West Bengal are yet to liberalise these regulations. As this report goes to print, the state government of Maharashtra is actively debating repealing of the act.

Prior to 2 March 2005, foreign direct investment (FDI) in the real estate sector was prohibited. However, the real estate sector is now open to FDI to a limited extent. FDI in townships, housing, built-up infrastructure and construction development etc is permitted under the automatic route, for which prior approval from the Foreign Investment promotion Board (FIPB) is not required. There is a minimum area to be developed of 10 hectares in the case of serviced housing plots and 5ha for construction development projects. Where the development is a combination of the two, the minimum area can be either 5ha or 10ha.

Following these regulatory changes, the Indian real estate sector has attracted a significant inflow of funds from overseas. We estimate that more than US\$20bn has either been raised, is being raised, or has been deployed in the Indian real estate market over the last 18 months. This has come in the form of dedicated real estate funds, IPOs, QIPs, private placements and FCCBs (see Appendix 1 for more).

The SEZ trigger

The Special Economic Zones (SEZ) Act 2005, which came into force on 10 February 2006, provides for the establishment, development and management of SEZs for the generation of additional economic activity, promotion of exports of goods and services, promotion of domestic and foreign investment and development of infrastructure facilities.

A large number of companies and real estate developers have been attracted to this proposition by the government given the tax benefits and simplicity of procedures involved (for details refer to Appendix 2).

At this point in time, there is some uncertainty around the concept of SEZ and its implementation. However, 237 SEZs have already been formally approved and another 166 proposals have received in-principle approval. As given in the table below, this adds up to nearly 175,000ha, or 432,000 acres (1 hectare = 2.47 acres).

**Given size of opportunity,
SEZ could drive massive
construction activity**

Figure 24

SEZ formal and in-principle approvals			
Area (hectare)	Formal approvals	In-principle approvals	Total
Andhra Pradesh	9,461	3,768	13,229
Chandigarh	87	-	87
Chhattisgarh	-	2,029	2,029
Dadra Nagar Haveli	-	80	80
Delhi	6	11	17
Goa	291		291
Gujarat	10,397	8,193	18,590
Haryana	818	43,002	43,821
Himachal Pradesh	-	5,030	5,030
Jharkhand	36	-	36
Karnataka	1,672	4,721	6,393
Kerala	570	414	984
Madhya Pradesh	71	9,309	9,381
Maharashtra	8,377	22,378	30,755
Orissa	746	4,060	4,806
Pondicherry	346	-	346
Punjab	252	1,571	1,823
Rajasthan	89	12,251	12,341
Tamil Nadu	1,301	5,078	6,379
Uttaranchal	468	14	482
Uttar Pradesh	134	5,954	6,088
West Bengal	170	11,827	11,997
Total	35,293	139,692	174,985

Source: Ministry of Commerce and Industry, CLSA Asia-Pacific Markets

Growth rate for non-residential segment would be higher

In larger cities, proportion of non-residential is much higher at about 30% by value

New growth drivers in place

Organised retail and office space creation have emerged as the two key growth drivers. Taken together with the hospitality sector, the non-residential segment accounts for roughly 15% of the sector by value. We estimate that the IT sector alone will demand new office space of nearly 150m sf over the next five years, and the organised retail industry could require a similar amount. While the non-residential business has turned out to be quite lucrative in the last couple of years, the return on capital is likely to be lower if property prices stabilise.

Non-residential segment has taken off in larger cities

Traditionally, residential housing has been, by far, the dominant segment (90% by volume terms) in the real estate development market in India. Although this trend will continue given the need for better housing etc, as explained in Section 1, the emergence of commercial office space, retail and hospitality is turning out to be a substantial opportunity, especially in larger cities.

Figure 25

Real estate investments by segment

CY2006 Investment (US\$18bn)

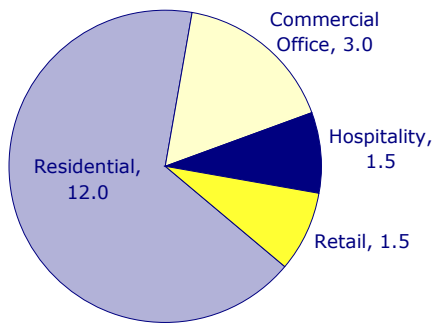


Figure 26

Projected investments by segment

Projected demand 2007-10 (US\$105bn)

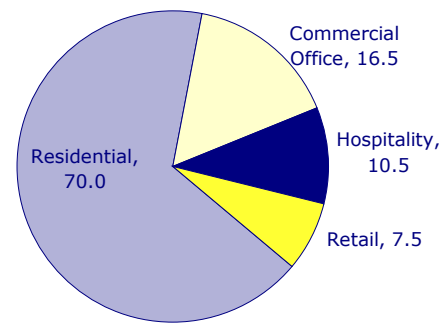


Figure 27

Current demand by city

CY2006 demand (182m sf)

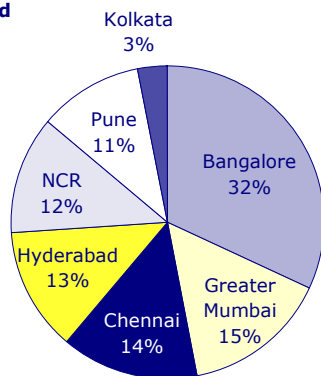
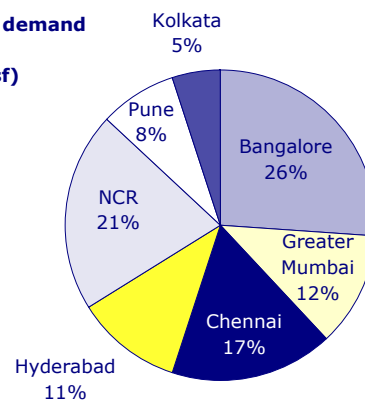


Figure 28

Projected demand by city

Projected demand 2007-10 (1,000m sf)



Source: Cushman & Wakefield, CLSA Asia-Pacific Markets

Organised is set to grow strongly at 30% cagr

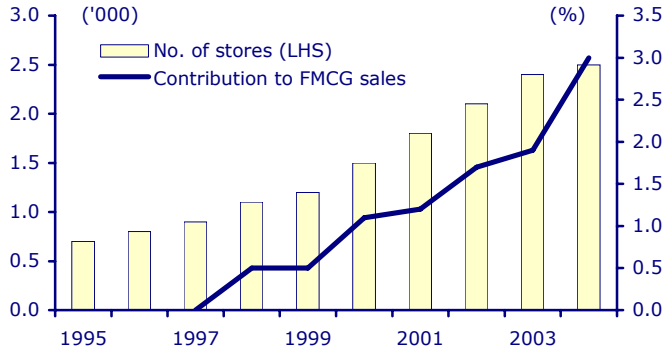
Organised retail has emerged as the new growth driver

Organised retail forms a miniscule 4-5% of the retail trade (US\$300bn) in India, the remainder is accounted for by nearly seven million "mom & pop" stores. The organised retail sector has been growing strongly, recording a

30% Cagr. This trend is likely to continue fuelled by large corporate houses, namely Reliance, Birlas, Tatas, Bharti, and Godrej, focusing on this growing business.

Figure 29

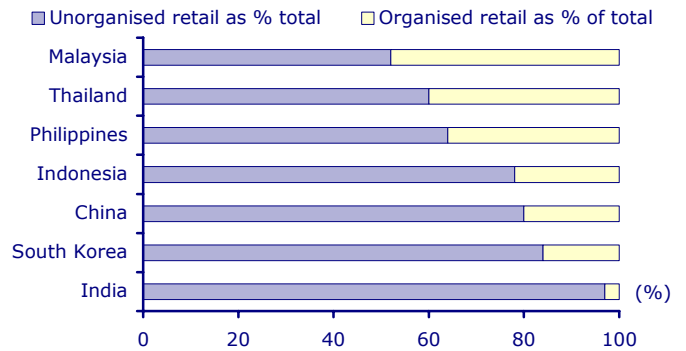
Sales through organised retailers on the rise . . .



Source: Hindustan Lever

Figure 30

. . . yet India has a long way to go



Source: Kshitij/Pantaloon

Reliance alone plans to develop 90m sf + of retail space

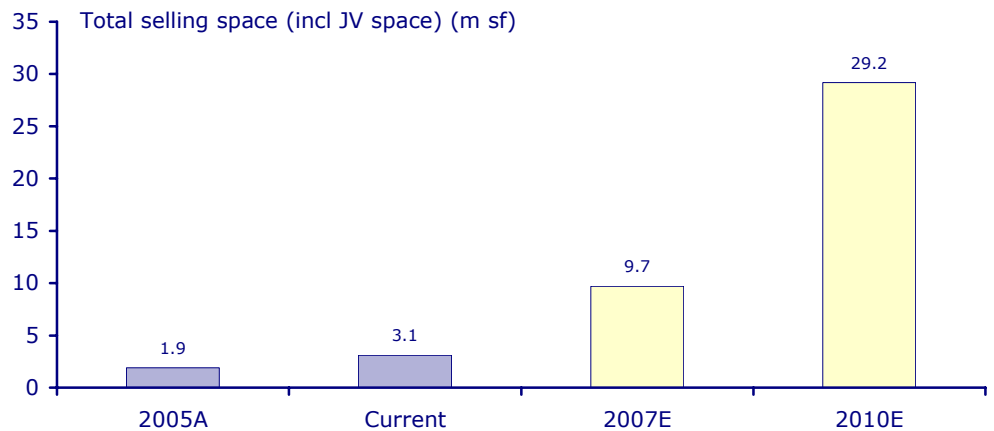
Of the targeted addition of nearly 16m sf, Pantaloon claims that it has tied up more than half of the space already

KSA Technopak estimates that the organised retail sector in India will realise a 25-30% Cagr to reach US\$24bn by 2010. Existing leaders like Pantaloon and Big Bazaar and large new entrants like Reliance are likely to drive significant growth in the sector. These two companies aim to target a retail space addition of in excess of 100m sf over the next four years.

Reliance Retail has set for itself a revenue target of US\$20bn over the next four years. Based on benchmark unit revenues in the retail industry today, we estimate that US\$20bn in revenue would require 95-100m sf of retail space development, which in turn would require c. 4,500 acres of land. Reliance has already committed US\$750m in investment for its pilot retail project, which will be launched by end-2006 and will see 1,575 outlets coming over three to six months. This is only the first tranche and Reliance indicated in the AGM that the investment will scale up to US\$6n over time.

Figure 31

Pantaloon targets +75% Cagr in shelf space expansion over next four years



Source: CLSA Asia-Pacific Markets, Company targets (incl JV space)

Large firms entering Indian retail space

By 2007, an estimated 50m sf of retail space will be available across India. Of the new malls springing up all over India, c. 40% are concentrated in the smaller cities. Organised retailing in smaller towns is growing at a staggering 50-60% annually as compared to 35-40% in large cities.

Figure 32

Retail plans of various companies

Company	Present no. of malls/centres	Comment
Reliance retail	Started first store on 29th October 2006	The company has laid out plans to achieve US\$20bn revenues by 2010. We estimate it will require 95-100m sf of retail space for its roll out.
Pantaloon	118	The company has aggressive plans for increasing its selling space from 2.7m sf in FY06 to 7.9m sf by FY08.
Trent	25	We estimate that the company would more than double its retail space from 1m sf in FY06 to 1.4m sf by FY08.
Shoppers' stop	51	We estimate that the company would more than double its retail space from 1m sf in FY06 to 2.6m sf by FY09 and is likely to have 80 centres by then.
Bharti	-	Has tied-up with Walmart with US\$1.5bn in planned investments
Birla	-	Has planned Rs150bn investment outlay with plans to open 6000 stores. The company intends to focus on the grocery segment for 50% of the revenue and lifestyle products for up to 22 per cent and the remaining 28 per cent from other segments. The Group hopes to hit the market with its first stores by the middle of 2007.

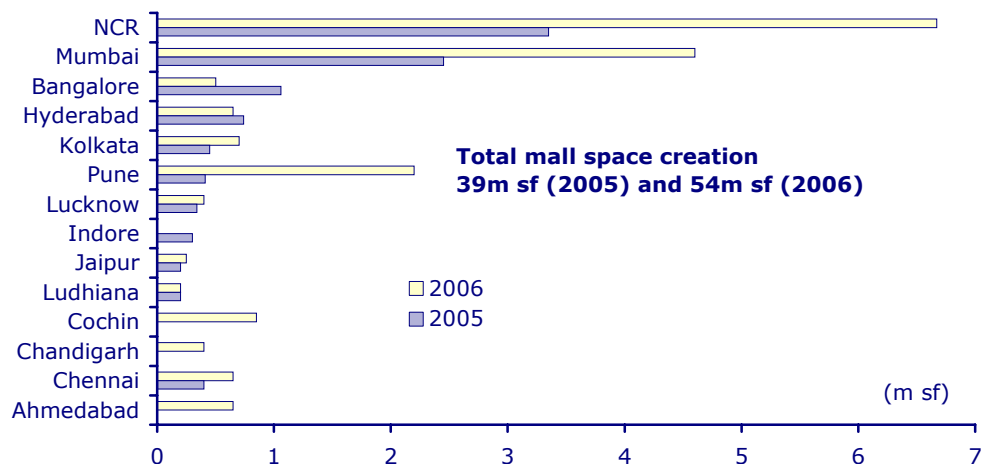
Source: CLSA Asia-Pacific Markets

In India so far, Northern India has taken the lead in mall creation and this broadly reflects consumer preference and lifestyle. We believe that this trend will continue going forward and the growth will eventually spread into other regions.

Retail has taken off the most in the North

Figure 33

New mall space creation in key cities



Source: KSA Techopak

Office space creation would add to growth

The IT and IT Enabled Services (ITES) sectors currently employ approximately 0.9m professionals in India. Our IT sector analyst, Bhavtosh Vajpayee, projects a 25% volume Cagr in the IT sector and a 30% volume Cagr in ITES over the next five years. This implies that nearly two million professionals will be added, requiring nearly 150m sf. The Indian IT sector

IT/ITES sector to employ 2m professionals in next 5 years and require nearly 150m sf of office space

Infosys alone requires 9m sf of space to meet next year's demand

has been traditionally centred around a few key cities such as Bangalore, Mumbai, Pune, Chennai etc, however, growth is now spreading to other cities such as Kolkata, Gurgaon, Jaipur, Mohali etc. An average IT professional typically buys a house five years into the job and the growth, hence, will not only be restricted to office space creation, but will also include residential and retail. The table below gives an overview of the existing and proposed office infrastructure for Infosys - the second largest IT services company in India.

Figure 34

Infosys' existing and proposed infrastructure

(m sf)	Existing		Work in progress	
	Built-up area	No. of seats	Built-up area	No. of seats
Bangalore	3.46	20,715	-	-
Pune	1.29	9,181	2.27	9,000
Chennai	0.97	6,466	1.04	5,000
Hyderabad	1.27	6,580	0.55	3,000
Bhubaneswar	0.54	3,300	0.33	567
Mangalore	0.20	1,400	0.42	3,200
Mysore	3.01	5,434	4.37	350
Chandigarh	0.65	3,900	0.36	2,100
Thiruvananthapuram	0.09	1,112	-	-
Total (India)	11.48	58,088	9.35	23,217

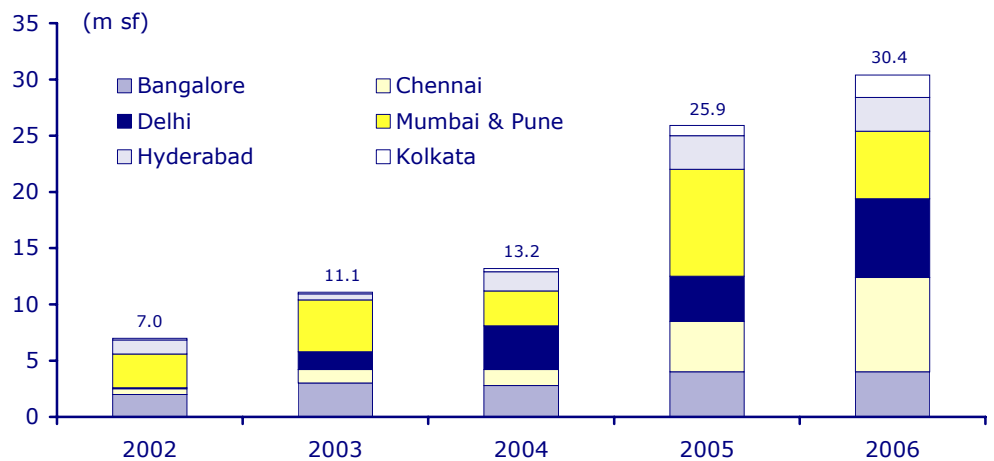
Source: Infosys

As can be seen in the chart below, Bangalore emerged as the leader in office space creation (largely IT led) during 2000-03. However, subsequently IT and ITES companies have expanded their presence beyond Bangalore and now incremental growth is coming from other parts of the country, particularly in the north and east.

India absorbing nearly 30m sf of office space annually

Figure 35

Office space creation in key cities



Source: Jones Lang LaSalle

The IT and ITES industries in the National Capital Region (NCR) alone have absorbed 1.5m sf of new office space created in 1H06. Aside from IT/ITES, overall growth in services viz, banking, insurance, etc, will drive robust demand for office space creation.

