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India Property

Liquidity driven TP upgrade, but where's the demand? U/W

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Despite upgrading TP driven by liquidity, retain UW on large outperformance

This capital-intensive sector was caught in a pincer of weak operational cashflows and asset-liability mismatch in a tight financial market. Improving liquidity in financial markets is resulting in 55% increase in float (with significant more to go) by financially savvy developers. This reconfirms our view that physical demand is yet to see any significant pickup. Despite the liquidity driven increase in TP by up to 150%, the 147% spike in Realty Index in last 3m leads us to retain UW rating.

Liquidity leads us to increase TP, despite retaining all other assumptions

This capital-intensive sector was caught in a pincer – significant mismatch in operational cashflows and assets-liabilities in a tight financial market resulting in a 90% underperformance from its peak in Jan'08 to the bottom in Feb'09. Improving global financial markets as also support by local banks (with significant growth in outstanding debt and restructuring of old debt) has resulted in a significant lowering of the bankruptcy risk for the sector. Hence, while we retain all other major assumptions, driven by improving liquidity, we cut WACC by up to 200 basis points and a sharp (5-30%) cut in discount to GAV (Gross Asset Value) resulting in up to 150% increase in TP.

But fundamentals are yet to fall in place as seen by the rush to raise equity

(a) Despite the sharp cut in prices of new launches that are redesigned with smaller apartments and fewer amenities resulting in ~60% fall in unit prices and upto 300bp fall in mortgage rates, demand seems to have picked up only at city centric locations of Mumbai and NCR. (b) Developers admit that while worse seems behind, demand is yet to pickup in residential with other verticals being further behind. (c) Data on outstanding mortgages available till Feb'09 have shown a consistent and sharp fall in growth from Jun'06, while outstanding credit to developers has ramped up from Feb'08. (d) Data available for cement demand till Apr'09 indicates no significant pickup in last few months (e) Almost all the fresh equity raising in India seems to have been by developers. Despite most developers being reasonably aggressive and BSE Real being 71% below its Jan'08 peak currently, the sector has seen 55% increase in free float from mid Apr'09. Infact proposed issuances could result in upto 140% increase in free float from mid Apr'09. This clearly indicates their unwillingness to "wait for better times" for diluting. It also raises the threat of significant flow of paper.

Despite the significant increase in TP, retain most company ratings; Risks

Liquidity driven upgrade in TP by up to 150%. However with a 147% spike in BSE Realty Index vis-à-vis 65% for Sensex in last 3m, we retain most ratings (Hold on DLF and Unitech and Sell on Puravankara and Sobha), while downgrading IBREL to Hold as we now do not see the need to "hide" in a good B/S. Risks: Improving macro environment (with higher GDP growth and a better outlook for IT/ITES), aggressive price cuts by developers' kick-starting demand across regions and across verticals and continuing liquidity in financial markets.

Industry Update

Top picks

DLF (DLF.BO),INR414.85	Hold
Indiabulls Real Estate (INRL.BO),INR248.50	Hold
Puravankara Projects (PPRO.BO),INR113.00	Sell
Sobha Developers (SOBH.BO),INR201.45	Sell

Companies featured

DLF (DLF.BO),INR414.85		Hold	
2008A	2009E	2010E	
P/E(x)	17.5	15.3	40.2
EV/EBITDA(x)	14.3	13.8	27.0
Price/book(x)	5.6	2.9	2.8
Indiabulls Real Estate (INRL.BO),INR248.50		Hold	
2008A	2009E	2010E	
P/E(x)	34.7	95.1	102.2
EV/EBITDA(x)	34.0	321.0	66.9
Price/book(x)	2.6	1.3	1.3
Unitech (UNTE.BO),INR92.20		Hold	
2008A	2009E	2010E	
P/E(x)	31.1	13.5	26.1
EV/EBITDA(x)	26.1	15.0	19.8
Price/book(x)	12.5	3.2	2.7
Puravankara Projects (PPRO.BO),INR113.00		Sell	
2008A	2009E	2010E	
P/E(x)	34.4	16.7	27.2
EV/EBITDA(x)	41.5	22.4	34.6
Price/book(x)	4.2	1.8	1.6
Sobha Developers (SOBH.BO),INR201.45		Sell	
2008A	2009E	2010E	
P/E(x)	26.8	13.4	22.3
EV/EBITDA(x)	21.9	12.3	15.6
Price/book(x)	4.4	1.4	1.3

Price performance (%)

	1m	3m	12m
DLF	80	173	-29
IBREL	93	171	-48
Unitech	109	227	-60
Puravankara	61	194	-51
Sobha	104	154	-60
BSE Real Index	89	147	-42
Sensex	28	65	-11

Valuations & Ratings (INR/ share)

Company featured	NAV	TP/ CMP	Ratings
DLF	325	325/ 415	Hold
IBREL	194	183/ 248	Hold
Unitech	112	85/ 92	Hold
Puravankara	103	74/ 115	Sell
Sobha	492	119/ 201	Sell

Change in TP INR/ share

Company featured	Old TP	New TP	% Chg
DLF	200	325	+62%
IBREL	155	183	+18%
Unitech	34	85	+150%
Puravankara	53	74	+40%
Sobha	50	119	+139%

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Date
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Liquidity driven upgrade in NAV & TP

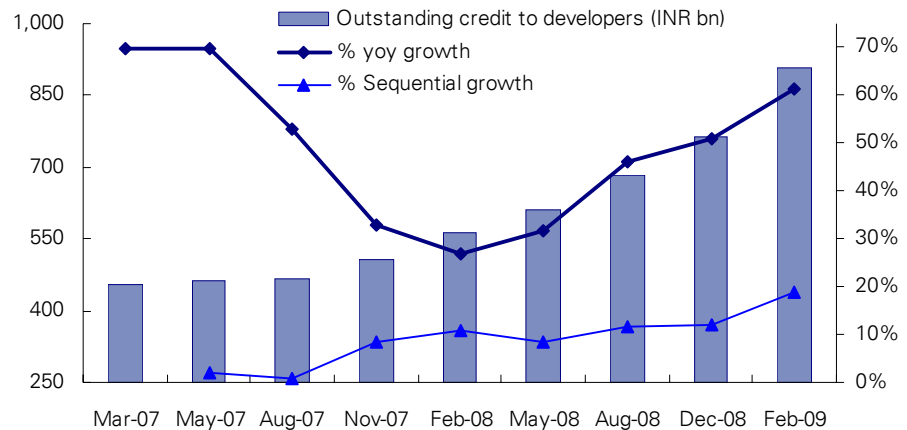
Improving liquidity to the cash-starved realty sector

Bankruptcy risks have sharply reduced with improving credit markets...

There has been a significant easing in the credit markets which has acted as a life-line to the cash starved real estate sector:

- **Growth of outstanding credit to developers has been ramping up sharply:** The bimonthly/ quarterly data on banking industry released by Reserve Bank (RBI) indicates that outstanding credit to property sector (only to developers) have increased by a sizeable INR 143bn in 2 months to INR 908bn in Feb'09. Thus yoy and sequential growth in outstanding credit grew a whopping 65% and 20% respectively in Feb'09.

Figure 1: Spike in growth of outstanding credit to developers since Aug'08



Source: RBI

- **In addition, developers have restructured their debt from short term to long term:** Aided by the RBI's circular (dated 15th Dec'08) allowing banks to reschedule outstanding debt to developers until 30th Jun'09 without treating these as NPAs, quite a few developers suffering from asset liability mismatch have undergone through debt restructuring. This is through (i) extending the maturity of debt with near term maturities and (ii) replacing short term with long term debt.
 - As per Unitech's Apr'09 QIP document, of its total debt of INR 89bn as on 31 Mar'09, it has been able to get debt restructuring to the tune of ~INR 23.1 bn in FY09. Of this, INR 16.5 bn was due for repayment in 2HFY09.
 - As per its 4Q presentation, DLF has been able to raise significant long term to rollover its short term debt. It has also received sanctions for a new long term loan of INR 25bn against payment of INR 14.2bn due in this quarter.
 - As per its HDIL's 4Q conference call, of its total debt of INR 41bn as on 31st Mar'09, it has been able to restructure/ reschedule ~INR 21bn in FY09.
 - Bank of India in its May'09 Analyst Meet indicated that while real estate accounted for ~5% of loans as of Mar'08, ~23% of all its debt restructuring in FY09 was in the sector.

~23% of FY09 debt restructuring of Bank of India was by developers, who were only ~5% of its loans

High gearing despite the downsizing of land bank**Falling markets and “quirky” regulations prevent equity dilutions in CY08****...and equity markets allowing for fresh dilutions**

- While new debt and debt restructuring will allow some breathing space, developers have to raise equity to repair their stretched Balance sheets. While most companies have been able to sharply cut their payables on land bank post the sharp reduction in land bank (Fig. 2), most companies still have a high net gearing (Fig 3).
- The falling equity markets in 2008 prevented the sector from raising equity with the promoters expecting better prices and investors unwilling to catch a “falling knife”. This was aggravated by Indian stock market regulations that required QIPs to be priced above the higher of the average stock price in last 6 months or 2 weeks till 14th Aug’08 and higher than the average stock price in last 2 weeks post 14th Aug’08. The time period commences from the date of the launch of the QIP.
- Sharp improvement in equity markets since Mar’09 enabled the developers to raise funds with Unitech and IBREL doing a QIP placement and DLF promoters diluting their stake (Fig 5). With DLF promoters injecting these funds raised into DAL (DLF Assets, a promoter owned entity), which would repay 49% (USD 380m) of the funds raised to DLF.

Thus, with real estate companies being able to/expected to raise funds for addressing their high net gearing (payable in near term), there has been spurt in stock price of most of the real estate companies (Figure 4).

Figure 2: Land bank goes through ups and downs

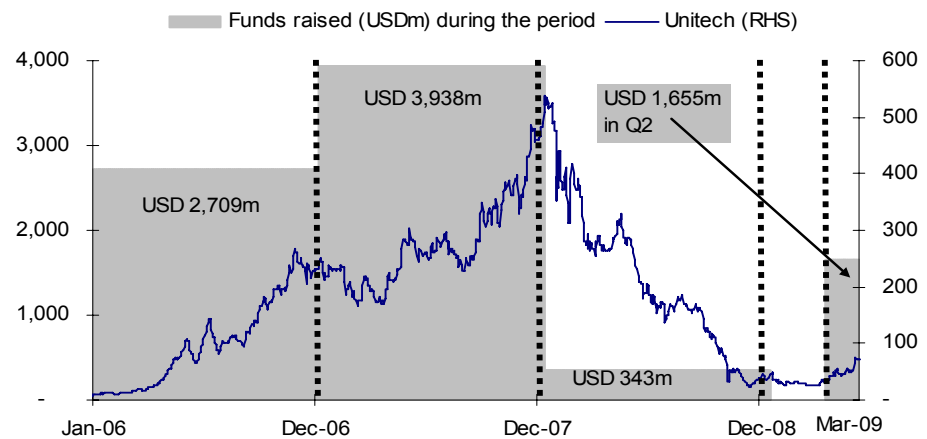
(Area in msf)	IPO date	Saleable Area at IPO	Saleable Area as on Sept’08	% Change	Current Saleable Area	% Change	Comment on downsizing of land bank
DLF	May’06 / June’07	228 / 574	755	231 / 32%	425	-44%	Exits large townships (Bidadi & Dankuni) & other land banks
Sobha	Nov’06	118	181	53%	166	-8%	Exits part of its Bangalore land bank
Unitech	na	na	652	na	488	-25%	Exits quite a few large land banks (including Dakuni)

Source: Company

Figure 3: Equity dilution and reduction in land bank help control net gearing

Year to Mar	----- Net debt -----				Net gearing (x)		Payable of existing land bank				Adjusted net gearing (x)			Post current dilution	
	1QFY09	2QFY09	3QFY09	4QFY09	3QFY09	4QFY09	1QFY09	2QFY09	3QFY09	4QFY09	2QFY09	3QFY09	4QFY09	Net debt	Net gearing
DLF	132,194	133,405	148,280	151,600	0.60	0.60	63,280	61,660	59,620	2,540	0.81	0.84	0.62	133,360	0.54
Puravankara	6,128	7,676	7,571	7,878	0.56	0.58	2,320	2,000	600	600	0.73	0.61	0.63		
Sobha#	19,845	19,150	18,545	18,911	1.63	1.58	5,600	2,861	1,900	1,700	2.02	1.92	1.72		
Unitech#	72,841	83,700	90,000	75,000	1.97	1.63	38,000	17,900	17,870	17,870	2.24	2.36	2.02	58,750	1.29

Source: Company, #4QFY09 estimates

Figure 4: Buoyancy in equity markets allows the sector to recommence offerings...

Source: Press, Deutsche Bank, Note: With BSERIAL index commencing only from Jul'07, we use Unitech as a proxy to sector

Figure 5: ...with industry leaders leading the way...

Details on equity raising				Current price	Return	Market Cap
Date	Size (USD m)	Price (INR)	Others	(INR)*		(USD m)
Unitech 17 th Apr	325	38.5	~26% dilution through QIP	80	108%	3,612
DLF 13 th May	760	230	~9.9% stake sale by promoters	407	77%	15,331
IBREL 18 th May	550	185	~56% dilution through QIP	248	34%	2,210

Source: Bloomberg, As on 29th May'09

Figure 6: ...and others following to cash-in on this liquidity

(USD m)	Proposed fund raising of upto	Market Cap
Anantraj	400	828
HDIL	600	1,741
Omaxe	200	395
Parsvnath	500	398
Puravankara	150	521
Sobha	300	311
Unitech (follow-on proposal) #	1,525	3,612
Unitech (promoter warrants)	230	3,610
Total (USD m)	4,069	11,416
Total (INR m)	195,296	

Source: Bloomberg, Company, Note #: Unlike others, who take approvals for the maximum amount to be raised, Unitech's approval (from shareholders and Board) is for a finite number of shares. On current stock price, this amounts to USD 3bn

Despite BSE Real being 71% below its Jan'08 peak, sector free float is already up 55% and will increase further

Thus sector free float, which has spiked ~ 55% from mid Apr, could further accelerate

Despite the BSE Real Index currently being ~71% below its Jan'08 peak, dilutions by Unitech and IBREL and stake sale by DLF from mid-Apr'09 has already resulted in the free float of the sector increasing by 55%. This increase in float is based on current market cap adjusted for the increase in number of shares. The total increase in float could be as much as ~140%, if all the proposed issuances go through at current stock price (Fig 6 & 7).

