Industry In-Depth

4 May 2007 | 48 pages

Indian Real Estate

Cyclical Pain…Wait for the Structural Gain

- **Cyclically, challenging times** — India's real estate market is in pain: transaction volumes are drying up, higher interest rates and prices have damaged affordability, developers are suffering a regulatory/capital markets squeeze, supply is impending, and the consensus view is almost unanimous that property prices are set to fall. In sum, it's pretty tough for the country's property developers.
- **Structurally, huge volume opportunity; inversely related to price** — Beyond the moment, though, India's real estate opportunity is genuine, large and will last a long while — a prospect that is not lost on developers and capital providers. New demand will be driven by economic growth, demographics and rising household aspirations. We foresee huge development volumes, inversely related to price.
- **Price pain or rate/regulatory reversals, should tie the cycle with the structure** — Pain on property prices, though, looks a necessary pre-requisite to boosting affordability and reviving demand. Property stocks will get hurt in the process. The direction of interest rates remains critical to the property development cycle.
- **Volatility for sure, NAVs likely to be the constants** — Property stocks should remain volatile for a while; they are newly listed and are interest rate sensitive, earnings have accelerated rapidly on sale of old landbanks, and the industry is still evolving and under-regulated. NAVs, though hazy, are likely to be the most reliable valuation benchmarks; P/Es will be more a secondary methodology.
- **Initiate with Sells on Unitech, Parsvnath and Ansal** — Now is *not* the time to load up on Indian developers. Unitech has the least downside, Parsvnath offers beta.

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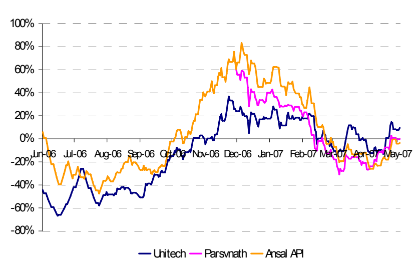
Figure 1. Statistical Snapshot

Year to 31 Mar.	Unitech	Parsvnath	Ansal
Rating	3M	3H	3H
Market Cap (US$m)	8,541	1,465	805
Price (Rs.)	432.0	331.2	291.1
Target Price (Rs.)	430	295	255
ETR (%)	-0.3	-10.9	-12.0
NAV	391	328	300
ROCE (FY08E)	34%	24%	43%
2m price perform.	15%	17%	-1%

Source: Citigroup Investment Research

Figure 2. Premium/Discount to NAV



Source: Citigroup Investment Research

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

[1]Citigroup Global Market India Private Limited

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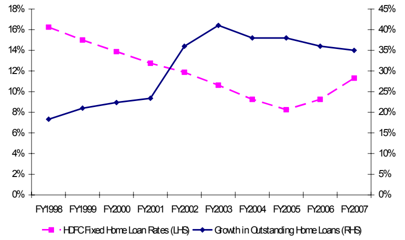
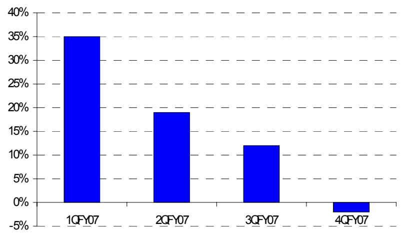
Figure 3. Loan Growth vs. Rate Sensitivity



Source: Citigroup Investment Research

Figure 4. ICICI Bank – YoY Growth in Quarterly Home Loan Disbursals



Source: Citigroup Investment Research

Investment Case

Tough times, for now

India's property development market over the last few years has been fairly rosy – strong property prices, strong demand driven by an existing shortfall and new demand from an aggressively growing economy, capital inflows, new listings, and a pride of place in the broader socio-economic milieu. There has probably been too much of a good thing. And that has – along with environmental factors – resulted in: Spiraling property prices, rising interest rates, regulatory intervention in developer funding (on concerns of an asset bubble), supply coming on stream, and aggressive land acquisition by developers (and wannabe developers). Effectively, demand appears to have been priced out, and large segments of the development market appear over-extended

Indian real estate offer large volumes, but at a price

India is meaningfully under-built, as also poorly built. We believe that is changing. The drivers are largely not new but they are real – meaningful housing shortages, economic momentum creating new demand, a demographic dividend – half the population is younger than 25 – the support of a fast-evolving financial system, and relatively low interest rates. In effect, we expect a real-estate build-out that is unparalleled in India's history.

But the extent of this build-out will be a function of price, in our view. The lower the price, the greater the opportunity; the higher the price, the less the development. High prices, as currently prevail, should also elicit meaningful demand; but the more moderate the effective price, the greater the opportunity.

The best strategy

From an investment perspective, we see the most attractive plays being large developers with significant landbanks and a growing pan-India presence, especially a thrust on Tier I and Tier II cities. While most developers remain concentrated on the residential segment, the growth potential looks strongest for those planning to develop a mix of residential, commercial and retail assets. The optimal combination, in our view, would be a develop-sell model for residential and a develop-lease-sell model for some commercial/IT parks and retail assets.

NAV is best way to value Indian developers

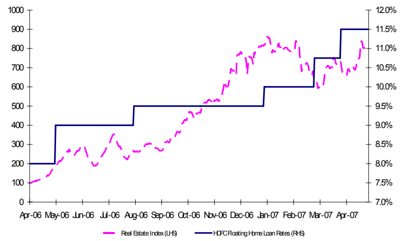
NAVs, though hazy, are likely to be the most reliable valuation benchmarks; P/Es will be more a secondary methodology.

Valuing India's property companies at this stage is a challenge – many are relatively new and thus lack proven track records, their landbanks and NAVs are not mature and carry regulatory and disclosure risks, and rapid rises in earnings are in part accounted for by historical gains on old land. Nor is this challenge likely to get much easier. We expect NAV to be the standard valuation benchmark for at least the near term, with P/E multiples used more as a secondary methodology or "sanity test". Whether stocks trade at premia or discounts to NAVs should depend on the cycle, and reflect qualitative and capital elements of the individual companies. We also expect NAVs to be relatively dynamic, as the market gets a better sense of translation into earnings, potential risks with landbanks, and as price and developmental outlooks vary.

Downside from here…what will make us flip?

In the past 2-3 months, Indian real-estate stocks have been extremely volatile, having corrected sharply from their previous peak in Dec'06. Even though the property companies are expected to report robust FY07 earnings, the stocks are trading close, or at healthy premiums, to NAV, meaning a lot of positive news is

Figure 5. Real Estate Index v/s Interest Rates



Source: Citigroup Investment Research

already discounted. Given our soft outlook for property prices, impending supply volumes and current levels of interest rates – which we believe are nearing their peak rather than being about to reverse – we see further downside for the developer stocks. Thus, now is not the right time to be buying exposure to the Indian real-estate sector, in our view. That right time will come, though.

What will make us turn positive? – 1) A quick correction in property prices (a slow reduction/stagnation would only prolong the pain); 2) Reversals in rates or regulatory policy that boosted affordability – mortgage growth trends stabilizing rather than declining; and 3) Stocks trading at discounts to NAVs, as opposed tot the current premiums.

The Players

Unitech, an emerging pan-India developer – A low-risk, high-return model, large landbanks in Tier I and Tier II cities and a thrust on faster recycling of capital differentiate the company's growth profile from those of its peers. While efforts to monetize commercial/IT park assets, and reduce concentration in the National Capital Region (NCR) are positives, aggressive development plans (~490m sq.ft.) raise execution risks. Given 1) a large diversified landbank, 2) a dynamic business model, and 3) strong brand positioning with a proven track record, we believe Unitech deserves a 10% premium to our NAV value of Rs391. With the stock already trading at such a premium, the risk/reward is unfavorable. We initiate with a Sell/Medium Risk rating and Rs430 target.

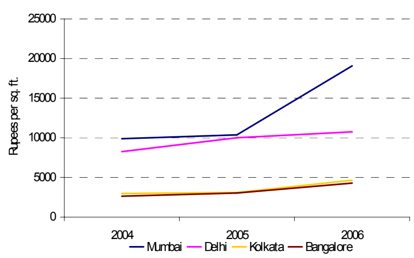
Parsvnath Developers, aggressive development plans – By 2010, the company is looking to have a presence in 250 cities, vs. 46 cities today. Projects are planned totalling ~134mn sq.ft. in Tier II and Tier III cities, with a higher exposure to NCR (43%). The company is aiming to diversify from residential projects to new segments – commercial, retail, IT/ITES parks, Delhi Metro Rail Corp (DMRC) projects, hotels and multiplexes. This raises execution and market risks, in our view. The stock is trading close to our NAV of Rs328, which we believe is unwarranted given: 1) Concentration in Tier II and III cities, where creating sufficient jobs to meet potential housing supply is difficult 2) Large exposure to NCR where the risk is high of property prices softening in the near term and 3) a high share of plotted developments (30% of total development) that lack pricing power. We believe a 10% discount to our NAV is fair, which translates to a target price of Rs295, or 11% downside. We initiate with a Sell/High Risk rating.

Ansal Properties, concentrated in North India – The developer operates on a develop-sell model with a focus on NCR and Tier-III cities in North India (87% of development). Over the next 4-5 years, the company plans to develop ~195mn sq.ft. – building 38 large townships and some commercial, retail and IT projects. Risks to growth that we foresee are timely execution and softening prices in the region. Given the company's concentration in the North, a market that we believe is overheated, and a large exposure to plotted development (45% of development) that limits its ability to command price premiums – we believe a 15% discount to our NAV of Rs300 is appropriate, yet the stock is trading close to our NAV estimate. We initiate with a Sell/High Risk rating and Rs255 target, which implies 12% downside.

The Cycle

Is there a problem with demand? – Yes, a cyclical one

Figure 6. Indian Residential Prices (2004-06)

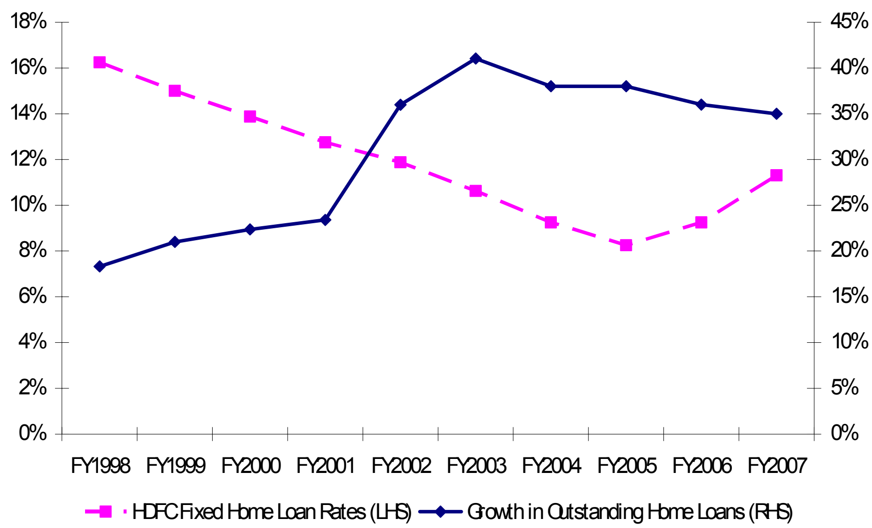


Source: Tramell Crow Meghraj, Citigroup Investment Research

Affordability on a decline

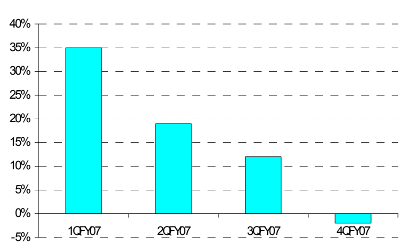
With sharp run-up in prices of residential apartments across cities and a hardening of mortgage rates – yes, affordability is declining. Tightening liquidity conditions have forced housing finance companies to increase housing finance rates by 250bps over the last 6-months – increasing EMI for a 15-year loan of Rs100,000 by Rs156 (or by 15%) to Rs1,200/month. A large part of this rate hike is absorbed by increasing the loan tenure, if tenure exceeds a limit (~25-years) then monthly outgoings are increased. We understand from our channel checks that such a sharp hike has resulted in an increase in EMI in a lot of cases. Declining growth in mortgage loans also indicates the same.

Figure 7. Loan Growth vs. Interest Rate Sensitivity – It Is High



Source: Citigroup Investment Research

Figure 8. ICICI Bank – YoY Growth in Quarterly Home Loan Disbursals



Source: Citigroup Investment Research

Volumes are drying up

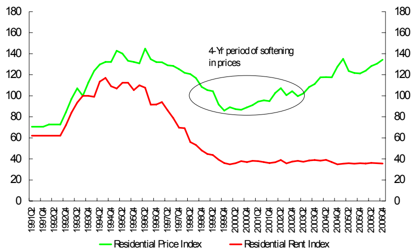
Yes – the numbers vary, with industry estimates ranging from 25-50%, but the slowdown in transaction volumes does appear pronounced. This is backed by a) Mumbai transaction data suggesting a 20-30% drop b) ICICI's loan disbursals were negative over the quarter ended Mar'07 - suggesting volumes are down at-least a third, given higher prices and c) Independent brokers are fairly consistent about the sharp slowdown in transaction levels. There remains debate

Are prices expected to fall? — Yes, anecdotally so

Softness in prices expected in the near-term

With affordability amidst spiraling interest rates on the decline, slowdown in level of actual transactions and activity in most markets, on a broader level we expect property prices to soften in the near-term. This could be through 1) absolute prices coming down by 5-20% 2) developers offering freebies; and 3) flexible funding options made available. In our view, this will be more pronounced in North India markets, where build out planned is aggressive and speculative interest of investors is high. However, in a best case scenario prices could hold at current levels, given relatively strong holding power and the continued influx of FDI in real estate assets.

Figure 9. Shanghai Residential Price & Rental Index (1991-2006)



Source: Citigroup Investment Research

Can prices fall in such a strong growth environment? – We believe so. China is a classic example, where despite robust demand, prices have shown a pretty steady fall over a long period (1999-2002); this could well be a possibility in India as well.

Price trends across segments

Residential prices are likely to drop 5-20%, particularly in the North

Residential prices likely to soften - We believe the sharp increases in prices over the last 2 years are, however, done, and not expected to repeat themselves. This is particularly so for the Tier 1 and Tier 2 cities where prices are likely to hold or move down in some pockets. In Tier III cities, a most likely scenario would be a 5-20% drop, particularly the North, some parts of NCR where build out planned is aggressive and speculative interest of investors is high.

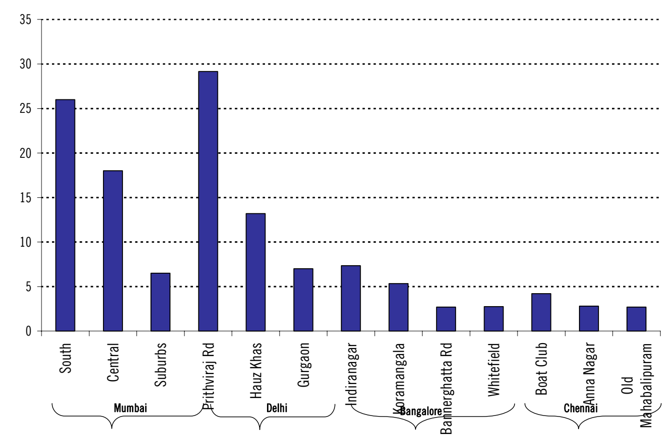
Greater caution on land prices – General view being, land prices have moved substantially ahead of end product prices, does suggest land prices were clearly in bubble territory and are clearly not sustainable. This was particularly in the context of the lack of transparency in land purchases; and various other risks in land acquisitions and securing end use developmental rights.

