

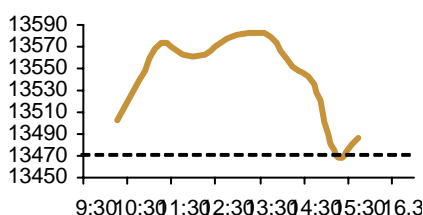


Index performance on 16 Nov 06

	Last close	%chg (DOD)	%chg (YTD)
Sensex	13,505.9	0.3	43.7
Nifty	3,876.9	0.0	36.7
CNX Midcap	5,049.8	0.3	25.3
Nasdaq	2,449.1	0.3	11.1
DJIA	12,305.8	0.4	14.8

For more market data, see the last two pages of this document.

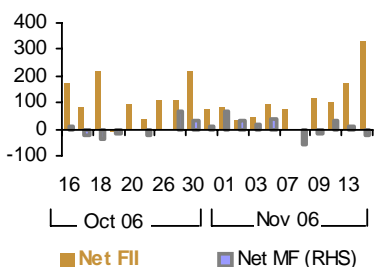
Sensex (intra-day) on 16 Nov 06



Traded value

(US\$ m)	Turnover	% Chg
BSE	1,351.2	19.8
NSE	2,276.5	17.7
Derivatives (NSE)	6,471.3	14.9

Net inflows/ Outflows (US\$ m)



Net Inflows/Outflows (US\$ m)

(US\$ m)	15-Nov-06	MTD	YTD
FIIs	N.A.	1,039.5	7,798.0
MFs	45.5	137.2	3,127.3

FI activity in derivatives as on 15-Nov-06

(US\$ m)	Index	Stock
Net Buying	98.9	(6.9)
Open Interest	3,085.3	3,493.8
Chg in Open Int. (DoD %)	(0.3)	0.7

Advances/Declines all market

	BSE	NSE
Advances	1,003	33.8
Declines	1,536	607
Unchanged	71	21

Inside...

Brics Picks - Unitech Ltd

Real(i)ty check

India's real estate sector is set for strong growth ahead

The Indian real estate sector is set for strong growth over the next few years, driven by favourable demographics (a growing population of young earners); improving regulatory environment; growing urbanisation; and robust support from the financial sector.

Unitech is poised to emerge as a leader...

Unitech is poised to emerge as a leader in this space, as it expands its footprint from the National Capital Region (NCR) to Chennai in the south and Kolkata in the east. It arguably has the best land bank in the country totaling 14,211 acres (including shares of joint-venture partners) spread over rapidly growing cities like Kolkata, Chennai, and NCR. A strong brand franchise, which has come to be associated with reliability and quality, enables the company to charge premium prices for its properties.

...but current valuations are too steep—we rate the stock a Neutral

We Unitech to register strong growth in revenues and earnings over the next three years. At the same time, we believe that valuations are stretched, with the stock trading at a premium to its NAV. Current valuations ignore some significant risks—the company's high dependence on a couple of cities, adverse regulatory policies, and shortage of manpower to execute large projects. Our one-year price target works out to Rs482 (given an NAV of Rs356, assuming cost of equity at 13%). That represents a mediocre return from the stock's current price of Rs475—we rate it Neutral

Sector watch

Stock	Last close (Rs)	Mkt cap (US\$ m)	52-wk high (Rs)	52-wk low (Rs)	FY06 P/E	FY07E P/E	
						BRICS	Consensus
Auto & Auto Parts							
BAJAJ AUTO	2589.4	5778.6	3325.0	1855.8	20.9	18.6	19.9
MAHINDRA & MAHIN	816.8	4395.5	853.0	400.2	26.1	22.7	16.8
MARUTI	893.6	5693.8	991.4	570.6	16.1	14.7	17.0
TATA MOTORS	813.9	6915.5	997.0	512.2	15.0	14.0	15.5
TVS MOTOR	98.6	516.3	186.7	78.0	19.8	20.7	17.9
Banking & Financial Services							
HDFC BANK	1144.8	7943.6	1150.0	620.0	40.7	30.9	31.7
HDFC LTD	1555.9	8566.3	1580.0	962.0	30.9	26.8	26.7
ICICI BANK	887.8	17487.62	925.0	440.0	38.5	27.4	24.8
IDFC	78.7	1952.2	83.3	43.4	30.6	21.9	18.3
SBI	1220.1	14162.1	1228.0	684.2	14.1	15.9	11.9
BANK OF BARODA	269.3	2163.2	296.1	175.8	12.1	9.4	9.8
CANARA BANK	301.9	2729.6	306.1	165.1	9.9	10.4	9.2
PUNJAB NATL BANK	552.7	3843.6	565.9	300.0	13.5	9.2	10.5
UNION BANK INDIA	137.5	1531.8	142.0	80.5	11.5	8.4	7.4

Manish Gunwani
(91-22-66360128)
manish.gunwani@bricssecurities.com

Current price: Rs475

Bloomberg: UT IN
Reuters: UNTE.NS
Mkt cap: Rs384.9bn/US\$8.7bn



Unitech Ltd

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Industry outlook

The Indian real-estate sector's revenues are generally estimated at US\$12bn for FY05 (source: FICCI), and rising at over 30% annually. However, given the fragmented nature and dominance of the unorganized sector, it is difficult to size the industry with precision. Taking total housing loan disbursals of US\$22bn in FY06, we believe the sector's revenues would be over US\$30bn in the current fiscal. Residential housing accounts for more than 80% of the sector, though its share is expected to dip gradually over the next few years as commercial and retail segments grow faster.

Long-term growth drivers

The sector has been showing robust growth on the back of long-term drivers, which we discuss below.

India's real estate sector has seen dramatic growth over the past few years, with rising incomes and cheap financing fuelling asset purchases

Rising disposable incomes

Figure 1: Number of households earning

Annual income (Rs)	Number of households (m)		CAGR (%)
	FY2006	FY2010E	
>0.5m	3.59	7.43	20
>1.0m	1.29	2.83	22
>2.0m	0.45	1.04	23
>5.0m	0.09	0.22	25

Source: National Centre for Applied Economic Research

Increasing urbanisation and concentration in the metros

Not only is the urban population increasing as a proportion of the country's overall population, but the concentration in metros (>1m people) is also rising (see table below).

