

REALTY SECTOR

2016: Rules of the game are changing

Only the fittest will survive:
Polarization of buyers towards
good developers



Investment summary...

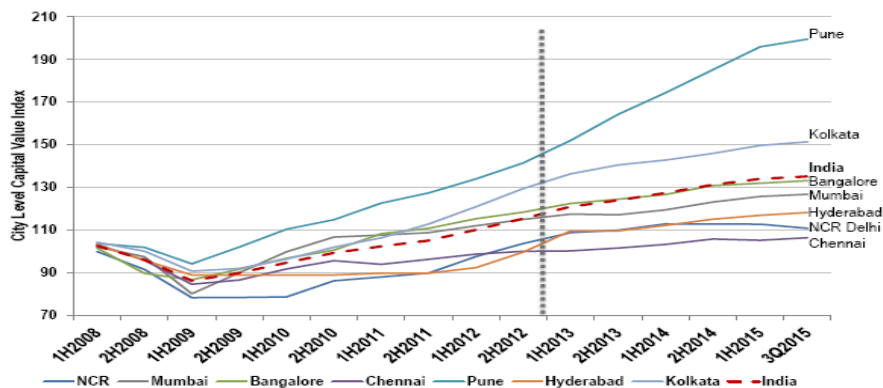
- ◆ **Residential demand at its worst:** Continued high prices have led to decline in absorption by ~4% YoY in key cities in India during 9MCY15, with developers holding back new launches (declined by 11% YoY)
 - Of the 3 key micro markets, Mumbai and NCR continue to be unaffordable due to high prices (price-to-income ratio, which ideally should be 5x, is actually >30x in Mumbai and between 10-16x in NCR)
 - While Bangalore is still affordable, it has seen plateauing of demand in the last one year
- ◆ **Rules of the game are changing...** The government is **tightening the noose on developers** mainly driven by (1) proposed **Real Estate (Regulation and Development) Bill**, which will lay down stricter guidelines for developers and (2) more **active Consumer Disputes Redressal forums** across states, which have recently become very aggressive
- ◆ **... and only the fittest will survive:** Uncertainty of regulations and several stuck projects have led to **polarization of demand towards reputed developers** with a timely execution track record
 - We believe (1) premium “integrated” projects at (2) good locations by (3) reputed developers continue to see good volumes and may not have to resort to a substantial price correction
- ◆ **Outlook for 2016:** Key policy related progress like the Parliamentary approval of the Real Estate Bill and rationalization of tax structure for REIT listings should bring back transparency in the sector, thereby bringing back consumer and investor confidence in the long run. Relaxation of FDI and ECB norms (improved exit avenues) should boost investments in the sector during the year
 - **Residential:** Demand is likely to improve in key micro markets as developers reduce the overall ticket sizes by reducing launch prices and offering compact specifications. Affordable housing will continue to see sustainable demand
 - **Commercial:** While demand is expected to remain steady, Grade-A supply will be lower. Rentals will inch up for quality office space
 - **Retail:** Supply is expected to revive with completion of big ticket malls. While rentals of quality retail spaces will remain steady/ increase marginally, retailers will have to revisit their real estate strategy amid rising competition from ecommerce

...Investment summary

- ◆ **Stick to quality:** Good developers such as Prestige, Oberoi, Godrej, Phoenix Mills etc. are already aligning their practices to conform to an expected stricter regime ahead. Prefer developers with healthy/improving balance sheet who are able to stay committed towards execution despite slowdown in sales/ collections
 - **Prestige** (TP: Rs 272, upside: 43%, CMP: Rs 190)
 - Significant scale up in operations
 - Strong cash flow visibility
 - Bangalore realty market still the best
 - **Oberoi** (TP: Rs 333, upside: 26%, CMP: Rs 263)
 - Strong track record of creating value
 - High cash flow visibility
 - Near-zero debt
 - **Phoenix Mills** (TP: Rs 391, upside: 19%, CMP: Rs 328)
 - Steady growth in annuity income
 - Strong cash flows from development business
 - **Godrej Properties** (TP: Rs 360, upside: 13%, CMP: Rs 319)
 - Monetization of BKC and other commercial projects to reduce debt meaningfully
 - **DLF** (TP: Rs 173, upside: 62%, CMP: Rs 107)
 - Possible rerating through annuity asset sales and subsequent equity raising (to lower debt)

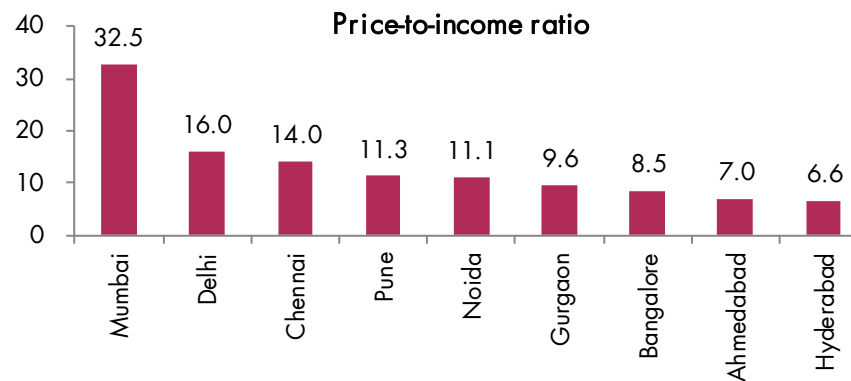
Residential markets continue to be challenging...

While pricing moderated post 2012, it remains high...



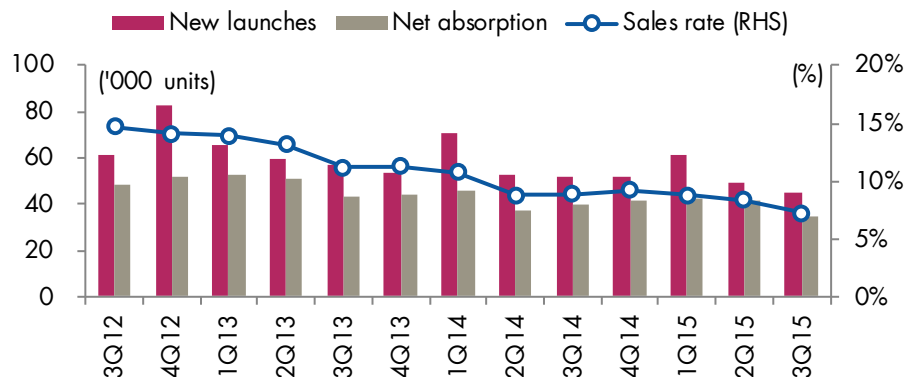
Source: Real Estate Intelligence Service (JLL)

...making most major markets unaffordable



Source: GPG, Axis Capital

Developers have responded by holding back launches



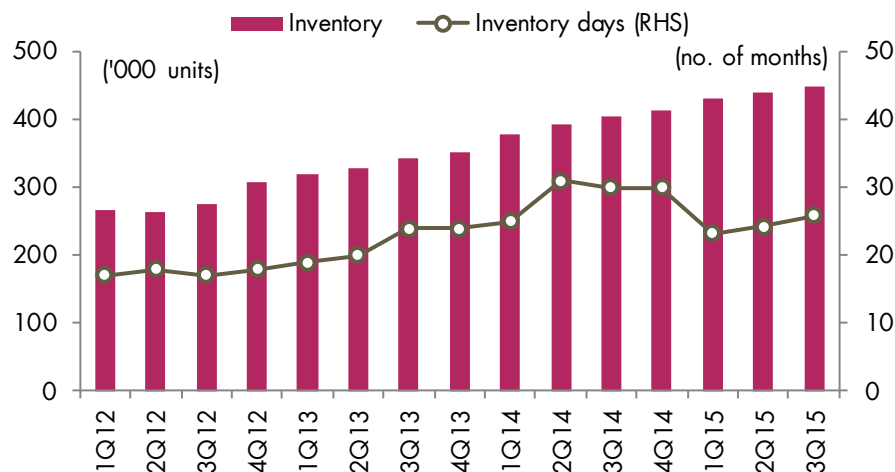
Source: Real Estate Intelligence Service (JLL)

- ◆ New launches have declined 11% YoY amid slow demand (down 4% YoY)
- ◆ While the growth in capital values has moderated post 2012, most market remain unaffordable for average buyers
- ◆ While Bangalore is still affordable, Mumbai and Delhi-NCR are the worst markets in terms of affordability

Reduction in ticket sizes in hope of bringing back demand

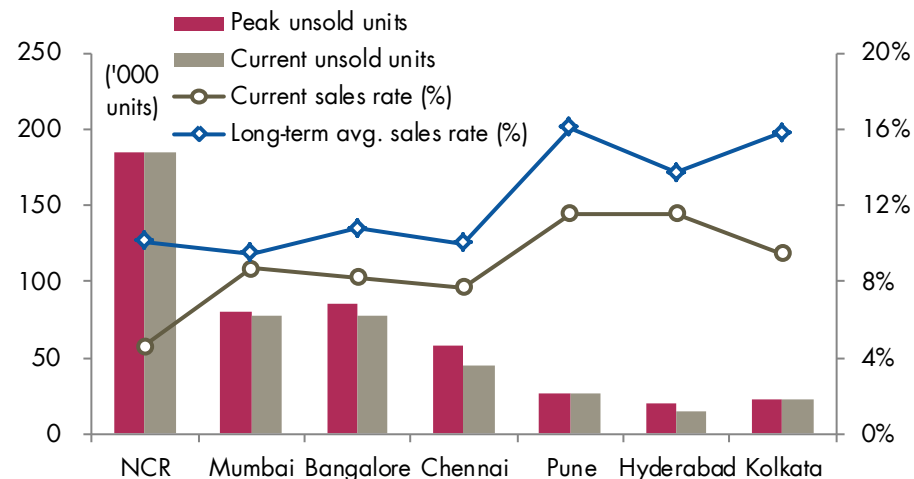
...with peak inventory levels across key micro markets

Inventory levels across India on a rise...



Source: Real Estate Intelligence Service (JLL), Axis Capital

...at their peaks in most cities



Source: Real Estate Intelligence Service (JLL)

- ◆ Absorption levels have declined sharply (from their long-term average levels) across most cities – worst hit is NCR
- ◆ Hyderabad and Chennai witnessing steady absorption with current inventory levels significantly below peak levels
- ◆ While stock of unsold units is at peak for most of the cities, Bangalore has surpassed Mumbai's stock of unsold units

A price and/or a time correction may be on the cards...but that's not all...