Given low stock of Grade A and strong demand for IT/ITES services, rentals are likely to hold at current levels

Commercial rentals to hold – Outlook remains cautious, though less than in the case of retail. The middle-end of the market – primarily the IT/ITES, was seen as relatively stable given demand expectations, with a level of caution at the higher end, which is seen to have become more expensive. Given the low stock of Grade A buildings, the strong demand for IT/ITES services and a growing economy, we believe rentals are likely to hold at current levels while decline appears unlikely; as most of the supply is 2-years hence.

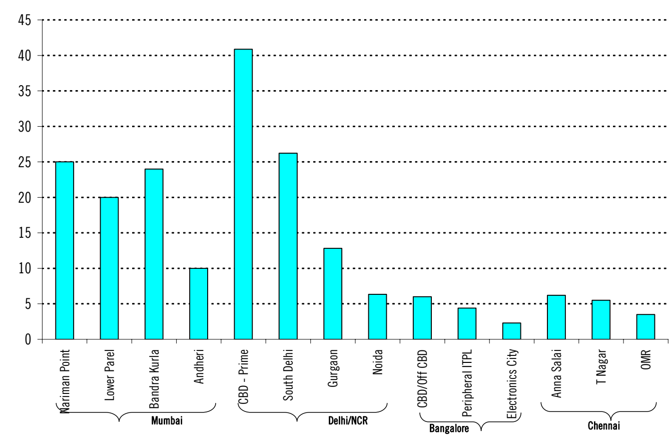
Retail rentals a mixed trend - Concerns on high retail rentals are a lot higher and the view is current high retail rentals would clearly not hold across markets – and one could expect erosion in a few markets, segments, and relatively poorly structured/organized retail malls. This said retail mall format is an evolving business with robust growth outlook and significant supply planned. We believe rentals will see a mixed trend.

Figure 10. Residential Prices (Rs. '000 per sq ft) Across Key Cities



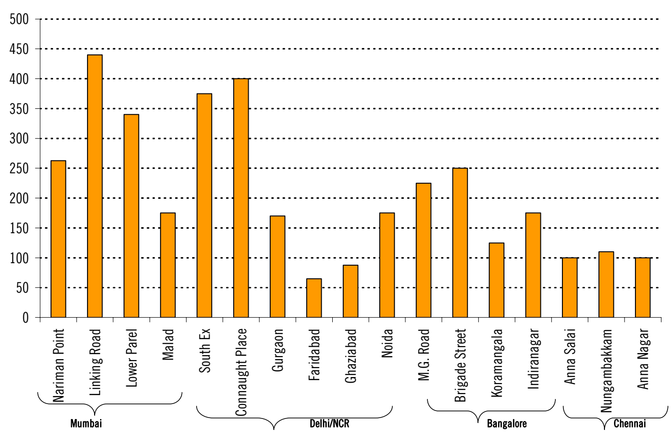
Source: Cushman & Wakefield, Tramell Crow Meghraj, Colliers, CIR

Figure 11. Avg Commercial Capital Values (Rs. '000 per sq. ft) in Key Cities



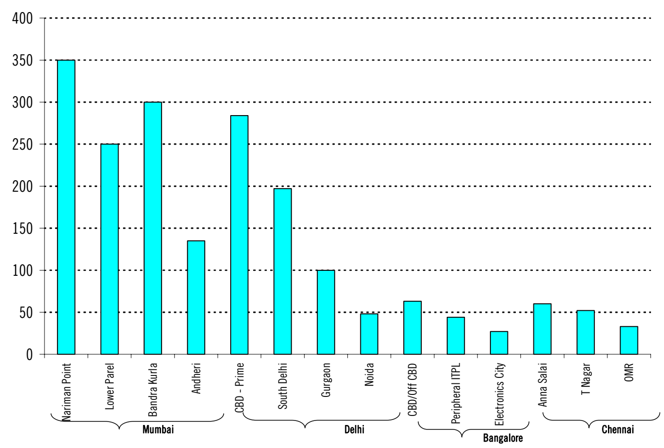
Source: Cushman & Wakefield, CIR

Figure 12. Avg Retail Rental Value (Rs/Sq.ft./month) Across Key Cities



Source: Knight Frank, CIR

Figure 13. Avg Commercial Rental Value (Rs/Sq.ft./month) Across Key Cities

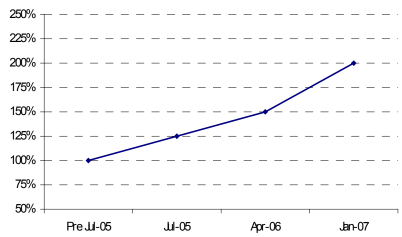


Source: Cushman & Wakefield, CIR

Is There a Liquidity Problem for Developers? – Yes, for Now

Government initiatives to tighten liquidity, increase provision on advances to the real estate sector have led to funding constraints and rising interest costs for most developers. With large development plans in the pipeline, aggressive land purchases at high prices in auctions — most developers particularly the smaller ones are highly leveraged and started to feel the heat on cash flows for project execution. We expect some consolidation in the near-term, particularly in NCR. Further, new regulatory norms for real estate IPOs with regards to greater disclosure on ownership of land banks, valuations method and latest guidelines on FDI into real estate made subject to external commercial borrowing guidelines will probably dampen near-term capital flows to the sector.

Figure 15. Increasing Risk Weight for Real Estate Loans



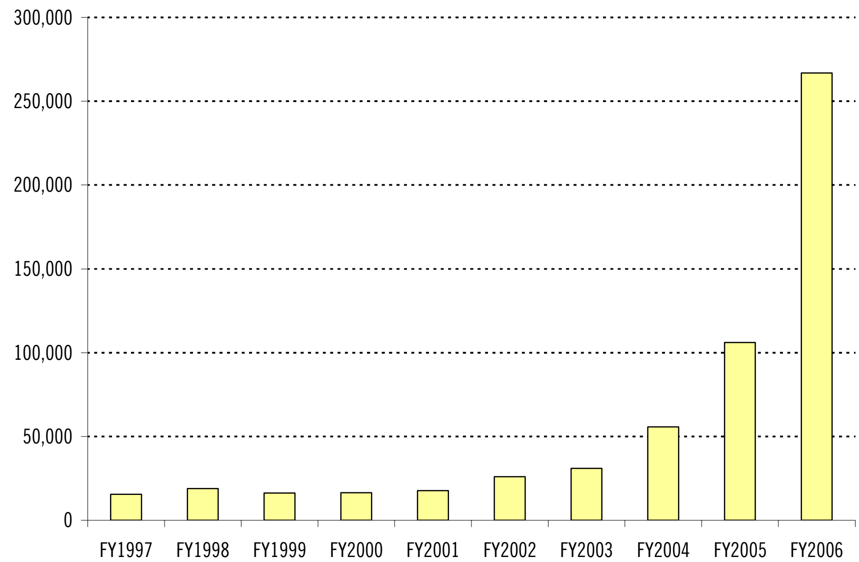
Source: Citigroup Investment Research

Figure 14. Recent Developer IPOs

Recent IPOs	
Company	Amount Raised (Rs. bn)
Akruti Nirman	4
Orbit Corp.	1
Parsvnath Developers	10
Sobha Developers	6

Source: Business India, DNA Money, Indian Express, Business Standard, CIR

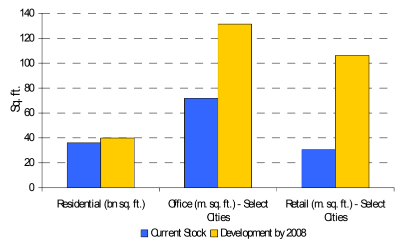
Figure 16. Loans to Real Estate Sector (Rs. M)



Source: Citigroup Investment Research

Is there a lot of supply on the horizon? – Yes, visibly so

Figure 17. Projected Residential/Commercial/ Retail Space



Source: Jones Lang Lasalle, Knight Frank, Citigroup Investment Research

Yes, most of the real estate developers are looking for a significant ramp-up in their development plans - planned 15-16x the development over next 4-5 years; significantly higher than what they have delivered so far. While execution remains a challenge for most developers, should the large developers' development plans be executed as expected, we foresee a potential supply glut in certain markets.

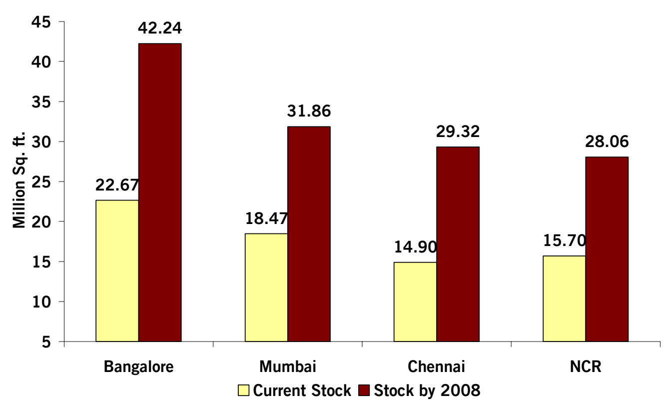
However, developers believe there is no meaningful supply coming on. Despite the aggressive build out plans, most believe what will come to the market would only be a fraction of what is needed and oversupply concerns are overdone.

Real estate consultants have a contrary view; expect some over supply over the next two years. In their view, this oversupply will be limited to a few markets, rather than in a pan-India context. Supply estimates of some of the real estate consultants suggest the same.

Varied views – Absolute lack of data in the market place

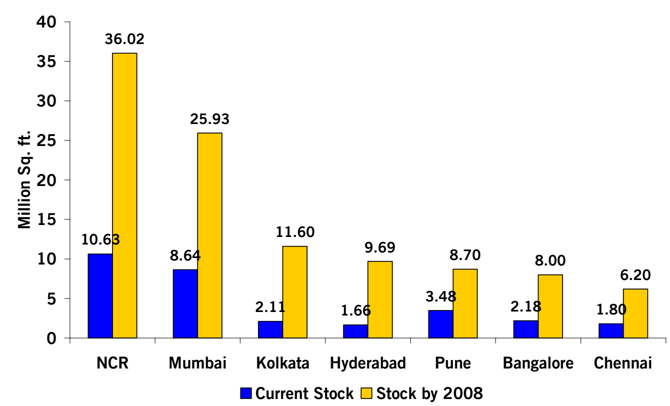
What, however, was very apparent was the absolute lack of data in the market place; no formal data on housing starts, geographical stock, or planned developments in different locations. The fact that it is a fairly fragmented market, and there are many small and mid-sized developers, suggests the level of supply in the market – local or aggregate level, remains an unknown. This does suggest that there could be a meaningful over- or under-estimation of supply coming to the markets, across segments.

Figure 18. Projected Commercial/IT Office Space (Mn Sq.Ft)



Source: Jones Lang Lasalle, Knight Frank, Citigroup Investment Research

Figure 19. Projected Retail Space (Mn Sq.Ft)



Source: Knight Frank, Citigroup Investment Research

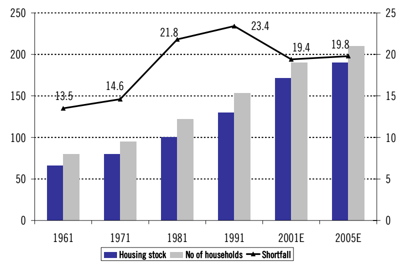
The Structure

So, is there are a structural growth story? – Yes, a long one

Drivers - shortages, demographics, urbanization, easy availability of finance, and rising incomes

Strong demand for residential housing, township development, commercial/IT Parks and retail malls is more structural and here to stay – this is a non contentious view. We believe the key drivers are — existing shortages, demographics, urbanization, growth in nuclear families, easy availability of finance, and rising incomes. Additionally thrust on infrastructure projects across the country has further enhanced the growth potential for real estate assets.

Figure 20. Shortages in Housing Stock, 1961 – 2005, Million Units



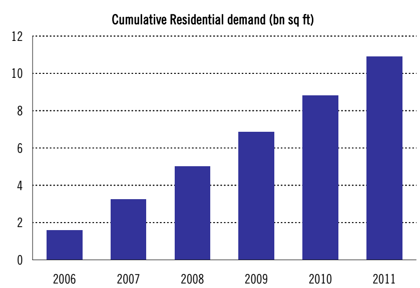
Source: HDFC

Residential demand has broad-based drivers, and is secular

We believe the residential property sector is poised for continued strong growth over the next 5-10 years, driven by: 1) an underlying shortage – most conservative estimates suggest a shortfall of over 20m houses, 2) urbanization, 3) strong economic growth and rising per capita income, 4) changing social structure – increasing nuclear families, and 5) tax benefits and longer tenors. In combination, we believe these are structural drivers for residential housing growth and should sustain strong demand.

Overall, these factors suggest that incremental households are getting eligible to buy homes. As per Crisinfac, housing demand is expected to grow ~4.5% CAGR over FY2006-2010, thus implying real estate demand of 5-6bn square feet over the next 3-4 years. We believe demand is robust in the mass and middle-higher income housing segments, which is a large market. Geographically, a relative high preference is seen for Tier I and Tier II cities, given the significant job creation capabilities in these cities - most developers are positioning developments and estimating demand relative to the IT sector – for job creation, income benchmarks, and double-income family estimates.

Figure 21. Total Residential Demand, bn sq ft, 2006-2011E



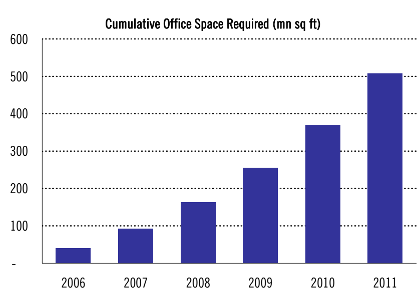
Source: Citigroup Investment Research

Key risks to demand are spiraling interest rates and high property prices, which have raised some affordability issues in the near term. While the long-term growth is secular, we expect some slowdown in the level of actual transactions and activity in most residential markets.

Strong growth potential for commercial and retail space

A significant part of India's strong economic growth has been driven by the services segments – domestic, and the outsourcing, knowledge sources segments. This has created significant demand for large scale high quality office space across geographic markets. Low stock of Grade A buildings in absolute terms and relative terms, the strong demand for IT/ITES services, and the growing domestic economy has triggered this demand.

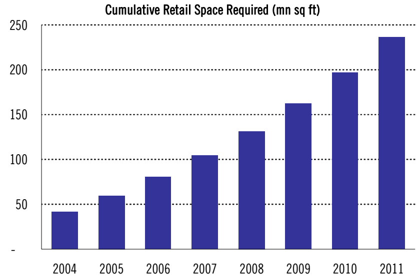
Figure 22.Total Commercial Demand, mn sq ft 2006-2011E



Source: Citigroup Investment Research estimates

The Indian IT/ITES industry is among the significant drivers of commercial real estate. With the IT/ITES industry expected to grow at 15-20% CAGR over FY2010-16E, we believe this would translate into potential commercial real estate demand of another 400-700mn sq. ft. Add to this the demand from the non-IT/ITES sectors from domestic companies, banks, insurance companies, other financial services firms building out and MNCs targeting the India market; the total potential commercial real estate demand is likely to be ~450-530mn square feet by FY2011E.