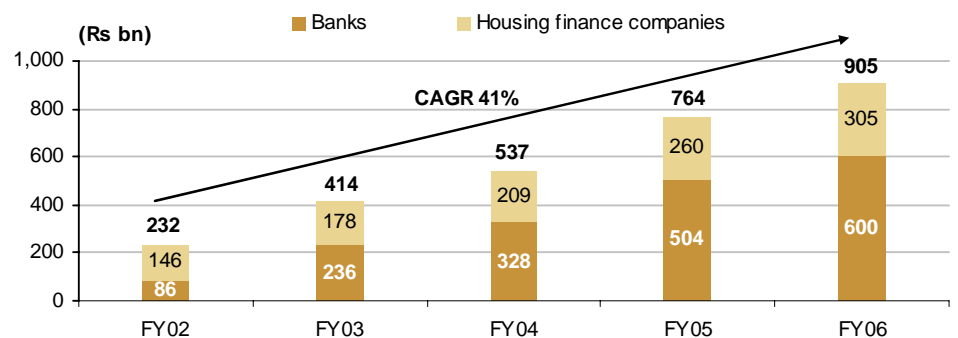
Figure 2: Increasing urbanisation and concentration in the metros

Census year	Number of cities with more than a million people	Population in these cities (m)	% of overall urban population
1951	5	12	19
1961	7	18	23
1971	9	28	26
1981	12	42	26
1991	23	71	33
2001	35	108	39

Source: India Census

Healthy growth in housing finance spurred by low interest rates

Falling interest rates, coupled with aggressive promotional initiatives by banks, have driven rapid growth in mortgage finance.

Figure 3: Housing finance disburseals

Source: RBI, National Housing Board, Brics Research

Improving regulatory environment

Repeal of Urban Land Ceiling Act in some states: The Urban Land Ceiling Act prescribes the limits to urban areas that can be acquired by an entity. This Act was a major hindrance to smooth land acquisition for big projects. It has been repealed in nine states under the Urban Land (Ceiling and Regulation) Repeal Act, 1999.

FDI rules eased: In 2005, the government eased the rules for allowing foreign capital investment in real estate projects. FDI is allowed under automatic route now for projects meeting specific criteria (detailed in appendix 2).

Tax breaks on housing mortgage payments: Interest payments on housing loans availed by individuals have been made tax-deductible, thus encouraging home ownership.

Increasing consolidation in industry

Real estate development in India has traditionally been dominated by unorganised players, who account for 75-80% of the sector's revenues. The primary reasons for this fragmentation are:

- Restrictive laws and slow legal processes make it difficult to consolidate land holdings.
- Lack of access to organised finance
- Spate of government clearances required for each project imply that relationships with local authorities are vital
- A sizeable proportion of the financial transactions in the sector are unaccounted for (this is the "cash component", which is often used to bribe officials and buy land from farmers).

The industry has experienced some consolidation over the past few years, driven by:

- Increasing prominence of organised finance via banks, FDI and real estate funds, which is available only to the larger players.
- Rationalisation of laws (this includes repeal of ULCRA in many states).
- Increasing popularity of large townships with modern amenities, which can be developed only by large-scale developers.
- A decline in the “cash component” caused by an increase in mortgage-financed transactions.
- A surge in construction activity, which has stretched human resources thin, especially for the smaller developers (building contractors are gravitating towards larger developers).

However, the consolidation process is expected to be slow; the unorganised sector will continue to dominate the industry for at least the next few years.

Key characteristics of real-estate business

Industry is characterised by enormous operating leverage

Construction costs are fairly constant across regions, and are primarily influenced by commodity prices. Construction costs are around Rs800-1,200 for mid-range residential apartments (see table below), and Rs1,200-2,000 for commercial and retailing space.

Figure 4: Construction cost break-up for a typical residential apartment

Item	Cost/sq ft (Rs)
Concrete/blockwork	550
Painting (Interior+Exterior)	50
Electrical equipment	100
Flooring/Tiling	150
Plumbing/Doors	100
Lifts and DG sets	80
Landscaping and others	70
Total	1,100

Source: Brics Research

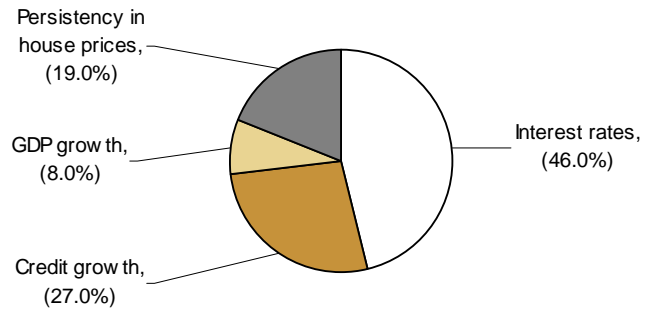
As construction costs are more or less constant, margins of real estate developers depend primarily on sales realisations—any rise in realisations flows directly to the bottomline.

A direct implication of this cost structure is that the greatest value in a real estate project comes not from construction, but from prudent acquisition of land, obtaining clearances in a timely manner, and designing to ensure optimal monetisation.

Monetary policies have a great bearing on the sector

Interest rates and credit growth have a great impact on the real estate sector as mortgages have come to play an increasing role. Anecdotal evidence suggests that 80-90% of all incremental buyers' avail of mortgage finance.

Figure 5: Factors explaining house price changes



Source: Research paper by RBI

Project roll-out time is also vital

While cheap land acquisition is important, duration of a project can also have significant impact on a project's net present value (NPV), since real estate projects often span a number of years. The table below shows the sensitivity of a project's NPV to realisation and time taken for roll-out.

Figure 6: NPV per acre (Rs m) – sensitivity to realisation and project duration

		Realisation (Rs/sq ft)		
		2,000	3,500	5,000
Duration of project (years)	3	20	57	93
	5	19	52	87
	7	13	35	58

Assumptions: FSI of 1, construction cost Rs1100/sq ft growing at 5% p.a., realisation growing at 5% pa, cost of capital 13%.

Source: Brics Research

Large land banks enable developers to develop townships, complete with commercial and retail components. But the trade-off is that they entail longer roll-out times, which could translate into lower per-acre NPVs than those of standalone buildings.

Real-estate prices

Soft landing is most likely

In India, it is difficult to get precise data on demand and supply of housing stock, so forming a view on real estate prices is more of an art than a science. Also, value of real estate is very sensitive to location, and returns could vary substantially across cities and even across areas within the same city. Nevertheless, there is a countrywide trend in real estate prices that we have examined from various angles. Our conclusion is that real estate prices, after gaining substantially in the last two years, will stabilise and in real terms will provide only moderate returns from hereon. A big macroeconomic shock—which in our view is unlikely at this point—could trigger a hard landing.

Affordability

We think asset prices are increasingly acquiring bubble-like characteristics

A CAGR of 5% in property prices over the next four years would demand a CAGR of 15% in the number of households that are able to afford the housing stock to be created over this period

We have used household income data projections to estimate the affordability of high-end houses, whose buyers form the core constituency of developers such as Unitech, DLF, Parsvanath and Shobha Developers.

Figure 7: Income projections and their implications for size of target market

	FY06	FY10, after price CAGR of	
		5%	10%
Area (sq ft)	1,250	1,250	1,250
Price (Rs/sq ft)	2,800	3,403	4,099
Basic value of property (Rs m)	3.5	4.3	5.1
Extras	20%	20%	20%
Total price (Rs m)	4.2	5.1	6.1
Loan @ 70% of total property price (Rs m)	2.9	3.6	4.3
Interest rate (%)	8.75%	10%	10%
Total annual payment (Rs)	352,800	434,834	523,766
Annual income required to service such a loan (Rs m)	1.1	1.3	1.57
Target market - Number of households meeting this income requirement (m)	1.29	2.3	1.8
CAGR in number of target households		15%	9%

1) Extras refer to charges for stamp duty (5-12% of property value, depending on the state), car parking, society formation, utility connections, etc.

