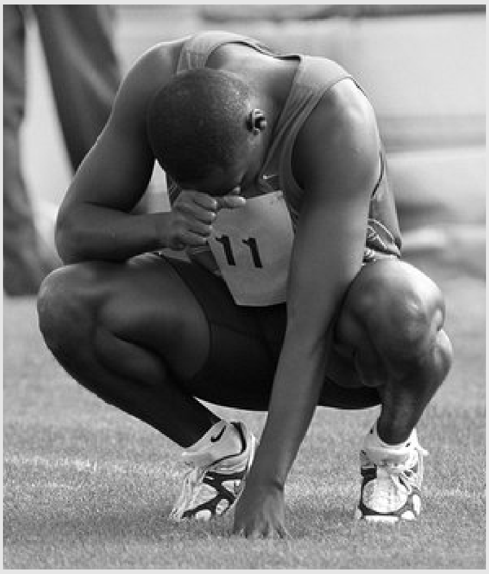
INDIA

India property

18 March 2009



Inside

Coverage universe (priced as of 17-Mar-09)

Stock	Ticker	CP (Rs)	Rating	TP (Rs)	Upside
DLF	DLFU	159.7	UP	125.0	-22%
Unitech	UT	26.0	OP	71.0	174%
Indiabulls	IBREL	87.9	OP	202.0	130%
HDIL	HDIL	69.8	OP	141.0	102%
Provogue	PROV	29.2	OP	65.0	123%
Akruti City	AKCL	1,596.0	UP	475.0	-70%
Ansal Prop	APIL	23.7	UP	17.0	-28%
Mahindra	MLIFE	105.1	OP	139.0	32%

Source: Macquarie Research, March 2009

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How deep does this rabbit hole go?

We foresee a turnaround in the second half of 2009

Covering the property sector makes us feel like Alice tumbling down the rabbit hole, not really sure when, where and how it will end. More importantly, is there really a 'wonderland' of multi-baggers at the bottom and is it time to start chipping away? We think so. We believe the Indian real estate stocks will bottom out in 6–9 months' time. The key reasons for the sell-off in the property names were the unprecedented tightness in liquidity and demand destruction. We expect to see some capital flow back (selectively). We foresee physical market prices staging a recovery in late 2010 but do not expect stocks to wait that long.

Capital scenario likely to get better – at the margin

The four primary sources of capital for developers have dried up. Debt is very expensive (if available at all), while the equity markets have no appetite for new paper. Residential volumes are down by over 25% YoY. Availability of capital has remained completely frozen since it reached its worst point in 4Q 2008 (even while the situation in most of Asia is slowly improving). Having said that, we believe all trend reversals start with anecdotal evidence. We spent a few days in February visiting property companies, brokers, banks and private equity players. Our conversations suggest that there is likely to be some relief for individual developers and projects in the next six months as lenders take on more risk. This should partially be driven by policy initiatives. We are already seeing some asset sales and instances of banks willing to refinance obligations.

Stocks won't wait for physical market to bottom

Analysing past cycles in India is very tough, as most developers have been listed for less than three years. We try and draw parallels from past cycles in Hong Kong. While the physical market dynamics in the two locations are clearly very different, we can derive some striking and relevant conclusions. In every one of the past four cycles, stocks recovered 6–9 months before GDP growth. This (in turn) preceded a recovery in rents by another 6–9 months. A late-2009 recovery in property stocks should therefore not surprise us. News flow should improve due to the low base effect in volume and price growth, but we do not foresee a smart recovery. We continue to expect that prices and rents in India will bottom in late 2010, 6–9 months after Macquarie's forecast of a recovery in GDP growth.

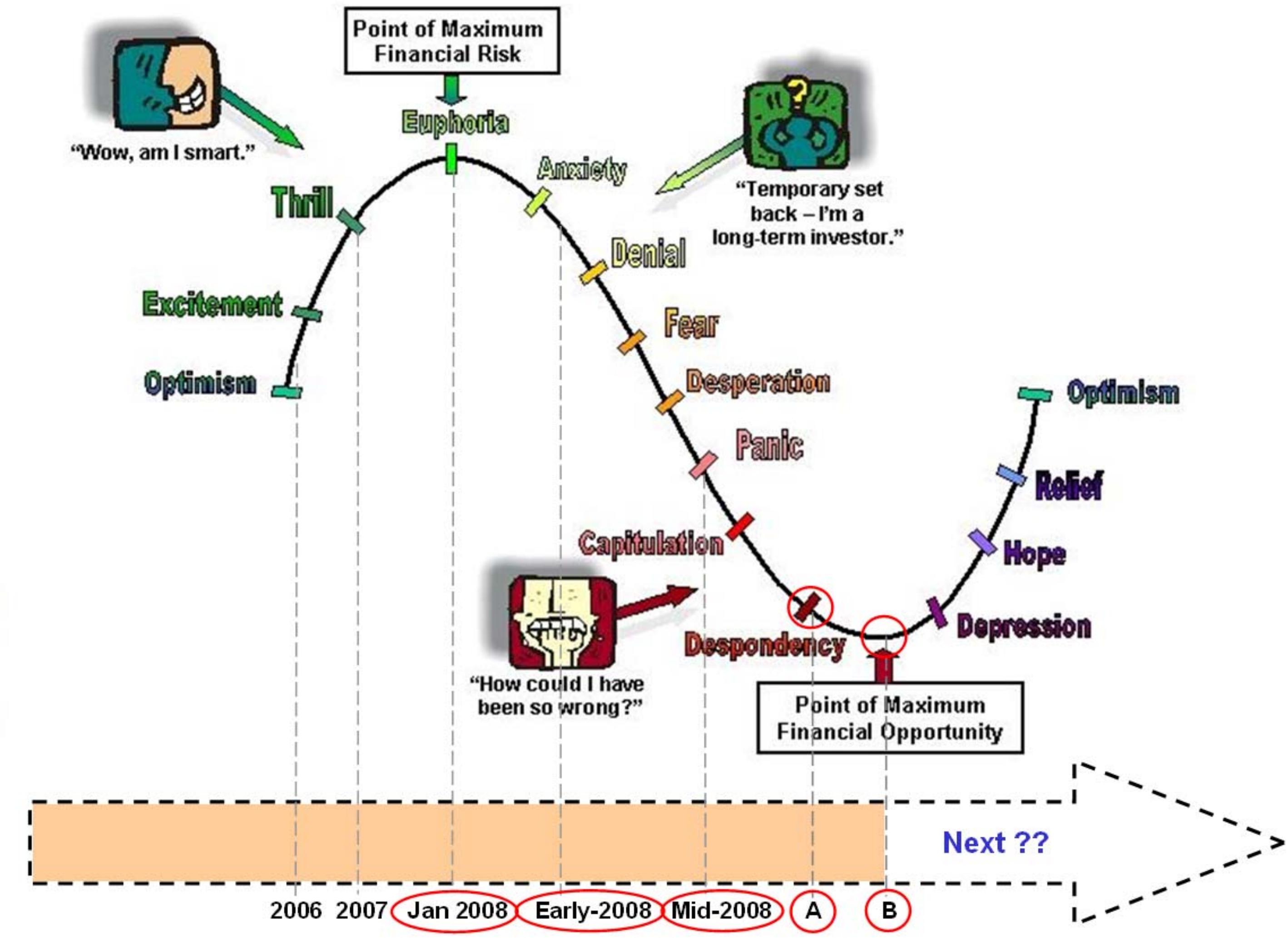
Lesson from the tech bust – stock picking is essential

The last three years saw property stocks form a bubble very similar to that seen by internet stocks early in this decade. The bubble burst was as stark. Having said that, we point to an important lesson. While some internet companies (such as Excite @ Home) went under, companies that we believe to have a 'real' business model and balance sheet became multi-baggers. For eg, Yahoo delivered 11x returns in the next four years (but was still down 63% from its peak). Similarly, we do not expect cap rates of 13–14% and cost of capital of 16% to persist in a mid-cycle scenario in India.

We 'shock-test' our financial models and present a detailed scenario analysis. Based on this exercise and a qualitative framework, we believe IBREL and HDIL are best placed. Investors should also consider a 'venture capital' approach and invest in a basket of survivors to hedge against 'black swan' events.

Where do we go from here?

Fig 1 The investor sentiment cycle – are we at 'point A' or 'point B'?



Source: Invivoanalytics.com, Macquarie Research, March 2009

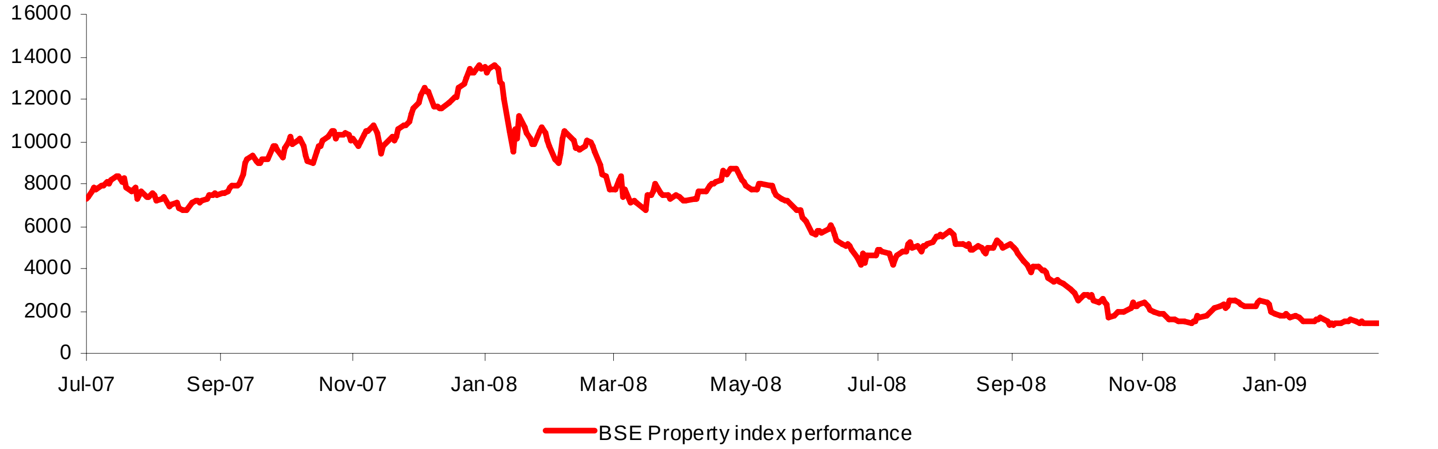
How deep does this rabbit hole go?

We foresee a turn around in the second half of 2009

Covering the property sector makes us feel like Alice tumbling down the rabbit hole, not really sure when, where and how it will end. More importantly, is there really a 'wonderland' of multi-baggers at the bottom? We definitely think so.

We believe the Indian real estate stocks will bottom out in 6–9 months' time. The two primary reasons for the 80% sell-off (Figure 2) in the property names since January 2008 were the unprecedented tightness in liquidity and demand destruction due to slowing GDP growth.

Fig 2 BSE realty index – have we seen the bottom?



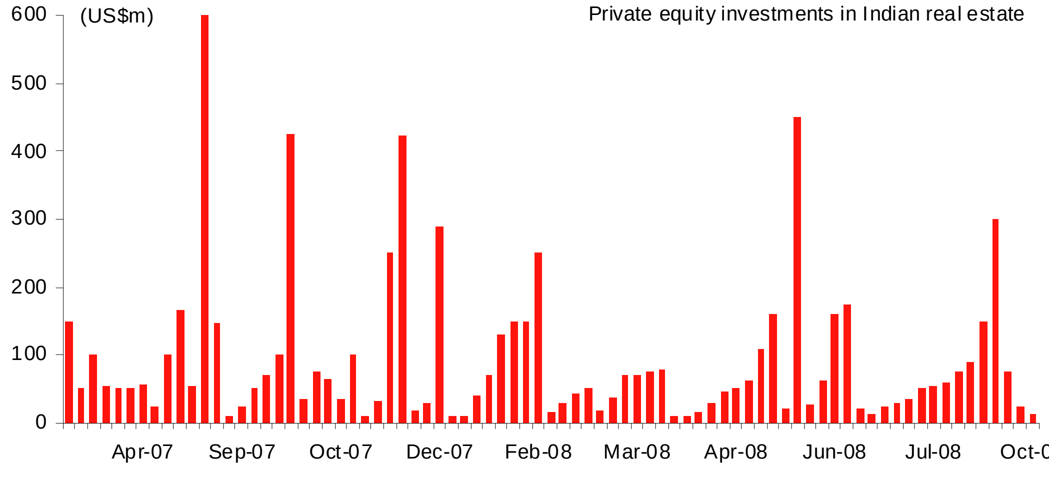
Source: Bloomberg, Macquarie Research, March 2009

We are starting to see some capital (selectively) flow back into the sector. We expect physical market prices to recover in late 2010 to early 2011 but do not believe stocks will wait that long to recover.

Capital scenario likely to get better- at the margin

The four primary sources of capital for developers have dried up. Debt is very expensive (if available at all), while the listed equity markets have no appetite for new paper. Residential volumes are down by over 25% YoY. We saw some private equity market deals in the first half of 2008 (Figure 3), but that has slowed down as well. The scenario reached its worst in 4Q 2008, and the capital scenario has remained completely frozen since then.