Figure 23. Total Retail Space Demand (mn sq ft) 2004-2011



Source: Citigroup Investment Research Estimates

Modern retail formats in India command just 3% of the total retail market, significantly lower than development markets like US (having 85% share) and even some Asian countries such as Malaysia (55%), Thailand (40%), and China (20%). Thus, we see significant scope for growth in retail mall space. We estimate that organized retailing could require about 350-400mn square feet of retail real estate in India by FY2016E, based on 1) 10-12% CAGR in nominal GDP, 2) 10% growth in retail sales, 3) share of organized retail rising to 15% by FY2016E, and 4) Sales of Rs9000 (US$200) per square foot of retail space.

While demand outlook is strong over the long-term, we believe the risks to demand are primarily 1) overdependence on IT/ITES sector - any slowdown here could meaningfully impact demand for office space 2) sharp increase in rentals. Similarly, aggressive and possibly concentrated build-outs in retail mall space and very high rentals suggest there could be some pressures in the retail segment as well. The recent imposition of service tax of 12.5% on lease rentals for commercial and retail leases has dampened the environment.

Easier access to capital

Growth and visibility of the real estate opportunity in India will encourage more capital

Yes, structural demand conditions and growing visibility of the real estate opportunity in India will encourage more capital to be made available to the sector. Improved credibility and transparency will further facilitate this. We see multiple funding channels like bank lending, FDI, real estate funds, REITs equity markets and private equity increasing exposure to the sector.

This has meaningfully broadened the access to capital for developers. We see this trend accelerating; A few real estate developers like Parsvnath, Ansal Properties, Sobha Developers recently accessed the domestic equity markets raising Rs~25bn while Unitech, Indiabulls, K Raheja, Hiranandani Group launched real estate funds listed on the AIM exchange in London. We expect this trend to continue. However, we do however believe this phenomenon will tend to be restricted to the top end of the sector. We believe this strong inflow of capital in real estate assets could restrict the expected price falls in the near term, increasing the holding power of developers.

Execution risks remain, but scale will be significant

We foresee sizeable execution and cost overrun risks. Aggressive development plans of developers building 15-16x of what they have built so far, is a big challenge in our view. Some developers with in-house construction capabilities are somewhat insulated from delays as they have better control, but most developers outsource a lot of their construction activity. With the exponential growth in order books of construction companies, we believe the risk of execution delays is real. Shortage of skilled manpower in the construction field and rising costs of development, are other concerns for developers. This said, we expect most of large developers to probably achieve about 5-6x of what they have done. The volumes are likely to be large and the scale is likely to be significant in the Indian context.

Figure 24. Aggressive Development Plans of Selected Large Indian Developers

Company	Saleable Area (M sq. ft)
Unitech	490
Ansal API	195
Parsvnath	135
Anant Raj Industries	48
India Bulls Real Estate*	17
DS Kulkarni	18
Akruti Nirman	17
Mahindra Gesco	60

Source: Company Reports and Citigroup Investment Research, *Excludes SEZs

Are SEZs an opportunity? – Yes, but long-term

We believe SEZs will become a reality, but socio-political issues will delay the roll out process

SEZs act as catalysts to growth by offering several benefits such as world-class infrastructure, make industry competitive, facilitate job creation and fuel overall growth. We believe SEZs will become a reality, however the socio-political issues hindering the implementation of SEZs are likely to delay the roll out process.

Recent regulatory changes demonstrate government's initiative

The recent regulatory changes demonstrate government's initiative to move ahead with the roll-out of SEZs. Key changes – a) area of SEZ capped at 5,000 hectares with states having power to lower the ceiling, b) Govt. agencies barred from acquiring land, now developers' responsibility, c) Developers to have 50% of the area reserved for processing activities v/s earlier 35% and d) provide one job per family of the land owners displaced. This should provide further clarity to developers on executing SEZ projects. Govt has also cleared 83-SEZ projects meeting the said norms.

Will SEZs be value accretive for developers?

Although, SEZs would generate significant real estate demand, it is likely to potentially substitute some of the existing demand. We believe the value will only accrue over a long gestation period; near term the capital required is large; and, more importantly, land acquisition is a key concern, given the scale of developments planned. For now, SEZs remains a fluid space; in terms of regulations, and processes, and the sheer level of interest, suggests greater policy certainty and definitive plans are needed before the opportunity can be meaningfully valued.

What's the Best Strategy?

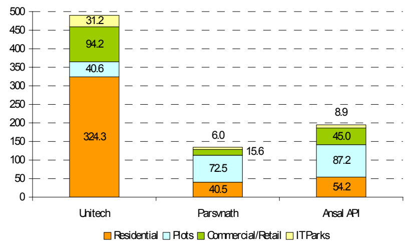
We believe India property is a volume, not a price, game — demand is robust at a price. However with a fair amount of supply in the pipeline but timing uncertain, property prices having spiraled over the last 2-3 years and softness is now expected – the environment for real estate development is challenging.

The best strategy in this scenario will be to focus on large developers with significant landbanks and a growing pan-India presence with a thrust on Tier I and Tier II cities. While most developers remain concentrated on the residential segment, players with development plans across residential, commercial and retail assets would offer stronger growth potential. A combination of a develop-sell model for residential and a develop-lease-sell model for some commercial/IT Parks and retail assets will be more appropriate, in our view.

Mixed business model vs. develop-sell model

Most Indian real estate developers operate a develop-sell model — this provides the requisite cash flows to fund projects early on, but does not capture capital appreciation. We believe a combination of a develop-sell model for residential and a develop-lease-sell model for some commercial/IT Parks is more appropriate. While the asset cycle risks in this model are high, it is a more dynamic business model — providing healthy cash flows, additional revenue streams from lease/management fees and capital appreciation on the assets.

Figure 25. Company Landbanks by Segment (m sq ft)



Source: Citigroup Investment Research

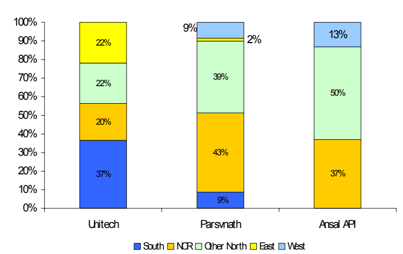
Diversified development portfolio, a preference

With the soft outlook for residential prices, we believe developers highly leveraged to residential development — a mix of plotted development, villas and housing projects — will experience high volatility in revenues and hence their NAVs. Developers having reasonably diversified development portfolios should be preferred — this de-risks the business model and offers higher growth potential.

Strong presence in Tier I and II vs. Tier III

Developers focusing on a pan-India presence with a thrust on Tier I (Mumbai, Bangalore, Delhi) and Tier II (Chennai, Kolkata, Hyderabad, Pune) cities are preferred plays compared to companies with geographic focus, particularly the NCR and Tier III cities (Lucknow, Jaipur, Indore, Chandigarh, other north cities). NCR and Tier III cities offer strong demand potential and good progress on infrastructure projects that will significantly enhance value. We believe job creation to provide sufficient income levels to support the current high price levels and expected excess supply in these markets will be more critical. High interest rate environment also makes these markets more susceptible to a slowdown in demand and prices.

Figure 26. Company Landbanks by Region (% of total)



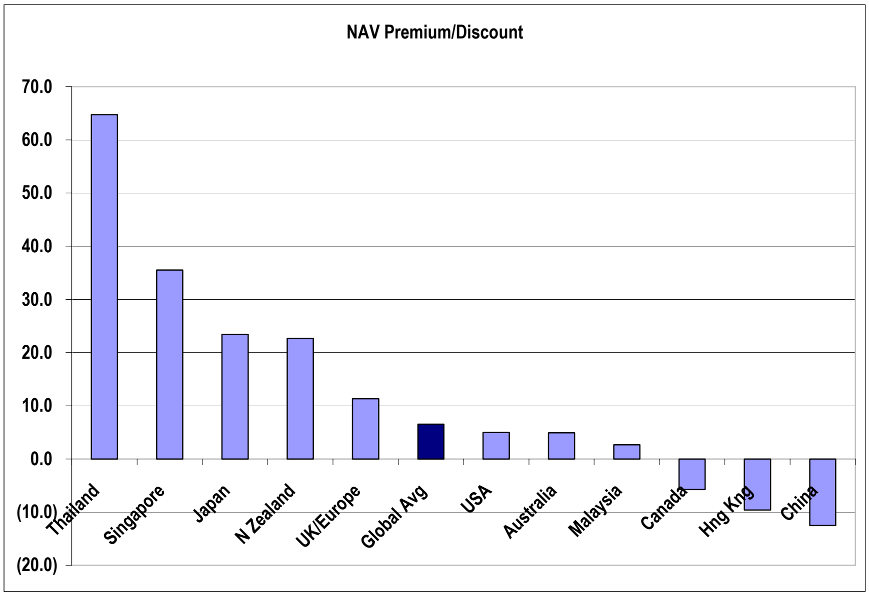
Source: Citigroup Investment Research

We believe the Unitech model scores the highest on all the above parameters, compared to Parsvnath and Ansal, which are relatively small in scale and more concentrated in the North, a market where the build-out planned is aggressive and speculative interest of investors is high.

Is NAV the best valuation method for Indian developers?

Globally, there are varying benchmarks for valuing property companies with no standard fit. Earnings multiples, Net Asset Values (NAVs), and dividend yields are the most commonly used valuation methodologies for the sector, yet none can be universally applied. On NAVs, a different story emerges for different countries, as seen in the figure below. NAV analysis itself may not work all that well for companies with active development pipelines. However, NAV is a useful metric in valuing companies that own both income-producing assets and, more importantly, non-income-producing assets such as land – hence, it is more relevant for India.

Figure 27. NAV Premium/(Discounts) by Country



Source: EPRA/NAREIT and Citigroup Investment Research estimates, as of March 30, 2007.

In an Indian context, we believe NAV is the most appropriate valuation method. This is more a function of landbanks and developmental plans — it factors in the varied development projects and spread-out time-frames.

NAVs…premiums or discounts?

India to go through a cycle – trading at a premium in the early stages, though over a longer timeframe probably trading at a discount

Property markets globally often trade at a discount to NAV (the calculation of NAV, however, tends to vary between regions). Markets at the earlier stages in their evolution trade at premium to underlying NAVs. We would probably expect India to go through a cycle – trading at a premium at a point in time, though over a longer timeframe probably trading at a discount. Individual companies, of course, can buck the trend given specific attributes.

We do, however, believe the appraisal of NAV in India will be a challenge, given dispersed markets, no effective property price indices, ongoing regulatory changes, and the rapid build-out of cities. However, the relative difficulty and challenges in acquiring land in India could well limit this discount – or expand it if there are concerns on the ownership, or usability, of the land.

Earnings multiples – popular, though likely less appropriate

In our view, P/E is not the most appropriate valuation methodology for Indian property stocks

The price-to-earnings multiple is a relatively popular valuation measure for real estate developers, both in the US and more recently among Chinese developers. We believe it does provide a valuation benchmark, but that it might not be the most appropriate measure at the current stage of the real estate industry in India. This is because the near- and medium-term earnings of the larger players are at super-normal levels; i.e., a large part of the gains are due to appreciation of their landbanks rather than development. In effect, the multiple would be on a gain made on a land acquisition made much earlier. This risks over-stating the value as gains made on land acquisitions will moderate.

While we recognize land acquisition skills as a competitive advantage, super-normal gains on land are unlikely to be sustained. This would effectively mean the business was not being valued on its normalized and sustainable profit. We would expect this measure to become more relevant in the future, but only when significant land bank gains have moderated. In addition, the earnings path of a developer beyond either projects or land in hand is unpredictable, and thus P/E alone is not a valuation measure likely to give comfort at this stage of the build-out cycle in India.

Landbanks – reality and value

Landbank importance is high – in value, strategically, and in scale

Landbanks are of significant importance, particularly when property prices have spiraled. Most developers highlight the land/developable area they hold, as this provides a competitive advantage and guides on scale.

Are these real? Yes, but at a discount

How real are these landbanks? Yes these landbanks are real, but they should be valued at a discount. This discount is warranted by a) a lack of transparency in land purchases; b) other title risks in land acquisitions; c) ability to secure end-use developmental rights and d) time to market for development. Land acquired from government is relatively better in these respects and should attract lower discounts compared to private land.

Land costs – are higher than what is claimed

What is the real cost of these landbanks, and how should they be valued? We believe the real cost of landbanks is higher than what most developers claim, given the hidden costs on conversion charges and expected time to market. A conservative approach should be taken in valuing landbanks, we would argue – a) full valuation and credit should be given to fully paid land and land acquired in govt. auctions, b) agricultural land deserves a discount. Factoring all this, we believe the realizable value claimed by developers for their landbanks remains debatable.

Valuation methodology, still evolving in India

The property sector in India, from an equity market valuation perspective, is underdeveloped. There are only a few standalone listed entities, and we believe valuation benchmarks are still evolving. Recent listings have yet to create benchmarks, in part because of still only modest disclosures and the lack of earnings estimates in the marketplace. We see this changing as the sector grows, the market widens, and as disclosures increase and becomes standardized. Private equity transactions are also likely to provide valuation support to the sector. In our view, the real estate development market is exhibiting three key characteristics that will determine valuations benchmarks. These are a) Landbanks – and how they are valued b) Size of the overall market opportunity, and differences based on market segments, location and scale and c) Execution

NAVs to provide a key valuation benchmark

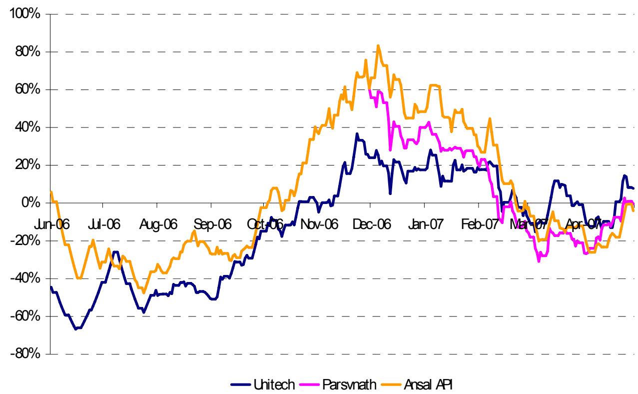
We expect NAVs to provide a key valuation benchmark – this is particularly so because property developers have acquired landbanks over a few years, and property prices have appreciated meaningfully over the past 2-3 years.

Sector Is High Beta

The sector has corrected sharply from its highs in Dec'06 and has been extremely volatile over the last 2-3 months due to – 1) adverse impact on demand following a sharp spike in interest rates 2) government measures to cool real estate asset prices by curtailing funds to developers, imposing service taxes on commercial/retail lease rentals and withdrawing tax benefits on housing projects to developers and 3) most importantly, expectation of soft property prices and sharp fall in volumes.