2) We have assumed minimum income as thrice the annual mortgage payments – the bank norm is minimum of two times, but typically the income calculation excludes benefits like provident fund.

Source: NCAER, Brics Research

According to our calculations in the table above, if house prices rise at an annualised rate of more than 5-7%, the CAGR in number of target households would fall below 15%—a rate that in our view is essential if the market's demand is to meet the aggressive development plans of leading builders such as Unitech.

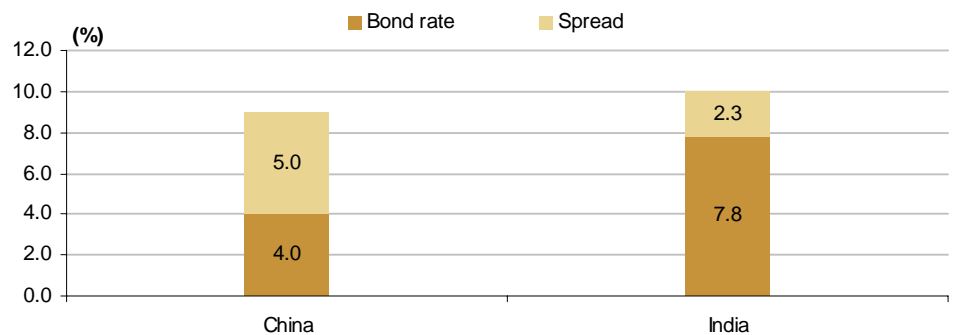
Rental yields

Rental yields appear to be abnormally low

The sustainability of real estate prices is often gauged on the basis of rental yields (annual rent on a property as a proportion of the prevailing price of that property). We note that in most residential areas in India, rental yields (net of maintenance and property taxes) have fallen to 2.5-4%, compared to the long-term risk-free interest rate of about 8%.

In commercial property, the current cap rate (first-year rental as proportion of capital value) in India is about 10-11%, and the spread over the bond rate is significantly smaller than in China, which is a comparable market (see chart below).

Figure 8: Cap rate spread over bond rate



Source: Brics Research

Housing finance

Rapid growth in housing finance's proportion of loans outstanding

Over the past few years, cheap mortgage financing coupled with tax incentives has been a key driver of demand for residential real estate. A look at historic data on housing loans disbursed by commercial banks (which now account for 70% of housing loans) shows that there has been an increase in both number of housing-loan accounts (driven by increasing incomes and tax incentives) and ticket sizes of loans (driven by asset price increases). This has led to a CAGR of 57% in banks' loans outstanding.

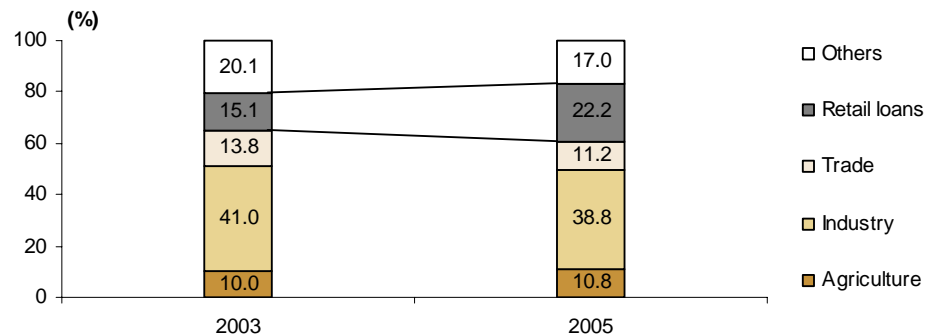
Figure 9: Rapid growth in banks' housing loans

	FY02	FY03	FY04	FY05	CAGR over FY02-FY05 (%)
Number of accounts ('000)	1,816	2,446	3,035	3,666	26
Amount outstanding (Rs bn)	328.3	490.7	853.5	1,267.9	57
Average amount/account (Rs)	180,754	200,597	281,206	345,873	24

Source: RBI - Basic Statistical Returns

This growth in housing finance was enabled by mortgage loans rising as a proportion of overall credit.

Figure 10: Proportion of advances by commercial banks

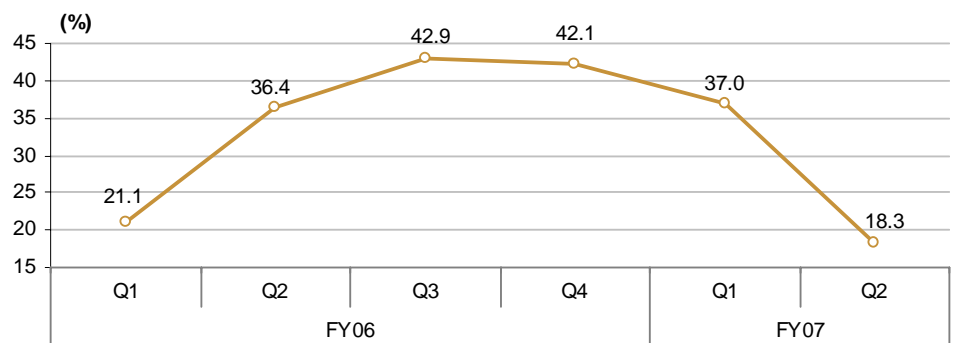


Source: RBI, Brics Research

...is not sustainable

Going forward, we do not expect such dramatic increases in this proportion, given the significant improvement in business conditions for industry and trade, and the government's commitment to agricultural credit. Growth in housing finance from banks, we reckon, would be only slightly faster than the 18-19% growth in deposits—our view is that housing finance would grow at an annualised rate of 25% at the most. We note that ICICI Bank, the leader in housing finance with a share of more than 25% in total disbursements, has seen a slowdown in housing loan growth over the last three quarters (see chart below).

Figure 11: YoY growth in ICICI Bank's housing finance disbursements



Source: Company, Brics Research

Further, anecdotal evidence suggests that bank lending to real estate developers for construction has also slowed down considerably. This could force the smaller developers to liquidate their inventory, putting pressure on prices.

Outlook for other segments (Retail and hospitality)

Retailing: Expect huge oversupply in malls

Trends in house prices are closely linked to those in other property segments such as retail space, commercial and hospitality. The retail segment is seeing aggressive supply addition. There are at present some 100 shopping malls in India. By 2008, it is expected that 219 new ones covering 66m square feet will be

constructed in just the country's eight largest cities. There is a broad view in the retail industry that mall rentals will come under pressure as a result of the supply coming on stream in the next two years.