Rules of the game are changing

Real Estate (Regulation and Development) Bill

- Promote fair practices and protect consumers
- Ensure accountability and transparency via more disclosures and penalties in cases of violations
- To be passed in the winter session of Parliament, however to be adopted by each state

Salient features

- 50% of amount collected to be escrowed
- Applicable to projects of a size of 500 sq meters/ 8 units or more
- Applicable to commercial as well as those projects that have not received completion certificates
- Real estate agents also brought within its purview
- 2/3rd consent required for change in plans/ structural designs
- Penalties for non-compliance with cancellation of registration in case of persistent violations

News headlines on impact of Real Estate Bill

Cabinet clears revised real estate Bill, commercial sector to be covered too

The Bill will check harassment of home buyers; Registration of all the projects and disclosure of info will be mandatory

Housing Regulatory Bill To Recognise Only Carpet Area

Real Estate Bill with tough teeth gets cabinet nod

Real estate bill in home buyers' favour

Regulator to enforce disclosures and registrations, penalties and focused use of funds

House panel pushes for law to jail errant builders

Seeks stringent provisions in new law, says financial penalty is no deterrent since burden passed on to buyers

Impact on industry

- Developers to set realistic time and quality targets
- With 50% of cash made non-fungible, it may lead to some lost growth opportunities.
- Near term: Delays as developers align to new rules and register their properties and seek approvals
- Mid/ long term: Transparency and accountability

A new "pro-buyer" Real Estate Bill is on its way...and it won't be easy for all developers to adapt

It's a 'Pro buyer' market

Developers being penalized for inefficiency/ malpractices

- National Consumer Disputes Redressal Commission (NCDRC), Competition Commission of India issued directive to pay penalty for delaying delivery, changing specifications to leading developers such as Unitech, DLF. See [link](#) for several such judgments
- In another significant order, a trial court has said that buyers can claim damages from builders if the latter fails to hand over the property on time and seek compensation or sue builders if what they get is different from what they were promised

Tax on unsold inventory

- Income tax department to tax realtors on their unsold inventory in a bid to force real-estate players to sell their unsold flats at market-determined price.
- The tax rate suggested, as per media sources, is in the 10-30% range.

Consumer Forums are far more active now



Developers have to deliver on promises

Buyers will stick to quality...

- ◆ Uncertainty of regulations and several stuck projects have led to polarization of demand towards reputed developers with a timely execution track record.
- ◆ We believe (1) premium “integrated” projects at (2) good locations by (3) reputed developers continue to see good volumes and may not have to resort to a substantial price correction
 - Integrated projects: There is visible shift of buyers moving from standalone residential developments to integrated residential developments (club house, gymnasium, swimming pool, indoor sports, etc). We expect the trend to gain ground
 - Good location: Projects with locational advantage in terms of view, connectivity, social infrastructure, etc. will continue to command a premium price and may not see significant correction
 - Reputed developers: Despite slowdown in volumes, some of the recent launches by reputed developers in oversupplied markets such as Mumbai and NCR have met with a strong response

Even in a muted market, good developers see strong response to launches

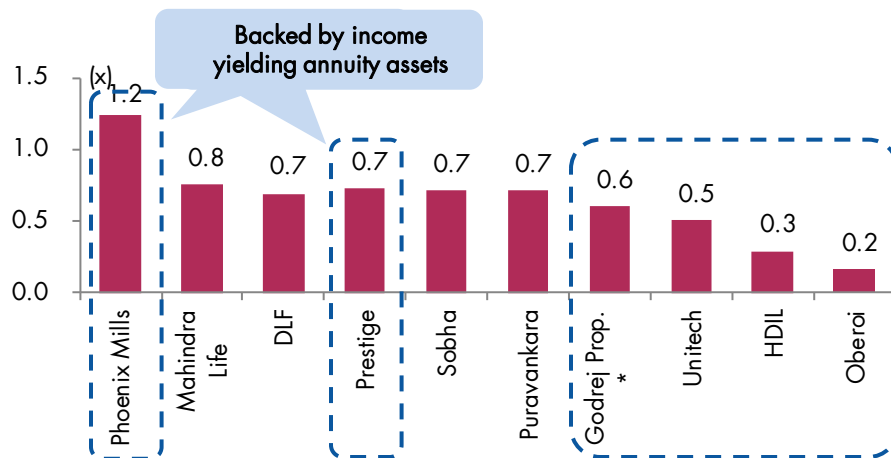
Developer	Project name	City	Launch	Ticket size/ unit (Rs mn)	Remarks
Oberoi	Sky City	Mumbai	Q3FY16	> 25	Sold 543 units (60% of launched units) within 3 days of launch
Godrej	The Trees	Mumbai	Q3FY16	> 25	Sold 300 units (>80% of launched units) within a week of launch
Godrej	Prime	Mumbai	Q1FY16	> 15	Sold 342 apartments (~60% of the project) within a month of launch
Godrej	Icon	Gurgaon	Q1FY16	> 10	Sold entire launched inventory of 0.5 msf in the same quarter
DLF	Camellias/ Crest	Gurgaon	Q1FY16	> 50	Sold area of 0.3 msf worth Rs 10 bn
Oberoi	Eternia/ Enigma	Mumbai	Q4FY15	> 20	Sold 362 units (65% of offered area) at launch itself
Lodha	Clariant	Mumbai	Q4FY15	< 10	Over-subscribed with 2,500 applications received for 1-2 BHKs

Source: Axis Capital

The new mantra: Do right by your customers....

...and so should investors

Strong balance sheet key for survival amid slowdown



Source: Axis Capital * Adjusted for cash flows from area sold to Abbott in its BKC project

Delivery track record

	Deliveries (msf)		Ongoing projects (msf)	No. of years to deliver
	Last 5 years	Annual avg.		
DLF *	50.1	10.0	39.4	4
Puravankara	15.9	3.2	23.6	7
Oberoi	3.6	0.7	6.0	8
Prestige	34.1	6.8	60.5	9
Godrej	7.3	3.0 ^	27.6	9
Mahindra Lifespaces	3.0	0.6	6.0	10
HDIL	19.0	3.8	41.0	11
Sobha	16.4	3.3	40.3	12
Unitech	15.8	3.2	56.9	18

Source: Company, Axis Capital

* Have not launched many large projects over last few years

^ Deliveries have only commenced recently, thus using FY16 delivery estimates

- ◆ A strong balance sheet helps in expansion during the boom period and at the same time help to focus on execution in times of slowing sales
- ◆ A good execution track record, despite slowdown in sales indicates developers' strong commitment towards delivery and goes a long way in building customer goodwill, which gets reflected in their sales
- ◆ More often than not, developers with healthy balance sheet are able to stay committed towards execution despite slowdown in sales/ collections

...and hopefully the markets will do right by you!

Companies we like

- ◆ Prestige Estates
- ◆ Oberoi Realty
- ◆ Phoenix Mills
- ◆ Godrej Properties
- ◆ DLF

Note: All prices as on 07 JAN 2016

BUY

Target Price: Rs 272

 CMP : Rs 190
 Potential Upside : 43%

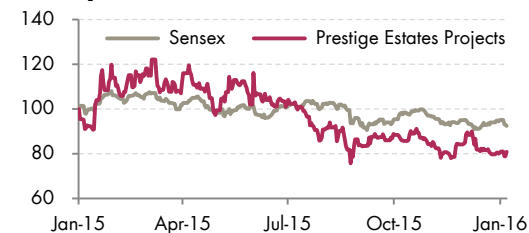
MARKET DATA

 No. of Shares : 375 mn
 Market Cap : Rs 71 bn
 Free Float : 30%
 Avg. daily vol (6mth) : 245,477 shares
 52-w High / Low : Rs 324 / Rs 181
 Bloomberg : PEPL IB Equity
 Promoter holding : 70%
 FII / DII : 22% / 5%

Prestige Estates Projects

REAL ESTATE

Scaling new heights

Price performance

Financial summary (consolidated)

Y/E	Revenue (Rs mn)	Adj PAT (Rs mn)	EPS (Rs)	Change YOY (%)	Net Debt (Rs mn)	Networth (Rs mn)	RoE (%)	RoCE (%)	P/E (x)	P/B (x)
Mar										
FY14	25,492	3,143	9.0	9.9	27,289	29,792	11.0	12.4	21.1	2.2
FY15	34,198	3,324	8.9	(1.3)	32,685	38,206	9.8	13.3	21.4	1.9
FY16E	45,947	4,258	11.4	28.1	37,218	41,442	10.7	12.8	16.7	1.7
FY17E	47,326	5,278	14.1	24.0	40,123	45,454	12.1	13.5	13.5	1.6

Source: *Consensus broker estimates, Company, Axis Capital

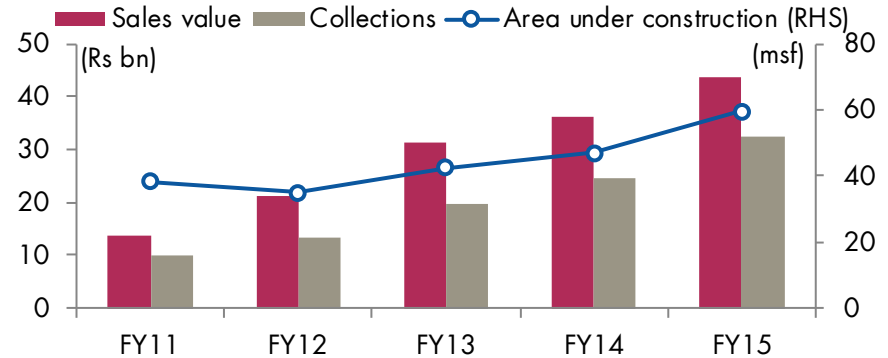
Key drivers

(Rs bn)	FY15	FY16E	FY17E
Area sold (msf)	6.7	5.0	6.0
Sales value	43.6	32.5	39.0
Exit rentals	4.2	4.7	6.5
Net debt	32.2	37.2	40.1

Prestige Estates: Scaling new heights

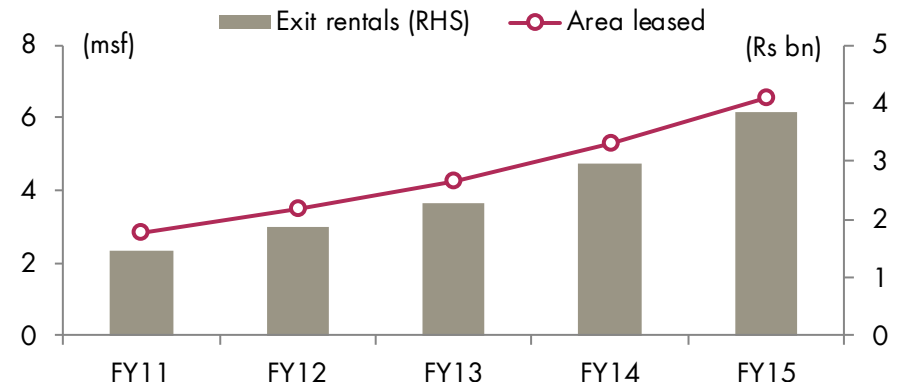
- ◆ **Strong annuity portfolio: Current 7.3 msf of area yields rentals of Rs 4.3 bn** → to reach Rs 8-10 bn over next 3-4 years
 - Inorganic growth through stake purchases to be done at yields which are greater than cost of debt, hence accretive
- ◆ **Significant scale up in development operations: Annual sales run-rate has increased to Rs 50 bn (from ~Rs 14 bn in FY11) and collections run-rate has increased to ~Rs 32 bn in FY15 (from ~Rs 15 bn in FY11)**
- ◆ **Strong cash flow visibility from development assets:** Sold 26 msf, of which ~Rs 60 bn is to be received, leaving 10.8 msf worth ~Rs 79 bn. With ~Rs 59 bn of costs, net cash expected is Rs 80 bn over next 4-5 years
- ◆ **High visibility of earnings over FY16-18 from unbooked revenue of Rs 74 bn (3x of FY15 revenue)**
- ◆ **Bangalore continues to be a preferred play:** Residential market in Bangalore has expanded ~40% over last 3 years

