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Real Estate Sector at Crossroads

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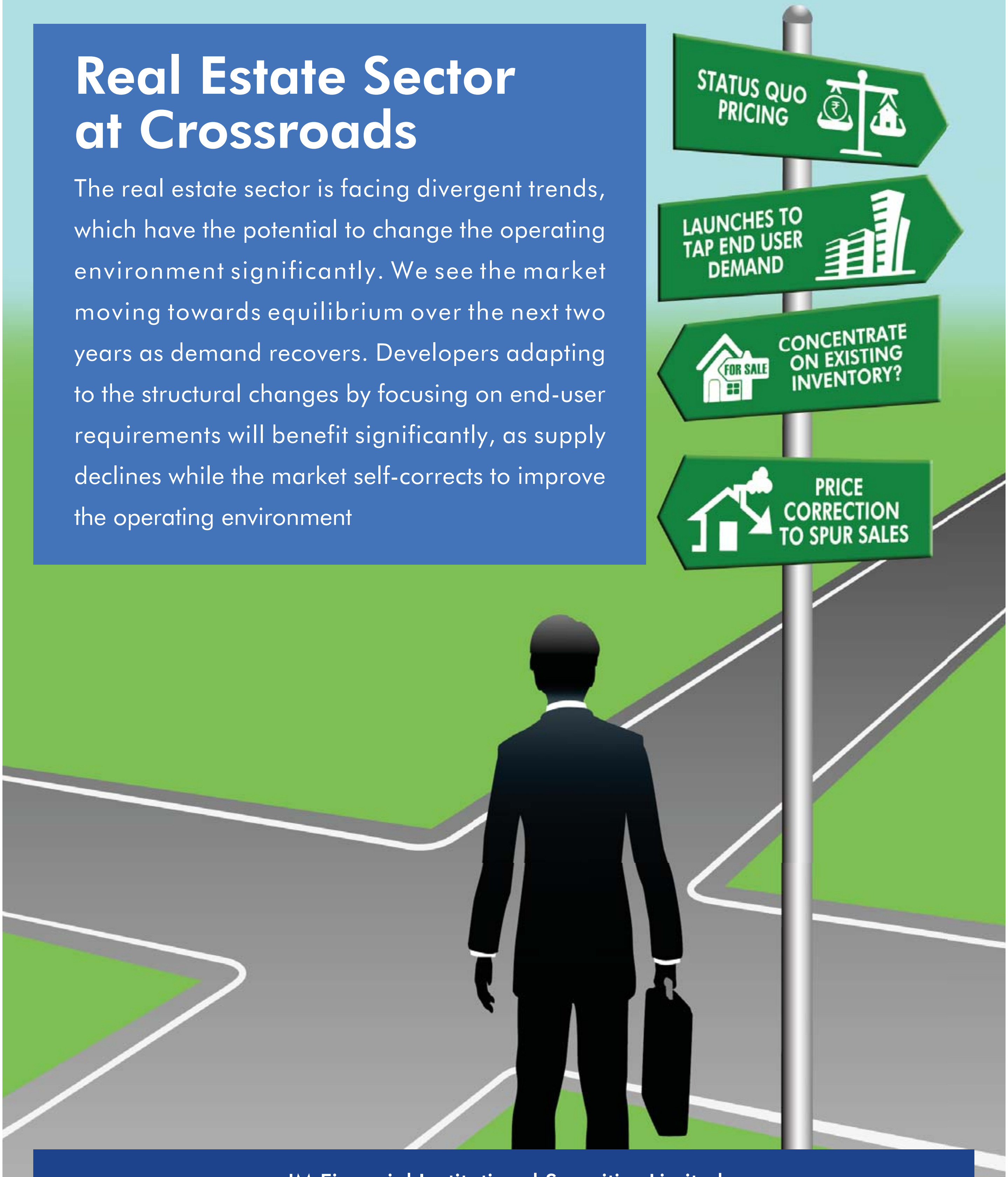

JM Financial Institutional Securities Limited

19 January 2017

India | Real Estate | Sector Update

India Real Estate

Sector at crossroads as operating dynamics change

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The real estate sector is facing divergent trends, which have the potential to change the operating environment significantly. On one hand, stakeholders are benefitting from lowest interest rates in more than a decade, while on the other, the government's clamp down on black money and implementation of real estate regulations is expected to have substantial short-term impact on developers. Based on affordability analysis in the current dynamics, we see the market moving towards equilibrium over the next two years as demand recovers. While price cuts could hasten the process, our analysis of funding to the developers (after demonetisation) suggests surplus liquidity funding the sector, leading to higher holding capacity. Developers adapting to the structural changes by focusing on end-user requirements will benefit significantly, as supply declines while the market self-corrects to improve the operating environment. Our top picks in the sector are Sobha (BUY TP ₹350) and Phoenix Mills (TP ₹440).

- **Interest rates at a decade low—lower EMIs building block of recovery:** Financial institutes have undertaken a 60–100bps lending rate cut in the first week of 2017, we observe EMI, as a result of rate cuts, has declined by 15% over last 2 years. While this improves affordability, we believe it act as a key building block for recovery in demand. Our affordability model suggests that the minimum eligibility age for a ₹10mn apartment still remains very high (38 years).
- **Despite a significant slowdown triggered by demonetisation, liquidity remains benign:** Given the slowdown in demand, general consensus is for a price correction to spur demand. However, stakeholders remain vary of the short-term impact on the sector (cancellation/funding concerns) and uncertainty of demand revival (expectations of higher price declines). On liabilities, we observed fresh credit lines available for developers (₹34bn), even after the demonetisation announcement. This, in our view, will improve the holding power of developers in the short to medium term, as stakeholders await recovery.
- **Expect market to move towards equilibrium over next two years:** We believe markets to move towards equilibrium, if the sector witnesses: 1) price correction; 2) higher transparency; 3) low cost of funding; and 4) an increase in disposable income. While the sector has witnessed declining funding cost and time correction in house prices, we still find rental yields and low capital appreciation as key hindrances for the uptick in demand. However, with improving transparency (Real Estate Regulator) and continued increase in rents (10% CAGR since FY07), we see a scenario of demand recovery in 18-24 months (as rental yield and borrowing cost converge). The recovery timeline could shorten on improving disposable income (budget announcement key monitorable) and absolute price cuts (discounts by developers).
- **Focus on end-use demand; prefer southern players, commercial asset owners:** We expect the sector to witness a material slowdown in sales for the next 6–12 months, as its participants await triggers for demand revival. We have reduced pre-sales estimates across developers to factor in demand deferrals. We prefer end-use driven markets with low cash components (Bangalore). Also, we remain optimistic on commercial asset owners, as limited supply addition and low vacancies are expected to improve operations further. Our top picks in the sector are Sobha (Dream Acres concept to drive growth, TP ₹350) and Phoenix Mills (retail malls likely beneficiary of demonetisation, TP ₹440). The key risks are any liquidity shock or delay in RERA implementation.

Recommendation Summary

Company	Reco	TP (₹)	CMP	% Upside
Sobha	BUY	350	262	34
PHNX	BUY	440	356	24
PEPL	BUY	200	165	21
GPL	BUY	350	331	6
OBER	BUY	340	314	8

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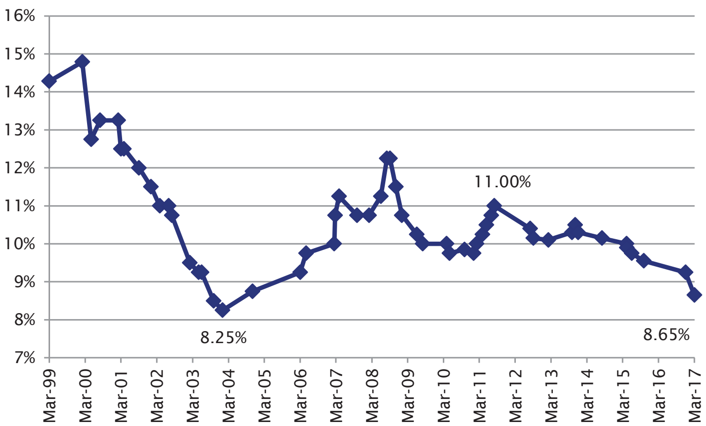
Declining interest rates: Building block of recovery

- The announcement of 80-90bps cut in MCLR by SBI and other banks has resulted in a significant reduction in home loan rates. While SBI has increased the spread over the one-year MCLR from 30bps to 65bps, resultant home loan rates have declined to 8.65% (from 9.15%). This level of home loan interests was last seen in 2004.

Home loan rates at a decade low….

- The property market witnessed a significant improvement in capital value after 2004 (20-25% CAGR until 2007 and 2010-14), however most recovery was driven by investors rather than end-use driven demand. This lead to home prices appreciating ahead of fundamentals.

Exhibit 1. SBI home loan rate trends at FY04 levels

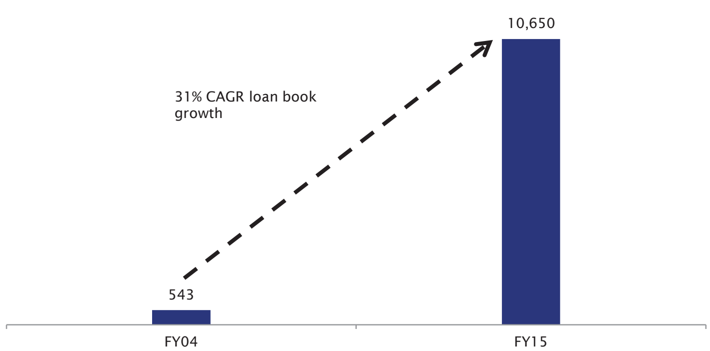


Source: SBI, JM Financial

- While interest rates were low in 2004, availability of home loans for end users (low penetration, low adoption) was low. However, access to home loans has significantly improved since 2004 with housing loans growing at a 31% CAGR over 11 years.

…. with significantly high availability

Exhibit 2. With significantly higher access to home loans (₹ bn)



Source: NHB, JM Financial

- Opportunity cost is the key, in our view, to identify the timeline for recovery. As per our analysis, the highest pre-sales were witnessed in a period when buyers faced the highest impact cost of deferred purchase decisions (2009-14). The current sales slowdown has been marked by customers benefitting from purchase deferrals on declining cost of funding and time correction in property value. The improvement in outlook for the asset class is essential for us to build in significant improvement in sales velocity.

Exhibit 3. Opportunity cost of deferrals: EMIs have declined 15% over past two years with no capital gains

	2009	2014	2017	
Ticket size of apartment (₹ mn)	5.8	10.0	10.0	
Interest (%)	10.00%	10.50%	8.65%	
Equity required (₹ mn)	1.2	2.0	2.0	
Loan (₹ mn)	4.6	8.0	8.0	
EMI (₹)	**40,368**	**73,179**	**62,366**	***15% decline in EMI***
Min. annual salary required (₹ mn)*	1.3	2.3	2.0	
Years required for equity contribution (Savings)**	19	17	14	

Source: Industry, JM Financial

* Annual Salary = 2*EMI*12/ (1-Effective tax rate)

** Years required for equity contribution: Equity required/(per household income adjusted for below poverty line population *25%)

Model household affordability analysis

Low cost funding is an important building block for recovery, although not a purchase trigger

- We believe easy access to low cost funding is an important building block for recovery, although not a purchase trigger. The key bottleneck is affordability of end users in the current environment.
- We have analysed a model household, benchmarking the existing per household income levels (adjusted for below poverty line households). We assume savings rate at 25% of the gross salary with 10% increment and 0.6mn, as the annual starting salary.
- In our analysis we identify two aspects: **1)** years taken for an earning household to afford EMIs, and **2)** years taken for an earning household to save for equity contribution (at least 20% of the unit value).
- We identify the age at which an **individual becomes eligible for home loan** (HLE) in the model household and its sensitivity to interest rates and unit size.

Exhibit 4. Key household assumptions for affordability analysis

Age	25	26	27	28	29	30	35	40	45	50	55	60
Salary (₹ mn)	0.6	0.6	0.7	0.8	0.8	0.9	1.5	2.3	3.8	6.1	9.8	15.7
Increment		*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Savings%	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Savings (₹ mn)	0.1	0.2	0.2	0.2	0.2	0.2	0.4	0.6	0.9	1.5	2.4	3.9
Cumulative Savings (₹ mn)	0.1	0.3	0.5	0.7	0.9	1.1	2.6	5.0	9.0	15.3	25.5	41.9

Source: India Census, JM Financial

Exhibit 5. Model household: Affordability analysis for purchase of ₹10mn apartment*

Age	25	26	27	28	29	30	34	35	38	40	45
Loan required adjusted for savings (₹ mn)	10.0	10.7	10.5	10.4	10.1	9.9	8.8	8.4	7.1	6.0	2.0
% of property value	91%	97%	96%	94%	92%	90%	80%	76%	64%	54%	19%
Annual payout: EMI*12	0.8	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.5	0.2
Salary required**	2.1	2.3	2.2	2.2	2.2	2.1	1.9	1.9	1.7	1.4	0.6
Actual salary	0.6	0.6	0.7	0.7	0.8	0.9	1.3	1.5	1.9	2.3	3.8

Source: India Census, JM Financial *10% transaction cost; * Annual Salary = 2*EMI*12/ (1-Effective tax rate)

- Our analysis suggests that home loan eligibility has limited sensitivity on interest rate changes. With the interest rate cut from 10% to 8.65%, the eligibility age reduced by one year in the best case scenario (ticket size <₹10mn). The one year improvement in eligibility implies inclusion of 1.2% of households.

- As expected, home loan eligibility improves materially as ticket size reduces. The 10% lower unit cost leads to inclusion of 1% of households. As a result, a ticket size of ₹5mn will result in a 33-year-old person eligible for loan, while for a ₹20mn unit cost, age of eligibility rises to 47 years.

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Exhibit 6. Age eligibility sensitivity on interest rate and unit cost (years)

Age (Years)		Unit Cost (₹ mn)				
		5	10	15	20	25
Home loan rate (%)	7.0%	32	38	43	46	49
	8.7%	33	39	44	47	50
	9.0%	33	40	44	47	50
	10.0%	34	40	44	47	50
	11.0%	34	40	45	48	50

Source: JM Financial

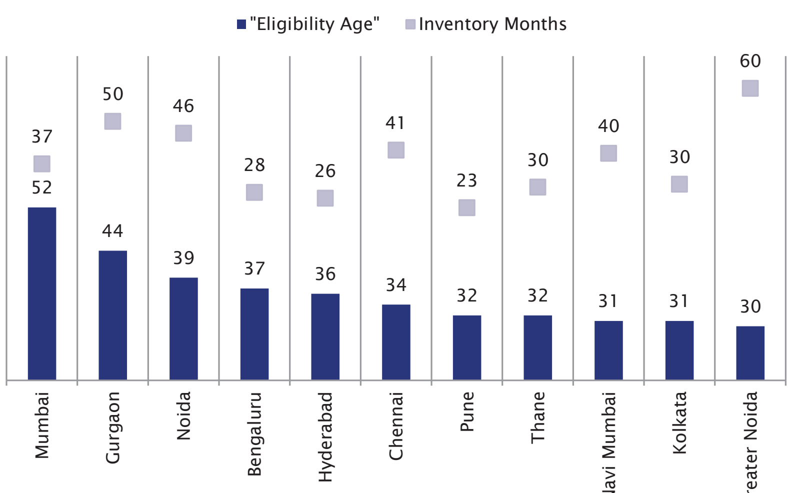
Exhibit 7. Percentage of households targeted at various ticket sizes

Age (Years)		Unit Cost (₹ mn)				
		5	10	15	20	25
Home loan rate (%)	7.0%	41%	32%	24%	20%	17%
	8.7%	39%	30%	23%	19%	17%
	9.0%	39%	29%	23%	19%	17%
	10.0%	38%	29%	23%	19%	17%
	11.0%	38%	29%	22%	18%	17%

Source: Census, JM Financial

- A city-wise analysis of age eligibility suggests Mumbai having the lowest affordability for end users, while Pune, Thane, Navi Mumbai, Kolkatta and Greater Noida have affordability of 30-32 years. However, excessive launches and lack of transparency has impacted pre-sales in these geographies, especially Greater Noida.

