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02 September 2009

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Sector (See Below)

Consumer, Cyclical
Financial
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India

Automobile Manufacturers

UBS Investment Research

Maruti Suzuki India

12-month rating	**Buy** *Unchanged*
12m price target	Rs1,700.00/US$34.91 *Prior: Rs1,540.00/US$31.63*
Price	Rs1,436.65/US$29.51

RIC: MRTI.BO BBG: MSIL IB

1 September 2009

Strong growth outlook

■ Raising volume estimates on strong domestic and export growth

We are raising our volume estimates by 7% for FY10 and 4% for FY11 driven by expectation of stronger growth in both domestic and export markets. Domestic outlook remains strong as indicated by our UBS July Auto dealer survey. Maruti dealers remain the most optimistic. We are raising our FY10 domestic growth estimate from 10% to 15%. Exports are being driven by strong demand due to scrapping incentives in EU. However, the company expects growth from non-EU markets to help support A-Star demand post expiry of EU scrapping schemes.

■ Margin improvement story remains intact

Despite reduction in commodity prices, Maruti's raw material (RM) cost have seen the most limited reduction due to appreciation of the yen and change in sales mix towards newer models. We expect margins to improve going forward driven by reduction in imports, improved margins for newer models and reduction in power and fuel cost at Manesar plant along with improvement from higher volumes.

■ Raising estimates

We are therefore raising our EBITDA margin estimates for FY10/FY11 from 12.5%/13% to 12.7%/13.9%. We are correspondingly raising our EPS estimates for FY10/FY11 by 11%/15% from Rs 67.33/82.78 to Rs 74.79/95.58 respectively.

■ Valuation: Maintain Buy, Increase PT to Rs 1,700 (from Rs 1,540)

We raise our 12-month price target from Rs 1,540.00 to Rs 1,700.00. We derive our price target based on 9x FY11 EV/EBITDA.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	185,257	211,008	276,071	320,634	365,324
EBIT (UBS)	20,950	12,639	26,329	34,552	38,741
Net Income (UBS)	18,404	12,285	21,609	27,616	30,899
EPS (UBS, Rs)	63.70	42.52	74.79	95.58	106.95
Net DPS (UBS, Rs)	5.00	3.50	8.97	11.47	12.83

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	11.0	6.0	9.5	10.8	10.6
ROIC (EBIT) %	61.3	28.2	44.5	48.4	49.7
EV/EBITDA (core) x	7.5	7.6	10.5	8.1	6.8
PE (UBS) x	14.9	15.2	19.2	15.0	13.4
Net dividend yield %	0.5	0.5	0.6	0.8	0.9

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs1,436.65 on 31 Aug 2009 23:39 EDT

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Trading data (local/US$)

52-wk range	Rs1,487.10-460.05/US$31.33-9.20
Market cap.	Rs415bn/US$8.52bn
Shares o/s	289m (ORD)
Free float	46%
Avg. daily volume ('000)	130
Avg. daily value (Rsm)	162.8

Balance sheet data 03/10E

Shareholders' equity	Rs116bn
P/BV (UBS)	3.6x
Net Cash (debt)	Rs15.4bn

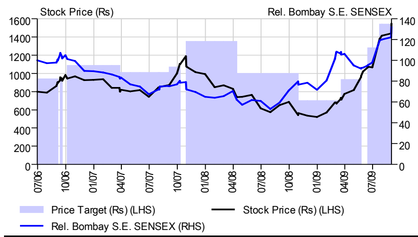
Forecast returns

Forecast price appreciation	+18.3%
Forecast dividend yield	0.7%
Forecast stock return	+19.0%
Market return assumption	11.8%
Forecast excess return	+7.2%

EPS (UBS, Rs)

	03/10E			03/09
	From	To	Cons.	Actual
Q1E	16.83	18.70	-	10.63
Q2E	16.83	18.70	-	10.63
Q3E	16.83	18.70	-	10.63
Q4E	16.83	18.70	-	10.63
03/10E	67.33	74.79	*71.15*	
03/11E	82.78	95.58	*85.78*	

Performance (Rs)



Source: UBS

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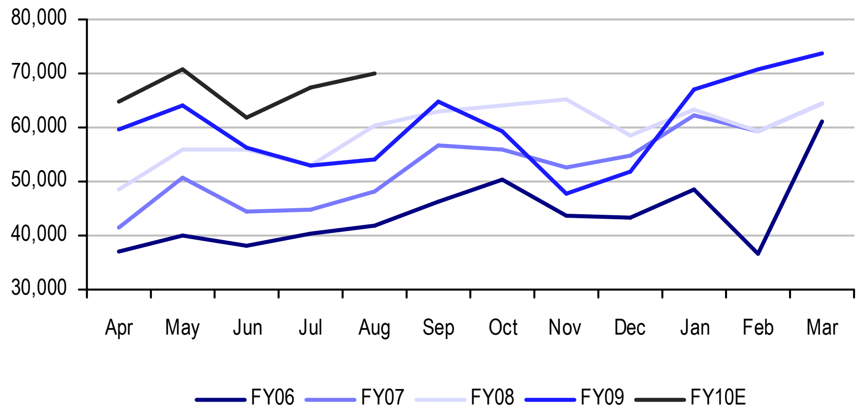
Raising FY10 forecast on stronger outlook

We are raising our FY10 volume growth forecast from 10% to 15% driven by our expectation of a stronger sustainable recovery in volumes for passenger vehicle segment. We believe improving economic growth outlook and finance availability will help drive recovery in urban demand. We see little impact on rural consumption from weak monsoons (Refer to "India Auto Sector—Overcoming monsoon fears", 12 August 2009).

Chart 1: Maruti domestic volumes showing strong recovery



Source: Company Data

UBS Auto Dealer Survey indicates Maruti dealers are the most optimistic

Further our Jul-Aug Auto dealer survey indicates that Maruti dealers remain the most positive. 88% of dealers expect sales to grow 5-15% or more in the next two months. Maruti dealers have the highest cash sales and are likely to benefit from further improvement in finance availability. (Refer to "July 2009 Auto Dealer Survey – Outlook continues to improve", 24 August 2009).

Table 1: Maruti volume sales by segment

(Unit sales)	FY 06	FY 07	FY 08	FY09E	FY10E	FY11E	FY12E
A1 segment	89,223	79,245	69,553	48,687	34,081	23,857	23,857
A2 segment total	335,139	440,375	499,280	514,072	612,430	693,504	777,558
A3 segment total	31,939	29,667	49,335	76,073	100,073	125,087	143,047
UV segment total	70,740	86,312	93,656	76,796	76,796	76,796	76,796
Domestic Car sales	**527,041**	**635,599**	**711,824**	**715,628**	**823,381**	**919,244**	**1,021,259**
YoY growth	8%	21%	12%	1%	15%	12%	11%
Exports							
A - star (sold as Alto)				15,000	130,000	130,000	156,000
Others	34,784	39,295	53,024	50,373	30,224	36,268	39,895
Exports total	**34,784**	**39,295**	**53,024**	**65,373**	**160,224**	**166,268**	**195,895**
YoY growth	-29%	13%	35%	23%	145%	4%	18%
Total sales volume	**561,822**	**674,924**	**764,848**	**781,001**	**983,604**	**1,085,513**	**1,217,154**
YoY growth	4.8%	20.1%	13.3%	2.1%	25.9%	10.4%	12.1%

Source: CRISIL, UBS Estimates

Export outlook is mixed

EU scrapping schemes driving strong growth

We are raising our FY10 export estimate for A-Star from 100,000 to 130,000 and FY11 from 120,000 to 130,000. Current strong growth in exports is being driven primarily by strong demand for A-Star (as Suzuki Alto and Nissan Pixo) in EU post the launch of scrapping incentive schemes. However, the outlook for exports remain unclear with most EU scrapping schemes likely to expire by end-FY10.

EU scrapping schemes expiring between Sep'09 – Apr'10

In Germany, out of the 2mn units targeted under the Eur5bn scrappage plan, c1.7mn units have received the incentive, our Korean Analyst based on discussion with Hyundai Motors expects the German program to be all used up by Sept2009. France (Eur1,000 per vehicle), and Italy (Eur1,500) will expire at end-2009, while UK (GBP2,000) and Spain (Eur2,000) will expire in March/April 2010. (Refer "Korea Autos – Scrap incentives expiring in some markets" dated Aug 24, 2009)

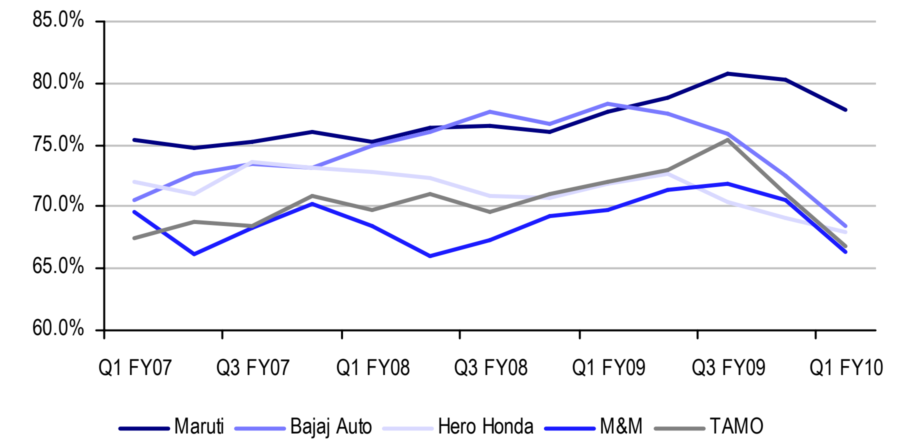
Mgmt. expects Non-EU markets to help support demand post expiry of scrapping schemes

Management is not sure how the demand for A-Star (Suzuki Alto) will look post the expiry of scrapping schemes in EU. Nissan (Pixo) order has been increased to 54,000 units for FY10, however, there are no indications if the FY11 quantum will remain the same. However, the company hopes to offset part of the slow down in EU demand post scrapping by stronger growth from non EU markets. Maruti has launched the car as Suzuki Celerio in Latam, Middle East, Australia & New Zealand and North Africa.

Margins likely to improve further with cost reduction

We believe the margin improvement story at Maruti is not yet over. Maruti has seen the most muted decline in raw material cost compared with our other coverage cos.

Chart 2: Raw material cost (as %age of Net sales) is muted for Maruti



Source: Company Data, UBS; Note: All cos. are standalone

We believe there are 3 reasons for the more muted reduction:

1) Higher price increases taken by players in other segments in FY09 as compared to Maruti.

2) Negative impact of sharp yen appreciation in H2FY09 increased Maruti's import cost

3) Shift in product mix towards newer launches like the A-Star and Ritz further increased material cost.

We expect Maruti's margins to improve further going forward driven by:

- Maruti is looking at increasing its vendor localisation, which will help reduce impact of yen on material costs.
- Improved margins for newer launches (i.e., A-Star and Ritz) driven by cost reduction with learning curve effect.
- Reduction in power and fuel cost at Manesar plant. The plant currently operates the plant on diesel, the shifting of plant to natural gas would help save Maruti Rs 800 – Rs1,000/ car.

Table 2: Cost structure (As % of net sales)

	FY2005	FY2006	FY2007	FY2008	FY 2009	FY2010E	FY2011E	FY2012E
Raw Material	71.1%	70.1%	69.0%	69.4%	73.4%	71.0%	70.0%	70.3%
Other Variable expenses	9.6%	9.7%	10.6%	11.0%	11.4%	11.8%	12.0%	11.9%
Fixed expenses	4.8%	5.1%	5.5%	5.2%	5.8%	4.5%	4.2%	4.0%
EBITDA margin	14.5%	15.2%	15.0%	14.4%	9.4%	12.7%	13.9%	13.7%

Source: Company data, UBS Estimates

Earnings Estimates Changes

Table 3: Earnings estimate changes

Rs m	Old Forecasts			New Forecasts			Change		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Domestic	789,292	882,541		823,381	919,244	1,021,259	4%	4%	
Exports	130,224	156,268		160,224	166,268	195,895	23%	6%	
Total	919,515	1,038,809		983,604	1,085,513	1,217,154	7%	4%	
Net Sales	254,714	301,934		276,071	320,634	365,324	8%	6%	
EBITDA	31,854	39,164		34,927	44,440	50,112	10%	13%	
% margin	12.5%	13.0%		12.7%	13.9%	13.7%	15bps	86bps	
Depreciation	8,598	9,888		8,598	9,888	11,371	0%	0%	
Interest	960	1,100		960	1,100	1,100	0%	0%	
PBT	27,796	34,177		30,869	39,452	44,141	11%	15%	
Tax	8,339	10,253		9,261	11,836	13,242	11%	15%	
Effective Tax rate	30%	30%		30%	30%	30%	0bps	0bps	
PAT	19,457	23,924		21,609	27,616	30,899	11%	15%	

Source: UBS Estimates

Table 4: Earnings sensitivity

	FY2010E	FY2011E	FY2012E
+1% Volume	1.3%	1.2%	1.3%
-1% Volume	-1.3%	-1.2%	-1.3%
+1% EBITDA Margin	8.9%	8.1%	8.3%
-1% EBITDA Margin	-8.9%	-8.1%	-8.3%

Source: UBS Estimates

Valuations

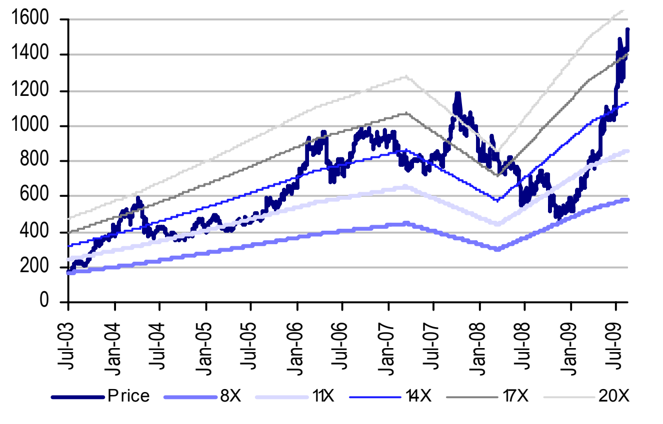
We believe Maruti's valuation remains attractive, given the prospect of improving margins and strong volume growth. We now expect an EBITDA CAGR of 50% over FY09-11. We believe Maruti will continue to trade at the higher end of its trading range, given strong volume growth outlook.