Figure 7: Sector free float spikes by ~ 55% & could increase by ~140% of mid Apr'09 levels

(INR m)				Impact of dilution/ sale of stake		
As on 29th May'09	Shares as on 31 Mar'09 (m)	Mkt cap	Free float mkt cap based on 31 Mar'09 shares (A)	Increase in free float (m shares)	Increase in free float mkt cap (B)	% increase from 31 Mar'09 (B/A)
BSE Real Index	na	1,064,543	230,990			
- Unitech	1,623	123,782	43,921	421.1	32,107	
- DLF	1,697	631,364	72,321	143.6	62,496	
- IBREL	258	58,084	38,357	168.0	32,389	
BSE Real Index			230,990		126,992	55%
Proposed issuances (Fig 6)					195,296	85%
Increase from mid Apr'09					322,287	140%

Source: Bloomberg, Company, Deutsche Bank

...as increasing demand of fully finished assets

While developers have been trying to monetize some of their assets (partly or fully completed) for last 1 year, they seem to be finding some buyers in the recent past (Fig 8):

- Unitech has been able to monetize its Courtyard hotel (in Gurgaon) in Feb'09 and office property (in Saket, New Delhi) in May'09. These assets were on the block since Nov'08.
- As per press, DLF also been able to monetize a few its assets and is in final negotiations for unlocking value from long gestation assets (like hotels) or non-strategic assets (wind mills, convention centre at Delhi, etc).

Figure 8: Monetisation of finished assets seems to be picking up

Company	Asset sale (including planned) details
DLF	Sells 66% in Hindoostan Mills in Central Mumbai for INR 3.1bn (May'09)
	Sells its 60 room Saket hotel in Delhi for INR 550m
	Advanced stages of selling wind power business for ~ INR 9bn in advance stages (Apr'09)
	Advanced stages of selling Delhi Convention centre for ~INR 8.5bn
	Plans to sell 50% stake in its 120 room Saket hotel in Delhi for ~INR 750m
Unitech	Sells its 198 room Courtyard Hotel at Gurgaon for INR 2.3bn (Feb'09)
	Sells Saket office in Delhi for INR 4.5bn (May'09)
	Plans to sell commercial office space in Gurgaon and Kolkata
	Plans to sell 4 of its hotels in Gurgaon, Kolkata and Noida

Source: Company, Press

But demand pick-up still seems further away

Despite the sharp fall in property prices and mortgage rates...

- Sharp cut in prices of existing projects (Fig 9) and a similar cut in prices for new launches (Fig 10).
- The new launches are now typically redesigned with smaller apartments and fewer amenities (no clubhouse, 1 instead of 2 car parks, etc) that result in lower markups to base price and hence a significant drop in unit prices to the buyer.
- 300bps drop in mortgage rates of HDFC from the peak induced by government stimulus measure of a sharp cut in CRR and Repo rates (Fig 11)

Figure 9: Sharp drop in prices as also unit size across locations

	New Launches (Units)	Weighted average Price (INR/sf)			Average units Size (in sf)			New Launch absorption* share
	Q1 09	Q1 08	Q1 09	% chg	Q1 08	Q1 09	% chg	Q1 09
Bangalore	2,571	2,694	1,898	-30%	1,552	1,112	-28%	40%
Chennai	3,764	2,945	2,573	-13%	1,375	1,115	-19%	58%
Gurgaon	4,490	2,543	1,940	-24%	1,946	1,215	-38%	61%
Hyderabad	1,156	2,797	2,136	-24%	1,879	1,386	-26%	26%
Mumbai	14,478	5,633	3,220	-43%	1,237	817	-34%	74%

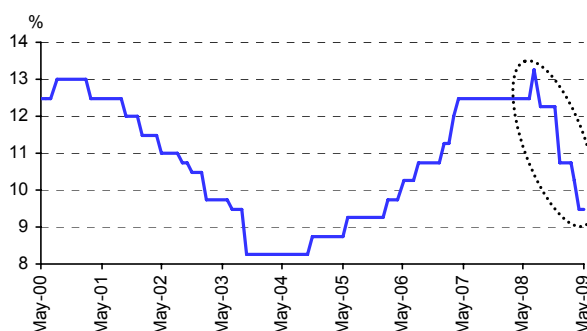
Source: The Economic Times dated 1st June'09, Note: * Absorption share is number of units purchased to number of units launched

Figure 10: Discounting in good metro locations for new projects see sell-outs from Apr'09

Location	Project name	Launch price (INR/ sf)	Market price in vicinity (INR/ sf)	% discount
Mumbai – Versova	HDIL – Metropolis	7,651	9,000	-15%
Mumbai – Kurla	HDIL - Premier	5,251	6,500	-19%
NCR - Gurgaon – Sector 47	Unitech - Uniworld Gardens	3,200	4,000	-20%
NCR - Delhi - West (Shivaji Marg)	DLF- Capital Greens	6,403	9,500	-33%

Source: Company, Press

Figure 11: HDFC mortgage rates drop by ~300bps from peak



Source: HDFC

...residential demand has picked up only in few select locations

However weak demand condition persists across the country. Demand buoyancy has been seen from Apr'09 only for new launches of few city centric pockets of NCR and Mumbai priced at large discounts (Fig 10).

Demand in other verticals being even worse

Non residential verticals (office, retail and hotels) are worse off with a collapse in demand despite the 30%+ fall in rentals and capital values. While we do not have data on demand, consultants as also developers indicate that transactions have collapsed since Oct'08.

Figure 12: Significant drop in rentals of office space due to collapse in demand...

Rent (INR/sf/m)	Dec 06	Jun 07	Dec 07	Jun 08	Dec 08	Apr'09	% cgn from peak
Mumbai-Nariman Point	275	385	475	500	400	350	-33%
Mumbai-BKC	260	360	425	385	350	280	-38%
Mumbai-Thane	-	30	40	45	40	40	-11%
NCR - Gurgaon IT SEZ	-	-	60	76	63	58	-24%
NCR - Noida IT SEZ	-	-	45	39	32	33	-34%
NCR - South Delhi Prime	175	211	220	246	214	185	-23%
Chennai - OMR	33	33	27	25	25	23	-30%
Kolkata - Rajarhat(IT SEZ)	-	42	45	50	39	35	-30%
Hyderabad - Madhapur	36	38	42	43	40	37	-14%

Source: Cushman & Wakefield

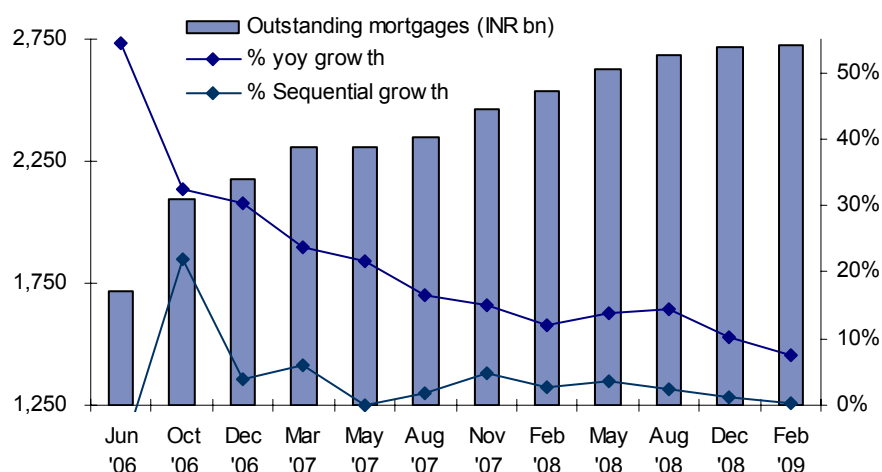
Figure 13: ...which is even higher in the case for retail space

Rent (INR/sf/m)	Jun 07	Dec 07	Jun 08	Dec 08	Apr'09	% change from peak
Mumbai - Kemps Corner	388	600	950	560	500	-44%
Delhi -GK	415	900	1075	800	600	-44%
Bangalore - MG Road	183	250	240	180	180	-31%
Chennai -Anna Nagar	110	150	150	100	100	-41%
Kolkata- Park Street	213	230	268	245	245	-9%
Hyderabad - Ameerpet	118	150	115	115	105	-30%

Source: Cushman & Wakefield

This is collaborated by the following data points:

- In India, most new apartments are pre sold with mortgage disbursements by banks taking place over a period of 1-3 years. A consistent and steep fall in yoy growth of outstanding (o/s) mortgages since Jun'06 indicates a significant fall in new sanctions/pre-sale of newly launched residential properties.

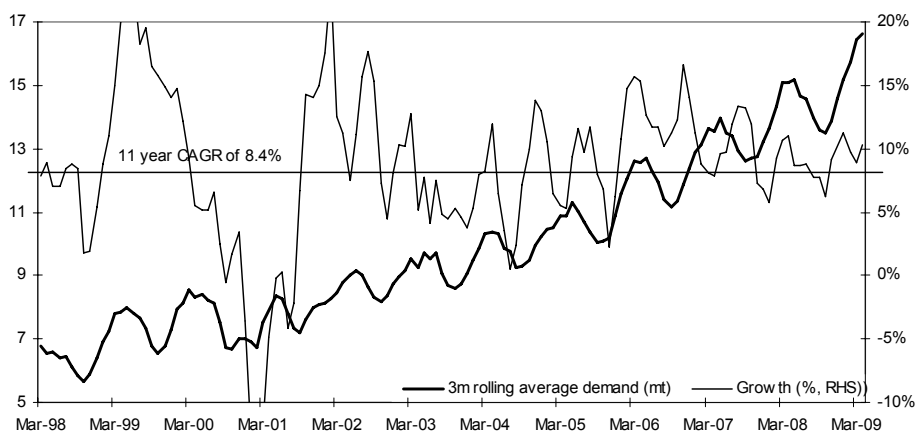
Figure 14: Consistent and steep fall in growth of o/s mortgages since Jun'06

Source: RBI

- In last few months, there is no additional pickup in cement demand as compared to trend lines to indicate pickup in construction by developers. While slowdown in real estate in the last 2 years had probably resulted in slowdown in cement demand, aggressive government spending on infrastructure due to impending elections and to address the economic slowdown has probably buoyed cement demand from 2HCY08.

With anecdotal data indicating continuing infrastructure investment, there should have been a spike in cement demand if construction activity of developers had recommenced.

Figure 15: Cement demand does not show any sizeable pickup in real estate activity



Source: CMAI, Deutsche Bank

Most developers also seem to indicate demand pickup only in select locations

- Developers like DLF, Puravankara are indicating that there seems to be some pick-up in residential demand for new launches in good locations only in NCR and Mumbai and after aggressive price cuts. They indicate that things may improve in next 2-4 quarters for residential. They expect other verticals to improve much latter.

Maintain estimates, upgrade TP; Ratings and Risks

Maintain major assumptions and estimates; improving liquidity forces us to upgrade NAV & TP

Largely maintain major assumptions and the resultant GAV as also financial estimates

- While most companies (other than IBREL and Puravankara) have reduced their land bank in the current quarter, we do not have any significant data on the land bank that has been divested. We believe that most of this divested land bank that has been divested would add little value as (a) it would be long gestation large townships (like Dankuni, Bidadi, etc) or (b) would be high cost, which would be aggravated by our conservative assumptions.
- Despite indications of some pickup in demand in good locations of Mumbai and NCR, we maintain the run-rate of launches, land bank is developed in ~15 years, base property prices and costs, which are expected to remain flat for the entire land bank.
- We also assume cap rate of 11-12% and effective tax rate of 20-30%

Thus, we largely maintain our financial estimates and GAV.

Reduce WACC & discount to GAV on improved liquidity...

Improving global credit and equity markets have significantly benefited this capital starved sector. Thus we reduce WACC by 100-150bp and discount to (GAV) Gross Asset Value (assumptions used for calculating our DCF based TP) by 5-20% (Fig 16, 17).

Figure 16: Change in WACC and GAV

	WACC			GAV (INR/ share)			Other major drivers for change in GAV/ share
	Previous	Current	% cgn	Previous	Current	% cgn	
DLF	15.0%	14.0%	100bps	373	373	0%	
IBREL	18.0%	16.0%	200bps	201	108	-46%	56% equity dilution, cap rate hike of 100bps
Unitech	17.5%	16.5%	100bps	128	134	4%	26% equity dilution has been factored earlier
Puravankara	16.5%	16.5%	0bps	143	143	0%	
Sobha	18.5%	17.5%	100bps	706	746	6%	Small change as projects are largely back-ended

Source: Deutsche Bank

Figure 17: Reducing discount to DCF-based GAV for property business

Company	Previous	Current	Reasons for the discount (other than sector headwinds)
DLF	20%	0%	Significant improvement in B/S, partly neutralised by deteriorating product mix
IBREL	30%	10%	Significant fund raising, limited track record in property development and concentration risk (Maharashtra)
Unitech	50%	20%	Significant improvement in B/S partly neutralised by continual high gearing, execution risk and concentration risk (NCR)
Puravankara	35%	20%	Asset light model partly neutralised by concentration risk (Residential ~80% and Bangalore >60%), high FSI assumptions
Sobha	55%	50%	Bankruptcy risk, execution risk and concentration risk (Residential >90% and Bangalore > 50%) remains

Source: Deutsche Bank

...in line with sharp fall in discount to NAV for the regional peers

The discount to NAV for almost all regional developers have fallen from ~50% in Feb'09 to 15-20% now (Fig 18).