Hospitality: Growth in supply to outpace that in demand

Outlook on rates in the hospitality industry is also bleak. CRIS INFAC expects that "the bunching up of supplies post-FY08 would dampen occupancy rates. We expect occupancy rates to fall from 77% in FY08 to 70% in FY10."

International experience

Property prices in India are on the higher side compared to Asian peers

Prices of mid-range residential properties in important Asian countries such as China and Thailand are around Rs6,000-10,000/sq ft, which is 1-2x the prevailing rate for comparable properties in Mumbai and Delhi. While property prices are clearly influenced by local factors and regulation, prices have to be seen in the context of per-capita GDP. In China, per-capita GDP is 2x that of India, and in Thailand, it is 4x. Seen in this light, prices in India do seem pretty high.

It is significant to note that such a rapidly growing country as China has opted to actively regulate and control real estate prices to ensure that capital formation in other sectors is not crowded out by rising housing prices. These steps include:

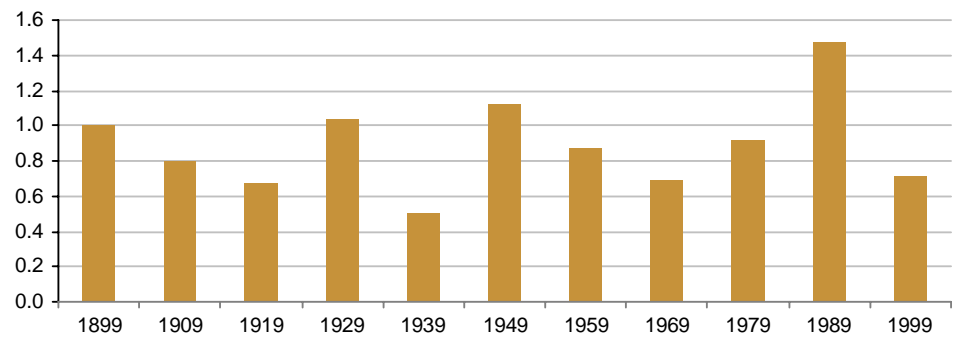
- Taxing house sales within 2-5 years of purchase
- Owners being prohibited from selling unfinished properties
- Increasing down payment ratios for mortgage-financed sales

Mature areas rarely provide great returns

Typically, as a city evolves, it changes from a 'monocentric' city (with one central business district, or CBD) to a 'polycentric' city (with multiple CBDs). New centres of such evolving cities are usually satellite towns that offer better residential accommodation, and also attract business enterprises to develop commercial space, because they are more cost-effective. In the US, for instance, downtown areas accounted for 80% of office space in 1965—but this ratio dropped to 35% by 1992 as suburbs took over as the new centres of business.

In India, the growth in IT/ITES has fuelled the development of new business centres—Gurgaon and Noida near Delhi; Hosur Road near Bangalore; Gachibowli in Hyderabad; and OMR Road in Chennai.

Supernormal returns in real estate are often obtained in periods when a new business centre attains critical mass in terms of people, civic amenities, office space, etc. Once areas mature, returns tend to drop significantly (see figure 12).

Figure 12: Real value of Manhattan property

Source: MIT study

Unitech Ltd - company background

Unitech has the biggest land bank among listed companies in India

Background

Unitech, incorporated in 1971, is India's largest listed real estate company. The company has historically focused on the NCR region with a strong presence in Gurgaon, often called the BPO capital of India. In recent years, the company has ventured out into cities like Kolkata, Chennai, Bangalore and Hyderabad. The company is promoted and managed by the Chandra family, with Ramesh Chandra as chairman and his sons Ajay Chandra and Sanjay Chandra as managing directors.

Huge land bank

Unitech has the largest land bank among Indian real estate companies (as per publicly available information). The land bank can be divided into two categories:

- a) **Top-tier cities that will drive financial growth over the next 4-5 years. The table below lists Unitech's main projects in this category.**

Figure 13: Unitech projects in top-tier cities

	Kolkata	Chennai	Gurgaon (G2)	Gurgaon (G12)	Noida	G Noida
Land (Acres)	4840	2040	658	410	340	183
% of land bank	34	14	5	3	2	1
Plots (m sq yards)	1.8	0.9	0.28	0.17		
Villas (m sq ft)		50.3	6.8	5.7		
Apartments (m sq ft)	127	38.5	10.4	7	14.9	10.3
Commercial (m sq ft)	12.7	6	0.1			0.6
IT parks (m sq ft)		2.7	3.4		1.8	4.8
Retail (m sq ft)	2.97	3.1	1.4	1.25		0.17
Institutional (m sq ft)		0.5	0.24	0.16		
Hotel (m sq ft)			0.6			
Total non-plot area (m sq ft)	143	101.1	23	14	17	16

Source: Company, Brics Research

- b) **Tier II/III cities which are expected to grow faster in the medium to long term as the economic boom in India percolates to smaller cities.**

Figure 14: Unitech's projects in Tier II/III cities

City	Acres	% of total land bank
Varanasi	1,500	11
Agra	1,500	11
Mohali	350	2

Source: Company, Brics Research

Strong brand equity enables Unitech to charge premium prices

In a fragmented industry, Unitech has been able to build a strong brand based on trust and reliability. The Unitech brand was one of the 60 top Indian brands selected as a Superbrand by Superbrands Organisation.

This brand equity enables the company to charge premium pricing for its properties. For instance, in the Rajarhat suburb of Kolkata, in spite of entering the city only recently, the company is able to price its apartments at Rs2,700/sq ft for delivery in 2009—a pretty steep rate by the city's standards.

Organisation being ramped up for growth

In line with its strategy to spread out across India and increase output, the company is ramping up the organization bandwidth. Manpower strength has increased from 600 to 1700 in the last year. The company has recently recruited senior personnel from prestigious organizations like Maruti, Reckitt Benckiser etc.

The company has also formed joint ventures with partners like Universal Success Enterprise Pvt Ltd (for projects in Kolkata), Arihant Foundation (Chennai) etc. which helps in faster penetration in new geographies.

Valuation and risk profile

Most Asian developers are currently trading at discounts of 10-30% to their NAVs. We believe that Unitech should trade at a higher valuation because of its strong brand, presence in a high-growth market, and possible upsides from its SEZ business. In our view, a multiple of 1.2 on the NAV would be appropriate. But even after imputing this reasonably high multiple, the one-year price target works out to Rs482. That represents a mediocre return from the stock's current price of Rs475—we rate it Neutral.

Calculation of NAV

Our calculation gives an NAV of Rs356 per share

We believe NAV analysis is the best way to value a company like Unitech because:

- Internationally, NAV-based valuation is the benchmark for real estate developers.
- **Valuation based on earnings multiples can be misleading:** If the most profitable parts of a land bank are developed and sold early, they would translate into strong earnings growth in the first few years, but growth in the subsequent years would be significantly weaker.
- **Profit & loss statements are sensitive to peculiarities of accounting treatment:** In many cases, property developers enter into joint ventures with land owners. In such cases, the cost of land is not part of the P&L. Thus, operating parameters such as operating margins can be skewed by financing structures.
- The NAV captures the value to be created by companies like Unitech over fairly long horizons, because the company has a sizeable land bank.

