Macquarie Research
Equities

INDIA

India property

18 June 2009

First, rabbit holes; now, wings of wax

After the rally, what next?

In February 2009, real estate stocks appeared to be tumbling down a rabbit hole, with no signs of a bottom. As we expected (see report *How deep does this rabbit hole go,* dated 18 March 2009), stocks rallied due to improving liquidity. Although we still believe that this is a good time to accumulate Indian property stocks for the long term, their 200–300% average rise during the past three months has likely led the market to expect a sharp pullback. Should this occur, we would view it as an entry point. Meanwhile, we think it is advisable to take profits from stocks with wings (and feathers) of wax that are flying too close to the sun.

Rally has been backed by fundamentals

Availability of capital in 1Q CY09 was completely frozen, even while the situation in most of Asia was slowly improving. At that time, it looked like there would be some relief for developers as lenders took on more risk. This has now occurred. There have been instances of banks willing to refinance obligations and some asset sales. Importantly, nearly US$2bn of equity was raised by the developers in the past couple of months. This has definitely eased the liquidity pressure on developers. Developers have also cut prices by 20–30%. This has led to a recovery in residential sales volumes in many parts of India. Although the physical markets remain under stress (especially on the commercial and retail fronts), inventory clearance has indeed started.

The NAV upgrade cycle is still in its infancy

These trends led to some NAV upgrades in the past quarter, including by us (even though we were clearly above the Street back in March). We believe this momentum has just started. Analysing past cycles in India is very tough because most developers have been listed for less than three years. However, past cycles in more-developed markets (such as Hong Kong) show that NAVs can move up by 2–3x from the trough to peak cycle. In India, some drivers of upgrades are obvious. WACC of 16–17% and cap rates of 13–14% at bottom-cycle rents and volumes were clearly pessimistic. NAV downgrades in 2008 were driven by the capital crunch and demand destruction. There have been some NAV revisions stemming from the improved capital scenario. The upgrade cycle on higher volumes and rising prices (after the recent GDP upgrades) has not yet started.

Approach should change from ‘selling into strength’ to ‘buying on dips’. A near-term pullback would not be a major concern, in our view. Stock markets have often had a 20–40% correction 3–6 months after coming off a bottom.

Stock picking: Keep an eye on the fundamentals

Investors should focus on stocks with relatively better-quality balance sheets and a clear and robust monetisation strategy. Based on our scenario analysis and qualitative framework, we believe Indiabulls and Unitech are best placed, with DLF next. We would also advise caution, however. The recent rally has clearly reduced the valuation proposition of Indian property stocks. We have maintained our Overweight position on India in the regional portfolio, but with a reduced weight (from 2% to 1%). We recommend that investors take profits in Provogue, Akruti, Ansal and Mahindra.

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Inside

Coverage universe (Rs)

Stock	Ticker	P	Rec	TP	Upside
DLF	DLFU	332	N	322	-3%
Unitech	UT	84	OP	100	18%
Indiabulls	IBREL	199	OP	246	24%
Provogue	PROV	52	UP	45	-13%
Akruti	AKCL	530	UP	364	-31%
Ansal	APIL	61	UP	38	-37%
Mahindra	MLIFE	290	UP	209	-28%

Prices as of 17 June 2009
Source: Bloomberg, Macquarie Research, June 2009

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First, rabbit holes; now, wings of wax

After the rally, what next?

In February 2009, real estate stocks appeared to be tumbling down a rabbit hole, with no signs of a bottom (Figure 1). This was attributable to demand destruction due to a slowdown in GDP growth. More important, the four primary sources of capital for developers had dried up. Debt was very expensive (if available at all), while the equity markets had no appetite for new paper. Residential volumes were down by more than 25% YoY.

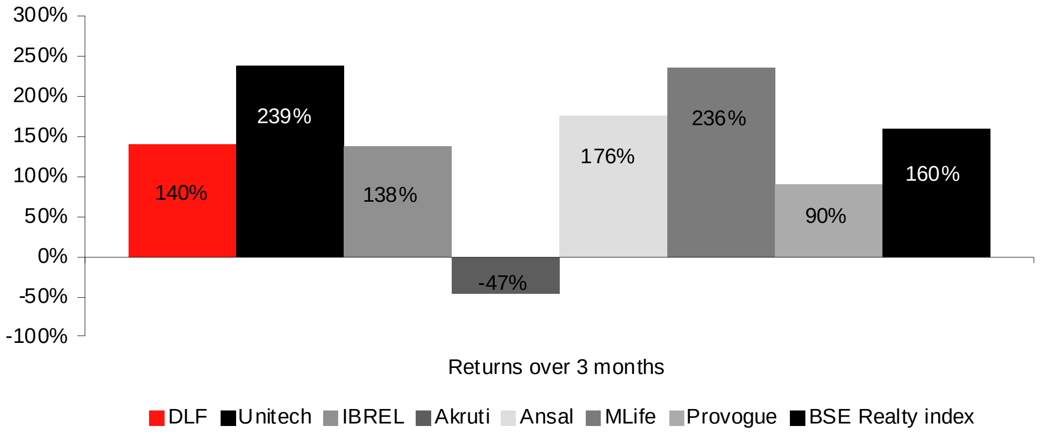
Fig 1 BSE realty index was hit hard in 2008 – some revival in past three months

Source: Bloomberg, Macquarie Research, June 2009

At that time, however, our conversations with property companies, brokers, banks and private equity players indicated some relief for individual developers and projects as lenders took on more risk (for details, please refer to the report, *How deep does this rabbit hole go,* dated 18 March 2009).

As we expected, stocks rallied on the improving liquidity (Figure 2). Although we still believe that this is a good time to accumulate Indian property stocks for the long term, their 200–300% average rise during the past three months has likely led the market to expect a sharp pullback.

Fig 2 Indian property stocks have surged in the past three months



Source: Bloomberg, Macquarie Research, June 2009

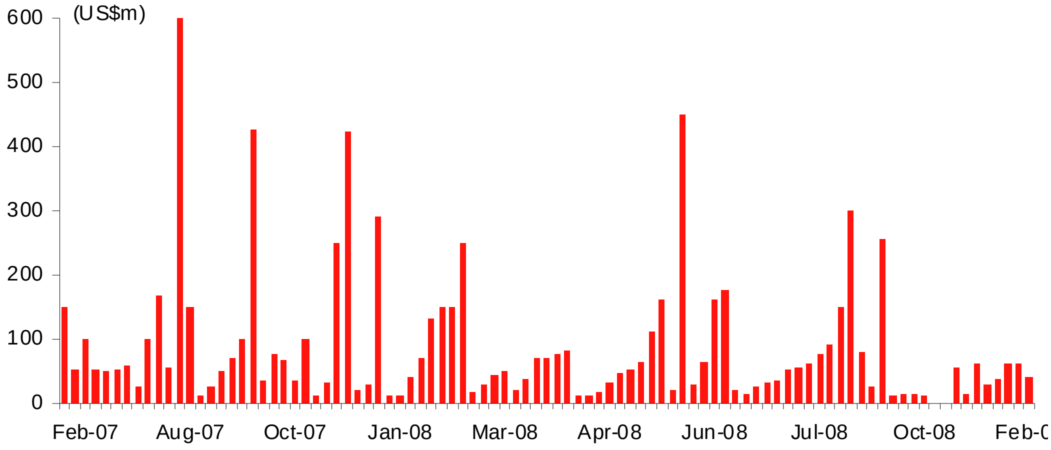
Should this occur, we would view it as an entry point. Meanwhile, we think it is advisable to take profits on stocks that have run up too far, too fast. We refer to these as stocks with wings of wax (and feathers) that are flying too close to the sun.

Rally has been backed by fundamentals

In 1Q CY09, the availability of capital was completely frozen. Notably, this was the case in India, even while the situation in most of Asia was slowly improving. At that time, it looked like there would be some relief for developers as lenders took on more risk. This has now occurred. There have been instances of banks willing to refinance obligations. More than US$1bn has been refinanced by banks since the start of the year. Developers have also managed to raise funds through some asset sales. The recent sale of Unitech's hotel and commercial properties is an example. DLF is also looking to sell 'non-core' assets worth over US$1bn.

Private equity market deals picked up in the first half of 2008 (Figure 3), but that slowed in the second half. Although the scenario has improved only slightly, there has been some activity, and our channel checks suggest that this may pick up in the next 3–6 months.

Fig 3 Private equity investments in Indian real estate



Source: Macquarie Research, June 2009

Unitech's offering was the turning point

The most-positive development for the listed Indian real estate players was clearly the US$325m equity offering by Unitech, which was subscribed over two times. Most real estate companies across the region have had improvements in access to capital since January/February this year. Only after Unitech's offering did it appear that Indian property developers are experiencing better capital conditions. Along with this transaction, nearly US$2bn of equity was raised by the developers in the past couple of months (Figure 4). This has clearly eased the liquidity pressure on developers.

Another US$2bn of offerings is in the pipeline.

Fig 4 Fund raising by Indian real estate developers

Company	Amount raised (US$m)
DLF	850
Unitech	325
IBREL	550
Equity raised so far	**1,725**
Anant Raj	400
Orbit	100
Unitech	500
Sobha	250
Puravankara	150
Other developers	600
Planned raising	**2,000**
Total	**3,725**

Source: Company data, Macquarie Research, June 2009

Price cuts lead to a revival in sales volumes

Developers have cut prices by 20–30%. This has led to a recovery in residential sales volumes in some parts of India. While the physical markets remain under stress (especially on the commercial and retail fronts), inventory clearance has indeed started.

Here is some anecdotal information on volumes in the Indian property sector. There are some data points that suggest that the residential market may indeed be turning, driven by the price cuts by the developers and (partly due to) falling interest rates.

- **There were** three mid-priced residential project launches in the suburbs of Mumbai in the past couple of months. Two of these are in Kurla (central Mumbai) and one in Andheri (western suburb of Mumbai). The projects were priced at a 20–30% discount to the prevailing prices in the respective areas. At the prevailing prices, volumes had dried up in the area. However, the pricing strategy resulted in a spike in demand. More than 85% of the 1,400–1,500 apartments in the projects were sold within a few weeks of launch. In fact, in a couple of cases, the developer actually increased selling prices a few days after the launch.
- **DLF** launched a mid-priced residential project in west Delhi on a plot where a factory had been in the past. The price point was roughly Rs4,500/sqf vs a prevailing price of Rs6,000–6,500/sqf for similar projects. DLF managed to completely sell out the 1,400 units within a week.
- **Unitech's** latest project launches in Chennai and Gurgaon. Unitech managed to sell around 2.5m sqf in a little more than a month.

It seems that demand exists at the right price point. The theory that there is latent (untapped) demand for mid-income housing is gaining credence.

The NAV upgrade cycle is still in its infancy

The recovery in volumes and the general increase in risk appetite led to some NAV upgrades by the Street in the last quarter. This includes by us, even though our forecasts were clearly far-above those of the Street back in March (please see *How deep does this rabbit hole go,* dated 18 March 2009).

However, we believe that this momentum in NAV upgrades has only just started.

GDP growth in India has surprised positively

GDP growth for 1Q CY09 came in at a healthy 5.8%. This was a positive surprise as growth beat consensus estimates of 5% growth.

Our India economist Rajeev Malik has since upgraded his GDP growth forecast for FY10 and FY11 from 5.5% and 6.5% to 7% and 7.5%, respectively (for details, see “India – GDP growth forecast hiked” in this report).

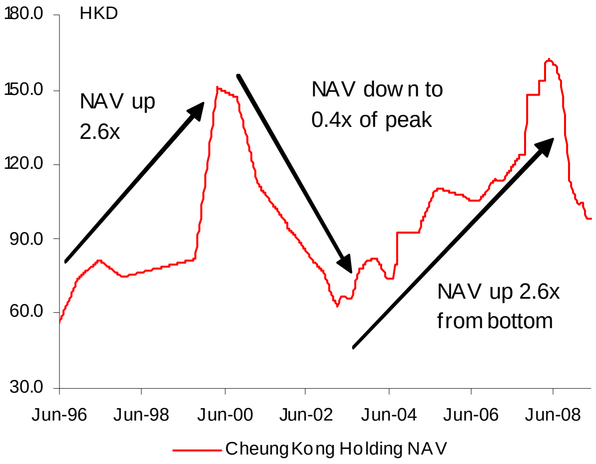
Meanwhile, the RBI (Reserve Bank of India) has been the most aggressive central bank in Asia. While the repo (policy rate) and reverse repo rates have been cut by 425bp and 275bp, respectively, since September 2008, the overnight rate has declined by 575bp over the same period. Furthermore, the RBI has slashed the cash reserve ratio (CRR) by 400bp. Overall, the potential liquidity injection has been around 7% of GDP. Although Rajeev has been flagging for some time that the RBI is nearing the end of its easing cycle, he believes the central bank will keep rates on hold for a prolonged period.

NAV estimates can multiply through the cycle

Analysing past cycles in India is very tough because most developers have been listed for less than three years. We try to draw parallels from observations made regarding past cycles in Hong Kong. Clearly, India’s real estate markets are very different from Hong Kong’s. Even though there are many differences, however, some lessons and parallels are clear.

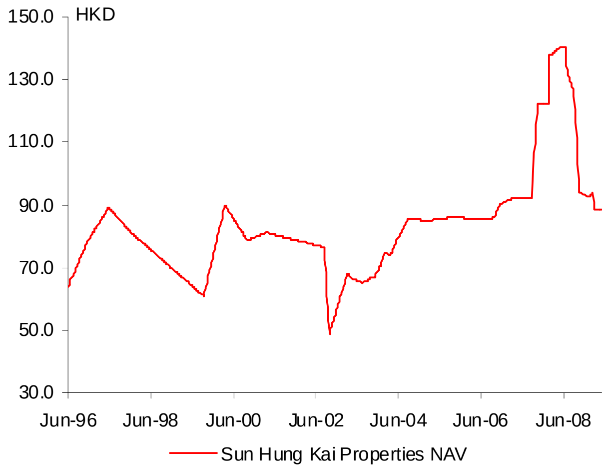
The experience in more-developed markets (such as Hong Kong) shows that NAVs can move up 2–3x from the trough to peak cycle (Figures 5 and 6).

Fig 5 Cheung Kong Holdings* NAV



* Cheung Kong Holdings (1 HK, HK$86, OP,TP: HK$111, 28.9% upside, covered by Eva Lee)
Source: Company data, Macquarie Research, June 2009

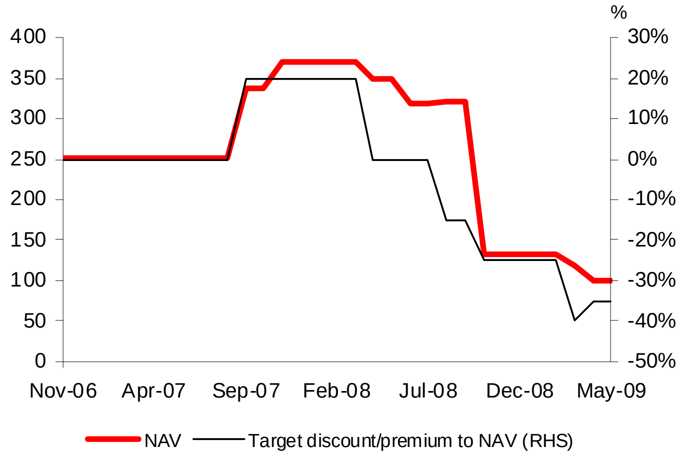
Fig 6 Sun Hung Kai Properties* NAV



* Sun Hung Kai Properties (16 HK, HK$90, Neutral, HK$104, 15.7% upside, covered by Eva Lee)
Source: Company data, Macquarie Research, June 2009

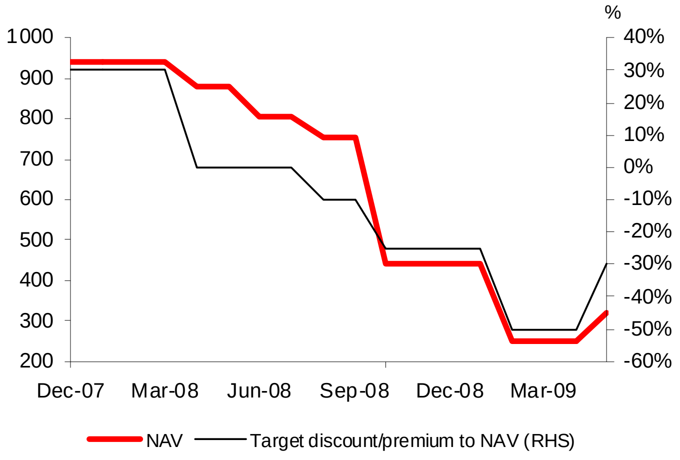
In India, some drivers of upgrades can be easily seen. WACC of 16–17% and cap rates of 13–14% at bottom-cycle rents and volumes were clearly pessimistic. NAV downgrades in 2008 were driven by the capital crunch and demand destruction (Figures 7 and 8). There have been some NAV revisions due to the improved capital scenario. The upgrade cycle stemming from higher volumes and rising prices (after the recent GDP upgrades) has not yet started.

Fig 7 UT NAV revisions – upgrade potential?



