Industry Focus

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Indian Real Estate Sector

Not Yet Time to Bottom-fish

Ashish Jagnani[1]
+91-22-6631-9861
ashish.jagnani@citi.com

Karishma Solanki[1]
karishma.solanki@citi.com

- **It's only getting tougher** — The Indian property market has been in pain for a year now. With the RBI raising rates to rein in inflation, the outlook for property developers has only worsened. Decelerating transactions, the prevailing liquidity crunch and project delays are hurting the sector.
- **NAVs at risk** — We have cut our March 09E NAVs by 12-34%, factoring in a higher discount rate of 16% (vs.14% previously), higher cap rates of 10-11% (vs. 9-10%), increased debt, 12-18-month demand/execution delays vs. guidance, and flat prices for 7-10 years as prices have yet not cooled off, though the risk is high. We have run a sensitivity analysis for price declines of 10-20%.
- **Discounts widen and valuations decline, but stay away** — Indian property stocks have declined 24-43% over the past 3 months and their discounts to NAVs at first glance appear attractive. Expecting a bleaker outlook for the sector, we are cutting our target prices 31-49%, moving from NAV premiums to discounts for tier-one developers and wider discounts for smaller developers.
- **What to focus on, and what to avoid** — Focus on developers with a good asset mix; nearly developed assets, which will provide access to capital; low leverage; good project execution record; and healthy yield. Avoid those with high gearing and residential-heavy models in selected markets, particularly in North India.
- **DLF, A-itrust our top picks; Unitech and Puravankara downgraded** — Unitech and Puravankara are now Holds as risks rise. Omaxe, Parsvnath and Ansal stay Sells as the risk-reward is still unfavorable.

Figure 1. India Property Universe — Statistical Snapshot

	Price 14-Jul	Mkt Cap (US$ M)	Rating	Price Target	Target NAV Disc	Est NAV (Rs)	Current NAV Disc	FY09E P/E (x)	3-mth Perf
DLF (Rs)	456	18,164	1M	585	-10%	650	-30%	8.23	-24%
Unitech (Rs)	164	6,210	2H	193	-25%	257	-36%	10.97	-38%
Puravankara (Rs)	177	884	2H	212	-35%	325	-45%	9.31	-27%
Parsvnath (Rs)	113	489	3H	126	-40%	210	-46%	2.80	-43%
Omaxe (Rs)	129	523	3H	135	-40%	225	-43%	3.19	-36%
Ansal Prop (Rs)	90	239	3H	94	-45%	170	-47%	3.57	-36%
A-iTrust (S$)	0.78	455	1L	1.11	-12%	1.26	-38%	10.61	-26%

Source: Citi Investment Research estimates

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

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Investment Strategy

It's only getting tougher...

Fears of rising inflation, and consequently higher rates, hurt near-term fundamentals of the property market

The Indian property market has been in pain for a year now, with the recent rate hikes driving mortgage rates up 50-75bps over the past month — and more rate hikes are in the offing as inflation jumps. The fundamentals of the property market have weakened, in our view. We see tougher times for developers as affordability issues bite, transactions drop while property buyers await price corrections, and pre-sales slow and intensify the liquidity crunch. Project delays and a weak market could dampen sentiment. We expect the sector to remain volatile as investor appetite for risk wanes.

NAV at risk

NAVs cut by 12-34% on a 200bp higher discount rate of 16%, higher debt and 12-18-month project delays

We remain conservative versus consensus and cut our March 09E NAVs by 12-34%, factoring in a higher discount rate of 16% (vs.14% previously), higher cap rates of 10-11% (vs. 9-10%), increased debt, 12-18-month demand/execution delays vs. guidance and flat prices for 7-10 years as prices have not yet cooled off, though the risk appears high.

Figure 2. Base Case NAV with Price Sensitivities

Developers	Base	-10%	-15%	-20%
DLF	650	557	511	464
Unitech	257	200	172	143
Puravankara	325	258	225	192
Parsvnath	210	142	108	74
Omaxe	225	155	120	86
Ansal Prop	170	102	68	34

Note: Base – 16% rate, 0% price inflation

Source: Citi Investment Research

Discounts to NAVs widen; no near-term catalyst in sight

The prevailing negative sentiment toward property, uncertainty about what are appropriate valuations for property stocks, and risks of execution delays have all widened property stocks' discounts to NAVs. Indian property stocks trade at a 38% discount to our revised NAVs vs. a 34% discount in April 08, in line with the global trend. However, we do not see any near-term catalyst to reverse this trend. Potential triggers could be: 1) increased private equity activity and regulatory changes boosting liquidity for developers; and 2) any signs of peaking/softness in rates, though timing this is difficult.

Discounts to NAVs tempting, but beware...

We cut our target prices 31-49%

Indian property stocks have corrected 24-43%, underperforming the Sensex by 22% over the past three months. Most stocks are trading at deep discounts of 30-47% to NAVs, as do Chinese developers. While some risks appear priced in and valuations appear tempting, we still see downside risks. We have cut our target prices 31-49%, moving from NAV premiums to discounts for tier-one developers and increased discounts for smaller players.

Focus on...

Avoid tier-two players on liquidity issues and project delays; focus on tier-one players with good asset mix, low leverage, and a credible record, and plays with healthy yield visibility

We advise focusing on developers with scale, emerging pan-India presence, good asset mix providing access to capital, low leverage and a strong execution record. Further, healthy yield visibility and good quality leased asset portfolios are defensive plays in the current volatile markets.

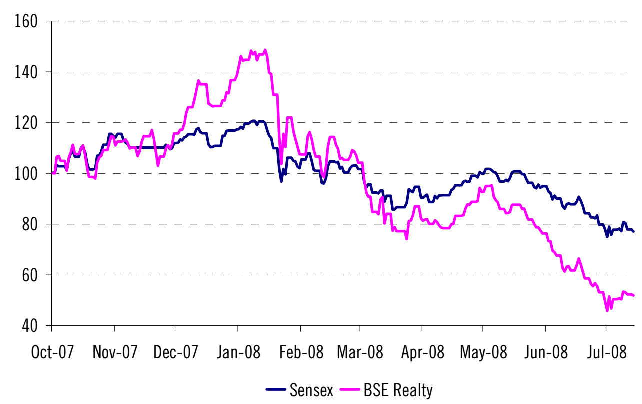
We would avoid developers with high gearing and residential-heavy models that are over-dependent on a single market, particularly North India. Although these stocks are trading at deep discounts to NAVs and look attractive on valuations, sluggish residential demand will stoke fears over liquidity and project execution delays.

Quality is key

Our top picks are DLF and Ascendas India Trust; downgrading Unitech and Purvankara to Holds; and maintaining Sells on Omaxe, Parsvnath, Ansal Properties

Our top picks are DLF (a diversified asset mix, de-leveraged, at a 30% discount to NAV and a benchmark in disclosures) and Ascendas India Trust (a defensive play, high yield visibility of 9.4% for FY09E, 12% DPU CAGR). We have downgraded Unitech (unlocking value in telecoms the potential trigger) and Purvankara (risk of pre-sales slowing, but valuations attractive) to Hold given risks of higher leverage and slower transaction activity. We would avoid tier-two players that have residential-heavy models with a North India bias. We are maintaining our Sells on Omaxe, Parsvnath Developers and Ansal Properties as the risk-reward still looks unfavorable.

Figure 3. Performance of Real Estate Index vs. Sensex

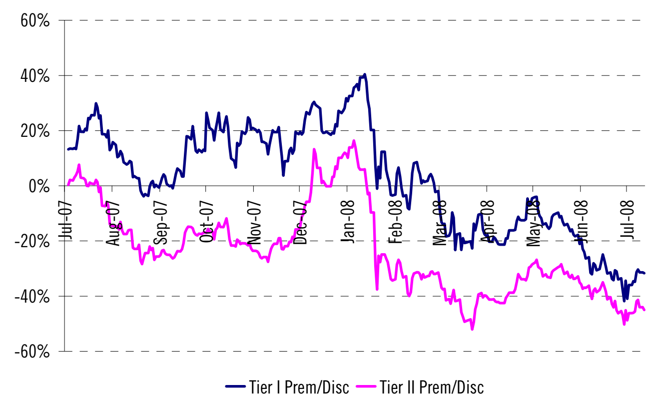


Source: Citi Investment Research

Figure 4. Indian Tier I and Tier II Developers' Stock Price Performance

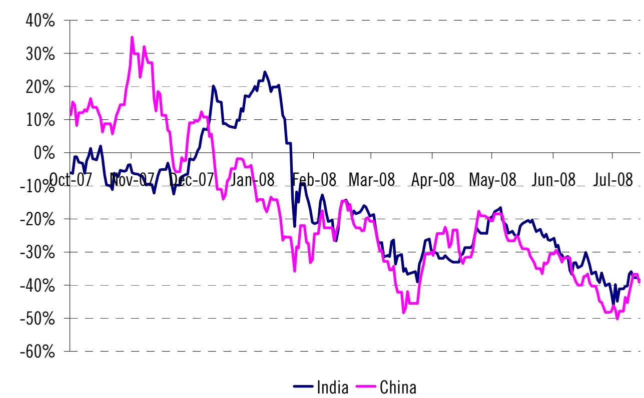
Source: Citi Investment Research

Figure 5. Indian Tier I & Tier II Developers' NAV Discount/Premium



Source: Citi Investment Research

Figure 6. NAV Discount Trend for Select India and China Developers



Source: Citi Investment Research

Top picks, target prices and rating changes

DLF is our top pick – core holding for Indian property

- **Reiterate Buy on DLF with target of Rs585** — We see DLF as a core holding and a relatively insulated play in these tough times. While the stock is down 24% over the last 3 months on weak sentiment toward property, the correction appears overdone as DLF scores on asset mix, business model and balance sheet. Reiterate Buy with a lower target of Rs585 based on a 10% discount on an NAV of Rs650, factoring in higher discount rates, increased cap rates and likely project delays.

a-iTrust – a defensive play

- **Maintain Buy on Ascendas India Trust**: In current volatile times, we see a-iTrust as a defensive play. While the stock is down 26%, it has outperformed Indian property stocks by 12% over the last 3 months. With healthy yields of 9.4% for FY09E, strong 12% DPU CAGR, it is our preferred play in commercial asset space, even as we lower target price to S$1.11 based on DDM, due to higher cost of equity of 10.6% (vs.7.8% earlier) on higher rates, currency risks and volatility.

Unitech downgraded to Hold – higher risks emerge with net debt/equity at 1.96x; value unlocking in telecoms a potential trigger

- **We have downgraded Unitech to Hold/High Risk on target of Rs193** — We now rate Unitech Hold as we see increased risks from the high gearing, delays in new launches outweighing the positives. While the stock is down 38% over the past 3 months, potential upside is moderate as we cut our target price to Rs193 based on a 25% discount (vs. 5% premium earlier) on March 09E NAV of Rs257 (down 28%) factoring in higher debt, increased rates and delays.

Puravankara downgraded to Hold on risk of pre-sales slowing given its residential model; valuations look attractive, though

- **We downgrade Puravankara to Hold on target of Rs212** — Our downgrade is premised on increasing risks of a pre-sales slowdown and project delays given Puravankara's residential-heavy model (75% of gross NAV). The stock is down 27%, but has outperformed the property sector by 11% over the last 3 months. Growing risks will limit the stock's upside, in our view. We cut our target to Rs212, based on a 35% discount (vs. 25% earlier) to our NAV of Rs325.

Stocks have corrected, but risk/reward for tier 2 players with residential-heavy models and North bias still unfavorable

- **Maintain Sells on Omaxe, Parsvnath and Ansal Properties on reduced targets** — While the stocks have corrected sharply, we believe the risk/rewards is still unfavorable.
  - Omaxe target cut to Rs135 on a higher discount of 40% on reduced NAV of Rs225 (vs. Rs315 earlier); high downside risk;
  - Parsvnath target reduced to Rs126 based on an increased discount of 40% on reduced NAV of Rs210 (vs. Rs320); and
  - Ansal Properties target reduced to Rs94 on a higher discount of 45% on a reduced NAV of Rs170 (vs. Rs245 earlier).

Figure 7. NAV Changes

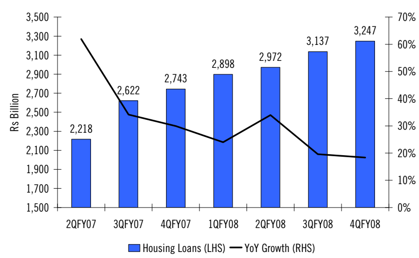
Company	New NAV	Old NAV	Change
DLF	650	736	-12%
Unitech Ltd	257	358	-28%
Puravankara	325	477	-32%
Parsvnath	210	320	-34%
Omaxe	225	315	-29%
Ansal API	170	245	-31%

Source: Citi Investment Research estimates

Environment Getting Tougher

The long-term development opportunity in India is large, driven by a severe housing shortage, economic momentum creating new demand, favorable demographics supported by a fast-evolving financial system, and rising household aspirations. However, with macro economic signals weak and mortgage rates up 50-75bps over the past month (more in the offing) amid fears of rising inflation, we believe the near-term fundamentals of the property market are at risk. The operating environment for developers has become tougher.

Figure 8. Housing Loans and YoY Growth



Source: RBI, Citi Investment Research

Marked slowdown in transaction activity; could get worse

Transaction volumes have slowed markedly over the past 6 months. Expect this fall to accelerate, particularly for the residential segment, with affordability issues a concern following the recent 50-75bp increase in mortgage rates. Given the fragmented and unorganized nature of the Indian property markets, no hard data is available. Our channel checks with property brokers suggest the hikes in mortgage rates are likely to result in potential buyers postponing purchases in hopes of a price correction.

Figure 9. Trend of Net Debt/Equity over 3 Qtrs.

Developers	Sep'07	Dec'07	Mar'08
DLF	0.38	0.48	0.49
Unitech	1.52	1.36	1.96
Parsvnath	0.57	0.70	0.74
Puravankara	-0.05	0.26	0.51
Omaxe	0.40	0.83	1.12
Ansal Properties	0.47	0.54	0.57

Source: Citi Investment Research

Pre-sales slowdown to intensify liquidity crunch

Government initiatives to tighten liquidity, developers' slowing pre-sales and volatile capital markets have led to funding constraints and rising interest costs for most developers, as reflected by rising net/debt equity ratios. With large development plans in the pipeline and aggressive land purchases at high prices in auctions, most developers, particularly the smaller ones, are highly leveraged and have started to feel a cash flow crunch. We expect a further slowdown in pre-sales, worsening the liquidity crunch for developers. Tier-one players with a diversified asset mix appear better positioned — looking to access capital through SPV financing at the asset level, a trend which we believe will gain momentum in 08.

High execution delays

Supply is getting more visible across asset classes; execution remains a challenge

Supply across asset classes is in the pipeline, as most developers have major projects under construction — much more than what they have delivered so far. What, however, is very apparent is the lack of data in the market place; no official data is available on housing starts or geographical stock. However, execution remains a challenge amid an increasing shortage of labour, rising material costs and infrastructure bottlenecks across markets. Further, with pre-sales slowing down, we are likely to see developers 1) pushing back new projects, 2) changing the mix of their residential complexes – 4-5-bedroom apartments are now being redesigned to include 2-3-bedroom apartments. We see this resulting in execution delays of 12-18 months for most developers, which could indirectly act as some cushion for property prices.

Dilemma on correction in prices to continue; we see incentive schemes to boost sales

Probability of large organized developers reducing prices is low – except freebies, flexible funding options to boost demand

Outlook for commercial rentals is relatively better – except rentals to hold up

We see residential property prices drifting rather than crashing. The probability of large organized developers reducing prices is low, in our view – especially with land prices still holding firm and construction costs on the rise. However, we see developers offering some freebies and flexible funding options to boost demand. Our channel checks with a host of brokers/developers suggest developers are increasingly offering incentives in the form of EMI (equated monthly installments) holidays/reimbursements for an 18-24-month period/till possession for apartments under construction. These schemes are primarily being offered by smaller developers in the NCR, but are not popular in other markets. We believe these schemes are substitutes to price cuts/discounts and a trend that could gain momentum, especially with the recent hikes in mortgage rates. The outlook for commercial rentals is relatively better given the low stock and continued demand. We expect rentals to hold up in the retail/office space.