We have done an NAV estimate based on the company's land bank and development estimates. The table below details our key assumptions and their implications on NAV calculations.

Figure 15: Assumptions and sensitivity of NAV calculations to key parameters

Parameter	Our assumptions	Implications for NAV
Property price rise	7% annually	Each 1% increase in property price translates to a 7% increase in NAV
Construction cost	1,100/sqft, increasing at 5% annually	Rs100/sqft increase in construction cost changes NAV by 7%
Marketing and administration costs	4% of sales	Each 1% change in marketing costs results in a 2% change in NAV
Tax	30% tax	
Cash flow	Customers pay full amount one year before property is delivered. Rate is effective that of the payment year. Construction cost and marketing is also incurred in the year immediately before the date of delivery	Project sales are usually spread over 18-24 months—but we have made this assumption in the interest of simplicity
Gross block changes	Negligible	Most construction is outsourced, so fixed assets are not substantial
Discount rate	13%	
Commercial/IT parks/Hotels	Realisations and construction costs are twice as much as those on residential space	

Source: Brics Research

We have not assumed any major tax exemptions (beyond the gap between full rate of 33.6% and 30% used in our model) because:

- Section 80IB subsection 10, which is the main source of exemption, is currently valid only for projects approved till March 2007.
- Unitech sells mainly high-end houses in townships. To be eligible for tax exemption under the aforementioned section, all houses in a township would have to be 1,500 sq ft or smaller. This would be difficult in cities such as Kolkata and Chennai, where premium apartments are seldom smaller than 1,700 sq ft.

Figure 16: Base property rates assumed for major projects

City	Rate (Rs/sq ft)
Kolkata	2,817 for delivery in FY09
Gurgaon	4,500 for delivery in FY08
Chennai*	2,205 for delivery in FY09
Noida	4,287 for delivery in FY09
G. Noida	2,695 for delivery in FY09

Source: Company, Brics Research

* Location not known, so we have assumed city average for suburban property

To estimate NAV, we have added rough estimates for the value of theme parks, and assumed that the Rs40bn to be paid for the existing land bank has an NPV of Rs35bn.

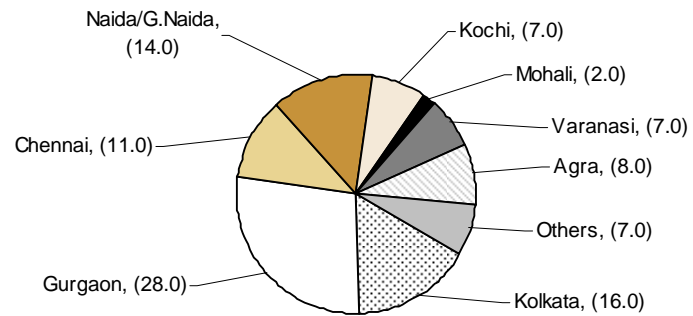
NAV works out to
Rs356/share

Figure 17: NAV calculation (Rs bn)

NAV of projects	299
Value of Rohini park	6.5
Value of Noida park	18.0
Less: Payments due	35.0
Total NAV	288
Number of shares (m)	811
NAV per share (Rs)	356

Source: Brics Research

We have not imputed any value to the SEZ business, as it is just shaping up. We recognise that this business, especially New Kolkata International Development Private Ltd (details in appendix 2), could prove to be valuable in the long term; we will revisit our recommendation if substantial progress is made in this segment.

Figure 18: Our city-wise estimation of project NAV is as follows:


Source: Brics Research

Downside risks in execution plan

1) Concentration in Kolkata and Chennai could create absorption risk

Unitech has ambitious plans for Kolkata and Chennai, where it plans to launch two of its biggest projects.

Figure 19: Unitech's major projects in Kolkata and Chennai

City	Project	Land (Acres)	Villas (m sq ft)	Apartments (m sq ft)	Commercial (m sq ft)	IT parks (m sq ft)	Retail (m sq ft)	Total area (m sq ft)	Avg residential space delivered (m sq ft)
Kolkata	K3	4,840	-	127	12.7	-	2.97	143	11.5
Chennai	C1	2,040	50.3	38.5	6	2.7	3.1	101.1	12.7

Source: Company, Brics Research

One risk is that Unitech is aiming to capture a very big share of the addressable market

We believe that this strong concentration could cause absorption risk for the company's property, as it is effectively aiming to capture a very large part of the market. (Take the current contribution of metros in West Bengal and Tamil Nadu to the Indian banking system's housing loans outstanding, and extrapolate this to the estimated housing stock to be created in FY10. Compare that with the housing stock that Unitech aims to sell in FY10. It is evident that Unitech is aiming to capture a share of 26% and 15% in West Bengal and Tamil Nadu, respectively.)

Figure 20: Unitech aims to capture a significant part of the market

	Share in housing finance credit (%)		Housing finance disbursements in FY10 (Rs bn)	Value of housing stock created in FY10 (Rs bn)	Estimated rate of Unitech's properties (Rs/sq ft)	Estimated delivery of Unitech properties in FY10 (m sq ft)	Unitech's implied revenues in FY10E	
	Current	Assumed for FY10					In Rs bn	As % of market
West Bengal	2.4	3.5	70	124.9	2,800	11.5	32.3	26
Tamil Nadu	5.7	6	120	214.2	2,500	12.7	31.7	15

Source: RBI Basic Statistical Returns, BRICS Research

Assumptions: Percentage of buyers not taking loans is 20%, loan-to-value ratio is 70% for houses financed by banks, FY10 housing finance disbursements include those by housing finance companies which is 22% of the overall disbursements

Note that the estimates above have to be seen in light of the following assumptions we have made for lack of data:

- We have not subtracted the housing loans that are used to fund purchases of pre-owned homes.

- We have not subtracted housing loans used for purchases of lower-end housing units, which do not form a part of Unitech's target market.

If loans to fund these two classes of houses were subtracted from the estimate of housing loans outstanding, Unitech would be in effect aiming to capture 30-40% of the premium/luxury homes (>Rs2.5m). This, in our view, would be a tall order, because the real estate industry is a highly fragmented one, with customers scattered across any given city.

It is also obvious that the company is highly dependent on certain areas in these two cities. This could affect its sales if development of civic infrastructure does not keep pace.

2) Shortage of manpower could delay projects, or at least hit margins

Building contractors, who actually do the construction work involved in projects, have their order books full, and are finding it difficult to get qualified civil engineers. This, industry sources tell us, has actually caused salaries of experienced civil engineers to double year-on-year—and this trend is likely to continue, as industrial construction is also booming.