Fig 3 Private equity investments in Indian real estate



Source: Industry sources, vccircle.com, Macquarie Research, October 2008

Having said that, we believe all big trends start with anecdotal evidence. We spent two days in February visiting property companies, brokers/ agents and players in real estate private equity and banks. Our conversations suggest that there is likely to be some relief for individual developers and projects in the next six months. As lenders start taking on some risk, we are likely to see a reversal of the current scenario. A few banks have already started some refinancing obligations. In addition, some asset sales have taken place (albeit at distressed valuations). The recent sale of Unitech's hotel property is an example.

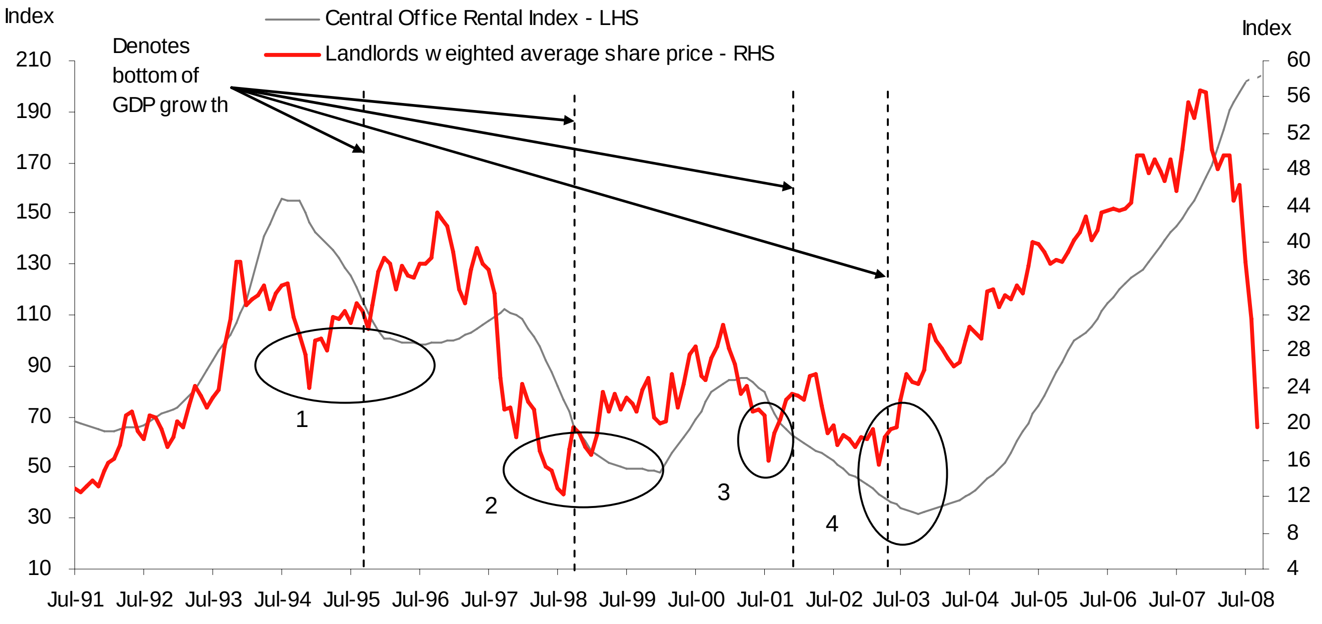
Stocks won't wait for physical market to bottom

In saying that Indian property stocks may bottom in the second half of 2009, we are not suggesting that physical market prices will recover at that time. Analysing past cycles in India is very tough due to the fact that most developers have been listed for less than three years. We try and draw parallels from observations made regarding past cycles in Hong Kong. Clearly India's real estate markets are very, very different from Hong Kong's. While there are many differences, we believe some lessons and parallels are clear. In Hong Kong, in every one of the past four cycles, a recovery in stock prices preceded a recovery in GDP growth by 6–9 months, which in turn preceded a recovery in rents by another 6–9 months.

The order of these events makes sense to us. Listed investors move quickly and pricing is evident daily. Often the worst-case scenario is priced in very early as investors act quickly (and sell) to preserve their capital. Listed investors almost always pre-empt a pickup in general economic growth. GDP data releases also often lag reality. Physical market prices and rents are usually the last indicator of a recovery, as an improvement in these areas is often a result of the recovery (not to mention the lag in the release in data points).

We continue to expect prices and rents in India to bottom in late 2010, 6–9 months after a recovery in India's GDP growth (which Macquarie expects will bottom in early to mid-2010). A late-2009 recovery in property stocks would therefore not surprise us.

Fig 4 Stock markets have accurately predicted a recovery in the physical markets in the past

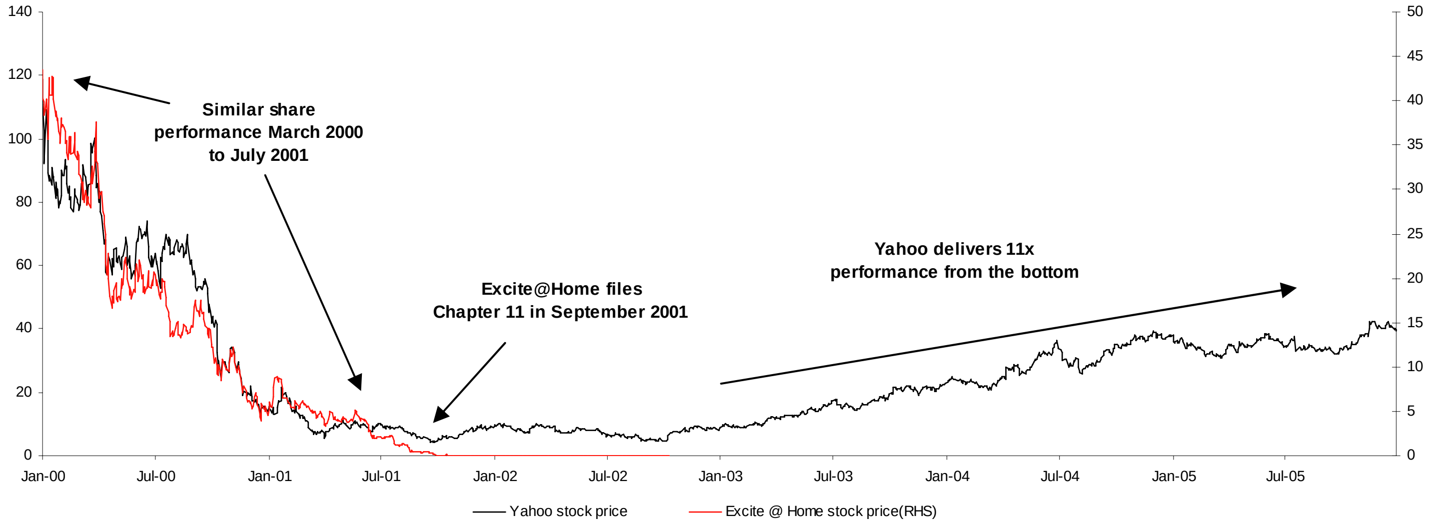


Source: Bloomberg, Macquarie Research, March 2009

Lesson from the tech bust – stock picking is essential

The last three years saw property stocks form a bubble very similar to that seen by internet stocks early in this decade. The bubble burst was as stark. Having said that, we point to an important lesson. While some internet companies (such as Excite @ Home) went under, companies that we believe have a 'real' business model and balance sheet became multi-baggers. For eg, Yahoo delivered 11x returns in the next four years (but was still down 63% from its peak).

Fig 5 Stock picking is crucial – one can pick a multi-bagger or be left holding the bag



Source: Bloomberg, Macquarie Research, March 2009

Similarly, we do not expect cap rates of 13–14% and cost of capital of 16% to persist in a mid-cycle scenario in India.

We 'shock-test' our financial models and present a detailed scenario analysis based on NAVs, liquidation and book values. Based on this exercise and a detailed qualitative analysis, we believe **IBREL** and **HDIL** are best placed. IBREL has a net cash balance sheet. HDIL has no major refinancing requirement or bullet payment due for the next 12–15 months.

At some stage in the next 3–6 months, DLF should start to look very attractive. However, we believe that the value in its projects is unlikely to be realised in the near term amid a lack of clarity on capital raising.

Investors should also consider taking a 'venture capital' approach and invest in a basket of survivors to hedge against any 'black swan' events.

Fig 6 Snapshot of coverage

Company	Ticker	Market cap (US$m)	Rating	Price (Rs)	Target price (Rs)	Upside from CMP	NAV/sh (Rs)	TP disc to NAV
DLF	DLFU	5,265	UP	160	125	-22%	248	50%
Unitech	UT	818	OP	26	71	174%	118	40%
Indiabulls	IBREL	440	OP	88	202	130%	311	35%
HDIL	HDIL	374	OP	70	141	102%	217	35%
Provogue	PROV	58	OP	29	65	123%	96	40%
Akruti City	AKCL	2071	UP	1,596	475	-70%	792	40%
***Ansal Properties**	APIL	53	UP	24	17	-28%	17	-
Mahindra Lifespace	MLIFE	83	OP	105	139	32%	231	40%

* In the case of Ansal, we currently value the stock based on liquidation value. Under normal circumstances, we would have calculated the target price using a 35% discount to NAV.

Note: Price data as of 17 March 2009.

Source: Macquarie Research, March 2009

Fig 7 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	248	248	0%	125	125	0%	26.2	26.2	0%	50%	50%	Underperform	Underperform
UT	133	118	-11%	100	71	-29%	9.6	9.6	0%	25%	40%	Outperform	Outperform
IBREL	342	311	-9%	250	202	-19%	12.7	12.6	-1%	25%	35%	Outperform	Outperform
HDIL	348	217	-38%	260	141	-46%	71	64.5	-9%	25%	35%	Outperform	Outperform
PROV	156	96	-38%	115	65	-43%	4.1	3.3	-20%	35%	40%	Outperform	Outperform
AKCL	800	792	-1%	520	475	-9%	153.6	180	17%	35%	40%	Underperform	Underperform
APIL	30	17	-43%	30	17	-43%	32.7	-5.16	-116%	-	-	Underperform	Underperform
MLIFE	247	231	-6%	160	139	-13%	16.8	18.2	8%	35%	40%	Underperform	Outperform

Source: Macquarie Research, March 2009

Capital scenario likely to improve

The liquidity situation looks like it will get better – at the margin

Availability of capital has remained completely frozen since it reached its worst point in 4Q 2008. The primary sources of capital for developers have dried up.

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

All trend reversals start with anecdotal evidence

We are seeing some instances of banks willing to refinance obligations. In the last few weeks, HDIL, DLF and Unitech have indicated that they have been able to refinance substantial amounts (Rs8–20bn) of debt with consortiums of public sector banks.

In addition, there have been some instances of asset sales. eg, the Rs2.3bn sale of Unitech's hotel property (Marriott Courtyard in Gurgaon).

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:

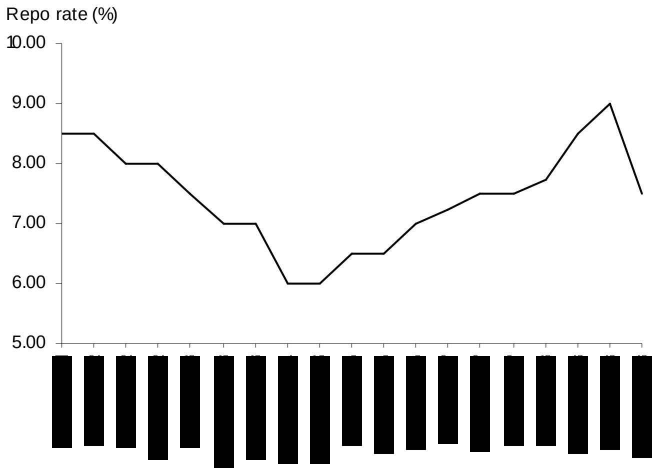
(For more details, refer to our report Turnkey snapshot – India property revisited*, dated 3 February 2009.)*

Availability of capital – banks lending again… to consumers

It became clear during our visit that the worst is over from a liquidity perspective for India's banking system. Aggressive actions by the RBI mean that banks now have the money to lend. The liquidity crisis in September/October 2008 is now a crisis of confidence, coupled with concern over the economic outlook.

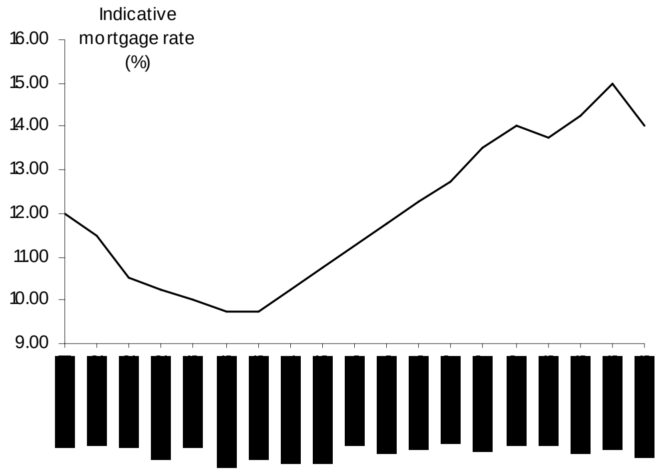
Lending to consumers. Clearly, banks have tightened up their lending criteria but do have the funds to lend at attractive spreads. Banks appear enthusiastic about mortgage lending to consumers, particularly as ICICI appears to have largely withdrawn from this market. Mortgage loans remain full recourse and traditionally Indian borrowers have been very reluctant to default on repayments. Previous LTVs (loan to value ratios) of 90–95% are now 70–80%. Background checks on borrowers are more rigorous. There are some very early signs of consumer demand returning due to the State Bank of India's teaser rate loans (at 8%) and the fact that mortgage rates are now ~10.5% vs 12% in December 2008; however, most potential borrowers are taking a 'wait-and-see' approach until asset prices stabilise.