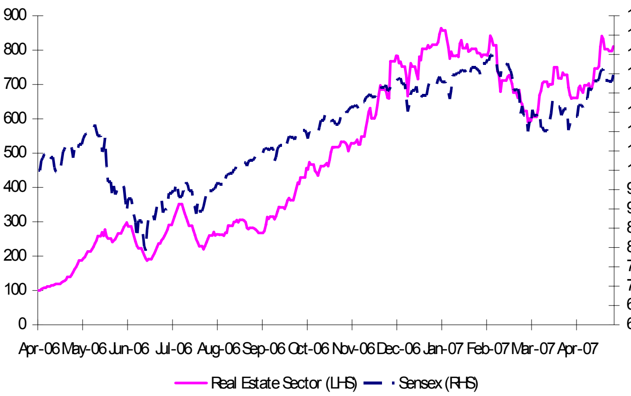
Volatility, however, has intensified – the sector's beta and discount/premium to NAV charts clearly reflects this and hence our Medium/High Risk ratings for the three stocks on which we are initiating coverage. Further, given our economists' expectation of another 25bps hike in interest rates and the sector's strong negative correlation to interest rates – we see more downside than upside at current levels.

Figure 28. Real Estate Stocks Premium/Discount to NAV over 1-yr



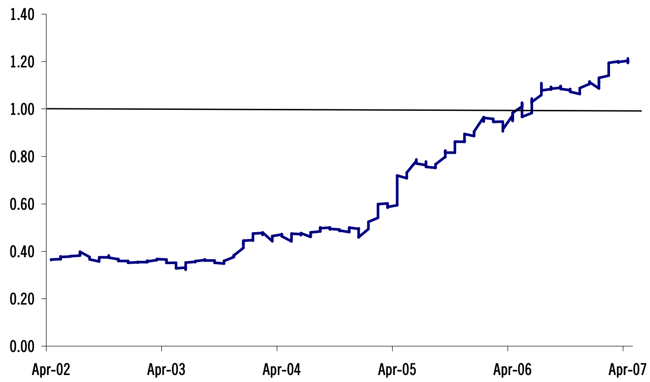
Source: Citigroup Investment Research

Figure 29. 1-yr Performance of Real Estate Index v/s Sensex



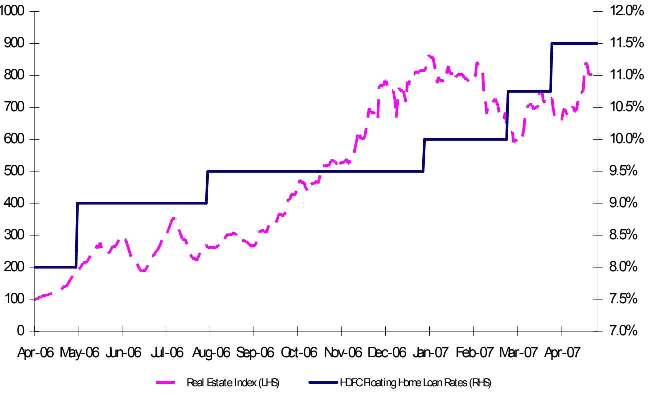
Source: Citigroup Investment Research

Figure 30. Real Estate Index Beta



Source: Citigroup Investment Research

Figure 31. Real Estate Index v/s Interest Rates



Source: Citigroup Investment Research

Unitech (UNTE.BO)

Sell/Medium Risk	3M
Price (03 May 07)	Rs431.95
Target price	Rs430.00
Expected share price return	-0.5%
Expected dividend yield	0.1%
Expected total return	**-0.3%**
Market Cap	Rs350,608M
	US$8,541M

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

Initiating with Sell: Building on Scale, But Limited Upside

- Diversified — Unitech is India's largest diversified developer with an emerging pan-India presence. We initiate with a Sell/Medium Risk rating and Rs430 target price, a 10% premium to our Rs391 NAV. This premium is based on its large diversified landbank, efforts to recycle capital faster than peers and strong track record. However, it trades at a premium to NAV, so we see limited upside.

- Key drivers — 1) low-risk/high-return model, 2) Large land holdings with plans to develop ~490m sq.ft, significant projects (~60m sq.ft.) in construction phase 3) Reduced concentration in NCR and focus on growth in Tier I and Tier II cities; and 4) Incremental income from lease/management fees.

- Development across segments — While residential projects remain Unitech's focus, it is diversifying into other segments such as IT parks, shopping malls, amusement parks and hotels. This should de-risk the business model, but will likely increase execution and market risks.

- Acceleration of cash flows — Unitech monetized six ongoing IT parks by selling 60% stakes in each to a REIT-structure – this provided it with Rs14.4bn of cash flows, giving it a competitive advantage and reducing some risks. We expect more such structures for its retail and hotel assets.

- Robust earnings growth, but driven by NAV — We expect earnings CAGR of 57% for FY07-09E on higher volumes and exponential margin growth. However, we expect underlying NAV value will drive the share price more than profitability – with stock trading at a premium to NAV, risk/reward is unfavorable.

Unitech – Statistical Abstract

Year to 31-Mar	Net Profit (Rs bn)	EPS (Rs)	P/E (x)	ROCE (%)
FY05	0	0.4	nm	11%
FY06	1	1.0	nm	12%
FY07E	11	13.7	31.4	46%
FY08E	16	20.2	21.4	34%
FY09E	28	33.9	12.7	37%

Source: Citigroup Investment Research estimates

Unitech – Landbank by Segment

Segment	Area (m sq. ft.)	% of Total
Plots	40.6	8%
Residential	324.3	66%
Commercial	31.2	6%
Retail	31.2	6%
IT Parks	25.4	6%
Others	37.55	8%
Total	**490.3**	**100%**

Source: Company Reports and Citigroup Investment Research estimates

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	nm	nm	31.4	21.4	12.7
P/E reported (x)	nm	nm	31.4	21.4	12.7
P/BV (x)	179.2	135.0	26.2	11.9	6.2
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	0.41	1.04	13.74	20.17	33.93
EPS reported	0.41	1.04	13.74	20.17	33.93
BVPS	2.41	3.20	16.51	36.19	69.62
NAVps ordinary	na	na	na	na	na
DPS	0.14	0.23	0.40	0.50	0.50
Profit & Loss (RsM)					
Net operating income (NOI)	**1,244**	**2,427**	**18,802**	**29,435**	**46,495**
G&A expenses	-733	-1,077	-1,576	-2,981	-3,459
Other Operating items	-103	-110	-185	-231	-289
EBIT including associates	**408**	**1,240**	**17,042**	**26,222**	**42,747**
Non-oper./net int./except.	167	152	-2,167	-3,481	-3,956
Pre-tax profit	**575**	**1,392**	**14,875**	**22,741**	**38,791**
Tax	-216	-513	-3,719	-6,368	-11,249
Extraord./Min. Int./Pref. Div.	-25	-38	0	0	0
Reported net income	**334**	**841**	**11,156**	**16,374**	**27,542**
Adjusted earnings	334	841	11,156	16,374	27,542
Adjusted EBIT	397	1,238	17,042	26,222	42,747
Adjusted EBITDA	511	1,350	17,227	26,454	43,036
Growth Rates (%)					
NOI	37.5	95.1	674.7	56.5	58.0
EBIT adjusted	52.5	211.5	nm	53.9	63.0
EPS adjusted	36.6	152.0	nm	46.8	68.2
Cash Flow (RsM)					
Operating cash flow	**115**	**-2,165**	**-11,101**	**695**	**9,122**
Depreciation/amortization	113	113	185	231	289
Net working capital	-1,687	-2,180	-21,093	-16,435	-19,434
Investing cash flow	**-431**	**-3,127**	**-4,118**	**-4,747**	**-5,492**
Capital expenditure	-280	-3,485	-3,786	-4,647	-5,292
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,954**	**6,474**	**21,750**	**8,884**	**1,962**
Borrowings	2,066	6,686	20,576	9,290	2,368
Dividends paid	-112	-188	-325	-406	-406
Change in cash	**1,638**	**1,182**	**6,531**	**4,832**	**5,592**
Balance Sheet (RsM)					
Total assets	**24,368**	**44,522**	**85,921**	**125,515**	**174,546**
Cash & cash equivalent	2,718	3,899	10,430	15,262	20,854
Net fixed assets	1,481	4,887	8,488	12,904	17,907
Total liabilities	**22,201**	**41,688**	**72,279**	**95,905**	**117,800**
Total Debt	3,764	10,449	31,025	40,315	42,683
Shareholders' funds	**2,166**	**2,834**	**13,642**	**29,610**	**56,746**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	6.4	13.9	54.1	48.4	49.4
ROE adjusted (%)	18.2	36.9	139.4	76.6	64.1
ROA adjusted (%)	1.8	2.4	17.1	15.5	18.4
Net debt to equity (%)	48.3	231.1	151.0	84.6	38.5
Interest coverage (x)	2.1	2.9	5.9	6.1	8.6

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

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Company Background

Unitech is one of India's largest, most diversified real estate developers with an emerging pan-India presence. It enjoys leadership in markets of National Capital Region (NCR) and Kolkata. The company entered civil engineering in 1974 and diversified into real estate. Its core strengths of land acquisition, reputation in building townships, relationships with governments and customers, and higher ROCE business model have enabled it to build a diversified portfolio.

Unitech has built a land bank of 10,761 acres with a total saleable area of ~490m sq.ft. spread over Chennai (24%), NCR (20%), Kolkata (19%) and Tier III cities (32%). In terms of development, residential projects account for about 66% of the saleable area, commercial 6%, IT Parks 6% and retail 6%. The focus areas are: (1) Residential properties and integrated townships in the suburbs of main cities; (2) Commercial IT parks; (3) hotels; (4) Retail & amusement parks (but to a more limited extent); and (5) SEZs. In addition, it also has a small presence in power transmission, prefabricated construction, paving block and ready mix concrete. This is the flagship company of Chandra family, which holds a 75% stake.

Investment Thesis

We initiate coverage on Unitech with Sell/Medium Risk (3M) rating and 12-month price target of Rs430, based on a 10% premium to our NAV estimate of Rs391 per share (excluding SEZs). The premium is attributed to: 1) Unitech's competitive advantage of large diversified land bank, while peers are still aggregating land 2) dynamic business model with thrust on recycling capital faster; 3) strong brand positioning and proven track record.

Unitech's low-risk/high-return model, focus on scale and emerging pan-India presence differentiate it from peers

Unitech's low-risk/high-return model and focus on scale in Tier I and Tier II cities differentiates its growth profile from its peers. Recent efforts to monetize six of its commercial/IT park assets by selling stakes to a REIT has provided it with healthy cash flows, when most developers are facing funding constraints – more such structures to boost Unitech's cash flows are expected. Additionally, initiatives to reduce concentration in NCR and introduce new revenue streams from lease/management fees are positive. This said, management's pan-India development plan of ~490mn sq.ft. is aggressive and does raise execution risks. With significant projects (~60mn sq.ft.) in construction phase, a lot already pre-sold and healthy margins on low land costs; we forecast an exponential growth in Unitech's profitability of FY07-09E. Valuations however would be determined on NAV value, rather than profitability in our view.

The stock appreciated 15% over the past two months and now trades at a premium to NAV, so upside is limited. The stretched valuation does not leave much margin for errors from potential execution delay for its aggressive development plans, in our view.

Strategic initiatives and strengths

Low-risk high return model

Thrust on residential development; early monetization of some commercial/IT Park assets

Unitech's focus is a low-risk/high-return business model. Thrust on residential development where working capital requirements are generally low and plan to recycle capital faster for other assets, is in line with this strategy. Recent listing on the Alternate Investment Market (AIM) seeking early monetization of some of its commercial assets also suggests the same. Company's strategy of acquiring large tracts of land on the outskirts of cities and gradually developing them, does lower the risk of pricing volatility and tends to drive steady price appreciation

Differentiate with scale

Pan-India landbank of ~10,760 acres; developing ~490m sq.ft. across residential, commercial and retail projects

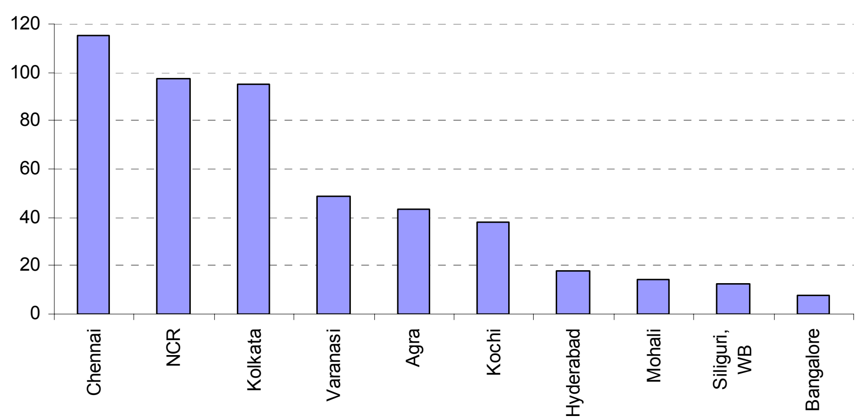
Unitech is one of only a few property companies who we expect to grow in scale, and to develop a multi-product portfolio at a national level. Focus on scale will differentiate the company's growth profile from its peers. The company has aggregated a pan-India land bank of ~10,760 acres for developing ~490m sq.ft. across residential, commercial and retail projects. Additionally, it has tied-up with leading hotel chains for building hotels, plans to set up three SEZs and replenish its land bank for future growth. Infrastructure could be another focus area for the company. We expect Unitech to develop and sell/lease ~60msf in FY07-09E while the total space developed by Unitech over the past two years is 5msf (3msf in FY06 and 2msf in FY05).

Geographically spread land bank

Diversifying into new geographies like Chennai, Kolkata and Tier-II cities

Unitech began operations in the NCR region, but over the past 3-4 years has considerably diversified its land bank of 10,760 acres to new geographies like Chennai, Kolkatta and some Tier II cities. This is in line with its plans to target demand in locations that offer significant job creation potential and where income levels are rising. The NCR (20%), Chennai (24%) and Kolkata (19%) currently account for 63% of the company's land bank.

Unitech – Diversified Landbank by Location (Million sq. ft.)



Source: Company Reports and Citigroup Investment Research

Reducing weighting on NCR

Upcoming projects at Kolkata, Chennai, Hyderabad and Kochi

While Unitech's near-term earnings will remain dependent (69% of total revenues in FY07-08E) on the NCR, it is making concerted efforts to reduce its weighting in this region. We see this concentration coming off as new projects are launched in other cities, predominantly Kolkata, Chennai, Hyderabad and Kochi.

- In Kolkatta, it is developing residential housing in Rajarhat and pre-sold ~2000 units with more launches in the pipeline; it has aggressive development plans in the region. It has a JV township project with DLF as well
- First project in Chennai, is a residential project spread over 45 acres on the Old Mahabalipuram Road, i.e., Chennai's IT corridor. – envisages 4m sf of residential apartments as a 50:50 JV with a local partner Arihant.

- In Hyderabad, it will launch a group housing project at Alwal and luxury housing at Banjara Hills in addition to a high-rise apartment project near Moulali road.
- Plotted development will be launched in Kochi shortly. Going forward, it intends to develop villas and residential apartments at its land in Aluva.