Another issue is ability to scale up construction activity. The bigger contractors such as Simplex Infrastructures and BL Kashyap are currently executing only about 15m-20m sq ft of building spaces annually. Scaling up annual output by 4-5x, from the current 8m-10m sq ft to 30m-40m sq ft in 2-3 years, is not going to be easy. While Unitech's size and newly developed organisation bandwidth will be a great strength in meeting this challenge, margins may be affected by rising construction costs, at the least.

3) Legal proceedings related to land acquisition could delay projects

Sellers of land often retract from MoUs and sale agreements if land prices go up. Statutory documents filed by Unitech in December 2005 indicate that the company is involved in quite a few legal cases related to such deals. There is a risk that such cases could cause significant delays in project development.

4) Unfavourable laws can affect the value of land holdings

Government policy has a strong influence on the real estate sector. Three policy factors, in particular, have significant bearing on Unitech's business prospects:

- a) **Change in floor-to-area rules:** Most urban planning experts agree that the low floor-to-area ratios (FAR) in Indian cities have had disastrous effects, including traffic congestion and environmental pollution. Compared to FARs of 5-10 in the world's largest cities, Indian cities have ratios of 1.5-2.5. This has driven up prices, and caused Indian cities to push outward.

An increase in FAR within the central areas of cities could reduce the value of Unitech's land bank (which is primarily in suburbs).

The government seems to be growing aware of the deficiencies in its FAR policy:

- Maharashtra's draft housing policy has provided for increasing FSI for townships in suburbs like Thane and Navi Mumbai from 0.5 to 1.
 - The real estate market in NCR is going to be heavily influenced by the new master plan to be released in the next few months. The focus on increasing FAR is clear from the following statement by Mr. Maken, Minister of State for Urban Development and Poverty Alleviation, (Sept 8th 2006): "Our planning in the past has been a mistake, as FAR (floor-to-area ratio) has been artificially suppressed. The FAR limits must be removed to stop the urban sprawl."
- b) ***Tax incentives for individuals availing housing finance.*** Withdrawal of these tax incentives could affect demand for housing.
- c) ***Given the steep rise in house prices, the government may impose some steps to cool down housing prices.*** These could include banning pre-launch sales to brokers/investors (already implemented in Punjab); and further tightening of bank lending norms for real estate. RBI had increased the risk weightage in April 2006, from 125% to 150%.

The stock is already trading close to our price target—we rate it Neutral

Valuation: We rate Unitech Neutral

Most Asian developers are currently trading at discounts of 10-30% to their NAVs. We believe that Unitech should trade at a higher valuation because of its strong brand, presence in a high-growth market, and possible upsides from its SEZ business. In our view, a multiple of 1.2 on the NAV would be appropriate. But even after imputing this reasonably high multiple, the one-year price target works out to Rs482. That represents a mediocre return from the stock's current price of Rs475—we rate it Neutral.

Appendix 1

FDI rules

- (a) Minimum area to be developed is 10 hectares in case of serviced housing plots and 50,000 square metres in case of construction development projects. Where the development is a combination project, it can be either 10 hectares or 50,000 square metres.
- (b) Minimum capitalization of US\$10 million for wholly owned subsidiary and US\$5 million for a joint venture has been specified and it is required to be brought in within 6 months of commencement of business of the company.
- (c) Further, the investment is not permitted to be repatriated before 3 years from completion of minimum capitalization except with prior approval from FIPB.
- (d) At least 50% of the project is required to be developed within 5 years of obtaining all statutory clearances and the responsibility for obtaining it is cast on the foreign investor. Further, the sale of undeveloped plots is prohibited.

Appendix 2

New Kolkata International Development Private Limited is the special purpose Company promoted by the Salim Group, the Universal Success Group and Unitech for development of various projects over a period of fifteen years as per the agreement. Unitech has 40% share in the SPV.

Some of the various projects outlined are:

Industrial development

- a) **Chemical Industrial Estate:** Development of a Mega Chemical Industrial Estate, including a chemical SEZ on 10,000 acres in Nandigram, Purba Medinipur district, in 50-50 joint venture with WBIDC.
- b) **Multi-Product SEZ:** Development of a Multi-Product SEZ on 12,500 acres in Haldia, Purba Medinipur district.
- c) **Small and Medium Enterprises (SME) Industrial Estates:** Development of 400 acres in different locations as SME Industrial Estates in South 24 Parganas and Purba Medinipur districts, in 50-50 joint venture with WBIDC. In these Estates, the Consortium will create the basic infrastructure required for SMEs, including land development, internal roads, power supply, water supply, drainage and sewerage, and effluent treatment.

Infrastructure development

- a) **Eastern Link Highway:** The Consortium will construct the Eastern Link Highway, which will be a national highway standard expressway of four-lane status, up-gradable in the future to six-lane status, with service roads on both sides, with Rail Over Bridges, flyovers and underpasses wherever required to allow uninterrupted passage for local traffic, from Barasat Bypass to Raichak. The total length of the Highway is approximately 100 kilometres, with a width of 100 metres. Total land required for the road project will be about 2500 acres.
- b) **Raichak – Kukrahati Bridge:** A four-lane road bridge with central divider will be constructed over the river Hooghly, from Raichak to Kukrahati, construction of the bridge will be completed in 2012. The Consortium will maintain the bridge for 15 years, after which the State Government will take over maintenance.
- c) **Haldia-Nandigram Bridge:** Construction of a four-lane road bridge over the river Haldi, from Haldia to Nandigram, thereby providing a link between Haldia and the proposed Chemical SEZ in Nandigram. Haldia Development Authority will do maintenance of the bridge.

Land Acquisition: The Consortium will pay the cost of acquisition of all the land required for the Project. They will pay the cost upfront to the Requiring Body, as per requisition. The Requiring Bodies will be WBIDC for the lands in Purba Medinipur district, for the township lands in South 24 Parganas district, for the Institutional Area land in South 24 Parganas district, and for the 1500 acres to be

acquired adjacent to the highway in South 24 Parganas and Purba Medinipur districts, KMDA for the land for the district headquarters and EM Bypass extension, and WBIIDC for the Eastern Link Highway and Pailan-Baruipur Road.

Urban development

- a) **Kukrahati Township:** Development of a residential-commercial complex on 5000 acres in Kukrahati, Purba Medinipur district.
- b) **Baruipur Township:** Development of a residential complex on 3750 acres in Baruipur, South 24 Parganas district.
- c) **Bhangar Township:** Development of a Health City and a Knowledge City on about 250 acres and residential – commercial complex on 1250 acres, total 1500 acres, in Bhangar South 24 Parganas district.
- d) **Commercial Blocks:** Development of 1000 acres as Commercial Development in different locations, adjacent to the Eastern Link Highway and other roads, in 50-50 joint venture with WBIDC in South 24 Parganas and Purba Medinipur districts.
 - **Land for Institutional Area:** The Consortium will pay for the acquisition of over 1000 acres of undeveloped land adjacent to the land for the district headquarters, for setting up an Institutional Area by WBIDC.
 - **Land for District Headquarters:** The Consortium will pay to KMDA the cost of acquisition of 500 acres of undeveloped land in Jagadishpur mouza in Baruipur, for construction of the district headquarters of South 24 Parganas.
 - **Land in North 24 Parganas:** 150 acres for Township purpose.

