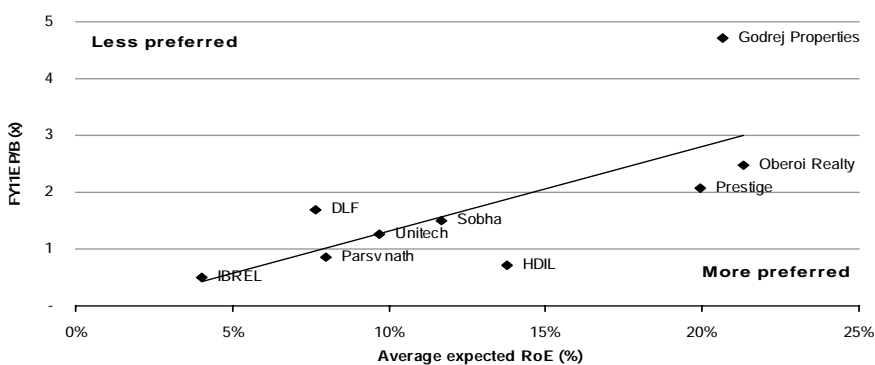


India Property Sector

INITIATION

Dark clouds: Prefer cash flows over leverage

Figure 1: FY11 P/B versus average ROE comparison for our coverage universe



Source: Company data, Credit Suisse estimates

Given the recent sharp correction in property stocks, the sector might present short-term buying opportunities on a trading basis, but long-term investors are likely to be more cautious and selective in picking stocks going forward given the recurring disappointment from developers over the past 18 months and tough property market outlook if prices do not witness a 10-30% correction.

- FY12 could be a challenging year for volumes.** Volumes in major cities are showing signs of slowdown owing to property prices scaling new highs, as evident from developers' weak 1H FY11 pre-sales. At current affordability levels and with mortgage rates expected to go up, we see hardly any room left for further price increases and expect disappointment on volumes to continue in FY12, unless property prices correct by 10-30%.
- Cash generation critical with liquidity tightening.** Despite a buoyant property market for most of the past 18 months, operating cash flows have remained weak for most developers. Debt financing, which has been the major source of funding, is expected to dry up given tight liquidity in the banking sector, tighter lending norms after the recent bribery scam and unlikely rollover of the restructured real estate loans. Hence, internal cash flow generation by cutting prices and focusing on volumes shall be the key.
- Fundamentals to drive sustained outperformance.** We expect developers with no or low gearing, stronger operating cash flow generation and higher ROEs to outperform as it gives them flexibility of reinvesting in new projects leading to NAV growth, paying down debt resulting in upside to equity holders, and managing the timing of property sales and land purchases. Our top picks are Oberoi, Sobha and IBREL while DLF is our top UNDERPERFORM. In this report, we initiate coverage on Oberoi Realty, Prestige Estates, Godrej Properties and HDIL.

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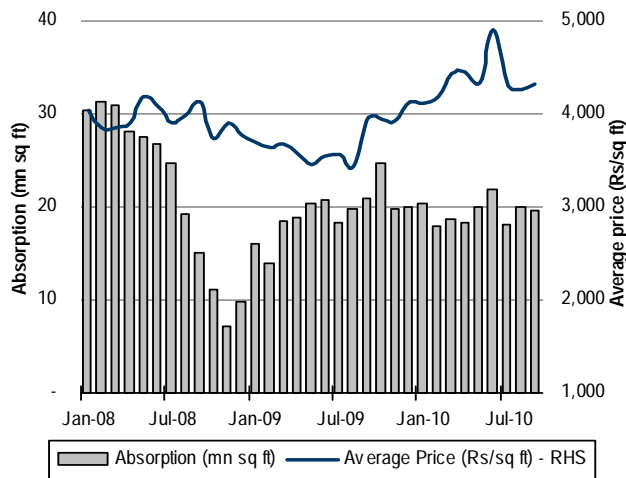
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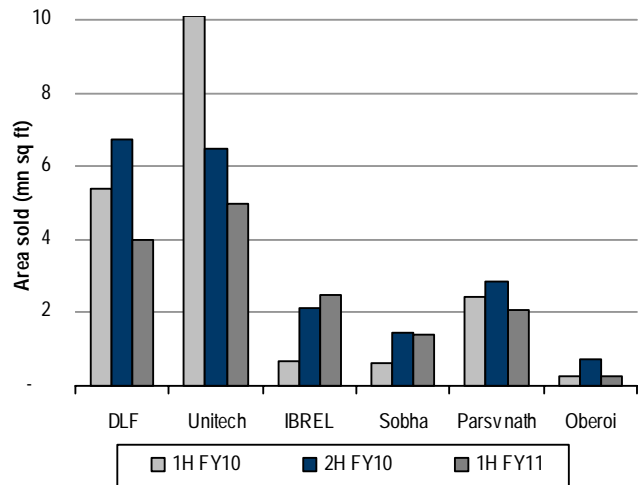
Focus charts and tables

Figure 2: Volumes beginning to show signs of slow down, all India* (ex-Noida) volumes declined 4% QoQ in 3Q CY10



*Aggregate of MMR, Gurgaon, Bangalore, Chennai, Kolkata, Hyderabad, Pune Source: PropEquity data

Figure 3: Pre-sales volumes for major developers have disappointed in 1H FY11



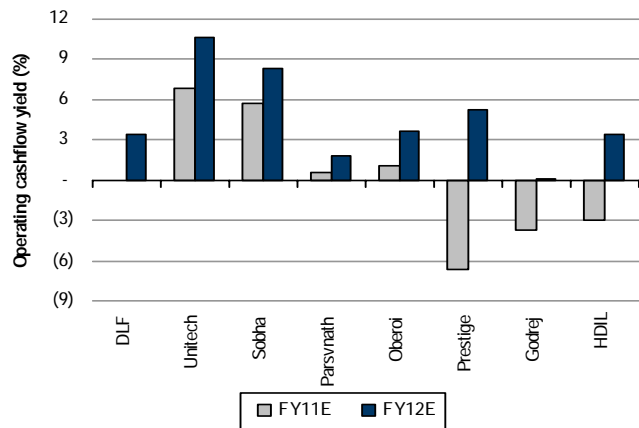
Source: Company data, Credit Suisse estimates

Figure 4: Developers have recently disappointed against market expectations on multiple parameters

	Volumes	Cash flows	Debt reduction	Earnings
DLF	Below	Below	Below	Below
Unitech	Below	In line	In line	Below
IBREL	Above	Below	-	In line
Sobha	In line	In line	In line	Above
Parsvnath	Below	Below	Below	In line
HDIL	Above	Below	In line	Below

Source: Company data, Credit Suisse estimates

Figure 5: Operating cash flow yields appear attractive for Unitech and Sobha



Source: Company data, Credit Suisse estimates

Figure 6: India real estate valuation summary

Company	Rating	Share price (lcy)	Target price (lcy)	+/- (%)	Mkt cap (\$ bn)	Fwd NAV (lcy/sh)	(Disc)/Prem (%)	Core P/E (x)			P/B (x)	ROE (%)	Gearing (%)
								FY10	FY11E	FY12E			
DLF	U	250	221	(12)	9.4	280	(11)	24.7	20.3	23.3	1.6	7	71
Unitech	O	57	76	33	3.3	106	(46)	20.8	18.1	13.1	1.2	9	39
IBREL	O	118	188	59	1.1	242	(51)	(215.0)	23.7	14.0	0.5	4	51
Sobha Developers	O	270	375	39	0.6	609	(56)	20.1	15.2	12.2	1.3	11	45
Parsvnath	U	52	45	(13)	0.5	88	(41)	15.1	11.2	9.7	0.7	8	35
Oberoi Realty	O	245	309	26	1.8	338	(28)	15.5	14.5	11.0	2.1	21	(38)
Prestige Estates	O	135	180	33	1.0	261	(48)	24.1	15.9	9.0	1.6	20	5
Godrej Properties	N	594	581	(2)	0.9	652	(9)	34.0	34.3	21.6	4.1	20	67
HDIL	N	157	189	20	1.4	295	(47)	9.9	6.5	4.4	0.6	13	16

Prices as of 17 January 2011 Source: Company data, Credit Suisse estimates

Dark clouds: Prefer cash flows over leverage

Despite a favourable property market over the past 18 months, developers have disappointed on multiple grounds with respect to earnings growth, cash flow generation, pre-sale volumes, debt reduction and monetisation of non-core assets. As a result, despite the 29% underperformance of the sector in the past 3 months, investors are likely to be more selective in picking stocks, and we expect developers such as Oberoi, Sobha, IBREL, Prestige and Unitech, with no or low gearing, stronger operating cash flow generation and higher ROEs, to outperform.

Developers choose price hikes over volume growth

Property prices forming new highs in major cities clearly indicate that developers chose higher prices over stronger volumes at the onset of market recovery. Property prices in Mumbai Metropolitan Region (MMR) and Gurgaon were up 30% and 24% YoY, respectively, in October 2010. As a result, volumes have begun to witness a slowdown, and the same is also visible from lower-than-expected sales bookings reported by major developers for 1H FY11. Given the strong volume growth being guided by practically every developer, we believe the possibility of a disappointment over volumes for developers is quite likely. At current affordability levels, though we see hardly any room left for further property price increases, we believe that latent demand continues to be strong, and a 10-30% price correction should stimulate real estate demand once again.

10-30% price correction across cities required to stimulate demand again

Weak cash flows + tightening liquidity = tough times

Despite strong pre-sales over the past 18 months, rising property prices and pick-up in construction activity, operating cash flows after interest payments and taxes have remained extremely weak for most developers. DLF, HDIL and Godrej Properties have reported negative cash flows, while Unitech, Oberoi and Sobha have managed to generate positive cash flows which, however, are still below expectations. If pre-sale volumes see a slowdown in FY12, cash flows are unlikely to see a significant improvement from the current levels. Further, owing to liquidity tightening, developers are expected to face difficulties in funding their construction spend and interest expense. Going forward, developers focusing on volumes, faster land monetisation and internal cash flow generation should outperform price and margin-focused players.

Internal cash flow generation essential to fund operations in tightening liquidity environment

Fundamentals to drive sustained outperformance: Top picks - Oberoi, Sobha, IBREL, Prestige & Unitech

We expect developers with no or low gearing, stronger operating cash flow generation and higher ROEs to outperform as it gives flexibility for: (1) reinvestment in new projects leading to NAV growth; (2) paying down debt resulting in upside to equity holders; and (3) managing the timing of property sales and land purchases. We like Oberoi for its healthy balance sheet and NAV growth prospects, Sobha Developers for its volume focus and debt repayment, IBREL for its cheap valuations and value unlocking through proposed restructuring, Prestige for its strong presence across all verticals and Unitech on expectations of strong cash flow generation. We expect underperformance from DLF, owing to weak cash flow generation and pursuit of a high-risk strategy and, Parsvnath, owing to expected difficulties in upcoming debt repayments.

Earnings growth, cash flow generation, and management strategy shall hold the key going forward

Company initiations and updates

We initiate coverage of Oberoi Realty (26% potential upside) and Prestige Estates (33% potential upside) with OUTPERFORM ratings and on Godrej Properties and HDIL with NEUTRAL ratings, taking our coverage in the sector to nine stocks. We also revise our volumes and margins assumptions on the stocks under our existing coverage.

Initiate coverage of Oberoi (O), Prestige (O), Godrej Properties (N) and HDIL (N)

Regional valuation summary

Figure 7: Real estate regional valuation summary

Company	Rating	Share price (lcy)	Target price (lcy)	+/- (%)	Mkt cap (\$ bn)	Fwd NAV (lcy/sh.)	(Disc)/Prem (%)	Core P/E (x)			P/B (x)	RoE (%)	Gearing (%)
								FY10	FY11E	FY12E			
India – developers													
DLF	U	250	221	(12)	9.4	280	(11)	24.7	20.3	23.3	1.6	7	71
Unitech	O	57	76	33	3.3	106	(46)	20.8	18.1	13.1	1.2	9	39
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HDIL	N	157	189	20	1.4	295	(47)	9.9	6.5	4.4	0.6	13	16
Hong Kong – developers													
Cheung Kong	O	134	146	9	39.9	145	(7)	19.4	15.9	11.0	1.1	11	(1)
Sino Land	O	17	22	35	10.4	23	(28)	23.0	12.3	9.0	1.2	12	18
Sun Hung Kai Props	O	139	167	20	45.9	156	(11)	25.7	14.1	12.6	1.3	10	4
Kerry Properties	N	43	49	14	8.0	55	(21)	40.0	19.1	10.9	1.1	11	18
Henderson Land	O	56	68	22	15.6	85	(35)	19.6	25.1	13.4	0.8	6	21
Hong Kong – investors													
Great Eagle	O	25	36	43	2.0	47	(46)	13.8	14.5	13.6	0.7	5	13
Hang Lung Properties	N	35	36	3	20.2	37	(4)	20.8	15.8	15.6	1.7	11	(10)
Hong Kong Land	O	8	8	11	17.1	9	(15)	22.8	22.1	25.0	1.2	0	15
Hysan	O	38	39	1	5.2	43	(11)	36.0	32.6	30.6	1.2	3	9
Swire	O	128	154	20	14.9	113	n.a.	25.3	13.9	17.3	1.1	7	11
Wharf	O	62	68	10	21.9	46	34	9.7	20.3	19.9	1.3	7	18
China – developers													
China Vanke A	O	8	12	47	12.3	13	(36)	17.4	13.9	9.1	1.8	21	24
Kaisa Group	O	3	3	22	1.7	6	(55)	27.0	10.8	10.0	2.2	21	60
China Overseas Land	U	15	16	7	15.8	18	(16)	16.5	15.5	13.4	2.3	18	27
China Resources Land	U	14	16	12	9.1	23	(37)	22.0	17.4	15.5	1.6	11	56
Greentown	U	10	8	(17)	2.0	20	(52)	18.7	15.1	8.6	1.4	17	168
Guangzhou R&F	N	12	10	(16)	5.1	19	(34)	15.7	10.7	8.5	1.6	21	111
Hopson	N	9	10	7	2.1	25	(63)	6.3	5.5	4.2	0.5	12	35
Shimao Property	O	13	15	18	5.9	22	(41)	16.1	13.4	10.7	1.7	16	55
Singapore – developers													
Allgreen Properties	O	1	2	42	1.4	2	(44)	11.4	10.4	8.1	0.7	9	14
Capitaland	O	4	4	18	12.5	5	(19)	14.4	25.0	26.8	1.2	5	35
City Developments	O	12	17	40	8.7	16	(21)	20.1	17.8	17.5	1.6	10	13
Keppel Land	N	5	4	(4)	5.3	5	(12)	19.5	10.9	14.6	1.6	12	5
Wing Tai Holdings	O	2	2	29	1.0	3	(38)	8.0	6.0	6.0	0.6	11	7

Prices as of 17 January 2011

Source: Company data, Credit Suisse estimates

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Developers choose price hikes over volume growth

Property prices surpassing pre-crisis levels and recently forming new highs clearly indicate that developers chose higher prices over stronger volumes at the onset of market recovery. Prices in Mumbai Metropolitan Region (MMR) and Gurgaon were up 30% and 24% YoY, respectively, in October 2010. Recent trends indicate that volume-mix has also shifted in favour of higher priced properties. Only 15% of all-India volumes in 3Q CY10 were transacted at prices below Rs2,500 per sq ft compared to 26% in 2009. As a result, volumes have begun to slow down, and the same is also visible from lower-than-expected bookings reported by major developers for 1H FY11. Given the strong volume growth being guided by practically every developer, we believe the possibility of a disappointment over volumes for developers is quite likely in the current volume slowdown environment.

Further, mortgage rates have started going up, as visible from withdrawal of several teaser home loan products, and expected to go up further on interest rate hikes by RBI. Affordability has deteriorated leaving little room for further price increases. However, latent demand continues to be strong as seen from the smart recovery in IT hiring, and consequently a 10-30% property price correction should stimulate demand once again.

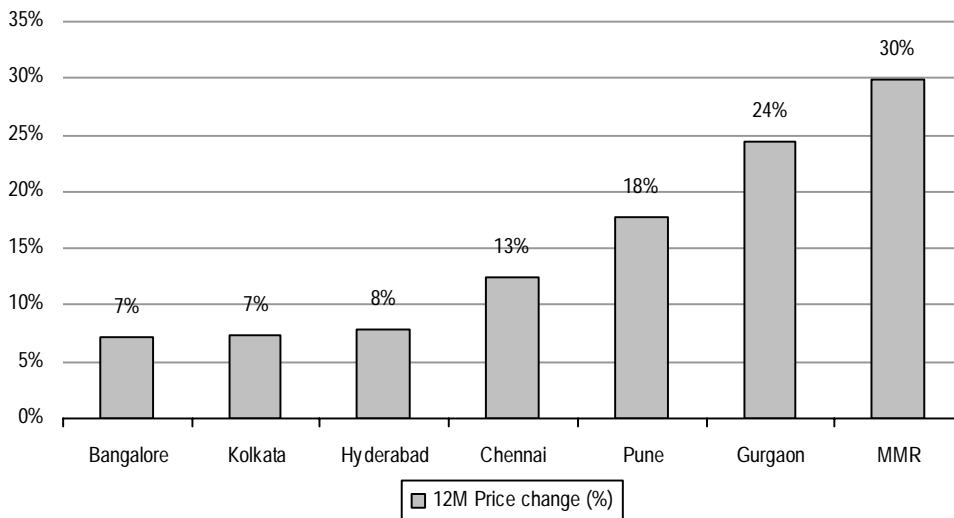
Strong volumes or higher prices? Developers chose the latter

Rise in property prices has been the core story of the real estate market over the past 12-18 months. At the onset of the recovery after a severe property price correction that occurred during 2008-09 as a result of the financial crisis, developers had the choice of either going for strong volume growth or take price increases. New price peak formations and stagnating volumes clearly indicate that developers chose to go after price increases.

Prices in major cities MMR and Gurgaon up 24-30% YoY

Property prices in prominent locations in major cities such as MMR and Gurgaon were up 30% and 24% YoY, respectively, in October 2010 and have even surpassed pre-crisis levels. Bangalore, Kolkata and Hyderabad witnessed property prices rising 7-8% YoY in October 2010.

Figure 8: Prices were up 30% YoY in MMR and 24% YoY in Gurgaon in Oct-10



Source: PropEquity data, Credit Suisse estimates

Volumes slowing down and developers' volumes likely to disappoint ahead

10-30% price correction should fuel volumes again

New price peaks and falling volumes clearly indicate the developers' chosen path

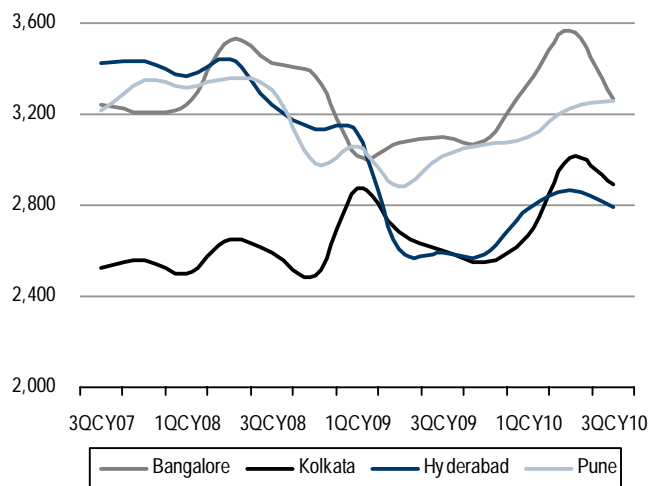
Prices up across all major cities during the past year

Average property prices now above pre-crisis levels

In terms of weighted average property prices, we find average prices in major cities have already surpassed pre-crisis levels during the past three to four months. All India (ex-Noida, Greater Noida) average prices in 2Q CY10 were higher than 3Q CY08 levels by 15%. Average prices in MMR and Gurgaon in 2Q CY10 were higher than 3Q CY08 levels by 10% and 17%, respectively. Similarly, 2Q CY10 prices in Kolkata and Bangalore were higher than 3Q CY08 levels by 16% and 4%, respectively. However, price momentum in cities such as Hyderabad and Pune has remained subdued, as 3Q CY10 prices were still 10-20% below pre-crisis levels.

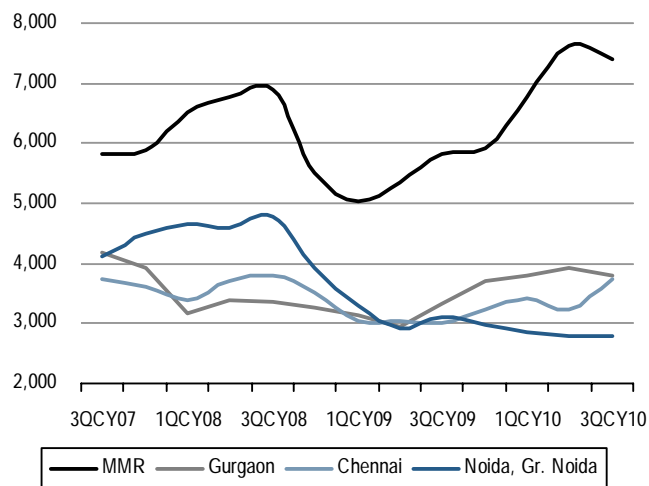
Prices surpassed pre-crisis levels in June-July 2010 itself

Figure 9: Average price (Rs/sq. ft) trend in major cities



Source: PropEquity data

Figure 10: Average price (Rs/sq. ft) trend in major cities



Source: PropEquity data

More recently, October 2010 weighted average prices in MMR were up 52% YoY, whereas 3Q CY10 average prices were up 28% YoY. All-India (ex-Noida) average prices in October 2010 were up 12% YoY and average prices for 3Q CY10 were up 17% YoY, though they witnessed a 6% correction QoQ.

Figure 11: Average prices in MMR up 52% YoY in October 2010, all-India (ex-Noida) prices up 12%

(Rs/sq. ft)	Oct-10	Oct-09	YoY (%)	3Q CY10	2Q CY10	3Q CY09	QoQ (%)	YoY (%)	YTD10	YTD09	Chg. (%)
MMR	8,509	5,602	52	7,414	7,616	5,810	(3)	28	7,379	5,420	36
Gurgaon	3,573	3,550	1	3,803	3,933	3,321	(3)	15	3,814	3,211	19
Bangalore	3,394	3,161	7	3,271	3,566	3,097	(8)	6	3,391	3,077	10
Chennai	4,005	3,128	28	3,730	3,228	3,017	16	24	3,587	3,045	18
Kolkata	2,837	2,702	5	2,894	3,010	2,600	(4)	11	2,866	2,716	6
Hyderabad	2,935	2,600	13	2,790	2,869	2,594	(3)	8	2,829	2,714	4
Noida, Gr. Noida	2,598	3,030	(14)	2,787	2,781	3,120	0	(11)	2,774	3,056	(9)
Pune	3,528	3,053	16	3,259	3,222	3,017	1	8	3,227	2,982	8
All India	3,726	3,789	(2)	3,658	3,763	3,574	(3)	2	3,754	3,574	5
All India (ex-Noida)	4,427	3,941	12	4,295	4,577	3,663	(6)	17	4,379	3,657	20

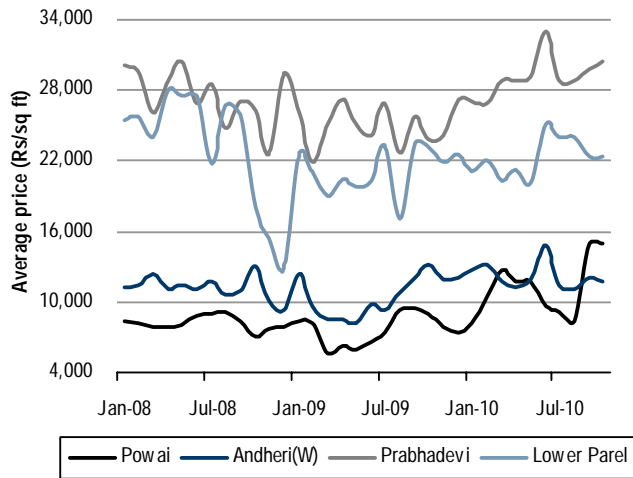
Source: PropEquity data, Credit Suisse estimates

Micro markets too depict prices surpassing previous highs

Though prices show a volatile trend when analysed at a micro market level, certain key micro markets clearly depict prices touching or surpassing pre-crisis levels in recent months. Within Mumbai, October 2010 prices in micro markets such as Prabhadevi and Andheri (West) were higher than June 2008 levels by 13% and 6%, respectively. Similarly, prices in micro markets in Gurgaon, such as Sector 66 and Sohna Road, have also crossed pre-crisis levels in the past three to four months.

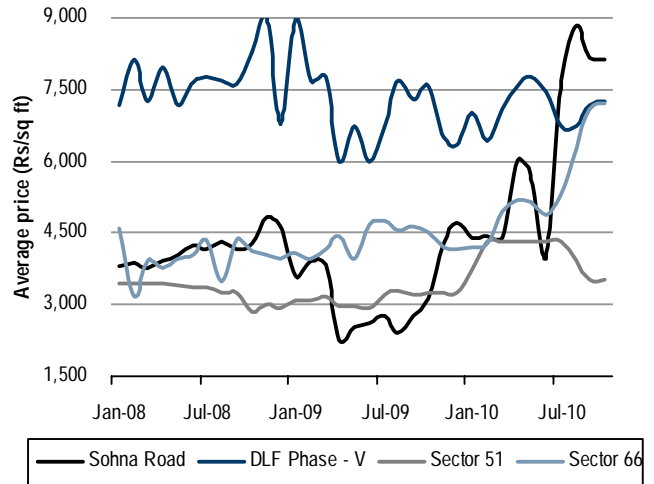
Micro market prices trend upwards, though volatile.

Figure 12: Price trend in micro markets in Mumbai



Source: Company data, Credit Suisse estimates

Figure 13: Price trend in micro markets in Gurgaon



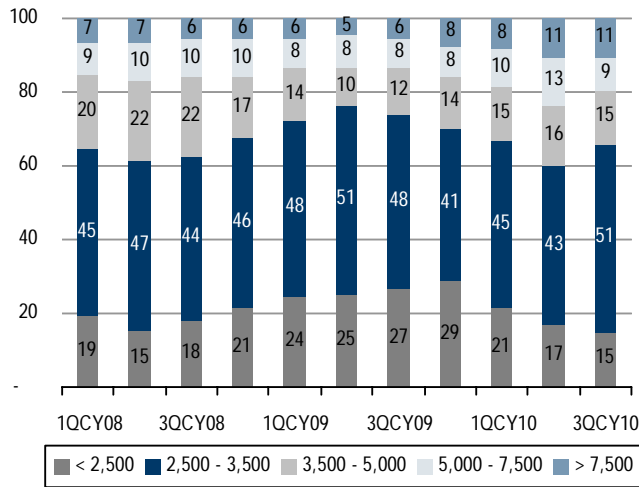
Source: Company data, Credit Suisse estimates

Volume mix has also shifted to the higher-priced segment

2010 witnessed a significant shift in the price-volume mix compared to the trend seen in the recent quarters. Only 15% of the volumes (ex. Noida and Greater Noida) in 3Q CY10 were transacted at price levels below Rs2,500/sq. ft compared with 27% in 3Q CY09 and an average of 26% in the whole of 2009. More importantly, the higher-priced segment (Rs5,000/sq. ft and above) witnessed a significant increase in proportion and contributed 21% of the total volumes (ex. Noida and Greater Noida) in 3Q CY10, compared with 24% in 2Q CY10 and only 14% in the whole of 2009.

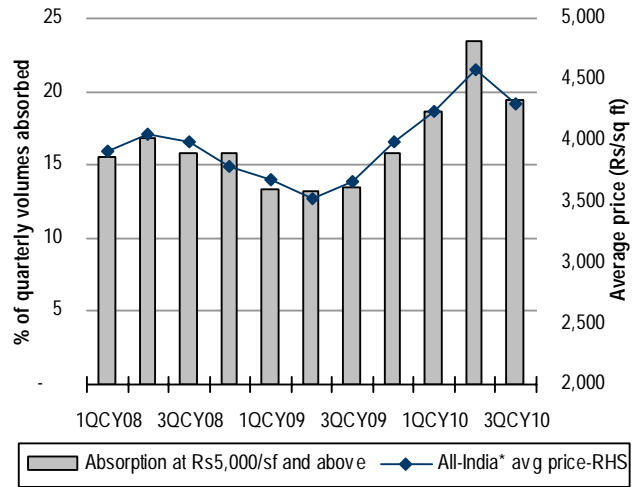
Higher price segment witnessing higher proportion of volumes

Figure 14: All India ex-Noida absorption (%) in each price (Rs/sq. ft) category



Source: PropEquity data, Credit Suisse estimates

Figure 15: All-India ex-Noida volume mix shifted towards high-priced segment in recent quarters



Source: PropEquity data, Credit Suisse estimates

The shift in the price-volume mix towards higher-priced properties is the combined effect of rising property prices, increasing demand for high-priced properties and developers' lack of commitment towards affordable housing projects on account of the lower margins involved in affordable housing. This has meant that a lot of mid-income demand is currently not being met by the developer projects resulting in a slowdown in volumes.

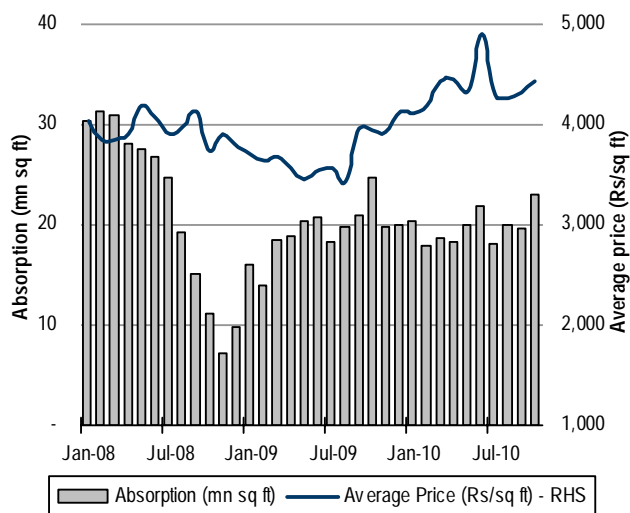
Developers unwilling to focus on the affordable housing segment

Not surprisingly, volume momentum is turning negative

As a result of the sharp rise in property prices, recent real estate trends indicate that aggregate all-India volumes are beginning to witness a slowdown. In 3Q CY10 at an all-India level, excluding Noida and Greater Noida, aggregate volumes declined 4% QoQ and 2% YoY. More recently, volumes in October were also not encouraging as all-India volumes (ex-Noida) declined 7% YoY despite the festive season. MMR witnessed 46% YoY decline, whereas Gurgaon volumes were marginally up 1% in October 2010.

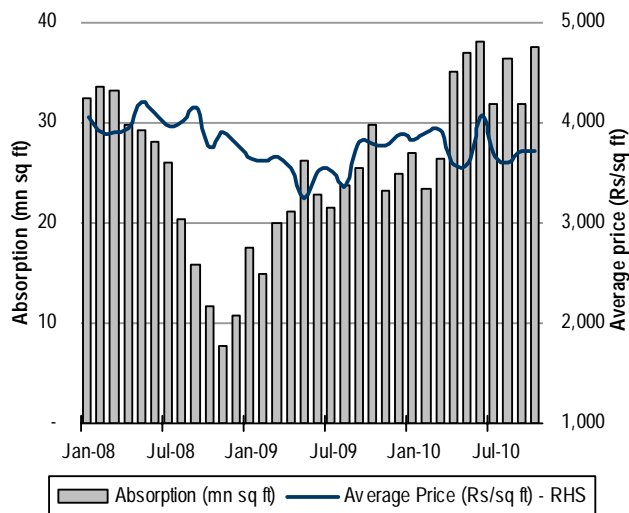
October 2010 all-India volumes declined 7% YoY

Figure 16: All India (ex. Noida)* absorption and price trend



*Aggregate of MMR, Gurgaon, Bangalore, Chennai, Kolkata, Hyderabad, Pune Source: PropEquity data

Figure 17: All India* absorption and price trend



*Aggregate of MMR, Gurgaon, Bangalore, Chennai, Kolkata, Hyderabad, Pune, Noida and Greater Noida Source: PropEquity data

MMR and NCR region, which contribute to 65-70% of all-India volumes, witnessed maximum decline in volumes in 3Q CY10 on a QoQ basis. Volumes in MMR and Gurgaon declined 18% and 20% QoQ, respectively, in 3Q CY10 and were down 2% and 19% YoY.

Noida and Greater Noida regions, which had been witnessing exorbitant volumes in 1H CY10, saw 15% QoQ decline in 3Q CY10, although volumes were still 263% higher YoY. Volumes in Hyderabad continue to remain weak, while Chennai and Kolkata are showing good momentum.

Figure 18: Slowdown in volumes in MMR and NCR region

(mn sq. ft)	Current Oct-10	Last year Oct-09	YoY %	Latest 3Q CY10	Previous 2Q CY10	Last year 3Q CY09	Peak 1Q CY08	QoQ %	YoY %	Last/Peak %
MMR	4.4	8.1	(46)	13.4	16.5	13.6	19.5	(18)	(2)	69
Gurgaon	4.8	4.7	1	10.1	12.6	12.5	13.6	(20)	(19)	74
Bangalore	3.8	3.5	9	9.0	8.9	8.3	16.9	1	8	53
Chennai	3.7	1.5	150	5.8	4.6	4.4	6.7	28	32	87
Kolkata	1.2	0.7	63	4.2	3.5	2.6	5.9	23	65	72
Hyderabad	2.8	2.5	9	5.5	5.8	7.9	13.4	(4)	(30)	41
Noida, Gr. Noida	14.4	5.0	190	42.3	50.0	11.7	6.5	(15)	263	656
Pune	2.4	3.7	(35)	9.8	8.5	9.7	16.7	15	0	58
All India	37.5	29.7	26	100.2	110.2	70.7	99.2	(9)	42	101
All India (ex-Noida)	23.1	24.8	(7)	57.9	60.2	59.1	92.7	(4)	(2)	62

Source: PropEquity data

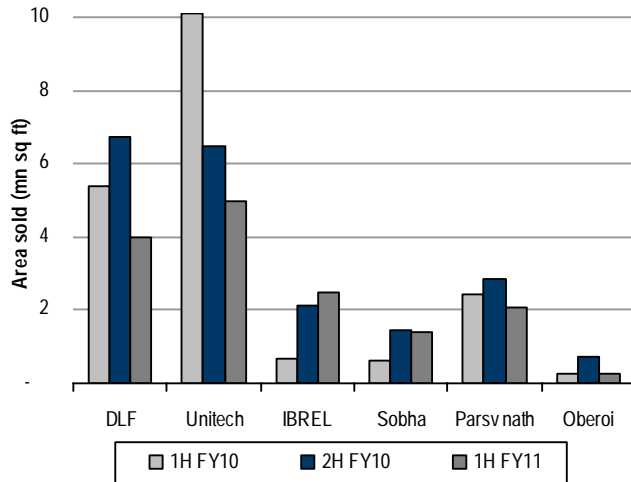
Slowdown visible from developers' bookings too

Not only is the slowdown in volumes visible from the physical property market, the same was evident in sales bookings reported by major developers for 1H FY11. DLF and Unitech sold 4 mn sq. ft and 5 mn sq. ft, respectively, in 1H FY11 compared to 5.4 mn sq. ft and 10.1 mn sq. ft, respectively, sold in 1H FY10. Volumes for Sobha have remained close to flat over the past three quarters, as it has no exposure to the slowing MMR and NCR markets. Parsvnath sold 2.9 mn sq ft in 2H FY10 (5.33 mn sq. ft in FY10) but managed to sell only 2.1 mn sq. ft in 1H FY11.

DLF – 4 mn sq. ft in 1H11 (vs 5.4 mn sq. ft in 1H10)

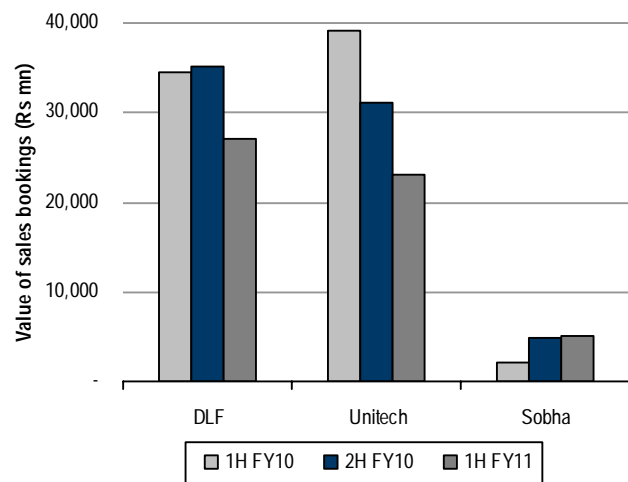
Unitech – 5 mn sq. ft in 1H11 (vs 10.1 mn sq. ft in 1H10)

Figure 19: Trend in sales bookings (mn sq. ft) for major real estate developers



Source: Company data, Credit Suisse estimates

Figure 20: Price increases have not resulted in higher value sales for DLF and Unitech



Source: Company data, Credit Suisse estimates

Further, the price increase taken by developers has not resulted in higher value sales, indicating higher price elasticity of property demand. DLF achieved Rs27.1 bn of value sales bookings in 1H FY11 compared to Rs34.4 bn in 1H FY10, a decline of 21%. Similarly, Unitech's value sales bookings declined by 41% from Rs39.1 bn in 1H FY10 to Rs23.1 bn in 1H FY11. Sobha, which operates in a market (Bangalore) that has remained stable compared to Gurgaon and Mumbai, has however witnessed higher sales bookings as it was able to achieve both higher volumes and better realisation in 1H FY11 compared to 1H FY10.

Despite prices increases, value sales achieved were lower – implying high price elasticity of demand

Developers expect 2H FY11 to be strong, will it be?

Sales bookings run-rate achieved in 1H FY11 lagged behind full-year FY11 targets for most developers either due to high pricing or weak new launch activity. New launches for some developers such as DLF were low due to delay in regulatory approvals. However, most developers are expecting volumes and new launches to improve significantly in 2H FY11:

- DLF has sold 4 mn sq. ft in 1H FY11 and expects to achieve 12.0 mn sq. ft (earlier guidance was for 15 mn sq. ft) bookings in FY11. It expects to achieve 8 mn sq. ft in 2H FY11 through launch of 4-5 mn sq. ft of its plotted developments in NCR, Chandigarh and Indore.
- Unitech sold 5 mn sq. ft and launched 4.6 mn sq. ft in 1H FY11. In order to achieve Rs50-55 bn of targeted sales bookings for FY11, it will need to sell another 6.5 mn sq. ft in 2H FY11.
- Sobha has sold 1.4 mn sq. ft in 1H FY11 and appears on course to achieve 3 mn sq. ft for FY11. However, it has planned launch of 13 mn sq. ft (which includes 6 mn sq. ft in

After a weak 1H FY11, developers rolled forward volumes expectations to 2H FY11

NCR) over the next two to three quarters compared to only 1.6 mn sq. ft launched in 1H FY11.

- HDIL expects to launch 26 mn sq. ft over the next two to three quarters, which would be a significant step-up from the 1.7 mn sq. ft launched in 1H FY11.
- Similarly, Godrej Properties too has planned new launches of 4-5 mn sq. ft in Ahmedabad, Chennai, Mumbai and NCR in 2H FY11, as against only 1.2 mn sq. ft launched in 1H FY11.

Figure 21: New launches in 2H FY11 planned by various developers

Company	Planned new launches in 2H FY11E
DLF	4-5 mn sq ft plotted projects in Gurgaon and Chandigarh; luxury projects in Kochi and South Delhi
Unitech	Rs50-55 bn bookings target for FY11, will need to sell 6-7 mn sq ft in 2H FY11 which would require 7-8 mn sq ft of launches
Sobha	13 mn sq. ft to be launched over next 2-3 quarters (including 6 mn sq. ft in NCR), launched 1.6 mn sq ft in 1H FY11
HDIL	Expects to launch 26 mn sq. ft over next 2-3 quarters, launched 1.7 mn sq. ft in 1H FY11
Godrej Properties	4-5 mn sq ft of new launches in 2HFY11 across NCR, Chennai, Mumbai and Ahmedabad; launched 1.2 mn sq ft in 1HFY11
Oberoi Realty	Plans to launch/commence construction on 4-5 mn sq ft residential space
Prestige Estates	Plans to launch/commence construction on 2.7 mn sq ft residential space

Source: Company data, Credit Suisse estimates

Given the strong volume growth being guided by practically every developer and in light of the recent slowdown in volumes, we believe the possibility of a disappointment over volumes for developers is quite likely. It is going to be difficult for all these planned new launches to materialise into bookings unless developers are willing to launch and sell their projects at price points lower than current levels. The risk of delay in approvals too remains. Such optimistic numbers might appear achievable in isolation for few developers and for certain projects, but at an aggregate level, numbers for 2H FY11 are expected to disappoint.

Strong 2H FY11 volumes guided by every developer, we expect disappointments quite likely

Incentive schemes by developers also signal volume pressure

While headline prices for projects remain strong, developers have started resorting to incentive schemes to attract buyers for their projects. The most common incentive scheme at the moment is the interest subvention scheme (with its 10/90 and 20/80 variants) that developers are offering. Examples of projects with the scheme are:

80:20 schemes floated to spur demand, but this leads to speculative demand more than end-user demand

- Indiabulls Real Estate's Sky Forest and Sky Suites projects in Lower Parel
- World Crest project in Lower Parel
- Neptune Group's (Not Listed) 100 Above project at Living Point in Bhandup West
- DLF's plotted development Alameda project in Gurgaon sector 73

Interest subvention scheme explained

Under this scheme, the developer subsidises the buyer for the interest on a home loan during the construction of the property either for a fixed period or till the handing over of the project.

- The property buyer pays up to 20% of the total property value partly as downpayment and balance on completion.
- The remaining 80% of the amount is tied up in the form of a home loan from a financial institution based on the borrowing capacity of the buyer. The financial institution disburses the home loan either immediately or based on construction-linked payments to the developer.

- The interest cost on the home loan is borne by the developer either for a fixed duration of 18-24 months or till the time of possession. Assuming an average completion time of three years and a mortgage rate of 10%, this works out to an effective 15% lower cost of buying the property for the buyer.

However, such schemes encourage speculation more than end-user demand

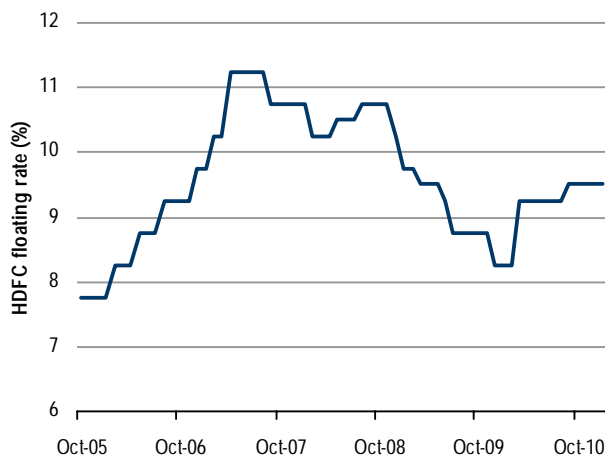
Given the inherent leverage available to a buyer of the property, such schemes are catching interest of investors who are willing to speculate on property prices by paying a small amount upfront rather than that of end-users.

Mortgage rates expected to move up: Another dampener

Mortgage rates had hitherto lagged policy rates and real life rates. Banks and housing finance companies had continued offering teaser home loans at between 8-9% despite policy rates rising 150 bp and real life rates rising 250-300 bp this fiscal year. However, recently HDFC and ICICI have withdrawn their teaser home loan products, while SBI has continued with teaser rates. HDFC's current floating rate stands at 9.5% for loans up to Rs3 mn, 9.75% for loans between Rs3 mn-Rs7.5 mn and 10% for loans above Rs7.5 mn. Withdrawal of teaser loan products is expected to result in a significant increase in the cost of servicing home loans for new buyers.