Table 5: Price target derivation

(Rs m)	FY11E
EBITDA	44,440
EV/EBITDA	9.0
Target EV	425,481
Net Debt	(64,131)
Equity value	489,612
Equity value/share (Rs)	1,694
Target Price (Rs)	**1,700**

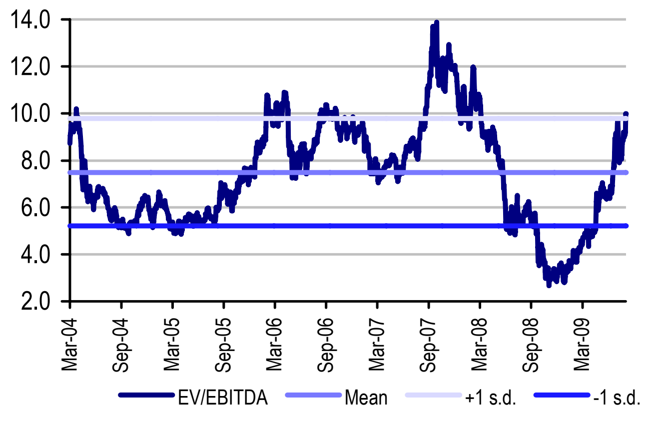
Source: UBS Estimates

Chart 3: Maruti Fwd PE band chart



Source: UBS Estimates

Chart 4:Maruti Fwd EV/EBITDA chart



Source: UBS Estimates

Table 6: Global OEM valuations

Company	Rating	Price Target	Price (LC) 31-Aug-09	Mcap USDm	P/E 2008E/ FY09E	P/E 2009E/ FY10E	P/E 2010E/ FY11E	EV/EBITDA 2008E/ FY09E	EV/EBITDA 2009E/ FY10E	EV/EBITDA 2010E/ FY11E
India					27.0	18.3	14.9	12.2	10.4	8.8
Bajaj Auto	Sell	830	1,215	3,599	31.0	23.4	18.7	15.5	12.6	11.4
Hero Honda Ltd.	Neutral	1,590	1,511	6,176	24.1	16.4	14.6	16.4	10.9	9.1
Maruti Suzuki India	Buy	1,700	1,437	8,494	33.8	19.2	15.0	7.6	10.5	8.1
Mahindra & Mahindra	Buy	861	860	4,201	19.1	14.1	11.5	9.2	7.6	6.8
Tata Motors Ltd.	Sell	140	489	4,056	7.1	122.1	42.4	3.9	5.9	5.2
Europe					28.8	(60.6)	(41.7)	7.0	13.1	5.2
Daimler AG	Buy	36	31	45,858	22.3	(33.7)	29.2	6.7	30.2	6.1
BMW	Neutral	35	32	29,039	64.1	(240.2)	33.3	5.2	5.7	4.1
Volkswagen AG	Sell	130	135	76,802	14.3	35.6	46.7	8.0	6.8	7.2
Renault SA	Neutral	25	31	12,815	14.2	(4.2)	(275.8)	8.3	9.5	3.3
Peugeot SA	Sell	17	20	6,786	(14.4)	(3.3)	36.8	4.2	23.5	3.1
Fiat SpA	Buy	10	8	14,180	6.4	(27.5)	(46.9)	4.0	6.8	5.3
Japan					8.7	(8.7)	25.4	9.1	8.4	5.6
Toyota Motor	Buy	4,800	3,990	147,890	(28.7)	(77.2)	27.9	13.3	12.3	7.1
Honda Motor	Buy	3,500	2,935	57,890	38.9	54.9	19.9	6.4	6.8	5.6
Nissan Motor	Neutral	680	650	31,588	(11.3)	(51.9)	37.8	11.3	7.3	4.5
Suzuki Motor	Neutral	2,500	2,220	12,950	35.8	39.3	16.1	5.4	7.2	5.2
Asia					26.9	12.2	10.8	5.6	7.3	6.6
Hyundai Motor	Buy	105,000	106,000	18,601	15.9	13.4	12.4	4.6	8.4	8.2
Denway Motors	Neutral	4	3	3,346	12.4	11.8	11.2	(189.9)	(217.1)	(252.3)
Astra International	Buy	35,500	30,150	12,041	13.3	14.7	12.3	3.9	6.9	5.5
Kia Motors Corporation	Neutral	18,500	16,900	4,700	51.6	8.5	7.7	8.3	6.5	6.2

Source: UBS Estimates

Maruti Suzuki India

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	**112,799**	**124,642**	**151,179**	**185,257**	**211,008**	**276,071**	*30.8*	**320,634**	*16.1*	**365,324**	*13.9*
Operating expenses (ex depn)	(96,289)	(105,747)	(128,572)	(158,580)	(191,204)	(241,143)	*26.1*	(276,194)	*14.5*	(315,213)	*14.1*
EBITDA (UBS)	**16,510**	**18,895**	**22,607**	**26,677**	**19,804**	**34,927**	*76.4*	**44,440**	*27.2*	**50,112**	*12.8*
Depreciation	(4,771)	(2,891)	(2,755)	(5,727)	(7,165)	(8,598)	*20.0*	(9,888)	*15.0*	(11,371)	*15.0*
Operating income (EBIT, UBS)	**11,739**	**16,004**	**19,852**	**20,950**	**12,639**	**26,329**	*108.3*	**34,552**	*31.2*	**38,741**	*12.1*
Other income & associates	2,019	2,125	3,715	5,957	4,928	5,500	*11.6*	6,000	*9.1*	6,500	*8.3*
Net interest	(377)	(223)	(404)	(625)	(545)	(960)	*76.1*	(1,100)	*14.6*	(1,100)	*0.0*
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	**13,381**	**17,906**	**23,163**	**26,282**	**17,022**	**30,869**	*81.4*	**39,452**	*27.8*	**44,141**	*11.9*
Tax	(4,580)	(5,740)	(7,280)	(7,878)	(4,737)	(9,261)	*95.5*	(11,836)	*27.8*	(13,242)	*11.9*
Profit after tax	**8,801**	**12,166**	**15,883**	**18,404**	**12,285**	**21,609**	*75.9*	**27,616**	*27.8*	**30,899**	*11.9*
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	**8,801**	**12,166**	**15,883**	**18,404**	**12,285**	**21,609**	*75.9*	**27,616**	*27.8*	**30,899**	*11.9*
Net Income (UBS)	**8,801**	**12,166**	**15,883**	**18,404**	**12,285**	**21,609**	*75.9*	**27,616**	*27.8*	**30,899**	*11.9*
Tax rate (%)	*34*	*32*	*31*	*30*	*28*	*30*	*7.8*	*30*	*0.0*	*30*	*0.0*
Pre-abnormal tax rate (%)	*34*	*32*	*31*	*30*	*28*	*30*	*7.8*	*30*	*0.0*	*30*	*0.0*

Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	30.46	42.11	54.97	63.70	42.52	74.79	*75.9*	95.58	*27.8*	106.95	*11.9*
EPS (UBS)	30.46	42.11	54.97	63.70	42.52	74.79	*75.9*	95.58	*27.8*	106.95	*11.9*
Net DPS	2.00	3.50	4.50	5.00	3.50	8.97	*156.5*	11.47	*27.8*	12.83	*11.9*
Cash EPS	46.98	52.12	64.51	83.52	67.32	104.55	*55.3*	129.81	*24.2*	146.30	*12.7*
BVPS	155.26	193.23	242.51	299.97	333.16	401.56	*20.5*	484.07	*20.5*	576.39	*19.1*

Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	19,539	20,491	29,412	41,139	50,837	60,239	*18.5*	68,351	*13.5*	74,980	*9.7*
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	3,434	1,819	(450)	(214)	1,362	9,929	*629.0*	9,858	*-0.7*	10,405	*5.5*
Other liabilities	(1,123)	(810)	(1,712)	(1,744)	(1,598)	(2,370)	*48.3*	(3,356)	*41.6*	(4,460)	*32.9*
Operating invested capital	**21,850**	**21,500**	**27,250**	**39,181**	**50,601**	**67,798**	*34.0*	**74,853**	*10.4*	**80,925**	*8.1*
Investments	15,833	21,147	35,146	52,649	32,772	32,772	*0.0*	32,772	*0.0*	32,772	*0.0*
Total capital employed	**37,683**	**42,647**	**62,396**	**91,830**	**83,373**	**100,570**	*20.6*	**107,625**	*7.0*	**113,697**	*5.6*
Shareholders' equity	44,857	55,825	70,065	86,665	96,253	116,015	*20.5*	139,853	*20.5*	166,525	*19.1*
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	**44,857**	**55,825**	**70,065**	**86,665**	**96,253**	**116,015**	*20.5*	**139,853**	*20.5*	**166,525**	*19.1*
Net debt / (cash)	(7,174)	(13,178)	(7,669)	5,165	(12,880)	(15,445)	*19.9*	(32,228)	*108.7*	(52,827)	*63.9*
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	**37,683**	**42,647**	**62,396**	**91,830**	**83,373**	**100,570**	*20.6*	**107,625**	*7.0*	**113,697**	*5.6*

Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	11,739	16,004	19,852	20,950	12,639	26,329	*108.3*	34,552	*31.2*	38,741	*12.1*
Depreciation	4,771	2,891	2,755	5,727	7,165	8,598	*20.0*	9,888	*15.0*	11,371	*15.0*
Net change in working capital	(943)	1,615	2,269	(236)	(1,576)	(8,567)	*443.6*	71	-	(547)	-
Other (operating)	(163)	0	0	0	0	0	-	0	-	0	-
Operating cash flow	**15,404**	**20,510**	**24,876**	**26,441**	**18,228**	**26,361**	*44.6*	**44,510**	*68.9*	**49,565**	*11.4*
Net interest received / (paid)	(377)	(223)	(404)	(625)	(545)	(960)	*76.1*	(1,100)	*14.6*	(1,100)	*0.0*
Dividends paid	(660)	(1,153)	(1,519)	(1,693)	(1,183)	(2,956)	*149.9*	(3,778)	*27.8*	(4,227)	*11.9*
Tax paid	(5,263)	(6,053)	(6,377)	(7,846)	(4,851)	(8,489)	*75.0*	(10,849)	*27.8*	(12,139)	*11.9*
Capital expenditure	(4,625)	(1,790)	(11,238)	(16,789)	(16,408)	(18,000)	*9.7*	(18,000)	*0.0*	(18,000)	*0.0*
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	1,389	(5,314)	(13,999)	(17,503)	19,877	0	-	0	-	0	-
Share issues	2	120	(124)	0	(1,720)	1,709	-	0	-	0	-
Cash flow (inc)/dec in net debt	**8,039**	**8,222**	**(5,070)**	**(12,058)**	**18,326**	**3,165**	*-82.7*	**16,783**	*430.4*	**20,600**	*22.7*
FX / non cash items	(180)	(2,218)	(439)	(776)	(281)	(600)	*113.5*	0	-	0	*0.0*
Balance sheet (inc)/dec in net debt	**7,859**	**6,004**	**(5,509)**	**(12,834)**	**18,045**	**2,565**	*-85.8*	**16,783**	*554.4*	**20,600**	*22.7*
Core EBITDA	16,510	18,895	22,607	26,677	19,804	34,927	*76.4*	44,440	*27.2*	50,112	*12.8*
Maintenance capital expenditure	(4,771)	(2,891)	(2,755)	(5,727)	(7,165)	(8,598)	*20.0*	(9,888)	*15.0*	(11,371)	*15.0*
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	**11,739**	**16,004**	**19,852**	**20,950**	**12,639**	**26,329**	*108.3*	**34,552**	*31.2*	**38,741**	*12.1*

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

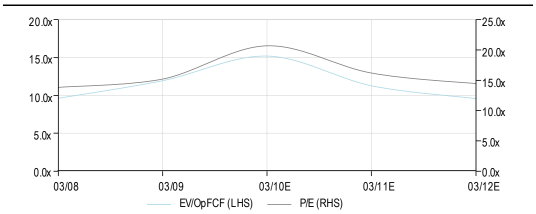
Maruti Suzuki India

12-month rating	**Buy**
12m price target	**Rs1,700.00**

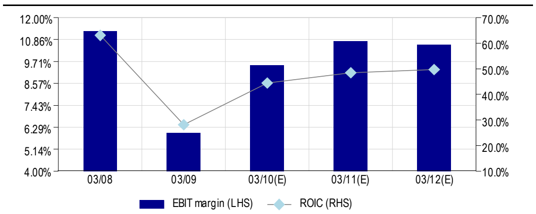
Company profile

Maruti Udyog Limited is the largest passenger car manufacturer in India with a market share of over 50%. The company was formed in 1983 and commenced operations in 1984, as a joint venture between the Government of India (GOI) and Suzuki Motor Corporation. In 2002, GOI ceded majority control to Suzuki by not subscribing to a rights issue. GOI subsequently sold 27.5% of its stake to investors in an IPO. Suzuki owns 54.6% of Maruti. Suzuki selected Maruti to be its small car manufacturing hub for the European market and also as an R&D centre.