Figure 18: Discount to NAV has fallen significantly for Asian developers in the last 3 months

Country	PE(x)	Market* Cap (A)	DB NAV (B)	Premium to NAV (A/B) as of				
	CY09e	(USD m)	(USD m)	22/05/2009	9/4/2009	26/02/2009	02/01/2009	26/09/2008
China	18.2	53,955	64,253	-16%	-29%	-52%	-48%	-54%
Indonesia	11.7	295	438	-33%	-55%	-72%	-76%	-62%
Malaysia	19.3	1,100	1,386	-21%	-36%	-39%	-45%	-50%
Philippines	16.6	5,400	7,889	-32%	-46%	-52%	-48%	-38%
Emerging Markets	18.0	60,751	73,965	-18%	-31%	-52%	-48%	-52%
Singapore	20.0	18,447	20,520	-10%	-30%	-44%	-39%	-49%
Hong Kong	18.1	108,218	131,349	-18%	-27%	-55%	-42%	-44%
Developed Markets	18.4	126,665	151,870	-17%	-28%	-45%	-27%	-28%
Asian Real Estate (x India)		187,416	225,835	-17%	-29%	-47%	-31%	-32%

Source: Deutsche Bank, * Prices as on 22nd May '09**Upgrade NAV and TP**

Post this discount on GAV, we exclude the liabilities (net debt and payables on land bank) to arrive at our adjusted DCF-based NAV for the property business. We then add the value of any other divisions, which are determined by other valuation methodologies. We then add both these numbers to get our SOTP based TP for each company.

Figure 19: Pathways for calculation of our TP and ratings

INR/ share	WACC	DCF of RE- GAV (a)	Disc. To DCF	Disc. Liabilities* GAV (b)	Adj. RE NAV (c)	Others (d=b-c)	Total NAV (a-c+e)	TP (d+e)	CMP (29/05/09)	CMP/T.NAV	Upside	Rating
IBREL	16.0%	116	10%	104	-78	183	194	183	248	28%	-26%	Hold
DLF	14.0%	384	0%	384	80	304	325	325	407	25%	-20%	Hold
Unitech	16.5%	134	20%	107	37	70	112	85	80	-28%	6%	Hold
Puravankara	16.5%	142	20%	114	40	74	103	74	110	7%	-33%	Sell
Sobha	17.5%	746	50%	373	283	90	492	119	192	-61%	-38%	Sell

Source: Deutsche Bank, Note: * Liabilities = net debt & payables for land bank

Figure 20: Change in Target Price (TP) for companies under coverage

	IBREL	DLF	Puravankara	Unitech	Sobha
Old Target Price (INR)	155	200	53	34	50
New Target Price (INR)	183	325	74	85	119
% change	18%	62%	40%	150%	139%

Source: Deutsche Bank

Ratings

- **Maintain Hold on DLF:** Good quality land bank and execution capability, significant improvement in Balance Sheet and resolution of DAL issue are largely factored in the spike of stock price (~173% as compared to ~65% for Sensex in last 3m).
- **Downgrade IBREL to Hold:** Surprise equity dilution of ~56% despite its net cash status and no projects requiring near-term funding. Given the improving liquidity and lower risk of bankruptcy for sector, we do not see the need to "hide" in a good quality B/S. With a significant outperformance (~171% as compared to ~65% for Sensex in last 3m), we downgrade to Hold rating.
- **Maintain Hold on Unitech:** Significant success in raising cash (26% equity dilution, reschedule debt, conclusion of sale of non-core assets, receipt of 2 installments from sale of ~67% stake in its telecom division) and reasonable pickup in some new project launches are more than factored in the significant run-up in stock (~227% as compared to ~65% for Sensex in last 3m). Hence despite a 150% increase in TP, we maintain a Hold rating.

- **Maintain Sell on Puravankara:** Despite asset-light business model and relatively low gearing (at 56%, with 34% of its debt payable in 12 months) is largely neutralised by continual poor demand in its major markets and spike in stock price (~194% as compared to ~65% for Sensex in last 3m).
- **Maintain Sell on Sobha:** Despite the highest gearing in the sector (161%), operating cashflows being ~45% of accrued interest cost in 4Q and continual poor demand in its major markets, Sobha has not been able to raise equity in the last 3 quarters. Furthermore despite raising TP by ~139%, significant outperformance (~154% as compared to ~65% for Sensex in last 3m) force us to maintain a Sell rating on Sobha.

Upside risks

- Improving macro environment (with higher GDP growth and a better outlook for IT/ITES)
- Aggressive price cuts by developers' kick-starting demand across regions and across verticals
- Liquidity in financial markets continues to improve enabling developers to raise long-term funds and also boost residential demand by the resultant drop in mortgage rates.

Asia India
Property Property

1 June 2009

DLF

Reuters: **DLF.BO** Bloomberg: **DLFU IN**

Increased liquidity results in higher TP, maintain Hold

Industry leader addressing its key concerns successfully, Hold

DLF promoters have capitalised DAL with ~USD 780m through ~9.9% stake sale of DLF's equity which partly flows to DLF in order to reduce o/s DAL receivables, its biggest overhang. With aggressive price cuts to stimulate demand and focus on sale of non-strategic assets to de-leverage, we believe that DLF, industry leader, is on the right track. While we maintain estimates and GAV, increasing liquidity results in ~62% increase in TP to INR 325. However with significant outperformance (~109% to Sensex in 3m), we maintain Hold.

Largely addresses the single biggest overhang for DLF –o/s DAL receivables

DLF promoters have just sold ~10% of DLF's equity raising ~USD 780m. We believe that these will be used to capitalize DAL (DLF Asset, fully owned by DLF's promoters), which will repay ~USD 380m to DLF so as to reduce the o/s DAL receivables (from ~USD 1bn). Thus, DLF's net gearing would reduce from 61% on 31 Mar'09 to ~54%. We believe that the remaining DAL o/s receivables will be reduced in a phased manner through Lease Rent Discounting (LRD) by DAL.

Price cuts see some demand bounce back; proposes sale of non-core assets

Aggressive price cuts in quite a few locations by DLF, the industry leader, has seen good demand. In order to address its liquidity issues, it has (a) downsized land bank (that was long gestation or expensive) by 43% with 95% fall in payables on land bank (b) expects to encash INR 20bn of non-core assets in near term (c) replaces INR 30bn ST debt with LT debt. However weak financials and operating cashflows being ~30% of accrued interest cost in 4Q remain a concern.

Maintain estimates and GAV, upgrade TP on improving liquidity, Hold; Risks

Maintain our major assumptions and estimates. With improving liquidity, we reduce WACC by 100bps to 14% (resulting in upgrade in GAV, Gross Asset Value, by 3% to INR 384) and reduce the discount to GAV from 20% to 0%. Excluding liabilities, we arrive at Adjusted NAV of INR 305 for the real estate business. We then add value of other assets (INR 20/share); to arrive at a SOTP based TP of INR 325 (up ~62%). Maintain Hold. Risks: change in the macro outlook and pick-up in demand across geographies and verticals.

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	39,211.4	144,375.7	100,296.0	59,148.6	74,622.6
EBITDA(INRm)	28,010.6	97,151.6	54,733.8	28,029.9	33,981.1
Reported NPAT(INRm)	19,390.6	78,132.8	46,167.2	17,497.0	21,074.0
Reported EPS FD(INR)	12.68	45.83	27.20	10.31	12.42
DB EPS FD (INR)	12.68	45.83	27.20	10.31	12.42
DB EPS growth (%)	774.9	261.6	-40.6	-62.1	20.4
PER (x)	–	17.5	15.3	40.2	33.4

Source: Deutsche Bank estimates, company data

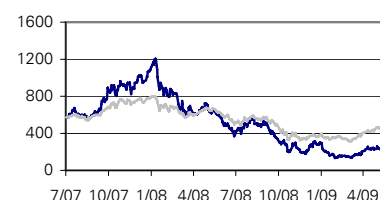
Hold

Price at 1 Jun 2009 (INR)	414.85
Price target - 12mth (INR)	325.00
52-week range (INR)	582.45 - 132.90
BSE 30	14,625

Key changes

Price target	200.00 to 325.00	↑	62.5%
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Price/price relative



— DLF — BSE 30 (Rebased)

Performance (%)	1m	3m	12m
Absolute	79.7	173.5	-29.4
BSE 30	28.3	64.5	-10.9

Stock data

Market cap (INRm)	704,089
Market cap (USDm)	14,944
Shares outstanding (m)	1,697.2
Major shareholders	Promoter's (78.5%)
Free float (%)	21
Avg daily value traded (USDm)	135.3

Key indicators (FY1)

ROE (%)	21.2
Net debt/equity (%)	64.2
Book value/share (INR)	140.89
Price/book (x)	2.9
Net interest cover(x)	14.6
Operating profit margin (%)	52.2

DCF based TP

INR/share	Previous	Current
GAV (a)	374	384
Disc. to GAV	20%	0%
Disc. GAV (b)	300	384
Liabilities (c)	121	80
Adj. RE NAV (d=b-c)	180	305
Others (e)	20	20
Total NAV (a-c+e)	273	325
TP (d+e)	200	325

Related recent research

Date

Possible DAL unwinding: LT positive despite NT pains
- Abhay Shanbhag/ Prakash Agarwal

16 Apr 2009

In-line interims, while outlook gets challenging, cut TP
- Abhay Shanbhag/ Prakash Agarwal

6 May 2009

Model updated: 01 June 2009

Running the numbers

Asia

India

Property

DLF

Reuters: DLF.BO

Bloomberg: DLFU IN

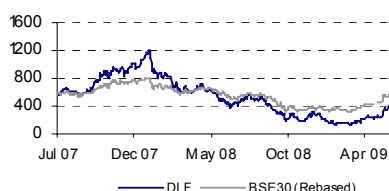
Hold

Price (1 Jun 09)	INR 414.85
Target price	INR 325.00
52-week Range	INR 132.90 - 582.45
Market Cap (m)	INRm 704,089 USDm 14,944

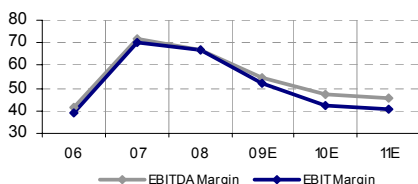
Company Profile

DLF is the largest property developer in India. It has a huge land bank of ~700msf (of which significant portion is in the high-margin geographies (super metros and metros) across 31 cities, a clear focus on high-end properties (commercial, retail and residential) in the near term, a strong brand equity and significant execution capabilities. DLF expects to maintain its leadership position by scaling up its execution capabilities and leveraging its customer/ supplier relationships and brand equity. Currently looking to meet demand in high-end verticals, it will refocus on mid-end townships in the medium term.

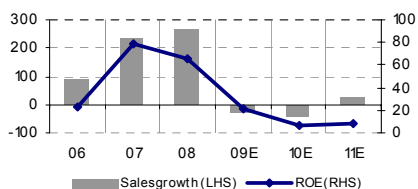
Price Performance



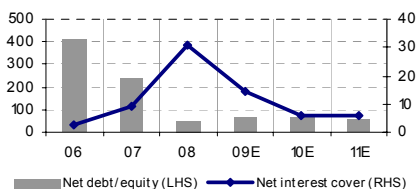
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	1.45	12.68	45.83	27.20	10.31	12.42
Reported EPS (INR)	1.45	12.68	45.83	27.20	10.31	12.42
DPS (INR)	0.42	0.01	4.64	2.32	1.16	1.16
BVPS (INR)	251.6	25.9	115.5	140.9	150.0	161.3
Weighted average shares (m)	38	1,530	1,705	1,697	1,697	1,697
Average market cap (INRm)	na	na	1,370,013	704,089	704,089	704,089
Enterprise value (INRm)	na	na	1,392,469	755,594	755,594	751,482
Valuation Metrics						
P/E (DB) (x)	na	na	17.5	15.3	40.2	33.4
P/E (Reported) (x)	na	na	17.5	15.3	40.2	33.4
P/BV (x)	0.00	0.00	5.60	2.94	2.77	2.57
FCF Yield (%)	na	na	nm	nm	3.1	3.7
Dividend Yield (%)	na	na	0.6	0.6	0.3	0.3
EV/Sales (x)	nm	nm	9.6	7.5	12.8	10.1
EV/EBITDA (x)	nm	nm	14.3	13.8	27.0	22.1
EV/EBIT (x)	nm	nm	14.5	14.4	30.5	25.0
Income Statement (INRm)						
Sales revenue	11,649	39,211	144,376	100,296	59,149	74,623
Gross profit	6,405	32,121	104,380	66,766	34,862	41,836
EBITDA	4,869	28,011	97,152	54,734	28,030	33,981
Depreciation	361	571	901	2,346	3,242	3,891
Amortisation	0	0	0	0	0	0
EBIT	4,508	27,440	96,251	52,388	24,788	30,091
Net interest income/(expense)	-1,685	-3,074	-3,100	-3,576	-4,262	-5,327
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	770	1,107	2,463	4,966	3,110	3,669
Profit before tax	3,593	25,473	95,614	53,778	23,636	28,432
Income tax expense	1,668	6,058	17,391	7,098	5,909	7,108
Minorities	10	24	91	513	230	250
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,915	19,391	78,133	46,167	17,497	21,074
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,915	19,391	78,133	46,167	17,497	21,074
Cash Flow (INRm)						
Cash flow from operations	-7,753	-47,039	-12,438	-9,478	24,540	29,183
Net Capex	-6,472	-24,258	-57,259	-28,629	-2,954	-2,780
Free cash flow	-14,225	-71,297	-69,697	-38,107	21,585	26,403
Equity raised/(bought back)	0	9,498	90,791	1,500	0	0
Dividends paid	-16	-18	-7,910	-3,938	-1,969	-1,969
Net inc/(dec) in borrowings	29,174	56,887	5,940	20,236	7,000	0
Other investing/financing cash flows	-15,877	5,723	-19,081	-12,513	-25,230	-20,250
Net cash flow	-944	793	43	-32,822	1,387	4,184
Change in working capital	-8,589	-67,025	-90,212	-56,406	5,668	6,065
Balance Sheet (INRm)						
Cash and other liquid assets	1,950	4,155	21,421	5,000	5,000	5,500
Tangible fixed assets	17,043	41,872	100,031	131,006	137,202	143,873
Goodwill/intangible assets	8,489	8,935	20,931	22,931	32,931	42,931
Associates/investments	18,942	54,478	82,788	110,890	120,890	126,503
Other assets	23,012	72,268	170,893	224,584	231,248	240,193
Total assets	69,436	181,708	396,065	494,411	527,272	558,999
Interest bearing debt	41,320	99,328	122,771	162,000	171,500	173,000
Other liabilities	18,561	42,616	72,516	87,903	95,236	105,858
Total liabilities	59,881	141,944	195,287	249,903	266,736	278,858
Shareholders' equity	9,501	39,672	196,883	239,112	254,641	273,746
Minorities	54	92	3,895	5,395	5,895	6,395
Total shareholders' equity	9,555	39,764	200,778	244,507	260,536	280,141
Net debt	39,370	95,173	101,349	157,000	166,500	167,500
Key Company Metrics						
Sales growth (%)	91.1	236.6	268.2	-30.5	-41.0	26.2
DB EPS growth (%)	105.9	774.9	261.6	-40.6	-62.1	20.4
EBITDA Margin (%)	41.8	71.4	67.3	54.6	47.4	45.5
EBIT Margin (%)	38.7	70.0	66.7	52.2	41.9	40.3
Payout ratio (%)	0.8	0.1	10.1	8.5	11.3	9.3
ROE (%)	22.6	78.9	66.1	21.2	7.1	8.0
Capex/sales (%)	55.6	61.9	39.7	28.5	5.0	3.7
Capex/depreciation (x)	17.9	42.5	63.6	12.2	0.9	0.7
Net debt/equity (%)	412.0	239.3	50.5	64.2	63.9	59.8
Net interest cover (x)	2.7	8.9	31.0	14.6	5.8	5.6