Fig 8 The repo rate is coming down…



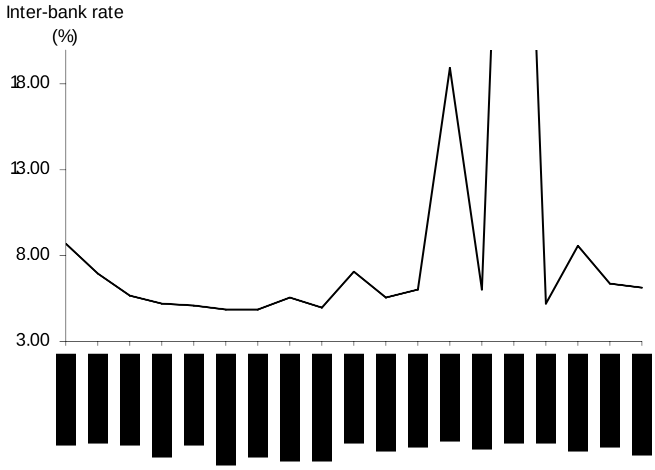
Source: Bloomberg, Macquarie Research, March 2009

Fig 9 …which is helping bring mortgage rates down



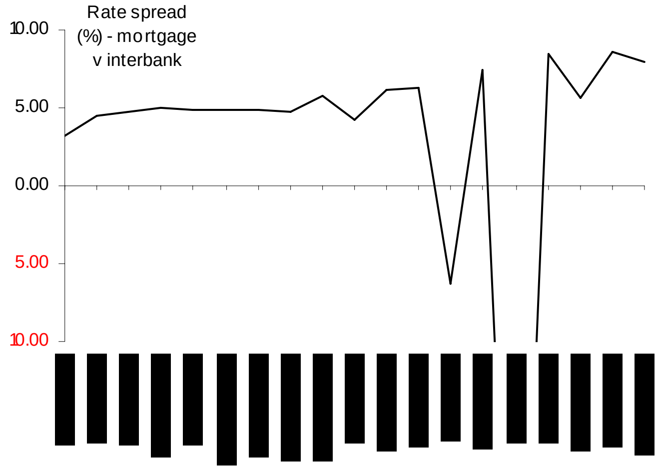
Source: Bloomberg, Macquarie Research, March 2009

Fig 10 Deposit rates are around 6%...



Source: Bloomberg, Macquarie Research, March 2009

Fig 11 … meaning lending is good business for banks

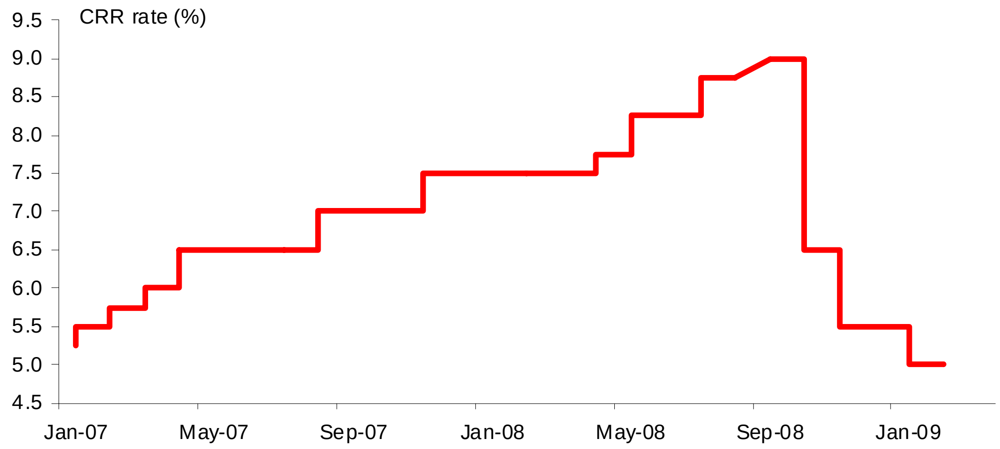


Source: Bloomberg, Macquarie Research, March 2009

Lending to developers. Borrowing for developers remains very, very tight. Conditions are perhaps at their worst-ever level. Project financing has dried up as banks will not put money upfront for developments. Banks are now waiting for pre-commitments for up to 30–40% of developments before approving financing. 'Loan-to-value ratios' are now 50–60% for loans that are available. Developers are typically asset rich (land bank) and liquidity poor (lack of cash). Developers are slowing completions to conserve cash. Suppliers are more reluctant to extend credit for essential building components.

However, the consistent feedback from banks and private equity players was that there is likely to be some relief for individual developers and projects in the next six months. The central bank has pumped in a huge amount of liquidity into the system (Figures 12 and 13) by cutting the cash reserve and the policy (repo) interest rate.

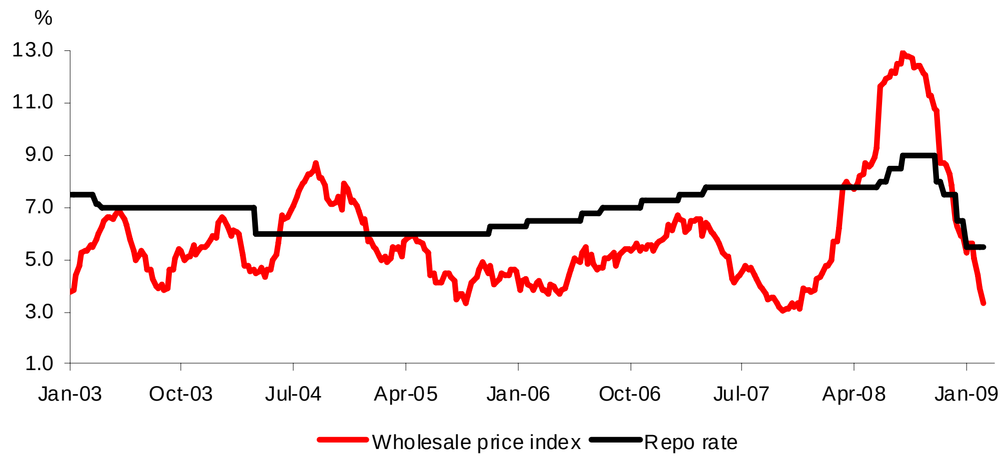
Fig 12 CRR* cut sharply as a measure to pump liquidity



* Cash Reserve Ratio

Source: Bloomberg, Macquarie Research, March 2009

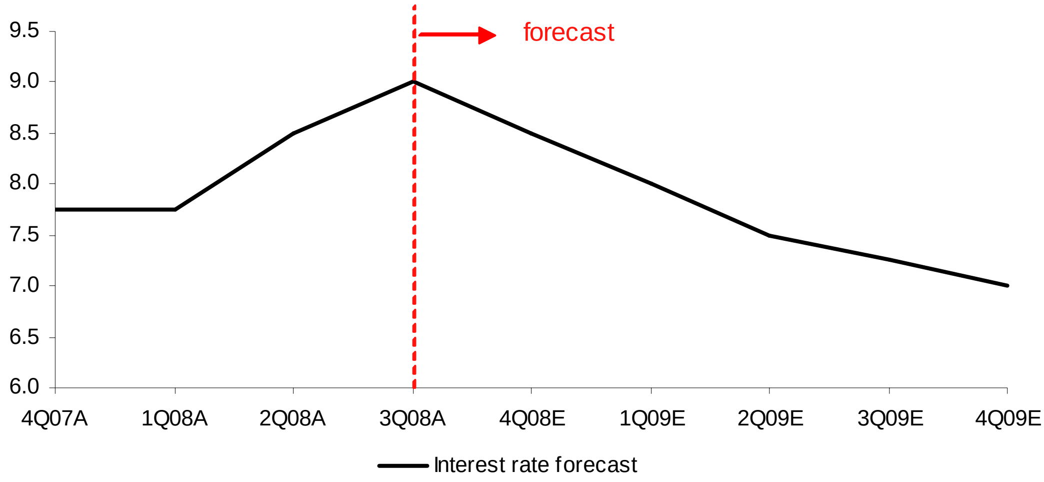
Fig 13 Policy rates are coming down – one of the steps to spur growth



Source: Bloomberg, Macquarie Research, March 2009

Despite the availability of liquidity, banks (similar to global trends) are currently very selective in lending and have parked excess cash into low yielding/low risk government bonds (causing a sharp rally there). The general expectation that was apparent in our meetings was that lenders are likely to reallocate capital and take on more risk over the next six months. The central bank is sending out explicit and implicit signals (eg, lowering of the 'reverse-Repo' rate) that liquidity is likely to remain flush in the system. Macquarie's India economist, Rajeev Malik, also expects the monetary easing to continue (Figure 14).

Fig 14 Macquarie interest rate* forecast



Forecast by Macquarie's Asean/India economist Rajeev Malik (rajeev.malik@macquarie.com, +65 6231 2841)
* Repo rate – the benchmark interest rate set by the Reserve Bank of India
Source: Government of India, Macquarie Research, March 2009

In any case, the majority of the banks in India are owned by the government, which ensures that the banking system can be managed closely (if required).

Stocks won't wait for the physical market

Stock prices are likely to bottom before a physical market recovery

In saying that Indian property stocks may bottom in the second half of 2009, we are not suggesting that physical market prices will recover at that time. Analysing past cycles in India is very tough due to the fact that most developers have been listed for less than three years.

We try and draw parallels from observations made regarding past cycles in Hong Kong. Clearly India's real estate markets are very, very different from Hong Kong's. While there are many differences, some lessons and parallels are clear to us. In Hong Kong, in every one of the past four cycles, a recovery in stock prices preceded a recovery in GDP growth by 6–9 months, which in turn preceded a recovery in rents by another 6–9 months.

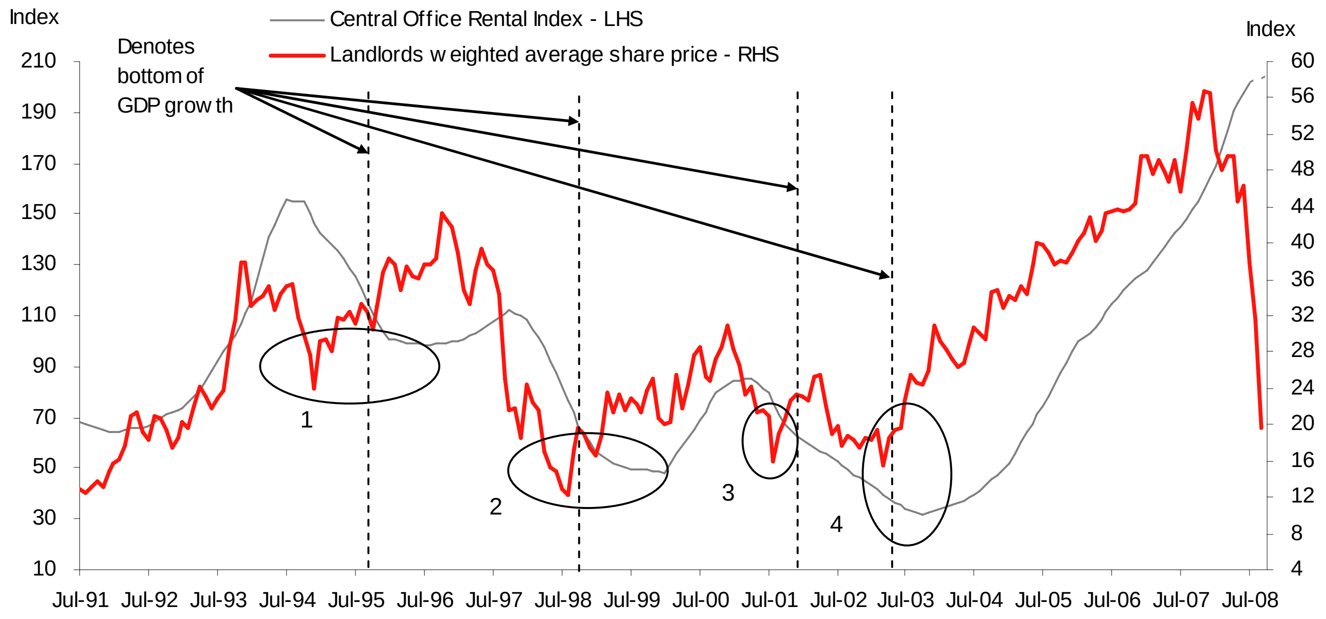
In our view, the order of these events makes sense. Listed investors move quickly and pricing is evident daily. Often, the worst-case scenario is priced in very early as investors act quickly (and sell) to preserve their capital. Listed investors almost always pre-empt a pickup in general economic growth. GDP data releases also often lag reality. Physical market prices and rents are usually the last indicator of a recovery, as an improvement in these areas is often a result of the recovery (not to mention the lag in the release in data points).

A late 2009 recovery in property stocks should therefore not surprise us. News flow should improve as YoY price and volume growth improves due to a low base effect in the second half, but we are not forecasting a smart recovery.

We continue to expect prices and rents in India to bottom in late 2010, 6–9 months after a recovery in India's GDP growth (which Macquarie expects will bottom in early to mid-2010).

An analysis of cycles in Hong Kong

Fig 15 Stock markets have accurately predicted a recovery in the physical markets in the past



Source: Bloomberg, Macquarie Research, March 2009

We highlight four instances (circled in Figure 15) in the last couple of decades in Hong Kong where a recovery in the stock markets was a harbinger of a recovery in the overall macro as well as the physical property markets.