Flows moderating; bargain-hunting likely

Solid private equity interest for Indian property, but moderating flows will increase pressure on stocks, in our view

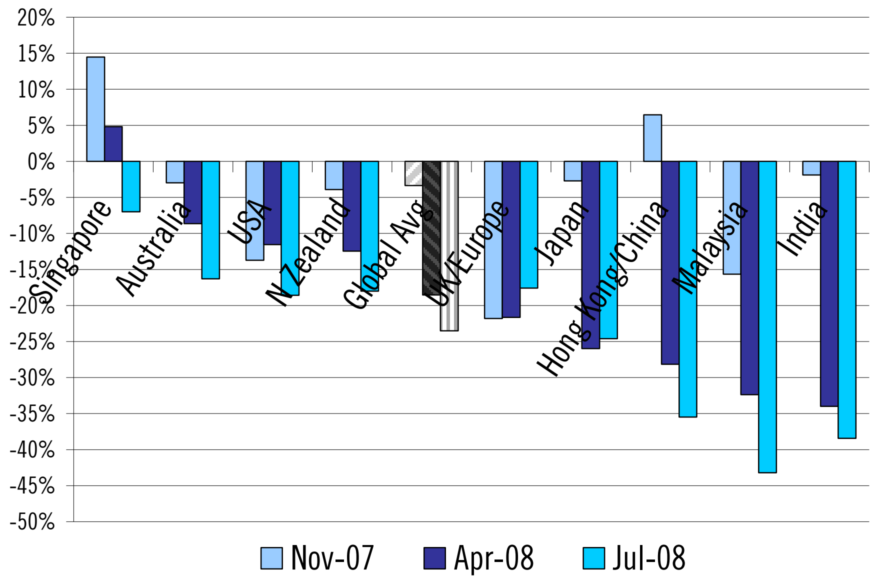
With capital markets weak and risk appetite waning, capital flows to the real estate sector are seen moderating, particularly in emerging markets such as India. That said, with long-term development opportunity intact, interest in Indian property is still high. What has however changed is that private equity investors have turned bargain hunters from being desperate investors. With liquidity constraints intensifying among developers, private-equity funding is in extreme demand. We see investors' likely focus being safety and near-term returns; developers with projects in advanced stages of construction would be preferred to greenfield projects in the current environment. Although we see solid private equity interest for Indian property, continued moderation in fund flows will likely put pressure on Indian property stocks, in our view.

Discounts to NAVs Continue to Widen

This is a visible trend globally; property stocks globally trade at a 24% discount to NAV vs. a 3% discount in Nov 07

The recent correction in Indian property stocks has resulted in widening discounts to NAVs for developers. This is a visible trend globally: property stocks now trade at a 24% discount to NAVs relative to the 18.5% discount in Apr 08. While India's structural growth opportunity remains solid, in the current nervous environment we do not see any near-term catalyst narrowing these discounts.

Figure 10. NAV Discount/Premium by Region



Source: Citi Investment Research

Are NAVs at risk?

While we are conservative vs. consensus on NAVs, we are cutting NAVs by 12-34% on a higher discount rate of 16%, debt and further delays given tougher markets

In such tough times, investors have started questioning the risk to developers' NAVs. We see current stock prices already factoring in higher discount rates and some price correction (though we have still not had noticeable price falls in the property market). While we have been conservative vs. consensus on our NAVs, particularly with assumptions of zero price inflation, valuing existing landbank with no terminal growth, and cap-rate assumptions of 9% for office/IT assets and 10% for hotel/retail assets, post recent rate hikes we see higher risks of demand/execution delays.

Figure 11. NAV Changes

Company	New NAV	Old NAV	Change
DLF	650	736	-12%
Unitech Ltd	257	358	-28%
Puravankara	325	477	-32%
Parsvnath	210	320	-34%
Omaxe	225	315	-29%
Ansal API	170	245	-31%

Source: Citi Investment Research

Cutting NAV estimates by 12-34%

Amid weak sentiment and news flow suggesting a price cool-off, we expect more pushback for new launches/execution delays of 12-18 months, particularly in the residential segment. We are lowering March 09E NAVs by 12-34%, factoring in a 200bp increase in the discount rate to 16%, higher debt/customer advance levels to factor in a slowdown in pre-sales, increased cap-rates of 10-11% (vs. 9-10% earlier), execution delays of 12-18 months and a 7-10-year zero price inflation assumption, which we believe is appropriate at this point in time.

With stocks at deep discounts of 30-47% to NAVs, valuations seem attractive but we remain cautious as we see downside with more volatility ahead

We provide various NAV sensitivities to price declines and increased cost of construction. Adjusting for these NAV reductions, property stocks are still trading at deep discounts of 30-47% to NAVs. While valuations appear attractive and more volatility is expected, we remain cautious as we see downside risk with no near-term catalyst. We prefer large tier-one developers with de-leveraged balance sheets, strong execution track records and those better positioned to access capital given their diversified asset portfolios. For mid-scale/tier-two players, the risk of liquidity issues and delays is high.

Figure 12. NAV Sensitivity to Decline in Price and Rise in Construction Cost

	NAV per Share					
	Base	Price Decline			Rise in Construction Cost	
Developers	**case**	**-10%**	**-15%**	**-20%**	**+10%**	**+15%**
DLF	650	557	511	464	625	612
Unitech	257	200	172	143	236	226
Puravankara	325	258	225	192	297	282
Parsvnath	210	142	108	74	177	161
Omaxe	225	155	120	86	199	186
Ansal Properties	170	102	68	34	141	127

Note: Base case assumes discount rate of 16% and 0% price and construction cost inflation

Source: Citi Investment Research estimates

Few catalysts in sight

What could act as a catalyst for narrowing the discount to NAVs? We believe: 1) increased private equity activity and regulatory changes boosting liquidity for developers; 2) buyback announcements by companies/promoters, as made by DLF recently, should help restore some valuation comfort; 3) further development on opening of a REIT market in India – particularly on the tax status; and 4) signs of interest rate peaking or any softness would be a trigger – although timing this is difficult in India's inflationary scenario.

Key risks

Potential increase in interest rates to counter inflation, market slowdown in the IT/ITES sector and political changes resulting in regulatory risks and execution delays

- More rate increases to counter inflation: Increases in interest rates to curb inflation would adversely impact property markets and dampen sentiment. As residential markets remain sluggish, increases in mortgage rates would further slow demand, resulting in a push-back of product launches and execution delays.
- Market slowdown in the IT/ITES sector: We believe a large part of the potential real estate development being planned — residential, commercial/office or retail — is targeting growth in the IT/ITES sector. In the event of the sector slowing down sharply, we could see a scale-down in real estate demand, which would dampen growth and sentiment toward the sector.
- Political changes a significant regulatory/policy risk: The Indian real estate market is vulnerable to regulatory/policy risks. A change in government in the states could result in significant execution delays. This risk is not built into our NAV assumptions for developers.
- Leveraged balance sheet of developers: With high debt/equity and funding costs in excess of 15-18% in this liquidity-strained scenario, distress selling by developers cannot be ruled out. This could worsen market sentiment and adversely impact valuations of Indian property stocks.

DLF (DLF.BO)

Buy/Medium Risk	**1M**
Price (14 Jul 08)	Rs455.80
Target price	Rs585.00
from Rs846.00	
Expected share price return	28.3%
Expected dividend yield	0.9%
Expected total return	**29.2%**
Market Cap	Rs777,063M
	US$18,164M

Price Performance (RIC: DLF.BO, BB: DLFU IN)

Buy: Correction Overdone; Relatively Insulated Play

- **Top Pick** – We see DLF as a core holding and a relatively insulated play in these tough times. While the stock is down 24% over last 3 months on weak sentiments for property, the correction appears overdone as DLF scores on asset mix, business model and balance sheet. Reiterate Buy with lower target of Rs585 based on 10% discount (15% premium earlier) on NAV of Rs650 (cut 12%), factoring in higher discount rates, increased cap-rates and likely delays.

- **What differentiates DLF?** – 1) Focus on office/retail assets (~50m sq ft under construction ahead of peers) provides greater access to capital and relatively insulates it from supply risks, 2) De-leveraged balance sheet in this liquidity strained scenario, 3) Sizeable landbank substantially paid for, and 4) Growing lease asset portfolio (~8msq ft in FY08), driving higher lease income in FY09E.

- **What's new?** – 1) Mid-income housing the thrust, launched town houses in New Gurgaon at Rs2550/sqft, more on anvil in 2H; 2) DLF's buyback plans for 1.3% equity at price not exceeding Rs600/share, a near-term valuation support; 3) Good progress on hotels – ~300 keys to start in FY09; 4) Some push back in timelines for Dhankuni township due to socio-political factors.

- **Dependence to DLF Assets down, but critical to growth** – While sales to DAL are down to 37% in FY08 (54% in FY07), it still remains critical to DLF’s growth. We see higher risks as success is contingent on capital flows – stressed today.

- **Key Risks** – 1) Demand/funding risks for comm. asset portfolio, 2) Sensitive to rising cap-rates; 3) Timely launches and execution, 4) Sustained profitability.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,917	12.34	100.2	36.9	7.5	22.6	0.0
2007A	19,337	12.75	3.3	35.7	26.5	108.8	0.0
2008E	78,558	46.08	261.4	9.9	4.1	72.1	0.9
2009E	94,461	55.41	20.2	8.2	3.0	41.5	0.9
2010E	115,433	67.71	22.2	6.7	2.1	37.0	0.9

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	37.0	35.8	9.9	8.2	6.7
P/E reported (x)	37.0	35.8	9.9	8.2	6.7
P/BV (x)	7.5	26.6	4.1	3.0	2.2
Dividend yield (%)	0.0	0.0	0.9	0.9	0.9
Per Share Data (Rs)					
EPS adjusted	12.34	12.75	46.08	55.41	67.71
EPS reported	12.34	12.75	46.08	55.41	67.71
BVPS	61.16	17.18	112.52	154.35	212.06
NAVps ordinary	na	na	na	na	na
DPS	0.10	0.01	4.00	4.00	4.00
Profit & Loss (RsM)					
Net operating income (NOI)	**5,154**	**15,918**	**100,671**	**129,712**	**155,016**
G&A expenses	-397	-1,051	-3,153	-2,838	-3,406
Other Operating items	-361	-591	-732	-750	-1,060
EBIT including associates	**4,396**	**14,276**	**96,787**	**126,124**	**150,550**
Non-oper./net int./except.	-801	11,114	-328	-176	3,361
Pre-tax profit	**3,595**	**25,389**	**96,459**	**125,948**	**153,911**
Tax	-1,668	-6,042	-17,534	-31,487	-38,478
Extraord./Min. Int./Pref. Div.	-10	-11	-367	0	0
Reported net income	**1,917**	**19,337**	**78,558**	**94,461**	**115,433**
Adjusted earnings	1,917	19,337	78,558	94,461	115,433
Adjusted EBIT	4,396	14,288	96,733	126,124	150,550
Adjusted EBITDA	4,757	14,866	97,518	126,874	151,610
Growth Rates (%)					
NOI	142.1	208.8	532.4	28.8	19.5
EBIT adjusted	225.9	225.0	577.0	30.4	19.4
EPS adjusted	100.2	3.3	261.4	20.2	22.2
Cash Flow (RsM)					
Operating cash flow	**-15,375**	**-39,232**	**-27,296**	**59,141**	**52,582**
Depreciation/amortization	361	578	785	750	1,060
Net working capital	-8,589	-62,932	-105,596	-36,070	-55,816
Investing cash flow	**-15,075**	**-19,136**	**-65,826**	**-35,344**	**-32,357**
Capital expenditure	-7,175	-25,329	-59,172	-35,112	-32,102
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**31,976**	**60,573**	**108,338**	**-27,758**	**-31,897**
Borrowings	31,644	58,007	23,282	-14,119	-14,848
Dividends paid	-16	-18	-6,819	-13,639	-17,048
Change in cash	**1,526**	**2,205**	**15,216**	**-3,961**	**-11,672**
Balance Sheet (RsM)					
Total assets	**69,436**	**181,237**	**400,421**	**441,610**	**534,103**
Cash & cash equivalent	1,950	4,155	19,371	15,410	3,738
Net fixed assets	17,043	41,851	100,058	99,247	130,289
Total liabilities	**59,881**	**145,596**	**190,717**	**164,410**	**158,519**
Total Debt	41,320	99,327	122,609	95,109	80,260
Shareholders' funds	**9,555**	**35,641**	**209,704**	**277,199**	**375,584**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	38.1	54.2	68.0	64.1	61.6
ROE adjusted (%)	22.6	108.8	72.1	41.5	37.0
ROA adjusted (%)	4.0	15.4	27.0	22.4	23.7
Net debt to equity (%)	412.0	267.0	49.2	28.8	20.4
Interest coverage (x)	2.8	4.8	32.7	33.3	47.2

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Key Points

What differentiates DLF?

~50m sq ft currently under construction which is ahead of most peers – a good hedge, provides access to capital

- **Focus on commercial/retail (~42% of Gross NAV) assets** – Sizeable projects (~50m sqft) are in advanced stages of construction, ahead of most peers. This relatively insulates it from the planned supply from competitors, which we believe is likely to be more back-ended. This should also provide DLF's business model with a good hedge in the current environment, where residential business is going through sluggish demand. Further, this will provide the company with greater access to capital as we see private equity investors focusing on safety and near-term returns in current volatile times.

Net Debt/Equity of 0.49x and avg. cost of 11% a big advantage

- **De-leveraged balance sheet in this liquidity strained scenario** – We see DLF taking advantage of its strong balance sheet (net debt/equity of 0.49x with average cost of debt at 11% vs. peer costs at 13-15%) in case of any consolidation and distress selling from small developers facing liquidity crunch. Additionally, this would help in faster execution.

Leverage on paid landbank to launch mid-income housing at faster pace than peers

- **Sizeable landbank substantially paid for (excluding govt. dues)** – The company's 11,000acres (excluding large townships of Dhankuni, Bidadi still to be handed over by govt.) is substantially 90% paid for. We see this provide the company with a competitive advantage in current environment – 1) ability to launch mid-income housing across cities at affordable prices in timely manner, 2) facilitate faster execution – its success on initial launch of mid-income housing reflects this.

- **Large lease asset portfolio** – DLF's ~8msqft leased asset portfolio is likely to grow significantly in FY09E with more retail malls, IT Parks and office space being handed over for fit-outs. We see this driving healthy lease income going forward.

Lowering NAVs to factor higher risks

Reduce NAV by 12% to Rs650 (vs. Rs736 earlier) factoring 200bps increase in rates to 16% and potential execution delays

DLF's thrust on execution has largely differentiated it from most developers. It presently has ~62m sq ft under construction, higher than that for most peers. However, with the recent rate hikes (more in the offing) amidst fears of rising inflation, we see higher risks ahead as the operating environment for developers gets tougher, particularly in the residential segment (67% of DLF's landbank). Building for this and DLF's superior execution capabilities, we foresee a further 12-month delay in new launches/execution (building ~2-yr delay vs. guidance) of its development portfolio. Factoring 1) 200bps increase in discount rate to 16%; and 2) a higher cap rate of 10% (vs. 9% earlier) for commercial/IT Park, IT SEZs in Super Metros and Metros, and 11% (vs. 10% earlier) for other locations, we have lowered DLF's Mar'09E NAV by 12% to Rs650 (vs. Rs736 earlier).

What's new?