IT/ITES account for bulk of office space in NCR

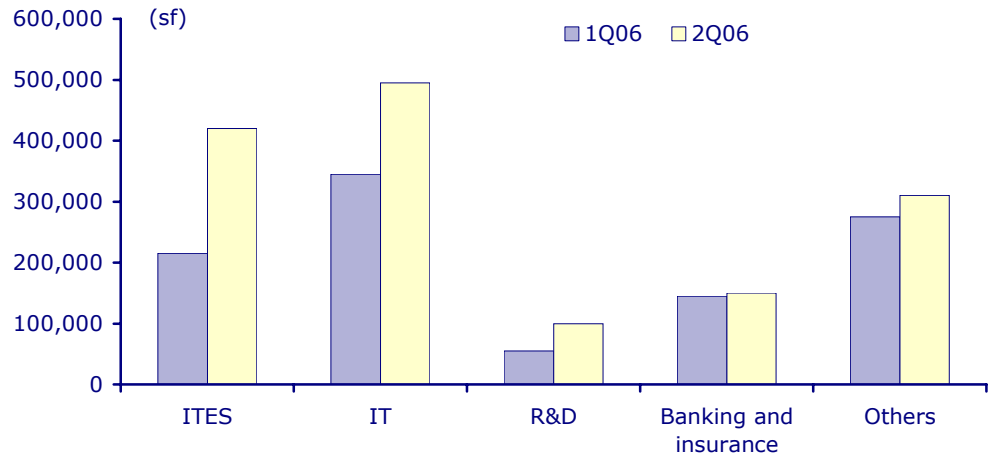
Hotels, hospitals, entertainment etc are emerging drivers

Average room rents up 35% in last four years

DLF, Unitech, and Parsvnath already interested in hotel sector

Figure 36

Office space creation in NCR



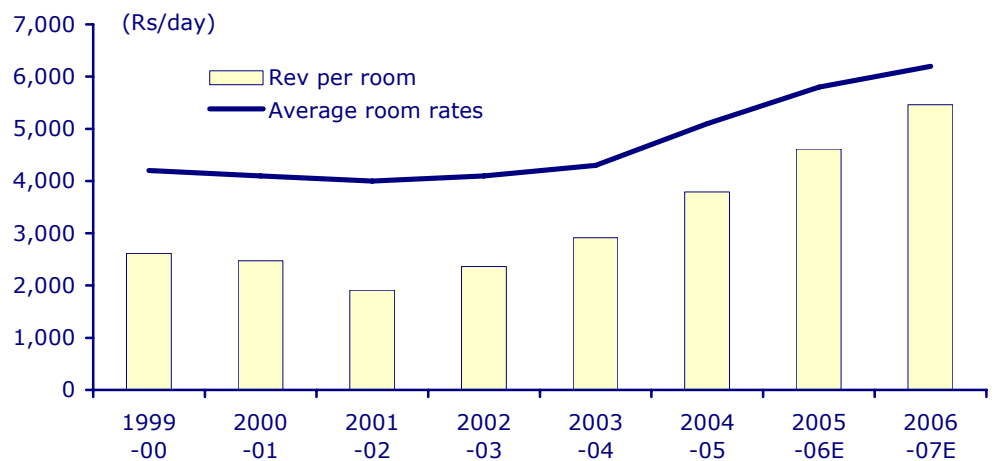
Source: Cushman Wakefield

Hospitality: Current scarcity driving room additions

Tighter demand and supply in the hotel sector, which has driven up hotel room rents c. 50% over the last two years, will drive significant demand for room creation in the hotel industry. CRIS-INFAC estimates a 10% Cagr in demand in the sector and that c. 16,000 five-star/deluxe rooms will be created over the next five years at an investment of c. US\$5bn. Additionally, growth in the entertainment/multiplex industry and healthcare services/hospitals will be additional growth drivers for Indian realty.

Figure 37

Trends in average room rates



Source: HDFC RE Fund

DLF and Hilton (74:26 equity proportions) have tied up to set up a chain of hotels across the country for an estimated investment of Rs100-120bn. The group plans to build a chain of hotels, including some 10-12 luxury resorts in certain exotic locations and 100 business hotels with an average capacity of 100-250 rooms in tier-2 cities. Hospitality major Marriott International has entered into a long-term agreement with subsidiaries of Unitech to manage three Courtyard-branded hotels in Gurgaon, Noida, and Kolkata, incorporating 822 rooms in total. Unitech is planning to expand its hotel portfolio and is

Occupancy levels rise from 53% to 74%

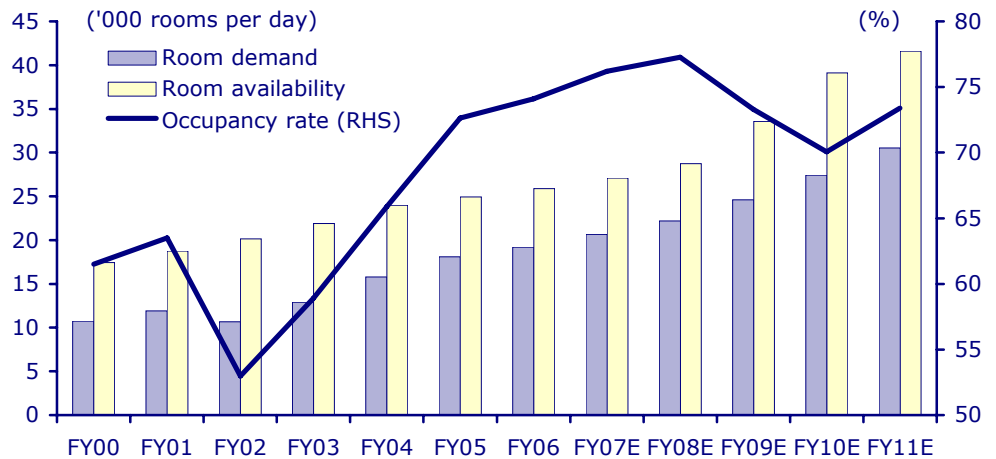
To fulfil demand of 750,000 additional beds, an estimated total area of 20-25m sf will be required

Further appreciation in rentals might be capped by upcoming office space supply

keen on more such deals. Recently, Parsvnath Developers announced a plan to enter the hospitality sector in India by developing 14 hotels across the country. The company plans to rope in Carlson Hotels, known for its Country Inn brand, for its three-star hotels coming up in Chandigarh, Jodhpur, Kochi and Amritsar. Such deals reflect the kind of capacity that is being planned in the hotel space.

Figure 38

Trends in occupancy rates



Source: CRIS INFAC, CLSA Asia-Pacific Markets

Hospitals

Private healthcare spending accounts for 65-70% of total healthcare spend (c. Rs1000bn). This trend is set to continue with private spending reaching Rs1560bn by 2012, especially if health insurance coverage becomes more widely available to the upper and middle classes. CII-McKinsey expects public spending to double by 2012 from Rs170bn in 2001 if the government reaches its target healthcare spending level of 2% of gross domestic product, up from 0.9% in 2001.

A number of new hospitals, clinics and nursing care centres are likely to appear to cater to the considerable unmet need existing in the country. With increasing incomes, people are bound to spend more on healthcare. According to CII-McKinsey, approximately 750,000 additional beds, including 150,000 tertiary-care beds, will need to be added to the 2001 base of 1.5 million beds to meet increasing demand for inpatient services by 2012, bringing the hospital bed-to-population ratio to 1.9:1,000. Just to meet demand of 750,000 additional beds, an estimated total area of 20-25m sf will be required. Overall healthcare infrastructure in India will require an estimated total investment of Rs1000-1400bn by 2012 in secondary and tertiary care hospitals, medical colleges, nursing schools, and hospital management schools.

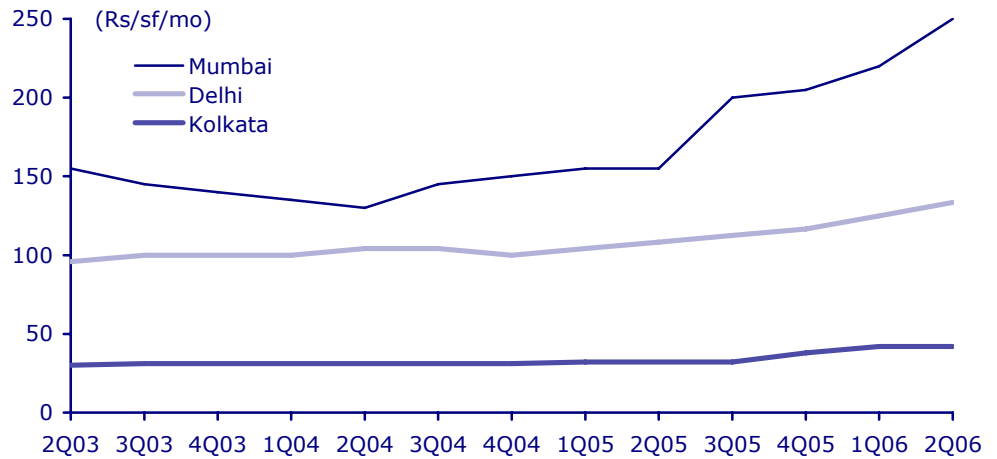
Rentals have increased

A spurt in overall economic activity has driven up rentals significantly, although they lagged capital values in the initial phase of the property upcycle in India. Now the rentals in the Mumbai business district have risen up to Rs200-250/sf/month. Some deals have also been struck at Rs300+ /sf/month. One of the reasons why Mumbai has realised one of the highest inflation rates in rentals is scarcity of supply. Going forward, supply of office space from Bombay Dyeing and other mill developments set to hit the market from 2008 onwards, will mean that further appreciation might be restricted.

Rental movement that lagged initially, has trended up sharply

Figure 39

Commercial space rentals across key cities



Source: Cushman & Wakefield, CLSA Asia-Pacific Markets

Rental yields have been stabilising within the 9-11% range, with most of the deals of late being struck at the lower end of the range.

Returns on non-residential segment lower . . .

While the non-residential business has turned out to be quite lucrative in the last couple of years, the return on capital is likely to be lower if property prices stabilise.

Residential property development offers higher returns for the risk assumed by a developer. It entails lower working capital requirements as the developer needs to fund the cost of land while the entire cost of construction is funded out of the instalments/payments made by property buyers. Residential projects tend to have a shorter working capital cycle (see table below).

Figure 40

Typical payment plan for a 20-storied building (total period two years)

(%)	Milestone
5	Booking Amount
10	Construction starts
5	On Casting of Plinth Slab
5	On Casting of Podium Slab
10	On Casting of 4th Slab
10	On Casting of 8th Slab
10	On Casting of 12th Slab
10	On Casting of 16th Slab
10	On Casting of 20th Slab
10	On Casting of Top Slab
10	On Completion of Flooring of the Apartment
5	On Possession

Source: CLSA Asia-Pacific Markets

. . . if prices stabilise

In absolute terms commercial development is a much higher-value proposition vs residential development. Typically, capital values of commercial properties tend to be 30-40% higher than residential property in the same area. Also, certain class of commercial developments - ie, IT parks (offices for IT sector

Residential is a low working capital business

Commercial development profits / sf much higher

If prices rise, commercial properties tend to offer higher returns

companies, a term often misused and reduced to offices with computers) - enjoy a 2x floor space index (FSI). A 2x FSI means that on the same land area, twice the amount of construction is possible, thus doubling the saleable area. However, the latter is a special case and we have assumed the same FSI for residential and commercial properties for our calculation below.

The above comparison is valid only if prices are stable. If they rise, the difference in returns can be quite significant. In a rising-price situation, a commercial project captures complete upside due to the price rise while residential projects compromise on the average realisations as a significant portion of the project is pre-sold at a much lower initial price.

Cashflow for typical residential and commercial project

We have calculated cashflow for each type of project based on certain assumptions (listed below). We have assumed that payment for the land is made at the beginning of a project; construction costs are spread across the project with slight loading towards the end because of higher-value items used in the finishing stages of a project; and receipts are based on a typical residential project, as shown in table above.

Assume a residential project with 60 flats of 2000 sf each:

- ❑ Land required for the project assuming a FSI of 2 - 60,000 sf, ie, 1.38 acres
- ❑ Cost of land (Rs100m per acre) is Rs138m
- ❑ Construction cost (Rs1200/ sf) of Rs144m
- ❑ Lastly, flats are sold at Rs3000/ sf

Similarly, working out cashflows for a commercial project, we have assumed 60,000 sf land with an FSI of 2, thus the same cost of land at Rs138m. Cost of construction (Rs1,700/ sf) works out to be Rs204m. We have assumed that the space is given on a lease (capitalisation rate 10%) for a period of one year after construction is complete. We assume a final selling price of Rs4,800/ sf for the commercial space.

Figure 41

Cashflow and returns of a typical residential project

Time period (months)	Schedule of payment (Rsm)	Schedule of receipts (Rsm)	Cashflow (Rsm)
0	(137.7)	0.0	(137.7)
2	0.0	18.0	18.0
4	(12.0)	36.0	24.0
6	(12.0)	18.0	6.0
8	(12.0)	18.0	6.0
10	(12.0)	36.0	24.0
12	(12.0)	36.0	24.0
14	(12.0)	36.0	24.0
16	(12.0)	36.0	24.0
18	(12.0)	36.0	24.0
20	(24.0)	36.0	12.0
22	(24.0)	36.0	12.0
24	0.0	18.0	18.0
Total	(281.7)	360.0	
Pre-tax ROCE (%)			56

Source: CLSA Asia-Pacific Markets

Except for the land cost, residential projects typically becomes cash positive from day one

Return can be higher if property prices keep rising during construction letting-out phase

Figure 42

Cashflow and returns of a typical commercial project

Time period (months)	Schedule of payments (Rsm)	Schedule of receipts (Rsm)	Cashflow (Rsm)
0	(137.7)	0.0	(137.7)
2	0.0	0.0	0.0
4	(17.0)	0.0	(17.0)
6	(17.0)	0.0	(17.0)
8	(17.0)	0.0	(17.0)
10	(17.0)	0.0	(17.0)
12	(17.0)	0.0	(17.0)
14	(17.0)	0.0	(17.0)
16	(17.0)	0.0	(17.0)
18	(17.0)	0.0	(17.0)
20	(34.0)	0.0	(34.0)
22	(34.0)	0.0	(34.0)
24	(2.0)	9.6	7.6
26	(2.0)	9.6	7.6
28	(2.0)	9.6	7.6
30	(2.0)	9.6	7.6
32	(2.0)	9.6	7.6
34	(2.0)	9.6	7.6
36	(2.0)	585.6	583.6
Total	(355.7)	643.2	
Pre-tax ROCE (%)			31

Source: CLSA Asia-Pacific Markets

We prefer DCF-NPV method to arrive at fair value for property developers

Significant scale-up in operations and a jump in real estate prices reduces relevance of earnings-based valuation parameters

Valuation methodology and key risks

We used a DCF-NPV method to arrive at fair values for property developers. This is based on discounted cashflow from each developer’s individual projects. Cashflow is estimated broadly from the schedule of development for each of the properties. While many regional stocks under coverage trade at about a 10-15% discount to NPV, certain others continue to trade at a premium. We believe that Indian companies should, generally, trade at a premium to NPV given the pace of growth and probability of NPV upgrades.

We prefer DCF - NPV method

At the cusp of a takeoff, the Indian real estate market has witnessed considerable change in scale, profitability and demand trends. Most real estate companies have scaled up operations to virtually ten times previous levels over the last one or two years, rendering any historical comparison meaningless. Additionally, a sharp 40% jump in real estate prices over the last two years mean that developers with landbanks will be making extraordinary profit margins that may not be sustainable in the long run due to a possible real estate price correction and significantly higher prices for new acquisitions. Discounted NPV, therefore, is the best methodology for valuing these stocks, as this method overcomes the near-term earnings bias. It does however suffer the drawback of failing to value a company as an ongoing concern.

Figure 43

Valuation methodology

Method	Description	Comments
Earnings multiples	PE, EV/Ebitda	Given the big step-up in both the volumes and realisation, Ebitda margins for real estate companies have risen as much as 50-60%, which may not be sustainable, hence giving sustainable multiples to unsustainable margins may be misleading. The upside to this methodology is, however, that the companies are valued as an ongoing concern and earnings act as a support to valuations.
DCF - NPV	Assumes that the projects at hand will be concluded as planned. The cashflow is discounted to arrive at NPV.	Captures only the current projects at hand and thus does not value the company as an ongoing concern. Hence, this is a conservative measure.

Source: CLSA Asia-Pacific Markets

Thus, we have used a DCF-NPV method, based on discounted cashflow estimated from the development schedule for each of the properties, the selling price and costs incurred. While the DCF NPV is our preferred method, it does, however, disregard execution capabilities. Companies that have acquired a larger landbank benefit in the process as this finite life method of valuation assumes a longer life for them as against some other company with a smaller landbank but possibly a better execution track record.

Premium or discount to NPV?

Once we arrive at an NPV, the question is whether to apply a premium or discount and how much this should be. As is the case with other valuation multiples such as PE or EV/Ebitda, the applicable P/NPV ratio is a function of certainty of NPV and potential upside / downside to NPV due to future events.

Price/NPV ratio higher for companies with better corporate governance

In a declining real estate price scenario, P/NPV ratio should decline

In a growing market, P/NPV ratio higher

SEZ projects with land in hand a significant source of value

For a smaller SEZ, NPV/acre is likely to be higher

Certainty of NPV

The NPV calculation is sensitive to current property-price assumptions and the timeline. Based on our estimates, for Unitech every 1% change in the price assumption alters the NPV by 2%, while every six months of delay in the average project life reduces NPV by 8% (while keeping price constant). Thus, the better the execution capabilities, the less likelihood of delays. In more qualitative terms, changes in NPV would also be dependent on management quality and corporate governance, legal validity of the title documents etc. Corporate governance is important because, most of the time, a potential investor or analyst is dependent on management to provide details on the landbank, location etc.