Exhibit 8. Impact of lower home loan rates on EMI



Source: Industry, JM Financial

Demonetisation: Impact and way forward

Sales expected to decline by 40% and launches by 60% in 3QFY17

- Based on sales data released by Knight Frank, 4QCY16 sales declined 44%, primarily on demonetisation. In addition, launches declined >60% in the quarter, as developers deferred the plans of new projects on limited visibility of offtake.

We believe the market is likely to be in a stalemate situation

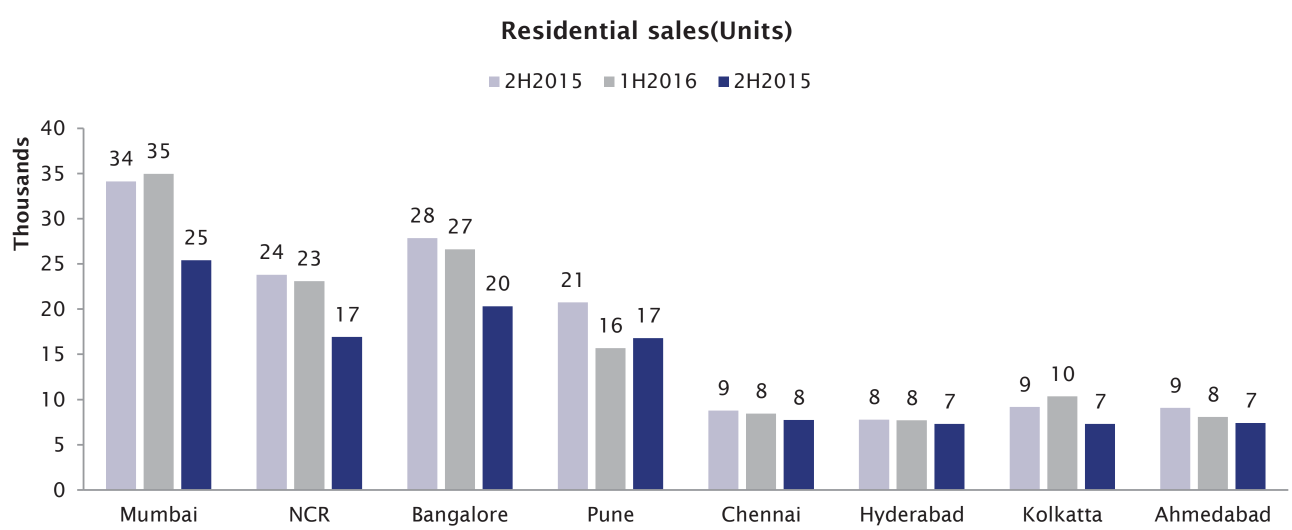
- We believe the market is likely to be in a stalemate situation wherein: 1) builders/developers backed by NBFCs/banks hold on to the rates, especially of inventory in advance stage of completion; and 2) expectation of price correction leads to significant deferrals of customers' purchase decisions.

- **What will break this deadlock** is of course mass scale distress in the system. We believe one or two developers cutting prices would not lead to a decrease in prices—it has to be broad-based for tier-1 developers to feel the pressure of a price cut. Another way of breaking the stalemate will be a bit prolonged, wherein home loan rates decline another 50-100 bps and expectations of lower tax rates and higher income come through (if the government obliges on the tax part), which gradually improves the affordability.

- **Correction in prices:** End-user driven markets will have the least impact on prices, as majority of transactions happen through the home loan route with limited cash component. Based on our discussion with stakeholders developers believe that price cuts will fuel the expectations of higher correction, without material change in demand (as seen in the NCR market, where we saw limited pick up despite 20-30% correction). Investor markets could continue to see weak demand and lower realisation in the medium term. While we believe corrections could hasten the progress of reaching equilibrium, the preferred way of discounting will be on individual negotiation or bulk deal basis.

- We are factoring in a significant slowdown in 2HFY17 and FY18, as real estate developers wait for consumers to react to the change in operating dynamics (lower interest rates, RERA, time correction in property prices).

Exhibit 9. Impact of demonetisation: 2H'16 sales decline across regions



Source: Knight Frank, JM Financial

Exhibit 10. Impact of cash component on house economics

	Unit	No Cash	10% Cash	20% Cash	30% Cash	Comment
Property value	₹	6,250,000	6,212,500	6,175,000	6,137,500	Convergence of ready reckoner rates (circle rates) and market rates have led to a decline in the cash component in property transactions; Lower cost of property on lower transaction cost for buyer in deals with cash component
Cash component	₹	0	625,000	1,250,000	1,875,000	
Loan	₹	5,000,000	4,470,000	3,940,000	3,410,000	
Interest rate	%	8.65%	8.65%	8.65%	8.65%	
G-Sec yield	%	6.40%	6.40%	6.40%	6.40%	
Equity return required	₹	80,000	97,520	115,040	132,560	Assuming G-Sec return on tax adjusted cash component
Post-tax interest cost	₹	281,125	251,326	221,527	191,727	
Total cost of buying a house	**₹**	361,125	348,846	336,567	324,287	
Rentals from House	₹	187,500	187,500	187,500	187,500	
Deficit to be covered by capital gains	₹	173,625	161,346	149,067	136,787	
% of house cost	**%**	2.8%	2.6%	2.4%	2.2%	In absence of equity return over the past 2-3 years (in fact the decline in capital value in certain investor driven markets), we have seen significant reduction in investor participation
% appreciation in rentals required to cover interest cost of funding	%	50%	34%	18%	2%	Investor-led real estate market more influenced by capital gains, as low rental yields at higher cash components covers interest costs
Years to break even on rent less interest cost	**Years**	4.3	3.1	1.8	0.2	

Source: JM Financial

- Key aspect to identify next is the holding capacity of developers over the next 2-3 years to benefit from demand recovery.
- In the next section, we analyse the funding to the sector, especially after demonetisation, to understand any change in liquidity availability for developers.

Is demonetisation a liquidity shock or surplus event?

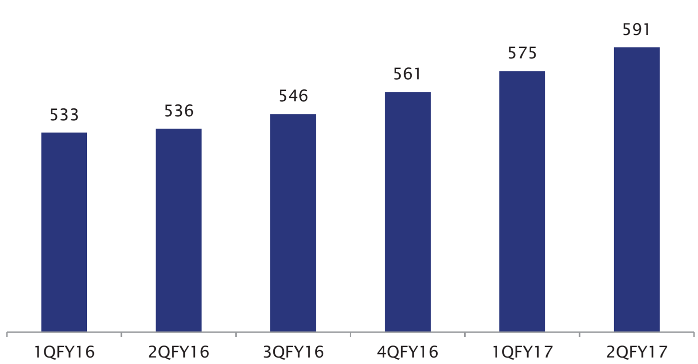
- While demonetisation and significantly reduced sales is expected in the near term, the real estate industry has been working on negative operating cash (less interest cost) for the past two years.
- Most developers have tapped debt financing, as the tough market environment has resulted in limited equity fund raising options. Operating cash deficit, as a result, has been a primary contributor to rising debt (c.70% of the incremental debt on account of deficit).

Exhibit 11. 72% incremental debt on account of operating deficit (₹ bn)

	Mar'14 to Mar'16 net debt increase (1)	Mar'14 to Mar'16 operating cash flow (2)	Mar'14 to Mar'16 interest payment (3)	Mar'14 to Mar'16 deficit (-) /surplus(+) (4)= (2)-(3)	Deficit as a % of incremental debt (4)/(1)	Comment
Prestige	25.9	-0.6	6.7	-7.3	28%	Majority debt taken to fund stake buybacks/annuity capex
Sobha	8.3	-1.3	5.1	-6.4	77%	Operational negative cash flows drive increase in debt
Brigade	10.1	-3.4	3.4	-6.8	67%	Land acquisition spend
Puravankara	3.6	2.1	4.9	-2.8	77%	Operating cash deficit
Oberoi	7.1	-5.4	0.3	-5.7	80%	Borivali land purchase led to negative operating cash; ex-Borivali land purchase operating cash positive; ₹3.2bn capital raised in FY16
Godrej Properties	6.9	-7.5	0.2	-7.7	111%	
Indiabulls Properties	22.0	-19.3	11.8	-31.0	141%	
Mahindra Lifespaces	1.9	-0.5	1.0	-1.5	81%	
HDIL	-4.8	13.0	9.8	3.1	Surplus	
DLF	36.8	45.7	62.5	-16.8	46%	Operating cash flow includes GIC deal (₹17bn)
Unitech	11.2	1.4	11.6	-10.2	91%	
Total	**129.1**	**24.0**	**117.2**	**-93.2**	**72%**	

Source: Company, JM Financial

Exhibit 12. Rising leverage in sector* (₹ bn)

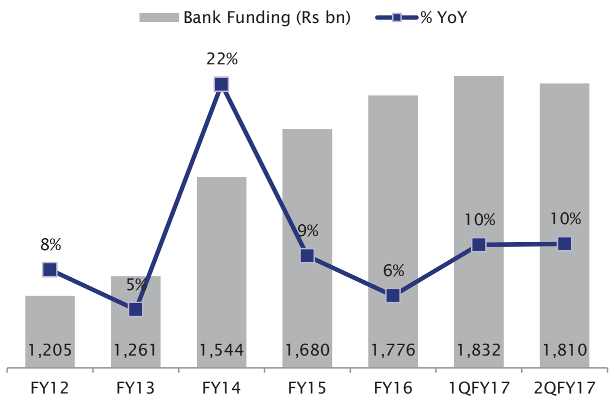


Source: Company, JM Financial * Analysed listed companies

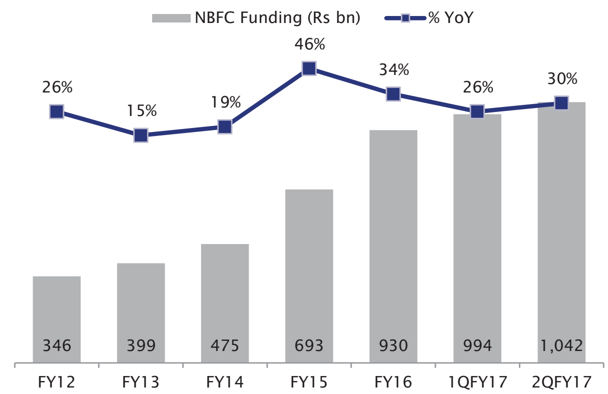
- Banks funding the sector have been limited with a loan book growth of 6% in FY16. However, NBFCs (with a loan book of c.₹1,200bn) have been growing at 20-30% since FY14, leading to significant availability of liquidity for developers, despite tough operating conditions.

Exhibit 13. NBFC exposure growing at >20% YoY

Bank funding to developers slowed significantly over past two years……



… while NBFCs gained market share

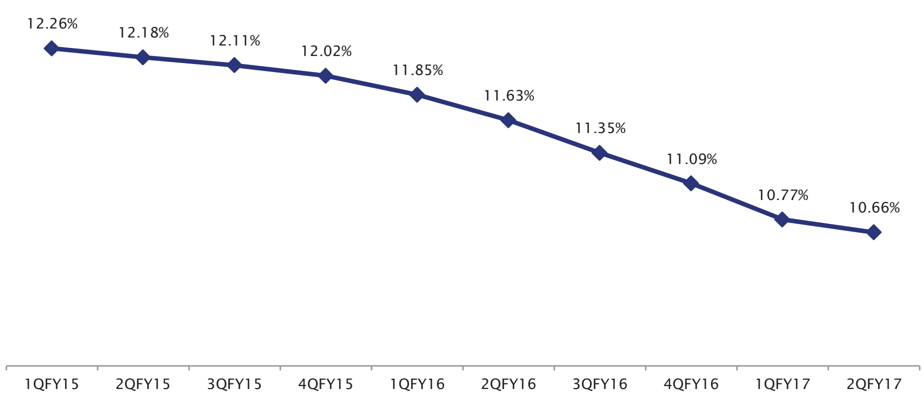


Source: Company, JM Financial * NBFCs considered are HDFC, Indiabulls, Dewan, L&T, LIC; overall NBFC funding to sector expected at c.₹1,200bn

- A benign liquidity scenario has resulted in declining cost of debt. Sector has witnessed cost of borrowing softening by c.160bps over the past 10 quarters, marginally lower than the RBI repo rate decline (8.0% in Mar'14 to 6.25% in Sep'16). The decline in interest cost has marginally cushioned the cost of servicing the rising debt on developer's balance sheet.

Exhibit 14. Interest rate decline indicative of liquidity availability for sector

Average borrowing cost for Real Estate Sector*



Source: Company, JM Financial * Average borrowing cost of Prestige, Sobha, Brigade, Puravankara, Oberoi, Mahindra Lifespaces, Godrej Properties

Does the lending pattern change after demonetisation?

- Demonetisation has further impacted the already weak operational performance of residential real estate developers. A key concern for the sector is whether the Financial Institutes have initiated a process of limiting their exposure post the current slowdown in operations.
- However, banks with surplus liquidity in hand have been looking to cut interest rates and deploy additional funds available in sectors, which are still performing on the lenders books.
- We analysed post-demonetisation credit facilities sanctioned to developers. **We observed ₹37bn charge created since 08Nov'16** across developers. Clearly, while the operating conditions have worsened, we see significant availability of capital for developers.

We observed ₹37bn incremental charge created since 08Nov'16

Exhibit 15. Loans sanctioned to developers since demonetisation

Company	Date	Amount sanctioned (₹ mn)
Saya	18/11/2016	1,610
Rohan Lifespaces	25/11/2016	2,600
Total Environment	18/11/2016	113
Sare Homes	24/11/2016	2,200
Sare Homes	24/11/2016	2,200
Sare Homes	24/11/2016	2,200
Runwal	24/11/2016	1,500
Puranik Builders	17/11/2016	2,250
Prateek realtors	29/11/2016	4,250
Prateek realtors	29/11/2016	4,250
Lodha	23/11/2016	2,425
Nahar	24/11/2016	400
Nahar	24/11/2016	220
ATS	23/11/2016	1,100
Incor	29/11/2016	220
Sobha Ltd	23/12/2016	1,000
Sobha Ltd	21/12/2016	1,000
Sobha Ltd	14/12/2016	1,000
Mahagun	14/12/2016	500
Runwal	15/12/2016	250
Panchsheel Buildtech	16/12/2016	2,250
Panchsheel Buildtech	04/01/2017	2,250
Kumar Urban	26/12/2016	260
M3M India	29/12/2016	1,000
M3M India	26/12/2016	100
Total		**37,148**

Source: MCA, JM Financial

- We observe various announcements of funding by NBFC participants in the past three months. NBFCs/HFCs that have reported till dat3QFY17 results (L&T HFC, DHFL) have increased their developer book by c.70% YoY.

- We see funding available to players across geographies; funds have not only been restricted to tier-1 developers. With the current environment of liquidity available to developers, we see limited distress in the short term to meet obligations. As a result we believe distress causing a scenario of price correction is a low probability event.

We believe distress causing a scenario of price correction is a low probability event

Exhibit 16. Media reports on NBFC funding to developers after demonetisation

Geography	Developer	Amount raised (₹ mn)	NBFC/PE
Gurgaon	Vatika	4,250	Piramal Fund Management
Gurgaon	Vatika	4,750	Altico Capital India
Pune	Pharande Projects	1,750	Altico Capital India
Noida	Panchsheel Buildtech	2,250	Altico Capital India
Bangalore	Karle	4,000	KKR
Mumbai	Runwal	3,000	KKR
Mumbai	Lodha Developers	5,000	KKR
Bangalore	Ozone	3,600	Piramal Fund Management
Bangalore	Adarsh	7,500	Piramal Fund Management

Source: Media reports, JM Financial

Putting it together: What brings equilibrium?

- As we enter an environment of low interest, we identify factors that could bring equilibrium in the market. While affordability is the key aspect, the real estate asset outlook will determine if the purchase deferrals continue or end users begin executing their purchase decisions.

