AMBIT CAPITAL

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SECTOR REPORT

Indian Real Estate

Caution...... Landslide ahead

Initiate coverage - Underweight

The key mantra for all the property companies is survival and one we would agree with, given our base case assumptions of decline in property prices to Yr2003-04 levels (start of bull run). Indeed, our channel checks support our view given the (1) continued weakness in sales volumes of real estate developers, and (2) decline in property prices. This has resulted in increasing concerns on sustainability of cash flow. We recommend 'Sell' on DLF and Unitech and 'Hold' on HDIL.

A case to write down land bank

Anecdotal evidence indicates that land prices have declined 30-70%. We have examined the impact of a 50% cut in land cost on the balance sheet of all three companies. Our model indicates that the balance sheet will deteriorate with the decline in the book value. Moreover, debt equity ratio (FY10E) would increase from 0.98x to 1.78x for DLF, 1.9x to (3.7x) for Unitech, and from 1.2x to 1.6x for HDIL.

Debt restructuring in progress; but cash flow, credit ratios weak

Most real estate companies are in the process of restructuring their debt, by converting short-term loans into long-term ones. While this is expected to alleviate the immediate cash flow problems in the near term, we remain concerned on the weak cash flows and the credit ratios in the medium term due to meager sales and increasing evidence of cancellations.

Media - RBI worried on solvency of real estate companies

Recent media reports state that the Reserve bank of India (RBI) is examining the books of ten real estate companies to verify their solvency. RBI is also assessing the systemic risks arising from possible defaults by these companies on various loans and public deposits.

DLF, Unitech 'SELL'; HDIL is Hold

We initiate coverage on DLF with 'Sell', target price of Rs80 (52% downside from current levels), on Unitech with 'Sell', target price of Rs22 (downside of 21%), and on HDIL with 'Hold', target price of Rs67.

Risks: (1) improvement in the economy (2) Improving sentiment (3) Rise in property prices (4) increase in sales volumes

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Economy continues to weaken; IT/ITES sector faces pain

The Indian economy is going through a sharp slowdown with continued, downward revision in the GDP growth from 9% to 4-5%. The IT/ITES sector is also slowing down due to weak macroeconomic conditions globally. This has resulted in job losses as IT/ITES companies reduce staff due to lower orders. In the recent past, declining prices and job insecurity have lowered sales volumes significantly. This has resulted in severe liquidity problems for real estate companies, considerably impacting their cash flow position.

Volumes continue to drop despite softening interest rates;

After peaking at 12% in FY2008, interest rates have dropped to 8% in the recent past. However, despite the decline in interest rates, sales volumes have not picked up due to slowdown in both, the economy and the IT/ITES sector. This is primarily due to the increasing job insecurity amidst a deteriorating Indian economy.

Strategy shift to low-mid income housing to help in mid-long term

Developers have recently shifted their strategic focus from mid-luxury housing to low-mid income housing. We believe that this shift would bolster demand in the mid to long-term. However, in the short term, job insecurity and the negative sentiment (due to decline in property prices) will limit increase in sales volumes.

Shift to low-mid income segment to lower EBITDA margins

We expect margins for real estate companies to trend down as they focus on low-mid income housing. DLF's margins are expected to drop to 35% from the levels of 60% in the past two years.

Exhibit 1: Change of margins with shift in housing strategy

EBITDA margins	DLF	Unitech	HDIL
FY08	67%	54%	71%
FY10E	34%	42%	67%

Source: Company, Ambit Capital Research

Balance sheet- debt restructuring helps, cash flow concerns remain

Most real estate companies had taken short-term construction loans from banks and finance companies to finance the construction of projects. Slowdown in sales has impacted their ability to service their loans fully. In the recent past, most real estate companies have restructured their loans to increase the payback period; this has reduced their near-term liability. However, weakness in the sales volumes will maintain pressure on ability of most corporates to service their loans.

Weak credit ratios

The credit ratios in exhibit 2 indicate that the balance sheet of real estate companies under our coverage is expected to get worse in FY10E with the ROCE of most companies being below WACC. The interest coverage of Unitech is lower than 1x; this indicates that it may not be able to meet their interest obligations. The interest indicated here includes the estimated interest to be capitalized; this is in addition to the interest cost expensed through the P&L.

Exhibit 2: Credit ratios

	Net debt/equity		Interest coverage		Net debt/EBITDA		ROCE	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
DLF	0.9	1.0	2.1	1.5	4.2	11.1	10%	3%
Unitech	1.9	1.9	1.0	0.5	7.2	12.8	7%	4%
HDIL	1.04	1.22	2.2	1.1	3.8	6.7	13%	8%

Source: Ambit Capital Research

Underweight sector; 'Sell' recommended on DLF, Unitech, and 'Hold' on HDIL

We recommend an 'Underweight' rating on the real estate sector. Our discount on individual stocks is based on the location of the land bank and the relative health of the balance sheet. Our recommendation is supported by (1) further expected decline in property prices 2) weak sales volumes (3) cash flow concerns

We recommend 'Sell' on DLF due to its weak cash flows arising from lower residential sales volumes, inability of DAL to pay for its purchases, and concerns on steadily rising debtors.

Our 'Sell' on Unitech is based on (a) concerns arising out of its highly leveraged balance sheet amidst real estate and Telecom commitment, and (b) weak sales volumes that has restricted cash flows. Despite debt restructuring, Unitech's balance sheet is expected to remain under pressure due to cash flow requirements arising from property and telecom sector. Our discount of 70% to NAV is based on worries arising out of a weak balance sheet.

For HDIL, while the upside is limited due to concerns on the balance sheet risk, our downside is limited by its well located land bank in Mumbai.

Base case valuation- further downside expected

Given below is the snapshot of our base case valuation. Our valuation is based on the following assumptions:

(1) Complete land bank is expected to be developed and sold

(2) Property prices are at Yr2003-04 levels

Based on these assumptions, we have arrived at NAV valuations (see exhibit 3). We have based our discount to NAV on the location of the land bank and the relative health of the balance sheet. The valuation table shows that the expected downside to DLF is 52%; in contrast, HDIL is trading at our expected target price.

Exhibit 3: Calculation of Target Price

	DLF	Unitech	HDIL
Total NAV	409,135	208,338	99,208
Less Net debt	239,980	89,881	52,817
NAV	169,155	118,456	46,390
Shares outstanding (mn)	1,705	1,623	275
NAV (Rs/share)	99	73	168
Premium/Discount	20.0%	70.0%	60.0%
Target price (Rs/share)	80	22	67

Source: Ambit Capital Research

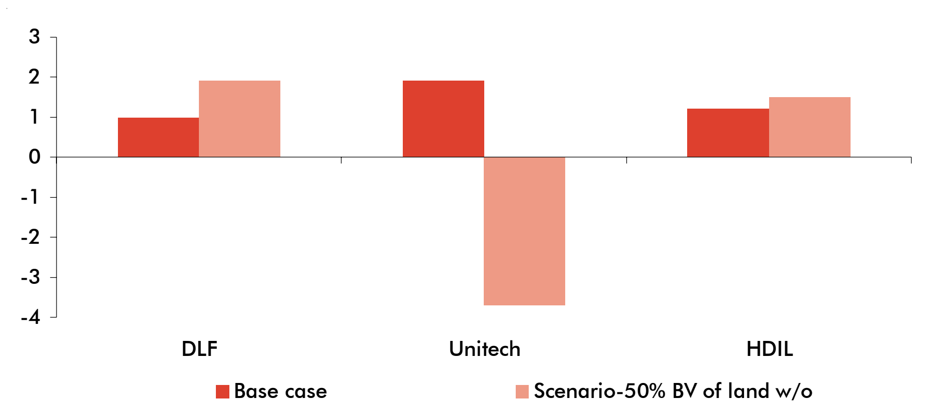
Land write off- balance sheet to worsen

Anecdotal evidence suggests that land prices have declined between 30-70%, depending on the location. In this report, we have also given the impact of writing down the land bank's book value by 50% on the balance sheets, P&L accounts, and NAVs of all the three companies under our coverage.

The key impact on balance sheet would be as follows:

- Reduction in size of balance sheet. For Unitech, the book value becomes negative. This indicates that the assets cannot support the liabilities of the company.
- Debt equity ratio (FY10E) is expected to increase as the size of the equity reduces.

Exhibit 4: Net debt to equity ratios (FY10E)



Source: Ambit Capital Research

Base case valuation

We have valued the companies based on their net asset values. The methodology for computation of NAV is as follows:

- We have divided the entire land bank of the company into projects, based on the information given by the respective company.
- We have arrived at the sale price /sq. ft. and the anticipated sales volume for each project based on our interaction with industry experts
- We have deducted the cost of construction based on the assumed cost estimates. Our cost estimates have been arrived at after discussion with industry experts
- We have further deducted marketing and other costs, assumed at 5% of the sales revenue
- We have then deducted income tax based on the tax applicable for the project
- The resultant cash inflow has been discounted based on the weighted average cost of capital (WACC) applicable to each company; all the project level NAV has been added to arrive at the NAV of the respective company
- From the NAV of the company, we have deducted the net debt to arrive at the final valuation of the company.

Exhibit 5: shows the valuation based on the NAV for DLF, Unitech, and HDIL.

Rs mn	DLF	Unitech	HDIL
Residential	83,131	104,853	18,522
Commercial	162,542	34,020	35,092
Retail	163,462	51,334	22,760
Total NAV	409,135	190,207	76,373
Other assets		18,131	22,834
Total NAV	409,135	208,338	99,208
Less Net debt	239,980	89,881	52,817
NAV	169,155	118,456	46,390
Shares outstanding (mn)	1,705	1,623	275
NAV (Rs/share)	99	73	168
Premium/Discount	20%	70%	60%
Target price (Rs/share)	80	22	67
Current market price	167	28	76
Current market cap (Rs mn)	284,735	45,455	20,937
Target market cap (Rs mn)	136,400	35,537	18,556
Expected downside (%)	52.1%	21.8%	11.4%

Source: Ambit Capital Research

Our key assumptions are

1. Estimated sales volume FY09-11

The residential sales volumes are strong for FY09E relative to FY10E and FY11E, since the impact of the slowdown was felt from 2HFY09 onwards. We expect sales volumes to decline in FY10E due to job insecurity and negative sentiment amidst falling property prices.

The slowdown in the IT/ITES sector has also impacted demand for the commercial space that constituted approximately 70% of the total demand. With uncertainty in the U.S. and European markets, we expect the demand in FY10E to remain weak. Therefore, we have assumed a sharp slowdown in the commercial sales volumes.

Exhibit 6: Sale volume assumptions (FY09E-11E)

Sales Volume (mn sq ft)	FY09E	FY10E	FY11E
DLF			
Residential	9.0	7.7	9.2
Commercial	7.3	4.7	4.4
Retail	3.1	2.2	2.3
Total	**19.4**	**14.6**	**16.0**
Unitech			
Residential	5.8	3.1	5.4
Commercial	0.9	0.5	1.1
Retail	0.5	0.7	1.2
Total	**7.2**	**4.3**	**7.8**
HDIL			
Residential	0.3	0.4	0.5
Commercial	0.2	0.2	0.7
Retail	0.2	0.2	0.2
Total	**0.8**	**0.8**	**1.3**

Source: Ambit Capital Research

2. Estimated sale price

We have assumed sale price at approximately Yr2003-04 levels, the trough price in the previous cycle. In the last rally, our interaction with the brokers and consultants has indicated that the prices in Gurgaon started rising from approx Rs2,500/sq. ft. whereas prices in Bangalore were approx Rs2,200/sq ft. Our commercial rental prices are a mix of the commercial space for IT/ITES and other sectors (see exhibit 7). Traditionally, the commercial space for IT/ITES, especially in Gurgaon, has been approx. 40% below the commercial rental for others.