As we can infer from Figures 15, 16 and 17, recovery in stock prices preceded revival in macro parameters viz GDP growth by 2–3 quarters. A recovery in overall GDP growth in turn preceded rent bottoms by another 6–9 months.

Fig 16 GDP recovery precedes price/rent recovery by 6–9 months

Trough	Listed prices	GDP growth	Listed lead vs GDP	Office rents	GDP lead vs rents	Listed lead vs rents
Trough 1	Dec-94	Oct-95	10 mths	Aug-96	10 mths	20 mths
Trough 2	Aug-98	Sep-98	1 mth	Jan-00	15 mths	16 mths
Trough 3	Aug-01	Dec-01	4 mths	Dec-03	24 mths	28 mths
Trough 4	Mar-03	Jun-03	3 mths	Dec-03	6 mths	9 mths
Average			**4.5 mths**		**14 mths**	**18.5 mths**
Trough 5	Mid 09	Dec-09	5 mths	1H 2011	15 mths	20 mths

Source: Macquarie Research, March 2009

Fig 17 Listed prices indicated top/bottom well in advance

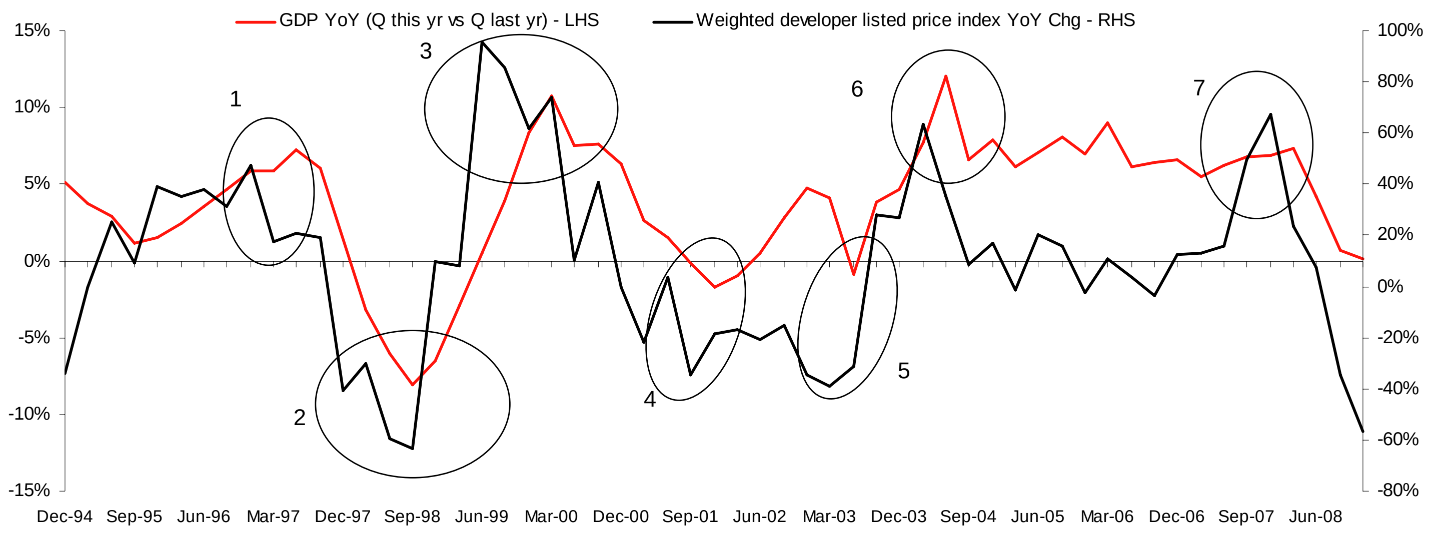
S.N	Listed prices	GDP growth	Top / Bottom	Listed markets lead
1	Dec-96	Jun-97	Top	6 mths
2	Sep-98	Sep-98	Bottom	-
3	Jun-99	Mar-00	Top	9 mths
4	Sep-01	Dec-01	Bottom	3 mths
5	Mar-03	Jun-03	Bottom	3 mths
6	Mar-04	Jun-04	Top	3 mths
7	Dec-07	Mar-08	Top	3 mths
8	**Mid 2009**	**Dec-09**	**Bottom**	**~6 mths**

Source: Macquarie Research, March 2009

Markets also efficient in predicting when things get over-heated

Further analysis of trends in developers' stock prices vs GDP growth in Hong Kong for the past 15 years reveals that equity markets have been able to not only predict bottoms for GDP growth and office rents but also the tops for the same. Figure 18 describes seven such occurrences when the developer listed price index topped/bottomed out before GDP growth hit top/bottom. This clearly reflects the efficiency of the markets in indicating future trends in the real economy as well as the physical spot market.

Fig 18 Efficient equity markets



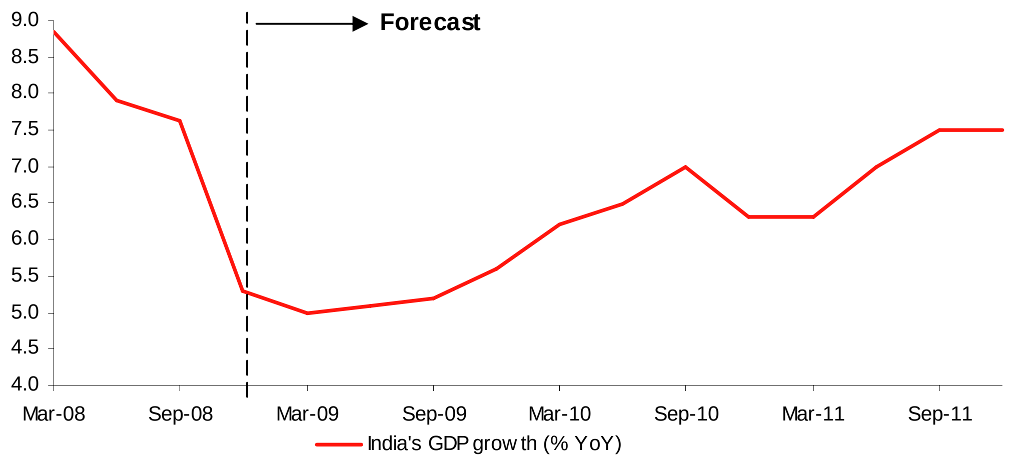
Source: Bloomberg, Macquarie Research, March 2009

Macquarie expects India's GDP to revive in early to mid-2010

Our India economist, Rajeev Malik, expects GDP growth to hit bottom in 2Q/3Q 2009 and believes a recovery from early to mid-2010 is on the cards. Following are the key factors that should aid the recovery:

- Inflation now a non-issue – Inflation has been falling consistently and is now at 3.03% (for the week ended 21 Feb), well within the comfort band of RBI.
- Balance of payments likely to improve given drastic the fall in crude and other commodity prices.
- RBI is therefore expected to stay with the mother of all monetary easings.
- Fiscal boost has been sizeable: The government has already announced three fiscal stimulus packages, which should help revive economic activity going forward.

Fig 19 Quarterly GDP forecasts for India



Source: Macquarie Research, March 2009

Based on our above hypothesis, rent/property prices are likely to improve with a 6–9 month lag after GDP recovery. We therefore expect office rents and property prices to bottom in late 2010.

This could drive a recovery in property stock prices by late 2009. This recovery should be helped by improving news flow as YoY price and volume growth improves due to the low base effect from the second half of 2008. We also note that mortgage lenders have not yet passed on the entire rate cut benefits to end consumers. As the monetary easing works its way through the system with some lag and developers announce price cuts, this should act as an additional boost for sector news flow.

Lessons from the tech bust

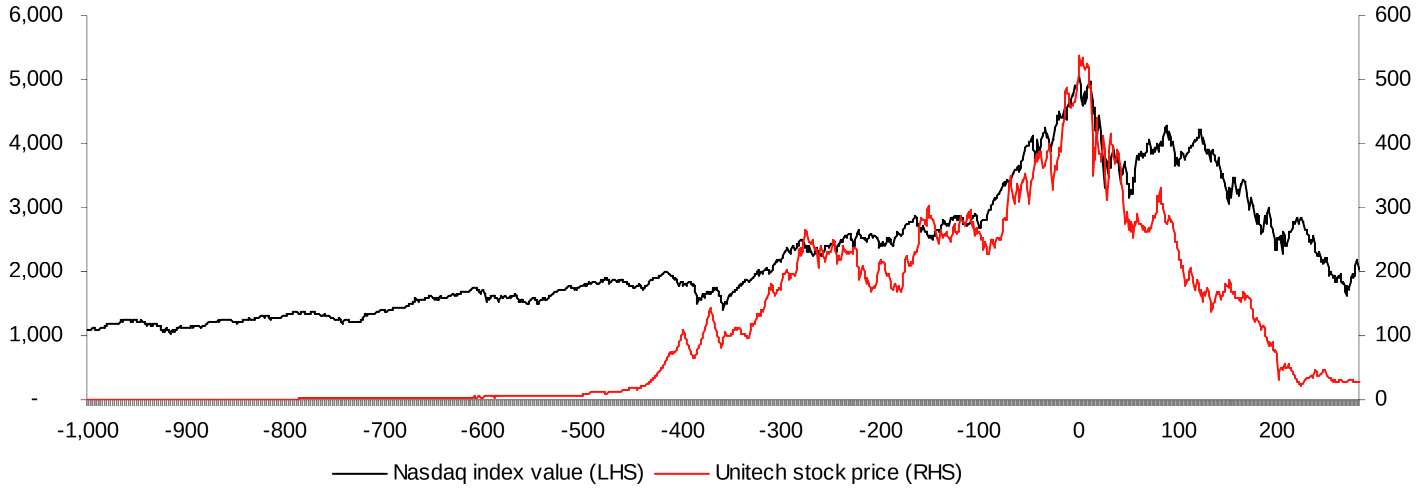
Stock picking is essential

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

There are not that many examples to compare the speed and severity of the collapse in the Indian property sector stocks since January 2008. The last three years saw property stocks form a bubble very similar to that seen by internet stocks early in this decade (Figure 20).

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 time period to align their respective peaks. Unitech peaked in January 2008 and the Nasdaq peaked in March 2000 (Figure 20).

Fig 20 The Nasdaq can't hold a candle to Unitech's rate of ascent – as well as descent



X- axis denotes the number of days from the peak: Unitech peaked in January 2008, NASDAQ peaked in March 2000

* We use Unitech stock price as a proxy for the Real Estate index since most developers have been listed for less than three years

Source: Macquarie Research, March 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 for us 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 will evolve into company-specific driven.

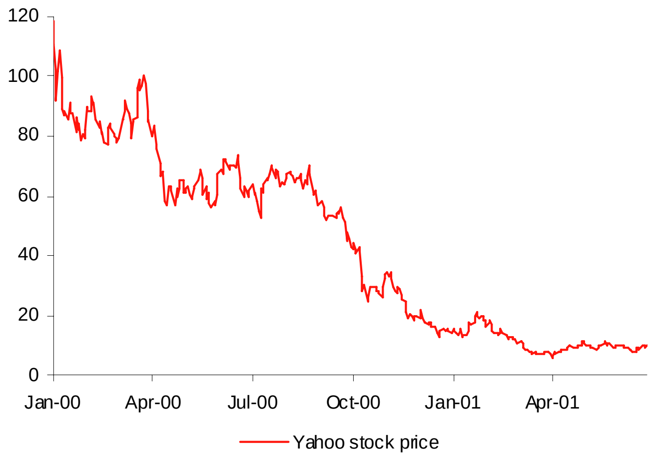
We compare the stock price performance of two internet stocks: Yahoo (YHOO, Not rated) and Excite@Home (ATHMQ, delisted).

- **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 21 Excite @ Home stock price chart

Source: Bloomberg, Macquarie Research, March 2009

Fig 22 Yahoo stock price chart – eerily similar



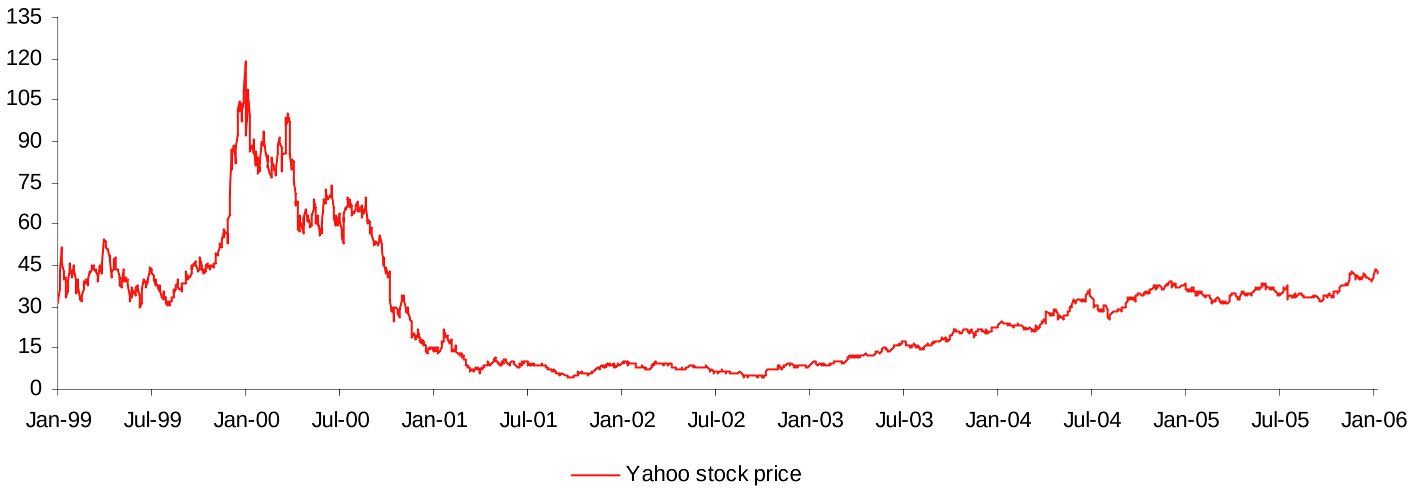
Source: Bloomberg, Macquarie Research, March 2009

As is evident in the above charts, for a period of 16 months from March 2000 until July 2001, the market seemed to make absolutely no distinction between the shares of Yahoo and Excite @ Home. In our view, 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:

- 1) The survivors thrived and Yahoo went on to rally over 11x off its lows over the next four years (Figure 23). Note that despite the massive returns, Yahoo was still down over 60% from the peak.