Exhibit 17. Factors likely to trigger consumer purchase decision

Factor	Status	Short-term	Comment
Correction Time/Absolute	Markets have witnessed 2-3 years of time correction	Demonetisation could impact secondary market prices leading to absolute correction	While absolute correction will result in equilibrium at an earlier than expected stage, **price correction could fuel expectations of higher cuts without sales actually picking up**. Absolute correction will be a measure of last resort for developers. We expect correction of not more than 10-20% (time/absolute) to trigger sales.
Cost of funding	At historical lows with significantly higher capital availability	Budget announcement w.r.t. interest exemption on housing loans	Market expectation of 8% home loan rates in near term.
Higher Disposable income/savings rate	Still a gap between available inventory cost and income levels	Budget announcement w.r.t. increase in income tax exemption slabs	Expected efficient tax collections could lead to higher disposable income as tax rates decline.
Transparency	In progress—Real Estate Regulator	Implementation of RERA across states	Consumers witnessing the operation of regulator and the level of transparency and disclosures available will be a critical trigger for end user demand to come back in under-construction projects.

Source: JM Financial

Time/Absolute correction in property prices

- As observed from affordability analysis, lower ticket size increases target households who can afford the unit on offer. High capital appreciation between FY10-14 and drop in affordability matrix has led to decline in demand and as a result market has witnessed no appreciation in capital values in majority regions over last 2-3 years.
  - We see similarities between FY10 and FY17 on analysis of house economics. Both years witnessed limited property appreciation, despite c.5-6% rental growth per annum in preceding periods (Exhibit 19).
  - While the gap between rentals needed to double in FY14 to cover interest costs, the same has declined to half in FY17.
  - If similar trends were to continue, we could see rental yields and interest cost merging in the next three years. We expect decision making to be triggered as home buyers observe this trend and the outlook of rentals remains robust (rentals have witnessed an increase at a CAGR of c.11% since FY07).
  - We believe that there will be material improvement in sales volumes during FY17-19, as time correction of prices makes the return profile attractive.

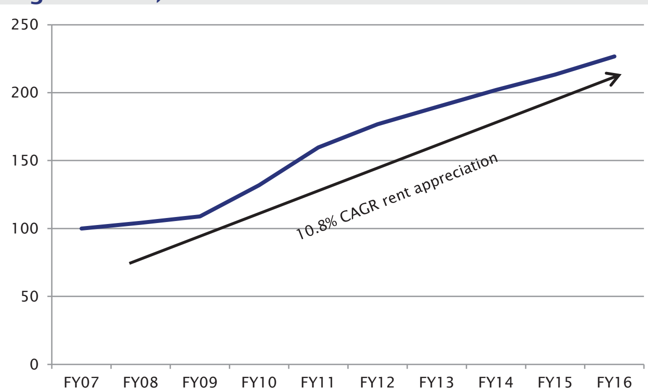
We could see rental yields and interest cost merging in the next three years

Exhibit 18. Mapping house economics—significant improvement over past 3 years

	Unit	2009-10	2013-14	2016-17	2018-19E	Comment
Property Value- A	₹	3,616,908	6,250,000	6,250,000	6,250,000	No change in property values over past 2-3 years
Loan- B	₹	2,893,527	5,000,000	5,000,000	5,000,000	80% of property value
Interest Rate- C	%	10%	10.50%	8.65%	8.0%	Assuming a reduction in home loan rates to 8% by FY19
G-Sec yield- D	%	7.60%	8.57%	6.40%	6.40%	
Return expected on savings E = (A-B)*D	₹	54,977	107,125	80,000	80,000	G-Sec Yield assumed
Post tax interest cost F= B * C	₹	188,079	341,250	281,125	260,000	Assuming full rebate of interest cost
Total per annum cost of buying a house G= E+ F	**₹**	**243,056**	**448,375**	**361,125**	**340,000**	
Rentals from unit- H	₹	110,871	169,907	187,500	226,875	3% property yield in FY17; 10% annual rental increase
Deficit to be covered by capital gains I = G - H	₹	132,186	278,468	173,625	113,125	
Deficit as a % of house cost (I/A)	**%**	**3.7%**	**4.5%**	**2.8%**	1.8%	**Annual appreciation required for break even**
% appreciation in rentals required to cover interest cost of funding (F/H-1)	%	70%	101%	50%	15%	
Years to break even on rent less interest cost	**Years**	**5.6**	**7.4**	**4.3**	**1.5**	**10% rent escalation assumed; assuming no principal payment and no change in interest rates**
Total rental growth past 2 years	%	9%	19%	12%	20%	Rental growth is outpacing capital appreciation over past 2 years similar to FY09
Total capital appreciation past 2 years	%	0-5%	25-30%	0%	Nil	

Source: JM Financial

Exhibit 19. Robust residential rental appreciation over past 9 years—10.8% CAGR (Housing Rent CPI)



Source: Labour Bureau, JM Financial

- Any correction in the interim will, of course, hasten the process of equilibrium. We believe a 10-20% correction would significantly improve the house economics in the current interest rate environment. As shown in the Exhibit below, 10% correction reduces the requirement of rental appreciation to cover interest costs from 35% to 20% with less than two years to break even.

We believe a 10-20% correction would significantly improve the house economics in the current interest rate

Exhibit 20. Rental appreciation over past 9 years—10.8% CAGR

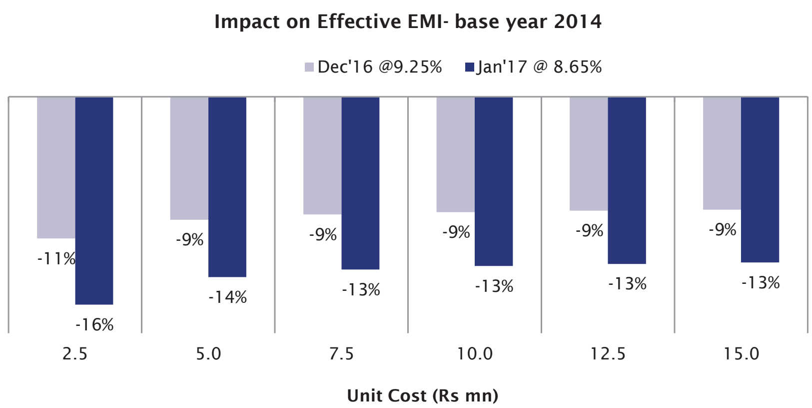
	Unit	Base Case	Unit price change		
			-10%	-20%	-30%
Property value	₹	6,250,000	5,625,000	5,000,000	4,375,000
Loan	₹	5,000,000	4,500,000	4,000,000	3,500,000
% deficit to be covered by capital gains	%	2.8%	2.4%	2.0%	1.5%
% appreciation in rentals required to cover interest cost of funding	**%**	**50%**	**35%**	**20%**	**5%**
Years to break even on rent less interest cost	**Years**	**4.3**	**3.2**	**1.9**	**0.6**

Source: Labour Bureau, JM Financial

Lower funding cost:

- With a decline in interest rates over the past 2-3 years, EMIs have declined 15%, significantly improving the disposable income. We believe low cost of funding is the key for recovery, as low cost of funding a house will look attractive in a rising rent environment.

Exhibit 21. Impact on EMIs after rate cuts



Source: JM Financial

- A short-term trigger to reduce funding costs further could be announcements made in the central budget. An announcement on increase in interest exemption could lead to material reduction in funding costs, especially for end users. At present, consumers get a ₹0.2mn maximum home loan interest rebate for self-occupied houses, whereas for non-self-occupied houses a full interest offset is available.
- Benchmarking effective interest cost with G-Sec yields, sub ₹2.5mn loan have funding cost lower than G-Sec rates at present.

Exhibit 22. Effective home loan rates sub G-Sec yields for home loan below ₹2.5mn—self-occupied

Effective interest rates		Home Loan (₹ mn)				
		2.5	5.0	7.5	10.0	12.5
Interest Rate	**10.50%**	7.2%	8.6%	9.2%	9.5%	9.7%
	9.25%	6.1%	7.4%	7.9%	8.3%	8.5%
	8.65%	5.7%	6.8%	7.3%	7.6%	7.8%
	8.25%	5.4%	6.4%	6.9%	7.2%	7.4%
	8.00%	5.2%	6.1%	6.7%	7.0%	7.2%

Source: JM Financial

- An increase in exemption limits improves the funding cost for loan segments up to ₹5mn materially. A ₹50,000 increase in exemption limit improves the funding cost by 20-40bps (please refer to Exhibit below).

- Any announcements w.r.t. to an increase in the home loan exemption limit will benefit in lowering funding costs across ticket sizes, especially for ticket sizes of ₹3-6mn.

Exhibit 23. Higher interest rate tax exemptions will improve the attractiveness of asset class

Effective interest rate		Interest tax exemption limit (₹)*				
		200,000	250,000	300,000	350,000	400,000
Home Loan	2.5	5.7%	5.6%	5.6%	5.6%	5.6%
	5.0	6.8%	6.4%	6.1%	5.8%	5.7%
	7.5	7.3%	7.0%	6.8%	6.5%	6.3%
	10.0	7.6%	7.4%	7.2%	7.0%	6.8%
	12.5	7.8%	7.6%	7.5%	7.3%	7.1%

Source: JM Financial * Shaded rates lower than current G-Sec rates

Higher disposable income/savings rate:

- Higher salary growth rate or/and increasing disposable income could lead to better affordability (higher equity contribution/better placed in EMI eligibility). Salary growth rate is closely linked to economic growth in India and with GDP expected to grow at 7-8% we have a positive outlook on employment and salary growth.

- A short-term trigger to increase disposable income could be the central budget. An announcement on an increase in exemption slabs in individual income tax could lead to a material increase in disposable income in the short term.

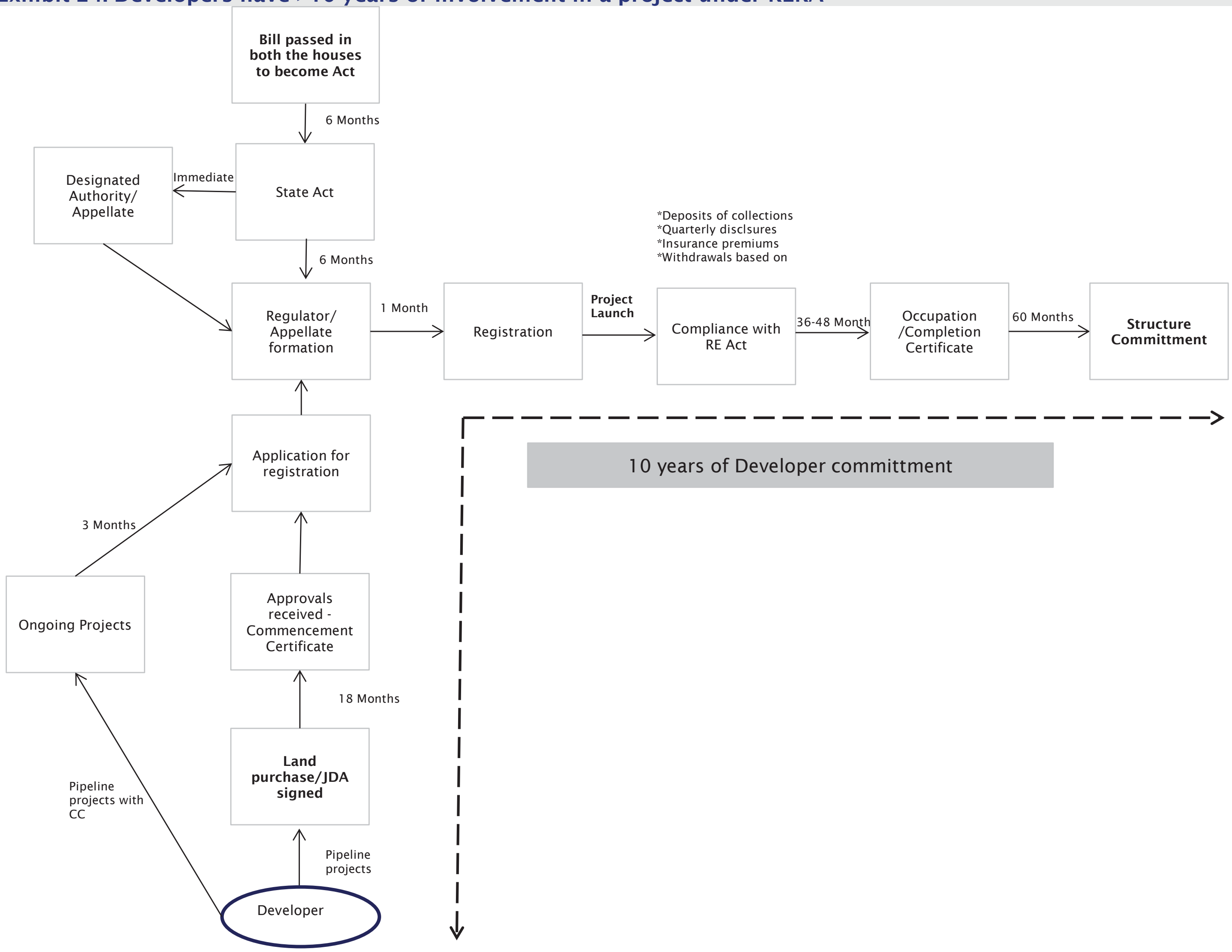
Increasing transparency: Real Estate Regulator

- Implementation of the Real Estate Regulation Act (RERA) will be a key monitorable in improving transparency in the sector.

- RERA extends a developer's project commitment to >10years with less attractive upfront collection (likely to decline 50%), impacting IR₹ and NAV. This structural change—compliance cost/penalties and higher working capital requirement—makes the industry less attractive for players looking to benefit from short-term market dynamics. Organised players, in our view, will have distinct advantage in the medium term, as launches decline (correction in supply) and transparency improves (leading to demand recovery), which could offset transition headwinds. However, streamlining of the approval process is essential, which has been kept out of the ambit of the regulator.

- An operational regulator, in our view, will be the key for end users to appreciate the improvement in transparency within the sector. We expect regulations to be in place in key states by mid-2017.

Exhibit 24. Developers have >10 years of involvement in a project under RERA



Source: JM Financial

Exhibit 25. Status of RERA implementation

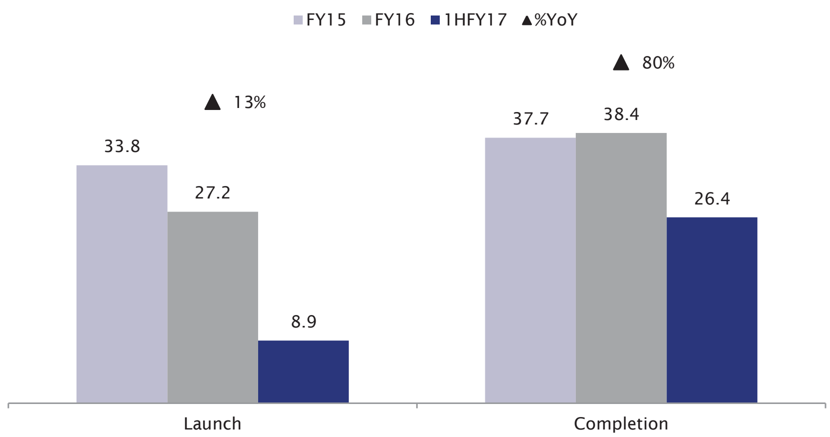
	Draft	Notified	Comment
Union Territories	Jul-16	Nov-16	
Gujarat		Nov-16	
Madhya Pradesh		Dec-16	
Karnataka	Nov-16		Last date for comment 10 Nov'16
Maharashtra	Dec-16		

Source: Media Reports, JM Financial

Operations Outlook: Expect deferred launches as developers await demand revival

- Real estate developers have shown prudence by concentrating on completion of existing projects. Based on our analysis of listed companies, launches are up 13% for 1HFY17 YoY, while completions have increased 80% as compared to 1HFY16.
- While 1HFY17 saw launches higher by 13% compared to the same period last year, we expect demonetisation and resultant demand slowdown to result in deferrals in launches, as developers await higher visibility on demand.