Potential upside/downside to NPV

The single biggest source of potential upside would be attributable to changes in property prices (capital values, rentals and capitalisation rates). If property prices rise, stocks should trade at a premium to NPV and vice versa. The change factor would be acquisitions of land or projects. In the case of acquisition of land for a future development, NPV would increase if the future value of cashflows is greater than the price paid to acquire land. If property prices remain stable, however, land purchases should increase NPV as the property developer would look to realise a developer’s margin (stable state developers margin assumed to be 20%).

SEZs may be a significant driver of large changes in NPV, though we have not included this potential in many of our calculations. This is because, in our NPV model we do not factor in any weight for proposed land acquisition by a company and many SEZs belong in this category. We believe that a piece of paper from the Ministry of Commerce & Industry giving in-principle approval to develop an SEZ does not mean much unless backed-up by land or some firm commitment/notification from the state. Thus, as and when the company receives possession and legal title of land either from the government or government-owned agencies, the NPV of the company could increase considerably as the SEZ land typically comes at Rs0.5-1.5m/acre (ie, Rs10-30/sf).

SEZ valuation

An SEZ project is nothing but an integrated township project with a large area (35% minimum - this is variable for SEZs depending upon state laws, which again have separate laws for sectoral SEZs) stipulated for industrial use. The following matrix (Figure 44) describes the economics of a typical large-sized SEZ. This has been modelled after the economics of Mahindra Gesco’s operating SEZ in Chennai. The numbers, however, are for illustration only.

For a small SEZ, the valuation model would be different and dependent on the actual use of the land. In most cases, for smaller SEZs the NPV/acre would be higher as it would involve a few office buildings in a ready-to-move-in format wherein the SEZ developer would receive rentals from the occupant.

Broad rule of thumb for a large SEZ valuation Rs10-17m per acre; value would become certain only on land acquisition

Figure 44

Valuation of SEZ

		Comments
Total Area (acres)	2,000	
Cost of acquisition /acre (Rsm)	1.0	The typical cost of acquisition is Rs0.7-1.5m/acre
Cost of land development (Rsm)	1.2	This includes cost of securing approvals and ensuring basic amenities
Total land acquisition and development cost (Rsm)	4,400	(Rs50 per sf)
Of the total land (acres)		
Export Processing Zone (EPZ)	700	Assuming 35% of total area. The minimum stipulation is 35%
Domestic Tariff Area (DTA)	200	This is not a necessity but likely. Its also industrial area but products to be sold domestically.
Civil infrastructure	600	This includes housing, hotel, entertainment, mall etc.
Basic amenities	500	Significant chunk would be required for building roads inside the SEZ area.
Profits from the business (Tax exempt)		
Export processing zone	1,400	Most of the industrial area (exports and DTA) would typically get contracted at cost plus. We have assumed a mark-up of Rs2m/acre.
Domestic tariff area (DTA)	400	The industrial user viz IT company / auto etc would typically secure the land on a 99-year lease and build office / facility on its own. The smaller IT companies, however, may want a ready to move in office space, in which case, the profitability can be much higher.
Civil infrastructure	43,538	By far, the most profitable segment of the SEZ. Assumed an FSI of 1.5x and utilisation of 75%. Assumed a profit of Rs1,500/sf
Basic amenities	0	No profits here. Costs included in the development costs as above.
Total profit (Rsm)	45,338	To be realised over a period of 6-7 years from the date of acquisition of land.
NPV	28,661	Discounted by 14% over a period of 7 years
NPV/Acre	14	This is a broad rule of Thumb. Can go up significantly if EPZ and DTA are let out in the form of ready to move in office property. Assuming 100% stake held in SEZ

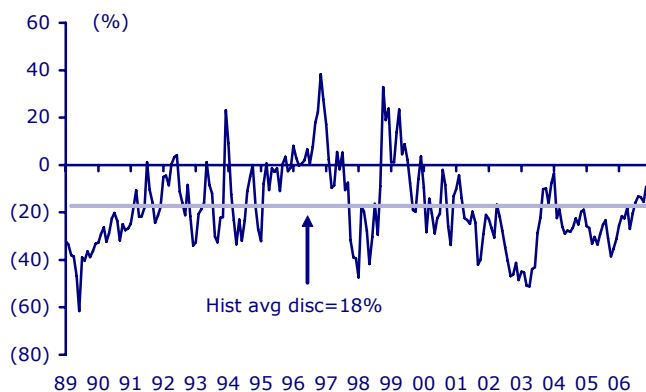
Source: CLSA Asia-Pacific Markets

Regional stocks trade at discount to NPV

Currently, most property developer stocks in the region trade at a discount to NPV. The average discount is 10% and varies between 15-35%. Indian companies, however, should trade at a premium given their growth momentum. This premium is likely to decrease if the pricing outlook weakens.

Figure 45

Henderson land - Disc to NAV



Source: CLSA Asia-Pacific Markets

Figure 46

Sino land - Disc to NAV

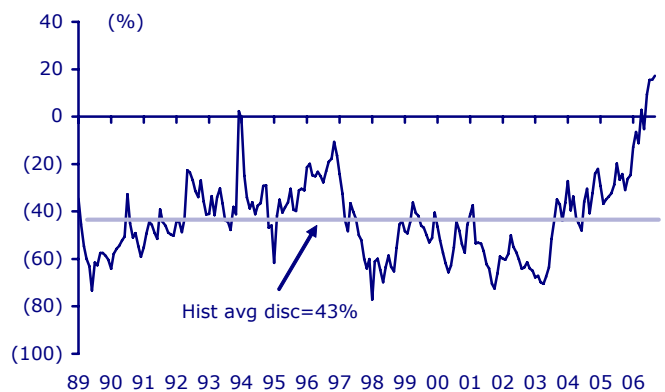


Figure 47

Valuation matrix

Company name	Market	Price 17 Jan	Mkt cap (US\$m)	PE (x)			EV/Ebitda (x)			NAV (forward)	Prem/ (disc) to NAV (%)
				CY05/ FY06	CY06/ FY07	CY07/ FY08	CY05/ FY06	CY06/ FY07	CY07/ FY08		
Cheung Kong	Hong Kong	101.8	30,218	16.8	12.1	16.7	6.3	4.0	4.9	121	(16)
Hang Lung Properties	Hong Kong	20.8	11,016	10.7	17.4	17.5	9.0	14.3	14.8	22	(7)
Henderson Land	Hong Kong	48.7	11,314	8.1	6.5	15.1	4.4	3.3	7.1	53	(7)
Sino Land	Hong Kong	18.9	10,466	15.7	17.5	17.5	12.3	13.0	13.7	13	45
Great Eagle	Hong Kong	23.2	1,716	1.4	28.6	21.4	2.1	20.2	17.0	38	(39)
Hongkong Land	Hong Kong	4.1	9,456	4.5	9.2	30.0	4.0	8.2	22.8	5	(24)
Hysan Development	Hong Kong	20.3	2,715	5.2	11.5	25.6	4.6	10.0	20.7	36	(44)
Kerry Properties	Hong Kong	37.4	5,831	14.8	13.5	18.7	12.1	11.5	13.1	32	16
Swire Pacific	Hong Kong	90.5	17,780	7.4	12.3	20.1	5.2	9.7	15.2	93	(3)
Wharf	Hong Kong	29.3	9,177	5.2	8.2	15.3	4.5	6.3	9.8	41	(29)
Chinese Estates	Hong Kong	10.1	2,707	3.4	3.4	22.3	3.1	3.2	15.2	16	(36)
Capita Land	Singapore	6.9	12,148	24.0	41.4	38.5	9.6	14.5	12.5	6	11
Keppel Land	Singapore	7.6	3,549	34.7	30.4	16.6	33.6	20.9	12.5	9	(18)
City Development	Singapore	14.2	8,286	62.8	40.8	31.6	30.2	27.0	23.6	13	5
Unitech	India	470.0	8,470	473.0	61.2	24.7	251.8	34.1	15.7	510	(8.0)

Source: CLSA Asia-Pacific Markets

**Indian companies
likely to trade
at premium to NPV**

Indian companies valuation comparison

The table below gives details on market cap, NPV and the current NPV discount for property stocks in India. For details on some of these, refer to the company profiles at the end of this report. Also refer to the accompanying company report on Unitech, *Solid foundation*, for a detailed discussion on the company.

Figure 48

Property plays (landbank and NPV)

Company name	Price (Rs) 23 Jan	Mkt cap (US\$m)	Landbank (m sf of saleable area)	Landbank (acre)	Current NPV /share (Rs)	Prem/ (disc) to NPV (%)
Anant Raj Industries	1,313	1,460	48.0	na	1,709	(23.2)
Ansal Properties	859	1,119	170.0	5,500	1040 ²	(17.4)
Bata India	216	313	na	135	na	na
BF Utilities	2,724	2,319	632.0	20,000	5,554	(51.0)
Bombay Dyeing	713	623	3.7	42	1,040	(31.4)
Century Textile	703	1,480	26.1	20	636	10.6
DLF	na	na	574.0	10,225	na	na
DSK Developers	351	174	17.5	na	494	(29.0)
Lok Housing	263	68	49.0	866	na	na
Mahindra Gesco	799	669	60.0	3,600	1,003	(20.4)
Parsvnath	408	1,704	108.6	na	na	na
Peninsula Land	519	494	25.0	330	576	(9.9)
Prajay Engineering	284	135	18.0	650	300	(5.3)
Shree Precoated	533	1,158	11.5	na	543	(1.9)
Sobha Developers	1,049	1,730	118 ¹	2592.8 ¹	na	na
SSI	192	252	8.0	na	na	na
Unitech	457	8,371	469.0	10,765	447	2.2

¹ Does not include land arrangement of 117m sf/ 3,373 acres, ² Knight Frank. Source: CLSA Asia-Pacific Markets

**More than US\$20bn
raised and deployed or in
process of deployment in
Indian property market**

**Risks to the sector
Liquidity**

The near-term liquidity risk to property prices appears to be on the upside, with the funds inflow into the sector by way of foreign investors increasing funds available to invest in Indian properties, domestic entities raising property funds, and IPOs/fund raising by the property developers.

**Jan-Oct 2006 FDI inflow
in real estate is already
up 143% to US\$7.9bn**

**Companies have raised
funds to consolidate
landbank and execute
development plans**

Figure 49

Real estate funds	
Overseas funds	(US\$m)
Royal Indian Raj Intl'	2,900
Blackstone Group	1,000
Goldman Sachs	1,000
Emmar Properties	800
IL&FS Investment Managers	502
CalPERS	400
Carlyle Sante Fey	300
AIG	275
Trikona	250
Pegasus Realty	150
Maia	150
Lee Kim Tah Holdings	115
Siachen	100
Salim group	100
Dawnay Day	75
Morgan Stanley	70
GE Commercial Finance Real Estate	63
Solitaire Capital India	67
Subtotal	8,317
Domestic funds	
Urban Infrastructure Venture Capital Fund	1,100
IDFC Infrastructure Fund	1,000
ICICI India Advantage Fund	800
HDFC REIT Fund	750
Fire Capital Fund	400
CIG Realty (Unitech group)	400
Horizon International Fund (Pantaloon)	350
Citigroup property investors	350
India REIT Fund (Piramal group)	350
Anand Rathi	112
Kotak Mahindra Realty	100
Kshitij Venture Capital Fund (Pantaloon)	100
Dream Fund (Dewan Housing Finance)	100
Subtotal	5,912
Total	14,229

Source: ASSOCHAM, CLSA Asia-Pacific Markets

Figure 50

Sources of funds		
IPOs	Amount (US\$m)	Time
Parsvnath	250	Nov 06
Sobha	125	Nov 06
IVRCL prime	100-150	1HCY07
DLF	1500-2000	1HCY07
Akruti Nirman	100-120	1HCY07
Puravankara Projects	350-450	1HCY07
Omaxe	300-350	1HCY07
Subtotal	3,100	
QIP		
APIL	152	Dec 06
IVRC	123	Dec 06
M Gesco	105	Oct 06
Peninsula	35	Dec 06
Ansal Housing	25	1HCY07
Subtotal	440	
AIM listing		
Hiranandani	750	Nov 06
Ishaan (Raheja)	350	Nov 06
Unitech	700	Dec 06
Subtotal	1,800	
FCCB		
Prajay	15	Dec 05
Prajay	60	Jul 06
Subtotal	75	
Total	5,415	

Source: Company reports, CLSA Asia-Pacific Markets

Figure 51

Recent private placement deals in the real estate sector

Private placement	Amount (US\$m)	Company	Time
APIL	39	Citigroup	Oct 06
APIL	11	HDFC Realty Fund	Oct 06
Anantraj	66	Lehman, HSBC, ABN Amro	May 06
Indiabulls and subsidiaries	68	Crown Capital	Nov 06
Indiabulls and subsidiaries	143	Farallon	Jan 06
Indiabulls and subsidiaries	45	Farallon	Jun 06
Indiabulls and subsidiaries	100	Farallon & LN Mittal	Dec 06
Total	472		

Source: CLSA Asia-Pacific Markets

In the near term these issuances and fund-raising plans will place upward pressure on property prices and capitalisation rates. However, if global liquidity conditions deteriorate, the liquidity-driven asset price inflation may also deteriorate.

End consumer demand vs investor demand

While Indians’ love of gold jewellery and property as a savings tool dates back many centuries, it was primarily restricted to own usage / consumption. However, property has emerged as a meaningful investment class for high net worth individuals (HNIs) only in the last 8-10 years. The trend of buying a second home or plot of land for investment purposes in the same city or nearby city has become prevalent among the rich in cities. It is not uncommon to find that HNIs from Mumbai have bought, in many cases, more than half of certain residential projects in nearby cities such as Pune, Nashik etc. The expectation is clearly that prices will appreciate in those cities.

This trend is even more prevalent in the northern part of the country. In many cases, a residential project in one of the suburbs of Delhi with say 500+ dwelling units is sold out in a week’s time. The way the system works in and around Delhi is that say 25 property brokers would buy 20 units each by making a down-payment of 5% of the property, wait for a month (by which time construction would probably start!), when property prices go up by 5%, and then sell the units and make a 100% return on investments. The property gets passed on to the next set of brokers. Here the brokers carry the price, construction and demand risk. The ultimate expectation is that prices will keep on moving up and the end consumers will step-in to buy/rent at some time. A possible worsening of the liquidity situation and lack of creation of end-consumer demand is a risk. This risk is most prominent in Tier-2 cities in the north.

Land acquisition at inflated prices

Because of the soaring constructed property prices, land prices have also moved up. In certain locations like central Mumbai, land deals are being struck at a rate of as high as Rs800m/acre. Assuming an FSI of 1.33x, the cost of land works out to Rs14,000/sf. Adding construction costs, interest costs and developers’ margin, the project will not be economically viable below rentals of Rs225/sf/month, which is the current rate. If the rental rates were to fall below this level, the project would become economically unviable. A similar situation exists in most of the city centre areas.

Real Estate has emerged as a class of investments . . .

. . . also driving speculative activity dominantly in the north

If rental rates were to fall below this level, some projects become economically unviable

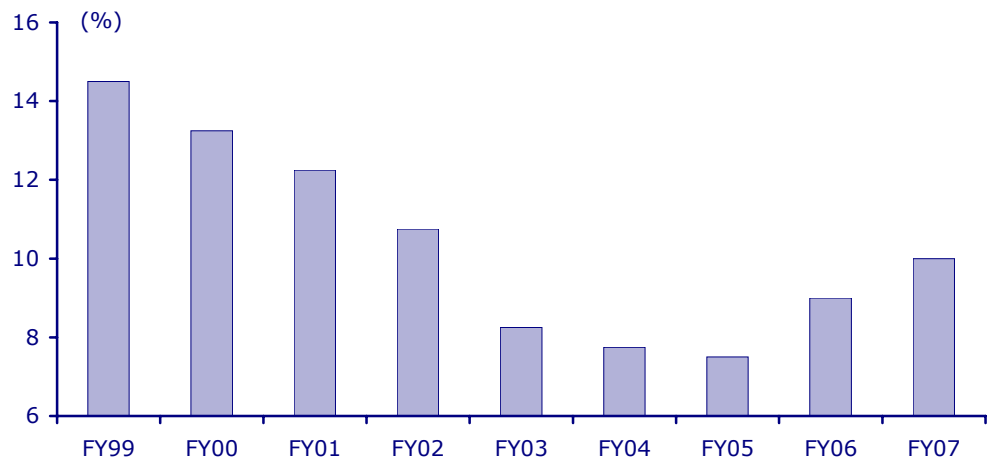
Housing finance rates have increased by 200bps over the last two years . . .

Decline in affordability

Our affordability index has climbed 50% over the last two years, driven by rising property prices and a hardening of mortgage rates. Tightening liquidity conditions have forced housing finance companies to increase housing finance rates by 200bps over the last two years - increasing EMI for a 15-year loan of Rs100,000 by Rs120 (or by 12%) to Rs1,120/month. A significant portion of this increase in higher mortgage rates is absorbed by increasing the duration of loans, but any further increase in mortgage rates will drive up monthly outgoings.