Source: Company data, Macquarie Research, June 2009

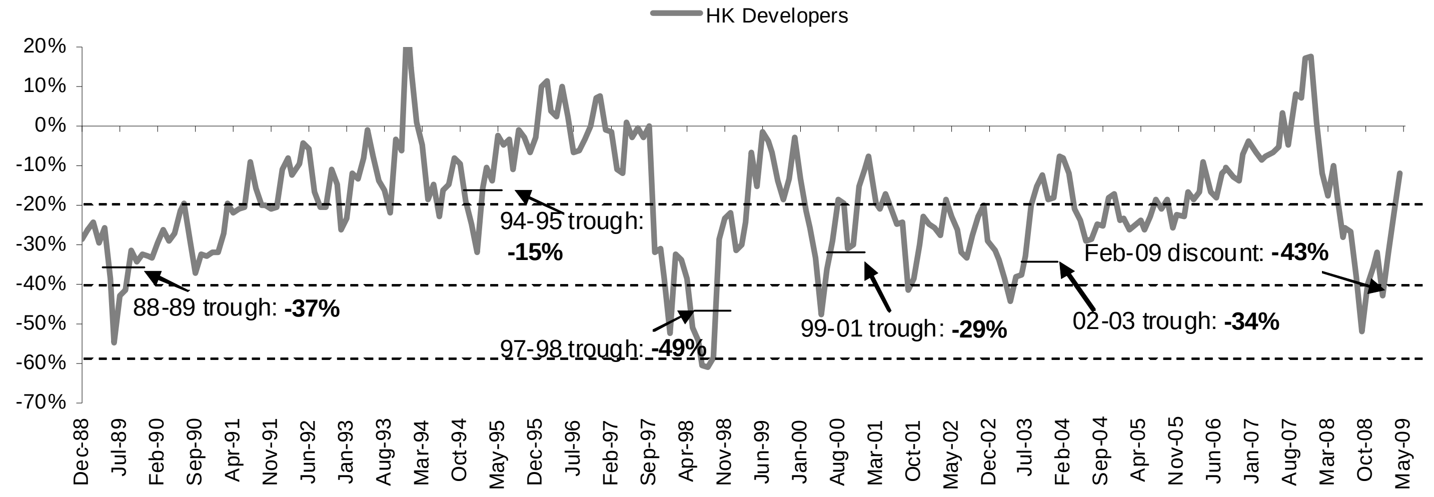
Fig 8 DLF NAV revisions – can it go all the way?



Source: Company data, Macquarie Research, June 2009

Stocks also tend to trade at lower NAV discounts as they move from bottom to peak cycles (Figure 9). This could lead to upgrades in target prices as the stocks start trading closer to the lower discount (or maybe even a premium) to NAV in a more-optimistic scenario.

Fig 9 NAV discount/premium for HK developers



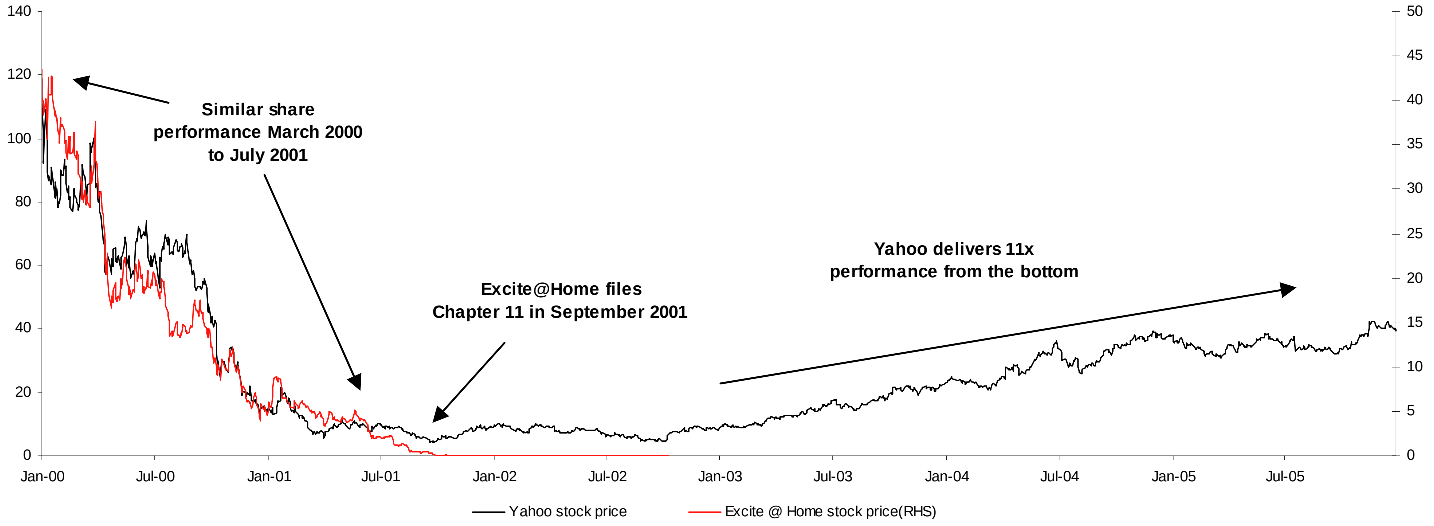
Source: Bloomberg, Macquarie Research, June 2009

Lesson from the tech bust

In addition, the recent pace of the rise in stock prices should not lead to vertigo. For a stock which is down 95% from its peak and has risen three times from the bottom, it is still down 80% from its peak. We can draw an interesting parallel with the tech bust in the early part of this decade.

During the past three years, property stocks have formed a bubble very similar to that of internet stocks early in this decade. The bubble burst was as stark. Having said that, we point to an important lesson. Although some internet companies (such as Excite @ Home) went under, companies with a 'real' business model and balance sheet became multi-baggers. For example, Yahoo delivered 11x returns during the four years through 2002, even though the stock was still down 63% from its peak (for details, please see "Lessons from the tech bust" in this report).

Fig 10 Stocks may have a long way to go after the bubble bursts



Source: Bloomberg, Macquarie Research, June 2009

Approach should change to 'buying on dips'

A near-term pullback would not be a major concern, in our view. Stock markets have often experienced a 20–50% correction 3–6 months after coming off a bottom (Figures 11 and 12).

Fig 11 HSP (Hong Kong Property Developers) index – near-term pullback would not be a major concern

Source: Bloomberg, Macquarie Research, June 2009

Fig 12 Correction in 3–6 months after formation of a bottom

	1	2	3	4	5	6	7
Bottom formed on	20/01/1995	23/01/1998	07/08/1998	25/04/2003	14/05/2004	11/11/2005	06/03/2009
Pullback after first rally	-11%	-54%	-21%	-26%	-10%	-13%	**??**

Source: Bloomberg, Macquarie Research, June 2009

Stock picking – keep an eye on the fundamentals

In our view, investors should focus on stocks with relatively better-quality balance sheets and a clear and robust monetisation strategy. Based on our scenario analysis and qualitative framework, we believe that Indiabulls and Unitech are best placed; DLF would be next. We would also advise caution, however. The recent rally has definitely reduced the valuation proposition of Indian property stocks. We have maintained an Overweight position on India in the regional portfolio, but with a reduced weight (from 2% to 1%). We recommend that investors book profits in Provogue, Akruti, Ansal and Mahindra.

Fig 13 Snapshot of coverage

Company	Ticker	Market cap (US$m)	Rating	Price (Rs)	Target price (Rs)	Upside/ downside	NAV/sh (Rs)	TP disc to NAV
DLF	DLFU	11,715	Neutral	332	322	-3%	379	15%
Unitech	UT	3,589	OP	84	100	18%	117	15%
Indiabulls	IBREL	1,661	OP	199	246	24%	307	20%
Provogue	PROV	110	UP	52	45	-13%	62	35%
Akruti City	AKCL	735	UP	530	364	-31%	560	35%
Ansal Properties	APIL	145	UP	61	38	-37%	58	35%
Mahindra Lifespace	MLIFE	246	UP	290	209	-28%	298	30%

Share price as of 17 June 2009
Source: Bloomberg, Macquarie Research, June 2009

Fig 14 Snapshot of changes to our target prices and recommendations

	Old NAV (Rs)	New NAV (Rs)	% change	Old TP (Rs)	New TP (Rs)	% change	Old FY10E EPS (Rs)	New FY10E EPS (Rs)	% change	Old TP disc to NAV	New TP disc to NAV	Old rating	New rating
DLFU	321	379	18%	225	322	43%	28.4	30.7	8%	30%	15%	Neutral	Neutral
UT	100	117	17%	65	100	54%	9.5	9.7	2%	35%	15%	Outperform	Outperform
IBREL	311	307	-1%	202	246	22%	12.6	10	-20%	35%	20%	Outperform	Outperform
PROV	96	62	-35%	65	45	-31%	3.3	3.3	0%	40%	35%	Outperform	Underperform
AKCL	500	560	12%	250	364	46%	123.3	127.7	4%	50%	35%	Underperform	Underperform
APIL	17	58	241%	17	38	124%	-5.2	-14.9	189%	0%	35%	Underperform	Underperform
MLIFE	231	298	29%	139	209	50%	18.2	18.2	0%	40%	30%	Underperform	Underperform

Source: Macquarie Research, June 2009

Debt market scenario improving

The liquidity situation is selectively getting better

In March 2009, the availability of capital was completely frozen, and the primary sources of capital for developers had dried up. The scenario had not changed since capital reached its worst point in 4Q08.

- Debt was expensive, despite the decrease in policy rates. Availability of debt, in fact, was the larger issue.
- The Singapore REIT market and the Indian stock exchanges had no appetite for new paper or secondary offerings.
- Residential volumes are currently down by 25–50% YoY. The weakness in volumes was earlier driven by the developers' unwillingness to cut prices. Although developers have relented (to some extent), residential volumes have failed to pick up due to slowing GDP growth, anecdotal data on job losses and the widespread belief that interest rates and prices will both fall further.
- The tightness in the debt and equity markets led to a significant rise in the number of private equity deals in 2008. However, these had since dried up and our channel checks seemed to indicate that this was unlikely to reverse in the near future.

All trend reversals start with anecdotal evidence

We are seeing some instances of banks willing to refinance obligations. Over US$1bn has been refinanced by banks since the start of the year for major developers such as DLF and Unitech.

In addition, there have been some instances of asset sales, eg, the Rs2.3bn sale of Unitech's hotel property (Marriott Courtyard in Gurgaon). DLF is also looking to sell non-core assets worth over US$1bn. Some of these are wind power assets, hotel land and a convention centre.

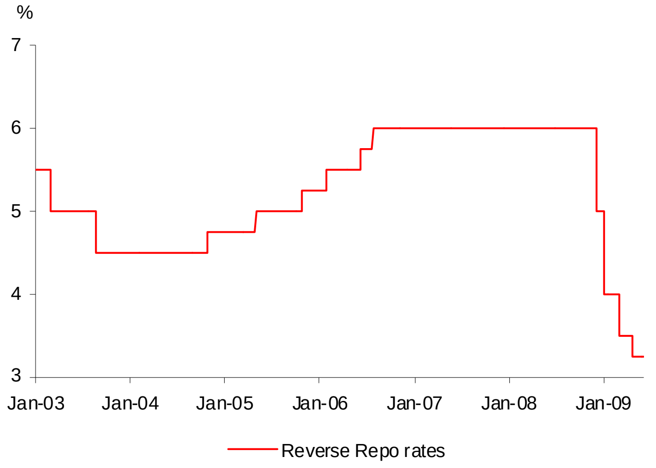
To get a handle on things on the ground, we spent a few days in February visiting property companies, brokers/agents, banks and private equity players. Here are some takeaways. (For more details, please refer to our report, *Turnkey snapshot – India property revisited*, dated 3 February 2009.)

Availability of capital – banks lending again…to consumers

It became clear to us during our visit that the worst is over from a liquidity perspective for India's banking system. The liquidity crisis in September/October 2008 also seems to have passed.

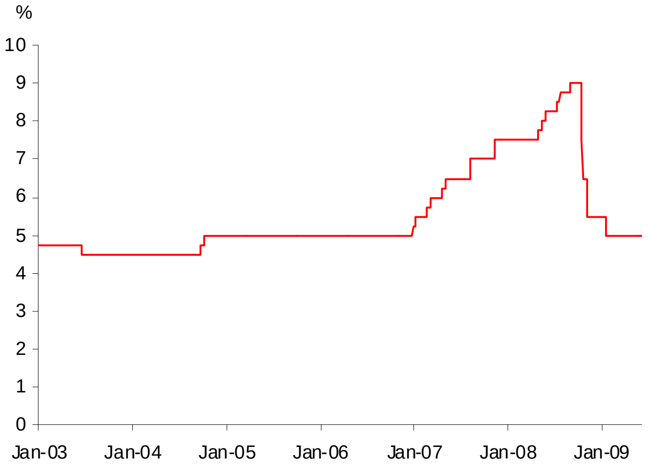
According to our India economist Rajeev Malik, the RBI has been the most-aggressive central bank in Asia. While the repo (policy rate) and reverse repo rates have been cut by 425bp and 275bp, respectively, since September 2008, the overnight rate has declined by 575bp over the same period. Furthermore, the RBI has slashed the cash reserve ratio (CRR) by 400bp. Overall, the potential liquidity injection has been around 7% of GDP.

Fig 15 Reverse repo rates



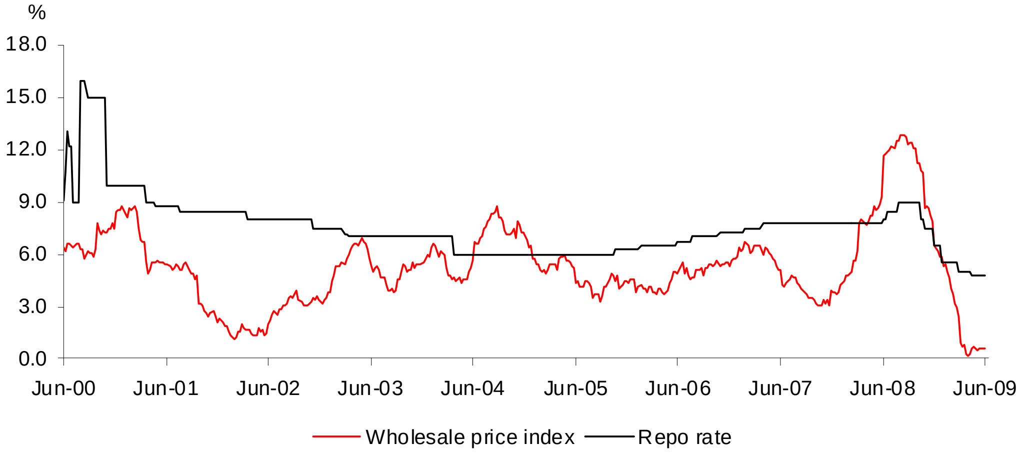
Source: Bloomberg, Macquarie Research, June 2009

Fig 16 CRR cut sharply as a measure to pump liquidity



Source: Bloomberg, Macquarie Research, June 2009

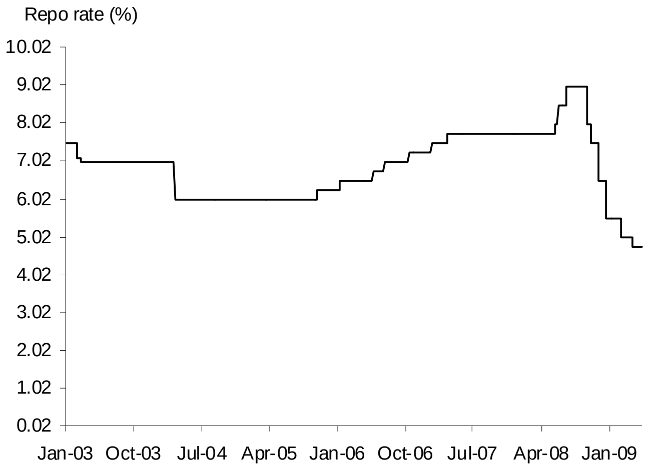
Fig 17 Policy rates are coming down – one of the steps to spur growth



Source: Bloomberg, Macquarie Research, June 2009

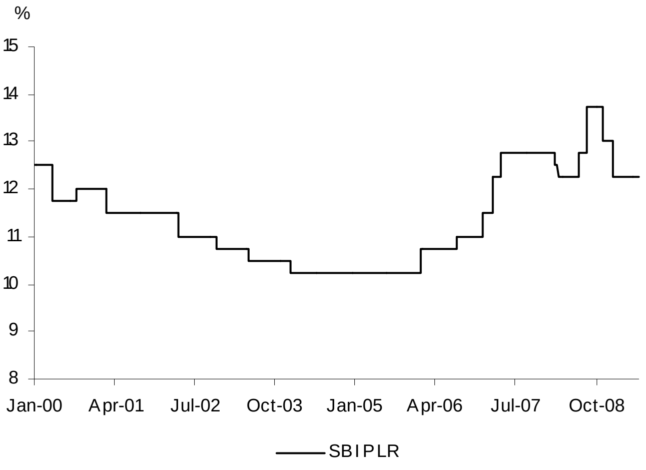
Lending to consumers. Clearly, banks have tightened their lending criteria but have the funds to lend at attractive spreads. Banks appear to be enthusiastic about mortgage lending to consumers, particularly as ICICI appears to have largely withdrawn from this market. Mortgage loans remain full recourse, and, traditionally, Indian borrowers have been very reluctant to default on repayments. Previous loan-to-value ratios (LTVs) of 90–95% are now 70–80%. Background checks on borrowers are more rigorous. There are some early signs of consumer demand returning, driven partly by the State Bank of India's teaser rate loans (at 8%) and by mortgage rates that are now 9.5–10% vs 12% in December 2008; however, most potential borrowers are taking a 'wait-and-see' approach until asset prices stabilise.

Fig 18 The repo rate is coming down…



Source: Bloomberg, Macquarie Research, June 2009

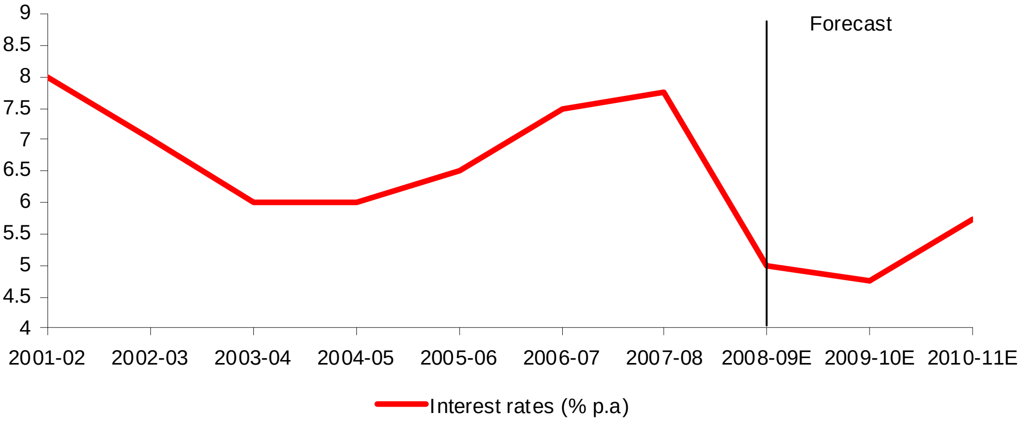
Fig 19 …which is helping bring down mortgage rates



Source: Bloomberg, Macquarie Research, June 2009

Our India economist believes that the RBI is nearing the end of its easing cycle. He believes, however, that the central bank will keep rates on hold for a prolonged period (Figure 20).