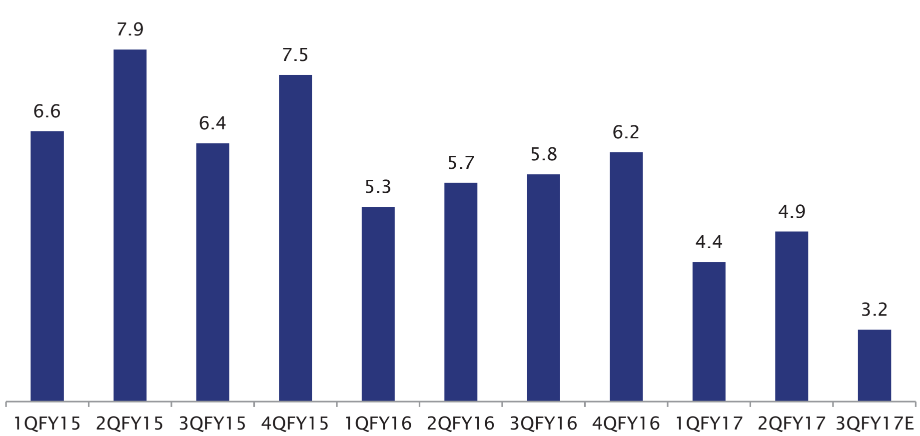
Exhibit 26. Deliveries outpacing launches as market self-adjusts*



Source: Company, JM Financial * For companies analysed

- Pre-sales expected to decline in 3QFY17, as customer purchase deferrals impact sales closure. Based on our interaction with stakeholders, we expect pre-sales to decline 30-40% in 3QFY17 with Bangalore players witnessing lower decline compared to the rest of India. However some developers could show better operations if the sales were concluded on adjustments in payment terms. While operations are expected to remain muted in the near term, developers expect the budget to be a key trigger for pre-sales to improve (analysed in previous section).

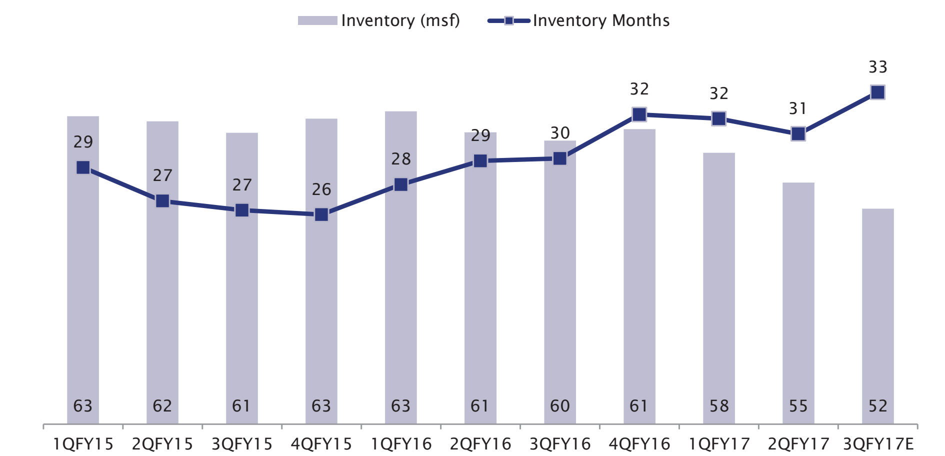
Exhibit 27. Pre-sales: Material impact of demonetisation expected in 3QFY17



Source: Company, JM Financial * For companies analysed

- **Inventory profile—absolute inventory declines; inventory months increase:** Inventory, as a result of launch deferrals, has declined marginally over the past three quarters. However, with lower pre-sales expected in 3QFY17, we expect inventory months to increase to 33 months for the companies analysed.

Exhibit 28. Inventory months rise as sales decline



Source: Company, JM Financial

Exhibit 29. Real estate developers analysed (₹ bn)

		FY16 sales	FY16 volume (msf)	Debt	Market Cap	EV
Bangalore	Prestige	26	4.3	51	70	121
	Sobha	20	3.4	21	31	52
	Brigade	12	2.2	18	19	37
	Puravankara	8	1.9	19	11	30
Mumbai	Oberoi	24	1.3	2	95	98
	Mahindra Lifespaces	8	1.2	14	19	33
	HDIL	14	1.3	28	43	72
	Godrej	50	4.3	26	73	99
	Phoenix Mills	5	0.3	37	51	87
Pune	Kolte Patil	13	2.0	4	10	14
NCR	DLF	32	1.1	222	247	469
	Unitech	10	1.3	72	16	87
Total		**223**	**24.6**	**513**	**686**	**1,199**

Source: Company, JM Financial

Segment Outlook: Commercial remains robust; residential faces demand uncertainty

Commercial real estate: Rising rentals, low vacancy to benefit asset owners

- Commercial real estate is expected to perform well as we witness minimal impact of demonetisation. Markets such as Bangalore, Chennai and Pune have witnessed double-digit increase in rentals over the past one year. However, we remain vary of lower growth in the IT/ITeS sector, which could lead to lower rent reversions/renewals, going forward. Low vacancy and limited supply addition remain key positives for commercial real estate. We expect commercial players to tap the lower cost of funding available for completed projects to improve their holding capacity in residential projects and fund under construction annuity assets.

Exhibit 30. Commercial real estate snapshot

	Total Area (msf)	Leased Area (msf)	Vacancy	YTD leasing (Sep'16) (msf)	2015 absorption	Under Construction (msf)	Rentals (₹/sf/mth)	Change in rentals %YoY
Mumbai	76	62	18.6%	1.9	3.5	18.6	135.4	17%
NCR	97	71	27.4%	3.2	3.4	19.5	73.8	2%
Bangalore	109	101	7.2%	5.4	9.7	19.4	56.0	2%
Chennai	43	39	9.8%	0.8	2.5	3.6	54.8	32%
Pune	43	38	11.2%	1.9	5.4	22.6	66.3	3%
Hyderabad	35	33	7.4%	2.5	3.2	12.3	40.6	5%

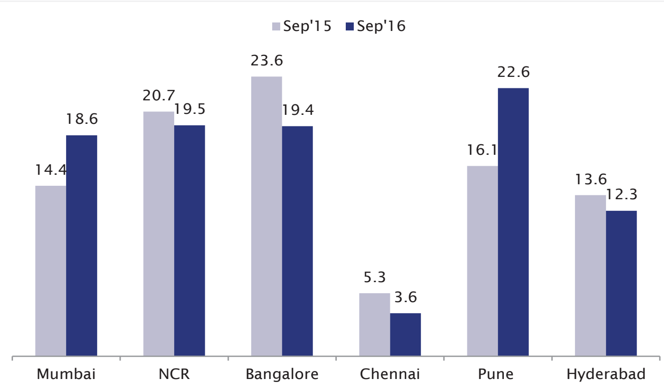
Source: Cushman Wakefield, JM Financial

- Regions with low vacancy (Pune, Bangalore, and Chennai) have witnessed marginal decline in leasing until date as limited new supply is available.

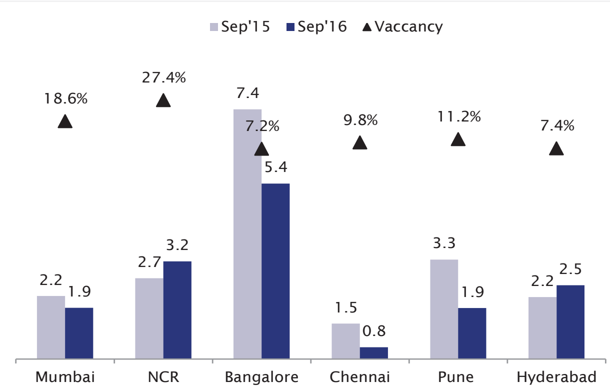
- While we remain comfortable with the current demand-supply dynamics in commercial real estate, Pune and Mumbai have seen rising under-construction inventory. Material pick up in leasing activity is essential for demand supply to remain balanced in these regions. Bangalore remains the most disciplined market with low vacancy and limited incremental supply under planning. Hyderabad is also likely to do well on rising absorption, high occupancy and lower under-construction office space.

Exhibit 31. Supply and leasing trends: Significant supply additions in Pune over past one year

Under-construction office space (msf)



YTD leasing activity (till Sep)



Source: Cushman Wakefield, JM Financial

Retail Real Estate: Limited supply additions to benefit incumbents

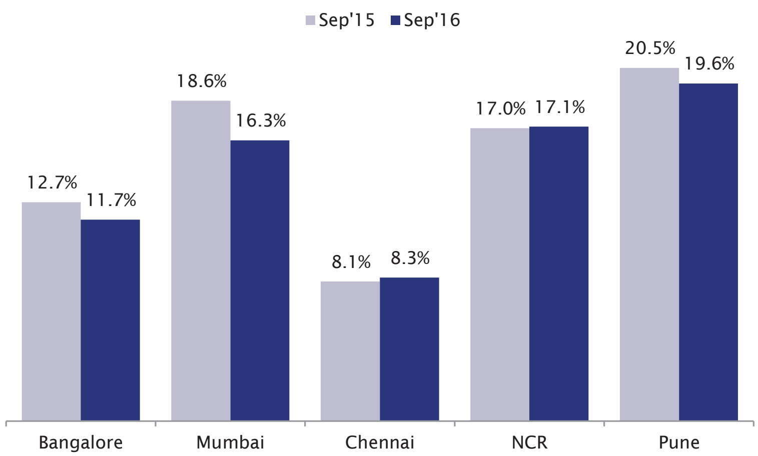
- In the retail segment, luxury malls are expected to have a temporary decline. However, retail malls will be a key beneficiary of the shift from unorganised to organised retail, which is expected after the demonetisation announcement.
- We observe declining vacancies and limited supply additions across regions, which benefits the market-leading malls attracting key retailers.

Exhibit 32. Retail space snapshot

City	Supply (msf)	Vacancy	Rental Growth YoY (%)
Bangalore	10	11.7%	0%
Mumbai	16	16.3%	3%
Chennai	5	8.3%	1%
NCR	31	17.1%	2%
Pune	8	19.6%	1%

Source: Industry, Cushman Wakefield, JM Financial

Exhibit 33. Stable to improving vacancy across regions



Source: Cushman Wakefield, JM Financial

Residential real estate: Self-corrective phase could be over in next 18-24 months

- As analysed earlier, we expect self-correcting phase to continue for the next 18-24 months (in a scenario of no price correction) for demand to recover.
- With the liquidity available to developers, we see limited probability of a significant decline in real estate prices. Any liquidity shock in the system could result in material price correction across markets.
- We are factoring in a sales slowdown for all companies in next 12 months and FY18, as we expect sales deferrals to continue until market equilibrium is reached over the next 18-24 months.
- Key monitorables for residential real estate are: 1) the central budget (Feb'17)—higher disposable income and higher interest exemptions; 2) RERA (mid-2017) and its implementation; 3) interest rates—home and developer loan; and 4) developers' access to debt.

Company Section

- **Sobha Ltd**
- **Phoenix Mills**
- **Prestige Estates**
- **Godrej Properties**
- **Oberoi Realty**

Sobha Ltd

Bangalore exposure, valuations make it sector's top pick

Sobha Ltd

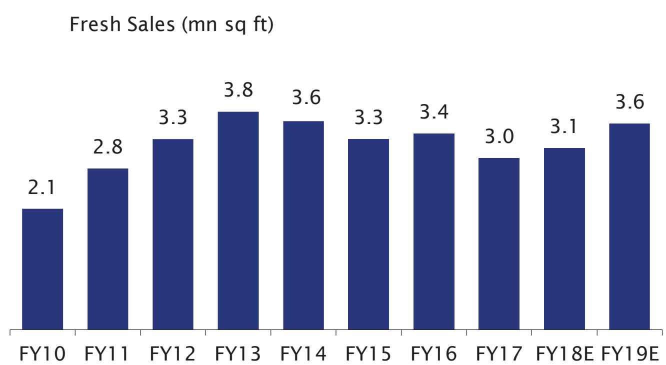
BUY

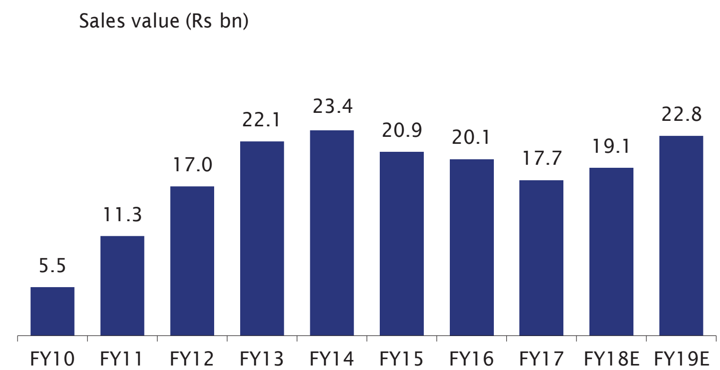
TP ₹350

- Sobha witnessed a decline of 22% in 3QFY17 pre-sales, primarily on the impact of demonetisation. We are factoring pre-sales of 3.0/3.1/3.6msf for FY17/18/19, respectively, while the company has achieved pre-sales of 3.4msf/₹20bn in FY16.

- The company has seen the impact of demonetisation on sales of luxury projects, despite limited impact on number of enquiries received. On pricing, the management is in a wait-and-watch mode and believes companies have limited leeway to cut prices in the current operating environment. Sobha has 1.5msf inventory in the sub ₹10mn category and has 4.8msf in Dream Acres, which is yet to be launched to support its sales in the coming 2-3 years. Key areas of concern, in our view, will be Gurgaon (1msf) and Kochi (1.3msf), where unit costs and the micro market outlook are likely to impact sales in the near to medium term.

Exhibit 34. Operational performance has been muted with limited visibility on pick up





Source: Company, JM Financial

- **Cash flows to remain stable**: Sobha has 65% of its customers availing home loans, thus demonetisation has had limited impact on the firm's cash collections. Sobha has a payment of ₹1.6bn due to Puravanakara for its share in Marina One by Jul'17 (extendable up to Apr'18 on payment of interest). The management has ₹1.6bn receivable from government agencies for land acquisition (five acres), which will enable the company to make the Puravanakara payment. In addition, the contractual business remains stable in line with FY16, witnessing limited impact of demonetisation. The management expects to maintain debt:equity (D:E) in the short term and has a target of 0.7x D:E in the medium term.

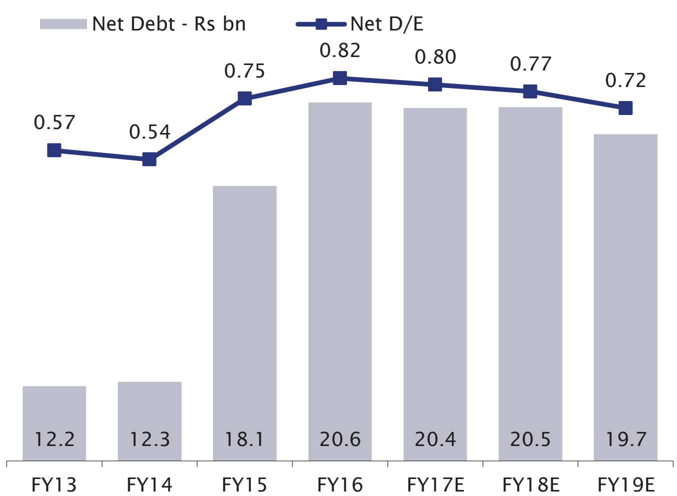
- **Demonetisation impact short term; long-term structural changes in place:** While the management indicated the demonetisation impact to last a quarter with limited impact on prices, we continue to factor lower sales in FY17/18, as we expect prolonged impact on sales. Though demand remains subdued, we believe Sobha is well placed to benefit from structural reforms in the sector with the introduction of a regulator and demonetisation providing a level playing field for organised developers. In addition at CMP, the market is valuing the land parcel at 0.5x the book value, which is significantly lower than the potential of the land bank. We are attributing the book value to Sobha's land bank to arrive at ₹350/share.