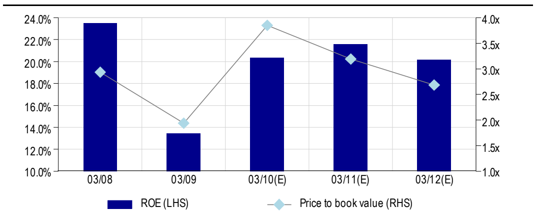
Value (EV/OpFCF & P/E)



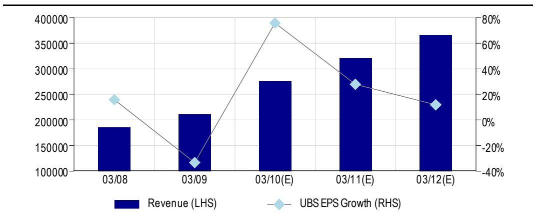
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/10	03/10E	03/11E	03/12E
P/E (local GAAP)	14.9	13.8	15.2	19.2	15.0	13.4
P/E (UBS)	14.9	13.8	15.2	19.2	15.0	13.4
P/CEPS	10.5	10.5	9.6	13.7	11.1	9.8
Net dividend yield (%)	0.5	0.6	0.5	0.6	0.8	0.9
P/BV	3.0	2.9	1.9	3.6	3.0	2.5
EV/revenue (core)	1.1	1.1	0.7	1.3	1.1	0.9
EV/EBITDA (core)	7.5	7.5	7.6	10.5	8.1	6.8
EV/EBIT (core)	9.7	9.6	11.9	14.0	10.4	8.8
EV/OpFCF (core)	9.7	9.6	11.9	14.0	10.4	8.8
EV/op. invested capital	5.9	6.1	3.4	6.2	5.0	4.4

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	254,398	186,695	415,063	415,063	415,063
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(1,252)	(3,858)	(14,162)	(23,836)	(42,527)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(51,780)	(31,903)	(32,772)	(32,772)	(32,772)
Core enterprise value	201,366	150,935	368,128	358,454	339,763

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	18.6	22.5	13.9	30.8	16.1	13.9
EBITDA (UBS)	21.2	18.0	-25.8	76.4	27.2	12.8
EBIT (UBS)	33.1	5.5	-39.7	108.3	31.2	12.1
EPS (UBS)	34.6	15.9	-33.2	75.9	27.8	11.9
Cash EPS	20.9	29.5	-19.4	55.3	24.2	12.7
Net DPS	35.2	11.2	-30.0	156.5	27.8	11.9
BVPS	23.9	23.7	11.1	20.5	20.5	19.1

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	14.5	14.4	9.4	12.7	13.9	13.7
EBIT / revenue	11.0	11.3	6.0	9.5	10.8	10.6
Net profit (UBS) / revenue	8.8	9.9	5.8	7.8	8.6	8.5

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	61.3	63.1	28.2	44.5	48.4	49.7
ROIC post tax	-	44.2	20.3	31.1	33.9	34.8
Net ROE	22.2	23.5	13.4	20.4	21.6	20.2

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	NM	NM	NM	NM	NM	NM
Dividend cover (UBS EPS)	13.0	12.7	12.2	8.3	8.3	8.3
Div. payout ratio (%, UBS EPS)	7.7	7.8	8.2	12.0	12.0	12.0
Net debt / EBITDA	NM	0.2	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	5.4	5.6	4.7	4.7	4.5	4.7
Revenue / fixed assets	5.5	5.3	4.6	5.0	5.0	5.1
Revenue / net working capital	76.2	NM	NM	48.9	32.4	36.1

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	5.4	9.1	7.8	6.5	5.6	4.9
Capex / depreciation	1.7	2.9	2.3	2.1	1.8	1.6

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	(7.5)	6.0	(13.4)	(13.3)	(23.0)	(31.7)
Net debt / (net debt + equity)	(8.2)	5.6	(15.4)	(15.4)	(29.9)	(46.5)
Net debt (core) / EV	(3.8)	(0.6)	(2.6)	(3.8)	(6.6)	(12.5)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs1,436.65 on 31 Aug 2009 23:39 EDT Market cap(E) may include forecast share issues/buybacks.

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■ Maruti Suzuki India

Maruti Udyog Limited is the largest passenger car manufacturer in India with a market share of over 50%. The company was formed in 1983 and commenced operations in 1984, as a joint venture between the Government of India (GOI) and Suzuki Motor Corporation. In 2002, GOI ceded majority control to Suzuki by not subscribing to a rights issue. GOI subsequently sold 27.5% of its stake to investors in an IPO. Suzuki owns 54.6% of Maruti. Suzuki selected Maruti to be its small car manufacturing hub for the European market and also as an R&D centre.

■ Statement of Risk

Higher raw material costs and slowdown in demand remain the key risks to our estimates and price target for Maruti Suzuki India.

UBS

UBS Investment Research

First Read: Reliance Comm

Re-rating likely on tower sharing deals

■ Media reports RCom likely to sign a deal with Aircel

Media reports RCom is likely to sign a 10-year deal with Aircel for sharing of end-to-end infrastructure, including towers, voice carriage and bulk bandwidth over the next few days. The deal is estimated to generate Rs15bn of additional revenues every year for Reliance Infratel (RITL) over the next ten years, covering all circles. Aircel is currently present in 18 out of 23 circles and plans to roll out the remaining in 2HFY10.

■ UBS view: The deal will be a positive

This development is incrementally positive for RCom, in our view. RCom has shown ability to secure external tenants in the past few weeks, such as Etisalat for sharing 30,000 cell sites, S-Tel for sharing up to 10,000 cell sites and now potentially Aircel for nationwide coverage.

■ Tower deals/spin offs likely to lead to re-rating

We believe RCom is likely to re-rate as investors start ascribing a higher valuation to Reliance Infratel given the tower sharing deals that RCom has signed in the last few weeks. RCom could potentially unlock some value in RITL through possible listing or a stake sale, which could be a significant catalyst for RCom re-rating from current levels.

■ Valuation: Maintain BUY with Rs360 PT

Our PT is SoTP based, wherein we value RCOM's stake in RITL at Rs111/share. We believe there is further upside to our estimates and PT if the deal gets finalised.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	190,678	229,411	269,837	334,344	380,970
EBIT (UBS)	53,938	53,562	63,600	88,153	110,033
Net Income (UBS)	53,632	59,153	52,741	62,876	79,574
EPS (UBS, Rs)	25.98	28.45	25.18	30.02	37.99
Net DPS (UBS, Rs)	0.75	2.88	4.68	5.10	7.83
Profitability & Valuation	**5-yr hist av.**	**03/09**	**03/10E**	**03/11E**	**03/12E**
EBIT margin %	-	23.3	23.6	26.4	28.9
ROIC (EBIT) %	-	10.5	10.2	13.5	16.5
EV/EBITDA (core) x	-	10.2	7.0	5.3	4.2
PE (UBS) x	-	11.9	10.3	8.7	6.9
Net dividend yield %	-	0.9	1.8	2.0	3.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs260.50 on 31 Aug 2009 23:39 HKT

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Global Equity Research

India

Wireless Communications

12-month rating	Buy *Unchanged*
12m price target	Rs360.00/US$7.54 *Unchanged*
Price	Rs260.50/US$5.45

RIC: RLCM.BO BBG: RCOM IB

1 September 2009

Trading data (local/US$)

52-wk range	Rs405.25-132.25/US$9.22-2.55
Market cap.	Rs537bn/US$11.3bn
Shares o/s	2,063m (ORD)
Free float	33%
Avg. daily volume ('000)	3,041
Avg. daily value (Rsm)	885.4

Balance sheet data 03/10E

Shareholders' equity	Rs412bn
P/BV (UBS)	1.3x
Net Cash (debt)	(Rs225bn)

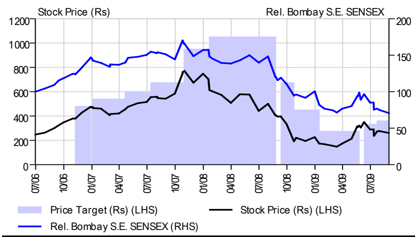
Forecast returns

Forecast price appreciation	+38.2%
Forecast dividend yield	2.1%
Forecast stock return	+40.3%
Market return assumption	11.8%
Forecast excess return	+28.5%

EPS (UBS, Rs)

	03/10E		03/09
	UBS	Cons.	Actual
Q1E	7.87	7.93	7.58
Q2E	5.03	-	7.67
Q3E	5.92	-	6.95
Q4E	6.36	-	6.24
03/10E	25.18	*25.44*	
03/11E	30.02	*29.27*	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

Reliance Communication Limited

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	-	112,884	144,683	190,678	229,411	269,837	17.6	334,344	23.9	380,970	13.9
Operating expenses (ex depn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	-	24,786	57,206	81,991	92,875	110,762	19.3	142,006	28.2	169,483	19.3
Depreciation	-	(16,987)	(24,653)	(28,053)	(39,313)	(47,161)	20.0	(53,852)	14.2	(59,450)	10.4
Operating income (EBIT, UBS)	-	7,799	32,553	53,938	53,562	63,600	18.7	88,153	38.6	110,033	24.8
Other income & associates	-	0	0	0	0	0	-	0	-	0	-
Net interest	-	(2,649)	(4)	3,997	7,867	(415)	-	(9,280)	2135.1	(10,273)	10.7
Abnormal items (pre-tax)	-	(374)	(302)	12,828	(75)	(111)	47.2	0	-	0	-
Profit before tax	-	4,776	32,247	70,763	61,354	63,074	2.8	78,874	25.0	99,759	26.5
Tax	-	(327)	(616)	(2,836)	123	(6,178)	-	(9,468)	53.3	(16,698)	76.4
Profit after tax	-	4,449	31,632	67,927	61,477	56,896	-7.5	69,405	22.0	83,061	19.7
Abnormal items (post-tax)	-	0	0	(12,448)	0	0	-	0	-	0	-
Minorities / pref dividends	-	0	0	(1,467)	(2,399)	(4,266)	77.8	(6,530)	53.1	(3,487)	-46.6
Net income (local GAAP)	-	4,449	31,632	54,012	59,078	52,630	-10.9	62,876	19.5	79,574	26.6
Net Income (UBS)	-	4,823	31,934	53,632	59,153	52,741	-10.8	62,876	19.2	79,574	26.6
Tax rate (%)	-	7	2	4	0	10	-	12	22.6	17	39.4
Pre-abnormal tax rate (%)	-	6	2	5	0	10	-	12	22.8	17	39.4

Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	-	2.18	15.47	26.17	28.41	25.13	-11.6	30.02	19.5	37.99	26.6
EPS (UBS)	-	2.36	15.62	25.98	28.45	25.18	-11.5	30.02	19.2	37.99	26.6
Net DPS	-	0.00	0.50	0.75	2.88	4.68	62.8	5.10	8.9	7.83	53.6
Cash EPS	-	10.67	27.67	39.58	47.35	47.69	0.7	55.73	16.8	66.37	19.1
BVPS	-	96.08	99.15	123.40	177.94	196.80	10.6	221.27	12.4	250.09	13.0

Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	-	214,263	330,422	523,126	729,476	789,207	8.2	815,772	3.4	827,570	1.4
Net intangible fixed assets	-	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	-	(63,931)	(102,358)	(103,741)	(128,159)	(141,853)	10.7	(153,875)	8.5	(157,312)	2.2
Other liabilities	-	0	(26)	(1,028)	0	(936)	-	(936)	0.0	(936)	0.0
Operating invested capital	-	150,333	228,038	418,357	601,317	646,418	7.5	660,961	2.2	669,322	1.3
Investments	-	121	77,114	109,996	2,857	2,857	0.0	2,857	0.0	2,857	0.0
Total capital employed	-	150,453	305,152	528,354	604,174	649,275	7.5	663,818	2.2	672,179	1.3
Shareholders' equity	-	117,515	202,719	254,609	370,003	412,240	11.4	463,489	12.4	523,867	13.0
Minority interests	-	0	56	24,309	8,228	12,494	51.9	19,024	52.3	22,511	18.3
Total equity	-	117,515	202,775	278,918	378,231	424,735	12.3	482,514	13.6	546,378	13.2
Net debt / (cash)	-	32,938	102,377	249,435	225,943	224,541	-0.6	181,305	-19.3	125,801	-30.6
Debt deemed provisions	-	0	0	0	0	0	-	0	-	0	-
Total capital employed	-	150,453	305,152	528,354	604,174	649,275	7.5	663,818	2.2	672,179	1.3

Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	-	7,799	32,553	53,938	53,562	63,600	18.7	88,153	38.6	110,033	24.8
Depreciation	-	16,987	24,653	28,053	39,313	47,161	20.0	53,852	14.2	59,450	10.4
Net change in working capital	-	17,304	38,428	1,382	23,391	14,630	-37.5	12,022	-17.8	3,437	-71.4
Other (operating)	-	3,615	33,852	(38,981)	(2,399)	4,266	-	6,530	53.1	3,487	-46.6
Operating cash flow	-	45,705	129,486	44,392	113,867	129,658	13.9	160,558	23.8	176,407	9.9
Net interest received / (paid)	-	(2,649)	(4)	3,997	7,867	(415)	-	(9,280)	2135.1	(10,273)	10.7
Dividends paid	-	0	(1,023)	(1,183)	(5,981)	(10,393)	73.8	(11,627)	11.9	(19,196)	65.1
Tax paid	-	(327)	(616)	(2,836)	123	(6,178)	-	(9,468)	53.3	(16,698)	76.4
Capital expenditure	-	(36,172)	(52,488)	(173,928)	(191,763)	(106,893)	-44.3	(80,417)	-24.8	(71,248)	-11.4
Net (acquisitions) / disposals	-	0	0	(29,791)	107,139	0	-	0	-	0	-
Other	-	-	6,550	7,764	35,243	0	-	0	-	0	-33.3
Share issues	-	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	-	6,183	81,604	(138,757)	66,420	5,669	-91.5	49,766	777.9	58,991	18.5
FX / non cash items	-	-	(151,043)	(8,301)	(42,928)	(4,266)	-90.1	(6,530)	53.1	(3,487)	-46.6
Balance sheet (inc)/dec in net debt	-	-	(69,439)	(147,058)	23,492	1,402	-94.0	43,236	2983.4	55,504	28.4
Core EBITDA	-	24,786	57,206	81,991	92,875	110,762	19.3	142,006	28.2	169,483	19.3
Maintenance capital expenditure	-	(36,172)	(52,488)	(173,928)	(191,763)	(106,893)	-44.3	(80,417)	-24.8	(71,248)	-11.4
Maintenance net working capital	-	17,304	38,428	1,382	23,391	14,630	-37.5	12,022	-17.8	3,437	-71.4
Operating free cash flow, pre-tax	-	5,918	43,146	(90,555)	(75,497)	18,499	-	73,611	297.9	101,671	38.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

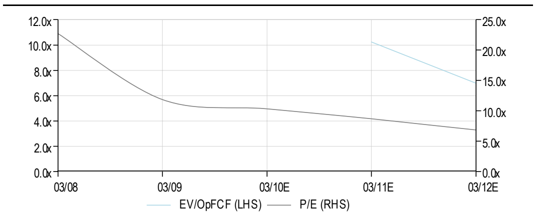
Reliance Communication Limited

12-month rating	**Buy**
12m price target	**Rs360.00**

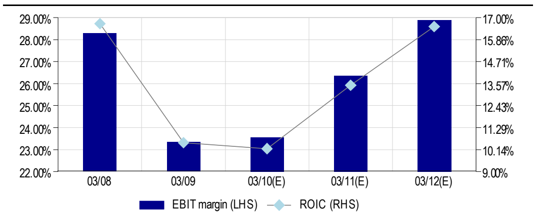
Company profile

Reliance Communications (RCOM) was formed in the wake of the reorganisation of the Reliance group. RCOM's businesses have been structured into three strategic business units (SBUs)-wireless, global and broadband. The mobile services group provides CDMA mobile services across India in 23 telecom circles, and GSM mobile services in eight circles. RCOM currently has a subscriber market share of 17%. The global business group provides national and international long-distance calling services. The broadband group has a portfolio of enterprise voice, data, video, internet and IT infrastructure services.