Figure 52

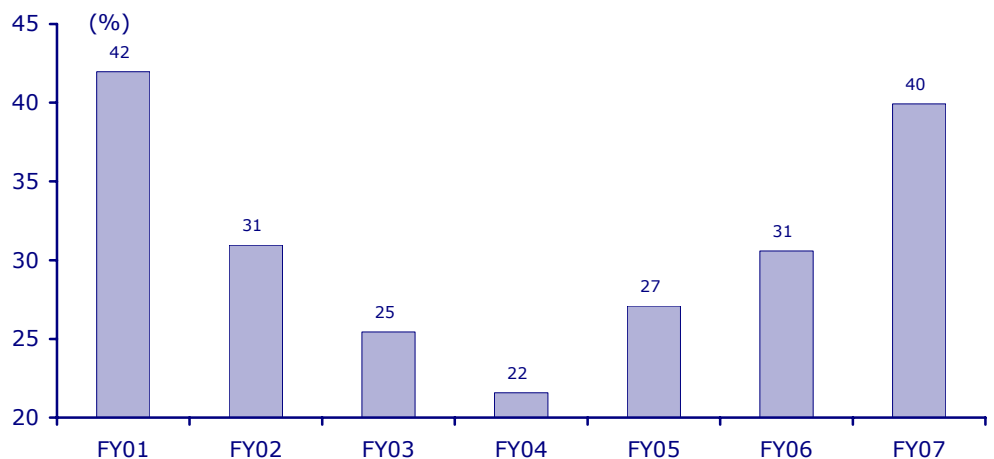
Housing loan interest rates (floating-rate loan)



Source: HDFC Bank

Figure 53

Affordability



Source: Census 2001, CLSA Asia-Pacific Markets

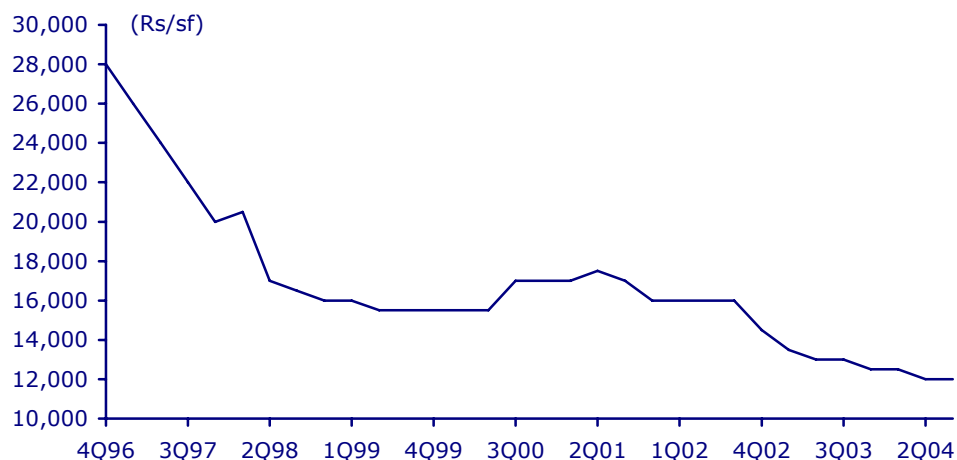
. . . leading to decline in housing affordability, though still better than pre-2001 levels

The chart below shows the trend in capital values in Mumbai (the financial centre of India). A property bubble was created in the city during 1995-96 and over the next eight years, ie, till 2004, prices fell to less than half of the peak.

Mumbai property prices nearly halved over 1996-2004

Figure 54

Mumbai capital values



Source: Cushman Wakefield, CLSA Asia-Pacific Markets

SEZ project approvals remain subject to political uncertainties

Political uncertainties

Land acquisition for large projects such as SEZs is currently a hotly debated topic in India and different political parties/politicians have different views. SEZ proposals, even from large corporate such as Reliance, are not progressing smoothly. Therefore, valuing a company on the basis of an "in-principle" SEZ approval can be a source of valuation risk, unless it is backed by the possession and legal title for land. For example, despite all the legal clearances, the Bangalore-Mysore Expressway project (BFUT IN) is running into trouble due to political issues related to the land acquisition.

Potential oversupply concerns in view of the ramp-up of execution

Potential oversupply

Given the surge in property prices, nearly all real estate developers are looking for a significant ramp-up in the scale of operations. Our survey of 15 large property developers in India reveals that they are scaling up from a cumulative 30m sf/year now to about more than 200m sf/year by 2010. This is a small universe compared to the total estimated residential development of 2bn+ sf/year in the country. However, if builders' huge ramp-up plans turn pan out, certain markets may witness oversupply.

Figure 55

Planned development by various developers

(m sf)	FY06	FY07	FY08	FY09	FY07 -11	Land bank	Comment
DLF	3.8	27.2	58.8	63.7	349.7	574.0	Landbank spread across 62 cities, with c. 60% of the development (volume and value terms) likely in the NCR region
Unitech	3.5	7.7	20.3	38.8	251.1	625.0	Pan-Indian real estate developer with plans to develop a landbank of 625m sf over a period of 10-15 years
APIL	4.4	7.8	21.5	43.6	144.5	116.0	Amongst the 5 largest developers in the northern region with a landbank of 116m sf and well positioned to leverage the growing trend of premium housing, retail, and IT sector spreading to smaller cities
Sobha	1.1	5.0	12.0	18.0	87.0	118.0	Plans to develop a landbank of 118m sf and land arrangements of 117m sf over a period of 7-10 years; Has extensive presence in south India
Parsvnath	4.2	9.0	16.0	22.0	103.0	108.6	Landbank of 108m sf planned to be developed over a period of c. 5 years
DS Kulkarni	2.6	3.6	4.0	4.0	17.6	17.5	Targeting residential/commercial mix at 80:20
Akruti Nirman	0.6	1.5	2.0	2.6	13.6	13.6	Akruti's share is in the landbank works out to 3.7m sf

Source: CLSA Asia-Pacific Markets

Annual new housing sales in Beijing and Shanghai total US\$55bn. . .

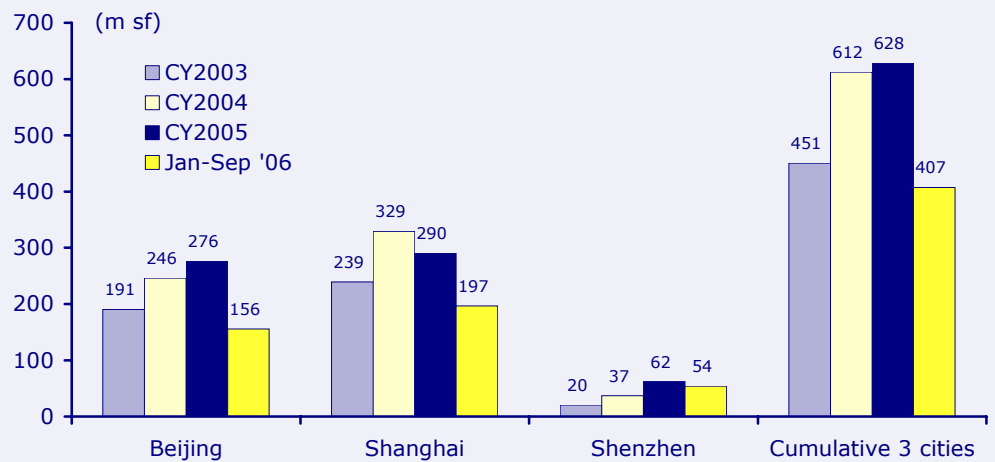
Chinese precedent

While a potential oversupply appears a key risk, based on the Chinese experience, this may not be the case. As indicated below, three key business centres in China have been absorbing primary sales of in excess of 600m sf in residential space per year. This highlights the impact of rising incomes on housing demand. Assuming an average price of Rmb8,000/sqm, the value of annual sales of new residential properties in the two cities of Beijing and Shanghai put together is about US\$55bn.

. . . and 570m sf in volume terms

Figure 56

Primary residential sales in key cities in China

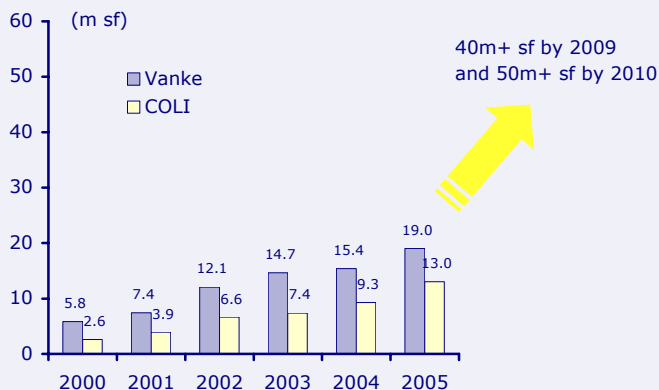


Source: sofun.com database, CLSA Asia-Pacific Markets

The Chinese property market is also fragmented, like India's, with the two largest players - China Vanke and COLI - controlling less than 2% of the total. The cumulative volume for these two players has risen from 8m sf in 2000 to 32m sf by 2005. The cumulative volume is set to expand to more than 100m sf by 2010. Projections for the two largest Indian property developers, DLF and Unitech, by 2010 are likely to be fairly similar.

Figure 57

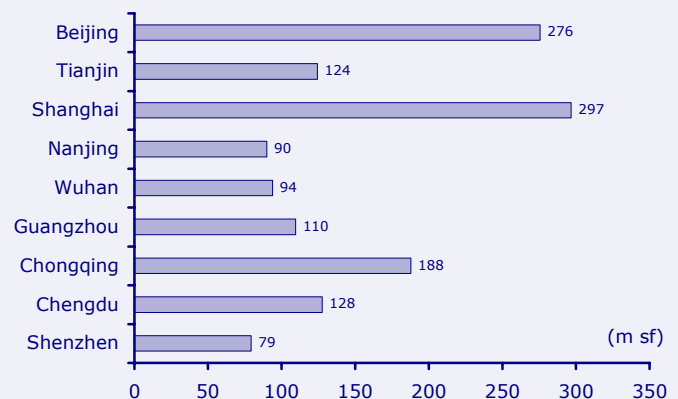
Annual sales in volumes



Source: CLSA Asia-Pacific Markets

Figure 58

Residential property sales in China (Nov 05-Oct 06)



Construction costs are likely to move up

Asset infusion story may take a hit if stock market valuations come off

Execution risks

The large step-up projected in property development activity over the next few years will expose the sector to execution risks. Execution risk can hit either in the form of delays to projects, as contractor resources are limited, or in the form of cost inflation. As of now, contractors in Gurgaon (much higher construction activity) earn about 8-10% in margins as compared to contractors in Kolkata (relatively lower construction activity) where margins are somewhat narrower at 5-6%. Thus, over a period of time contractor margins will rise over and above potentially higher labour costs. Here, large players will likely be better off vs smaller players as contractors would prefer larger developers because of timely payments and longer-term contracts. Also, some of the developers - DLF, Prajay, and Anantraj etc - undertake self-contracting (although the labour is outsourced anyway).

Stock market risks

Traditionally, the Indian real estate sector has suffered corporate governance issues, eg, involving cash transactions, promoter-owned companies becoming simultaneously involved in the business, etc. While these issues are gradually decreasing in scale, one of the reasons for improved corporate governance is rising stock market valuations. Business promoters see increasing rewards in adopting better corporate governance practices as the wealth creation through market capital enhancements remains attractive. If the stock market takes a beating, for whatever reason, promoters may change their approach on this front.

We prefer Unitech for its brand image, long-term development strategy and well-diversified landbank

Stocks to play

We still like Unitech (see accompanying *Solid foundation* report) for its superior brand image, long-term value development strategy and well diversified landbank. Among the mid-caps we like Prajay, Anant Raj and Mahindra Gesco for their discount valuations and visibility on potential NPV upgrades.

Figure 59

Property plays: Key business indicators

Company	Business model	Construction	Business segment	Key locations	Landbank (m sf of saleable area)	Landbank (acre)
Anant Raj Industries	Property developer	Own	Largely commercial / hotels	NCR	48.0	NA
Ansal Properties	Property developer	Outsourced	Mostly residential - plotted Township	Tier-2 cities in the North	170.0	5,500
Bata India	Footwear / One time landbank	Outsourced		Kolkata	Na	135
BF Utilities	Infrastructure developer		Roads / Townships	Bangalore - Mysore	632	20,000
Bombay Dyeing	Textiles / Chemicals. One time landbank - may get into property business	Outsourced	Largely commercial / hotels	Central Mumbai	3.7	42
Century Textile	Textiles / Cement. One time landbank.	NM	Not known	Central Mumbai	26.1	20
DLF	Property developer	Outsourced	Mostly residential	National presence, key locations: NCR and increasing presence in Chennai, Kolkata	574.0	10,225
DSK Developers	Property developer	Own	Mid-end residential	Largely Pune and some properties in Bangalore	17.5	na
Mahindra Gesco	Property developer	Outsourced	Townships / SEZ	Mumbai, Pune, Chennai, Japiur	60.0	3,600
Parsvnath	Property developer	Outsourced	Residential mainly Townships	Primarily NCR, Haryana, UP, and Punjab	108.6	Na
Peninsula Land	Property developer	Outsourced	Residential, commercial	Mumbai, Goa	25.0	330
Prajay Engineering	Property developer	Own	Residential / Commercial	Hyderabad	18.0	650
Shree Precoated	Property developer	Outsourced	Largely residential	Largely Mumbai, Bangalore	11.5	na
Sobha Developers	Property developer	Own	Residential / Commercial	Dominantly in South India, especially Bangalore and Chennai	118.0 ¹	2,592.8 ¹
SSI	Property developer	Outsourced	Residential	Largely Chennai	8.0	70
Unitech	Property developer	Outsourced	Mostly residential	National presence, key locations : NCR, Kolkata, Chennai account for 60%	469.0	10,765

¹ Does not include land arrangement of 117m sf/ 3373 acres. Source: CLSA Asia-Pacific Markets

Notes



Company profiles

Anant Raj Industries	37
Ansal Properties	41
BF Utilities	45
Bombay Dyeing.....	49
DS Kulkarni	53
Mahindra Gesco	57
Peninsula Land.....	61
Prajay Engineers	65
Shree Precoat Steel	69

All prices quoted herein are as at close of business 23 January 2007, unless otherwise stated

Notes



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25 January 2007

India Property

Reuters ANRA.BO
Bloomberg ARCP IN

Priced on 23 January 2007
India Sensex @ 14,041.2

Market cap (adj) US\$1460m
Shares in issue 50m
Free float (est.) 27%

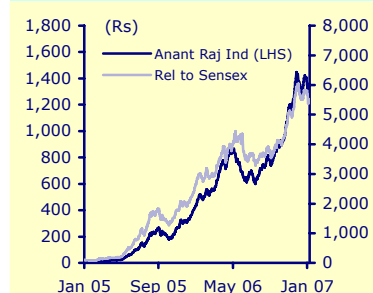
3M average daily volume
Rs12.0 (US\$0.3m)

12M high/low
Rs1,474.90/443.00

Major shareholders
Promoter 60%
FII 23%

Stock performance (%)

	1M	3M	12M
Absolute	0.1	48.8	200.0
Relative	(3.5)	35.7	97.8
Abs (US\$)	1.0	52.3	200.5



Source: Bloomberg

www.cls.com

Focused NCR play

Anant Raj has been well entrenched in the realty markets in the National Capital Region (NCR) for the past 30 years. Management's capability to identify and conclude land transactions with speed is its key advantage. The company currently has about 48m sf worth of projects at hand and our net present value (NPV) works out to Rs1,709/share. However, its heavy dependence on IT special economic zones (SEZs) and a capital-intensive build-and-hold model imply key risks.

Projects in the NCR

Anant Raj has been in the construction and real-estate business for nearly 30 years with a strong presence in the NCR. The company has a total construction experience of c.10m sf - largely as a contractor, and is the constructor of Delhi's landmark India Gate. Anant Raj currently holds 48m sf of projects (land cost completely paid for), which will be executed till 2012.

Continuing business restructuring

While Anant Raj has extensive experience in real estate, the listed entity was primarily engaged in the ceramic-tiles business. It has been one of the first Indian companies to unite the entire group's real-estate business under one roof. The company initiated the restructuring process in phases: Five group companies were merged in Phase I; a stock exchange approval was received in Phase II; and, in the final phase, the board approved merger of 12 group companies. At the end of the process, Anant Raj's outstanding shares will go up to about 50 million and the promoter holding will be 73%.

Capital-intensive build-and-hold model

The company has on its book 0.3m sf of commercial properties, with the possibility of earning a rental income of more than Rs5bn by FY09. Of the 48m sf of projects on hand, 8m sf are in the hospitality segment, 28.6m in commercial (including IT parks and SEZs), and 10.5m in residential. The company will sell 12m sf, largely residential, and retain the remaining 36m sf on its books. While the build-and-hold strategy has made Anant Raj's business model more capital-intensive, its key weakness is a lack of branding.

NPV of Rs1,709 per share

Our NPV per share for Anant Raj works out to be close to Rs1,709. Given management's capability in identifying value-accretive transactions in the NCR, the stock deserves a premium to its NPV.