Exhibit 35. Sobha's SOTP—land bank contributes 61% of NAV

	₹ bn	₹/share	% of TP	Remarks
Value from developments	30.2	313	90%	28.9mn sq. ft of on-going project and 4.4mn sq. ft of forthcoming projects
Net debt (Mar'18)	-20.5	-212	-61%	
Net value from developments - [A]	9.7	101	29%	
Undeveloped land bank - [B]	20.6	214	61%	197mn sq. ft based on 1x net book value
Contract business - [C]	3.4	35	10%	5x FY19 EV/EBITDA
Total = [A+B+C]	**33.7**	**350**	100%	

Source: JM Financial

Exhibit 36. Stable net debt expected on prudent cash flows



Source: Company, JM Financial

- **Key monitorables**: Launch of Hoskote land parcel, sales momentum in Kochi and Gurgaon, and the Bangalore real estate market.
- 5% decline in home prices reduces NAV for Sobha by 10%

Sobha Financial Tables (Consolidated)

Profit & Loss Statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales (Net of excise)	**24,328**	**18,610**	**18,841**	**21,382**	**23,645**
Growth (%)	12.1	-23.5	1.2	13.5	10.6
Other operational income	78	41	0	0	0
Raw material (or COGS)	13,661	9,221	9,567	11,358	12,762
Personnel cost	1,977	1,765	1,765	1,853	1,946
Other expenses (or SG&A)	2,594	2,631	3,157	3,315	3,481
EBITDA	**6,174**	**5,033**	**4,352**	**4,855**	**5,456**
EBITDA (%)	25.3	27.0	23.1	22.7	23.1
Growth (%)	2.5	-18.5	-13.5	11.6	12.4
Other non-op. income	0	0	0	0	0
Depreciation and amort.	723	634	672	724	757
EBIT	5,451	4,399	3,680	4,131	4,698
Add: Net interest income	-1,734	-1,591	-1,337	-1,482	-1,745
Pre tax profit	3,717	2,808	2,343	2,649	2,953
Taxes	1,277	1,267	805	910	1,015
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	59	9	9	10	10
Reported net profit	2,381	1,532	1,529	1,729	1,928
Adjusted net profit	**2,381**	**1,532**	**1,529**	**1,729**	**1,928**
Margin (%)	9.8	8.2	8.1	8.1	8.2
Diluted share cap. (mn)	98	98	96	96	96
Diluted EPS (₹)	**24.3**	**15.6**	**15.9**	**18.0**	**20.0**
Growth (%)	1.3	-35.6	1.6	13.1	11.5
Total Dividend + Tax	827	236	928	928	928

Source: Company, JM Financial

Balance Sheet (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Share capital	981	981	963	963	963
Other capital	0	0	0	0	0
Reserves and surplus	23,337	24,634	24,659	25,460	25,460
Networth	24,318	25,615	25,622	26,423	26,423
Total loans	20,766	21,715	21,715	21,715	21,715
Minority interest	148	157	166	176	176
Sources of funds	**45,231**	**47,487**	**47,503**	**48,314**	**48,314**
Intangible assets	79	42	42	42	42
Fixed assets	6,120	9,094	10,094	10,594	10,594
Less: Depn. and amort.	3,048	3,491	4,163	4,887	4,887
Net block	3,151	5,644	5,973	5,749	5,749
Capital WIP	524	454	454	454	454
Investments	0	0	0	0	0
Def tax assets/- liability	-1,631	-2,538	-2,538	-2,538	-2,538
Current assets	57,893	60,191	57,854	59,867	59,867
Inventories	27,284	27,909	45,010	46,445	46,445
Sundry debtors	1,930	2,763	3,245	3,504	3,504
Cash & bank balances	1,631	1,333	1,277	1,258	1,258
Other current assets	4,482	3,612	3,612	3,612	3,612
Loans & advances	22,566	24,574	4,710	5,048	5,048
Current liabilities & prov.	14,707	16,265	14,240	15,218	15,218
Current liabilities	13,209	15,696	12,980	13,957	13,957
Provisions and others	1,498	569	1,261	1,261	1,261
Net current assets	43,186	43,926	43,614	44,649	44,649
Others (net)	0	0	0	0	0
Application of funds	**45,231**	**47,487**	**47,503**	**48,314**	**48,314**

Source: Company, JM Financial

Cash flow statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Reported net profit	2,381	1,532	1,529	1,729	1,928
Depreciation and amort.	182	443	672	724	0
-Inc/dec in working cap.	-3,154	-2,056	-18,210	-1,392	0
Others	59	9	9	10	0
Cash from operations (a)	**-532**	**-71**	**-16,000**	**1,071**	**1,928**
-Inc/dec in investments	0	0	0	0	0
Capex	-97	-2,866	-1,000	-500	0
Others	-5,097	1,018	18,466	338	0
Cash flow from inv. (b)	**-5,194**	**-1,849**	**17,466**	**-162**	**0**
Inc/-dec in capital	-35	1	-594	0	-1,000
Dividend+Tax thereon	-827	-236	-928	-928	-928
Inc/-dec in loans	6,544	949	0	0	0
Others	621	907	0	0	0
Financial cash flow (c)	**6,302**	**1,621**	**-1,522**	**-928**	**-1,928**
Inc/-dec in cash (a+b+c)	576	-298	-56	-19	0
Opening cash balance	1,055	1,631	1,333	1,277	1,258
Closing cash balance	1,631	1,333	1,277	1,258	1,258

Source: Company, JM Financial

Key Ratios

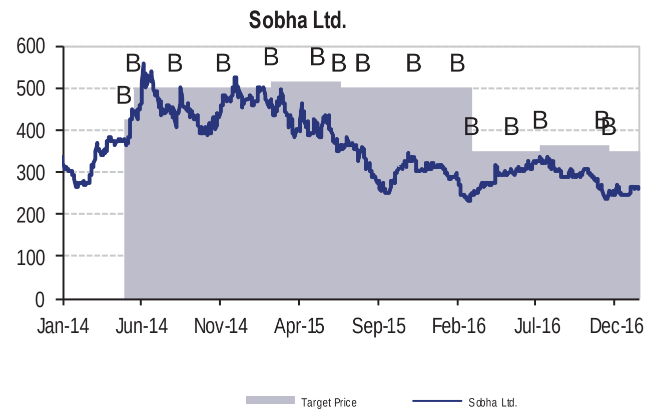
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	247.9	261.1	266.0	274.4	274.4
ROIC (%)	8.9	5.4	5.2	5.8	6.6
ROE (%)	10.1	6.1	6.0	6.6	7.3
Net Debt/equity ratio (x)	0.8	0.8	0.8	0.8	0.8
Valuation ratios (x)					
PER	10.8	16.9	16.6	14.7	13.2
PBV	1.1	1.0	1.0	1.0	1.0
EV/EBITDA	7.3	9.2	10.5	9.4	8.4
EV/Sales	1.8	2.5	2.4	2.1	1.9
Turnover ratios (no.)					
Debtor days	29	54	63	60	54
Inventory days	409	547	872	793	717
Creditor days	128	166	136	124	110

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY17E EPS (₹)	% Chg.	FY18E EPS (₹)	% Chg.	Target Price	% Chg.
5-May-14					424	
23-May-14					500	17.9
11-Aug-14	39.3				500	0.0
12-Nov-14	47.2	20.1			500	0.0
12-Feb-15	43.0	-8.9			515	3.0
12-May-15	33.5	-22.1			515	0.0
22-Jun-15	33.2	-0.9			500	-2.9
7-Aug-15	31.6	-4.8	40.6		500	0.0
13-Nov-15	31.6	0.0	40.6	0.0	500	0.0
5-Feb-16	30.3	-4.1	42.0	3.4	500	0.0
3-Mar-16	19.5	-35.6	22.1	-47.4	350	-30.0
19-May-16	18.9	-3.1	21.4	-3.2	350	0.0
13-Jul-16	16.6	-12.2	19.1	-10.7	365	4.3
9-Nov-16	16.1	-3.0	18.5	-3.1	365	0.0
22-Nov-16	15.5	-3.7	17.8	-3.8	350	-4.1

Recommendation history



Phoenix Mills

Phoenix Mills

BUY

TP ₹440

Company to benefit from unorganised to organised shift

- Demonetisation is expected to have marginal impact on consumption in retail malls. Luxury malls are expected to have the highest impact of demonetisation. However, retail malls across geographies will benefit from a trend of shift from unorganised to organised retail. With retail malls having rentals linked with consumption, we expect mall rentals to improve with improvement in sales.

- **Consumption growth stabilising:** Consumption across PHNX malls witnessed 10% growth YoY (20% in FY15). Declining rental by consumption trends augur well for long-term sustainability of current rentals with a scope for increasing rentals, especially in Chennai (10.6%) and Bangalore (10.8%). Except HSP, all malls witnessed a decline in the rent to consumption ratio. On a group level, the rental to consumption remained stable at 13.4% (last year 13.6%). Declining competition (e-commerce/physical stores) and preferred choice of retailers could further improve consumptions/rentals across malls.

- **Partnerships in place for growth:** Island Star Mall Developers Private Limited (ISML, Bangalore Market City Mall) has entered into a non-binding term sheet with Canada Pension Plan Investment Board, on the basis of which the proposed investor may over a [three-year] period acquire up to 49% of the post-issue paid-up equity share capital of ISML (on a fully diluted basis). The funds so raised by ISML will be utilised for business development and growth purposes. As the retail sector is witnessing low supply addition, the company is in a good position to benefit from greenfield or brownfield expansion. We await valuation of infusion on closure of the deal.

- **Maintain BUY with TP of ₹440:** Our NAV-based TP of ₹440 is derived valuing retail assets on lease basis, assuming perpetual ownership (cap rate is at 8–9%, HSP/MC at 46/35% of NAV); development projects on DCF basis (13% of NAV); and hotels at 1x BV (6% of NAV).

Exhibit 37. Valuation

	Total Value (₹ mn)	Stake	Phoenix's Share (₹ mn)	₹ /share	% of Total
High Street Phoenix	**31,308**	**100%**	**31,308**	**205**	**46%**
PMC Kurla	1,267	75%	944	6	1%
PMC Pune	9,470	87%	8,201	54	12%
PMC Bangalore	7,645	100%	7,645	50	11%
PMC Chennai	11,646	50%	5,824	38	9%
PMC Chennai	2,198	29%	644	4	1%
Retail	**63,533**		**54,565**	**357**	**81%**
Hotel			**2,691**	**18**	**4%**
Commercial			**2,268**	**15**	**3%**
Residential			**6,461**	**42**	**10%**
Other Investments			**1,376**	**9**	**2%**
Total			**67,361**	**440**	**100%**

Source: Company, JM Financial

Exhibit 38. Key assumptions

Consumption (₹ mn)	FY14	FY15	FY16	FY17E	FY18E	FY19E
HSP	13,185	14,403	15,438	15,863	16,973	18,162
Kurla	4,460	5,480	5,957	6,266	6,893	7,582
Pune	6,221	7,650	8,659	8,771	9,210	9,670
Chennai	6,938	10,481	11,289	11,381	11,950	12,548
Bangalore	5,673	7,753	8,859	9,325	9,791	10,281
Total	**36,477**	**45,767**	**50,202**	**51,606**	**54,817**	**58,242**
% YoY	*55%*	*25%*	*10%*	*3%*	*6%*	*6%*
Rentals (₹/sf/month)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
HSP	219	256	283	311	349	373
Kurla	85	85	81	75	75	78
Pune	72	82	87	91	96	101
Chennai	100	104	108	116	137	150
Bangalore	72	84	94	98	103	108
Rental Income	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
HSP	2039	2293	2,603	2,896	3,280	3,548
Kurla	934	991	953	885	885	918
Pune	789	941	1,035	1,049	1,141	1,198
Chennai	858	1109	1,196	1,267	1,452	1,591
Bangalore	768	876	958	1,006	1,056	1,109
Total	**5,388**	**6,210**	**6,745**	**7,103**	**7,814**	**8,364**
% YoY	*37%*	*15%*	*9%*	*5%*	*10%*	*7%*
Rental/Consumption (%)	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
HSP	15.5%	15.9%	16.9%	18.3%	19.3%	19.5%
Kurla	20.9%	18.1%	16.0%	14.1%	12.8%	12.1%
Pune	12.7%	12.3%	12.0%	12.0%	12.4%	12.4%
Chennai	12.4%	10.6%	10.6%	11.1%	12.2%	12.7%
Bangalore	13.5%	11.3%	10.8%	10.8%	10.8%	10.8%
Overall	*14.8%*	*13.6%*	*13.4%*	*13.8%*	*14.3%*	*14.4%*

Source: Company, JM Financial

- **Key monitorables:** Valuations of the deal with Canadian Pension Fund, SPA purchase valuation, retail mall consumption and rent reversions in key malls.

Exhibit 39. Renewal schedule for Phoenix malls

	FY17	FY18
HSP	16%	10%
Bangalore	40%	10%
Chennai	**0%**	**54%**
Mumbai	43%	8%
Pune	5%	9%

Source: JM Financial

Exhibit 40. Stake buybacks to consolidated shareholding in existing assets—valuation key monitorable

Subsidiary	Assets	Buyback	Current holding	Holding post buyback
Gangetic Hotel	Marriott, Agra	37.10%	43.00%	80.10%
Pallazio	St. Regis	14.50%	58.50%	73.00%
Vamona	Marketcity Pune, East Court Pune	8.40%	86.60%	95.00%
Offbeat Developers	Marketcity Kurla, Centrium, Art Guild House	20.16%	74.48%	94.64%
Alliance Spaces	Fountainhead, Ph. 2	36.91%	33.00%	69.91%
Classic Mall Development	Marketcity Chennai, Crest C	6.00%	50.00%	56.00%

Source: Company, JM Financial

Phoenix Financial Tables (Consolidated)

Profit & Loss Statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales (Net of excise)	**16,533**	**17,786**	**18,534**	**20,225**	**25,030**
Growth (%)	14.1	7.6	4.2	9.1	23.8
Other operational income	0	0	0	0	0
Raw material (or COGS)	2,813	2,847	2,967	3,237	4,006
Personnel cost	915	1,233	1,285	1,402	1,735
Other expenses (or SG&A)	5,186	5,806	5,545	5,695	6,883
EBITDA	**7,620**	**7,900**	**8,739**	**9,892**	**12,406**
EBITDA (%)	46.1	44.4	47.1	48.9	49.6
Growth (%)	12.3	3.7	10.6	13.2	25.4
Other non-op. income	0	0	0	0	0
Depreciation and amort.	1,681	1,773	1,805	1,823	1,835
EBIT	5,939	6,128	6,933	8,068	10,571
Add: Net interest income	-3,644	-3,993	-4,213	-3,972	-3,593
Pre tax profit	2,295	2,134	2,720	4,096	6,977
Taxes	493	746	871	1,311	2,233
Add: Extraordinary items	-938	-387	0	0	0
Less: Minority interest	510	186	-111	-32	232
Reported net profit	354	815	1,961	2,817	4,512
Adjusted net profit	**1,292**	**1,203**	**1,961**	**2,817**	**4,512**
Margin (%)	7.8	6.8	10.6	13.9	18.0
Diluted share cap. (mn)	145	153	153	153	153
Diluted EPS (₹)	**8.9**	**7.9**	**12.8**	**18.4**	**29.5**
Growth (%)	7.7	-11.8	63.1	43.6	60.2
Total Dividend + Tax	384	405	424	424	424

Source: Company, JM Financial

Balance Sheet (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Share capital	290	306	306	306	306
Other capital	0	0	0	0	0
Reserves and surplus	16,447	18,380	19,715	21,957	25,488
Networth	16,737	18,686	20,021	22,263	25,794
Total loans	34,023	39,115	37,115	36,115	33,115
Minority interest	6,212	4,511	4,020	3,989	4,221
Sources of funds	**56,972**	**62,312**	**61,157**	**62,367**	**63,131**
Intangible assets	49	334	334	334	334
Fixed assets	46,316	50,339	50,839	51,339	51,489
Less: Depn. and amort.	5,061	6,896	8,701	10,525	12,360
Net block	41,303	43,777	42,472	41,149	39,464
Capital WIP	2,138	1,949	1,949	1,949	1,949
Investments	1,997	1,600	1,600	1,600	1,600
Def tax assets/- liability	1,047	1,108	1,108	1,108	1,108
Current assets	19,928	24,577	23,829	27,256	29,365
Inventories	11,783	13,240	14,218	15,238	17,144
Sundry debtors	2,192	3,201	3,301	3,325	3,429
Cash & bank balances	920	1,956	467	2,372	2,004
Other current assets	709	622	559	554	617
Loans & advances	4,323	5,559	5,285	5,767	6,172
Current liabilities & prov.	9,441	10,699	9,800	10,694	10,355
Current liabilities	8,679	10,055	9,394	9,974	9,600
Provisions and others	762	643	406	720	754
Net current assets	10,487	13,878	14,028	16,561	19,010
Others (net)	0	0	0	0	0
Application of funds	**56,972**	**62,312**	**61,157**	**62,367**	**63,131**