Operational scale up



Source: Company, Axis Capital

Annuity income growth



Source: Company, Axis Capital

Prestige Estates Projects

REAL ESTATE

Valuation (TP of Rs 272, upside of 43% from CMP of Rs 190)

Particulars	(Rs mn)	(Rs/ shr)
Ongoing projects		
Saleable area (Prestige's) share (msf)	36.4	
Area sold (msf)	25.6	
Value of sales (Rs mn)	147,618	
Avg. realization achieved (Rs psf)	5,775	
Amount collected (Rs mn)	87,885	
Balance amount yet to be collected (Rs mn)	59,733	
Area unsold (msf)	10.8	
Expected avg. realization (Rs psf)	6,750	
Value of unsold stock	73,035	
Total construction cost (Rs mn)	131,780	
Balance cost to be incurred	58,968	
Net pre-tax cash flow	73,800	
No of years post Mar'16	3	
PV of net post-tax cash flows (A)	45,474	121
Forthcoming projects		
Saleable area (Prestige's) share (msf)	14.5	
Expected avg. realization (Rs psf)	6,000	
Expected construction cost (Rs psf)	2,800	
Expected sales value (Rs mn)	87,120	
Expected construction cost (Rs mn)	59,864	
Balance land cost	700	
Net pre-tax cash flow	26,556	
No of years post Mar'16	4	
PV of net post-tax cash flows (B)	15,325	41

Particulars	(Rs mn)	(Rs/ sh)
Existing commercial projects		
Leasable area (Prestige's share) (msf)	7.3	
Exit rentals as on Mar '16 (Rs mn)	4,711	
Capitalized value as on Mar'16 (C)	46,714	125
Ongoing commercial projects		
Leasable area (msf)	2.6	
Expected rentals (Rs mn)	1,973	
Capitalized value of rentals	18,634	
Less: Balance capex to be incurred	10,500	
Net value	8,134	
No of years post Mar'16	2	
Capitalized value (D)	6,259	17
Ongoing hospitality assets		
Annual revenue (Rs mn)	833	
EBITDA (Rs mn)	333	
EV/ EBITDA	7	
EV of hospitality assets (E)	2,332	6
Forthcoming land bank		
Total area (PPL's share) (acres)	347	
Land bank value (F)	25,473	68
Enterprise Value (A)+(B)+(C)+(D)+E+(F)	139,246	371
Less: Net debt (Mar'16)	37,218	99
Equity value	102,028	272
		31%
Assumptions		
WACC (%)	14%	
Cap rate (%)	9.0%	

Prestige Estates Projects

REAL ESTATE

Company financials (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Net sales	25,492	34,198	45,947	47,326
Other operating income	-	-	-	-
Total operating income	25,492	34,198	45,947	47,326
Cost of goods sold	(15,215)	(20,265)	(29,697)	(28,956)
Gross profit	10,277	13,933	16,250	18,370
<i>Gross margin (%)</i>	<i>40.3</i>	<i>40.7</i>	<i>35.4</i>	<i>38.8</i>
Total operating expenses	(3,074)	(3,995)	(4,738)	(5,164)
EBITDA	7,203	9,939	11,512	13,206
<i>EBITDA margin (%)</i>	<i>28.3</i>	<i>29.1</i>	<i>25.1</i>	<i>27.9</i>
Depreciation	(893)	(1,397)	(1,533)	(1,353)
EBIT	6,311	8,542	9,979	11,852
Net interest	(2,290)	(3,214)	(3,802)	(4,153)
Other income	975	986	800	500
Profit before tax	4,995	6,314	6,977	8,199
Total taxation	(1,750)	(2,647)	(2,318)	(2,569)
<i>Tax rate (%)</i>	<i>35.0</i>	<i>41.9</i>	<i>33.2</i>	<i>31.3</i>
Profit after tax	3,245	3,668	4,659	5,630
Minorities	(72)	(351)	(351)	(351)
Profit/ Loss associate co(s)	(30)	7	(50)	-
Adjusted net profit	3,143	3,324	4,258	5,278
<i>Adj. PAT margin (%)</i>	<i>12.3</i>	<i>9.7</i>	<i>9.3</i>	<i>11.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	3,143	3,324	4,258	5,278

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Paid-up capital	3,500	3,750	3,750	3,750
Reserves & surplus	26,292	34,456	37,692	41,704
Net worth	32,782	42,181	45,417	49,429
Borrowing	30,684	38,053	43,053	45,553
Other non-current liabilities	63	12	12	12
Total liabilities	93,417	123,549	130,003	139,716
Gross fixed assets	34,356	39,364	41,907	43,279
Less: Depreciation	(5,151)	(6,548)	(8,081)	(9,434)
Net fixed assets	29,205	32,816	33,826	33,845
Add: Capital WIP	-	-	1,370	1,568
Total fixed assets	29,205	32,816	35,197	35,413
Total Investment	7,407	7,827	7,827	7,827
Inventory	25,362	42,599	43,876	49,580
Debtors	7,258	8,840	10,210	10,517
Cash & bank	3,395	5,368	5,835	5,430
Loans & advances	19,689	24,712	25,947	29,839
Current liabilities	29,888	43,303	41,521	44,722
Net current assets	26,917	39,603	45,458	51,753
Other non-current assets	-	-	-	-
Total assets	93,417	123,549	130,003	139,716

Prestige Estates Projects

REAL ESTATE

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Profit before tax	4,995	6,314	6,977	8,199
Depreciation & Amortisation	(893)	(1,397)	(1,533)	(1,353)
Chg in working capital	(5,481)	(10,714)	(5,388)	(6,701)
Cash flow from operations	223	(2,839)	3,454	3,584
Capital expenditure	(5,168)	(5,008)	(3,914)	(1,570)
Cash flow from investing	(5,391)	(4,435)	(3,164)	(1,070)
Equity raised/ (repaid)	(87)	5,720	(224)	(245)
Debt raised/ (repaid)	6,747	7,369	5,000	2,500
Dividend paid	(686)	(630)	(798)	(1,022)
Cash flow from financing	3,683	9,246	176	(2,920)
Net chg in cash	(1,485)	1,973	467	(405)

Valuation ratios

Y/E March	FY14	FY15	FY16E	FY17E
PE (x)	21.1	21.4	16.7	13.5
EV/ EBITDA (x)	13.0	10.4	9.4	8.4
EV/ Net sales (x)	3.7	3.0	2.4	2.4
PB (x)	2.2	1.9	1.7	1.6
Dividend yield (%)	0.9	0.7	0.9	1.2
Free cash flow yield (%)	(7.4)	(11.0)	(0.6)	2.8

Source: Company, Axis Capital

Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	9.0	8.9	11.4	14.1
CEPS (Rs)	11.5	12.6	15.4	17.7
DPS (Rs)	1.6	1.4	1.8	2.3
Dividend payout ratio (%)	18.2	15.8	15.6	16.1
GROWTH				
Net sales (%)	30.9	34.2	34.4	3.0
EBITDA (%)	24.4	38.0	15.8	14.7
Adj net profit (%)	9.9	5.8	28.1	24.0
FDEPS (%)	9.9	(1.3)	28.1	24.0
PERFORMANCE				
RoE (%)	11.0	9.8	10.7	12.1
RoCE (%)	12.4	13.3	12.8	13.5
EFFICIENCY				
Asset turnover (x)	0.5	0.5	0.6	0.5
Sales/ total assets (x)	0.3	0.3	0.4	0.4
Working capital/ sales (x)	0.8	0.8	0.8	0.9
Receivable days	103.9	94.4	81.1	81.1
Inventory days	506.2	640.9	465.1	530.4
Payable days	-	-	75.8	76.5
FINANCIAL STABILITY				
Total debt/ equity (x)	1.0	1.0	1.0	1.0
Net debt/ equity (x)	0.9	0.9	0.8	0.8
Current ratio (x)	1.9	1.9	2.1	2.2
Interest cover (x)	2.8	2.7	2.6	2.9

BUY

Target Price: Rs 333

Oberoi Realty

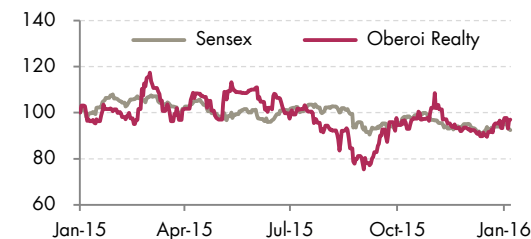
REAL ESTATE

New launches turnaround sales

 CMP : Rs 263
 Potential Upside : 26%

MARKET DATA

 No. of Shares : 339 mn
 Market Cap : Rs 89 bn
 Free Float : 27%
 Avg. daily vol (6mth) : 239,973 shares
 52-w High / Low : Rs 334 / Rs 209
 Bloomberg : OBER IB Equity
 Promoter holding : 73%
 FII / DII : 18% / 1%

Price performance

Key drivers

(Rs bn)	FY15	FY16E	FY17E
Area sold (msf)	1.0	1.7	1.9
Sales value	17.6	29.0	32.4
Net debt	6.1	3.6	1.4

Financial summary (consolidated)

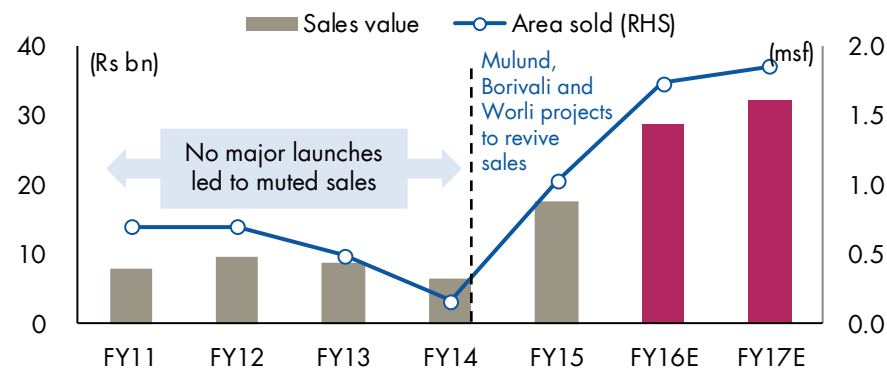
Y/E	Revenue (Rs mn)	Adj PAT (Rs mn)	EPS (Rs)	Change YOY (%)	Net Debt (Rs mn)	Networth (Rs mn)	RoE (%)	RoCE (%)	P/E (x)	P/B (x)
Mar										
FY14	7,985	3,111	9.5	(38.4)	(4,237)	43,964	7.3	9.2	27.8	2.0
FY15	9,227	3,171	9.7	1.9	6,063	46,343	7.0	9.3	27.3	1.9
FY16E	14,113	5,848	17.2	78.4	3,631	54,889	11.6	13.1	15.3	1.6
FY17E	21,837	8,527	25.1	45.8	1,391	62,617	14.5	17.6	10.5	1.4