Recently launched town houses in New Gurgaon – more on anvil in 2HFY09; timely execution will be crucial

- **Mid-income housing, the thrust** – Encouraged by this strong response, DLF is targeting to sell ~4,000 units/qtr and recently launched town houses in New Gurgaon at Rs2550/sqft. More mid-income launches are planned in Chandigarh, Indore, Bangalore, Chennai and Kochi over the next few quarters. In addition, it is also looking to launch some super luxury/luxury projects in Mumbai, Delhi and Goa. We see DLF differentiating itself by scaling-up in this segment; however with overall residential demand environment tough, appropriate pricing and timely execution will be crucial.

Plans to buyback up to 1.3% of equity at a price of up to Rs600/share

- **Buyback plans at Rs600/share, near-term valuation support** – The company's approved buyback plans for 1.3% of equity at a price not exceeding Rs600/share, up to a total consideration not exceeding Rs11bn. We see this as 1) near-term valuations support for the stock, and 2) highlighting a relatively better cash flow situation for the company, which is comforting in the current environment. However, although DLF has sufficient cash of Rs19.4bn (as on Mar'08) to fund the buyback, the buyback could drain some of the cash reserves, which could be used more effectively in times of distress in the current environment.

- **Good progress on hotel business** – 1) Signed management contract with Hilton for 7-new hotels; 2) targeting to have ~4,200 rooms under construction in FY09; 3) Plans underway to have ~300 keys operational in FY09; and 4) Work on International conventional centre, Dwarka has started.

Socio-political factors likely to push back timeline for Dhankuni and Bidadi projects

- **Push back in timeline for large township projects** – Socio-political factors have led to delays in govt. providing land for its Dhankuni township project (5% of Gross NAV) – this could result in some execution delays for this project. Additionally, we see a higher probability of approval/execution delays for its Bidadi project (4% of Gross NAV) given recent political changes. Factoring this, we have built in 12-m execution delay in our NAV assumptions.

Key risks in the current scenario

Key risks – 1) sluggish residential market, 2) asset sale strategy contingent on capital flows; and 3) potential supply risks

DLF has consistently delivered on performance over the past few quarters. However, given the tough environment, we see the following risks going forward.

- The company's asset sale strategy to DLF Assets remains contingent on capital flows. With volatile markets and moderating fund flows towards real estate, cash flows could get adversely impacted. Further, outstanding from DOT is high at Rs19bn as of Mar'08 and lack of sufficient capital with the asset holding company (DLF Assets) could affect future asset injections from DLF. We see this as an inherent risk to the company's overall growth.

- Potential supply risks across asset classes, particularly IT Parks/IT SEZs. While there is strong demand for IT space, in the event of the sector facing a slowdown, DLF could get adversely impacted due to its high leverage and scale in IT/ITSEZ space (~64m sq ft of landbank).

- Sluggish demand environment in residential market continues. Given DLF's aggressive pipeline of mid-income housing projects, a good response will be crucial for growth ahead and cash flows.

DLF

Company description

DLF is one of India's oldest real estate developers. Established in Delhi in 1946, it has continued to expand and diversify its real estate businesses, and is among the largest developers in India. It has historically built its businesses in Delhi and adjoining areas, know as the National Capital Region (NCR). DLF has diversified into other geographic locations over the past few years. These expansions are spread across India, with a focus on the Northern India belt, Kolkata, Mumbai, Chennai, and a number of other large and rapidly growing cities. DLF enjoys a strong brand franchise with a good track record in execution and delivery. This is the flagship company of the KP Singh family, with the founders holding an 88% stake. It is one of India's largest developers, with a diversified asset portfolio and an emerging pan-India presence.

Investment strategy

We rate DLF Buy/Medium Risk (1M), with a target price of Rs585. DLF's scale, large landbank across top-tier growth cities, execution record, de-leveraged balance sheet and disclosure standards differentiate it from its peers. Its diversified portfolio of ~751m sq ft is leveraged toward commercial/IT Parks/Retail mall assets, which should provide a good hedge in the near-term against the residential segment slowdown. The response to its recently launched mid-income housing has been encouraging. With DLF delivering on its promises, we see the recent correction as an enhanced opportunity to buy and believe the stock should be a core holding for exposure to the Indian real estate sector.

Valuation

Our target price of Rs585 is based on a 10% discount (vs. 15% premium earlier) to our revised Mar09E NAV of Rs650 (vs. Rs736 earlier). The move to discount to NAV vs. premium earlier is largely recognizing increased risks post recent rate hikes and negative sentiment on property stocks as risk appetite tapers off further amidst volatile markets. We have also lowered our NAV by 12%, factoring in 200bps increase in discount rate to 16%, higher cap-rates of 10-11% for its commercial asset portfolio, and execution delay of 12 months on its development portfolio as the operating environment for developers gets tougher.

Our NAV includes Rs563 for the development portfolio and Rs87 for other asset holdings and new JV businesses (Rs61/share for the existing 9m sq ft of leased assets and 7.2m sq ft of plots and Rs26/share for DLF's share in construction and hotel JVs). The lower discount vs. peers (25-45%) is attributed to: 1) Leverage towards both office/IT Parks and retail assets provide access to capital in a liquidity-strained market; 2) a relatively de-leveraged balance sheet; 3) a strong execution track record; and 4) the company is a benchmark for disclosure standards.

DLF NAV Summary (Rs million)

Gross NAV Residential	878,577
Gross NAV Non-Residential	654,346
Total Gross NAV	**1,532,923**
Less: Amt outstanding for land	66,460
Less: Tax @ 25%	366,616
Less: Debt outstanding	122,609
Less: Customer Advances	26,000
Add: Cash	8,371
Net NAV	**959,609**
9m of existing owned/leased assets	60,000
7.2m sq ft in Plots	45,000
74% stake in Hotel JV - 51 hotel sites	32,879
50% stake in Construction JV	10,800
Total Value	**1,108,288**
No. of Shares Outstanding (m)	1,705
NAV Per Share (Rs)	**650**

Source: Citi Investment Research

We believe an NAV-based valuation methodology is most appropriate for developers, as it factors in the varied development projects and the spread-out time frame. Our March 2009E NAV is based on: 1) the current market prices; 2) development volume of 677m sq ft; 3) a cap rate of 10% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 11% for other locations; 4) development portfolio is executed over a 11-13-year period; 5) average cost of capital of 16%; and 6) a tax rate of 25%.

Risks

We rate DLF Medium Risk, as opposed to the Speculative Risk rating assigned by our quantitative risk-rating system to stocks that have less than one year's trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's robust business model; 2) pan-India land bank with initiatives to de-risk the business model through new business JVs; and 3) relatively healthy cash flows, at a time when most developers are facing funding constraints. The main risks to our investment thesis and target price include: 1) The company's asset sale strategy remains contingent on capital flows; 2) Response to DLF's new mid-income project launches expected in FY09 is crucial for growth ahead and cash flows; 3) Slowdown in the IT/ITES industry could lead to a decline in demand for commercial real estate; and 4) Slowdown in capital inflows or measures to regulate FDI in the real estate sector.

Unitech (UNTE.BO)

Hold/High Risk	**2H**
from Buy/Medium Risk	
Price (14 Jul 08)	Rs163.65
Target price	Rs193.00
from Rs375.00	
Expected share price return	17.9%
Expected dividend yield	0.2%
Expected total return	**18.1%**
Market Cap	Rs265,665M
	US$6,210M

Price Performance (RIC: UNTE.BO, BB: UT IN)

Concerns on High Gearing, Execution Delays Outweigh Positives

- **Downgrading to Hold** — We now rate Unitech 2H as we see increased risks from the high gearing, delays in new launches outweighing the positives. While stock is down 38% over last 3-m, potential upside is moderate as we cut our TP to Rs193 based on 25% discount (vs. 5% premium earlier) on Mar'09E NAV of Rs257 (down 28%) factoring in higher debt, increased rates and delays.

- **Debt/equity levels (1.96x) concerning, as sentiments dampen** — We see higher risks emerge for Unitech as debt levels rise to Rs71.4b in Mar'08 vs. Rs45.3b in Dec'07 – on payout for telecom license and some land costs. With pre-sales down, levered balance sheet amid rising interest rates – we see higher risk of capital constraints for the company impacting growth and execution ahead.

- **Delays and slow scale up in construction; not healthy signs —** Delay in requisite govt. approvals for Unitech's ~20msqft of new launches in Chennai and Hyderabad has pushed back time-lines. Further, construction activity stagnating at 55-60msq ft over last few quarters raises execution risks.

- **Positives remain** — Unitech scores on scale, spread across tier-I cities and balanced asset mix, ability to monetize assets early on (Lehman's US$175m investment in Mumbai reflects this) and track record; near-term risks outweigh.

- **Potential triggers intact** — 1) Value unlocking in telecom expected shortly – in talks with strategic partner to bid for 26% stake; 2) ability to monetize more assets early-on like Mumbai, to ease cash flows; and 3) visible gains from NKID project are triggers we see driving stock performance.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	841	0.52	152.0	nm	102.3	36.9	0.1
2007A	13,058	8.04	na	20.3	13.3	115.9	0.2
2008E	16,619	10.24	27.3	16.0	7.3	58.9	0.2
2009E	24,227	14.92	45.8	11.0	4.4	50.1	0.2
2010E	33,330	20.53	37.6	8.0	2.8	43.4	0.2

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	20.3	16.0	11.0	8.0
P/E reported (x)	nm	20.3	16.0	11.0	8.0
P/BV (x)	102.3	13.3	7.3	4.4	2.8
Dividend yield (%)	0.1	0.2	0.2	0.2	0.2
Per Share Data (Rs)					
EPS adjusted	0.52	8.04	10.24	14.92	20.53
EPS reported	0.52	8.04	10.24	14.92	20.53
BVPS	1.60	12.29	22.47	37.14	57.43
NAVps ordinary	na	na	na	na	na
DPS	0.12	0.29	0.25	0.25	0.25
Profit & Loss (RsM)					
Net operating income (NOI)	**2,427**	**18,281**	**22,290**	**38,881**	**52,285**
G&A expenses	-1,077	0	0	-2,719	-3,803
Other Operating items	-110	-59	-150	-289	-550
EBIT including associates	**1,240**	**18,222**	**22,140**	**35,873**	**47,932**
Non-oper./net int./except.	152	-289	-1,407	-1,751	-989
Pre-tax profit	**1,392**	**17,933**	**20,733**	**34,122**	**46,944**
Tax	-513	-4,864	-3,986	-9,896	-13,614
Extraord./Min. Int./Pref. Div.	-38	-11	-129	0	0
Reported net income	**841**	**13,058**	**16,619**	**24,227**	**33,330**
Adjusted earnings	841	13,058	16,619	24,227	33,330
Adjusted EBIT	1,238	18,208	22,085	35,873	47,932
Adjusted EBITDA	1,350	18,281	22,290	36,162	48,482
Growth Rates (%)					
NOI	95.1	653.2	21.9	74.4	34.5
EBIT adjusted	211.5	nm	21.3	62.4	33.6
EPS adjusted	152.0	nm	27.3	45.8	37.6
Cash Flow (RsM)					
Operating cash flow	**-2,165**	**-21,520**	**-19,349**	**2,217**	**-2,608**
Depreciation/amortization	113	73	205	289	550
Net working capital	-2,180	-46,788	-23,236	-23,025	-22,847
Investing cash flow	**-3,127**	**-7,229**	**-22,108**	**-968**	**353**
Capital expenditure	-3,485	-2,826	-5,608	-5,292	-6,852
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**6,474**	**35,077**	**45,312**	**1,904**	**927**
Borrowings	6,686	29,356	45,718	2,310	1,333
Dividends paid	-188	-477	-406	-406	-406
Change in cash	**1,182**	**6,328**	**3,855**	**3,153**	**-1,328**
Balance Sheet (RsM)					
Total assets	**44,522**	**130,900**	**171,768**	**219,000**	**263,776**
Cash & cash equivalent	3,899	10,227	14,082	17,235	15,907
Net fixed assets	4,887	8,148	12,904	17,907	23,939
Total liabilities	**41,688**	**110,944**	**135,277**	**158,688**	**170,539**
Total Debt	10,449	39,805	85,523	87,833	89,166
Shareholders' funds	**2,834**	**19,956**	**36,491**	**60,312**	**93,236**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	13.9	55.4	53.3	52.8	50.4
ROE adjusted (%)	36.9	115.9	58.9	50.1	43.4
ROA adjusted (%)	2.4	14.9	11.0	12.4	13.8
Net debt to equity (%)	231.1	148.2	195.8	117.1	78.6
Interest coverage (x)	2.9	14.2	7.9	12.8	23.0

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Key Points

Reasons to downgrade

Downgrade premised on – increased risks from higher gearing, execution delays in this capital strained environment

We are downgrading Unitech to Hold (2H) from Buy (1M) as we see increased risks from company's higher gearing and significant delays in new launches outweighing the positives in the current capital strained environment. Although the stock is down 38% over last three months on weak sentiment for property amid rising interest rates – potential upside appears moderate as we cut our target price to Rs193 based on 25% discount (vs. 5% premium earlier) on lower Mar'09E NAV of Rs257 (down 28%) factoring in increased debt, higher discount rates and significant delays. However, we see potential triggers – such as: 1) value unlocking in telecom business through stake sale; and 2) the company's ability to monetization more assets early – driving stock performance.

Lowering NAV as risks increase

NAV lowered by 28% to Rs257 and tweaking earnings estimates

With the operating environment getting tougher, we see higher risks of execution delays to impact Unitech's NAV – particularly in residential segment (63% of Unitech's Gross NAV) and given that time-lines for most of its projects in Chennai and Hyderabad have been pushed back by 12-15months due to approval delays. Factoring in this, increased debt levels, 200bps increase in discount rate to 16%,and likely increase in cap-rates to 10-11%, we have lowered Unitech's Mar'09E NAVs by 28% to Rs193 (vs. Rs358 earlier).

Trend of Net Debt/Equity over 3 Qtrs.

Developers	Sep'07	Dec'07	Mar'08
DLF	0.38	0.48	0.49
Unitech	1.52	1.36	1.96
Parsvnath	0.57	0.70	0.74
Puravankara	-0.05	0.26	0.51
Omaxe	0.40	0.83	1.12
Ansal Properties	0.47	0.54	0.57

Source: Citi Investment Research

Debt/equity levels – highest among peers

Unitech's debt levels have increased significantly to Rs71.4b in Mar'08 vs. Rs45.3b of Dec'07 and Rs43.3b in Sept'07; with leverage being highest among its peers. While a large part of this incremental debt was raised to pay for telecom licenses and some land outstanding – a leverage balance sheet (1.96x) amid rising interest rates and liquidity strained environment does raise risks of capital constraints, which could impact growth and execution ahead.

Value unlocking in telecom – potential trigger

Strategic stake sale in telecom venture likely to drive stock price performance

With the company allocated spectrum in 5 (Karnataka, Tamil Nadu, Orissa, Andra Pradesh and Kerela) of the 22 circles and more allocations on the anvil - we expect Unitech to unlock significant value from stake sale in telecom venture. Per management's recent announcement: 1) Unitech will commit limited capital (to the extent already invested Rs16.5b in procuring the telecom licenses) to this business; and 2) Unitech has asked a potential strategic partner to participate in talks to bid for a 26% in the telecom venture. Factoring in this and recent valuations paid to another telecom peer by a global player looking to scale-up its presence in the Indian telecom space, we believe Unitech's telecom investment could be value accretive and act as a potential trigger for the stock. However, we have not built any upside potential from this into our target price as we wait for more spectrum allocation, which would be crucial for telecom business valuations.

Other new developments

Approval delays push back new launches in South; 55-60m sq ft under construction over last few quarters

- **Delays and slow scale-up in construction activity; not healthy signs —** Delay in requisite govt. approvals for Unitech's ~20msqft of new launches in Chennai and Hyderabad has pushed backed time-lines by 12-15months. Further, construction activity stagnating at 55-60msqft over last few quarters raises execution risks. Management is targeting to launch ~40m sq ft of residential projects over next 12-months (subject to approvals) – this seems aggressive to us in the current environment.