Financials

Year to 31 March	2003A	2004A	2005A	2006A	9M2007A ¹
Revenue (Rsm)	182	287	226	568	1,585
Net profit (Rsm)	9	6	3	281	893
EPS (Rs)	0.6	0.3	0.1	13.7	35.1
EPS change (%)	-	(49.6)	(53.7)	9,131.2	-
PEx (@Rs1,313.20)	2,071.6	4,112.6	8,876.4	96.2	-
Dividend yield (%)	-	-	-	0.2	-
ROE (%)	5.6	2.8	1.3	31.3	-
PB (x)	115.8	116.7	115.2	30.1	-
Net gearing (%)	48	43	63	38	-
EV/Op Ebitda (x)	858.4	647.2	911.2	72.3	-

¹Standalone. Source: CLSA Asia-Pacific Markets

Six key properties account for more than half of company NPV

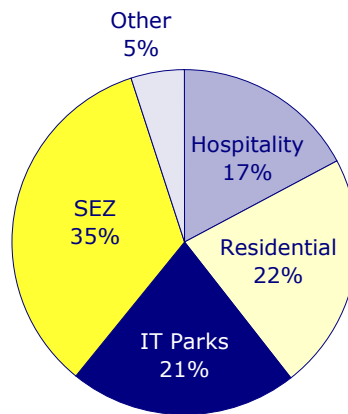
Anant Raj NPV calculation

Project	Location	Total area (m sf)	Current status	Target completion date	NPV (Rsm)
Commercial	Najafgarh road	0.6	50% complete on Dec 06 and remaining on Mar 07; partially leased	Mar 07	8,749
IT park	Dhamaspur Haryana	3.5	To start from Apr 07	Mar 09	7,449
SEZ	Manesar	12.3	To start from Oct 07	Sep 12	11,679
SEZ	Manesar	3.9	To start from Apr 07	Mar 10	7,335
IT park	Manesar	1.8	Already started	Mar 08	4,230
IT park	Rai, Haryana	4.8	To start from Jan 07	Sep 09	9,119
Total		26.9			48,562
Other projects under construction (m sf)		22.6			36,884
Total NPV					85,446
No. of shares (m)					50
NPV/share					1,709

Source: Company, CLSA Asia-Pacific Markets

SEZ and IT parks dominate current project portfolio

Projects on hand (total 48m sf)



Source: Company, CLSA Asia-Pacific Markets

Two SEZs with the Reliance group

The company is working on two large SEZ projects along with the Reliance group (ADAG group) in Manesar, Haryana. The two SEZs are spread over a total area of 335 acres and attributable share of Anant Raj works out to be close to 140 acres, translating to 16.5m sf of saleable area. To value these SEZs and other IT parks of Anant Raj outside the city of Delhi, we have used rentals in the range of Rs35-40/sf/month - which at a capitalisation rate of 10% translates to a capital value of Rs4,200-4,800/sf.

Booked land cost is lower than Rs200/sf for FSI

The landbank of nearly 48m sf of saleable area has been fully paid for and is on the company's book, the cost of FSI works out to be less than Rs200/sf. We believe the company is currently working on a few more land transactions, which can add significantly to its NPV.

Leveraging is likely to go up

While Anant Raj adopts a capital-intensive build-and-hold model, the debt on its books is only about Rs850m. However, this is likely to go up. The company estimated costs of present projects at nearly Rs100bn, assuming a total construction and development cost of Rs2,000/sf. Despite an equity issue to partly finance its growth (73% promoter holding suggests dilution will not be a concern for promoters), debt on the book is likely to rise sharply.

**Issued 9m shares/
warrants over the
past 18 months**

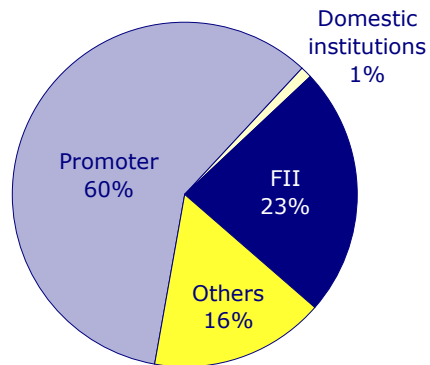
**Once the ongoing
merger process is
completed, the promoter
holding will rise to c.73%**

Recent private placements by Anant Raj

Time	Total issue size (US\$m)	Share price (Rs)	Description
Sep 05	16	175	2.5m shares and 1.5m warrants allotted to institutional investors
Apr 06	66	600	3.5m shares and 1.5m warrants allotted to institutional investors

Source: Company data

Shareholding total number of shares 50m



Note: As of 31 December 2006. Source: Capitaline

Notes



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25 January 2007

India Property

Reuters ANSP.BO
Bloomberg APIL IN

Priced on 23 January 2007
India Sensex @ 14,041.2

Market cap US\$1,119m
Shares in issue 57.6m
Free float (est.) 34.0%

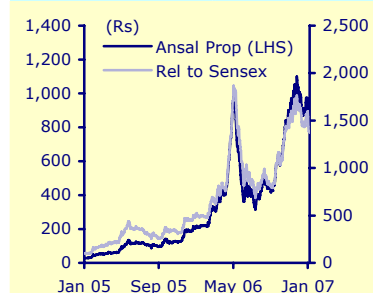
3M average daily volume
Rs190.3m (US\$4.3m)

12M high/low
Rs1,134.40/203.50

Major shareholders
Promoter 66.0%
Domestic Institutions 15%

Stock performance (%)

	1M	3M	12M
Absolute	(12.6)	36.0	307.8
Relative	(15.8)	24.0	168.8
Abs (US\$)	(11.8)	39.2	308.5



Source: Bloomberg

www.cls.com

Plotted development

Ansal Properties, one of the five largest developers in northern India, is set to leverage the trend toward premium housing, retailing, and IT sector expansion into smaller cities. It plans to translate its-5,500 acre landbank into c.170m sf of developable area. Property consultant Knight Frank has valued its total landbank at c.Rs52bn, excluding the recent acquisition of Kotputli SEZ and Dadri township, Uttar Pradesh. Heavy dependence on tier-2 cities remains a key concern.

Large landbank to capitalise

Ansal has a landbank of c.5,500 acres (developable area of 170m sf), which it plans to be develop over the next seven years. Of this, 56% is owned by the company and its associates, with the rest held by collaborators/joint venture partners. The company has substantial unrealised gains from this landbank due to its price appreciation over the past two years.

Play on emerging northern cities

Ansal is one of the leading developers in northern India, especially in the National Capital Region (NCR). It is well positioned to leverage the trend toward premium housing, retail, and IT sector expansion into smaller cities such as Jaipur, Mohali. The company has more than 20 township projects in tier-1 and 2 cities in northern India. It will be a major beneficiary if a few of these cities develop the way Gurgaon has - ie, commercial development especially IT/ITES sector followed by residential demand.

Substantial execution experience

With more than four decades of experience, Ansal has created brand equity in real estate. It has built and delivered close to 6.9m sf of residential developments, 6.8m sf of commercial properties and 18.2m sf of plot sales. It has developed three brands: *Ansal Plaza* for retail developments, *Sushant* for mid/premium-end townships, and *Anand* for mid/low-end townships.

Risk and valuations

Knight Frank has valued the company's total landbank at c.Rs52bn (Rs1040/share), excluding 1,012 acres in the Kotputli special economic zone (SEZ) and 2,500 acres in Dadri township. Fluctuation in realty prices remains the key risk and we estimate that every 1% price change will alter its net present value NPV by 2.5-2.8%. Plot sales, rather than constructed property, form a predominant proportion of sales. While this is a high-RoCE business with lower investment and quicker payback, this business model will succeed only in tier-2 cities, which is where the company focuses. But as the urbanisation trend catches on, it will need to move higher in the value chain.

Financials

Year to 31 March	2003A	2004A	2005A	2006A	1H2007A
Revenue (Rsm)	1,694	1,790	2,193	3,590	3,675
Net profit (Rsm)	105	59	134	376	967
EPS (Rs)	3.0	1.7	3.8	10.8	19.0
EPS change (%)	10.4	(43.5)	125.1	181.9	-
PEx (@Rs859.30)	307.6	544.7	242.0	85.8	-
Dividend yield (%)	0.0	0.0	0.1	0.1	-
ROE (%)	10.8	5.6	12.2	28.9	-
PB (x)	13.7	13.2	26.1	19.1	-
Net gearing (%)	177.5	160.6	124.5	97.2	-
EV/Op Ebitda (x)	43	74	108	46	-

Source: CLSA Asia-Pacific Markets

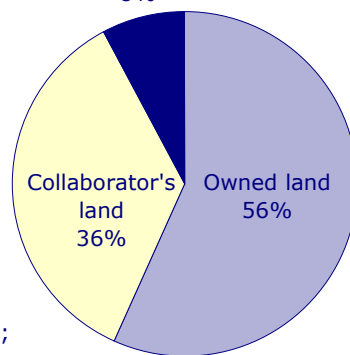
Play on emerging northern cities

One of the top five developers in the progressive northern region, Ansal Properties is well positioned to leverage India's booming real-estate sector. The residential segment (constructed and plots), which accounts for c.85% of its future development, will be the key growth driver. The company's core strength lies in raw-land acquisition and conversion into developed land by ensuring basic infrastructure amenities. The company has more than 20 township projects in tier-2 and 3 cities in northern India. It should benefit from the trend toward premium housing, retail, and IT sector expansion to smaller cities such as Jaipur, Mohali, etc. It recently raised funds by privately placing its equity to Citigroup (US\$39m) and Housing Development Finance Corporation (US\$11m) in October 2006. It also concluded a US\$152m qualified institutional placement in December. With these, Ansal has added resources to consolidate its landbank and continue development.

57% of landbank been fully paid for and the remaining is secured by part payment/agreement

Landbank analysis - Split between type of land ownership

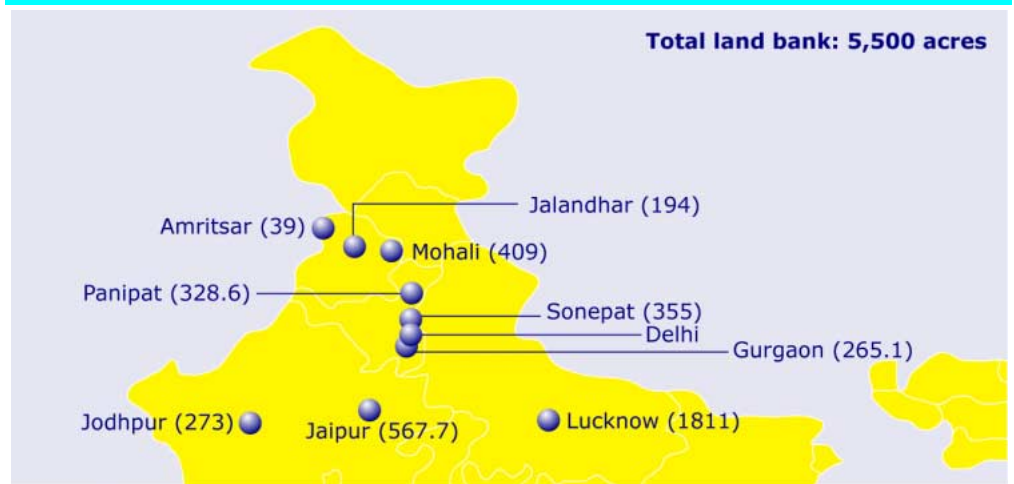
JVs own and develop land JV land 8% Total land bank: 5,500 acres



Land owned by third party; receives share of revenue of share of developed land

Land owned by APIL or group associates, but funded by APIL

Presence across select major towns (area in acres)



Source: Company

Development experience of c.32m sf

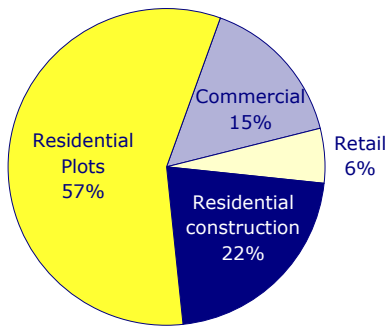
Ansal has built and delivered close to 6.9m sf of residential properties, 6.8m sf of commercial projects and 18.2m sf of plot sales. In the course of four decades of operation, the company has developed three generic brands: *Ansal Plaza* (retail development), *Sushant* (mid/premium-end township) and *Anand* (mid/low-end township).

Residential - The most dominant business segment

Although the company is a well-diversified developer with a presence in all segments of real estate, including residential, commercial, retail, and now SEZ, residential dominates its property development activities.

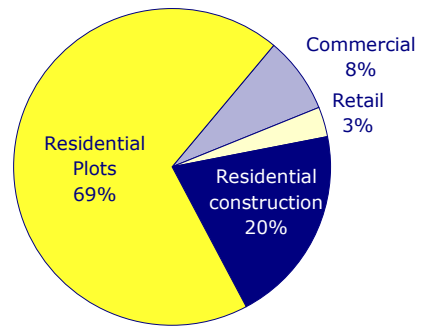
Property development till FY2006

(32 m sf)



Property development over FY07-10

(116 m sf)



Source: CLSA Asia-Pacific Markets

Playing to the strength

Plot development remains key within residential

Land acquisition, negotiations, land aggregation and securing of infrastructural amenities are the company's key strengths and it is sticking to that by focussing on sale of developed plots. The company identifies land mass outside major cities such as Delhi, Lucknow and Jaipur, and acquires it through mutual negotiations with the farmers, or with the help of respective state governments. Then Ansal secures permissions for land uses other than agriculture and for required approval to ensure availability of electricity, drinking water, sewerage system, etc. Later it splits the land mass into plots, to be sold to individual consumers, who build house per their own requirements. A typical plot is currently sold for Rs450-600/sf, while the acquisition cost is less than Rs100/sf and another Rs50-60/sf is spent on development. Thus, margins in this business tend to be quite high (as a percentage of revenue) - in excess of 60-70%.

One of the pioneers of township development

Booming township development

Ansal has been one of the first movers in township development business. During the late 1980-90s, it actively acquired land in Gurgaon and later developed and promoted in the same way other townships such as Sushant Lok and Palam Vihar. Along with the townships developed by leading developer DLF, Sushant Lok is one of the key catalysts for the urbanisation of Gurgaon. It is also one of the largest townships in Gurgaon, spreading over an area of 750 acres. Currently, the company has 24 townships under various stages of development. The company has recently struck a deal with the Uttar Pradesh government for developing 2500 acres of township in Dadri (NCR), close to the Delhi city.

Tier II and III cities are key focus areas

Investing in potential Gurgaon

Presence in Tier II cities

The company has established a strong presence in northern India and its operations encompass the state of Delhi, NCR (areas surrounding Delhi), Haryana, Punjab, Rajasthan and, more recently, Uttar Pradesh.

Some of these cities (Sonapat, Mohali) hold good potential and, if they grow along Gurgaon over the next five years, Ansal Properties will be a key beneficiary as it controls significant landbank in these areas.

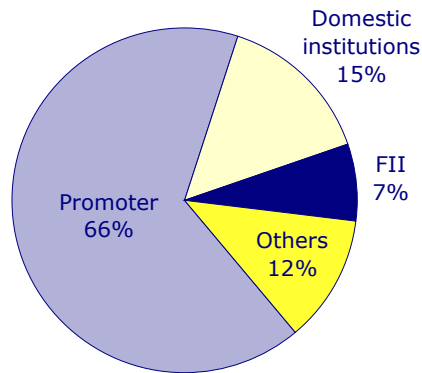
Some of the key Tier II/III cities where APIL is present

Town	Distance from major city	Major industries
Sonepat	47km from Delhi	Well known for its Atlas cycles, agri-based products, leather, pharmaceuticals
Panipat	129km from Delhi	Indian Oil Corp refinery, National Fertilizer, thermal power station.
Jalandhar	78km from Amritsar	Sports good, hand tools, auto components, rubber goods and surgical instruments
Mohali	Adjacent to Chandigarh	ICI Paints, Godrej Group, Infosys. Major business-process outsourcing centre: Quark, Dell, Philips
Amritsar	398km from Delhi	Textiles: VXL India and Essma; Woollen fabrics such as shawls, blankets

Source: CLSA Asia-Pacific Markets

Development of the company’s current landbank in many of these cities is set for completion by 2012. Being an early mover in these areas, it is well placed to judge the growth potential and consolidate its position in them.

Shareholding pattern (total outstanding shares 57.6m)



Note: as of 31 Dec-06 Source: Capitaline

Value amid uncertainties

BF Utilities is working on a project that could potentially transform the Bangalore-Mysore corridor. The plan involves a 164km high-speed expressway between the two cities and the development of five townships, totalling nearly 20,000 acres. But the project is now embroiled in a political controversy. The company has already received favourable verdicts from the High Court and the Supreme Court and a resolution of the political impasse would unlock significant value for the stock.

Building world-class expressway/townships

Nandi Infrastructure Corridor Enterprises (Nice), a 75% subsidiary of BF Utilities, is currently building the 164km expressway connecting Bangalore (the IT hub of India) and Mysore. This will be a six-lane (expandable into eight lanes) tolled expressway with five townships along the road. Work on the road has already started and a nearly 15km stretch is already under use. The company expects to open a total of 41km shortly.

Right to acquire 20,000 acres of land

From 2004, BF Utilities has 10 years to construct the road and another 30 years under an operations and maintenance contract including toll collection. In addition, the company also has a right to acquire about 20,000 acres of land to construct the road and develop five townships. Nearly 7,000 acres of this will be taken up by the road itself. Currently, the company has under its possession nearly 4,000 acres of land for Phase I and another 3,000 acres for Phases II and III of the project.

Conservatively, value of land at US\$8.4bn

Commercially saleable land of an estimated 7,200 acres translates into a constructed area of 632m square feet, which at Rs600/sf for the floor space index (FSI), works out to a current value of US\$8.4bn. More upside to this number is likely as the company might capture a portion of development profits as well. The total cost of the road project will be nearly US\$1.2bn, of which nearly US\$200m has been already incurred.