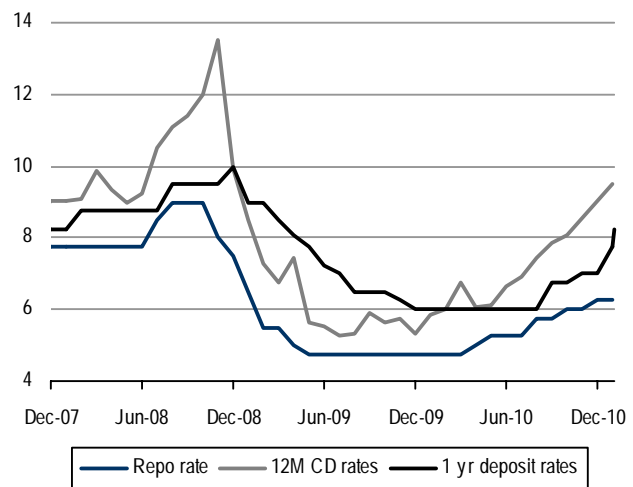
HDFC and ICICI have already withdrawn teaser loan products

Figure 22: Trend in HDFC's floating rate (indicative of mortgage rates)



Source: HDFC interest rates data

Figure 23: Policy rates and real life rates have witnessed 150-325 bp hike this year



Source: Bloomberg, RBI, CMIE, Credit Suisse estimates

RBI and NHB appear worried about the sharp rise in property prices

The Reserve Bank of India (RBI) during its recently concluded second quarter monetary policy review made clear its intentions of curbing any overheating in the premium housing segment. RBI noted that residential property prices in major cities have surpassed pre-crisis peak levels. It indicated that although income levels of households and earnings of corporates have continued to rise, a sharp rise in prices in such a short time causes concern. As a result, RBI initiated the following measures to cool down demand in the premium housing segment:

RBI and NHB taking steps to curb any overheating in the premium housing segment

- **Loan-to-value ratio in housing loans capped at 80%.** There was no regulatory ceiling on the loan to value (LTV) ratio in respect of banks' housing loan exposures. In order to prevent excessive leveraging, RBI has proposed that the LTV ratio in respect of housing loans should not exceed 80% for loans exceeding Rs2 mn and 90% for

loans up to Rs2 mn. As a result, it becomes difficult for individuals to buy premium housing as downpayment requirements increase.

- Risk weights on residential housing loans increased.** Presently, the risk weights on residential housing loans with LTV ratio up to 75% are 50% for loans up to Rs3 mn and 75% for loans above that amount. In case the LTV ratio is more than 75%, the risk weight of all housing loans, irrespective of the amount of loan, is 100%. Accordingly, the RBI has proposed to increase the risk weight for residential housing loans of Rs7.5 mn and above, irrespective of the LTV ratio, to 125% from 75% earlier.
- Teaser loans to require 2% standard asset provisioning.** The practice of sanctioning housing loans at 'teaser rates', wherein the loans are offered at a comparatively lower rate of interest in the first few years, after which rates are reset at higher rates, has raised concerns in the eyes of the RBI. The RBI believes that some borrowers may find it difficult to service the loans once the normal interest rate becomes effective after the first few years of lower rates. Further, RBI observed that many banks at the time of initial loan appraisal do not take into account the repaying capacity of the borrower at normal lending rates. In view of the higher risk associated with such loans, it has proposed to increase the standard asset provisioning by commercial banks for all such loans to 2% from 0.4% earlier. However, the provisioning of these loans can be reset to 0.4% at the expiry of the teaser-rate period if the account remains 'standard'.

Recently, the National Housing Bank (NHB) too tightened lending norms for Housing Finance Companies (HFCs) by issuing similar guidelines. HFCs too are mandated to restrict LTV to 80% for loans above Rs2 mn and comply with the above-mentioned risk weights and standard asset provisioning requirements.

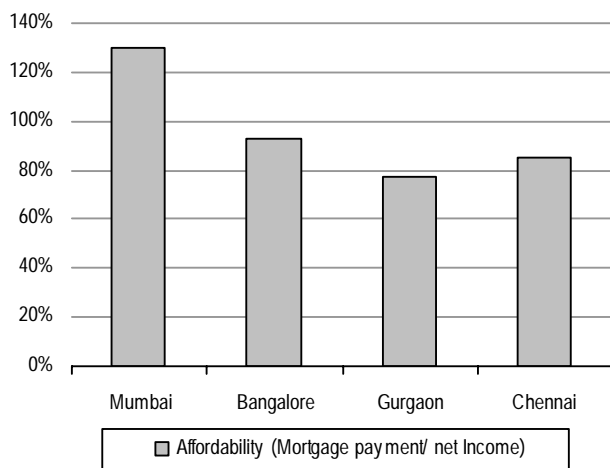
LTV ratio on home loans capped to 80%, risk weights increased, higher asset provisioning required for teaser loans

Affordability has worsened considerably

With property prices rising to all-time highs and mortgage rates expected to go up further, affordability (as measured by EMI [equated monthly instalments] as a percentage of monthly net income) which is already at poor levels is expected to deteriorate further. Though affordability in 2010 was better than the 2007/08 levels given the income growth, is now becoming a cause for concern going forward. The current affordability levels leave now scope for further price increases.

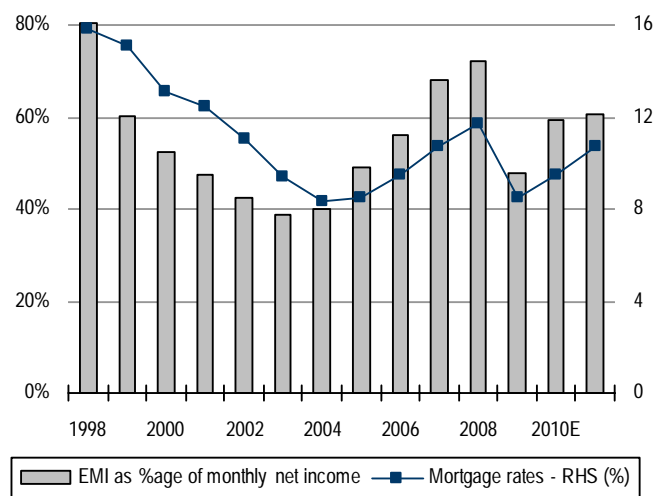
At current (un)affordable levels, no scope for further price increases

Figure 24: Recent affordability levels in major cities



Source: RBI data, PropEquity data, Credit Suisse estimates

Figure 25: Affordability trend at an all-India basis



Source: RBI data, Credit Suisse estimates

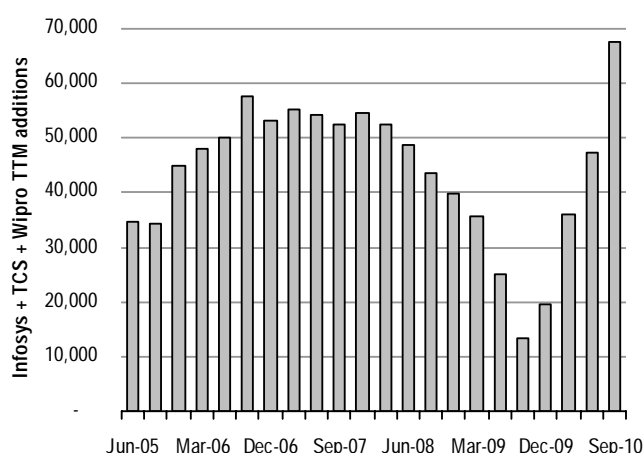
The only silver lining: Strong latent demand

While there are many similarities between now and 2008 (during the Lehman crisis) with respect to property prices being at all-time highs, stagnating volumes, mortgage rates rising and worsening affordability, the big positive for the sector is the strong underlying demand. Unlike in 2008 when lower employee additions by IT/ITES companies, job uncertainty and lower wage hikes and payouts led to a risk-averse behaviour from buyers, making them postpone decisions to purchase property, the fundamentals today seem to be positive and improving. Employee additions by IT/ITES companies are currently witnessing a smart recovery, and employee wage inflation is close to 2007 highs, indicating rising income levels. As a result, we believe that a 10-30% property price correction would be able to stimulate demand once again.

Underlying demand still strong, pick-up in IT hiring visible

10-30% property price correction imminent

Figure 26: Pick-up in IT hiring visible from rise in TTM employee additions for Infosys, TCS and Wipro



Source: Company data, Credit Suisse estimates

Figure 27: Wage inflation is now close to its 2007 highs, indicating rising income levels



Source: Company data, Credit Suisse estimates

10-30% price correction should propel volumes again

We forecast a 10-30% price correction in the physical property market over the next 12 months. Central and South Mumbai, the micro markets which appear to be the most overheated currently, are expected to witness a 25-30% price correction. Overall, the Mumbai property market is expected to correct the most followed by Gurgaon where we expect a 10-25% price correction. Other major cities are expected to witness a 5-15% price correction, and we expect Noida and Greater Noida regions to witness volumes slowdown despite the forecasted 5-15% price correction as the recent investor demand in that market gets fulfilled.

Mumbai and Gurgaon to see maximum correction

Figure 28: Expected property price correction over the next 12 months

	Expected correction (%)	Comment
MMR	15-30	Central Mumbai expected to see 30% correction. 15% correction in Mumbai suburbs viz., Panvel , Virar, Dombivili; Demand for Luxury housing to be muted
Gurgaon	10-25	Latent demand impacted by high property prices today
Bangalore	5-15	Steady market
Chennai	5-10	Improving demand
Kolkata	5-10	Slow but steady demand; IT employment growth has disappointed
Hyderabad	0-10	Recovery will still be gradual given the political uncertainty in the State
Noida, Gr. Noida	5-15	Volumes could see significant YoY slowdown as investor demand is fulfilled
Pune	5-15	Improving demand. Significant oversupply in residential segment

Source: Credit Suisse estimates

Weak cash flows + tightening liquidity = tough times

Despite strong pre-sales over the past 18 months, rising property prices and pickup in construction activity, operating cash flows after interest payments and taxes but before land purchase have remained extremely weak for most real estate developers. DLF, HDIL and Godrej Properties have reported negative cash flows, while Unitech, Oberoi and Sobha have managed to generate positive cash flows which, however, are still below expectations. If pre-sale volumes see a slowdown in FY12, cash flows are unlikely to see a significant improvement from the current levels. Developers could face difficulties in funding their construction spend and interest expense, forcing them to resort to debt financing.

Funding from banks, which has been a major source of borrowing for the real estate sector, is expected to dry up with tightening liquidity in the banking system. Further, the moratorium period on real estate and other loans that were restructured by banks during March-June 2009 is coming to an end, putting additional repayment pressures on developers. Additionally, the recent bribery scam exposure is expected to raise banks' concerns on lending to the sector and likely to result in tighter lending norms. Internal cash flow generation by cutting prices and focusing on volumes will be the key to success.

Operating cash flows have remained elusive

Despite strong pre-sales over the past 18 months, rising property prices and a pickup in construction activity, operating cash flows after interest payments and taxes but before land purchase have remained extremely weak for most real estate developers.

DLF's operating cash flow was a negative Rs33.4 bn (Rs19.7 per share) in FY10 and negative Rs5.4 bn (Rs3.2 per share) in 1H FY11. HDIL and Godrej Properties too remained on the weaker side in terms of operating cash flows. While Unitech, Sobha and Oberoi Realty have delivered a far superior performance, cash flows in general have still disappointed compared to expectations.

Figure 29: Operating cash flows after interest and taxes in FY10 and 1H FY11

(Rs mn)	FY10		1H FY11	
	Absolute	Rs per share	Absolute	Rs per share
DLF	(33,411)	(19.7)	(5,429)	(3.2)
Unitech	(12,209)	(4.9)	2,521	1.0
Sobha	336	3.4	753	7.7
Parsvnath	745	1.7	(490)	(1.1)
Oberoi Realty	3,084	9.4	658	2.0
Prestige	(3,160)	(9.6)	n.a.	-
Godrej Properties	(1,813)	(26.0)	(1,557)	(22.3)
HDIL	(9,182)	(22.1)	(4,647)	(11.2)

Source: Company data, Credit Suisse estimates

Going forward, if pre-sale volumes see a slowdown in FY12, cash flows are unlikely to see a significant improvement from the current levels. Developers could face difficulties in funding their construction spend and interest expense going forward, forcing them to resort to debt financing.

Bank financing is going to become tougher

The real estate sector has relied heavily on bank funding as evident from the Rs1 tn outstanding real estate loans, whereas liquidity in the system is tightening and is expected to tighten further. As a result, unavailability of easy debt financing shall put considerable pressure on the real estate sector. Though the RBI has been taking measures to provide

Operating cash flows have disappointed and remained weak despite favourable market conditions

Sector has relied heavily on debt financing, which is drying up

Internal cash flow generation shall be the key to success

If pre-sale volumes see a slowdown in FY12, cash flows are unlikely to see improvement from current levels

Developers could face funding problems, in case they continue to be operating cash flow negative

additional liquidity, such as additional 1% easing of SLR requirement, we believe that liquidity pressure is not going to ease materially before April 2011.

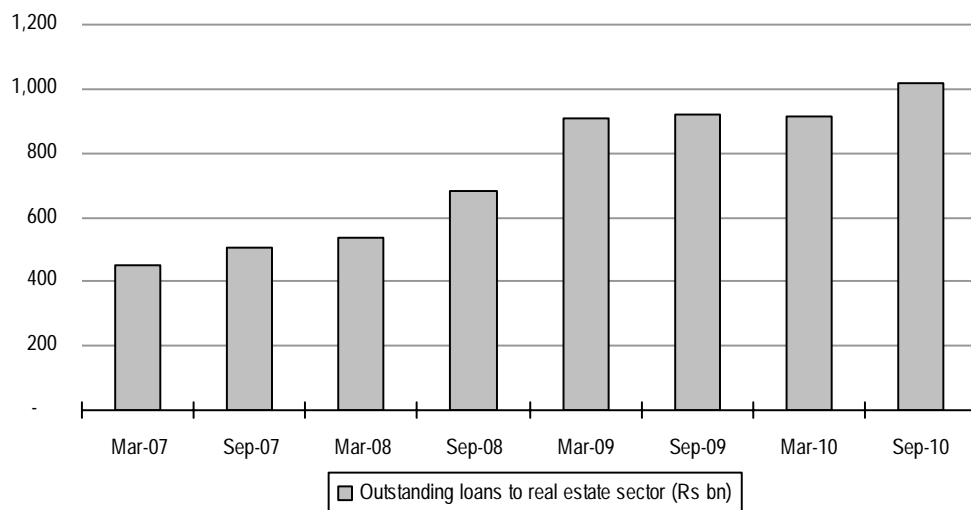
Further, the moratorium period on loans that were restructured during March-June 2009 is coming to an end over the next one to two quarters, and further restructuring of these loans is unlikely to take place, thereby putting additional pressure. To make things worse, the recent loan bribery scam is expected to raise banks' concerns on lending to the sector and likely to result in longer approval processes and increased documentation. In a nutshell, all these issues are likely to constrain bank funding to the real estate sector.

Recently exposed corporate governance issues to worsen situation further

The realty sector has relied heavily on bank lending

The sector has relied heavily on bank financing, with outstanding banking loans to the real estate sector increasing by 33% in the past 21 months to over Rs1 tn (US\$23 bn).

Figure 30: Over Rs1 tn of loans to property sector outstanding as of Sep-10



Source: Company data, Credit Suisse estimates

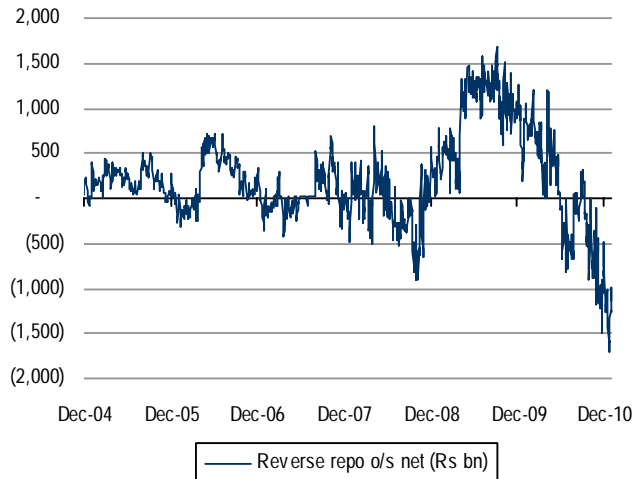
Liquidity in banking system likely to remain tight

Liquidity in the system has tightened significantly in 1H of this fiscal. Deposit growth has consistently lagged the loan growth this year, and incremental loan deposit ratio YTD has been 90%. Liquidity crunch in India has worsened over the past couple of months; borrowing by banks from the central bank averaged at US\$26 bn in December 2010 compared with US\$13 bn in October 2010.

Borrowing by banks from central bank averaged at US\$26 bn in Dec-10 (vs. US\$13 bn in Oct-10)

RBI's recent measure of additional 1% easing of SLR requirement will provide additional US\$10 bn liquidity to banks. However, this is likely to be inadequate given the likely cash outflows over this period. As 2H of the fiscal year is typically the stronger credit demand period and incremental loan-deposit ratio in 2H has averaged around 100% over the past decade, despite this RBI measure we do not see liquidity pressures easing materially before April 2011.

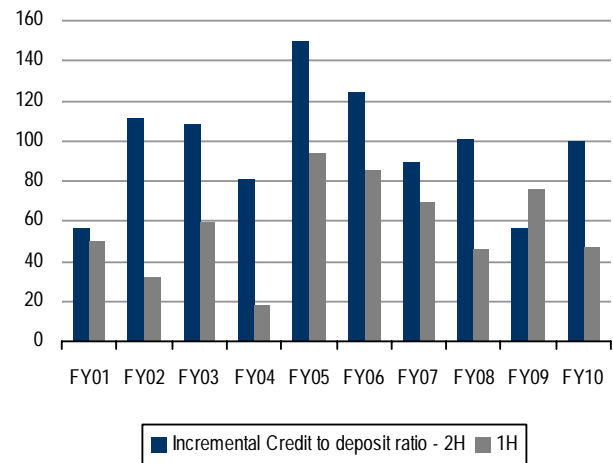
Figure 31: Liquidity has tightened significantly



Source: RBI

The deposit growth (14.7%) continues to be well under the 23.7% loan growth. The low deposit growth can be attributed to the deeply negative real deposit rates. As the headline inflation numbers moderate over the next few months, the real deposit rates may move up. However, for deposit growth to move back over the 20% mark, further rate hikes are needed.

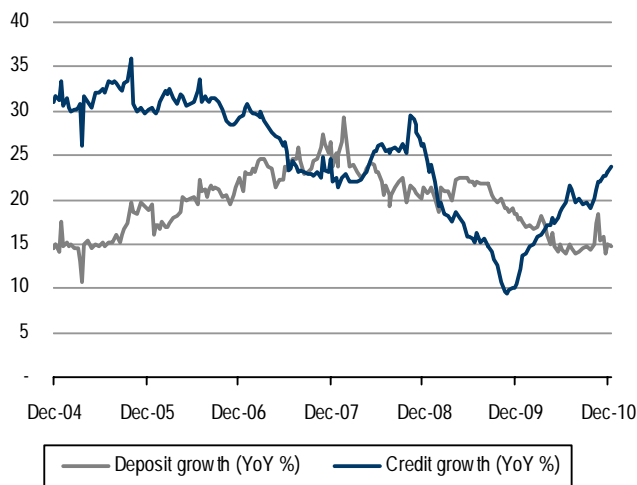
Figure 32: Incremental LDR has averaged at ~100% in 2H



Source: Bloomberg

For deposit growth to go over 20%, further rate hikes needed

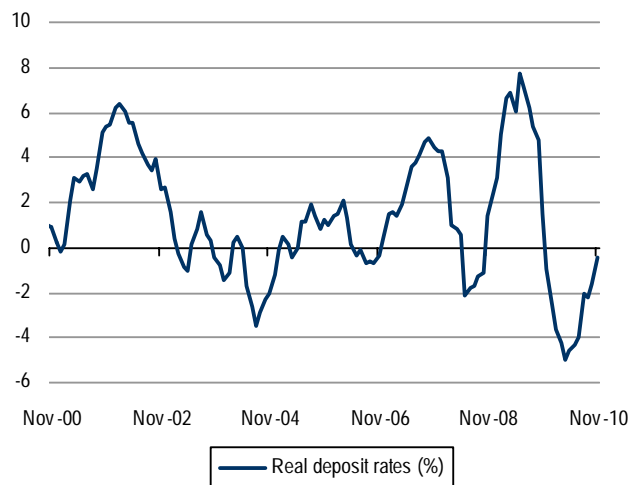
Figure 33: Deposit growth continues to lag credit growth



Source: RBI

The reverse repo outstanding was at a historical high of Rs1,705 bn during the second half of December. Government balances with RBI have also been going up (i.e., RBI's balance sheet in effect shrinking and thus money supply in the system being lower); that coupled with RBI's reluctance to intervene in the forex market (i.e., buy dollars and infuse liquidity) has resulted in liquidity continuing to be in short supply.

Figure 34: Real deposit rates still in the negative territory



Source: Bloomberg

While the RBI is taking measures (additional 1% easing of SLR requirement) to ease liquidity, the central bank believes that high inflation (real deposit rates are still in the negative territory) itself is one of the biggest risks to growth, and we expect tightening to continue further (our economists forecast another 75 bp rise in the repo rate by March 2012). In taking other monetary measures, the RBI is likely to be mindful of containing the pace of M3 growth (currently at 15%) to make sure inflationary pressures do not build up.

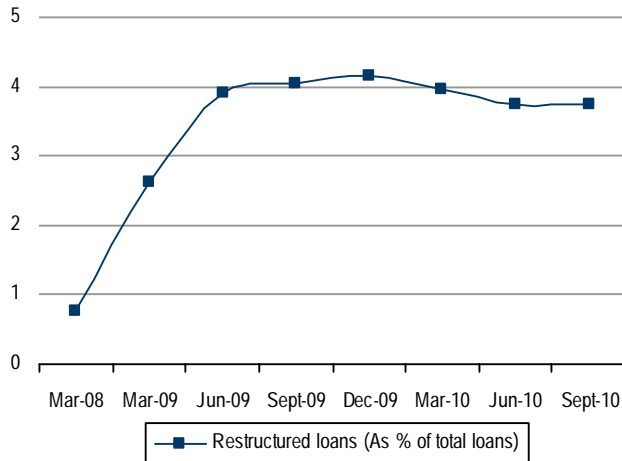
Our economists forecast another 75 bp rise in the repo rate by March 2012

Restructured loans to add further pressure

Restructured asset levels for the Indian banks increased sharply to 4% of loans in Mar-09 (from 1% in Mar-08) as banks have taken advantage of the special restructuring window given by the Central Bank. The total restructured amount in Jun-09 was Rs1,120 bn (US\$25 bn) across all sectors. Additional restructuring over the past few quarters has been negligible. The moratorium period given on most of these loans was between 12 and 18 months. The moratorium period has started ending over the past one to two quarters, which also resulted in higher slippages for the banks over the past two quarters (at over 2% levels) and is likely to continue over the next one to two quarters as well.

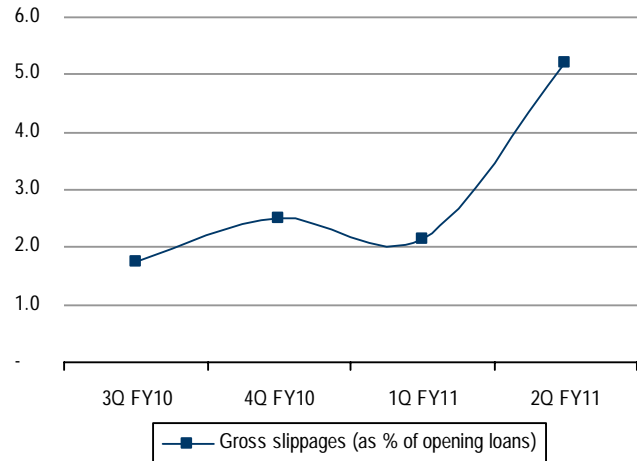
Moratorium period on previously restructured loans ending, higher slippages over the past two quarters

Figure 35: Restructured assets rose during Mar-Jun 2009



Source: Company data, Credit Suisse estimates

Figure 36: Higher slippages seen over past two quarters



Source: Company data, Credit Suisse estimates

Recently exposed issues to result in tighter lending norms

Post the recent loan bribery scam, banks' concerns on account of the alleged malpractices and credit processes are likely to stymie further moratoriums for the developer loans. It is also likely to result in tighter lending norms, longer approval processes and increased documentation. Given that banks exposure to developer loans is at 20-50% of the book value (3-7% of the loans), banks are also likely to be stringent in lending further to real estate companies.

Volume-focused developers to perform better

We strongly believe that in the current environment where liquidity is expected to tighten even further, developers focusing on volumes, faster land monetisation and internal cash flow generation will be able to run their business much better, and would eventually outperform price and margin-focused players.

Only way out for developers is – focus on volumes, monetise land bank faster

Fundamentals to drive sustained outperformance

Despite the property sector's underperformance by 29% over the past three months, we believe that fundamentals still do not justify current valuations of some of the stocks. The recent sharp correction might at best provide short-term buying opportunities, but we believe that in the long term, fundamental factors such as earnings growth, cash flow generation and management strategy shall hold the key for sustained outperformance. Over the past 18 months, Investors have faced recurring disappointment on multiple grounds with respect to earnings growth, cash flow generation, pre-sale volumes, debt reduction and monetisation of non-core assets and are therefore likely to be more selective in picking stocks.

We expect developers with no or low gearing, stronger operating cash flow generation and higher ROEs to outperform as these enable reinvestment in acquiring new projects for maintaining future NAV growth, bringing down debt levels resulting in upside to equity holders and give flexibility in managing the timing of property sales and land purchases. Overall, we like Oberoi Realty for its healthy balance sheet and NAV growth prospects, Sobha Developers for its volume focus and debt repayment, IBREL for its cheap valuations and value unlocking through proposed power restructuring, Prestige for its strong presence across all verticals and Unitech on expectations of strong cash flow generation. We expect underperformance from DLF owing to weak cash flow generation and pursuit of a high-risk strategy, and Parsvnath owing to expected difficulties in upcoming debt repayments. We rate HDIL as NEUTRAL as inexpensive valuations are offset by concerns on the MIAL rehab project and Godrej Properties as NEUTRAL as expensive valuations offset the advantage of a high RoE, asset-light business model.

Investors have faced recurring disappointment, likely to be more selective ahead in stock picking

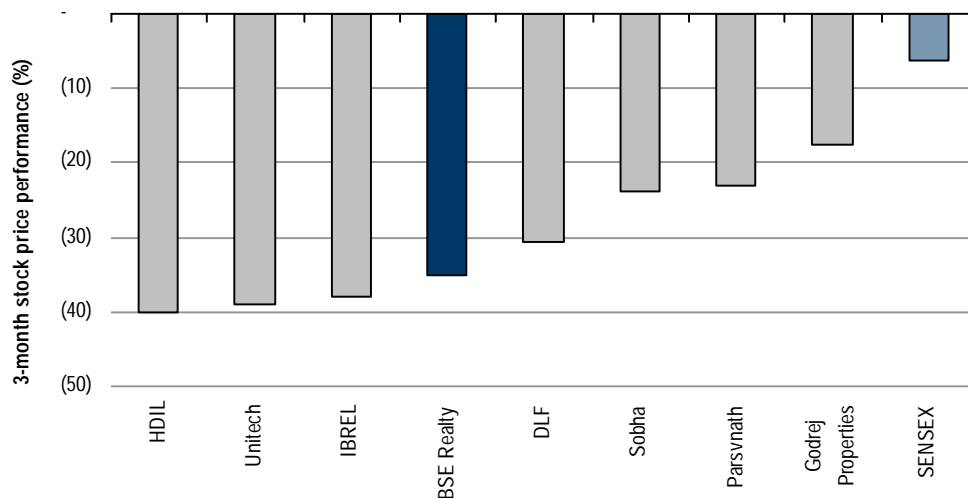
Developers with low gearing and focused on volumes should outperform

We like Oberoi, Sobha, IBREL, Prestige and Unitech

The sector has underperformed 29% over the past three months

The property sector has underperformed the broader market by 29% and 32% over the past three months and six months, respectively, on the recent loan scam, political uncertainty, apprehensions of tighter lending norms ahead and lower property demand on account of rising mortgage rates which has resulted in lowering of investors' risk appetite.

Figure 37: Property sector has underperformed by 29% over the past three months



Three months underperformance – 29%

Source: Bloomberg

Given the sharp correction, short-term buying opportunities might exist in the sector for investors who can be quick in getting in and out of these stocks. However, in the longer term, more fundamental factors like earnings growth, cash flow generation, management strategy etc. would be key for sustained outperformance of the property stocks.

Figure 38: Real estate sector stock price performance

	CMP (Rs)	Stock performance (%)			
		One month	Three months	Six months	Twelve months
DLF	250	(9)	(30)	(19)	(35)
Unitech	57	(6)	(36)	(28)	(33)
IBREL	118	(8)	(39)	(25)	(43)
Sobha	270	(15)	(22)	(15)	(10)
Parsvnath	52	3	(25)	(21)	(21)
Oberoi	245	(4)	n.a.	n.a.	n.a.
Prestige	135	(15)	n.a.	n.a.	n.a.
Godrej Properties	594	(3)	(16)	(15)	14
HDIL	157	(19)	(43)	(41)	(60)
SENSEX	18,882	(4)	(5)	6	9
BSE Realty	2,465	(9)	(35)	(27)	(38)

Prices as on 17 January 2011; Source: Bloomberg

Developers have disappointed on multiple grounds

Investors have had to face continuous disappointment on multiple grounds from many developers in their expectation of earnings growth, cash flow generation, pre-sale volumes, debt reduction and monetisation of non-core assets.

Figure 39: Performance of developers against market expectations

	Volumes	Cash flows	Debt reduction	Earnings
DLF	Below	Below	Below	Below
Unitech	Below	In line	In line	Below
IBREL	Above	Below	-	In line
Sobha	In line	In line	In line	Above
Parsvnath	Below	Below	Below	In line
HDIL	Above	Below	In line	Below

Note: Not sufficient history for Oberoi Realty, Prestige and Godrej properties for above analysis

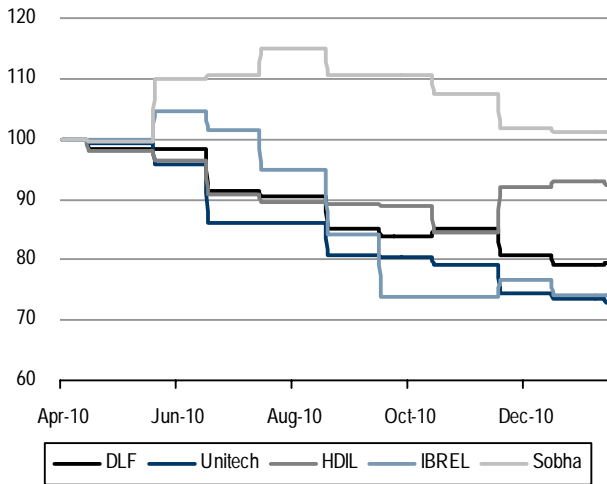
Source: Company data, Credit Suisse estimates

Earnings growth has disappointed

Consensus EPS downgrades over the past year suggest that real estate developers have failed to deliver the earnings growth that was being expected from them. DLF and Unitech's FY11 EPS estimates have been cut by 21% and 27%, respectively, since April 2010. HDIL and IBREL's consensus FY11 EPS are down 8% and 26%, respectively, since April 2010. Sobha, on the other hand, has witnessed marginal upward revisions as current FY11 estimates are 1% higher compared to April 2010.

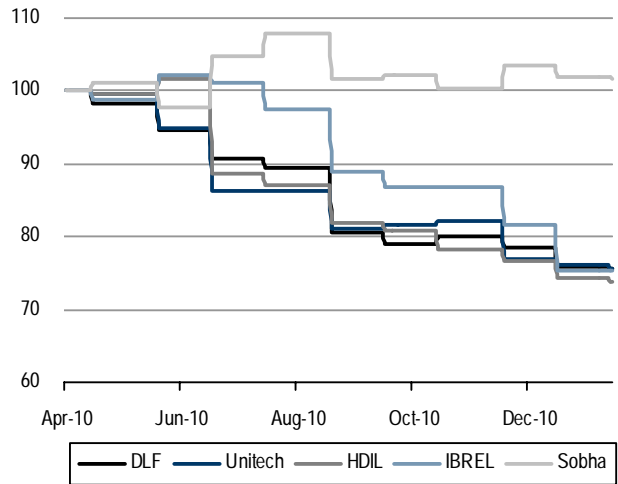
Consensus EPS estimates have seen significant downgrades

Figure 40: Change in FY11 consensus EPS estimates



EPS estimate relative to 1 April 2010 which has been indexed to 100
 Source: Thomson Datastream data

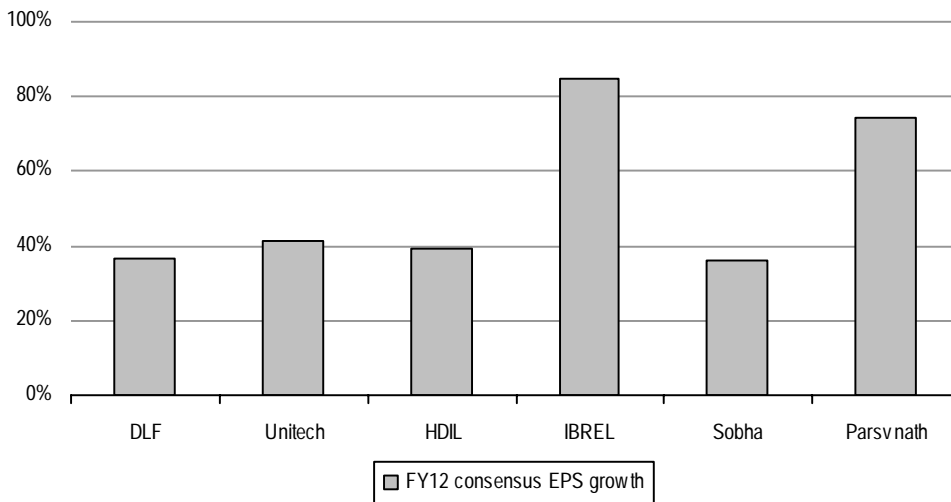
Figure 41: Change in FY12 consensus estimates



EPS estimate relative to 1 April 2010 which has been indexed to 100
 Source: Thomson Datastream data

While FY12 EPS estimates have already seen a 24-25% downgrade for developers (barring Sobha which has seen a 2% upgrade), consensus is still forecasting a 36-85% EPS growth in FY12. Given our outlook for weak volumes in FY12, we expect significant downside risks to the FY12 consensus estimates.

Figure 42: Consensus FY12 EPS growth forecasts appear aggressive



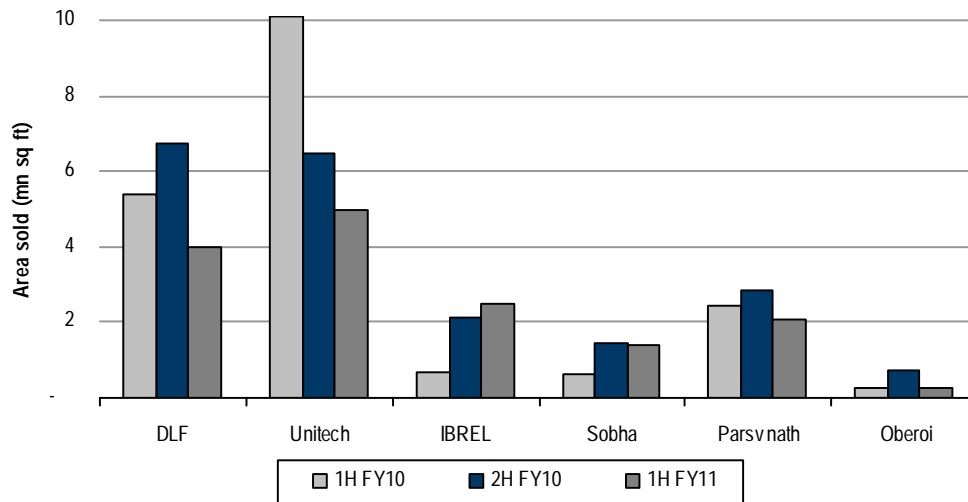
Source: Thomson Datastream

Volume targets have also been lowered

Despite a favourable environment where developers could take price increases and the market was recovering, volumes have failed to pick up for developers in 1H FY11 compared to FY10. DLF sold 12.2 mn sq. ft in FY10 but has managed to sell only 4 mn sq. ft in 1H FY11. At the end of FY10, DLF had guided for 15-18 mn sq. ft of sales bookings for FY11, but management has already lowered its guidance to 12-15 mn sq. ft. The lowered FY11 sales target too appears difficult to achieve, in our view, and even if achieved on the back of plotted sales in Gurgaon and Chandigarh, sustaining these volumes will be difficult in FY12.

Similarly, after recording 16.6 mn sq. ft in FY10, Unitech has achieved only 5 mn sq. ft in 1H FY11. As a result, we expect full-year FY11 numbers for many of the developers to be much weaker compared to FY10.

Figure 43: 1H FY11 volumes for major developers were not encouraging



Source: Company data, Credit Suisse estimates

Value unlocking plans too failed to materialise

At the beginning of FY11, some developers had guided for significant value unlocking from divestment of non-core assets and land parcels; however, the same has not been realised as of 1H FY11 to the extent planned. At end-FY10, DLF had guided for raising Rs25 bn from divestment in FY11. However, after achieving only Rs2.9 bn in 1Q FY11, the target was pushed from FY11 to 12-18 months target. At end-2Q FY11 (when it achieved Rs4.1 bn of divestments), the target was reduced to Rs20 bn and pushed further to next 18 months.

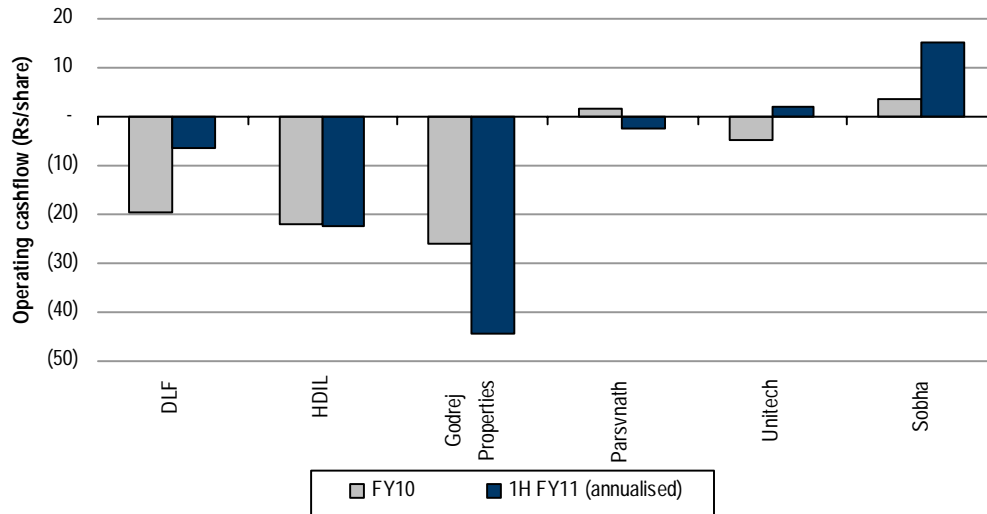
Similarly, Sobha intended to achieve Rs2.5 bn of land monetisation in FY11. However, as of 1H FY11, the company has achieved Rs1.1 bn of land sales and revised down its divestment guidance to Rs2 bn.

Most developers posted negative cash flows in 1H FY11

Operating cash flows after interest payments and taxes remained extremely weak for most real estate developers in 1H FY11. DLF's operating cash flows were a negative Rs5.4 bn (Rs3.2 per share) in 1H FY11, HDIL's cash flows were a negative Rs4.6 bn (Rs11.2 per share). Unitech and Sobha performed better as they generated Rs2.5 bn (Rs1.0 per share) and Rs0.7bn (Rs7.7 per share) of positive operating cash flows in 1H FY11

Divestments targets have been lowered, which are also unlikely to be met

Figure 44: Operating cash flows in 1H FY11 disappointed for most developers



Source: Company data, Credit Suisse estimates

Prefer developers with low gearing and strong cash flows

We expect low gearing developers, such as Oberoi Realty, IBREL and Prestige, to outperform vis-à-vis their highly geared peers. Developers with higher operating cash flow generation (before land purchase) such as Unitech and Sobha are expected to perform better as they can reinvest in acquiring new projects for maintaining future NAV growth, and can bring down debt levels resulting in upside to equity holders. On an expected ROE versus P/B basis, Oberoi Realty and Prestige appear attractive, whereas DLF and Godrej Properties appear unattractive due to low expected ROEs and expensive current valuations, respectively.

Low gearing developers expected to outperform highly geared peers

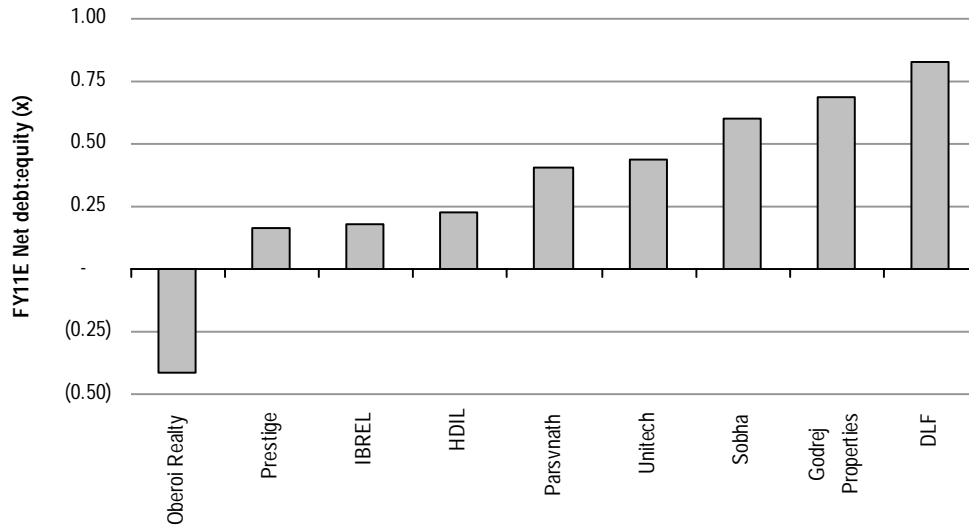
Developers with no or low gearing are expected to perform better as they:

- are unlikely to face cash flow concerns,
- have the flexibility of waiting out the difficult times by not cutting property prices on their core projects thereby maintaining their NAVs, and
- have the option to buy land at cheap valuations at a time of distress in the market

In terms of gearing, we prefer Oberoi Realty, for its net cash position and IBREL, Prestige and HDIL for its low leverage. DLF is the most leveraged in our coverage universe followed by Godrej properties.

Oberoi Realty, Prestige and IBREL fare well on gearing levels

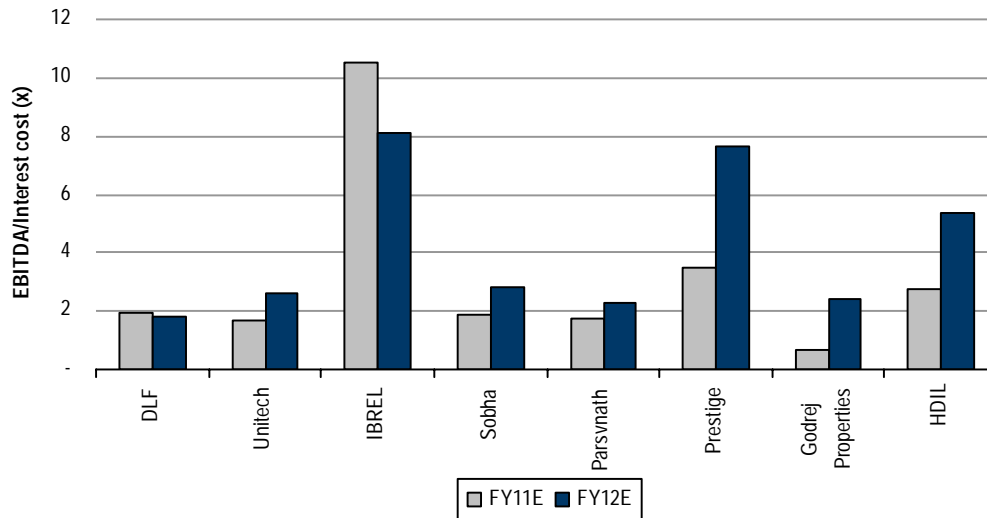
Figure 45: Gearing levels (FY11E) for real estate companies



Source: Company data, Credit Suisse estimates

In terms of cash interest coverage, DLF and Parsvnath's FY11E EBITDA stands at only 1.7-1.9x of the total interest costs. IBREL and Prestige fare well on this metric for FY11 and FY12. HDIL's EBITDA/cash interest stands at 2.7x for FY11, but is expected to improve to 5.4x by FY12.

Figure 46: EBITDA-cash interest coverage for real estate companies



Source: Company data, Credit Suisse estimates

Operating cash flow yields attractive for Unitech and Sobha

Developers with higher operating cash flow generation (before land purchase) are expected to perform better as they:

- can reinvest in acquiring new projects for maintaining future NAV growth, or
- can repay debt resulting in upside to equity holders as the EV is converted into equity

Unitech and Sobha are expected to have strong operating cash flow yields in FY12/13. While Unitech is expected to reinvest part of this into new land acquisition, Sobha is likely to bring down its gearing levels. Cash flow yields for Oberoi, Prestige and Godrej are expected to be lower as they are expected to make significant investments in development

of rental assets. HDIL's cash flow yield will be low on account of the MIAL rehab project where part of the cash flows are expected to be back-ended and linked to people moving into the rehab projects. DLF's cash flow yield is expected to be poor on account of its strategy of focusing on margins rather than cash flows and volumes.