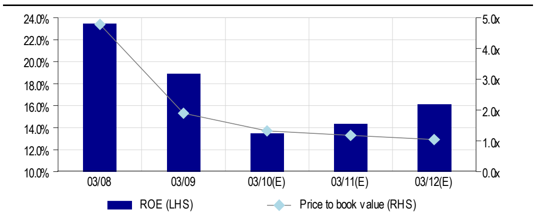
Value (EV/OpFCF & P/E)



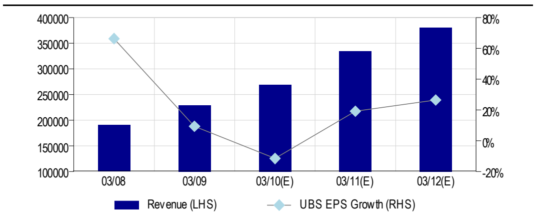
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	22.6	11.9	10.4	8.7	6.9
P/E (UBS)	-	22.7	11.9	10.3	8.7	6.9
P/CEPS	-	14.9	7.1	5.5	4.7	3.9
Net dividend yield (%)	-	0.1	0.9	1.8	2.0	3.0
P/BV	-	4.8	1.9	1.3	1.2	1.0
EV/revenue (core)	-	6.8	4.1	2.9	2.3	1.9
EV/EBITDA (core)	-	15.7	10.2	7.0	5.3	4.2
EV/EBIT (core)	-	23.9	17.7	12.1	8.5	6.4
EV/OpFCF (core)	-	NM	NM	NM	10.2	7.0
EV/op. invested capital	-	4.0	1.9	1.2	1.2	1.1

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	1,209,850	696,712	537,488	537,488	537,488
+ minority interests	12,183	16,269	10,361	15,759	20,768
+ average net debt (cash)	175,906	237,689	225,242	202,923	153,553
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(109,996)	(2,857)	(2,857)	(2,857)	(2,857)
Core enterprise value	1,287,942	947,812	770,235	753,313	708,952

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	-	31.8	20.3	17.6	23.9	13.9
EBITDA (UBS)	-	43.3	13.3	19.3	28.2	19.3
EBIT (UBS)	-	65.7	-0.7	18.7	38.6	24.8
EPS (UBS)	-	66.4	9.5	-11.5	19.2	26.6
Cash EPS	-	43.0	19.7	0.7	16.8	19.1
Net DPS	-	50.0	NM	62.8	8.9	53.6
BVPS	-	24.5	44.2	10.6	12.4	13.0

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	-	43.0	40.5	41.0	42.5	44.5
EBIT / revenue	-	28.3	23.3	23.6	26.4	28.9
Net profit (UBS) / revenue	-	28.1	25.8	19.5	18.8	20.9

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	-	16.7	10.5	10.2	13.5	16.5
ROIC post tax	-	15.9	10.5	9.2	11.9	13.8
Net ROE	-	23.5	18.9	13.5	14.4	16.1

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	-	-	-	NM	9.5	10.7
Dividend cover (UBS EPS)	-	NM	9.9	5.4	5.9	4.9
Div. payout ratio (%, UBS EPS)	-	2.9	10.1	18.6	17.0	20.6
Net debt / EBITDA	-	3.0	2.4	2.0	1.3	0.7

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	-	0.6	0.4	0.4	0.5	0.6
Revenue / fixed assets	-	0.4	0.4	0.4	0.4	0.5
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	-	NM	NM	0.3	0.8	0.9
Capex / revenue (%)	-	NM	NM	NM	24.1	18.7
Capex / depreciation	-	6.2	4.9	2.3	1.5	1.2

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	-	98.0	61.1	54.5	39.1	24.0
Net debt / (net debt + equity)	-	49.5	37.9	35.3	28.1	19.4
Net debt (core) / EV	-	13.7	25.1	29.2	26.9	21.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs260.50 on 31 Aug 2009 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Reliance Communication Limited

Reliance Communications (RCOM) was formed in the wake of the reorganisation of the Reliance group. RCOM's businesses have been structured into three strategic business units (SBUs)-wireless, global and broadband. The mobile services group provides CDMA mobile services across India in 23 telecom circles, and GSM mobile services in eight circles. RCOM currently has a subscriber market share of 17%. The global business group provides national and international long-distance calling services. The broadband group has a portfolio of enterprise voice, data, video, internet and IT infrastructure services.

■ Statement of Risk

We believe risks for RCOM include potential inefficiency related to operating two different networks (GSM and CDMA), the challenge of scaling up and executing well in light of the rapid growth in India's mobile penetration, and the risk that the company might not be allocated additional 2G and 3G spectrum. There is low visibility for capex associated with the GSM strategy, as it will depend on the amount of spectrum allocated as well as which circles can be allocated additional spectrum. Intense competitive environment prevailing in India is also a risk.

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Aug'09: Growth gets stronger

1 September 2009

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- **Maruti: Domestic sales growth robust; exports surprise on the upside**

Maruti sales grew 42% YoY driven by 29% YoY domestic growth and 156% YoY growth in exports. Domestic growth was strong due to low base, recovery in urban demand and strong demand from rural areas and government employees. Exports grew sharply to 14,847 (+41% MoM) EU demand for A-Star/Nissan Pixo remained strong due to scrapping incentive schemes in various countries.

- **Strong growth for HH; M&M – UVs remain strong**

Hero Honda volumes grew 36% YoY (+13% MoM) in Aug'09. We believe stocking for the festive season at dealers is partly driving the strong sales growth. M&M's auto division sales increased 15% YoY (-2% MoM) driven by UV sales growth of 42% YoY. M&M Tractor volumes grew 2% YoY (-18% MoM). We remain cautious on Tractor growth for FY10 given weaker monsoon.

- **Tata Motors: CVs continue to improve**

Tata Motors CV sales improved 28% YoY (+5% MoM) in Aug'09. LCV sales were up 42% YoY (+5% MoM) and M&HCV sales increased 10% YoY (+4% MoM). Cars volumes grew 21%YoY driven by 2,501 *Nano* sales. Indica sales grew 24% YoY (+12% MoM) while Indigo sales declined 40% YoY (-24% MoM). UV sales declined 22% YoY (-1% MoM). Fiat JV volumes grew +3% MoM.

- **Valuation: Maintain preference for PV players, Top Pick: Maruti (Buy)**

We continue to remain bullish on Maruti given recovery in domestic demand and strong export volumes. We expect weak monsoons to be an overhang for M&M and Hero Honda.

Table 1: Indian Auto Sector Valuations

Company	Rating	Price Target	Price (LC)	Mcap	P/E			EV/EBITDA		
			1-Sep-09	USDm	2008E/ FY09E	2009E/ FY10E	2010E/ FY11E	2008E/ FY09E	2009E/ FY10E	2010E/ FY11E
Bajaj Auto	Sell	830	1,225	3,617	31.2	23.5	18.8	15.7	12.7	11.5
Hero Honda Ltd.	Neutral	1,590	1,535	6,255	24.5	16.6	14.8	16.7	11.1	9.3
Maruti Suzuki India	Buy	1,700	1,546	9,115	36.4	20.7	16.2	7.6	11.4	8.8
Mahindra & Mahindra	Buy	861	847	4,128	18.8	13.9	11.3	9.1	7.5	6.7
Tata Motors Ltd.	Sell	140	518	4,280	7.5	129.2	44.9	4.1	6.1	5.4

Source: UBS Estimates

Table 2: Maruti's monthly sales volumes

	Aug-08	Jul-09	Aug-09	YoY	MoM	YTD-10	YTD-09	YoY
A1 (M800)	3,717	2,796	2,734	-26%	-2%	12,649	25,319	-50%
C -Omni, Versa	6,540	7,302	6,601	1%	-10%	36,136	33,554	8%
A3 (SX4, Swift Dzire, Esteem)	5,427	9,101	7,821	44%	-14%	36,869	27,376	35%
A2 (Alto, Wagon-R, Zen, Swift, A-Star, Ritz)	37,667	48,115	52,473	39%	9%	247,321	197,889	25%
MUV (Gypsy, Grand Vitara)	762	214	332	-56%	55%	1,929	2,979	-35%
Total Domestic	**54,113**	**67,528**	**69,961**	**29%**	**4%**	**334,904**	**287,117**	**17%**
Total Export	5,795	10,546	14,847	156%	41%	54,707	23,918	129%
Total Sales	**59,908**	**78,074**	**84,808**	**42%**	**9%**	**389,611**	**311,035**	**25%**

Source: Company Data

Table 3: Hero Honda's monthly sales volumes

	Aug-08	Jul-09	Aug-09	YoY	MoM	YTD-10	YTD-09	YoY
Hero Honda	305,516	366,808	415,137	36%	13%	1,900,932	1,481,077	28%

Source: Company Data

Table 4: Tata motors monthly sales volumes

	Aug-08	Jul-09	Aug-09	YoY	MoM	YTD-10	YTD-09	YoY
CV	**23,231**	**28,408**	**29,762**	**28%**	**5%**	**130,226**	**117,092**	**11%**
M&HCV	10,143	10,658	11,118	10%	4%	48,402	56,075	-14%
LCV	13,088	17,750	18,644	42%	5%	81,824	61,017	34%
Passenger vehicles	**15,573**	**17,191**	**17,364**	**12%**	**1%**	**80,392**	**81,319**	**-1%**
Cars	12,216	14,537	14,755	21%	1%	67,064	62,956	7%
Sumo & Safari	3,357	2,638	2,609	-22%	-1%	13,312	18,363	-28%
Domestic (TAMO Standalone)	**38,804**	**45,599**	**47,126**	**21%**	**3%**	**210,618**	**198,411**	**6%**
Export	4,772	2,455	2,684	-44%	9%	10,359	17,627	-41%
Total (TAMO Standalone)	**43,576**	**48,054**	**49,810**	**14%**	**4%**	**220,977**	**216,038**	**2%**
Fiat-JV (Domestic)	351	2,690	2,782	693%	3%	10,326	2,164	377%

Source: Company Data

Table 5: M&M's monthly sales volumes

	Aug-08	Jul-09	Aug-09	YoY	MoM	YTD-10	YTD-09	YoY
UVs (incl Scorpio)	11,731	16,688	16,631	42%	0%	82,039	60,322	36%
3-Wheelers	4,315	3,806	3,652	-15%	-4%	16,490	19,791	-17%
Logan	1,464	444	469	-68%	6%	2,391	7,465	-68%
LCVs	811	1,019	658	-19%	-35%	4,170	4,912	-15%
Total Auto - Domestic	**18,321**	**21,957**	**21,410**	**17%**	**-2%**	**105,090**	**92,490**	**14%**
Exports - Auto	890	506	653	-27%	29%	2,304	5,182	-56%
Total Auto	**19,211**	**22,463**	**22,063**	**15%**	**-2%**	**107,394**	**97,672**	**10%**
M&M Tractor - Domestic	9,781	12,128	10,110	3%	-17%	64,201	44,236	45%
M&M Tractor - Exports	646	722	484	-25%	-33%	2,295	3,789	-39%
Total M&M Tractor	**10,427**	**12,850**	**10,594**	**2%**	**-18%**	**66,496**	**48,025**	**38%**
Total (Auto and tractors)	**29,638**	**35,313**	**32,657**	**10%**	**-8%**	**174,221**	**145,680**	**20%**

Source: Company Data; *Note: M&M Tractor sales increased due to merger of Punjab Tractors with the company following court approval.

■ Statement of Risk

Principal risk to our earnings estimates for auto companies are fluctuation in sales volumes and raw material prices. Demand is linked to various factors including the economic growth rate and interest rates in the economy.

Catalysts remain

1 September 2009
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- **Window of opportunity for commercial to recycle capital**

The BSE Realty Index (BSEREAL) has risen 183% and outperformed the broader market since the lows of March. We think two new catalysts will sustain the rally 1) the recycling of capital from commercial property, and 2) property price inflation. Singapore REIT (S-REIT) stocks have risen 50% in the past three months and trade at single-digit yields. We think select Indian office space owners could recycle capital via S-REITs given the differences in borrowing costs.