We believe the earnings stream will start to appear more diversified by FY09E when the share of NCR in revenue will likely come down to a third. This should be positive, given that NCR property prices are expect to soften by 5-20% in some pockets in the near-term, largely due to overheating in prices and affordability issues given the spike in interest rates.

Diversifying development portfolio

Unitech – Total Development Plan (Million sq. ft.) by Region & Segment

Location	Apartments	Villas	Plot	Institutional	Commercial	Retail	IT Parks	Hotel	Total
NCR	52.6	10.7	3.3	4.8	2.3	19.4	3.3	1.1	97.5
Kolkata	62.3	-	6.6	10.7	8.8	3.9	1.6	1.0	95.0
Varanasi	17.6	4.7	6.5	7.8	3.9	-	7.8	-	48.5
Chennai	40.5	50.3	8.3	4.6	6.0	2.7	3.1	-	115.5
Agra	13.1	6.5	6.5	5.2	7.8	-	3.9	-	43.1
Siligudi	6.0	2.6	3.7	-	-	-	-	-	12.3
Kochi	17.7	10.5	2.7	-	1.1	2.5	3.0	0.4	38.0
Hyderabad	8.5	3.3	1.8	-	0.9	2.7	0.5	-	17.8
Mohali	6.9	3.4	1.1	1.5	-	-	1.4	-	14.4
Bangalore	7.1	-	-	-	0.3	-	0.4	0.3	8.0
Chandigarh	-	-	-	-	-	-	0.3	-	0.3
Total	**232.3**	**92.0**	**40.6**	**34.7**	**31.2**	**31.2**	**25.4**	**2.9**	**490.3**

Source: Company Reports and Citigroup Investment Research

Residential development, a domain area for growth

Residential development is not only low-risk by also high-return. This is a dominant proportion of property development undertaken by Unitech will help it deliver higher returns. These projects require funds largely to buy land, while most of the construction costs are funded through instalment payments made by buyers. As initial capital investment is low, the project delivers a higher return. Further, Unitech's strong brand helps reduce working capital requirements further with ~15-20% of its customers preferring to pay the full amount upfront to obtain a 10-11% discount and also lowers the pricing risk, as typically projects are sold nearly a year before construction is finished and hence prices are already locked in.

~15-20% of Unitech's residential customers prefer paying the full amount upfront

Growing presence in Commercial/IT Park projects

10 IT Parks with a total area of 31.2m sq. ft. planned

With demand for Grade A office space outpacing supply, Unitech is growing its presence in commercial and IT Park projects (~12% of total development), primarily focused on IT parks within and beyond NCR. The firm's strategy going forward would be to focus on integrated development projects with townships in the prime locations in NCR and Tier 1 and Tier 2 cities, with standalone offices only in select cities. There are in total 10 IT parks (including stake in assets sold to the AIM fund), with total rental area of 31.2msf in Gurgaon, Kolkata, Greater Noida, Chennai, and Hyderabad. Unitech currently supplies Grade A office space in the NCR region (Gurgaon) with Unitech Business Park, Signature Towers, etc. Most of Unitech's IT parks are coming up in areas where there is good infrastructure connectivity and is another reason for the expected high occupancy rates. The company will develop and sell the assets at an appropriate time. This could help faster churning of capital while also retaining the benefits of annuity income as Unitech intends to only partly sell out its holdings. In our NAV estimates, we have assumed capitalization model for valuing the IT parks.

Low profile on retail

Strategy of clubbing retail plans with amusement parks to reduce risks

The company has a cautious stance on Retail development given concerns that high retail rentals are affecting the margins of retailers. Spiraling rentals at Rs50-90/sf/month is about 8-9% of the sales of a retailer and with the margins for an Indian retailer already at 11%, increase in retail rentals could dent margins. These concerns are valid in our view, however anchor tenants, and the F&B/entertainment sections that make up 65-70% of retail demand should continue to be profitable. Rising vacancy given the high turnaround of small shops at malls is also a concern. Unitech has clubbed its Retail plans with Amusement Parks to address these concerns. Focus is to sell the shops in malls but retain some control in the amusement parks. It is developing two large projects – Entertainment City in Noida, developed over 147 acres is a mix of amusement parks and retail space, Adventure Island, Rohini developed over 652 acres in alliance with Turner International for Pogo & Cartoon Network is another mix type project and there is one more such project at Chandigarh in pipeline. These two projects have cumulative retail space of 1.67msf (Unitech's share is 0.7msf). We think the amusement parks could be value accretive for the retail business – will reduce footfall risk in retail malls and grow revenues from amusement park.

New growth areas for development

Growth plans include Hotels and SEZs

- Hospitality segment – Plans to build hotels and is in process of tying up with hotel chains for managing these. Over the next three years, it has plans to build 800 new rooms.

- Plans to develop large-scale SEZs – 1) Petrochemical SEZ over 10,000 acres, 2) Multi-product SEZ across 12,500 acres, both projects are part of New Kolkatta International Development project, to be developed by Unitech (40% share) in joint venture with Salim Group (40% shares) and a local partner. The third project is a SEZ at Kundli planned over 20,000 acres in Sonepat, near Delhi. However, given the regulatory / political issues around land acquisition for these projects, progress has taken a back seat. We have not built these in our NAV estimates, and look forward to more visibility on these projects before we factor the same in our NAV value.

- Leverage its construction experience for infrastructure projects and consider participating in build operate transfer (BOT) projects for growth. However, the construction business is unlikely to scale up significantly given the focus on real estate development.

Acceleration of the cash flow cycle

60% stake in 6 IT Parks sold to Unitech Corporate Parks (REIT Structure) for Rs14bn

Unitech has further accelerated its cash flow cycle and by early monetization of some of its commercial/IT Park assets by floating a REIT like structure, Unitech Corporate Parks Plc (The Fund). The Fund's strategy is to invest in the commercial real estate sector in India. The company intends to focus on investment in special economic zones (SEZ) dedicated to the IT and ITES industries, or IT Parks that are suitable for foreign direct investment. Unitech has sold a 60% stake in each of its six IT parks that are under various stages of construction to this fund, raising ~Rs14bn making ~Rs10bn in pre-tax profit and Rs8bn on post tax profit on this transaction. This has provided the company with significant cash to deploy in newer projects, at a time when the most developers are witnessing funding constraints, thereby reducing some of the risks. We believe this vehicle will be used repeatedly to boost Unitech's cash flow cycle from IT Parks; similarly we expect more such structures for monetizing Unitech's retail and hotel assets going forward.

Unitech – IT Park Projects with UCP (Unitech Corporate Parks)

Project	Description	Total Area (Acres)	Start	End	Leasable Area (m. sq.ft.)	Valuation* (Rs m)
G1-ITC	IT/ITES SEZ in Gurgaon	24.7	Feb-07	Jul-09	3.26	11,143
G2-IST	IT/ITES SEZ in Gurgaon	28.4	Oct-05	Mar-09	3.75	9,441
N1	IT Park in Noida	19.3	Jul-06	Dec-08	2.03	4,102
N2	IT/ITES SEZ in Noida	29.7	Jan-07	Jun-09	3.13	6,730
N3	IT/ITES SEZ in G. Noida	50.0	Jan-07	Jun-09	4.95	3,523
K1	IT/ITES SEZ in Kolkata	45.4	Dec-05	Apr-10	4.35	6,434
Total		**197.5**			**21.47**	**41,373**

Source: Company Reports; * Valuation by Jones Lang LaSalle as at November 8, 2006

Captive construction skills

Unitech's origin was as a construction company, this experience should help it in scaling up faster than peers. Given the significant increase in scale of operations, we think this would be useful in scaling up operations. Already a significant part of its workforce has been redeployed in its real estate/SEZ projects.

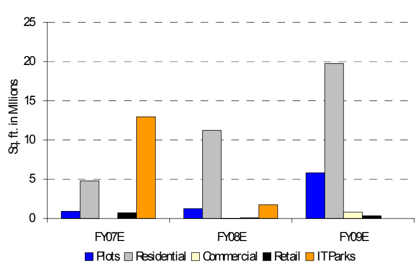
Financial Analysis

Unitech has a complex corporate structure with many subsidiaries and associate companies – due to land holdings and joint development agreements. We believe, consolidated operations largely reflect the company's true earnings potential; hence we have modelled this in our forecast.

We forecast exponential growth in profitability for FY07-09E

Given the company's aggressive development plans, we forecast an exponential growth in Unitech's profitability with earnings CAGR of 57% for FY07-09E. This would be driven by significant increase in volumes and higher prices, primarily on residential projects already pre-sold but now starting to get recognized as revenues – with quite a few projects at the critical second or third year of completion. Additionally, the company's initiatives to migrate to percentage completion method for all projects launched since Apr'2004 will further boost profitability. With this change, revenues are recognized on a proportionate basis subject to actual costs incurred being 20% or more of the total estimated costs of the projects. Hence, financials are not directly comparable on a YoY basis.

Unitech – Sales Volumes (M sq. ft.)



Source: Citigroup Investment Research

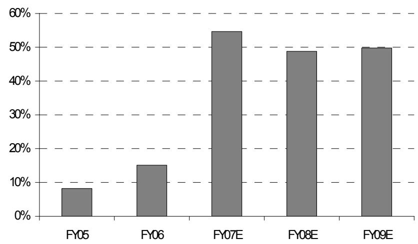
Unitech has different strategy for residential and commercial/IT Park/retail projects – residential projects follow develop and sell model and commercial/IT Park/retail projects follow a lease model, with assets being sold at a later date. We assume the commercial/IT Park assets to be sold to REIT's immediately on completion/under construction (taking average cap rates of 10%) given the uncertainty on timing of sale. The transfer of 60% stake in six projects to the Fund has boosted revenues in FY07E. Residential projects will largely dominate revenues in FY07-09E, while commercial/IT Parks would contribute more in FY2010E, when most IT Park projects get completed.

Unitech – Consolidated Revenue Mix (FY07E-FY09E) (Rs Billions)

	FY07E	FY08E	FY09E
Plots	0.3	0.4	3.3
Residential	14.9	37.4	67.9
Commercial	0.0	0.0	9.7
Retail	0.1	0.5	3.4
IT Parks	14.5	14.0	0.0
Other	1.8	1.8	2.1
Total Revenues	**31.5**	**54.2**	**86.5**

Source: Citigroup Investment Research estimates

Unitech – EBITDA Margins (F05-FY09E)



Source: Company Reports and Citigroup Investment Research estimates

Operating margins to increase on back of low cost land holdings

The company's operating margins should benefit significantly from its low cost land bank. With most projects under construction using this low cost land and high prices booked on residential projects starting to get recognized, we see margins increasing from 15.1% in FY06 to 50% levels over FY08-09E. Margins are expected to be significantly higher at 54.7% in FY07E – largely due to significant gains on 60% stake sale of IT Park assets during the year. However, we expect margins to decline as the company starts to exhaust its low cost land bank, largely beyond FY10-11.

Balance Sheet to get stronger

With a large number of projects in the construction phase, the company's capital work in progress is likely to increase significantly. Most of the capex is to fund construction cost with the outstanding (~Rs35bn) to be paid on land. This would be funded through cash raised on pre-sales for residential projects (~Rs33bn), increased debt and cash flows realized on account capitalization of retail and commercial assets which are leased. The recent sale of 60% stake in six IT Parks in 3QFY07E, to the Fund has provided the company with healthy cash flows (Rs14.4bn). This is expected to give Unitech an advantage over peers, most of whom are facing funding constraints due to loan restrictions to real estate sector and high volatility in capital markets. Although the debt equity is high at 4x in FY06 this is likely to reduce to less than 1x in FY09E given the sharp increase in profitability. We see Unitech's balance sheet getting stronger over the next 3-4 years, if momentum for growth continues.

Valuations

Our target price of Rs430 is based on 10% premium to our NAV value of Rs391 (excluding SEZs). While the level of NPV premium will be a matter of subjective assessment, we believe that a 10% premium to NAV is fair. The premium is attributed to: 1) Unitech's competitive advantage of large diversified land bank, while peers are still aggregating land 2) dynamic business model with thrust on recycling capital faster; 3) strong brand positioning and proven track record.

We believe a NAV-based valuation methodology is most appropriate for developers – as it factors the varied development projects and spread out time frames. Our estimates for the NAV of Rs391 involve the following key assumptions: a) current market price levels to sustain with no price inflation; b) development volume of 471m sq.ft (as ~19mn is already recognized as revenue in FY07) c) all projects undertaken by Unitech will be completed largely as per schedule: though given the scale of the roll-out, we expect a sizeable risk of delays; d) an average cost of capital of 14%; e) lower tax rate of 28% and f) does not include any value attributed towards SEZ projects.

Unitech – NAV Sensitivity

Price Change	0%	+ 5 %	+ 10 %
NAV (Rs)	391	431	471
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rs)	409	391	374
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rs)	375	359	329

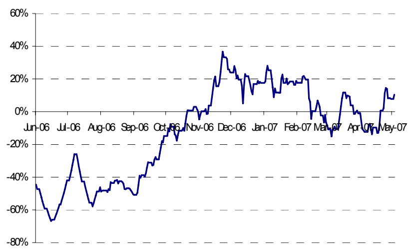
Source: Citigroup Investment Research estimates

Unitech – NAV Summary, Mar '07 (Rupees in Billions)

Gross NAV of Residential Development	366
Gross NAV of Non-Residential Development	202
Gross Total NAV	**568**
Less: Tax @ 28%	159
Less: Amt outstanding for land & govt. dues	35
Less: Debt Outstanding	31
Less: Net Customer Advances	26
Net NAV	**317**
No. of Shares Outstanding (Billions)	0.81
NAV Per Share (Rupees)	391

Source: Citigroup Investment Research estimates

Discount/Premium to NAV



Source: Citigroup Investment Research

With the stock having recently appreciated by 15% over the past two months and trading at a premium to NAV, upside is limited. The stretched valuation does not leave much margin for errors from potential execution delay for its aggressive development plans, in our view

Risks

We rate Unitech Medium Risk. This is different from the High Risk rating assigned by our quantitative risk rating system which measures the stock's volatility over a 260-day period.

The key reasons for that we assign a Medium Risk rating are: 1) its low-risk/high-return business model 2) pan-India land bank with initiatives to reduce weighting on NCR, where risk of excess supply over next 2-3 years is high 3) relatively healthy cash flows, at a time when most developers are facing funding constraints.

Main company-specific risks include:

- Developments on monetization of retail and hotel assets similar to IT Parks, could result in healthy cash flows and unlocking of value early on – should positively drive profitability and valuations
- SEZ projects have become political issues as they involve the acquisition of large tracts of land from farmers. While we have not factored the value of the SEZ into our NPV calculation, any developments providing higher visibility on execution of these project is likely to create long-term value.
- Any interest rate reversals, would positively impact earnings growth assumption – given its high leverage (debt/equity at 2.3x FY07E)

If any of these risk factors plays out, Unitech's share price is likely to have difficulty attaining our target price.