Exhibit 7: Sale price assumptions

	Residential Rs/sq ft	Commercial IT Rs/sq ft/month
Gurgaon	2600	75
Bangalore	2100	38
Noida	2200	45
Chennai	2100	30
Hyderabad	2000	28

Source: Industry, Ambit Capital Research

3. Discount rate

Our discount rate is based on WACC. Our assumptions for WACC are given below.

Exhibit 8: WACC Calculation

	DLF	Unitech	HDIL
Pre tax cost of debt	15.0%	15.0%	14.5%
Tax rate	24.0%	24.0%	34.0%
Cost of debt	11.4%	11.4%	9.6%
Risk free rate	8.0%	8.0%	8.0%
Beta	120.0%	150.0%	140.0%
Market premium	6.0%	6.0%	8.0%
Cost of equity	15.2%	17.0%	19.2%
WACC	13.3%	13.6%	14.4%
Debt	0.5	0.6	0.5
Equity	0.5	0.4	0.5

Source: Ambit Capital Research

4. We have assumed that the sale price, the rental rates, and the costs will increase by 5% per annum

Estimated earnings FY09-11

Based on the aforementioned assumptions, our earnings estimates for FY09-FY11 are given in exhibit 9. The anticipated, sharp decline in the estimated earnings validates our 'Underweight' recommendation on the sector.

Exhibit 9: EPS estimates FY09-11E

Rs/share	FY09E	FY10E	FY11E
DLF	24.2	7.4	7.8
Unitech	5.4	1.6	3.4
HDIL	23.2	5.7	10.3

Source: Ambit Capital Research

Sensitivity Analysis

Our sensitivity analysis reveals that the NAV is highly sensitive to WACC and, to a lesser extent, to the change in sales price. DLF and HDIL are more sensitive to change in sale price as compared to Unitech.

Exhibit 10: Sensitivity of NAV to Sales price & WACC

	NAV	Sale Price	NAV	WACC
	(Rs/share)	% change	(Rs/share)	% change
DLF	6.6	1%	9.9	1%
Unitech	1.3	1%	7.3	1%
HDIL	8	1%	14	1%

Source: Ambit Capital Research

Scenario: Book value of land w/o by 50%

The current land bank was acquired in an optimistic scenario. Considering the present, weak environment, the land bank is overpriced and is expected to maintain the pressure on margins. Also, as per anecdotal evidence, the current size of the balance sheet is not supported by the market prices.

Our key assumptions for the write off are:

- 50% of the book value of land is written-off in FY2009 as exceptional expense in the P&L account
- In the balance sheet, we have reduced the loans and advances and the inventory/ projects in progress under current assets

The key impact of this write off is given below for FY09

Exhibit 11: Comparison of key parameters (base case vs. land writen off)

	DLF	DLF (land w/o)	Change (%)	Unitech	Unitech (land w/o	Change (%)	HDIL	HDIL (land w/o)
Land w/o (Rs mn)		121,560			73,237			11294
Net profit FY10E (Rs mn)	12,623	16,076	27%	2,649	2,391	-10%	1,574	2,265
Net debt FY10 (Rs mn)	239,980	229,945	-4%	89,840	85,553	-5%	52,817	51,822
EBITDA margin FY10 (%)	34%	40%	18%	42%	45%	6%	67%	70%
Net debt/equity	0.98	1.78	82%	1.9	(3.7)	-295%	1.2	1.6
Book value (FY10) (Rs/share)	144	76	-47%	29	(14.2)	-149%	157	120
NAV (Rs/share)	99	116	17%	73	84	15%	168	187

Source: Ambit Capital Research

Impact on NAV

Exhibit 12 shows that after write off, NAV improves due to lower cost of land. The impact on the NAV is maximum for Unitech and lowest for HDIL. It is marginal for HDIL since large part of the land bank, contributing substantially to the NAV, is from slum rehabilitation where book value of land cost is nil.

Exhibit 12: Estimated NAV assuming land writen off

NAV	FY10E with land w/o		
Rs mn	DLF	Unitech	HDIL
NAV (Land Bank)	424,098	204,581	103,387
Other assets	-	17,810	-
Less: Net debt	226,224	85,553	51,822
NAV	197,874	136,838	51,564
Shares outstanding (mn)	1,705	1,623	275
NAV(Rs/share)	116	84	187

Source: Ambit Capital Research

Impact on the balance sheet- higher debt equity ratio

Since most Indian real estate companies focus on the 'develop and sell' model rather than the 'develop and lease' model, most assets of these companies fall under the current assets of the balance sheet. We, therefore, have written off the assets from the inventory and advances for land. The reduction of reserves and surplus has contracted the balance sheet sharply. The key impact on balance sheet is as follows:

- Reduction in size of balance sheet: For Unitech, the book value becomes negative. This indicates that the assets cannot support the liabilities of the company.
- Debt equity ratio is expected to increase as the size of the equity reduces.

Exhibit 13: Debt equity impact (FY10E)

	DLF	Unitech	HDIL
Base case	0.98	1.91	1.2
Scenario-50% BV of land w/o	1.9	-3.7	1.6

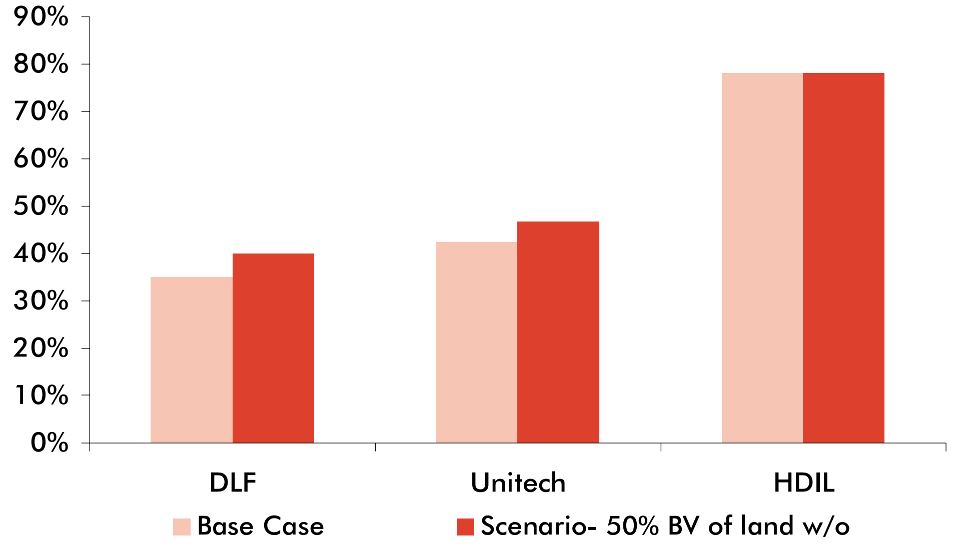
Source: Ambit Capital Research

Profit and loss Account

The impact on the P&L account is as follows:

- Better margins: The margins are expected to increase due to lower land cost
- Higher profits: The profits are expected to increase due to lower land cost
- However, we expect a loss in FY09E since we have written-off the land cost as an exceptional item in the P&L account

Exhibit 14: EBITDA margin impact (FY10E)



Source: Ambit Capital Research

DLF

Exhibit 15: Valuation

Valuation sheet	FY10E	FY10 w/o
NAV (Land Bank)	409,135	424,098
Add other assets	-	-
Less: Net debt	239,980	226,224
NAV	169,155	197,874
Shares outstanding (mn)	1705	1705
NAV(Rs/share)	99	116

Source: Ambit Capital Research

Exhibit 16: Balance sheet comparison: base case and assumed write off (50% of BV of land)

	FY09E	FY09 w/o	change (%)	FY10E	FY10 w/o	change (%)	FY11E	FY11 w/o	change (%)
Shareholders funds	12,905	12,905	0.0%	12,905	12,905	0.0%	12,905	12,905	0.0%
Reserves and surplus	220,597	117,241	-46.9%	232,865	126,141	-45.8%	242,470	143,257	-40.9%
Total shareholders funds	**233,502**	**130,147**	**-44.3%**	**245,771**	**139,046**	**-43.4%**	**255,375**	**156,163**	**-38.8%**
Loans (Secured + Unsecured)	**214,771**	**231,771**	**7.9%**	**243,771**	**245,771**	**0.8%**	**270,771**	**245,771**	**-9.2%**
Minority Interest	3,895	3,895	0.0%	3,895	3,895	0.0%	3,895	3,895	0.0%
Deferred tax liability	359	359	0.0%	359	359	0.0%	359	359	0.0%
Total capital employed	**452,527**	**366,171**	**-19.1%**	**493,795**	**389,071**	**-21.2%**	**530,399**	**406,187**	**-23.4%**
Net fixed assets	**141,522**	**161,348**	**14.0%**	**183,992**	**209,798**	**14.0%**	**235,778**	**262,710**	**11.4%**
Investments	15,480	15,480	0.0%	15,480	15,480	0.0%	15,480	15,480	0.0%
Current assets loans and advances	332,950	247,031	-25.8%	343,498	256,132	-25.4%	359,198	278,364	-22.5%
Less Current liabilities and provisions	58,356	78,619	34.7%	70,106	113,270	61.6%	100,987	171,297	69.6%
Current liabilities	47,045	70,331	49.5%	66,201	100,745	52.2%	92,773	152,311	64.2%
Provisions	11,311	8,289	-26.7%	3,905	12,525	220.7%	8,214	18,986	131.1%
Net current assets	**274,594**	**168,412**	**-38.7%**	**273,392**	**142,862**	**-47.7%**	**258,211**	**107,067**	**-58.5%**
Goodwill	20,931	20,931	0.0%	20,931	20,931	0.0%	20,931	20,931	0.0%
Total capital employed	**452,527**	**366,171**	**-19.1%**	**493,795**	**389,070**	**-21.2%**	**530,399**	**406,187**	**-23.4%**

Exhibit 17: Profit & Loss comparison: base case and assumed write off (50% of BV of land)