Source: *Consensus broker estimates, Company, Axis Capital

Oberoi Realty: New launches turnaround sales

- ◆ Despite Mumbai realty volumes being in a slump, we do not see a meaningful price correction in the near term for well located projects of developers with good track records (quality + timeliness)
- ◆ Oberoi Realty Ltd (ORL) has a strong track record of creating value
 - Has rerated relatively newer micro markets with its large format projects (E.G. Goregaon and JVLR projects)
 - Strong brand + good track record + price appreciation has led to faster bookings for ORL compared to peers
- ◆ Five projects across locations and price points on offer vs. only two earlier
 - Post launch of Borivali project, ORL now has projects at 5 locations (vs. mainly 2 locations for last 3-4 years)
 - ORL's portfolio is now diversified across locations (south Mumbai, western and central suburbs) and price points (Rs 20 – Rs 500 mn) offering a volume-value mix
- ◆ Strong visibility of cash flows to fuel expansion
 - ORL is expected to generate net cash flow of Rs 75-80 bn over the next 5 years which is equivalent to being able to add an additional Borivali-like project to its portfolio every year (FY18 onwards)

Sales revival in sight



Source: Company, Axis Capital

Even in muted Mumbai market, good developers see strong response

Developer	Project name	Launch	Ticket size (Rs mn)	Response to launch
Oberoi	Sky City	Q3FY16	> 25	Sold 543 units (60% of launched units) within 3 days of launch
Godrej	The Trees	Q3FY16	> 25	Sold 300 units (>80% of launched units) within a week of launch
Godrej	Prime	Q1FY16	> 15	Sold 342 units (~60% of the project) within a month of launch
Oberoi	Eternia/Enigma	Q4FY15	> 20	Sold 362 units (65% of offered area) at launch itself
Lodha	Clariant	Q4FY15	< 10	Over-subscribed with 2,500 applications received for 1-2 BHKs

Source: Company, Axis Capital

Valuation (TP of Rs 333, upside of 26% from CMP of Rs 263)

Particulars	(Rs mn)
Ongoing projects	
Saleable area (ORL's) share (msf)	9.0
Area sold (msf)	4.1
Value of sales (Rs mn)	59,575
Avg. realization achieved (Rs psf)	14,392
Amount collected (Rs mn)	51,231
Balance amount yet to be collected (Rs mn)	8,344
Area unsold (msf)	4.8
Expected avg. realization (Rs psf)	19,619
Value of unsold stock	94,705
Balance cost to be incurred	28,506
Net pre-tax cash flow	74,542
PV of net post-tax cash flows (A)	40,275
Forthcoming projects	
Saleable area (ORL's) share (msf)	8.7
Expected avg. realization (Rs psf)	18,908
Expected construction cost (Rs psf)	7,318
Expected sales value (Rs mn)	163,561
Expected construction cost (Rs mn)	63,301
Balance land cost	-
Net pre-tax cash flow	100,259
PV of net post-tax cash flows (B)	55,755

Source: Company, Axis Capital

Particulars	(Rs mn)
Existing annuity projects	
Annuity income (Rs mn)	2,719
EBITDA (Rs mn)	1,832
Valuation of existing annuity assets (C)	16,800
Future annuity projects	
Commerz II Phase I (CWIP)	3,667
Value of future annuity assets at book value (D)	3,667
Enterprise value (A) + (B) + (C) + (D)	116,497
Less: Net debt (Mar'16)	3,631
Equity value	112,865
No. of shares (mn)	339
Equity value per share (Rs)	333
Assumptions	
WACC (%)	14%
Cap rate (%)	10%
EV/ EBITDA (for Hotel)	6x

Company financials (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Net sales	7,985	9,227	14,113	21,837
Other operating income	-	-	-	-
Total operating income	7,985	9,227	14,113	21,837
Cost of goods sold	(3,339)	(3,675)	(5,345)	(9,152)
Gross profit	4,646	5,552	8,768	12,685
<i>Gross margin (%)</i>	<i>58.2</i>	<i>60.2</i>	<i>62.1</i>	<i>58.1</i>
Total operating expenses	(298)	(414)	(435)	(457)
EBITDA	4,348	5,138	8,333	12,228
<i>EBITDA margin (%)</i>	<i>54.5</i>	<i>55.7</i>	<i>59.0</i>	<i>56.0</i>
Depreciation	(272)	(403)	(481)	(623)
EBIT	4,076	4,735	7,852	11,606
Net interest	(3)	(18)	(50)	(60)
Other income	571	175	400	350
Profit before tax	4,644	4,892	8,202	11,896
Total taxation	(1,533)	(1,721)	(2,354)	(3,369)
<i>Tax rate (%)</i>	<i>33.0</i>	<i>35.2</i>	<i>28.7</i>	<i>28.3</i>
Profit after tax	3,111	3,171	5,848	8,527
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	3,111	3,171	5,848	8,527
<i>Adj. PAT margin (%)</i>	<i>39.0</i>	<i>34.4</i>	<i>41.4</i>	<i>39.0</i>
Net non-recurring items	-	-	-	-
Reported net profit	3,111	3,171	5,848	8,527

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Paid-up capital	3,282	3,282	3,392	3,392
Reserves & surplus	40,682	43,061	51,496	59,225
Net worth	43,964	46,343	54,889	62,617
Borrowing	761	9,000	7,500	4,500
Other non-current liabilities	1,105	1,047	1,126	1,213
Total liabilities	54,870	71,200	81,388	88,565
Gross fixed assets	7,849	11,743	12,330	12,577
Less: Depreciation	(1,192)	(1,595)	(2,077)	(2,699)
Net fixed assets	6,658	10,148	10,253	9,877
Add: Capital WIP	4,337	218	-	-
Total fixed assets	10,995	10,365	10,253	9,877
Total Investment	496	0	0	0
Inventory	16,491	34,818	39,692	45,249
Debtors	862	828	1,176	1,820
Cash & bank	4,997	2,937	3,869	3,109
Loans & advances	5,904	7,041	10,562	12,674
Current liabilities	9,040	14,810	17,873	20,235
Net current assets	19,268	30,850	37,461	42,653
Other non-current assets	15,070	15,175	15,801	15,801
Total assets	54,870	71,200	81,389	88,565

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Profit before tax	4,644	4,892	8,202	11,896
Depreciation & Amortisation	(272)	(403)	(481)	(623)
Chg in working capital	(8,238)	(13,642)	(5,679)	(5,952)
Cash flow from operations	(4,780)	(10,028)	700	3,258
Capital expenditure	(543)	226	(369)	(247)
Cash flow from investing	(927)	537	(916)	(159)
Equity raised/ (repaid)	(477)	(495)	3,245	(0)
Debt raised/ (repaid)	761	8,239	(1,500)	(3,000)
Dividend paid	(291)	(297)	(547)	(798)
Cash flow from financing	(11)	7,430	1,148	(3,858)
Net chg in cash	(5,718)	(2,061)	932	(760)

Valuation ratios

Y/E March	FY14	FY15	FY16E	FY17E
PE (x)	27.8	27.3	15.3	10.5
EV/ EBITDA (x)	18.9	18.0	11.2	7.4
EV/ Net sales (x)	10.3	10.0	6.6	4.2
PB (x)	2.0	1.9	1.6	1.4
Dividend yield (%)	0.3	0.3	0.5	0.8
Free cash flow yield (%)	(6.2)	(11.3)	0.4	3.4

Source: Company, Axis Capital

Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	9.5	9.7	17.2	25.1
CEPS (Rs)	10.3	10.9	18.7	27.0
DPS (Rs)	0.8	0.8	1.4	2.0
Dividend payout ratio (%)	8.0	8.0	8.0	8.0
GROWTH				
Net sales (%)	(23.8)	15.6	53.0	54.7
EBITDA (%)	(29.0)	18.2	62.2	46.7
Adj net profit (%)	(38.4)	1.9	84.4	45.8
FDEPS (%)	(38.4)	1.9	78.4	45.8
PERFORMANCE				
RoE (%)	7.3	7.0	11.6	14.5
RoCE (%)	9.2	9.3	13.1	17.6
EFFICIENCY				
Asset turnover (x)	0.2	0.2	0.3	0.4
Sales/ total assets (x)	0.1	0.1	0.2	0.3
Working capital/ sales (x)	1.3	2.3	2.2	1.7
Receivable days	39.4	32.8	30.4	30.4
Inventory days	1,655.2	3,108.0	2,506.6	1,718.8
Payable days	829.2	1,248.0	1,099.2	661.3
FINANCIAL STABILITY				
Total debt/ equity (x)	0.0	0.2	0.1	0.1
Net debt/ equity (x)	(0.1)	0.1	0.1	0.0
Current ratio (x)	3.1	3.1	3.1	3.1
Interest cover (x)	1,315.0	269.0	157.0	193.4

BUY

Target Price: Rs 391

CMP : Rs 328
 Potential Upside : 19%

MARKET DATA

No. of Shares : 153 mn
 Market Cap : Rs 50 bn
 Free Float : 100%
 Avg. daily vol (6mth) : 55,100 shares
 52-w High / Low : Rs 407 / Rs 296
 Bloomberg : PHNX IB Equity
 Promoter holding : 0%
 FII / DII : 0% / 0%

Phoenix Mills

REAL ESTATE

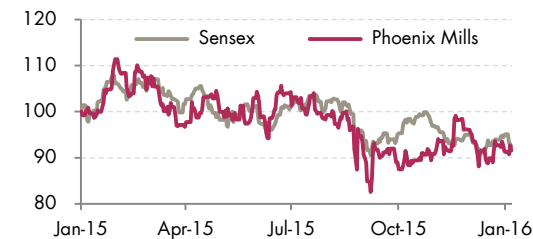
A steady play on consumption

Financial summary (consolidated)

Y/E	Revenue (Rs mn)	Adj PAT (Rs mn)	EPS (Rs)	Change YOY (%)	Net Debt (Rs mn)	Networth (Rs mn)	RoE (%)	RoCE (%)	P/E (x)	P/B (x)
FY14	14,485	1,200	8.3	41.5	33,210	17,237	6.9	11.5	39.6	2.8
FY15	16,533	1,292	8.9	7.7	32,642	16,737	7.6	10.4	36.8	2.8
FY16E	17,582	1,334	9.2	3.2	32,541	20,641	7.1	11.0	35.7	2.3
FY17E	22,600	2,592	17.9	94.3	28,645	22,714	12.0	14.3	18.4	2.1