Unitech – Income Statement, FY05-09E (Rupees in Billions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Total Revenues	**6.2**	**8.9**	**31.5**	**54.2**	**86.5**
YoY Growth (%)	28%	43%	253%	72%	60%
EBITDA	**0.5**	**1.4**	**17.2**	**26.5**	**43.0**
Margin (%)	8%	15%	55%	49%	50%
Depreciation & Amortization	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Other income	0.4	0.6	0.7	0.9	1.1
EBIT	**0.8**	**1.9**	**17.8**	**27.1**	**43.8**
Interest income(expense)	(0.2)	(0.5)	(2.9)	(4.4)	(5.0)
Profit before tax	**0.6**	**1.4**	**14.9**	**22.7**	**38.8**
Tax	(0.2)	(0.5)	(3.7)	(6.4)	(11.2)
Net Income	**0.3**	**0.8**	**11.2**	**16.4**	**27.5**

Source: Company Reports and Citigroup Investment Research estimates

Unitech – Balance Sheet, FY05-09E (Rupees in Billions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Source of Funds					
Equity Share Capital	0.1	0.1	1.6	1.6	1.6
Reserves	1.8	2.5	11.7	27.7	54.9
Net Worth	2.0	2.6	13.3	29.3	56.5
Deferred Liability	2.2	1.2	1.5	2.0	2.7
Minority Interest	0.2	0.2	0.2	0.2	0.2
Long Term Debt	3.5	10.1	30.6	39.7	41.9
Short Term Debt	0.3	0.4	0.4	0.6	0.8
Total Debt	3.8	10.4	31.0	40.3	42.7
Capital Employed	**8.1**	**14.5**	**46.0**	**71.8**	**102.1**
Application of Funds					
Gross Block	2.2	4.5	8.1	12.4	17.3
Depreciation	0.8	0.9	1.1	1.3	1.6
Net Fixed Assets	1.3	3.6	7.0	11.1	15.7
Capital WIP	0.1	1.3	1.5	1.8	2.2
Investments	0.5	0.1	0.5	0.6	0.8
Goodwill	0.8	0.8	0.8	0.8	0.8
Inventories	16.6	30.9	58.3	84.0	121.1
Sundry Debtors	0.9	1.0	3.5	6.0	8.6
Other Current Assets	1.4	2.9	3.9	5.9	4.4
Cash and Bank	2.7	3.9	10.4	15.3	20.9
Current Assets	21.5	38.7	76.1	111.2	155.0
Current Liabilities	(16.3)	(30.0)	(39.8)	(53.6)	(72.5)
Net Current Assets	5.3	8.6	36.3	57.5	82.5
Total Net Assets	**8.1**	**14.5**	**46.0**	**71.8**	**102.1**

Source: Company Reports and Citigroup Investment Research estimates

Unitech – Key Ratios, FY05-09E

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
EPS (Rs)	0.4	1.0	13.7	20.2	33.9
EPS YoY Gr. (%)	37%	152%	1227%	47%	68%
Book value (Rs)	2.4	3.2	16.5	36.2	69.6
Debt/Equity (x)	1.9	4.0	2.3	1.4	0.8
ROE (%)	17%	32%	83%	56%	49%
ROCE (%)	11%	12%	46%	34%	37%

Source: Citigroup Investment Research

Parsvnath Developers (PARV.BO)

Sell/High Risk	3H
Price (03 May 07)	Rs331.15
Target price	Rs295.00
Expected share price return	-10.9%
Expected dividend yield	0.0%
Expected total return	-10.9%
Market Cap	Rs60,140M
	US$1,465M

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

Sell: Aggressive Development Plans, but Priced in

- Initiate at Sell (3H) — We initiate coverage on Parsvnath with a Sell/High Risk rating with a target price of Rs295 based on a 10% discount to our NAV estimate of Rs328, implying 11% downside.

- Key concerns — We attribute the 10% discount to: 1) concentration in Tier II and III cities where creating sufficient jobs to meet potential supply is difficult, 2) high exposure to the NCR (43%) where risk of near-term prices softening is high; 3) an increased share of plotted development that lacks pricing power, and 4) high execution risks given aggressive plans to develop ~134m sq. ft.

- Growth catalysts — 1) Low-risk develop-sell model for large part of development portfolio, 2) forays into new segments such as Delhi Metro Rail projects, multiplexes, IT Parks and hotels. We forecast strong earnings CAGR over FY07-09E on the back of higher volumes and some gains from land holdings acquired in the past, but believe NAV is the most appropriate valuation method.

- High-priced land acquisitions — A significant part of Parsvnath's landbank was acquired relatively recently when property prices were at their peak. Given the current scenario of softening real estate prices, we forecast only a marginal improvement of 210bps in Parsvnath's operating margins from FY07E to FY09E.

- Upsides priced in — With the stock appreciating significantly over the last one month and trading close to our NAV compared to our expectation of a 10% discount, we believe the potential upside is priced in.

Statistical Abstract

Year to 31-Mar	Net Profit (Rs m)	EPS (Rs)	P/E (x)	ROCE (%)
FY05	657	4	74.8	43%
FY06	1,070	7	45.9	33%
FY07E	3,229	17	18.9	22%
FY08E	6,810	37	9.0	24%
FY09E	12,484	68	4.9	32%

Source: Citigroup Investment Research

Parsvnath Landbank by Segment

Segment	Area (m sq. ft.)	% of Total
Plot	40.5	30%
Residential	72.5	54%
Commercial/Retail	11.1	8%
DMRC	1.8	1%
Hotels	2.7	2%
IT Parks	6.0	4%
Total	**134.6**	**100%**

Source: Company Reports and CIR

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	74.8	45.9	18.9	9.0	4.9
P/E reported (x)	74.8	45.9	18.9	9.0	4.9
P/BV (x)	48.4	24.4	3.7	2.6	1.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	4.43	7.21	17.48	36.87	67.59
EPS reported	4.43	7.21	17.48	36.87	67.59
BVPS	6.85	13.56	89.74	126.61	194.20
NAVps ordinary	na	na	na	na	na
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net operating income (NOI)	**779**	**1,708**	**9,298**	**18,274**	**31,494**
G&A expenses	-55	-268	-4,594	-8,204	-13,407
Other Operating items	-20	-42	-135	-205	-235
EBIT including associates	**704**	**1,398**	**4,569**	**9,865**	**17,852**
Non-oper./net int./except.	26	72	-85	-273	-270
Pre-tax profit	**730**	**1,470**	**4,484**	**9,592**	**17,583**
Tax	-73	-400	-1,256	-2,782	-5,099
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Reported net income	**657**	**1,070**	**3,229**	**6,810**	**12,484**
Adjusted earnings	657	1,070	3,229	6,810	12,484
Adjusted EBIT	704	1,398	4,569	9,865	17,852
Adjusted EBITDA	724	1,440	4,704	10,070	18,087
Growth Rates (%)					
NOI	220.7	119.1	444.5	96.5	72.4
EBIT adjusted	257.4	98.5	226.9	115.9	81.0
EPS adjusted	256.7	62.9	142.4	110.9	83.3
Cash Flow (RsM)					
Operating cash flow	**265**	**-2,035**	**-10,213**	**-2,882**	**326**
Depreciation/amortization	20	42	135	205	235
Net working capital	-392	-2,163	-13,577	-9,897	-12,393
Investing cash flow	**-173**	**-452**	**-3,044**	**903**	**297**
Capital expenditure	-133	-414	-134	-377	-113
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**722**	**2,058**	**19,001**	**645**	**-1,160**
Borrowings	722	1,152	7,667	645	-1,160
Dividends paid	0	0	0	0	0
Change in cash	**815**	**-429**	**5,744**	**-1,334**	**-537**
Balance Sheet (RsM)					
Total assets	**5,586**	**9,496**	**32,665**	**41,488**	**55,812**
Cash & cash equivalent	841	412	6,156	4,823	4,285
Net fixed assets	155	529	528	699	577
Total liabilities	**4,570**	**7,485**	**16,091**	**18,104**	**19,944**
Total Debt	1,207	2,359	10,025	10,670	9,510
Shareholders' funds	**1,016**	**2,012**	**16,574**	**23,384**	**35,868**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	23.2	21.7	26.9	28.9	29.3
ROE adjusted (%)	94.2	70.7	34.7	34.1	42.1
ROA adjusted (%)	18.1	14.2	15.3	18.4	25.7
Net debt to equity (%)	36.0	96.7	23.3	25.0	14.6
Interest coverage (x)	68.7	53.6	19.2	21.7	36.2

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Company Background

Parsvnath Developers is among the largest real estate developers in north India with dominance in residential projects (~54% of total development). Focus is on enhancing presence in Tier-II and Tier-III cities across the country, presently concentrated in the NCR. Management has 15-years of experience in the real estate business and it completed 3.8mn sq.ft of development in the last five years. Its ability to identify and aggregate large parcels of land and development rights will drive growth in the future. The company is in the process of building a diversified real estate portfolio and has aggressive plans for developing ~134mn sq.ft over the next 3-4 years, with development rights/land that it has already acquired. The company raised Rs10bn through an IPO at Rs300 per share in Nov'06 for funding its growth plans. Promoters control and manage the company with an 80% stake.

Investment Thesis

We initiate coverage on Parsvnath Developers with a Sell/High Risk (3H) rating with a 12-month price target of Rs295, based on 10% discount to our NAV estimate of Rs328 per share. This implies about 11% downside over the next 12-months. We attribute the discount to: 1) a concentration in Tier-II and III cities, 2) its exposure to NCR (43% of development) where the risk of property prices softening in the near-term is high, and 3) high share of plotted development (30% of total development), which is a low value add business.

Parsvnath has aggressive plans to develop ~134mn sq.ft over the next 4-5 years – land/development rights for which it has already acquired. The company's strategy to operate on a develop-and-sell model and capital raised through recent IPO will provide it with requisite cash flows for funding growth, the key challenge is execution. Management plans to diversify to new segments – commercial, retail, IT/ITES Park, DMRC) projects, hotels and multiplexes; and enhance presence in 250 cities by 2010 vs. 46 cities today, but this does raise execution and market risk levels. While we forecast strong revenue and earnings CAGRs of 89% and 97%, respectively, for FY07-09E on the back of increased volumes and higher margins – this is likely to moderate significantly in the future as the high cost of land is recognized. We believe NAV value will be the primary driver for stock performance. The stock has appreciated by 17% over last two-months and is trading close to NAV levels. With concentration in the North, a market where speculative build up is high and property prices are likely to soften, we believe a 10% discount to NAV is fair value.

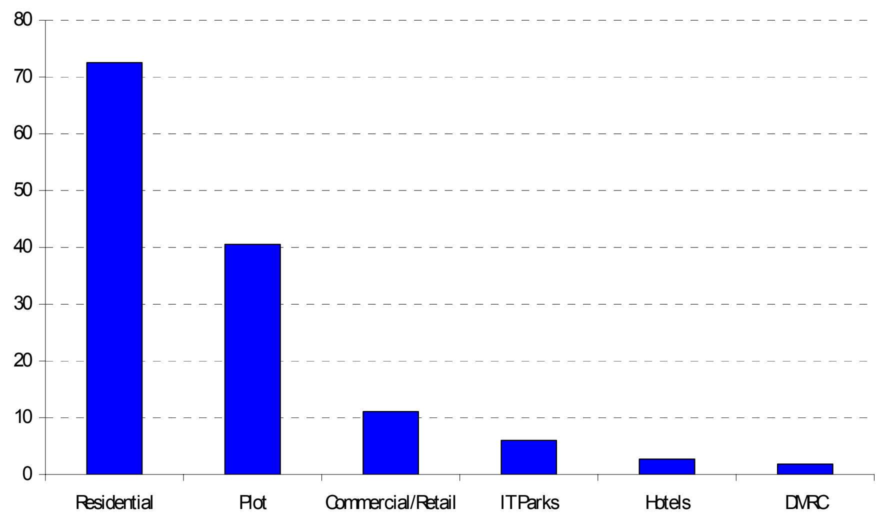
Strategy ahead

Aggressive development plans

Plans to build ~134m sq. ft in 4-5 years including 21 townships

Parsvnath has aggressive development plans to build ~134mn sq.ft. in the next 4-5 years. Most of the development plans are concentrated on township developments – plans to develop 21 townships with a diversified portfolio of projects. The required landbank and development rights for this are already acquired. While a large part is focused on residential projects, a mix of plotted development and housing projects it is also diversifying to other segments – commercial, retail, IT/ITES Park, Delhi Metro Rail Corp (DMRC) projects, hotels and multiplexes – all spread across 46 cities. Given that the company has developed ~3.8mn sq.ft over the last five years, these plans are aggressive and raise execution risks and market risks, in our view.

Parsvnath Landbank by Segment (Million sq. ft.)



Source: Company Reports and Citigroup Investment Research

Develop-Sell model

Develop-and-sell model for large part of development including residential

The company operates in a develop-and-sell mode for the large part of its projects, particularly the residential segment. This approach provides it with cash flows to develop projects with better returns. A portion (~30%) of its commercial, retail, hotel and IT/ITES Park assets are owned, leased in initial years and then sold, which provides the company with leasing income. We assume a capitalization model for non-residential development in calculation of our NAV.

Core focus on Tier II and Tier III cities

Plans to expand footprint to 250 cities by 2010 vs 46 cities today

Most of Parsvnath's development is based in the North, with ~43% in the NCR. It is, however, making efforts to increase its footprint in Tier II and Tier III cities across the country – it plans to enhance its presence in 250 cities by 2010 vs 46 cities today. Management believes these micro markets offer strong demand potential and a better pricing environment for real estate development. While this strategy differs from some of the large developers focusing on Tier I locations, job creation to provide sufficient income levels to support current high prices will be critical to the success of this strategy.

High price land acquisitions

Recent high-price land acquisitions result in relatively higher land cost

Parsvnath's latest land deals in Noida are expected to add to the company's land costs significantly - in Noida it bought 72acres at Rs6bn and in Ranchi, Jharkhand, it bought 8.3 acres for Rs525mn. Similarly, it has also recently bought land in Mumbai and other locations at prevailing market prices, which are substantially higher than its average land cost, thereby pushing up the prices of properties. We believe any correction in real estate prices would exert pressure on operating margins.

Diversifying to new areas, but benefits back ended

To reduce dependence on the residential segment, the company is diversifying to new growth opportunities. It expects these to contribute towards incremental revenues, however, most of this will be back ended as a large part of the development will come up in phases, post 2009.

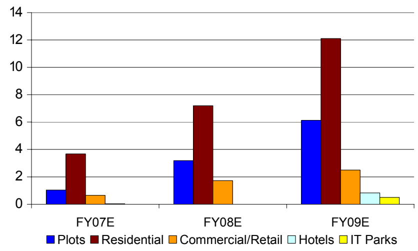
BOT agreements for 12 DMRC projects with lease ranging from 12-30 years; 5 projects already executed

- DMRC Projects: Parsvnath has entered into 12-30 year lease to develop retail malls (~1.8 mn sq.ft) at 11 stations owned by the DMRC on a build operate & transfer (BOT) basis. As per the agreement, the company will earn lease rental income for the lease period on payment of upfront fee and nominal lease rent/month for the lease period, after which the property will devolve to DMRC. Five projects are complete and completion on the balance is scheduled by 2010. The company recently bagged lease rights to develop a new DMRC station with integrated mall and commercial complex (0.37m sq.ft) at Games Village, near the Akshardham Temple in the NCR, with completion targeted for 2010.