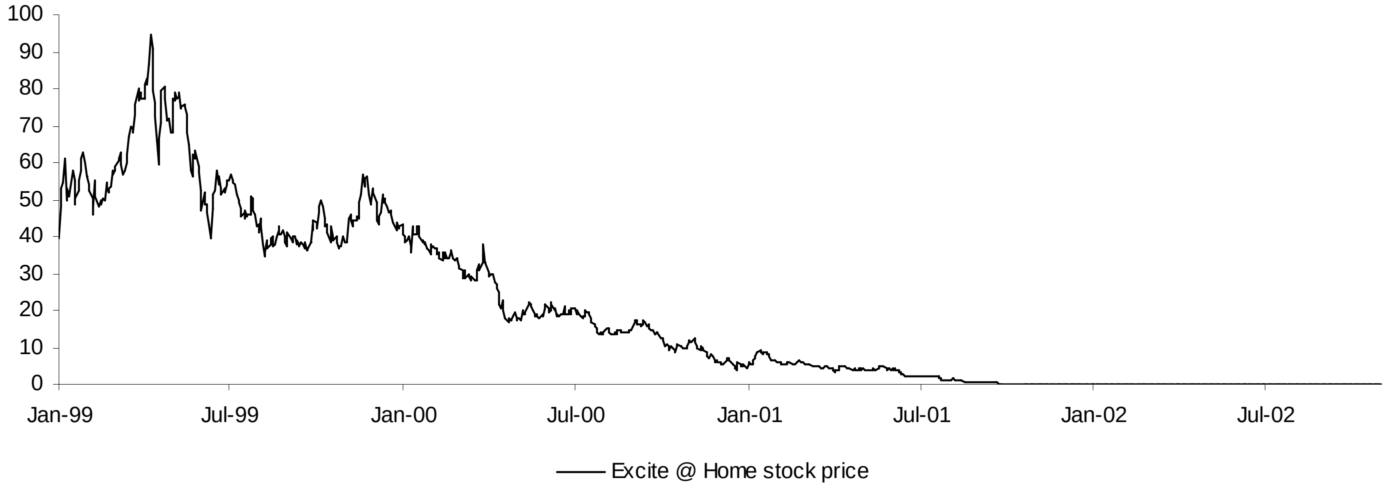
Fig 23 Yahoo – strong recovery from the bottom (11x returns in the following four years)



Source: Bloomberg, Macquarie Research, March 2009

- 2) Meanwhile Excite @ Home went to zero (Figure 24).

Fig 24 Excite @ Home – boom to bankruptcy in 3 years



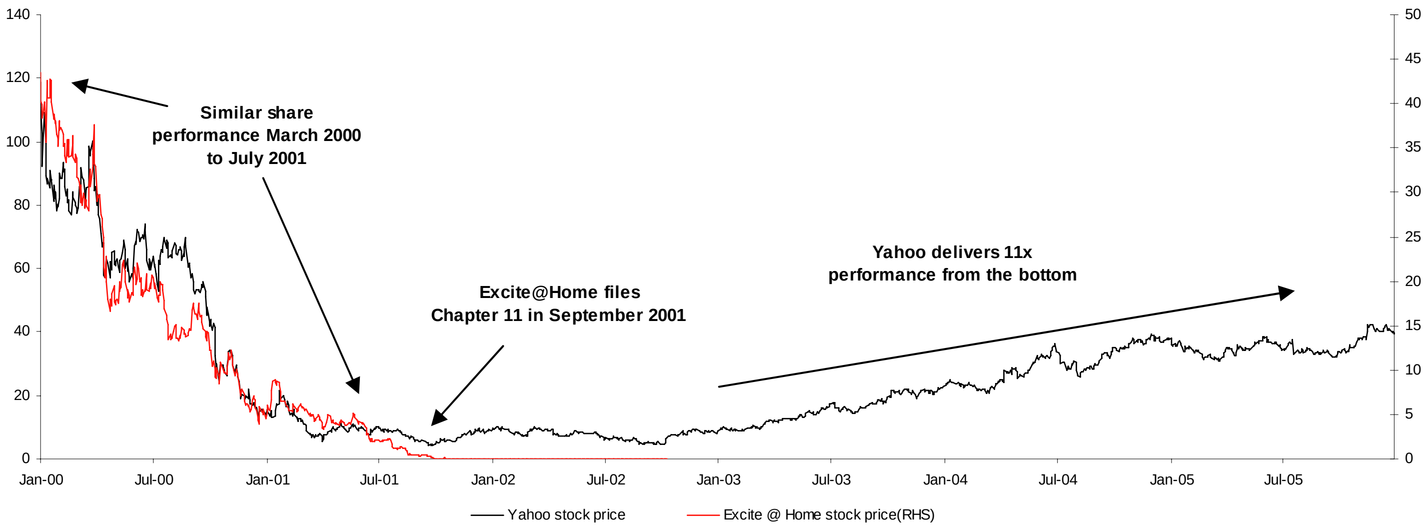
Source: Bloomberg, Macquarie Research, March 2009

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

Stock picking 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 will no longer be able to ignore company-specific risk. It is unlikely that anyone would want to make a sector pick with just any developer. In our view, the second half of 2009 will mark the starting point when individual company positioning will mean something.

Fig 25 Stock picking is crucial – one can pick a multi-bagger or be left holding the bag



Source: Bloomberg, Macquarie Research, March 2009

Stock picking in the credit crunch

Identifying winners using multiple analyses

We ‘shock-test’ our financial models and present a detailed scenario analysis based on NAVs, liquidation and book values. Based on this exercise and a detailed qualitative analysis, we believe that:

- **IBREL** and **HDIL** are best placed. IBREL has a net cash balance sheet. HDIL has no major refinancing requirement or bullet payment due for the next 12–15 months.
- Provogue and Mahindra Lifespace are next in line. Their business model and geographical focus are not as robust as IBREL’s or HDIL’s, but they are well placed from the aspect of balance sheet strength and availability of capital (Figure 30). These are, however, small-cap stocks and are fairly illiquid during many trading sessions.
- Unitech is a high-risk high-return pick. We believe a bankruptcy is priced into the stock. However, we expect the company to scramble through by raising capital through asset sales and dilution.
- At some stage in the next 3–6 months, DLF could start to look very attractive. However we believe that the value in its projects is unlikely to be realised in the near term amid a lack of clarity on capital raising.

We believe investors should also consider taking a ‘venture capital’ approach and invest in a ‘basket of survivors’ to hedge against any ‘black swan’ events.

Shock-testing of our financial models

We ‘stress-test’ our financial models and perform an analysis using scenarios – from the realistic to the grim (liquidation). Most developers are trading at deep discounts to NAV, even when calculated using distressed physical market assumptions. Meanwhile, some companies (such as Ansal) are trading below their liquidation value (Figure 26).

Here are the scenarios that we have built for all companies under our coverage.

Book value and NAV

- The table contains our NAV estimate for every company. The NAV assumes that the company will remain a going concern and will survive despite delays and a further correction in property prices and rents.
- We also present the book value in the table. The book value is as declared in the annual report and hence cannot be used as a ‘rule of thumb’ or primary valuation methodology. This is because the book value has not been ‘marked to market’ to reflect the changes in land cost. In some cases (such as at IBREL), most of the land bank is less than three years old and hence a significant portion could be ‘under water.’ On the other hand, more than half of Unitech’s land bank is over three years old and hence the book value is likely to be more realistic. We also need to keep in mind the method by which the land was acquired, eg, government auction, agricultural land, etc. We therefore believe that the ‘liquidation case scenario’ (discussed next) is a more accurate reflection of the company’s book value.

Liquidation case scenario

Assumptions:

- The company cannot raise any capital and shuts down business.
- The company is worth only the land on its books and sells off the land at the current estimated (depressed) market prices and pays off the outstanding land costs and debt.
- Figure 26 also shows calculations that highlight the value if the company shuts down its business and sells off its land holdings at the estimated historical cost of acquisition.

Visible NAV

Most developers in India have a land bank that could last for more than five years based on the current pace of construction. We therefore provide a near-term/visible NAV, which is the sum of:

- The present value of development to be done over the next two years.
- The rest of the land bank is valued at a 30% discount to the current estimated market prices (see note on 'liquidation scenario') and adjusted for the outstanding land costs and debt.
- In this scenario, we have left some part of the land out of the valuation. These are land parcels that we believe are completely illiquid or will never be developed. In some cases, the proportion of illiquid land bank to the total (in m sqf) can be as high as 82% (for IBREL).

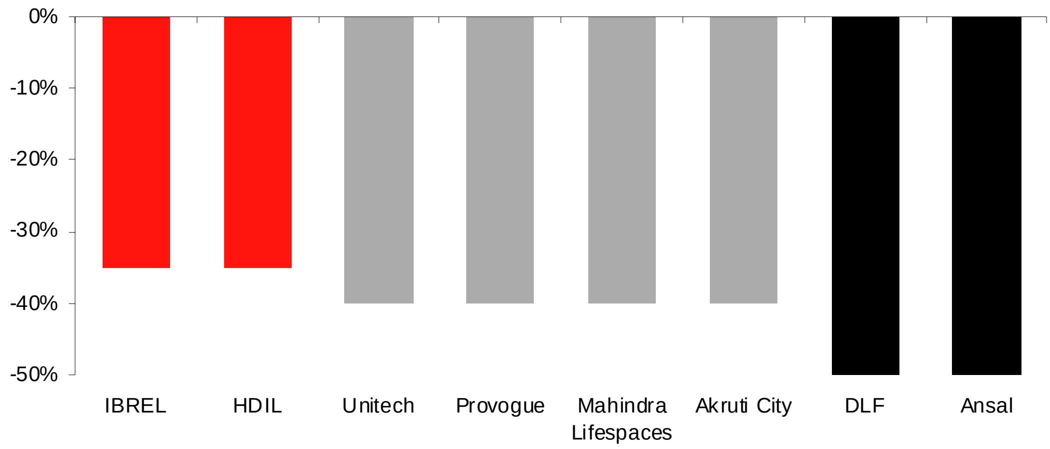
Fig 26 Property companies – stress-testing and scenario analysis

	DLF	Unitech	Ansal	Mahindra Lifespaces	IBREL	HDIL	Akruti City	Provogue**
Stock recommendation	UP	OP	UP	OP	OP	OP	UP	OP
NAV estimate (Rs)	**248**	**118**	99	**231**	**311**	**217**	**792**	**96**
NAV discount at current market price	-36%	-78%	-76%	-55%	-72%	-68%	102%	-69%
Target discount to NAV	50%	40%	50%	40%	35%	35%	40%	40%
Current target price (Rs)	**124**	**71**	50	**139**	**202**	**141**	**475**	**65**
Upside/ (downside) from current market price	-22%	172%	110%	32%	130%	102%	-70%	123%
Scenario analysis								
Liquidation value- at historical land cost (Rs)	85	15	-24	215	221	203	210	41
Upside/ (downside) from current market price	-47%	-44%	-200%	105%	151%	191%	-87%	41%
Liquidation value- at current land cost* (Rs)	230	89	**17**	316	282	216	343	41
Upside/ (downside) from current market price	44%	241%	-29%	201%	220%			
Book value- FY09E (Rs)	137	30	113	210	176	200	197	50
Upside/ (downside) from current market price	-14%	14%	378%	100%	100%	187%	-88%	70%
Price to book value- FY09E (x)	1.2	0.9	0.2	0.5	0.5	0.3	8.1	0.6
Visible NAV (Rs)	**107**	**43**	**16**	**314**	**161**	**88**	**155**	**49**
Upside/ (downside) from current market price	-33%	66%	-34%	198%	83%	25%	-90%	68%
Current stock price (Rs)	160	26	24	105	88	70	1,596	29

*Macquarie estimate. **Includes valuation of the retail business. Note: Target prices are highlighted in grey

Source: Macquarie Research, March 2009

Fig 27 Target NAV discounts for the Indian property sector peer group



In the case of Ansal, we currently value the stock based on liquidation value. Under normal circumstances, we would have calculated the target price using a 35% discount to NAV.