Source: *Consensus broker estimates, Company, Axis Capital

Price performance



Key drivers

(Rs bn)	FY15	FY16E	FY17E
Annuity income	11.2	13.5	14.6
Sales value	1.8	8.0	10.0
Net debt	32.6	32.5	28.6

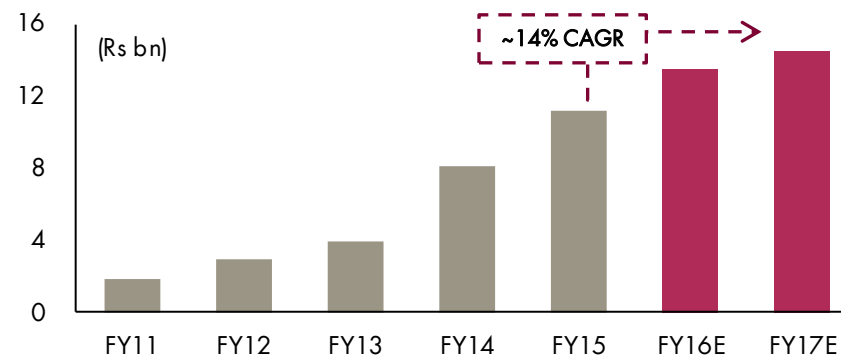
Phoenix Mills

REAL ESTATE

Phoenix Mills: A steady play on consumption

- ◆ Annuity income set to post 14% CAGR over 2 years to ~Rs 14.6 bn by FY16E
- ◆ Business model transforming from being capital intensive to positive cash flow model (saleable projects)
- ◆ Strong cash flows of Rs 20-25 bn from development business (~5.5 msf of resi+ 1.7 msf of commercial)
- ◆ Surplus cash flow to be used towards buyback of stakes from PE partners and debt reduction
 - PE exits given at current valuations (using current rentals) → value accretive assuming rental growth of ~14% p.a.
 - Plans to make SPVs debt-free over next 3 years
- ◆ **Key triggers**
 - Fall in interest rates/ cap rates
 - Future rental escalations
 - Higher contribution from revenue sharing
- ◆ **Key risks**
 - Providing exits to PE at premium to fair value
- ◆ Downside protection from steady annuity rentals and ramp up in mall occupancy and revenue share

Strong growth in annuity income over FY16-17E



Source: Company, Axis Capital

Development portfolio

Project name	Total area (msf)	Area sold (msf)	Sales value (Rs mn)	Collections (Rs mn)	Revenue recognized till date (Rs mn)
Residential					
One Bangalore West	2.20	1.12	10,556	7,487	6,653
Kessaku, Bangalore	0.99	0.19	2,820	433	-
Oberhaus, Bangalore	1.02	-	-	-	-
Fountainhead, Pune	0.35	0.01	158	30	-
The Crest, Chennai	0.94	0.37	3,110	2,631	2,684
Sub-total	5.50	1.69	16,644	10,581	9,337
Commercial					
Centrium, Mumbai	0.28	0.28	2,520	2,461	2,269
East Court, Pune	0.25	0.24	1,648	1,627	1,460
Phoenix Paragon Plaza	0.42	0.13	1,839	1,702	1,608
Art Guild House	0.76	0.38	3,253	1,969	1,935
Sub-total	1.71	1.03	9,260	7,759	7,272
Total	7.21	2.72	25,904	18,340	16,609

Source: Company, Axis Capital

Phoenix Mills

REAL ESTATE

Valuation (TP of Rs 391, upside of 19% from CMP of Rs 328)

	Area (msf)	Avg. Rentals (Rs/sf p.m)	Occup. Rate (%)	Start Date	NOI (Rs bn)	EV (Rs bn)	Debt (Rs bn)	Valuation (Rs bn)	Value/ shr (Rs)
HSP									
Operational	0.9	282	95%	Operational	2.9	26.4	6.4	20.0	131
Not operational (Retail)	0.3	441	95%	FY19	1.3	5.1	-	5.1	33
Palladium Hotel	0.8	8500 #	70%	Operational	0.2	6.9	5.7	0.7	4
Total Value of HSP					4.3	38.4	12.1	25.7	168
Other Market cities (incl. development portfolio)									
Market City - Pune	1.8	88.0	92%	Operational	3.8	11.4	1.9	7.5	49
Market City - Kurla	2.5	85.0	85%	Operational	4.6	10.8	4.8	2.8	19
Market City - B'lore (E)	2.3	90.0	93%	Operational	3.0	8.3	2.4	5.9	39
Market city - Chennai	1.5	110.0	96%	Operational	2.5	11.6	2.6	4.5	29
Total Value of Market Cities					13.8	42.1	11.7	20.7	135
B'lore (W) - Residential	3.1							11.4	74
PML's share in B'lore (E) Residential (JDA)								0.5	3
EWDPL (@ 1x book value)	6.3							0.0	0
BARE (@ 1x book value)	0.7							1.1	7
Phoenix Hospitality (@ 1x book value)								1.5	10
Total						75.6		59.7	391

Source: Company, Axis Capital

Average Room Rate per night

Phoenix Mills

REAL ESTATE

Company financials (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Net sales	14,485	16,533	17,582	22,600
Other operating income	-	-	-	-
Total operating income	14,485	16,533	17,582	22,600
Cost of goods sold	(3,500)	(2,813)	(2,842)	(4,652)
Gross profit	10,985	13,720	14,740	17,947
<i>Gross margin (%)</i>	<i>75.8</i>	<i>83.0</i>	<i>83.8</i>	<i>79.4</i>
Total operating expenses	(4,201)	(6,100)	(6,675)	(6,800)
EBITDA	6,784	7,620	8,065	11,147
<i>EBITDA margin (%)</i>	<i>46.8</i>	<i>46.1</i>	<i>45.9</i>	<i>49.3</i>
Depreciation	(1,055)	(1,681)	(1,710)	(2,242)
EBIT	5,729	5,939	6,355	8,905
Net interest	(3,451)	(3,956)	(4,078)	(3,815)
Other income	391	312	350	-
Profit before tax	2,669	2,295	2,627	5,090
Total taxation	(909)	(493)	(893)	(1,731)
<i>Tax rate (%)</i>	<i>34.1</i>	<i>21.5</i>	<i>34.0</i>	<i>34.0</i>
Profit after tax	1,760	1,802	1,734	3,359
Minorities	(531)	(553)	(400)	(768)
Profit/ Loss associate co(s)	(29)	43	-	-
Adjusted net profit	1,200	1,292	1,334	2,592
<i>Adj. PAT margin (%)</i>	<i>8.3</i>	<i>7.8</i>	<i>7.6</i>	<i>11.5</i>
Net non-recurring items	84	(938)	-	-
Reported net profit	1,285	354	1,334	2,592

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Paid-up capital	290	290	306	306
Reserves & surplus	16,948	16,447	20,335	22,408
Net worth	24,437	22,949	27,253	30,094
Borrowing	34,061	33,562	34,992	30,359
Other non-current liabilities	2,761	1,956	1,055	1,055
Total liabilities	67,585	65,366	73,146	69,915
Gross fixed assets	45,060	46,368	47,868	47,868
Less: Depreciation	(3,364)	(5,044)	(6,754)	(8,997)
Net fixed assets	41,697	41,324	41,114	38,871
Add: Capital WIP	2,350	2,117	2,500	2,500
Total fixed assets	44,047	43,441	43,614	41,371
Total Investment	4,451	2,525	4,030	4,030
Inventory	11,417	11,783	14,729	13,256
Debtors	1,968	2,192	2,521	2,899
Cash & bank	851	920	2,451	1,714
Loans & advances	4,590	4,323	5,620	6,463
Current liabilities	6,326	6,898	9,845	8,407
Net current assets	12,761	12,501	15,657	16,106
Other non-current assets	-	-	-	-
Total assets	67,585	65,366	73,146	69,915

Phoenix Mills

REAL ESTATE

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Profit before tax	2,669	2,295	2,627	5,090
Depreciation & Amortisation	(1,055)	(1,681)	(1,710)	(2,242)
Chg in working capital	(2,784)	329	(1,625)	(1,187)
Cash flow from operations	3,091	6,408	5,548	8,229
Capital expenditure	(15,825)	(1,074)	(1,883)	-
Cash flow from investing	(12,965)	1,845	(3,038)	-
Equity raised/ (repaid)	(1,415)	(596)	2,837	(0)
Debt raised/ (repaid)	12,105	(500)	1,431	(4,633)
Dividend paid	(319)	(258)	(267)	(518)
Cash flow from financing	6,920	(5,311)	(78)	(8,967)
Net chg in cash	(2,954)	2,943	2,432	(737)

Valuation ratios

Y/E March	FY14	FY15	FY16E	FY17E
PE (x)	39.6	36.8	35.7	18.4
EV/ EBITDA (x)	11.9	10.5	9.9	6.8
EV/ Net sales (x)	5.6	4.9	4.6	3.4
PB (x)	2.8	2.8	2.3	2.1
Dividend yield (%)	0.7	0.5	0.6	1.1
Free cash flow yield (%)	(26.8)	11.2	7.7	17.3

Source: Company, Axis Capital

Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	8.3	8.9	9.2	17.9
CEPS (Rs)	16.2	14.0	21.0	33.4
DPS (Rs)	2.2	1.8	1.8	3.6
Dividend payout ratio (%)	24.8	73.0	20.0	20.0
GROWTH				
Net sales (%)	208.3	14.1	6.3	28.5
EBITDA (%)	157.8	12.3	5.9	38.2
Adj net profit (%)	41.5	7.7	3.2	94.3
FDEPS (%)	41.5	7.7	3.2	94.3
PERFORMANCE				
RoE (%)	6.9	7.6	7.1	12.0
RoCE (%)	11.5	10.4	11.0	14.3
EFFICIENCY				
Asset turnover (x)	0.3	0.3	0.3	0.4
Sales/ total assets (x)	0.2	0.2	0.3	0.3
Working capital/ sales (x)	0.7	0.7	0.7	0.6
Receivable days	49.6	48.4	52.3	46.8
Inventory days	541.1	482.5	564.9	422.5
Payable days	72.8	43.0	36.2	36.1
FINANCIAL STABILITY				
Total debt/ equity (x)	1.5	1.4	1.4	1.1
Net debt/ equity (x)	1.4	1.4	1.3	1.0
Current ratio (x)	3.0	2.8	2.6	2.9
Interest cover (x)	1.7	1.5	1.6	2.3

BUY

Target Price: Rs 360

 CMP : Rs 319
 Potential Upside : 13%

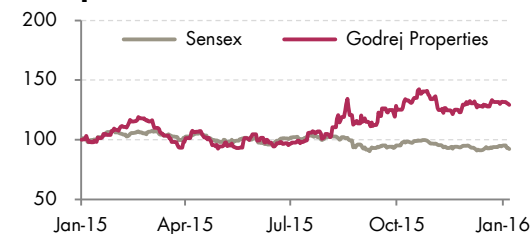
MARKET DATA

 No. of Shares : 200 mn
 Market Cap : Rs 64 bn
 Free Float : 25%
 Avg. daily vol (6mth) : 320,925 shares
 52-w High / Low : Rs 375 / Rs 232
 Bloomberg : GPL IB Equity
 Promoter holding : 75%
 FII / DII : 10% / 0%