Plans to develop 17 hotels and 114 multiplex screens; MOU signed with Movietime Cineplex for 100 screens

- Hotels and Entertainment projects: The company plans to develop 17 hotels, 2396 rooms (~2.7m sq.ft) across key Tier II cities – some being part of the township development. It plans to retain ownership and lease management to international franchisees – completion of most projects is due in 2010. Additionally, it is developing 114 multiplex screens and has signed a MoU with Movietime Cineplex for leasing ~100 screens at Rs48.5/sq.ft for an initial period of nine years with 15% escalation after every three years. We expect this to contribute cash flows of ~Rs420m per annum.

Parsvnath Sales Volumes (M sq. ft.)



Source: CIR Estimates

Financial Analysis

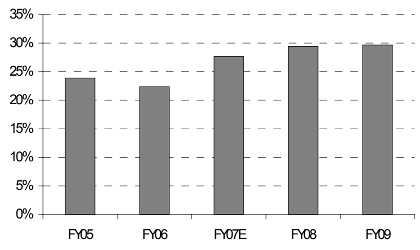
We expect by 4-5x increase in volumes over FY07-09E, primarily on account of plotted and housing projects to drive rapid revenue growth of 89% CAGR over FY07-09E. We are not factoring in any substantial contribution from the retail and IT projects, as we believe the development is likely to take time; most of the retail malls and IT Parks will be ready only post 2009E. As per the company policy, revenues are recognized on a percentage completion method for all projects on proportionate basis, subject to actual costs incurred being 30% or more of the total estimated costs of the projects.

Revenue Mix (Rs Millions)

	FY07E	FY08E	FY09E
Plots	564	1,663	3,149
Residential	11,883	20,358	32,726
Commercial/Retail	4,570	12,161	22,044
IT Parks	0	0	3,023
Total	**17,016**	**34,183**	**60,942**

Source: CIR Estimates

Parsvnath EBITDA Margins (F05-FY09E



Source: CIR Estimates

EBITDA margins are likely to improve from 22% in FY06 to 30% levels in FY09E – but this is likely to be lower than peers due to higher land costs. Factoring this, low gearing levels following fresh capital raised, interest costs capitalized for most projects, we forecast strong earnings CAGR of 97% for FY07-09E.

Valuation

Our target price of Rs295 is based on 10% discount to Parsvnath's NAV of Rs328. While the level of NAV discount will be a matter of subjective assessment, we believe that a 10% discount to the NAV is fair. This discount is largely attributable to - 1) the company's concentration in Tier II and Tier III cities, where creating sufficient jobs and income levels to meet potential supply is difficult, 2) the size of its exposure to NCR (43% of development), where the risk of softening in property prices is high, and 3) high share of plotted development (30% of total development), a low value-add business

We believe a NAV-based valuation methodology is most appropriate as it factors the varied development projects and spreads out time frames. Our estimates for the NAV involve the following key assumptions: a) current market prices to remain at this level with no price inflation; b) development volume of 127.3m sq.ft (as ~1.9m and 5.4m is already recognized as revenue in FY06 and FY07 respectively), c) all projects undertaken by Parsvnath will be completed as per schedule provided by management, though given the scale of the roll-out, we expect a sizeable risk of delays, d) an average cost of capital of 14%, and e) marginally lower tax rate of 27%.

NAV Summary - Mar '07 (Rupees in Millions)

Gross NAV of Residential Development	52,287
Gross NAV of Non-Residential Development	40,527
Gross Total NAV	**92,814**
Less: Tax @ 27%	25,060
Less: Amt outstanding for land & govt. dues	0
Less: Debt Outstanding	10,000
Less: Net Customer Advances	-2,800
Net NAV	**60,555**
No. of Shares Outstanding (Millions)	184.7
NAV Per Share (Rupees)	**328**

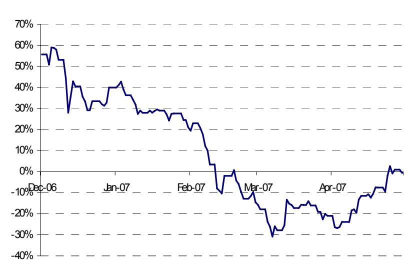
Source: CIR Estimates

NAV Sensitivity

Price Change	**0%**	**+ 5 %**	**+ 10 %**
NAV (Rs)	328	363	398
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rs)	339	328	317
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rs)	316	305	283

Source: Citigroup Investment Research

Premium/Discount to NAV



Source: Citigroup Investment Research

The stock has been highly volatile. After listing in Nov'06, the stock traded at a significant premium to its IPO price of Rs300 per share, later correcting significantly and moving to a discount to our NAV. It now trades close to our NAV estimate. This volatility is largely on the back of news flow on rising interest rates and expected softening in property prices of NCR, a domain market for Parsvnath. We not foresee any major catalysts to take the stock to a premium and believe a 10% discount to NAV is fair, thus implying 11% downside.

Risks

We rate Parsvnath High Risk. This is different from the Speculative Risk rating assigned by our quantitative risk rating system (which measures the stock's volatility over a 260-day period) to stocks that have less than one year's trading history.

The key reasons for our assignment of a High Risk rating include: 1) the company's concentration in the NCR where risk of excess supply over the next 2-3 years is high, 2) aggressive development plans, which raises sizeable risk of execution delays, and 3) evolving regulatory and political risks for the sector's growth. The main risks to our investment thesis and target price are:

- Any positive developments on execution of SEZ projects, particularly the four IT/ITES SEZs that have received formal government approvals, could enhance the company's NAV and valuations
- Timely execution on on-going projects, which would demonstrate the company's ability to execute on its aggressive development plans
- Any downward revision in interest rates for housing projects, which would benefit the company, given its high leverage in 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.

Income Statement, FY05-09E (Rupees in Millions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Total Revenues	3,032	6,438	17,016	34,183	60,942
YoY Growth (%)	170%	112%	164%	101%	78%
EBITDA	**724**	**1,440**	**4,704**	**10,070**	**18,087**
Margin (%)	23.9%	22.4%	27.6%	29.5%	29.7%
Depreciation & Amortization	(20)	(42)	(135)	(205)	(235)
Other income	36	99	160	192	230
EBIT	**741**	**1,497**	**4,729**	**10,057**	**18,083**
Interest income(expense)	(11)	(27)	(245)	(465)	(500)
Profit before tax	**730**	**1,470**	**4,484**	**9,592**	**17,583**
Tax	(73)	(400)	(1,256)	(2,782)	(5,099)
Net Income	**657**	**1,070**	**3,229**	**6,810**	**12,484**

Source: Company Reports and CIR Estimates

Balance Sheet, FY05-09E (Rupees in Millions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Source of Funds					
Equity Share Capital	82	989	1847	1847	1847
Reserves	933	1022	14727	21537	34021
Net Worth	1016	2012	16574	23384	35868
Long Term Debt	1170	2105	6925	10220	9105
Short Term Debt	37	254	3100	450	405
Total Debt	1207	2359	10025	10670	9510
Capital Employed	**2223**	**4370**	**26599**	**34054**	**45378**
Application of Funds					
Gross Block	205	446	753	1130	1243
Depreciation	50	90	225	430	665
Net Fixed Assets	155	356	528	699	577
Capital WIP	0	173	0	0	0
Investments	42	80	2990	1710	1300
Inventories	2471	3894	11061	21193	35956
Sundry Debtors	434	638	3063	3418	4875
Other Current Assets	1642	3942	8868	9645	8818
Cash and Bank	841	412	6156	4823	4285
Current Assets	5388	8887	29148	39079	53934
Current Liabilities	(3362)	(5126)	(6066)	(7434)	(10434)
Net Current Assets	2026	3760	23081	31645	43501
Total Net Assets	**2223**	**4370**	**26599**	**34054**	**45378**

Source: Company Reports and CIR Estimates

Key Ratios, FY05-09E

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
EPS (Rs)	4.4	7.2	17.5	36.9	67.6
EPS YoY Gr. (%)	257%	63%	142%	111%	83%
Book value (Rs)	6.8	13.6	89.7	126.6	194.2
Debt/Equity (x)	1.19	1.17	0.60	0.46	0.27
ROE (%)	65%	53%	19%	29%	35%
ROCE (%)	43%	33%	22%	24%	32%

Source: Citigroup Investment Research

Ansal Properties & Infrastructure (ANSP.BO)

Sell/High Risk	3H
Price (03 May 07)	Rs291.05
Target price	Rs255.00
Expected share price return	-12.4%
Expected dividend yield	0.3%
Expected total return	**-12.0%**
Market Cap	Rs33,034M
	US$805M

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

Sell: Concentration in North India Raises Risks

- Initiating with Sell/High Risk, TP of Rs255 — Ansal Properties (Ansal) is an eminent developer in north India with a land bank of ~8,000 acres, primarily for the residential market, in the mid-upper segment operating on a develop-sell model. We initiate with a Sell (3H) and a target price of Rs255 based on a 15% discount to our NAV estimate of Rs300, implying 12% downside.

- Large build out planned in the north— Plans to build ~195mn sq.ft. over the next 4-5 years in northern Tier III cities, particularly the NCR - has already acquired most of the land/development rights (except Dadri project of 2,500 acres) – timely execution and softening prices in the region, are risks to growth.

- Focus on plotted and township development — The majority of its projects are concentrated in townships and are dominated by residential development, with a mix of plots (45%), housing projects (28%) and some IT Parks (5%) and retail/commercial projects (23%).

- Discount to NAV is fair value — While we expect rapid earnings growth over FY07-09E, we believe the factors driving this are likely to moderate significantly in future, hence, we believe a 15% discount to NAV is fair value.

- Key reasons for discount to NAV — 1) Concentration in NCR and Tier III cities in the north (87% of development), where the risk of prices softening is high, 2) high dependence on plots (45% of development) limits its ability to command a price premium, 3) risk to delays for large township projects, particularly Dadri (27% of our NAV value) is high as land is still being acquired.

Statistical Abstract

Year to 31-Mar	Net Profit (Rs. m)	EPS (Rs.)	P/E (x)	ROCE (%)
FY05	134	1.9	nm	10%
FY06	375	5.4	54.4	21%
FY07E	1,743	15.4	19	36%
FY08E	3,609	31.8	9.2	43%
FY09E	6,129	54	5.4	47%

Source: Citigroup Investment Research

Ansal API Landbank by Segment

	Area (m sq. ft.)	% of Total
Plot	87.2	45%
Housing Projects	54.2	28%
Commercial/Retail	45	23%
IT Parks	8.9	5%
Total	**195.3**	**100%**

Source: Company Reports and CIR

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	152.6	54.4	19.0	9.2	5.4
P/E reported (x)	152.6	54.4	19.0	9.2	5.4
P/BV (x)	18.6	13.5	9.1	4.6	2.5
Dividend yield (%)	0.1	0.2	0.2	0.3	0.3
Per Share Data (Rs)					
EPS adjusted	1.91	5.35	15.36	31.79	53.99
EPS reported	1.91	5.35	15.36	31.79	53.99
BVPS	15.68	21.53	32.11	62.89	115.88
NAVps ordinary	na	na	na	na	na
DPS	0.28	0.57	0.50	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	**626**	**1,204**	**5,231**	**8,531**	**13,576**
G&A expenses	-362	-558	-2,570	-3,041	-4,306
Other Operating items	-20	-30	-35	-40	-45
EBIT including associates	**244**	**615**	**2,625**	**5,450**	**9,225**
Non-oper./net int./except.	-41	48	0	-15	5
Pre-tax profit	**203**	**663**	**2,625**	**5,435**	**9,230**
Tax	-57	-188	-882	-1,826	-3,101
Extraord./Min. Int./Pref. Div.	-13	-101	0	0	0
Reported net income	**134**	**375**	**1,743**	**3,609**	**6,129**
Adjusted earnings	134	375	1,743	3,609	6,129
Adjusted EBIT	244	615	2,625	5,450	9,225
Adjusted EBITDA	264	646	2,660	5,490	9,270
Growth Rates (%)					
NOI	5.7	92.4	334.4	63.1	59.1
EBIT adjusted	15.7	152.2	326.5	107.6	69.3
EPS adjusted	119.6	180.4	187.0	107.0	69.8
Cash Flow (RsM)					
Operating cash flow	**448**	**87**	**-2,198**	**1,041**	**631**
Depreciation/amortization	20	30	35	40	45
Net working capital	437	-270	-3,641	-2,607	-5,543
Investing cash flow	**7**	**-24**	**-38**	**-42**	**-89**
Capital expenditure	0	-84	-40	-42	-89
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-405**	**92**	**2,759**	**-519**	**-284**
Borrowings	-385	59	2,029	-405	-170
Dividends paid	-20	-40	-57	-114	-114
Change in cash	**50**	**155**	**523**	**480**	**258**
Balance Sheet (RsM)					
Total assets	**7,761**	**9,827**	**16,781**	**21,246**	**29,333**
Cash & cash equivalent	191	346	868	1,349	1,607
Net fixed assets	410	548	553	556	599
Total liabilities	**6,663**	**8,276**	**13,092**	**14,062**	**16,134**
Total Debt	1,367	1,426	3,455	3,050	2,880
Shareholders' funds	**1,098**	**1,551**	**3,689**	**7,184**	**13,199**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	11.2	17.2	29.6	37.6	40.7
ROE adjusted (%)	12.2	28.8	67.7	66.9	60.4
ROA adjusted (%)	1.8	4.3	13.1	19.0	24.2
Net debt to equity (%)	107.1	69.7	70.1	23.7	9.6
Interest coverage (x)	1.5	4.7	21.3	47.7	88.3

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

Powered by: dataCentral

Company Background

Ansal Properties (Ansal) is a prominent real estate developer in northern India focusing on the NCR and Tier-III cities in Uttar Pradesh, Haryana, Rajasthan and Punjab. The company has development experience of ~32m sq.ft over the last four decades. Ansal is a pioneer of plotted development and townships with experience in developing some key commercial and retail properties in Delhi. These include: Ansal Bhawan, Ambadeep, Antariksh Bhawan and Ansal Plaza, Delhi's first shopping mall. The roadmap for future development includes integrated townships in Tier-II/Tier III cities, IT parks, office blocks, shopping malls and hotels. In FY2007, the company merged with Ansal Township & Projects Ltd (ATPL), a group company engaged in construction and township development mainly in Rajasthan and Punjab. Ansal's landbank (post merger) has a saleable area of ~195m sq. ft. of which plotted development accounts for a sizeable 45%. This is a flagship company of the Sushil Ansal Group, where post merger and preferential issue of Dec'06, the promoters hold a 66% stake.

Investment Thesis

We initiate coverage on Ansal Properties with a Sell/High Risk (3H) rating with target of Rs255, based on 15% discount to our NAV estimate of Rs300 per share. This implies 12% downside. We attribute the discount to: 1) the company's concentration in NCR and Tier III cities in north India, where the near-term risk of property prices softening is high 2) large exposure to plotted development (45% of development), a low value add business, and 3) risk of delays for some of its large township projects, particularly the Dadri project (2,500 acres, 27% of our gross NAV value), where it is still acquiring land.