- **Office leasing momentum improves; inventory overhang tempers rentals**

We expect a QoQ pick up in leasing to help the recycling. We estimate annual office space absorption will revert to 2007 levels only in 2012. In the near term, we expect no pricing power (except Bangalore), due to inventory. However, recycling could lower cap rates for commercial. We lower office cap rates 50-100bp.

- **We expect residential property prices to be greater near-term catalyst**

Volumes in Mumbai and Gurgaon have been rising, prompting developers to increase launch prices. We now estimate a 15-25% increase in residential property prices in the next 18 months, compared with 10% previously. We expect a less aggressive increase than in the last cycle (2x in three years) as the priority is debt reduction. Within residential, we do not pick stocks based on business model (mass, margins) but based on cashflows, and low land costs.

- **Valuations—maintain Buy on IBREL, Unitech; downgrade DLF to Sell**

We raise our price targets for DLF from Rs300.00 to Rs380.00 and Unitech from Rs110.00 to Rs132.00 on 1) higher EPS estimates; 2) increasing the premium to NAV from 10% to 20% (for Unitech); and 3) increasing the land premium from 1.5x to 2x for DLF, on expectations of higher prices. Indiabulls Real Estate (IBREL) and Unitech are our top picks. We downgrade DLF from Neutral to Sell.

.

Table 1: Key changes

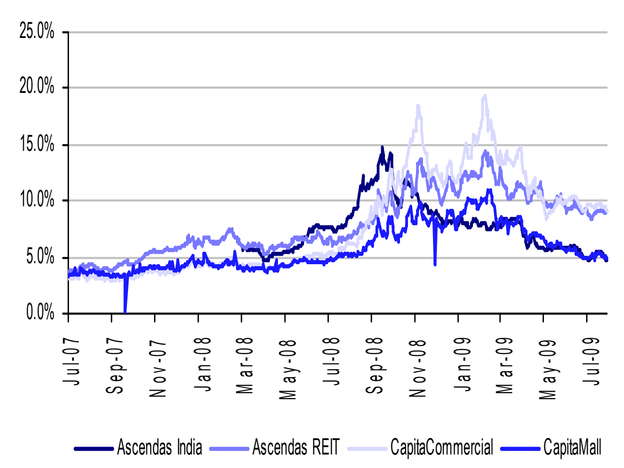
	NAV (FY10E)			Price target		EPS (FY10E)			EPS (FY11E)			EPS (FY12E)		
	New	Old	% Chg	New	Old	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
DLF	310	254	22%	380	300	11.9	11.7	2%	21.02	16.61	27%	27.31	19.83	38%
Unitech	106	95	12%	132	110	3.4	3.2	6%	4.05	3.96	2%	5.27	4.77	10%
IBREL	340	340	0%	340	340	7.9	7.9	0%	12.8	12.8	0%	11.05	11.05	0%

Source: UBS estimates

S-REIT benefits for India

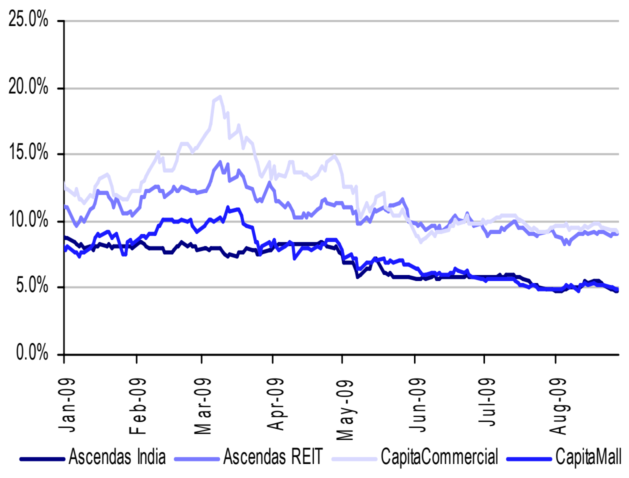
S-REIT yields have compressed to single digits following the rally over the past three months. The S-REITS with Indian assets—Ascendas India Trust (a-iTrust) and Indiabulls Properties Investment Trust (IPIT)—have been two of the best performing S-REITS YTD. We believe the reasons for this are that investors no longer consider gearing a concern, and that the bond spreads have narrowed.

Chart 1: S-REITs YTD performance



Source: Bloomberg, UBS

Chart 2: S-REIT dividend yields



Source: Bloomberg, UBS

As was the case in mid-2007, we believe there is a small window of opportunity opening for Indian commercial space developers to recycle capital. For all the India real estate companies listed on the London Stock Exchange's Alternative Investment Market (AIM)—UCP, Ishaan, and DLF (DAL Office Trust)—when they were first set up, the exit strategy was essentially through a business trust. In addition, other developers had plans to recycle capital, but faced various constraints, including foreign direct investment (FDI) rules, a low leasing percentage, a low execution percentage and a sudden end to liquidity. The FDI rules might prevent companies that are not based in special economic zones (SEZ), or completed assets, from inclusion in a REIT. However, it is likely that some portfolios now look better on cash flows.

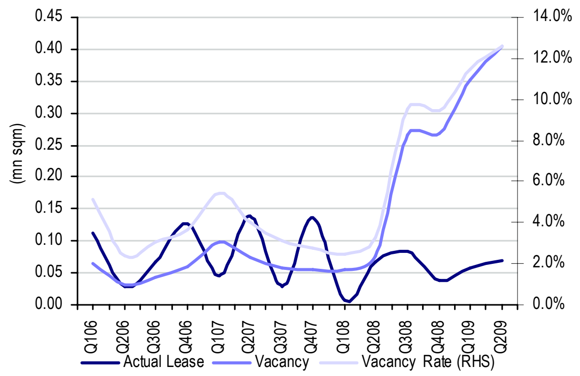
The business case is still based on the difference of 100bp in borrowing costs between India (around 12-13%) and Singapore (10-12%) even after considering currency hedging costs. The borrowing capacities of some of the listed business trusts also imply additional headroom. The key risk to our view of being able to monetise assets is the local borrowing rate in Singapore dollars, and currency risks on India. We think the recycling could be aided by the improving leasing momentum in office in select markets.

Rentals close to bottoming out in office

We are seeing some tentative pick up in leasing momentum across the major markets in the New Delhi National Capital Region (NCR), Mumbai and Bangalore. There has been a QoQ pick up in new leases (see the following charts) in the NCR and Mumbai, and in Bangalore from Indian and multi-national clients. Both the IT sector and the non-IT services sector led the pick up.

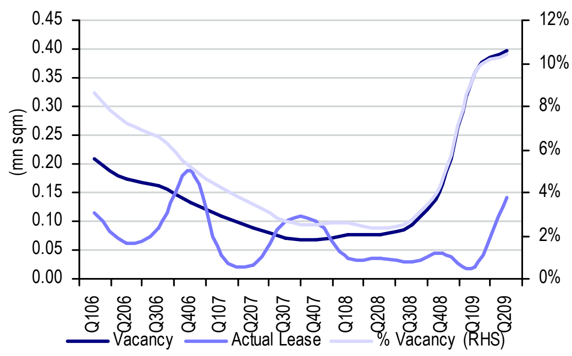
We think the share of the non-IT services sector could increase in certain markets but that IT will still make up a disproportionately large part (>65%) in most markets.

Chart 3: Office vacancy versus actual lease (NCR)



Source: Jones Lang LeSalle REIS, UBS

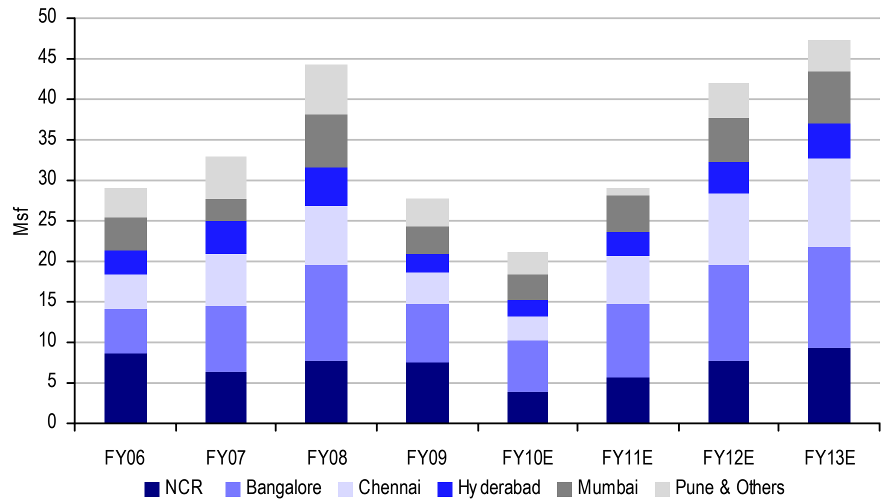
Chart 4: Office vacancy versus actual lease (Mumbai)



Source: Jones Lang LeSalle REIS, UBS

We have tried to extend this QoQ momentum into annual demand and we estimate that the Indian office space market will return to the FY07/FY08 peak level of absorption in 2012.

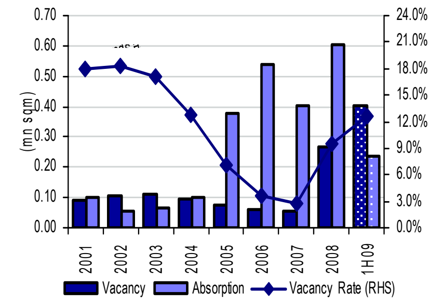
Chart 5: Office space demand



Source: JLL REIS, UBS estimates

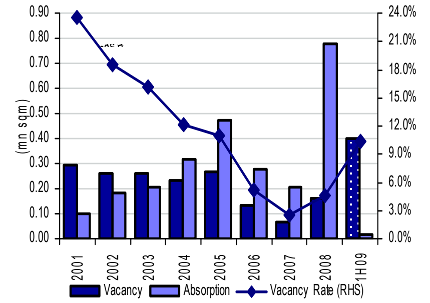
However, vacancy levels in certain markets could mean limited rental pricing power. We think Bangalore is likely to be the first market to recover, from a pricing standpoint, given pricing has remained flattish over the past three years, and where the vacancy rate is lower than the other markets.

Chart 6: Office absorption versus vacancy (NCR)



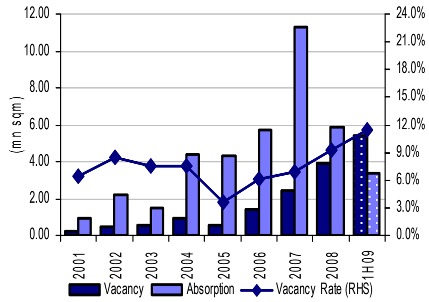
Source: Jones Lang LeSalle REIS, UBS

Chart 7: Office absorption versus vacancy (Mumbai)



Source: Jones Lang LeSalle REIS, UBS

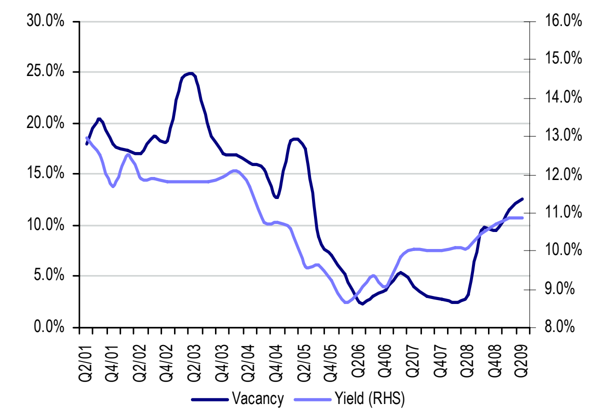
Chart 8: Office absorption versus vacancy (Bangalore)



Source: Jones Lang LeSalle REIS, UBS

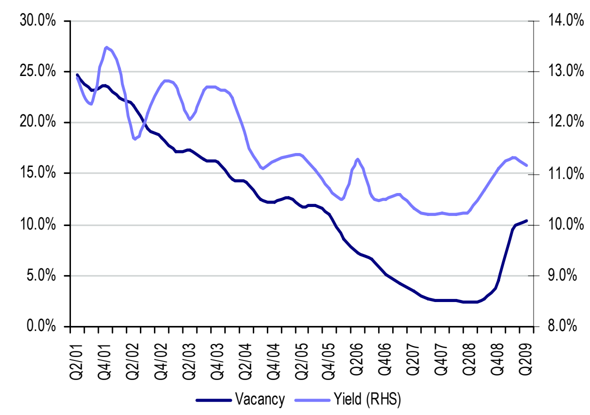
The strong correlation between vacancies and yields also suggests that as vacancies trend lower, yields will compress, leading to higher capital values.

Chart 9: Office vacancy versus yield (NCR)



Source: Jones Lang LeSalle REIS, UBS

Chart 10: Office vacancy versus yield (Mumbai)



Source: Jones Lang LeSalle REIS, UBS

Based on our expectations, we lower the capitalisation rates for Indian property companies for the short-term by 100bp to reflect the improved office valuations.