Godrej Properties

REAL ESTATE

Balance sheet deleveraging underway

Price performance

Financial summary (consolidated)

Y/E	Revenue (Rs mn)	Adj PAT (Rs mn)	EPS (Rs)	Change YOY (%)	Net Debt (Rs mn)	Networth (Rs mn)	RoE (%)	RoCE (%)	P/E (x)	P/B (x)
FY14	11,792	1,594	8.0	15.2	17,000	17,934	9.9	7.2	39.6	3.5
FY15	18,431	1,909	9.6	19.1	27,640	18,469	10.5	4.9	33.3	3.4
FY16E	33,534	3,115	13.4	39.7	15,916	24,874	14.4	8.9	23.8	3.0
FY17E	34,296	3,750	16.1	20.4	13,849	27,746	14.3	13.7	19.8	2.7

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rs bn)	FY15	FY16E	FY17E
Area sold (msf)	3.9	4.5	5.2
Sales value	26.8	42.0	51.8
Net debt	27.6	15.9	13.8

Godrej Properties: Balance sheet deleveraging underway

- ◆ **Diversified business model: Prudent portfolio mix** of asset-light Joint Development Agreements (JDAs; ~50% of portfolio), high RoE + zero capex Development Manager (DM) projects (25%) and owned/ JV projects (25%)
 - **Hedge against downturn** (low capital commitments in JDAs) with **benefit from upturn** (appreciation in owned/ JV projects)
 - **Highly scalable DM model** with no/ minimal capital commitments → high RoE potential
- ◆ **Leveraging the 'Godrej' brand and track record** to sign deals (added 20 projects totaling 25 msf over last 3 years) with land owners, JV partners and developers (DM model) as well as raise funds at low cost (~11.5%)
- ◆ **Significant scale up in operations:** GPL's portfolio size has increased to ~100 msf currently from ~54 msf at the time of IPO. Projects under execution has increased to ~30 msf from ~4 msf
- ◆ **Monetization of BKC project to deleverage balance sheet:** Recently GPL sold area worth Rs 14.8 bn in this project and has balance inventory worth Rs 9 bn which will help it to reduce its gearing to 0.8x (from 1.1x currently). Further, the company can unlock cash of Rs 3-4 bn from near-ready sale of older commercial projects (Kolkata & Chandigarh)
- ◆ With H1 sales already greater than FY15 and with strong sales in Q3 driven by "The Trees" project, **GPL is looking to set a new sales record in FY16**. Also, with monetization of BKC project picking up, **GPL is on track to deleverage its balance sheet**. Post the recent run-up in the stock price, we have a **HOLD** rating on the stock with TP of Rs 360

Valuation (TP of Rs 360, upside of 13% from CMP of Rs 319)

	Rs bn
Ongoing projects *	
Total area (GPL's share) (msf)	20
Area sold (msf)	11
Net cash flow expected	34
No. of years post Mar'16	4
NPV of cash flows	19
Forthcoming projects *	
Total area (GPL's share) (msf)	31
Expected value of sales	273
Expected cost	100
Net cash flow expected (post tax)	121
No. of years post Mar'16	9
NPV of cash flows	67
DM projects	
Expected annual sales (msf)	1.0
Expected avg. selling price (Rs/ psf)	10,000
Expected sales value (Rs bn)	10
DM Fee (net of cost)	8%
GPL's income (PBT) (Rs bn)	0.8
Tax rate	34%
Annual earnings (Rs bn)	0.5
FY16E P/E (x)	15
Value of DM vertical (Rs bn)	8
Less: Net debt (FY16E) (Rs bn)	16
Equity Value (Rs bn)	78
Equity Value per share (Rs)	360

		WACC			
		13%	14%	15%	16%
Discount/ premium to Selling price	-20%	237	227	218	209
	-10%	305	293	282	271
	0%	374	360	346	333
	10%	442	426	411	396

		Delay in execution (no. of years)			
		-1	0	1	2
Discount/ premium to Selling price	-20%	196	227	223	211
	-10%	264	293	288	274
	0%	333	360	353	337
	10%	402	426	418	400

Arrived at using weighted average of selling prices in Vikhroli (Rs 15,000 psf) and 3rd party projects (Rs 5,000 psf)

Key assumptions

WACC	14%
Annual sales escalation	5%
Annual cost escalation	4%

Source: Company, Axis Capital

*Ongoing and forthcoming projects exclude DM Fee projects

Company financials (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Net sales	10,749	17,429	32,881	32,970
Other operating income	1,043	1,002	653	1,326
Total operating income	11,792	18,431	33,534	34,296
Cost of goods sold	(8,381)	(14,864)	(26,959)	(25,219)
Gross profit	3,411	3,567	6,575	9,076
<i>Gross margin (%)</i>	<i>31.7</i>	<i>20.5</i>	<i>20.0</i>	<i>27.5</i>
Total operating expenses	(585)	(995)	(1,688)	(2,011)
EBITDA	2,826	2,572	4,887	7,065
<i>EBITDA margin (%)</i>	<i>26.3</i>	<i>14.8</i>	<i>14.9</i>	<i>21.4</i>
Depreciation	(58)	(100)	(120)	(120)
EBIT	2,769	2,472	4,767	6,945
Net interest	705	787	616	537
Other income	-	-	-	-
Profit before tax	3,474	3,260	5,383	7,482
Total taxation	(1,111)	(904)	(1,776)	(2,469)
<i>Tax rate (%)</i>	<i>32.0</i>	<i>27.7</i>	<i>33.0</i>	<i>33.0</i>
Profit after tax	2,363	2,356	3,607	5,013
Minorities	(768)	(447)	(491)	(1,263)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,594	1,909	3,115	3,750
<i>Adj. PAT margin (%)</i>	<i>14.8</i>	<i>11.0</i>	<i>9.5</i>	<i>11.4</i>
Net non-recurring items	-	-	-	-
Reported net profit	1,594	1,909	3,115	3,750

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Paid-up capital	991	997	1,164	1,164
Reserves & surplus	16,943	17,472	23,710	26,582
Net worth	19,965	20,748	27,153	30,025
Borrowing	25,710	34,594	24,594	19,594
Other non-current liabilities	11	60	60	60
Total liabilities	61,467	73,631	72,680	74,607
Gross fixed assets	1,493	2,236	2,236	2,236
Less: Depreciation	(238)	(338)	(458)	(578)
Net fixed assets	1,255	1,898	1,778	1,658
Add: Capital WIP	-	-	900	900
Total fixed assets	1,255	1,898	2,678	2,558
Total Investment	0	0	0	0
Inventory	37,268	47,271	42,544	46,798
Debtors	1,600	1,697	1,782	1,960
Cash & bank	8,710	6,954	8,678	5,745
Loans & advances	9,637	10,016	11,218	11,779
Current liabilities	15,781	18,229	20,873	24,927
Net current assets	44,375	53,176	48,816	46,822
Other non-current assets	55	328	314	300
Total assets	61,467	73,631	72,680	74,607

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Profit before tax	3,474	3,260	5,383	7,482
Depreciation & Amortisation	(58)	(100)	(120)	(120)
Chg in working capital	(6,965)	(10,557)	6,085	(939)
Cash flow from operations	(4,270)	(7,493)	11,976	4,836
Capital expenditure	(813)	(742)	(900)	-
Cash flow from investing	(63)	92	(200)	600
Equity raised/ (repaid)	2,423	(928)	4,019	0
Debt raised/ (repaid)	9,670	8,884	(10,000)	(5,000)
Dividend paid	(373)	(447)	(729)	(877)
Cash flow from financing	9,927	5,619	(10,066)	(8,383)
Net chg in cash	5,594	(1,781)	1,710	(2,947)

Valuation ratios

Y/E March	FY14	FY15	FY16E	FY17E
PE (x)	39.6	33.3	23.8	19.8
EV/ EBITDA (x)	28.4	35.4	18.4	12.5
EV/ Net sales (x)	7.5	5.2	2.7	2.7
PB (x)	3.5	3.4	3.0	2.7
Dividend yield (%)	(0.5)	(0.6)	(0.8)	(1.0)
Free cash flow yield (%)	(8.0)	(13.0)	14.9	6.5

Source: Company, Axis Capital

Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	8.0	9.6	13.4	16.1
CEPS (Rs)	7.8	9.1	12.9	15.6
DPS (Rs)	(1.6)	(1.9)	(2.7)	(3.2)
Dividend payout ratio (%)	(20.0)	(20.0)	(20.0)	(20.0)
GROWTH				
Net sales (%)	14.4	62.1	88.7	0.3
EBITDA (%)	(1.1)	(9.0)	90.0	44.6
Adj net profit (%)	15.2	19.7	63.2	20.4
FDEPS (%)	15.2	19.1	39.7	20.4
PERFORMANCE				
RoE (%)	9.9	10.5	14.4	14.3
RoCE (%)	7.2	4.9	8.9	13.7
EFFICIENCY				
Asset turnover (x)	0.3	0.4	0.7	0.8
Sales/ total assets (x)	0.2	0.3	0.4	0.4
Working capital/ sales (x)	3.0	2.3	1.3	1.2
Receivable days	54.3	35.5	19.8	21.7
Inventory days	1,517.2	1,088.0	542.1	627.3
Payable days	618.5	405.7	258.3	326.1
FINANCIAL STABILITY				
Total debt/ equity (x)	1.5	1.7	1.0	0.7
Net debt/ equity (x)	1.0	1.4	0.7	0.5
Current ratio (x)	3.8	3.9	3.3	2.9
Interest cover (x)	-	-	-	-

BUY

Target Price: Rs 173

 CMP : Rs 107
 Potential Upside : 62%

MARKET DATA

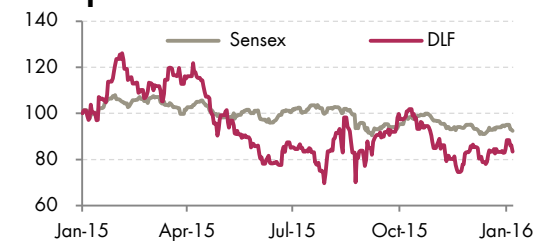
 No. of Shares : 1,783 mn
 Market Cap : Rs 191 bn
 Free Float : 25%
 Avg. daily vol (6mth) : 11.6 mn shares
 52-w High / Low : Rs 179 / Rs 93
 Bloomberg : DLFU IB Equity
 Promoter holding : 75%
 FII / DII : 19% / 0%

DLF

REAL ESTATE

Possible rerating through annuity asset sales

Price performance



Financial summary (consolidated)