Profit & Loss	FY09E	FY09 w/o	change (%)	FY10E	FY10 w/o	change (%)	FY11E	FY11 w/o	change (%)
Income from:									
-Residential/Commercial	99,212	98,163	-1.1%	54,942	53,543	-2.5%	57,726	56,226	-2.6%
-Lease Income	2,282	2,270	-0.5%	3,127	3,091	-1.1%	5,603	5,560	-0.8%
-Power Supply	1,252	1,252	0.0%	1,252	1,252	0.0%	1,252	1,252	0.0%
Sales and Contract Receipts	**102,746**	**101,685**	**-1.0%**	**59,320**	**57,886**	**-2.4%**	**64,581**	**63,037**	**-2.4%**
Land Cost	5,687	2,650	-53.4%	4,946	2,304	-53.4%	6,770	3,255	-51.9%
Cost of construction (Less Increase in Inv)	34,904	33,821	-3.1%	24,153	23,025	-4.7%	26,820	25,845	-3.6%
Total Operating Expenses	40,591	36,472	-10.1%	29,099	25,329	-13.0%	33,590	29,100	-13.4%
Gross profit	62,155	65,213	4.9%	30,222	32,558	7.7%	30,991	33,937	9.5%
Gross profit (%)	60.5%	64.1%	6.0%	50.9%	56.2%	10.4%	48.0%	53.8%	12.2%
Salaries & Staff Welfare	3,596	3,559	-1.0%	2,076	2,026	-2.4%	2,260	2,206	-2.4%
Other expenses	6,766	6,766	0.0%	7,105	7,105	0.0%	7,460	7,460	0.0%
Total expenses	10,362	10,325	-0.4%	9,181	9,131	-0.5%	9,720	9,666	-0.6%
EBITDA	**51,792**	**54,888**	**6.0%**	**21,041**	**23,427**	**11.3%**	**21,271**	**24,271**	**14.1%**
EBITDA (%)	50.4%	54.0%	7.1%	35.5%	40.5%	14.1%	32.9%	38.5%	16.9%
Depreciation	1,699	1,584	-6.8%	2,178	2,041	-6.3%	2,831	2,660	-6.0%
EBIT	50,093	53,304	6.4%	18,863	21,386	13.4%	18,440	21,612	17.2%
EBIT (%)	48.8%	52.4%	7.5%	31.8%	36.9%	16.2%	28.6%	34.3%	20.1%
Net interest expense	(4,350)	(4,211)	-3.2%	(5,039)	(4,696)	-6.8%	(5,081)	(4,943)	-2.7%
Earnings before tax	49,040	52,362	6.8%	17,889	20,699	15.7%	18,299	21,524	17.6%
Tax -Total	8,897	9,495	6.7%	4,005	4,624	15.4%	4,644	5,451	17.4%
Net profit	**40,144**	**(78,693)**	**-296.0%**	**13,884**	**16,076**	**15.8%**	**13,655**	**16,073**	**17.7%**

Source: DLFSource: Unitech, Ambit Capital Research, Ambit Capital Research

Unitech

Exhibit 18: Valuation

	FY10E	FY10 w/o
NAV (Land Bank)	190,207	204,581
Add other assets	18,131	17,810
Less: Net debt	89,840	85,553
NAV	118,497	136,838
Shares outstanding (mn)	1,623	1,623
NAV(Rs/share)	73	84

Source: Ambit Capital Research

Exhibit 19: Balance sheet comparison: base case and assumed write off (50% of BV of land)

	FY09E	FY09 w/o	change (%)	FY10E	FY10 w/o	change (%)	FY11E	FY11 w/o	change (%)
Shareholders funds	3,247	3,247	0.0%	3,247	3,247	0.0%	3,247	3,247	0.0%
Reserves and surplus	41,285	(28,625)	-169.3%	43,858	(26,235)	-159.8%	49,293	(19,997)	-140.6%
Profit and loss account	31,703	(38,207)	-220.5%	34,277	(35,817)	-204.5%	39,711	(29,579)	-174.5%
Loans	90,000	90,000	0.0%	95,000	95,000	0.0%	98,000	98,000	0.0%
Banks	90,000	90,000	0.0%	95,000	95,000	0.0%	98,000	98,000	0.0%
Minority Interest	1,159	1,159	0.0%	1,159	1,159	0.0%	1,159	1,159	0.0%
Deferred liability- land	19,136	19,136	0.0%	19,136	19,136	0.0%	19,136	19,136	0.0%
Deferred tax liability	60	60	0.0%	60	60	0.0%	60	60	0.0%
Total capital employed	154,886	84,976	-45.1%	162,460	92,367	-43.1%	170,895	101,604	-40.5%
Net fixed assets	41,035	40,422	-1.5%	49,291	48,075	-2.5%	60,753	58,947	-3.0%
Investments	14,165	14,165	0.0%	14,165	14,165	0.0%	14,165	14,165	0.0%
Goodwill	1,126	1,126	0.0%	1,126	1,126	0.0%	1,126	1,126	0.0%
Current assets loans and advances	190,943	119,755	-37.3%	194,628	124,752	-35.9%	210,360	143,917	-31.6%
Less Current liabilities and provisions	92,383	90,492	-2.0%	96,750	95,752	-1.0%	115,509	116,551	0.9%
Current liabilities	89,876	90,433	0.6%	95,946	95,088	-0.9%	113,414	114,401	0.9%
Provisions	2,507	59	-97.7%	804	664	-17.4%	2,095	2,150	2.7%
Net current assets	98,559	29,263	-70.3%	97,878	29,000	-70.4%	94,851	27,366	-71.1%
Total capital employed	154,886	84,976	-45.1%	162,460	92,367	-43.1%	170,895	101,604	-40.5%

Exhibit 20: Profit & Loss comparison: base case and assumed write off (50% of BV of land)

Profit & Loss	FY09E	FY09 w/o	change (%)	FY10E	FY10 w/o	change (%)	FY11E	FY11 w/o	change (%)
Sales	**28,468**	**28,509**	**0.1%**	**17,526**	**15,383**	**-12.2%**	**26,728**	**26,150**	**-2.2%**
Direct project expenses	13,441	12,626	-6.1%	8,486	7,101	-16.3%	12,020	10,799	-10.2%
Gross profit	15,028	15,883	5.7%	9,041	8,282	-8.4%	14,708	15,350	4.4%
Gross profit (%)	52.8%	55.7%	5.5%	51.6%	53.8%	4.4%	55.0%	58.7%	6.7%
Staff expenses	990	992	0.1%	610	535	-12.2%	1,023	1,001	-2.2%
Administration and selling expenses	1,470	1,517	3.2%	998	832	-16.6%	1,844	1,908	3.5%
EBITDA	**12,567**	**13,374**	**6.4%**	**7,433**	**6,915**	**-7.0%**	**11,841**	**12,442**	**5.1%**
EBITDA (%)	44.1%	46.9%	6.3%	42.4%	44.9%	6.0%	44.3%	47.6%	7.4%
Depreciation	330	319	-3.5%	387	364	-6.0%	501	467	-6.9%
EBIT	12,237	13,056	6.7%	7,045	6,551	-7.0%	11,340	11,975	5.6%
EBIT (%)	43.0%	45.8%	6.5%	40.2%	42.6%	5.9%	42.4%	45.8%	7.9%
Net interest expense	2,710	2,650	-2.2%	5,177	5,006	-3.3%	5,396	5,173	-4.1%
Interest income	450	510	13.4%	373	544	46.0%	394	617	56.7%
Total cash+investments	11,241	12,741	13.4%	9,325	13,612	46.0%	9,849	15,435	56.7%
Earnings before tax	10,994	11,873	8.0%	3,335	3,012	-9.7%	7,484	8,342	11.5%
Net profit	**8,776**	**(61,383)**	**-799.4%**	**2,649**	**2,391**	**-9.8%**	**5,594**	**6,238**	**11.5%**

Source: Unitech, Ambit Capital Research

HDIL

Exhibit 21: Valuation

	FY10E	FY10 w/o
NAV (Land Bank)	99,208	103,387
Add other assets	-	
Less: Net debt	52,817	51,822
NAV	46,390	51,564
Shares outstanding (mn)	275	275
NAV(Rs/share)	168	187

Source: Ambit Capital Research

Exhibit 22: Balance sheet comparison: base case and assumed write off (50% of BV of land)

	FY09E	FY09 w/o	change (%)	FY10E	FY10 w/o	change (%)	FY11E	FY11 w/o	change (%)
Shareholders funds	2,755	2,755	0.0%	2,755	2,755	0.0%	2,755	2,755	0.0%
Reserves and surplus	39,406	28,397	-27.9%	40,561	30,242	-25.4%	42,864	34,188	-20.2%
Total shareholders funds	42,160	31,152	-26.1%	43,316	32,997	-23.8%	45,619	36,943	-19.0%
Loans (Secured + Unsecured)	44,127	50,127	13.6%	53,127	54,127	1.9%	60,127	59,127	-1.7%
Deferred tax liability	15	15	0.0%	15	15	0.0%	15	15	0.0%
Total capital employed	86,303	81,294	-5.8%	96,458	87,140	-9.7%	105,761	96,086	-9.1%
Gross block	1043	1043	0.0%	2578	2578	0.0%	5358	5358	0.0%
Less depreciation	72	72	0.0%	172	172	0.0%	380	380	0.0%
Capital WIP	52	52	0.0%	52	52	0.0%	52	52	0.0%
Net fixed assets	1023	1023	0.0%	2458	2458	0.0%	5031	5031	0.0%
Investments	3815	3815	0.0%	3815	3815	0.0%	3815	3815	0.0%
Current assets loans and advances	91668	86103	-6.1%	101713	92489	-9.1%	111404	102179	-8.3%
Less Current liabilities and provisions	10318	9762	-5.4%	11643	11737	0.8%	14603	15053	3.1%
Current liabilities	9090	9090	0.0%	10981	10981	0.0%	13523	13683	1.2%
Provisions	1227	671	-45.3%	662	756	14.2%	1080	1370	26.8%
Net current assets	81350	76341	-6.2%	90070	80752	-10.3%	96801	87125	-10.0%
Goodwill	1023	91	-91.1%	2458	91	-96.3%	5031	91	-98.2%
Total capital employed	86303	81294	-5.8%	96458	87140	-9.7%	105761	96086	-9.1%

Exhibit 23: Profit & Loss comparison: base case and assumed write off (50% of BV of land)

Profit & Loss	FY09E	FY09 w/o	change (%)	FY10E	FY10 w/o	change (%)	FY11E	FY11 w/o	change (%)
Income from:									
-Residential/Commercial	7,089	7,089	0.0%	7,433	7,433	0.0%	13,826	13,617	-1.5%
Sales and Contract Receipts	**14,673**	**14,673**	**0.0%**	**14,673**	**12,868**	**-12.3%**	**14,673**	**20,691**	**41.0%**
Land Cost	12	6	-50.0%	138	69	-50.0%	1425	701	-50.8%
Total Operating Expenses	2,348	2,342	-0.3%	3,020	2,951	-2.3%	7,884	7,102	-9.9%
Gross profit	**12,325**	**12,331**	**0.0%**	**8,828**	**9,917**	**12.3%**	**11,729**	**13,589**	**15.9%**
Gross profit (%)	84.0%	84.0%	0.0%	74.5%	77.1%	3.4%	59.8%	65.7%	9.8%
Total expenses	864	864	0.0%	919	927	0.8%	1,063	1,071	0.8%
EBITDA	**11,461**	**11,467**	**0.1%**	**7,908**	**8,990**	**13.7%**	**10,667**	**12,518**	**17.4%**
EBITDA (%)	78.1%	78.1%	0.1%	66.8%	69.9%	4.7%	54.4%	60.5%	11.2%
Depreciation	40	40	0.0%	100	100	0.0%	208	208	0.0%
EBIT	11,420	11,426	0.1%	7,808	8,890	13.9%	10,459	12,310	17.7%
EBIT (%)	77.8%	77.9%	0.1%	65.9%	69.1%	4.8%	53.3%	59.5%	11.6%
Net interest expense	5,025	5,302	5.5%	6,598	6,895	4.5%	7,712	7,631	-1.1%
Interest income	243	386	59.0%	210	403	91.8%	216	297	37.6%
Debt	37,627	40,627	8.0%	48,627	52,127	7.2%	56,627	56,627	0.0%
Earnings before tax	6,951	6,680	-3.9%	1,794	2,579	43.7%	3,359	5,292	57.5%
Tax -Total	561	5	-99.2%	220	314	42.8%	509	798	57.0%
Net profit	**6,390**	**(4,619)**	**-172.3%**	**1,574**	**2,265**	**43.9%**	**2,851**	**4,494**	**57.6%**