Apart from the above, the agreement between the SPV and the government envisages several other projects for economic rehabilitation and social development.

BRICS coverage

Short name	Equity share (Share in m)	Last close 16-Nov-06	DoD chg (%)	WoW chg (%)	YTD chg (%)	Mkt Cap (US\$ m)
SENSEX		13505.9	0.3	1.7		
NIFTY		3876.9	0.0	1.1		
KESORAM INDS	45.7	555.6	-3.0	10.8	18.9	565.6
HDFC BANK LTD	314.6	1144.8	6.3	9.6	61.8	8014.7
BINANI INDUS LTD	29.6	328.3	9.0	8.1	390.4	216.2
GAMMON INDIA LTD	87.6	454.3	2.4	7.8	9.6	885.5
STATE BANK IND	526.3	1220.1	3.6	7.5	34.4	14289.0
ACC LIMITED	187.1	1087.4	6.6	7.1	103.5	4526.2
TORRENT PHARMA	84.6	202.7	-2.1	7.0	-4.1	381.6
PUNJAB NATL BANK	315.3	552.7	1.1	6.9	18.5	3878.0
ICICI BANK LTD	893.1	887.8	0.7	6.7	51.8	17644.3
JAGRAN PRAKASHAN	60.2	284.5	0.3	6.3	-39.6	381.3
BHARTI AIRTEL LT	1895.7	577.4	-0.2	6.1	67.0	24357.8
UNION BANK INDIA	505.1	137.5	2.8	5.3	12.6	1545.6
JET AIRWAYS	86.3	645.2	-1.3	4.1	37.7	1239.5
HOUSING DEV FIN	249.6	1555.9	1.6	4.0	29.1	8643.0
CANARA BANK	410.0	301.9	1.5	4.0	25.5	2754.0
HCL-INFOSYSTEMS	168.8	163.8	1.3	3.5	-40.9	615.3
SHREE CEMENT	34.8	1372.6	0.5	3.5	180.4	1064.0
NTPC LIMITED	8245.5	135.0	0.7	3.4	20.4	24770.8
GUJARAT AMB CEM	1359.6	138.9	1.2	3.3	74.5	4202.5
SATYAM COMPUTER	655.8	438.0	2.5	3.3	-40.6	6391.9
WIPRO LTD	1434.1	553.3	1.2	3.1	19.4	17657.5
MANGALAM CEMENT	28.2	211.8	1.8	3.1	-54.8	133.1
INFOSYS TECH LTD	555.8	2194.3	-1.3	2.6	-26.8	27138.4
BANK OF BARODA	364.3	269.3	-0.7	2.5	11.8	2182.6
JAIPRAKASH ASSOC	216.7	654.1	-0.1	2.5	68.2	3153.5
PATNI COMPUTER	138.1	409.0	-1.7	2.2	-17.4	1256.9
BHARAT ELECTRON	80.0	1113.6	0.3	1.7	12.0	1982.4
TATA POWER CO	197.9	557.2	-0.2	1.7	27.9	2453.6
PANTALOON RETAIL	26.9	2152.1	1.1	1.6	358.5	1287.5
PATEL ENGINEER	59.7	429.5	-1.3	1.6	23.4	570.1
TATA CONSULTANCY	978.6	1085.5	-0.9	1.6	-36.2	23639.1
ULTRATECH CEMENT	124.5	905.4	-1.5	1.3	112.0	2508.1
SUN PHARMA INDUS	187.0	970.0	0.3	1.3	42.2	4037.1
HCL TECH LTD	324.2	630.5	0.5	1.2	17.0	4549.3
HINDUSTAN CONST	256.1	146.2	-0.3	1.2	17.9	833.1
LARSEN & TOUBRO	279.8	1352.3	0.3	1.1	-26.7	8420.5
CHENNAI PETROLEU	148.9	210.1	-0.2	1.1	-8.9	696.4
GRASIM INDS LTD	91.7	2717.6	0.4	0.8	95.3	5543.9
INDIAN OIL CORP	1168.0	487.6	-1.2	0.7	-12.4	12672.4
ZEE TELEFILMS	429.8	333.1	1.2	0.7	112.3	3185.4
HINDUSTAN PETRO	339.3	300.9	-1.7	0.6	-8.5	2271.8
LUPIN LTD	80.3	505.1	0.8	0.1	-34.1	902.6
MAHANAGAR TELE	630.0	137.6	-3.5	0.0	-4.6	1928.4
BHARAT HEAVY ELE	244.8	2451.6	-0.2	-0.2	76.8	13352.8
RANBAXY LABS LTD	372.7	397.3	-1.5	-0.2	9.6	3295.0
BAJAJ AUTO LTD	101.2	2589.4	-0.7	-0.3	29.4	5830.3
TATA MOTORS LTD	385.3	813.9	-1.2	-0.5	24.6	6977.4
NEW DELHI TELEVI	61.4	241.6	0.7	-0.6	20.0	330.0
BHARAT PETROL	300.0	361.8	-1.6	-0.6	-16.7	2415.4
ORCHID CHEM & PH	65.8	219.9	-1.5	-0.6	-8.9	322.0
NATIONAL ALUMIN	644.3	218.8	0.3	-0.7	-15.7	3137.1
INDIA CEMENTS	220.4	218.4	0.9	-0.7	117.5	1071.0