Source: Company data, Deutsche Bank estimates

Key financials

Figure 21: Consolidated income statement for DLF

Year to Mar, INRm	FY06	FY07	FY08	FY09	FY10e	FY11e
Revenues	11,649	39,211	144,376	100,296	59,149	74,623
Cost of revenues	5,244	7,090	39,995	33,530	24,287	32,787
Staff costs	397	922	3,000	4,192	2,991	3,590
EBDITA	4,869	28,011	97,152	54,734	28,030	33,981
- Margin	41.8%	71.4%	67.3%	54.6%	47.4%	45.5%
Finance charges	1,685	3,074	3,100	3,576	4,262	5,327
PAT (post minority)	18,301	19,391	78,133	46,167	17,497	21,074
Growth (%)						
-Revenues		237%	268%	-31%	-41%	26%
-EBITDA		475%	247%	-44%	-49%	21%
-PAT		909%	303%	-40%	-62%	20%

Source: Company, Deutsche Bank

Figure 22: Consolidated balance sheet for DLF

As on Mar, INRm	FY06	FY07	FY08	FY09	FY10e	FY11e
Net Block	17,043	41,872	100,031	131,006	137,202	143,873
Investments	8,300	2,107	9,102	19,102	34,102	44,102
Goodwill	8,489	8,935	20,931	22,931	32,931	42,931
Stocks	16,409	57,006	94,544	113,453	131,625	138,207
Sundry Debtors	6,580	15,195	76,106	110,331	99,373	101,736
Cash & bank balances	1,950	4,155	21,421	5,000	5,000	5,500
Loans & advances	10,642	52,371	73,686	91,788	86,788	82,401
Total Current Assets	120,807	128,794	266,001	321,372	323,037	328,094
Current Liabilities	15,095	33,450	42,639	49,171	54,202	60,756
Provisions	3,374	8,979	29,518	38,373	40,676	44,743
Total assets	50,967	139,279	323,907	406,867	432,395	453,500
Networth	9,555	39,764	200,778	244,507	260,536	280,141
Total debt	41,320	99,328	122,771	162,000	171,500	173,000
Short-term Loans	4,383	5,504	23,006	42,000	44,500	46,000
Long-term Loans	36,937	93,824	99,764	120,000	127,000	127,000
Total liabilities	50,967	139,279	323,907	406,866	432,394	453,500
Key Ratios (%)						
Debt Equity (Gearing)	432%	250%	61%	66%	66%	62%
Net Gearing	412%	239%	50%	64%	64%	60%

Source: Company, Deutsche Bank

Asia India
Property Property

1 June 2009

Indiabulls Real Estate

Reuters: **INRL.BO** Bloomberg: **IBREL IN**

Long term play, but d/g on valuations

Improving liquidity remove the need to "hide" in a good B/S, d/g to Hold

IBREL's strengths of raising funds and securing capital intensive projects with regulatory hurdles coupled with the need to "hide" in a good B/S in a tight financial market have made it a defensive investment. While it continued with this strategy via large equity dilution, 106% outperformance in last 3m vs the Sensex coupled with possibility of promoter warrants and weak demand for its marquee Mumbai office projects lead us to downgrade to Hold.

Large dilution makes IBREL better prepared to take large long-term projects

Despite being net cash, IBREL recently diluted ~56% (raising USD 550m). This is inline with the group's strategy of raising equity and securing and executing high margin large capital-intensive projects that have major regulatory hurdles. While most of the gross cash in its B/S is for its power foray, IBREL proposes utilizing QIP funds in real estate. It is confident of winning at least 1 of the 3 large projects for which it has been qualified – redevelopment of Dharavi (~100 acres) and New Delhi Railway station (~212 acres) and Kharghar at New Mumbai (~270 acres).

However possibility of further dilution and weak demand are concerns

Post the large QIP and expiry of earlier warrants, promoter holdings dropped from ~26% to ~17%. We would not be surprised if warrants were to be issued so as to increase their stake. Demand for its marquee assets office project in Lower Parel, Mumbai seems muted—only ~0.7msf of ~2msf of completed office space is leased.

While upgrade TP, downgrade rating from Buy to Hold; risks

Maintain our major assumptions and estimates. We increase the cap rate by 100bps to 11%. With improving liquidity, we reduce WACC by 200bps to 16% and reduce the discount to GAV from 30% to 10%. However, considering dilution, our GAV, Gross Asset Value, declines by ~35% to INR 104/share. We then adjust for net cash and payables for land bank to arrive at a TP of INR 183/share (up 18%). Upside/Downside risks: changes in the macro outlook and listing of power venture in the near term, successful/unsuccessful lease of remaining portion of its completed marquee office properties in Mumbai.

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	139.1	5,151.5	2,827.7	4,319.9	7,644.3
EBITDA(INRm)	-4.4	3,725.3	261.7	929.3	1,926.3
Reported NPAT(INRm)	118.8	3,958.7	672.9	975.6	1,298.3
Reported EPS FD(INR)	0.66	15.38	2.61	2.43	3.24
DB EPS FD (INR)	0.66	15.38	2.61	2.43	3.24
DB EPS growth (%)	–	2,225.9	-83.0	-6.9	33.1
PER (x)	461.3	34.7	95.1	102.2	76.8

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

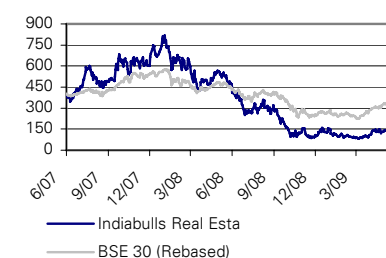
Hold

Price at 1 Jun 2009 (INR)	248.50
Price target - 12mth (INR)	183.00
52-week range (INR)	472.20 - 83.80
BSE 30	14,625

Key changes

Rating	Buy to Hold ↓
Price target	155.00 to 183.00 ↑ 18.1%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	92.6	171.1	-48.4
BSE 30	28.3	64.5	-10.9

Stock data

Market cap (INRm)	99,673
Market cap (USDm)	2,116
Shares outstanding (m)	401.1
Major shareholders	Promoter's (16.7%)
Free float (%)	83
Avg daily value traded (USDm)	54.1

Key indicators (FY1)

ROE (%)	1.4
Net debt/equity (%)	-47.4
Book value/share (INR)	191.14
Price/book (x)	1.3
Net interest cover(x)	0.3
Operating profit margin (%)	5.7

DCF based Valuations

INR/share	Previous	Current
GAV (a)	201	116
Disc. to GAV	30%	10%
Disc. GAV (b)	141	104
Liabilities (c)	-13	-78
NAV (a-c)	214	194
TP (d=b-c)	155	183

Related recent research

Date
With investments at 183% of CMP; maintain Buy - Abhay Shanbhag/ Prakash Agarwal
10 Feb 2009

Model updated: 01 June 2009

Running the numbers

Asia

India

Property

Indiabulls Real Estate

Reuters: INRL.BO

Bloomberg: IBREL IN

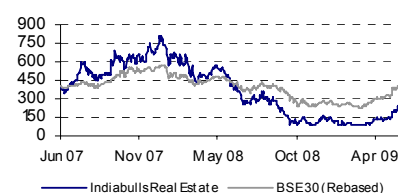
Hold

Price (1 Jun 09)	INR 248.50
Target price	INR 183.00
52-week Range	INR 83.80 - 472.20
Market Cap (m)	INRm 99,673
	USDm 2,116

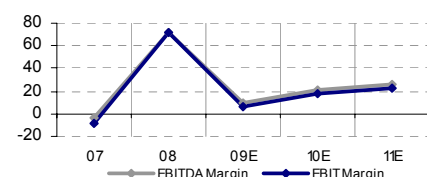
Company Profile

Indiabulls Real Estate (IBREL) is part of Indiabulls group which has made its mark in the financial services sector in India. It sharply focuses on a few high-margin non-residential projects (office properties in Mumbai, retail properties in city centers of 16 tier I cities) and use its strong Balance Sheet to aggressively build its land bank which is at 166msf currently. IBREL pioneers FDI investment into real estate (Farallon), first real estate companies to raise GDR and only company to list two of its SPV's as Indiabulls Property Investment Trust (IPIT) on the Singapore REITs market.

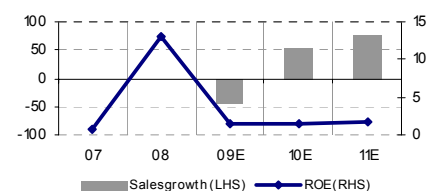
Price Performance



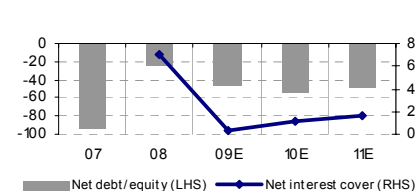
Margin Trends



Growth & Profitability



Solvency



Abhay Shanbhag

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Fiscal year end 31-Mar

Financial Summary

	2007	2008	2009E	2010E	2011E
DB EPS (INR)	0.66	15.38	2.61	2.43	3.24
Reported EPS (INR)	0.66	15.38	2.61	2.43	3.24
DPS (INR)	0.00	13.50	1.50	2.00	2.25
BVPS (INR)	83.8	187.5	191.1	189.8	191.2
Weighted average shares (m)	180	241	257	401	401
Average market cap (INRm)	54,785	128,455	99,673	99,673	99,673
Enterprise value (INRm)	40,988	126,621	84,012	62,149	66,610

Valuation Metrics

P/E (DB) (x)	461.3	34.7	95.1	102.2	76.8
P/E (Reported) (x)	461.3	34.7	95.1	102.2	76.8
P/BV (x)	3.56	2.60	1.30	1.31	1.30
FCF Yield (%)	nm	nm	4.0	nm	2.1
Dividend Yield (%)	0.0	2.5	0.6	0.8	0.9
EV/Sales (x)	294.6	24.6	29.7	14.4	8.7
EV/EBITDA (x)	nm	34.0	321.0	66.9	34.6
EV/EBIT (x)	nm	34.3	519.6	79.7	39.9

Income Statement (INRm)

Sales revenue	139	5,151	2,828	4,320	7,644
Gross profit	139	5,151	2,025	2,917	4,420
EBITDA	-4	3,725	262	929	1,926
Depreciation	8	33	100	150	255
Amortisation	0	0	0	0	0
EBIT	-12	3,692	162	779	1,671
Net interest income/(expense)	-53	-522	-488	-647	-1,021
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	316	2,495	2,139	1,659	1,644
Profit before tax	250	5,665	1,813	1,792	2,295
Income tax expense	120	1,598	580	591	764
Minorities	-9	65	400	75	83
Other post-tax income/(expense)	-21	-44	-160	-150	-150
Net profit	119	3,959	673	976	1,298
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	119	3,959	673	976	1,298

Cash Flow (INRm)

Cash flow from operations	-5,281	-39,829	6,255	-22,670	4,033
Net Capex	-257	-1,964	-3,684	-2,175	-1,960
Free cash flow	-5,537	-41,793	2,571	-24,845	2,073
Equity raised/(bought back)	7,191	38,658	0	0	0
Dividends paid	0	-3,836	-456	-947	-1,065
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	12,839	4,219	-10,825	-10,129	-6,871
Net cash flow	14,492	-2,752	-8,710	-35,921	-5,863
Change in working capital	13,153	57,083	52,160	76,181	73,934

Balance Sheet (INRm)

Cash and other liquid assets	18,073	16,894	36,500	68,195	70,500
Tangible fixed assets	249	2,246	6,030	8,355	10,570
Goodwill/intangible assets	0	213	373	652	1,141
Associates/investments	0	0	0	0	0
Other assets	5,696	62,322	49,902	56,783	67,587
Total assets	24,018	81,674	92,805	133,986	149,798
Interest bearing debt	1,420	3,389	6,250	19,000	28,100
Other liabilities	4,679	21,465	22,752	27,180	35,668
Total liabilities	6,099	24,854	29,002	46,180	63,768
Shareholders' equity	15,063	45,149	49,215	76,135	76,694
Minorities	2,857	11,671	14,588	11,671	9,337
Total shareholders' equity	17,919	56,820	63,803	87,806	86,030
Net debt	-16,654	-13,505	-30,250	-49,195	-42,400