Source: HDIL, Ambit Capital Research

DLF

Sell

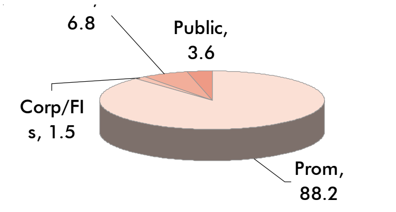
Price	Rs167
Target Price	%Downside
Rs80	52%↓
Market Capitalisation	
Rs284,110mn	(US$5,631mn)
52 week range H/L (Rs)	739/124
Shares o/s (mn)	Daily vol (mn)
1,704.83	34.76
Reuters	Bloomberg
DLF.BO	DLFU IN

Perfm(%)	1M	3M	12M	YTD
Absolute	7.6	(44.8)	(73.4)	(40.9)
Sensex	1.0	(43.2)	(57.7)	(39.5)

BSE Sensex	Nifty
9,424	2,940

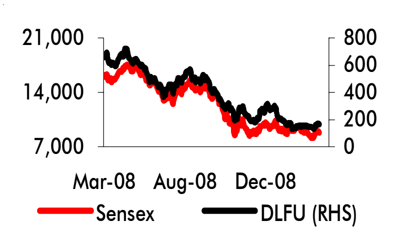
Source: Bloomberg

Shareholding pattern (%)



Source: Capitaline

Price performance



Source: Capitaline

Persistent cash flow worries

Initiate with Sell; Target price Rs80 (52% downside)

DLF's attractive land bank, strong brand, and competitive pricing, are outweighed by its weakening cash flows as its sales volumes deteriorate, property prices decline, and DAL's outstanding dues remain unsettled. We initiate coverage on DLF with a 'Sell' (PO-Rs80, 20% discount to NAV of Rs99). Currently, the stock trades at Rs167, a 69% premium to our NAV; this, we believe, is unsustainable. At our PO, the stock will trade at PE of 11x FY10E earnings.

Balance sheet concerns; debt restructuring to help in short-term

Slowing sales, falling prices, and inability of DAL to pay for acquisitions, are likely to maintain pressure on DLF's balance sheet. We expect the company's debtors to rise as outstanding dues from DAL increase and probability of buyers to default rises. Though debt restructuring, by conversion of short-term loans into long-term ones, will help in the short term, concerns over the medium term remain due to continued weakening of DLF's sales volumes.

Focus on mid-income housing; but sales remain weak

DLF is increasingly focusing on mid-income housing and has aggressively reduced prices in Bangalore and Chennai to improve sales. However, anecdotal evidence indicates that sales have been muted in an uncertain job market. Further, price reduction may increase the probability of cancellations of existing deals; this could worsen the company's cash flow position.

DLF's purchase of DAL; a concern

We are concerned about the implications of DLF buying a stake in DAL either full or partial. Our concerns are driven by

1) Valuation of DAL for the stake sale to DLF. The valuations at which the private equity partners had entered have eroded due to the weakness in the property sector. 2) Implications for the DLF balance sheet and cash flow if the loans for DAL were to be taken over. 3) Pricing of the exit for DE Shaw.

Exhibit 24: Key Financials

YE March (rs mn)	FY08	FY09E	FY10E	FY11E
Revenues	144,530	101,748	56,202	64,924
EBITDA	97,306	50,689	19,268	21,337
EBITDA (%)	67.3%	49.8%	34.3%	32.9%
Net Profit	78,120	40,882	12,268	13,014
EPS (Rs)	45.9	24.2	7.4	7.8
RoE (%)	72%	20%	5%	5%
RoCE (%)	31%	10%	3%	3%
P/E (x)	3.6	6.9	22.6	21.3
P/BV (x)	1.4	1.2	1.2	1.1

Source: Company, Ambit Capital Research Estimates

Company financial snapshot

Profit and Loss (Rs. Mn)

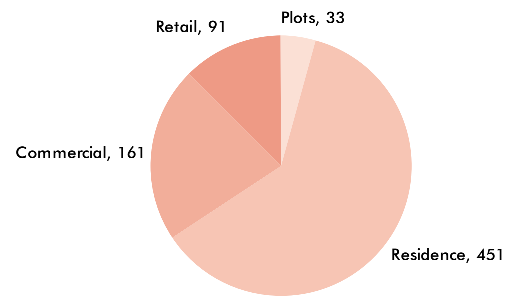
	FY09E	FY10E	FY11E
Sales	101,748	56,202	64,924
Cost of Const	40,731	27,862	33,855
EBIDTA	50,689	19,268	21,337
Depreciation	1,648	2,128	2,785
Interest exp	4,311	4,907	5,550
PBT	48,030	16,273	17,918
Tax	6,794	3,650	4,549
PAT	41,236	12,623	13,369

Rising interest... but declining profits

Profit and Loss Ratios

	FY09E	FY10E	FY11E
EBIDTA Margin	50%	34%	33%
Net Profit Margin	40%	22%	20%
P/E (x)	6.9	22.6	21.3
EV/EBITDA (x)	9.9	27.4	26.0
Dividend yield (%)	1.5%	0.0%	1.2%

Land Bank spread by volume (%)



Source:: Company, Ambit Capital Research

Balance Sheet (Rs. Mn)

	FY09E	FY10E	FY11E
Total Assets	510,883	563,901	631,386
Fixed Assets	141,522	183,992	235,778
Current Assets	332,950	343,498	359,198
Other Assets	36,411	36,411	36,411
Total Liabilities	510,883	563,902	631,387
Total Networth	233,502	245,771	255,375
Total Debt	215,130	244,130	271,130
Current Liabilities	58,356	70,106	100,987
Minority Interest	3,895	3,895	3,895

rising inventory... will lead to rise in debt

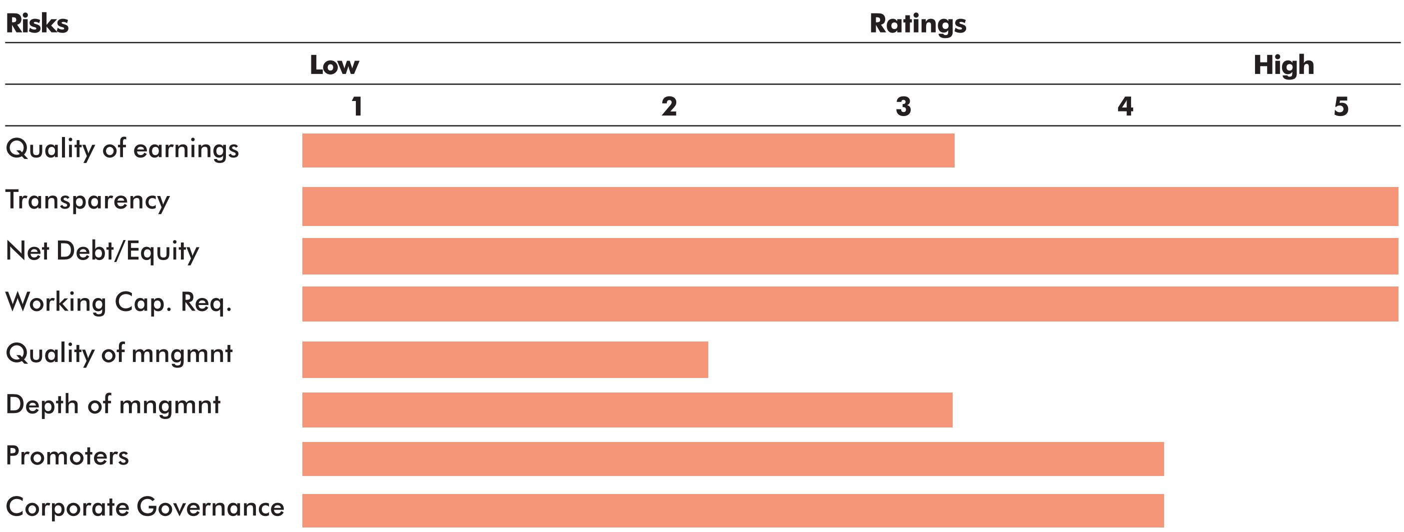
Balance Sheet Ratios (%)

	FY09E	FY10E	FY11E
RoE	19.5%	5.2%	5.3%
RoCE	10.4%	2.9%	2.7%
Net Debt/Equity	0.9	1.0	1.1
Total Debt/Equity	0.9	1.0	1.1
P/BV	1.2	1.2	1.1

Cash Flow (Rs. Mn)

	FY09E	FY10E	FY11E
Profit after tax	41,236	12,623	13,369
Other Income	(3,300)	(4,039)	(4,916)
Depreciation	1,648	2,128	2,785
Minority interest	(355)	(355)	(355)
Share of profit/loss of associates	0	0	0
Net working capital	(100,263)	3,084	13,986
CF from Operating Activities	(61,033)	13,441	24,869
Capital Expen Investments	(49,517)	(44,598)	(54,570)
CF from investing activities	(110,550)	(31,157)	(29,702)
Incr (decr) in borrowings	92,000	29,000	27,000
Issuance of equity	0	0	0
Net Dividends	(4,262)	-	(3,410)
Others	3,300	4,039	4,916
CF from financing activities	91,038	33,039	28,506
Net change in cash	(19,512)	1,882	(1,195)

weak cashflows are a concern



Valuation

We have valued DLF at Rs80/share based on our NAV. Our valuation does not include the development at Dankuni and Bidadi due to uncertainties over these projects. Our calculation of the NAV is based on the following methodology.

We have valued DLF based on its net asset value. The methodology for computation of NAV is as follows:

- We have divided DLF's entire land bank into projects, based on the information given by the company.
- We have arrived at the sale price /sq. ft. and the anticipated sales volume for each project based on our assessment of the market
- From the sale price, we have deducted the cost of construction. Our cost estimates have been arrived at after discussion with industry experts
- We have further deducted marketing and other costs that have assumed to be 4% of the sales revenue
- We have then deducted income tax based on the tax applicable for the project
- The resultant cash inflow has been discounted based on the WACC of 13%; all the project level NAV has been added to arrive at the NAV of the company
- From the NAV, we have deducted the net debt as of FY10E to arrive at the final valuation of the company.

Exhibit 25: Details of NAV

	Rs mn	Rs/share	Comments
NAV (Land Bank)	493,319	289	
Less Dankuni	17,149	10	
Less Bidadi project	67,035	39	
NAV (land bank) adjusted for changes	409,135	240	
Less Net Debt (FY10E)	239,980	141	Debt as on FY10E
NAV	169,155	99	
Shares outstanding (mn)	1705		
NAV(Rs/share)	99		
Discount to NAV	20%		
Target Price (Rs/share)	80		Rounded off

Source: Ambit Capital Research

Key assumptions

Sales volumes

We expect DLF's sales to remain muted in FY10-11 due to slowdown in demand from all the verticals. Residential sales have declined due to slowing economy amidst job insecurity, especially in the IT/ITES sector. The sales in commercial segment (office space) is also expected to drop mainly due to lower off-take from the IT/ITES sector in a weak international macro environment.