Fig 20 Macquarie interest rate* forecast



* Repo rate – the benchmark interest rate set by the Reserve Bank of India
Forecast by Macquarie's Asean/India economist Rajeev Malik
Source: Government of India, Macquarie Research, June 2009

India – GDP growth forecast hiked

The following are excerpts from the note *India – GDP growth forecast hiked,* dated 29 May 2009, by our India economist Rajeev Malik.

GDP growth for January-March at 5.8% YoY; FY3/09 at 6.7%

- India's GDP increased by a better-than-expected 5.8% in January-March vs expectations of 5.0%. For full-year FY3/09, GDP rose by 6.7% (a touch better than our forecast of 6.5%), down from 9.0% in the prior year.
- Notably, October-December GDP growth has been revised up, to 5.8% YoY from 5.3% previously, owing mainly to a much-smaller decline in agriculture. The revision was expected, owing to more-updated estimates for agriculture.

Economy down but not out

- In January-March, agriculture output recovered to increase by 2.7% YoY following a favourably revised outcome (-0.8% from -2.2%) for the December quarter. The industry's output growth moderated to 1.4% owing to the hit to manufacturing, but construction bucked the trend, with output increasing by 6.8% YoY.
- Service sector growth moderated to 8.6% in the March quarter from 10.2% in the prior quarter. In the details, trade, hotels, transport and communication (+6.3% YoY) and financing, insurance, real estate and business services (+9.5%) unexpectedly bettered their performance in the December quarter.
- India's expenditure GDP data leave a lot to be desired. Gross fixed capital formation (GFCF) *improved* (+6.4% YoY) in the March quarter, perhaps owing to higher social/infrastructure spending. Total consumption decelerated to 6.1% YoY, despite private consumption improving to 2.7%. Public consumption surged (+24.6%) as countercyclical fiscal measures softened the economic blow from weaker private consumption and investment.

New growth cycle taking shape

The evolving structural rise of the supply-constrained Indian economy had been punctuated by the current global crisis due to the sudden financing challenges (including foreign capital) that crippled investment. However, India's low reliance on exports and an aggressive double-pronged fiscal and monetary response softened the blow to the economy.

The tectonic political change (see *Game-changing election verdict*, 18 May) is likely to act as an acceptable steroid in reviving confidence and boosting financing for investment for the largely domestically driven and capital-starved economy. Political risk is likely to decline on a sustained basis, and Prime Minister Manmohan Singh is better-positioned to undertake more reforms (starting with some details in the forthcoming Budget on 6 July) than in his first term as prime minister.

However, reforms are likely to be made in baby steps rather than in a big bang approach. Furthermore, the baby steps on reforms may be peppered with populist measures. In our view, under reasonable and realistic assumptions about what the government can/will do, we expect an earlier move toward realisable trend growth of 7.5–8.0% per annum. The revival in capital markets is a key factor in healing the crippled investment cycle, which has been the key casualty of the global crisis.

Fig 21 GDP growth forecasts

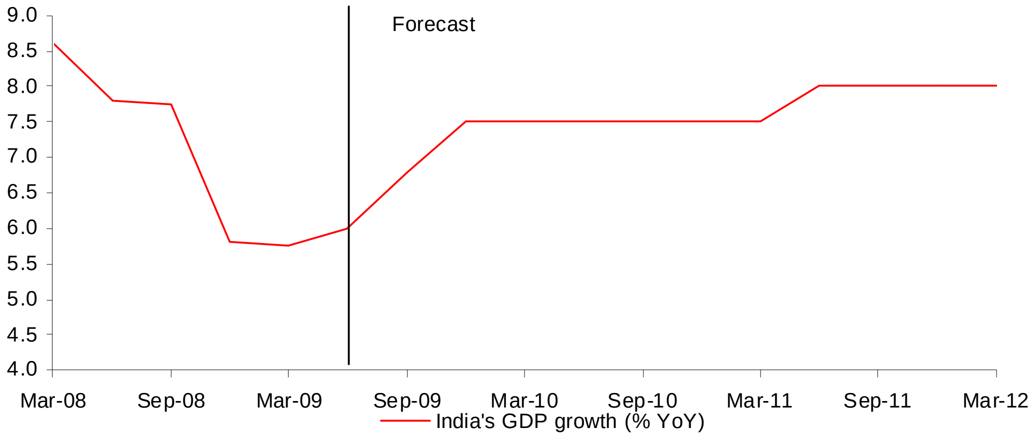
% ch, FY Mar	2005/06	2006/07	2007/08	2008/09	2009/10E	2010/11E
Real GDP	9.3	9.7	9.0	6.7	7.0	7.5
Non-agriculture GDP	10.2	11.2	9.9	7.8	7.8	8.3
Agr & allied	5.8	4.0	4.9	1.6	3.5	3.0
Industry	10.7	11.0	8.1	3.9	5.8	7.1
Services	10.0	11.2	10.9	9.7	8.6	8.8
Consumption	8.2	6.2	8.3	5.4	6.2	6.8

Source: CEIC, Macquarie Research, June 2009

We expect GDP growth of 7.0% and 7.5% in FY3/10 and FY3/11, respectively. Growth should be driven by a strong rebound in the industry and service sector (the positive contribution of the pay commission hike to the sectoral GDP may be smaller in the current year).

On expenditures, the key reliance will be on domestic demand, especially the ongoing resilience of rural spending, coupled with an earlier-than-expected turnaround in private capex. A faster healing of global capital markets that also ensures a flow of foreign capital into India could potentially cause the local investment cycle to surprise on the upside.

Fig 22 Quarterly GDP forecasts for India – likely recovery going forward



Source: Bloomberg, Macquarie Research, June 2009

Lessons from the tech bust

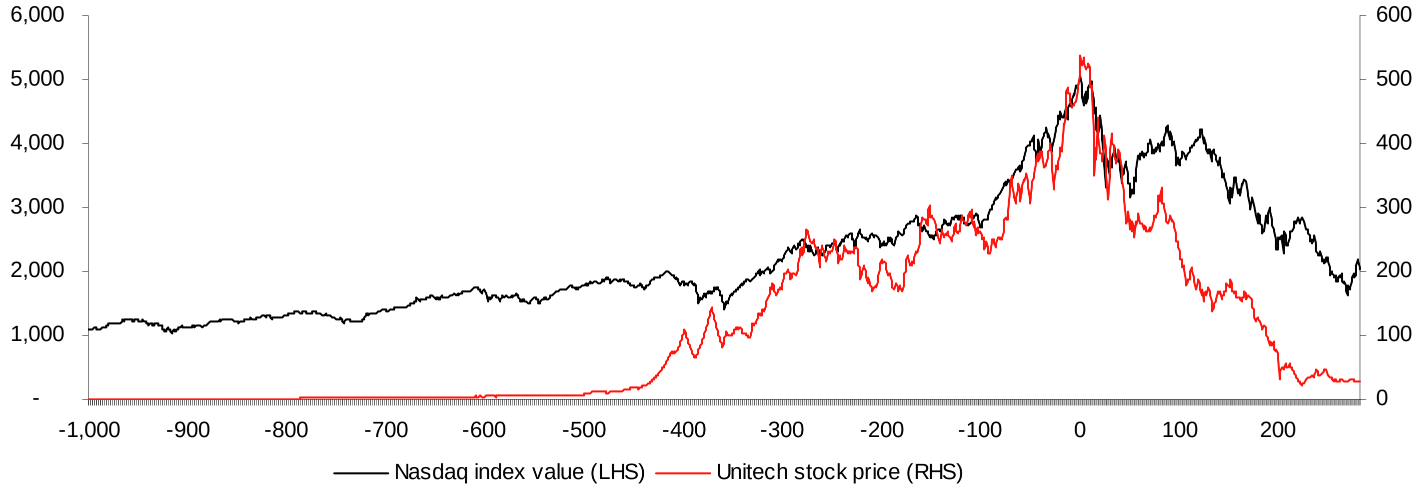
Stock picking is essential

The following section includes some excerpts from the report, *2009 shipping outlook: Darwin heads to sea*, 15 December 2008, by the head of our regional shipping team, Jon Windham (+852 2823 5417; jon.windham@macquarie.com).

There are not that many examples against which to compare the speed and severity of the collapse in the Indian property stocks between January 2008 and March 2009. During the past three years, property stocks formed a bubble very similar to that of internet stocks early in this decade (Figure 23).

In order to provide some perspective, we have provided the stock charts for Unitech (which we use as a proxy for the Indian property sector) and the Nasdaq index. The Unitech chart starts in January 2004, and the Nasdaq stock index is charted over a similar period to align their respective peaks. Unitech peaked in January 2008, and the Nasdaq peaked in March 2000 (Figure 23 and 25).

Fig 23 The Nasdaq cannot compare with Unitech's rate of ascent or descent



X- axis denotes the number of days from the peak: Unitech peaked in January 2008, the Nasdaq peaked in March 2000.
* We use Unitech's stock price as a proxy for the real estate index since most developers have been listed for less than three years.
Source: Bloomberg, Macquarie Research, June 2009

It is interesting to note that the charts look very similar, but the bubble in the Unitech stock price was clearly more inflated than the Nasdaq. Somehow this chart seems to put into perspective the severity of the collapse in property stocks.

Evolution from sector-driven to company-driven performance

In this section, we use an example from the internet bubble to make the point that, eventually, sector-driven share performance could evolve into company-specific-driven share performance.

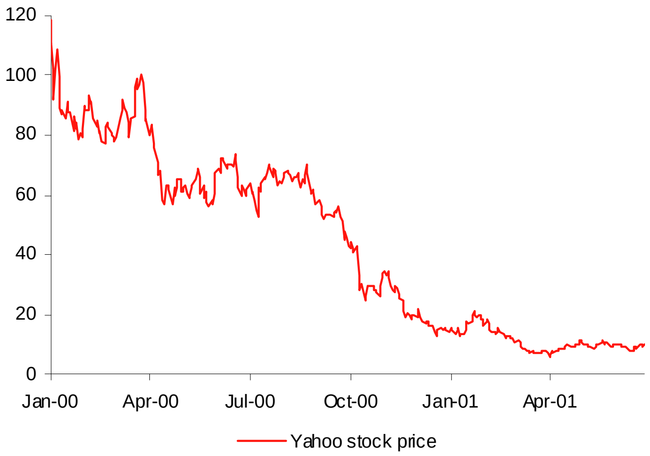
We compare the stock price performance of two internet stocks: Yahoo (YHOO, Not rated) and Excite@Home (ATHMQ, delisted).

- **Yahoo:** A tech winner with a strong internet franchise that has made almost US$7bn in profit over the past eight years.
- **Excite@Home**: A tech loser with a weak business model that filed for Chapter 11 before the end of 2001.

Fig 24 Excite@Home stock price chart

Source: Bloomberg, Macquarie Research, June 2009

Fig 25 Yahoo stock price chart – eerily similar



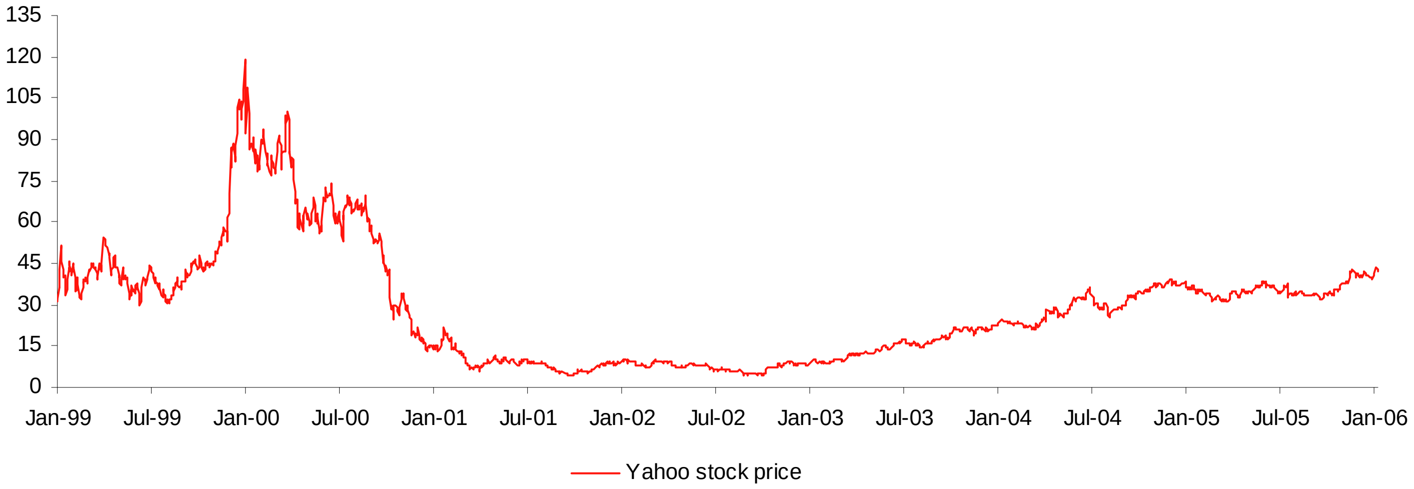
Source: Bloomberg, Macquarie Research,June 2009

As is evident from the above charts, for a 16-month period from March 2000 to July 2001, the market made absolutely no distinction between the shares of Yahoo and those of Excite @ Home. The entire sector needed to be sold, and it was. Much like 1998–99 was about buying tech, doesn't matter which one, 2000-01 was about selling tech, doesn't matter which one.

After the sector-driven sell-off, two scenarios emerged.

⇒ The survivors thrived and Yahoo went on to rally by more than 11x from its lows over the following four years (Figure 26). Note that, despite the strong returns, Yahoo was still down by more than 60% from its peak.

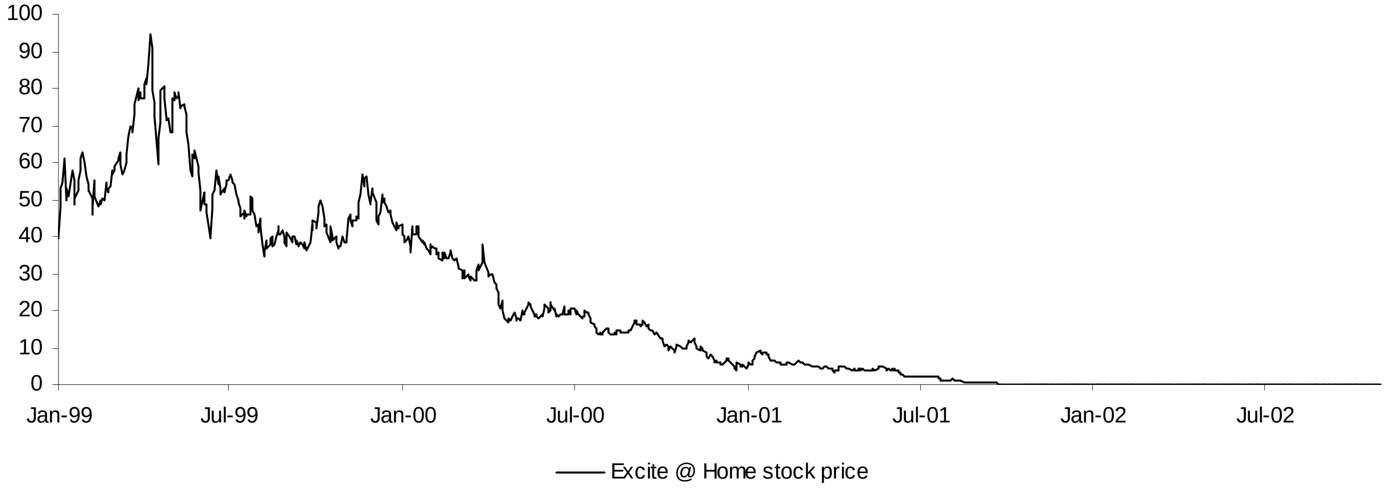
Fig 26 Yahoo – strong recovery from its bottom (11x returns in the following four years)



Source: Bloomberg, Macquarie Research, June 2009

⇒ Meanwhile, Excite@Home went to zero (Figure 27).

Fig 27 Excite@Home – boom to bankruptcy in three years



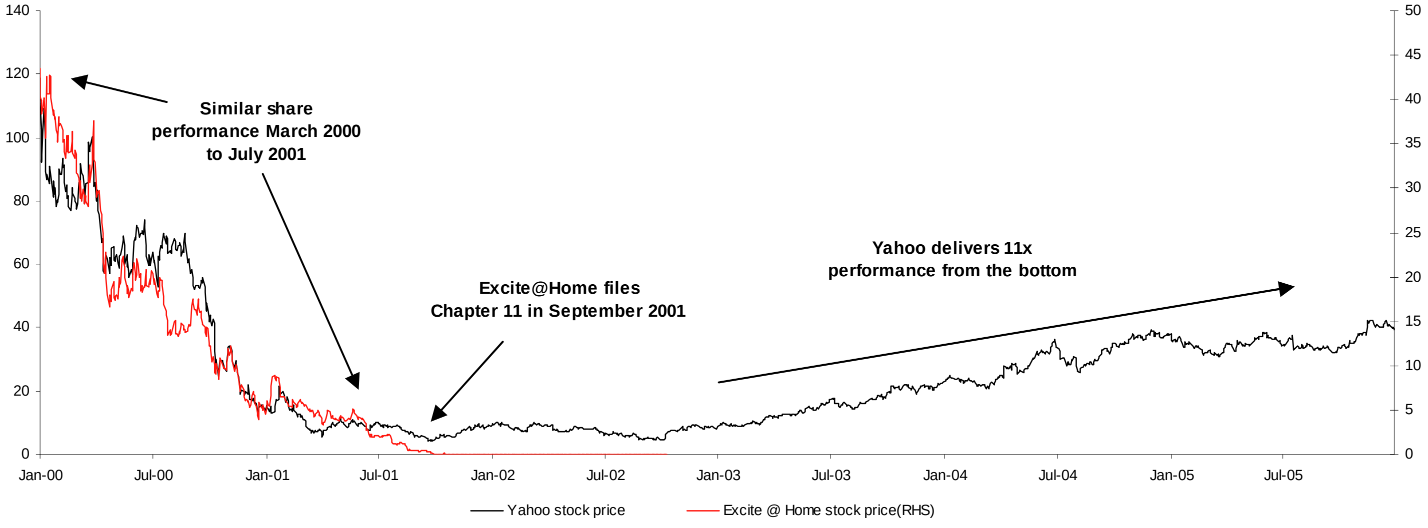
Source: Bloomberg, Macquarie Research, June 2009

From March 2001 to July 2002, differences in individual companies' long-term outlook meant little to share price performance. Then suddenly, one day in the summer of 2001, individual company fundamentals meant everything.