Figure 47: Operating cash flow yield for developers for FY11 and FY12

	CMP (Rs)	Operating cash flow (Rs/share)			Operating cash flow yield (%)		
		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
DLF	250	(0)	9	14	(0)	3	5
Unitech	57	4	6	9	7	11	15
IBREL	118	(69)	(3)	6	(57)	(3)	5
Sobha	270	16	23	30	6	8	11
Parsvnath	52	0	1	2	1	2	4
Oberoi Realty	245	3	9	11	1	4	5
Prestige	135	(9)	7	11	(7)	5	7
Godrej Properties	594	(22)	0	36	(4)	0	6
HDIL	157	(5)	6	35	(3)	3	21

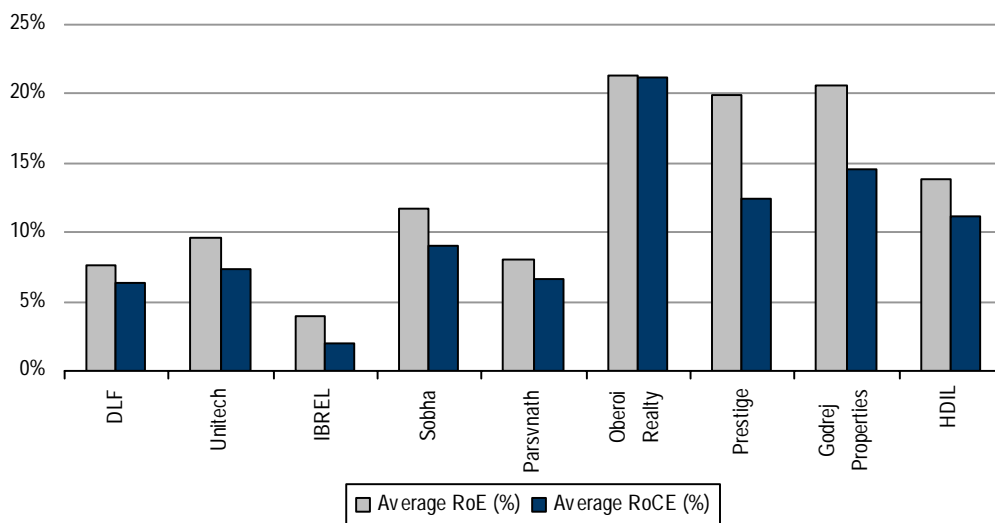
Source: Company data, Credit Suisse estimates

High ROE developers better placed to maintain growth

Developers with higher ROEs and ROCEs are expected to perform better as they can reinvest profits in acquiring new projects for maintaining future NAV and revenue growth.

Oberoi Realty, Prestige and Godrej Properties are expected to deliver high RoEs between FY11-13E while DLF, IBREL and Parsvnath will likely disappoint with low RoEs.

Figure 48: ROE comparison for real estate companies

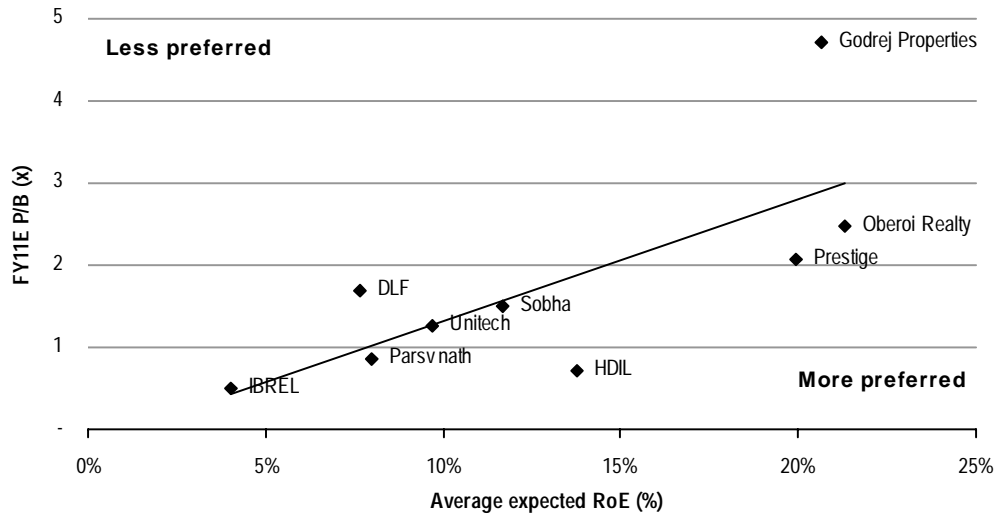


Oberoi, Prestige, Godrej Properties – high RoE players

Source: Company data, Credit Suisse estimates

When ROEs for developers are seen in conjunction with forward P/B multiples, Oberoi Realty and Prestige appear to be the most preferred as they have average ROEs of 20-22% and are currently trading at 2.1-2.5x forward book value. Godrej Properties too has high ROE but its current valuation appears expensive at 4.7x forward P/B.

IBREL's ROEs are expected to remain depressed at 4%; however, it appears relatively inexpensive at current valuations of 0.5x FY11 book value. At current forward P/B valuation of 1.7x, DLF appears to be a less-preferred stock on account of ROE of only 8% going forward.

Figure 49: P/B vs Average ROE (FY11-13E) comparison for real estate companies

Source: Company data, Credit Suisse estimates

Top picks: Oberoi, Sobha, IBREL, Prestige and Unitech

In a nutshell, going forward we prefer developers who are focused on volumes (more towards affordable housing than premium housing), willing to monetise their land bank faster and able to generate strong operating cash flows.

We like Oberoi Realty, Sobha Developers, IBREL, Prestige and Unitech and expect them to **OUTPERFORM** for the following reasons:

- Oberoi Realty:** We like the company for its healthy balance sheet, successful track record of maintaining high ROEs and generating positive operating cash flows. Even during the downturn, Oberoi's ROE stood at 20% in FY09 and, going forward, we expect healthy ROEs of 23-25% to be maintained in FY11-13. The land bank has clear visibility of getting monetised over the next seven to eight years, and further NAV growth could come from deployment of cash in value-accretive opportunities.
- Sobha Developers:** We like Sobha for a pick-up in Bangalore residential market, expectations of strong operating cash flows and net debt reduction. The company is well on course to achieve its FY11 target of 3 mn sq. ft of sales bookings and Rs2 bn of divestments. As a result, net debt-to-equity should come down 0.6x by March 2011 (from 0.8x as of March 2010).
- Indiabulls Real Estate:** Current valuations appear extremely attractive for IBREL. The proposed power business restructuring should lead to value unlocking. Further, the company has made good progress on bookings and focus on execution is the key.
- Prestige:** We like Prestige for its well-diversified portfolio as its rental and property management income provide steady stream of cash flows. Together they contribute 16-18% to revenues, and rental portfolio forms 66% of GAV. Further, ROE and ROCE are expected to stay healthy in the range of 19-21% going forward. Net debt-to-equity too stands on the lower side at 0.2x post the IPO in October 2010.
- Unitech:** We expect Unitech to generate strong operating cash flows over FY11-13 on account of strong pre-sales achieved in FY10 and expected in FY11. Though volumes in FY11 are expected to be lower compared to FY10, we believe that Unitech's continued focus on affordable housing is a positive and right strategy to go with in the current environment.

We maintain our **UNDERPERFORM** rating on DLF and Parsvnath due to the following reasons:

- **DLF:** We expect DLF to UNDERPERFORM further owing to its high leverage, price-focus and weak cash flow generation. Despite a favourable market scenario, the company has not been able to generate positive operating cash flows over the past four quarters. Volumes too disappointed in 1H FY11, and management has lowered its FY11 guidance as well. Further, we believe that in the current economic environment, its strategy of focusing on the high income segment entails high risk.
- **Parsvnath:** We expect Parsvnath to UNDERPERFORM as its volumes have been lacklustre recently, and repayment of Rs11 bn towards maturing term loans over FY11-13 appears challenging. The company has also recently raised project funding by selling stake to real estate funds which, however, is unlikely to impact its gearing levels as the funds are for project execution.

Further, we have a **NEUTRAL** rating on HDIL and Godrej Properties on account of the following reasons:

- **HDIL:** Though HDIL's gearing is not that high compared to other developers, we remain cautious on HDIL due to significant risk in execution of its Mumbai Airport slum rehabilitation project. Timely execution is critical for the company, but the project is already witnessing delays. Further, reduction in TDR demand following Maharashtra government's proposal to increase FSI in suburbs from 1.0 to 1.33 is expected to impact HDIL negatively.
- **Godrej Properties:** Despite having an asset-light business model and prospects of faster land monetisation, we believe that this strategy limits returns in an economic upswing. Further, Godrej Properties' gearing has remained high in the past (2.2x and 0.87x as on Mar-09 and Mar-10, respectively) and expected to remain high till FY13.

Figure 50: India real estate valuation summary

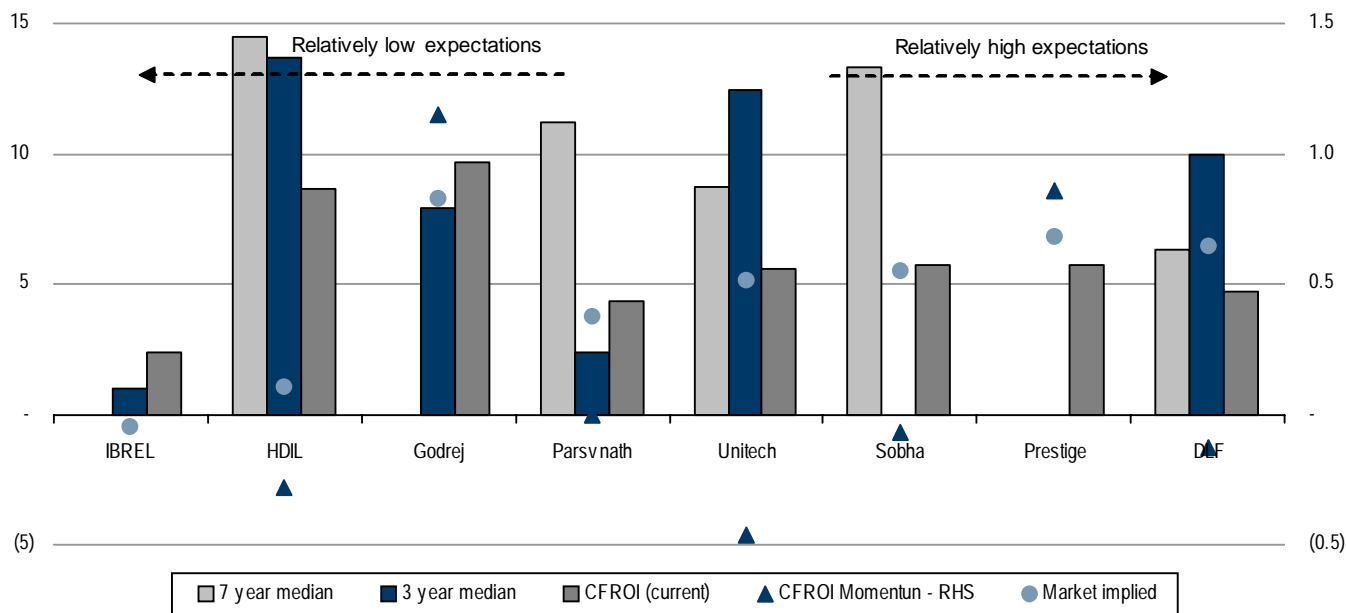
Company	Rating	Share price	Target price	+/-	Mkt cap	Fwd NAV	(Disc)/ Prem	Core P/E (X)			P/B (x)	RoE (%)	Gearing (%)
		(lcy)	(lcy)	(%)	(\$bn)	(lcy/sh)	(%)	FY10	FY11E	FY12E	FY12E	FY12E	FY12E
India - Developers													
DLF	U	250	221	(12)	9.4	280	(11)	24.7	20.3	23.3	1.6	7	71
Unitech	O	57	76	33	3.3	106	(46)	20.8	18.1	13.1	1.2	9	39
IBREL	O	118	188	59	1.1	242	(51)	(215.0)	23.7	14.0	0.5	4	51
Sobha Developers	O	270	375	39	0.6	609	(56)	20.1	15.2	12.2	1.3	11	45
Parsvnath	U	52	45	(13)	0.5	88	(41)	15.1	11.2	9.7	0.7	8	35
Oberoi Realty	O	245	309	26	1.8	338	(28)	15.5	14.5	11.0	2.1	21	(38)
Prestige Estates	O	135	180	33	1.0	261	(48)	24.0	15.8	9.0	1.6	20	5
Godrej Properties	N	594	581	(2)	0.9	652	(9)	34.0	34.3	21.6	4.1	20	67
HDIL	N	157	189	20	1.4	295	(47)	9.8	6.5	4.4	0.6	13	16

Prices as of 17 January 2011 Source: Company data, Credit Suisse estimates

HOLT® Cash Flow Return on Investment (CFROI®) benchmarking

We have used the HOLT® valuation framework to measure the market implied expectations for our coverage universe using consensus estimates as a starting point. IBREL and Godrej Properties appear relatively attractive as they are priced for CFROI to fade/ remain stable. DLF on the other hand is already pricing some degree of recovery in CFROI. CFROI momentum (computed based on the change in earnings estimate) is positive for Godrej Properties and Prestige while it is negative for the rest.

Figure 51: HOLT Cash Flow Return on Investment (CFROI) benchmarking



Source: Credit Suisse HOLT

Target price revision summary

Figure 52: Material change

Company	Price ccy	Price 17-Jan-11	Rating*		Target Price		Year End	EPS Ccy	EPS FY1E		EPS FY2E		EPS FY3E	
			Prev.	Cur.	Prev.	Cur.			Prev.	Cur.	Prev.	Cur.	Prev.	Cur.
DLF (DLF.BO)	Rs	250.25	—	U [V]	290	221	10-Mar	Rs	12.49	12.32	15.36	10.76	17.8	13.53
IBREL (INRL.BO)	Rs	119	—	O [V]	240	188	10-Mar	Rs	5.01	5.27	8.37	8.93	14.25	15.03
Parsvnath (PARV.BO)	Rs	52.2	—	U [V]	50	45	10-Mar	Rs	4.91	4.6	6.27	5.31	—	5.89
Sobha (SOBH.BO)	Rs	270.5	—	O [V]	430	375	10-Mar	Rs	23.91	18.11	29.7	22.53	32.83	29.88
Unitech (UNTE.BO)	Rs	56.8	—	O [V]	107	76	10-Mar	Rs	3.27	3.18	4.91	4.41	7.48	6.77

*O – Outperform, N – Neutral, U – Underperform, R – Restricted

[V] = Stock considered volatile (see Disclosure Appendix).

Source: Credit Suisse estimates

Oberoi Realty

(OEBO.BO / OBER IN)

Rating	OUTPERFORM* [V]
Price (17 Jan 11, Rs)	245.00
Target price (Rs)	309.00 [†]
Chg to TP (%)	26.1
Market cap. (Rs mn)	80,417 (US\$ 1,769)
Enterprise value (Rs)	66,939
Number of shares	328.23
Free float (%)	21.51
52-week price range	277.30 - 242.65

*Stock ratings are relative to the relevant country benchmark.

[†]Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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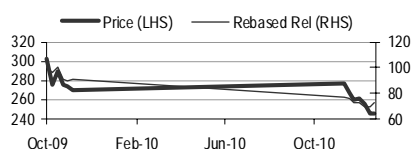
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INITIATION

A rising star

- **Initiate with OUTPERFORM.** We initiate coverage of Oberoi Realty (OBER IN) with an OUTPERFORM rating and a target price of Rs309 (discount of 10% to our March 2012 GAV), implying 26% upside from current levels.
- **Clear visibility of land bank monetisation.** Oberoi Realty and its subsidiaries have five land parcels located in Mumbai and one in Pune, resulting in Mumbai constituting 94% of total land bank of 22.2 mn sq ft saleable area. Unlike other developers, we perceive Oberoi Realty's land bank to be well-defined and one that holds good visibility of getting monetised over the next 7-8 years. Although the company missed the opportunity to buy land during the downturn, its healthy balance sheet and Rs14 bn of net cash on hand, should allow it to make value-accretive land acquisitions over the next 3-4 years leading to sustained NAV growth—something not expected from its peers.
- **RoEs to remain strong, strong cash flows ahead.** Oberoi Realty is among the few developers that hold a successful track record of maintaining high RoEs and generating positive cash flows from operations in recent years. Even during the downturn, Oberoi's RoE stood at 20% in FY09 and we expect healthy RoEs of 23-25% to be maintained in FY11-13. We expect strong post-tax-and-interest operating cash flows of Rs3.9 bn and Rs5.9 bn for FY12 and FY13 respectively. We estimate Oberoi Realty's revenues and net income to record 29% and 23% CAGR respectively over the next three years. Rental income is expected to contribute 17% to total revenues by FY13.
- **Valuation.** Our March 2012 NAV for Oberoi Realty stands at Rs338 per share, of which Rs157 comes from development assets and Rs138 from rental assets. We believe that, unlike other developers with several years of land bank, Oberoi Realty's entire NAV in our valuation comes from next 7-8 years itself and incremental value could come from deployment of cash in growth opportunities offering further upside.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-5.9	—	—
Relative (%)	-1.0	—	—

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	7,836.5	10,771.7	13,314.4	16,803.0
EBITDA (Rs mn)	4,672.2	6,337.6	8,594.8	10,607.2
EBIT (Rs mn)	4,581.6	6,108.8	8,362.0	10,374.4
Net attributable profit (Rs mn)	4,573.6	5,559.8	7,321.0	8,613.1
EPS (CS adj.) (Rs)	15.84	16.94	22.30	26.24
Change from previous EPS (%)	n.a.	—	—	—
Consensus EPS (Rs)	n.a.	—	—	—
EPS growth (%)	81.9	6.9	31.7	17.6
P/E (x)	15.5	14.5	11.0	9.3
Dividend yield (%)	—	1.6	2.0	2.4
EV/EBITDA (x)	16.3	10.6	7.7	6.1
ROE	28.5	21.9	20.9	21.0
Net debt/equity (%)	net cash	net cash	net cash	net cash
NAV per share (Rs)	—	—	338.2	—
Disc./prem. to NAV (%)	—	—	-27.5	—

Source: Company data, Thomson Reuters, Credit Suisse estimates.

Pure play on Mumbai real estate

Oberoi Realty and its subsidiaries have five land parcels located in Mumbai and one land parcel located in Pune, resulting in Mumbai constituting 94% of its land bank. Out of the total saleable area of 22.2 mn sq ft, 11.1 mn sq ft come from Oberoi's integrated township project, Garden City in Goregaon (East). Oberoi has planned projects across all verticals—residential, commercial, retail, hospitality as well as social infrastructure.

Five land parcels in Mumbai, one in Pune – total saleable area 22.2 mn sq ft

Figure 53: Summary of Oberoi Realty's land bank

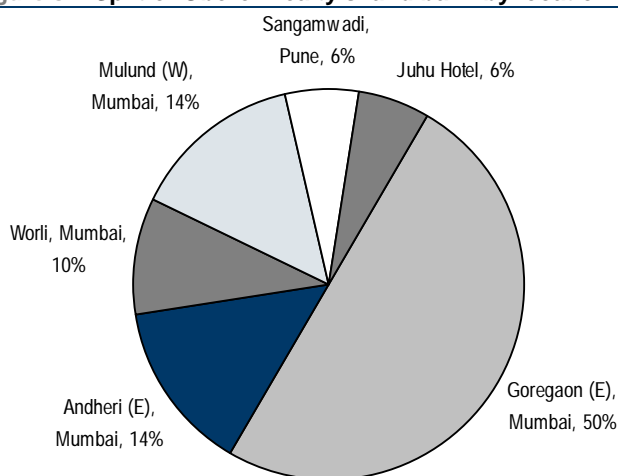
Location	Project	Land area (acres)	Saleable area (mn sq ft)	Proposed development
Goregaon (E), Mumbai	Oberoi Garden City	83.9	11.1	Residential, commercial, retail, hospitality, and social infrastructure
Andheri (E), Mumbai	Oberoi Splendor	24.5	3.1	Residential and commercial
Worli, Mumbai	Oasis Realty	3.0	2.1	Residential, commercial, retail, and hospitality
Mulund (W), Mumbai	Oberoi Exotica	18.8	3.2	Residential
Sangamwadi, Pune	Sangam City	17.7	1.3	Residential, commercial, and retail
Juhu, Mumbai	Juhu Hotel	3.1	1.3	Hospitality
Total		151.0	22.2	

Source: Company data, Credit Suisse estimates

Of the portfolio, 58% has been planned for residential development and 20% for commercial development (sale as well as lease). Unlike other developers, we perceive Oberoi Realty's land bank to be well-defined and one that holds good visibility of getting monetised over the next 7-8 years.

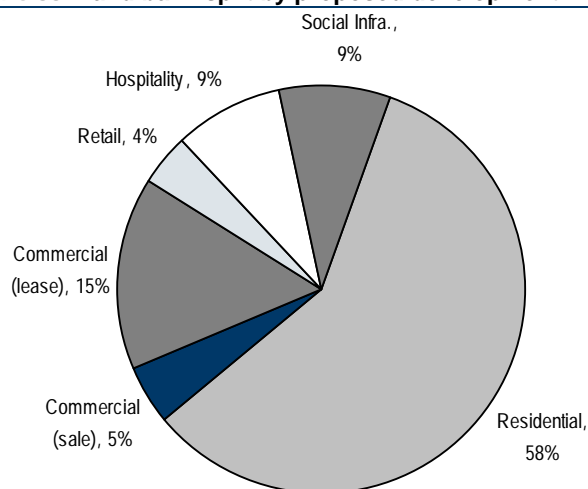
Well-defined land bank, good visibility of monetisation over next 7-8 years

Figure 54: Split of Oberoi Realty's land bank by location



Source: Company data, Credit Suisse estimates

Figure 55: Land bank split by proposed development



Source: Company data, Credit Suisse estimates

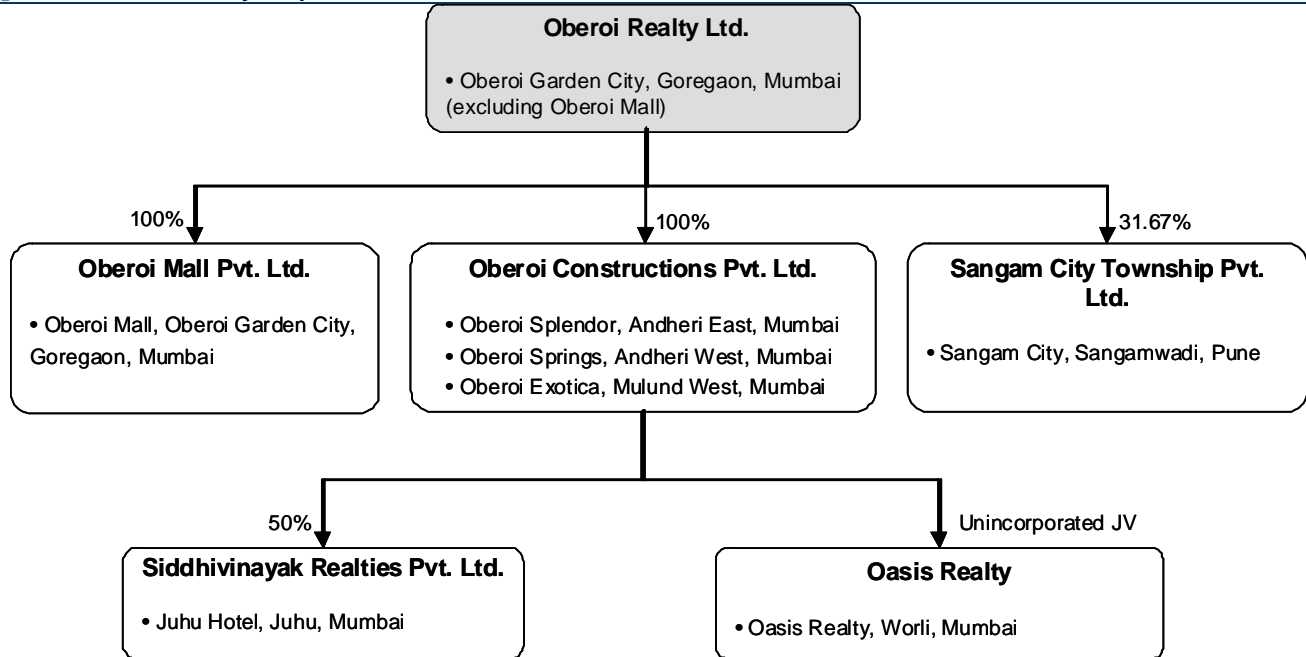
Lean corporate structure, easier to comprehend

Unlike other real estate developers which have several subsidiaries, Oberoi Realty has a very simple, lean and transparent corporate structure. Oberoi Garden City project in Goregaon is being developed by the parent company Oberoi Realty. Oberoi Mall, however, is part of the fully-owned subsidiary Oberoi Mall Pvt. Ltd. Another fully-owned subsidiary, Oberoi Constructions (OCPL) is executing Oberoi Splendor in Andheri East, Oberoi Springs in Andheri West and Oberoi Exotica in Mulund West.

Unlike other developers, very few subsidiaries – makes it easier to understand the company

OCPL has further entered into an unincorporated joint venture (Oasis Realty) with third parties to develop a mixed-use development of 2.1 mn sq ft in Worli, Mumbai and also holds 50% in SPV Siddhivinayak Realities which is developing Juhu Hotel in Mumbai.

Figure 56: Oberoi Realty corporate structure

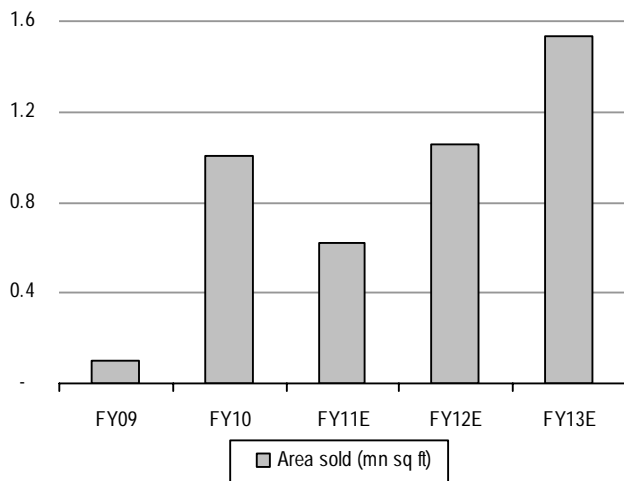


Source: Company data

Volumes and realisations to remain strong

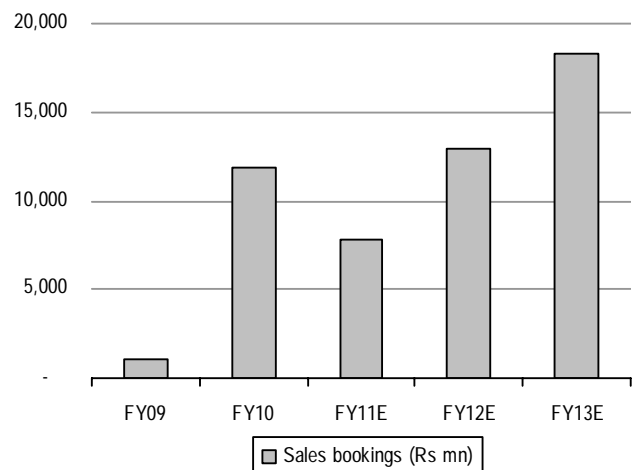
We expect Oberoi Realty to launch 2.5 mn sq ft and 2.0 mn sq ft in FY12/13 and sell 1.1 mn sq ft and 1.5 mn sq ft in those two years respectively. The value of sales bookings is expected to stand at Rs12.9 bn and Rs18.3 bn for FY12 and FY13, respectively.

Figure 57: 1.1 mn sq ft and 1.5 mn sq ft expected to be sold in FY12 and FY13 respectively



Source: Company data, Credit Suisse estimates

Figure 58: Sales bookings of Rs12.9 bn and Rs18.3 bn expected in FY12 and FY13 respectively



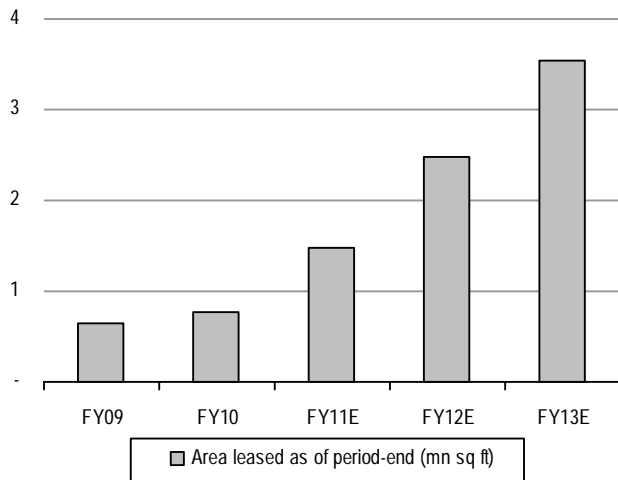
Source: Company data, Credit Suisse estimates

Good support from steady-flowing rental income

Oberoi's operational rental assets, Commerz-I, Oberoi Mall and Westin Hotel, presently generate Rs1.3 bn of annual recurring income. We expect the existing 1.3 mn sq ft lease portfolio to grow to 3.5 mn sq ft by FY13, generating an annual rental income of Rs2.9 bn. Rental income is expected to form 17% of total income by FY13, and should help provide stability to its earnings and cash flows.

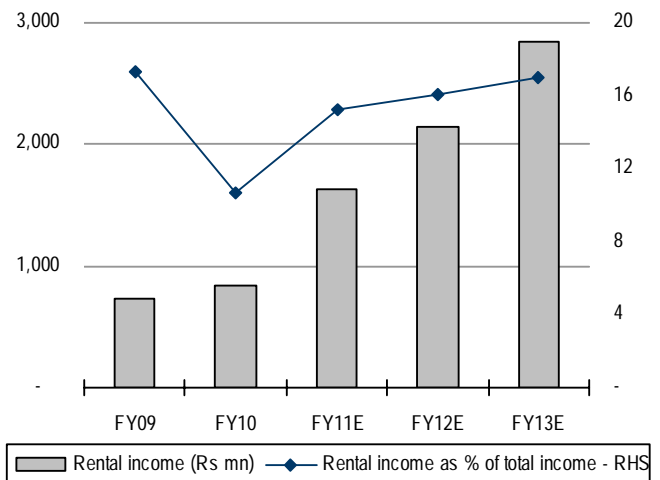
Rental income to form 17% of total income by FY13

Figure 59: Oberoi's rental portfolio expected to reach 3.5 mn sq ft by FY13



Source: Company data, Credit Suisse estimates

Figure 60: Rental income expected to reach Rs2.9 bn by FY13



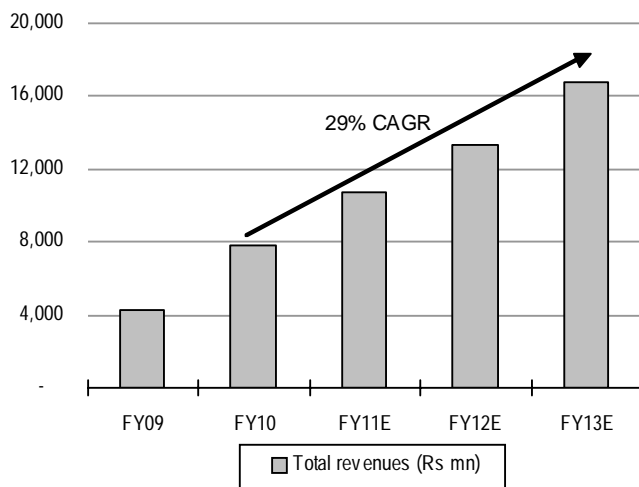
Source: Company data, Credit Suisse estimates

29% revenue and 23% PAT CAGR over FY10-13E

We expect Oberoi Realty's revenues and net income to record 29% and 23% CAGR respectively over the next three years. Overall revenue recognition of Rs 13.3 bn and Rs16.8 bn is expected in FY12 and FY13, respectively. The bulk of revenues currently comes from the Splendor-I project and Exquisite-I is expected to contribute to revenues from 2H FY11. We expect Exquisite-I to contribute Rs4.4 bn and Rs5 bn of revenues in FY12/13, respectively. Other new projects, Splendor-II, Oasis Residential, and the commercial portion of Splendor-I are expected to contribute to revenue from FY12.

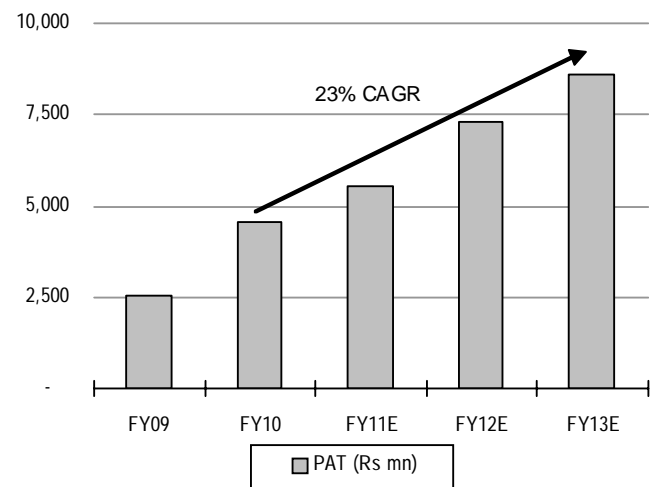
Expect revenues to more than double over next three years

Figure 61: Revenue to clock 29% CAGR over next 3 years



Source: Company data, Credit Suisse estimates

Figure 62: PAT expected to grow at 23% CAGR



Source: Company data, Credit Suisse estimates

Strong cash flows ahead, RoEs to remain strong

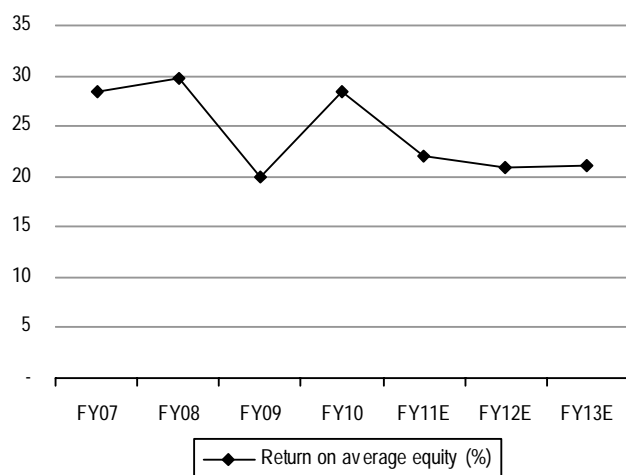
Oberoi Realty is among the few developers who have a successful track record of maintaining high RoEs and generating positive cash flows from operations in recent years. Even during the downturn, Oberoi's RoE stood at 20% in FY09 and we expect healthy RoEs of 20-22% to be maintained in FY11-13E.

Historical RoEs have been over 20%; expect the same going forward

Operating cash flows after interest payment and taxes stood at a negative Rs0.9 bn in FY09 and positive Rs3.1 bn in FY10, a far superior performance compared to its peers. We expect strong post-tax-and-interest operating cash flows of Rs2.9 bn and Rs3.7 bn for FY12E and FY13E respectively. The company can utilise these cash flows to acquire land and add further value accretive projects to its portfolio.

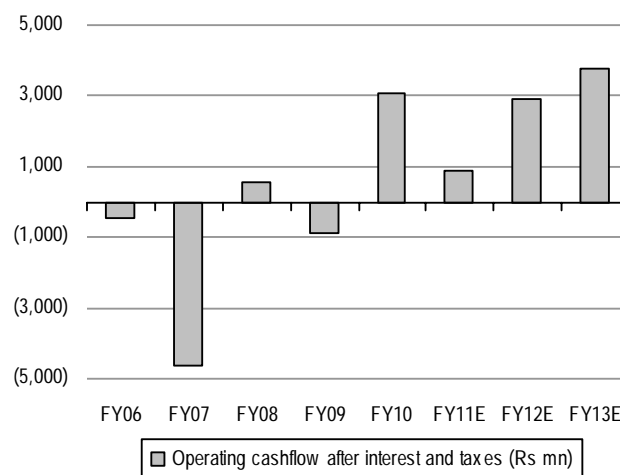
Strong operating cash flows expected

Figure 63: RoEs have remained high in the past and expected to remain high (in excess of 20%)



Source: Company data, Credit Suisse estimates

Figure 64: Positive cash flows from operations expected to be generated



Source: Company data, Credit Suisse estimates

Figure 65: Trend in Oberoi Realty's cash flows

(Rs mn)	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Operating cash flow before capex for rental assets	45	(3,593)	2,481	1,432	4,759	3,370	6,089	6,466
Capex for rental assets	(492)	(1,039)	(1,937)	(2,297)	(1,675)	(2,503)	(3,157)	(2,722)
Operating cash flow after interest and taxes	(447)	(4,632)	543	(864)	3,084	867	2,932	3,744
Change in equity	(3)	7,107	(6)	(79)	(163)	10,086	(0)	(0)
Dividend	-	-	-	-	-	(1,536)	(1,920)	(2,304)
Change in debt	440	2,994	(1,708)	(1,540)	(319)	(359)	-	-
Net change in cash/liquid investments	(10)	5,469	(1,171)	(2,484)	2,602	9,058	1,012	1,440

Source: Company data, Credit Suisse estimates

Oberoi Realty has a strong balance sheet and its net cash position of Rs14 bn (for FY11E) indicates that the company will not be forced to liquidate its projects to meet its commitments. Further, we estimate net cash on the balance sheet to grow to Rs20 bn by FY13 giving Oberoi ample freedom to acquire more land and grab other growth opportunities.

Net cash of Rs14 bn (FY11E) can be utilised for further land acquisitions

Restraint in buying land

During 2006-09, when most developers accumulated land parcels throughout the country even at the cost of higher leverage, Oberoi Realty exercised restraint in buying land. Oberoi Realty's four land parcels in Mumbai were acquired prior to 2006 and only Sangamwadi land parcel in Pune was bought during 2007-10. Though this prudent decision helped Oberoi Realty maintain a healthy balance sheet, it also missed out on buying land during the downturn when land and property prices corrected significantly as it anticipated even more attractive prices. Going forward, the company intends to acquire land parcels in Mumbai and Pune from a portion of IPO proceeds over the next 3-4 years.

Prudently avoided buying land during 2006-09, but also missed out on buying opportunity during downturn

Figure 66: All land parcels (except in Pune) acquired before 2006

Location	Project	Land area (acres)	Date of acquisition
Goregaon (E), Mumbai	Oberoi Garden City	83.9	Dec 1999–Sep 2005
Andheri (E), Mumbai	Oberoi Splendor	24.5	Oct 2005
Andheri (W), Mumbai	Oberoi Springs*	7.0	Feb 2005–Apr 2005
Mulund (W), Mumbai	Oberoi Exotica	18.8	Sep 2005
Sangamwadi, Pune	Sangam City	17.7	Mar 2007–Apr 2010

* Project already completed in January 2010

Source: Company data

Initiate with OUTPERFORM, TP of Rs309

We initiate coverage of Oberoi Realty with an OUTPERFORM rating with a target price of Rs309. We have valued Oberoi Realty at Rs309 per share, at 10% discount to our March 2012 GAV. Our March 2012 NAV on sum-of-the-parts basis stands at Rs338 per share, out of which Rs157 comes from development assets and Rs138 from rental assets. Almost the entire GAV comes from Mumbai and the Goregaon (E) project contributes 62% to GAV. Oberoi's residential portfolio contributes 46% to GAV and another 30% comes from commercial projects.

OUTPERFORM, TP of Rs309, 10% discount to March 2012 GAV

We believe that, unlike other developers, a higher than 10% discount to forward GAV is unwarranted for Oberoi Realty as clear triggers exist for potential NAV expansion. Oberoi Realty's entire NAV in our valuation comes from the next 7-8 years and any incremental value, which could come from deploying net cash on hand in growth opportunities, could offer further upside.

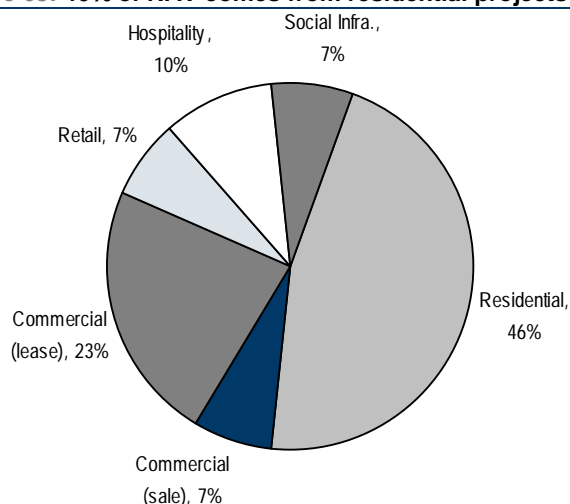
Deployment of net cash on hand in growth opportunities could offer further upside

Figure 67: Oberoi Realty valuation summary

	Area (mn sq ft)	Value (Rs mn)	Rs/share	Comments
Rental assets	5.5	45,412	138	Cap rate of 9.5%, rentals discounted over lease period
Development assets	13.4	51,433	157	Prices at 5-10% discount to current market price, 5% annual property price appreciation, 7% construction cost escalation
Gross asset value (GAV)	18.9	96,845	295	
Net (debt)/cash		14,147	43	Net debt as of Mar-10, less amount of equity raised in FY11
NAV as of March 2012		114,975	338	
Premium/(discount) to NAV	(10%)	(9,685)	(29)	10% discount to GAV
March 2012 net firm value		101,308	309	

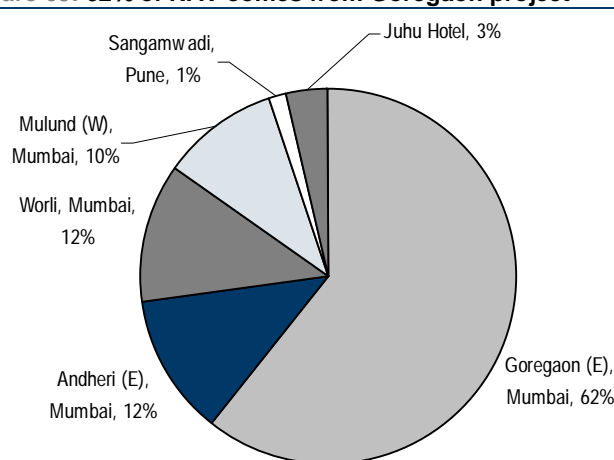
Source: Company data, Credit Suisse estimates

Figure 68: 46% of NAV comes from residential projects



Source: Company data, Credit Suisse estimates

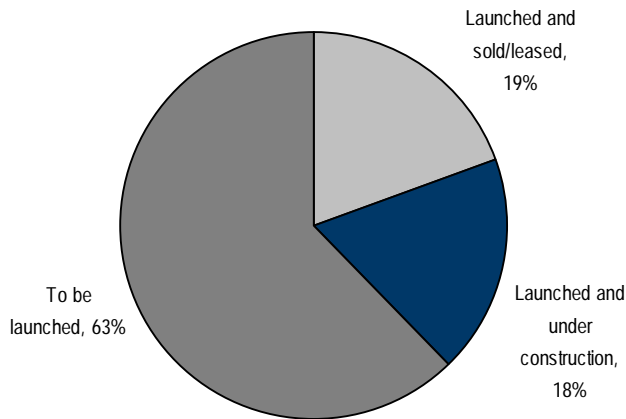
Figure 69: 62% of NAV comes from Goregaon project



Source: Company data, Credit Suisse estimates

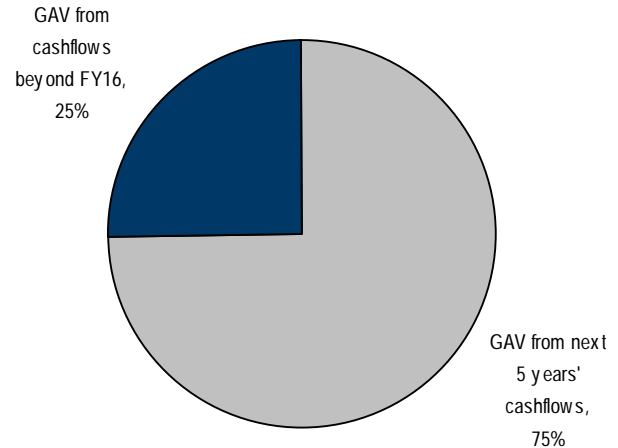
Further, 38% of GAV comes from projects that have already been launched and are under construction and 75% of GAV is expected to be realised from the next five years' cash flows itself.