Lehman's ROFR to 30% of 18m sq ft – should provide additional cash flows and facilitate faster execution

- **Lehman's US$175m investment in Mumbai project to ease cash flow pressures** – Lehman Brothers Real Estate Partners has agreed to invest US$175m for 50% stake in phase – I of Unitech's Western Expressway project in Santacruz, Mumbai - developing 1m sq ft of office space. Lehman and Western Expressway JV (50:50 JV between Unitech and its Mumbai partners) will each contribute 50% of the construction costs. As per the agreement, Lehman is likely to consider future investments in subsequent phases and has ROFR (Right of First Refusal) to 30% of 18m sq ft – this should provide additional cash flows and facilitate faster execution.

60% of incremental land acquired and substantially paid for; management says it will disclose once balance is acquired

- **More land in Mumbai** — Unitech's Mumbai JV has options to develop 50-60m sqf t in Mumbai (including the Wester Expressway project), 60% of the land has been acquired and substantially paid for; management says it will disclose details once balance is acquired.

- **Plans to unlock value in more assets through SPV level financing** — Given volatile markets, plans to list Office Trust have been pushed back. However, the company is exploring options of SPV financing for unlocking value in some commercial/hotel assets. Management expects good progress on this in the near term – although this does remain contingent on capital flows.

Unitech

Company description

Unitech is one of India's largest, most diversified real estate developers with an emerging pan-India presence. It enjoys leadership in markets of NCR and Kolkata. Its core strengths of land acquisition, reputation in building townships and relationships with governments and customers have enabled it to build a diversified portfolio. Unitech has land bank of 13,758 acres with total saleable area of ~696m sq ft spread over Chennai (17%), NCR (15%), Kolkata (21%) and Tier III cities (37%). Residential projects account for about 77% of landbank, commercial 7%, IT Parks 5% and retail 5%. It also has a small presence in power transmission, prefabricated construction, paving block and ready mix concrete. The promoter family holds a 75% stake in the company.

Investment strategy

We rate Unitech Hold/High Risk (2H) with a target price of Rs196 based on a 25% discount to our NAV estimate of Rs257. We think this discount is warranted by: 1) increased risks given company's high gearing; 2) potential execution delays; and 3) weakening outlook for property market amid rising interest rates. While Unitech scores on scale, focus on tier-I cities, ability to monetize assets early-on (Lehman's US$175m investment in Mumbai project reflects this) and track record, we believe increased risks outweigh these positives in the current capital strained environment. The stock has corrected, but upside potential appears moderate as we factor in increased risks. Value unlocking for its telecom licenses and upside potential from any asset unlocking are potential triggers for stock performance that we have yet to build into our target.

Valuation

Our target price of Rs193 is based on 25% discount to NAV factoring in higher risks and lower Mar09E NAV of Rs257 after adjusting for higher debt, 200bps increase in discount rate and significant push back in time-lines of new launches in residential projects. The discount is largely attributed to: 1) increased risks from leveraged balance sheet; 2) potential execution delays; and 3) weakening property outlook amid investor fears of rising interest rates. This is higher than the 15% discount we ascribe to DLF due to DLF's higher gearing towards commercial assets, benchmark in disclosure standards, strong balance sheet and sizeable asset-portfolio accruing leasing income.

Our NAV estimate of Rs257 is based on the following assumptions: a) current market price levels to sustain with no price inflation; b) development volume of 660m sq ft (~36m sq ft recognized as revenue up to FY09); c) average cost of capital of 16%; d) cap-rates of 10-11%; and e) tax rate of 28%. The stock is down 38%, underperforming the Sensex (26%), over last three months and is trading at 36% discount to NAV vs. our target 25% discount. Factoring in this and undiscounted triggers of value unlocking in telecom business, we see moderate upside potential from here.

Unitech NAV Summary (Rs Millions)

Gross NAV of Residential	510,660
Gross NAV of Non-Residential	303,837
Gross Total NAV	**814,497**
Less: Amt outstanding for land	40,000
Less: Tax @ 28%	216,859
Less: Debt Outstanding	85,523
Less: Customer Advances	70,000
Add: Cash	14,082
Add: Consultancy Fee from UCP	1,500
Net NAV	**417,697**
No. of Shares Outstanding (Millions)	1623
NAV Per Share (Rs)	**257**

Source: Citi Investment Research

Risks

We rate Unitech High Risk due to: 1) high debt levels relative to peers; and 2) delay in launch of the company's projects in South India. Downside risks include: 1) Significant delay in listing of Office Trust/asset monetization of retail and hotel assets could adversely impacting cash flows, given high gearing; 2) Any litigation on allocation of spectrum for its telecom license across all circles would adversely impact stock sentiment and stock performance; 3) Continued slowdown in residential demand and sustained high mortgage rates would negatively impact our NAV assumption and our earnings estimates going forward; 4) Potential supply and execution risks would negatively impact our NAV assumptions. Upside risks include: 1) Any decrease in interest rates that could help increase demand for Unitech's residential projects; 2) Any early developments relating to divestment of stake in the telecom venture that could boost stock sentiment. If any of these risk factors plays out, Unitech's share price is likely to have difficulty attaining our target price.

Puravankara Projects (PPRO.BO)

Hold/High Risk	2H
from Buy/High Risk	
Price (14 Jul 08)	Rs177.20
Target price	Rs212.00
from Rs358.00	
Expected share price return	19.6%
Expected dividend yield	1.1%
Expected total return	**20.8%**
Market Cap	Rs37,819M
	US$884M

Price Performance (RIC: PPRO.BO, BB: PVKP IN)

Hold: Risk of Slower Pre-sales Rises as Environment Worsens

- **Downgrade to Hold/High Risk, target cut to Rs212** — Our downgrade is premised on increasing risks of a pre-sales slowdown and project delays given Puravankara's residential-heavy model (75% of gross NAV). The stock is down 27%, but has outperformed the property sector by 11% over the last 3 months. Growing risks will limit the stock's upside, in our view. We cut our target to Rs212, based on a 35% discount (vs. 25% earlier) to our NAV of Rs325.

- **NAV cut** — We have lowered our NAV by 32% to Rs325, building in a higher discount rate of 16% (vs.14% previously) and a 12-15-month push back for new launches as the macro environment deteriorates on fears of rising inflation and rates.

- **What's new?** — 1) Contrary to market conditions, the company raised prices across select projects in Bangalore, Kochi and Chennai over the past few months, which could dampen near-term sales; 2) it plans to launch ~15m sq ft in FY09 in 5 cities; 3) it is exploring opportunities to enter affordable housing and acquire more land – a growth area.

- **Key differentiators** — 1) Quality landbank within city limits, largely paid for; 2) a direct sales model, which is less speculative; 3) a de-leveraged balance sheet an advantage; and 4) a play on South India, a relatively better market.

- **Valuations attractive, but risks are rising** — While the stock trades at a 45% discount to NAV, Puravankara's focus on Bangalore (66% of landbank) would raise risks in the event of any slowdown in the IT industry.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	735	3.83	93.3	46.3	30.5	90.2	0.0
2007A	1,291	6.72	75.6	26.4	15.3	77.5	0.4
2008E	2,400	11.24	67.2	15.8	3.1	33.5	1.1
2009E	4,064	19.04	69.3	9.3	2.4	29.1	1.1
2010E	4,636	21.71	14.1	8.2	1.9	25.9	1.1

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	46.3	26.4	15.8	9.3	8.2
P/E reported (x)	46.3	26.4	15.8	9.3	8.2
P/BV (x)	30.5	15.3	3.1	2.4	1.9
Dividend yield (%)	0.0	0.4	1.1	1.1	1.1
Per Share Data (Rs)					
EPS adjusted	3.83	6.72	11.24	19.04	21.71
EPS reported	3.83	6.72	11.24	19.04	21.71
BVPS	5.80	11.55	56.80	73.84	93.56
NAVps ordinary	na	na	na	na	na
DPS	0.00	0.71	2.00	2.00	2.00
Profit & Loss (RsM)					
Net operating income (NOI)	**992**	**1,558**	**2,349**	**5,189**	**6,959**
G&A expenses	-98	-198	-216	-434	-652
Other Operating items	8	115	236	-88	-105
EBIT including associates	**902**	**1,476**	**2,369**	**4,667**	**6,203**
Non-oper./net int./except.	-65	-12	98	-23	-21
Pre-tax profit	**837**	**1,463**	**2,467**	**4,644**	**6,181**
Tax	-71	-172	-67	-581	-1,545
Extraord./Min. Int./Pref. Div.	-31	0	0	0	0
Reported net income	**735**	**1,291**	**2,400**	**4,064**	**4,636**
Adjusted earnings	735	1,291	2,400	4,064	4,636
Adjusted EBIT	891	1,336	2,075	4,667	6,203
Adjusted EBITDA	894	1,361	2,133	4,755	6,308
Growth Rates (%)					
NOI	85.7	57.1	50.7	120.9	34.1
EBIT adjusted	91.3	49.9	55.3	124.9	32.9
EPS adjusted	93.3	75.6	67.2	69.3	14.1
Cash Flow (RsM)					
Operating cash flow	**-247**	**-5,584**	**-6,691**	**-2,011**	**-1,730**
Depreciation/amortization	3	25	59	88	105
Net working capital	-861	-5,968	-9,072	-6,163	-6,471
Investing cash flow	**-344**	**-379**	**-677**	**417**	**-88**
Capital expenditure	-112	-239	-161	-61	-67
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**615**	**5,892**	**7,344**	**2,064**	**2,347**
Borrowings	615	5,139	-237	2,491	2,774
Dividends paid	0	-137	-427	-427	-427
Change in cash	**25**	**-71**	**-24**	**469**	**529**
Balance Sheet (RsM)					
Total assets	**7,520**	**14,073**	**23,394**	**31,978**	**40,964**
Cash & cash equivalent	444	374	350	821	1,322
Net fixed assets	175	389	497	470	433
Total liabilities	**6,406**	**11,856**	**11,267**	**16,212**	**21,018**
Total Debt	1,622	6,761	6,524	9,015	11,789
Shareholders' funds	**1,114**	**2,218**	**12,127**	**15,764**	**19,973**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	31.9	32.0	36.7	38.1	35.9
ROE adjusted (%)	90.2	77.5	33.5	29.1	25.9
ROA adjusted (%)	13.3	12.0	12.8	14.7	12.7
Net debt to equity (%)	105.7	288.0	50.9	52.0	52.4
Interest coverage (x)	12.4	110.9	na	210.6	294.1

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Powered by: dataCentral

Key Points

Downgrade to Hold on increasing risks

Our downgrade is premised on higher risks to pre-sales given Puravankara's residential-heavy model (75% of gross NAV)

We are downgrading Puravankara to Hold/High Risk, premised on the prospect of a pre-sales slowdown as the environment gets tougher and given the company's residential-heavy model (75% of gross NAV) . Although the stock is down 27%, it has outperformed the property sector by 11% over the past three months. Growing risks limit the company's upside potential. We cut our target price to Rs212 on a higher discount of 35% (vs.25% earlier) to our NAV estimate of Rs325 (cut by 32%). We see deteriorating macro conditions amid high rates increasing the risks for the company's residential-heavy model, with a bias toward Bangalore (66% of landbank).

Lower NAV on higher risk of slowdown/delays

We have cut our NAV by 32% to Rs325, building in a 16% discount rate (vs.14% earlier) and 12-15-month delays

Given the tough market conditions and concerns over a IT/ITES slowdown in Bangalore and Chennai, target markets for Puravankara's residential-heavy model (79% of the total landbank), we believe the likelihood of delays in new launches/execution is high. We have cut our NAV 32% to Rs325, building in a higher discount rate of 16% (vs.14% earlier) to factor in higher risks after the recent rate hikes and a 12-15-month push-back for new launches as macro environment deteriorates.

What's new

- Puravankara has ~15.4m sq ft currently under construction and has aggressive plans to launch an additional 15m sq ft in Chennai, Kochi, Hyderabad, Colombo and Coimbatore – timely launches and execution are critical.

- Encouraging buyer response has led the company to raise prices by 6%-22% across projects in Bangalore, Kochi, and Chennai over the past few months. We believe the hikes could dampen near-term sales, as affordability issues are driving buyers to postpone purchases.

- Puravankara is actively exploring opportunities to enter the affordable housing segment, with plans afoot to acquire more land. It would be a significant growth area if the company launched the right product at the right time.

Puravankara Projects

Company description

Puravankara Projects is a leading developer in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business. Puravankara was incorporated in 1986. It has self-constructed most of its properties developed in Bangalore. Though Puravankara remains focused on Bangalore, it is also expanding to other regions in South India. These expansions are spread over locations such as Chennai, Coimbatore, Mysore, Cochin and Hyderabad, and to Colombo in Sri Lanka.

Investment strategy

We rate Puravankara Hold/High Risk, with a target price of Rs212. Puravankara's residential-heavy model has a quality landbank of ~116m sq ft. The company's clear development titles with landbank almost entirely paid for and in-house construction capabilities differentiate it from other developers. Puravankara's focus on South India, in the larger markets of Bangalore and Chennai, is in our view an advantage over developers with a National Capital Region (NCR) bias. However, we see deteriorating macro conditions amid high rates raising the risk of a slowdown in pre-sales given the company's residential-heavy model, with a bias toward Bangalore (66% of landbank).

Valuation

Our target price of Rs212 is based on a 35% discount to our NAV of Rs325. We ascribe the discount to: 1) Puravankara's concentration risk in Bangalore; 2) the company's residential-heavy business model, exposing its business to demand/pricing risks; 3) possible execution delays; and 4) lower investor preference for tier-two players with low stock liquidity. We believe an NAV-based valuation methodology is most appropriate for property developers, as it factors in the varied development projects and spread out time frame. Our NAV estimate of Rs325 is based on the following assumptions: 1) current market prices; 2) 12-15-month delay in project execution; 3) development volume of ~110m sq ft (as ~6m sq ft is already/to be recognized as revenue till FY09); 5) an average cost of capital of 16%; and 6) a tax rate of 28%.

Puravankara NAV (Rs Millions)

Gross NAV of Residential	84,456
Gross NAV of Non-Residential	28,794
Gross Total NAV	**113,250**
Less: Amt outstanding for land	2,350
Less: Tax @ 26%	31,052
Less: Debt Outstanding	7,624
Less: Customer Advances	3,149
Add: Cash	350
Net NAV	**69,425**
No. of Shares Outstanding (Millions)	213
NAV Per Share (Rs)	**325**

Source: Citi Investment Research

Risks

We rate Puravankara High Risk, reflecting: 1) its extremely high volatility; 2) reduced risk appetite for real estate stocks globally, particular smaller regional players, as most developers are facing fund constraints; and 3) the company's large exposure to South India, the country's IT hub. Residential demand could take a hit if the IT/ITES sector slows down markedly. Main upside risks to our target price are: 1) any decrease in interest rates would stimulate demand for residential property; and 2) faster than expected execution of projects. Main downside risks to our target price include: 1) Puravankara's concentration in the Bangalore region (~66% of landbank), where a slowdown in the IT sector could adversely impact demand; 2) delays in the execution of projects and planned developments would impact the company's reputation and our NAV assumptions; and 3) A rapidly changing property market environment could lead to property price/demand, regulatory and supply risks.

Parsvnath Developers (PARV.BO)

Sell/High Risk	3H
Price (14 Jul 08)	Rs113.15
Target price	Rs126.00
from Rs224.00	
Expected share price return	11.4%
Expected dividend yield	0.0%
Expected total return	**11.4%**
Market Cap	Rs20,898M
	US$489M

Price Performance (RIC: PARV.BO, BB: PARSV IN)

Sell: Risk-reward Still Unfavorable

- **Target cut to Rs126** — Although the stock has corrected sharply, we see more volatility ahead as pricing and demand risks increase amid rising rates. Parsvnath has a residential-heavy (~60% of landbank) and North India-biased (~70%) model. We believe the risk-reward profile is still unfavorable, and cut our target to Rs126 based on a 40% discount (vs.30% previously) to NAV.