Stock picking, however, is crucial

Internet companies and property developers have almost nothing in common, and we are not trying to compare the industries. We are also not suggesting that macro fundamentals will not matter. Rather, we are saying that 2009/10 will likely be the years when investors are no longer able to ignore company-specific risks. It's unlikely that anyone would want to make a sector bet with just any developer. In our view, 2009 will mark the starting point when individual company positioning means something.

Fig 28 Stock picking is crucial – one can pick a multi-bagger or be left holding the bag



Source: Bloomberg, Macquarie Research, June 2009

Qualitative analysis to identify winners

Figures 29 and 30 provide a snapshot of valuations across our property sector coverage universe.

Fig 29 Snapshot of coverage

Company	Ticker	Market cap (US$m)	Rating	Price (Rs)	Target price (Rs)	Upside downside	NAV/sh (Rs)	TP disc to NAV
DLF	DLFU	11,715	N	332	322	-3%	379	15%
Unitech	UT	3,589	OP	84	100	18%	117	15%
Indiabulls	IBREL	1,661	OP	199	246	24%	307	20%
Provogue	PROV	110	UP	52	45	-13%	62	35%
Akruti City	AKCL	735	UP	530	364	-31%	560	35%
Ansal Properties	APIL	145	UP	61	38	-37%	58	35%
Mahindra Lifespace	MLIFE	246	UP	290	209	-28%	298	30%

Source: Bloomberg, Macquarie Research,June 2009

Fig 30 Snapshot of changes in our target prices and recommendations

	Old NAV (Rs)	New NAV (Rs)	% change	Old TP (Rs)	New TP (Rs)	% change	Old FY10E EPS (Rs)	New FY10E EPS (Rs)	% change	Old TP disc to NAV	New TP disc to NAV	Old rating	New rating
DLFU	321	379	18%	225	322	43%	28.4	30.7	8%	30%	15%	Neutral	Neutral
UT	100	117	17%	65	100	54%	9.5	9.7	2%	35%	15%	Outperform	Outperform
IBREL	311	307	-1%	202	246	22%	12.6	10	-20%	35%	20%	Outperform	Outperform
PROV	96	62	-35%	65	45	-31%	3.3	3.3	0%	40%	35%	Outperform	Underperform
AKCL	500	560	12%	250	364	46%	123.3	127.7	4%	50%	35%	Underperform	Underperform
APIL	17	58	241%	17	38	124%	-5.2	-14.9	189%	0%	35%	Underperform	Underperform
MLIFE	231	298	29%	139	209	50%	18.2	18.2	0%	40%	30%	Underperform	Underperform

Source: Macquarie Research, June 2009

In terms of qualitative analysis, we realise that some of the most-important factors for stock selection are more subjective. These include the following.

- Current leverage/capital scenario.
- Ability to raise/source capital: this is based on our assessment of refinancing risk, the reputation of promoters, off-balance sheet financing and the promoter's personal leverage and borrowing against the company's stock. (This aspect has been broken down further and the companies compared in Figure 31)
- Visibility of earnings/NAV.
- Scale of operations.
- Experience/execution track record.
- Execution strategy (in-house vs outsourced/JVs).
- Risk of overexposure to limited projects.
- Risk of time/cost over-runs.
- Risk of overexposure to individual geography.
- Risk of overexposure to individual product type.
- Exposure to long-term projects/remote locations.

Our comparison of property stocks on a qualitative basis is shown in Figure 31.

Fig 31 Qualitative (relative) comparison of stocks under coverage

	DLF	Unitech	Indiabulls	Ansal Properties	Mahindra Lifespace	Akruti City	Provogue
Current leverage/ capital scenario	◧	◧	◻	■	◻	■	◻
Ability to raise/ source capital	◻	◻	◻	■	◧	■	◧
Visibility of earnings/ NAV *	◧	◧	◻	■	■	■	■
Scale of operations	◻	◻	◧	◧	◧	■	■
Experience/ execution track record	◻	◧	■	◧	■	◧	■
Execution strategy (in-house vs outsourced/ JVs)	◻	◧	◧	■	◧	◧	◧
Risk of over-exposure to limited projects	◻	◻	■	◧	■	◧	■
Risk of time/ cost over-runs	◧	◧	◧	◧	■	■	■
Risk of over-exposure to individual geography	◻	◻	■	■	◧	■	◧
Risk of over-exposure to individual product type	◻	◻	■	◧	■	■	■
Exposure to long term projects/ remote locations	◧	■	◻	■	■	◻	■
Overall	◧	◧	◧	■	■	■	■
Recommendation	Neutral	Outperform	Outperform	Underperform	Underperform	Underperform	Underperform

Attractive	◻
Neutral	◧
Unattractive	■

* Visibility: We prefer companies for which the cashflows driving the NAV are front-ended and projects are located in accessible locations.
Source: Company data, Macquarie Research, June 2009

Fig 32 Qualitative (relative) comparison of refinancing risk for real estate companies

	DLF	Unitech	Indiabulls Real Estate	Provogue	Akruti City	Mahindra Lifespace	Ansal Properties
Leverage	◧	■	◻	◻	■	◻	■
Requirement for refinancing in next 12 months	◧	◧	◻	◻	◧	◻	■
Cash flow from operations	◧	◧	◧	■	■	■	◧
Availability of assets which can be liquidated	◻	◧	■	■	◧	■	■
Ability to raise private equity	◻	◧	◧	◧	■	◧	■
Ability to raise fresh debt	◧	◧	◻	◧	■	◧	◧
Overall refinancing risk	◧	◧	◻	◻	■	◻	■
Issues related to promoter funding	◻	◧	◻	◻	◧	◻	◧

Attractive	◻
Neutral	◧
Unattractive	■

Source: Company data, Macquarie Research, June 2009

Structural concerns significant in the Indian property sector

For real estate stocks across Asia Pacific, sector structural concerns in many cases are more important than underlying physical property market fundamentals. A classic case of this can be seen in Australia, where the Australian LPTs have been among the poorer performing sectors across Asia Pacific, despite the physical retail, office and residential markets holding up well in a relative sense.

By ‘structural’ concerns, we are referring to specific sector concerns regarding factors such as gearing levels, the effect of an appreciating or depreciating currency, specific taxation issues, regulatory changes, the effect of the banking system on real estate, and the requirement to raise equity. The Australian LPTs have equity-raising, balance-sheet-related, bank covenant-related, currency-related and payout ratio-related structural risks that are quite separate in many ways from physical market risks.

Structural risks in India include the following.

- **Balance sheet-related risks:** Gearing is still high at 40% (forecast for 2009); however, this is dependent on asset sales. Without these asset sales, we believe that sector leverage would increase by 25–30ppt.
- **Promoters’ disclosures related to pledged shares:** It was not mandatory for promoters/majority shareholders to disclose pledged shares until a few months ago. Property stocks are down by more than 60% from their peak. It is clear that promoters that have pledged shares for debt must be facing margin calls. It is mandatory to disclose a company’s shareholdings at the end of every quarter along with results. We expect promoter shareholdings to decrease for some property companies (as occurred in the case of Unitech). Although this remains an issue because many structures are not covered by the current regulation, transparency should improve given that the market regulator has now made it mandatory for promoters to disclose pledged shares.
- **Dilution a likely outcome of a lack of bank financing for developers:** Equity holders’ stakes are likely to be significantly diluted as promoters are forced to sell their stakes to stay (or become) liquid. This point is related to both the pledge issue above and tighter bank lending.
- **Related party dependence:** For example, India’s largest developer, DLF, relies on sales to DAL (DLF Assets Ltd, Not listed). This is quite a unique situation. It is not clear that DAL will continue to have access to capital to enable it to continue to be a major customer of DLF (over 40% of FY09 revenues). Based on management’s recent presentation, it is clear that all near-term sales to DAL are at risk.
- **Investors sceptical about real estate developers’ accounting practices:** Given the Satyam scandal, there is increasing concern about accounting practices across some sectors in India. One such sector in focus is real estate. Over the coming few quarters, we intend to keep an eye on the following factors.
    - ⇒ **Contribution of tax-free income to profits:** Typically, promoters have little incentive to inflate profits. Although this helps the stock price (especially in a bull market), the resulting tax incidence would result in a ‘real’ cash outflow. As seen in Satyam’s case, however, if operations are tax-free, the lack of cash outflow (from tax incidence) could encourage artificial inflation of profits.
    - ⇒ **A sharp change in receivables:** Receivables tend to rise sharply in the event of a slowdown in sales and lower payments being made upfront by buyers and (importantly) mortgage lenders and banks. In the case of many Indian companies, receivables are currently rising sharply. This can be a result of a liquidity crunch being faced by the counter party. This can be a particular concern if the counter party is a related entity.
    - ⇒ **Sales to related parties:** The best practice is to disclose details regarding funding/agreements with all related parties. Sales to related parties tend to raise concerns about whether it was indeed an arm’s-length transaction. It is important to note that ‘influence, not just shareholding’, is key. We will also look closely at investment in and loans to related parties.

- ⇒ **Reversal of sales:** This is a rare event. Best practice suggests that sales should not be booked if there is a realistic chance of a reversal. The red flag here could be if this is a large proportion of the prior period revenue.
- ⇒ **Lack of consolidated results:** It is not mandatory to disclose consolidated results on a quarterly basis. Although this is encouraged, most companies tend to release only standalone results. This could inflate profits on the transfer of properties to subsidiaries, which do not result in a consolidated cash inflow.
- ⇒ Misclassification of non-operating income as revenue.

Watch out for the two 'D's – debt and disclosures: Over the past few months, we held detailed discussions with four auditors (chartered accountants) involved in the real estate practice and with a few unlisted and listed companies. We have updated our view with fresh discussions regarding concerns that have surfaced repeatedly in our interactions with investors. Our findings are presented in detail in Figure 33. This includes comments on every line item in the balance sheet and income statement. We also discuss red flags to detect gaps between ideal disclosures and prevailing practices.

Fig 33 Comments by chartered accountants (auditors) and our views on accounting practices in India

Line item/issue	Comments by accountants	Our view on practices followed by Indian companies	Stocks in focus
Balance sheet **Assets**			
Cash and equivalents	It is optional for Indian companies to disclose the balance sheet on a quarterly basis. The best practice is to provide these details. Most Indian companies do not follow this practice.	While it is optional for Indian companies to disclose their balance sheet on a quarterly basis, most companies do not exercise the option. This implies that if there is any transfer of cash to related parties, it will not be known until the annual report is released. The best practice is to provide these details, eg, DLF discloses its detailed balance sheet on a quarterly basis.	IBREL, Akruti, APIL, Provogue, MLIFE
Inter-corporate deposits	See section on 'Cash and equivalents' above		IBREL
Inventory and WIP (work in progress)	Rising inventories and capital WIP are signs of rising construction activity. Inventories rise for the 'buy and sell' model, while capital WIP would rise for leasing assets. This is related to revenue and income recognition policy. However, unlike revenue recognition, this is easier to estimate because it is based on the dollar value of money spent on the projects.	Rising inventories and capital WIP are signs of rising construction activity. However, in the current scenario, we believe this may also partly be a result of a slowdown in sales. This may also be the source of a potential red flag. Companies declare their construction progress as the number of square feet under development. In the case of most Indian developers, the inventory and WIP do not add up to a fair estimate of construction costs that should have been spent on development. This may be a sign of a slowdown in construction progress.	All companies
Receivables	Receivables are very closely related to revenue recognition. Receivables tend to rise sharply in the event of a slowdown in sales and lower payments being made upfront by buyers and (importantly) mortgage lenders and banks.	In the case of many Indian companies (most notably DLF), receivables are currently rising sharply. This is due to a slowdown in sales and lower payments being made upfront by buyers and (importantly) mortgage lenders and banks. This can also be a result of a liquidity issue being faced by the counter party. This can be a particular concern if the counter party is a related entity.	DLF
Investments/consolidation in subsidiaries	Companies have to disclose details of subsidiaries. However, there is no obligation to disclose the details of the subsidiaries' unlisted holdings. The global best practice is to voluntarily disclose these in the subsidiary/SPV-related disclosures.	Few Indian companies disclose in line with global best practices, and many important projects are held in multi-layered subsidiaries due to a tax-efficient structure. This practice was also prevalent due to the (now-defunct) Urban Land Ceiling Act, which limited land holding by single entities. Multiple subsidiaries (with unrelated names) are used when developers try to mask their involvement due to competitive reasons or to avoid land prices from being bid up by speculators.	IBREL, APIL, all other companies
Land valuation	Land is held at acquisition cost on the books. Practices vary globally across developers and REITs. Holding at cost is conservative in a scenario of rising asset values.	In India, land is held at historical cost of acquisition on the books. Holding at cost is conservative in a scenario of rising asset values. However, this also tends to skew leverage ratios (and make them look higher) as the assets are typically undervalued.	All companies
Liabilities			
Current liabilities	This is not usually a contentious issue, but some Indian companies tend to count too many current liabilities as 'others'.	There are stray incidences of a lack of detailed disclosure on the largest 'other liabilities' line item. But this has generally not turned out to be very much of a concern.	IBREL
Debt/ borrowings	Since land is held at acquisition cost on the books, assets are usually undervalued. As a result, leverage ratios tend to be skewed towards the higher side. However, the debt existing at the SPV level (especially where holdings are less than 50%) or off the balance sheet or raised in the personal capacity of the promoter could be masked below multiple layers of unlisted subsidiaries or not disclosed at all. The global best practice is to voluntarily disclose this.	The key concern is off-balance sheet funding. Debt existing at the SPV level or raised in the personal capacity of the promoter may be masked below multiple layers of unlisted subsidiaries or not disclosed at all. Very few Indian companies follow the best practice to disclose these in their annual report.	DLF, Unitech, IBREL, Akruti, APIL

Fig 33 Comments by chartered accountants (auditors) and our views on accounting practices in India

Provisioning (for related party lending)	There is no requirement for provisioning for related party lending if management genuinely believes that there is no risk of default. This is in line with global standards.	Companies need not provide for related-party lending. However, in case of related-party lending, companies should provide detailed disclosures. This is rarely followed.	All companies

Line item/issue	Comments by accountants	Our view on practices followed by Indian companies	Stocks in focus
Income statement			
Revenue recognition	This is by far the most important and contentious accounting issue in the property sector. The global best practice (and IFRS standard) is the 'percentage of completion' method. The Indian GAAP also provides the option of following the 'project completion' method, which some companies use. This method tends to make earnings lumpy and back-ended. The 'percentage of completion' method, if properly implemented, is the most powerful method. There are two major areas of contention: At what level will the first threshold be hit and revenue booking start? Companies use different thresholds, typically between 20% and 30%. The other issue: How does one quantify the progress of a project (ie, what proportion is complete) and whether any important threshold has been reached? Auditors use certificates from architects for this.	Auditors use certificates from architects to quantify the progress on a project (under the 'percentage of completion' method). While auditors go through an independent system of checks, there are concerns that the architects' view may not be going through a robust independent assessment. This may give rise to a potential conflict of interest.	All companies
Sales to related parties	What is a related party? This is a grey area around the world. The best practice is to disclose details regarding funding/ agreements with all related parties (listed or unlisted/with or without crossholdings). Sales to related parties tend to raise concerns on whether it was indeed an arm's-length transaction.	It is important to note that 'influence, not just shareholding', is key. Very few companies (even globally) follow this perfectly.	DLF, all other companies
Reversal of sales	This should be a rare event. Best practice suggests that sales should not be booked if there is a realistic chance of a reversal.	Apart from stray incidents, Indian companies have generally followed this well. The red flag here is that the growth in receivables may be above average.	DLF
Interest rates	Interest rates tend to change with a lag from the broader interest rate cycle due to capitalisation of interest paid during property development.	Calculation of average interest rates for Indian companies by using the interest paid from the income statement, divided by average debt levels, tends to imply a low interest rate due to capitalised interest. In the current scenario of high interest rates, this may mask sharply rising trends in financing costs.	All companies
General disclosures			
Related party transactions	The definition of a 'related party' is a grey area around the world. The best practice is to disclose details regarding funding/agreements with all related parties (listed or unlisted/ with or without crossholdings).	It is important to note that 'influence, not just shareholding', is key. Very few companies (even globally) follow this perfectly.	DLF, Unitech, IBREL
Others			
Off-balance sheet items			
Promoter debt	There is no obligation to disclose this.	The key concern is off-balance sheet funding. It is not required that debt raised in the personal capacity of the promoter be disclosed. However, this raises concerns regarding the effect on the stock in case of a margin call, and lack of disclosure may lead to inferior information for the minority shareholders.	DLF, Unitech, Akruti, APIL

Fig 33 Comments by chartered accountants (auditors) and our views on accounting practices in India

SPV level funding	There is no obligation to disclose these, especially in case of fund raising in a vehicle owned by an unlisted subsidiary. The global best practice is to voluntarily disclose these in the subsidiary/SPV-related disclosures. Few Indian companies disclose in line with global best practices.	The key concern is off-balance sheet funding. Debt existing at the SPV level may be masked below multiple layers of unlisted subsidiaries or not disclosed at all. Very few Indian companies follow the best practice to disclose this in their annual report.	Unitech, Ansal, all other companies

Line item/issue	Comments by accountants	Our view on practices followed by Indian companies	Stocks in focus
Low free float/lack of liquidity	No comments.	Under current regulations, Indian companies can list with a free float of 10%. There is a pending proposal to raise this to 25%. Timing remains uncertain. In the meantime, minority shareholders face risk of low liquidity in certain trading sessions. Press reports have raised accusations regarding price 'management' in illiquid stocks, but these have not been conclusively proved.	DLF, Unitech, Akruti, APIL, most mid-cap real estate companies
Corporate action (eg, buyback/ listing of subsidiaries)	No comments.	Indian companies tend to follow regulations and best practices regarding getting approvals and setting the price band. However, the timing of certain events (eg, DLF's buyback, IBREL's Singapore business trust listing) has raised concerns that the tough market conditions may have made the timing unfavourable for minority shareholders.	DLF, Unitech, IBREL, Akruti

Source: Indsutry, Macquarie Research, June 2009

Appendix: ‘Ear to the ground’ – price growth outlook

Concerns arise during channel checks

We present our detailed outlook by city and product mix, based on site visits in the national capital region (NCR), Mumbai, Pune, Bangalore, Chennai and Ahmedabad in the past 12 months. We also contacted property brokers and sales personnel in Hyderabad and Kolkata in addition to the above markets.