Table 2: Sensitivity to cap rate

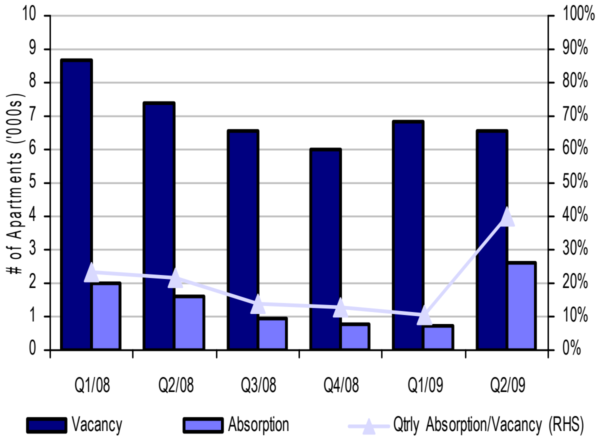
	Impact on NAV	
	DLF	**Unitech**
Cap rates up 10%	7%	3%

Source: UBS estimates

Residential pricing momentum likely in Q110

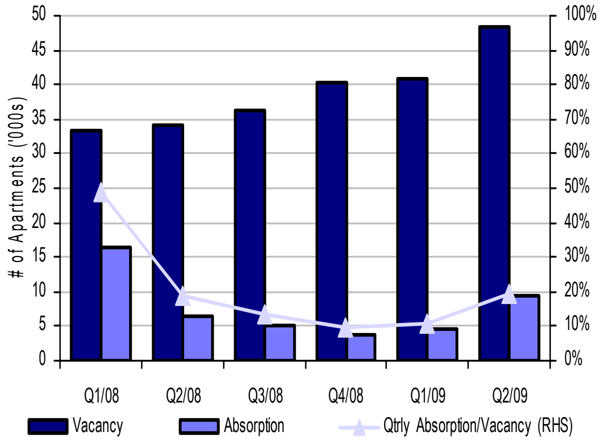
Volume momentum has remained strong, as seen from the property registration data we collect and the field data on absorption collected by JLL REIS.

Chart 11: Absorption versus vacancy (Mumbai)



Source: Jones Lang LeSalle REIS, UBS

Chart 12: Absorption versus vacancy (NCR)



Source: Jones Lang LeSalle REIS, UBS

Residential pricing has remained firm in recent months. We expect a more robust pick up in pricing in Q409, around the festive season. We think consumers can absorb price increases of about 20% from current levels, as affordability levels are comfortably low, and overall confidence levels have increased. We now estimate prices will increase 15-25% YoY over the next 18 months starting H2 FY10. However, price increases are likely to be more moderate compared with the previous cycle (2x over 2004-07 levels) and we expect a 75% increase only over six years, following the 30% drop in FY09.

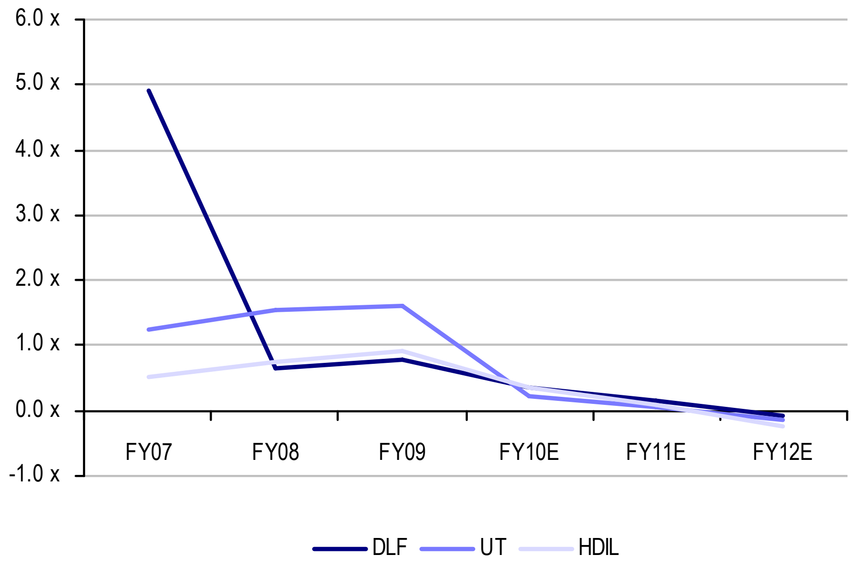
Table 3: Pricing changes

			Rates per sqf (Rs)						% change					
Sr. No.	City	Property/Developer	Oct'08	Dec'08	Mar'09	May'09	June'09	July'09	Oct/Dec	Dec/Mar	Mar/May	May/June	June/July	Remarks
1	Gurgaon	Unitech Uniworld City	6500	5800	5,400	5,400	5,490	5,500	-11%	-7%	0%	2%	0%	
2	Gurgaon	Central Park - Part I	7000	7000	6,500	6,500	7,000	7,000	0%	-7%	0%	8%	0%	
3	Gurgaon	Vipul greens, Sohna Road	4500	4000	3,600	3,600	3,600	3,700	-11%	-10%	0%	0%	3%	
4	Gurgaon	Express Greens, DLF	2350	2350	2,000	2,000	2,000	2,000	0%	-15%	0%	0%	0%	
5	Gurgaon	Uniworld Gardens II			2,995	2,995	2,995	2,995	NA	NA	0%	0%	0%	
6	Gurgaon	The Residences, Unitech				3,295	3,345	3,345	NA	NA	NA	2%	0%	
7	Noida	Mahagun, Maestro	5000	4500	4,300	4,300	4,530	4,776	-10%	-4%	0%	5%	5%	
8	Noida	Omaxe, Twin Towers	5500	5500	4,700	4,700	4,700	4,800	0%	-15%	0%	0%	2%	
9	Noida	Pearls Infrastructure	6500	6500	6,000	5,800	5,800	6,000	0%	-8%	-3%	0%	3%	
10	Noida	Grandeur, Gaursons	4000	4000	3,100	3,100	3,300	3,300	0%	-23%	0%	6%	0%	
11	Gr Noida	Parsvnath Platinum	2800	2800	2,500	2,500	2,500	2,550	0%	-11%	0%	0%	2%	
12	Gr Noida	Eldeco Riveria	3200	3200	3,100	3,000	3,000	3,100	0%	-3%	-3%	0%	3%	
13	Mumbai	Raheja Acropolis, Chembur	8500	8500	7,500	7,200	7,000	7,400	0%	-12%	-4%	-3%	6%	
14	Mumbai	Concrete, Chembur	10000	9800	7,500	7,200	7,200	7,391	-2%	-23%	-4%	0%	3%	
15	Mumbai	Kalpataru, Sidhachal	5500	5500	4,400	4,400	4,750	4,900	0%	-20%	0%	8%	3%	
16	Mumbai	OM Sai Sarav, Yogi Nagar	7500	7000	6,700	6,500	6,500	6,500	-7%	-4%	-3%	0%	0%	
17	Mumbai	Kanti Govani Projects, Chikuvwadi	6500	5700	5,500	5,500	5,500	5,500	-12%	-4%	0%	0%	0%	No open deal available in July
18	Mumbai	Phoenix Towers	30000	3000	25,000	22,90	28,000	30,00	0%	-17%	-8%	22%	7%	Only one deal asking 30,000/sft
19	Mumbai	Sidhivinayak Apartments	20000	2000	18,000	18,00	18,000	18,00	0%	-10%	0%	0%	0%	No open deal available in June
20	Mumbai	Neelkanth Greens	5200	5200	4,000	4,000	4,041	4,441	0%	-23%	0%	1%	10%	
21	Mumbai	Dosti Vihar	5850	5750	4,000	4,000	4,000	4,591	-2%	-30%	0%	0%	15%	
22	Mumbai	Srishti, Kalpataru	4750	3800	3,800	3,800	3,800	3,800	-20%	0%	0%	0%	0%	
23	Chennai	Arihant Escapade	4500	4500	4,150	4,150	4,150	4,150	0%	-8%	0%	0%	0%	
24	Chennai	DLF Garden City	3200	3200	2,650	2,450	2,650	2,650	0%	-17%	-8%	8%	0%	
25	Chennai	Puravankara Swanlake	3590	3500	3,300	3,300	3,300	3,300	-3%	-6%	0%	0%	0%	
26	Bangalore	Raheja Residency	6000	5500	4,700	4,700	4,500	4,600	-8%	-15%	0%	-4%	2%	
27	Bangalore	Sobha, Lavender	5000	4600	4,300	4,200	4,200	4,300	-8%	-7%	-2%	0%	2%	
28	Bangalore	DLF, New Town	2775	2775	1,850	1,850	1,850	1,850	0%	-33%	0%	0%	0%	
29	Bangalore	Brigade, Metropolis	3450	3450	2,990	2,800	2,600	2,750	0%	-13%	-6%	-7%	6%	

Source: UBS

Developers are following different models to tap this market but we do not take into account business models, as we believe the business models over the next few years would be structured to pay down debt, with low focus on ROE.

Chart 13: Net D/E



Source: Company data , UBS estimates

High margin or high volume—no focus on ROE as yet

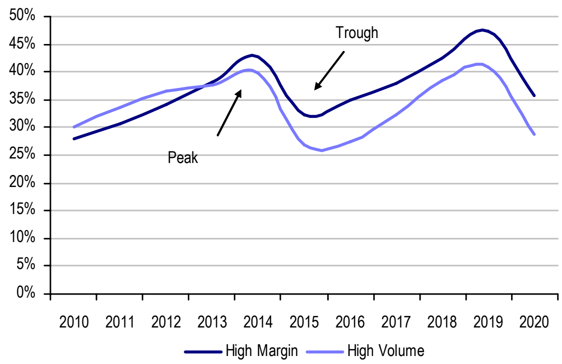
We carried out analysis to study the impact of different possible strategies: 1) high margin low volume business (luxury housing) or 2) high volume low margin business (mid-income housing). Our analysis suggests that a high margin (luxury) business will likely generate an IRR of 53%, while a mid-income business will likely generate 46%, not far below.

Table 4: IRR and basic assumptions

Particulars	High margin	High volume
Internal Rate of Return	53%	46%
Assumptions		
Average selling price (Rs/sf)	5500	2800
Construction cost (Rs/sf)	1400	1200
Land cost (Rs m/acres)	35	15
Target consumer income level (Rs m/year)	1.9	0.8
Volumes (msf / yr)	~4-5	~15
Price increase (YoY)	10%	10%
Const cost increase (YoY)	10%	10%
Rise Income levels	5%	5%

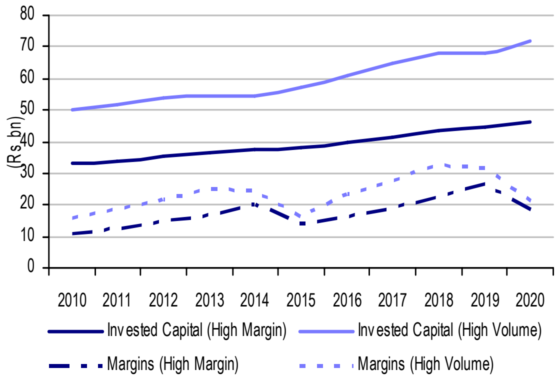
Note: assuming initial land holding equivalent to six years of construction
Source: UBS estimates

Chart 14: ROIC



Note: Invested capital is taken as cost of land equivalent to six years of construction
Source: UBS estimates

Chart 15: Invested capital and margin



Note: Invested capital is taken as cost of land equivalent to six years of construction
Source: UBS estimates

However, the results of the analysis suggests developers' IRR is highly sensitive to land cost and property prices. As shown in the following table, a 10% reduction in land cost (Rs psf) may increase IRR. Hence, we think developers will follow strategies that maximise their return on land in the long term. However, given they are just emerging from the financial crisis with high gearing, we expect most to adopt strategies turnover assets to lower the debt.

Table 5: IRR is highly sensitive to pricing assumptions

IRR	Land cost		
	+10%	0%	-10%
High margin business	44%	53%	65%
High volume business	38%	46%	58%

Source: UBS estimates

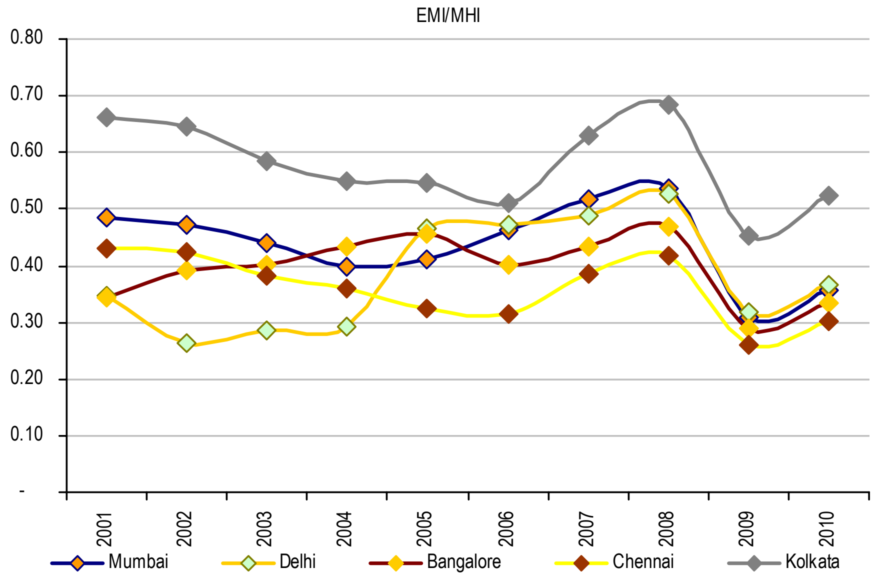
What is our lead indicator telling us?

Interest rate levels and the affordability indicators suggest there is still room for growth in the residential sector.

Key indicator 1: Affordability

Historical data suggests property price correct when affordability increases beyond the long-term average. Affordability ratios in India are still comfortably below the long-term averages for various cities. We think the market can absorb a round of price increases comfortably, despite increases to interest rates, without impacting volumes significantly, as the following chart shows.

Chart 16: Affordability (assuming 25% price increase in FY10)



Source: UBS estimates

Changes to our estimates

1) DLF

We increase our EPS estimates and price target to reflect lower cap rates and potential price increases following higher volumes. We now assume 100% payment receipt from DAL (earlier we had assumed Rs15bn outstanding in FY10E) and nil non-core asset sales, except those already announced. We increase our FY10/11/12 estimates for revenue and PAT (recurring) by 0%/10%/10% and 2%/26%/38%, respectively, on the following changes in our assumptions:

1. 100bp lower cap rates for commercial/retail in FY11E.
2. 15-25% increase in residential projects over 18 months.