Key Company Metrics

Sales growth (%)	nm	nm	-45.1	52.8	77.0
DB EPS growth (%)	na	2,225.9	-83.0	-6.9	33.1
EBITDA Margin (%)	-3.1	72.3	9.3	21.5	25.2
EBIT Margin (%)	-8.9	71.7	5.7	18.0	21.9
Payout ratio (%)	0.0	82.1	57.4	82.2	69.5
ROE (%)	0.8	13.1	1.4	1.6	1.7
Capex/sales (%)	184.4	38.1	130.3	50.3	25.6
Capex/depreciation (x)	32.0	59.2	36.8	14.5	7.7
Net debt/equity (%)	-92.9	-23.8	-47.4	-56.0	-49.3
Net interest cover (x)	nm	7.1	0.3	1.2	1.6

Source: Company data, Deutsche Bank estimates

Key financials

Figure 23: Consolidated income statement for IBREL

Year to March (INR m)	FY07	FY08	FY09e	FY10e	FY11e
Total Income	139.1	5,151	2,828	4,320	7,644
- Income from operations	139.1	1,407	2,328	3,570	6,144
- Sale of stake in subsidiaries	-	3,745	500	750	1,500
Total Expenditure	143.5	1,426	2,566	3,391	5,718
Personnel Expenses	36.7	177	389	544	762
Reported EBITDA	(4.4)	3,725	262	929	1,926
EBITDA margin	0%	72%	9%	22%	25%
Financial Charges	52.9	522	488	647	1,021
Other Income	315.7	2,495	2,139	1,659	1,644
Reported PBT	250	5,665	1,813	1,792	2,295
PAT (post minority)	119	3,959	673	976	1,298
Growth (%)					
Sales			-45%	53%	77%
EBITDA			-93%	255%	107%
PAT			-70%	-3%	27%

Source: Company, Deutsche Bank

Figure 24: Consolidated balance sheet for IBREL

As on 31 st Mar (INRm)	FY07	FY08	FY09e	FY10e	FY11e
Net Block	249	2,246	6,030	8,355	10,570
Investments	5,944	675	11,500	21,629	28,500
Goodwill	-	213	373	652	1,141
Inventory	1,993	11,441	32,450	35,000	42,000
Cash & Bank (inc. Investments)	12,129	16,219	25,000	46,566	42,000
Loans & Advances	3,645	49,542	13,477	16,350	18,500
' ICDs	-	37,324	6,000	5,000	4,000
Net Working Capital	13,153	57,083	52,160	76,181	73,934
Total Assets	19,346	60,216	70,063	106,818	114,145
Net Worth	14,502	42,572	46,215	72,635	72,694
Minority Interest	2,857	11,671	14,588	11,671	9,337
Pref. Share Capital of Subsidiary	561	2,577	3,000	3,500	4,000
Total Debt	1,420	3,389	6,250	19,000	28,100
Total Liabilities	19,346	60,216	70,063	106,818	114,145
Key Ratios (%)					
Debt Equity (Gearing)	10%	8%	14%	26%	39%
Net Gearing	-115%	-31%	-64%	-67%	-58%

Source: Company, Deutsche Bank estimates

Asia India
Property Property

1 June 2009

Unitech

Reuters: UNTE.BO Bloomberg: UT IN

Biggest beneficiary of easing liquidity; raise TP; Hold

While liquidity drives TP, stock moves faster; maintain Hold

Everything that could go wrong, did. But aggressive course correction by tapping all avenues of fund raising resulted in a improved B/S. Demand seems to be picking up for its new launches in mid-end housing in select projects. However, weak financials and high gearing or large equity dilution are concerns. While we maintain major assumptions, improving liquidity results in 150% increase in our TP. But, with ~162% outperformance to Sensex in 3m, we maintain Hold.

Biggest beneficiary of improving liquidity by tapping into multiple avenues

Unitech is the only developer to have taken advantage of improving liquidity by raising capital from all avenues. Thus, it not only rescheduled its debt, but was the first to raise USD 325m equity. Conclusion of asset sale (hotel and office for ~INR 6.5bn+) and receipt of two installment of ~INR 26bn from Telenor for sale of ~67% stake in its telecom venture - UW (Unitech Wireless) - which partly flowed to Unitech are expected to result in its net gearing dropping from ~197% to ~112%. It also proposes an enabling resolution to issue (a) ~1bn shares (resulting in ~62% dilution) (b) upto 227.5m warrants to promoters at INR 50.75 (11%).

Returns focuses on its core real estate business; high leverage still a concern

Refocus back into real estate has been reasonably successful with good demand for its recent launches of low-margin affordable housing in Gurgaon and Mumbai. However, weak financials, high net gearing and operating cash flow being ~89% of accrued interest cost in 4Q remain a concern.

Maintain estimates, upgrade TP on improving liquidity, risks

Maintain our major assumptions (volumes, prices, cap rate and tax rate) and estimates. With improving liquidity and successful fund raising, we reduce WACC by 100bps to 16.5% (resulting in 4% upgrade in GAV, Gross Asset Value, to INR 134) and reduce the discount to GAV from 50% to 20%. We then exclude liabilities (net debt and payable for land bank) to arrive at a TP of INR 70 for its real estate division. Adding INR 15/share for its stake in UW, we arrive at our SOTP-based TP of INR 85 (earlier 34). U/D risks: changes in the macro outlook, ability/or not to further raise funds and timely/delayed completion of its telecom deal

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	32,883.0	41,154.0	36,713.0	28,438.0	36,203.3
EBITDA(INRm)	20,018.0	22,040.3	17,331.2	12,784.2	16,107.6
Reported NPAT(INRm)	13,057.8	16,613.9	11,048.1	7,234.4	9,375.9
Reported EPS FD(INR)	8.04	10.23	6.81	3.54	4.59
DB EPS FD (INR)	8.04	10.23	6.81	3.54	4.59
DB EPS growth (%)	1,442.9	27.2	-33.5	-48.0	29.6
PER (x)	18.6	31.1	13.5	26.1	20.1

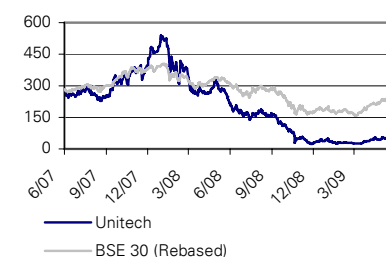
Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close**Hold**

Price at 1 Jun 2009 (INR)	92.20
Price target - 12mth (INR)	85.00
52-week range (INR)	219.30 - 23.10
BSE 30	14,625

Key changes

Price target	34.00 to 85.00	↑	150.0%
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Price/price relative

Performance (%)	1m	3m	12m
Absolute	109.1	227.0	-60.3
BSE 30	28.3	64.5	-10.9

Stock data

Market cap (INRm)	188,494
Market cap (USDm)	4,001
Shares outstanding (m)	2,044.4
Major shareholders	Promoter's (51.1%)
Free float (%)	49
Avg daily value traded (USDm)	98.8

Key indicators (FY1)

ROE (%)	26.8
Net debt/equity (%)	164.9
Book value/share (INR)	28.69
Price/book (x)	3.2
Net interest cover(x)	4.1
Operating profit margin (%)	46.5

DCF based Valuations

INR/ share	Previous	Current
GAV (a)	128	134
Disc. to GAV	50%	20%
Disc GAV (b)	64	107
Liabilities (c)	45	37
Adj. RE NAV (d=b-c)	19	70
Others (e)	15	15
Total NAV (a-c+e)	98	112
TP (d+e)	34	85

Related recent research

Date
Marginally upgrade TP post the 26% dilution raising USD 325m - Abhay Shanbhag/ Prakash Agarwal
17 Apr 2009
Addressing leverage issues; Hold - Abhay Shanbhag/ Prakash Agarwal
3 Apr 2009

Model updated: 01 June 2009

Running the numbers

Asia

India

Property

Unitech

Reuters: UNTE.BO

Bloomberg: UT IN

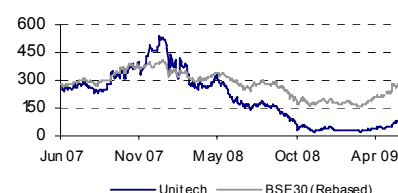
Hold

Price (1 Jun 09)	INR 92.20
Target price	INR 85.00
52-week Range	INR 23.10 - 219.30
Market Cap (m)	INRm 188,494 USDm 4,001

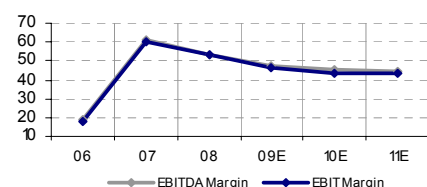
Company Profile

Unitech Ltd is one of the largest property developers in India. It has a huge landbank with a concentrated presence in 10-12 major cities and is strengthening its execution capabilities through a ramp-up in manpower, improvement in the management structure, and tie-up with quite a few specialized global companies. Unitech's core focus has been development of large-sized residential townships in the peripherals of major metro cities. It has recently won the telecom license and proposes to setup a mobile telecom network across the country in partnership with a global/ local telecom player.

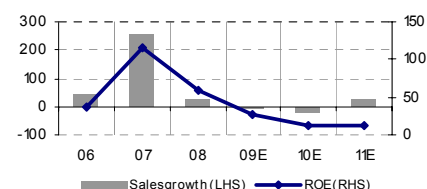
Price Performance



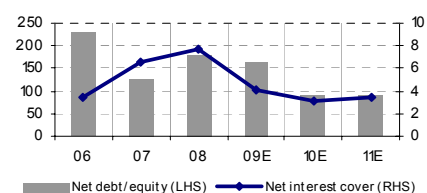
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	0.52	8.04	10.23	6.81	3.54	4.59
Reported EPS (INR)	0.52	8.04	10.23	6.81	3.54	4.59
DPS (INR)	13.23	0.51	0.25	0.25	0.25	0.00
BVPS (INR)	207.9	24.6	22.2	28.7	33.6	37.8
Weighted average shares (m)	12	812	1,623	1,623	2,044	2,044
Average market cap (INRm)	85	121,546	516,639	188,494	188,494	188,494
Enterprise value (INRm)	6,727	146,589	575,074	259,448	252,798	263,683
Valuation Metrics						
P/E (DB) (x)	13.0	18.6	31.1	13.5	26.1	20.1
P/E (Reported) (x)	13.0	18.6	31.1	13.5	26.1	20.1
P/BV (x)	0.10	7.88	12.45	3.21	2.75	2.44
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	194.5	0.3	0.1	0.3	0.3	0.0
EV/Sales (x)	0.7	4.5	14.0	7.1	8.9	7.3
EV/EBITDA (x)	3.9	7.3	26.1	15.0	19.8	16.4
EV/EBIT (x)	4.1	7.4	26.3	15.2	20.2	16.8
Income Statement (INRm)						
Sales revenue	9,323	32,883	41,154	36,713	28,438	36,203
Gross profit	2,826	21,151	24,209	19,718	14,816	18,709
EBITDA	1,747	20,018	22,040	17,331	12,784	16,108
Depreciation	112	80	205	246	296	370
Amortisation	0	0	0	0	0	0
EBIT	1,635	19,938	21,835	17,085	12,489	15,738
Net interest income/(expense)	-465	-3,020	-2,804	-4,206	-3,996	-4,475
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	221	1,000	1,647	799	661	601
Profit before tax	1,390	17,918	20,678	13,678	9,153	11,864
Income tax expense	513	4,864	3,991	2,633	1,922	2,491
Minorities	31	-3	73	-3	-3	-3
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	846	13,058	16,614	11,048	7,234	9,376
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	846	13,058	16,614	11,048	7,234	9,376
Cash Flow (INRm)						
Cash flow from operations	-2,163	-19,266	-9,302	-24,637	-4,347	-6,660
Net Capex	-3,495	-3,645	-23,499	12,596	-3,800	-3,500
Free cash flow	-5,659	-22,910	-32,800	-12,041	-8,147	-10,160
Equity raised/(bought back)	-18	4,766	-74	0	15,400	0
Dividends paid	-188	-477	-479	-479	-603	-724
Net inc/(dec) in borrowings	6,686	29,356	45,718	8,476	-12,950	7,095
Other investing/financing cash flows	361	-156	-9,509	-4,400	10,000	-150
Net cash flow	1,182	10,579	2,856	-8,444	3,700	-9,399
Change in working capital	-3,172	-32,057	-26,200	-35,931	-11,877	-16,406
Balance Sheet (INRm)						
Cash and other liquid assets	3,899	14,479	18,444	12,000	16,701	13,761
Tangible fixed assets	4,887	8,148	31,442	17,875	21,080	23,910
Goodwill/intangible assets	823	1,126	1,126	1,850	2,150	2,450
Associates/investments	145	296	9,803	14,203	4,203	4,353
Other assets	34,767	106,851	172,979	195,906	217,617	244,394
Total assets	44,521	130,900	233,795	241,835	261,750	288,868
Interest bearing debt	10,449	39,805	85,524	94,000	81,050	88,144
Other liabilities	31,237	71,139	111,108	98,103	107,937	118,307
Total liabilities	41,686	110,944	196,632	192,103	188,987	206,452
Shareholders' equity	2,597	19,944	36,005	46,574	68,606	77,258
Minorities	237	13	1,159	3,159	4,159	5,159
Total shareholders' equity	2,833	19,956	37,163	49,733	72,764	82,417
Net debt	6,550	25,326	67,080	82,000	64,349	74,384
Key Company Metrics						
Sales growth (%)	43.4	252.7	25.2	-10.8	-22.5	27.3
DB EPS growth (%)	166.7	1,442.9	27.2	-33.5	-48.0	29.6
EBITDA Margin (%)	18.7	60.9	53.6	47.2	45.0	44.5
EBIT Margin (%)	17.5	60.6	53.1	46.5	43.9	43.5
Payout ratio (%)	19.5	3.2	2.4	3.7	7.1	0.0
ROE (%)	37.2	115.9	59.4	26.8	12.6	12.9
Capex/sales (%)	37.5	11.1	57.1	0.0	13.4	9.7
Capex/depreciation (x)	31.2	45.6	114.5	0.0	12.9	9.5
Net debt/equity (%)	231.2	126.9	180.5	164.9	88.4	90.3
Net interest cover (x)	3.5	6.6	7.8	4.1	3.1	3.5