Key takeaways are provided in the next few pages.

Fig 34 Detailed outlook (next 12 months) for volumes and pricing by city and product mix

-potential for growth in	Mumbai-South	Mumbai-Suburbs	NCR- Delhi	NCR- other	Pune	Bangalore	Hyderabad	Chennai	Kokatta	Tier 2/3 cities	Overall
Residential											
Volume*	◧	▢	◧	▢	◧	◧	◧	▢	▢	◧	◧
Prices**	◧	■	◧	■	■	■	■	◧	◧	◧	■
Commercial											
Volume	◧	◧	◧	◧	◧	◧	◧	◧	◧	◧	◧
Rents	■	◧	■	■	◧	■	◧	◧	◧	◧	◧
Retail											
Volume	◧	◧	◧	■	◧	◧	◧	◧	◧	▢	◧
Rents	■	■	■	■	◧	■	■	◧	◧	◧	■
Hospitality	◧	◧	◧	▢	▢	■	◧	◧	▢	◧	◧
SEZ											■

Unattractive	■	**Implies slow down in offtake <u>or</u> negative growth in prices/ rents**
Neutral	◧	**Implies stable offtake <u>or</u> flat growth in prices/ rents**
Attractive	▢	**Implies higher offtake <u>or</u> positive growth in prices/ rents**

* Volumes: Will volumes/ off take grow?

** Prices/ rents: Will prices/ rents increase?

Company	Mumbai-South	Mumbai-Suburbs	NCR- Delhi	NCR- other	Pune	Bangalore	Hyderabad	Chennai	Kokatta	Tier 2/3 cities
DLF	X	X	X	X	X	X	X	X	X	X
Unitech	☐	X	X	X	☐	X	X	X	X	X
Indiabulls	X	X	X	X	☐	☐	☐	X	☐	X
Ansal	☐	☐	X	X	☐	☐	☐	☐	☐	X
Mahindra Lifespaces	X	X	☐	X	X	☐	☐	X	☐	X
Provogue	☐	☐	☐	☐	☐	☐	☐	☐	☐	X
Akruti City	X	X	☐	☐	X	X	☐	☐	☐	X

Present	X	**Development projects present in this geography**
No presence	☐	**No projects under development in this geography**

Source: Macquarie Research, June 2009

Property prices and rents expected to take a breather

In the following three pages, we state our expectations for average growth in residential prices and commercial and retail rentals in the next 12 months. Statistics and data collection in India are less than perfect. In the following tables, we have included what we believe price growth has been in the immediate past. We reach our forecasts based on investigations with property agents, brokers and company sales personnel. We fine-tune these forecasts using information available from Macquarie Property India and property consultants Knight Frank and Jones Lang Lasalle.

Fig 35 Macquarie's average residential price estimates

City	Current pricing level (Rs/sqf)	Typical price rises in past 12 months	12-month price rise forecast*	Comments on the current scenario and key drivers
Metros and Tier 1 cities				
South Mumbai	15,000–40,000	15–25% decline	10–15% decline	**New supply:** Limited in the island city **Incremental demand:** Economic capital of India, affected by job losses and a slowdown in financial services **Pricing:** High base effect limits upside with correction in some areas
Mumbai Suburbs	5,000–14,000	15–25% decline	10–15% decline	**New supply:** Significant step-up in construction activity; land supply increased by policy changes (increased FSI) **Incremental demand:** Driven by IT/ITES and emergence as alternative to south Mumbai, affected by the overall slowdown **Pricing:** Moderate-to-high base effect and upcoming supply limit upside with a broad-based correction
Delhi	5,000–20,000	15–25% decline	15–20% decline	**New supply:** Moderate amount of new supply expected, competition emerging from suburbs (eg, Gurgaon) **Incremental demand:** Capital of India and important economic centre, affected by the overall slowdown **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Other NCR - Gurgaon	3,500–7,500	20–30% decline	10–15% decline	**New supply:** Significant step-up in construction activity, land-locked city, no constraint on supply **Incremental demand:** Driven by IT/ITES; Gurgaon- Manesar projected as the future growth centre, affected by a slowdown in the IT/ITES sector **Pricing:** High base effect limits upside with a broad-based correction
Other NCR - Noida	3,500–6,500	20–30% decline	15–20% decline	**New supply:** Significant step-up in construction activity, land-locked city, no constraint on supply **Incremental demand:** Affected by a slowdown in the IT/ITES sector **Pricing:** High base effect limits upside with a broad-based correction
Pune	3,000–6,000	15–25% decline	15–20% decline	**New supply:** Early stages of construction boom, land-locked city, no constraint on supply **Incremental demand:** Driven by IT/ITES and emergence as alternative to Mumbai, affected by a slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect limits upside with correction in some areas
Bangalore	3,500–8,000	20–30% decline	10–15% decline	**New supply:** Significant step-up in construction activity over last decade, land-locked city, no supply constraint **Incremental demand:** Driven by IT/ITES, infrastructure problems have caused IT/ITES demand to shift elsewhere **Pricing:** Moderate-to-high base effect limits upside with correction in some areas
Hyderabad	3,500–6,000	20–30% decline	15–20% decline	**New supply:** Significant step-up in construction activity, land-locked city, no constraint on supply **Incremental demand:** Driven by IT/ITES and emergence as alternative to Bangalore, strict regulatory guidelines but potential financial back-office hub, affected by a slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect and upcoming supply limit upside with a broad-based correction
Chennai	2,800–5,500	10–20% decline	10–15% decline	**New supply:** Early stages of construction boom, land-locked city, no constraint on supply **Incremental demand:** Driven by IT/ITES and emergence as alternative to Bangalore, some effect of the slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect and upcoming supply limit upside with correction in some areas
Kolkata	2,800–5,000	10–20% decline	10–15% decline	**New supply:** Early stages of construction boom, land-locked city, no constraint on supply **Incremental demand:** Driven by IT/ITES and proactive government policies, some effect of the slowdown in the IT/ITES sector and negative sentiment due to state-level politics

				Pricing: Moderate-to-high base effect and upcoming supply limit upside with correction in some areas
Tier 2 and 3 cities**	1,500–3,000	15–25% decline	10–15% decline	**New supply:** Early stages of construction activity **Incremental demand:** Driven by emerging second generation of IT/ITES centres, some effect of the slowdown in the IT/ITES sector and the general slowdown **Pricing:** Moderate base effect with correction in some areas, lack of infrastructure the biggest impediment

* Macquarie India forecast; ** Some examples of tier 2 and 3 cities: Ahmedabad, Chandigarh, Indore, Jaipur, Mangalore, Mysore, Raipur

Source: Knight Frank, Macquarie Research, June 2009

Fig 36 Macquarie's average office rent estimates

City	Current pricing level (Rs/sqf/month)	Typical price rises in past 12 months	12-month price rise forecast*	Comments on the current scenario and key drivers
Metros and Tier 1 cities				
South Mumbai	200–500	20–30% decline	5–10% decline	**New supply:** Limited in the island city, competition emerging from suburbs **Incremental demand:** Economic capital of India, affected by the overall slowdown in financial services. Too expensive for IT/ITES **Pricing:** High base effect limits upside with a broad-based correction
Mumbai Suburbs	80–250	20–30% decline	5–10% decline	**New supply:** Step-up in construction activity **Incremental demand:** Driven by IT/ITES and emergence as alternative to south Mumbai, affected by a slowdown in the IT/ITES sector and the overall slowdown **Pricing:** High base effect limits upside with a broad-based correction
Delhi	200–300	20–30% decline	5–10% decline	**New supply:** Moderate amount of new supply expected, competition emerging from suburbs (eg, Gurgaon) **Incremental demand:** Capital of India, important economic centre and good quality infrastructure, affected by the overall slowdown **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Other NCR - Gurgaon	70–90	20–30% decline	5–10% decline	**New supply:** Significant step-up in construction activity especially in new SEZs **Incremental demand:** One of the most important IT/ITES centres in India, affected by the slowdown in the sector **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Other NCR - Noida	50–80	20–30% decline	10–15% decline	**New supply:** Significant step-up in construction activity especially in new SEZs **Incremental demand:** Affected by the slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Pune	45–75	10–15% decline	10–15% decline	**New supply:** Step-up in construction activity especially in new SEZs **Incremental demand:** Driven by IT/ITES and emergence as alternative to Mumbai, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate base effect limits upside with a broad-based correction
Bangalore	65–100	15–20% decline	10–15% decline	**New supply:** Significant step-up in construction activity over last decade **Incremental demand:** Driven by IT/ITES, infrastructure problems and the sector slowdown have caused IT/ITES demand to shift away. New airport could lead to further development **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Hyderabad	45–75	15–20% decline	10–15% decline	**New supply:** Step-up in construction activity **Incremental demand:** Driven by IT/ITES (85% of absorption) and emergence as alternative to Bangalore, potential financial back-office hub, affected by the slowdown in the sector **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Chennai	30–60	10–25% decline	5–10% decline	**New supply:** Significant step-up in construction activity over past 3–5 years **Incremental demand:** Driven by IT/ITES and emergence as alternative to Bangalore, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate base effect limits upside with a correction in some areas

Kolkata	30–50	10–25% decline	5–10% decline	**New supply:** Significant step-up in construction activity over last 3–5 years **Incremental demand:** Driven by IT/ITES and proactive government policies, some effect of the slowdown in the IT/ITES sector and negative sentiment due to state-level politics **Pricing:** Moderate base effect limits upside with a correction in some areas
Tier 2 and 3 cities**	20–40	10–20% decline	10–15% decline	**New supply:** Early stages of construction activity **Incremental demand**: Affected by the slowdown in the IT/ITES sector and overall GDP growth **Pricing:** Moderate base effect with correction in some areas, lack of infrastructure the biggest impediment

* Macquarie India forecast

** Some examples of tier 2 and 3 cities: Ahmedabad, Chandigarh, Indore, Jaipur, Mangalore, Mysore, Raipur

Source: Knight Frank, Macquarie Research, June 2009

Fig 37 Macquarie's average retail rent estimates

City	Current pricing level (Rs/sqf/month)	Typical price rises in past 12 months	12 month price rise forecast*	Comments on the current scenario and key drivers
Metros and Tier 1 cities				
South Mumbai	200–400	15–25% decline	10–20% decline	**New supply:** Significant new supply coming up but still limited in the island city **Incremental demand:** Retailers tap high income category catchment areas, some impact of the overall slow down in growth and financial services **Pricing:** Very high rents, retailers find it difficult to operate profitably, especially in an environment of slowing same-store sales growth
Mumbai Suburbs	80–200	15–25% decline	10–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** High base effect, retailers find it difficult to operate profitably
Delhi	100–250	15–25% decline	10–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels and high income catchment areas, effect of the overall slowdown in growth **Pricing:** High base effect, retailers find it difficult to operate profitably
Other NCR - Gurgaon	70–150	20–35% decline	10–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** Very high base effect, retailers find it difficult to operate profitably
Other NCR - Noida	60–100	20–35% decline	10–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect limits upside with a broad-based correction
Pune	60–100	10–15% decline	10–15% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels driven by IT/ITES sectors **Pricing:** Moderate-to-high base effect limits upside with a correction in some areas
Bangalore	80–150	10–20% decline	10–15% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect limits upside with a correction in some areas
Hyderabad	60–80	10–20% decline	10–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate-to-high base effect limits upside with a correction in some areas
Chennai	40–65	10–15% decline	5–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate base effect limits upside with a correction in some areas
Kolkata	35–65	10–15% decline	5–20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector **Pricing:** Moderate base effect limits upside with a correction in some areas
Tier 2 and 3 cities**	25–60	10–15% decline	5–15% decline	**New supply:** Early stages of construction activity **Incremental demand:** Retail expansion plans track rising income levels, affected by the slowdown in the IT/ITES sector and overall GDP growth **Pricing:** Moderate base effect with correction in some areas, lack of infrastructure biggest impediment

* Macquarie India forecast
** Some examples of tier 2 and 3 cities: Ahmedabad, Chandigarh, Indore, Jaipur, Mangalore, Mysore, Raipur

Source: Macquarie Research, Knight Frank, Macquarie Research, June 2009

INDIA

Unitech Limited

18 June 2009

UT IN	**Outperform**

Stock price as of 16 Jun 09	Rs	88.90
12-month target	Rs	100.00
Upside/downside	%	+12.5
Valuation	Rs	117.16
- DCF (WACC 14.2%)		
GICS sector		real estate
Market cap	Rs m	181,542
30-day avg turnover	US$m	47.3
Market cap	US$m	3,805
Number shares on issue	m	2,042

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	bn	41.2	64.4	79.7	89.3
EBIT	bn	21.8	33.8	40.5	43.5
EBIT Growth	%	7.7	55.0	19.6	7.4
Recurring profit	bn	20.7	24.3	30.1	33.3
Reported profit	bn	16.6	16.0	19.8	21.9
Adjusted profit	bn	16.6	16.0	19.8	21.9
EPS rep	Rs	10.25	9.83	9.66	10.69
EPS rep growth	%	27.1	-4.2	-1.6	10.6
EPS adj	Rs	10.24	9.83	9.66	10.69
EPS adj growth	%	27.3	-4.0	-1.6	10.6
PE rep	x	8.7	9.0	9.2	8.3
PE adj	x	8.7	9.0	9.2	8.3
Total DPS	Rs	0.256	0.280	0.276	0.305
Total DPS growth	%	-12.89	9.52	-1.63	10.61
Total div yield	%	0.3	0.3	0.3	0.3
ROA	%	12.0	13.7	14.5	14.1
ROE	%	59.4	36.5	28.6	22.4
EV/EBITDA	x	10.4	6.7	6.5	6.0
Net debt/equity	%	208.8	163.3	82.9	58.3
Price/book	x	4.0	2.8	2.1	1.7

UT IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Rider on the storm

Event

- We review our NAV estimates and target prices for all of the developers under our coverage. We maintain our Outperform recommendation on Unitech.

Impact

- We raise our target price for Unitech to Rs100 from Rs65 to account for the following:
  - ⇒ We have adjusted our price/rent and cap-rate assumptions based on our latest observations. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets. We are now assuming cap rates of 12–13% vs 13–14% earlier. We have also made a minor change in WACC assumptions to account for the changes in the macro environment. Our NAV estimates have been adjusted to reflect this.
- 4Q 2009 saw residential sales volumes fall to their lowest level in the last three years. This is because mortgage rates had not fallen along with policy rates. Consumers had also postponed their buying decisions due to expectations of a significant decline in property prices. We have seen a pick-up in sales volumes in individual markets after the weak fourth quarter. Many developers across north, south and west India have seen a pick-up in mid-income residential property. We believe this has been driven mainly by the 25–30% price cuts by developers. At the then prevailing rates, volumes had dried up. However, the combination of price cuts and mortgage rate cuts by banks have resulted in a volume pick-up.

Earnings and target price revision

- We have increased our NAV estimate by 17% to Rs117, due mainly to the factors discussed above. Our target NAV discount has been decreased to 15% from 35% earlier. Our new target price is Rs100 vs Rs65 previously.
- We revise our FY10E EPS upwards by 2% to Rs9.70.

Price catalyst

- 12-month price target: Rs100.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices, fund raising.

Action and recommendation

- As we expected, Unitech has survived the liquidity crunch. Its secondary market offering was the turning point for the Indian real estate sector, in our view. Its balance sheet is also more comfortable after recent asset sales: the stake sale in its telecom venture and sale of its hotel and office properties.
- We maintain our Outperform rating but have turned a bit more cautious after the recent rally. The recent rally has definitely reduced the valuation proposition of Indian property stocks. Macquarie has maintained its overweight position on Unitech in the regional portfolio but with a reduced weight (down from 2% to 1%). There are press reports that Unitech may go in for another dilution in the immediate term. This could be perceived as a negative by the market. Management, however, has denied this.