Short name	Equity share (Share in m)	Last close 16-Nov-06	DoD chg (%)	WoW chg (%)	YTD chg (%)	Mkt Cap (US\$ m)
MAHINDRA UGINE	32.5	122.1	1.7	-0.8	-8.1	88.2
NICHOLAS PIRAMAL	209.0	231.8	-2.4	-0.9	-10.3	1077.9
PETRONET LNG LTD	750.0	51.5	-0.5	-0.9	-22.0	858.7
OIL & NATURAL GA	2138.9	870.4	-1.2	-1.0	-25.9	41428.1
CIPLA LTD	777.3	264.9	0.0	-1.1	49.4	4582.0
GATEWAY DISTRIPA	92.3	164.6	-0.6	-1.2	-40.4	338.2
INDIAN PETROCHEM	300.7	290.5	-0.6	-1.2	23.3	1943.6
NAGARJUNA CONST	206.7	195.7	0.4	-1.4	-24.0	900.1
MAHINDRA & MAHIN	244.0	816.8	-1.6	-1.5	59.5	4434.9
MARUTI UDYOG LTD	288.9	893.6	-1.2	-1.6	40.4	5744.8
JUBILANT ORGANOS	143.3	255.1	-2.2	-1.6	18.6	813.1
VALECHA ENGINEER	6.9	206.2	-0.9	-1.7	-20.5	31.8
RELIANCE INDS	1393.5	1263.5	0.1	-1.8	84.6	39181.0
DR REDDY'S LABS	153.4	774.5	-0.6	-1.8	-20.8	2644.0
TVS MOTOR CO LTD	237.5	98.6	-2.9	-1.9	-1.5	520.9
CESC LTD	82.4	326.9	-0.9	-2.0	43.1	599.1
VIDESH SANCHAR	285.0	453.1	1.4	-2.1	18.4	2873.6
IVRCL INFRASTRUC	108.8	339.5	-2.2	-2.2	131.3	822.1
INFRASTRUCT DEV	1125.4	78.7	0.0	-2.5	7.5	1969.7
DABUR PHARMA	156.3	71.2	-2.5	-2.6	24.6	247.4
SHOPPERS STOP	34.6	674.7	5.6	-2.7	43.4	518.7
INDO RAMA SYNTH	131.8	51.0	-1.3	-3.0	-32.6	149.5
DISHMAN PHARMACE	68.8	213.4	-1.3	-3.6	11.9	326.7
HINDUSTAN LEVER	2206.4	243.0	-0.2	-3.9	23.2	11928.7
TATA STEEL LIMIT	580.5	482.0	-0.8	-4.1	26.7	6225.5
MADHUCON PROJECT	36.9	308.4	-0.5	-4.2	36.1	253.2
STEEL AUTHORITY	4130.4	84.0	-0.2	-4.2	55.6	7720.8
HINDALCO INDS	1159.3	175.7	-1.1	-4.5	22.5	4531.3
MAX INDIA LTD	36.0	910.1	-1.0	-8.7	51.6	728.6

Source: Bloomberg

ADRs and domestic stocks

ADRs (Prices in US\$)

16-Nov-06				
Short name	ADR Ticker	Px_Last	Chg pct 1d	Px Volume
DR REDDY'S-ADR	RDY US Equity	16.5	-5.1	1196700
HDFC BANK-ADR	HDB US Equity	76.7	3.6	298800
ICICI BANK-ADR	IBN US Equity	39.1	-1.0	1986500
INFOSYS TECH-ADR	INFY US Equity	56.3	-0.4	1266883
MAHANAGAR-ADR	MTE US Equity	6.2	-3.1	148300
SATYAM COMP-ADR	SAY US Equity	22.9	0.7	1004000
SIFY LTD-SP ADR	SIFY US Equity	9.3	-1.8	275772
VIDESH SANCH-ADR	VSL US Equity	20.0	2.2	80000
WIPRO LTD-ADR	WIT US Equity	15.1	1.1	328900
TATA MOTORS-ADR	TTM US Equity	18.3	-1.0	428600

Source: Bloomberg

Domestic market prices

16-Nov-06			
BSE Ticker	Last price (Rs)	Chg pct 1d	Px Volume
DRRD IN Equity	775	-0.6	122,542
HDFCB IN Equity	1,145	6.3	403,788
ICICIBC IN Equity	888	0.7	1,158,257
INFO IN Equity	2,194	-1.3	196,201
MTNL IN Equity	138	-3.5	1,065,979
SCS IN Equity	438	2.5	915,068
VSNL IN Equity	453	1.4	746,279
WPRO IN Equity	553	1.2	223,093
TTMT IN Equity	814	-1.2	248,084

Source: Bloomberg

Derivatives

Daily Trends in FII Derivative Trades – Nov 15, 2006

Details	Buy	Sell	Net	Open Int.	Open Int.
	Value (Rs m)	Value (Rs m)	Value (Rs m)	No. of Cont	Value (Rs m)
Index Futures	5201.6	2578.1	2623.5	223572	86731.4
Index Options	2017.9	154.1	1863.8	137209	53186.3
Stock Futures	3175.1	3482.5	-307.4	445600	156512.6
Stock Options	0.0	5.9	-5.9	5455	1932.1

Source: BSE

NSE F&O TRADE

Product	16-Nov-06	15-Nov-06	DoD Chg (%)
	Turnover (Rs m)	Turnover (Rs m)	
Index Futures	68479.7	67665.5	1.2
Stock Futures	192452.6	158937.9	21.1
Index Options	22217.9	19913.3	11.6
Stock Options	10259.4	8938.8	14.8
Interest Futures	0.0	0.0	0.0
Total	293,409.6	255,455.5	14.9

Source: NSE

Global markets

US & UK Markets

	16-Nov-06	15-Nov-06	10-Nov-06	2-Nov-06	19-Oct-06					
	Last Price	Last Price	Last Price	Last Price	Last Price	DoD Chg	Wkly Chg	Frntly Chg	Mth Chg	
Dow Jones	12305.8	12251.7	12108.4	12018.5	12011.7	0.4	1.6	2.4	2.4	
Nasdaq Comp	2449.1	2442.8	2389.7	2334.0	2340.9	0.3	2.5	4.9	4.6	
FTSE 100	6254.9	6229.8	6208.4	6149.3	6156.0	0.4	0.7	1.7	1.6	

Asian Markets

	16-Nov-06	15-Nov-06	10-Nov-06	2-Nov-06	19-Oct-06					
	Px_Last	Last Price	Last Price	Last Price	Last Price	DoD Chg	Wkly Chg	Frntly Chg	Mth Chg	
Nikkei 225	16163.9	16243.5	16112.4	16350.0	16551.4	-0.5	0.3	-1.1	-2.3	
Hang Seng	19154.1	19093.0	18891.1	18714.8	17987.0	0.3	1.4	2.3	6.5	

LME Prices

	16-Nov-06	15-Nov-06	10-Nov-06	2-Nov-06	19-Oct-06					
	Px_Last	Last Price	Last Price	Last Price	Last Price	DoD Chg	Wkly Chg	Frntly Chg	Mth Chg	
LME ALUMINUM	2668.0	2699.0	2695.0	2756.0	2740.0	-1.1	-1.0	-3.2	-2.6	
LME COPPER	6810.0	6910.0	6920.0	7245.0	7660.0	-1.4	-1.6	-6.0	-11.1	
LME ZINC	4225.0	4190.0	4300.0	4260.0	3945.0	0.8	-1.7	-0.8	7.1	

Crude Prices

	16-Nov-06	15-Nov-06	10-Nov-06	2-Nov-06	19-Oct-06					
	Px_Last	Last Price	Last Price	Last Price	Last Price	DoD Chg	Wkly Chg	Frntly Chg	Mth Chg	
West Texas Intermed	56.3	58.8	59.6	57.9	58.5	-4.3	-5.6	-2.8	-3.8	
European Brent	56.5	58.0	57.5	55.8	58.8	-2.5	-1.8	1.3	-3.8	
Dubai Fateh Crude	57.6	56.8	58.1	56.2	55.9	1.4	-0.9	2.4	3.1	

Source: Bloomberg

Brics Research and Sales

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In the interest of timeliness, this note was not edited.

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