Figure 70: 38% of GAV comes from projects that have been already launched



Source: Company data, Credit Suisse estimates

Figure 71: 75% of GAV comes from cash flows expected over next five years



Source: Company data, Credit Suisse estimates

Key investment risks

- Slowdown in Mumbai property market.** Any slowdown in MMR's real estate market is expected to impact Oberoi Realty negatively as Oberoi Realty's all land parcels (except one in Pune) are located in Mumbai. A sharp correction in property prices could impact realisations significantly. Further, the Goregaon project contributes 62% to Oberoi Realty's GAV and hence, any slowdown in the Goregaon micro market shall impact Oberoi Realty negatively
- Scrapping of car parking FSI in future.** The Maharashtra government is considering scrapping of additional FSI that is available to developers in lieu of developing public car parking space. Any such notification is likely to impact Oberoi Realty negatively owing to car parking FSI assumptions built in its projects.
- Slowdown in premium housing segment.** Oberoi Realty commands premium for its developments owing to its brand name and quality of projects. Any slowdown in this segment is likely to impact Oberoi Realty negatively.
- Increase in land prices.** Owing to its limited land bank, Oberoi Realty would be required to undertake further land acquisitions. If land prices soar in Mumbai and/or if Oberoi Realty is forced to acquire land at exorbitant prices in land auctions, future projects might not prove to be as value accretive as expected.
- Macro risks.** Tightening of liquidity, interest rate hikes, and Maharashtra political scenario continue to be macro risks for Oberoi Realty.

Financial summary

Figure 72: Income statement—Oberoi Realty

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	2,352	5,112	4,254	7,836	10,772	13,314	16,803
Expenses	(1,134)	(2,537)	(1,780)	(3,164)	(4,434)	(4,720)	(6,196)
EBIDTA	1,218	2,575	2,474	4,672	6,338	8,595	10,607
Depreciation	(16)	(19)	(73)	(91)	(229)	(233)	(233)
EBIT	1,202	2,555	2,401	4,582	6,109	8,362	10,374
Interest expense	(3)	(0)	(4)	(0)	(5)	(5)	(5)
Other income	122	474	295	218	676	1,029	1,115
Profit before tax	1,321	3,029	2,692	4,800	6,780	9,386	11,484
Income tax	(34)	(69)	(177)	(226)	(1,220)	(2,065)	(2,871)
Profit before minority	1,287	2,960	2,515	4,574	5,560	7,321	8,613
Minority/ associates	-	-	-	-	-	-	-
PAT	1,287	2,960	2,515	4,574	5,560	7,321	8,613
EPS (Rs)	4.5	10.3	8.7	15.8	16.9	22.3	26.2
Dividend per share (Rs)	-	-	-	-	4.0	5.0	6.0

Source: Company data, Credit Suisse estimates

Figure 73: Balance sheet—Oberoi Realty

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	5,473	461	1,669	3,631	3,500	3,500	3,500
Receivables	197	501	272	404	454	1,408	2,409
Inventories	5,757	5,498	7,122	6,226	6,393	6,392	7,872
Other current assets	1,263	2,531	2,730	6,257	7,040	7,465	8,005
Sundry creditors	87	282	308	245	295	345	395
Customer advances	-	-	-	-	-	-	-
Other current liabilities	2,647	3,267	3,685	6,597	5,129	4,992	5,583
Net current assets	9,957	5,443	7,800	9,675	11,963	13,428	15,808
Fixed assets	380	446	2,736	3,068	3,842	5,267	7,606
Capital WIP	2,064	3,917	3,851	5,103	6,603	8,103	8,253
Investments	-	3,842	150	790	9,978	10,990	12,430
Deferred tax asset	0	(7)	7	2	2	2	2
Total assets	12,402	13,639	14,543	18,637	32,388	37,789	44,098
Liabilities							
Share capital	26	26	26	2,887	3,282	3,282	3,282
Reserves	8,450	11,395	13,839	15,392	29,106	34,507	40,816
Shareholders' funds	8,476	11,421	13,865	18,278	32,388	37,789	44,098
Debt	3,926	2,218	678	359	-	-	-
Others	-	-	-	-	-	-	-
Total liabilities	12,402	13,639	14,543	18,637	32,388	37,789	44,098

Source: Company data, Credit Suisse estimates

Figure 74: Cash flow statement—Oberoi Realty

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	1,321	3,029	2,692	4,800	6,780	9,386	11,484
Depreciation	16	19	73	91	229	233	233
Non-cash adjustments	(153)	(543)	(469)	(444)	(1,892)	(3,089)	(3,981)
Change in working capital	(4,400)	(498)	(1,150)	87	(2,419)	(1,465)	(2,380)
Operating cash flow	(3,216)	2,008	1,147	4,533	2,698	5,065	5,356
Change in fixed assets	(1,039)	(1,937)	(2,297)	(1,675)	(2,503)	(3,157)	(2,722)
Change in investments	-	(3,842)	3,692	(640)	(9,189)	(1,012)	(1,440)
Investment cash flow	(4,256)	(3,771)	2,542	2,218	(8,993)	896	1,194
Change in debt	2,994	(1,708)	(1,540)	(319)	(359)	-	-
Change in equity/reserve	7,107	(6)	(79)	(163)	10,086	(0)	(0)
Interest & dividend	119	473	291	218	(865)	(896)	(1,194)
Financing cash flow	5,965	(5,011)	1,214	1,954	(131)	(0)	0
Extraordinary items	(496)	(1)	(6)	8	-	-	-
Total cash flow	5,469	(5,012)	1,208	1,961	(131)	(0)	0
Beginning of year cash	4	5,473	461	1,669	3,631	3,500	3,500
Year end cash	5,473	461	1,669	3,631	3,500	3,500	3,500

Source: Company data, Credit Suisse estimates

Figure 75: Key metrics—Oberoi Realty

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	190.8	117.4	(16.8)	84.2	37.5	23.6	26.2
EBITDA	241.2	111.4	(3.9)	88.9	35.6	35.6	23.4
PAT	266.7	129.9	(15.0)	81.8	21.6	31.7	17.6
EPS	224.3	129.9	(15.0)	81.9	6.9	31.7	17.6
Margins (%)							
EBITDA/ revenue	51.8	50.4	58.2	59.6	58.8	64.6	63.1
EBIT/ revenue	51.1	50.0	56.4	58.5	56.7	62.8	61.7
PAT/ revenue	54.7	57.9	59.1	58.4	51.6	55.0	51.3
Other metrics							
Net debt/ equity	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
RoAE (%)	28.4	29.7	19.9	28.5	21.9	20.9	21.0
RoCE (%)	18.6	22.7	17.9	27.6	21.8	20.9	21.0
Book value per share (Rs)	29.4	39.6	48.0	63.3	98.7	115.1	134.3

Source: Company data, Credit Suisse estimates

Prestige Estates Projects Ltd

(PREG.BO / PEPL IN)

Rating	OUTPERFORM* [V]
Price (17 Jan 11, Rs)	135.60
Target price (Rs)	180.00 ¹
Chg to TP (%)	32.7
Market cap. (Rs mn)	44,486.83 (US\$ 978.49)
Enterprise value (Rs)	48,226
Number of shares	328.07
Free float (%)	20.00
52-week price range	193.00 - 135.60

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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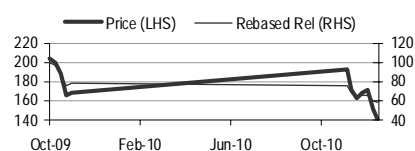
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INITIATION

Quality and balance

- **Initiate with OUTPERFORM.** We initiate coverage of Prestige Estates (PEPL IN) with an OUTPERFORM rating and a target price of Rs180 (placing it at a 30% discount to March 2012 GAV), which implies 33% potential upside from current levels.
- **Diversified, quality exposure to Bangalore real estate.** Prestige Estates, with its well-diversified portfolio of 57.3 mn sq ft, provides quality exposure to the south Indian property market especially Bangalore. Having completed over 34 mn sq ft of development, the company has built strong expertise and a brand name for itself in all the four verticals allowing it to command a premium in the market. Prestige's revenue stream is also diversified on account of its rental portfolio and property management services which are estimated to contribute 16% to total revenues by FY13. Prestige derives deep value from its existing and forthcoming rental assets as 66% of the GAV comes from rental assets.
- **Strong cash flows and high RoEs expected.** We expect Prestige's RoEs to remain high, in the range of 19-21%, over FY11-13E. Return on capital employed (RoCE) is also expected to be healthy at 16-17% for FY12E and FY13E respectively. Prestige's net debt-to-equity stood at 1.7x as of March 2010 (net debt of Rs12.7 bn), but gearing is expected to fall to 0.2x as of March 2011 (net debt of Rs3.7 bn) as the company raised funds through an IPO in October 2010. We expect Prestige to generate operating cash flows after interest and taxes of Rs2.4 bn (FY12E) and Rs3.5 bn (FY13E).
- **Valuation.** Our March 2012 NAV on sum-of-the-parts basis stands at Rs261 per share, of which Rs148 comes from development assets and Rs118 from rental assets. We believe a 30% discount to forward GAV is warranted owing to the Bangalore market concentration risk, and the risk of any slowdown in the IT/ITeS sector or the overall south India real estate market.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-16.8	—	—
Relative (%)	-12.5	—	—

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	10,244.4	17,410.9	24,922.9	30,637.4
EBITDA (Rs mn)	2,234.4	5,143.3	7,827.7	9,985.0
EBIT (Rs mn)	1,743.8	4,407.5	6,834.3	8,743.3
Net attributable profit (Rs mn)	1,473.5	2,808.0	4,926.3	6,338.1
EPS (CS adj.) (Rs)	5.61	8.53	14.97	19.25
Change from previous EPS (%)	n.a.	—	—	—
Consensus EPS (Rs)	n.a.	5.8	8.3	11.1
EPS growth (%)	90.6	52.0	75.4	28.7
P/E (x)	24.2	15.9	9.1	7.0
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	25.6	9.4	5.9	4.2
ROE %	21.3	18.7	19.8	20.8
Net debt/equity (%)	122.4	14.9	4.4	net cash
NAV per share (Rs)	—	—	261.0	—
Disc./prem. to NAV (%)	—	—	-48.0	—

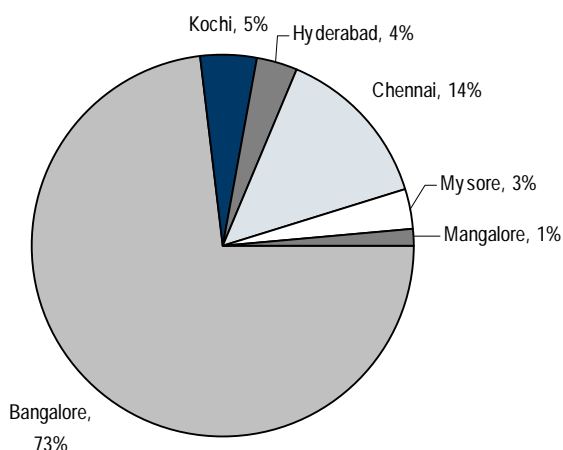
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Diversified play on Bangalore real estate

Prestige Estates, with its well-diversified portfolio of residential, commercial, retail, and hospitality projects provides good exposure to the south Indian market, especially Bangalore. The company has development rights over 57.3 mn sq ft of area which includes 28.4 mn sq ft of saleable area (Prestige's share) and 11.0 mn sq ft of leasable area (Prestige's share). Bangalore and Chennai constitute 73% and 14% of its developable area respectively. In terms of the type of development, 64% of the area to be developed is intended for sales, and 36% for building rent-yielding assets across the office, retail and hospitality segments.

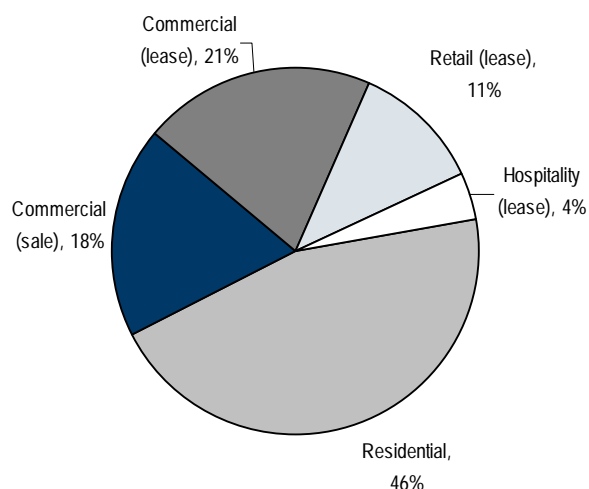
28.4 mn sq ft of saleable area, 11 mn sq ft of leasable area

Figure 76: Bangalore constitutes 73% of developable area



Source: Company data, Credit Suisse estimates

Figure 77: Of developable area, 64% meant for sale and 36% for leasing



Source: Company data, Credit Suisse estimates

Strong execution track record and brand name

Prestige Estates has over 24 years of experience in real estate development and has completed 150 real estate projects spanning 34.2 mn sq ft as of November 2010 across different verticals: residential, commercial, retail and hospitality. The company's landmark projects in Bangalore include Prestige Shantiniketan (one of the largest integrated township developments in Bangalore); UB City (one of the largest mixed-use developments in Bangalore's CBD); and The Forum Mall, which not only introduced the retail mall culture in Bangalore but is known to be one of the best malls in the country.

Completed 34.2 mn sq ft across different verticals till date

As a result, Prestige has established a well-recognised brand name for itself in Bangalore and it now commands a premium in the market.

Figure 78: Area completed across different verticals

(mn sq ft)	Developable area
Residential	21.7
Commercial	10.6
Hospitality	0.6
Retail	1.4
Total	34.2

Source: Company data

Strategic partnerships to strengthen growth plans

Prestige has entered into a joint venture with CapitaRetail India Development Fund (CRIDF), an associate of CapitaMalls Asia, to develop six malls across south India. CapitaMalls Asia is one of the largest listed pure-play shopping mall owners, developers

and managers in Asia by total property value of assets and by geographic reach, in terms of number of malls and cities. The company has also entered into a joint venture with CapitaMalls Asia for the purpose of managing the retail malls developed by the joint venture with CRIDF. The expertise and experience of both partners should help Prestige maintain its strong hold in the south Indian retail space. Further, Prestige has reputed partners such as Oakwood Management Services, Marriott Hotels India and Hilton International in its hospitality business.

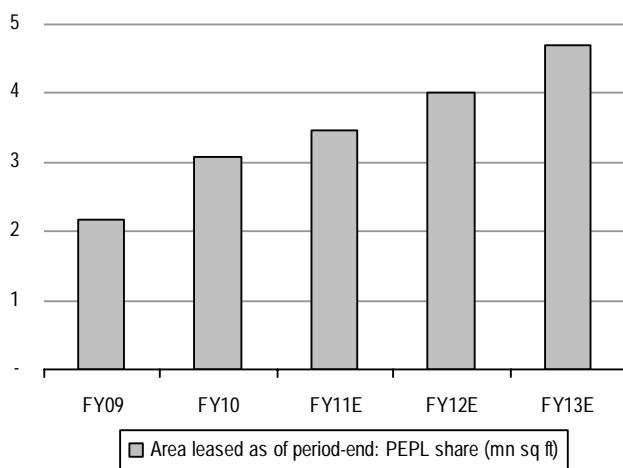
Partnership with CRIDF to develop six malls and with other reputed hospitality players

Diversified revenue streams from rental portfolio and property management services

Prestige's rental portfolio provides strong support to its revenues and cash flows, and is expected to reach 4.7 mn sq ft (Prestige's share of leased area) by FY13E. FY10 rental income stood at Rs1.4 bn and is expected to reach Rs3.3 bn by FY13E, contributing 11% to total revenues. Prestige derives deep value from its existing and forthcoming rental assets as 66% of the GAV comes from rental assets (as discussed later).

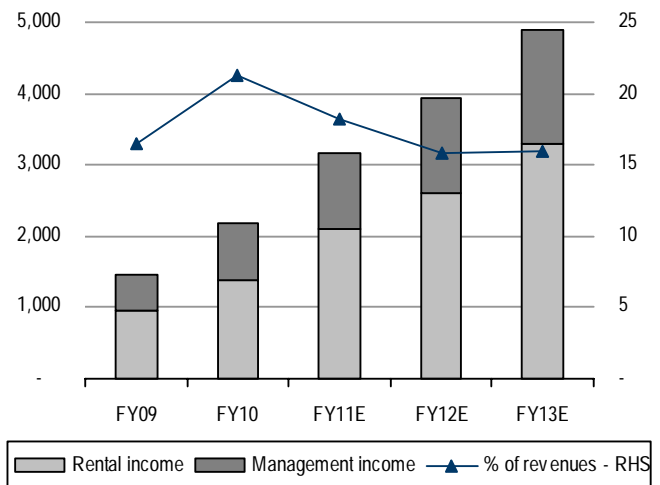
11% of revenue to come from rental income by FY13

Figure 79: Rental portfolio to reach 4.7 mn sq ft (Prestige's share) by FY13E



Source: Company data, Credit Suisse estimates

Figure 80: Prestige's rental and management income (Rs mn) provides diversification to revenue streams



Source: Company data, Credit Suisse estimates

Prestige also offers a variety of real estate services for its own commercial and residential developments such as property management services, sub-leasing and fit-out services, project and construction management services, interior solutions services, mall management services, etc. As of September 2010, the total space under Prestige's management stood at 6 mn sq ft in the commercial segment (including retail space) and another 6 mn sq ft in the residential segment. With the completion of further projects, Prestige expects to add 32 mn sq ft of built space to its property management portfolio by FY14.

12 mn sq ft of total space under management

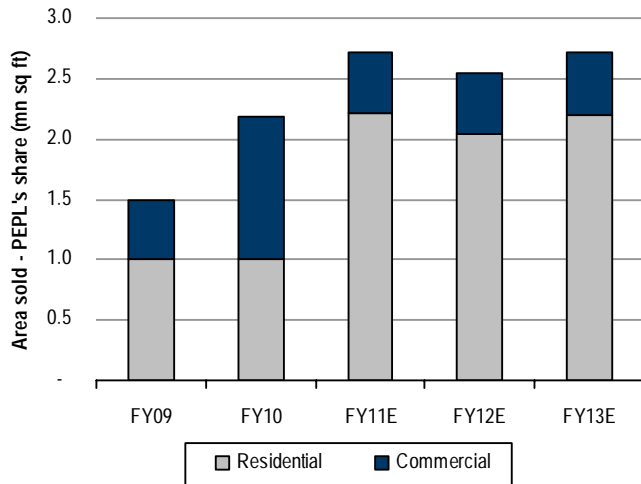
We expect income from these services to grow from Rs0.8 bn in FY10 to Rs1.6 bn by FY13E contributing 16% to revenues along with rental income. Prestige expects to extend its property management services to outside clients as well in the future.

Rental + management income should contribute 16% to revenues by FY13

Area sales and value bookings

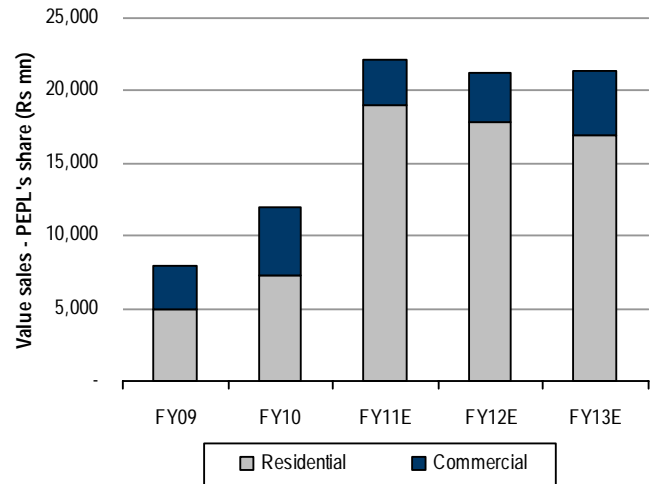
We expect Prestige to sell 2.7 mn sq ft and 2.6 mn sq ft in FY11E and FY12E respectively. The value of sales bookings is estimated to be Rs22.1 bn and Rs21.2 bn for FY11 and FY12, respectively.

Figure 81: Trend in area sales—Prestige’s share



Source: Company data, Credit Suisse estimates

Figure 82: Trend in value sales—Prestige’s share



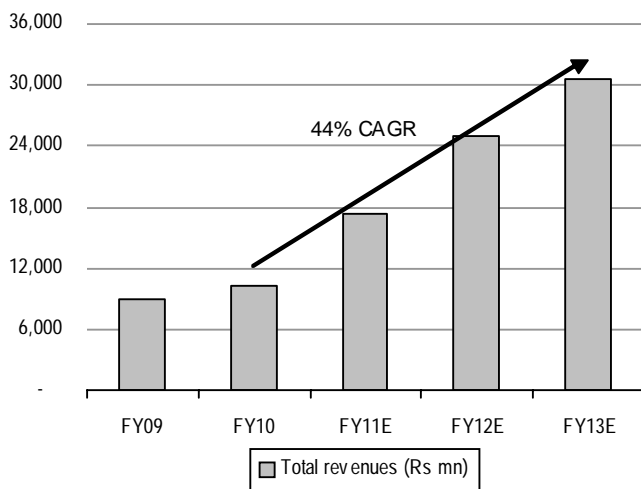
Source: Company data, Credit Suisse estimates

Strong growth in revenues and PAT over FY10-13E

We estimate Prestige’s revenues to clock 44% CAGR over the next three years and reach Rs30.6 bn by FY13. In FY11, we estimate Prestige’s flagship project, Shantiniketan (residential and corporate office blocks), to contribute about Rs5.2 bn of revenues with another Rs2.8 bn coming from the Prestige Golfshire project. The White Meadows project is expected to start contributing to revenue from FY12. Net income is expected to register 63% CAGR over the next three years, reaching Rs6.3 bn by FY13E.

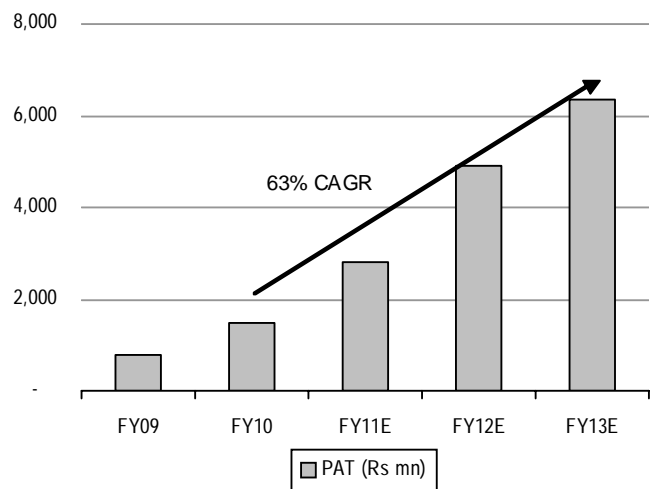
44% revenue CAGR and 63% PAT CAGR expected over next three years

Figure 83: Revenues expected to clock 44% CAGR over FY10-13E



Source: Company data, Credit Suisse estimates

Figure 84: PAT expected to clock at 63% CAGR over FY10-13E



Source: Company data, Credit Suisse estimates

Strong cash flows and high RoEs expected

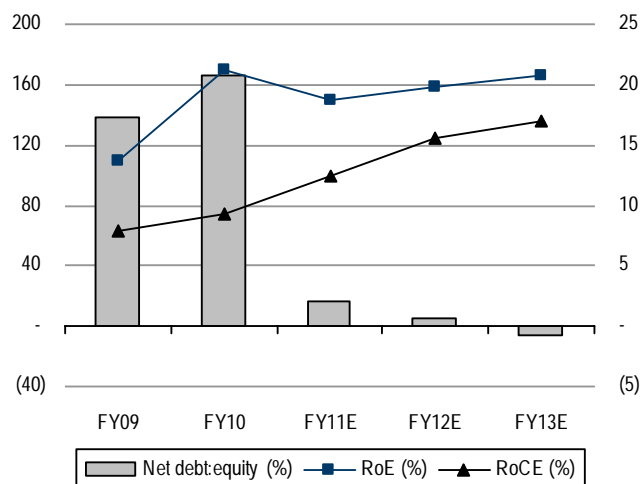
We expect Prestige’s RoEs to remain high, in the range of 19-21%, over FY11-13E. Return on capital employed (RoCE) is also expected to be healthy at 16-17% for FY12E and FY13E respectively. Prestige’s net debt-to-equity stood at 1.7x as of March 2010 (net debt of Rs12.7 bn), but gearing is expected to fall to 0.2x by March 2011 (net debt of Rs3.7 bn) as the company raised funds through an IPO in October 2010.

High gearing in the past, but expected to drop to 0.2x by March 2011

We expect Prestige to generate operating cash flows after interest and taxes of Rs2.4 bn and Rs3.5 bn in FY12E and FY13E respectively. Owing to positive cash flow generation, we expect the company to turn net cash positive by FY13.

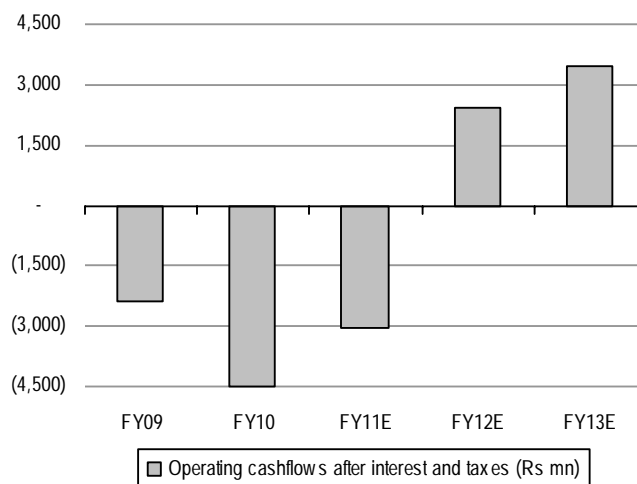
Expect company to turn net cash positive by FY13

Figure 85: RoEs to remain in the range of 19-21% over FY11-13E, company to turn net cash by FY13E



Source: Company data, Credit Suisse estimates

Figure 86: Positive operating cash flow generation over FY12-13E, FY11 negative owing to capex on rental assets



Source: Company data, Credit Suisse estimates

Initiate with OUTPERFORM, target price of Rs180

We initiate coverage of Prestige Estates with an OUTPERFORM rating with a target price of Rs180. We have valued Prestige Estates at Rs180 per share basing it at a 30% discount to forward GAV. Our March 2012 NAV on sum-of-the-parts basis stands at Rs261 per share, of which Rs148 comes from development assets, Rs118 from rental assets and another Rs5 from land that is not presently under development. We believe the 30% discount to forward GAV is warranted owing to the risk of Prestige's Bangalore-centric focus, a slowdown in IT/ITeS sector and possibility of any overall slowdown in the south India market.

OUTPERFORM, TP of Rs180, 30% discount to March 2012 GAV

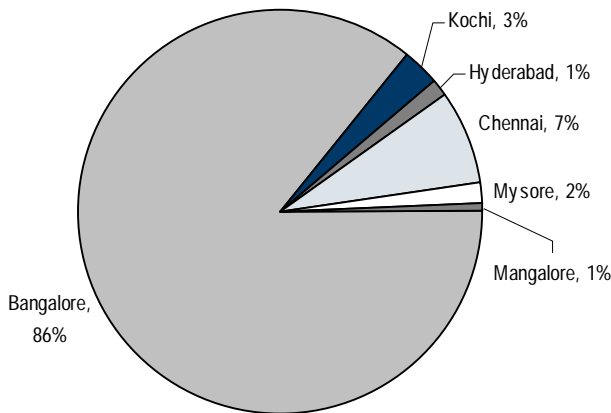
Figure 87: Breakdown on Prestige's NAV of Rs261 per share

	Area (mn sq ft)	Value (Rs mn)	Rs/share	Comments
A. Real estate valuation				
Development assets	37.1	48,637	148	
Rental assets	17.7	38,837	118	Cap rate of 9%, 5% rental appreciation
Land held for future development	483.2 acres	1,734	5	Land with no present development plans, at cost
Real estate GAV	54.8	89,208	271	
Less: land cost to be paid		(3,490)	(11)	
Real estate GAV after land cost		85,718	260	
Less: net debt (PEPL proportionate share)		(4,584)	(14)	As of March 2011
Real estate NAV after net debt		81,134	246	
B. Other businesses				
Facilities and maintenance business		4,786	15	
March 2012 firm NAV		85,920	261	
Premium/(discount) to GAV	(30%)	(26,762)	(81)	30% discount to GAV
March 2012 firm value		59,157	180	

Source: Company data, Credit Suisse estimates

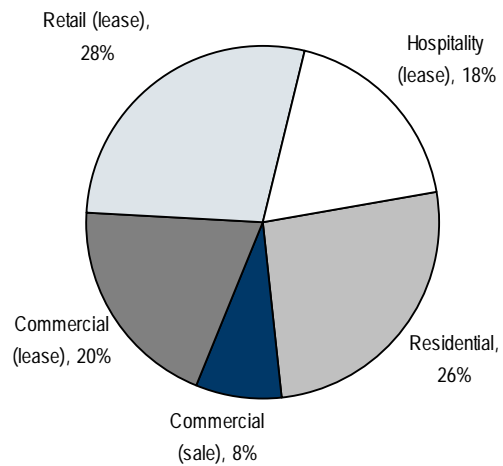
Bangalore, which forms 73% of Prestige’s developable area, constitutes 86% of its GAV. In terms of the type of development, rental assets (which form 36% of developable area) contribute 66% to GAV indicating strong dependence on rental income.

Figure 88: 86% of GAV comes from Bangalore



Source: Company data, Credit Suisse estimates

Figure 89: Rental assets form 66% of GAV



Source: Company data, Credit Suisse estimates

Key investment risks

- Slowdown in Bangalore property market.** Bangalore contributes 86% to Prestige’s GAV, hence any slowdown in Bangalore’s real estate market is expected to impact Prestige Estates negatively. Demand in the Bangalore market is IT/ITeS driven, hence slowdown in IT hiring could lead to volumes slowdown in that market thereby impacting Prestige’s volumes negatively.
- Commercial segment slowdown.** Rental assets contribute 66% to Prestige’s GAV, hence any slowdown in Bangalore’s commercial, retail and hospitality segment is expected to have negative impact on Prestige Estate’s earnings.
- Joint development projects offering limited returns.** Since Prestige has several projects in joint development agreements, there is limited upside to returns from those projects even during economic upswings. Further, since Prestige bears the entire development costs in most of such projects, any increase in construction costs could impact Prestige negatively.
- Macro risks.** Tightening of liquidity, interest rate hikes, and the state political scenario continue to be macro risks for Prestige Estates.

Financial summary

Figure 90: Income statement—Prestige Estates

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	4,209	9,740	8,981	10,244	17,411	24,923	30,637
Expenses	(3,269)	(8,379)	(7,044)	(8,010)	(12,268)	(17,095)	(20,652)
EBIDTA	940	1,362	1,937	2,234	5,143	7,828	9,985
Depreciation	(191)	(269)	(398)	(491)	(736)	(993)	(1,242)
Interest expense	(204)	(455)	(689)	(783)	(950)	(500)	(500)
Other income	62	152	180	616	300	325	350
Profit before tax	607	790	1,031	1,577	3,757	6,659	8,593
Income tax	(216)	(249)	(323)	(283)	(1,015)	(1,798)	(2,320)
Profit before minority	391	542	707	1,294	2,743	4,861	6,273
Minority/ associates	(84)	118	66	179	65	65	65
PAT	307	659	773	1,474	2,808	4,926	6,338
EPS (Rs)	1.2	2.5	2.9	5.6	8.5	15.0	19.3

Source: Company data, Credit Suisse estimates

Figure 91: Balance sheet—Prestige Estates

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	232	903	1,410	1,729	3,167	5,578	9,034
Receivables	1,714	1,270	2,490	3,627	3,990	4,389	4,828
Inventories	9,164	7,681	9,786	12,502	14,133	12,301	12,912
Other current assets	4,794	7,145	5,791	6,408	7,232	8,032	8,832
Sundry creditors	955	1,264	2,362	1,825	2,190	2,409	2,650
Customer advances	10,013	8,102	7,324	6,433	7,846	7,720	9,439
Other current liabilities	2,264	3,384	2,796	3,635	3,634	3,964	4,294
Net current assets	2,672	4,249	6,994	12,373	14,853	16,208	19,222
Fixed assets	2,686	6,293	9,138	9,242	13,006	13,513	15,771
Capital WIP	721	3,266	1,309	2,054	3,054	6,054	7,054
Investments	1,245	1,707	1,125	1,609	1,609	1,609	1,609
Intangible assets	633	969	1,081	1,098	1,098	1,098	1,098
Deferred tax asset	(5)	7	(31)	(2)	48	98	148
Total assets	7,952	16,491	19,615	26,374	33,667	38,579	44,902
Liabilities							
Share capital	125	125	125	2,625	3,292	3,292	3,292
Reserves	1,688	4,905	6,060	5,013	19,154	24,081	30,419
Shareholders' funds	1,813	5,030	6,185	7,638	22,446	27,372	33,710
Debt	5,414	9,137	11,125	16,015	8,515	8,515	8,515
Others	725	2,324	2,305	2,721	2,706	2,691	2,676
Total liabilities	7,952	16,491	19,615	26,374	33,667	38,579	44,902

Source: Company data, Credit Suisse estimates

Figure 92: Cash flow statement—Prestige Estates

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	607	790	1,031	1,577	3,757	6,659	8,593
Depreciation	191	269	398	491	736	993	1,242
Non-cash adjustments	(81)	43	222	(142)	(415)	(1,673)	(2,220)
Change in working capital	(2,488)	(906)	(2,239)	(5,060)	(1,041)	1,056	440
Operating cash flow	(1,770)	196	(588)	(3,134)	3,038	7,036	8,055
Change in fixed assets	(1,543)	(6,757)	(1,397)	(1,358)	(5,500)	(4,500)	(4,500)
Change in investments	(375)	(462)	583	(484)	-	-	-
Investment cash flow	(3,688)	(7,023)	(1,403)	(4,976)	(2,462)	2,536	3,555
Change in debt	2,936	3,723	1,988	4,890	(7,500)	-	-
Change in equity/reserve	853	4,152	405	431	12,001	(0)	-
Interest & dividend	(142)	(303)	(508)	(167)	(650)	(175)	(150)
Financing cash flow	(41)	550	482	178	1,388	2,361	3,405
Extraordinary items	(63)	121	25	141	50	50	50
Total cash flow	(104)	671	507	320	1,438	2,411	3,455
Beginning of year cash	336	232	903	1,410	1,729	3,167	5,578
Year end cash	232	903	1,410	1,729	3,167	5,578	9,034

Source: Company data, Credit Suisse estimates

Figure 93: Key metrics—Prestige Estates

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	(9.7)	131.4	(7.8)	14.1	70.0	43.1	22.9
EBITDA	58.2	44.8	42.3	15.3	130.2	52.2	27.6
PAT	(16.5)	115.0	17.3	90.6	90.6	75.4	28.7
EPS	(16.5)	115.0	17.3	90.6	52.0	75.4	28.7
Margins (%)							
EBITDA/ revenue	22.3	14.0	21.6	21.8	29.5	31.4	32.6
EBIT/ revenue	17.8	11.2	17.1	17.0	25.3	27.4	28.5
PAT/ revenue	7.3	6.8	8.6	14.4	16.1	19.8	20.7
Other metrics							
Net debt/ equity (x)	2.17	1.30	1.39	1.66	.17	.05	-.06
RoAE (%)	20.2	19.3	13.8	21.3	18.7	19.8	20.8
RoCE (%)	9.4	7.8	7.9	9.3	12.4	15.5	16.9
Book value per share (Rs)	6.9	19.2	23.6	29.1	68.2	83.2	102.4

Source: Company data, Credit Suisse estimates

Godrej Properties

(GODR.BO / GPL IN)

Rating	NEUTRAL*
Price (17 Jan 11, Rs)	596.00
Target price (Rs)	581.00 [†]
Chg to TP (%)	-2.5
Market cap. (Rs mn)	41,630.60 (US\$ 915.66)
Enterprise value (Rs)	47,734
Number of shares	69.85
Free float (%)	15.00
52-week price range	790.40 - 464.95

*Stock ratings are relative to the relevant country benchmark.

[†]Target price is for 12 months.

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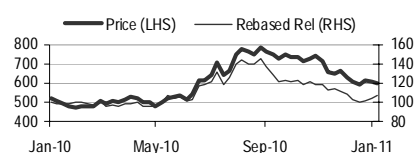
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INITIATION

Limited risk, limited returns

- **Initiate with NEUTRAL.** We initiate coverage of Godrej Properties (GPL IN) with a NEUTRAL rating and a target price of Rs581, which implies 2.5% potential downside from current levels.
- **Asset-light model with faster land monetisation.** Godrej Properties follows a differentiated business model of joint development as a result of which it is able to acquire land for development in premium locations with minimal upfront capital and also avoids the time-consuming process of land acquisition. This strategy reduces Godrej Properties' risk to rising land prices, enables efficient capital utilisation and leads to faster monetisation of land. In addition, GPL also enters into private equity deals at appropriate stages of its projects which leads to even faster asset monetisation and the proceeds are utilised to fund new and existing projects.
- **Gearing to remain high, RoEs to improve.** Despite having an asset light business model, GPL's gearing has stayed high in the past (2.2x as on Mar-09) and currently stands at 0.87x (as on Mar-10). We expect gearing levels to rise to 1.0x by Mar-12 and decline FY13 onwards. RoEs have been strong in the past, at 28% and 22% in FY09 and FY10 respectively. FY11E average RoE is expected to be lower, at 14%, due to equity issuance in FY10 but is likely to rebound to 20% (FY12E) and 27% (FY13E). Operating cash flows after interest payments and taxes were a negative Rs1.7 bn in FY10 and are expected to be significantly positive (Rs2.5 bn) in FY13E.
- **Valuation.** Our March 2012 NAV on sum-of-the-parts basis for Godrej Properties is Rs652 per share, which includes Rs424 from development assets, Rs107 from rental assets intended for lease and another Rs178 from the option value in land MoUs. We have valued Godrej Properties at Rs581, a 10% discount to its March 2012 GAV, on account of the risks associated with any slowdown in Tier 2 cities, especially Ahmedabad which contributes 36% to GPL's GAV. Further, though the joint development model mitigates risks during downturns, we believe it also caps returns during economic upswings.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-1.4	-18.5	16.9
Relative (%)	3.7	-13.1	8.6

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	2,115.2	3,675.8	9,678.6	15,598.2
EBITDA (Rs mn)	-149.9	553.5	2,387.9	4,018.1
EBIT (Rs mn)	-175.9	517.1	2,342.4	3,961.2
Net attributable profit (Rs mn)	1,222.0	1,208.2	1,919.8	3,126.7
EPS (CS adj.) (Rs)	17.50	17.30	27.49	44.76
Change from previous EPS (%)	n.a.			
Consensus EPS (Rs)	n.a.	18.8	33.0	52.9
EPS growth (%)	39.9	-1.1	58.9	62.9
P/E (x)	34.1	34.5	21.7	13.3
Dividend yield (%)	0.7	1.0	1.3	1.7
EV/EBITDA (x)	-304.8	86.2	20.3	11.6
ROE %	21.9	14.2	20.2	27.6
Net debt/equity (%)	49.5	68.1	65.2	39.3
NAV per share (Rs)	—	—	651.9	—
Disc./prem. to NAV (%)	—	—	-8.6	—

Source: Company data, Thomson Reuters, Credit Suisse estimates.

Asset-light, less capital-intensive business model

Unlike other major developers, Godrej Properties follows a differentiated business model of joint development (JDA) either with its group companies or third parties. In this model, the joint development partner, who contributes the land, is entitled to either a share in area of developed property or a share in revenues/profits arising from the sale of such property.

JDA model enables land to be acquired with minimal upfront capital requirement

The main advantage of this strategy for Godrej Properties arises from the fact that it is able to acquire land for development in premium locations with minimal upfront capital and also avoids the time-consuming process of land acquisition. Further, this strategy reduces Godrej Properties' risk to rising land prices, enables efficient capital utilisation and limits GPL's risk through project diversification while maintaining significant management control over its projects.

Further, Godrej Properties also enters into private equity deals at appropriate stages of its projects which provides the following advantages:

- This strategy leads to faster asset monetisation as GPL receives upfront cash from the PE investor and the proceeds are utilised to fund new and existing projects.
- Since divestment or stake sale in the project is typically done after a holding period of more than a year, it entitles GPL to long-term capital gains tax which leads to a lower tax rate compared to the corporate income tax applicable in case of selling the property. As a result, profitability improves.

PE deals enable faster land monetisation, tax savings

Figure 94: Private equity deals executed by Godrej Properties

Project	SPV	Period	Investor	Stake dilution (%)	Amount (Rs mn)
Woodsman Estate II, Bangalore	Godrej Buildwell	2Q FY11	India Realty Excellence Fund	49.0	450
Godrej Palm Grove, Chennai	Godrej Sea View Properties	1Q FY11	HDFC PMS	26.7	300
Godrej Palm Grove, Chennai	Godrej Sea View Properties	4Q FY10	HDFC PMS	22.3	250
Godrej Eternia, Chandigarh	Godrej Estate Developers	4Q FY10	HDFC PMS	49.0	450
Godrej Prakriti, Kolkata	Happy Highrises	3Q FY10	Milestone Real Estate Fund	49.0	861

Source: Company data

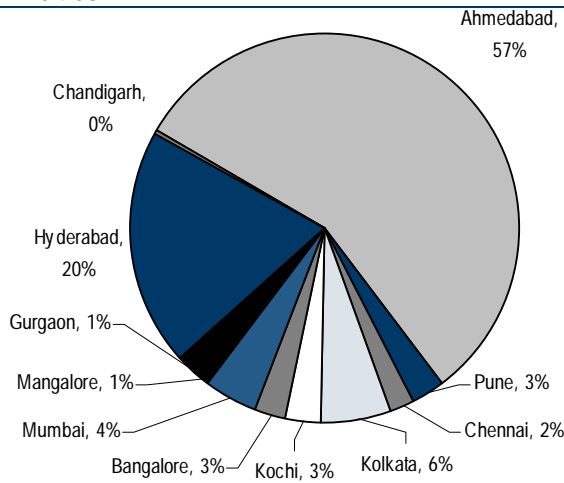
Godrej Properties develops commercial projects with the primary intention of selling rather than leasing but in cases where the customer is willing to lease the space, GPL enters into lease agreements with a clause that gives it the rights to sell the lease. Later, when there is private equity interest in the same project, GPL is able to effectively sell the project, thereby monetising it.

Residential exposure across 11 cities

Godrej Properties' has total land reserves of 79.5 mn sq ft across 11 cities which it owns through direct ownership or through joint development agreements with third parties. Out of the 47.1 mn sq ft, which pertains to Godrej Properties' share of saleable area, 85% of land reserves are located in Tier 2 cities with Godrej Garden City project in Ahmedabad contributing 57%. Demand in Tier 2 cities typically arises from affordable/value housing segments with pricing in the range of Rs2,500–3,500 per sq ft.

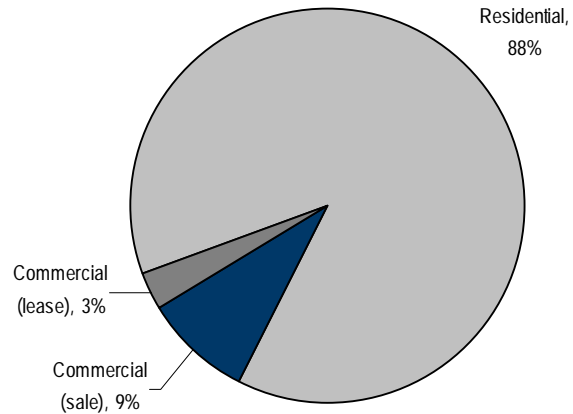
Of a total of 79.5 mn sq ft of developable area, Godrej's share 47.1 mn sq ft

Figure 95: 85% of saleable area (GPL's share) comes from Tier 2 cities



Source: Company data, Credit Suisse estimates

Figure 96: 88% of area intended for residential development



Source: Company data, Credit Suisse estimates

GPL's portfolio is skewed towards the residential segment as 88% of GPL's share of saleable area is for residential development. Apart from the Vikhroli project in Mumbai which forms 3% of GPL's portfolio and is primarily intended for lease purposes, other commercial projects are meant for sale.