Y/E	Revenue (Rs mn)	Adj PAT (Rs mn)	EPS (Rs.)	Change YOY (%)	Net Debt (Rs mn)	Networth (Rs mn)	RoE (%)	RoCE (%)	P/E (x)	P/B (x)
FY14	82,980	9,979	5.9	30.9	198,919	291,941	3.5	6.3	18.2	0.6
FY15	76,487	5,668	3.3	(43.2)	217,464	291,681	1.9	5.5	32.1	0.6
FY16E	85,095	6,242	3.7	10.1	225,932	294,680	2.1	6.0	29.1	0.6
FY17E	96,315	9,901	5.8	58.6	208,252	299,828	3.3	6.7	18.3	0.6

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rs bn)	FY15	FY16E	FY17E
Area sold (msf)	2.3	2.1	2.6
Sales value	38.5	35.0	34.0
Annuity income	22.0	24.0	27.0
Net debt	209.7	225.9	208.3

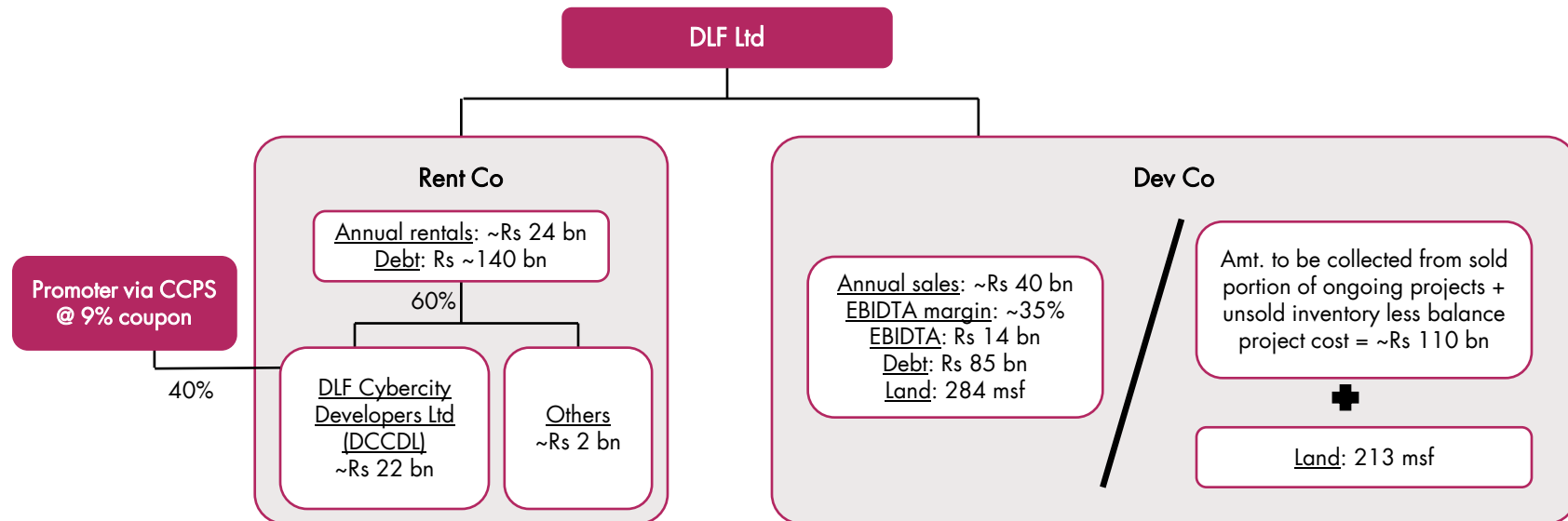
DLF: Possible rerating through annuity asset sales

- ◆ **Problem:** (1) High debt of Rs 225 bn (of which Rs 140 bn attributable to its RentCo, i.e. rental portfolio and is serviceable while Rs 85 of Devco debt remains the pain point); (2) Sales have slowed down significantly across its geographies (except Phase V Gurgaon) leading to operating cash flows being inadequate to service this high debt
- ◆ **The plan:** Being unsuccessful in monetizing enough of its non-core land parcels, DLF now plans to partly monetize its annuity assets (office and retail) which have a rental income of ~Rs 24 bn in order to partly repay its DevCo debt of Rs 85 bn. These grade A assets should find buyers given their location and high quality tenants. Post such asset sale, promoters intend to bring back substantial share of sale proceeds back in DLF. With promoter shareholding already at 75%, this will warrant further dilution bringing in additional equity into the company
- ◆ **The deadline:** Promoters hold 40% in its main rental subsidiary via CCPS which have a conversion deadline of Mar'16 – an asset sale is also the best way to provide promoters an exit rather than through diluting minority shareholders at CMP
- ◆ **The result:** Post such asset sale and equity raising which is to be used to partly repay DevCo debt, DLF shall no longer have a leverage problem. Both Rent Co and Dev CO shall be able to self-sustain their respective debt from operations

While the revival of its core market of Gurgaon is what will eventually lead to free cash flows, a self-sustaining balance sheet can rerate the stock

DLF: Possible rerating through annuity asset sales

Current Scenario



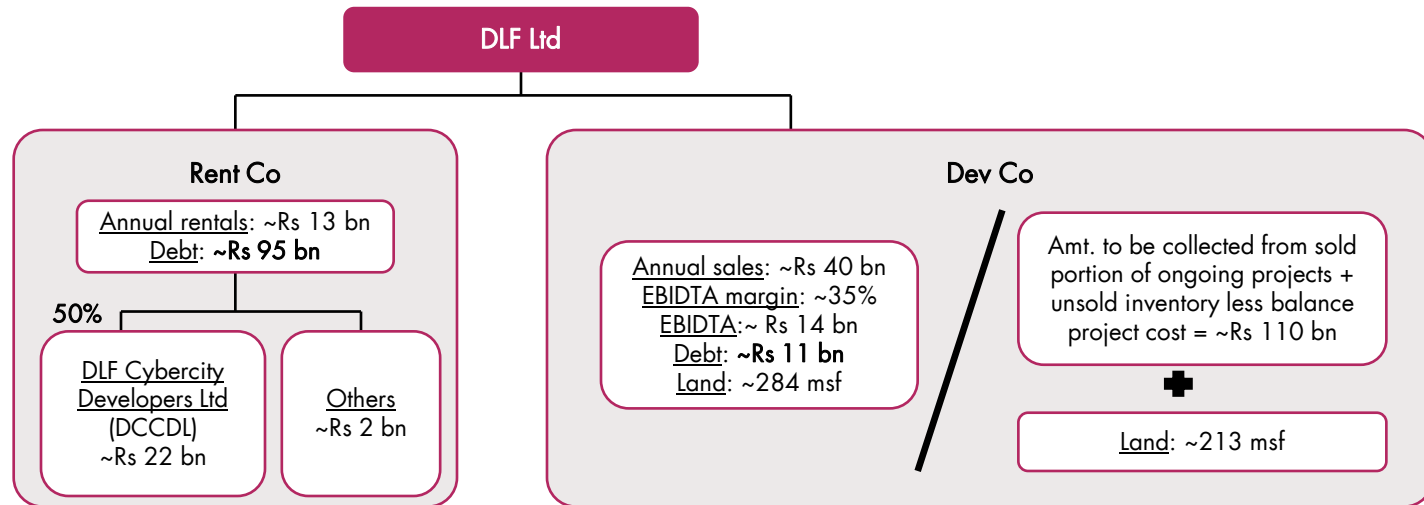
Possible 3-step deleveraging plan

- ♦ Sell 50% in DCCDL (40% of promoter stake and 10% of DLF's stake) to a PE investor
 - At cap rate of 9%, rental income of Rs 22 bn valued to ~Rs 208 bn against which there is debt of ~Rs 90 bn resulting in an equity value of ~Rs 118 bn → Promoter's 40% stake amounts to ~Rs 47 bn and DLF's 10% stake amounts to **~Rs 11.8 bn (A)**
- ♦ Promoters to bring back substantial portion of **~Rs 47 bn (B)** into DLF Ltd via rights/ warrants
- ♦ With promoter shareholding already at 75%, this will require additional equity dilution to the tune of **~Rs 15 bn (C)**

This will infuse a total of **~Rs 74 bn (A+B+C)** of equity which can be used to partly repay the DevCo debt of ~Rs 85 bn

DLF: Possible rerating through annuity asset sales

Post deleveraging scenario



◆ Post deleveraging:

- **RentCo:** Rentals of ~Rs 13 bn @ cap rate of 9% valued at ~Rs 123 bn less debt of ~Rs 95 bn = **~Rs 28 bn of equity value**
- **DevCo:** NPV of ongoing projects = ~Rs 58 bn (pre-tax cash flow of ~Rs 112 bn @ 14% disc. rate over 4 yrs) less debt of ~Rs 11 bn = **~Rs 47 bn of equity value**
- **Balance land:** Assets of ~213 msf. At current prices, post dilution Mcap will be ~Rs 260 bn, implying value of ~Rs 860/ psf (which is at a significant discount to prevailing land prices)

RentCo + DevCo value = ~30% of post dilution Mcap with the balance ~70% attributable to its land assets. Alternatively, upside can emerge from a meaningful increase in DevCo sales run rate which can result in a higher value assigned to the balance land bank. While DLF remains a land play even post deleveraging, a significantly better cash flow scenario can allow the company to focus on its core operations and give it enough elbow room to kick start the launch cycle which can result in rerating.

Valuation (TP of Rs 173, upside of 62% from CMP of Rs 107)

	(Rs bn)		(msf)	(Rs bn)
Ongoing projects				
Ongoing DevCo projects		Existing RentCo		
Ongoing projects (excluding Camellias and Crest)		Standalone rental income		2.1
Receivables	30.0	DCCDL		22.0
Balance construction spend	37.5	DLF's stake in DCCDL		60%
Unsold area	6.5	DLF's stake in DCCDL's rentals		13.2
Value of unsold inventory	38.9			
Net cash flow	31.4	DLF's stake in DCCDL's net debt		54.0
No. of years	4.0	Net debt attributable to DLF		104.0
NPV of net cash flows	16.2	Equity value of RentCo		40.5
Camellias and Crest				
		Net equity value of ongoing projects less debt		13.1
Receivables	20.0			
Balance construction spend	35.0	Land bank	213.2	
Unsold area	3.6	Delhi & Gurgaon land (at current prices)	106.6	242.8
Value of unsold inventory	95.2	New Gurgaon	78.6	117.9
Net cash flow	80.2	Delhi (near Capital Greens)	13.0	64.9
No. of years	4.0			
NPV of net cash flows	41.3	Other land bank	106.6	53.3
		Bangalore	25.7	12.8
Net debt on DevCo	85.0	Chennai	21.0	10.5
Equity value of ongoing DevCo	(27.4)	Chandigarh	15.9	7.9
		Hyderabad	11.6	5.8
		Kolkata	4.7	2.3
		Others	27.9	13.9
Assumptions				
WACC	14%	Value of land bank	213.2	296.1
Cap rate	9%	Target Price (Rs)		173
		Upside (%)		48%