Exhibit 26: Estimates sales volume

mn sq ft	FY09	FY10	FY11
Residential	8.9	7.7	9.3
Office	7.3	4.7	4.4
Retail	3.1	2.2	2.2
Total	19	15	16

Source: Ambit Capital Research

Sale price

We expect property prices to test the lows of Yr2003-04 due to the impact of:

- A weakening economy
- Continued pessimism in the IT/ITES sector (50-70% of the demand) and consequent job losses

Therefore, we have reduced the prices to approx Yr2003 levels. Some of our key assumptions are given in exhibit 27

Exhibit 27: Estimated residential and commercial prices

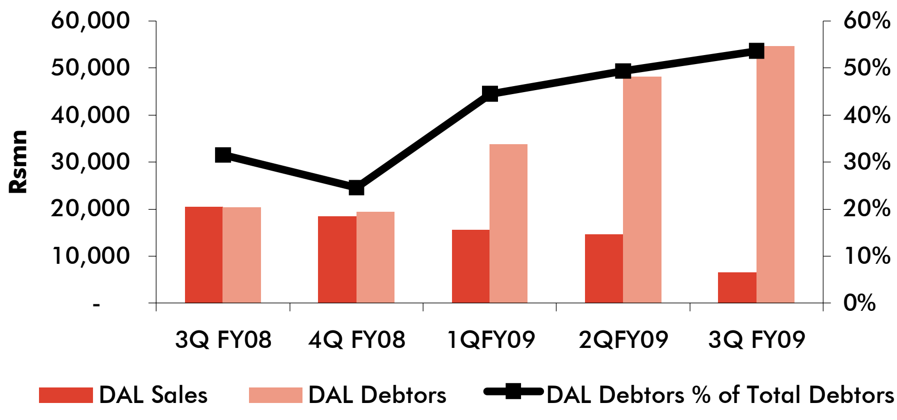
	Residential (Rs/sq ft)			Office (Rs/sq ft/month)		
	Ambit FY10E	Current Prices	Discount %	Ambit FY10	Current Rental	Discount %
Gurgaon	2,700	3,000	-10.0%	75	90	-16.7%
Kolkata	2,000	2,700	-25.9%	30	45	-33.3%
Chennai	2,100	2,300	-8.7%	45	60	-25.0%
Bangalore	2,000	2,800	-28.6%	NA	NA	NA
Pune	1,900	2,400	-20.8%	NA	NA	NA

Source: Ambit Capital Research

Consistently rising debtors

Exhibit 28 indicates our concern for DLF's weakening balance sheet due to consistent rise in debtors. The main reason for this increase is the inability of DAL to pay for the commercial property bought from DLF. Rising debtor levels are expected to increase the pressure on the company's balance sheet and cash flows.

Exhibit 28: Debtors continue to rise



Source: DLF, Ambit Capital Research

Exhibit 29 : Balance Sheet

	FY07	FY08	FY09E	FY10E	FY11E
Equity Capital	12,557	12,905	12,905	12,905	12,905
Reserves & Surplus	22,992	183,977	220,597	232,865	242,470
Shareholders funds	**35,549**	**196,883**	**233,502**	**245,771**	**255,375**
Minority Interest	92	3,895	3,895	3,895	3,895
Loans	**99,327**	**122,771**	**214,771**	**243,771**	**270,771**
Deferred tax liability	197	359	359	359	359
Total capital employed	**135,165**	**323,907**	**452,527**	**493,795**	**530,399**
Gross block	18,044	51,626	60,969	78,954	103,599
Less: accu. Depreciation	2,412	3,435	5,083	7,211	9,995
Net Block	15,632	48,191	55,886	71,743	93,603
Capital WIP	26,219	51,840	85,636	112,249	142,175
Net Fixed assets	**41,851**	**100,031**	**141,522**	**183,992**	**235,778**
Goodwill	8,935	20,931	20,931	20,931	20,931
Investments	2,107	9,102	15,480	15,480	15,480
Current Assets	**128,343**	**266,001**	**332,950**	**343,498**	**359,198**
Inventories	56,799	94,544	99,344	105,103	115,421
Debtors	15,057	76,106	127,184	112,405	108,206
Cash and bank	4,155	21,421	1,910	3,791	2,596
Loans and advances	52,258	73,686	104,269	121,957	132,732
Other current assets	74	243	243	243	243
Current Liabilities	**33,124**	**42,639**	**47,045**	**66,201**	**92,773**
Creditors	2,678	17,046	19,254	12,602	14,844
Advance from customers	23,611	14,083	16,237	41,995	66,271
Others	6,835	11,511	11,555	11,604	11,658
Provisions	12,948	29,518	11,311	3,905	8,214
Net Current Assets	82,272	193,843	274,594	273,392	258,211
Total capital employed	**135,165**	**323,907**	**452,527**	**493,795**	**530,399**

Exhibit 30 : Profit and Loss

	FY07	FY08	FY09E	FY10E	FY11E
Sales	**39,456**	**144,530**	**101,748**	**56,202**	**64,924**
Cost of Construction	7,278	39,998	40,731	27,862	33,855
Gross Profit	32,178	104,533	61,016	28,340	31,069
Salary	1,051	2,998	3,561	1,967	2,272
Other Expenses	3,148	4,229	6,766	7,105	7,460
EBIDTA	**27,979**	**97,306**	**50,689**	**19,268**	**21,337**
Depreciation	578	901	1,648	2,128	2,785
EBIT	27,401	96,406	49,041	17,141	18,552
Net Interest Expense	3,076	3,100	4,311	4,907	5,550
Other Income	1,077	2,309	3,300	4,039	4,916
Profit Before Tax	**25,402**	**95,614**	**48,030**	**16,273**	**17,918**
Tax	6,052	17,391	6,794	3,650	4,549
Net Profit	**19,350**	**78,223**	**41,236**	**12,623**	**13,369**
Minority & other Adj.	14	103	355	355	355
Adjusted Profit	19,336	78,120	40,882	12,268	13,014
Key Parameters					
Margins %					
EBIDTA Margin	71%	67%	50%	34%	33%
Net Profit Margin	49%	54%	40%	22%	20%
Growth (%YoY)					
Sales	135%	266%	-30%	-45%	16%
EBIDTA	190%	248%	-48%	-62%	11%
Net Profit	**173%**	**304%**	**-48%**	**-70%**	**6%**

Source: DLF, Ambit Capital Research Estimates

Exhibit 31: Cash Flow

	FY07	FY08	FY09E	FY10E	FY11E
Profit after tax	**19,360**	**78,211**	**41,236**	**12,623**	**13,369**
Depreciation	578	901	1,648	2,128	2,785
Other Adjustments	(1,088)	(2,399)	(3,655)	(4,393)	(5,271)
Operating Income	18,850	76,712	39,230	10,357	10,883
+ (Inc)/Dec in Debtors	(8,476)	(61,049)	(51,078)	14,780	4,199
+ (Inc)/Dec in Inventories	(40,390)	(37,745)	(4,800)	(5,758)	(10,318)
+ (Inc)/Dec in Loans & Advances	(41,616)	(21,428)	(30,583)	(17,688)	(10,776)
+ (Inc)/Dec in Other Assets	(51)	(169)	-	-	-
+ Inc/(Dec) in Current Liab.	18,029	9,516	4,406	19,156	26,572
+ Inc/(Dec) in Provisions	9,574	16,570	(18,207)	(7,406)	4,309
Operating cash flow	**(44,081)**	**(17,593)**	**(61,033)**	**13,441**	**24,869**
+ (Inc)/Dec in Capital Expenditure	(25,387)	(59,081)	(43,139)	(44,598)	(54,570)
+ (Inc)/Dec in Investments	6,193	(6,995)	(6,378)	-	-
+ (Inc)/Dec in Goodwill	(446)	(11,995)	-	-	-
Free Cash Flow	**(63,720)**	**(95,664)**	**(110,550)**	**(31,157)**	**(29,702)**
+ Increase in Equity Capital	2,584	90,733	-	-	-
+ Increase in Preference Capital	9,498	(2)	-	-	-
+ Inc/(Dec) in Long Term Loans	58,007	23,444	92,000	29,000	27,000
+ Other Income	1,077	2,309	3,300	4,039	4,916
+ Inc/(Dec) in Deferred Tax Liability	104	162	-	-	-
- Final Dividend	-	(3,990)	(4,262)	-	(3,410)
Total Cash Generated	**2,205**	**17,266**	**(19,512)**	**1,882**	**(1,195)**

Exhibit 32 : Ratio Analysis

	FY07	FY08	FY09E	FY10E	FY11E
EBIDTA Margin	70.9%	67.3%	49.8%	34.3%	32.9%
EBIT Margin	69.4%	66.7%	48.2%	30.5%	28.6%
Net Profit Margin	49.0%	54.1%	40.2%	21.8%	20.0%
ROCE	20.6%	31.5%	10.4%	2.9%	2.7%
ROE	108.3%	71.9%	19.5%	5.2%	5.3%
Current ratio	2.8	3.7	5.7	4.9	3.6

Exhibit 33 : Valuation Parameters

	FY07	FY08	FY09E	FY10E	FY11E
EPS (Rs)	12.7	45.9	24.2	7.4	7.8
Book Value per share (Rs)	23	115	137	144	150
P/E (x)	13.2	3.6	6.9	22.6	21.3
P/BV (x)	7.2	1.4	1.2	1.2	1.1
EV/EBITDA (x)	12.7	4.2	9.9	27.4	26.0
EV/Sales (x)	9.0	2.8	4.9	9.4	8.6

Source: DLF, Ambit Capital Research Estimates

Unitech

Sell

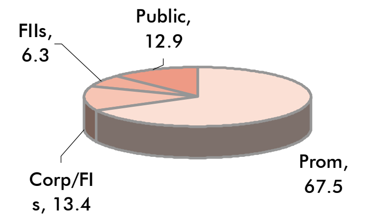
Price	Rs28
Target Price	**%Downside**
Rs22	21%↓
Market Capitalisation	
Rs45389mn	(US$900mn)
52 week range H/L (Rs)	338/22
Shares o/s (mn)	**Daily vol (mn)**
1,621.03	134.64
Reuters	**Bloomberg**
UNTE.BO	UT IN

Perfm(%)	**1M**	**3M**	**12M**	**YTD**
Absolute	(0.2)	(33.7)	(89.5)	(31.1)
Sensex	(6.3)	(31.9)	(83.3)	(29.5)

BSE Sensex	**Nifty**
9,424	2,940

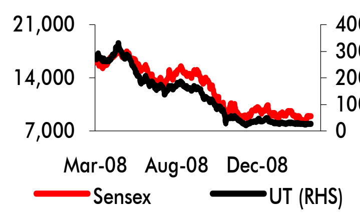
Source: Bloomberg

Shareholding pattern (%)



Source: Capitaline

Price performance



Source: Capitaline

Telecom uncertainties amidst weak cash flows Initiate with 'SELL'

Our recommendation is based on concerns arising from Unitech's stretched balance sheet in a weakening real estate market and the impact of uncertainties relating to the Telecom business. Our target price is based on a discount of 70% to NAV of Rs74; this discount arises from uncertainties in the Telecom deal and weak cash flows due to (1) continued weakness in sales (2) decline in property prices (3) net D/E of 1.9x (FY10E). We initiate coverage with 'Sell' (PO of Rs22). At our PO, stock will trade at 17x FY10E earnings.

B/S pressure; debt restructuring to help in short term

Weak sales, falling prices, and high debt will maintain pressure on Unitech's balance sheet. Amidst declining property prices and increasing probability of buyers to default on their payments due to rising job losses, we expect the company's debtors to increase. Unitech has been able to restructure part of its debt by converting its short-term loans into long-term ones. While this may help in the short-term, we remain concerned in the medium term due to the company's persistently weak sales volumes.

Focus on mid-income housing

Unitech is increasingly focusing on mid-income housing and has aggressively priced its recently launched residential projects in Gurgaon. However, while the company claims that the reponse to the Gurgoan project has been strong, we remain concerned of the sales growth due to an uncertain job market. Further, price reduction is expected to increase the probability of cancellations worsening cash flows for the company.