Source: Macquarie Research, March 2009

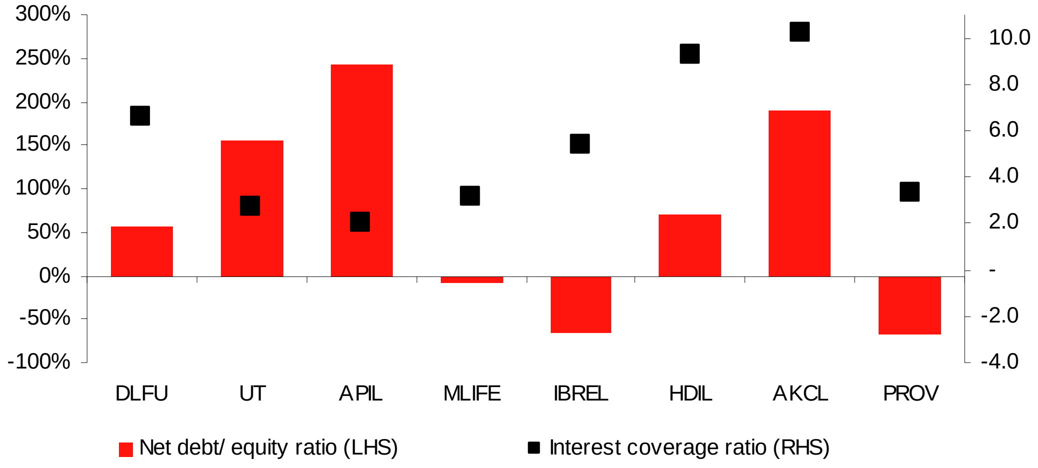
We would, however, not use this analysis as the sole basis for investment decision making. We recommend that this be viewed in conjunction with a qualitative framework, which is discussed over the next few pages.

Capital is 'the' source of competitive advantage

We believe the bankruptcy of New City Residence in Japan has important lessons for India. 'Always keep a firm eye on the balance sheet.' Stocks are trading at deep distressed valuations; some are lower than their liquidation value (we discuss these in a later section). We keep in mind the following factors when picking stocks.

- Survival is key – cash has emerged (yet again) as king. We prefer players with immediate access to capital vs developers with stretched balance sheets (Figure 30). In our view, it is worth noting that the biggest change in the way investors have perceived property companies in the last 12 months is in regard to their access to capital (for details, refer to Appendix 1 on page 28). In late 2007, stocks of property developers were being rewarded on land purchases. Investors expected that large land bank acquisitions would continue to drive NAV upgrades. Earnings milestones were considered secondary issues. This has changed. During the year, investors has shifted their focus from land acquisitions to the companies' ability to deliver (and hence earnings expectations). Stocks of companies that had earlier leveraged themselves to buy land are being pressured. Companies with better quality balance sheets are likely to fare better in terms of both operations and share-price performance.
- The quantifiable aspects of leverage and solvency are shown in Figure 28. We also realise, however, that some factors have to be dealt with in a subjective manner. Some examples include refinancing risk, reputation of promoters, off-balance sheet financing and the promoter's personal leverage and borrowing against the company's stock. These have been dealt with in our qualitative analysis (shown in Figures 29 and 30).

Fig 28 Property companies – FY09E leverage* and interest coverage ratio



* Leverage includes outstanding land payment obligations

Source: Company data, Macquarie Research, March 2009

- We also prefer companies with highly visible projects. We have greater confidence in companies whose NAV comprises mostly of projects likely to be completed within the next three to five years.

Qualitative analysis to help pick stocks

We realise that some of the most important factors are more subjective. These include:

- Current leverage/capital scenario.
- Ability to raise/source capital – this is based on our assessment of refinancing risk, 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 30).
- 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.

Our comparison of property stocks on a qualitative basis is shown in Figure 29.

Fig 29 Qualitative (relative) comparison of stocks under coverage

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

Attractive	(pink box)
Neutral	(half pink/half black box)
Unattractive	(black box)

* Visibility: We prefer companies where the cash flows driving the NAV are front-ended and projects are located in accessible locations

Source: Company data, Macquarie Research, March 2009

Fig 30 Qualitative (relative) comparison of refinancing risk for real estate companies

	DLF	Unitech	HDIL	Indiabulls Real Estate	Provogue	Akruti City	Mahindra Lifespace	Ansal Properties
Leverage	Neutral	Unattractive	Neutral	Attractive	Attractive	Unattractive	Attractive	Unattractive
Requirement for refinancing in next 12 months	Unattractive	Unattractive	Attractive	Attractive	Attractive	Unattractive	Attractive	Unattractive
Cash flow from operations	Neutral	Unattractive	Neutral	Neutral	Unattractive	Unattractive	Unattractive	Unattractive
Availability of assets which can be liquidated	Attractive	Neutral	Attractive	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Ability to raise private equity	Attractive	Neutral	Neutral	Neutral	Neutral	Unattractive	Unattractive	Unattractive
Ability to raise fresh debt	Neutral	Unattractive	Neutral	Neutral	Neutral	Unattractive	Neutral	Unattractive
Overall refinancing risk	Neutral	Unattractive	Neutral	Attractive	Attractive	Unattractive	Attractive	Unattractive
Issues related to promoter funding	Neutral	Unattractive	Neutral	Attractive	Attractive	Unattractive	Attractive	Unattractive
Probability of distress/ dilution in next 12 months	**25%**	**40%**	**10%**	**5%**	**5%**	**50%**	**5%**	**70%**

Attractive	(pink bar)
Neutral	(half pink, half black bar)
Unattractive	(black bar)

Source: Company data, Macquarie Research, March 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 one of 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 the requirement to raise equity, gearing levels, the impact of an appreciating or depreciating currency, specific taxation issues, regulatory changes, the impact of the banking system on real estate, and so on. The Australian LPTs have equity raising, balance sheet-related, bank covenant-related, currency-related and payout ratio-related structural risks quite separate in many ways to physical market risks.

In our view, structural risks in India clearly include:

- **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 could increase 25–30ppt.
- **Promoters to provide 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 more than 80% from their peak. It is obvious that promoters who have pledged shares for debt must be facing margin calls. It is mandatory to disclose the company's shareholding at the end of every quarter along with results. We expect promoter shareholding to fall in the case of some property companies (as was seen in the case of Unitech). While this remains an issue, transparency should improve given that the market regulator has now made it mandatory for promoters to disclose pledged shares.
- **Dilution a likely outcome of lack of bank financing for developers:** Equity holders are likely to be significantly diluted, as promoters are forced to sell their stakes to stay (or become) liquid. This point is both related to the pledge issue above and tighter bank lending.
- **Related party dependence:** For example, India's largest developer, DLF, is reliant on sales to DAL (DLF Assets Ltd, Unlisted). This is quite a unique situation to India. It is not clear that DAL will continue to have the access to capital to continue being a major 'customer' for DLF (over 40% of FY08 revenue). Based on management's recent presentation, it is clear to us that all near-term sales to DAL are at risk.
- **Investors sceptical on the real estate developers' accounting practices:** Given the recent Satyam scandal, there is increasing concern over 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. While 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, the receivables are currently rising sharply. This can be a result of a liquidity crunch being faced by the counter party. This can be especially concerning 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 on whether it was indeed an arm's length transaction. In our view, 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. While this is encouraged, most companies tend to release only standalone results. This could inflate profits on 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 last few months, we held detailed discussions with four auditors (chartered accountants) involved in the real estate practice and a few unlisted and listed companies. We have updated our view with fresh discussions regarding concerns that have repeatedly surfaced in our interactions with investors. Our findings are presented in detail in Figure 31. 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 31 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 don't follow this practice.	While it is optional for Indian companies to disclose the balance sheet on a quarterly basis, most companies do not exercise the option. This also implies that in case of 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.	HDIL, 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), the 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 especially concerning 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 under-valued.	All companies
Liabilities			
Current liabilities	This is not usually a contentious issue. But some Indian companies do tend to club 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 concerning.	IBREL
Debt/ borrowings	Since land is held at acquisition cost on the books, assets are usually under-valued. As a result, leverage ratios tend to be skewed towards the higher side. However, the debt existing at the SPV level (especially where holding is 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, HDIL, IBREL, Akruti, APIL

Fig 31 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 (eg, HDIL) 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: 1) What level will the first threshold be hit and revenue booking start? Companies use different thresholds, typically between 20% and 30%; (2) 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 architect's view may not be going through a robust independent assessment. This may give rise to 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 to perfection.	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 to perfection.	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 impact 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
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	The key concern is off-balance sheet funding. Debt existing at the SPV level may be masked below multiple layers of unlisted	Unitech, Ansal, all other companies

Fig 31 Comments by chartered accountants (auditors) and our views on accounting practices in India

	global best practice is to voluntarily disclose these in the subsidiary/SPV-related disclosures. Few Indian companies disclose in line with global best practices.	subsidiaries or not disclosed at all. Very few Indian companies follow the best practice to disclose this in their annual report.	

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 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, HDIL, 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: Macquarie Research, March 2009

Appendix 1: 2008 saw a major shift in sector outlook

The first few months of 2008 and 2009 have been poles apart for Indian real estate players. At the start of 2008, consensus was generally bullish on the Indian real estate sector. In this section, we review expectations of investors (including us) in October 2007 vs what has transpired since then.

Fig 32 Last 12 months have seen changes in some major assumptions

Investor expectations one year ago	Actual events that transpired in the last 12 months
Cap rate compression: Street estimates included cap rates of 9–10% for commercial property around this time last year. The expectation was that this would contract to 8–9%. The trigger would be an increased flow of funds into the sector and listing of REITs sponsored by Indian real estate developers (such as DLF, Unitech, IBREL) on the Singapore exchange.	An increase in risk appetite for the property sector in general (regionally and in India) has led to an expansion of cap rates. While IBREL was able to raise funds by sponsoring a REIT, the Singapore market in general has become more cautious about new paper from India. The resulting lack of triggers and increased risk averseness of private equity and secondary market investors has led to cap rates expanding by 150–200bp.
Policy rate cuts: Inflation was lower than the long-term average. Investors generally under-estimated the level to which inflation could rise and expected the RBI to announce rate cuts, resulting in mortgage rate cuts by individual banks.	A sharp increase in global commodity prices (primarily metals and oil) and the low base effect from 2007 has led to a sharp increase in inflation from 1Q08 onwards. Inflation reached a peak of nearly 13% in August 2008. This limited the ability of the RBI to cut interest rates. In fact, ample liquidity in the system in 1H08 led to strong tightening through higher interest rates and a higher CRR. The rate cycle has started turning only now (in October). As discussed earlier, this is unlikely to have an immediate positive impact for developers.
Ease of raising funds: It was a given around October 2007 that property developers would not have any issues regarding capital raising. The Singapore REIT market and the Indian stock exchanges seemed to have a large (if not unlimited) appetite for IPOs and secondary market offerings. The RBI had tightened lending norms but this was more than offset by private equity/venture capital. Residential property sales generated surplus cash for funding operations and land purchases.	As discussed in detail in this report, the primary funding sources for developers have dried up. The equity markets in Singapore and India have no appetite for new offerings from Indian real estate players. Debt funding has become expensive and (importantly) scarce. Meanwhile, residential sales volumes are down 15–25% across markets. The contagion has now spread to the private equity market. October has seen the rate cycle turn in India through a 250bp cut in the CRR and a 100bp cut in the policy interest rate. However, we do not expect this to solve the problem for real estate players in the near term. Banks are unlikely to view them as borrowers of choice in the current environment. Residential property buyers are also likely to postpone buying decisions based on expectations of falling rates and prices.
NAV accretion through land acquisitions: Property stocks were being rewarded for buying land. Investors expected that large land bank acquisitions would continue to drive NAV upgrades. Earnings milestones were considered secondary issues.	This aspect has brought about the biggest change in the way investors perceived property stocks. The focus has shifted from land-banking to monetisation. During the year, investors shifted their focus from land acquisitions to delivery (and hence earnings expectations). Stocks of companies which had earlier leveraged themselves to buy land have been punished. Companies with better-quality balance sheets are likely to fare better from the perspective of both operations and share price performance.
Quality of balance sheet: A year ago, balance sheets were not subject to as much scrutiny as they should have been. This included issues on two important fronts: leverage and transparency. Leverage was primarily being overlooked as the general perception was that fund raising would not be an issue in 2008.	In our report *Beneath the (balance) sheets*, dated 26 August 2008, we dealt with the quality of balance sheets. The ignorance of issues related to transparency ended with the bull market. Stocks of companies with poor annual report disclosures have performed poorly. As mentioned earlier, leverage has emerged as a concern due to the credit/capital crunch.
Other factors:	
	The sensitivity of earnings/NAV estimates and discounts (and hence stock price performance) to macro-parameters such as interest rate changes, GDP growth and inflation was underestimated. The negative reaction of stock prices to tightening measures, slowdown in sales and slowing GDP growth expectations has been stronger than expected.