- **NAV lowered on higher risks** — We have cut our March 09E NAV by 34% to Rs210 from Rs320. We factor in a higher discount rate of 16% in a rising interest rate environment and delays in project execution on sluggish demand and margin pressures due to higher construction costs. Assuming lower sales and EBITDA margins, we revise down our FY08E EPS 7.5%.

- **Scaling up construction, but slowly** — Parsvnath's projects under construction increased to 77m sq ft in 4Q FY08, vs. 76m sq ft in 3Q and 74m sq ft in 1Q. Of this, ~40m sq ft is pre-sold. While it continues to have aggressive plans to launch projects, our checks suggest the pace of pre-sale volumes has slowed.

- **What's new?** — 1) Added 1.95m sq ft to landbank (211m sq ft) – 2 bus depot projects in Ahmedabad and a luxury mall at Connaught Place, Delhi; 2) Strong traction in SEZs – land acquired for 7, of which 4 are notified and 2 have formal approval; and 3) raised Rs1.86bn by divesting a 30% stake in a Mumbai BKC project, easing some cash flow pressures.

- **Key risks** — Bias towards tier-two and -three cities in North India, and projects across 49 cities raise execution risk.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,070	7.21	62.9	15.7	8.3	70.7	0.0
2007A	2,922	15.82	119.4	7.2	1.4	34.5	2.6
2008E	4,244	22.98	45.2	4.9	1.1	25.1	2.7
2009E	7,452	40.35	75.6	2.8	0.6	26.9	0.0
2010E	9,360	50.68	25.6	2.2	0.4	20.3	0.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	15.7	7.2	4.9	2.8	2.2
P/E reported (x)	15.7	7.2	4.9	2.8	2.2
P/BV (x)	8.3	1.4	1.1	0.6	0.4
Dividend yield (%)	0.0	2.6	2.7	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	7.21	15.82	22.98	40.35	50.68
EPS reported	7.21	15.82	22.98	40.35	50.68
BVPS	13.56	80.77	102.31	197.36	302.74
NAVps ordinary	na	na	na	na	na
DPS	0.00	2.92	3.00	0.00	0.00
Profit & Loss (RsM)					
Net operating income (NOI)	**1,708**	**4,511**	**6,541**	**18,397**	**25,172**
G&A expenses	-268	-337	-396	-7,320	-11,323
Other Operating items	-42	-143	-239	-235	-258
EBIT including associates	**1,398**	**4,031**	**5,905**	**10,842**	**13,591**
Non-oper./net int./except.	72	49	267	117	175
Pre-tax profit	**1,470**	**4,080**	**6,172**	**10,959**	**13,765**
Tax	-400	-981	-1,928	-3,507	-4,405
Extraord./Min. Int./Pref. Div.	0	-176	0	0	0
Reported net income	**1,070**	**2,922**	**4,244**	**7,452**	**9,360**
Adjusted earnings	1,070	2,922	4,244	7,452	9,360
Adjusted EBIT	1,398	4,031	5,905	10,842	13,591
Adjusted EBITDA	1,440	4,174	6,145	11,077	13,849
Growth Rates (%)					
NOI	119.1	164.2	45.0	181.3	36.8
EBIT adjusted	98.5	188.4	46.5	83.6	25.3
EPS adjusted	62.9	119.4	45.2	75.6	25.6
Cash Flow (RsM)					
Operating cash flow	**-2,035**	**-13,537**	**-5,809**	**-18,010**	**-13,039**
Depreciation/amortization	42	143	239	235	259
Net working capital	-2,163	-16,128	-10,609	-35,795	-32,760
Investing cash flow	**-452**	**-1,175**	**-1,376**	**-318**	**-349**
Capital expenditure	-414	-721	-1,766	-311	-342
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,058**	**19,756**	**5,956**	**16,319**	**14,139**
Borrowings	1,152	9,337	6,510	16,319	14,139
Dividends paid	0	-540	-554	0	0
Change in cash	**-429**	**5,045**	**-1,229**	**-2,009**	**751**
Balance Sheet (RsM)					
Total assets	**9,496**	**36,283**	**49,933**	**85,037**	**121,100**
Cash & cash equivalent	412	5,458	4,228	2,219	2,970
Net fixed assets	529	1,106	2,649	2,724	2,807
Total liabilities	**7,485**	**21,365**	**31,022**	**48,586**	**65,186**
Total Debt	2,359	11,695	18,205	34,524	48,663
Shareholders' funds	**2,012**	**14,918**	**18,911**	**36,451**	**55,914**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	21.7	26.7	33.3	32.6	31.2
ROE adjusted (%)	70.7	34.5	25.1	26.9	20.3
ROA adjusted (%)	14.2	12.8	9.8	11.0	9.1
Net debt to equity (%)	96.7	41.8	73.9	88.6	81.7
Interest coverage (x)	53.6	21.6	15.7	21.1	27.7

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Key Points

Higher risk prompts us to cut NAV

With the operating environment getting tougher, we see higher pricing and demand risks for tier-two developers such as Parsvnath. The company offering an EMI reimbursement scheme as an incentive to boost sales of its recently launched 'Pasrvnath Preston' in Sonepat reflects these pressures. We cut our NAV estimate by 34% to Rs210, factoring in: 1) a higher discount rate of 16% (vs. 14% previously); 2) potential delays in project launches and execution given subdued demand and oversupply risks, especially in North India; and 3) increased construction costs in an inflationary environment.

Pace of construction is slowing down

Despite several new launches, the company's area under construction increased only marginally to 77m sq ft in 4Q FY08, vs. 76m sq ft in 3Q FY08 and 74m sq ft in 1Q FY08. We believe this reflects the weak underlying demand. While Parsvnath has already pre-sold ~40m sq ft of these projects under construction and continues to aggressively launch new projects across various markets, our channel checks suggest that the pace of pre-sales volumes, which we believe is critical for the company's cash flows and growth ahead, has slowed.

New developments

- **More additions to landbank:** The company added 1.95m sq ft in 4Q FY08, taking its total landbank to ~211m sq ft (2 bus depot projects in Ahmedabad totaling 1.78m sq ft and a luxury mall project at Connaught Place in Delhi with developable area of 0.17m sq ft).

- **Stake sale in Mumbai BKC project to ease some cash flow pressure:** The company has sold a 30% stake in its BKC bus depot project to Yatra Capital and Saffron India Real Estate Fund for Rs1.86bn.

- **Growing its contractual business; but margins could be lower:** In 4Q FY08 the company won an order worth Rs1.25bn to construct buildings, multi-level car parks and external development with an area of 0.29m sq ft at Buddha Smriti Udhyaan in Patna. The total value of projects in the contractual business is Rs2.63bn; however, we expect this business to yield lower margins.

- **Strong traction in SEZs, visibility on execution is key:** Parsvnath has acquired land for 7 SEZs. Four SEZs have been notified – 3 IT/ITES SEZs at Indore, Gurgaon and Dehradun and one Pharma SEZ at Nanded, while formal approval has been received for an IT/ITES SEZ at Kochi and a Biotech SEZ at Hyderabad. Further, land has been acquired for an IT/ITES SEZ at Mysore, which awaits notification. Construction on notified SEZs is to begin shortly — visibility on execution is crucial.

Parsvnath Developers

Company description

Parsvnath Developers is among the largest real estate developers in North India with dominance in residential projects (c.60% of total development). Its focus is on enhancing presence in tier-two and -three cities across the country, though it is concentrated in the NCR. Management has 15 years of experience in the real estate business and has completed over 5m sq ft of development in the last five years. The company is in the process of building a diversified real estate portfolio and has aggressive plans of developing c.211m sq ft over the next 4-5 years (development rights/land is already acquired). Promoters control and manage the company with an 80% stake.

Investment strategy

We rate Parsvnath Sell/High Risk (3H) with a target price of Rs126. Parsvnath has aggressive plans to develop c.211m sq ft over the next 6-7 years, for which it has already acquired land/development rights. The company's strategy to operate on a develop-and-sell model. The biggest challenge is execution. Management plans to diversify into new segments — commercial, retail, IT/ITES Park, DMRC projects, hotels, multiplexes and SEZs — and enhance its presence in 250 cities by 2010 vs. 49 cities today. The company's aggressive development plans raise execution and market risks, in our view. Although the stock has corrected sharply over the past 3 months, we see limited upside potential in the current environment and believe the risk/reward is unfavorable.

Valuation

Our target price of Rs126 is based on a 40% discount to our NAV estimate of Rs210. We accord a discount because: 1) The company is concentrating on tier-two and -three cities; 2) execution risk is high given the company's presence across 49 cities; and 3) demand and pricing risks exist given that Parsvnath's residential-heavy business model could result in liquidity constraints. We believe an NAV-based valuation methodology is most appropriate for valuing Parsvnath, as it factors in the company's varied development projects and spread-out time frames. Our NAV estimate assumes: a) current market prices; b) development volume of 167m sq ft after elimination of c44m recognized as revenue until FY09E and some area representing collaborators' share; c) average cost of capital of 16%; and d) a tax rate of 27%.

Parsvnath NAV Summary (Rs Million)

Gross NAV of Residential Development	45,352
Gross NAV of Non-Residential	43,963
Gross Total NAV	**89,314**
Less: Amt outstanding for land	13,730
Less: Tax @ 27%	20,408
Less: Debt Outstanding	18,205
Less: Customer Advances	2,450
Add: Cash	4,228
Net NAV	**38,750**
No. of Shares Outstanding (Millions)	185
NAV Per Share (Rs)	**210**

Source: Citi Investment Research

Risks

The key reasons for rating Parsvnath High Risk include: 1) the company's concentration in the NCR, where the risk of excess supply over the next 2-3 years is high; 2) aggressive development plans, which raises the risk of execution delays; and 3) evolving regulatory and political risks for the sector's growth. The main upside risks to our investment thesis and target price include: 1) Any positive developments on execution of the 9 SEZ projects would enhance the company's NAV and valuations; 2) The company is exploring opportunities to monetize some of its assets through stake sale to private equity funds. If this materializes, it would provide sizeable cash flows and boost stock sentiment; 3) Any downward revision in interest rates for housing projects would benefit the company, given its high leverage to the residential segment.

Omaxe (OMAX.BO)

Sell/High Risk	**3H**
Price (14 Jul 08)	Rs129.00
Target price	Rs135.00
from Rs221.00	
Expected share price return	4.7%
Expected dividend yield	1.9%
Expected total return	**6.6%**
Market Cap	Rs22,390M
	US$523M

Price Performance (RIC: OMAX.BO, BB: OAXE IN)

Sell: Risks on the Rise

- **Target price cut to Rs135** — Although Omaxe has declined 36% in the past 3 months, we advise avoiding the stock as the tier-two developer's rising debt and interest costs (16%) pose higher risk. We cut our target price to Rs135 based on a 40% discount (vs. 30% previously) to our estimated NAV of Rs225.

- **Risks on the rise** — With a net debt-equity ratio as high as 1.1x and a recent debt of Rs2.3bn raising interest costs to 16% from 13% in March 08, Omaxe could face liquidity issues. Further, it has raised Rs3bn at 18%, pledging 14% of major shareholders' equity. Although half of this debt has been repaid, the risk of margin calls remains as the stock has declined sharply. Omaxe's overdependence on slowing N. India (96% of landbank) raises risks of a pre-sales slowdown, delays and oversupply.

- **Cutting NAV on higher debt, execution delays** — A weak outlook for the property market could mean project delays for Omaxe. We cut our NAV to Rs225 from Rs315, factoring in higher debt, customer advances and delays.

- **Eyeing affordable housing** — Omaxe is entering affordable housing, targeting 300-500 sq ft houses in a price range of Rs1.5m-2.0m. It is in talks with the UP, Rajasthan and Punjab governments for low-cost land. Omaxe targets 100,000 such homes in the next 2 years, making efficient execution vital.

- **What's new?** — 1) Construction (~95m sq ft) has slowed, but Omaxe hopes to deliver ~15m sq ft in FY09 vs. ~4m sq ft in FY08; and 2) exploring SPV-level funding for the Naya Raipur project has been slow.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,188	7.91	na	16.3	9.6	84.8	0.2
2007A	2,440	15.74	99.0	8.2	4.3	72.9	0.7
2008E	4,949	28.51	81.1	4.5	1.5	51.0	1.9
2009E	7,026	40.48	42.0	3.2	0.8	33.7	1.9
2010E	9,071	51.98	28.4	2.5	0.5	26.7	1.9

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	16.3	8.2	4.5	3.2	2.5
P/E reported (x)	16.3	8.2	4.5	3.2	2.5
P/BV (x)	9.6	4.3	1.5	0.8	0.5
Dividend yield (%)	0.2	0.7	1.9	1.9	1.9
Per Share Data (Rs)					
EPS adjusted	7.91	15.74	28.51	40.48	51.98
EPS reported	7.91	15.74	28.51	40.48	51.98
BVPS	13.39	30.20	84.91	155.06	235.71
NAVps ordinary	na	na	na	na	na
DPS	0.25	0.86	2.50	2.50	2.50
Profit & Loss (RsM)					
Net operating income (NOI)	**1,778**	**3,884**	**7,082**	**11,539**	**15,988**
G&A expenses	-307	-408	-539	-960	-1,376
Other Operating items	-23	-36	-55	-48	-55
EBIT including associates	**1,448**	**3,440**	**6,488**	**10,531**	**14,558**
Non-oper./net int./except.	19	-211	-326	-907	-1,019
Pre-tax profit	**1,467**	**3,229**	**6,162**	**9,624**	**13,539**
Tax	-279	-652	-1,441	-2,599	-4,468
Extraord./Min. Int./Pref. Div.	0	-137	228	0	0
Reported net income	**1,188**	**2,440**	**4,949**	**7,026**	**9,071**
Adjusted earnings	1,188	2,440	4,949	7,026	9,071
Adjusted EBIT	1,448	3,440	6,488	10,531	14,558
Adjusted EBITDA	1,471	3,476	6,543	10,579	14,613
Growth Rates (%)					
NOI	321.6	118.5	82.3	62.9	38.6
EBIT adjusted	438.6	137.6	88.6	62.3	38.2
EPS adjusted	nm	99.0	81.1	42.0	28.4
Cash Flow (RsM)					
Operating cash flow	**-1,316**	**-7,131**	**-10,716**	**-3,952**	**-2,222**
Depreciation/amortization	23	36	55	48	55
Net working capital	-2,904	-10,690	-15,452	-11,203	-11,332
Investing cash flow	**-59**	**-330**	**-9**	**-10**	**-11**
Capital expenditure	-48	-271	-10	-10	-11
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,929**	**8,073**	**11,760**	**5,064**	**2,277**
Borrowings	2,063	8,899	6,423	5,237	2,452
Dividends paid	-14	-172	-434	-174	-175
Change in cash	**554**	**612**	**1,034**	**1,102**	**45**
Balance Sheet (RsM)					
Total assets	**12,465**	**25,460**	**42,753**	**57,332**	**76,815**
Cash & cash equivalent	1,039	1,651	2,685	3,787	3,832
Net fixed assets	180	403	358	334	290
Total liabilities	**10,454**	**20,779**	**28,015**	**30,418**	**35,682**
Total Debt	3,723	12,637	19,060	20,166	22,618
Shareholders' funds	**2,011**	**4,681**	**14,738**	**26,914**	**41,132**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	17.8	24.0	28.4	32.1	31.3
ROE adjusted (%)	84.8	72.9	51.0	33.7	26.7
ROA adjusted (%)	13.7	12.9	14.5	14.0	13.5
Net debt to equity (%)	133.4	234.7	111.1	60.9	45.7
Interest coverage (x)	40.7	11.7	11.1	10.5	12.9

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Key Points

Higher risk to NAV; cutting estimates

Given the sluggish demand due to low affordability and execution challenges, we believe the likelihood of Omaxe facing delays in new project launches and completion of ongoing projects is high, particularly due to the company's large focus on township projects. These concerns are further exacerbated by the fact that most of Omaxe's landbank is concentrated in tier-two and -three cities in North India, where the risk of price correction and oversupply is high. We are therefore reducing our NAV estimate by 29% to Rs225 from Rs315, factoring in an 1) increased discount rate of 16% (vs. 14% earlier) after the recent hike in benchmark rates, 2) increased debt and customer advances, and 3) 15-18-month delays in project execution given the sluggish demand environment, tough liquidity conditions and the slowdown in pre-sales.