Source: Company, JM Financial

Cash flow statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Reported net profit	354	815	1,961	2,817	4,512
Depreciation and amort.	1,698	1,835	1,805	1,823	1,835
-Inc/dec in working cap.	-1,076	-2,298	-1,026	-928	-2,023
Others	-988	-1,701	-491	-32	232
Cash from operations (a)	**-12**	**-1,350**	**2,250**	**3,681**	**4,556**
-Inc/dec in investments	1,531	397	0	0	0
Capex	-1,092	-4,120	-500	-500	-150
Others	724	-57	-614	301	-794
Cash flow from inv. (b)	**1,163**	**-3,779**	**-1,114**	**-199**	**-944**
Inc/-dec in capital	-471	1,539	-202	-152	-557
Dividend+Tax thereon	-384	-405	-424	-424	-424
Inc/-dec in loans	-38	5,092	-2,000	-1,000	-3,000
Others	-189	-61	0	0	0
Financial cash flow (c)	**-1,082**	**6,165**	**-2,626**	**-1,576**	**-3,981**
Inc/-dec in cash (a+b+c)	69	1,036	-1,490	1,905	-368
Opening cash balance	851	920	1,956	467	2,372
Closing cash balance	920	1,956	467	2,372	2,004

Source: Company, JM Financial

Key Ratios

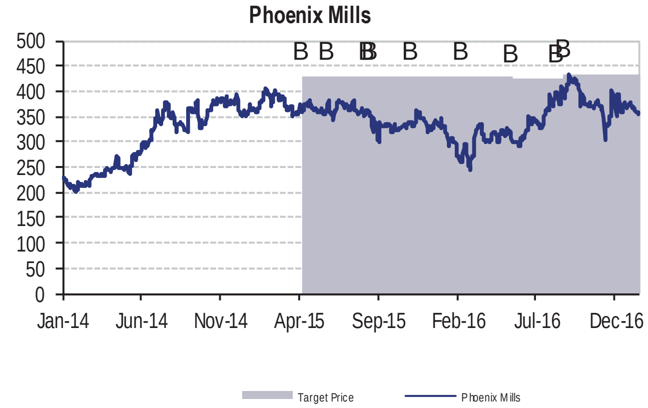
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	115.5	122.2	130.9	145.6	168.6
ROIC (%)	8.3	7.2	8.6	9.8	12.3
ROE (%)	7.6	6.8	10.1	13.3	18.8
Net Debt/equity ratio (x)	1.9	1.9	1.8	1.4	1.1
Valuation ratios (x)					
PER	39.8	45.2	27.7	19.3	12.0
PBV	3.1	2.9	2.7	2.4	2.1
EV/EBITDA	10.8	11.4	10.2	8.7	6.8
EV/Sales	5.0	5.1	4.8	4.3	3.3
Turnover ratios (no.)					
Debtor days	48	66	65	60	50
Inventory days	260	272	280	275	250
Creditor days	136	156	156	156	125

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY17E EPS (₹)	% Chg.	FY18E EPS (₹)	% Chg.	Target Price	% Chg.
10-Apr-15	23.2				430	
29-May-15	22.4	-3.4			430	0.0
14-Aug-15	21.3	-4.9	30.3		430	0.0
20-Aug-15	20.8	-2.3	29.1	-4.0	430	0.0
6-Nov-15	20.8	0.0	29.1	0.0	430	0.0
11-Feb-16	20.0	-3.8	29.5	1.4	430	0.0
17-May-16	16.9	-15.5	24.3	-17.6	425	-1.2
12-Aug-16	16.9	0.0	24.3	0.0	425	0.0
26-Aug-16	17.7	4.7	24.5	0.8	435	2.4

Recommendation history



Prestige Estates

Commercial assets provide valuation comfort; residential commitments to reduce cash flow flexibility

Prestige Estates

BUY

TP ₹200

- **Muted demand to impact FY17 guidance achievement:** The Company is expected to witness a slowdown in pre-sales during 2HFY17 in line with industry trends. With 1HFY17 meeting 37% of target, we expect PEPL to miss its full-year pre-sales guidance. However, we believe the company has a balanced inventory profile (74% inventory below ₹15mn), which reduces the risks of inventory concentration.

Exhibit 41. Guidance vs. achievement—miss expected in pre-sales guidance

	FY16 Guidance	% YoY	FY16	% achieved	FY17 guidance	% YoY	1HFY17	% achieved
Fresh Sales (₹ mn)	58,750	17%	31,498	54%	35,000–40,000	19%	13,938	37%
Collections (₹ mn)	38,750	20%	39,513	102%	40,000–45,000	8%	21,449	50%
Launches (msf)	12.00	-18%	8.35	70%	10–12	32%	1.98	18%
Leasing (msf)	1.75	-36%	1.32	75%	1.5–2.0	33%	0.36	21%
Exit Rental Income (₹ mn)	4,750	19%	5,141	108%	6,000–6,250	19%	5,395	88%
Completion (msf)	15	68%	4.7	31%	10–12	134%	10.26	93%

Source: Company, JM Financial

- **Commercial assets to support valuations:** PEPL has 8.7msf annuity assets generating annual revenue of ₹5.3bn. In addition, the company is constructing 2.6msf office/retail space expected to generate ₹2.1bn in the coming two years. In addition, the company plans to add 8.8msf of rental assets in 3–4 years. We believe a rental income of ₹7–7.5bn by FY18 provides a good support to the valuation. We are valuing the rental assets at an implied c.8% cap rate with a valuation of ₹160/share.

- **Launches/deliveries key monitorables:** PEPL launched 8.4msf in FY16 vs. the target at 10–12msf, as the company has faced approval delays for projects across geographies. No projects were launched in 2QFY17, as the management concentrated on liquidating launched units. Hyderabad/Bangalore market performance remains the key to achieve pre-sales/launch targets. In our view, project launches and sales achieved remain critical for sustaining/improving operating performance, as several projects nearing completion could lead to cash flow mismatch in the short term. The management indicated that the company is working on a strategy to improve pre-sales in 4Q by launching 2 or 3 large projects. They also indicated limited probability of a price cut, going forward.

- **On RERA:** The management has approached the Karnataka Government for non-inclusion of on-going projects under RERA, as certain provisions (obligations for five years on services, sales agreement) will have material impact on operations. In case of inclusion of on-going projects, the management plans to hold on to the unsold inventory until the completion of the project to lower the impact of RERA.

- **Cash flow mismatch expected on 11msf completion**: PEPL has 11msf of projects in advance stages of completion. We expect the company to receive ₹7-8bn from completion of these projects based on completed sales. However, for completion of these projects we expect a spend of ₹10-13bn, which will lead to a cash flow mismatch. In addition, we remain vary of any working capital liability emerging out of the implementation of RERA in Karnataka, which could further stretch the balance sheet.

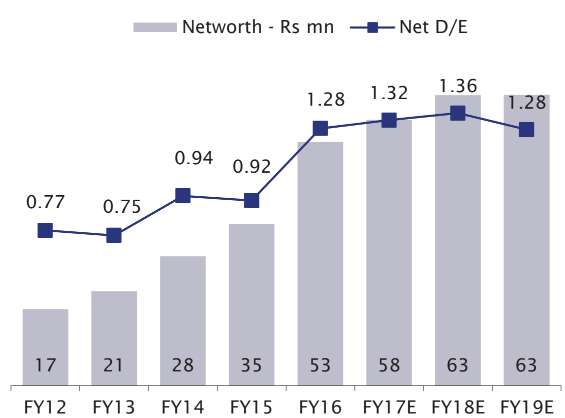
Exhibit 42. Projects nearing completion

Project	% of sales recognised in P&L	Collection pending (₹ mn)	% holding	Effective collection pending (₹ mn)
Prestige Summer Fields	94%	147	50.85%	75
Prestige Bella Vista	93%	1,080	60%	648
Prestige Tranquillity	92%	891	100%	891
Prestige Mayberry I	92%	326	64%	208
Prestige White Meadows I & II	90%	2,040	100%	2,040
Prestige Royal Woods	89%	447	50%	224
Prestige Downtown	89%	201	100%	201
Prestige Jade Pavilion	86%	515	51.60%	266
Prestige Silver Springs	81%	674	27.54%	186
Prestige Ferns Residency	81%	1,746	62%	1,083
Prestige Misty Waters	81%	1,016	51%	518
Kingfisher Towers	81%	3,029	45.51%	1,378
Total		**12,112**		**7,717**

Source: Company, JM Financial

- **Rising debt could limit the company's flexibility in project/JDA acquisition:** PEPL's debt increased from ₹28bn in FY14 to ₹53bn, primarily on acquisition of stake in projects and annuity capex spend. We expect debt to rise from current levels, given its ₹31bn annuity commitment and stretched working capital as it delivers 11msf residential projects. Also, we see the risk of RERA's deposit liability emerging, if on-going projects are under the ambit of the regulator. High debt, in our view, could limit the management's flexibility in project/JDA acquisition, going forward. As highlighted earlier, any decline in system liquidity could impact PEPL's cash flows.

Exhibit 43. Rising debt on acquisition and annuity spend

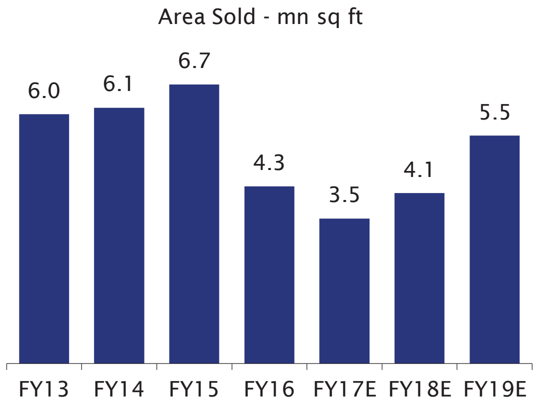


Source: Company, JM Financial

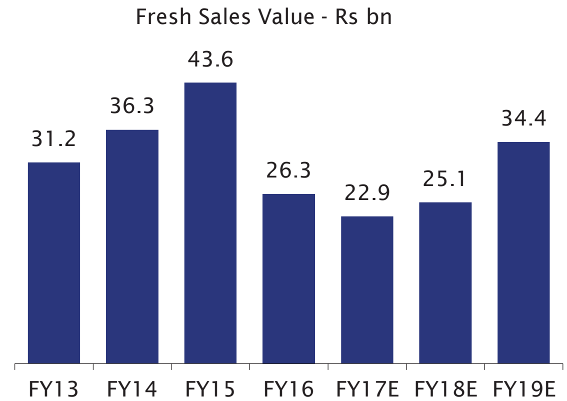
- **Maintain BUY, TP ₹200:** We factor in lower sales in FY17/18 (3.5/4.1msf), as we expect demand deferral for the next 9-12 months. Our TP is based on ₹160/share attributable to annuity assets, while the residential business contributes ₹40/share. With c.80% of NAV attributable to the rental book, any move to unlock capital will lead to improvement in balance sheet health and higher flexibility in portfolio addition. Limited pick up in residential demand could result in cash flow mismatch in the short term.

Exhibit 44. Stable operational performance

Pre-sales expected to be impacted by demand deferrals



Sales value expected to pick up in 18-24 months



Source: Company, JM Financial

Exhibit 45. Valuation summary

	Value ₹ mn	₹/sh.
Development Business	75,687	202
Rental Business	97,575	260
Total	**173,262**	**462**
Staff Costs	-13,860	-37
Other Expenses	-11,771	-31
Taxes	-12,023	-32
Enterprise Value	**135,609**	**362**
Net Debt	-63,310	-169
BV of Land Bank	2,593	7
Equity Value	**74,892**	**200**

Source: Company, JM Financial

- Key monitorables: Commercial asset monetisation or formation of platform, portfolio acquisition and valuations of the same and liability on implementation of RERA.

- 5% change in FY18 prices would reduce our NAV by 6%.

Prestige Estates Financial Tables (Consolidated)

Profit & Loss Statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales (Net of excise)	**33,205**	**45,698**	**48,719**	**53,422**	**56,841**
Growth (%)	33.2	37.6	6.6	9.7	6.4
Other operational income	994	646	678	712	748
Raw material (or COGS)	20,265	31,383	33,482	36,064	37,551
Personnel cost	2,290	2,066	2,272	2,499	2,749
Other expenses (or SG&A)	1,704	2,471	2,842	3,126	3,439
EBITDA	**9,939**	**10,424**	**10,802**	**12,445**	**13,850**
EBITDA (%)	29.1	22.5	21.9	23.0	24.0
Growth (%)	38.0	4.9	3.6	15.2	11.3
Other non-op. income	986	838	411	282	459
Depreciation and amort.	1,397	1,584	1,949	2,341	2,711
EBIT	9,529	9,677	9,264	10,386	11,598
Add: Net interest income	-3,214	-3,587	-4,077	-4,593	-5,357
Pre tax profit	6,315	6,090	5,187	5,793	6,241
Taxes	2,647	2,142	1,764	1,970	2,122
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	344	436	436	436	436
Reported net profit	3,324	3,512	2,987	3,387	3,683
Adjusted net profit	**3,324**	**3,512**	**2,987**	**3,387**	**3,683**
Margin (%)	9.7	7.6	6.0	6.3	6.4
Diluted share cap. (mn)	375	375	375	375	375
Diluted EPS (₹)	**8.9**	**9.4**	**8.0**	**9.0**	**9.8**
Growth (%)	-1.3	5.6	-14.9	13.4	8.7
Total Dividend + Tax	696	542	596	656	722

Source: Company, JM Financial

Balance Sheet (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Share capital	3,750	3,750	3,750	3,750	3,750
Other capital	0	0	0	0	0
Reserves and surplus	34,456	37,689	40,080	42,811	45,772
Networth	38,206	41,439	43,830	46,561	49,522
Total loans	40,556	57,933	59,933	65,933	67,933
Minority interest	3,975	3,234	3,605	3,975	4,346
Sources of funds	**82,736**	**102,605**	**107,367**	**116,468**	**121,800**
Intangible assets	5,040	8,998	8,998	8,998	8,998
Fixed assets	31,858	40,872	48,597	58,897	65,592
Less: Depn. and amort.	6,797	8,382	10,330	12,671	15,383
Net block	30,101	41,488	47,264	55,223	59,207
Capital WIP	7,756	7,756	7,756	7,756	7,756
Investments	2,787	2,538	2,472	2,406	2,341
Def tax assets/- liability	-12	-45	-45	-45	-45
Current assets	82,905	92,713	91,625	92,889	95,234
Inventories	42,599	50,976	52,781	53,393	52,856
Sundry debtors	8,840	10,084	10,827	10,975	11,045
Cash & bank balances	5,368	4,856	1,999	3,134	5,220
Other current assets	1,387	1,658	1,658	1,658	1,658
Loans & advances	24,712	25,140	24,361	23,730	24,456
Current liabilities & prov.	40,800	41,844	41,705	41,761	42,691
Current liabilities	38,453	39,386	39,248	39,303	40,234
Provisions and others	2,347	2,458	2,458	2,458	2,458
Net current assets	42,105	50,869	49,920	51,129	52,542
Others (net)	0	0	0	0	0
Application of funds	**82,736**	**102,605**	**107,367**	**116,468**	**121,800**

Source: Company, JM Financial

Cash flow statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Reported net profit	3,324	3,512	2,987	3,387	3,683
Depreciation and amort.	1,655	1,584	1,949	2,341	2,711
-Inc/dec in working cap.	-17,235	-7,420	-2,487	-593	1,083
Others	985	-741	371	371	371
Cash from operations (a)	**-11,272**	**-3,065**	**2,820**	**5,506**	**7,848**
-Inc/dec in investments	100	250	66	66	66
Capex	-5,786	-12,972	-7,725	-10,300	-6,695
Others	4,876	-1,856	579	519	-410
Cash flow from inv. (b)	**-810**	**-14,578**	**-7,080**	**-9,715**	**-7,040**
Inc/-dec in capital	5,786	263	0	0	0
Dividend+Tax thereon	-696	-542	-596	-656	-722
Inc/-dec in loans	9,014	17,377	2,000	6,000	2,000
Others	-50	33	0	0	0
Financial cash flow (c)	**14,054**	**17,131**	**1,404**	**5,344**	**1,278**
Inc/-dec in cash (a+b+c)	1,973	-512	-2,857	1,135	2,086
Opening cash balance	3,395	5,368	4,856	1,999	3,134
Closing cash balance	5,368	4,856	1,999	3,134	5,220