To reflect the impact of an increase in pricing in FY11E, we now take 2x P/BV for land cost (remaining after FY14) in our NAV calculations. After adjusting for these changes, our new NAV comes to Rs310 (up 24% from Rs251 previously).

Table 6: Changes to our estimates—DLF

Rs m	FY10E			FY11E			FY12E		
	New	Old	% chg	New	Old	% chg	New	Old	% Chg
Sales	72,717	72,373	0%	98,403	89,841	10%	118,168	106,966	10%
EBITDA	34,833	34,941	0%	50,509	43,249	17%	57,839	46,107	25%
EBITDA Margin	47.9%	48.3%	-38 bps	51.3%	48.1%	319 bps	49%	43.1%	584 bps
Recurring PAT	20,356	19,959	2%	35,577	28,326	26%	46,517	33,817	38%
EPS	11.9	11.7	2%	21.02	16.61	26%	27.31	19.83	38%

Source: UBS estimates

2) We also change our revenue and PAT (recurring) estimates for Unitech by 3%/2%/8% and 4%/2%/11%, respectively, in FY10/11/12 to take into account a 15% increase in prices over the next 18 months, compared with 10% previously, and lower cap rates by 100bp in the near term.

Table 7: Changes in our estimates—Unitech

Rs m	FY10E			FY11E			FY12E		
	New	Old	Chg	New	Old	Chg	New	Old	Chg
Revenue	29,276	28,402	3%	32,916	32,116	2%	36,812	34,007	8%
EBITDA	12,561	11,985	5%	13,036	12,480	4%	15,956	14,356	11%
EBITDA margin	43%	42%	71 bps	40%	39%	74 bps	43%	42%	113 bps
PAT	12,034	11,736	3%	13,677	13,449	2%	12,585	11,388	11%
EPS	5.04	4.92	3%	5.73	5.64	2%	5.27	4.77	11%
Recurring EPS	3.37	3.24	4%	4.05	3.96	2%	5.27	4.77	11%

Source: UBS estimates

Valuation—downgrade rating on DLF to Sell

Following the increases in our estimates, we raise our price target for DLF to Rs380. We base our price target on a 20% premium to the DCF-based NAV. We calculate our NAV (FY10E) as present value for the projects launched till FY14 plus land cost remaining after that at P/BV of 2x. In our view, the stock commands a premium over its peers because of its better execution capability and quality land bank. However we believe its current valuations are difficult to justify, and downgrade our rating on the stock to Sell.

The upside risks to our estimates include 1) a higher-than-expected increase in property prices; 2) a better-than-expected cap rate compression and 3) any liquidity event related to DLF Assets (DAL).

We retain our Buy ratings on Unitech and IBREL. We base our price target for Unitech on a 20% premium to the DCF-based NAV. We calculate our NAV (FY10E) as present value for the projects launched till FY14 plus land cost remaining after that at P/BV of 1.2x. We base our price target for IBREL on a sum-of-the-parts NAV valuation.

Table 8: DLF NAV calculations

	FY10E	
	Rs m	**Rs/share**
Development properties	229,115	134
Investment properties	159,321	93
Value of land not launched till 2014	166,830	98
Value of land at nil cost	11,250	7
Value of LOR	3,535	2
Value for hotels	33,000	19
Value for power	6,000	4
Gross Asset Value	609,050	357
Gross Asset Value (+20% premium)	730,860	429
Net debt	(81,074)	(48)
Net asset value	527,975	310
Equity value	649,785	381
# of shares	1,705	

Source: UBS estimates

Table 9: Unitech NAV calculations

	FY10E	
	Rs m	**Rs/sh**
Development properties	100,858	42
Investment properties	60,137	25
Gross value	160,995	67
Mumbai land	11,361	5
Land not launched till FY14	55,590	23
Gross value of real estate business	227,946	96
Add: valuation of other businesses		
Hotels	7,652	3
Value of UCP	11,520	5
Fund management fees	4,982	2
Telecom investment	20,056	8
Other business	1,727	1
Gross asset value (GAV)	273,883	115
Less: Land cost to be paid	(14,337)	(6)
Less: Net debt	(7,731)	(3)
Net firm value	251,815	106
Premium of GAV (@20%)	54,777	25
Equity value	302,178	130

Source: UBS estimates

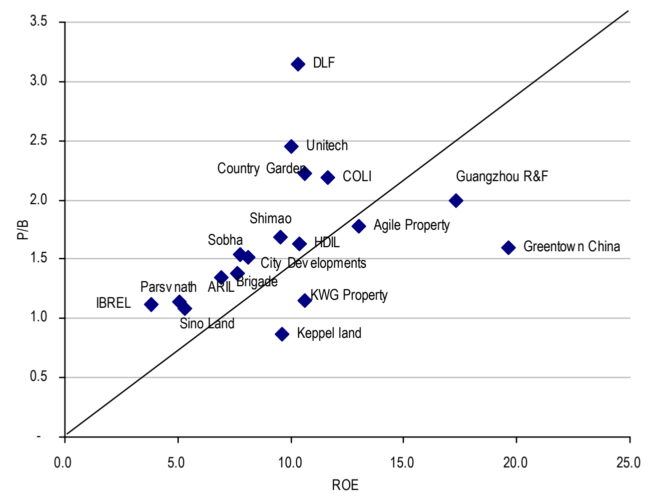
Table 10: IBREL NAV calculation

	FY10E	
	Rs m	**Rs/Sh**
Jupiter + Elphinstone mills	14,198	35
Residential	20,879	51
IT Parks	7,792	19
Goa project	1,200	3
Total	44,069	108
Cost of land	17,973	44
Net cash in IBREL (Rs/sh)	28,281	70
Net cash in Raigad (Rs/sh)	10,990	27
Retail venture	4,907	12
Power	27,229	67
No. of shares (incl. warrants)	407	
Value (Rs/sh)		
Before SEZ	328	
Nashik SEZ value (Rs m)	5,000	12
Incl. Nashik SEZ	340	340

Source: UBS estimates

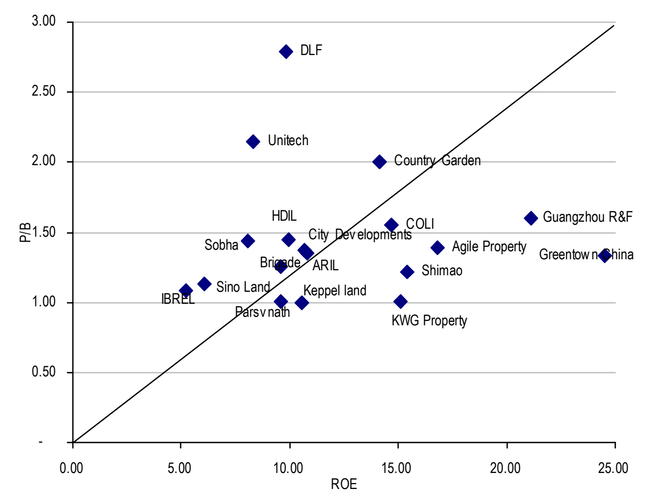
India real estate developers continue to trade at higher multiples than other real estate companies in the region, either on a P/BV basis or a P/NAV that could be attributed to their lower land costs.

Chart 17: ROE vs P/BV (FY10/2009)



Note: Consensus estimates from Bloomberg
Source: Bloomberg, UBS estimates

Chart 18: ROE vs P/BV (FY11/2010)



Note: Consensus estimates from Bloomberg
Source: Bloomberg, UBS estimates

Table 11: Sensitivity analysis

	NAV % change	Revenue % change	EPS % change
DLF			
Discount Rate down 100bp	1%	0%	0%
Volumes up 10%	3%	3%	3%
Current Prices increase by 10%	7%	9%	26%
Cap Rate down by 100bp	7%	4%	13%
Unitech			
Discount Rate down 100bp	2%	0%	0%
Volumes up 10%	5%	5%	6%
Current Prices increase by 10%	11%	3%	6%
Cap Rate down 100bp	3%	0%	0%
Indiabulls			
Discount rate down 100bps	1%	0%	0%
Volumes up 10%	1%	1%	2%
Current Prices up by 10%	4%	6%	16%

Source: UBS estimates

Table 12: Valuation table

Company	Rating	Price Target	Price 31-Aug-09	Mcap USDm	PE FY09	PE FY10E	PE FY11E	EPS Growth (%) FY09	EPS Growth (%) FY10E	EPS Growth (%) FY11E	Premium (discount) to NAV	Land bank (msf)	Forward NAV (lcy)
India													
DLF Universal	Sell	380	424.2	14,800	15.6	36.2	25.5	(41)	(57)	42	36.8%	425	310
Unitech Limited	Buy (CBE)	132	106.8	5,213	14.5	20.8	19.4	(28)	(31)	7	0.7%	621	106
Indiabulls Real Estate	Buy	340	274.1	2,250	68.2	34.8	21.4		96	62	-19.4%	199	340
Ansal Properties & Infra	Not Rated		80.5	190	29.8	27.3	16.2	(80)	9	69		150	NA
Peninsula Land Limited	Not Rated		89.1	509	18.8	6.6	2.5		186	162	-31.5%	5	130
Mahindra Gesco	Not Rated		371.2	147	23.5	19.1	12.3	493	23	56		17	NA
Anant Raj Ind	Not Rated		147.0	888	13.6	17.7	15.0	(21)	(23)	19	-46.5%	20	275
Sobha Developers	Not Rated		247.1	496	16.7	21.2	15.8	5	(21)	34		220	NA
Parsvnath	Not Rated		124.4	470	20.4	21.2	19.0		(4)	11		108	NA
HDIL	Not Rated		317.4	2,246	11.1	18.6	14.6		(40)	28	-20.7%	135	400
Brigade	Not Rated		126.7	291	16.4	20.7	10.4		(21)	99		30	NA
China													
Guangzhou R&F	Buy	24.7	12.7	5,263	20.2						-14.2%	253	14.75
Greentown China Holdings	Buy	21.1	9.3	1,817	7.7	7.7	6.2	98	-	25	-54.8%	108	20.45
Hopson Development Holding	Buy	21.4	11.4	1,890	9.3	6.0	4.9	(32)	55	23	-69.9%	161	37.87
Hong Kong													
Property Investors													
HK Land	Buy	5.1	4.1	9,155	24.8	14.3	12.1	(65)	73	18	-51.5%	7	8
Wharf Holdings	Buy	45.2	34.8	12,347	20.9	18.7	17.8	(16)	12	5	-48.0%	20	67
The Link Real Estate Investment Trust	Buy	19.9	17.1	4,775	20.1	20.3	19.2	13	(1)	6	-15.8%	-	20
Other Asian Players													
Ciputra	Buy	970.0	760.0	574	24.6			20					
Summarecon	Buy		500.0	343	34.2	25.2	22.7	(41)	36	11			
Central Pattana	Buy	25.0	20.9	1,339	20.9	19.3	16.7	22	8	16			
Land & houses	Buy	7.7	6.0	1,769	17.4	15.9	15.4	(5)	9	4			
S.P. Setia	Buy	5.5	4.5	1,293	21.3	24.4	19.8	(19)	(13)	23			
IGB Corp	Neutral	1.9	1.8	766	18.1	18.5	17.2	8	(2)	7			
KLCC Prop	Buy	4.0	3.3	875	5.8	12.3	11.4	21	(53)	7			

Note: Consensus estimates from Bloomberg.
Source: Bloomberg UBS estimates

We would like to thank Arun Aggarwal for his assistance

■ Statement of Risk

The main risks to investing in Indian property are 1) macro interest rate related; 2) property prices; 3) execution-related risks, including obtaining approvals; and 4) relatively higher levels of gearing compared with companies elsewhere in the region

UBS Investment Research

Asian Economic Comment

India: Industrial Turnaround

1 September 2009

www.ubs.com/economics

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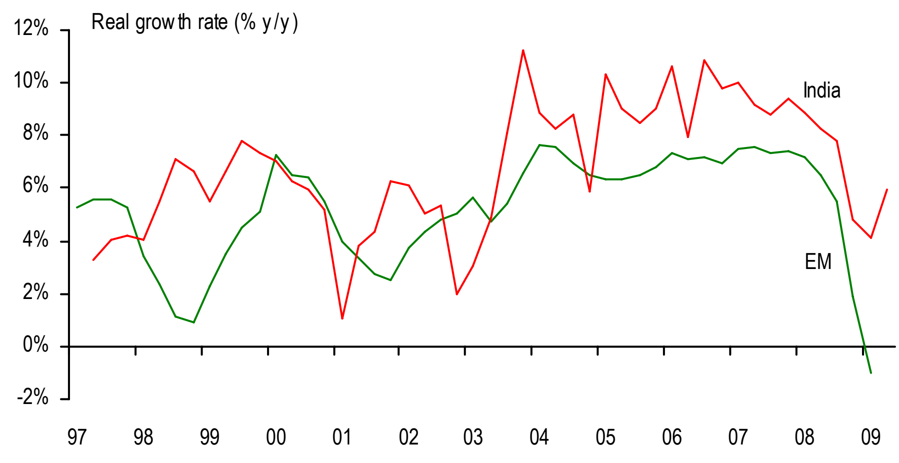
- **Industrial recovery** - Real GDP growth bottomed out in June. Industrial & manufacturing output rebounded strongly (Charts 6 & 11). A very significant rebound in quarterly seasonally-adjusted-annualised terms - Charts 7-12). On an expenditure basis, consumption and investment were both weaker (Charts 10 & 12) – improved net exports, not domestic demand were the booster in June (Chart 4).
- **Looking ahead -** Industrial recovery set to continue through 2009-10, little affected by the rainfall shortage. But from an overall GDP perspective the main thing is how much the drop in agricultural output drags down overall GDP in Dec-Mar quarters (as happened in 2002-03). 2001-2 and 2004-5 also saw deficient rainfall, but less serious than 2002-3 experience (ringed in Charts 8-13). In H2 consumption & investment should rebound to c.6%.