Unitech Limited (UT IN, Outperform, Target price: Rs100.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	41,152	64,363	79,678	89,332
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**41,152**	**64,363**	**79,678**	**89,332**
Management Fees	m	0	0	0	0
Other Expenses	m	-19,114	-29,895	-38,383	-44,684
EBITDA	**m**	**22,038**	**34,468**	**41,295**	**44,648**
Dep & Amortisation	m	205	634	813	1,187
EBIT	**m**	**21,833**	**33,834**	**40,482**	**43,461**
Net Interest Income	m	-2,804	-11,118	-11,973	-11,973
Associates	m	55	0	0	0
Exceptionals	m	25	0	0	0
Other Pre-Tax Income	m	1,649	1,609	1,594	1,787
Pre-Tax Profit	**m**	**20,759**	**24,325**	**30,102**	**33,274**
Tax Expense	m	-3,986	-8,246	-10,205	-11,280
Net Profit	**m**	**16,773**	**16,079**	**19,898**	**21,994**
Minority Interests	m	-129	-129	-129	-129
Reported Earnings	**m**	**16,644**	**15,950**	**19,769**	**21,866**
Adjusted Earnings	**m**	**16,619**	**15,950**	**19,769**	**21,866**
EPS (rep)		10.25	9.83	9.66	10.69
EPS (adj)		10.24	9.83	9.66	10.69
EPS Growth (adj)	%	27.3	-4.0	-1.6	10.6
PE (rep)	x	8.7	9.0	9.2	8.3
PE (adj)	x	8.7	9.0	9.2	8.3
Total DPS		0.26	0.28	0.28	0.30
Total Div Yield	%	0.3	0.3	0.3	0.3
Weighted Average Shares	m	1,623	1,623	2,045	2,045
Period End Shares	m	1,623	1,623	2,045	2,045

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	23.9	56.4	23.8	12.1
EBITDA Growth	%	8.3	56.4	19.8	8.1
EBIT Growth	%	7.7	55.0	19.6	7.4
EBITDA Margins	%	53.6	53.6	51.8	50.0
EBIT Margins	%	53.1	52.6	50.8	48.7
Net Profit Margins	%	40.8	25.0	25.0	24.6
Payout Ratio	%	2.5	2.9	2.9	2.9
EV/EBITDA	x	10.4	6.7	6.5	6.0
EV/EBIT	x	10.5	6.8	6.6	6.2
Balance Sheet Ratios					
ROE	%	59.4	36.5	28.6	22.4
ROA	%	12.0	13.7	14.5	14.1
ROIC	%	29.0	19.5	19.3	17.8
Net Debt/Equity	%	208.8	163.3	82.9	58.3
Interest Cover	x	7.8	3.0	3.4	3.6
Price/Book	x	4.0	2.8	2.1	1.7
Book Value per Share		22.2	31.7	42.5	52.9

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**22,038**	**34,468**	**41,295**	**44,648**
Tax Paid	m	-3,986	-8,246	-10,205	-11,280
Chg in Working Capital	m	-29,548	-24,392	-17,283	-2,245
Net Interest Paid	m	-2,804	-11,118	-11,973	-11,973
Other	m	-53	-81	-70	-64
Operating Cashflow	**m**	**-14,353**	**-9,370**	**1,764**	**19,086**
Acquisitions	m	-1,069	0	0	0
Capex	m	-23,479	-124	-6,060	-10,889
Asset Sales	m	0	0	0	0
Other	m	1,649	1,609	1,594	1,787
Investing Cashflow	**m**	**-22,899**	**1,485**	**-4,467**	**-9,103**
Dividend (Ordinary)	m	-475	-455	-564	-624
Equity Raised	m	1,623	0	844	0
Debt Movements	m	45,718	0	0	0
Other	m	2,789	0	15,406	0
Financing Cashflow	**m**	**49,656**	**-455**	**15,686**	**-624**
Net Chg in Cash/Debt	**m**	**12,404**	**-8,340**	**12,983**	**9,359**
Free Cashflow	**m**	**-37,832**	**-9,494**	**-4,296**	**8,196**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	27,108	18,768	31,752	41,111
Receivables	m	7,460	11,667	14,443	16,193
Inventories	m	136,076	167,519	185,551	183,558
Investments	m	31,442	30,932	36,179	45,882
Fixed Assets	m	0	0	0	0
Intangibles	m	1,126	1,126	1,126	1,126
Other Assets	m	30,583	30,583	30,583	30,583
Total Assets	**m**	**233,794**	**260,596**	**299,635**	**318,454**
Payables	m	82,562	93,821	97,346	94,859
Short Term Debt	m	0	0	0	0
Long Term Debt	m	104,720	104,767	104,825	104,890
Provisions	m	9,350	9,350	9,350	9,350
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**196,632**	**207,938**	**211,522**	**209,099**
Shareholders' Funds	m	36,004	51,500	86,955	108,196
Minority Interests	m	1,159	1,159	1,159	1,159
Total S/H Equity	**m**	**37,163**	**52,658**	**88,113**	**109,355**
Total Liab & S/H Funds	**m**	**233,794**	**260,596**	**299,635**	**318,454**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

INDIA

Indiabulls Real Estate

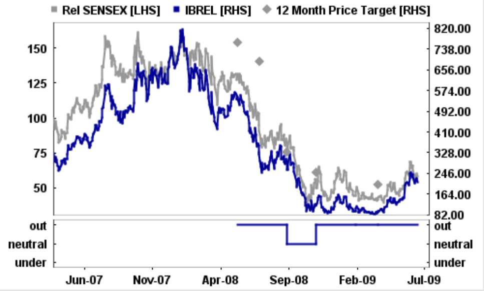
18 June 2009

IBREL IN		**Outperform**
Stock price as of 16 Jun 09	Rs	215.60
12-month target	Rs	246.00
Upside/downside	%	+14.1
Valuation	Rs	307.34
- DCF (WACC 14.7%)		
GICS sector		real estate
Market cap	Rs m	86,480
30-day avg turnover	US$m	23.5
Market cap	US$m	1,811
Number shares on issue	m	401.1

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	1,407	5,213	16,362	21,675
EBIT	m	-22	390	4,782	6,728
EBIT Growth	%	nmf	nmf	1,124.9	40.7
Recurring profit	m	5,671	1,954	5,655	8,025
Reported profit	m	3,983	1,342	4,008	5,716
Adjusted profit	m	4,008	1,342	4,008	5,716
EPS rep	Rs	16.54	5.21	9.99	14.25
EPS rep growth	%	2,025.7	-68.5	91.7	42.6
EPS adj	Rs	16.64	5.21	9.99	14.25
EPS adj growth	%	2,039.3	-68.7	91.7	42.6
PE rep	x	13.0	41.4	21.6	15.1
PE adj	x	13.0	41.4	21.6	15.1
Total DPS	Rs	16.889	5.200	9.967	14.213
Total DPS growth	%	0.00	-69.21	91.68	42.60
Total div yield	%	7.8	2.4	4.6	6.6
ROA	%	0.0	0.5	5.6	6.8
ROE	%	13.4	2.8	6.4	7.6
EV/EBITDA	x	2,360.4	40.8	9.6	6.1
Net debt/equity	%	-88.6	-40.6	-43.6	-35.9
Price/book	x	1.2	1.1	1.1	1.1

IBREL IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Cash is king

Event

- We review our NAV estimates and target prices for all developers under our coverage. We maintain our Outperform rating on IBREL.

Impact

- We increase our target price to Rs246 from Rs202 to account for the following factors:
  - ⇒ We have adjusted our price/rent and cap-rate assumptions based on the latest observations in the physical market. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets. We are now assuming cap-rates of 12–13% vs 13–14% earlier. We have also made minor changes in our WACC assumptions to account for the changes in the macro environment. Our revised NAV and earnings estimates reflect the above factors.
  - ⇒ Our financial model has also been updated to reflect IBREL's recent secondary market offering. In May 2009, the company raised US$530m through issue of 144m new shares. This will primarily be used to fund the equity contribution for the company's power subsidiary.
  - ⇒ We have also adjusted our target price to account for the change in listed investments.

Earnings and target price revision

- Our NAV estimate remains broadly flat. Our target NAV discount has been decreased to 20% from 35% earlier.
- We revise our PAT estimates for FY10 upwards by 7% to Rs4bn We raise our target price to Rs246 from Rs202.

Price catalyst

- 12-month price target: Rs246.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices, commercial rents and absorption.

Action and recommendation

- We maintain our Outperform rating on IBREL. The balance sheet appears robust. Some investors had raised concerns regarding disclosures in the annual report. Documentary evidence produced by management in its various analyst meetings and earnings releases has allayed some of these concerns.
- In the near term, the company's earnings may remain under pressure due to low occupancy and falling rentals in its flagship commercial properties in Mumbai. However, we expect this to revive around 6-9 months after a turnaround in GDP growth, ie, in late CY2010 to early CY2011. We, however, believe that this is well known and hence likely to be adequately priced in.

Indiabulls Real Estate (IBREL IN, Outperform, Target price: Rs246.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	1,407	5,213	16,362	21,675
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**1,407**	**5,213**	**16,362**	**21,675**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,395	-4,456	-9,896	-11,498
EBITDA	**m**	**12**	**757**	**6,467**	**10,177**
Dep & Amortisation	m	33	367	1,684	3,449
EBIT	**m**	**-22**	**390**	**4,782**	**6,728**
Net Interest Income	m	-522	-437	-437	-437
Associates	m	0	0	0	0
Exceptionals	m	-25	0	0	0
Other Pre-Tax Income	m	6,215	2,000	1,309	1,734
Pre-Tax Profit	**m**	**5,645**	**1,954**	**5,655**	**8,025**
Tax Expense	m	-1,598	-547	-1,582	-2,245
Net Profit	**m**	**4,047**	**1,407**	**4,073**	**5,780**
Minority Interests	m	-65	-65	-65	-65
Reported Earnings	**m**	**3,983**	**1,342**	**4,008**	**5,716**
Adjusted Earnings	**m**	**4,008**	**1,342**	**4,008**	**5,716**
EPS (rep)		16.54	5.21	9.99	14.25
EPS (adj)		16.64	5.21	9.99	14.25
EPS Growth (adj)	%	2,039.3	-68.7	91.7	42.6
PE (rep)	x	13.0	41.4	21.6	15.1
PE (adj)	x	13.0	41.4	21.6	15.1
Total DPS		16.89	5.20	9.97	14.21
Total Div Yield	%	7.8	2.4	4.6	6.6
Weighted Average Shares	m	241	258	401	401
Period End Shares	m	241	258	401	401

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	910.8	270.6	213.9	32.5
EBITDA Growth	%	-70.0	6,454.9	754.2	57.4
EBIT Growth	%	nmf	nmf	1,124.9	40.7
EBITDA Margins	%	0.8	14.5	39.5	47.0
EBIT Margins	%	-1.5	7.5	29.2	31.0
Net Profit Margins	%	287.8	27.0	24.9	26.7
Payout Ratio	%	101.5	99.7	99.7	99.7
EV/EBITDA	x	2,360.4	40.8	9.6	6.1
EV/EBIT	x	-1,260.0	79.0	12.9	9.2
Balance Sheet Ratios					
ROE	%	13.4	2.8	6.4	7.6
ROA	%	-0.0	0.5	5.6	6.8
ROIC	%	-0.5	4.4	9.5	9.8
Net Debt/Equity	%	-88.6	-40.6	-43.6	-35.9
Interest Cover	x	-0.0	0.9	10.9	15.4
Price/Book	x	1.2	1.1	1.1	1.1
Book Value per Share		187.5	190.8	188.6	188.4

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**12**	**757**	**6,467**	**10,177**
Tax Paid	m	-1,598	-547	-1,582	-2,245
Chg in Working Capital	m	-2,515	-9,707	-1,381	1,756
Net Interest Paid	m	-522	-437	-437	-437
Other	m	-91	-65	-64	-64
Operating Cashflow	**m**	**-4,715**	**-9,998**	**3,002**	**9,186**
Acquisitions	m	1,703	0	0	0
Capex	m	-2,029	-20,347	-13,423	-11,863
Asset Sales	m	0	0	0	0
Other	m	6,240	2,000	1,309	1,734
Investing Cashflow	**m**	**5,914**	**-18,347**	**-12,114**	**-10,129**
Dividend (Ordinary)	m	-4,067	-1,339	-3,998	-5,701
Equity Raised	m	3,884	-417	-2,035	0
Debt Movements	m	1,969	0	0	0
Other	m	34,863	4,401	28,531	-69
Financing Cashflow	**m**	**36,649**	**2,646**	**22,498**	**-5,770**
Net Chg in Cash/Debt	**m**	**37,848**	**-25,699**	**13,387**	**-6,712**
Free Cashflow	**m**	**-6,744**	**-30,345**	**-10,420**	**-2,677**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	53,759	28,060	41,447	34,735
Receivables	m	1,165	4,318	3,362	2,969
Inventories	m	11,441	5,213	6,724	5,938
Investments	m	2,246	22,226	33,964	42,379
Fixed Assets	m	0	0	0	0
Intangibles	m	213	213	213	213
Other Assets	m	12,850	12,850	12,850	12,850
Total Assets	**m**	**81,674**	**72,880**	**98,561**	**99,084**
Payables	m	17,245	4,463	3,637	4,215
Short Term Debt	m	0	0	0	0
Long Term Debt	m	3,396	3,396	3,397	3,397
Provisions	m	4,213	4,213	4,213	4,213
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**24,854**	**12,073**	**11,247**	**11,824**
Shareholders' Funds	m	45,149	49,137	75,643	75,589
Minority Interests	m	11,671	11,671	11,671	11,671
Total S/H Equity	**m**	**56,819**	**60,807**	**87,314**	**87,260**
Total Liab & S/H Funds	**m**	**81,674**	**72,880**	**98,561**	**99,084**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

INDIA

DLF

18 June 2009

DLFU IN		**Neutral**
Stock price as of 16 Jun 09	Rs	353.30
12-month target	Rs	322.00
Upside/downside	%	-8.9
Valuation	Rs	379.09
- DCF (WACC 14.2%)		
GICS sector		real estate
Market cap	Rs m	599,619
30-day avg turnover	US$m	47.6
Market cap	US$m	12,559
Number shares on issue	m	1,697

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	bn	144.4	120.0	128.4	151.2
EBIT	bn	96.3	77.6	79.5	86.3
EBIT Growth	%	573.6	-19.3	2.4	8.5
Recurring profit	bn	95.6	69.0	65.1	70.8
Reported profit	bn	78.1	56.5	52.1	55.2
Adjusted profit	bn	77.9	56.5	52.1	55.2
EPS rep	Rs	45.82	33.15	30.70	32.55
EPS rep growth	%	262.4	-27.7	-7.4	6.0
EPS adj	Rs	45.68	33.15	30.70	32.55
EPS adj growth	%	261.2	-27.4	-7.4	6.0
PE rep	x	7.7	10.7	11.5	10.9
PE adj	x	7.7	10.7	11.5	10.9
Total DPS	Rs	4.681	0.000	0.000	0.000
Total DPS growth	%	79.47	0.00	0.00	0.00
Total div yield	%	1.3	0.0	0.0	0.0
ROA	%	33.3	17.7	15.7	15.0
ROE	%	67.0	25.1	18.7	16.7
EV/EBITDA	x	7.7	9.4	9.0	8.3
Net debt/equity	%	50.4	55.1	37.1	24.7
Price/book	x	3.1	2.4	2.0	1.7

DLFU IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Moving in the right direction

Event

- We review our NAV estimates and target prices for all developers under our coverage. We maintain our Neutral recommendation on DLF.

Impact

- We increase our target price to Rs322 from Rs225 to account for the following factors:
  - ⇒ We have adjusted our price/rent and cap-rate assumptions based on the latest observations in the physical market. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets. We are now assuming cap-rates of 12–13% vs 13–14% earlier. We have also made minor changes in our WACC assumptions to account for the changes in the macro environment. Our NAV estimates have been adjusted to reflect this.
  - ⇒ Our NAV calculation continues to incorporate the value of assets for sale including wind power assets, convention centre, etc. It also reflects rental revenues which can be securitised and lower outstanding land payments, due to strategic exits from mega-projects.
- 4Q FY09 saw residential sales volumes fall to their lowest level in the last three years. This is because mortgage rates had not fallen along with policy rates. Consumers were also postponing their buying decisions due to expectations of a significant decline in property prices. We have seen a pick-up in sales volumes in individual markets after the weak fourth quarter. Many developers across north, south and west India have seen pick-up in mid-income residential property. This was driven by 25-30% price cuts by developers. At rates prevailing during the period, volumes had dried up. However, a combination of price cuts and mortgage rate cuts by banks has resulted in volume pick-up.

Earnings and target price revision

- We have increased our NAV estimate by 18% to Rs379. This cut is attributed to the factors discussed above. Our target NAV discount has been decreased to 15% from 30% earlier.
- We have increased our FY10E EPS by 8% to Rs30.7. We have raised our target price to Rs322 from Rs225.

Price catalyst

- 12-month price target: Rs322.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices/ rents, fund raising.

Action and recommendation

- DLF has now come out of ‘the boy who cried wolf’ phase with its capital raising in May 2009 and partial resolution of the DLF/DAL structure. The de-leveraging story is clearly underway. From an asset sales and operating cash flow perspective, initial signs are encouraging. We will wait for more indication of a pick-up in cash inflow before we revisit our thesis on DLF.

DLF (DLFU IN, Neutral, Target price: Rs322.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	144,375	119,951	128,380	151,205
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**144,375**	**119,951**	**128,380**	**151,205**
Management Fees	m	0	0	0	0
Other Expenses	m	-47,224	-40,728	-45,957	-61,438
EBITDA	**m**	**97,151**	**79,223**	**82,423**	**89,767**
Dep & Amortisation	m	901	1,596	2,923	3,500
EBIT	**m**	**96,250**	**77,627**	**79,500**	**86,267**
Net Interest Income	m	-3,100	-11,111	-17,050	-18,600
Associates	m	0	0	0	0
Exceptionals	m	252	0	0	0
Other Pre-Tax Income	m	2,464	2,500	2,676	3,151
Pre-Tax Profit	**m**	**95,866**	**69,016**	**65,126**	**70,818**
Tax Expense	m	-17,391	-12,504	-13,025	-15,580
Net Profit	**m**	**78,475**	**56,512**	**52,101**	**55,238**
Minority Interests	m	-355	0	0	0
Reported Earnings	**m**	**78,120**	**56,512**	**52,101**	**55,238**
Adjusted Earnings	**m**	**77,869**	**56,512**	**52,101**	**55,238**
EPS (rep)		45.82	33.15	30.70	32.55
EPS (adj)		45.68	33.15	30.70	32.55
EPS Growth (adj)	%	261.2	-27.4	-7.4	6.0
PE (rep)	x	7.7	10.7	11.5	10.9
PE (adj)	x	7.7	10.7	11.5	10.9
Total DPS		4.68	0.00	0.00	0.00
Total Div Yield	%	1.3	0.0	0.0	0.0
Weighted Average Shares	m	1,705	1,705	1,697	1,697
Period End Shares	m	1,705	1,705	1,697	1,697

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	448.0	-16.9	7.0	17.8
EBITDA Growth	%	553.5	-18.5	4.0	8.9
EBIT Growth	%	573.6	-19.3	2.4	8.5
EBITDA Margins	%	67.3	66.0	64.2	59.4
EBIT Margins	%	66.7	64.7	61.9	57.1
Net Profit Margins	%	54.4	47.1	40.6	36.5
Payout Ratio	%	10.2	0.0	0.0	0.0
EV/EBITDA	x	7.7	9.4	9.0	8.3
EV/EBIT	x	7.7	9.6	9.3	8.6
Balance Sheet Ratios					
ROE	%	67.0	25.1	18.7	16.7
ROA	%	33.3	17.7	15.7	15.0
ROIC	%	60.4	21.1	15.9	15.9
Net Debt/Equity	%	50.4	55.1	37.1	24.7
Interest Cover	x	31.0	7.0	4.7	4.6
Price/Book	x	3.1	2.4	2.0	1.7
Book Value per Share		115.5	148.6	179.2	211.7