Risks on the rise

Rising debt and interest costs — a concern

Omaxe's net debt/equity of ~1.1x as at March 08 is higher than most peers' ratios. With the company having raised debt of Rs2.3bn in the last 2 months at higher costs, liquidity is a concern against a debt of Rs22bn and average interest costs of 16% (vs. 13% at March 08), especially in the current environment of slowing pre-sales.

Likely risk of margin call on pledged stock

Omaxe raised Rs3bn debt in Dec 07 at a high rate of 18% by pledging 14% of major shareholders' equity with Indiabulls Finance. Although half of this debt is repaid, the risk of margin calls is high as the stock has fallen sharply.

What's new?

- **~95m sq ft is under construction:** Of this, 47m sq ft has already been pre-sold, with a large portion being plotted development; incremental QoQ growth is slow, however. Management targets delivering ~15m sq ft in FY09, vs. ~4m sq ft in FY08.

- **Eyeing affordable housing; ambitious plans:** Omaxe plans to enter the affordable housing segment by offering 300-500 sq ft homes for Rs1.5m-2.0m. It is in talks with the UP, Rajasthan and Punjab governments to acquire low-cost land, and is evaluating technologies for low-cost construction. Omaxe plans to launch 100,000 affordable homes in the next 2 years. Acquiring low-cost land and keeping construction costs down are key challenges.

- **Exploring SPV-level funding**: The company is exploring SPV-level financing for its 393-acre, Rs1.7bn Naya Raipur project — a theme township with a golf course. The project has not been factored into our NAV calculations as the transfer and payment for the land have not been executed.

- **MoU with Thai Privilege Consultant Co:** Omaxe has entered into an agreement with Thai Privilege Consultant to set up and operate 10 spas across the NCR region, especially in Omaxe's luxury residential projects.

- **Non-core area:** The company has entered into an agreement with the UP government to set up an aircraft flying and maintenance engineering training institute – a non-core area for Omaxe.

Omaxe

Company Description

Omaxe is largely a founder-owned and -controlled business. Rohtas Goel started a construction business in 1987 and transformed it into a real estate developer in 2001. He spearheads the organization, which employs other family members as part of the management team - together they own an 89% stake. The group has been hiring professionals at various levels in the organization. It is also emphasizing development of its management team to implement aggressive execution plans. It made a primary offering of 18.6m shares at Rs310 in July 2007.

Investment Strategy

We rate Omaxe Sell/High Risk with a target price of Rs135, based on a 40% discount to our NAV estimate of Rs225/share. Omaxe is one of North India's new and aggressive developers. It plans to develop ~152m sq ft over the next few years and focuses on the residential market (84% of landbank), with most of its developments in the NCR (~36% of landbank). In the current uncertain environment, we expect tier-two developers such as Omaxe to trade at deep discounts to NAV. With no near-term catalysts in sight and risks increasing, we believe the risk/reward for the stock is unfavorable.

Valuation

Our target price of Rs135 is based on a 40% discount to our estimated March 09E NAV of Rs225. The discount reflects the reduced risk appetite for real estate stocks, high volatility in the capital markets, the difficult economic environment, Omaxe's concentration in NCR where the risk of excess supply is high, and the company's high proportion of low-value-add plotted developments. Our NAV prices in higher interest rates and the risk of project execution delays amid sluggish demand conditions. We believe NAV is the most appropriate valuation method for Omaxe as it factors in: a) landbank; b) the size of the overall development opportunity, and differences based on market segments, location, scale and spread-out time frames; and c) execution. Our NAV estimate assumes: 1) market prices will stay at current levels; 2) development volume of 101m sq ft (as ~50m is already/to be recognized as revenue until FY09); 3) an average cost of capital of 16%; and 4) a tax rate of 34%.

Omaxe NAV Summary (Rs Millions)

Gross NAV of Residential	63,345
Gross NAV of Non-Residential	51,754
Gross Total NAV	**115,099**
Less: Amt outstanding for land	4,500
Less: Tax @ 34%	37,604
Less: Debt Outstanding	18,760
Less: Customer Advances	18,500
Add: Cash	3,260
Net NAV	**38,995**
No. of Shares Outstanding (Millions)	174
NAV Per Share (Rs)	**225**

Source: Citi Investment Research

Risks

We rate Omaxe shares High Risk. Key reasons for our High Risk rating are: 1) concentration in the NCR; 2) aggressive development plans that raise the risk of execution delays; and 3) evolving regulatory and political risks for sector growth. Upside risks to our target price are:1) Any downward revision in interest rates for housing projects, which would increase demand in the residential segment; 2) Rapid acquisition of land for the multi-product SEZ at Alwar will enhance NAV and valuations; and 3) Timely execution of ongoing projects, and successful new launches.

Ansal Properties & Infrastructure (ANSP.BO)

Sell/High Risk	**3H**
Price (14 Jul 08)	Rs90.15
Target price	Rs94.00
from Rs159.00	
Expected share price return	4.3%
Expected dividend yield	1.4%
Expected total return	**5.7%**
Market Cap	Rs10,232M
	US$239M

Price Performance (RIC: ANSP.BO, BB: APIL IN)

Sell: Stock Corrects; Risk to NAV Still Higher

- **Maintain Sell with reduced target of Rs94** — While the stock is down 36% over past 3-months, with near-term fundamentals of property markets weak, we see higher risk to Ansal Properties' NAV in the current environment. We are cutting our target to Rs94 based on higher discount of 45% (vs. 35% earlier) on reduced NAV of Rs170, factoring in these tough times.

- **Reducing NAV as risk of slowdown/delays rises** — We are reducing our NAV estimate by 31% to Rs170 as we hike discount rate to 16% (vs.14% earlier), factoring in higher risk of slowdown in pre-sales and execution delays due to subdued demand. Debt levels and customer advances have risen as well.

- **Some visibility on Dadri project** — The company has acquired ~400acres and launched phase I of Dadri project (2,500 acres) pending some approvals. HDFC Asset Management's recent investment of $55m for a minority stake should help faster execution; but timelines and sales response will be crucial.

- **Benefits of strategic alliances more back-ended** — We see positives in strategic alliances with: 1) Educomp for schools; 2) UEM, Malaysia for construction; 3) Fortis Healthcare for Medicity in Lucknow ; but benefits likely back-ended.

- **Risks rising** — We see higher risks for Ansal Properties given its concentration in NCR (43%) and tier-3 cities of North, high dependence on plots sales (33%) – where we believe risks of prices softening and sales slowing are high. Further, its rising debt levels, interest costs and margins pressure are not comforting signals in the current environment.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	375	5.35	180.4	16.8	4.2	28.8	0.6
2007A	1,321	11.64	117.5	7.7	1.1	24.2	1.1
2008E	1,735	15.28	31.3	5.9	0.9	16.7	1.4
2009E	2,870	25.28	65.4	3.6	0.7	22.6	1.4
2010E	4,008	35.30	39.6	2.6	0.6	25.1	1.4

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	16.8	7.7	5.9	3.6	2.6
P/E reported (x)	16.8	7.7	5.9	3.6	2.6
P/BV (x)	4.2	1.1	0.9	0.7	0.6
Dividend yield (%)	0.6	1.1	1.4	1.4	1.4
Per Share Data (Rs)					
EPS adjusted	5.35	11.64	15.28	25.28	35.30
EPS reported	5.35	11.64	15.28	25.28	35.30
BVPS	21.53	82.87	99.69	123.72	157.77
NAVps ordinary	na	na	na	na	na
DPS	0.57	1.01	1.25	1.25	1.25
Profit & Loss (RsM)					
Net operating income (NOI)	**1,204**	**3,243**	**3,868**	**7,443**	**10,661**
G&A expenses	-558	-1,043	-1,240	-2,886	-4,425
Other Operating items	-30	-38	-84	-71	-79
EBIT including associates	**615**	**2,163**	**2,543**	**4,485**	**6,157**
Non-oper./net int./except.	48	-76	-88	-163	-121
Pre-tax profit	**663**	**2,086**	**2,456**	**4,322**	**6,036**
Tax	-188	-704	-721	-1,452	-2,028
Extraord./Min. Int./Pref. Div.	-101	-62	0	0	0
Reported net income	**375**	**1,321**	**1,735**	**2,870**	**4,008**
Adjusted earnings	375	1,321	1,735	2,870	4,008
Adjusted EBIT	615	2,163	2,543	4,485	6,157
Adjusted EBITDA	646	2,200	2,627	4,557	6,236
Growth Rates (%)					
NOI	92.4	169.3	19.3	92.4	43.2
EBIT adjusted	152.2	251.3	17.6	76.4	37.3
EPS adjusted	180.4	117.5	31.3	65.4	39.6
Cash Flow (RsM)					
Operating cash flow	**87**	**-7,804**	**-4,046**	**-4,150**	**-3,874**
Depreciation/amortization	30	38	84	72	79
Net working capital	-270	-9,055	-6,148	-7,091	-7,961
Investing cash flow	**-24**	**17**	**140**	**-81**	**-89**
Capital expenditure	-84	-61	-38	-81	-89
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**92**	**9,794**	**3,254**	**3,807**	**4,353**
Borrowings	59	3,237	3,396	3,948	4,495
Dividends paid	-40	-87	-142	-142	-142
Change in cash	**155**	**2,007**	**-652**	**-424**	**390**
Balance Sheet (RsM)					
Total assets	**9,827**	**22,522**	**26,230**	**33,813**	**43,684**
Cash & cash equivalent	346	2,352	1,700	1,276	1,666
Net fixed assets	548	518	492	501	511
Total liabilities	**8,276**	**13,070**	**14,869**	**19,724**	**25,730**
Total Debt	1,426	4,719	8,115	12,063	16,558
Shareholders' funds	**1,551**	**9,452**	**11,360**	**14,088**	**17,954**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	17.2	24.9	25.4	29.5	30.6
ROE adjusted (%)	28.8	24.2	16.7	22.6	25.1
ROA adjusted (%)	4.3	8.2	7.1	9.6	10.3
Net debt to equity (%)	69.7	25.0	56.5	76.6	82.9
Interest coverage (x)	4.7	10.7	12.9	13.9	20.6

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Reducing NAV and earnings as risks rise

We are reducing our NAV estimate by 31% Rs170 (vs. Rs245 earlier) as we sense higher risks for Ansal Properties in the current environment given its concentration in NCR (43% of landbank) and tier-3 cities of North, high dependence on plots sales (33% of landbank) – where we believe risks of prices softening, sales slowing down are high. Further, its rising debt levels, interest costs and margin pressure are not comforting signals. Our reduced NAV factors in 200bps increase in discount rate to 16% (vs.14% earlier), execution delays of 15-18months for large township projects due to subdued demand and increasing debt levels and customer advances.

Additionally with slower-than-expected pre-sales, EBITDA margins are under pressure due to rising costs of construction and increased interest costs, we are also cutting our earnings estimates for FY09E-10E by 14-19%.

Ansal Properties – Estimate Revision Summary

	FY08			FY09			FY10		
	Old	New	Change	Old	New	Change	Old	New	Change
EBITDA	3,368	2,627	-22%	5,240	4,557	-13%	7,644	6,236	-18%
Net Income	2,183	1,735	-21%	3,324	2,870	-14%	4,943	4,008	-19%
EPS	19.23	15.28	-21%	29.28	25.28	-14%	43.54	35.30	-19%

Source: Citi Investment Research estimates

Some visibility on the Dadri project

The Company has acquired ~400acres of the targetted 2,500 acres Dadri project in NCR region; and launched phase I pending some approvals. Management expects to acquire the balance of ~100acres required for phase I and plans to start construction within a month. HDFC Asset Management's recent investment of $55m for a minority stake in the project should provide some capital for further land acquisition; however, we believe sales response to its phase I launch will be crucial. Given the current environment and scale of land acquisition still pending, risks of delays could be high. This could impact NAV, as Dadri project accounts for ~20% of the landbank and ~13% of our gross NAV estimate.

Ansal Properties & Infrastructure

Company description

Ansal Properties (Ansal) is a prominent real estate developer in northern India focusing on NCR and Tier-III cities in Uttar Pradesh, Haryana, Rajasthan and Punjab. It has development experience of ~32m sq.ft over the past four decades. Ansal is a pioneer of plotted development and townships with experience in developing key commercial and retail properties in Delhi such as Ansal Bhawan, Ambadeep, Antariksh Bhawan and Ansal Plaza, Delhi's first shopping mall. The roadmap for development includes integrated townships in Tier-II/Tier III cities, IT parks, office blocks, shopping malls and hotels. In FY07 it merged with Ansal Township & Projects Ltd, a group company engaged in construction and township development.

Investment strategy

We maintain our Sell/High Risk (3H) rating with a target price of Rs94. Ansal has aggressive plans to develop ~215m sq ft and secured most land (except for the Dadri project of 2,500 acres). The strategy to operate on a develop-and-sell model should provide it with the requisite cash flows. Management plans to build several large townships in NCR and Tier III cities in the north, but execution ability and softening prices in the region are risks to growth. Although valuations appear cheap and the stock is trading at a large discount to NAV, we do not see any near-term catalysts.

Valuation

Ansal Properties – NAV Summary (Rs million)

Gross NAV of Residential Development	**37,618**
Gross NAV of Non-Residential Development	30,492
Gross Total NAV	68,111
Less: Amt outstanding for land	15,000
Less: Tax @ 34%	18,058
Less: Debt Outstanding	10,000
Less: Customer Advances	7,500
Add: Cash	1,700
Net NAV	19,253
No. of Shares Outstanding (Millions)	114
NAV Per Share (Rs)	170

Source: Citi Investment Research

Our target of Rs94 is based on an increased 45% discount (vs.35% earlier) to Mar'09 NAV estimate of Rs170 (as against Rs245 earlier) factoring in higher risks and weak sentiment for property stocks. We attribute the discount to: 1) concentration in the NCR and Tier III cities in north India where risk of property prices softening in the near-term is high, 2) large exposure to plotted development (33% of development), a low value-add business, and 3) risk of delays for some large township projects, particularly the Dadri project where land is still being acquired. We believe a NAV-based valuation methodology is the most appropriate valuation method for property stocks. Our NAV estimate includes: 1) market prices remaining at current levels; 2) development volume of ~176m sq ft (~39m is/to be recognized as revenue until FY09E); 3) average cost of capital of 16% (vs. 14% earlier), and 5) a tax rate of 34%.

Risks

We rate Ansal Properties High Risk, consistent with our quantitative risk-rating system that tracks 260-day historical share price volatility. Reasons for High Risk rating are: 1) its high dependence on plotted development at 33% of landbank; 2) concentration of landbank in Tier II and Tier III cities in northern India, where risk of excess supply over the next 2-3 years is high, and 3) evolving regulatory and political risks for sector growth. The main upside risks to our investment thesis and target price are: 1) Timely aggregation of land for its Dadri project (20% of landbank) will increase visibility and enhance our NAV estimates; 2) Geographic diversification of landbank into other parts of India would help alleviate concerns of concentration of landbank in northern India; 3) Any downward revision in interest rates would positively benefit the company, given its high exposure to the residential segment. If any of these risk factors has a greater impact than we expect, the share price would likely move above our target price.