Table 1: Real GDP growth by component (output & expenditure basis)

%y/y in real terms	Mar-09	Jun-09		Mar-09	Jun-09
GDP (expend)	4.1%	6.0%	**GDP (output)**	5.8	6.1
Consumption	2.7%	1.6%	**Agriculture**	2.7	2.4
Government	21.5%	10.2%	**Industry**	-0.5	4.2
Investment	6.4%	4.2%	**Mining**	1.6	7.9
			Manufacturing	-1.4	3.4
Exports	-0.8%	-10.9%	**Electricity**	3.6	6.2
Imports	-5.7%	-21.2%	**Services**	8.4	7.7

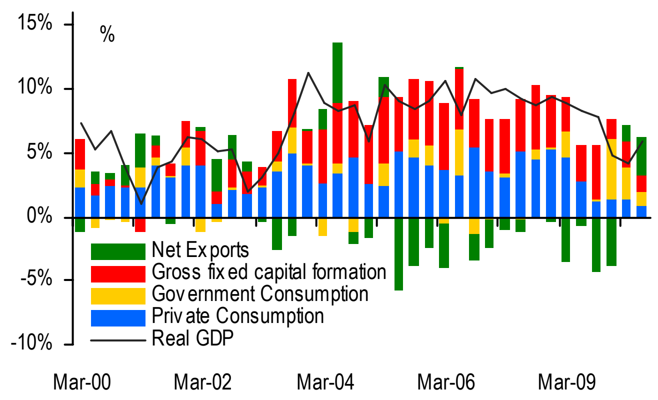
Source: CEIC, Bloomberg

Chart 1: India recovery in an EM context



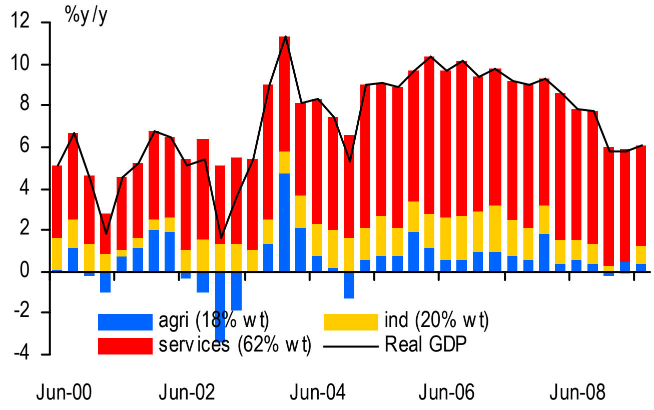
Source: CEIC, Datastream, Haver, UBS

Chart 2: GDP by expenditure contribution



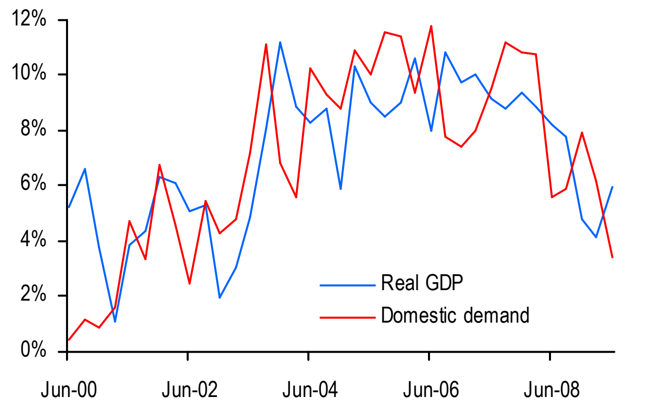
Source: CEIC, UBS

Chart 3: GDP by output contribution



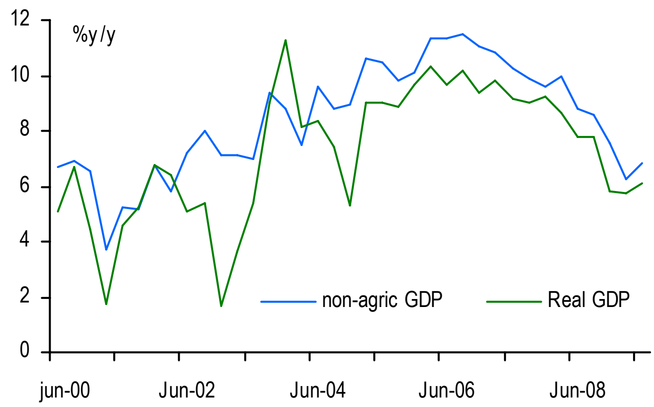
Source: CEIC, UBS

Chart 4: Domestic demand yet to recover



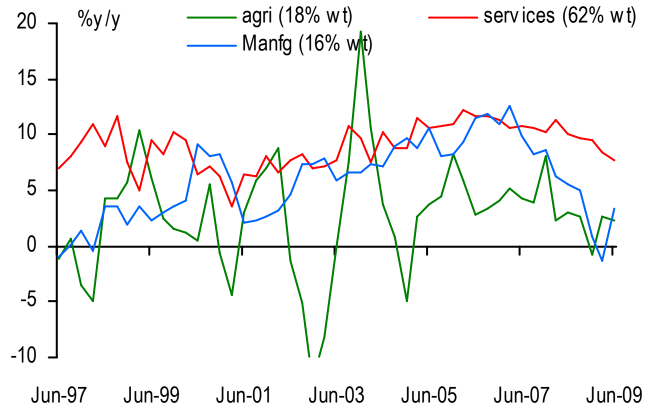
Source: CEIC, UBS

Chart 5: A non-agri-recovery



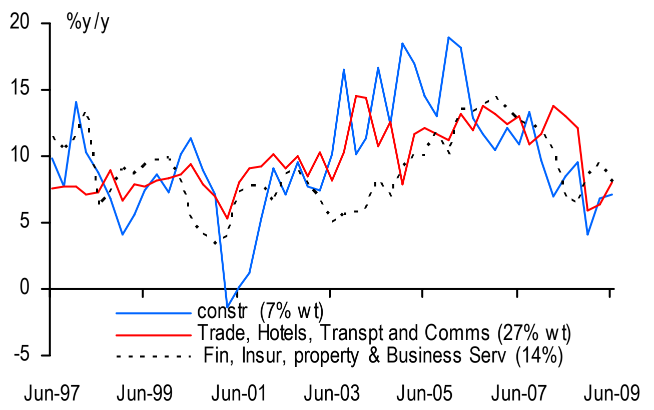
Source: CEIC, UBS

Chart 6: GDP by industry



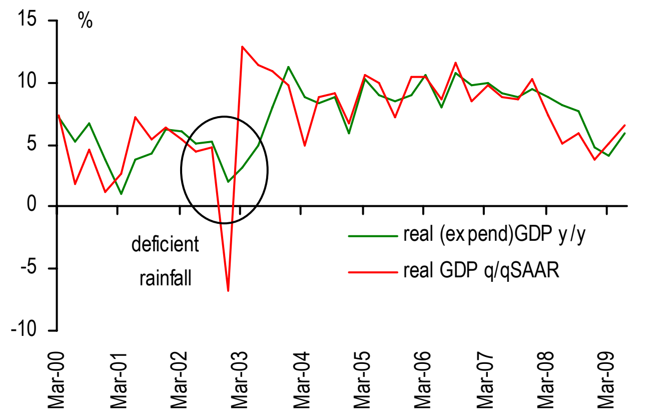
Source: CEIC, UBS

Chart 7: Services breakdown



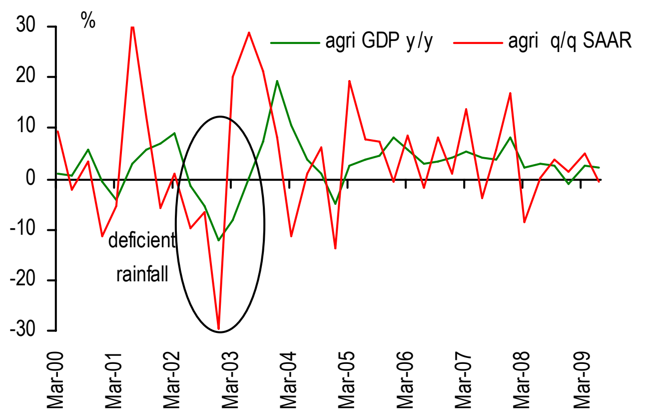
Source: CEIC, UBS

Chart 8: Real GDP recovery y/y versus q/q seasonally adjusted



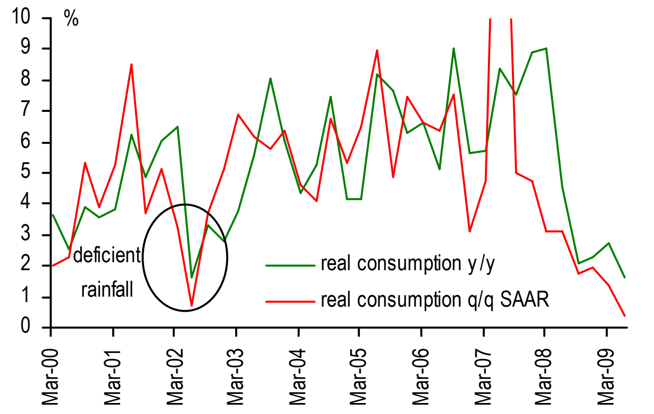
Source: CEIC, UBS

Chart 9: Real agri-output – we expect 2-3% drop in 2009-10



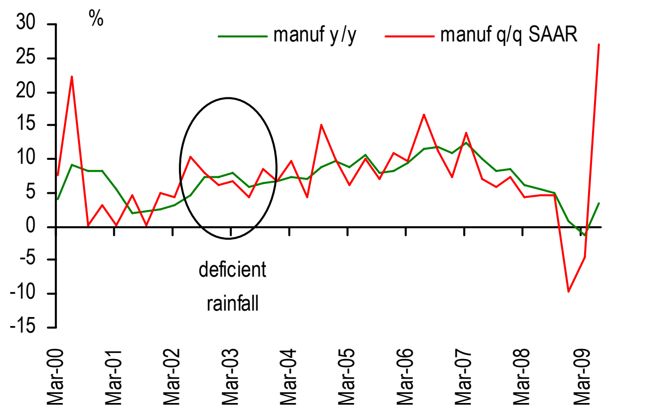
Source: CEIC, UBS

Chart 10: Real consumption still sags however measured



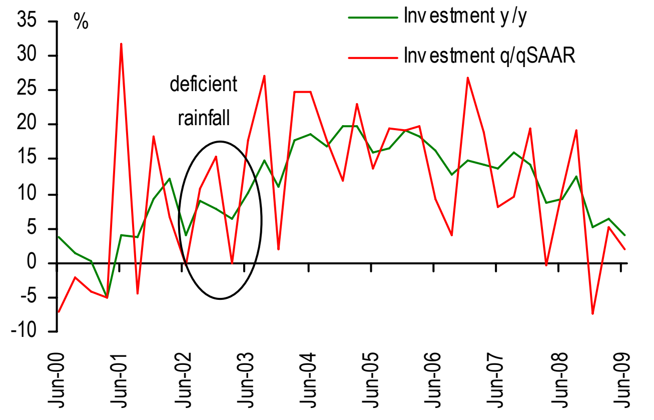
Source: CEIC, UBS

Chart 11: Manufacturing output q/q huge rebound



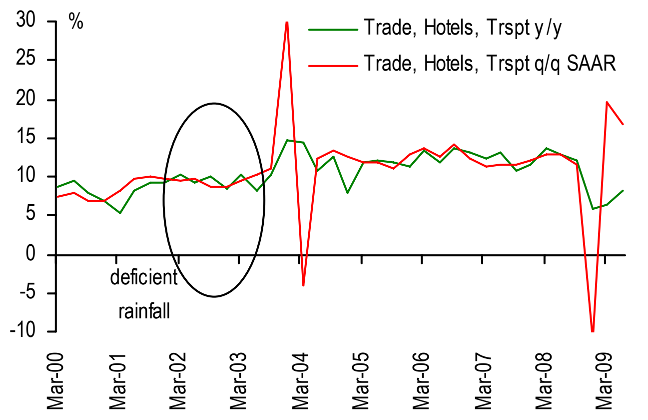
Source: CEIC, UBS

Chart 12: Real capex yet to turnaround



Source: CEIC, UBS

Chart 13: Main services recover – NB not sensitive to drought



Source: CEIC, UBS

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UBS 12-Month Rating	Rating category	Coverage[1]	IB services[2]
Buy	Buy	**44%**	38%
Neutral	Hold/Neutral	**39%**	36%
Sell	Sell	**17%**	25%

UBS Short-Term rating	Rating category	Coverage[3]	IB services[4]
Buy	Buy	**less than 1%**	33%
Sell	Sell	**less than 1%**	33%

1: Percentage of companies under coverage globally within the 12-month rating category.
2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3: Percentage of companies under coverage globally within the Short-Term rating category.
4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.
Source: UBS. Rating allocations are as of 30 June 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
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Company Disclosures

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Bajaj Auto	BAJA.BO	Sell	N/A	Rs1,224.80	01 Sep 2009
DLF Limited	DLF.BO	Suspended	N/A	Rs424.20	31 Aug 2009
Hero Honda Ltd.	HROH.BO	Neutral	N/A	Rs1,534.75	01 Sep 2009
Indiabulls Real Estate[13]	INRL.BO	Buy	N/A	Rs274.10	31 Aug 2009
Mahindra & Mahindra	MAHM.BO	Buy	N/A	Rs847.30	01 Sep 2009
Maruti Suzuki India	MRTI.BO	Buy	N/A	Rs1,545.95	01 Sep 2009
Reliance Communication Limited[2,4]	RLCM.BO	Buy	N/A	Rs260.50	31 Aug 2009
Tata Motors Ltd.[16,22]	TAMO.BO	Sell	N/A	Rs517.85	01 Sep 2009
Unitech[2,4,5,6,13,20]	UNTE.BO	Buy (CBE)	N/A	Rs106.75	31 Aug 2009

Source: UBS. All prices as of local market close.
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