Project needs to overcome political hurdles

The key hurdle to unlocking the value of the project is political uncertainty. The huge risk-reward for the project has raised many eyebrows with the local government currently fighting a legal battle against this development. While the Supreme Court has given a verdict in favour of the project, opposition from local politicians continues and a potential resolution will unlock significant value for the stock.

Financials

Year to 30 Sept	2002A	2003A	2004A	2005A	9M2006A ¹
Revenue (Rsm)	258	2,824	3,106	3,514	127.5
Net profit (Rsm)	18	47	187	2,374	(15)
EPS (Rs)	0.5	1.3	5.0	63.0	0.0
EPS change (%)	-	169.9	295.6	1,166.6	-
PEx (@Rs2,723.60)	5,844.7	2,165.5	547.4	43.2	-
Dividend yield (%)	-	0.1	0.1	0.1	-
ROE (%)	0.6	1.6	6.3	49.2	-
PB (x)	36.5	34.9	34.6	21.3	-
Net gearing (%)	71	83	75	32	-
EV/Op Ebitda (x)	967.7	319.7	288.1	193.5	-

¹ Standalone. Source: CLSA Asia-Pacific Markets

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25 January 2007

India Property

Reuters BFUT.BO
Bloomberg BFUT IN

Priced on 23 January 2007
India Sensex @ 14,041.2

Market cap US\$2,319m
Shares in issue 37.6m
Free float (est.) 27%

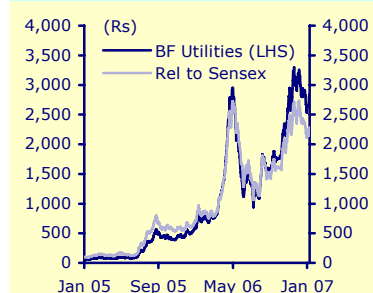
3M average daily volume
Rs183.9 (US\$4.1m)

12M high/low
Rs3,395.00/635.10

Major shareholders
Promoter 52%
Others 47%

Stock performance (%)

	1M	3M	12M
Absolute	(9.6)	59.6	341.5
Relative	(12.9)	45.5	191.0
Abs (US\$)	(8.8)	63.3	342.2



Source: Bloomberg

www.cls.com

The expressway involves about 111km plus 41km of the outer periphery

Bangalore-Mysore Expressway



Source: CLSA Asia-Pacific Markets

Project details

Road Component (7,000 acres)	9.1km of link road from Bangalore to the Expressway 111km of expressway 41km of outer periphery for Bangalore
Townships (13,194 acres)	Corporate centre: 2,775 acres Commercial centre: 1,836 acres Industrial centre: 1,615 acres Heritage: 2,682 acres Eco tourism: 4,286 acres
Utilities	Water & Sewage treatment Power generation Tele communications

Project cost details

Project component	Project cost - approx (Rsbn)	Expected Equity IRR (%)
Water & Sewage	7.0	12
Power Plant (400MW)	22.0	20+
Telecomm connectivity	2.0	20+
Road - Phase I (62kms)	10.0	na
Road - Phase II & III (99kms)	20.0	na
Total	61.0	25+

Source: Company Data, CLSA Asia-Pacific Markets

Toll and utility charges to provide the added upside

Upside to the valuation given below will come from toll collection and as well as economically remunerative utility projects, namely, water and sewage, telecom connectivity and power utility. In addition, the company also plans to run a monorail service along the road to provide better connectivity between Bangalore and Mysore and the five townships along the road.

Large upside can come if 7,000 acres of road is included in the 45%

In Phase I, strategic partners already hold 33%, including the Reliance group

The road seeks to cut travel time between Bangalore and Mysore by nearly half

Simplistic valuation for the road project

	Value (Rsm)	Comments
Total gross area (acre)	20,193	Nandi Infrastructure Corridor Enterprises (Nice) gets land in lieu of the Expressway
55% of it can be commercially developed (acres)	7,256	7,000 acres will be required for the road. 55% of the remaining can be sold. (Upside here if 7,000 acres considered as a part of the other 45%)
Commercially saleable land (m sf)	632	Using an average FSI of two on saleable land as above
FSI value /sf (Rs)	600	Currently FSI is being sold for Rs600-1,000/sf nearly in Phase I
Implied Rs/acre (Rsm)	52.3	The above implies a plain land value of Rs52m/acre
Value of land (Rsm)	379,293	= A
Value of land (US\$m)	8,429	
Costs		
Land acq & dev cost/acre (Rsm)	1.7	Stipulated land acquisition is Rs0.7/acre but may go up in future
Land acq cost (Rsm)	34,328	Total cost of land acquisition and development
Cost of road construction (Rsm)	17,000	Construction cost of road assumed at Rs90/km
Total project cost (Rsm)	51,328	= B
Net value of the road project (Rsm)	327,965	= C = A - B
Net value of the road project (US\$m)	7,288	
Less 15% stake to strategic partners	(49,195)	Reliance group (ADAG) picked up 15% stake in Phase I of the project
Net value to Nice	278,771	
Less debt	(5,000)	
Equity value to Nice	273,771	
BF Utilities' stake in Nice	75%	
Value to BF Ut (Rsm)	205,328	
Less debt on BF Ut	(1,500)	
Equity value for BF Ut (Rsm)	203,828	
Per share value for BF Ut (Rs)	5,554	Upside to the same will come from higher FSI value/sf. Potential toll revenue would add another 5-7%

Source: CLSA Asia-Pacific Markets

Project background

In 1995, the state government of Karnataka approved the development of a comprehensive urban and transport related infrastructure corridor between Bangalore and Mysore called the Bangalore-Mysore Infrastructure Corridor Project (BMICP). It proposes to cut down the travel time between these two cities to 1.5 hours from the current 3.5 hours.

Nice is the implementation agency for the project. The Kalyani Group, Vanasse Hangen Brustlin & SAB Eng (both US companies), signed a contract in 1995 with the then Chief Minister HD Devegowda and later, the Framework Agreement (being the constitution of the Project) was signed in February 1997 with Nice under the leadership of Chief Minister JH Patel. The project would be taken up and completed in the following phases.

First phase. Consisting of 41km of peripheral road (75 metre width) connecting NH7-Hosur Road (near Electronic City) to NH4-Tumkur Road (near Peenya Industrial Area), and 9.1km of Link Road and 12km of Expressway connecting the first township, which will become the Corporate Centre near Bidadi.

Second phase. This section consists of two townships, namely Commercial and Industrial Centres and the construction of 13km of Expressway.

The state government believes that Nice has received excess land

The Supreme Court has ruled in favour of NICE

Third phase. This section consists of two townships namely the Heritage Centre and Eco-Tourism Center and the remaining portion of the Expressway.

Final phase. This would consist of the 3km elevated link road (connecting the city centre to the link road).

The legal battle

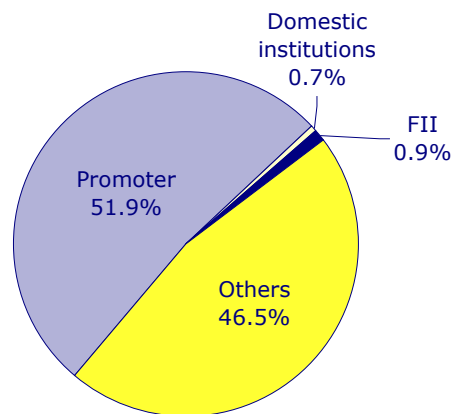
The state government of Karnataka has since 2004 argued against the BMIC on the grounds that the deal itself was signed fraudulently and that excess land had been acquired for the project by Nice. According to the government, the project has acquired/intends to acquire 2,450 acres of excess prime land.

The 10-year-old BMIC project has seen more than 300 legal cases filed against it. The project, however, has been cleared in four different legal forums - twice in the Karnataka High Court and twice in the Supreme Court.

In the 20 April 2006 ruling, the Supreme Court not only directed the state government to implement the framework agreement it had entered into with Nice in letter and spirit but also ordered the implementation and completion of the project 'expeditiously'. Subsequently, the state government filed a review petition on 3 July 2006, which was rejected by the Supreme Court on 3 November 2006.

Now the options for the state government include either a curative petition or introducing legislation in the assembly to enable the government to take back the excess land. However, the government will have to walk the fine balance between continuing to argue against the project without inviting contempt of the Supreme Court.

Shareholding pattern (total outstanding shares 37.6m)



Note: As of 31 Dec-06. Source: Capitaline

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25 January 2007

India Property

Reuters BDYN.BO
Bloomberg BD IN

Priced on 23 January 2007
India Sensex @ 14,041.2

Market cap US\$623m
Shares in issue 38.6m
Free float (est.) 53%

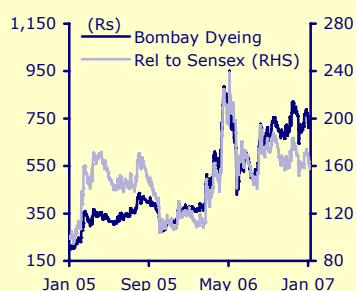
3M average daily volume
Rs985.1 (US\$22.0m)

12M high/low
Rs988.90/323.00

Major shareholders
Promoter 44%
Domestic Institutions 15%

Stock performance (%)

	1M	3M	12M
Absolute	1.1	7.2	98.5
Relative	(2.6)	(2.2)	30.8
Abs (US\$)	2.0	9.7	98.8



Source: Bloomberg

www.cls.com

Leaping into real estate

Bombay Dyeing is sitting on prime saleable landbank in central Mumbai totalling 3.7 million square feet. Development work has already begun at the location in Dadar and residential units are being sold at Rs14,000/sf. The development work at the second site in Lower Parel is likely to start soon. Both projects are likely to be completed by FY10. The net present value of these two real estate assets works out to Rs951. Our sum of parts value for Bombay Dyeing is Rs1,040.

Forward integration of the petrochemical business

Bombay Dyeing is the flagship company of the Wadia group, which includes Britannia, Go air and Bombay Burmah. The company has a presence in textiles, petrochemicals (DMT/PSF) and real estate. It is also forward integrating from DMT to PSF (Polyester Staple Fibre) and is working on a manufacturing unit with a capacity to make 165,000 million tonnes of PSF. The plant is expected to be operational by 4QFY07.

Textile business expansion

Bombay Dyeing is in the process of shifting its two textile mills out of Mumbai given prohibitively high costs. The move will enable the company to commercially exploit the vacated land. It has already bought 140 acres at Ranjangaon near Pune for relocation of the mills. The move will significantly reduce operational costs and nearly double revenue to Rs8bn by FY09. The Rs7.5bn capital expenditure for the expansion and the textile-mill relocation have been largely incurred.

Entry into real estate development

The company intends to develop the two properties located in central Mumbai vacated by the shift of textile business viz. Spring Mill (located in Dadar, Central Mumbai), and Textile Mill (Lower Parel). These toad up to saleable area of 3.7m sf, which will be largely used for commercial development viz. hotels, serviced apartments, and retail etc. While the development at Spring Mill (2.2m sf) has already started, development at Lower Parel is likely to start soon. Both the projects are expected to be finished by FY10.

Sum of parts value at Rs1,040

We estimate the value of Bombay Dyeing's real-estate business ventures at Rs951 per share, based on a post-tax discounting rate of 16%. We estimate the value of the core business is in excess of Rs10bn (Rs270/share). Taking into account net debt, we arrive at a sum of parts value of Rs1,040/share.

Financials

Year to 31 March	2003A	2004A	2005A	2006A	1H2007A*
Revenue (Rsm)	8,718	9,055	10,256	10,130	2,468
Net profit (Rsm)	323	535	266	613	258
EPS (Rs)	8.2	13.9	6.9	15.9	6.5
EPS change (%)	-	68.3	(50.4)	130.7	-
PEX (@Rs713.20)	86.5	51.4	103.5	44.9	-
Dividend yield (%)	0.4	0.6	0.6	0.7	-
ROE (%)	9.1	13.9	7.8	13.2	-
PB (x)	7.91	7.12	8.04	5.92	-
Net gearing (%)	108	94	104	120	-
EV/Op Ebitda (x)	80.2	61.0	76.9	48.4	-

Source: CLSA Asia-Pacific Markets

The project to be fully operational in FY10

Development of 1.5m sf in Lower Parel is planned

Transforming mill land into real estate

Bombay Dyeing is developing the Spring Mill land into a 2.2m sf residential and commercial complex. The first phase will include a 40-storey residential tower with approximately 125 units. Construction has begun and 45 units have already been pre-sold. The company launched pre-sales in August 2006 at a base rate of Rs10,000/sf (floor rise, parking slot charges and charges for other amenities not included). The base rate increased to 12,000/sf in September 2006 and the third phase of presales is now underway at Rs14,000/sf. The residential tower is already under construction and expected to be available for possession by September 2008. All the requisite approvals for this project are in place. The second phase of the project will include a retail mall and office space. Once fully developed, the "Dadar Town Centre" will include a 5-star hotel of 400 rooms and 300 service apartments. The project is expected to be fully operational in FY10.

Bombay Dyeing's second mill in Lower Parel (central Mumbai) is spread over 25 acres. The company aims to develop the site into commercial space with a saleable area of nearly 1.5m sf. Once complete, the project will look similar to the Spring Mill project without the residential tower.

Bombay Dyeing's real-estate business NPV calculation

Spring mill : Dadar/Parel; Central Mumbai

Land use	Area (m sf)	Selling rate (Rs/sf)	Constr. Cost (Rs/sf)	Op profit /sf	Net profit (Rs m)	Years of discounting	NPV (Rsm)
Residential	0.36	13,580	2,500	11,080	3,989	1.5	3,234
	Area (m sf)	Rentals/sf/month (Rs)	Annual rentals (Rsm)	Capitalised value (Rsm)	Less cost of construction /sf	Construction cost (Rsm)	
Retail	0.90	200	2,160	21,600	3,500	3,150	
Hotel	0.36	200	864	8,640	3,500	1,260	
Service apartments	0.27	200	648	6,480	3,500	945	
Office	0.35	200	840	8,400	3,500	1,225	
Total	2.24		4,512	45,120		6,580	
Years of discounting				2.5		1.5	
Discounting rate (%)				16		16	
Present value				31,133		5,267	18,107

Textile mill : Lower parel/Worli, Central Mumbai

Retail	0.52	225	1,409	14,094	3,500	1,827	
Hotel	0.26	225	689	6,885	3,500	893	
Service apartments	0.30	225	797	7,965	3,500	1,033	
Office	0.26	225	707	7,074	3,500	917	
Convention centre	0.18	225	486	4,860	3,500	630	
Total	1.51		4,088	40,878		5,299	
Years of discounting				3.0		1.5	
Discounting rate (%)				16		16	
Present value				26,189		4,241	15,363

Total value of real-estate ventures (Rsm)

36,704

Per share (Rs)

951

Source: CLSA Asia-Pacific Markets

As per calculations explained above, the value of the company's existing real-estate ventures works out at Rs951 per share. We have used a post-tax discounting rate of 16%. We have conservatively assumed the discounting period of 1.5 years for the residential project (assuming a total build-out period of three years against the company's projection of less than two years). For the commercial projects, we have used an average discounting period of 2.5 years for the Spring Mill project and three years for the Textile Mill project. Construction costs have been discounted by a lesser period of 1.5 years given the construction costs will be incurred throughout the

Sum of parts works out to at Rs1040 per share

construction period and the rentals have been assumed to accrue once the construction has been completed. We have assumed a 30% tax rate on the commercial projects' profits. The accumulated losses will be offset against the profits from the residential project, therefore no tax is assumed for the residential project.

Sum of parts for Bombay Dyeing

We estimate the value of the core business at over Rs10bn (Rs270/share). This is based on a conservative Rs10/kg Ebitda margin for the chemicals business (PSF), which has a capacity of 165,000mt and an EV/Ebitda multiple of 4x, and an 8% Ebitda margin on the textile business, with a turnover of Rs8bn by FY09 and an EV/Ebitda multiple of 6x. The current debt of Rs7bn is attributable to the capex in these two businesses. Wages of about Rs850m for employees at Spring Mill and Textile Mill have been included in our numbers. The sum of parts for the equity shares of Bombay Dyeing works out at Rs1040 per share.

Sum of parts for Bombay Dyeing

Business	Value (Rsm)	Comments
Real estate ventures	36,704	Includes a rental income stream of Rs7.8bn/years starting FY10
Petro-chemicals	6,600	165,000 MTPA capacity for PSF; Ebitda margin of Rs10/kg; EV/Ebitda multiple of 4x
Textiles	3,840	Current textile revenue of Rs4bn to double by FY09; Ebitda margin of 8% and EV/Ebitda multiple of 6x
Less debt	(7,000)	Taken for the capex program of textile and pet-chem business
Net equity value	40,144	
No of shares (m)	38.6	
Equity value / share	1,040	No discount assumed as real estate ventures account for 91% of the value

Source: CLSA Asia-Pacific Markets

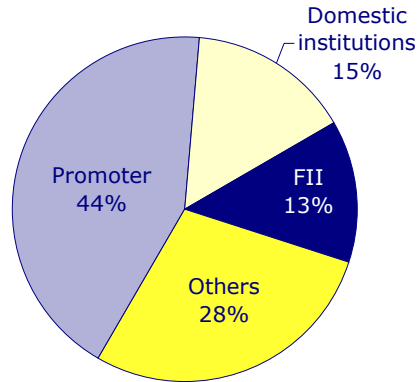
Key sensitivities and risks

- ❑ Every delay of six months impacts the net asset value of real-estate ventures by nearly Rs25/share.
- ❑ Every 1% change in the discounting rate changes the value of real-estate ventures by Rs20/share
- ❑ Every Rs10/sf-per-month change in the rental assumption changes the value of real-estate ventures by Rs50/share.
 - While we have assumed a rental of Rs225/sf/month for Worli, some recent deals in Worli and nearby areas have taken place at a rate 20-30% higher. We also see upside risk to Rs200/sf/month rental assumption at the Dadar property.
- ❑ While we have assumed a rental model for valuation of properties, Bombay Dyeing may retain equity stake in some of the businesses viz. hotel and service apartments. However, given that there is currently only one five-star hotel in central Mumbai, hotel business could be a lucrative business in that area.
- ❑ Bombay Dyeing is scouting other real-estate development projects that will help it sustain its real-estate business, which in turn, will lead to the stock's rerating. In the past, subsidiaries have been involved in real-estate business in the Samudra Mahal, Beach Tower, Nestle House and

More real estate development possible

Naperol Towers. However, there is the possibility of the promoter-owned group company,, rather than the listed Bombay Dyeing, getting into real-estate development.