Uncertainties of the Telecom deal will maintain pressure

Unitech has recently sold 67.5% of its stake in its Telecom venture to Telenor, for an implicit valuation of the license for Rs105.2bn against a purchase price of Rs16.5bn. Lack of transparency of the Telecom operations and political risk associated with Telenor adds to our concerns.

Risks: Upside risks to our estimates include 1) improvement in economy, improved sentiment

Exhibit 34: Key Financials

YE March (rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Revenues	32,883	41,404	28,468	17,526	26,728
EBITDA	20,018	22,290	12,567	7,433	11,841
EBITDA (%)	60.9%	53.8%	44.1%	42.4%	44.3%
Net Profit	13,055	16,692	8,776	2,649	5,594
EPS (Rs)	8.0	10.3	5.4	1.6	3.4
RoE (%)	114.6%	58.4%	21.2%	5.6%	11.0%
RoCE (%)	30.7%	15.7%	6.6%	3.7%	5.2%
P/E (x)	3.5	2.7	5.2	17.2	8.1
P/BV (x)	2.3	1.3	1.0	1.0	0.9

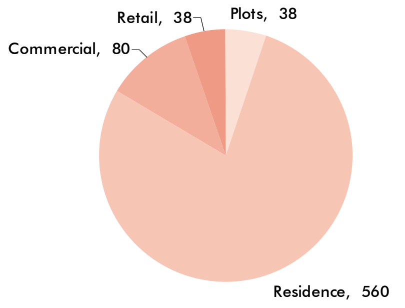
Source: Unitech, Ambit Capital Research Estimates

Company financial snapshot

Sharp rise in interest … will maintain pressure on profit

Profit and Loss (Rs. Mn)	FY09E	FY10E	FY11E
Sales	28,468	17,526	26,728
Cost of Const	13,441	8,486	12,020
EBIDTA	12,567	7,433	11,841
Depreciation	330	387	501
Interest exp	2,710	5,177	5,396
PBT	10,994	3,335	7,484
Tax	2,218	686	1,890
PAT	8,776	2,649	5,594
Profit and Loss Ratios			
EBIDTA Margin	44%	42%	44%
Net Profit Margin	31%	15%	21%
P/E (x)	5.2	17.2	8.1
EV/EBITDA (x)	3.6	6.1	3.8
Dividend yield (%)	0.5%	0.2%	0.4%

Land bank volume spread (%)



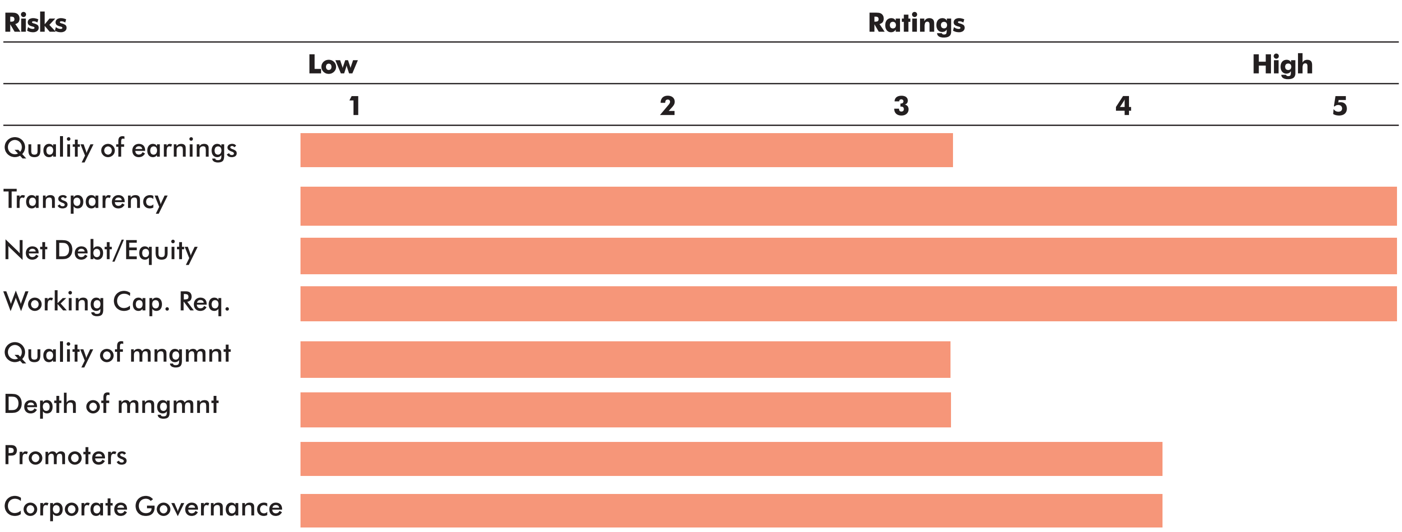
Source:: Company, Ambit Capital Research

rising inventory... will drive up debt

Balance Sheet (Rs. Mn)	FY09E	FY10E	FY11E
Total Assets	247,269	259,210	286,403
Fixed Assets	41,035	49,291	60,753
Current Assets	190,943	194,628	210,360
Other Assets	15,291	15,291	15,291
Total Liabilities	247,269	259,210	286,404
Total Networth	44,531	47,105	52,540
Total Debt	109,196	114,196	117,196
Current Liabilities	92,383	96,750	115,509
Minority Interest	1,159	1,159	1,159
Balance Sheet Ratios (%)			
RoE	21.2%	5.6%	11.0%
RoCE	6.6%	3.7%	5.2%
Net Debt/Equity	1.9	1.9	1.8
Total Debt/Equity	2.0	2.0	1.9
P/BV	1.0	1.0	0.9

Cash Flow (Rs. Mn)	FY09E	FY10E	FY11E
Profit after tax	8,776	2,649	5,594
Other Income	(1,467)	(1,467)	(1,540)
Depreciation	330	387	501
Share of profit/loss of associates	-	-	-
Net working capital	(10,416)	(1,234)	3,552
CF from Operting Activities	(2,776)	335	8,107
Capital Expenditure Invest	(9,924)	(8,643)	(11,963)
CF from investing activities	(12,700)	(8,307)	(3,856)
Incr (decr) in borrowings	4,476.3	5,000.0	3,000.0
Issuance of equity	-	-	-
Net Dividends	(249.7)	(75.4)	(159.1)
Others	1,466.7	1,466.7	1,540.1
CF from financing activities	5,693.4	6,391.4	4,381.0
Net change in cash	(7,007.0)	(1,915.8)	524.5

Cashflow will remain a concern



Valuation

We have valued Unitech at Rs22/share based on our 70% discount to NAV. Our calculation of the NAV is based on the following methodology:

- We have divided the entire land bank of the company into projects, based on the information given by the respective company.
- We have arrived at the sale price /sq. ft. and the anticipated sales volume for each project based on our interaction with industry experts
- We have deducted the cost of construction based on the assumed cost estimates. Our cost estimates have been arrived at after discussion with industry experts
- We have further deducted marketing and other costs, assumed to be 5% of the sales revenue
- We have then deducted income tax based on the tax applicable for the project
- The resultant cash inflow has been discounted based on the WACC of 14%; all the project level NAV has been added to arrive at the NAV of the company
- From the NAV of the company, we have deducted the net debt as of FY10E to arrive at the final valuation of the company.

Exhibit 35: NAV Calculation

	Rs mn	comments
Gross NAV	190,207	NAV based on the methodology above
Unitech share of UCP	945	Based on the average trading price
Less Net debt	89,840	Debt as on Mar 2010
Land cost of the hotels	686	Based on the average purchase price of land
Telecom Investment	16,500	Telecom investment at book value
NAV	118,497	
Shares outstanding (mn)	1,623	
NAV(Rs/share)	73	
Discount to NAV	70%	
Target Price (Rs/share)	22	

Source: Ambit Capital Research

Key assumptions

Weakening sales volumes

We expect Unitech's sales to remain muted in FY10E due to slowdown in the demand from all verticals. Sales in the residential segment have slowed down due to rising job insecurity, especially in the IT/ITES sector. The sales in the commercial segment (office space) are also expected to drop mainly due to lower off-take from the IT/ITES sector due to weakness in the international macro environment.

Exhibit 36: Unitech Sale and Lease Volume

mn sq ft	FY08	FY09E	FY10E	FY11E
Sale				
Plots	0.8	0.7	0.7	2.0
Residential	10.7	5.2	2.5	3.4
Commercial	0.3	0.9	0.5	1.1
Retail	0.1	0.2	0.2	0.5
Institutional	0.1	0.3	0.4	0.8
Total	**11.9**	**7.2**	**4.3**	**7.8**
Lease Cumulative				
Commercial	1.5	2.2	3.0	3.3
Retail	0.3	0.6	1.0	1.3
Total	**1.8**	**2.8**	**4.0**	**4.6**

Source: Unitech, Ambit Capital Research

Sale price to touch lows of Yr2003-04

Despite the cut in the sale prices by approximately 20-50% across different cities, our channel checks reveal that the sales volume continues to be extremely low. We expect that property prices would be testing the lows of Yr2003-04 under the impact of a weakening economy, continued pessimism in the IT/ITES sector (50-70% of the demand), and consequent job losses. Therefore, we have assumed lower prices, to approx. Yr2003-04 levels. Some of our key assumptions are given below:

Exhibit 37: Estimated residential (Rs/sq ft), commerical (Rs/sq ft/mth)

Sale price	Residential (Rs/sq ft)	Commercial Rs/sq ft/month
Noida	2,200	50
Gurgaon	2,400	50
Kolkata	1,800	28
Chennai	2,000	33
Bangalore	2,100	38

Source: Ambit Capital Research

Exhibit 38: Balance Sheet

	FY07	FY08	FY09E	FY10E	FY11E
Equity Capital	1,623	3,247	3,247	3,247	3,247
Reserves & Surplus	18,320	32,758	41,285	43,858	49,293
Shareholders funds	**19,944**	**36,005**	**44,531**	**47,105**	**52,540**
Minority	13	1,159	1,159	1,159	1,159
Loans	**39,805**	**85,524**	**90,000**	**95,000**	**98,000**
Deferred Land payments	15,787	19,136	19,136	19,136	19,136
Deferred tax liability	20	60	60	60	60
Total capital employed	**75,569**	**141,883**	**154,886**	**162,460**	**170,895**
Gross block	6,986	11,120	17,885	20,977	27,151
Less: accu. Depreciation	991	661	991	1,379	1,880
Net Block	5,995	10,459	16,893	19,599	25,271
Capital WIP	2,153	20,982	24,142	29,692	35,482
Net Fixed assets	**8,148**	**31,442**	**41,035**	**49,291**	**60,753**
Goodwill	1,126	1,126	1,126	1,126	1,126
Investments	4,548	14,165	14,165	14,165	14,165
Current Assets	**117,077**	**187,062**	**190,943**	**194,628**	**210,360**
Inventories	548	422	422	422	422
Debtors	1,458	7,460	12,514	9,630	8,811
Cash and bank	10,227	14,083	7,076	5,160	5,684
Loans and advances	18,397	29,444	32,812	36,769	40,092
Projects in progress	86,447	135,653	138,119	142,647	155,349
Current Liabilities	**49,550**	**82,562**	**89,876**	**95,946**	**113,414**
Creditors	7,312	8,497	5,539	3,497	4,953
Advance from customers	41,533	71,119	81,245	89,203	105,052
Others	706	2,945	3,092	3,247	3,409
Provisions	5,779	9,350	2,507	804	2,095
Net Current Assets	61,748	95,150	98,559	97,878	94,851
Misc Expenditure	1	1	1	1	1
Total capital employed	**75,569**	**141,883**	**154,886**	**162,460**	**170,895**