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**97,151**	**79,223**	**82,423**	**89,767**
Tax Paid	m	-17,391	-12,504	-13,025	-15,580
Chg in Working Capital	m	-94,305	-95,717	-20,351	-18,811
Net Interest Paid	m	-3,100	-11,111	-17,050	-18,600
Other	m	194	126	131	157
Operating Cashflow	**m**	**-17,452**	**-39,983**	**32,128**	**36,933**
Acquisitions	m	-6,995	0	0	0
Capex	m	0	-3,127	-5,563	-15,683
Asset Sales	m	-59,203	0	0	0
Other	m	2,464	2,500	2,676	3,151
Investing Cashflow	**m**	**-63,734**	**-627**	**-2,888**	**-12,532**
Dividend (Ordinary)	m	-7,981	0	0	0
Equity Raised	m	348	0	-15	0
Debt Movements	m	23,444	32,229	0	0
Other	m	90,833	0	-1,392	-0
Financing Cashflow	**m**	**106,645**	**32,229**	**-1,407**	**-0**
Net Chg in Cash/Debt	**m**	**25,459**	**-8,381**	**27,834**	**24,402**
Free Cashflow	**m**	**-17,452**	**-43,110**	**26,565**	**21,250**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	22,028	13,648	41,481	65,883
Receivables	m	76,106	131,453	140,690	165,704
Inventories	m	94,544	131,453	140,690	165,704
Investments	m	100,031	101,562	104,203	116,386
Fixed Assets	m	0	0	0	0
Intangibles	m	20,931	20,931	20,931	20,931
Other Assets	m	82,424	82,424	82,424	82,424
Total Assets	**m**	**396,065**	**481,471**	**530,419**	**617,032**
Payables	m	42,639	39,179	37,302	68,519
Short Term Debt	m	0	0	0	0
Long Term Debt	m	123,130	155,485	155,617	155,774
Provisions	m	29,518	29,518	29,518	29,518
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**195,287**	**224,182**	**222,436**	**253,810**
Shareholders' Funds	m	196,883	253,395	304,088	359,327
Minority Interests	m	3,895	3,895	3,895	3,895
Total S/H Equity	**m**	**200,777**	**257,289**	**307,983**	**363,221**
Total Liab & S/H Funds	**m**	**396,065**	**481,471**	**530,419**	**617,032**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

INDIA

MLIFE

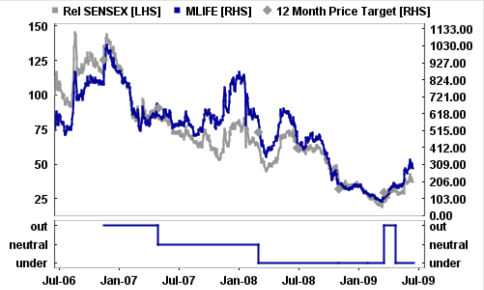
18 June 2009

MLIFE IN		**Underperform**
Stock price as of 16 Jun 09	Rs	306.25
12-month target	Rs	209.00
Upside/downside	%	-31.8
Valuation	Rs	297.96
- DCF (WACC 15.1%)		
GICS sector		real estate
Market cap	Rs m	12,498
30-day avg turnover	US$m	0.7
Market cap	US$m	262
Number shares on issue	m	40.81

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	2,310.8	3,422.0	4,888.5	7,552.8
EBIT	m	612.5	759.9	962.1	1,240.5
EBIT Growth	%	117.2	24.1	26.6	28.9
Recurring profit	m	926.5	788.7	1,162.3	1,752.2
Reported profit	m	664.1	495.9	742.8	1,132.7
Adjusted profit	m	664.1	495.9	742.8	1,132.7
EPS rep	Rs	16.27	12.15	18.20	27.76
EPS rep growth	%	264.4	-25.3	49.8	52.5
EPS adj	Rs	16.27	12.15	18.20	27.76
EPS adj growth	%	264.4	-25.3	49.8	52.5
PE rep	x	18.8	25.2	16.8	11.0
PE adj	x	18.8	25.2	16.8	11.0
Total DPS	Rs	0.000	0.000	0.000	0.000
Total DPS growth	%	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	5.4	5.7	6.8	7.8
ROE	%	8.5	5.8	8.2	11.6
EV/EBITDA	x	16.1	12.8	10.0	7.9
Net debt/equity	%	-7.8	-21.4	-27.7	-15.5
Price/book	x	1.5	1.4	1.3	1.2

MLIFE IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Too many eggs in the SEZ basket

Event

- We review our NAV estimate and target price for Mahindra Lifespace (MLIFE). MLIFE is a play on a recovery in export markets and GDP growth. We raise our target price by 50% to Rs209. However, we believe that the potential upgrades due to the pick-up in interest in its SEZs (notably Jaipur) are already factored into the current stock price after the recent rally. We maintain our Underperform rating.

Impact

- We adjust our target price to Rs209 from Rs139 to account for the following:
  - ⇒ We have adjusted our price/ rent and cap-rate assumptions based on latest observations in the physical market. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets. We are now assuming cap rates of 12–13% vs 13–14% earlier. We have also made minor changes in our WACC assumptions to account for the changes in the macro environment. Our NAV estimates have been adjusted to reflect this.
- MLIFE's largest projects are the special economic zones (SEZs). As mentioned earlier, this exposure makes MLIFE a play on a recovery in export markets and GDP growth. In the near term, the largest driver of NAV upgrades would be the Jaipur SEZ project (in north-west India). Our channel checks indicate that the enquiries for space in two sections of the project, ie, 'IT/ IT enabled services' and 'gems and jewellery' have improved. While this is an encouraging sign, the core export markets remain under pressure. At some stage in the next 6-12 months, the value in this project will emerge as GDP recovers. However, in the meanwhile, physical progress at the project and hence stock triggers are likely to remain limited.

Earnings and target price revision

- We have increased our NAV estimate by 29% to Rs298. This upgrade is attributed to the factors discussed above. Our target NAV discount has been decreased to 30% from 40% earlier.
- We increase our PAT estimate for FY11E by 8% to Rs1.1bn. Our target price has been raised to Rs209 from Rs139.

Price catalyst

- 12-month price target: Rs209.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices.

Action and recommendation

- MLIFE's net cash balance sheet provides comfort regarding funding issues. However, the product mix remains unfavourable, in our view. SEZs account for nearly all of MLIFE's land bank, and off-take remains uncertain in a slowing growth environment. Combined with a modest-size land bank for its non-SEZ projects, we think this limits the company's flexibility to shift its focus toward more lucrative opportunities at any given time.

Mahindra Lifespace Developers Ltd (MLIFE IN, Underperform, Target price: Rs209.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	2,311	3,422	4,888	7,553
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**2,311**	**3,422**	**4,888**	**7,553**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,657	-2,596	-3,839	-6,216
EBITDA	**m**	**654**	**826**	**1,049**	**1,337**
Dep & Amortisation	m	42	67	87	97
EBIT	**m**	**613**	**760**	**962**	**1,240**
Net Interest Income	m	-21	-371	-371	-371
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	335	400	571	883
Pre-Tax Profit	**m**	**926**	**789**	**1,162**	**1,752**
Tax Expense	m	-237	-267	-394	-594
Net Profit	**m**	**690**	**521**	**768**	**1,158**
Minority Interests	m	-25	-25	-25	-25
Reported Earnings	**m**	**664**	**496**	**743**	**1,133**
Adjusted Earnings	**m**	**664**	**496**	**743**	**1,133**
EPS (rep)		16.27	12.15	18.20	27.76
EPS (adj)		16.27	12.15	18.20	27.76
EPS Growth (adj)	%	264.4	-25.3	49.8	52.5
PE (rep)	x	18.8	25.2	16.8	11.0
PE (adj)	x	18.8	25.2	16.8	11.0
Total DPS		0.00	0.00	0.00	0.00
Total Div Yield	%	0.0	0.0	0.0	0.0
Weighted Average Shares	m	41	41	41	41
Period End Shares	m	41	41	41	41

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	6.8	48.1	42.9	54.5
EBITDA Growth	%	112.1	26.3	27.0	27.4
EBIT Growth	%	117.2	24.1	26.6	28.9
EBITDA Margins	%	28.3	24.2	21.5	17.7
EBIT Margins	%	26.5	22.2	19.7	16.4
Net Profit Margins	%	29.8	15.2	15.7	15.3
Payout Ratio	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	16.1	12.8	10.0	7.9
EV/EBIT	x	17.2	13.9	11.0	8.5
Balance Sheet Ratios					
ROE	%	8.5	5.8	8.2	11.6
ROA	%	5.4	5.7	6.8	7.8
ROIC	%	9.3	6.2	8.8	11.6
Net Debt/Equity	%	-7.8	-21.4	-27.7	-15.5
Interest Cover	x	28.8	2.0	2.6	3.3
Price/Book	x	1.5	1.4	1.3	1.2
Book Value per Share		203.6	213.5	228.4	251.1

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**654**	**826**	**1,049**	**1,337**
Tax Paid	m	-237	-267	-394	-594
Chg in Working Capital	m	-2,679	1,486	205	-1,850
Net Interest Paid	m	-21	-371	-371	-371
Other	m	-51	47	81	134
Operating Cashflow	**m**	**-2,334**	**1,720**	**570**	**-1,344**
Acquisitions	m	-10	0	0	0
Capex	m	-461	-682	-147	-227
Asset Sales	m	0	0	0	0
Other	m	335	400	571	883
Investing Cashflow	**m**	**-136**	**-282**	**425**	**656**
Dividend (Ordinary)	m	-132	-90	-136	-207
Equity Raised	m	9	0	0	0
Debt Movements	m	2,374	0	0	0
Other	m	710	0	0	-0
Financing Cashflow	**m**	**2,961**	**-90**	**-136**	**-207**
Net Chg in Cash/Debt	**m**	**492**	**1,347**	**859**	**-894**
Free Cashflow	**m**	**-2,795**	**1,038**	**423**	**-1,570**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	3,570	4,918	5,777	4,883
Receivables	m	447	662	946	1,461
Inventories	m	6,626	4,688	4,688	7,242
Investments	m	1,078	1,694	1,753	1,883
Fixed Assets	m	0	0	0	0
Intangibles	m	0	0	0	0
Other Assets	m	1,589	1,589	1,589	1,589
Total Assets	**m**	**13,310**	**13,549**	**14,752**	**17,058**
Payables	m	1,398	1,160	1,649	2,869
Short Term Debt	m	0	0	0	0
Long Term Debt	m	2,889	2,961	3,067	3,226
Provisions	m	268	268	268	268
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**4,554**	**4,389**	**4,984**	**6,364**
Shareholders' Funds	m	8,307	8,712	9,319	10,245
Minority Interests	m	449	449	449	449
Total S/H Equity	**m**	**8,755**	**9,161**	**9,768**	**10,694**
Total Liab & S/H Funds	**m**	**13,310**	**13,549**	**14,752**	**17,058**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

INDIA

APIL

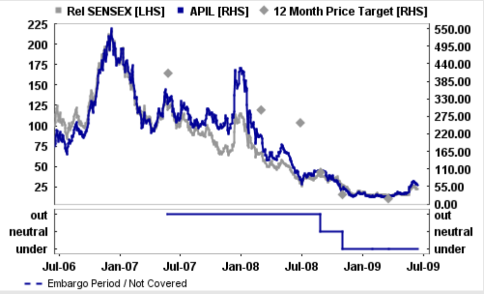
18 June 2009

APIL IN		**Underperform**
Stock price as of 16 Jun 09	Rs	63.25
12-month target	Rs	38.00
Upside/downside	%	-39.9
Valuation	Rs	57.87
- DCF (WACC 15.1%)		
GICS sector		real estate
Market cap	Rs m	7,232
30-day avg turnover	US$m	1.1
Market cap	US$m	151
Number shares on issue	m	114.3

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	9,881	8,403	8,112	10,265
EBIT	m	2,431	1,487	-464	-4,433
EBIT Growth	%	18.9	-38.8	nmf	-856.4
Recurring profit	m	2,460	380	-1,687	-5,931
Reported profit	m	1,740	285	-1,687	-5,931
Adjusted profit	m	1,740	285	-1,687	-5,931
EPS rep	Rs	15.33	2.51	-14.86	-52.25
EPS rep growth	%	25.5	-83.6	0.0	-251.7
EPS adj	Rs	15.33	2.51	-14.86	-52.25
EPS adj growth	%	25.5	-83.6	nmf	-251.7
PE rep	x	4.1	25.2	nmf	nmf
PE adj	x	4.1	25.2	nmf	nmf
Total DPS	Rs	1.462	0.000	0.000	0.000
Total DPS growth	%	44.43	0.00	0.00	0.00
Total div yield	%	2.3	0.0	0.0	0.0
ROA	%	8.5	4.2	-1.3	-10.7
ROE	%	16.4	2.4	-14.9	-79.0
EV/EBITDA	x	6.4	10.2	-47.1	-3.8
Net debt/equity	%	73.8	73.4	74.0	208.6
Price/book	x	0.6	0.6	0.7	1.6

APIL IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Sell into strength

Event

- We review our NAV estimates and target prices for all of the developers under our coverage. We maintain our Underperform rating on APIL.

Impact

- **Target prices adjusted across the property sector:** Within the sector, we adjust our target prices. We have adjusted our price/rent and cap rate assumptions based on the latest observations in the physical market. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets. We are now assuming cap rates of 12–13% vs 13–14% earlier. We have also made minor changes in our WACC assumptions to account for the changes in the macro environment. Our NAV estimates have been adjusted to reflect this.
- **Some projects left out of valuation:** A full 100% of APIL's land bank (~240m sq ft) is accounted for by projects in northern India. This is the area that has seen rapid price rises and even more rapid project launches in the past three to five years. And now this is also the area that is facing serious pressure in both prices and sales volumes. The scenario is exacerbated by a surge in secondary market supply, as speculators try to exit properties bought in the past three years. As a result, we believe that some of APIL's land bank is not liquid. We therefore leave some of the company's projects in Lucknow, Punjab and Haryana out of our NAV calculation.
- We now value APIL based on NAV. We were earlier valuing APIL using a liquidation value methodology. Recent mass market housing project launches in Dadri, Lucknow and the NCR have led to some cash inflow. The company has also been able to refinance some of its debt obligations. The (slightly) enhanced visibility has led to the change in the way we value the company.

Earnings and target price revision

- Our NAV estimate now stands at Rs58. Prior to this report, our valuation (based on liquidation value methodology) was Rs17 per share. We also revise our loss estimate for FY10 to Rs1,687m from Rs585mn on account of factors discussed above. Our target NAV discount is 40% – in line with other mid-cap property names in our coverage, which have similar qualitative characteristics.
- We raise our target price from Rs17 to Rs38.

Price catalyst

- 12-month price target: Rs38.00 based on a Other methodology.
- Catalyst: Macro factors, data points on sales volumes and fund raising.

Action and recommendation

- We maintain our Underperform recommendation on APIL. Our biggest concerns are its unfavourable product mix and high leverage. APIL's entire NAV and land bank is accounted for by projects in northern India. This concentrated land bank limits its ability to shift focus if this market experiences a slowdown.

Ansal Properties & Infrastructure (APIL IN, Underperform, Target price: Rs38.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	9,881	8,403	8,112	10,265
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**9,881**	**8,403**	**8,112**	**10,265**
Management Fees	m	0	0	0	0
Other Expenses	m	-7,366	-6,824	-8,455	-14,525
EBITDA	**m**	**2,515**	**1,579**	**-343**	**-4,260**
Dep & Amortisation	m	84	91	121	174
EBIT	**m**	**2,431**	**1,487**	**-464**	**-4,433**
Net Interest Income	m	-203	-1,305	-1,414	-1,739
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Other Pre-Tax Income	m	232	197	191	241
Pre-Tax Profit	**m**	**2,460**	**380**	**-1,687**	**-5,931**
Tax Expense	m	-720	-95	0	0
Net Profit	**m**	**1,740**	**285**	**-1,687**	**-5,931**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**1,740**	**285**	**-1,687**	**-5,931**
Adjusted Earnings	**m**	**1,740**	**285**	**-1,687**	**-5,931**
EPS (rep)		15.33	2.51	-14.86	-52.25
EPS (adj)		15.33	2.51	-14.86	-52.25
EPS Growth (adj)	%	25.5	-83.6	nmf	-251.7
PE (rep)	x	4.1	25.2	nmf	nmf
PE (adj)	x	4.1	25.2	nmf	nmf
Total DPS		1.46	0.00	0.00	0.00
Total Div Yield	%	2.3	0.0	0.0	0.0
Weighted Average Shares	m	114	114	114	114
Period End Shares	m	114	114	114	114

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	15.4	-15.0	-3.5	26.5
EBITDA Growth	%	20.8	-37.2	nmf	-1,142.3
EBIT Growth	%	18.9	-38.8	nmf	-856.4
EBITDA Margins	%	25.5	18.8	-4.2	-41.5
EBIT Margins	%	24.6	17.7	-5.7	-43.2
Net Profit Margins	%	17.6	3.4	-20.8	-57.8
Payout Ratio	%	9.5	0.0	nmf	nmf
EV/EBITDA	x	6.4	10.2	-47.1	-3.8
EV/EBIT	x	6.6	10.9	-34.8	-3.6
Balance Sheet Ratios					
ROE	%	16.4	2.4	-14.9	-79.0
ROA	%	8.5	4.2	-1.3	-10.7
ROIC	%	14.8	5.4	-2.2	-24.2
Net Debt/Equity	%	73.8	73.4	74.0	208.6
Interest Cover	x	12.0	1.1	-0.3	-2.6
Price/Book	x	0.6	0.6	0.7	1.6
Book Value per Share		104.6	107.2	92.3	40.0