Shareholding pattern (total outstanding shares: 38.6m)



Note: As of 31 Dec-2006. Source: Capitaline

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25 January 2007

India Property

Reuters DSKL.BO
Bloomberg DSK IN

Priced on 23 January 2007
India Sensex @ 14,041.2

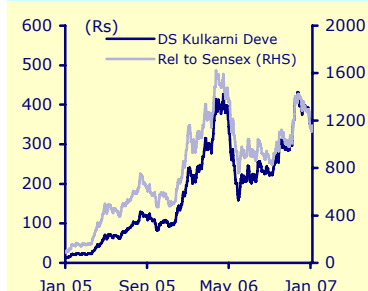
Market cap US\$174m
Shares in issue 22m
Free float (est.) 54%

3M average daily volume
Rs35.9 (US\$0.8m)
12M high/low
Rs449.90/156.20

Major shareholders
Promoter 21%
FII 30%

Stock performance (%)

	1M	3M	12M
Absolute	(10.0)	15.8	48.2
Relative	(15.0)	3.9	(1.3)
Abs (US\$)	(9.3)	18.5	48.1



Source: Bloomberg

www.cls.com

Mid-end focus

DS Kulkarni Developers focuses on residential property, mainly in Pune, a regional educational and IT and IT enabled services (ITES) activity hub. To date, it has completed 12.5m sf of development, and has a landbank of 17.5m sf, which is likely to be exhausted by FY12. Of the total development, 16.5m sf is located in Pune and the majority of this is residential property. We have arrived at a fair-value estimate of Rs494/share for the stock.

Landbank in fast-growing cities like Pune

DS Kulkarni is a strong home-grown brand in the city of Pune (about 170km southeast of Mumbai). Pune plays host to the fast-growing IT/ITES industry and a number of IT majors like Infosys, TCS, Wipro and Satyam base their operations there. The city, which is already considered a regional educational hub, is set for robust growth and DS Kulkarni is likely to participate in this.

Residential segment is focus

The company focuses on residential property development projects, which account for c.90% of its total landbank. It intends to maintain a focus on the residential segment, particularly mid-range housing. The company's average selling price/sf for projects at hand works out to well below Rs3,000/sf.

Attractive valuation

Our NPV for DS Kulkarni is Rs494/share and the stock currently trades at a roughly 30% discount to NPV. We have valued the company by discounting cashflow from its projects at a rate dependent upon the risks involved in each type - we used a 16% discount rate for residential and commercial projects and a 25% discount rate for SEZ projects.

Key risks

The DS Kulkarni group has undertaken property projects outside the listed entity - such as the high-profile Durgamata Towers project in Mumbai's prime location, Cuffee Parade. The company is also developing projects in the USA and has plans for projects in Australia and the Middle East. While these would be value-accretive, the risk is that this could divert attention away from the high-growth domestic business.

Financials

Year to 31 March	2003A	2004A	2005A	2006A	1H2007A ¹
Revenue (Rsm)	492	511	534	1,330	227
Net profit (Rsm)	14	15	37	176	181
EPS (Rs)	1.3	1.3	3.3	16.0	9.1
EPS change (%)	(51.1)	5.6	147.7	379.6	-
PEx (@Rs350.6)	274.9	260.2	105.1	21.9	-
Dividend yield (%)	0.2	0.2	0.2	1.1	-
ROE (%)	7.6	7.8	16.8	51.1	-
PB (x)	20.77	20.18	17.63	11.19	-
Net gearing (%)	116	195	287	302	-
EV/Op Ebitda (x)	120.5	124.1	67.2	22.7	-

¹ Standalone. Source: CLSA Asia-Pacific Markets

Current and future projects

DSK's ongoing and upcoming projects

Project Name	Area (sf)	Location	Description	Expected start date	Expected end date
ON GOING PROJECTS					
DSK Vishwa IT Park	1,200,000	Pune	IT Park	Feb 07	Aug 08
DSK Garden Enclave	244,176	Pune	176 designer apartments	Jul 05	Dec 07
DSK Madhuban	309,024	Mumbai	252 apartments	Jan 06	15 Dec 08
DSK Vishwa Saptsur	475,496	Pune	418 apartments	Jul 05	15 Dec 07
DSK Sayanatarra Plots	435,180	Pune		Sold	
Bungalows	8,716			Dec 05	15 Jun 07
Villa	50,567			Feb 07	15 Mar 09
DSK Sundarban	626,016	Pune	600 apartments and shops	Jul 05	15 Dec 07
DSK Rohan	14,997	Pune	Premium apartments	Nov 05	15 Jan 07
DSK Fortuna	117,394	Bangalore	Premium apartments	Jun 07	15 Dec 09
DSK Vishwa Ph. V, VI & VII	1,055,000	Pune	Part of mega township	Jun 07	15 Feb 10
DSK Frangipani	134,220	Pune	80 Super luxurious apartments	Jul 05	15 Jan 07
UP COMING PROJECTS					
DSK Vishwa Ph. VIII	2,000,000	Pune	Part of mega township	These projects are expected to start within 6 months to 1 year in various phases and are expected to complete by FY12-FY13	
DSK Vishwa Ph. IX	1,664,096	Pune	Part of mega township		
DSK Project Balewadi	825,100	Pune	Residential complex		
DSK Projects Baner	112,290	Pune			
DSK Torino Bangalore	290,400	Bangalore	Residential cum commercial complex		
DSK Meenakshi Bangalore	292,000	Bangalore	Residential complex		
DSK Empire Furusungi		Pune			
SEZ-1	767,745		SEZ		
SEZ-2	2,303,235		SEZ		
Township	4,606,470		Integrated township		
Total	17,532,122				

Source: Company, CLSA Asia-Pacific Markets

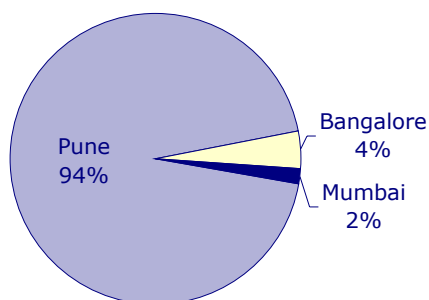
Valuation

	(Rsm)
Present value of project profits	10,534.5
Gross debt	800.0
Cash	1,800.0
Customer advances	655.8
Net debt	(344.2)
Market value	10,878.7
No. of shares	22.0
NPV (Rs)	494.5

Source: CLSA Asia-Pacific Markets

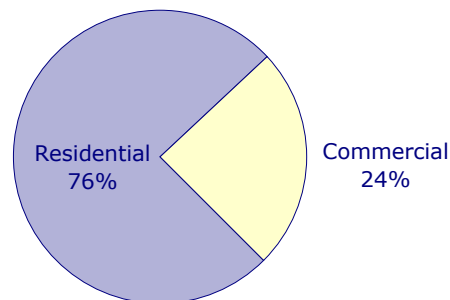
City wise area under development

Total area: 17.5m sf



Segment wise area under development

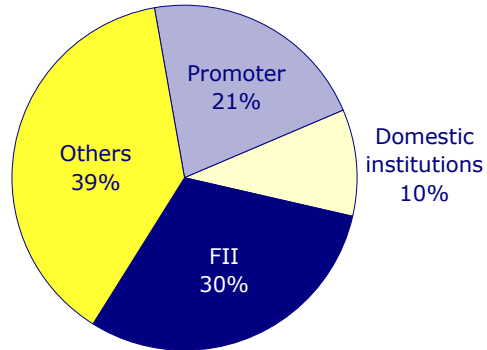
Total area: 17.5m sf



Source: Company, CLSA Asia-Pacific Markets

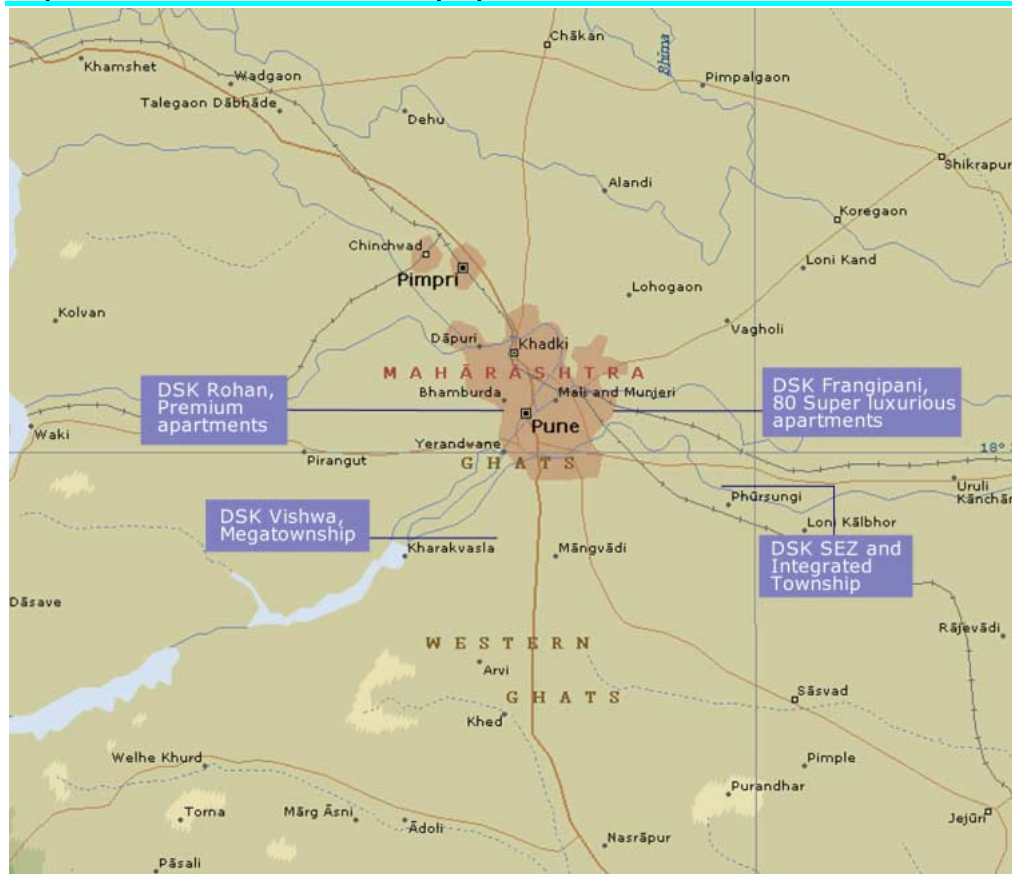
Promoters along with associates own 21%

Shareholding pattern (as on Dec31st 2006) Total outstanding shares: 22m



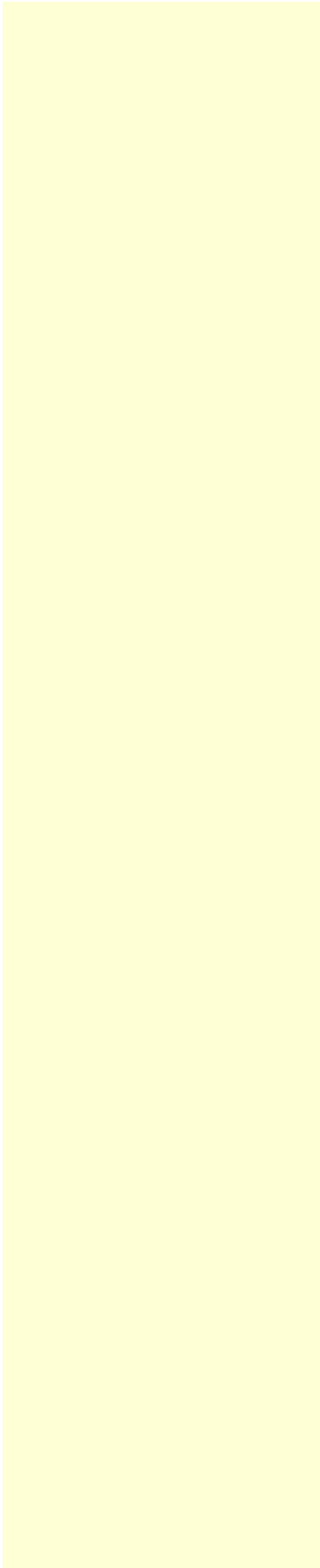
Note: As of 31 Dec-06. Source: Capitaline

Map of Pune with location of DSK's properties



Source: Company, CLSA Asia-Pacific Markets

Notes



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25 January 2007

India Property

Reuters MGD.L.BO
Bloomberg MGSCO IN

Priced on 23 January 2007
India Sensex @ 14,041.2

Market cap US\$668m
Shares in issue 40.8m
Free float (est.) 55%

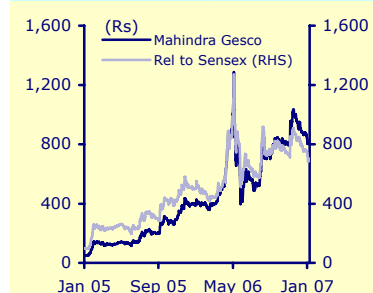
3M average daily volume
Rs466.5 (US\$10.4m)

12M high/low
Rs1,300.00/350.00

Major shareholders
Promoter 45%
FII 31%

Stock performance (%)

	1M	3M	12M
Absolute	(12.8)	1.7	95.6
Relative	(15.9)	(7.3)	28.9
Abs (US\$)	(12.0)	4.1	95.9



Source: Bloomberg

www.cls.com

SEZ play

With a proven track record of developing the only operational private special economic zone (SEZ) in India, Mahindra Gesco understands the business of SEZ development - repeat business from Infosys and Wipro reinforces our belief. The progress of another two SEZ projects, in Jaipur and Pune, could boost Mahindra's net present value (NPV) by as much as 50% from the current Rs1,003. The stock appears attractively valued.

Well-known residential developer in western India

Mahindra has earned itself a brand in the residential construction space with 3.5m sf completed development to date, of which 82% is concentrated in the western cities of Mumbai and Pune. Dependence on these cities is likely to reduce as the company spreads its geographical footprint. Of the further 3.3m sf in progress, Mumbai and Pune accounts for only 55%.

Most credible SEZ play

Mahindra Gesco has developed the only operational private SEZ in India at Chennai. The Chennai SEZ is spread over 1,400 acres and the company has already leased out 94% of the industrial area (841 acres) to corporations, including Infosys, Wipro, Mastek, Ascendas, BMW, etc. It is now proposing to expand this SEZ by another 1980 acres. MGDL has also started the process of setting up two SEZs of 3,000 acres each near Jaipur and Pune. As an endorsement, Infosys and Wipro are repeat clients for the Jaipur SEZ.

Chennai SEZ is worth US\$350m

We estimate the NPV of the Chennai SEZ is nearly US\$340m, with bulk of its value coming from the potential development and sale of the social infrastructure (housing, mall, etc) area of 310 acres. We have assumed the company uses only 70% of the total FSI (Floor Space Index) of 20m sf. At the current selling rate of Rs2,500/sf, we have assumed a 6% annual increase and expect the company to complete total sales over a seven-year period.

Premium to NPV likely

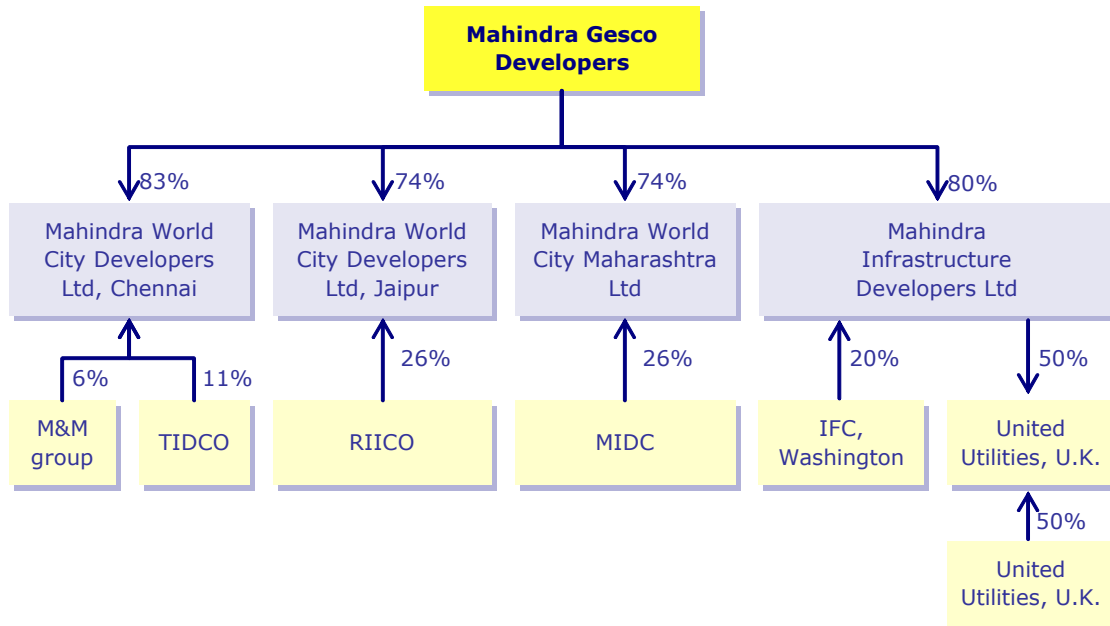
In a September 2006 valuation report, independent property consultant Trammell Crow Meghraj (TCM) valued Mahindra's properties at Rs62bn. Our NPV for the stock is Rs1,003/share or c.50% discount to valuation as done by TCM, which factors in ongoing projects, Chennai SEZ, properties on the book and, partially, Jaipur SEZ. With further progress of projects at Jaipur SEZ and Pune SEZ, NPV will move up, we believe the stock should trade at a premium to our NPV.