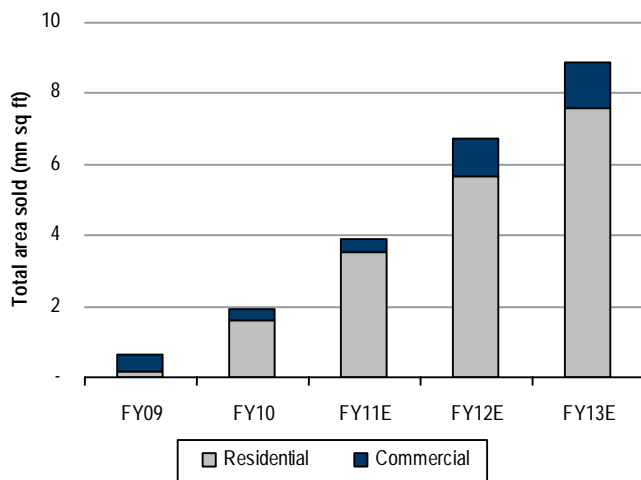
Commercial projects primarily meant for sale

Ambitious plans to scale-up exponentially

Godrej Properties sold 1.9 mn sq ft (GPL's share being 1.3 mn sq ft) in FY10 and we expect the company to scale up to 6.7 mn sq ft and 8.9 mn sq ft of area sales by FY12E and FY13E, respectively, as it expands its operational presence in more cities. From projects under development in five cities in FY10 (i.e., Mumbai, Ahmedabad, Kolkata, Bangalore and Chandigarh), its presence is set to increase to 11 cities by FY13 on the back of launches in Gurgaon, Chennai, Pune, Kochi, Mangalore and Hyderabad. The value of sales bookings is expected to be Rs24 bn and Rs33.4 bn in FY12E and FY13E, respectively.

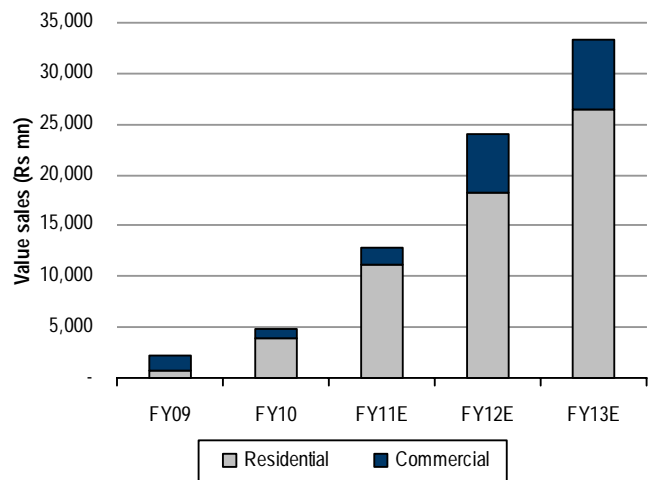
Expect total area sold to increase from 1.9 mn sq ft in FY10 to 8.9 mn sq ft by FY13E

Figure 97: Trend in area sales (including non-GPL share)



Source: Company data, Credit Suisse estimates

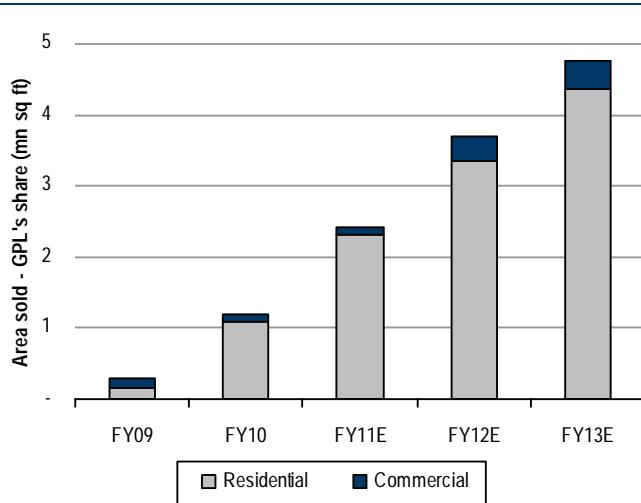
Figure 98: Trend in value of total sales bookings



Source: Company data, Credit Suisse estimates

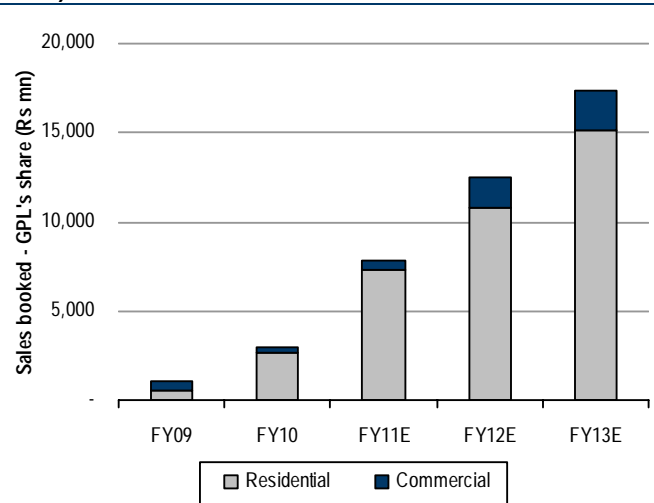
Of the above-mentioned sales, Godrej's share of saleable area is expected to be 3.7 mn sq ft and 4.8 mn sq ft in FY12E and FY13E, respectively. Correspondingly, Godrej's share of sales bookings is expected to be Rs12.5 bn and Rs17.3 bn for FY12E and FY13E respectively

Figure 99: Trend in area sales (GPL's share)



Source: Company data, Credit Suisse estimates

Figure 100: Trend in value of sales bookings (GPL's share)

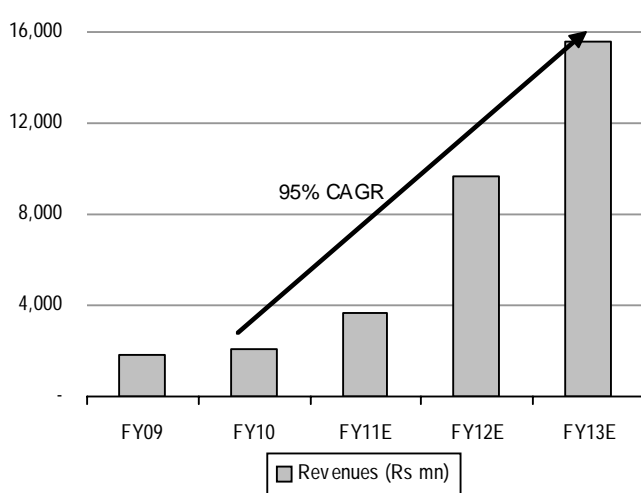


Source: Company data, Credit Suisse estimates

We expect Godrej Properties to clock 95% CAGR in revenues over FY10-13E; however PAT growth is expected to be relatively lower at 37% CAGR. Godrej Frontier project in Gurgaon, which was launched in October 2010, and Godrej Genesis IT Park in Kolkata are expected to be the new projects to contribute significantly to revenue from FY12.

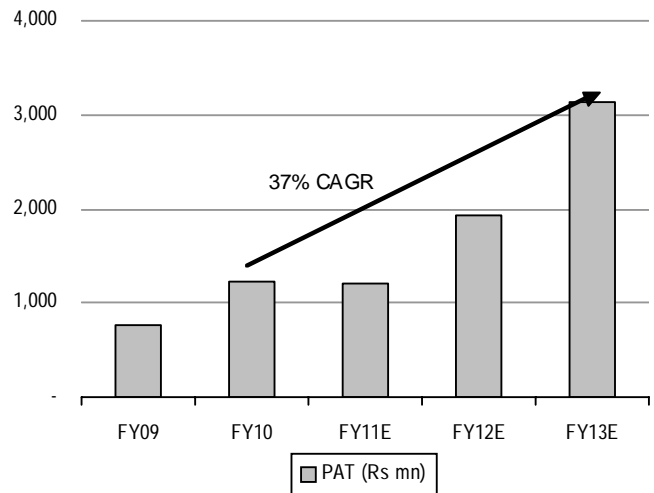
95% revenue CAGR and 37% PAT CAGR expected over next three years

Figure 101: Revenues to grow exponentially and record 95% CAGR over FY10-13E



Source: Company data, Credit Suisse estimates

Figure 102: PAT growth expected to be relatively lower at 37% CAGR over FY10-13E



Source: Company data, Credit Suisse estimates

Gearing levels to remain high, RoEs to improve

Despite having an asset-light business model, Godrej Properties' gearing has stayed high in the past (2.2x as on Mar-09) and currently stands at 0.87x (as on Mar-10). We expect gearing levels to rise to 1.0x by Mar-12 and decline FY13 onwards. Godrej Properties' returns on average equity have been stronger in the past as it posted average RoE of 28% and 22% in FY09 and FY10 respectively. FY11 average RoE is expected to be lower at 14% due to equity issuance in FY10 but is expected to rebound to 20% and 28% in FY12 and FY13 respectively.

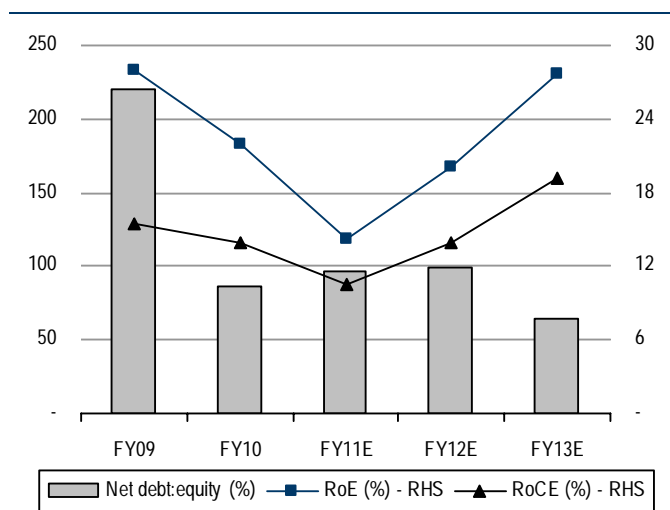
Expect gearing levels to rise to 1.0x by Mar-12 and decline FY13 onwards

GPL's operating cash flows after interest payments and taxes were a negative Rs1.7 bn in FY10 and are expected to turn significantly positive (Rs2.5 bn) in FY13. Cash flows in FY10 were negatively impacted by the following:

- Commercial projects, such as Godrej Waterside in Kolkata, Godrej Genesis in Kolkata and Godrej Eternia in Chandigarh, proved to be negative net cash flow projects as GPL was unable to sell them to the extent expected during the initial years leading to lower cash inflows. However, cash flows are expected to improve once these projects are completed and sold.
- Further, GPL provided an additional Rs1.1 bn security deposit to third parties/land owners for entering into joint development agreements in FY10. These deposits are refundable upon the completion of the project or adjusted against payments due to third parties for their share in the project.

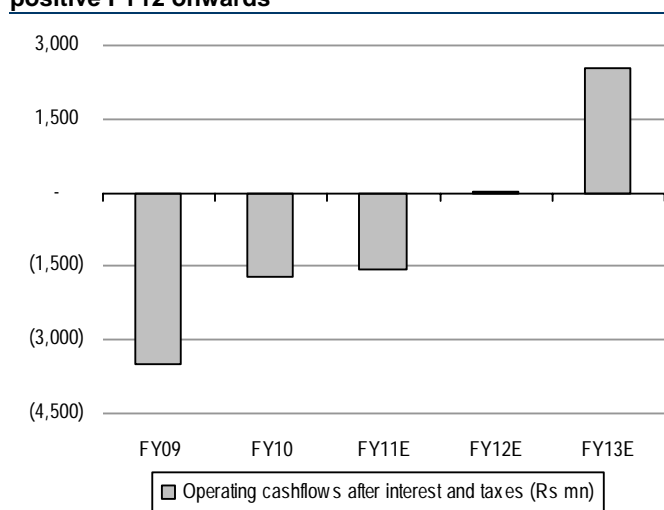
Commercial projects have been an overhang on cash flows

Figure 103: FY11E gearing of 0.97x, higher among peers



Source: Company data, Credit Suisse estimates

Figure 104: Operating cash flows expected to turn positive FY12 onwards



Source: Company data, Credit Suisse estimates

Significant option value in MoUs with group cos.

In addition to JDA with third parties, Godrej Properties also enters into Memorandums of Understanding (MoUs) with certain members of the Godrej group of companies, for developing land parcels owned by them in strategic locations across the country. This land does not form a part of GPL's land reserves. We estimate that Godrej Properties derives Rs133/share of value from its three disclosed MoUs with group companies for 185 acres of land in Mohali, Bangalore and Hyderabad.

Rs133/share option value in MoUs with group companies

Further, Godrej Properties has entered into an agreement with a third party that is expected to acquire 160 acres of land in the Kalyan region located in Thane. Godrej Properties has received rights for 9.55 acres of land till date and we estimate the option value in the remaining 150 acres at Rs45/share, taking the overall option value to Rs178/share.

Another Rs45/share comes from Kalyan land parcel

Figure 105: Rs178 comes from option value in MoUs

Group company/third party	Land location	Land area (acres)	Saleable area (mn sq ft)	Value (Rs/share)
Godrej & Boyce Manufacturing Co. Ltd.	Mohali	75	4.9	12
Godrej Agrovet Ltd.	Bangalore	100	10.9	57
Godrej & Boyce Manufacturing Co. Ltd.	Hyderabad	10	1.3	64
Mr. Dalvi (third party)	Kalyan, Mumbai	150	6.6	45
Total		335	23.7	178

Source: Company data, Credit Suisse estimates

Initiate with NEUTRAL, target price of Rs581

We initiate coverage of Godrej Properties with a NEUTRAL rating and a target price of Rs581. Our March 2012 NAV on sum-of-the-parts basis for Godrej Properties stands at Rs652 per share, which includes Rs424 from development assets, Rs107 from rental assets and another Rs178 from the option value in MoUs. We have valued Godrej Properties at a 10% discount to its March 2012 GAV on account of the risk associated with any slowdown in Tier 2 cities, especially Ahmedabad which contributes 37% to GAV. Further, though the joint development model mitigates risks during downturns, it also caps returns during economic upswings.

NEUTRAL, TP of Rs581,
10% discount to March 2012
GAV

Figure 106: March 2012 NAV of Rs652 per share

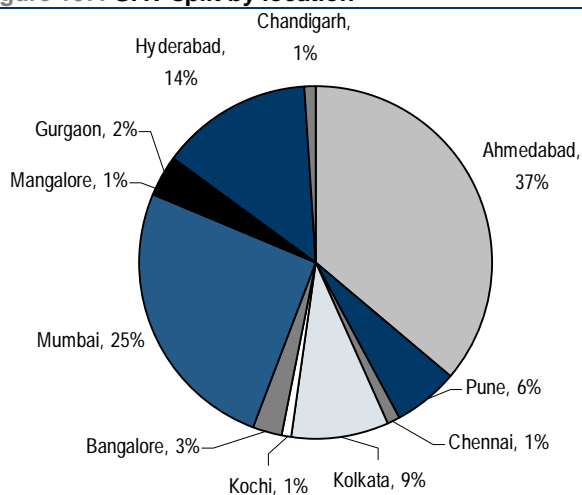
	Area (mn sq ft)	Value (Rs mn)	Rs/share	Comments
Rental assets	1.5	7,508	107	9.5% cap rate, 5% rental appreciation
Development assets	47.1	29,643	424	
Gross asset value (GAV)	48.5	37,151	532	
Option value of MoUs	16.5	12,448	178	335 acres land MoUs with group companies/third parties
GAV including option value	65.0	49,600	710	
Net (debt)/cash		(4,063)	(58)	As of March 2010
NAV as of March 2012		45,537	652	
Premium/(discount) to NAV	(10%)	(4,960)	(71)	10% discount to GAV
March 2012 net firm value		40,577	581	

Source: Company data, Credit Suisse estimates

Godrej Properties' residential portfolio contributes 68% to its GAV whereas commercial projects intended for lease contribute 20% to GAV. Mumbai, which forms only 4% of GPL's saleable/leasable area, contributes 25% to GAV. Tier 1 and Tier 2 cities' value differential is clearly visible as we estimate that Mumbai projects contribute Rs4,336/sq ft to GAV whereas Godrej Garden City in Ahmedabad contributes only Rs490/sq ft.

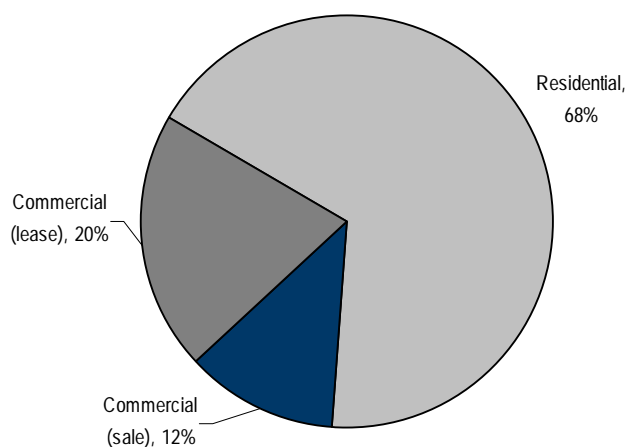
High value differential
between Tier 1 and Tier 2
city projects

Figure 107: GAV split by location

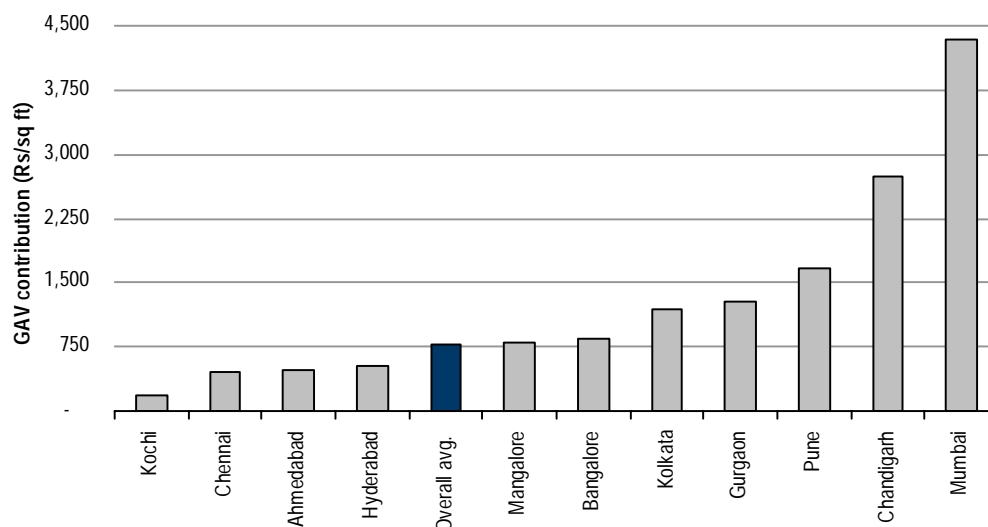


Source: Company data, Credit Suisse estimates

Figure 108: 68% of GAV comes from residential projects



Source: Company data, Credit Suisse estimates

Figure 109: Mumbai contributes only 4% to GPL's saleable area but forms 25% of GAV

Source: Company data, Credit Suisse estimates

Key investment risks

- Slowdown in Tier 2 cities.** Though Godrej Properties is expanding its presence to 11 cities across India, projects in Tier 2 cities especially Ahmedabad contribute significantly to Godrej Properties' saleable area and GAV (37%). Hence, any slowdown in demand in Tier 2 cities shall impact Godrej Properties negatively.
- Joint development projects offering limited returns:** Since Godrej Properties has most of its projects in joint development agreements, there is limited upside to returns from those projects even during economic upswings. Further, since Godrej Properties bears the entire development costs in most of such projects, any increase in construction costs could impact Godrej Properties negatively.
- Inability to sell commercial projects.** Godrej Properties' commercial projects have been an overhang on its cash flows in the past, as the company was unable to sell those projects to the extent expected. Inability or delays in selling those assets even upon completion of those projects continues to remain a risk.
- Macro risks.** Tightening of liquidity, interest rate hikes and the state political scenario continue to be macro risks for Godrej Properties.

Financial summary

Figure 110: Income statement—Godrej Properties

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	1,172	1,965	1,852	2,115	3,676	9,679	15,598
Expenses	(900)	(1,082)	(1,352)	(2,265)	(3,122)	(7,291)	(11,580)
EBIDTA	272	883	500	(150)	553	2,388	4,018
Depreciation	(7)	(9)	(11)	(26)	(36)	(45)	(57)
Interest expense	(109)	(271)	(525)	(654)	(649)	(794)	(817)
Other income	285	547	1,124	2,446	1,792	1,145	1,240
Profit before tax	441	1,149	1,088	1,615	1,660	2,693	4,385
Income tax	(169)	(404)	(323)	(382)	(415)	(673)	(1,096)
Profit before minority	271	745	765	1,234	1,245	2,020	3,289
Minority/ associates	1	2	(9)	(12)	(37)	(100)	(162)
PAT	272	747	755	1,222	1,208	1,920	3,127
EPS (Rs)	4.7	12.4	12.5	17.5	17.3	27.5	44.8
Dividend per share (Rs)	4.7	4.1	2.5	4.0	6.0	8.0	10.0

Source: Company data, Credit Suisse estimates

Figure 111: Balance sheet—Godrej Properties

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	161	86	269	955	500	500	500
Receivables	2,198	4,057	1,386	1,798	919	1,261	895
Inventories	1,172	2,848	4,759	7,251	8,575	9,550	9,908
Other current assets	904	2,854	3,962	4,924	7,804	8,684	9,814
Sundry creditors	60	211	305	729	779	829	879
Other current liabilities	2,589	4,864	898	1,261	1,999	2,960	4,112
Net current assets	1,786	4,770	9,172	12,939	15,021	16,207	16,126
Fixed assets	42	370	359	276	290	294	287
Capital WIP	2	2	33	2	247	1,047	1,902
Investments	0	0	0	2,078	1,993	2,868	2,573
Deferred tax asset	4	4	5	3	3	3	3
Total assets	1,835	5,147	9,569	15,298	17,553	20,419	20,891
Liabilities							
Share capital	64	604	604	699	699	699	699
Reserves	382	1,804	2,385	7,474	8,192	9,458	11,768
Shareholders' funds	446	2,409	2,989	8,173	8,891	10,157	12,466
Debt	1,384	2,731	6,563	7,096	8,596	10,096	8,096
Others	4	7	17	30	67	167	329
Total liabilities	1,835	5,147	9,569	15,298	17,553	20,419	20,891

Source: Company data, Credit Suisse estimates

Figure 112: Cash flow statement—Godrej Properties

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	456	1,153	1,089	1,624	1,660	2,693	4,385
Depreciation	7	9	11	26	36	45	57
Non-cash adjustments	(330)	(676)	(922)	(2,163)	(1,550)	(1,016)	(1,512)
Change in working capital	(1,249)	(3,059)	(4,219)	(3,081)	(2,537)	(1,186)	81
Operating cash flow	(1,115)	(2,573)	(4,040)	(3,594)	(2,390)	536	3,011
Change in fixed assets	(12)	(337)	(31)	88	(295)	(850)	(905)
Change in investments	(0)	(0)	0	(2,078)	85	(875)	295
Investment cash flow	(1,127)	(2,911)	(4,071)	(5,584)	(2,600)	(1,189)	2,402
Change in debt	1,252	1,347	3,832	532	1,500	1,500	(2,000)
Change in equity/reserve	(38)	1,463	(15)	4,237	(71)	(95)	(119)
Interest & dividend	(110)	26	446	1,504	716	(216)	(283)
Financing cash flow	(24)	(75)	193	688	(455)	0	0
Extraordinary items	0	0	(10)	(2)	-	-	-
Total cash flow	(24)	(75)	182	686	(455)	0	0
Beginning of year cash	185	161	86	269	955	500	500
Year end cash	161	86	269	955	500	500	500

Source: Company data, Credit Suisse estimates

Figure 113: Key metrics—Godrej Properties

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	106.5	67.6	(5.8)	14.2	73.8	163.3	61.2
EBITDA	193.5	224.6	(43.4)	(130.0)	(469.2)	331.4	68.3
PAT	132.2	174.2	1.1	61.8	(1.1)	58.9	62.9
EPS	132.2	163.2	1.1	39.9	(1.1)	58.9	62.9
Margins (%)							
EBITDA/ revenue	23.2	45.0	27.0	(7.1)	15.1	24.7	25.8
EBIT/ revenue	22.6	44.5	26.4	(8.3)	14.1	24.2	25.4
PAT/ revenue	23.2	38.0	40.8	57.8	32.9	19.8	20.0
Other metrics							
Net debt/ equity (x)	2.76	1.10	2.11	.50	.69	.66	.40
RoAE (%)	60.2	52.5	28.0	21.9	14.2	20.2	27.6
RoCE (%)	27.9	26.5	15.4	14.0	10.6	13.9	19.1
Book value per share (Rs)	7.7	39.9	49.5	117.0	127.3	145.4	178.5

Source: Company data, Credit Suisse estimates

Housing Development & Infrastructure Ltd (HDIL) (HDIL.BO / HDIL IN)

Rating	NEUTRAL*
Price (17 Jan 11, Rs)	157.75
Target price (Rs)	189.00 [†]
Chg to TP (%)	19.8
Market cap. (Rs mn)	65,467 (US\$ 1,440)
Enterprise value (Rs)	86,708
Number of shares	415.00
Free float (%)	61.44
52-week price range	387.65 - 157.10

*Stock ratings are relative to the relevant country benchmark.
†Target price is for 12 months.

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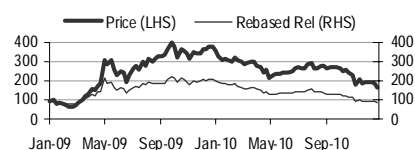
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INITIATION

Execution risks offset cheap valuations

- **Initiate with NEUTRAL.** We initiate coverage of HDIL with a NEUTRAL rating and a target price of Rs189 (30% discount to March 2012 GAV), which implies 20% potential upside from current levels.
- **High-risk, high-return business model.** TDR from MIAL project constitutes about 51 mn sq ft out of HDIL's total land reserves of 228 mn sq ft, hence timely completion of the project is critical for HDIL. However, as of December 2010, Phase I of the project was already delayed as the slum dwellers have not shifted to their constructed tenements. MIAL is also entitled to terminate the agreement in the event of any delay exceeding 180 days. Further, the Maharashtra government's recent acceptance of the proposal to sell additional 0.33 FSI in Mumbai suburbs for a premium is expected to impact TDR volumes and prices negatively. HDIL is expected to be significantly impacted by this. However, HDIL is reducing its dependence on TDR by launching more residential projects.
- **Declining gearing levels on equity issuances.** HDIL raised Rs34.7 bn during the last 18 months from equity issuance and warrant conversion by promoters. As a result, its net debt-to-equity declined sharply from 0.9x in Mar-09 to 0.4x in Mar-10 and is expected to decline further to 0.2x by Mar-11. HDIL's operating cash flows after interest and taxes were a negative Rs13.1 bn and Rs10.2 bn in FY09 and FY10 respectively. We expect the company's operating cash flows after interest and taxes to improve going forward and turn positive from FY12 (Rs14.3 bn expected in FY13E).
- **Valuation.** Our March 2012 NAV on sum-of-the-parts basis for HDIL stands at Rs295 per share, which includes Rs148 from development assets, Rs165 from slum rehabilitation projects and redevelopment project in Virar and another Rs38 from rental assets. We have valued HDIL at Rs189 which is at a 30% discount to its forward GAV on account of the following risks: (1) Timely execution of MIAL project as delays could lead to penalties, (2) Mumbai concentration risk, and (3) reduction in TDR demand following Maharashtra government's proposal to increase FSI in suburbs from 1.0 to 1.33.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-17.3	-41.9	-58.3
Relative (%)	-13.0	-38.1	-61.3

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	15,021.2	19,711.1	36,587.0	40,059.9
EBITDA (Rs mn)	7,892.6	12,096.9	19,653.9	21,312.2
EBIT (Rs mn)	7,169.5	12,016.9	19,563.9	21,212.2
Net attributable profit (Rs mn)	5,722.1	10,089.9	15,680.1	16,611.6
EPS (CS adj.) (Rs)	15.95	24.31	35.56	37.67
Change from previous EPS (%)	n.a.			
Consensus EPS (Rs)	n.a.	21.7	30.2	37.5
EPS growth (%)	-34.6	52.5	46.2	5.9
P/E (x)	9.9	6.5	4.4	4.2
Dividend yield (%)	—	2.5	3.2	3.8
EV/EBITDA (x)	12.2	7.2	4.1	3.2
ROE %	10.0	12.3	15.2	13.9
Net debt/equity (%)	43.5	22.6	13.8	3.0
NAV per share (Rs)	—	—	295.0	—
Disc./prem. to NAV (%)	—	—	-46.5	—

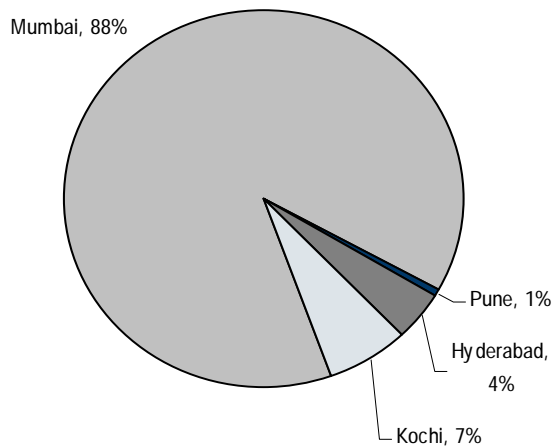
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Indirect Mumbai exposure through re-development

HDIL offers significant indirect exposure to Mumbai's real estate on account of its expertise in large scale redevelopment projects in the Mumbai Metropolitan Region (MMR). The company is currently executing the largest slum rehabilitation project for rehabilitation of about 85,000 slum dwellers under the expansion and modernisation of Mumbai International Airport (MIAL). HDIL has land reserves of ~228 mn sq ft (including TDR and FSI) of which 88% reserves are located in MMR. Further, 44% of its land reserves are composed of development rights (TDR) and the FSI expected to be generated from its redevelopment projects.

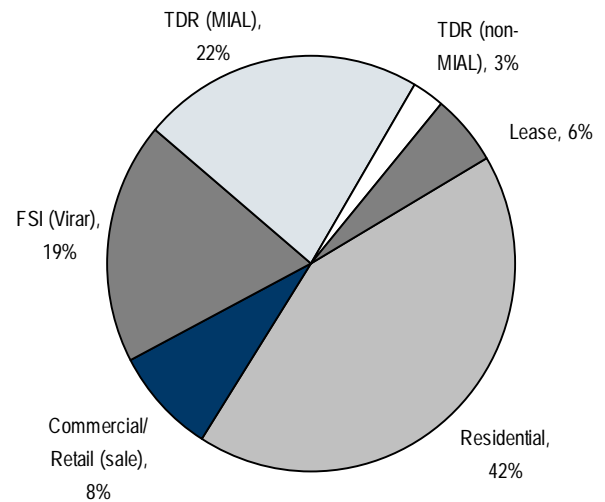
228 mn sq ft of total land reserves, 88% in MMR

Figure 114: 88% of land reserves (including TDR) are located in MMR



Source: Company data, Credit Suisse estimates

Figure 115: 44% of land reserves composed of TDR and FSI expected to be generated over the projects



Source: Company data, Credit Suisse estimates

High-risk high-return business model

Slum rehabilitation projects enable HDIL to acquire land in prime locations in Mumbai without upfront investment in land compared to conventional real estate projects, thereby offering higher margins. However, these projects involve lengthy approvals (details in Appendix) and entail dealing with government agencies and slum dwellers regularly until project completion, leading to significant risk of project delays.

Slum rehabilitation projects offer higher margins, but significant risk of project delays

Timely completion of MIAL project critical—Phase I already witnessing delays

HDIL is liable to pay damages in the event of any delay in handing over the vacant parcel of encroached airport land to MIAL. MIAL is also entitled to terminate the agreement in the event of any delay exceeding 180 days. As of December 2010, Phase I of the project was running behind schedule by approximately six months due to delays in receiving water connection from the Municipal Corporation. The reluctance of slum dwellers to relocate at a later date could lead to further unexpected delays, which remains a cause for concern. HDIL has also provided Rs3 bn as performance security to MIAL.

MIAL's Phase-I is running behind schedule, and slum dwellers' reluctance to shift could cause further delays

Proposed FSI norms could negatively impact TDR demand

Mumbai suburbs have a maximum permissible FSI of 2.0 with a base FSI of 1.0, implying that developers can acquire additional 1.0 FSI by purchasing transferable development rights (TDR) from the market. In 2008, the government of Maharashtra proposed to sell 0.33 FSI at a premium, which could result in TDR demand going down from 1.0x to 0.67x. However, the proposal was stayed through the court order and required amendment of the Maharashtra Regional and Town Planning (MRTP) Act in order to be enforced. Recently, the Maharashtra state assembly has approved the proposal and this is expected to

FSI in Mumbai suburbs increased to 1.33, TDR demand to reduce from 1.0x to 0.67x

negatively impact TDR demand and thereby pricing. As the largest player in the TDR market, HDIL will be significantly affected. However, HDIL is reducing its dependence on TDR as more and more residential projects are being launched.

HDIL to face the biggest impact of decline in TDR demand and pricing

Mumbai Airport (MIAL) slum rehabilitation project

As part of the upgrade and expansion of Mumbai International airport, MIAL awarded HDIL Mumbai's airport slum rehabilitation project in October 2007. The project aims to rehabilitate about 85,000 slum dwellers who have encroached upon 276 acres of land in and around the airport. Out of 276 acres, 180 acres are to be handed over to MIAL by HDIL to extend the airport and the remaining 96 acres will be used to develop commercial properties through a JV between HDIL and MIAL (HDIL's share being 55%). The project has an approved FSI of 4 due to it being a high density zone and HDIL expects to generate total TDRs of approximately 57 mn sq ft.

MIAL project involves the rehabilitation of 85,000 slum dwellers from 276 acres of land

In addition to constructing buildings to house rehabilitated slum dwellers on land purchased by HDIL, it will also be required to provide temporary transit camps to the slum dwellers until they are rehabilitated. HDIL is responsible for the repair and maintenance of rehabilitation buildings for a period of 12 months from the date of handing over and possession transfer.

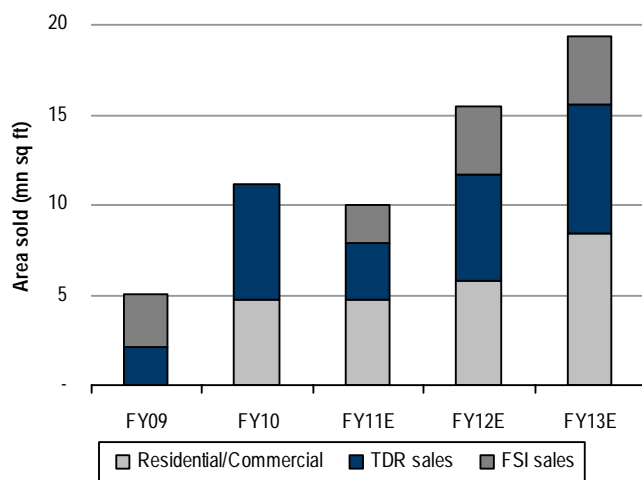
HDIL currently has 33,000 housing units under construction as part of Phase I and II of the MIAL project. It acquired 53 acres of land in Kurla for Phase I from IL&FS for Rs19 bn. Phase I is expected to rehabilitate about 26,000 slum dwellers from Vile Parle, Santacruz and Sahar by March 2011 and work on Phase I began in 1Q FY09 at Kurla (for 8.5 mn sq ft) and 2Q FY10 at Bhandup (for 0.7 mn sq ft). Phase II work began in 3Q FY11 at three sites located at Bombay Oxygen in Mulund, Popular Car Bazaar in Andheri (E) and Mahul for a total area of 2.7 mn sq ft.

33,000 housing units under construction. Phase I to rehabilitate 26,000 families

Volumes to witness exponential growth in FY11-13E

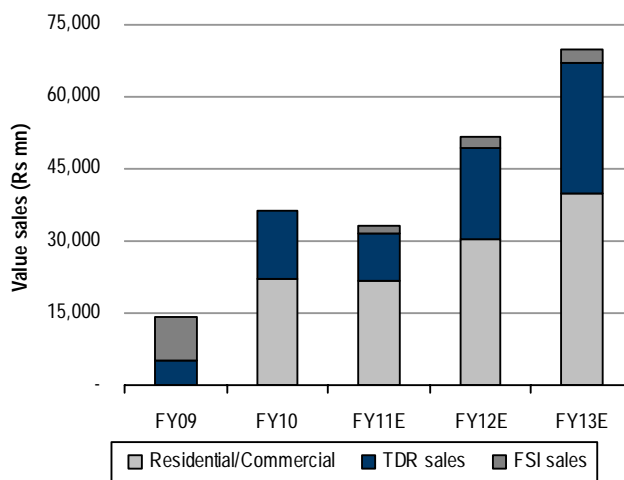
We expect HDIL to sell 10 mn sq ft and 15.5 mn sq ft in FY11E and FY12E respectively. The value of sales bookings is expected to be Rs33.1 bn and Rs51.8 bn for FY11E and FY12E, respectively.

Figure 116: Trend in volumes (mn sq ft)



Source: Company data, Credit Suisse estimates

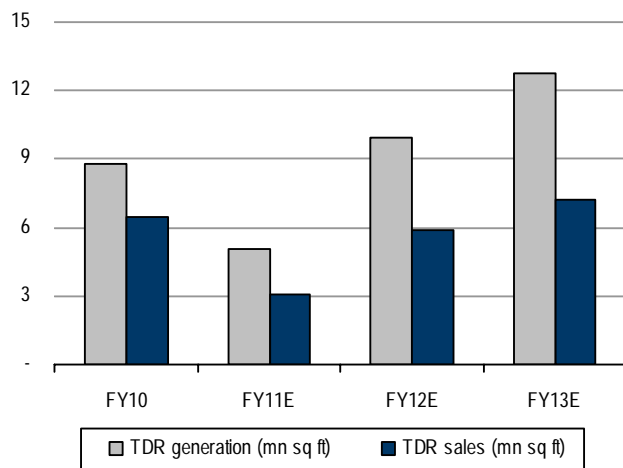
Figure 117: Trend in value sales (Rs mn)



Source: Company data, Credit Suisse estimates

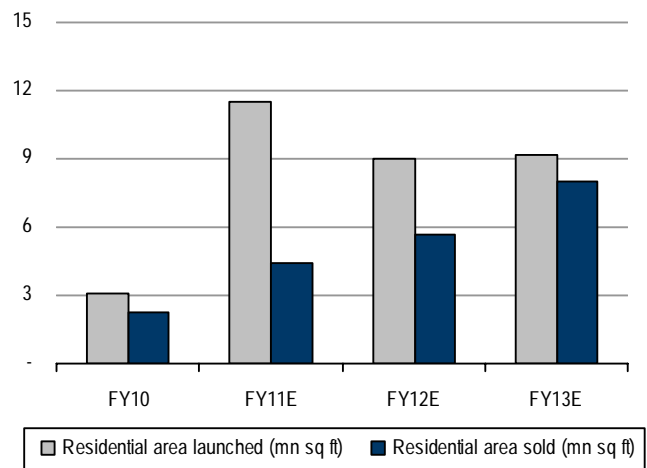
The company sold 6.5 mn sq ft of TDR in FY10. We expect it to sell 3.1 mn sq ft and 5.9 mn sq ft of TDR in FY11E and FY12E respectively. FSI sales in Virar are estimated to contribute 3.8 mn sq ft in both FY12 and FY13.

Figure 118: TDR generation and sales trend (mn sq ft)



Source: Company data, Credit Suisse estimates

Figure 119: Residential area launches and sales trend (mn sq ft)



Source: Company data, Credit Suisse estimates

Declining gearing levels on equity issuances and warrant conversion

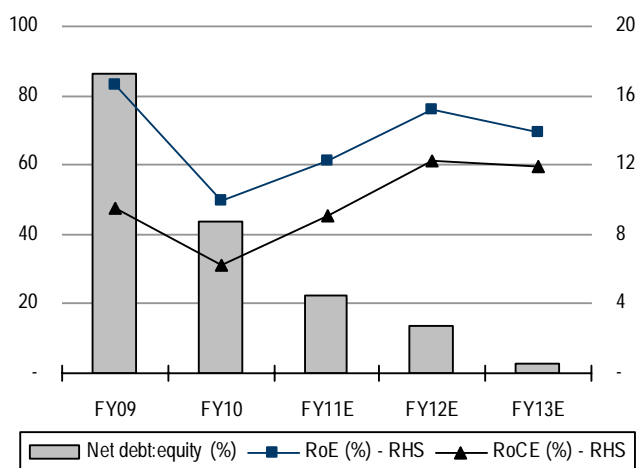
HDIL has raised Rs34.7 bn during the last 18 months from equity issuances (Rs16.9 bn raised in July 2009 and another Rs11.6 bn in September 2010) and warrant conversion by promoters (Rs6.2 bn). Further, the company has issued 26 mn warrants to promoters which upon conversion shall lead to a further Rs7.2 bn infusion of capital. As a result, HDIL's net debt-to-equity declined sharply from 0.9x in Mar-09 to 0.4x in Mar-10 and is expected to decline further to 0.23x by Mar-11.

Net debt-to-equity expected to decline to 0.23x by March 2011

HDIL's RoE and RoCE stood at 10% and 6% respectively as of FY10. However, the returns are expected to improve once revenue recognition takes place on its projects (HDIL follows project completion method). We expect RoEs and RoCEs to improve to 15.2% and 12.3% by FY12E.

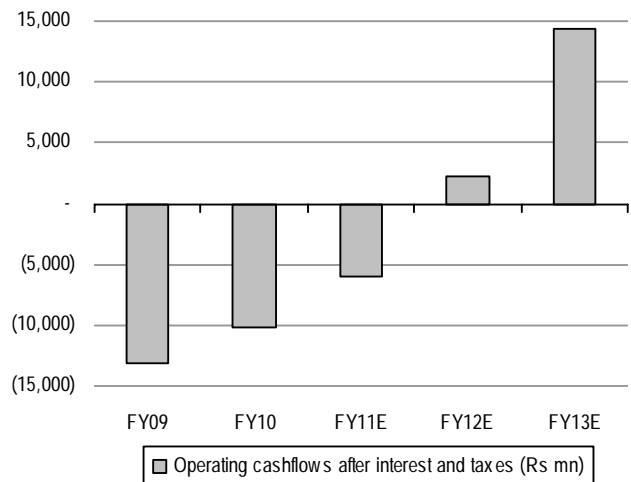
RoE/RoCE were low in FY10, expected to improve once revenue recognition takes place on projects

Figure 120: Gearing to reduce to below 0.2x by FY12E



Source: Company data, Credit Suisse estimates

Figure 121: Operating cash flows after interest and taxes expected to turn positive in FY12E



Source: Company data, Credit Suisse estimates

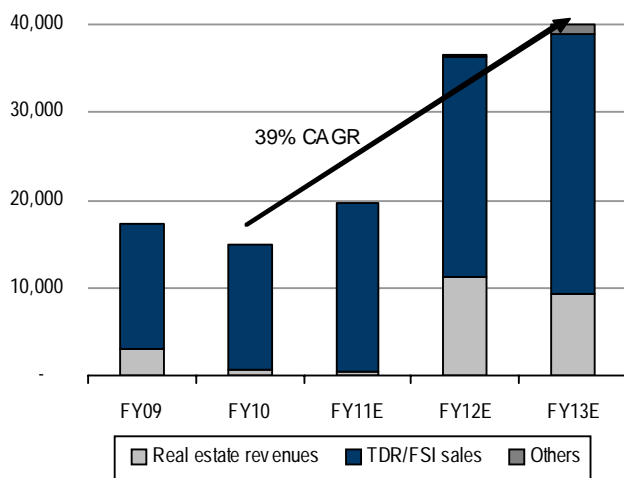
HDIL's operating cash flows after interest and taxes were a negative Rs13.1 bn and Rs10.2 bn in FY09 and FY10, respectively. We expect the company's operating cash flows after interest and taxes to improve going forward and turn positive in FY12 (Rs14.4 bn in FY13E).

39% revenues and 43% PAT CAGR over FY10-13E

We expect HDIL's revenues and net income to clock 39% and 43% CAGR respectively over the next three years. Revenues are expected to reach Rs36.6 bn by FY12E with TDR and FSI sales contributing 69% compared to over 95% in FY10. Since HDIL follows the project completion method of revenue recognition, revenue mix tends to be volatile as TDR sales get recognised as and when sales occur but residential or commercial development projects kick in only during the year of completion.