Source: Company data, Deutsche Bank estimates

Key financials

Figure 25: Consolidated income statement for Unitech

Year to Mar, INRm	FY06	FY07	FY08	FY09e	FY10e	FY11e
Net sales	9,323	32,883	41,154	36,713	28,438	36,203
Operating Income	9,323	17,095	24,030	29,769	24,966	34,467
Income on sale of investments	0	15,788	17,124	6,944	3,472	1,736
EBDITA	1,747	20,018	22,040	17,331	12,784	16,108
- Margin	19%	61%	54%	47%	45%	44%
Interest	(465)	(3,020)	(2,804)	(4,206)	(3,996)	(4,475)
Other Income	221	1,000	1,647	799	661	601
PAT	877	13,055	16,687	11,045	7,231	9,373
Growth (%)						
-Revenues		253%	25%	-11%	-23%	27%
-EBITDA		1046%	10%	-21%	-26%	26%
-PAT		1389%	28%	-34%	-35%	30%

Source: Company, Deutsche Bank

Figure 26: Consolidated balance sheet for Unitech

As on 31 st Mar, INRm	FY06	FY07	FY08	FY09e	FY10e	FY11e
Net fixed assets	4,887	8,148	31,442	17,875	21,080	23,910
Investments	145	4,548	14,165	16,704	6,204	6,354
Cash & bank balances	3,899	10,227	14,083	9,500	14,700	11,760
Sundry debtors	1,032	1,458	7,460	12,960	14,760	17,560
Projects in progress	30,174	86,447	135,653	156,001	176,281	199,198
Total current assets	38,661	117,077	187,062	205,406	232,317	256,154
Current liabilities	29,159	49,551	82,562	69,907	76,941	84,431
Net current assets	8,630	61,747	95,151	127,499	146,576	162,043
Total debt	10,449	39,805	85,524	94,000	81,050	88,144
Total shareholders' funds	2,597	19,944	36,005	46,574	68,606	77,258
Total liabilities	14,490	75,570	141,883	163,929	176,010	194,757
Key Ratios (%)						
- Gross Debt/Equity (%)	402%	200%	238%	202%	118%	114%
- Net debt/equity (%)	252%	127%	186%	176%	94%	96%

Source: Company, Deutsche Bank

Asia India
Property Property

1 June 2009

Puravankara Projects

Reuters: **PPRO.BO** Bloomberg: **PVKP IN**

Spike in stock despite no change in fundamentals, Sell

Despite improving liquidity resulting in higher TP, maintain Sell

Puravankara is known for its asset-light model, strong balance sheet and largely paid land bank. However, it has posted its 4th consecutive quarter with sequential falls in financials. With no pickup in demand in its geographies, Puravankara continues downsizing operations and is limiting launches to low-margin affordable housing. While improving liquidity enables the company to raise debt, it also seeks to raise equity. Maintain GAV, upgrade TP. With stock running away, maintain Sell.

Improving liquidity suggests that worse is likely behind us

Improving global financial markets as also supported by local banks (with new debt and restructuring of old debt) have resulted in a significant lowering of the bankruptcy risk for the sector. Furthermore developers seem to be more than willing to dilute stakes (see details in sector note). Puravankara, in line with its peers, has already announced long-term fund-raising plans (including QIP) to the tune of INR 7.5bn as compared to its net debt of ~INR 8bn as on 31 Mar'09 and current market cap of ~INR 24bn.

However, worsening P&L is aggravated with no signs of a pickup in demand

A 4th consecutive quarter with a sequential drop in financials with interest servicing and ballooning debtors (67 to 141 days in last 6m) remains a concern. While net gearing stagnates at a ~58%, new long-term debt raised in last 6m results in debt repayments in next 12m being halved. While pickup in demand in Apr'09 seems restricted to select pockets of NCR and Mumbai, Puravankara has no presence in these cities. Hence it continues to downsize operations with new launches being only in low-margin affordable housing.

Maintain estimates and GAV, upgrade TP on improving liquidity, Sell; Risks

Maintain major assumptions (volumes, prices, 16.5% WACC, 12% cap rate, ~20% tax rate), estimates and GAV (Gross Asset Value) of INR 143. With improving liquidity, we reduce the discount to GAV from 35% to 20% and exclude liabilities (net debt and payable for land bank) to arrive at our revised TP of INR 74 (up ~40%). However, with ~33% downside potential, maintain Sell rating. Risks: improvement in the macro outlook and high exposure to Bangalore. (See pp3-4.)

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	4,168.6	5,658.1	4,449.0	3,804.7	4,643.2
EBITDA(INRm)	1,353.1	2,122.3	1,380.9	955.7	1,324.8
Reported NPAT(INRm)	1,304.0	2,400.5	1,443.7	886.5	1,111.8
Reported EPS FD(INR)	6.79	11.25	6.76	4.15	5.21
DB EPS FD (INR)	6.79	11.25	6.76	4.15	5.21
DB EPS growth (%)	77.4	65.6	-39.9	-38.6	25.4
PER (x)	–	34.4	16.7	27.2	21.7

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

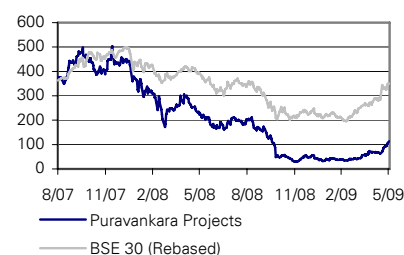
Sell

Price at 1 Jun 2009 (INR)	113.00
Price target - 12mth (INR)	74.00
52-week range (INR)	222.05 - 29.60
BSE 30	14,625

Key changes

Price target	53.00 to 74.00	↑	39.6%
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	61.2	194.3	-51.7
BSE 30	28.3	64.5	-10.9

Stock data

Market cap (INRm)	24,114
Market cap (USDm)	512
Shares outstanding (m)	213.4
Major shareholders	Promoter's (90%)
Free float (%)	10
Avg daily value traded (USDm)	0.3

Key indicators (FY1)

ROE (%)	11.2
Net debt/equity (%)	57.7
Book value/share (INR)	63.95
Price/book (x)	1.8
Net interest cover(x)	173.8
Operating profit margin (%)	29.8

DCF based Valuations

INR/ share	Previous	Current
GAV (a)	143	143
Disc. to GAV	35%	20%
Disc. GAV (b)	93	114
Liabilities (c)	40	40
NAV (a-c)	103	103
TP (d=b-c)	53	74

Related recent research

Date

Stock price running ahead of fundamentals; d/g to Sell
- Abhay Shanbhag/ Prakash Agarwal

5 May 2009

Model updated: 01 June 2009

Running the numbers

Asia

India

Property

Puravankara Projects

Reuters: PPRO.BO

Bloomberg: PVKP IN

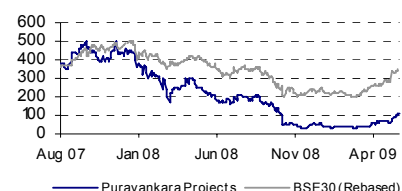
Sell

Price (1 Jun 09)	INR 113.00
Target price	INR 74.00
52-week Range	INR 29.60 - 222.05
Market Cap (m)	INRm 24,114 USDm 512

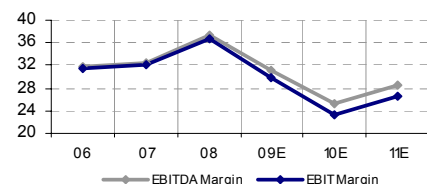
Company Profile

Puravankara Projects is primarily a residential player which has largely focused on Bangalore since 1986. Its integrated operations (spanning from identification and acquisition of land, planning and execution, and in-house marketing team) has enabled it to develop high quality projects on a timely basis resulting in a strong brand image. Puravankara has asset light business model with strong Balance Sheet and good financial disclosures, furthermore its landbank is largely paid thereby reducing the conversion risks.

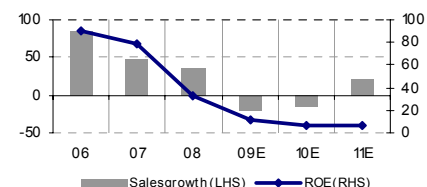
Price Performance



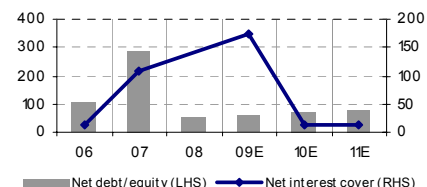
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	3.83	6.79	11.25	6.76	4.15	5.21
Reported EPS (INR)	3.83	6.79	11.25	6.76	4.15	5.21
DPS (INR)	15.00	0.94	2.00	0.00	0.50	1.00
BVPS (INR)	5.8	11.6	56.8	64.0	69.4	76.1
Weighted average shares (m)	192	192	213	213	213	213
Average market cap (INRm)	na	na	82,693	24,114	24,114	24,114
Enterprise value (INRm)	na	na	87,980	30,954	33,079	35,089
Valuation Metrics						
P/E (DB) (x)	na	na	34.4	16.7	27.2	21.7
P/E (Reported) (x)	na	na	34.4	16.7	27.2	21.7
P/BV (x)	0.00	0.00	4.24	1.77	1.63	1.48
FCF Yield (%)	na	na	nm	nm	nm	nm
Dividend Yield (%)	na	na	0.5	0.0	0.4	0.9
EV/Sales (x)	nm	nm	15.5	7.0	8.7	7.6
EV/EBITDA (x)	nm	nm	41.5	22.4	34.6	26.5
EV/EBIT (x)	nm	nm	42.4	23.3	37.4	28.3
Income Statement (INRm)						
Sales revenue	2,797	4,169	5,658	4,449	3,805	4,643
Gross profit	1,206	1,860	2,792	2,064	1,670	2,110
EBITDA	889	1,353	2,122	1,381	956	1,325
Depreciation	11	18	48	55	72	85
Amortisation	0	0	0	0	0	0
EBIT	878	1,336	2,075	1,326	884	1,240
Net interest income/(expense)	-72	-12	98	-8	-70	-100
Associates/affiliates	11	140	295	151	200	250
Exceptionals/extraordinaries	-18	13	0	0	0	0
Other pre-tax income/(expense)	7	0	0	0	0	0
Profit before tax	837	1,463	2,467	1,470	1,014	1,390
Income tax expense	71	172	67	26	127	278
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	735	1,304	2,400	1,444	886	1,112
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	735	1,304	2,400	1,444	886	1,112
Cash Flow (INRm)						
Cash flow from operations	2,177	-797	-1,055	-265	212	1,440
Net Capex	-2,537	-4,136	-5,972	-916	-2,074	-3,162
Free cash flow	-359	-4,933	-7,027	-1,181	-1,862	-1,722
Equity raised/(bought back)	0	0	7,966	0	0	0
Dividends paid	0	-137	-211	-242	-279	-320
Net inc/(dec) in borrowings	615	5,139	-237	1,622	2,569	2,410
Other investing/financing cash flows	-231	-140	-516	-151	-212	-250
Net cash flow	25	-71	-24	47	217	117
Change in working capital	1,590	-2,029	-3,160	-2,116	-1,132	-195
Balance Sheet (INRm)						
Cash and other liquid assets	444	374	350	268	500	650
Tangible fixed assets	175	389	497	463	520	565
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	231	371	887	1,038	1,250	1,500
Other assets	6,669	12,908	21,660	24,707	28,797	33,242
Total assets	7,520	14,043	23,394	26,476	31,067	35,956
Interest bearing debt	1,622	6,761	6,524	8,146	10,715	13,125
Other liabilities	4,784	5,064	4,743	4,682	5,539	6,586
Total liabilities	6,406	11,825	11,267	12,827	16,254	19,711
Shareholders' equity	1,114	2,218	12,127	13,649	14,814	16,246
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,114	2,218	12,127	13,649	14,814	16,246
Net debt	1,178	6,387	6,174	7,878	10,215	12,475
Key Company Metrics						
Sales growth (%)	85.2	49.0	35.7	-21.4	-14.5	22.0
DB EPS growth (%)	93.3	77.4	65.6	-39.9	-38.6	25.4
EBITDA Margin (%)	31.8	32.5	37.5	31.0	25.1	28.5
EBIT Margin (%)	31.4	32.0	36.7	29.8	23.2	26.7
Payout ratio (%)	391.8	13.8	17.8	0.0	12.0	19.2
ROE (%)	90.2	78.3	33.5	11.2	6.2	7.2
Capex/sales (%)	90.7	99.2	105.6	20.6	54.5	68.1
Capex/depreciation (x)	222.9	235.7	125.6	16.8	28.8	37.2
Net debt/equity (%)	105.7	288.0	50.9	57.7	69.0	76.8
Net interest cover (x)	12.2	108.8	nm	173.8	12.6	12.4

Source: Company data, Deutsche Bank estimates

Key financials

Figure 27: Consolidated income statement for Puravankara

Y/E March (INR m)	FY06	FY07	FY08	FY09	FY10e	FY11e
Total Revenues	2,797	4,169	5,658	4,449	3,805	4,643
Materials & contract cost	1285	2006	2183	1656	1537	1875
Land cost	198	182	316	282	273	300
Employee	51	87	205	360	313	344
EBITDA	889	1,353	2,122	1,381	956	1,325
- Margin%	31.8%	32.5%	37.5%	31.0%	25.1%	28.5%
Finance charges	72	12	(98)	8	70	100
Profit/(loss) share of associates	11	140	295	151	200	250
% Tax	8.4%	11.8%	2.7%	1.8%	12.6%	20.0%
PAT	735	1,304	2,400	1,444	886	1,112
Growth (%)						
- Sales	85%	49%	36%	-21%	-14%	22%
- EBITDA	88%	52%	57%	-35%	-31%	39%
- PAT	107%	68%	86%	-40%	-39%	25%

Source: Company, Deutsche Bank

Figure 28: Consolidated balance sheet for Puravankara

As on 31st Mar (INR m)	FY06	FY07	FY08	FY09	FY10e	FY11e
Net Block	175	389	497	463	520	565
Investments	231	371	887	1,038	1,250	1,500
Properties held for development	3,068	7,008	12,920	13,924	16,013	19,216
Current Assets, Loans & Advances	4,046	6,275	9,090	11,051	13,284	14,676
Inventory	191	159	171	197	237	284
Sundry Debtors	446	459	824	1,146	1,318	1,384
Cash & Bank Balances	444	374	350	268	500	650
Properties under development	1,577	2,471	3,958	5,700	6,555	7,538
Properties held for sale	201	515	910	974	1,217	1,399
Current Liabilities and Provisions	4,782	5,053	4,732	4,659	5,528	6,575
Total Assets	2,738	8,989	18,661	21,817	25,539	29,381
Net Worth	1,114	2,218	12,127	13,649	14,814	16,246
Total Debt	1,622	6,761	6,524	8,146	10,715	13,125
Total Liabilities	2,738	8,989	18,661	21,817	25,539	29,381
Key Ratios (%)						
Debt Equity (Gearing)	146%	305%	54%	60%	72%	81%
Net Gearing	106%	288%	51%	58%	69%	77%

Source: Company, Deutsche Bank

Valuation and risks

We prefer DCF-based valuation for property assets as it captures the value of land bank (which is the main driver for the sector) and is not so influenced by the lumpy nature of earnings. However, this methodology understates value of the developer as it does not account for the terminal value. Considering the significant improvement in liquidity, we cut the discount to DCF-based GAV from 35% to 20%. This fall in discount is in line with the fall in discount from 52% in Feb'09 to 18% currently for regional peers. Considering the strong sector headwinds and over-exposure of its in Bangalore (~65%), our target price for Puravankara is INR 74 post the 20% discount to its FY09e DCF-based Gross Asset Value (GAV) and excluding the liabilities (net debt and payables for land bank). The GAV is based on flat prices and costs (post a 20% cut in base prices), 16.5% discount rate, entire land bank to be developed in ~15 years, cap rate of 12% and effective tax rate of 20%.