Exhibit 39: Profit and Loss

	FY07	FY08	FY09E	FY10E	FY11E
Sales	**32,883**	**41,404**	**28,468**	**17,526**	**26,728**
Cost of Construction	11,164	15,992	13,441	8,486	12,020
Gross Profit	21,719	25,412	15,028	9,041	14,708
Salary	621	960	990	610	1,023
Other Expenses	1,080	2,161	1,470	998	1,844
EBIDTA	**20,018**	**22,290**	**12,567**	**7,433**	**11,841**
Depreciation	80	205	330	387	501
EBIT	19,938	22,085	12,237	7,045	11,340
Net Interest Expense	2,556	2,804	2,710	5,177	5,396
Other Income	536	1,397	1,467	1,467	1,540
Profit Before Tax	**17,918**	**20,678**	**10,994**	**3,335**	**7,484**
Tax	4,864	3,986	2,218	686	1,890
Net Profit	**13,055**	**16,692**	**8,776**	**2,649**	**5,594**
Adjusted Profit	13,055	16,692	8,776	2,649	5,594
Key Parameters					
Margins %					
EBIDTA Margin	60.9%	53.8%	44.1%	42.4%	44.3%
Net Profit Margin	39.7%	40.3%	30.8%	15.1%	20.9%
Growth (%YoY)					
Sales	134.6%	25.9%	-31.2%	-38.4%	52.5%
EBIDTA	190.0%	11.3%	-43.6%	-40.9%	59.3%
Net Profit	173.1%	27.9%	-47.4%	-69.8%	111.2%

Source: Unitech, Ambit Capital Research

Exhibit 40: Cash Flow

	FY07	FY08	FY09E	FY10E	FY11E
Profit after tax	**13,055**	**16,692**	**8,776**	**2,649**	**5,594**
Depreciation	80	205	330	387	501
Other Adjustments	(566)	(1,397)	(1,467)	(1,467)	(1,540)
Operating Income	12,569	15,500	7,640	1,570	4,555
+ (Inc)/Dec in Debtors	(426)	(6,002)	(5,054)	2,884	818
+ (Inc)/Dec in Inventories	5,282	126	-	-	-
+ (Inc)/Dec in Loans & Advances	(15,537)	(11,047)	(3,368)	(3,957)	(3,324)
+ (Inc)/Dec in Projects in progress	(61,408)	(49,207)	(2,466)	(4,528)	(12,702)
+ Inc/(Dec) in Current Liab.	20,392	33,011	7,314	6,070	17,468
+ Inc/(Dec) in Provisions	4,907	3,571	(6,843)	(1,703)	1,291
Operating cash flow	**(34,221)**	**(14,047)**	**(2,776)**	**335**	**8,107**
+ (Inc)/Dec in Capital Expenditure	(3,341)	(23,499)	(9,924)	(8,643)	(11,963)
+ (Inc)/Dec in Investments	(4,403)	(9,617)	-	-	-
+ (Inc)/Dec in Goodwill	(302)	(0)	-	-	-
Free Cash Flow	**(42,267)**	**(47,163)**	**(12,700)**	**(8,307)**	**(3,856)**
+ Increase in Equity Capital	5,392	84	-	-	-
+ Inc/(Dec) in Long Term Loans	29,356	45,718	4,476	5,000	3,000
+ Other Income	566	1,417	1,467	1,467	1,540
+ (Inc)/Dec in Deferred liability-land	14,731	3,349	-	-	-
- Final Dividend	(477)	(475)	(250)	(75)	(159)
Total Cash Generated	**6,328**	**3,855**	**(7,007)**	**(1,916)**	**525**

Exhibit 41: Ratio Analysis

	FY07	FY08	FY09E	FY10E	FY11E
EBIDTA Margin	60.9%	53.8%	44.1%	42.4%	44.3%
EBIT Margin	60.6%	53.3%	43.0%	40.2%	42.4%
Net Profit Margin	39.7%	40.3%	30.8%	15.1%	20.9%
ROCE	33.4%	18.2%	9.1%	5.0%	7.5%
ROE	114.6%	58.4%	21.2%	5.6%	11.0%
Current ratio	2.1	2.0	2.1	2.0	1.8

Exhibit 42: Valuation Parameters

	FY07	FY08	FY09E	FY10E	FY11E
EPS (Rs)	8.0	10.3	5.4	1.6	3.4
Book Value per share (Rs)	12.3	22.2	27.4	29.0	32.4
P/E (x)	3.5	2.7	5.2	17.2	8.1
P/BV (x)	2.3	1.3	1.0	1.0	0.9
EV/EBITDA (x)	2.3	2.0	3.6	6.1	3.8
EV/Sales (x)	2.3	2.8	4.5	7.7	5.2

Source: Unitech, Ambit Capital Research

HDIL

Hold

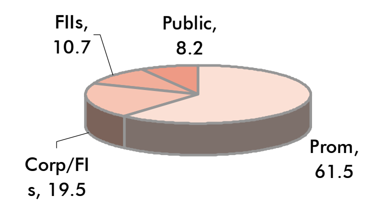
Price	Rs76
Target Price	**%Downside**
Rs67	11%↓
Market Capitalisation	
Rs21,034mn	(US$417mn)
52 week range H/L (Rs)	679/63
Shares o/s (mn)	**Daily vol (mn)**
275.49	30.38
Reuters	**Bloomberg**
HDIL.BO	HDIL IN

Perfm(%)	1M	3M	12M	YTD
Absolute	(1.5)	(47.5)	(80.6)	(41.3)
Sensex	(7.6)	(46.1)	(69.2)	(39.9)

BSE Sensex	**Nifty**
9,424	2,940

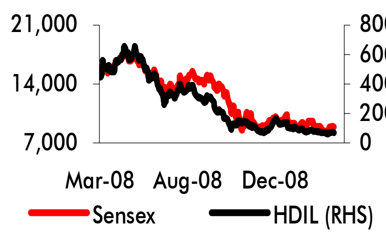
Source: Bloomberg

Shareholding pattern (%)



Source: Capitaline

Price performance



Source: Capitaline

Balance sheet pressure

We initiate coverage on HDIL with a 'Hold' (PO of Rs67, 60% discount to NAV of Rs168). We expect that the upside to the stock will be limited due to the company's worsening balance sheet and weakening commercial and residential sales volumes. Our worse than consensus estimates - to arrive at NAV of Rs168 and a further 60% discount- limits the downside to the stock. This discount is driven by slowing sales, falling TDR demand, and probability of higher FSI sales which could drive down NAV.

Balance sheet pressure; debt restructuring to help in short term

Slowing sales and falling prices will maintain pressure on HDIL's balance sheet. A 27% QoQ decline in current liabilities during Q3FY09 suggests that customer advances have slowed down. While debtors declined QoQ in this quarter, we expect them to increase as defaults rise amidst increasing job losses and declining property prices. Though restructuring of part of its debt, by converting short-term loans into long-term loans, may help in the near term, we remain concerned in the medium term due to the company's persistently weak sales volumes.

Focus on mid-income housing; collapse in TDR rates

HDIL has shifted focus from commercial-centric development to mid-income housing segment to improve the cash flow. While there has been some success in it's housing project in Kurla, we remain concerned of the weak financial markets which will limit sales volumes. The sharp fall in TDR rates to less than Rs1000/ sq. ft. is expected to increase pressure on its revenues.

Airport project on track

The first phase of HDIL's Airport project is on track with the continued, scheduled development of flats for 20,000 slum-dwellers at Kurla. The Government estimates HDIL to complete the project in 4.5 years; we, however, have built in a development period of 6.5 years.

Risks: 1. Improvement in the economy 2. Improving sentiment

Exhibit 43: Key Financials

	FY07	FY08	FY09E	FY10E	FY11E
Revenue	12,042	23,804	14,673	11,847	19,613
EBITDA	6,605	16,921	11,461	7,908	10,667
EBITDA Margin (%)	54.8%	71.1%	78.1%	66.8%	54.4%
Net Profit	5,480	14,099	6,390	1,574	2,851
EPS (Rs)	19.9	51.2	23.2	5.7	10.3
RoE (%)	74.7%	38.7%	15.2%	3.6%	6.2%
ROCE (%)	59.4%	25.0%	13.2%	8.1%	9.9%
P/E (x)	3.8	1.5	3.3	13.3	7.3
P/BV (x)	2.9	0.6	0.5	0.5	0.5

Source: HDIL, Ambit Capital Research

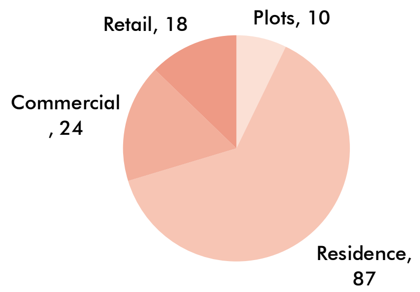
Company financial snapshot

Profit and Loss (Rs. Mn)	FY09E	FY10E	FY11E
Sales	14,673	11,847	19,613
Cost of Const	3,212	3,939	8,947
EBIDTA	11,461	7,908	10,667
Depreciation	40	100	208
Interest exp	5,025	6,598	7,712
Other income	556	584	613
PBT	6,951	1,794	3,359
Tax	561	220	509
PAT	6,390	1,574	2,851
Profit and Loss Ratios			
EBITDA margin (%)	78%	67%	54%
Net profit margin (%)	44%	13%	15%
P/E (x)	3.3	13.3	7.3
EV/EBITDA (x)	5.6	9.3	7.5
Dividend yield (%)	0	0	0

Increasing debt

But declining profits

Land bank volume spread (%)



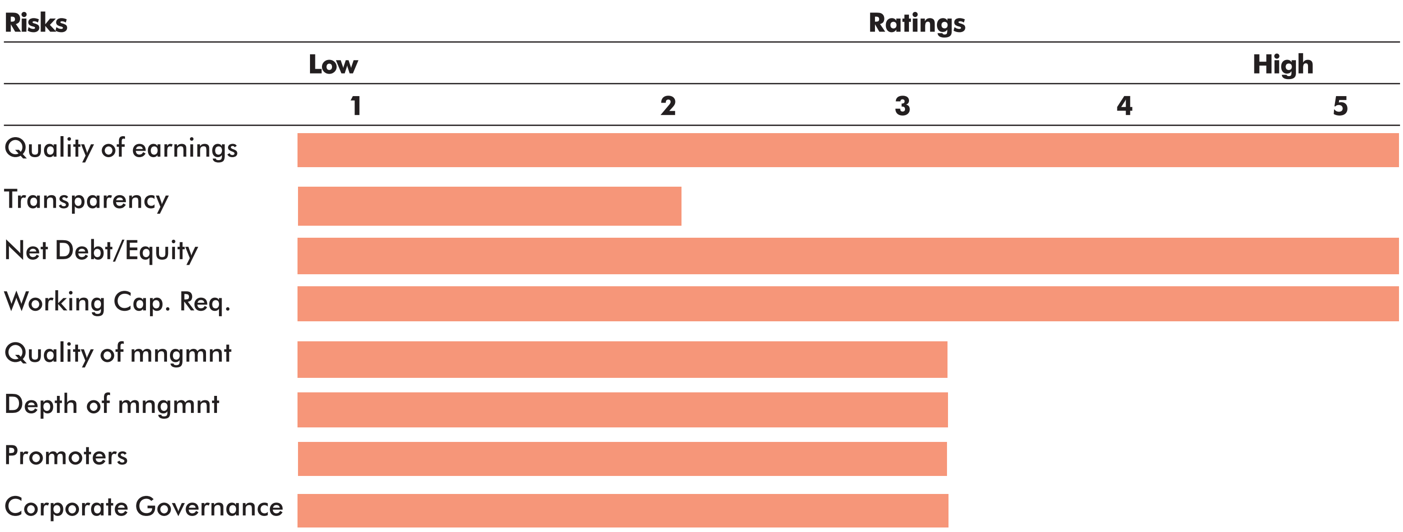
Source:: Company, Ambit Capital Research