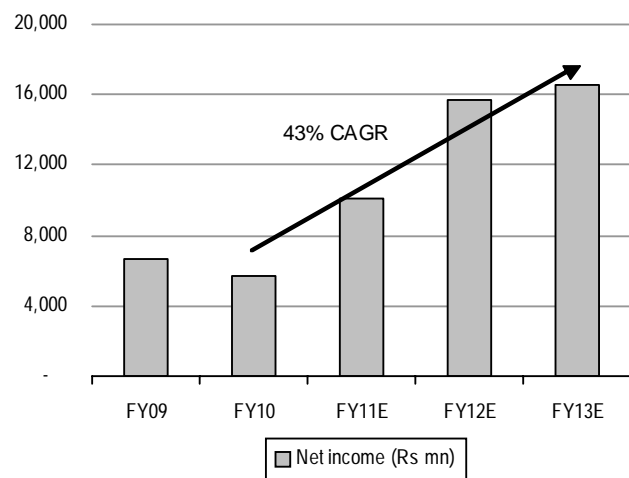
Revenue mix tends to be volatile: TDR sales recognised immediately, development projects on completion

Figure 122: Revenues (Rs mn) expected to grow to Rs40bn bn by FY13E



Source: Company data, Credit Suisse estimates

Figure 123: Net income to grow at 43% CAGR over FY10-13E



Source: Company data, Credit Suisse estimates

Residential projects which were launched by HDIL in 2008-09 (such as Kurla Premier and Metropolis) are expected to be completed in 2012, at which stage they will likely contribute Rs11.4 bn to revenues in FY12. The Galaxy and Exotica projects in Kurla are expected to be completed in FY13.

Revenues to improve once Kurla Premier and Metropolis start contributing to revenue

Conservative accounting policy

HDIL follows the Project Completion Method of accounting for revenue recognition which is the most conservative accounting policy compared to Percentage of Completion Method (POCM) followed by the majority of its peers. As a result, HDIL recognises revenues and profits only once the project is completed and ownership fully transferred. In contrast, most of its peers keep recognising revenues and profits based on the proportion of project completed (determined by costs incurred as proportion of total estimated project costs) once a pre-determined threshold is crossed.

HDIL follows Project Completion Method which is significantly different from the POCM method followed by most developers

Thus, not only is HDIL insulated from risk of any write-back of revenues in case of escalation of costs at a later point of time but cash flows also do not materially lag recognised revenues. Further, in case IFRS is implemented in the near future and the project completion method becomes mandatory, HDIL will be unaffected whereas other developers could witness some erosion in their book value.

Initiate with NEUTRAL, target price of Rs189

We initiate coverage of HDIL with a NEUTRAL rating and a target price of Rs189. Our March 2012 NAV on sum-of-the-parts basis for HDIL stands at Rs295 per share, which includes Rs148 from development assets, Rs165 from slum rehabilitation projects and redevelopment project in Virar and Rs38 from assets intended for lease.

We have valued HDIL at a 30% discount to its March 2012 GAV on account of the following risks: (1) timely execution of MIAL rehabilitation project as delays could lead to penalties, (2) Mumbai concentration risk, and (3) reduction in TDR demand following the acceptance of the Maharashtra government's recent proposal to increase FSI in the suburbs from the existing 1.0 to 1.33, thereby allowing the government to sell the incremental 0.33 FSI for a premium.

NEUTRAL, TP of Rs189, 30% discount to March 2012 GAV

Figure 124: March 2012 NAV breakup for HDIL

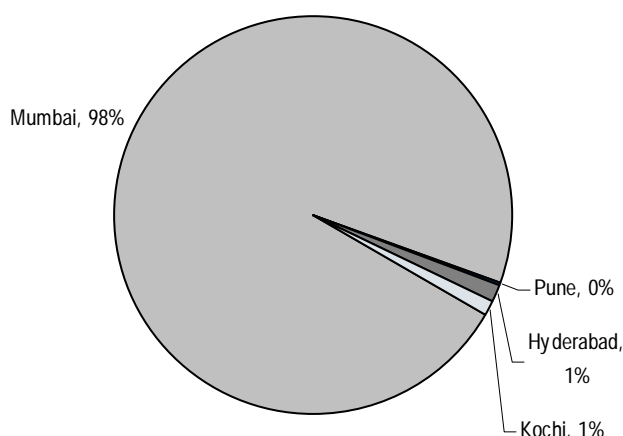
	Area (mn sq ft)	Value (Rs mn)	Rs/share	Comments
Development assets	115.0	65,313	148	
TDR	56.9	62,930	143	MIAL TDR contributes Rs125 out of Rs143
FSI (Virar)	42.9	10,038	23	
Rental assets	12.8	16,591	38	Cap rate of 9.5%, 5% rental appreciation, 7% cost escalation
Real estate GAV	227.5	154,872	351	
Less: land cost to be paid		(4,000)	(9)	
Real estate GAV after land cost		150,872	342	
Less: net debt		(20,933)	(47)	As of March 2011
Real estate NAV after net debt		129,939	295	
Premium/(discount) to NAV	(30%)	(46,461)	(105)	30% discount to GAV on account of the associated risks
March 2012 firm value		83,477	189	

Source: Company data, Credit Suisse estimates

Mumbai, which constitutes 88% (over 200 mn sq ft) of HDIL's land reserves, contributes 98% to HDIL's GAV. Residential and commercial projects intended for sale constitute 41% of GAV whereas development rights (TDR) and FSI constitute 47% of HDIL's March 2012 GAV of Rs351 per share.

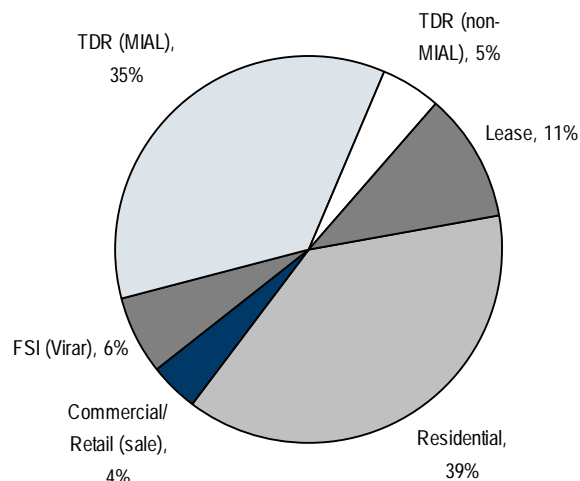
MIAL TDR contributes 35% to GAV

Figure 125: 98% of GAV comes from Mumbai



Source: Company data, Credit Suisse estimates

Figure 126: TDR and FSI sales constitute 47% of GAV



Source: Company data, Credit Suisse estimates

Appendix

Transferable Development Rights (TDR) market

TDRs are the property development rights that permit the land owner to do construction on the land more than the allowable FSI. In MMR, TDRs are usually granted by the government to developers in lieu of rehabilitation projects, which permits them to develop land elsewhere in Mumbai north of the rehabilitated slum area. The developer can use those TDRs for actual construction and sell the developed properties or sell the TDR itself in the open market.

Slum Rehabilitation Scheme (SRS)

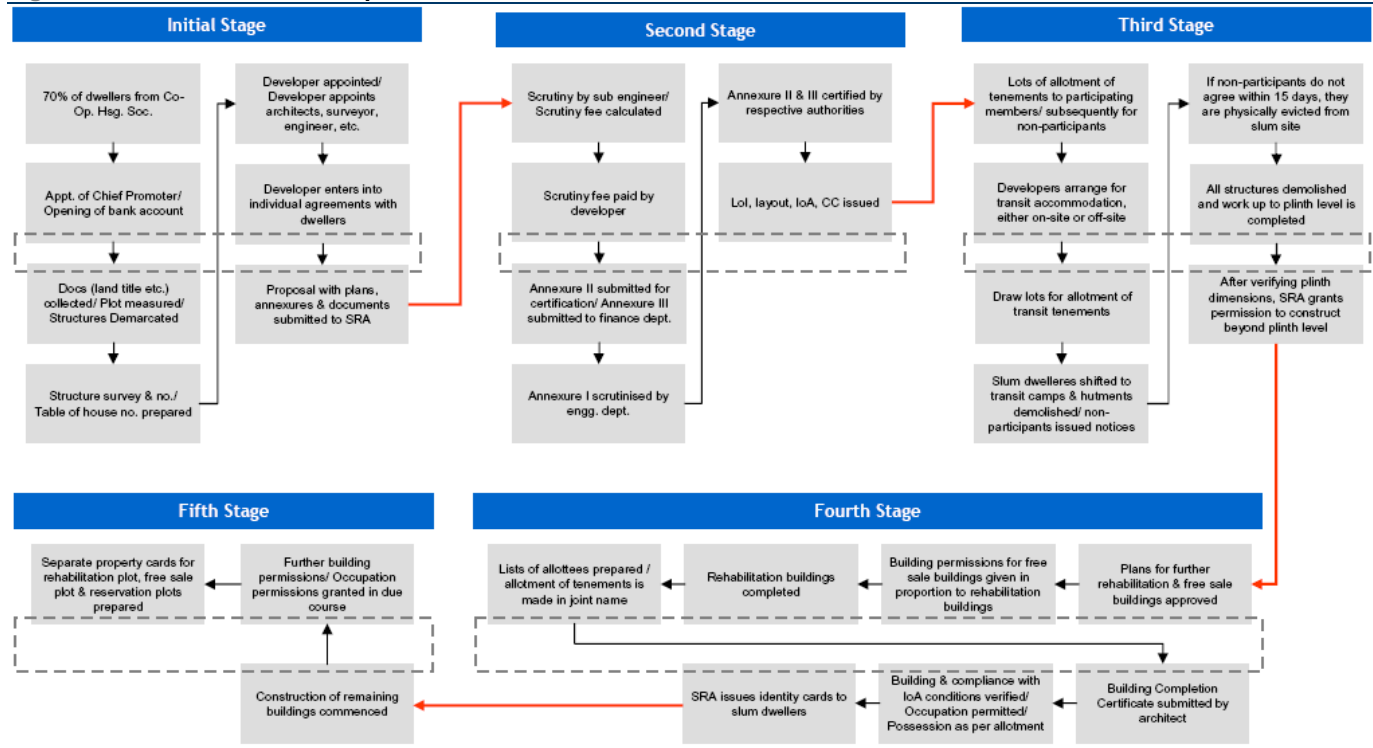
Slum Rehabilitation programmes in Mumbai aim at providing slum dwellers a legal, self-contained home of 269 sq ft carpet area free of cost. In 1995, the Government of Maharashtra initiated the Slum Rehabilitation Scheme to be administered by the newly-created Slum Rehabilitation Authority (SRA). In return for constructing housing for rehabilitation, real estate developers participating in the scheme are allowed to develop a proportion of former slum land for their own purposes, or given Transferable Development Rights (TDRs) which may be used to develop land elsewhere in Mumbai, north of the slum land concerned, or even be sold to other developers in the open market.

Residential development on slum land that is subject to the SRS also benefits from a superior FSI. Under the SRS, FSI is generally 2.5 as against a normal FSI of 1.33 thereby making SRS development more attractive for developers. FSI to be sanctioned for a slum rehabilitation project may exceed 2.5, but the maximum FSI that can be utilised on any slum site for a project cannot exceed 2.5. The difference between the sanctioned higher FSI and 2.5, if any, is made available in the form of TDRs. If the full amount of the relevant FSI cannot be used on the same site due to constraints such as height restrictions, uneconomical site conditions, etc., TDRs may be allowed even for the portion of FSI upto 2.5.

As per the Slum Rehabilitation Authority (SRA), three types of Slum Rehabilitation Schemes are permissible:

- **33.10 scheme (in-situ scheme):** Under this scheme, slums dwellers are rehabilitated on the same site as the one on which they reside. Usually, approximately 50% of such land is used for rehabilitation and development rights are awarded for the rest to the developer as incentive for undertaking the rehabilitation project.
- **3.11 scheme (PAP scheme):** Under this scheme, slum dwellers affected by an infrastructure or similar project are rehabilitated on another vacant unencumbered land and TDRs are awarded by the government to the developer.
- **33.14 scheme (transit scheme):** In this scheme, the landowner is allowed to consume the existing FSI potential of the land, owned by him. The additional potential of 1.5 for suburbs, 1.66 for difficult areas and 1.00 for the island city (only for government or public sector plots) is granted under this scheme. The developer constructs dwelling units out of a prescribed part of this additional potential. The balance of the additional potential is allowed as a free sale component.

Figure 127: Slum rehabilitation process



Source: Company data, Slum rehabilitation authority

Rental Housing Scheme

The Government of Maharashtra has formulated the rental housing scheme (RHS) with the objective of providing affordable houses for the poor on rental basis. Under the programme, the government aims at increasing the housing stock by constructing or procuring rental housing units in Mumbai Metropolitan Region (MMR) to make available housing units of 160 sq. ft carpet area at a reasonable rent.

For being allotted these rental houses, the allottee:

- should be employed or self employed within MMR with a minimum family income of Rs. 60,000 per annum;
- should not own any house(s) in MMR;
- should have resided in the state of Maharashtra for at least 15 years before the date of application for rental housing.

If a rental housing project is taken up on privately-owned land, permissible FSI onsite for RHS is 4.0. Out of this FSI of 4.0, 1.00 should be used for construction of rental houses on a minimum of 25% of the land and handed over free of cost by the land owner to MMRDA and an FSI of 3.00 can be used by the landowner (developer) to construct housing units on a maximum of 75% of the land, and these can be sold in the open market.

If a rental housing project is taken up on land owned by MMRDA, permissible FSI onsite for RHS is 4.0. Out of this FSI of 4.0, 75% should be used for construction of rental houses and handed over free of cost to MMRDA and an FSI of 1.0 can be used for commercial use and sold in the open market.

Key investment risks

- **Timely execution of MIAL rehabilitation project.** The MIAL project is already witnessing delays and slum dwellers' reluctance to shift to constructed tenements

could be a big hindrance and also lead to penalties for HDIL. Further, the MIAL project has witnessed significant political involvement in the past, which has led to the project being subject to political risk.

- **Mumbai concentration risk.** Since HDIL derives 98% of its GAV from Mumbai projects and development rights in Mumbai, any slowdown in demand in Mumbai market is expected to have negative impact on HDIL.
- **Reduction in TDR demand.** Following the acceptance of Maharashtra government's recent proposal to increase FSI in suburbs from existing 1.0 to 1.33, TDR demand is expected to go down and subsequently impact TDR prices. HDIL being the largest player shall face the maximum negative impact.
- **Macro risks.** Tightening of liquidity, interest rate hikes and the state political scenario continue to be macro risks for HDIL.

Financial summary

Figure 128: Income statement—HDIL

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	12,042	23,805	17,284	15,021	19,711	36,587	40,060
Expenses	(5,944)	(8,247)	(9,487)	(7,129)	(7,614)	(16,933)	(18,748)
EBIDTA	6,098	15,558	7,797	7,893	12,097	19,654	21,312
Depreciation	(8)	(15)	(84)	(723)	(80)	(90)	(100)
Interest expense	(40)	(43)	(582)	(462)	(850)	(850)	(850)
Other income	206	529	540	345	1,200	950	1,000
Profit before tax	6,257	16,028	7,672	7,053	12,367	19,664	21,362
Income tax	(771)	(1,918)	(943)	(1,330)	(2,276)	(3,983)	(4,750)
Profit before minority	5,486	14,110	6,729	5,723	10,091	15,681	16,613
Minority/ associates	(6)	(7)	(10)	(1)	(1)	(1)	(1)
PAT	5,480	14,102	6,719	5,722	10,090	15,680	16,612
EPS (Rs)	23.7	51.2	24.4	15.9	24.3	35.6	37.7
Dividend per share (Rs)	-	4.5	-	-	4.0	5.0	6.0

Source: Company data, Credit Suisse estimates

Figure 129: Balance sheet—HDIL

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	57	3,505	755	7,918	9,347	10,062	16,821
Receivables	3,113	567	1,669	2,030	6,935	15,117	16,619
Inventories	13,245	55,229	69,128	87,567	108,650	121,030	142,114
Other current assets	1,406	13,108	17,097	15,677	19,605	22,195	27,295
Sundry creditors	2,697	3,878	3,293	3,081	3,389	3,728	4,101
Customer advances	5,121	1,490	1,882	4,119	17,253	26,605	51,543
Other current liabilities	771	2,109	1,518	1,561	3,939	4,713	5,380
Net current assets	9,232	64,932	81,957	104,431	119,955	133,359	141,826
Fixed assets	251	544	598	1,830	1,900	1,960	2,010
Capital WIP	3	52	152	217	267	317	367
Investments	1,578	1,915	2,491	2,429	2,429	2,429	2,429
Deferred tax asset	(8)	(15)	(24)	(51)	(101)	(151)	(201)
Intangible assets	42	115	478	2,591	2,591	2,591	2,591
Total assets	11,099	67,543	85,651	111,446	127,041	140,504	149,021
Liabilities							
Share capital	1,800	2,143	2,755	3,588	4,150	4,410	4,410
Reserves	5,542	34,272	41,463	66,840	89,872	108,075	121,591
Shareholders' funds	7,342	36,415	44,218	70,429	94,022	112,485	126,001
Debt	3,757	31,127	41,433	41,017	33,017	28,017	23,017
Others	-	0	0	0	1	2	3
Total liabilities	11,099	67,543	85,651	111,446	127,041	140,504	149,021

Source: Company data, Credit Suisse estimates

Figure 130: Cash flow statement—HDIL

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	6,257	16,028	7,672	7,053	12,367	19,664	21,362
Depreciation	8	15	84	723	80	90	100
Non-cash adjustments	(428)	(1,032)	4,476	3,587	1,016	(1,221)	(2,638)
Change in working capital	(6,975)	(52,251)	(19,775)	(15,311)	(16,038)	(13,326)	(2,224)
Operating cash flow	(1,138)	(37,240)	(7,544)	(3,949)	(2,575)	5,207	16,600
Change in fixed assets	(191)	(425)	(624)	(4,133)	(200)	(200)	(200)
Change in investments	(495)	(342)	(552)	62	-	-	-
Investment cash flow	(1,824)	(38,007)	(8,720)	(8,020)	(2,775)	5,007	16,400
Change in debt	1,792	27,371	10,306	(416)	(8,000)	(5,000)	(5,000)
Change in equity/reserve	(6)	16,214	1,089	20,488	15,445	5,362	(1)
Interest & dividend	(340)	(2,123)	(5,409)	(4,889)	(3,242)	(4,654)	(4,642)
Financing cash flow	(378)	3,455	(2,734)	7,164	1,428	715	6,758
Extraordinary items	(4)	(7)	(16)	(1)	1	1	1
Total cash flow	(383)	3,448	(2,750)	7,163	1,429	716	6,759
Beginning of year cash	440	57	3,505	755	7,918	9,347	10,062
Year end cash	57	3,505	755	7,918	9,347	10,062	16,821

Source: Company data, Credit Suisse estimates

Figure 131: Key metrics - HDIL

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	176.9	97.7	(27.4)	(13.1)	31.2	85.6	9.5
EBITDA	381.4	155.1	(49.9)	1.2	53.3	62.5	8.4
PAT	366.6	157.3	(52.4)	(14.8)	76.3	55.4	5.9
EPS	366.6	116.2	(52.4)	(34.6)	52.5	46.2	5.9
Margins (%)							
EBITDA/ revenue	50.6	65.4	45.1	52.5	61.4	53.7	53.2
EBIT/ revenue	50.6	65.3	44.6	47.7	61.0	53.5	53.0
PAT/ revenue	45.5	59.2	38.9	38.1	51.2	42.9	41.5
Other metrics							
Net debt/ equity	.29x	.71x	.86x	.44x	.23x	.14x	.03x
RoCE (%)	73.9	36.0	9.5	6.2	9.1	12.3	12.0
RoAE (%)	118.9	64.4	16.7	10.0	12.3	15.2	13.9
Book value per share (Rs)	31.7	132.2	160.5	196.3	226.6	255.1	285.7

Source: Company data, Credit Suisse estimates

DLF Ltd

(DLF.BO / DLFU IN)

Rating	UNDERPERFORM* [V]
Price (17 Jan 11, Rs)	250.25
Target price (Rs)	(from 290.00) 221.00 ¹
Chg to TP (%)	-11.7
Market cap. (Rs mn)	424,785 (US\$ 9,343)
Enterprise value (Rs)	643,929
Number of shares	1,697.44
Free float (%)	21.36
52-week price range	392.45 - 250.25

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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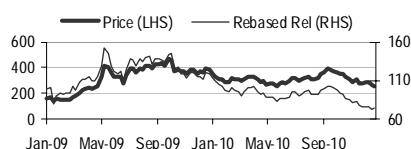
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DECREASE TARGET PRICE

Still not making the right moves

- **Reduce target price, cut EPS estimates.** We revise down our target price for DLF to Rs221, placing it at a 15% discount to March 2012 GAV. We reduce our sales volume assumptions, due to which our EPS estimates decline by 1.3% and 30% for FY11 and FY12, respectively.
- **Premium segment focus a high-risk strategy.** In the current environment, where we see little upside to property prices and RBI making its intentions of curbing any overheating in the premium housing segment clear, we believe DLF's continued focus on margins and the premium housing segment poses significant risk. Post 2Q FY11, management has lowered its volume guidance for FY11 from 15 mn sq. ft to 12 mn sq. ft, which it expects to achieve on the back of plotted development sales in Gurgaon and Chandigarh. Even if DLF is able to achieve its revised target, sustaining such volumes would be challenging in FY12 owing to limited plotted land with DLF in Gurgaon.
- **Poor operating cash flows a concern.** DLF's 1H FY11 operating cash flows after interest and taxes were negative Rs5.4 bn against the full-year guidance of positive Rs25 bn cash flow generation by the company. Despite seeing collections in excess of Rs17 bn in 2Q FY11, cash flows continued to be negative, which is a cause of concern. Net debt-to-ordinary equity increased to 0.85x as of September 2010. We now expect no post-tax-and-interest operating cash flow generation in FY11, and expect Rs14.8 bn and Rs23.6 bn operating cash flow generation in FY12 and FY13, respectively.
- **Valuation.** Our March 2012 NAV for DLF stands at Rs280 per share. At current levels, DLF trades at an 11% discount to its forward NAV and 1.7x forward P/B. Owing to disappointing volumes, poor operating cash flows and pursuance of a high-risk strategy going forward, we believe a 15% discount to forward GAV is warranted for DLF. We maintain our UNDERPERFORM rating on the stock.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

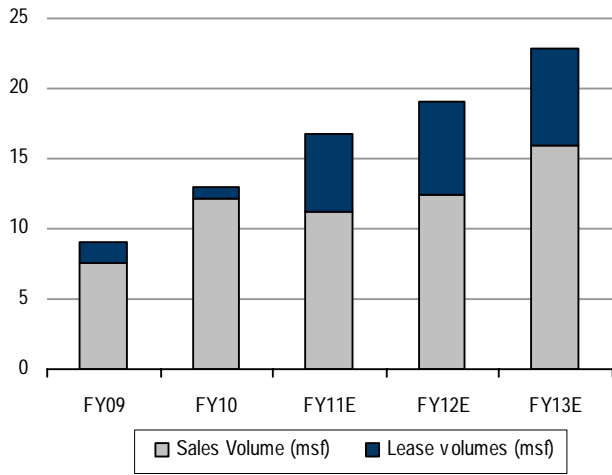
Performance Over	1M	3M	12M
Absolute (%)	-11.1	-33.1	-35.2
Relative (%)	-6.5	-28.7	-39.8

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	74,228.7	100,039.3	98,400.5	113,865.5
EBITDA (Rs mn)	35,115.7	45,291.5	44,397.5	51,017.6
EBIT (Rs mn)	31,866.4	38,997.1	37,193.6	42,782.2
Net attributable profit (Rs mn)	17,198.3	20,918.9	18,257.2	22,966.8
EPS (CS adj.) (Rs)	10.13	12.32	10.76	13.53
Change from previous EPS (%)	n.a.	-1.3	-30.0	-24.0
Consensus EPS (Rs)	n.a.	13.1	17.9	23.2
EPS growth (%)	-61.5	21.6	-12.7	25.8
P/E (x)	24.7	20.3	23.3	18.5
Dividend yield (%)	0.9	1.0	1.0	1.2
EV/EBITDA (x)	18.5	14.2	14.0	11.7
ROE %	7.3	8.3	6.9	8.2
Net debt/equity (%)	89.7	82.8	71.4	58.5
NAV per share (Rs)	—	—	280.0	—
Disc./prem. to NAV (%)	—	—	-10.6	—

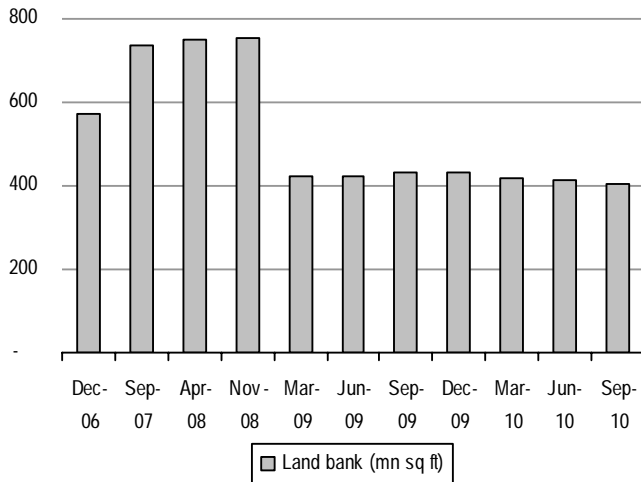
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Figure 132: Sales booking of 11.2 mn sq. ft and 12.5 mn sq. ft in FY11 and FY12, respectively, expected from DLF



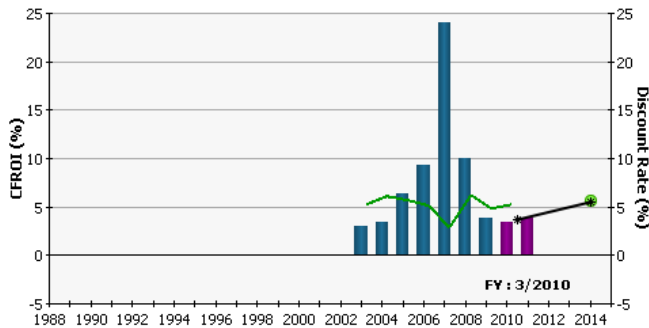
Source: Company data, Credit Suisse estimates

Figure 134: Land bank down from peak of 753 mn sq. ft to 406 mn sq. ft as of Sep-10



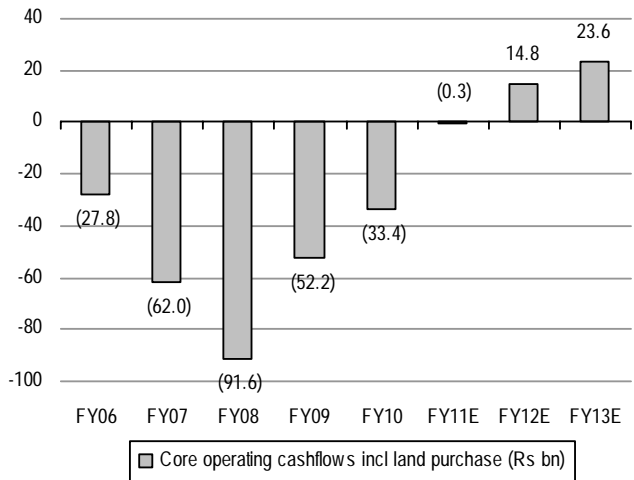
Source: Company data, Credit Suisse estimates

Figure 136: CFROI expected to fall to 2003-04 levels, while market is pricing in a recovery to near cost of capital



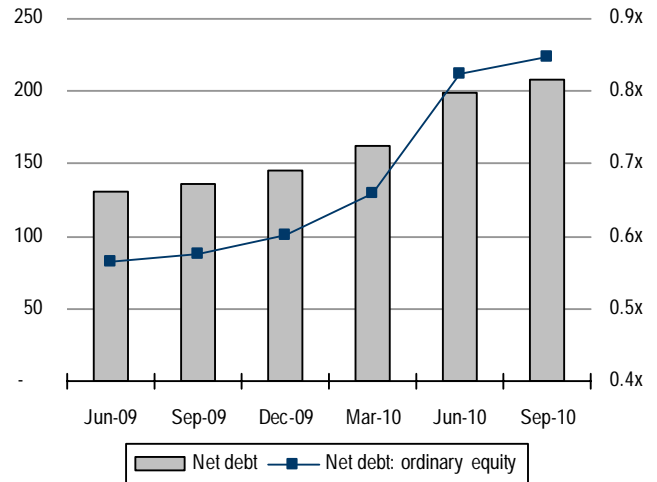
Source: Credit Suisse HOLT

Figure 133: Operating cash flow of negative Rs.0.3 bn and positive Rs14.8 bn expected in FY11/FY12, respectively



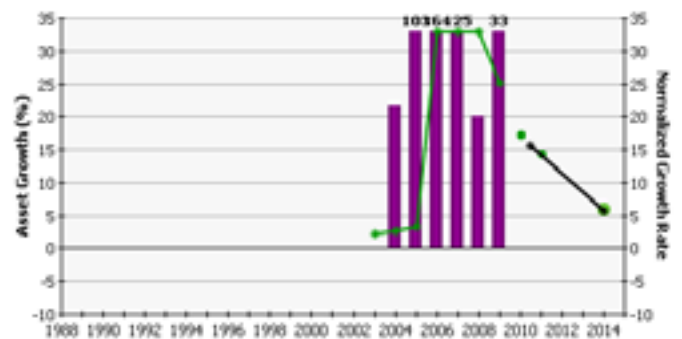
Source: Company data, Credit Suisse estimates

Figure 135: However, gearing levels have continued to rise



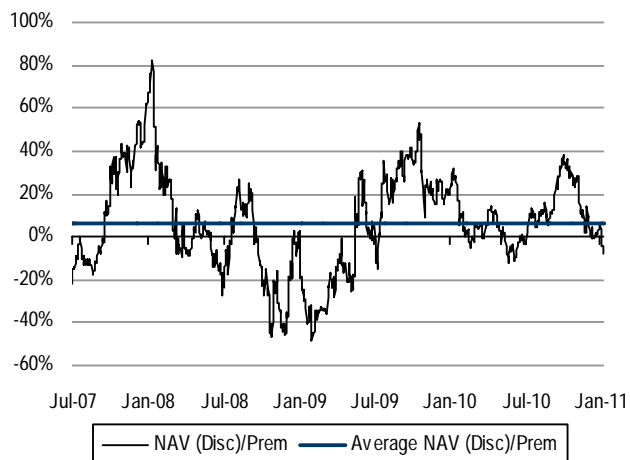
Source: Company data, Credit Suisse estimates

Figure 137: 2009 asset growth was higher than that of peers



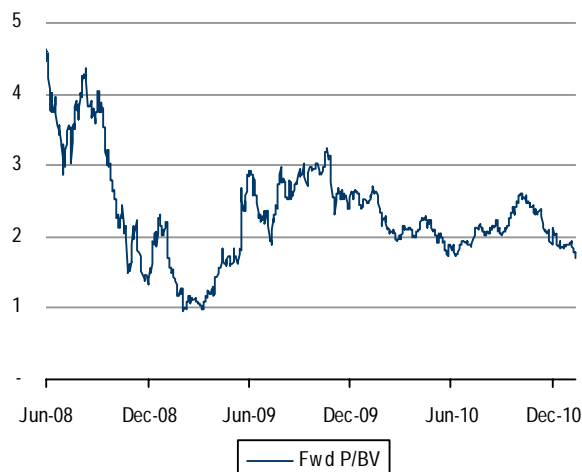
Source: Credit Suisse HOLT

Figure 138: DLF trades at an 8% discount to its forward NAV of Rs280 per share



Source: Bloomberg, Credit Suisse estimates

Figure 139: DLF trades at 1.7x its 12-month forward book value



Source: Bloomberg, Credit Suisse estimates

Figure 140: Breakdown of DLF's March 2012 NAV of Rs280 per share

	Mn sq ft	Value (Rs mn)	Rs/share	Comments
A. Real estate valuation				
- Residential	277	220,165	130	
- Commercial complexes and Retail sale	28	54,588	32	
- Commercial and Retail Lease	85	212,037	125	
- Rental Assets	19	151,158	89	
- Plots	7	28,800	17	
Real estate GAV	416	666,748	393	
Less: Land cost to be paid		(15,840)	(9)	
Real estate GAV after land cost		650,908	383	
Less: Net debt		(194,915)	(115)	As of March 2011E
Less: Minority interest in DCCDL		(47,948)	(28)	For promoter's 40% stake in DLF Cyber City Developers
Real estate NAV after net debt		408,045	240	
B. Add: valuation of other assets				
- Wind Power		11,350	7	250 MW of Wind Power and 52 MW of other Power capacity
- Aman resorts		20,000	12	Excluding the Aman Delhi Hotel
- Hotel sites		18,770	11	At 1x land acquisition cost
- Land held for disposal		17,000	10	At 1x land cost-Dwarka Convention centre and TIDEL SEZ
Total of other assets		67,120	40	
March 2012 Firm NAV		475,165	280	

Source: Company data, Credit Suisse estimates

Figure 141: Summary of changes to our estimates

(Rs bn)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	100.5	100.0	(0.5)	111.0	98.4	(11.4)	124.8	113.9	(8.8)
EBITDA	45.6	45.3	(0.8)	52.8	44.4	(16.0)	58.8	51.0	(13.2)
EBITDA margin (%)	45.4	45.3	-14 bps	47.6	45.1	-246 bps	47.1	44.8	-227 bps
PAT	21.2	20.9	(1.3)	26.1	18.3	(30.0)	30.2	23.0	(24.0)
EPS (Rs)	12.5	12.3	(1.3)	15.4	10.8	(30.0)	17.8	13.5	(24.0)

Source: Company data, Credit Suisse estimates

Financial summary

Figure 142: Income statement—DLF

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	26,374	144,375	100,354	74,229	100,039	98,401	113,865
Expenses	(11,477)	(47,224)	(44,454)	(39,113)	(54,748)	(54,003)	(62,848)
EBIDTA	14,897	97,151	55,900	35,116	45,291	44,398	51,018
Depreciation	(578)	(901)	(2,390)	(3,249)	(6,294)	(7,204)	(8,235)
Other income	14,159	2,464	3,960	4,280	5,564	5,008	4,507
Interest expense	(3,076)	(3,100)	(5,548)	(11,100)	(17,232)	(17,718)	(16,134)
Profit before tax	25,402	95,614	51,922	25,046	27,330	24,483	31,156
Income tax	(6,052)	(17,391)	(6,754)	(7,022)	(6,286)	(5,876)	(7,789)
Profit before minority	19,350	78,223	45,168	18,024	21,044	18,607	23,367
Minority / Associates	(14)	(103)	(472)	(825)	(225)	(350)	(400)
Extraordinary items	-	-	-	-	100	-	-
PAT	19,336	78,120	44,696	17,198	20,919	18,257	22,967
EPS (Rs)	12.6	45.8	26.3	10.1	12.3	10.8	13.5
Dividend per share (Rs)	2.2	4.0	2.0	2.1	2.5	2.5	3.0

Source: Company data, Credit Suisse estimates

Figure 143: Balance sheet—DLF

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	4,155	21,421	11,956	9,282	12,500	12,500	12,500
Receivables	15,057	19,780	21,648	16,190	19,186	13,480	14,038
Inventories	56,799	94,544	109,282	124,806	141,939	141,434	127,816
Other current assets	52,332	130,255	173,337	122,780	126,580	115,434	117,543
Sundry Creditors	2,678	17,046	23,249	15,249	17,079	19,641	22,587
Customer advances	23,611	14,083	1,537	11,687	12,856	14,142	15,556
Other current liabilities	19,783	41,028	53,458	60,835	59,876	58,640	60,573
Net current assets	82,272	193,843	237,980	185,286	210,394	190,424	173,181
Fixed assets	15,632	48,191	79,124	165,580	177,786	193,082	207,347
Capital WIP	26,219	51,840	56,882	111,288	85,112	82,527	76,560
Investments	2,107	9,102	14,025	55,052	13,340	13,340	13,340
Goodwill	8,935	20,931	22,651	12,680	12,830	12,830	12,830
Deferred tax asset	(197)	(359)	414	(2,515)	1,955	2,705	3,505
Total assets	134,968	323,548	411,076	527,371	501,416	494,908	486,763
Liabilities							
Share capital	3,059	3,410	3,394	3,395	3,395	3,395	3,395
Reserves	22,992	183,977	224,184	241,734	254,724	268,017	285,026
Shareholder funds	26,051	187,387	227,578	245,129	258,119	271,411	288,421
Debt	108,825	132,267	177,161	275,965	236,645	216,344	190,639
Others	92	3,895	6,336	6,278	6,653	7,153	7,703
Total liabilities	134,968	323,548	411,076	527,371	501,416	494,908	486,763

Source: Company data, Credit Suisse estimates

Figure 144: Cash flow statement —DLF

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
EBIT	28,478	98,714	57,470	36,147	44,561	42,202	47,289
Depreciation	578	901	2,390	3,249	6,294	7,204	8,235
Taxes paid	(6,046)	(17,215)	(7,498)	(7,762)	(7,786)	(6,626)	(8,589)
Non-cash adjustments	(24)	(91)	(486)	116	(125)	(350)	(400)
Change in working capital	(69,920)	(94,306)	(53,602)	50,020	(21,890)	19,969	17,243
Operating cash flow	(46,935)	(11,997)	(1,727)	81,770	21,055	62,399	63,779
Change in fixed assets	(18,066)	(71,076)	(40,085)	(134,141)	7,526	(19,915)	(16,533)
Change in investments	(1,496)	(5,439)	(5,091)	(1,810)	5,496	-	-
Investment cash flow	(66,497)	(88,512)	(46,902)	(54,181)	34,078	42,484	47,246
Change in debt	67,505	23,442	44,895	98,804	(39,321)	(20,301)	(25,705)
Change in equity	2,584	90,733	-	127	-	-	-
Interest income/(expenses)	(3,076)	(3,100)	(5,548)	(11,100)	(17,232)	(17,718)	(16,134)
Dividend paid	(3,989)	(7,979)	(3,716)	(4,168)	(4,965)	(4,965)	(5,958)
Financing cash flow	(3,473)	14,584	(11,272)	29,482	(27,439)	(500)	(550)
Extraordinary items	5,679	4,238	1,639	7,061	(5,559)	500	550
Total cash flow	2,205	18,822	(9,633)	36,543	(32,998)	-	-
Beginning of year cash	1,950	4,766	23,588	13,955	50,498	17,500	17,500
Year-end cash	4,155	23,588	13,955	50,498	17,500	17,500	17,500

Source: Company data, Credit Suisse estimates

Figure 145: Key metrics—DLF

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	43.7	447.4	(30.5)	(26.0)	34.8	(1.6)	15.7
EBITDA	98.6	552.1	(42.5)	(37.2)	29.0	(2.0)	14.9
PAT	371.4	304.0	(42.8)	(61.5)	21.6	(12.7)	25.8
EPS	307.5	262.4	(42.5)	(61.5)	21.6	(12.7)	25.8
Margins (%)							
EBITDA / Revenue	56.5	67.3	55.7	47.3	45.3	45.1	44.8
EBIT / Revenue	108.0	68.4	57.3	48.7	44.5	42.9	41.5
PAT / Revenue	73.3	54.1	44.5	23.2	20.9	18.6	20.2
Other metrics							
Net debt/ equity	3.63x	.53x	.66x	.68x	.76x	.64x	.52x
RoCE (%)	23.2	35.2	13.6	5.5	6.7	6.5	7.3
RoAE (%)	106.8	72.0	21.2	7.4	8.2	6.8	8.1
Book value per share (Rs)	11.3	99.9	124.5	140.6	148.4	156.6	166.9

Source: Company data, Credit Suisse estimates

Unitech Ltd

(UNTE.BO / UT IN)

Rating	OUTPERFORM* [V]
Price (17 Jan 11, Rs)	56.80
Target price (Rs)	(from 107.00) 76.00 ¹
Chg to TP (%)	33.8
Market cap. (Rs mn)	148,606 (US\$ 3,269)
Enterprise value (Rs)	200,083
Number of shares	2,616.30
Free float (%)	55.00
52-week price range	97.50 - 55.90

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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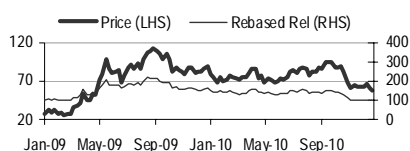
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DECREASE TARGET PRICE

Right strategy but needs to stay focused

- Reduce target price, cut EPS estimates.** We revise down our target price for Unitech to Rs76, placing it at a 25% discount to its March 2012 GAV. We reduce our sales volume assumptions, due to which EPS estimates decline by 2.7% and 10% for FY11 and FY12, respectively.
- Volumes focus should continue.** We expect Unitech to sell 10.5 mn sq ft in FY11 out of which 5 mn sq. ft was sold in 1H FY11. Volumes in FY11 are expected to see a decline owing to the break-up of the Omkar JV in Mumbai. Value of sales bookings is expected to be Rs50 bn and Rs60 bn for FY11 and FY12 respectively. In terms of execution, construction activity has already begun on 76% of the new projects launched as of September 2010. In the current macro environment, we believe that it is essential that Unitech continues to pursue its volumes and cash flows-focused strategy.
- Strong cash flows if land acquisition remains in check.** We expect Unitech to generate post-tax and interest cash flows (before land purchase) of Rs15.4 bn and Rs21.8 bn in FY12 and FY13, respectively. While management's comment on being open to opportunities for acquisition of new projects raises the risk of aggressive land acquisitions, the situation is currently acceptable. Net debt increased temporarily in 2Q FY11 by Rs6.9 bn to Rs58.5 bn, primarily due to consolidation of Rs5.4 bn of debt pertaining to Unitech's stake in the wireless business. Once the demerger of Unitech Infra becomes effective (expected in 4Q FY11), all debt pertaining to Unitech Wireless would be transferred to Unitech Infra. Net debt-to-equity stood at 0.53x as of 30 September 2010.
- Valuation.** At current levels, Unitech trades at a 46% discount to its forward NAV and 1.2x forward P/B. Our March 2012 NAV declines from Rs120 to Rs106 per share as we are building in lower sales volumes assumptions and valuing its telecom business at 0.5x book value owing to uncertainty due to the recent telecom issue. We maintain our OUTPERFORM rating on the stock, and our target price of Rs76 implies 34% potential upside from current levels.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

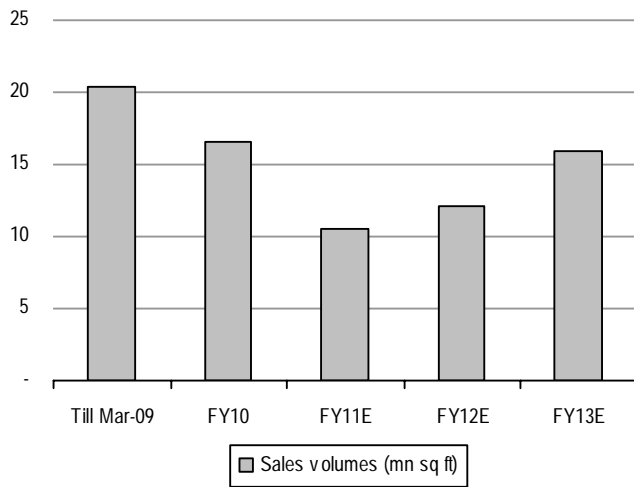
Performance Over	1M	3M	12M
Absolute (%)	-9.0	-39.9	-36.0
Relative (%)	-4.2	-35.9	-40.5

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	29,313.3	34,625.9	46,117.4	66,980.0
EBITDA (Rs mn)	10,721.9	12,645.8	17,772.4	26,849.6
EBIT (Rs mn)	10,380.8	12,265.3	17,284.6	26,249.8
Net attributable profit (Rs mn)	6,750.5	8,319.9	11,547.9	17,702.4
EPS (CS adj.) (Rs)	2.77	3.18	4.41	6.77
Change from previous EPS (%)	n.a.	-2.7	-10.0	-9.6
Consensus EPS (Rs)	n.a.	3.54	5.01	6.32
EPS growth (%)	-62.4	14.9	38.8	53.3
P/E (x)	20.5	17.9	12.9	8.4
Dividend yield (%)	0.6	0.7	0.9	1.1
EV/EBITDA (x)	18.7	15.8	11.2	7.2
ROE %	8.7	7.5	9.4	13.0
Net debt/equity (%)	50.1	43.5	38.7	30.6
NAV per share (Rs)	—	—	106.0	—
Disc./prem. to NAV (%)	—	—	-46.4	—

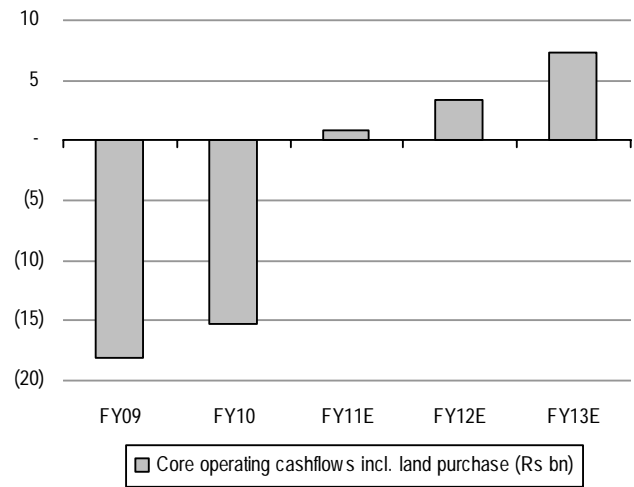
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Figure 146: Sales bookings of 10.5 mn sq. ft and 12.2 mn sq. ft expected in FY11 and FY12, respectively