Source: Company, Axis Capital

Company financials (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Net sales	71,801	71,416	73,356	83,990
Other operating income	11,179	5,072	11,738	12,325
Total operating income	82,980	76,487	85,095	96,315
Cost of goods sold	(38,803)	(32,845)	(38,484)	(44,156)
Gross profit	44,177	43,642	46,611	52,159
<i>Gross margin (%)</i>	<i>53.2</i>	<i>57.1</i>	<i>54.8</i>	<i>54.2</i>
Total operating expenses	(19,325)	(13,405)	(11,649)	(12,928)
EBITDA	24,852	30,237	34,962	39,231
<i>EBITDA margin (%)</i>	<i>29.9</i>	<i>39.5</i>	<i>41.1</i>	<i>40.7</i>
Depreciation	(6,629)	(5,448)	(5,812)	(6,084)
EBIT	18,223	24,789	29,150	33,147
Net interest	(24,633)	(23,039)	(25,540)	(24,567)
Other income	14,915	5,194	5,000	5,000
Profit before tax	8,506	6,945	8,609	13,580
Total taxation	836	(1,576)	(2,411)	(3,802)
<i>Tax rate (%)</i>	<i>(9.8)</i>	<i>22.7</i>	<i>28.0</i>	<i>28.0</i>
Profit after tax	9,342	5,370	6,199	9,778
Minorities	565	333	123	123
Profit/ Loss associate co(s)	71	(34)	(80)	-
Adjusted net profit	9,979	5,668	6,242	9,901
<i>Adj. PAT margin (%)</i>	<i>12.0</i>	<i>7.4</i>	<i>7.3</i>	<i>10.3</i>
Net non-recurring items	(3,517)	(266)	(475)	-
Reported net profit	6,462	5,402	5,767	9,901

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Paid-up capital	21,555	21,556	21,556	21,556
Reserves & surplus	270,386	270,125	273,124	278,272
Net worth	293,964	293,428	296,427	301,575
Borrowing	223,339	244,940	253,408	235,729
Other non-current liabilities	-	25,020	25,020	25,020
Total liabilities	645,024	662,623	683,203	685,707
Gross fixed assets	205,894	218,440	228,631	239,365
Less: Depreciation	(29,516)	(34,310)	(40,122)	(46,206)
Net fixed assets	176,378	184,129	188,509	193,159
Add: Capital WIP	59,787	57,683	59,055	60,512
Total fixed assets	236,165	241,812	247,565	253,671
Total Investment	20,880	18,292	18,292	18,292
Inventory	184,886	177,431	197,398	207,267
Debtors	15,612	15,864	17,649	19,976
Cash & bank	24,420	27,477	27,477	27,477
Loans & advances	58,047	66,048	64,067	57,660
Current liabilities	127,720	99,235	108,347	123,382
Net current assets	250,080	286,456	292,170	273,533
Other non-current assets	10,178	16,828	16,828	16,828
Total assets	645,024	662,623	683,203	685,707

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Profit before tax	8,506	6,945	8,609	13,580
Depreciation & Amortisation	(6,629)	(5,448)	(5,812)	(6,084)
Chg in working capital	(13,522)	(33,319)	(5,715)	18,638
Cash flow from operations	13,888	18,973	31,484	59,189
Capital expenditure	25,043	(10,441)	(11,564)	(12,191)
Cash flow from investing	33,191	(7,887)	(11,644)	(12,191)
Equity raised/ (repaid)	16,266	(3,069)	(0)	0
Debt raised/ (repaid)	(24,672)	21,601	8,468	(17,679)
Dividend paid	(6,064)	(2,593)	(2,768)	(4,752)
Cash flow from financing	(41,100)	(7,376)	(19,840)	(46,999)
Net chg in cash	5,979	3,710	(0)	-

Valuation ratios

Y/E March	FY14	FY15	FY16E	FY17E
PE (x)	18.2	32.1	29.1	18.3
EV/ EBITDA (x)	15.3	13.2	11.7	9.9
EV/ Net sales (x)	5.3	5.6	5.6	4.6
PB (x)	0.6	0.6	0.6	0.6
Dividend yield (%)	2.9	1.2	1.3	2.2
Free cash flow yield (%)	21.4	4.7	11.0	25.9

Source: Company, Axis Capital

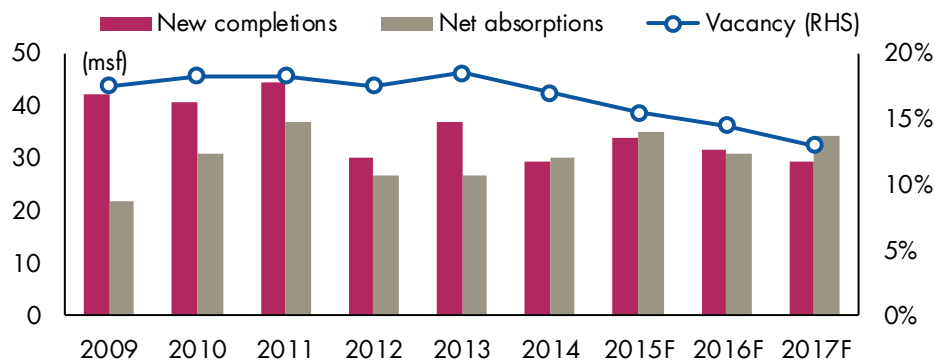
Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	5.9	3.3	3.7	5.8
CEPS (Rs)	7.7	6.4	6.8	9.4
DPS (Rs)	3.1	1.3	1.4	2.3
Dividend payout ratio (%)	80.2	40.0	40.0	40.0
GROWTH				
Net sales (%)	10.0	(0.5)	2.7	14.5
EBITDA (%)	(5.4)	21.7	15.6	12.2
Adj net profit (%)	30.9	(43.2)	10.1	58.6
FDEPS (%)	30.9	(43.2)	10.1	58.6
PERFORMANCE				
RoE (%)	3.5	1.9	2.1	3.3
RoCE (%)	6.3	5.5	6.0	6.7
EFFICIENCY				
Asset turnover (x)	0.1	0.1	0.1	0.2
Sales/ total assets (x)	0.1	0.1	0.1	0.1
Working capital/ sales (x)	3.0	3.4	3.6	3.0
Receivable days	79.4	81.1	87.8	86.8
Inventory days	1,160.9	1,400.3	1,437.2	1,325.3
Payable days	765.5	719.1	729.8	737.0
FINANCIAL STABILITY				
Total debt/ equity (x)	0.8	0.8	0.9	0.8
Net debt/ equity (x)	0.7	0.7	0.8	0.7
Current ratio (x)	3.0	3.9	3.7	3.2
Interest cover (x)	0.7	1.1	1.1	1.3

Annexure

Commercial demand: A silver lining

Absorption remains steady.. vacancy levels on a decline



Source: Real Estate Intelligence Service (JLL)

Lease rentals improving

City	3Q08	1Q14	% chg over	
			2008-13	3Q15
Bangalore	100	99.5	-1%	103.2
Mumbai City	100	62.1	-38%	61.8
Delhi City	100	59.2	-41%	59.2
Mumbai Suburbs	100	68.3	-32%	76.1
Gurgaon (Prime)	100	80.9	-19%	85.8
Gurgaon (Off Prime)	100	66.7	-33%	68.1
Noida	100	77.7	-22%	77.3
Chennai	100	93.2	-7%	99.7
Pune	100	83.9	-16%	89.5
Hyderabad	100	80.1	-20%	88.2
Kolkata	100	82.6	-17%	82.6

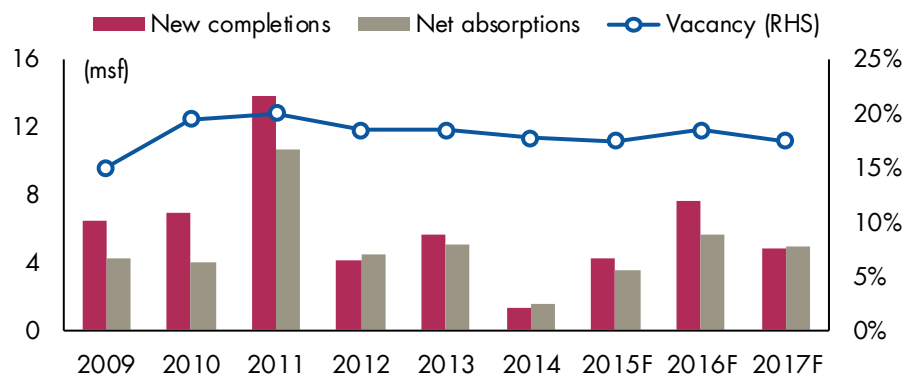
Source: Real Estate Intelligence Service (JLL)

- ◆ Last 5 years saw lot of consolidation in commercial segment which has resulted in undersupply
- ◆ While lease rentals are steadily increasing after the steep fall in 2009, metros barring Chennai have seen muted growth in rentals since 2009
- ◆ Demand is driven by ecommerce, startups and Services sector such as Telecom and Healthcare strengthened the demand
- ◆ However, there is shortage of Grade-A office space at good locations

An uptick in demand: ~29 msf leased in 9MCY15 vs peak of ~37 msf in CY 2011

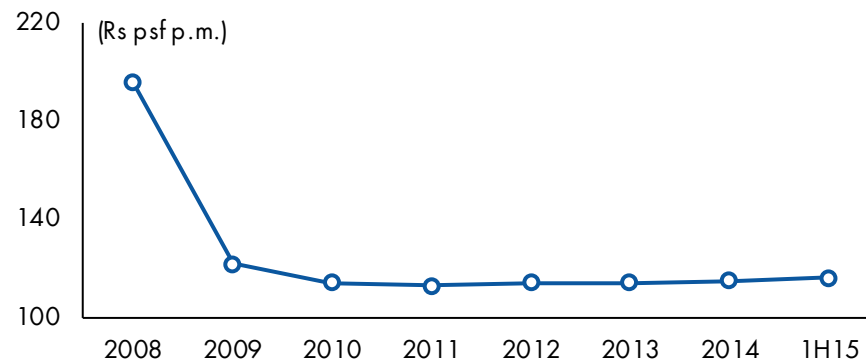
Retail - Supply to revive over 2015-17

Vacancy levels seen on a decline....



Source: Real Estate Intelligence Service (JLL)

...with rentals to remain steady/ increase marginally



Source: Real Estate Intelligence Service (JLL), Axis Capital

- ◆ Mall supply is expected to revive post the trough of 2014 driven by completion of some large malls especially in NCR-Delhi
 - NCR-Delhi contributes about 60% to both the supply and demand of space in 2015-16
 - NCR Delhi, which already has the largest share of retail stock in the country, has seen a few big ticket completions like Mall of India, Omaxe Connaught Place and Gardens Galleria
- ◆ Consumption growth has been impacted even at prime retail locations due to the emergence of ecommerce
- ◆ While rentals of quality retail spaces will remain steady/ increase marginally, retailers will have to revisit their real estate strategy amid rising competition from ecommerce players

Rentals at prime locations to remain steady; ecommerce remains a key threat

Disclaimer

Real Estate

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