Financials

Year to 31 March	2003A	2004A	2005A	2006A	1H2007A ¹
Revenue (Rsm)	593	717	1,233	2,163	797
Net profit (Rsm)	(2)	0	4	165	62
EPS (Rs)	(0.1)	0.0	0.1	5.3	2.0
EPS change (%)	(97.0)	(112.7)	1,322.9	4,614.7	-
PEx (@Rs798.5)	-	100,710.5	7,077.6	150.1	-
Dividend yield (%)	-	-	-	0.1	-
ROE (%)	(0.1)	0.0	0.2	9.1	-
PB (x)	12.51	12.51	14.01	13.73	-
Net gearing (%)	78	48	92	98	-

¹ Standalone. Source: CLSA Asia-Pacific Markets

Mahindra Gesco's holding structure



Source: Company

NPV works out to be Rs1,003/share

SEZ business accounts for 80% of NPV

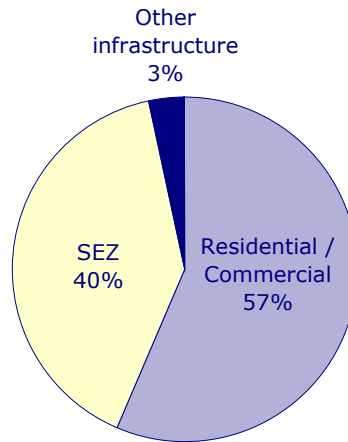
NPV calculation for Mahindra Gesco

Sum of parts	(Rsm)	Comments
Chennai SEZ	14,947	Only considered existing 1,400 acres of SEZ. Proposed extension of 1,980 acres will be over and above this.
Jaipur SEZ	13,981	Valued 1,000 acres of the total 3,000 acres, which has been acquired at an over 50% discount to the other chunk of land.
Pune SEZ	-	Have not valued the SEZ at Karla as land has not been acquired.
Rented properties on the book	1,140	98,914 sf of commercial properties on the book.
NPV of props under dev	3,966	Nearly 2.8m sf of properties under various stages of development (SEZ excluded).
Landbank in Goa/Murud/Baroda and other projects	2,545	Owens a 16% stake in a company that owns 1,300 acres at Murud. Also includes the 72 acres Thane SEZ.
Total	36,580	
Less debt/pref	4,330	Warrant conversion assumed.
Equity value	40,911	
Per share (Rs)	1,003	41m shares of fully diluted shares; upside will come from progress of Jaipur and Pune SEZ projects.

Source: CLSA Asia-Pacific Markets

SEZ business, even in revenue terms, is now appreciable

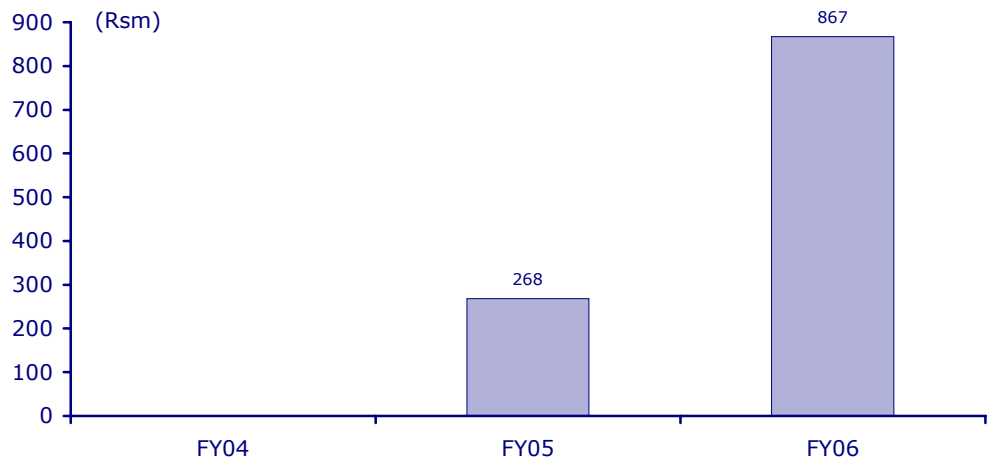
FY06 revenue mix: Total Rs2.1bn



Source: Company

Figure 60

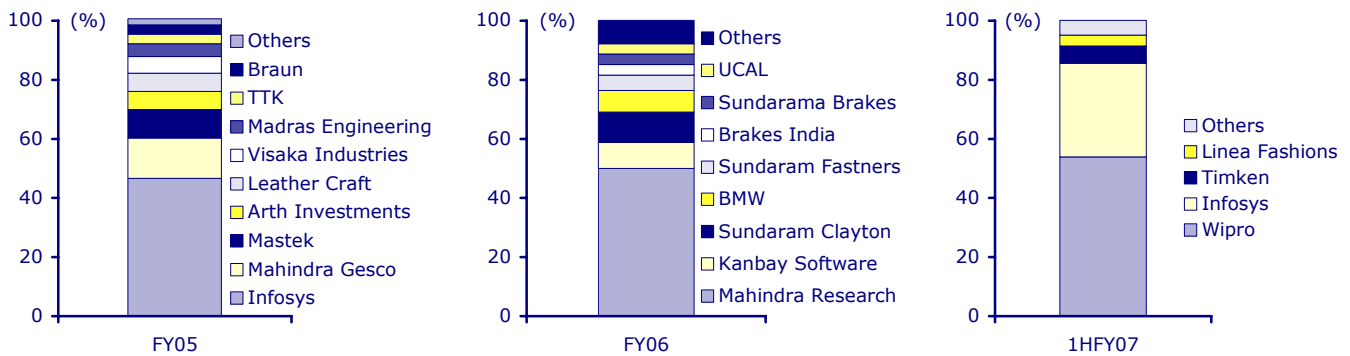
SEZ revenue



Source: Company

Figure 61

SEZ revenue by client



Source: Company, CLSA Asia-Pacific Markets

3.3m sf of projects ongoing

SEZ land acquisition can be politically sensitive

Competitive dynamics for SEZ can worsen

IT tax benefits may be extended beyond March 2009

Ongoing projects (all residential)

Project	Location	Area (m sf)	Status
Central Park	Gurgaon	0.6	Ongoing
The Woods	Wakad, Pune	0.5	Ongoing
Sylvan County	Chennai	0.5	Ongoing
Mahindra Eminente	Mumbai	0.3	Ongoing
Great Eastern Gardens	Mumbai	0.1	Ongoing
Mahindra Royale	Pune	0.6	Approvals awaited
Mahindra Eminente	Fairdabad	0.4	Approvals awaited
Mahindra Splendour	Mumbai	0.3	Approvals awaited
Mahindra Park	Mumbai	0.04	Approvals awaited
	Grand Total	3.3	

Source: Company

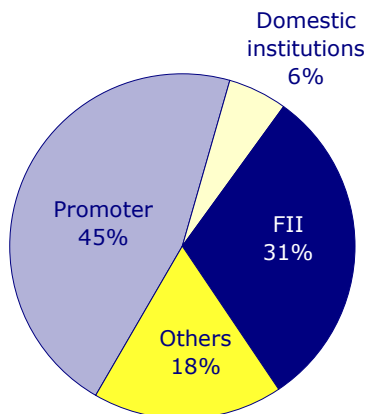
Risks associated with SEZ

SEZ land acquisition. SEZ projects have become political issues as they involve the acquisition of large tracts of land from farmers at a lucrative rate (on a non-competitive basis). In the specific case of Rajasthan and Pune, land has yet to be acquired. Although Mahindra Gesco has taken steps to reduce this risk by partnering with the local government (26% stake), delays in land acquisition can significantly affect NPV. It is estimated that the land acquisition will involve displacement/rehabilitation of more than 4,000 families, which is likely to be a politically sensitive problem.

SEZ business risk. Since the announcement of the SEZ policy, close to 400 SEZs have been granted either in-principle or formal approval. This adds up to 175,000 hectares (437,000 acres) of total area for SEZs. All these SEZs would be competing for business with each other. While, Mahindra Gesco has taken a lead in SEZ development, competitive scenario can worsen drastically.

STPI extension risk. The possible extension of the Software Technology Parks of India (STPI), which allows for income tax benefits for the IT/IT-enabled service industry, will be a potential source of risk. As of now, STPI benefits are slated to expire in March 2009, driving IT companies towards SEZs for tax gains. A possible extension of STPI will increase the business risk for SEZs.

Shareholding pattern (total outstanding shares: 40.8m)



Note: as of 31 Dec-06. Source: Capitaline

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25 January 2007

India Property

Reuters PENL.BO
Bloomberg PENL IN

Priced on 23 January 2007
India Sensex @ 14,041.2

Market cap US\$494m
Shares in issue 47.1m
Free float (est.) 34.6%

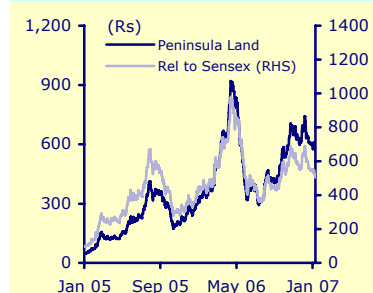
3M average daily volume
Rs122.8 (US\$2.7m)

12M high/low
Rs966.80/285.80

Major shareholders
Promoters 65.4%
Domestic Institutions 11.1%

Stock performance (%)

	1M	3M	12M
Absolute	(20.5)	2.5	85.4
Relative	(23.2)	(7.3)	20.5
Abs (US\$)	(19.8)	4.8	85.7



Source: Bloomberg

www.clsa.com

Asset-light model

Peninsula Land is among the first to use old textile mill land to enter the property-development business. The company sees its core strength in development rather than landbank creation and follows an asset-light structure. It will soon launch two property-development funds to ensure land availability, which in turn, will lower balance-sheet exposure. Given its business model and brand image, we believe Peninsula Land deserves to trade at a premium to net present value of Rs576/share.

Residential and commercial developer in Western India

Peninsula Land develops residential projects under the brand name *Ashok*, retail projects under the brand *Crossroads*, and operates under the *Peninsula* brand for office-space projects. The company has nearly 3.5m sf of land under various stages of development in Central Mumbai. While the residential projects Ashok Tower and Ashok Garden, which will add up to 2m/sf, will be completed in March and September 2008 respectively, commercial projects at two other locations will be concluded in 1HFY10.

Asset-light development model

Peninsula Land focuses on development and marketing as its core business activities and does not follow an aggressive landbank model. While it currently has land reserves of nearly 25m/sf of saleable area, it has no interest in creating landbanks required in excess of three to four years of development requirement. Its association with Swan Mills epitomises its asset-light philosophy wherein Peninsula Land will likely make an estimated profit of Rs2.2bn with an investment of just Rs300m through a pure-revenue share model.

Will soon launch real estate funds

Peninsula Land is in the process of establishing a property-investment funds, which will be managed independently from the company, will co-invest in all future development projects. The company believes that this will further help the company in pursuing its asset-light model and earn development profits rather than investment profits.

SEZ a key value driver

Peninsula Land is tapping the special economic zone (SEZ) business and has already acquired land for three SEZs in Goa totalling some 16m sf of saleable area. The company is also close to acquiring another 13m sf of saleable area in IT SEZs near Pune.

Financials

Year to 31 March	Sep 2001A	Sep 2002A	18M 2004A	2005A	15M 2006A
Revenue (Rsm)	2,964	2,605	6,410	622	2748
Net profit (Rsm)	(208)	(405)	(722)	(95)	1506.5
EPS (Rs)	(11)	(20.8)	(37.1)	(4.9)	28.8
EPS change (%)	-	-	78.3	(86.8)	-
PEx (@Rs519)	-	(25.0)	(14.0)	(106.2)	-
Dividend yield (%)	-	-	-	-	-
ROE (%)	-	(24.6)	(52.8)	(7.8)	-
PB (x)	-	6.15	7.40	8.27	-
Net gearing (%)	-	263	243	290	-
EV/Op Ebitda (x)	-	58.9	4.8	(679.2)	-

Source: CLSA Asia-Pacific Markets

NPV works out to Rs576/share
(a) Association with Swan Mill

	Area (m sf)	Avg selling rate (Rs/sf)	Revenue	PENL's share @ 22%	Net profit (Rsm)
Ashok Garden (residential)	0.9	8,200	7,380	1,624	1,088
Swan mill (IT park)	0.9	9,000	8,100	1,782	1,194
Total					2,282
Discounting rate (%)					15
Number of years					1.0
NPV					1,984

(b) Mill land development (residential/commercial)

	Area (m sf)	Avg selling rate (Rs/sf)	Avg cost of constr (Rs/sf)	Op profit /sf	Net profit (Rsm)
Ashok Tower (residential)	1.1	8,200	3,000	5,200	4,576
Discounting rate (%)					15
Number of years					1.0
NPV					3,979
Dawn Mills (commercial)	0.6	20,000	3,000	17,000	8,160
Discounting rate (%)					15
Number of years					2.0
NPV					6,170

(c) Rental business

	Current rentals (Rsm/year)	Expected rentals (Rsm/year)	NPV
Piramal chambers	50	130	1,300

(d) SEZ business

	Area (m sf)	Rental/sf/month (Rs)	Annual rental (Rsm)	Capitalised value
SEZs (Goa/Pune)	15.7	25	4,710	47,100
Cost of construction				23,550
Net profit				22,650
Discounting rate (%)				14
Number of years				2.0
NPV				17,428
Total NPV				30,862
Less debt/liabilities				(1,940)
Less customer advances				(1,800)
Mkt value				27,122
Number of shares (m)				47.1
Value/share				576.0

Source: CLSA Asia-Pacific Markets

Brief history of Peninsula Land

Year	Event
1934	The Piramal family acquired the textiles business of Morarjee Goculdas Spinning and Weaving (MGSW)
2001	The company entered the real-estate market using its two land parcels in Mumbai
2003	Textiles business demerged and the property business was renamed Morarjee Realities (MRL). MRL completed the Peninsula Corporate Park
	Launched its first residential project Ashok Towers on the land of former MGSW
2005	Piramal Holdings (PHL) merged into MRL and its name changed to Peninsula Land. PHL developed Crossroads - a well known retail mall in Mumbai
2006	Dawn Mills merges into Peninsula Land - taking the fully diluted number of shares to 44.5 million
2007?	The company plans to launch real-estate fund, domestically and internationally.

Source: Company data, CLSA Asia-Pacific Markets

5 SEZ projects under various stages of planning

Current ongoing projects

Project	Saleable area (m sf)	Expected completion	Description
Ashok Tower	1.1	Mar 08	Premium residential project in central Mumbai. 90% sold out.
Ashok Garden	0.9	Sep 08	Premium residential project in central Mumbai. 70% sold out.
Peninsula Technopark	0.9	Mar 09	An IT park in North-Central Mumbai
Peninsula Business Park	0.6	Jun 09	Commercial project in Central Mumbai on the land of erstwhile Dawn Mills

Source: CLSA Asia-Pacific Markets

The SEZ business

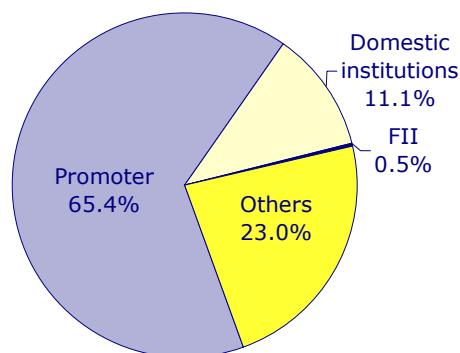
Peninsula Land's future SEZ projects

Project	Location	Approx. Saleable area (m sf)	Expected Completion date
Biotech Park	Goa	4.1	FY11
Gem & jewellery park	Goa	1.8	FY11
Bioteck park	Goa	9.8	FY11
IT-SEZ ¹	Pune	6.0	FY11
Electronics / IT park*	Pune	7.0	FY12/13

¹ Under advanced stage of negotiation. Source: Company data, CLSA Asia-Pacific Markets

Land for SEZs in Goa has been acquired by the company. The acquired land is urban/industrial land and therefore, the land use conversion is not required. The company has received central government approval for one of the Biotech SEZs in Goa while the approval for the remaining two is in advanced stage of development and is expected shortly.

Shareholding pattern (total outstanding shares: 47.1m)



Note: As of 31 Dec 06. Source: Capitaline