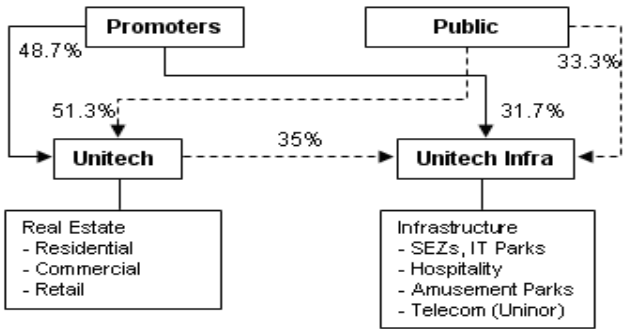
Source: Company data, Credit Suisse estimates

Figure 147: Post tax and interest cash flows of Rs0.9 bn and Rs3.4 bn expected in FY12 and FY13, respectively



Source: Company data, Credit Suisse estimates

Figure 148: Post demerger, Unitech will hold the real estate business and Unitech Infra the infrastructure businesses



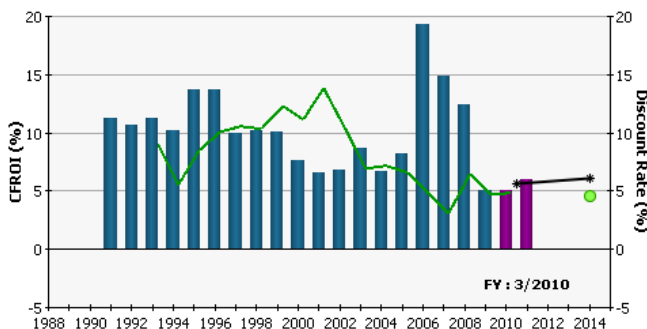
Source: Company data

Figure 149: Unitech's progress in execution as of September 2010

Stage of construction	Earlier projects		New bookings	
	mn sq. ft	% of total	mn sq. ft	% of total
Yet to start	-	-	0.0	0
Pre-construction	0.9	4	3.5	24
Piling/Structure work	2.1	16	11.2	76
Structure completed	6.3	29	-	-
Handover	5.2	16	-	-
Finishing	8.6	37	-	-
Total	23.1	100	14.7	100

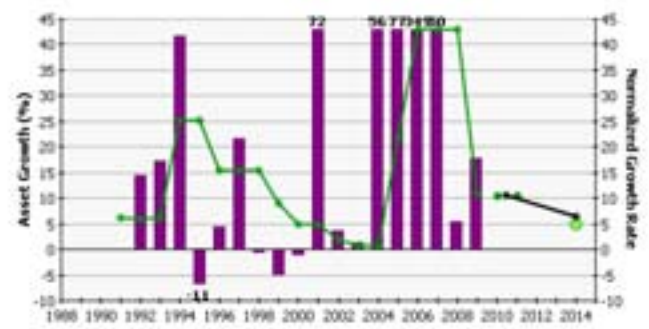
Source: Company data

Figure 150: CFROI is likely to trough in 2010-11, market expects the CFROI to remain low



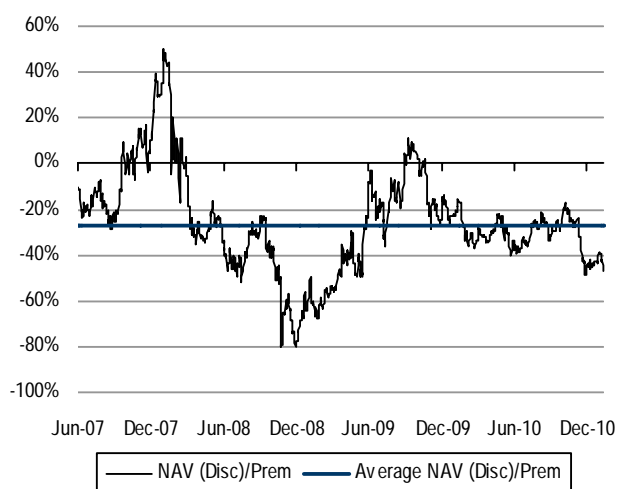
Source: Credit Suisse HOLT

Figure 151: The credit crisis resulted in a sharp correction in asset growth in 2008



Source: Credit Suisse HOLT

Figure 152: Unitech trades at a 47% discount to its March 2012 NAV of Rs106 per share



Source: Bloomberg, Credit Suisse estimates

Figure 153: Unitech trades at 1.2x its 12-month forward book value



Source: Bloomberg, Credit Suisse estimates

Figure 154: Breakdown of Unitech's March 2012 NAV of Rs106 per share

	Area (mn sq. ft)	Value (Rs mn)	Rs/ share	Comments
A. Real estate valuation				
Residential development	321.1	231,696	88.6	
Commercial sale	17.1	20,671	7.9	
Retail sale	1.0	2,309	0.9	
Commercial lease	15.6	39,373	15.0	
Retail lease	14.5	28,638	10.9	
Real estate GAV	369.2	322,686	123.3	
Less: Land cost to be paid		(16,907)	(6.5)	
Real estate GAV after land cost		305,779	116.9	
Less: net debt		(51,478)	(19.7)	As of March 2011
Real estate NAV after net debt		254,301	97.2	
B. Valuation of other businesses				
Telecom		11,066	4.2	0.5x book-value post investment
Other Business		1,992	0.8	8x - FY10 profits
UCP projects, fund management fees		11,102	4.2	DCF of development and management fees
March 2012 firm NAV		278,462	106.4	

Source: Company data, Credit Suisse estimates

Figure 155: Summary of changes to our estimates

(Rs bn)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	38.2	34.6	(9.3)	55.8	46.1	(17.4)	80.5	67.0	(16.7)
EBITDA	13.5	12.6	(6.1)	19.8	17.8	(10.4)	29.0	26.8	(7.3)
EBITDA margin (%)	35.3	36.5	124 bps	35.5	38.5	301 bps	36.0	40.1	410 bps
PAT	8.5	8.3	(2.7)	12.8	11.5	(10.0)	19.6	17.7	(9.6)
EPS (Rs)	3.3	3.2	(2.7)	4.9	4.4	(10.0)	7.5	6.8	(9.6)

Source: Company data, Credit Suisse estimates

Financial summary

Figure 156: Income statement—Unitech

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	32,975	41,400	28,844	29,313	34,626	46,117	66,980
Expenses	(14,598)	(19,097)	(12,975)	(18,591)	(21,980)	(28,345)	(40,130)
EBIDTA	18,377	22,304	15,869	10,722	12,646	17,772	26,850
Depreciation	(73)	(205)	(209)	(341)	(380)	(488)	(600)
Other income	902	1,384	4,278	829	900	750	800
EBIT	19,205	23,482	19,938	11,210	13,165	18,035	27,050
Interest expense	(1,287)	(2,804)	(5,546)	(2,000)	(1,693)	(1,968)	(2,324)
Profit before tax	17,919	20,678	14,392	9,210	11,473	16,066	24,726
Income tax	(4,864)	(3,986)	(2,424)	(2,264)	(3,098)	(4,418)	(6,923)
Extraordinaries	3	(5)	(13)	(160)	-	-	-
Profit before minority	13,058	16,687	11,955	6,787	8,375	11,648	17,802
Minority / associates	3	(73)	9	(36)	(55)	(100)	(100)
PAT	13,061	16,613	11,964	6,751	8,320	11,548	17,702
EPS (Rs)	8.0	10.2	7.4	2.8	3.2	4.4	6.8
Dividend per share (Rs)	0.25	0.25	0.13	0.35	0.40	0.50	0.60

Source: Company data, Credit Suisse estimates

Figure 157: Balance sheet—Unitech

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	10,227	14,083	6,448	6,095	5,860	3,702	4,197
Receivables	1,458	7,460	9,310	12,670	15,838	14,254	12,829
Inventories	86,995	134,794	157,756	172,070	201,944	233,643	274,630
Other current assets	18,397	29,508	34,895	31,558	33,966	36,540	39,504
Sundry creditors	7,312	8,497	22,549	13,621	10,896	11,986	13,185
Customer advances	40,413	71,119	74,453	80,158	111,985	137,373	171,038
Other current liabilities	7,014	3,476	5,121	7,432	8,104	9,310	9,917
Net current assets	62,339	102,753	106,286	121,184	126,623	129,470	137,020
Fixed assets	5,980	10,454	21,500	20,462	26,423	29,550	29,814
Capital WIP	2,153	20,982	11,758	13,118	8,017	6,261	7,512
Investments	4,548	6,562	9,587	12,427	18,027	18,027	18,027
Goodwill	1,126	1,126	11,672	15,264	15,264	15,264	15,264
Deferred tax asset	(20)	(60)	(14)	(46)	(146)	(246)	(346)
Total assets	76,125	141,817	160,789	182,409	194,207	198,325	207,291
Liabilities							
Share capital	1,623	3,247	3,247	4,878	5,233	5,233	5,233
Reserves	18,305	32,752	48,448	99,173	112,669	122,687	138,553
Shareholder funds	19,928	35,999	51,694	104,050	117,902	127,920	143,785
Debt	40,397	85,524	90,558	60,078	59,000	55,000	50,000
Deferred land liability	15,787	19,136	17,922	17,907	16,907	14,907	12,907
Others	13	1,159	615	373	398	498	598
Total liabilities	76,125	141,817	160,789	182,409	194,207	198,325	207,291

Source: Company data, Credit Suisse estimates

Figure 158: Cash flow statement—Unitech

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
EBIT	19,205	23,482	19,938	11,210	13,165	18,035	27,050
Depreciation	73	205	209	341	380	488	600
Taxes paid	(4,850)	(3,963)	(2,455)	(2,239)	(2,998)	(4,318)	(6,823)
Non-cash adjustments	18	50	(25)	(165)	(30)	-	-
Change in working capital	(47,380)	(36,559)	(11,167)	(15,251)	(5,675)	(5,004)	(7,055)
Operating cash flow	(32,934)	(16,785)	6,500	(6,104)	4,843	9,200	13,771
Change in fixed assets	(3,637)	(23,499)	(12,572)	(4,255)	(1,240)	(1,859)	(2,116)
Change in investments	(2,062)	(1,005)	(6,365)	(1,198)	(5,600)	-	-
Investment cash flow	(38,632)	(41,288)	(12,437)	(11,557)	(1,997)	7,341	11,656
Change in debt	44,678	48,475	3,820	(30,495)	(2,078)	(6,000)	(7,000)
Change in equity	6,198	1,708	-	45,822	6,756	-	-
Interest income/(expense)	(1,287)	(2,804)	(5,546)	(2,000)	(1,693)	(1,968)	(2,324)
Dividend paid	(477)	(475)	(239)	(936)	(1,224)	(1,530)	(1,837)
Financing cash flow	10,480	5,616	(14,402)	834	(236)	(2,158)	495
Extraordinary items	(1,811)	(751)	3,427	454	0	0	0
Total cash flow	8,669	4,865	(10,975)	1,289	(236)	(2,158)	495
Beginning of year cash	3,910	12,579	17,444	6,470	7,758	7,522	5,365
Year-end cash	12,579	17,444	6,470	7,758	7,522	5,365	5,859

Source: Company data, Credit Suisse estimates

Figure 159: Key metrics—Unitech

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	253.8	25.5	(30.3)	1.6	18.1	33.2	45.2
EBITDA	906.9	21.4	(28.8)	(32.4)	17.9	40.5	51.1
PAT	1,453.5	27.2	(28.0)	(43.6)	23.2	38.8	53.3
EPS	1,453.5	27.2	(28.0)	(62.4)	14.9	38.8	53.3
Margins (%)							
EBITDA/ Revenue	55.7	53.9	55.0	36.6	36.5	38.5	40.1
EBIT/ Revenue	58.2	56.7	69.1	38.2	38.0	39.1	40.4
PAT/ Revenue	39.6	40.1	41.5	23.0	24.0	25.0	26.4
Other metrics							
Net debt / equity	1.40x	1.89x	1.63x	.50x	.44x	.39x	.31x
RoACE (%)	30.9	17.4	11.0	4.9	5.1	6.7	9.6
RoAE (%)	116.1	59.7	27.3	8.9	7.5	9.5	13.1
Book value per share (Rs)	12.3	21.5	31.5	42.5	44.9	48.7	54.7

Source: Company data, Credit Suisse estimates

Indiabulls Real Estate Limited

(INRL.BO / IBREL IN)

Rating	OUTPERFORM* [V]
Price (17 Jan 11, Rs)	119.00
Target price (Rs)	(from 240.00) 188.00 ¹
Chg to TP (%)	58.0
Market cap. (Rs mn)	47,813 (US\$ 1,052)
Enterprise value (Rs)	69,344
Number of shares	401.79
Free float (%)	73.86
52-week price range	214.80 - 119.00

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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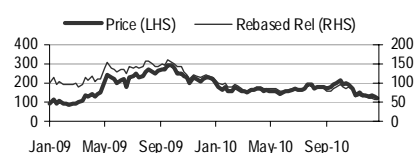
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DECREASE TARGET PRICE

Extremely cheap at current valuations

- **Reduce target price.** We revise down our target price for IBREL to Rs188, placing it at a 30% discount to March 2012 GAV. We raise our FY11 and FY12 EPS estimates by 5.3% and 6.7% respectively.
- **Strong development plans in both businesses.** The company plans to start development on 43.3 mn sq. ft residential and 8.3 mn sq. ft commercial projects over the next four to five years, of which construction activity has already begun on 13.3 mn sq ft. In the power business, work on Phase I of Nashik and Amravati projects (2,700 MW) is progressing steadily and contracts have been awarded to leading contractors. Advances have already been paid, and debt drawdown from lenders has commenced for Phase I.
- **Value unlocking through restructuring.** IBREL intends to restructure its business by transferring its 58.6% stake in Indiabulls Power to a wholly owned subsidiary, Indiabulls Infrastructure and Power. In consideration of the same, every IBREL shareholder will get 2.95 shares in Indiabulls Infrastructure and Power which will then get listed on the exchanges, providing exit option to the shareholders. The scheme requires shareholder, creditors and High Court approval and hence will likely take nine months to complete. At current price of Rs25.90 of Indiabulls Power, this implies a value of Rs76.4 per share of IBREL compared to our power business valuation of Rs53 in IBREL's SOTP. However, a 35% holding company discount assumption implies that the IBREL shareholder will be able to unlock value only to the extent of Rs49.6 per share.
- **Valuation; maintain OUTPERFORM.** Our March 2012 NAV of Rs242 per share is based on a sum-of-the-parts valuation, with IBREL's own real estate projects contributing Rs64, IPIT projects contributing Rs72, and the stake in Indiabulls Power contributing Rs53. We have valued recent Worli land acquisitions at 1x land cost (Rs46 per share). We believe a 30% discount to forward GAV is justified given its large exposure to Central Mumbai where prices and volumes are expected to remain weak and the uncertainty around the parking FSI in some of its projects.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

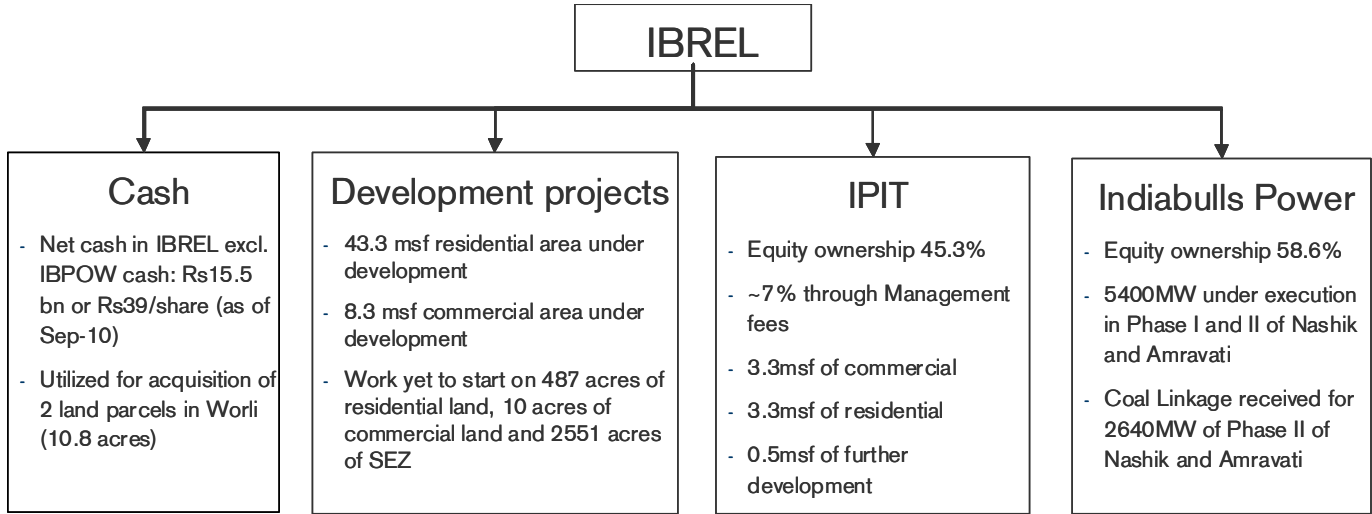
Performance Over	1M	3M	12M
Absolute (%)	-11.9	-39.4	-45.3
Relative (%)	-7.4	-35.4	-49.2

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	1,293.6	11,423.5	16,505.0	31,717.6
EBITDA (Rs mn)	-1,071.8	2,553.8	6,156.0	11,499.9
EBIT (Rs mn)	-1,197.5	2,391.6	5,648.0	9,593.3
Net attributable profit (Rs mn)	-240.4	2,167.5	3,928.3	6,610.4
EPS (CS adj.) (Rs)	-0.58	5.27	8.93	15.03
Change from previous EPS (%)	n.a.	5.3	6.7	5.5
Consensus EPS (Rs)	n.a.	4.2	7.8	11.3
EPS growth (%)	n.a.	n.a.	69.4	68.3
P/E (x)	NM	22.6	13.3	7.9
Dividend yield (%)	—	1.3	1.7	2.5
EV/EBITDA (x)	-24.3	27.2	17.9	15.1
ROE	-0.3	2.3	3.9	6.2
Net debt/equity (%)	net cash	18.5	50.6	97.7
NAV per share (Rs)	—	—	242.0	—
Disc./prem. to NAV (%)	—	—	-50.8	—

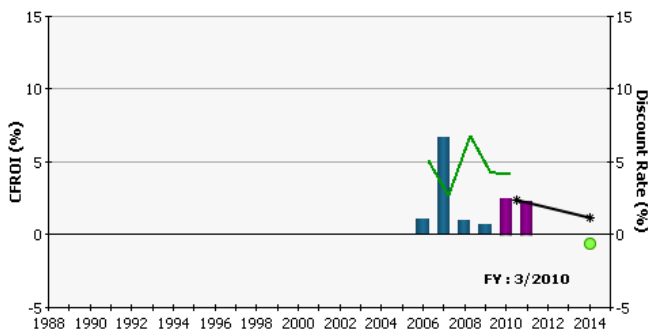
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Figure 160: IBREL structure summary (Real estate and Infrastructure businesses)



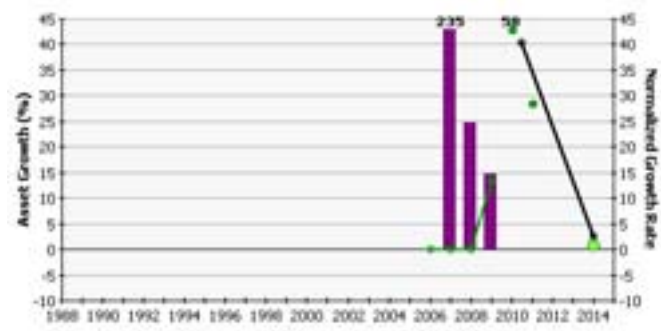
Source: Company data, Credit Suisse estimates

Figure 161: CFROI expectations are below zero, indicating market continues to be conservative about a recovery



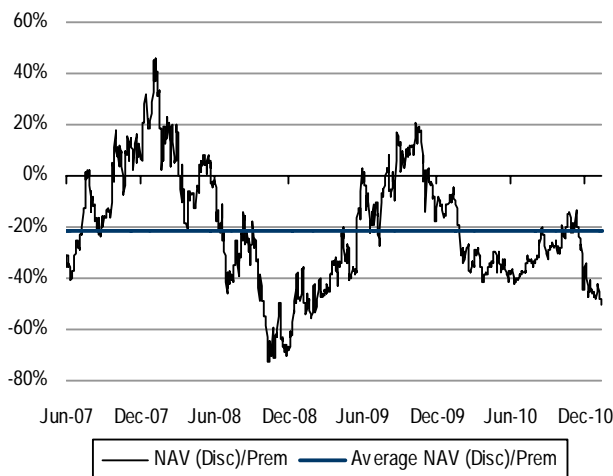
Source: Credit Suisse HOLT

Figure 162: Asset growth for 2008-09 lowered compared to 2006-07



Source: Credit Suisse HOLT

Figure 163: Indiabulls Real Estate trading at a 48% discount to its March 2012 NAV of Rs242 per share



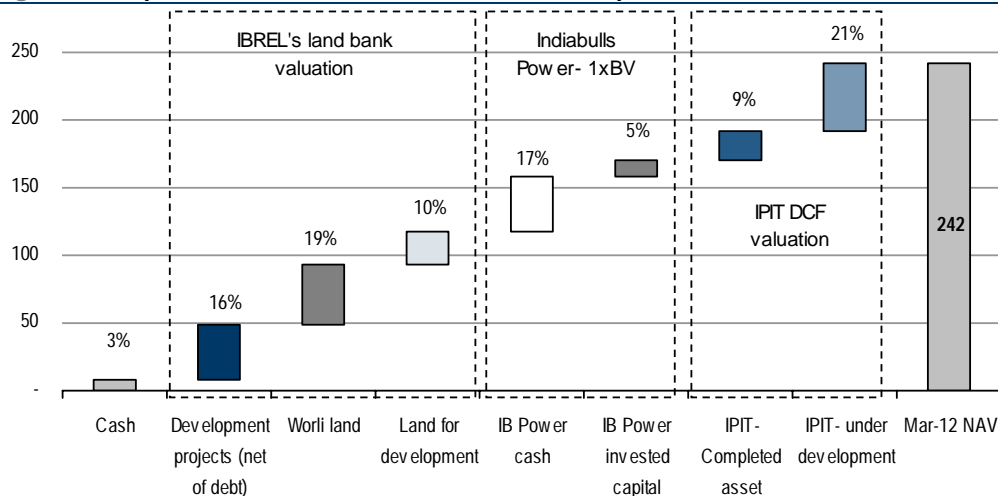
Source: Bloomberg, Credit Suisse estimates

Figure 164: Indiabulls Real Estate trading at 0.5x its forward book value



Source: Bloomberg, Credit Suisse estimates

Figure 165: Split of IBREL's March 2012 NAV of Rs242 per share



Source: Company data, Credit Suisse estimates

Figure 166: Breakdown of IBREL's March 2012 NAV of Rs242 per share

Area	Value (mn sq ft)	Value (Rs mn)	Rs/share	Comments
A. Real estate valuation				
I. Own projects				
Under execution	42.6	32,010	74	
Land held for development	16.4	10,034	23	Including 2500 acres Nashik SEZ valued at cost of land
Less: project debt		(14,751)	(34)	
Own Real estate GAV	59.0	27,515	64	
II. IPIT projects	7.1	31,180	72	45.3% equity ownership of IBREL and ~7% development fees
III. Worli Land	2.5	19,790	46	1x Land cost
Real estate GAV		78,485	181	
B. Power projects				
		22,791	53	58.6% ownership in IB Power at 1x Book value. (30% discount to IB Power CMP of Rs27)
C. Net cash and equivalents				
		3,550	8	Cash pertaining only to IBREL
March 2012 firm NAV		104,827	242	

Source: Company data, Credit Suisse estimates

Figure 167: Summary of changes to our estimates

(Rs bn)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	11.3	11.4	1.5	16.1	16.5	2.3	31.2	31.7	1.6
EBITDA	2.4	2.6	6.7	5.8	6.2	6.2	11.0	11.5	4.5
EBITDA margin (%)	21.3	22.4	110 bps	35.9	37.3	139 bps	35.3	36.3	99 bps
PAT	2.1	2.2	5.3	3.7	3.9	6.7	6.3	6.6	5.5
EPS (Rs)	5.0	5.3	5.3	8.4	8.9	6.7	14.3	15.0	5.5

Source: Company data, Credit Suisse estimates

Financial summary

Figure 168: Income statement—IBREL

Year-end 31 Mar (Rs mn)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	1,407	2,086	1,294	11,423	16,505	31,718
Expenses	(1,426)	(2,656)	(2,365)	(8,870)	(10,349)	(20,218)
EBIDTA	(20)	(570)	(1,072)	2,554	6,156	11,500
Depreciation	(33)	(108)	(126)	(162)	(508)	(1,907)
Other income	6,240	2,313	1,699	1,384	1,164	1,085
Interest expense	(522)	(244)	(97)	(242)	(762)	(625)
Profit before tax	5,665	1,390	404	3,534	6,050	10,053
Income tax	(1,598)	(698)	(337)	(1,166)	(1,996)	(3,317)
Profit before minority	4,067	692	68	2,367	4,053	6,735
Minority / associates	(65)	(398)	(228)	(200)	(125)	(125)
Net income	4,002	295	(160)	2,167	3,928	6,610
Preference dividend	(160)	(161)	(80)	-	-	-
PAT	3,842	134	(240)	2,167	3,928	6,610
EPS (Rs)	16.0	0.5	(0.6)	5.3	8.9	15.0
Dividend per share (Rs)	13.5	-	-	1.5	2.0	3.0

Source: Company data, Credit Suisse estimates

Figure 169: Balance sheet—IBREL

Year-end 31 Mar (Rs mn)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets						
Cash	16,218	15,897	10,454	7,885	9,140	4,297
Receivables	1,165	878	190	500	600	720
Inventories	11,441	17,566	24,489	52,920	56,468	60,199
Other current assets	49,651	32,535	18,540	20,601	23,023	25,877
Sundry creditors	649	289	388	485	607	759
Customer advances	28	188	747	1,403	1,564	1,618
Other current liabilities	20,321	1,225	3,184	4,147	4,684	5,438
Net current assets	57,477	65,174	49,353	75,869	82,376	83,278
Fixed assets	1,493	1,540	2,528	4,865	19,143	72,386
Capital WIP	753	2,644	5,899	20,685	48,566	58,027
Investments	675	12,347	72,474	53,114	49,964	48,964
Deferred tax asset	(7)	(9)	2	2	2	2
Total assets	60,390	81,696	130,256	154,536	200,051	262,658
Liabilities						
Share capital	482	515	803	805	865	867
Reserves	40,502	53,393	92,741	95,659	102,295	107,621
Shareholder funds	40,984	53,908	93,544	96,465	103,159	108,488
Debt	7,735	16,456	16,756	37,916	76,611	133,764
Others	11,671	11,333	19,956	20,156	20,281	20,406
Total liabilities	60,390	81,696	130,256	154,536	200,051	262,658

Source: Company data, Credit Suisse estimates

Figure 170: Cash flow statement—IBREL

Year-end 31 Mar (Rs mn)	FY08	FY09	FY10	FY11E	FY12E	FY13E
EBIT	3,697	(494)	(693)	2,697	6,098	10,093
Depreciation	33	108	126	162	508	1,907
Taxes paid	(1,598)	(696)	(348)	(1,166)	(1,996)	(3,317)
Non-cash adjustments	(3,805)	829	453	-	-	-
Change in working capital	(40,235)	(8,018)	10,379	(29,086)	(5,252)	(5,746)
Operating cash flow	(41,908)	(8,271)	9,917	(27,393)	(642)	2,937
Change in fixed assets	(2,029)	(2,047)	(4,368)	(17,286)	(42,666)	(64,611)
Change in investments	9,014	(11,573)	(59,832)	19,360	3,150	1,000
Investment cash flow	(34,922)	(21,891)	(54,284)	(25,319)	(40,158)	(60,674)
Change in debt	3,353	8,721	300	21,160	38,695	57,154
Change in equity	37,917	11,126	47,524	1,460	3,753	201
Interest	1,968	1,884	1,097	837	(48)	(40)
Dividend	(4,228)	(161)	(80)	(707)	(986)	(1,483)
Financing cash flow	4,088	(321)	(5,443)	(2,569)	1,255	(4,843)
Total cash flow	4,088	(321)	(5,443)	(2,569)	1,255	(4,843)
Beginning of year cash	12,129	16,218	15,897	10,454	7,885	9,140
Year end cash	16,218	15,897	10,454	7,885	9,140	4,297

Source: Company data, Credit Suisse estimates

Figure 171: Key metrics—IBREL

Year-end 31 Mar (Rs mn)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)						
Revenue	911	48.3	(38.0)	783.1	44.5	92.2
EBITDA	349	2,800.3	88.0	(338.3)	141.0	86.8
PAT	67,119	(96.5)	(279.7)	(1,001.5)	81.2	68.3
EPS	50,049	(96.7)	(215.2)	(999.0)	68.7	67.9
Margins (%)						
EBITDA / revenue	(1.4)	(27.3)	(82.9)	22.4	37.3	36.3
EBIT / revenue	439.9	78.4	38.8	33.1	41.3	33.7
PAT/ revenue	284.6	14.1	(12.4)	19.0	23.8	20.8
Other metrics						
Net debt/ equity	-.21x	.01x	-.23x	.22x	.61x	1.16x
RoCE (%)	13.7	1.4	0.1	2.1	2.9	3.4
RoAE (%)	14.6	0.3	(0.3)	2.3	3.9	6.2
Book value per share (Rs)	170.2	209.3	227.5	234.6	234.5	246.6

Source: Company data, Credit Suisse estimates

Sobha Developers Ltd

(SOBH.BO / SOBHA IN)

Rating	OUTPERFORM* [V]
Price (17 Jan 11, Rs)	270.50
Target price (Rs)	(from 430.00) 375.00 ¹
Chg to TP (%)	38.6
Market cap. (Rs mn)	26,526.31 (US\$ 583.44)
Enterprise value (Rs)	37,858
Number of shares	98.06
Free float (%)	29.12
52-week price range	392.90 - 250.00

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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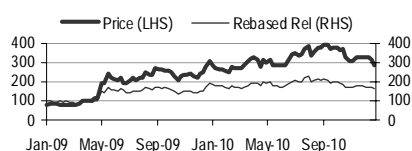
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DECREASE TARGET PRICE

Sailing smoothly

- Reduce target price, cut EPS estimates.** We revise down our target price for Sobha Developers to Rs375 (from Rs430 earlier), placing it at a 38% discount to its March 2012 GAV. We reduce our margins assumptions, as a result of which our EPS estimates decline by 24% for both FY11 and FY12.
- Steady progress in bookings.** The company sold an area of 2.08 mn sq. ft in FY10, with Bangalore contributing 65%. The run-rate of bookings in 1H FY11 (1.4 mn sq. ft sold) suggests that the company is well on course to achieve its bookings target of 3 mn sq. ft in FY11. We expect the company to sell 4.1 mn sq. ft and 7.1 mn sq. ft in FY12 and FY13, respectively. The company expects to launch 6.5 mn sq. ft over the next two to three quarters and has planned to launch an additional 6 mn sq. ft township in NCR.
- Strong cash flows expected.** Currently, Sobha has 8.35 mn sq. ft (its share) of ongoing residential projects, of which 5.7 mn sq. ft (68% of total) is sold as of September 2010. The receivables from the sold units are Rs9 bn, and the potential sales value of the unsold portion (2.65 mn sq. ft) is Rs12.1 bn. The company expects to realise Rs11.2 bn from its ongoing and completed projects. We expect recurring post tax and interest operating cash flows of Rs1.6 bn and Rs2.3 bn in FY11 and FY12, respectively. Net debt-to-equity stood at 0.69x as of September 2010, and management is confident of reducing it to 0.5x by March 2011.
- Valuation.** At current levels, Sobha trades at a 56% discount to its forward NAV and 1.5x forward P/B. Our March 2012 NAV of Rs609 per share comprises Rs83 from projects currently under execution, Rs217 from projects expected over FY11-15 and Rs432 from projects beyond FY16. We have valued its contractual business at 8x FY11E earnings at Rs34 per share. We maintain our OUTPERFORM rating on the stock, and our target price of Rs375 implies 39% potential upside from current levels.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

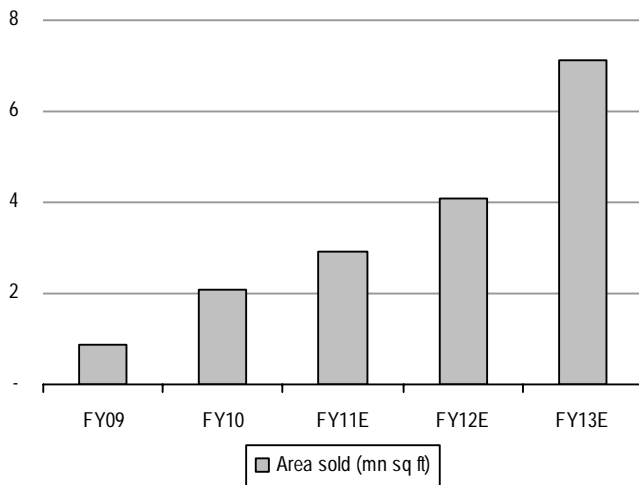
Performance Over	1M	3M	12M
Absolute (%)	-17.8	-27.7	-12.3
Relative (%)	-13.5	-22.9	-18.5

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	11,298.7	14,349.9	15,940.0	19,467.6
EBITDA (Rs mn)	2,635.9	3,166.8	3,819.2	4,797.4
EBIT (Rs mn)	2,312.8	2,867.1	3,491.9	4,437.6
Net attributable profit (Rs mn)	1,341.0	1,776.0	2,209.2	2,930.3
EPS (CS adj.) (Rs)	13.67	18.11	22.53	29.88
Change from previous EPS (%)	n.a.	-24.3	-24.1	-9.0
Consensus EPS (Rs)	n.a.	20.9	28.5	32.5
EPS growth (%)	-7.5	32.4	24.4	32.6
P/E (x)	19.8	14.9	12.0	9.1
Dividend yield (%)	0.9	1.1	1.3	1.5
EV/EBITDA (x)	15.3	12.0	9.4	6.9
ROE %	9.6	10.0	11.4	13.6
Net debt/equity (%)	80.1	60.2	45.3	29.3
NAV per share (Rs)	—	—	609.0	—
Disc./prem. to NAV (%)	—	—	-55.6	—

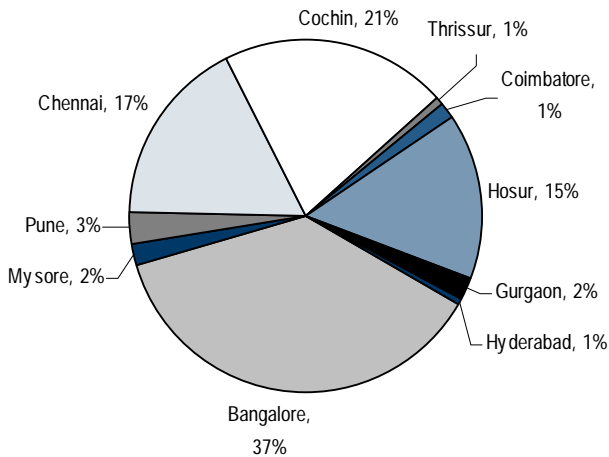
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Figure 172: Sales booking of 2.9 mn sq. ft and 4.1 mn sq. ft expected from Sobha in FY12 and FY13, respectively



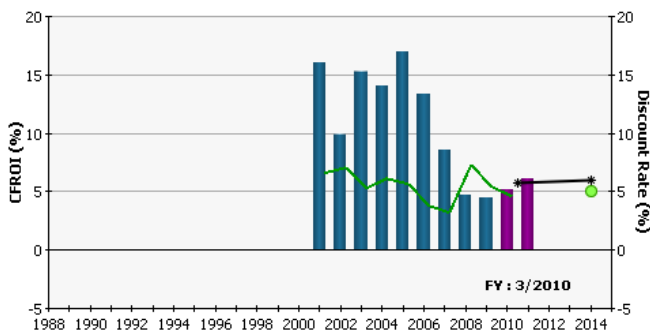
Source: Company data, Credit Suisse estimates

Figure 174: Split of Sobha's land bank of 228 mn sq. ft (Sobha's share of saleable area)



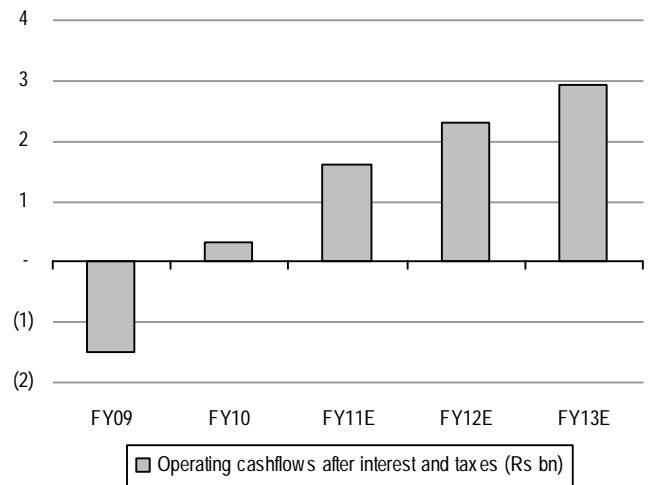
Source: Company data, Credit Suisse estimates

Figure 176: High investment resulted in a steady decline in CFROI, market expects marginal rebound



Source: Credit Suisse HOLT

Figure 173: Post tax and interest cash flows of Rs1.6 bn and Rs2.3 bn expected in FY11 and FY12, respectively



Source: Company data, Credit Suisse estimates

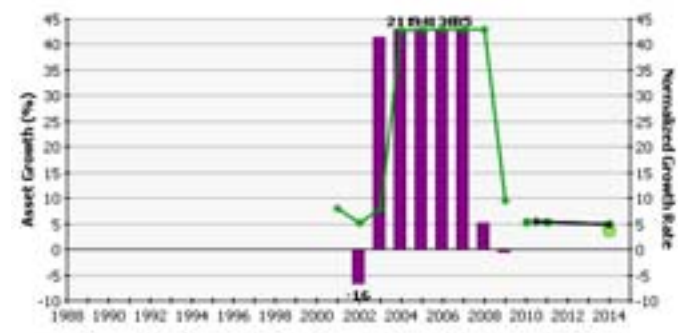
Figure 175: Cash flow (Rs mn) from existing projects

(Rs mn)	Expected cash flow Area revenues/ (mn sq ft)	(costs)
Sold from ongoing projects (till 30 September 2010)	5.70	9,032
Unsold inventory	2.65	12,113
Total, under construction	9.64*	(10,276)
Net cash flow from ongoing projects		10,869
Net cash flow from completed projects	0.05	294
Total cash flows expected from ongoing projects		11,163

* Includes area for office space, club house and JD share

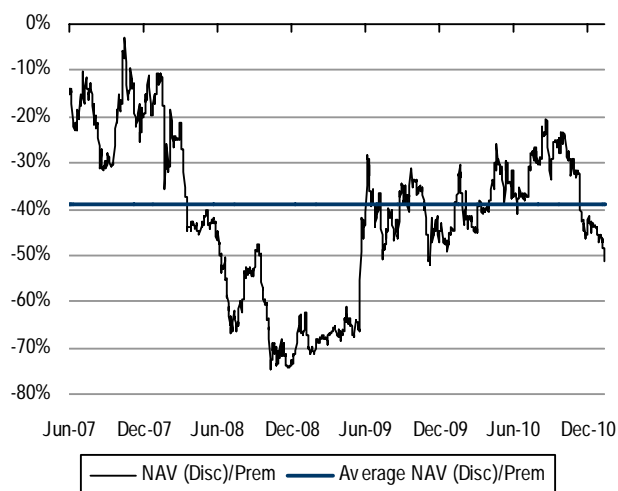
Source: Company data

Figure 177: Credit crisis resulted in a sharp correction in asset growth in 2008-09



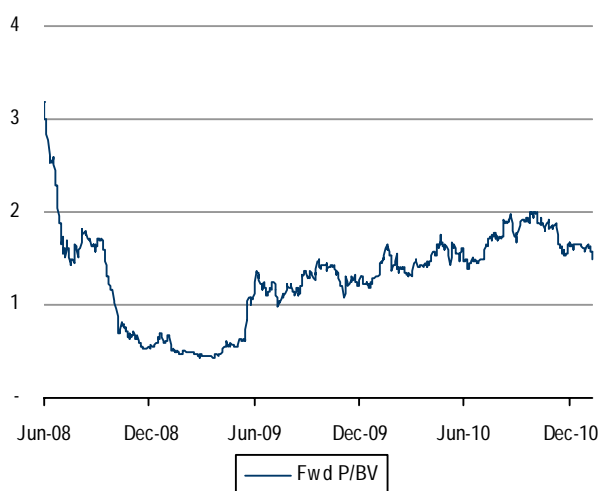
Source: Credit Suisse HOLT

Figure 178: Sobha developers trades at a 56% discount to its March 2012 NAV



Source: Bloomberg, Credit Suisse estimates

Figure 179: Sobha trades at 1.5x its 12-month forward book value



Source: Bloomberg, Credit Suisse estimates

Figure 180: Breakdown of Sobha's March 2011 NAV and target price derivation

	NAV(Rs/share)			Target price derivation		
	Area (mn sq. ft)	Rs mn	Rs/share	Multiple (x)	Rs mn	Rs/share
Projects under execution	9.3	8,132	83	1x	8,132	83
Projects FY11-15E	46.8	21,326	217	0.8x	17,061	174
Projects FY16 and beyond	192.1	42,372	432	0.56x	23,728	242
Real estate GAV	248.2	71,830	732		48,921	499
Less: land cost to be paid		(1,550)	(16)		(1,550)	(16)
Real estate GAV after land cost		70,280	717		47,371	483
Less: Net debt		(13,915)	(142)		(13,915)	(142)
Real estate NAV after net debt		56,366	575		33,457	341
Add: valuation of other assets						
- Contractual business	8x FY11 PAT	3,350	34	8x FY11 PAT	3,350	34
Total of other assets/businesses		3,350	34		3,350	34
March 2012 firm NAV		59,716	609		36,807	375

Source: Company data, Credit Suisse estimates

Figure 181: Summary of changes to our estimates

(Rs bn)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	15.9	14.3	(9.7)	16.7	15.9	(4.6)	18.4	19.5	5.6
EBITDA	3.8	3.2	(16.5)	4.6	3.8	(16.3)	4.9	4.8	(1.7)
EBITDA margin (%)	23.9	22.1	-179 bps	27.3	24.0	-335 bps	26.5	24.6	-184 bps
PAT	2.3	1.8	(24.3)	2.9	2.2	(24.1)	3.2	2.9	(9.0)
EPS (Rs)	23.9	18.1	(24.3)	29.7	22.5	(24.1)	32.8	29.9	(9.0)

Source: Company data, Credit Suisse estimates

Financial summary

Figure 182: Income statement—Sobha

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	11,874	14,311	9,740	11,299	14,350	15,940	19,468
Expenses	(9,297)	(10,608)	(6,953)	(8,663)	(11,183)	(12,121)	(14,670)
EBIDTA	2,576	3,703	2,788	2,636	3,167	3,819	4,797
Depreciation	(244)	(350)	(360)	(323)	(300)	(327)	(360)
Other income	20	53	136	31	50	60	60
Interest expense	(486)	(615)	(1,062)	(686)	(512)	(540)	(457)
Profit before tax	1,866	2,791	1,501	1,658	2,405	3,012	4,041
Income tax	(251)	(483)	(402)	(275)	(579)	(743)	(1,041)
Profit before minority	1,615	2,309	1,099	1,383	1,826	2,269	3,000
Minority / associates	-	(28)	(21)	(42)	(50)	(60)	(70)
PAT	1,615	2,281	1,078	1,341	1,776	2,209	2,930
EPS (Rs)	22.2	31.3	14.8	13.7	18.1	22.5	29.9
Dividend per share (Rs)	5.5	6.5	1.0	2.5	3.0	3.5	4.0

Source: Company data, Credit Suisse estimates

Figure 183: Balance sheet—Sobha

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	684	287	214	826	707	670	1,026
Receivables	1,580	5,548	3,683	4,430	3,931	3,712	4,000
Inventories	3,908	8,393	11,394	11,101	12,496	14,682	16,966
Other current assets	11,028	17,277	18,965	20,102	20,045	19,655	19,281
Sundry creditors	914	811	808	869	1,104	1,226	1,497
Customer advances	2,265	1,103	1,605	2,042	3,280	4,334	5,697
Other current liabilities	2,481	3,832	3,704	3,619	4,020	4,497	5,075
Net current assets	11,539	25,759	28,139	29,930	28,777	28,662	29,003
Fixed assets	1,948	2,142	2,248	2,061	2,011	1,984	1,974
Investments	528	28	27	27	27	27	27
Deferred tax asset	(22)	11	31	52	62	72	82
Total assets	13,992	27,940	30,445	32,069	30,877	30,744	31,086
Liabilities							
Share capital	729	729	729	981	981	981	981
Reserves	7,426	9,152	10,145	16,057	17,489	19,297	21,768
Shareholder funds	8,155	9,881	10,874	17,038	18,470	20,277	22,749
Debt	5,837	17,831	19,322	14,740	12,066	10,066	7,866
Minority	-	228	249	291	341	401	471
Total liabilities	13,992	27,940	30,445	32,069	30,877	30,744	31,086