Ascendas India Trust (AINT.SI)

Buy/Low Risk	**1L**
Price (14 Jul 08)	S$0.78
Target price	S$1.11
from S$1.75	
Expected share price return	43.2%
Expected dividend yield	9.4%
Expected total return	**52.7%**
Market Cap	S$617M
	US$455M

Price Performance (RIC: AINT.SI, BB: AIT SP)

Ashish Jagnani
+91-22-6631-9861
ashish.jagnani@citi.com

Wendy Koh, CFA
wendy.koh@citi.com

Karishma Solanki
karishma.solanki@citi.com

A Defensive Play on Indian Property

- **Reiterate Buy, with lower TP of S$1.11** — In current volatile times, we see a-iTrust as a defensive play – while the stock is down 26% it has outperformed Indian property stocks by 12% over last 3-mnths. With healthy yields of 9.4% for FY09E, strong 12% DPU CAGR, it is our preferred play in commercial asset space, even as we lower TP to S$1.11 based on DDM, due to higher cost of equity of 10.6% (vs.7.8% earlier) on higher rates, currency risks and volatility.

- **Sustained high occupancy, pick-up in new leases; encouraging** — Occupancy for original portfolio remains strong at 98%, with retention rate high at 92%. Occupancy for newly constructed space of 1.1m sq ft is also 90%+.

- **High visibility on asset injections** — a-itrust's right of first refusal over: 1) 0.25m sqft of leased IT SEZ in Cybervale, Chennai with potential to increase to 0.81m sqft; and 2) 9.7m sqft of IT SEZs at Gurgaon, Pune & Coimbatore provides high visibility for asset injection. Further to debt tied-up for construction it has headroom to raise debt of S$150m-180m for acquisition.

- **Potential upsides to DPU Growth** — Development of ~2.7m sq ft SEZ in Bangalore and asset acquisition opportunities, could potentially lead to upside of 9%\ 34% to our DPU estimates by FY13E. However, given limited details, we have still not built this into our estimates.

- **Key risks** — 1) Marked slowdown in IT sector; 2) potential supply risks given large pipeline of IT Park assets; 3) execution delays for upcoming 1.5m sq ft.

Statistical Abstract

Year to 31 Mar	Net Profit (S$M)	Diluted EPS (S$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	na	na	na	na	na	na	na
2007A	41	0.19	na	4.1	0.4	na	0.0
2008E	46	0.06	-67.7	12.8	0.7	7.1	7.8
2009E	55	0.07	20.0	10.7	0.6	6.3	9.4
2010E	51	0.07	-7.8	11.6	0.9	6.3	8.6

Source: Powered by dataCentral

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	na	4.1	12.8	10.7	11.6
P/E reported (x)	na	4.1	9.5	11.6	11.8
P/BV (x)	na	0.4	0.7	0.6	0.9
Dividend yield (%)	na	0.0	7.8	9.4	8.6
Per Share Data (S$)					
EPS adjusted	na	0.19	0.06	0.07	0.07
EPS reported	na	0.19	0.08	0.07	0.07
BVPS	na	2.22	1.08	1.26	0.90
NAVps ordinary	na	na	na	na	na
DPS	na	0.00	0.06	0.07	0.07
Profit & Loss (S$M)					
Net operating income (NOI)	**na**	**40**	**61**	**75**	**78**
G&A expenses	na	-11	-6	-9	-9
Other Operating items	na	22	51	0	0
EBIT including associates	**na**	**51**	**105**	**66**	**69**
Non-oper./net int./except.	na	-4	-7	-2	-3
Pre-tax profit	**na**	**47**	**98**	**65**	**67**
Tax	na	-5	-31	-12	-13
Extraord./Min. Int./Pref. Div.	na	-2	-5	-2	-3
Reported net income	**na**	**41**	**62**	**51**	**50**
Adjusted earnings	na	41	46	55	51
Adjusted EBIT	na	51	105	66	69
Adjusted EBITDA	na	51	105	66	69
Growth Rates (%)					
NOI	na	na	50.7	24.1	3.7
EBIT adjusted	na	na	104.8	-36.8	4.3
EPS adjusted	na	na	-67.7	20.0	-7.8
Cash Flow (S$M)					
Operating cash flow	**na**	**34**	**49**	**-186**	**148**
Depreciation/amortization	na	0	0	0	0
Net working capital	na	-5	0	70	92
Investing cash flow	**na**	**-83**	**-129**	**145**	**-134**
Capital expenditure	na	-38	-35	0	0
Acquisitions/disposals	na	0	0	0	0
Financing cash flow	**na**	**118**	**76**	**35**	**-11**
Borrowings	na	122	-223	90	40
Dividends paid	na	0	-22	-55	-51
Change in cash	**na**	**69**	**-6**	**-6**	**3**
Balance Sheet (S$M)					
Total assets	**na**	**891**	**1,151**	**1,284**	**1,144**
Cash & cash equivalent	na	72	63	57	60
Net fixed assets	na	777	1,005	1,149	1,016
Total liabilities	**na**	**388**	**294**	**289**	**410**
Total Debt	na	195	40	125	165
Shareholders' funds	**na**	**503**	**857**	**995**	**733**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	na	75.1	102.4	52.9	49.1
ROE adjusted (%)	na	na	7.1	6.3	6.3
ROA adjusted (%)	na	na	4.5	4.5	4.2
Net debt to equity (%)	na	24.3	-2.7	6.8	14.3
Interest coverage (x)	na	12.0	14.1	36.8	24.6

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Key Points

Healthy yields and quality portfolio, the differentiator

Yield Comparison across Office REITs

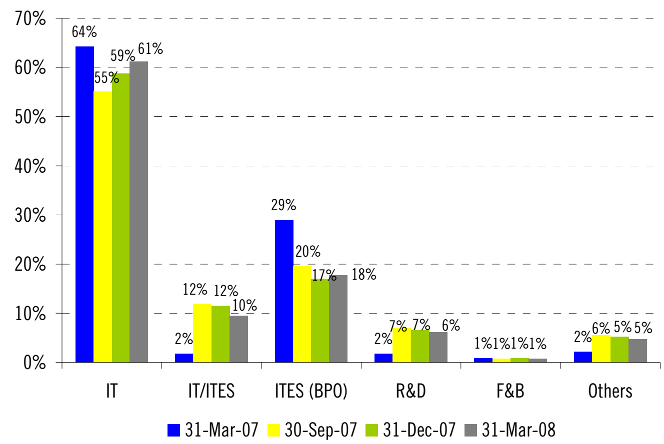
REITs	Type	FY09E Div Yield (%)	FY08E-10E DPU CAGR
a-iTrust	Trust (India)	9.4	12%
Indiabulls	Trust (India)	8.3*	na
Allco	Office	8.7	-4%
KREIT	Office	8.2	11%
CCT	Office	6.8	13%
Suntec	Retail/Office	8.0	8%
MP REIT	Retail/Office	7.0	3%

Source: Bloomberg, Factset, IBES Consensus estimates, IPO Prospectus, CIR; *Annualised

We see A-iTrust's healthy yields of 9.4% for FY09E (higher than other listed Singapore Office REITs), DPU growth of 12% CAGR over FY08-10E and quality leased portfolio of 4.7m sq ft across key growth cities with in-built development pipeline differentiate itself from other Indian business trust listed recently/potential listings on the anvil (though timing remains uncertain amid volatile markets), where we believe initial yields could be low but likely offer higher DPU growth albeit with execution risks

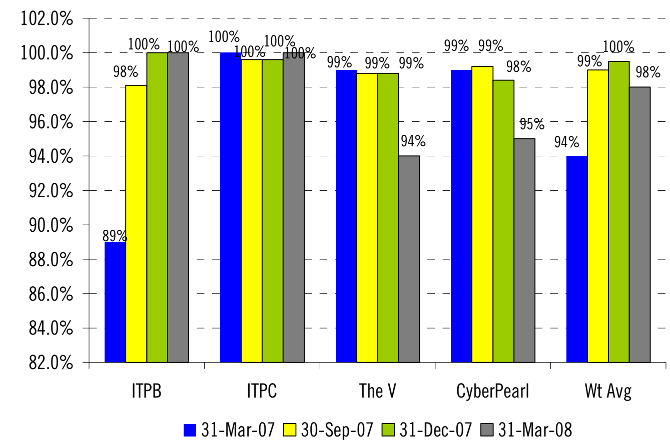
Occupancy for the original portfolio remains strong at 98%, with retention rate high at 92%. Newly constructed space of 1.1m sq ft is also performing well with 93% Occupancy for Vega, Hyderabad and 90% for Crest, Chennai. Tenant mix has improved with lower dependence on BPO space in Mar'08 vs. Mar'07.

Tenant Profile of A-iTrust Portfolio



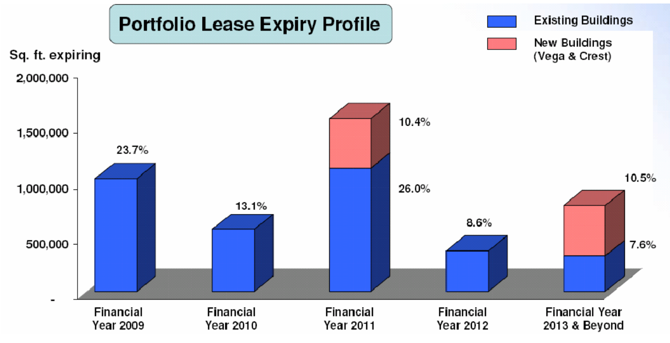
Source: Company Reports, Citi Investment Research

Average Asset Occupancy



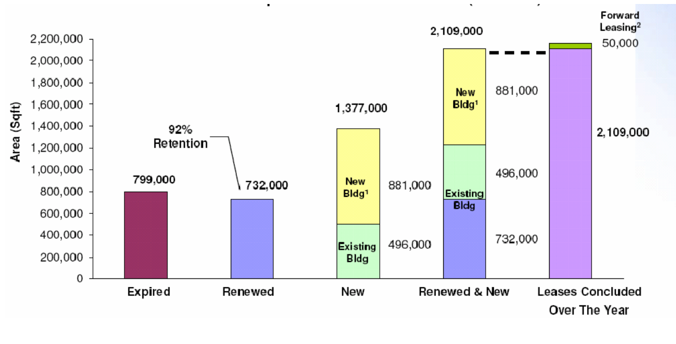
Source: Company Reports, Citi Investment Research

Lease Expiry Profile of A-iTrust portfolio



Source: Company Reports

Lease Activities From 1 April 2007 to 31 March 2008



Source: Company Reports

High visibility on asset injections

The trust's right of first refusal over: 1) 0.25m sq ft of leased IT SEZ space in Cybervale, Chennai with potential to increase to 0.53-0.81m sq ft; and 2) 9.7m sq ft of IT SEZs at Gurgaon, Pune and Coimbatore under development by Ascendas India Development Trust provides more visibility on asset injection.

Further, low gearing of 4% and after factoring in already debt tied-up of S$140m (at SIBOR plus 70bps) for construction for its upcoming 1.5m sqft; it still has headroom for raising debt of S$150m-180m (35% gearing) for acquisition.

Potential SEZ development

The trust plans to have a mix of multi-tenanted and built-to-suit buildings – the master planning of the SEZ has been completed and building plan approvals are being secured for phase-I which is expected to be a 545,000 sq ft multi-tenanted building. The land has total development potential of ~2.7m sq ft which could increase given higher FSI permitted in Bangalore (a potential upside, if it comes through). We expect more clarity to emerge on this over next few months.

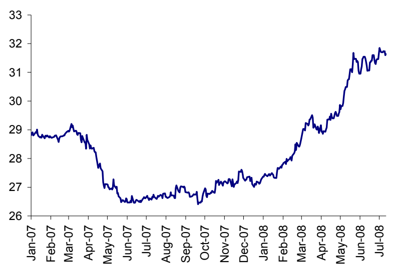
Potential upside to DPU growth

Development of ~2.7m sq ft of SEZ space in Bangalore and enhanced asset acquisition opportunities could potentially lead to upside of 9-34% to our DPU estimates by FY13E. However, given limited details, we have still not built this into our estimates.

Lowering target - adjusting for higher risks

A-itrust has declined 26% over last three months, largely in line with the decline in Singapore office REITs; though recently underperformance is higher. We believe this is a reflection of reduced risk appetite for REITs as an asset class in the current volatile environment, particularly given sharp increase in global risk aversion and higher currency risk.

SGD/INR Exchange Rate



Source: Bloomberg, Citi Investment Research

We are lowering our target price to S$1.11 (vs. S$1.75 inclusive of yield) based on a lower DDM-based value of S$0.924 per unit and ascribing S$0.19 per unit towards the 24-acre land bank held by the trust for future development with an yield of 9.4% for FY09E. The reduced target price is primarily on account of: 1) higher cost of equity of 10.6% (vs.7.8% earlier) in our DDM assumptions; 2) factoring in likely impact of ~9% currency depreciation (Rs31.5/SGD) post FY09 (when its currency hedge through forwards expires), assuming current exchange rates hold; and 3) potential push back of six months in accruing lease income for the upcoming proposed 1.5m sq ft (earlier expected to contribute at the start of FY10E). The increase in cost of equity is a function of: higher Singapore risk-free rate to 3.75% (vs.3% earlier) driven by rising 10yr bond rates and in-line with our Singapore REIT analyst Wendy Koh's assumptions; and higher beta of 1.10 (vs. 0.8 earlier) factoring in increased risks and volatility for Indian property stocks. That said, with yield levels attractive and DPU growth healthy, we see A-iTrust's stock catching up on its recent underperformance to Singapore Off-REIT index.

Reducing estimates

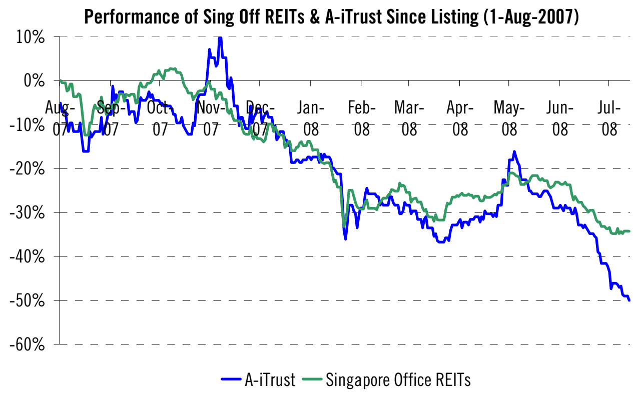
We have revised our FY08-09 estimates on the back of benefits accruing from higher cost control measures. However, we are reducing our FY10 estimates after factoring in delays in commencement of construction of 1.5m sq ft of proposed space in Bangalore and Chennai and depreciation in currency rate to Rs31.5/SGD (compared to Rs29/SGD assumed earlier).

A-iTrust Estimate Revision Table

	FY08E			FY09E			FY10E		
	Old	New	Change	Old	New	Change	Old	New	Change
Gross Income (S$m)	104	103	-2%	125	126	1%	171	141	-17%
Net Property Inc (S$m)	58	61	4%	75	75	1%	103	85	-18%
DPU (S$ cents)	5.57	6.09	9%	6.95	7.31	5%	9.15	7.66	-16%

Source: Citi Investment Research estimates

A-iTrust Performance vs. Singapore Office REITs



Source: Citi Investment Research

Rolling 3-mth Performance of A-iTrust vs. BSE Realty Index

Source: Citi Investment Research

Ascendas India Trust

Company description

a-iTrust is a Singapore-based business trust established with the principal objective of owning real estate and real estate-related assets used as income-producing business space located in India. a-iTrust may acquire, own and develop land for use primarily as business space or acquire other uncompleted developments to be used primarily for business space with the objective of holding the properties upon completion.

A-iTrust has in its portfolio four-income producing IT parks located in Bangalore, Chennai and Hyderabad with around 4.7m sq ft of completed development. The company has commercial space of 1.5m sq ft under construction at Bangalore and Chennai. In addition, the company also has 24 acres of land (of which 23 acres is part of an SEZ) with development potential of 2.7m sq ft.

a-iTrust is promoted by Ascendas Land International Pte Ltd, a wholly owned subsidiary of Ascendas Pte Ltd. Ascendas is one of Asia's leading providers of business space with a portfolio of over 34m sq ft across Asia and a significant presence in key markets like Singapore, China, India, Korea and the Philippines.