Ansal, however, has aggressive development plans to develop ~195mn sq.ft (post-merger) over the next 4-5 years. It has already secured most land/development rights (except Dadri project of 2,500acres, ~23% of the development). The company's strategy to operate on a develop-and-sell model with capital raised (~Rs6.82bn) through preferential issue of equity is likely to provide it with requisite cash flows. The key challenge is in execution. Management plans to build 38 large townships and also develop some commercial, retail and IT projects, through which it hopes to enhance its presence in NCR and Tier III cities in the north. We view its execution and softening prices in the region as risks to growth. We expect rapid earnings growth of over FY07-09E following the merger on increased volumes, and higher margins. This is largely on the back of gains from appreciation of its land bank acquired in the past. This factor should, however, moderate significantly in the future. Factoring this in, we believe the stock's performance will largely be determined by its NAV.

The stock is trading close to our NAV estimate. Given company's concentration in the north, a market we believe is overheated, we believe a 15% discount to NAV is fair value. Given these factors and considering our High risk rating, we initiate with a Sell.

Strategy and Competitive positioning

Build aggressively on large land bank

Build aggressively on its potentially large land bank of ~8,000 acres

Ansal is looking to build aggressively on its potentially large land bank of ~8,000 acres. It plans to develop ~195m sq.ft over the next 4-5 years. The company has already acquired most of the land/development rights (except Dadri project of 2,500 acres). Operating on a develop-and-sell model and concentrated on plotted development, a large part of Ansal's projects are pre-sold (~48m sq.ft). This provides it with cash flows to develop projects. In some cases it also allows it to invest in additional land, in line with its strategy to grow scale. Although Ansal is an experienced developer, the company's development plans involve significantly more development than it has delivered so far. This does raise risk levels and subjects it to execution and market risks, which could limit any cushion in the event of market or project slowdowns.

Core focus – plotted and township development

Plots account for 45% of Ansal's total development plans

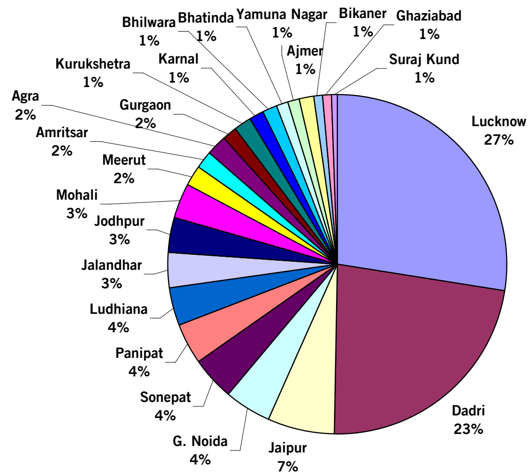
Historically, the sale of plots and residential properties in townships was the principal source of revenue for Ansal. The strategy going forward continues to revolve around township projects. Of 65 ongoing and proposed projects, 38 are township projects. We see this raising the risk-return profile, given larger capital commitments and large scale of development. Within each township project there is high concentration of plotted development with the proportion of land used for plots ranging from 35% to 90%. Plots typically account for well over 50% of the total land used in the company's township projects, with the balance land used for a blend of residential, commercial and retail development. Overall, plots account for 45% of Ansal's total development plans. We believe the company's high dependence on plotted sales is a limiting factor, since plots offer little opportunity for differentiation and thereby restrict the ability to command a price premium.

Targeting NCR and Tier III cities in the north

We believe job creation, income levels to support current high prices and expected supply in the region will be critical

Ansal's land holdings are focused primarily in the north, particularly in the NCR. A large proportion of its development of townships are in Tier III cities in the NCR (Greater Noida, Ghaziabad, Gurgaon, Sonepat, Surajkund, Bahadurgarh, Meerut) in Haryana (Panipat, Kurukshetra, Yamuna Nagar, Karnal), the Punjab (Bhatinda, Mohali, Ludhinana, Jalandhar, Amritsar) and Rajasthan (Jaipur, Jodhpur, Ajmer, Bhilwara, Bikaner). This strategy tends to differ from some of the larger north Indian developers, which have sought to go pan-India, rather than focus on the northern states. Management, however, believes this region offers significant demand potential and good progress on infrastructure projects in the region will significantly enhance the value of its development projects going forward. While development of infrastructure will positively benefit, we believe job creation to provide sufficient income levels to support the current high price levels and expected supply in these markets will be more critical. The high interest rate environment also makes these markets more susceptible to a slowdown in demand and prices.

City Wise Break-up of Ansal's Land Bank (%)



Source: Company Reports and Citigroup Investment Research

Diversify, although residential segment dominates

While Ansal is looking to scale up its presence in development of retail malls, commercial space and IT Parks/IT SEZs with significant projects, the residential segment continues to dominate, with 73% of total development. New projects on the drawing board are as follows:

- The IT SEZ at Greater Noida is spread over 75 acres and has been notified by the government. This project will be held through a subsidiary with a 66.23% stake with the balance held by HDFC Ventures Trustees Company Ltd.
- Complementing the company's township projects is the development of retail malls. It has ~7.02mn sq.ft of retail malls under development.
- It is also looking at developing hotels and service apartments within townships. It has already developed the five-star Marriott Welcome hotel at Saket in Delhi. It intends to develop more such properties, which will be managed by international hotel chains.

While a presence across different segments of real estate development is undoubtedly positive, we believe it will be a while before the company reaps the benefits of diversified projects, given its current emphasis on plotted development.

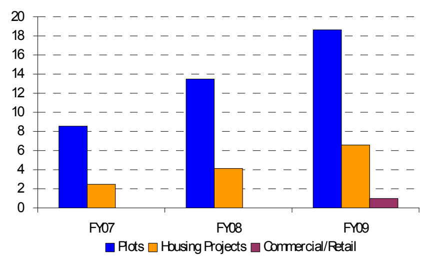
Merger with group company to complement business geography

Ansal has a major presence in the NCR, Haryana and Uttar Pradesh. Its ATPL associate has operations concentrated in Punjab and Rajasthan. We foresee this merger complementing the business geographies and also expanding land bank by ~2,000 acres – making Ansal an eminent developer of north India with large land bank of ~8,000 acres. The share swap ratio between Ansal and ATPL is 1 share of APIL (FV Rs5) for every two shares of ATPL (FV Rs2), which values the company at Rs5.9bn and does not involve any cash outlay. This has diluted Ansal's equity by 15.8m shares (31.6% of merged equity capital). ATPL had an equity capital of Rs63.4m, which involved new equity issuance of 15.8mn new shares in APIL. Using APIL's six-month average price on the announcement date, ATPL was valued at Rs5.9bn.

Financial Analysis

Ansal's corporate structure includes four subsidiaries. Its recent merger with its group company ATPL became effective from 1st Apr 06 and will enhance land holdings and contribute towards growth. We believe consolidated operations and effect of the merger will be reflected in the company's true earnings potential - we model as such in our forecast.

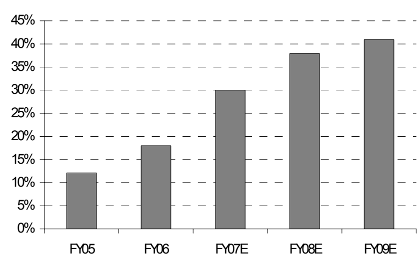
Ansal API Sales Volumes (M sq. ft.)



Source: CIR Estimates

We forecast rapid growth in earnings over FY07-09E. Plotting sales and housing projects in its ongoing schedule (~70mn sq.ft) in the NCR and Tier III cities of should provide the primary drivers. Additionally, gains made on earlier land acquisitions should also drive gains, however, this is likely to moderate significantly in the future. Growth will be more pronounced due to: a) its merger with ATPL, b) significant plot sales, already pre-sold recognized as revenue during the year, and c) higher operating margins of 30-40% over FY07-09E given the benefits of lower land costs, although this could decline going forward. Revenues are recognized on percentage completion method for all projects on a proportionate basis subject to actual costs incurred being 50% for plots and 30% or more of the total estimated costs of the residential/other projects. We are not factoring in any substantial earnings from the retail and IT projects, as we believe the development is likely to take time – most of the retail malls and IT parks will be ready only post 2009E.

Ansal's EBITDA Margins (F05-FY09E)



Source: Company Reports and CIR Estimates

Consolidated Revenue Mix (FY07E-FY09E) (Rs Millions)

Segment	FY07E	FY08E	FY09E
Plots	4,263	5,951	8,365
Housing Projects	4,601	8,531	11,524
Commercial/Retail	0	0	2,772
Total	**8,864**	**14,482**	**22,662**

Source: CIR Estimates

Leverage low on strong cash inflows

Given its push on plotted development, Ansal is generating sufficient operating cash flows from pre-sales for funding its development plans. Further additional capital raised (Rs7.12bn) through the issue of 6.75m shares has brought down the leverage levels. If, however, management invests aggressively in land, or holds properties contrary to the develop-and-sell model today, leverage levels could well rise.

Valuation

Our target of Rs255 is based on a 15% discount to Ansal's estimated NAV of Rs300 as on Mar 07E. We believe a 15% discount to NAV is appropriate. This discount is largely due to: 1) the company's concentration in NCR and Tier III cities in north India, where the risk of soft property prices in the near-term is high, 2) large exposure to plotted development (45% of development), a low value-add business, and 3) risk of delays for some of its large township projects, particularly the Dadri project of 2,500 acres (27% of our NAV value) is high, where land is still being acquired.

We believe a NAV-based valuation methodology is most suitable as it values each project most appropriately, given the disparate nature of the businesses and recognizing the benefits of appreciated land banks of most developers. Our estimates for its NAV involve the following key assumptions: a) market prices remaining at this level with no price inflation, given the sharp run-up in prices over the last two years, b) development volume of ~179m sq.ft (as ~16.4mn is already recognized as revenue in FY06-07E), c) most of the projects undertaken by Ansal are completed as per schedule, except some large township projects, where we expect sizeable risks of delays – particularly Dadri project, where land is still being acquired, d) an average cost of capital of 14%, and e) tax rate of 33%, since the recent Union Budget has withdrawn the tax breaks.

NAV Sensitivity

Price Change	**0%**	**+ 5 %**	**+ 10 %**
NAV (Rupees)	300	342	384
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rupees)	323	300	279
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rupees)	283	266	234

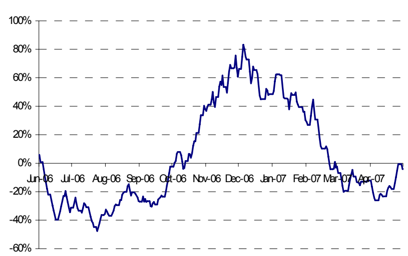
Source: Citigroup Investment Research

NAV Summary - Mar '07 (Rupees in Millions)

Gross NAV of Residential Development	49,440
Gross NAV of Non-Residential Development	42,012
Gross Total NAV	**91,452**
Less: Tax @ 33%	30,179
Less: Amt outstanding for land & govt. dues	16,172
Less: Debt Outstanding	3,500
Less: Net Customer Advances	7,500
Net NAV	**34,101**
No. of Shares Outstanding (Millions)	113.5
NAV Per Share (Rupees)	**300**

Source: CIR Estimates

Premium/Discount to NAV



Source: Citigroup Investment Research

The stock has been highly volatile over last three-months, and is now close to our NAV value of Rs300. With its high volatility and given our expectation of softness in property prices in north India, we believe a 15% discount to NAV is fair. Considering these factors and given our High risk rating, we initiate with a Sell (3H).

Risks

We rate Ansal High Risk, based on our quantitative risk rating system, which measures the stock's volatility over a 260-day period.

The key reasons for our High Risk rating include: 1) the company's high dependence on plotted development at 45% of the landbank, 2) concentration of landbank in tier-II 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 the sector's growth high. The main risks to our investment thesis and target price are:

- Any positive developments on execution of the company's two SEZ projects would enhance the company's NAV and valuations.
- Timely aggregation of land for its Dadri project (23% of total development) will increase visibility and significantly enhance our NAV estimates.
- Geographic diversification of landbank into other parts of India would help alleviate concerns of concentration of landbank in northern India.
- Any downward revision in interest rates for the housing projects would positively benefit the company, given its high leverage in 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.

Income Statement, FY05-09E (Rupees in Millions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Total Revenues	**2,182**	**3,586**	**8,864**	**14,482**	**22,662**
YoY Growth (%)	21.0%	64.3%	147.2%	63.4%	56.5%
EBITDA	**264**	**646**	**2,660**	**5,490**	**9,270**
Margin (%)	12.1%	18.0%	30.0%	37.9%	40.9%
Depreciation & Amortization	(20)	(30)	(35)	(40)	(45)
Other income	135	185	125	100	110
EBIT	**379**	**800**	**2,750**	**5,550**	**9,335**
Interest income(expense)	(176)	(137)	(125)	(115)	(105)
Profit Before Tax	**203**	**663**	**2,625**	**5,435**	**9,230**
Tax	(57)	(188)	(882)	(1,826)	(3,101)
Profit After Tax	**146**	**475**	**1,743**	**3,609**	**6,129**
Min Int & Share of Associates	0	1	0	0	0
Adj PAT	146	476	1,743	3,609	6,129
Extra-ordinary Items	(13)	(101)	0	0	0
Net Income	**134**	**375**	**1,743**	**3,609**	**6,129**

Source: Company Reports and CIR estimates

Balance Sheet, FY05-09E (Rupees in Millions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Source of Funds					
Equity Share Capital	117	175	284	284	284
Reserves	981	1329	3361	6856	12871
Share Application Money	0	3	0	0	0
Net Worth	1098	1507	3645	7140	13155
Minority Interest	0	44	44	44	44
Long Term Debt	603	691	2705	2400	2350
Short Term Debt	764	735	750	650	530
Total Debt	1367	1426	3455	3050	2880
Capital Employed	**2465**	**2977**	**7144**	**10234**	**16079**
Application of Funds					
Gross Block	722	806	846	889	978
Depreciation	307	258	293	333	378
Net Fixed Assets	410	548	553	556	599
Investments	118	57	55	55	55
Deferred Tax Assets	18	28	28	28	28
Inventories	4070	4754	12409	16655	22662
Sundry Debtors	703	766	1064	1448	2719
Other Current Assets	2251	3327	1803	1156	1663
Cash and Bank	191	346	868	1349	1607
Current Assets	7215	9193	16145	20608	28651
Current Liabilities	(5296)	(6850)	(9637)	(11012)	(13254)
Net Current Assets	1919	2343	6507	9595	15396
Total Net Assets	**2465**	**2977**	**7144**	**10234**	**16079**

Source: Company Reports and CIR Estimates

Key Ratios, FY05-09E

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
EPS (Rs)	1.9	5.4	15.4	31.8	54.0
EPS YoY Gr. (%)	120%	180%	187%	107%	70%
Book value (Rs)	14.9	20.8	31.6	62.4	115.4
Debt/Equity (x)	1.2	0.9	0.9	0.4	0.2
ROE (%)	12%	25%	48%	51%	47%
ROCE (%)	10%	21%	36%	43%	47%

Source: Citigroup Investment Research

Appendix A-1

Analyst Certification

We, Ashish Jagnani and Aditya Narain, CFA, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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% of companies in each rating category that are investment banking clients	45%	42%	32%

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For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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