Upside risks: 1) Improvement in macro-environment (GDP growth, interest rates and property prices; liquidity in financial markets), 2) ability to raise long-term funds (debt/equity), 3) success in reducing its land bank exposure in Bangalore (now ~65%), and 4) significant demand in its low-margin affordable housing project (Provident).

Asia India
Property Property

1 June 2009

Sobha Developers

Reuters: **SOBH.BO** Bloomberg: **SOBHA IN**

Only liquidity is not sufficient, demand remains weak; Sell

Sobha requires liquidity and demand as drivers; upgrade TP; Sell

As of 31 Mar'09, Sobha's net debt is INR 19bn (net gearing of 172%, operating cashflow was ~45% of accrued interest cost in 4Q) and current market cap is INR 15bn. Hence significant equity dilution is necessary to improve its B/S. Unlike peers, its a laggard in raising equity and probably does not have assets that are monetisable in these liquid markets. Its major markets are yet to show demand buoyancy. While we maintain assumptions, improving liquidity result in 138% increase in TP. But with ~89% outperformance to Sensex in last 3m, maintain Sell

Yet to fully capitalize on improving liquidity

Improving global financial markets as also supported by local banks (with new debt and restructuring of old debt) has resulted in a significant lowering of the bankruptcy risk for the sector. While Sobha has been able to reschedule its debt and sell stake at project level (received INR 250m of the proposed INR 2.25bn investment by a private equity firm); its ability to raise equity at parent level have yet to bear fruit. It has proposed to raise ~INR 15bn funding compared to its net debt of ~INR 19bn as on 31 Mar'09 and current market cap of ~INR 15bn.

Weak financials with no signs of pickup in demand in its major markets

4th consecutive quarter with a sequential drop in financials. High net gearing of ~172% and operating cashflows covering only 45% of accrued interest costs in 4Q remain major concerns. Sobha has hardly any presence in cities of NCR and Mumbai, where demand seems to have shown buoyancy from Apr'09.

Maintain estimates and GAV, upgrade TP on improving liquidity, Sell; Risks

Maintain our major assumptions (volumes, prices, tax rate of ~20%) and estimates. With improving liquidity, we reduce WACC by 100bps to 17.5% (resulting in upgrade in GAV, Gross Asset Value, by 6% to INR 746) and reduce the discount to GAV from 55% to 50%. We then exclude liabilities (net debt and payable for land bank) to arrive at our revised TP of INR 90 (earlier INR 21) for its real estate business. We add INR 29 for its other businesses (6x EBITDA) resulting in SOTP-based TP of INR 119. With ~38% downside, we maintain a Sell rating. Risks - ability to raise funds and change in macro environment.

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	11,865.2	14,244.7	9,747.0	8,580.8	9,871.9
EBITDA(INRm)	2,562.2	3,637.4	2,697.0	2,271.2	2,772.9
Reported NPAT(INRm)	1,608.8	2,281.3	1,063.7	619.0	862.7
Reported EPS FD(INR)	22.07	31.29	14.59	8.49	11.83
DB EPS FD (INR)	22.07	31.67	15.05	9.04	12.38
DB EPS growth (%)	-47.8	43.5	-52.5	-39.9	37.0
PER (x)	40.8	26.8	13.4	22.3	16.3

Source: Deutsche Bank estimates, company data

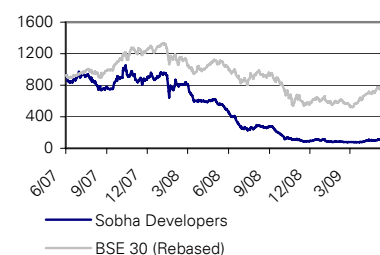
Sell

Price at 1 Jun 2009 (INR)	201.45
Price target - 12mth (INR)	119.00
52-week range (INR)	470.75 - 75.70
BSE 30	14,625

Key changes

Price target	50.00 to 119.00	↑	138.0%
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	103.8	153.6	-59.6
BSE 30	28.3	64.5	-10.9

Stock data

Market cap (INRm)	14,686
Market cap (USDm)	313
Shares outstanding (m)	72.9
Major shareholders	Promoter's (87%)
Free float (%)	13
Avg daily value traded (USDm)	1.0

Key indicators (FY1)

ROE (%)	10.4
Net debt/equity (%)	170.2
Book value/share (INR)	146.00
Price/book (x)	1.4
Net interest cover(x)	2.2
Operating profit margin (%)	24.0

DCF based Valuations

INR/ share	Previous	Current
GAV (a)	706	746
Disc. to GAV	55%	50%
Disc. GAV (b)	318	373
Liabilities (c)	297	283
Adj. RE NAV (d=b-c)	21	90
Others (e)	29	29
Total NAV (a-c+e)	438	492
TP (d+e)	50	119

Model updated: 01 June 2009

Running the numbers

Asia

India

Property

Sobha Developers

Reuters: SOBH.BO

Bloomberg: SOBHA IN

Sell

Price (1 Jun 09)	INR 201.45
Target price	INR 119.00
52-week Range	INR 75.70 - 470.75
Market Cap (m)	INRm 14,686 USDm 313

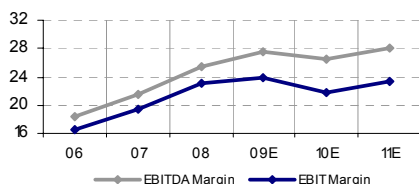
Company Profile

Sobha developers are one of the reputed residential developers in South India with major focus on Bangalore. It has a well designed scaleable business model with the land bank of ~4030 acres having the potential of 230 msf of development in 10 cities (IT/ITES and manufacturing hubs). Its focus on quality and timely execution through backward integration at its manufacturing division enabled it to build a significant brand franchise. The contractual projects segment offers the advantages of stable cashflows, earnings visibility and strengthening execution capability without any capital employed but it constrains margins.

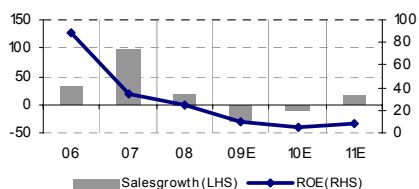
Price Performance



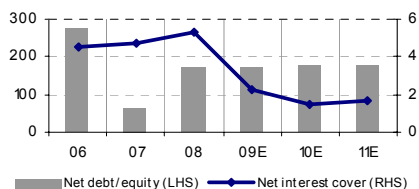
Margin Trends



Growth & Profitability



Solvency



Abhay Shanbhag

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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	42.29	22.07	31.67	15.05	9.04	12.38
Reported EPS (INR)	42.29	22.07	31.29	14.59	8.49	11.83
DPS (INR)	2.50	5.50	6.50	1.00	1.00	1.50
BVPS (INR)	64.8	111.9	135.5	146.0	153.9	164.5
Weighted average shares (m)	21	73	73	73	73	73
Average market cap (INRm)	na	65,694	61,902	14,686	14,686	14,686
Enterprise value (INRm)	na	70,317	79,646	33,288	35,513	37,063
Valuation Metrics						
P/E (DB) (x)	na	40.8	26.8	13.4	22.3	16.3
P/E (Reported) (x)	na	40.8	27.1	13.8	23.7	17.0
P/BV (x)	0.00	7.16	4.44	1.38	1.31	1.22
FCF Yield (%)	na	nm	nm	nm	nm	nm
Dividend Yield (%)	na	0.6	0.8	0.5	0.5	0.7
EV/Sales (x)	nm	5.9	5.6	3.4	4.1	3.8
EV/EBITDA (x)	nm	27.4	21.9	12.3	15.6	13.4
EV/EBIT (x)	nm	30.3	24.2	14.2	19.0	16.0
Income Statement (INRm)						
Sales revenue	5,966	11,865	14,245	9,747	8,581	9,872
Gross profit	2,210	5,391	6,965	5,421	4,775	5,620
EBITDA	1,097	2,562	3,637	2,697	2,271	2,773
Depreciation	112	244	350	360	405	457
Amortisation	0	0	0	0	0	0
EBIT	985	2,318	3,287	2,337	1,866	2,316
Net interest income(expense)	-219	-486	-615	-1,039	-1,251	-1,376
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	318	29	119	157	300	350
Profit before tax	1,083	1,861	2,792	1,455	915	1,290
Income tax expense	191	252	483	358	256	387
Minorities	0	0	28	33	40	40
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	892	1,609	2,281	1,064	619	863
DB adjustments (including dilution)	0	0	28	33	40	40
DB Net profit	892	1,609	2,309	1,097	659	903
Cash Flow (INRm)						
Cash flow from operations	-838	-4,880	-11,991	-17	-1,590	-793
Net Capex	-605	-1,161	-44	-484	-543	-613
Free cash flow	-1,443	-6,042	-12,035	-501	-2,133	-1,406
Equity raised/(bought back)	0	5,652	-27	0	0	0
Dividends paid	-145	-474	-556	-85	-85	-128
Net inc/(dec) in borrowings	1,998	1,606	11,994	1,170	2,250	1,500
Other investing/financing cash flows	-27	-501	0	-372	-100	0
Net cash flow	384	242	-625	211	-68	-34
Change in working capital	-1,816	-6,747	-14,617	-1,474	-2,654	-2,153
Balance Sheet (INRm)						
Cash and other liquid assets	450	686	287	325	350	400
Tangible fixed assets	1,030	1,948	2,142	2,266	2,404	2,559
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	27	528	28	400	500	500
Other assets	8,520	17,172	31,229	33,151	36,963	41,074
Total assets	10,027	20,333	33,685	36,142	40,217	44,533
Interest bearing debt	4,231	5,837	17,831	19,000	21,250	22,750
Other liabilities	4,427	6,340	5,746	6,171	7,322	9,270
Total liabilities	8,658	12,177	23,576	25,171	28,572	32,020
Shareholders' equity	1,368	8,155	9,881	10,643	11,217	11,991
Minorities	0	0	228	328	428	528
Total shareholders' equity	1,368	8,155	10,109	10,971	11,644	12,519
Net debt	3,781	5,151	17,544	18,675	20,900	22,350
Key Company Metrics						
Sales growth (%)	31.7	98.9	20.1	-31.6	-12.0	15.0
DB EPS growth (%)	164.1	-47.8	43.5	-52.5	-39.9	37.0
EBITDA Margin (%)	18.4	21.6	25.5	27.7	26.5	28.1
EBIT Margin (%)	16.5	19.5	23.1	24.0	21.7	23.5
Payout ratio (%)	5.9	24.9	20.8	6.9	11.8	12.7
ROE (%)	88.5	33.8	25.3	10.4	5.7	7.4
Capex/sales (%)	10.1	9.8	3.8	5.0	6.3	6.2
Capex/depreciation (x)	5.4	4.8	1.6	1.3	1.3	1.3
Net debt/equity (%)	276.4	63.2	173.5	170.2	179.5	178.5
Net interest cover (x)	4.5	4.8	5.3	2.2	1.5	1.7

Source: Company data, Deutsche Bank estimates

Key financials

Figure 29: Consolidated income statement for Sobha

Y/E Mar (Rs m)	2006	2007	2008	2009e	2010e	2011e
Revenues	5,966	11,865	14,245	9,747	8,581	9,872
Land Cost	781	1,832	4,333	2,453	2,159	2,418
Construction expenses	3,613	4,952	6,370	3,561	3,276	3,669
Staff costs	0	707	1,025	1,009	933	1,045
Total Operating cost	4,870	9,303	10,607	7,050	6,310	7,099
EBITDA	1,097	2,562	3,637	2,697	2,271	2,773
Margin (%)	18.4%	21.6%	25.5%	27.7%	26.5%	28.1%
Interest	(219)	(486)	(615)	(1,039)	(1,251)	(1,376)
Profit before tax	1,083	1,861	2,792	1,455	915	1,290
Tax rate (%)	17.6%	13.2%	18.5%	24.6%	28.0%	30.0%
PAT (post minority)	892	1,609	2,281	1,064	619	863
Growth (%)						
Sales	31.7%	98.9%	20.1%	-31.6%	-12.0%	15.0%
EBITDA	104.6%	133.6%	42.0%	-25.9%	-15.8%	22.1%
PAT	163.6%	80.3%	43.5%	-52.5%	-39.9%	37.0%