Investment strategy

We rate Ascendas India Trust (a-iTrust) as Buy / Low Risk (1L) with a target price of S$1.11 based on our dividend discount model (a benchmark method for REITs), which includes NPV of S$0.924 per unit, ascribes S$0.19 per unit for the Trust's 24-acre land bank and offers and yield of 9.4%. We believe a-iTrust: a) is a unique offering - the first Indian income-generating REIT-like business trust; b) will offer a strong DPU CAGR of 12% over FY08E-10E and healthy yield visibility; c) represents quality given sponsor Ascendas Land International Pte Ltd’s (a wholly owned subsidiary of Ascendas Pte Ltd, Singapore) good track record, execution and position in India, along with the group’s regional success and management skills; and d) defensive play on Indian property amidst current volatile times.

Valuation

Our reduced target price of S$1.11 is on DDM-based value of S$0.924 per unit and ascribing S$0.19 per unit towards the 24-acre land bank held by the trust for future development. We believe this should provide attractive yields of 9.4% for FY09E (higher than most other Singapore office REITs).

A-iTrust Valuation Assumptions

DPU CAGR (FY08E-10E)	12%
Terminal Value at 2% (S$)	1.19
Risk Free Rate	3.75%
Equity Risk Premium	6.25%
Beta	1.1
Cost of Equity	10.60%
NPV per unit (S$)	0.92
Value of Land per unit (S$)	0.19
Target Price (S$)	1.11
Yield (FY09E)	9.4%
Yield (FY10E)	9.9%

Source: Citi Investment Research estimates

Singapore Office REITs Dividend Yield Comparison

REITs	RIC	Type	FY09E Div Yield (%)	FY08E-10E DPU CAGR
a-iTrust	AINT.SI	Trust (India)	9.4	12%
Indiabulls	IBPI.SI	Trust (India)	8.3*	na
Allco	ALCR.SI	Office	8.7	-4%
KREIT	KASA.SI	Office	8.2	11%
CCT	CACT.SI	Office	6.8	13%
Suntec	SUNT.SI	Retail/Office	8.0	8%
MP REIT	MMPR.SI	Retail/Office	7.0	3%

*Annualised

Source: Bloomberg, Factset, IBES Consensus estimates, IPO Prospectus, Company announcements, Citi Investment Research estimates

We have made the followings assumptions in deriving our DDM-based value of S$0.924 per unit and land bank value of S$0.19 per unit:

A) DPU CAGR of 12% over FY08E-10E, building for: 1) moderate base rental growth of 5% per annum; 2) additional lease volume of 1.5m sq ft available from development pipeline; 3) forward cover at Rs29.00/1SGD for FY09 and Rs31.5/SGD for FY10E onwards, and 4) adjustment for 50% of Trustee-Manager's base fee and 100% of performance fee being paid in Units.

B) Risk-free rate of 3.75% (vs.3% earlier), similar to that assumed by our Singapore REIT analyst factoring in rising 10yr bond rates in Singapore - as the trust is likely to raise debt in Singapore for investment/acquisition of more assets in India.

C) Equity risk premium of 6.25% (compared to 5% in Singapore), higher to factor in increased risks in Indian equities, particularly the property sector.

D) Higher Beta of 1.1 (vs. 0.80 earlier) compared to 0.5 average for Singapore REITs and sister REIT i.e. A-REIT, which offer steady income and are defensive in nature. Our high beta assumption factors in increased risk of currency volatility, sharp increase in global risk aversion for property stocks, in addition to risks of cross-country structure, evolving regulatory risks on forex repatriation and higher asset cycle risks associated with Indian property market.

E) Terminal growth of 2%.

F) Presently, we have not included any growth in distributable income from potential acquisitions or SEZ development in our DDM-based value; this could provide further upside.

G) We have ascribed value of Rs.170m per acre for valuing the 24-acre land bank in ITPB, Bangalore - similar to the land valuation of Cushman & Wakefield for ITPB Bangalore at the time of primary offering. This translates to S$0.19 per unit taking forex rate of Rs29 to S$1.

Risks

While a-iTrust shares have only a brief trading history of less than one year, which would lead to a Speculative rating using our quantitative risk rating system, we prefer to rate them Low Risk given: 1) High-quality asset portfolio consisting of four IT parks with 4.7m sq ft of leasable area. 2) Growth opportunities through built-in development pipeline. 3) Strong management and execution capabilities.

The main downside risks to our investment thesis which could prevent the shares from reaching our target price include: (1) Any changes in regulations relating to repatriation of funds and share buy-back norms. (2) Depreciation of the Indian rupee against the Singapore dollar, which could adversely impact distribution income. (3) Higher-than-anticipated supply of commercial/IT space in cities in South India. (4) Any slowdown in growth of the IT/ITES sector, which would result in rental declines and higher vacancies for the assets.

India/China Valuation Comparison

India/China Valuation Comparison

Name	RIC Code	Price Jul 14	Mkt Cap USDmn	CIR Rating	Est. NAV	Discount/Premium to NAV	Target Price	Target NAV Disc	Implied Upside	FY09 P/E
India										
DLF	DLF.BO	456	18,164	1M	650	-30%	585.00	-10%	28%	8.23
Unitech Ltd	UNTE.BO	164	6,210	2H	257	-36%	193.00	-25%	18%	10.97
Puravankara Projects	PPRO.BO	177	884	2H	325	-45%	212.00	-35%	20%	9.31
Omaxe	OMAX.BO	129	523	3H	225	-43%	135.00	-40%	5%	3.19
Parsvnath Developers	PARV.BO	113	489	3H	210	-46%	126.00	-40%	11%	2.80
Ansal API	ANSP.BO	90	239	3H	170	-47%	94.00	-45%	4%	3.57
China										
China Overseas	0688.HK	14	13,741	1L	17	-18%	16.83	0%	22%	13.83
Guangzhou R&F	2777.HK	17	6,920	1M	26	-36%	23.64	-10%	41%	8.60
China Resources Land	1109.HK	12	5,999	1L	22	-47%	20.73	-5%	79%	11.60
Shimao Property	0813.HK	10	4,341	1M	23	-55%	20.35	-10%	98%	9.78
Agile Property	3383.HK	8	3,777	1M	10	-18%	6.74	-30%	-14%	9.46
Sino-Ocean Land	3377.HK	5	2,896	1L	10	-51%	10.22	0%	102%	7.03
Yanlord	YNLG.SI	2	2,671	1L	4	-50%	4.03	0%	102%	8.45
New World China	0917.HK	4	1,955	1M	12	-68%	9.97	-20%	151%	6.69
Franshion Prop	0817.HK	3	1,902	1M	6	-49%	5.89	0%	95%	10.33
Hopson	0754.HK	9	1,754	1M	26	-65%	21.18	-20%	128%	3.33
KWG Property	1813.HK	5	1,705	3H	8	-38%	5.00	-40%	-3%	9.40
C C Land	1224.HK	5	1,413	1M	14	-63%	18.50	33%	263%	4.60
Greentown China	3900.HK	7	1,290	2M	10	-35%	11.57	14%	77%	4.50
Shenzhen Investment	0604.HK	3	1,198	1L	8	-63%	6.30	-20%	116%	4.39
Guangzhou Inv	0123.HK	1	1,078	1H	5	-77%	3.60	-30%	205%	5.39
BJ Capital Land	2868.HK	2	705	1M	8	-70%	5.03	-35%	117%	2.66
SPG Land	0337.HK	4	479	1M	10	-63%	9.68	0%	169%	3.18

Source: Citi Investment Research estimates

Appendix A-1

Analyst Certification

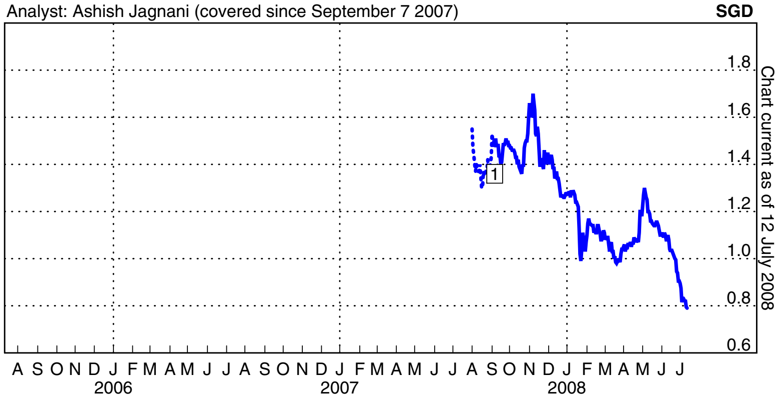
Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Ascendas India Trust (AINT.SI)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since September 7 2007)



Rating/target price changes above reflect Eastern Standard Time

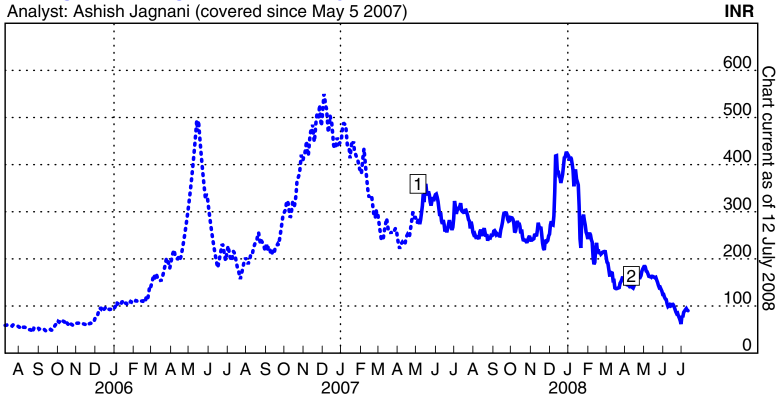
#	Date	Rating	Target Price	Closing Price
1:	6 Sep 07	1L	1.75	1.48

*Indicates change.

Ansal Properties & Infrastructure (ANSP.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)



Rating/target price changes above reflect Eastern Standard Time

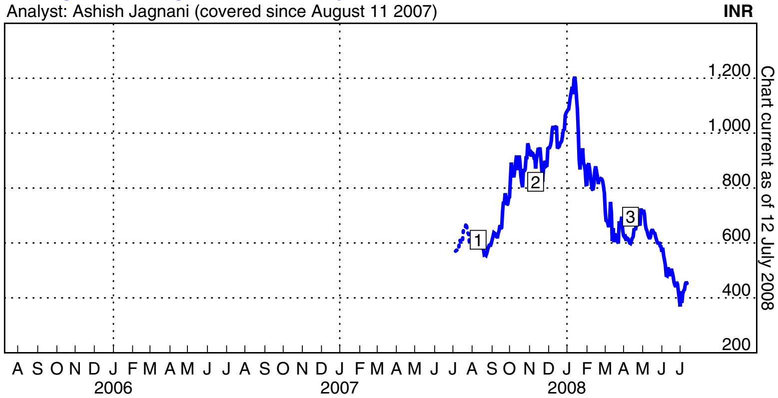
#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3H	255.00	281.05
2:	11 Apr 08	3H	*159.00	140.85

*Indicates change.

DLF (DLF.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since August 11 2007)



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

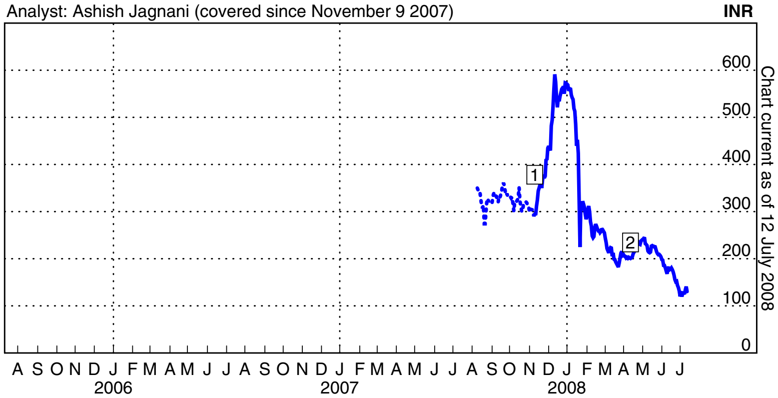
#	Date	Rating	Target Price	Closing Price
1:	10 Aug 07	1M	725.00	584.45
2:	12 Nov 07	1M	*1,046.00	871.20
3:	11 Apr 08	1M	*846.00	598.00

*Indicates change.

Omaxe (OMAX.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since November 9 2007)



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

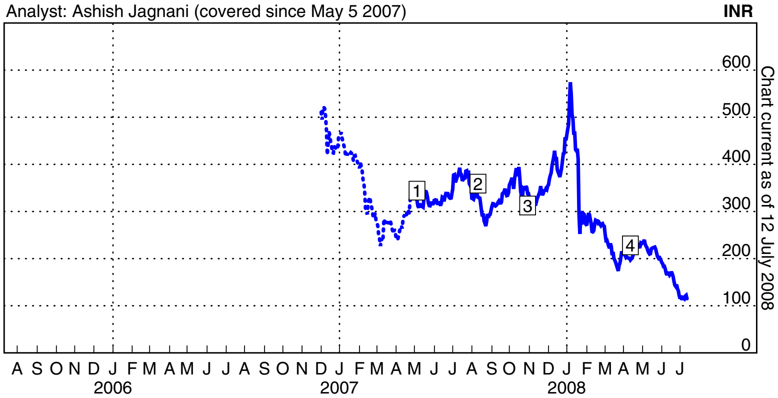
#	Date	Rating	Target Price	Closing Price
1:	9 Nov 07	1H	386.00	294.70
2:	11 Apr 08	*3H	*221.00	200.50

*Indicates change.

Parsvnath Developers (PARV.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

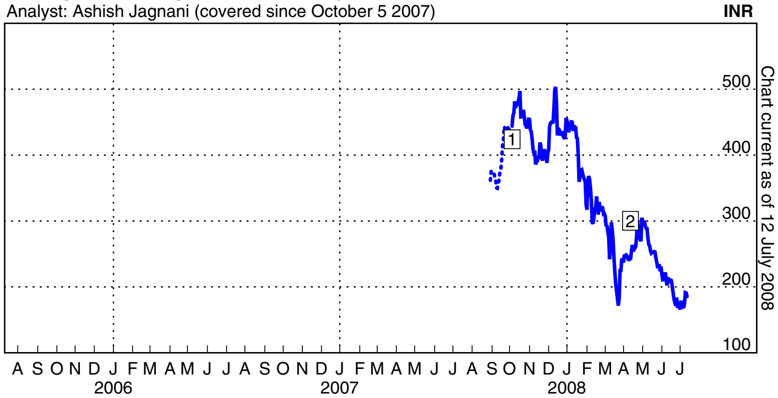
#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3H	295.00	323.35
2:	10 Aug 07	3H	*345.00	330.15
3:	30 Oct 07	3H	*376.00	338.15
4:	11 Apr 08	3H	*224.00	197.10

*Indicates change.

Puravankara Projects (PPRO.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since October 5 2007)



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	4 Oct 07	1M	536.00	444.50
2:	11 Apr 08	*1H	*358.00	241.40

*Indicates change.

Unitech (UNTE.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since May 5 2007)

Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	4 May 07	3M	215.00	216.08
2:	10 Aug 07	3M	*247.50	256.15
3:	30 Oct 07	3M	*314.00	374.40
4:	10 Feb 08	*1M	*454.00	314.50
5:	11 Apr 08	1M	*375.00	262.80

*Indicates change.

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% of companies in each rating category that are investment banking clients	53%	52%	42%

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Citi Investment Research's stock recommendations include a risk rating and an investment rating.
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Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.
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