Source: Company data, Credit Suisse estimates

Figure 184: Cash flow statement—Sobha

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
EBIT	2,352	3,406	2,563	2,343	2,917	3,552	4,498
Depreciation	244	350	360	323	300	327	360
Taxes paid	(245)	(516)	(422)	(296)	(589)	(753)	(1,051)
Non-cash adjustments	-	-	-	-	-	-	1
Change in working capital	(6,736)	(14,618)	(2,452)	(1,179)	1,035	77	15
Operating cash flow	(4,385)	(11,377)	49	1,192	3,662	3,204	3,822
Change in fixed assets	(1,170)	(541)	(462)	(128)	(250)	(300)	(350)
Change in investments	(501)	500	1	0	-	-	-
Investment cash flow	(6,056)	(11,418)	(413)	1,063	3,412	2,904	3,472
Change in debt	1,518	11,994	1,491	(4,581)	(2,675)	(2,000)	(2,200)
Change in equity	6,157	-	-	5,110	-	-	-
Interest income/(expenses)	(486)	(615)	(1,062)	(686)	(512)	(540)	(457)
Dividend paid	(470)	(555)	(85)	(287)	(344)	(402)	(459)
Financing cash flow	663	(594)	(68)	620	(118)	(38)	357
Extraordinary items	(429)	197	(4)	(8)	0	0	(1)
Total cash flow	234	(397)	(72)	611	(118)	(38)	356
Beginning of year cash	450	684	287	214	826	707	670
Year-end cash	684	287	214	826	707	670	1,026

Source: Company data, Credit Suisse estimates

Figure 185: Key operating metrics—Sobha

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth YoY (%)							
Revenue	89.5	20.5	(31.9)	16.0	27.0	11.1	22.1
EBITDA	84.5	43.7	(24.7)	(5.4)	20.1	20.6	25.6
PAT	82.5	41.2	(52.8)	24.4	32.4	24.4	32.6
EPS	58.8	41.2	(52.8)	(7.5)	32.4	24.4	32.6
Margins (%)							
EBITDA / revenue	21.7	25.9	28.6	23.3	22.1	24.0	24.6
EBIT/ revenue	19.8	23.8	26.3	20.7	20.3	22.3	23.1
PAT/ revenue	13.6	15.9	11.1	11.9	12.4	13.9	15.1
Other metrics							
Net debt / equity (x)	.57	1.77	1.75	.82	.61	.46	.30
RoCE (%)	20.7	13.4	6.4	6.3	7.0	8.7	10.8
RoAE (%)	34.2	25.3	10.4	9.7	10.1	11.5	13.7
Book value per share (Rs)	111.9	138.7	152.6	176.7	191.8	210.9	236.8

Source: Company data, Credit Suisse estimates

Parsvnath Developers Ltd

(PARV.BO / PARSV IN)

Rating	UNDERPERFORM* [V]
Price (17 Jan 11, Rs)	52.20
Target price (Rs)	(from 50.00) 45.00 ¹
Chg to TP (%)	-13.8
Market cap. (Rs mn)	22,716.45 (US\$ 499.65)
Enterprise value (Rs)	34,363
Number of shares	435.18
Free float (%)	28.70
52-week price range	74.17 - 50.05

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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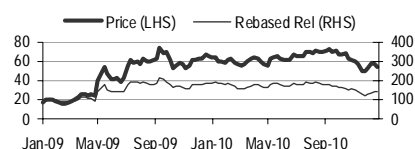
abhishek.bansal@credit-suisse.com

DECREASE TARGET PRICE

Debt repayment a challenge

- Reduce target price, cut EPS estimates.** We revise down our target price for Parsvnath to Rs45 (from Rs50 earlier), placing it at a 35% discount to its March 2012 GAV. We reduce our revenue recognition assumptions, and our EPS estimates for FY11 and FY12 decline by 6.4% (to Rs4.6) and 15.4% (to Rs5.3), respectively.
- Volumes continue to lag expectations.** We expect Parsvnath to sell 6.5 mn sq. ft in FY11 and 6.1 mn sq. ft in FY12. However, the company is lagging behind on volumes as it has sold only 2.1 mn sq. ft in 1H FY11 (sold 5.3 mn sq. ft in FY10). The company has a land bank of 194 mn sq. ft as of September 2010, and though its focus on affordable housing appears to be the right strategy in the current environment, its volumes have failed to pick up. Further, we believe that Parsvnath should exit from its non-strategic land parcels to lighten its balance sheet. The wide geographic spread of its projects is also likely to make it difficult for Parsvnath to keep costs under control, as fixed costs from geographic diversification are very high.
- Repayment of maturing term loans a challenge.** Parsvnath's net debt stood at Rs15 bn as of September 2010. The company raised Rs2.6bn in funds in October 2010, post which we expect net debt to decline to Rs11.9 bn by March 2011. The company has also recently raised project funding by selling stake to real estate funds which, however, is unlikely to impact its gearing levels as the funding is for project execution. Parsvnath has repayment obligations of Rs12 bn of debt during FY11-14, which appears challenging. We expect operating cash flows after interest and taxes to be Rs0.4 bn and Rs1.0 bn in FY11 and FY12, respectively.
- Valuation.** Our March 2012 NAV of Rs88 per share comprises Rs64 from residential projects, Rs28 from commercial projects intended for sale, Rs17 from rental assets and Rs13 from DMRC projects. We have valued Parsvnath at Rs45 per share, which is at a 35% discount to its GAV. We maintain our UNDERPERFORM rating on the stock.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 18882.25 on 17/01/11

On 17/01/11 the spot exchange rate was Rs45.46/US\$1

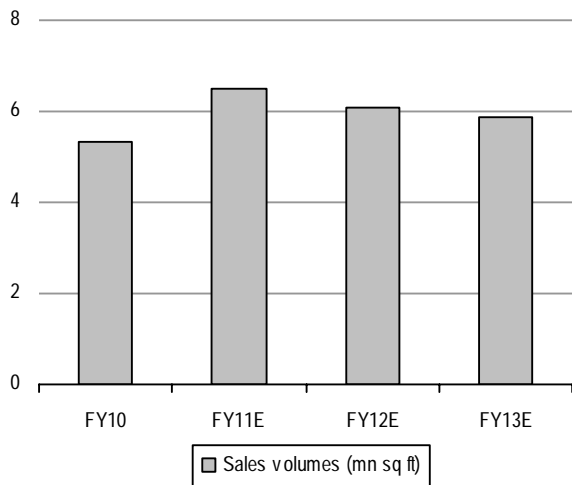
Performance Over	1M	3M	12M
Absolute (%)	4.3	-25.9	-21.0
Relative (%)	9.7	-21.1	-26.5

Financial and valuation metrics

Year	3/10A	3/11E	3/12E	3/13E
Revenue (Rs mn)	9,407.4	13,356.4	15,251.7	16,019.1
EBITDA (Rs mn)	2,504.9	3,597.7	4,107.3	4,538.0
EBIT (Rs mn)	2,290.0	3,417.7	3,907.3	4,288.0
Net attributable profit (Rs mn)	1,348.6	2,000.6	2,310.0	2,564.9
EPS (CS adj.) (Rs)	3.40	4.60	5.31	5.89
Change from previous EPS (%)	n.a.	-6.4	-15.4	—
Consensus EPS (Rs)	n.a.	5.3	9.3	—
EPS growth (%)	11.1	35.4	15.5	11.0
P/E (x)	15.4	11.4	9.8	8.9
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	15.0	9.6	8.1	6.9
ROE %	6.3	7.9	8.0	8.2
Net debt/equity (%)	63.5	41.3	34.5	25.6
NAV per share (Rs)	—	—	88.0	—
Disc./prem. to NAV (%)	—	—	-40.7	—

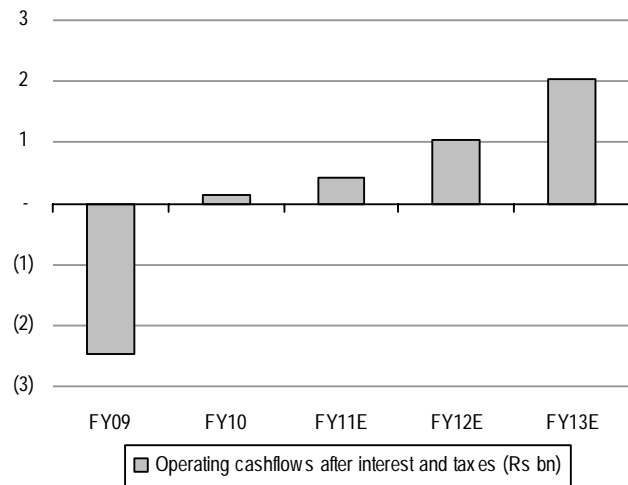
Source: Company data, Thomson Reuters, Credit Suisse estimates.

Figure 186: Parsvnath expected to sell 6.5 mn sq. ft in FY11 and 6.1 mn sq. ft in FY12



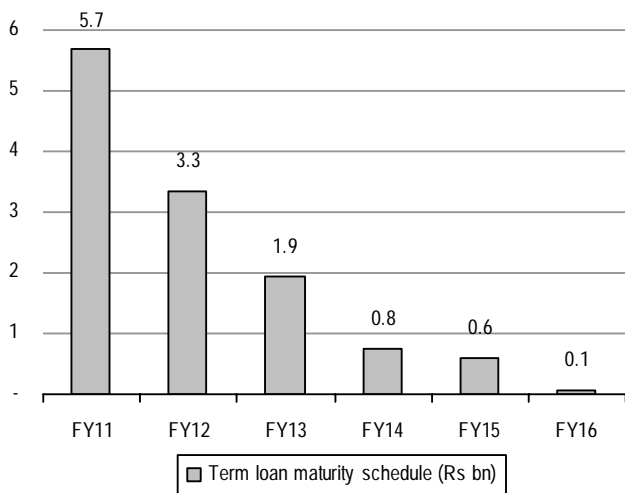
Source: Company data, Credit Suisse estimates

Figure 187: Post tax and interest cash flows of Rs0.4 bn and Rs1.0 bn expected in FY11 and FY12, respectively



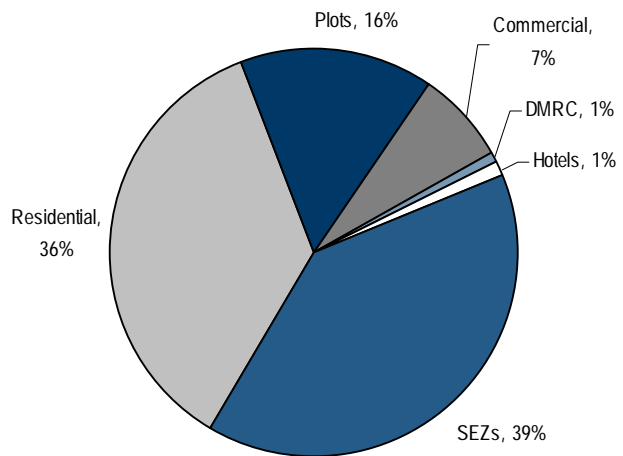
Source: Company data, Credit Suisse estimates

Figure 188: Rs12 bn debt due for repayment over FY11-14



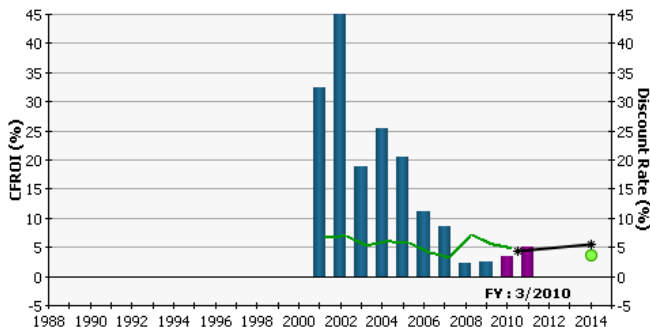
Source: Company data

Figure 189: Break-up of saleable area of 194 mn sq. ft



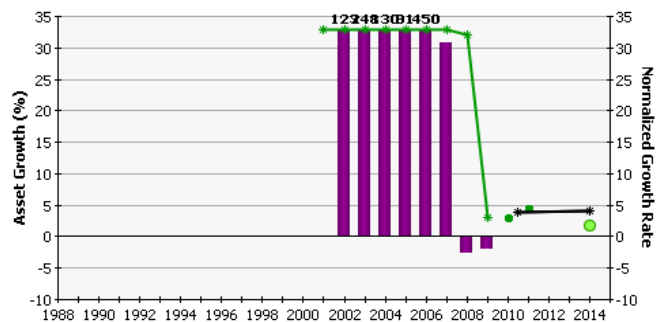
Source: Company data

Figure 190: High investments resulted in steady decline in CFROI and market is pricing a recovery to 5%



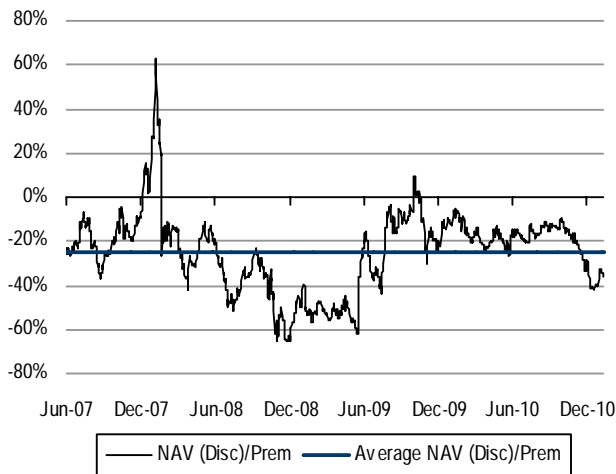
Source: Credit Suisse HOLT

Figure 191: Credit crisis resulted in sharp correction in asset growth in 2008-09



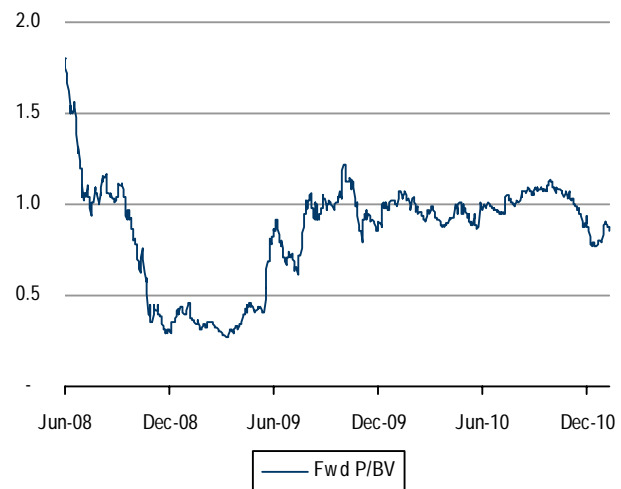
Source: Credit Suisse HOLT

Figure 192: Parsvnath trading at 39% discount to its March 2012 NAV of Rs88 per share



Source: Bloomberg, Credit Suisse estimates

Figure 193: Parsvnath trading at 0.9x its 12-month forward book value



Source: Bloomberg, Credit Suisse estimates

Figure 194: Breakdown of Parsvnath's March 2012 NAV

	Area (mn sq ft)	Value (Rs m)	Rs/share	Comments
A. Real estate valuation				
Residential development	113.7	27,823	64	
Commercial & retail sale	15.2	12,390	28	
Commercial & retail lease	72.4	7,479	17	Malls valued at 10 % cap rate; IT Parks and SEZs at 9%
DMRC Projects	2.6	5,848	13	Rentals discounted over the period of lease
Real estate GAV	203.9	53,541	123	
Less: Land cost payable		(4,500)	(10)	
Real estate NAV after land cost		49,041	113	
Less: Net Debt		(11,936)	(27)	As of March 2011
Real estate NAV after net debt		37,105	85	
B. Valuation of other businesses				
Hotels	2.1	1,309	3	At land cost
March 2012 firm NAV		38,414	88	
Premium/Discount to GAV	(35%)	(18,739)	(43)	35% discount to GAV
March 2012 firm value		19,675	45	

Source: Company data, Credit Suisse estimates

Figure 195: Summary of changes to our estimates

(Rs bn)	FY11E			FY12E		
	Old	New	% change	Old	New	% change
Revenue	15.7	13.4	(14.9)	17.3	15.3	(12.0)
EBITDA	3.8	3.6	(4.5)	3.8	4.1	9.0
EBITDA margin (%)	24.0	26.9	293 bps	21.7	26.9	520 bps
PAT	2.0	2.0	2.6	2.5	2.3	(7.3)
EPS (Rs)	4.9	4.6	(6.4)	6.3	5.3	(15.4)

Source: Company data, Credit Suisse estimates

Financial summary

Figure 196: Income statement—Parsvnath

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue	15,103	17,713	6,984	9,407	13,356	15,252	16,019
Expenses	(10,929)	(11,569)	(4,907)	(6,902)	(9,759)	(11,144)	(11,481)
EBIDTA	4,174	6,145	2,077	2,505	3,598	4,107	4,538
Depreciation	(143)	(239)	(281)	(215)	(180)	(200)	(250)
Other income	242	658	308	474	337	227	227
EBIT	4,273	6,563	2,103	2,764	3,755	4,134	4,515
Interest expense	(193)	(391)	(734)	(803)	(713)	(627)	(659)
Profit before tax	4,080	6,172	1,369	1,962	3,041	3,507	3,856
Income tax	(981)	(1,928)	(241)	(754)	(791)	(947)	(1,041)
Profit before minority	3,099	4,244	1,128	1,208	2,251	2,560	2,815
Minority / associates	(176)	0	1	141	(250)	(250)	(250)
PAT (Rs)	2,922	4,244	1,129	1,349	2,001	2,310	2,565
EPS	7.9	11.5	3.1	3.4	4.6	5.3	5.9
Dividend per share	1.3	1.5	-	-	-	-	-

Source: Company data, Credit Suisse estimates

Figure 197: Balance sheet—Parsvnath

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Assets							
Cash	5,458	4,228	2,710	2,047	2,047	2,047	2,047
Receivables	5,579	12,814	11,466	14,056	16,200	14,580	13,122
Inventories	16,438	22,611	24,574	25,136	27,859	27,874	22,446
Other current assets	7,129	7,477	7,061	6,510	7,729	7,864	8,060
Sundry creditors	3,704	3,630	3,865	4,503	4,863	5,252	5,673
Customer advances	3,386	2,451	1,790	2,368	8,725	8,507	4,778
Other current liabilities	2,580	6,736	4,707	5,742	5,830	5,857	5,886
<i>Net current assets</i>	<i>24,934</i>	<i>34,314</i>	<i>35,449</i>	<i>35,137</i>	<i>34,417</i>	<i>32,749</i>	<i>29,339</i>
Fixed assets	1,106	2,649	3,578	4,449	6,950	10,051	14,136
Intangible assets	7	-	-	426	426	426	426
Investments	534	144	296	289	289	289	289
Deferred tax asset	32	9	49	46	96	196	296
Total assets	26,613	37,116	39,371	40,348	42,178	43,711	44,487
Liabilities							
Share capital	1,847	1,847	1,847	1,986	2,176	2,176	2,176
Reserves	13,071	17,050	18,200	20,956	25,461	27,771	30,336
Shareholder funds	14,918	18,897	20,047	22,941	27,637	29,947	32,512
Debt	11,695	18,205	19,310	17,098	13,983	12,956	10,916
Minority	0	14	13	309	559	809	1,059
Total liabilities	26,613	37,116	39,371	40,348	42,178	43,711	44,487

Source: Company data, Credit Suisse estimates

Figure 198: Cash flow statement—Parsvnath

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
EBIT	4,273	6,563	2,103	2,764	3,755	4,134	4,515
Depreciation	143	239	281	215	180	200	250
Taxes paid	(1,013)	(1,906)	(280)	(804)	(841)	(1,047)	(1,141)
Non-cash adjustments	(242)	(658)	(308)	(474)	(337)	(227)	(227)
Change in working capital	(16,128)	(10,609)	(2,654)	(351)	720	1,668	3,410
Operating cash flow	(12,967)	(6,370)	(858)	1,349	3,477	4,729	6,807
Change in fixed assets	(721)	(1,766)	(1,208)	(1,086)	(2,681)	(3,301)	(4,335)
Change in investments	(460)	396	(151)	6	-	-	-
Investment cash flow	(14,148)	(7,739)	(2,217)	269	796	1,428	2,472
Change in debt	9,337	6,510	1,105	(2,212)	(3,115)	(1,027)	(2,040)
Change in equity	10,960	383	(0)	1,746	2,695	-	-
Interest paid/other income	49	267	(426)	(328)	(376)	(400)	(432)
Dividends paid	(540)	(648)	-	-	-	-	-
Financing cash flow	5,657	(1,227)	(1,537)	(525)	(0)	(0)	0
Extraordinary items	(612)	(2)	19	199	-	-	-
Total cash flow	5,045	(1,229)	(1,518)	(326)	(0)	(0)	0
Beginning of year cash	412	5,458	4,228	2,710	2,047	2,047	2,047
Year end cash	5,458	4,228	2,710	2,047	2,047	2,047	2,047

Source: Company data, Credit Suisse estimates

Figure 199: Key metrics—Parsvnath

Year-end 31 Mar (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Growth (%)							
Revenue	134.6	17.3	(60.6)	34.7	42.0	14.2	5.0
EBITDA	189.9	47.2	(66.2)	20.6	43.6	14.2	10.5
PAT	173.8	45.2	(73.4)	19.4	48.3	15.5	11.0
EPS	119.9	45.2	(73.4)	11.1	35.4	15.5	11.0
Margins (%)							
EBITDA / revenue	27.6	34.7	29.7	26.6	26.9	26.9	28.3
EBIT/ revenue	28.3	37.1	30.1	29.4	28.1	27.1	28.2
PAT/ revenue	19.3	24.0	16.2	14.3	15.0	15.1	16.0
Other metrics							
Net debt / equity (x)	.38	.73	.82	.64	.42	.36	.27
RoCE (%)	20.8	14.3	4.4	4.1	6.7	6.9	7.4
RoAE (%)	34.6	25.1	5.8	6.3	7.9	8.1	8.3
Book value per share (Rs)	40.4	51.2	54.3	57.8	63.5	68.8	74.7

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 17 Jan 11)

Allgreen Properties (AGRN.SI, S\$1.14, OUTPERFORM, TP S\$1.62)
 Capitaland (CATL.SI, S\$3.72, OUTPERFORM, TP S\$4.43)
 Cheung Kong Holdings (0001.HK, HK\$135.40, OUTPERFORM, TP HK\$145.95)
 China Aoyuan Property Group Limited (3883.HK, HK\$1.54)
 China Overseas Land & Investment (0688.HK, HK\$14.96, UNDERPERFORM, TP HK\$16.10)
 China Resources Land Ltd (1109.HK, HK\$14.14, UNDERPERFORM, TP HK\$15.70)
 China Vanke Co Ltd-A (000002.SZ, Rmb8.42, OUTPERFORM [V], TP Rmb12.30)
 City Developments (CTDM.SI, S\$12.12, OUTPERFORM, TP S\$17.16)
 DLF Ltd (DLF.BO, Rs250.25, UNDERPERFORM [V], TP Rs221.00)
 Godrej Properties (GODR.BO, Rs596.00, OUTPERFORM [V], TP Rs581.00)
 Great Eagle Hdg. (0041.HK, HK\$25.70, OUTPERFORM, TP HK\$36.40)
 Greentown China Holdings Ltd (3900.HK, HK\$9.50, UNDERPERFORM [V], TP HK\$7.95)
 Guangzhou R&F Properties Co Ltd (2777.HK, HK\$12.20, NEUTRAL [V], TP HK\$10.30)
 Hang Lung Properties (0101.HK, HK\$35.60, NEUTRAL, TP HK\$36.20)
 HDFC Bank (HDBK.BO, Rs2071.20, OUTPERFORM, TP Rs2682.00)
 Hongkong Land Holdings (HKLD.SI, \$7.35, OUTPERFORM, TP \$8.30)
 Hopson Development Holdings (0754.HK, HK\$9.03, NEUTRAL [V], TP HK\$9.90)
 Housing Development & Infrastructure Ltd (HDIL) (HDIL.BO, Rs157.75, NEUTRAL [V], TP Rs189.00)
 Hysan Development Co. (0014.HK, HK\$38.45, OUTPERFORM, TP HK\$38.50)
 ICICI Bank (ICBK.BO, Rs1002.10, OUTPERFORM, TP Rs1304.00)
 Indiabulls Power (INDP.BO, Rs25.90, NOT RATED)
 Indiabulls Properties Investment Trust (IBPI.SI, S\$0.30, NOT RATED)
 Indiabulls Real Estate Limited (INRL.BO, Rs119.00, OUTPERFORM [V], TP Rs188.00)
 Kaisa Group Holdings (1638.HK, HK\$2.65, OUTPERFORM, TP HK\$3.30)
 Keppel Land (KLAN.SI, S\$4.72, NEUTRAL, TP S\$4.48)
 Kerry Properties (0683.HK, HK\$42.80, NEUTRAL, TP HK\$49.30)
 Oberoi Realty (OEBO.BO, Rs245.00, OUTPERFORM [V], TP Rs309.00)
 Parsvnath Developers Ltd (PARV.BO, Rs52.20, UNDERPERFORM [V], TP Rs45.00)
 Prestige Estates Projects Ltd (PREG.BO, Rs135.60, OUTPERFORM [V], TP Rs180.00)
 Shimao Property Holdings Ltd (0813.HK, HK\$12.88, OUTPERFORM [V], TP HK\$15.15)
 Sino Land (0083.HK, HK\$16.16, OUTPERFORM [V], TP HK\$22.30)
 Sobha Developers Ltd (SOBH.BO, Rs270.50, OUTPERFORM [V], TP Rs375.00)
 Sun Hung Kai Properties (0016.HK, HK\$136.90, OUTPERFORM, TP HK\$166.70)
 Swire Pacific 'A' (0019.HK, HK\$126.70, OUTPERFORM, TP HK\$153.50)
 Unitech Ltd (UNTE.BO, Rs56.80, OUTPERFORM [V], TP Rs76.00)
 Wharf Holdings (0004.HK, HK\$61.90, OUTPERFORM [V], TP HK\$67.80)
 Wing Tai Holdings (WTHS.SI, S\$1.68, OUTPERFORM, TP S\$2.16)

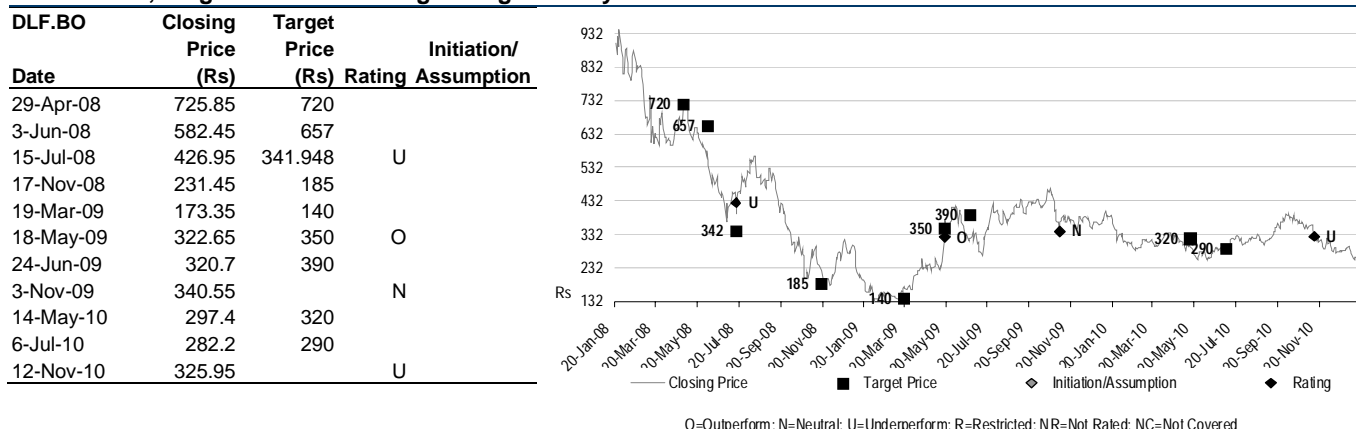
Disclosure Appendix

Important Global Disclosures

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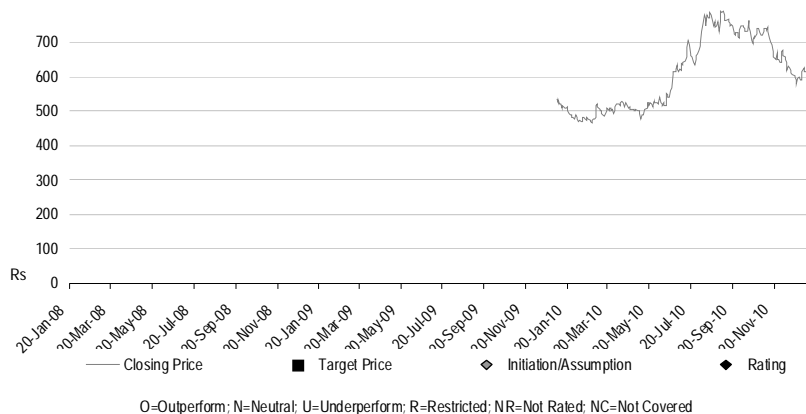
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3-Year Price, Target Price and Rating Change History Chart for DLF.BO



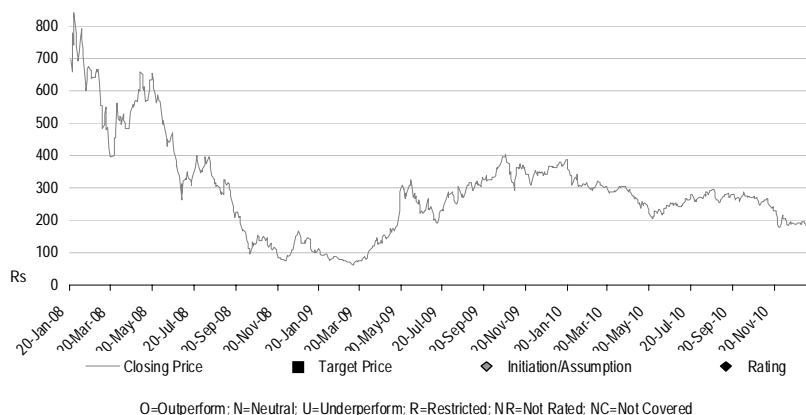
3-Year Price, Target Price and Rating Change History Chart for GODR.BO

GODR.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
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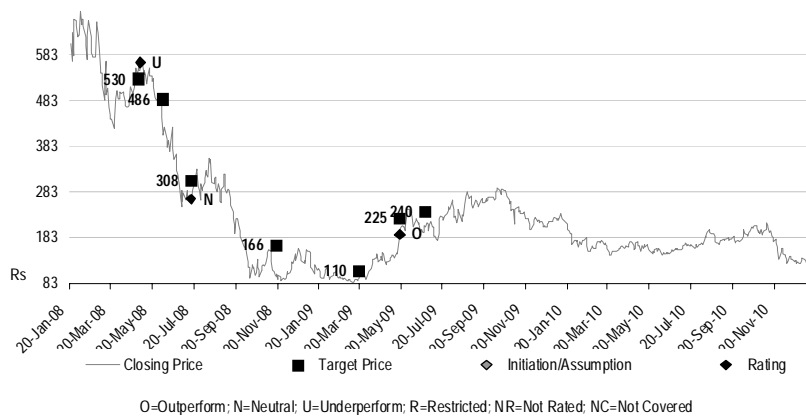
3-Year Price, Target Price and Rating Change History Chart for HDIL.BO

HDIL.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
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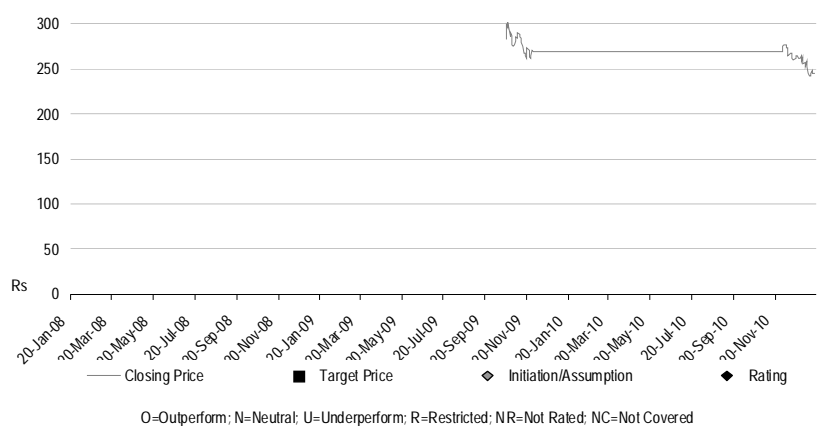
3-Year Price, Target Price and Rating Change History Chart for INRL.BO

INRL.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
29-Apr-08	557.35	530	
2-May-08	565.65	486	U
3-Jun-08	444.45	486	
15-Jul-08	267	307.602	N
17-Nov-08	101.15	166	
19-Mar-09	95.4	110	
18-May-09	189.55	225	O
24-Jun-09	209.5	240	



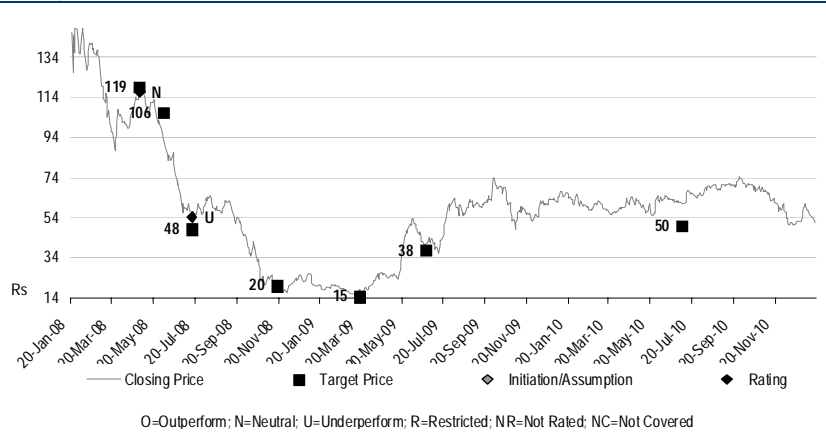
3-Year Price, Target Price and Rating Change History Chart for OEBO.BO

OEBO.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
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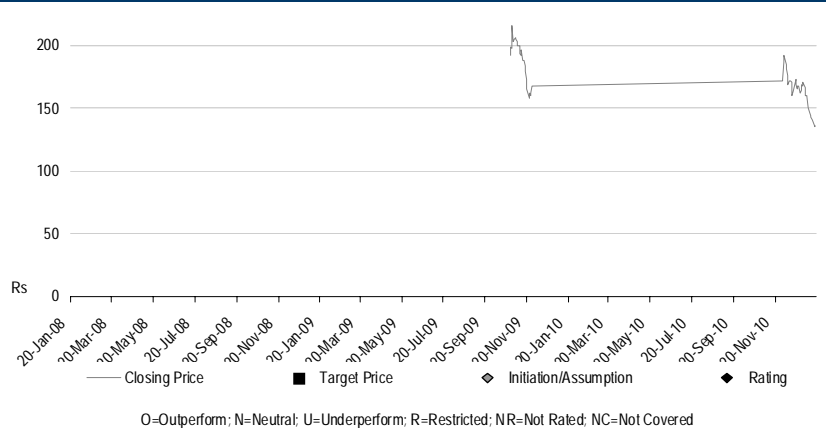
3-Year Price, Target Price and Rating Change History Chart for PARV.BO

PARV.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
29-Apr-08	116.63	119	N
3-Jun-08	94.65	106	
15-Jul-08	54.1	48.125	U
17-Nov-08	20.47	20	
19-Mar-09	17.9	14.5	
24-Jun-09	40.7	37.5	
6-Jul-10	60.9	50	



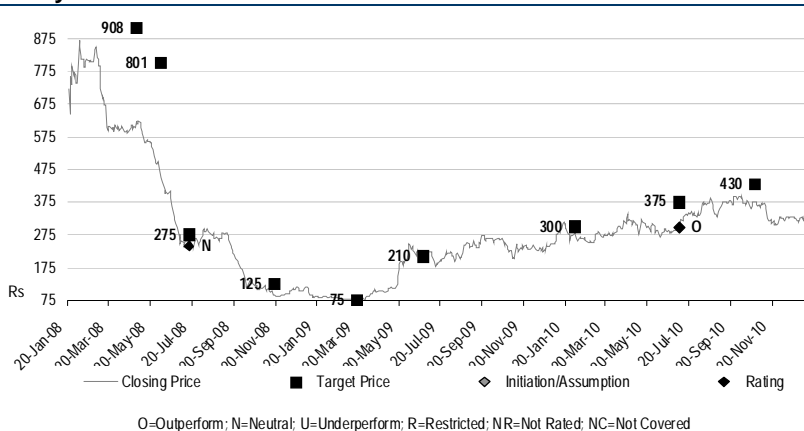
3-Year Price, Target Price and Rating Change History Chart for PREG.BO

PREG.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
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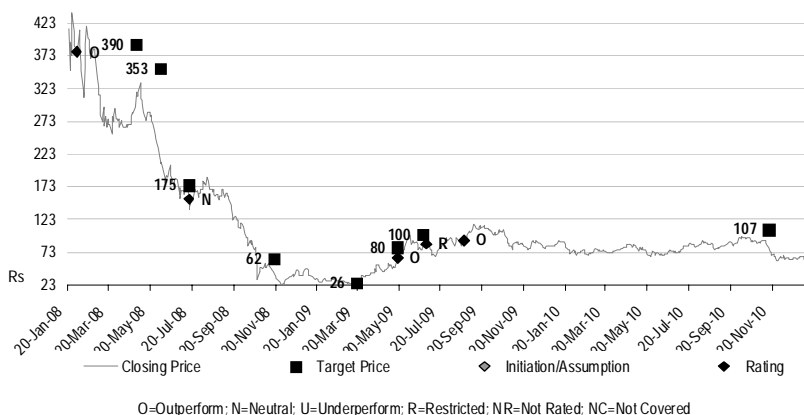
3-Year Price, Target Price and Rating Change History Chart for SOBH.BO

SOBH.BO	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
29-Apr-08	622.3	908	
3-Jun-08	470.75	801	
15-Jul-08	240.4	275.259	N
17-Nov-08	91.45	125	
19-Mar-09	77	75	
24-Jun-09	199.8	210	
2-Feb-10	281	300	
6-Jul-10	297.85	375	O
25-Oct-10	375.05	430	



3-Year Price, Target Price and Rating Change History Chart for UNTE.BO

UNTE.BO	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating Assumption
1-Feb-08	378.65		O
29-Apr-08	317.5	390	
3-Jun-08	219.3	353.197	
15-Jul-08	153.55	174.825	N
17-Nov-08	42.75	62	
19-Mar-09	27	26	
18-May-09	64.5	80	O
24-Jun-09	77.9	100	
29-Jun-09	85.35		R
24-Aug-09	90.3		O
15-Nov-10	79.5	107	



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Neutral/Hold*	42%	(59% banking clients)
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Price Target: (12 months) for (DLF.BO)

Method: Our price target of Rs221 for DLF is based on a sum-of-the-parts valuation. At our target price, the stock would trade at 15% discount to our March 2012 GAV. Our NAV for DLF is Rs280.

Risks: The key risks to our Rs221 target price for DLF are: 1) buoyancy in property market in NCR and Kolkata, which together account for about 60% of DLF's landbank; and 2) further property price increases and accommodating monetary policy.

Price Target: (12 months) for (GODR.BO)

Method: Our March 2012 NAV on sum-of-the-parts basis for Godrej Properties stands at Rs652 per share, out of which Rs424 comes from development assets, Rs107 from rental assets intended for lease and another Rs178 comes from the option value in land MoUs. We have valued Godrej Properties at Rs581 which is 10% discount to its March 2012 GAV.

Risks: Key risks to our TP for Godrej Properties: Any slowdown in tier-II cities, especially Ahmedabad which contributes 36% to GAV, limited returns during economic upswings owing to its joint development model, inability to sell its commercial projects.

Price Target: (12 months) for (HDIL.BO)

Method: Our March 2012 NAV on sum-of-the-parts basis for HDIL stands at Rs295 per share, out of which Rs148 comes from development assets, Rs165 from slum rehabilitation projects and redevelopment project in Virar and Rs38 from rental projects. We have valued HDIL at Rs189 which is at 30% discount to its forward GAV.

Risks: Key risks: 1) Timely execution of MIAL project as delays could lead to penalties, 2) Mumbai concentration risk, and 3) reduction in TDR demand following Maharashtra government's proposal to increase FSI in suburbs from 1.0 to 1.33.

Price Target: (12 months) for (INRL.BO)

Method: We have valued IBREL at Rs188 at 30% discount to forward GAV. Our March 2012 NAV for IBREL stands at Rs242 per share.

Risks: The key risks to our Rs188 target price for Indiabulls Real Estate are: 1) execution risks given that the company is a new entrant and has no experience in real estate development; 2) Land acquisition risks at some of its larger SEZ projects; 3) overall slowdown in economic growth in India in general and IT/ITES sector in particular; and 4) positive surprise to our target price may come from progress on the Raigarh and Thane SEZs and power projects which are not part of our valuation and investment of surplus cash into NAV accretive projects.

Price Target: (12 months) for (OEBO.BO)

Method: We have valued Oberoi Realty at Rs309 per share basing it at 10% discount to our March 2012 GAV. Our March 2012 NAV on sum-of-the-parts basis stands at Rs338 per share, out of which Rs157 comes from development assets and Rs138 from rental assets. Almost entire GAV comes from Mumbai and Goregaon (E) project contributes 62% to GAV. Residential portfolio contributes 46% to GAV and another 30% comes from commercial projects.

Risks: Key risks to our TP for Oberoi Realty are: 1) Slowdown in Mumbai market as Oberoi Realty is primarily a Mumbai player; 2) Slowdown in premium housing segment; 3) Inability to deploy cash in NAV accretive opportunities in future.

Price Target: (12 months) for (PARV.BO)

Method: Our March 2012 NAV of Rs88 per share comprises of Rs64 from residential projects, Rs28 from commercial projects intended for sale, Rs17 from rental assets and Rs13 from DMRC projects. We have valued Parsvnath at Rs45 per share which is at 35% discount to its forward GAV.

Risks: The risks to our Rs45 target price for Parsvnath are 1) overall slowdown in economic growth in India in general and IT/ITES sector in particular is a key risk to the real estate business; 2) Increasing competition, delays in infrastructure creation and lack of employment generation in Tier III cities could adversely impact Parsvnath, given that 2/3rd of its land reserves are situated in Tier III cities; 3) Execution risks; and 4) risk of failure as the company diversifies into telecom services and explore development in overseas market.

Price Target: (12 months) for (PREG.BO)

Method: We have valued Prestige Estates at Rs180 per share basing it at 30% discount to forward GAV. Our March 2012 NAV on sum-of-the-parts basis stands at Rs261 per share, out of which Rs148 comes from development assets, Rs118 comes from rental assets and another Rs5 comes from land that is not presently under development.

Risks: Key risks to our TP for Prestige Estates include: Bangalore market concentration risk, slowdown in IT/ITeS sector and any overall slowdown in South India market.

Price Target: (12 months) for (SOBH.BO)

Method: Our March 2012 NAV of Rs609 per share comprises of Rs83 from projects currently under execution, Rs217 from projects expected over FY11-15 and Rs432 from projects beyond FY16. We have valued its contractual business at 8x FY11E earnings at Rs34 per share. At our TP, Sobha will trade at 38% discount to forward GAV.

Risks: The key risks to our Rs375 target price for Sobha Developers are: 1) any slowdown in Bangalore market, 2) strategic derisking by key clients; and 3) overall slowdown in economic growth in India in general and IT/ITES sector in particular.

Price Target: (12 months) for (UNTE.BO)

Method: We have valued Unitech to Rs76, placing it at 25% discount to March 2012 GAV. Our forward NAV of Rs106 comprises of Rs123 from real estate projects and Rs9 from other businesses.

Risks: The key risks to our Rs76 target price for Unitech are: 1) any slowdown/oversupply in Chennai, NCR and Kolkata, which together account for about 62% of Unitech's landbank; 2) execution risks from the significant scale-up in the level of activity. and 3) overall slowdown in economic growth in India in general and IT/ITES sector in particular.

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