Source: Macquarie Research, March 2009

Appendix 2: '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 6–9 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 33 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*	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Prices**	Neutral	Neutral	Neutral	Unattractive	Unattractive	Unattractive	Neutral	Neutral	Neutral	Neutral	Unattractive
Commercial											
Volume	Neutral	Neutral	Neutral	Unattractive	Unattractive	Neutral	Unattractive	Unattractive	Unattractive	Unattractive	Neutral
Rents	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive	Neutral	Neutral	Neutral	Unattractive
Retail											
Volume	Attractive	Attractive	Unattractive	Unattractive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Rents	Unattractive	Unattractive	Unattractive	Unattractive	Neutral	Neutral	Unattractive	Neutral	Neutral	Neutral	Unattractive
Hospitality	Neutral	Neutral	Neutral	Attractive	Neutral	Unattractive	Neutral	Neutral	Neutral	Attractive	Neutral
SEZ											Unattractive

Unattractive	Unattractive	**Implies slow down in offtake or negative growth in prices/ rents**
Neutral	Neutral	**Implies stable offtake or flat growth in prices/ rents**
Attractive	Attractive	**Implies higher offtake or 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	X
Indiabulls	X	X	X	X				X		X
Ansal			X	X						X
Mahindra Lifespaces	X	X		X	X			X		X
Provogue										X
HDIL	X	X			X		X			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, March 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 34 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	10 – 15% decline	10 – 15% decline	**New supply:** Limited in the island city **Incremental demand:** Economic capital of India, impacted 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	10 – 15% 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, impacted by the overall slowdown **Pricing:** Moderate- high base effect and upcoming supply limit upside with a broad-based correction
Delhi	5,000 – 20,000	10 – 15% 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, impacted by the overall slowdown **Pricing:** Moderate- high base effect limits upside with a broad-based correction
Other NCR - Gurgaon	3,500 – 7,500	15 – 20% 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; Gurgaon- Manesar projected as the future growth centre, impacted 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	15 – 20% decline	15 – 20% decline	**New supply:** Significant step-up in construction activity, land-locked city, no constraint on supply **Incremental demand:** Impacted by a slowdown in the IT/ITES sector **Pricing:** High base effect limits upside with a broad- based correction
Pune	3,000 – 6,000	10 – 15% 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, impacted by a slowdown in the IT/ ITES sector **Pricing:** Moderate- high base effect limits upside with correction in some areas
Bangalore	3,500 – 8,000	15 – 20% decline	15 – 20% 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 away **Pricing:** Moderate- high base effect limits upside with correction in some areas
Hyderabad	3,500 – 6,000	15 – 20% 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, impacted by a slowdown in the IT/ ITES sector **Pricing:** Moderate**-** high base effect and upcoming supply limit upside with a broad-based correction
Chennai	2,800 – 5,500	5 – 15% 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 impact of the slowdown in the IT/ITES sector **Pricing:** Moderate**-** high base effect and upcoming supply limit upside with correction in some areas
Kolkata	2,800 – 5,000	5 – 15% 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 impact of the slowdown in the IT/ITES sector and

Fig 34 Macquarie's average residential price estimates

				negative sentiment due to state-level politics **Pricing:** Moderate- high base effect and upcoming supply limit upside with correction in some areas
Tier 2/3 cities**	1,500 – 3,000	5 – 15% decline	10 – 15% decline	**New supply:** Early stages of construction activity **Incremental demand:** Driven by emerging second generation of IT/ITES centres, some impact of the slowdown in the IT/ITES sector and the general slowdown **Pricing:** Moderate base effect with correction in some areas, lack of infrastructure biggest impediment

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

Source: Knight Frank, Macquarie Research, March 2009

Fig 35 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	15 – 25% decline	10 – 15% decline	**New supply:** Limited in the island city, competition emerging from suburbs **Incremental demand:** Economic capital of India, impacted 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	10 – 15% decline	10 – 15% decline	**New supply:** Step-up in construction activity **Incremental demand:** Driven by IT/ITES and emergence as alternative to south Mumbai, impacted by a slowdown in the IT/ITES sector and overall slowdown **Pricing:** High base effect limits upside with a broad-based correction
Delhi	200 – 300	10 – 15% decline	15 – 20% 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, impacted by the overall slowdown **Pricing:** Moderate- high base effect limits upside with a broad-based correction
Other NCR - Gurgaon	70 – 90	10 – 15% decline	10 – 15% 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, impacted by the slowdown in the sector **Pricing:** Moderate- high base effect limits upside with a broad-based correction
Other NCR - Noida	50 – 80	10 – 15% decline	15 – 20% decline	**New supply:** Significant step-up in construction activity especially in new SEZs **Incremental demand:** Impacted by the slowdown in the IT/ITES sector **Pricing:** Moderate- high base effect limits upside with a broad-based correction
Pune	45 – 75	0 – 10% 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, impacted by the slowdown in the IT/ ITES sector **Pricing:** Moderate base effect limits upside with a broad-based correction
Bangalore	65 – 100	10 – 15% 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- high base effect limits upside with a broad-based correction
Hyderabad	45 – 75	10 – 15% 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, impacted by the slowdown in the sector **Pricing:** Moderate- high base effect limits upside with a broad-based correction
Chennai	30 – 60	0 – 10% decline	10 – 15% decline	**New supply:** Significant step-up in construction activity

Fig 35 Macquarie's average office rent estimates

				over last 3-5 years **Incremental demand:** Driven by IT/ITES and emergence as alternative to Bangalore, impacted by the slowdown in the IT/ ITES sector **Pricing:** Moderate base effect limits upside with a correction in some areas
Kolkata	30 – 50	0 – 10% decline	10 – 15% 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 impact 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 2/3 cities**	20–40	0 – 10% decline	10 – 15% decline	**New supply:** Early stages of construction activity **Incremental demand**: Impacted 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 2/3 cities: Ahmedabad, Chandigarh, Indore, Jaipur, Mangalore, Mysore, Raipur

Source: Knight Frank, Macquarie Research, March 2009

Fig 36 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	10 – 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	15 – 25% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, impacted by the slowdown in the IT/ITES sector **Pricing:** High base effect, retailers find it difficult to operate profitably
Delhi	100 – 250	10 – 25% decline	15 – 25% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels and high income catchment areas, impact of the overall slowdown in growth **Pricing:** High base effect, retailers find it difficult to operate profitably
Other NCR - Gurgaon	70 – 150	15 – 25% decline	15 – 25% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, impacted 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	15 – 25% decline	10 – 20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, impacted by the slowdown in the IT/ITES sector **Pricing:** Moderate- 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- 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, impacted by the slowdown in the IT/ ITES sector **Pricing:** Moderate- 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, impacted by the slowdown in the IT/ITES sector **Pricing:** Moderate- high base effect limits upside with a correction in some areas
Chennai	40 – 65	5 – 10% decline	5 – 20% decline	**New supply:** Significant step-up in construction activity **Incremental demand:** Retail expansion plans track rising income levels, impacted 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, impacted by the slowdown in the IT/ITES sector **Pricing:** Moderate base effect limits upside with a correction in some areas
Tier 2/3 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, impacted 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 2/3 cities: Ahmedabad, Chandigarh, Indore, Jaipur, Mangalore, Mysore, Raipur

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

Appendix 3: Risks for the property sector

We provide two quotes that help highlight some issues facing the sector

- **From *Planning Commission Approach Paper to the 11th Five-Year Plan* by the Planning Commission of India 2007:**

  The scope for expanding construction activity is limited by constraints on land development in many states. The most important of these arise from the *Urban Land Ceiling Act*. While this has been repealed in most states (including Maharashtra where it was repealed in 2008), it is still in operation in some states. Non-transparent land use policies, which are almost ubiquitous, also add to the problem. Urban Rent Control, high stamp duty, and other transfer costs also restrict construction.

  The situation is aggravated by low investment in urban roads and rapid transport systems, which if developed, can help disperse population and mitigate the high cost of urban properties.

  Lack of affordable housing in urban areas forces people to live in unsatisfactory and unhygienic conditions. Government polices should facilitate access to social housing in urban areas, especially for the urban poor.

  There is considerable scope for FDI [foreign direct investment] in this sector and has to be viewed in light of the fact that even in China nearly half the FDI inflows were in the housing sector alone. Investment in the sector can be stimulated if government and SEBI bring about refinements in the financial markets by developing sophisticated financial instruments, customised for real-estate sector.

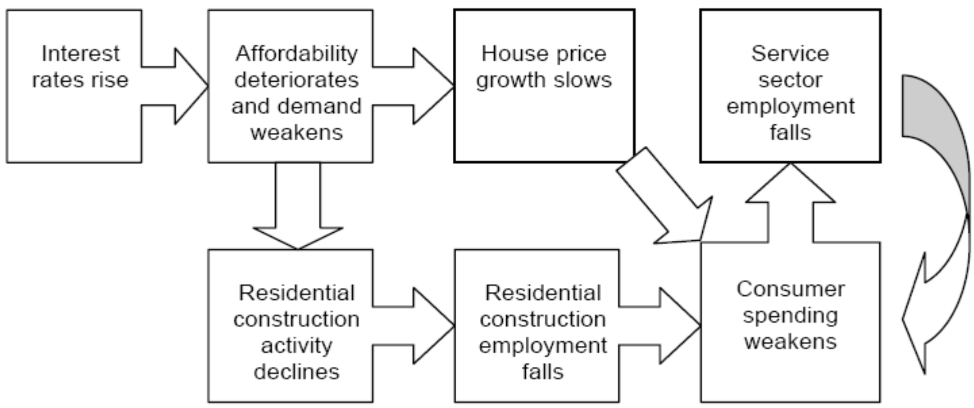
- **From *How Singapore Is Trumping Mumbai on India REITs* by Andy Mukherjee on Bloomberg News:**

  … [T]he real, big risks in property investments in India are outside any valuation model. The 'fair value' of property in India isn't just unknown. In the present state of the physical market, it's unknowable…

Property story is heavily based on overall market growth

A slowdown in economic growth in India could dampen the euphoria surrounding the sector. The economy is dependent on, and hence could be severely affected by, factors such as political or regulatory intervention, including unfavourable changes in liberalisation policies, social disturbances and other acts of violence or war, natural calamities, commodity and energy prices, and various other factors. The real estate sector is significantly impacted by changes in socio-economic factors such as demographic trends, employment and income levels, and interest rates, among other issues. These factors can negatively affect the demand for and valuation of the sector.

Fig 37 Potential interest rate impact



Source: Macquarie Research, March 2009

Infrastructure improving but still a significant issue

Travel through India is still a bumpy ride. We believe all modes of transportation are in desperate need of modernisation, roads are congested, airports are not up to date and, while rail is the preferred mode of travel for most, Mumbai for instance does not have enough rail tracks for a city of 15m-plus people. For an office asset to be classified as Grade A, it must have its own water tanks and back-up power generator as government-provided services are not reliable. Water supplies have a ‘waste’ factor of 50% due to unauthorised diversions from government-laid pipes. Partly as a result of this, floor space ratios (FSR) across the country are generally less than 2:1 as current infrastructure cannot keep up with development potential.

Though the real estate sector is growing at strong 30% annually, cities in India are crumbling with little or non-existent infrastructure, traffic snarls and increasing pollution – all a result of haphazard or no urban planning. This is apparent in Tier-2 and Tier-3 cities that are seeing this much real estate action for the first time.

Cities around the globe have been through major transformations in the past decade in order to remain magnets for business and growth. While some have undertaken impressive redevelopment programmes, others are creating new models such as multi-core urban zones to reduce congestion. Dubai, Beijing, Hong Kong, Bangkok, Tokyo and Singapore are key examples. Mumbai, the financial powerhouse of India, houses the headquarters of some of India's and the world's most respected corporations and institutions. We believe there is no shortage of visions for Mumbai city, but what is lacking is effective implementation. We think public investments with central help and state facilitation need to leverage private investments.

Regionally fragmented market

Although the likes of DLF and Unitech are rolling out across India, the real estate market in India remains largely unorganised and fragmented with a handful of real estate developers dominating a city or region. Going national is difficult to do and few, if any, developers have done it successfully. Property regulations are very much state-based. The key reason for this has been the importance of understanding the local market and environment. It can also be a matter of ‘who you know’, not ‘what you know’, particularly in Tier-2 and Tier-3 cities. New entrants will likely take a while to understand these local nuances.

Transparency levels are improving, yet far from international standards

The real estate sector in India has traditionally been unorganised, involving illegal transactions. Additionally, property transactions, ownership records, as well as land titles are unclear and the legal system is fraught with loopholes. Also, standards in the building industry are not uniform or enforced. However, this trend is witnessing a decline, due mainly to a change in buyer profiles (a larger proportion of buyers are end users), the increasingly easy availability of housing finance (which would obviously not fund the cash component) and favourable changes in stamp duty law.

Restrictions on foreign direct investment in the real estate sector

While the Indian government has permitted FDI of up to 100% without prior regulatory approval in projects such as townships, housing, built-up infrastructure, and construction and development, such investments are subject to certain restrictions such as minimum size of built-up area and minimum capitalisation. Similarly for capital repatriation, investors need to apply for approval from the RBI.

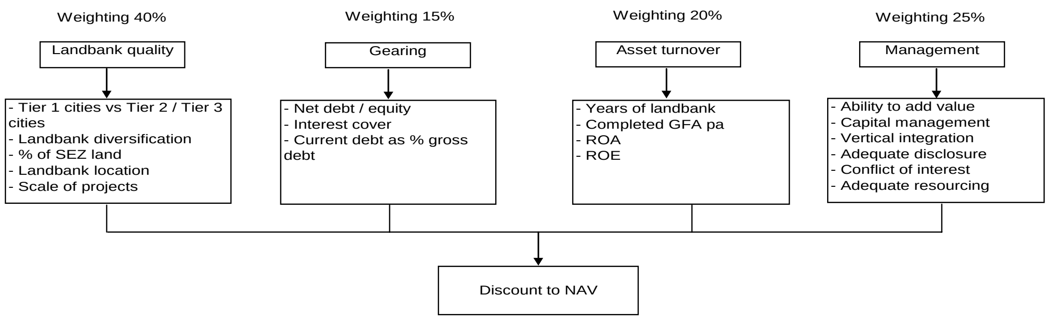
Such laws have been liberalised of late but foreign retailers can only enter India independently in ‘single-brand’ retail outlets. In contrast, FDI in retail has been allowed in China since 1992. Retail sales in China have grown at a CAGR of 13.5% since then. Sales showed CAGR of 19.5% in 1992–96. Initially, FDI was restricted to six major cities and SEZs, in addition to specific ownership levels. There is evidence that FDI lifts employment levels, reduces prices, grows the overall retail pie and adds significantly to the government’s tax collection. Retailers in India are no doubt opposed to further liberalisation due to increased competition, as are certain elements of the government. Therefore, FDI is restricted to a limited set of opportunities.