Balance Sheet (Rs. Mn)	FY09E	FY10E	FY11E
Total Assets	96,621	108,102	120,365
Fixed Assets	1,023	2,458	5,031
Current Assets	91,668	101,713	111,404
Other Assets	3,930	3,930	3,930
Total Liabilities	96,621	108,101	120,364
Total Networth	42,160	43,316	45,619
Total Debt	44,143	53,143	60,143
Current Liabilities	10,318	11,643	14,603
Balance Sheet Ratios (%)			
RoE	15.2%	3.6%	6.2%
RoCE	13.2%	8.1%	9.9%
Net Debt/Equity	1.0	1.2	1.3
Total Debt/Equity	1.0	1.2	1.3
P/BV	0.50	0.48	0.46

Slow sales but rising assets... will lead to rising debt

Cash Flow (Rs. Mn)	FY09E	FY10E	FY11E
Profit after tax	6,390	1,574	2,851
Other income	556	584	613
Other adjustments	(556)	(584)	(613)
Depreciation	40	100	208
Net working capital	(19,454)	(8,879)	(6,340)
CF from Operating Activities	(13,024)	(7,205)	(3,281)
Capital Expen/ Investments	(2,367)	(1,535)	(2,780)
CF from investing activities	(2,367)	(1,535)	(2,780)
Incr (decr) in borrowings	13,000	9,000	7,000
Issuance of equity	(0)	-	-
Net Dividends	(645)	(419)	(548)
CF from financing activities	12,355	8,581	6,452
Net change in cash	(3,035)	(160)	391

Cashflow under pressure



Valuation

We have valued HDIL at Rs67/share based on our 60% discount to NAV. Our calculation of the NAV is based on the following methodology:

- We have divided HDIL's entire land bank into projects, based on the information given by the company.
- We have arrived at the sale price /sq. ft. and the anticipated sales volumes for each project, based on our interaction with industry experts
- We have deducted the cost of construction based on the assumed cost estimates. Our cost estimates have been arrived at after discussion with industry experts
- We have further deducted marketing and other costs that have been assumed at 5% of the sales revenue
- We have then deducted income tax based on the tax applicable for the project
- The resultant cash inflow has been discounted based on the WACC of 14%; all the project level NAV has been added to arrive at the NAV of the company
- From the NAV, we have deducted the net debt as of FY10E to arrive at the final valuation of the company.

Exhibit 44: NAV Calculation

	Rs mn	Comments
NAV	76,373	NAV based on the methodology above
Mumbai Airport Project	14,209	
Virar SEZ Land	8,625	2300 acres @ Rs15mn/acre (25% of market value)
Gross NAV	99,208	
Less unpaid land bank	-	As given by the company
Less Net debt	52,817	Debt as on Mar 2010
NAV	46,390	
Shares outstanding (mn)	275	
NAV/share	168.00	
Premium/Discount	-60%	
Price Objective (Rs/share)	67	

Source: Ambit Capital Research

Key assumptions

Sales volumes

We expect the sales to remain muted in the FY10-11 due to demand slowdown across verticals. Amidst a slowing economy and rising job insecurity, especially in the IT/ITES sector, residential sales have slowed down. Sales in the commercial segment (office space) are also expected to weaken, mainly due to lower off-take from the IT/ITES sector.

Exhibit 45: Mumbai Projects: estimates sales volumes

mn sq ft	FY09	FY10	FY11	FY12	FY13
Residential	0.3	0.4	0.5	0.5	0.4
Commercial	0.2	0.2	0.4	1.0	1.8
Retail	0.3	0.4	0.4	0.4	0.9
Total	0.8	1.0	1.2	1.9	3.1
TDR Sale	3	4	5	6	6

Source: HDIL, Ambit Capital Research

Sale price

We have reduced our selling prices to the level of prices existent in Yr2003-04. We expect that the impact of the weakening economy, continued pessimism in the financial sector (HDIL is Mumbai-focused), and consequent job losses will result in the property prices testing the lows of Yr2003-04. Some of our key assumptions are given below:

Exhibit 46: Estimated sale price

Location	Segment	Lease Rate(Rs/sq ft/month) Sale (Rs/sq ft)
Bandra Kurla Complex	Commercial	150
Malad-West	Commercial	45
Malad-West	Retail	45
Kurla	Commercial	45
Andheri -Versova	Retail	120
Andheri-Oshiwara	Retail	100
Bhandup	Commercial	55
Mulund	Commercial	45
Mulund	Retail	65
Andheri West	Residential	4,000
Malad-West	Residential	2,800
Jogeshwari-West	Residential	4,000
Ghatkopar	Residential	5,200
Mulund	Residential	4,000

Source: Ambit Capital Research

Exhibit 47: Balance Sheet

	FY07	FY08	FY09E	FY10E	FY11E
Equity Capital	1,800	2,143	2,755	2,755	2,755
Reserves & Surplus	5,542	34,272	39,406	40,561	42,864
Shareholders funds	**7,342**	**36,415**	**42,160**	**43,316**	**45,619**
Loans	**3,757**	**31,127**	**44,127**	**53,127**	**60,127**
Deferred tax liability	8	15	15	15	15
Total capital employed	**11,107**	**67,558**	**86,303**	**96,458**	**105,761**
Gross block	267	576	1,043	2,578	5,358
Less: accu. Depreciation	16	32	72	172	380
Net Block	251	544	971	2,406	4,978
Capital WIP	3	52	52	52	52
Net Fixed assets	**254**	**596**	**1,023**	**2,458**	**5,031**
Goodwill	23	91	91	91	91
Investments	1,578	1,915	3,815	3,815	3,815
Current Assets	**17,821**	**72,408**	**91,668**	**101,713**	**111,404**
Inventories	13,245	55,229	63,143	79,253	93,937
Debtors	3,113	566	1,948	2,042	2,659
Cash and bank	57	3,505	470	310	701
Loans and advances	1,406	13,108	26,108	20,108	14,108
Current Liabilities	**7,919**	**5,763**	**9,090**	**10,981**	**13,523**
Creditors	1,110	396	3,850	3,167	5,323
Advance from customers	6,809	5,368	5,240	7,814	8,199
Provisions	670	1,713	1,227	662	1,080
Net Current Assets	9,232	64,932	81,350	90,070	96,801
Misc Expenditure	19	24	24	24	24
Total capital employed	**11,107**	**67,558**	**86,303**	**96,458**	**105,761**

Exhibit 48: Profit and Loss

	FY07	FY08	FY09E	FY10E	FY11E
Sales	**12,042**	**23,804**	**14,673**	**11,847**	**19,613**
Cost of Construction	5,126	6,329	2,348	3,020	7,884
Gross Profit	6,916	17,475	12,325	8,828	11,729
Salary	85	122	110	90	150
Other Expenses	226	431	754	830	913
EBIDTA	**6,605**	**16,921**	**11,461**	**7,908**	**10,667**
Depreciation	8	22	40	100	208
EBIT	6,597	16,899	11,420	7,808	10,459
Net Interest Expense	546	1,408	5,025	6,598	7,712
Other Income	200	529	556	584	613
Profit Before Tax	**6,251**	**16,021**	**6,951**	**1,794**	**3,359**
Tax	771	1,922	561	220	509
Net Profit	**5,480**	**14,099**	**6,390**	**1,574**	**2,851**
Prior period Adjustment	2	-	-	-	-
Adjusted Profit	5,482	14,099	6,390	1,574	2,851
Key Parameters					
Margins %					
EBIDTA Margin	54.8%	71.1%	78.1%	66.8%	54.4%
Net Profit Margin	45.5%	59.2%	43.6%	13.3%	14.5%
Growth (%YoY)					
Sales	134.6%	97.7%	-38.4%	-19.3%	65.6%
EBIDTA	190.0%	156.2%	-32.3%	-31.0%	34.9%
Net Profit	**173.1%**	**157.2%**	**-54.7%**	**-75.4%**	**81.1%**

Source: HDIL, Ambit Capital Research

Exhibit 49: Cash Flow

	FY07	FY08	FY09E	FY10E	FY11E
Profit after tax	**5,482**	**14,099**	**6,390**	**1,574**	**2,851**
Depreciation	8	22	40	100	208
Other Adjustments	(206)	(466)	(556)	(584)	(613)
Operating Income	5,283	13,655	5,875	1,091	2,446
+ (Inc)/Dec in Debtors	(2,331)	2,547	(1,381)	(95)	(617)
+ (Inc)/Dec in Inventories	(8,476)	(41,984)	(7,914)	(16,110)	(14,683)
+ (Inc)/Dec in Loans & Advances	(567)	(11,702)	(13,000)	6,000	6,000
+ Inc/(Dec) in Current Liab.	3,828	(2,155)	3,327	1,891	2,542
+ Inc/(Dec) in Provisions	570	1,043	(486)	(566)	418
Operating cash flow	**(1,692)**	**(38,596)**	**(13,579)**	**(7,789)**	**(3,894)**
+ (Inc)/Dec in Capital Expenditure	(197)	(464)	(467)	(1,535)	(2,780)
+ (Inc)/Dec in Investments	(490)	(337)	(1,900)	-	-
Free Cash Flow	**(2,379)**	**(39,397)**	**(15,947)**	**(9,324)**	**(6,674)**
+ Increase in Equity Capital	320	343	612	-	-
+ Inc/(Dec) in Long Term Loans	1,792	27,371	13,000	9,000	7,000
+ Other Income	200	529	556	584	613
+ (Inc)/Dec in Deferred Tax liability	3	7	-	-	-
- Dividend	-	(1,243)	(645)	(419)	(548)
+ Increase in Share Premium	(1,366)	15,899	(612)	-	-
Total Cash Generated	**(383)**	**3,448**	**(3,035)**	**(160)**	**391**

Exhibit 50: Ratio Analysis

	FY07	FY08	FY09E	FY10E	FY11E
EBITDA Margin (%)	55%	71%	78%	67%	54%
EBIT Margin (%)	55%	71%	78%	66%	53%
Net Profit Margin (%)	46%	59%	44%	13%	15%
ROCE	59.4%	25.0%	13.2%	8.1%	9.9%
ROE	74.7%	38.7%	15.2%	3.6%	6.2%
Current Ratio	2.3	12.6	10.1	9.3	8.2

Exhibit 51: Valuation Parameters

	FY07	FY08	FY09E	FY10E	FY11E
EPS (Rs)	19.9	51.2	23.2	5.7	10.3
Diluted EPS (Rs)	19.9	51.2	23.2	5.7	10.3
Book Value per Share (Rs)	26.65	132.18	153.04	157.23	165.59
P/E (x)	3.82	1.49	3.28	13.30	7.34
P/BV (x)	2.85	0.57	0.50	0.48	0.46
EV/EBITDA (x)	3.7	2.9	5.6	9.3	7.5
EV/Sales (x)	2.0	2.0	4.4	6.2	4.1

Source: HDIL, Ambit Capital Research Estimates

Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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