Source: Company, JM Financial

Key Ratios

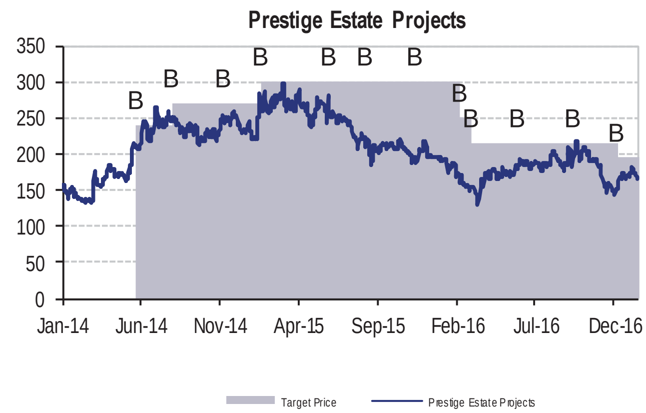
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	101.9	110.5	116.9	124.2	132.1
ROIC (%)	7.9	7.0	5.8	6.1	6.5
ROE (%)	9.8	8.8	7.0	7.5	7.7
Net Debt/equity ratio (x)	0.8	1.2	1.3	1.3	1.2
Valuation ratios (x)					
PER	18.7	17.7	20.8	18.3	16.9
PBV	1.6	1.5	1.4	1.3	1.3
EV/EBITDA	9.5	10.8	10.9	9.8	8.8
EV/Sales	2.8	2.5	2.4	2.3	2.2
Turnover ratios (no.)					
Debtor days	97	81	81	75	71
Inventory days	468	407	395	365	339
Creditor days	130	109	103	98	100

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY17E EPS (₹)	% Chg.	FY18E EPS (₹)	% Chg.	Target Price	% Chg.
28-May-14					240	
4-Aug-14					270	12.5
12-Nov-14	17.0				270	0.0
23-Jan-15	16.5	-2.9			300	11.1
3-Jun-15	13.4	-18.8			300	0.0
12-Aug-15	12.5	-6.7	14.9		300	0.0
16-Nov-15	13.1	4.8	16.4	10.1	300	0.0
10-Feb-16	10.8	-17.6	13.3	-18.9	250	-16.7
3-Mar-16	10.7	-0.9	13.4	0.8	215	-14.0
31-May-16	10.5	-1.9	12.8	-4.5	215	0.0
15-Sep-16	10.2	-2.9	11.7	-8.6	215	0.0
8-Dec-16	8.3	-18.6	9.7	-17.1	195	-9.3

Recommendation history



Godrej Properties

Factoring in slower sales; company to benefit from structural changes in sector

Godrej Properties Ltd

BUY

TP ₹350

- We expect a sales slowdown in the short term, as the Mumbai/NCR micro markets are likely to witness a material slowdown, especially in the >₹10mn ticket size segment. We are factoring in a pre-sales of ₹21.6/32.3/48.5bn for FY17/18/19, respectively, as compared ₹58.5bn sales done in FY16.

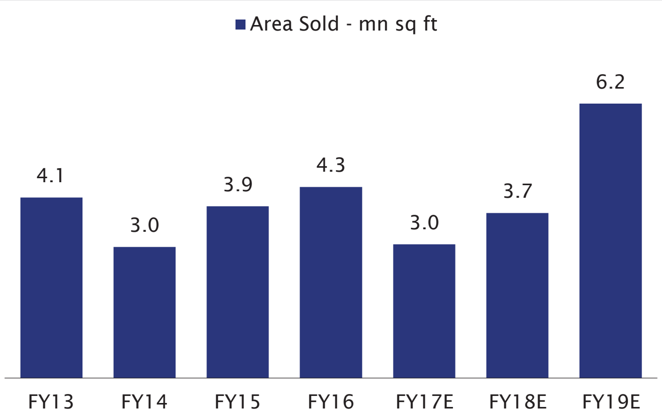
- **Completion of commercial capex to improve cash flows:** GPL's debt increased to ₹30bn in FY16, primarily on approvals and commercial capex spent. With the completion of capex in 1HFY17, we expect the company to generate ₹15bn cash flows from commercial asset monetisation (BKC, Chandigarh and Kolkatta), which will help the company bring down leverage significantly.

- **Impact of RERA:** The real estate regulator is likely to benefit organised developers in the medium term, as supply declines and organised developers gain market share. However, we do expect teething issues in implementation of RERA as working capital requirement across developers increase. GPL will be in a better position, as most of its new projects are in separate SPVs, which have limited cross project funding.

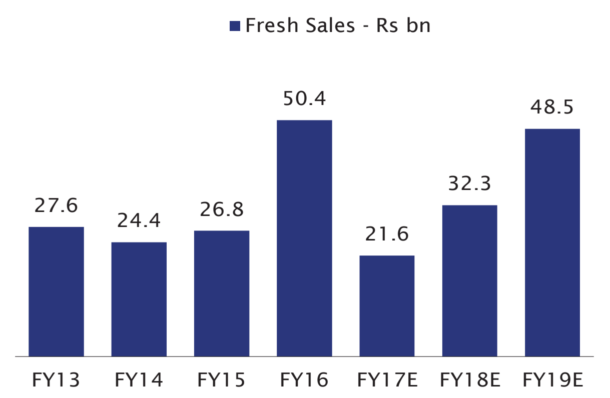
- **Successful launches in tough market condition gives visibility:** GPL has been able to successfully launch projects in tough market conditions. The company's recent launches in Gurgaon (Oasis, Icon, 101, Aria) and Mumbai (The Trees, Godrej Prime, Central, Godrej Sky, Godrej Vihaa, Godrej Green) have received booking for 75-100% of units offered. While upfront sales could impact project margins, going forward, sales certainty in the current environment will ensure healthy cash flows as projects are executed.

Exhibit 46. Stable operational performance

Pre-sales expected to be impacted by demand deferrals



Sales value expected to pick up in 18-24 months



Source: Company, JM Financial

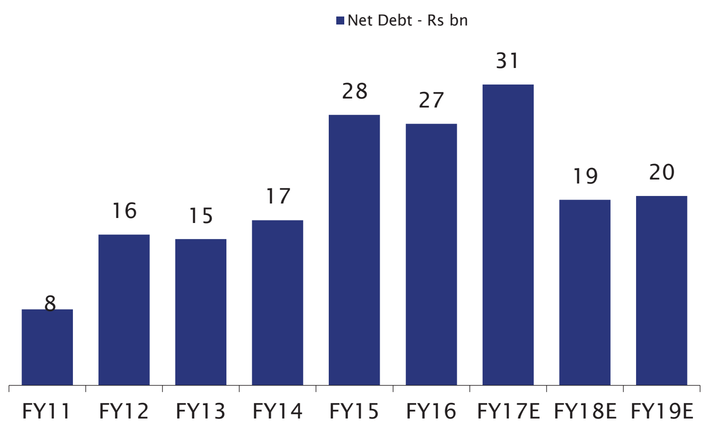
- **Maintain BUY, Mar'18 TP of ₹350:** We value residential and commercial projects on a discounted cash flow basis using 12% WACC; we use a 10% cap rate for the upcoming project—The Trees Commercial. We attribute 69% value to the residential portfolio, 1% to commercial, 10% DM projects and 21% to the Vikhroli land bank. The key risks to our call are subdued demand and delayed execution of the portfolio.

Exhibit 47. Valuation summary

Valuation	EV (₹ mn)	Net debt (₹ mn)	Equity value (₹ mn)	Equity per share (₹)	Area (msf)	Net cash flow (₹ mn)	Valuation method
Residential	52	0	52	240	60.2	126	NAV 12% Discount rate
Commercial	6	19	-13	-59	5.5	20	NAV 12% Discount rate
Development Manager	7	0	7	34	21.7	15	NAV 12% Discount rate
Vikhroli DM	16	0	16	74	43.6	206	40-year execution for 400 acres area
The Trees Commercial	13	0	13	61	1.4		10% cap rate less the cost of construction and land acquisition
Total	**94**	**19**	**75**	**350**	**132**	**367**	

Source: Company, JM Financial

Exhibit 48. Expect commercial asset monetisation to bring down debt in FY18/19



Source: Company, JM Financial

- Key monitorables: Commercial asset sales, portfolio acquisition and valuations of the same, and liability (if any) on implementation of RERA.

Godrej Properties Financial Tables (Consolidated)

Profit & Loss Statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales (Net of excise)	**17,429**	**25,045**	**13,820**	**19,638**	**21,697**
Growth (%)	62.1	43.7	-44.8	42.1	10.5
Other operational income	1,002	1,294	1,184	641	872
Raw material (or COGS)	14,864	21,355	10,932	15,424	16,377
Personnel cost	355	459	505	531	557
Other expenses (or SG&A)	640	1,021	2,042	2,144	2,251
EBITDA	**2,572**	**3,504**	**1,525**	**2,181**	**3,384**
EBITDA (%)	14.0	13.3	10.2	10.8	15.0
Growth (%)	-9.0	36.2	-56.5	43.0	55.2
Other non-op. income	0	0	0	0	0
Depreciation and amort.	100	150	150	167	193
EBIT	2,472	3,354	1,375	2,013	3,191
Add: Net interest income	787	788	45	-253	-579
Pre tax profit	3,260	4,142	1,420	1,761	2,612
Taxes	904	1,248	440	546	810
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	447	583	-529	-980	-1,325
Reported net profit	1,909	2,311	1,508	2,195	3,128
Adjusted net profit	**1,909**	**2,311**	**1,508**	**2,195**	**3,128**
Margin (%)	10.4	8.8	10.1	10.8	13.9
Diluted share cap. (mn)	199	216	216	216	216
Diluted EPS (₹)	**9.6**	**10.7**	**7.0**	**10.2**	**14.5**
Growth (%)	19.7	11.8	-34.7	45.5	42.5
Total Dividend + Tax	481	0	0	520	546

Source: Company, JM Financial

Balance Sheet (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Share capital	997	1,081	1,081	1,081	1,081
Other capital	0	0	0	0	0
Reserves and surplus	17,472	16,657	18,165	19,840	22,421
Networth	18,469	17,738	19,247	20,921	23,503
Total loans	34,865	31,342	35,842	25,842	25,842
Minority interest	2,279	0	0	0	0
Sources of funds	**55,612**	**49,081**	**55,089**	**46,764**	**49,345**
Intangible assets	742	0	0	0	0
Fixed assets	731	1,650	1,850	2,050	2,450
Less: Depn. and amort.	300	425	575	742	935
Net block	1,173	1,225	1,275	1,307	1,514
Capital WIP	725	0	0	0	0
Investments	0	6,625	7,153	8,133	9,642
Def tax assets/- liability	45	1,255	1,255	1,255	1,255
Current assets	71,688	56,910	60,367	51,738	57,322
Inventories	47,271	39,481	41,948	32,870	35,688
Sundry debtors	1,697	1,601	1,439	1,389	1,855
Cash & bank balances	6,954	706	1,154	3,033	2,467
Other current assets	5,750	6,142	6,577	5,556	7,420
Loans & advances	10,016	8,981	9,249	8,889	9,893
Current liabilities & prov.	18,018	16,934	14,961	15,670	20,388
Current liabilities	17,372	16,796	14,823	15,532	20,251
Provisions and others	646	137	137	137	137
Net current assets	53,670	39,977	45,406	36,068	36,934
Others (net)	0	0	0	0	0
Application of funds	**55,612**	**49,081**	**55,089**	**46,764**	**49,345**

Source: Company, JM Financial

Cash flow statement (₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Reported net profit	1,909	2,311	1,508	2,195	3,128
Depreciation and amort.	75	125	150	167	193
-Inc/dec in working cap.	-10,008	6,874	-2,468	9,279	-2,284
Others	248	-2,279	0	0	0
Cash from operations (a)	**-7,775**	**7,031**	**-810**	**11,641**	**1,037**
-Inc/dec in investments	0	-6,625	-529	-980	-1,509
Capex	-718	548	-200	-200	-400
Others	-980	571	-2,513	1,939	851
Cash flow from inv. (b)	**-1,698**	**-5,506**	**-3,241**	**759**	**-1,057**
Inc/-dec in capital	-894	-3,041	0	0	0
Dividend+Tax thereon	-481	0	0	-520	-546
Inc/-dec in loans	9,114	-3,522	4,500	-10,000	0
Others	-23	-1,210	0	0	0
Financial cash flow (c)	**7,717**	**-7,774**	**4,500**	**-10,520**	**-546**
Inc/-dec in cash (a+b+c)	-1,756	-6,249	449	1,879	-567
Opening cash balance	8,710	6,954	706	1,154	3,033
Closing cash balance	6,954	705	1,154	3,033	2,467

Source: Company, JM Financial

Key Ratios

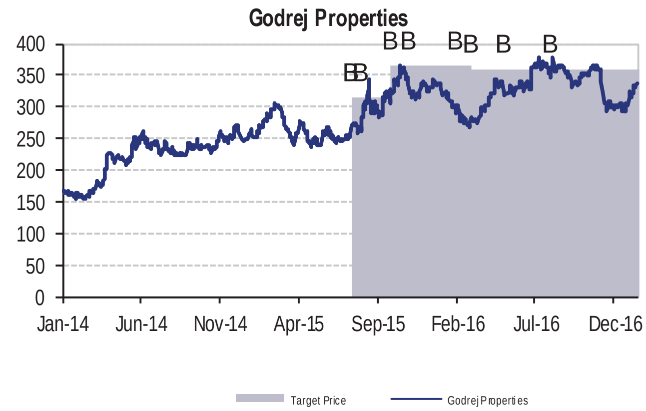
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	92.6	82.2	89.1	96.9	108.9
ROIC (%)	3.3	3.7	2.9	4.9	7.8
ROE (%)	10.5	12.8	8.2	10.9	14.1
Net Debt/equity ratio (x)	1.5	1.4	1.4	0.7	0.6
Valuation ratios (x)					
PER	35.0	31.4	48.0	33.0	23.2
PBV	3.6	4.1	3.8	3.5	3.1
EV/EBITDA	36.9	27.5	65.6	40.0	25.5
EV/Sales	5.4	3.9	7.2	4.4	4.0
Turnover ratios (no.)					
Debtor days	36	23	38	26	31
Inventory days	990	575	1,108	611	600
Creditor days	175	105	199	145	158

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY17E EPS (₹)	% Chg.	FY18E EPS (₹)	% Chg.	Target Price	% Chg.
16-Jul-15	13.5		17.1		315	
4-Aug-15	13.5	0.0	17.1	0.0	315	0.0
30-Sep-15	16.3	20.7	16.7	-2.3	365	15.9
4-Nov-15	16.3	0.0	16.7	0.0	365	0.0
2-Feb-16	16.3	0.0	16.7	0.0	365	0.0
3-Mar-16	17.4	6.7	18.5	10.8	360	-1.4
5-May-16	16.5	-5.2	17.8	-3.8	360	0.0
3-Aug-16	15.9	-3.6	17.1	-3.9	360	0.0

Recommendation history



Oberoi Realty Ltd

Premium segment sales to be impacted materially; strong balance sheet, acquisition opportunity to drive performance

Oberoi Realty

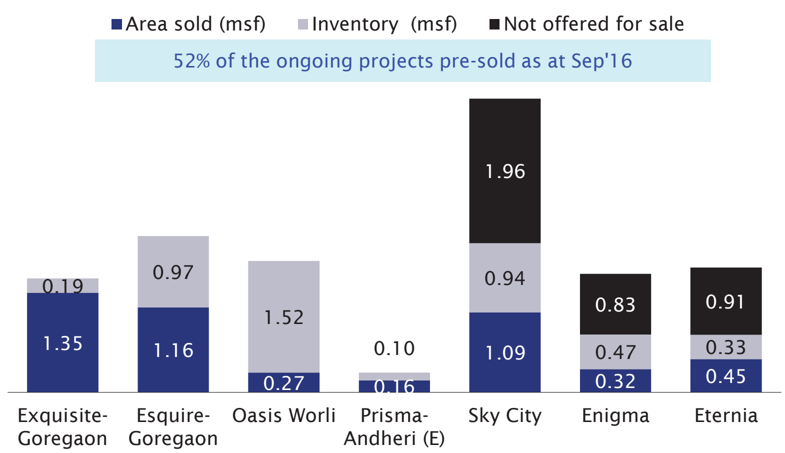
BUY

TP ₹340

- **Premium segment to face material sales slowdown**: OBER's projects across micro markets have been launched at a premium to existing supply, in line with the company's strategy to position its brand as a premium/aspirational brand. However, with significant demand deferrals, we expect premium properties to be worst hit, as the projects remain at the end of the affordability spectrum. We expect a material slowdown in Oberoi's pre-sales in the coming six months. We are estimating delayed inventory liquidation across projects to build in the impact of demand deferrals.