Source: Company, Deutsche Bank

Figure 30: Consolidated balance sheet for Sobha

As on 31 st Mar (INR m)	2006	2007	2008	2009e	2010e	2011e
Net fixed assets	1,030	1,948	2,142	2,266	2,404	2,559
Cash & bank balances	450	686	287	325	350	400
Inventories	2,544	3,778	8,393	9,400	10,810	12,108
Sundry debtors	803	1,577	5,548	3,956	4,172	4,782
Loans & advances	5,167	11,818	17,277	19,762	21,940	24,134
Total current assets	8,963	17,859	31,505	33,443	37,273	41,424
Current liabilities	4,010	5,288	4,846	5,131	6,158	8,005
Total current liabilities	4,405	6,318	5,746	6,171	7,322	9,270
Total assets	5,622	14,015	27,940	29,971	32,894	35,263
Total debt	4,231	5,837	17,831	19,000	21,250	22,750
Shareholders' funds	1,368	8,155	9,881	10,643	11,217	11,991
Total liabilities	5,622	14,015	27,940	29,971	32,894	35,269
Key Ratios (%)						
Debt Equity (Gearing)	309%	72%	180%	179%	189%	190%
Net Gearing	276%	63%	178%	175%	186%	186%

Source: Company, Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
DLF	DLF.BO	414.85 (INR) 1 Jun 09	7,8,SD11
Indiabulls Real Estate	INRL.BO	248.50 (INR) 1 Jun 09	6
Puravankara Projects	PPRO.BO	113.00 (INR) 1 Jun 09	NA
Sobha Developers	SOBH.BO	201.45 (INR) 1 Jun 09	8
Unitech	UNTE.BO	92.20 (INR) 1 Jun 09	8,17

* Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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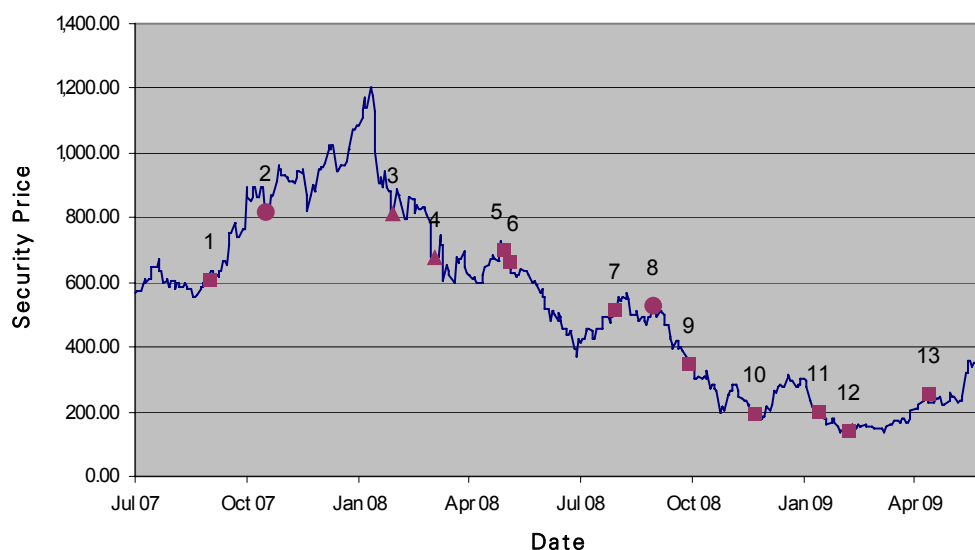
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Historical recommendations and target price: DLF (DLF.BO)

(as of 6/1/2009)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

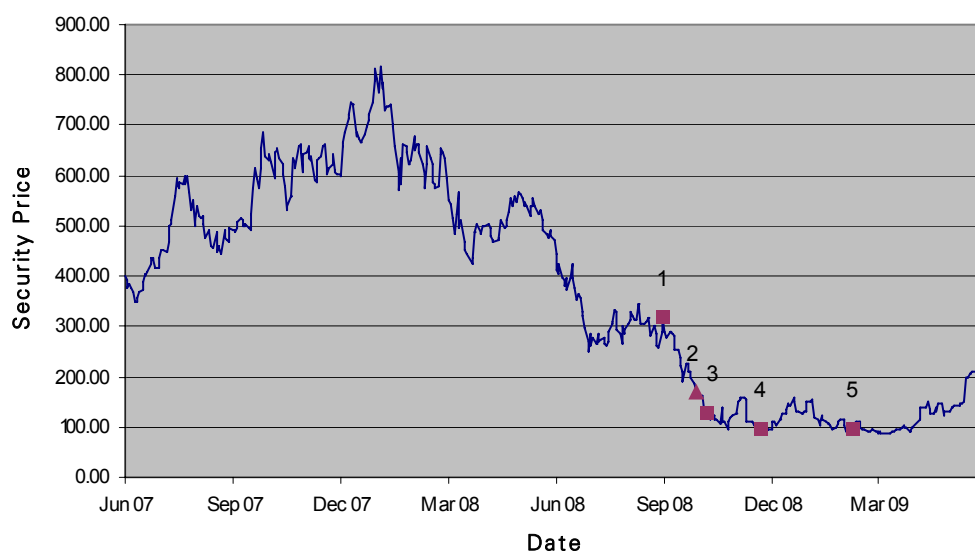
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 3/9/2007:	Buy, Target Price Change INR670.00	8. 2/9/2008:	Downgrade to Hold, Target Price Change INR425.00
2. 19/10/2007:	Downgrade to Sell, Target Price Change INR760.00	9. 1/10/2008:	Hold, Target Price Change INR350.00
3. 1/2/2008:	Upgrade to Hold, Target Price Change INR875.00	10. 24/11/2008:	Hold, Target Price Change INR225.00
4. 7/3/2008:	Upgrade to Buy, INR875.00	11. 16/1/2009:	Hold, Target Price Change INR200.00
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6. 6/5/2008:	Buy, Target Price Change INR770.00	13. 16/4/2009:	Hold, Target Price Change INR200.00
7. 1/8/2008:	Buy, Target Price Change INR700.00		

Historical recommendations and target price: Indiabulls Real Estate (INRL.BO)

(as of 6/1/2009)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

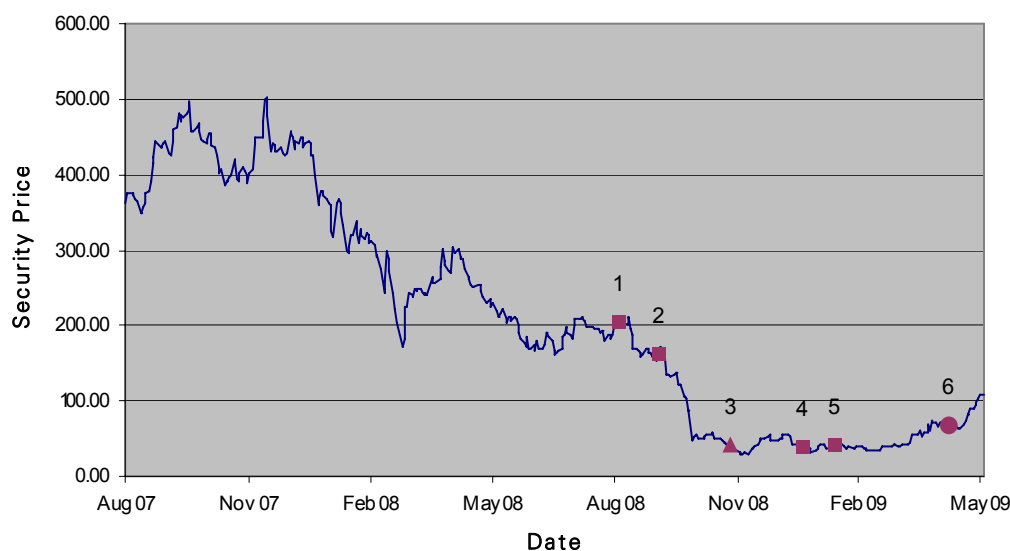
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 2/9/2008:	Hold, Target Price Change INR300.00	4. 24/11/2008:	Buy, Target Price Change INR200.00
2. 1/10/2008:	Upgrade to Buy, Target Price Change INR288.00	5. 10/2/2009:	Buy, Target Price Change INR155.00
3. 8/10/2008:	Buy, Target Price Change INR274.00		

Historical recommendations and target price: Puravankara Projects (PPRO.BO)

(as of 6/1/2009)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

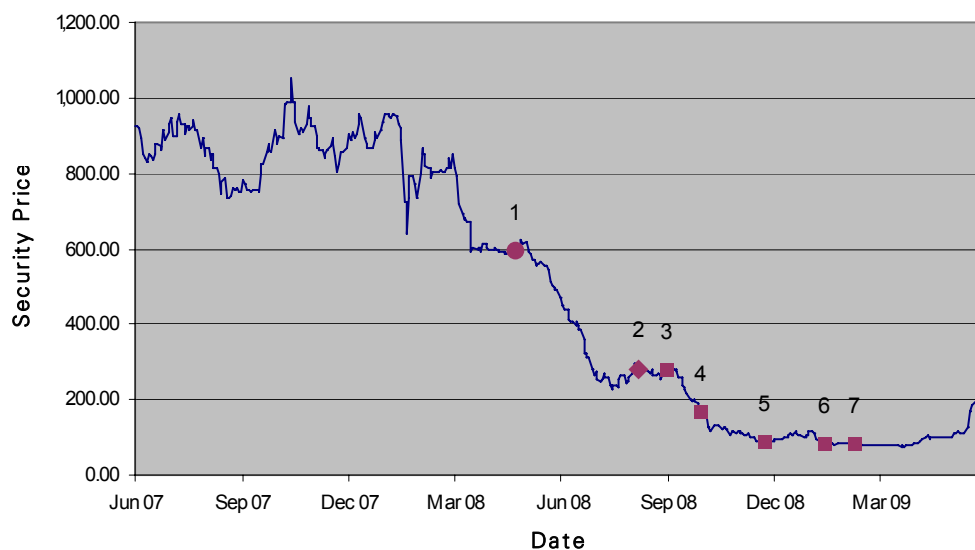
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1.	2/9/2008:	Sell, Target Price Change INR165.00	4.	16/1/2009:	Hold, Target Price Change INR42.00
2.	1/10/2008:	Sell, Target Price Change INR135.00	5.	10/2/2009:	Hold, Target Price Change INR36.00
3.	24/11/2008:	Upgrade to Hold, Target Price Change INR50.00	6.	5/5/2009:	Downgrade to Sell, Target Price Change INR53.00

Historical recommendations and target price: Sobha Developers (SOBH.BO)

(as of 6/1/2009)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

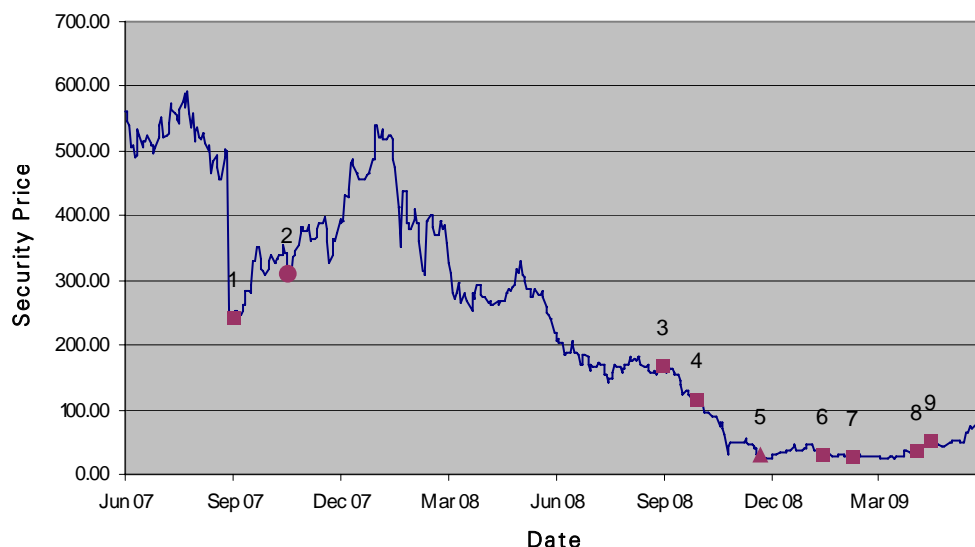
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1.	25/4/2008:	Transferred to EMC coverage.	5.	24/11/2008:	Sell, Target Price Change INR75.00
2.	8/8/2008:	Transferred to sector coverage.	6.	16/1/2009:	Sell, Target Price Change INR37.00
3.	2/9/2008:	Sell, Target Price Change INR200.00	7.	10/2/2009:	Sell, Target Price Change INR50.00
4.	1/10/2008:	Sell, Target Price Change INR125.00			

Historical recommendations and target price: Unitech (UNTE.BO)

(as of 6/1/2009)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 3/9/2007:	Buy, Target Price Change INR285.00	6. 16/1/2009:	Hold, Target Price Change INR30.00
2. 19/10/2007:	Downgrade to Sell, Target Price Change INR300.00	7. 10/2/2009:	Hold, Target Price Change INR26.30
3. 2/9/2008:	Sell, Target Price Change INR130.00	8. 5/4/2009:	Hold, Target Price Change INR33.00
4. 1/10/2008:	Sell, Target Price Change INR102.00	9. 17/4/2009:	Hold, Target Price Change INR34.00
5. 24/11/2008:	Upgrade to Hold, Target Price Change INR45.00		

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Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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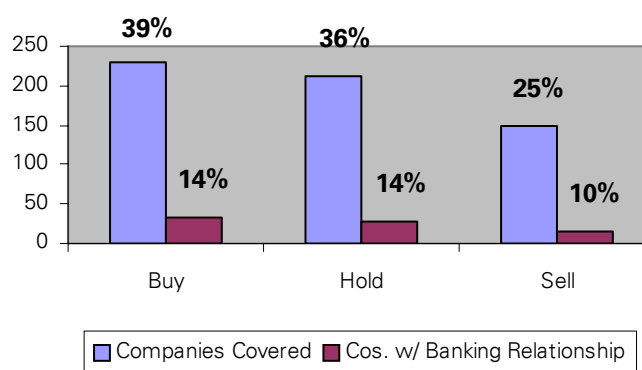
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Asia-Pacific Universe

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