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**2,515**	**1,579**	**-343**	**-4,260**
Tax Paid	m	-720	-95	0	0
Chg in Working Capital	m	-8,061	-555	3,912	4,915
Net Interest Paid	m	-203	-1,305	-1,414	-1,739
Other	m	-80	0	0	0
Operating Cashflow	**m**	**-6,549**	**-376**	**2,155**	**-1,083**
Acquisitions	m	-3	0	0	0
Capex	m	-1,061	0	-1,167	-951
Asset Sales	m	0	0	0	0
Other	m	232	197	191	241
Investing Cashflow	**m**	**-832**	**197**	**-976**	**-710**
Dividend (Ordinary)	m	-166	0	0	0
Equity Raised	m	284	0	0	0
Debt Movements	m	6,154	0	0	5,000
Other	m	606	10	-0	0
Financing Cashflow	**m**	**6,879**	**10**	**-0**	**5,000**
Net Chg in Cash/Debt	**m**	**-503**	**-168**	**1,179**	**3,206**
Free Cashflow	**m**	**-7,610**	**-376**	**988**	**-2,035**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	2,083	1,915	3,093	6,300
Receivables	m	4,285	4,144	4,000	5,062
Inventories	m	15,566	16,691	15,557	19,686
Investments	m	1,549	1,457	2,504	3,281
Fixed Assets	m	0	0	0	0
Intangibles	m	0	0	0	0
Other Assets	m	11,527	11,527	11,527	11,527
Total Assets	**m**	**35,009**	**35,734**	**36,682**	**45,856**
Payables	m	11,887	12,317	14,951	25,056
Short Term Debt	m	0	0	0	0
Long Term Debt	m	10,873	10,873	10,873	15,873
Provisions	m	338	338	338	338
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**23,098**	**23,527**	**26,162**	**41,267**
Shareholders' Funds	m	11,867	12,163	10,476	4,545
Minority Interests	m	44	44	44	44
Total S/H Equity	**m**	**11,911**	**12,206**	**10,520**	**4,589**
Total Liab & S/H Funds	**m**	**35,009**	**35,734**	**36,682**	**45,856**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

INDIA

Akruti City

18 June 2009

AKCL IN		**Underperform**
Stock price as of 16 Jun 09	Rs	557.45
12-month target	Rs	364.00
Upside/downside	%	-34.7
Valuation	Rs	560.41
- DCF (WACC 16.2%)		
GICS sector		real estate
Market cap	Rs m	37,182
30-day avg turnover	US$m	0.5
Market cap	US$m	779
Number shares on issue	m	66.70

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	4,397	7,594	14,548	14,868
EBIT	m	3,669	4,376	9,789	10,028
EBIT Growth	%	268.1	19.3	123.7	2.4
Recurring profit	m	3,413	4,304	10,022	10,284
Reported profit	m	2,992	3,770	8,520	8,742
Adjusted profit	m	2,995	3,770	8,520	8,742
EPS rep	Rs	44.86	56.52	127.73	131.07
EPS rep growth	%	287.5	26.0	126.0	2.6
EPS adj	Rs	44.90	56.52	127.73	131.07
EPS adj growth	%	286.0	25.9	126.0	2.6
PE rep	x	12.4	9.9	4.4	4.3
PE adj	x	12.4	9.9	4.4	4.3
Total DPS	Rs	2.925	0.000	0.000	0.000
Total DPS growth	%	66.67	0.00	0.00	0.00
Total div yield	%	0.5	0.0	0.0	0.0
ROA	%	25.1	21.1	35.3	27.4
ROE	%	46.0	38.5	53.7	35.7
EV/EBITDA	x	12.0	10.0	4.5	4.4
Net debt/equity	%	98.5	65.2	26.9	-12.6
Price/book	x	4.7	3.2	1.8	1.3

AKCL IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Risk/return dynamics not favourable

Event

- We review our NAV estimates and target prices for all of the developers under our coverage. We maintain our Underperform recommendation on Akruti City.

Impact

- We increase our target price for Akruti City to Rs364 from Rs250 to account for the following factors:
  - ⇒ We have adjusted our price/rent and cap-rate assumptions based on the latest observations in the physical market. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets. We are now assuming cap rates of 12–13% vs 13–14% earlier. We have also made changes to our WACC assumptions to account for the changes in macro parameters. Our NAV estimates have been adjusted to reflect this.
  - ⇒ 4Q FY09 saw residential sales volumes fall to their lowest level in the last three years. This is because mortgage rates had not fallen along with policy rates. Consumers had also postponed their buying decisions due to expectations of a significant decline in property prices. We have seen a pick-up in sales volumes in individual markets after the weak fourth quarter. Many developers across north, south and west India have seen a pick-up in mid-income residential property. This was driven by 25–30% price cuts by developers. At the then prevailing rates, volumes had dried up. However, the combination of price cut and mortgage rate cut by banks has resulted in a volume pick-up.

Earnings and target price revision

- We have increased our NAV estimate by 12% to Rs560, due to the factors discussed above. Our target NAV discount has been decreased to 35% from 50% earlier. Our new target price is Rs364 vs Rs250 previously.
- We revise our FY10E EPS upwards by 4% to Rs127.70.

Price catalyst

- 12-month price target: Rs364.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and fund raising.

Action and recommendation

- We maintain our Underperform recommendation on Akruti City due to its unfavourable product mix, ie, its residential-heavy model.
- We raise our target price by 46% to Rs364 but maintain our rating. Visibility on execution of projects and on leverage is our other major concern.

Akruti City (AKCL IN, Underperform, Target price: Rs364.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	4,397	7,594	14,548	14,868
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**4,397**	**7,594**	**14,548**	**14,868**
Management Fees	m	0	0	0	0
Other Expenses	m	-659	-3,118	-4,659	-4,740
EBITDA	**m**	**3,738**	**4,476**	**9,889**	**10,129**
Dep & Amortisation	m	69	100	100	100
EBIT	**m**	**3,669**	**4,376**	**9,789**	**10,028**
Net Interest Income	m	-615	-602	-782	-782
Associates	m	0	0	0	0
Exceptionals	m	-2	0	0	0
Other Pre-Tax Income	m	360	530	1,016	1,038
Pre-Tax Profit	**m**	**3,411**	**4,304**	**10,022**	**10,284**
Tax Expense	m	-419	-535	-1,503	-1,543
Net Profit	**m**	**2,992**	**3,769**	**8,519**	**8,741**
Minority Interests	m	1	1	1	1
Reported Earnings	**m**	**2,992**	**3,770**	**8,520**	**8,742**
Adjusted Earnings	**m**	**2,995**	**3,770**	**8,520**	**8,742**
EPS (rep)		44.86	56.52	127.73	131.07
EPS (adj)		44.90	56.52	127.73	131.07
EPS Growth (adj)	%	286.0	25.9	126.0	2.6
PE (rep)	x	12.4	9.9	4.4	4.3
PE (adj)	x	12.4	9.9	4.4	4.3
Total DPS		2.92	0.00	0.00	0.00
Total Div Yield	%	0.5	0.0	0.0	0.0
Weighted Average Shares	m	67	67	67	67
Period End Shares	m	67	67	67	67

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	132.1	72.7	91.6	2.2
EBITDA Growth	%	253.0	19.7	120.9	2.4
EBIT Growth	%	268.1	19.3	123.7	2.4
EBITDA Margins	%	85.0	58.9	68.0	68.1
EBIT Margins	%	83.4	57.6	67.3	67.4
Net Profit Margins	%	68.0	49.6	58.6	58.8
Payout Ratio	%	6.5	0.0	0.0	0.0
EV/EBITDA	x	12.0	10.0	4.5	4.4
EV/EBIT	x	12.2	10.2	4.6	4.5
Balance Sheet Ratios					
ROE	%	46.0	38.5	53.7	35.7
ROA	%	25.1	21.1	35.3	27.4
ROIC	%	48.4	24.2	43.3	33.3
Net Debt/Equity	%	98.5	65.2	26.9	-12.6
Interest Cover	x	6.0	7.3	12.5	12.8
Price/Book	x	4.7	3.2	1.8	1.3
Book Value per Share		119.4	174.2	301.9	433.0

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**3,738**	**4,476**	**9,889**	**10,129**
Tax Paid	m	-419	-535	-1,503	-1,543
Chg in Working Capital	m	-7,500	-3,383	-6,450	221
Net Interest Paid	m	-615	-602	-782	-782
Other	m	54	12	32	33
Operating Cashflow	**m**	**-4,742**	**-31**	**1,186**	**8,058**
Acquisitions	m	-1,447	0	0	0
Capex	m	-321	-95	0	0
Asset Sales	m	0	0	0	0
Other	m	307	530	1,016	1,038
Investing Cashflow	**m**	**-1,461**	**435**	**1,016**	**1,038**
Dividend (Ordinary)	m	-195	0	0	0
Equity Raised	m	113	-113	0	0
Debt Movements	m	3,413	1,000	0	0
Other	m	24	0	0	0
Financing Cashflow	**m**	**3,355**	**887**	**0**	**0**
Net Chg in Cash/Debt	**m**	**-2,848**	**1,291**	**2,202**	**9,096**
Free Cashflow	**m**	**-5,063**	**-127**	**1,186**	**8,058**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	434	1,725	3,927	13,023
Receivables	m	1,103	1,905	2,989	2,037
Inventories	m	4,245	6,762	12,954	13,239
Investments	m	2,247	2,247	2,247	2,247
Fixed Assets	m	0	0	0	0
Intangibles	m	0	0	0	0
Other Assets	m	10,397	10,392	10,292	10,192
Total Assets	**m**	**18,426**	**23,031**	**32,409**	**40,737**
Payables	m	1,549	1,485	2,312	1,865
Short Term Debt	m	0	0	0	0
Long Term Debt	m	8,298	9,310	9,341	9,373
Provisions	m	598	598	598	598
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**10,445**	**11,392**	**12,250**	**11,836**
Shareholders' Funds	m	7,962	11,619	20,139	28,881
Minority Interests	m	20	20	20	20
Total S/H Equity	**m**	**7,982**	**11,639**	**20,159**	**28,901**
Total Liab & S/H Funds	**m**	**18,426**	**23,031**	**32,409**	**40,737**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

INDIA

Provogue

18 June 2009

PROV IN	**Underperform**

Stock price as of 16 Jun 09	Rs	54.45
12-month target	Rs	45.00
Upside/downside	%	-17.4
Valuation	Rs	62.00
- DCF (WACC 15.1%)		

GICS sector	consumer durables & apparel	
Market cap	Rs m	5,562
30-day avg turnover	US$m	0.4
Market cap	US$m	117
Number shares on issue	m	102.2

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	3,378.2	4,664.6	6,410.1	8,297.7
EBIT	m	359.6	403.8	590.3	763.9
EBIT Growth	%	32.4	12.3	46.2	29.4
Recurring profit	m	313.6	354.5	420.9	505.4
Reported profit	m	249.5	282.1	334.9	402.1
Adjusted profit	m	249.5	282.1	334.9	402.1
EPS rep	Rs	2.50	2.80	3.32	3.99
EPS rep growth	%	24.5	12.0	18.7	20.1
EPS adj	Rs	2.50	2.80	3.32	3.99
EPS adj growth	%	24.5	12.0	18.7	20.1
PE rep	x	21.8	19.5	16.4	13.7
PE adj	x	21.8	19.5	16.4	13.7
Total DPS	Rs	0.47	0.52	0.62	0.75
Total div yield	%	0.9	1.0	1.1	1.4
ROA	%	5.5	4.3	5.5	6.2
ROE	%	6.8	6.0	6.5	7.4
EV/EBITDA	x	18.7	15.0	10.5	7.9
Net debt/equity	%	23.8	56.7	73.3	87.0
Price/book	x	1.2	1.1	1.0	1.0

PROV IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

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Value unlocking may be distant

Event

- We review our NAV estimate and target price for all developers under our coverage. We downgrade our rating for Provogue to Underperform from Outperform. In our view, while the company's projects continue to hold significant value, the lack of triggers in the immediate term is a concern.

Impact

- We adjust our target price to Rs45 from Rs65 to account for the following factors.
    - ⇒ We have adjusted our price/rent and cap-rate assumptions based on the latest observations in the physical market. While there were no major surprises, we have adjusted our price assumptions by 2–4% across markets.
    - ⇒ Specifically in the case of Provogue, we have assumed a further delay of 6–9 months due to the lower absorption of retail space. This is due to a fall in demand for fresh retail space, especially in tier 2 towns in India.
- We are now assuming cap-rates of 12% versus 13% earlier. Our NAV estimates have been adjusted to reflect this. We have also made minor changes in our WACC assumptions to account for the changes in the macro environment.

Earnings and target price revision

- We have reduced our NAV estimate by 35% to Rs62. This cut accounts for the factors discussed above. Our target NAV discount has been decreased to 35% from 40% earlier.
- Our target price has been reduced to Rs45 from Rs65.

Price catalyst

- 12-month price target: Rs45.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on retail rents and absorption, fund raising.

Action and recommendation

- We downgrade Provogue to Underperform from Outperform. The stock has rallied 112% in the past three months. We cut our target price to Rs45 from Rs65. While Provogue's net cash position (due to its recent capital raising) and execution of its JV (with Liberty) reduce operational risk, stock price triggers are 2-3 quarters away, in our view.
- Due to exposure to tier 2 and tier 3 cities, we believe there will be delays in the shopping centres becoming operational. While there is value in retail real estate projects, we believe that positive stock price triggers due to the centres becoming operational are at-least 2-3 quarters away.

Provogue (PROV IN, Underperform, Target price: Rs45.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Revenue	**m**	**3,378**	**4,665**	**6,410**	**8,298**
Gross Profit	**m**	**1,559**	**2,132**	**3,028**	**3,983**
Cost of Goods Sold	m	1,820	2,533	3,382	4,315
EBITDA	**m**	**444**	**557**	**795**	**1,062**
Depreciation	m	84	153	204	298
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**360**	**404**	**590**	**764**
Net Interest Income	m	-120	-150	-308	-438
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	74	101	139	180
Pre-Tax Profit	**m**	**314**	**355**	**421**	**505**
Tax Expense	m	-64	-72	-86	-103
Net Profit	**m**	**250**	**282**	**335**	**402**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**250**	**282**	**335**	**402**
Adjusted Earnings	**m**	**250**	**282**	**335**	**402**
EPS (rep)		2.50	2.80	3.32	3.99
EPS (adj)		2.50	2.80	3.32	3.99
EPS Growth (adj)	%	24.5	12.0	18.7	20.1
PE (rep)	x	21.8	19.5	16.4	13.7
PE (adj)	x	21.8	19.5	16.4	13.7
Total DPS		0.47	0.52	0.62	0.75
Total Div Yield	%	0.9	1.0	1.1	1.4
Weighted Average Shares	m	100	101	101	101
Period End Shares	m	100	101	101	101

Profit and Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	41.3	38.1	37.4	29.4
EBITDA Growth	%	38.7	25.4	42.7	33.7
EBIT Growth	%	32.4	12.3	46.2	29.4
Gross Profit Margin	%	46.1	45.7	47.2	48.0
EBITDA Margin	%	13.1	11.9	12.4	12.8
EBIT Margin	%	10.6	8.7	9.2	9.2
Net Profit Margin	%	7.4	6.0	5.2	4.8
Payout Ratio	%	18.7	18.7	18.7	18.7
EV/EBITDA	x	18.7	15.0	10.5	7.9
EV/EBIT	x	23.0	20.6	14.1	10.9
Balance Sheet Ratios					
ROE	%	6.8	6.0	6.5	7.4
ROA	%	5.5	4.3	5.5	6.2
ROIC	%	11.7	4.6	6.0	6.6
Net Debt/Equity	%	23.8	56.7	73.3	87.0
Interest Cover	x	3.0	2.7	1.9	1.7
Price/Book	x	1.2	1.1	1.0	1.0
Book Value per Share		44.6	49.7	52.4	55.6

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**444**	**557**	**795**	**1,062**
Tax Paid	m	-64	-72	-86	-103
Chgs in Working Cap	m	-856	-484	-773	-660
Net Interest Paid	m	-120	-150	-308	-438
Other	m	9	0	-0	-0
Operating Cashflow	**m**	**-588**	**-149**	**-372**	**-139**
Acquisitions	m	1	0	0	0
Capex	m	-3,412	-513	-733	-975
Asset Sales	m	0	0	0	0
Other	m	74	101	139	180
Investing Cashflow	**m**	**-3,336**	**-412**	**-594**	**-795**
Dividend (Ordinary)	m	-47	-53	-63	-75
Equity Raised	m	-32	-39	0	0
Debt Movements	m	1,552	1,190	1,029	1,010
Other	m	1,405	363	-0	0
Financing Cashflow	**m**	**2,879**	**1,461**	**966**	**935**
Net Chg in Cash/Debt	**m**	**-1,045**	**901**	**0**	**0**
Free Cashflow	**m**	**-3,999**	**-662**	**-1,105**	**-1,114**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	800	493	493	493
Receivables	m	779	1,086	1,492	1,931
Inventories	m	1,537	2,142	2,855	3,410
Investments	m	24	24	24	24
Fixed Assets	m	3,957	4,317	4,845	5,522
Intangibles	m	383	383	383	383
Other Assets	m	1,403	1,403	1,403	1,403
Total Assets	**m**	**8,883**	**9,847**	**11,495**	**13,166**
Payables	m	827	1,255	1,603	1,937
Short Term Debt	m	1,074	1,074	1,074	1,074
Long Term Debt	m	1,072	2,262	3,291	4,301
Provisions	m	169	169	169	169
Other Liabilities	m	75	75	75	75
Total Liabilities	**m**	**3,217**	**4,835**	**6,211**	**7,556**
Shareholders' Funds	m	4,458	5,012	5,284	5,610
Minority Interests	m	1,208	0	0	0
Other	m	0	0	0	0
Total S/H Equity	**m**	**5,666**	**5,012**	**5,284**	**5,610**
Total Liab & S/H Funds	**m**	**8,883**	**9,847**	**11,495**	**13,166**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of benchmark return (Russell 3000)
Neutral (Hold) – return within 5% of benchmark return (Russell 3000)
Underperform (Sell)– return >5% below benchmark return (Russell 3000)

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.44%	49.55%	44.83%	38.49%	67.19%	43.84%
Neutral	38.60%	15.57%	39.66%	46.43%	28.12%	39.04%
Underperform	20.96%	34.88%	15.52%	15.08%	4.69%	17.12%

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Edward Robinson (London)	(44) 20 3037 4902

Sales Trading cont'd

Matthew Ryan (Singapore)	(65) 6231 2888
Robert Risman (New York)	(1 212) 231 2555
Isaac Huang (Taiwan)	(8862) 2734 7582
Jon Omori (Tokyo)	(813) 3512 7838

Alternative Strategies

Convertibles - Roland Sharman	(852) 3922 2095
Depository Receipts - Robert Ansell	(852)3922 2094
Derivatives - Wayne Edelist	(852) 3922 2134
Futures - Tim Smith	(852) 3922 2113
Structured Products - Andrew Terlich	(852) 3922 2013