- **Strong balance sheet gives growth opportunity**: However, a strong balance sheet allows OBER to hold the current prices and maintain its premium product offering. In addition, we expect the company to leverage its strong balance sheet in adding projects/land bank to its portfolio. While we have seen limited price correction in Mumbai's land prices, we expect limited competition for residential land bidding, especially when RERA is implemented.

Exhibit 49. Inventory across projects—premium positioning to impact short term pre-sales (msf)



Source: Company, JM Financial

- **Annuity assets leasing picking up:** Oberoi Mall has been operating at full occupancy, as it benefits from limited competition and good offering to customers. The mall's rentals have been increasing at 5% p.a. since FY13. Commercial portfolio—Commerz 1—though has witnessed limited rent increase over the past few years. We expect the trend to continue with the supply of Commerz II ph. 1 keeping a check on significant increase in rentals. Commerz II's leasing activity has been picking up off-late with >40% leased area. We are factoring in leasing at 45% by FY18 and long-term occupancy at 80%. Commerz II ph. 2 is expected to be completed by FY20, as leasing of ph. 1 is completed. In addition, we are factoring in stable operations from Westin Hotel with an EBITDA of ₹0.4bn by FY19. Overall EBITDA from the commercial annuity portfolio is expected at ₹3bn by FY19 and we value these assets at ₹31.3bn with an implied cap rate of 9%. We are assuming the leasing of its retail component at Borivali (0.5msf) with limited value addition to NAV. Also, we are valuing the Worli land parcel at book value, as we await details on execution of the land parcel.

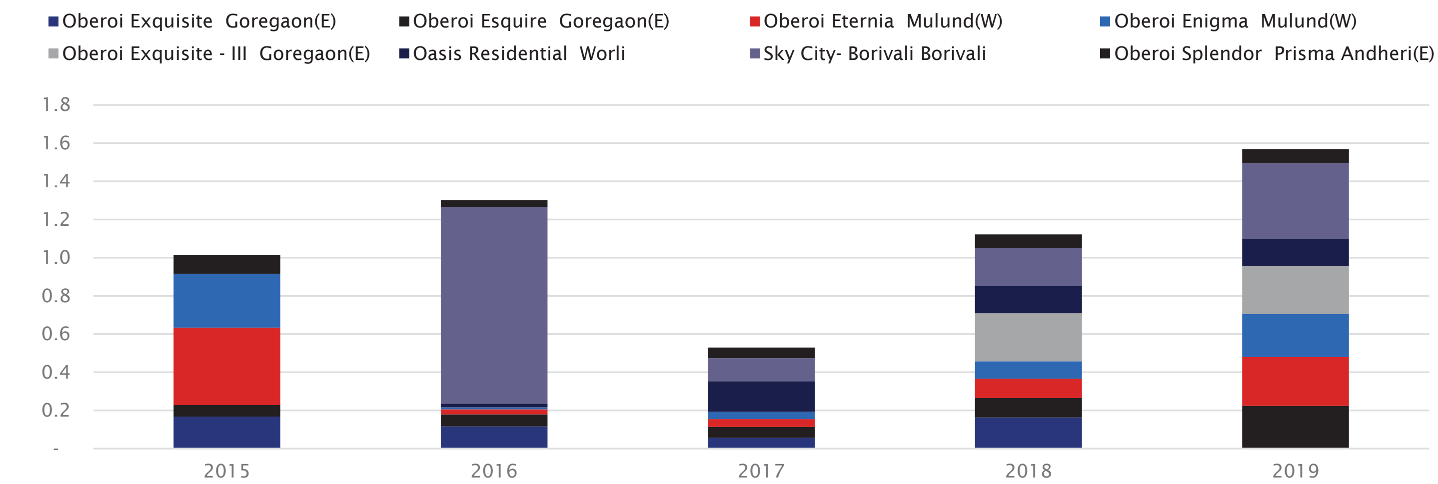
Exhibit 50. Commercial assets provide consistent cash flows

Westin	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Rooms	269	269	269	269	269	269	269	269
Occupancy	69%	65%	75%	79%	77%	75%	75%	75%
RevPar	5,088	5,280	6,008	6,577	6,722	7,203	7,563	7,941
Revenues (₹ mn)	906	965	1,127	1,226	1,280	1,325	1,392	1,461
EBITDA (₹ mn)	229	282	342	341	415	360	378	395
%margin	*25%*	*29%*	*30%*	*28%*	*32%*	*27%*	*27%*	*27%*
Commerz 1	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Area Leased (msf)	0.28	0.30	0.31	0.31	0.28	0.29	0.29	0.29
Rent/sf/mth (₹)	130	130	129	128	129	139	148	155
Occupancy	76%	81%	85%	84%	88%	80%	80%	80%
Revenues (₹ mn)	436	461	482	472	465	487	519	545
EBITDA (₹ mn)	417	451	480	472	463	468	498	523
%margin	96%	98%	100%	100%	100%	96%	96%	96%
Commerz II Ph. 1	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Area Leased (msf)				0.05	0.09	0.33	0.44	0.51
Rent/sf/mth (₹)				110	114	121	121	127
Occupancy				7%	13%	45%	60%	70%
Revenues (₹ mn)				6	78	474	632	775
EBITDA (₹ mn)				-8	17	237	443	697
%margin				-134%	22%	50%	70%	90%
Oberoi Mall	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Area Leased (msf)	0.52	0.52	0.55	0.55	0.55	0.51	0.55	0.55
Rent/sf/mth (₹)	125	127	133	144	143	165	172	179
Occupancy	96%	96%	99%	99%	99%	92%	99%	99%
Revenues (₹ mn)	782	792	872	940	942	1,011	1,128	1,173
EBITDA (₹ mn)	749	757	834	905	893	960	1,072	1,115
%margin	96%	96%	96%	96%	95%	95%	95%	95%
Others	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Sales	80	156	303	240	237	242	247	252
EBITDA	72	151	280	225	227	216	221	225
%margin	90%	97%	92%	94%	95%	90%	90%	90%
Total Rentals	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Revenues (₹ mn)	2,204	2,374	2,783	2,884	3,003	3,539	3,917	4,205
EBITDA (₹ mn)	1,468	1,641	1,935	1,934	2,015	2,242	2,611	2,955
%margin	67%	69%	70%	67%	67%	63%	67%	70%

Source: Company, JM Financial

- **Factor in slower sales, higher valuation to commercial assets, and roll forward to Mar'18 with TP of ₹340:** We expect OBER's pre-sales at 0.5/1.1/1.6msf for FY17/18/19, respectively, as we factor in the next phase of its Goregaon launch in FY18 (as against the management guidance in FY17). We value commercial assets at ₹110/share, residential at ₹216/share and others at ₹14/share.

Exhibit 51. Sales contribution from OBER's projects (msf)



Source: Company, JM Financial

Exhibit 52. SoTP

Project	Location	Area (mn sq. ft)	NAV (₹ mn)	Value per share (₹)	% of Total
Oberoi Exquisite	Goregaon (E)	1.54	0	0	0%
Oberoi Esquire	Goregaon (E)	2.03	8,415	25	7%
Oberoi Eternia	Mulund (W)	1.70	8,176	24	7%
Oberoi Enigma	Mulund (W)	1.50	7,271	21	6%
Oberoi Exquisite - III	Goregaon (E)	1.68	11,819	35	10%
Oasis Residential	Worli	1.78	13,572	40	12%
Oberoi Splendor Prisma	Andheri (E)	0.71	5,430	16	5%
Sky City- Borivali	Borivali	3.99	23,594	70	20%
New Worli Project at BV	Worli	NA	1,400	4	1%
Residential Total		**16.03**	**79,982**	**236**	**69%**
Commercial for Sale Total		**0.97**	**2,193**	**6**	**2%**
Commerz I	Goregaon (E)	0.36	5,568	16	5%
Commerz II - Phase I	Goregaon (E)	0.73	5,404	16	5%
Commerz II - Phase II	Goregaon (E)	1.66	4,643	14	4%
Oberoi Mall	Goregaon (E)	0.55	12,645	37	11%
Borivali	Borivali	0.51	3,020	9	0
Commercial for Lease Total		**3.82**	**31,281**	**92**	**27%**
Social Infra Total		**1.98**	**3,197**	**9**	**3%**
The Westin Mumbai	Goregaon (E)	0.38	2,981	9	3%
Oasis Hotel	Worli	0.34	3,015	9	3%
Hotels Total		**0.72**	**5,996**	**18**	**5%**
Enterprise Value		**23.52**	**122,649**	**361**	**106%**
Net Debt			7,412	22	6%
Equity Value		**23.52**	**115,237**	**340**	**100%**

Source: Company, JM Financial

- **Key monitorables**: Land acquisition (valuation/timelines), liability on implementation of RERA, pick up in sales in oversupplied markets such as Mulund and the Goregaon phase 3 launch.

- **Sensitivity**: 5% price correction in FY18 lowers our NAV by 5%.

Oberoi Financial Tables (Consolidated)

Profit & Loss Statement					(₹ mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales (Net of excise)	**9,109**	**13,997**	**12,005**	**15,204**	**36,857**
Growth (%)	16.2	53.7	-14.2	26.6	142.4
Other operational income	117	84	92	101	0
Raw material (or COGS)	3,148	6,297	4,938	6,775	18,118
Personnel cost	527	576	576	692	761
Other expenses (or SG&A)	414	533	442	559	1,345
EBITDA	**5,138**	**6,674**	**6,142**	**7,280**	**16,634**
EBITDA (%)	55.7	47.4	50.8	47.6	45.1
Growth (%)	18.2	29.9	-8.0	18.5	128.5
Other non-op. income	0	0	0	0	0
Depreciation and amort.	403	490	496	624	824
EBIT	4,735	6,185	5,646	6,656	15,810
Add: Net interest income	157	361	474	299	486
Pre tax profit	4,892	6,545	6,120	6,955	16,296
Taxes	1,721	2,286	2,107	2,394	5,610
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	0	0	0	0	-2,449
Reported net profit	3,171	4,259	4,013	4,561	13,135
Adjusted net profit	**3,171**	**4,259**	**4,035**	**4,561**	**13,135**
Margin (%)	34.4	30.2	33.4	29.8	35.6
Diluted share cap. (mn)	328	339	339	339	339
Diluted EPS (₹)	**9.7**	**12.6**	**11.9**	**13.4**	**38.7**
Growth (%)	1.9	29.9	-5.3	13.0	188.0
Total Dividend + Tax	790	790	790	790	790

Source: Company, JM Financial

Balance Sheet					(₹ mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Share capital	3,282	3,393	3,393	3,393	3,393
Other capital	0	0	0	0	0
Reserves and surplus	43,061	49,650	52,895	56,666	69,011
Networth	46,343	53,043	56,288	60,059	72,404
Total loans	9,016	6,415	8,415	9,415	9,415
Minority interest	0	0	0	0	0
Sources of funds	**55,358**	**59,458**	**64,703**	**69,474**	**81,819**
Intangible assets	2,654	2,654	0	0	0
Fixed assets	11,743	11,855	12,984	18,175	22,540
Less: Depn. and amort.	1,595	2,083	2,580	3,204	4,027
Net block	12,802	12,425	10,405	14,971	18,513
Capital WIP	218	539	539	539	539
Investments	0	744	1,966	1,966	4,415
Def tax assets/- liability	-242	-229	-229	-229	-229
Current assets	58,180	63,889	69,932	71,004	77,357
Inventories	34,817	39,306	36,161	37,970	37,970
Sundry debtors	828	1,170	819	819	819
Cash & bank balances	2,937	3,209	4,954	4,217	9,723
Other current assets	36	267	11,051	11,051	11,051
Loans & advances	19,562	19,937	16,947	16,947	17,794
Current liabilities & prov.	15,599	17,911	17,911	18,778	18,778
Current liabilities	14,758	17,867	17,867	18,734	18,734
Provisions and others	841	44	44	44	44
Net current assets	42,582	45,978	52,021	52,226	58,580
Others (net)	0	0	0	0	0
Application of funds	**55,358**	**59,458**	**64,703**	**69,474**	**81,819**

Source: Company, JM Financial

Cash flow statement					(₹ mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Reported net profit	3,171	4,259	4,013	4,561	13,135
Depreciation and amort.	404	488	496	624	824
-Inc/dec in working cap.	-18,226	-4,714	3,496	-1,808	0
Others	0	0	0	0	0
Cash from operations (a)	**-14,651**	**33**	**8,005**	**3,377**	**13,959**
-Inc/dec in investments	496	-744	-1,222	0	-2,449
Capex	226	-433	1,524	-5,190	-4,366
Others	4,383	1,589	-7,794	867	-847
Cash flow from inv. (b)	**5,105**	**412**	**-7,492**	**-4,324**	**-7,662**
Inc/-dec in capital	-2	3,231	22	0	0
Dividend+Tax thereon	-790	-790	-790	-790	-790
Inc/-dec in loans	8,255	-2,600	2,000	1,000	0
Others	23	-14	0	0	0
Financial cash flow (c)	**7,486**	**-173**	**1,232**	**210**	**-790**
Inc/-dec in cash (a+b+c)	-2,061	272	1,745	-737	5,506
Opening cash balance	4,997	2,937	3,209	4,954	4,217
Closing cash balance	2,937	3,209	4,954	4,217	9,723

Source: Company, JM Financial

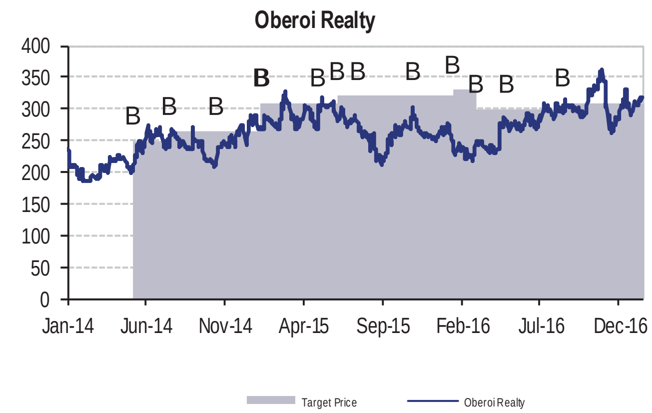
Key Ratios					
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	141.2	156.3	165.9	177.0	213.4
ROIC (%)	6.7	7.4	6.4	7.0	18.7
ROE (%)	7.0	8.6	7.4	7.8	19.8
Net Debt/equity ratio (x)	0.1	0.0	0.0	0.1	-0.1
Valuation ratios (x)					
PER	33.0	25.4	26.8	23.7	8.2
PBV	2.3	2.0	1.9	1.8	1.5
EV/EBITDA	21.5	16.6	17.9	15.3	6.2
EV/Sales	12.2	7.9	9.1	7.3	2.8
Turnover ratios (no.)					
Debtor days	33	31	25	20	8
Inventory days	1,395	1,025	1,099	912	376
Creditor days	48	31	40	29	11

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY17E EPS (₹)	% Chg.	FY18E EPS (₹)	% Chg.	Target Price	% Chg.
13-May-14					250	
22-Jul-14					265	6.0
20-Oct-14	28.6				265	0.0
14-Jan-15	30.7	7.3			310	17.0
17-Jan-15	30.7	0.0			310	0.0
4-May-15	25.9	-15.6			310	0.0
10-Jun-15	21.0	-18.9			320	3.2
20-Jul-15	20.8	-1.0	27.3		320	0.0
3-Nov-15	20.8	0.0	27.3	0.0	320	0.0
18-Jan-16	20.0	-3.8	27.4	0.4	330	3.1
3-Mar-16	12.7	-36.5	23.8	-13.1	300	-9.1
1-May-16	12.7	0.0	23.2	-2.5	300	0.0
17-Aug-16	12.6	-0.8	23.5	1.3	310	3.3

Recommendation history



APPENDIX I

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Corporate Identity Number: U65192MH1995PLC092522
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Sell	Price expected to move downwards by more than 10%

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