Appendix 4: Macquarie's DiNAV Model

Our DiNAV model helps us to set our target price relative to the underlying NAV of the company. It is a relative valuation tool, ie, it helps us set the target discount/premium to the NAV of one developer relative to another.

We have carefully chosen certain factors that are important to a real estate company's success and assigned weightings to each factor. The respective weightings are then applied for ascertaining discount or premium to NAV. In our view, we consider the important factors to be land bank quality (40%), gearing (15%), asset turnover (20%) and management-related factors (25%) (see Figure 38).

Fig 38 Macquarie DiNAV Model (India) – NAV discount/premium driven by four factors



Source: Macquarie Research, March 2009

Larger (benchmark) player expected to trade at NAV

In absolute terms, the best developers in the Indian market should trade at a discount to NAV (25–35% discount) in our view. We do not believe that a premium is warranted at this stage. Premiums imply potential for NAV growth, which seem difficult in the near term. As discussed earlier, the three primary drivers of accretion have been impacted:

- **Price growth:** We expect a correction in residential prices and commercial and retail rentals in most markets, notably the NCR (for details, see Appendix II on page 29).
- **Cap-rate compression:** The listing of the Singapore REITs sponsored by Indian developers, which was expected in 1Q 2008, had been delayed due to market conditions. These have now been scrapped due to market conditions. As expected, this is compelling developers to raise project-level private equity funding at lower valuations.
- **New land purchases:** We believe the construction bandwidth for Indian developers is nearly full. Investors are unlikely to ascribe value to any new land acquisition where projects are more than 3–5 years away.

Mid-sized developers should trade at a 40–50% discount to NAV

We believe Indian mid-sized developers should trade at a 40–50% discount to NAV. Key reasons are:

- **Smaller companies are less likely to enjoy preferred supplier relationships.** Larger property developers leverage their scale to negotiate preferential access to key inputs: cement, steel and construction services. These have become scarce due to the ongoing infrastructure and housing boom in India.
- **Capital constraints hit smaller players harder.** Targeted monetary policy changes have reduced availability of debt for developers. The scarce capital is chasing better transparency levels offered by larger players.
- **Lack of flexibility, given lack of scale and diversified land bank**. A diversified land bank allows larger developers to focus on the most lucrative opportunities at any given time.

INDIA

HDIL

18 March 2009

HDIL IN		**Outperform**
Stock price as of 17 Mar 09	Rs	69.75
12-month target	Rs	141.00
Upside/downside	%	+102.2
Valuation	Rs	217.00
- Sum of Parts		
GICS sector		real estate
Market cap	Rs m	19,216
Market cap	US$m	374
Number shares on issue	m	275.5

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	23,804	23,334	33,889	37,580
EBITDA	m	16,921	19,202	25,233	28,702
EBITDA growth	%	155.6	13.5	31.4	13.7
Reported profit	m	14,061	14,995	17,760	19,964
Adjusted profit	m	14,074	14,995	17,760	19,964
EPS rep	Rs	51.04	55.99	64.47	72.47
EPS rep growth	%	115.8	9.7	15.1	12.4
EPS adj	Rs	51.09	57.45	64.47	72.47
EPS adj growth	%	116.0	12.5	12.2	12.4
PE rep	x	1.4	1.2	1.1	1.0
PE adj	x	1.4	1.2	1.1	1.0
Total DPS	Rs	4.514	5.212	5.931	6.667
Total DPS growth	%	0.00	15.47	13.79	12.41
Total div yield	%	6.5	7.5	8.5	9.6
ROA	%	35.7	23.1	25.3	23.7
ROE	%	64.6	34.7	30.6	26.5
EV/EBITDA	x	2.1	1.9	1.4	1.3
Net debt/equity	%	75.9	34.1	27.2	12.6
Price/book	x	0.5	0.4	0.3	0.2

HDIL IN rel SENSEX performance, & rec history

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

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The SRS king

Event

- We review our NAV estimates and target prices for all of the developers under our coverage.

Impact

- We lower our target price to Rs141 from Rs260 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 13–14% vs 12–13% earlier. Our NAV estimates have been adjusted to reflect this.
  - ⇒ 4Q2008 saw sales volumes of residential property and TDR (transferable development rights) fall to their lowest levels 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 some pick-up in sales volumes in individual markets after the weak fourth quarter. For example, HDIL launched a mid-income residential project in Kurla (central Mumbai) at a price of Rs5,250 per sqft vs a prevailing price of Rs6,000–7,500 per sqft. At the prevailing prices, volumes had dried up in the area. However, after this latest project launch, HDIL sold 475 out of the total 760 units within a week. In fact, the company confirmed that it sold 300 units on the opening day and received over 1,000 interested phone calls and 700 visitors in the three days around the launch period.
  - ⇒ We believe that while this is encouraging, it is also anecdotal. We would watch the situation closely to see if this is a leading indicator of any turnaround in sales volumes.

Earnings revision

- We have reduced our NAV estimate by 38% to Rs217. This cut is attributed to the factors discussed above.
- Our target NAV discount has been increased to 35% from 25% earlier.

Price catalyst

- 12-month price target: Rs141.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices, fund raising.

Action and recommendation

- HDIL has been able to source capital. All its major payments due until mid-2010 have been refinanced (over 3–5 years). Progress on the ground has also been impressive. While TDR sales have collapsed, the newly launched projects highlight a comfortable debt and cashflow position.

Fig 1 NAV calculation

	Value (Rs m)	Value per share (Rs)
Residential projects	14,608	53
Retail projects	5,784	21
Commercial projects	67,091	244
-of which 'Airport project'	49,344	179
Gross NAV	**87,484**	**318**
Less		
- Debt/ (cash)	27,622	100
- Outstanding land payments	0	0
Net NAV	**59,862**	**217**
Assuming 35% discount to NAV		141
Target price		**141**

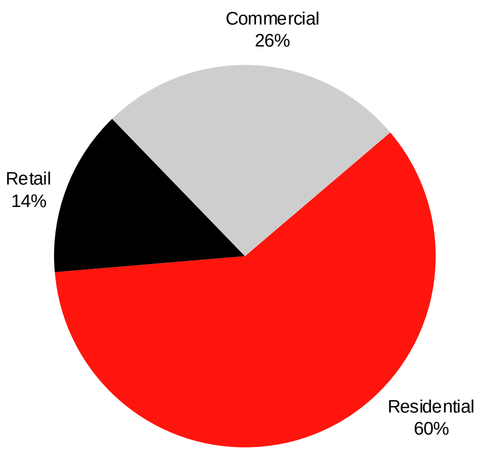
Source: Macquarie Research, March 2009

Fig 2 WACC calculation

Risk-free rate	7.50%
Market risk premium	7.5%
Total market return	15.0%
Beta (x)	1.50
Cost of equity	18.8%
Gross cost of debt	13.0%
Tax rate	33.9%
Net cost of debt	8.6%
Debt/capital ratio	30%
WACC	**15.7%**

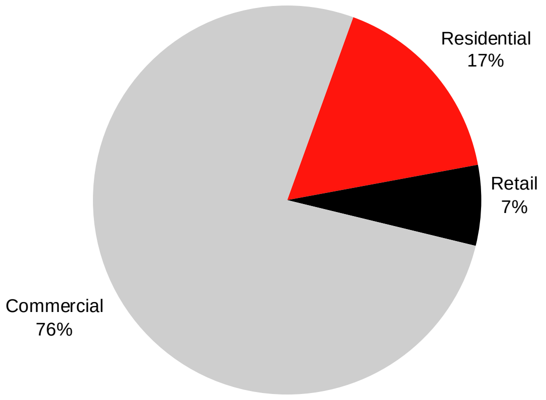
Source: Macquarie Research, March 2009

Fig 3 Product mix – land bank of 149m sqf



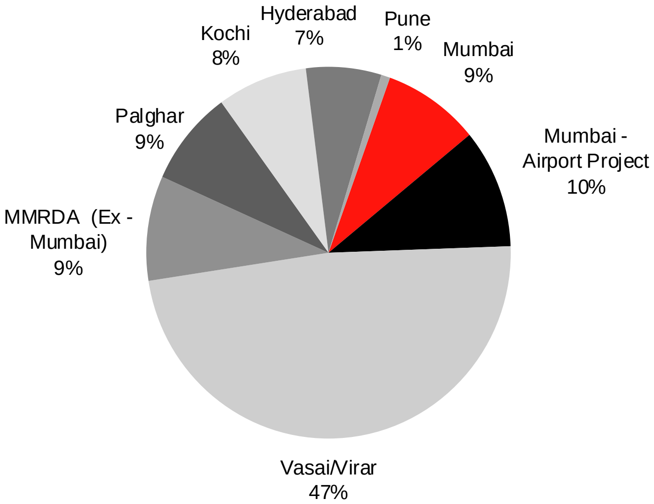
Source: Company data, Macquarie Research, March 2009

Fig 4 Composition of NAV (Rs318) by product type



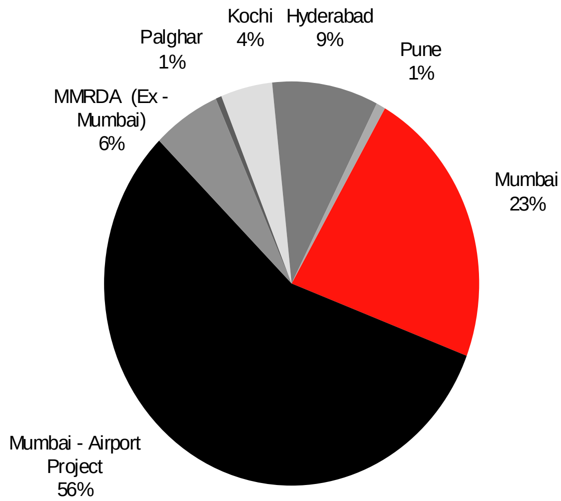
Source: Company data, Macquarie Research, March 2009

Fig 5 Land bank by city – 149m sqf



Source: Company data, Macquarie Research, March 2009

Fig 6 Composition of NAV (Rs318) by city



Source: Company data, Macquarie Research, March 2009

Housing Development and Infrastructure Ltd (HDIL IN, Outperform, Target price: Rs141.00)

Profit & Loss		2008A	2009E	2010E	2011E
Net Property Income	m	0	0	0	0
Development Income	m	23,804	23,334	33,889	37,580
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**23,804**	**23,334**	**33,889**	**37,580**
Management Fees	m	0	0	0	0
Other Expenses	m	-6,882	-4,132	-8,656	-8,878
EBITDA	**m**	**16,921**	**19,202**	**25,233**	**28,702**
Dep & Amortisation	m	47	120	235	876
EBIT	**m**	**16,875**	**19,082**	**24,998**	**27,826**
Net Interest Income	m	-1,408	-2,141	-2,335	-2,335
Associates	m	0	0	0	0
Exceptionals	m	-13	0	0	0
Other Pre-Tax Income	m	529	700	1,017	1,127
Pre-Tax Profit	**m**	**15,983**	**17,642**	**23,680**	**26,618**
Tax Expense	m	-1,922	-2,646	-5,920	-6,655
Net Profit	**m**	**14,061**	**14,995**	**17,760**	**19,964**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**14,061**	**14,995**	**17,760**	**19,964**
Adjusted Earnings	**m**	**14,074**	**14,995**	**17,760**	**19,964**
EPS (rep)		51.04	55.99	64.47	72.47
EPS (adj)		51.09	57.45	64.47	72.47
EPS Growth (adj)	%	116.0	12.5	12.2	12.4
PE (rep)	x	1.4	1.2	1.1	1.0
PE (adj)	x	1.4	1.2	1.1	1.0
Total DPS		4.51	5.21	5.93	6.67
Total Div Yield	%	6.5	7.5	8.5	9.6
Weighted Average Shares	m	275	268	275	275
Period End Shares	m	275	275	275	275

Profit & Loss Ratios		2008A	2009E	2010E	2011E
Revenue Growth	%	97.7	-2.0	45.2	10.9
EBITDA Growth	%	155.6	13.5	31.4	13.7
EBIT Growth	%	155.7	13.1	31.0	11.3
EBITDA Margins	%	71.1	82.3	74.5	76.4
EBIT Margins	%	70.9	81.8	73.8	74.0
Net Profit Margins	%	59.1	64.3	52.4	53.1
Payout Ratio	%	8.8	9.1	9.2	9.2
EV/EBITDA	x	2.1	1.9	1.4	1.3
EV/EBIT	x	2.1	1.9	1.5	1.3
Balance Sheet Ratios					
ROE	%	64.6	34.7	30.6	26.5
ROA	%	35.7	23.1	25.3	23.7
ROIC	%	136.7	25.3	28.0	24.8
Net Debt/Equity	%	75.9	34.1	27.2	12.6
Interest Cover	x	12.0	8.9	10.7	11.9
Price/Book	x	0.5	0.4	0.3	0.2
Book Value per Share		132.1	181.5	240.1	305.9

Cashflow Analysis		2008A	2009E	2010E	2011E
EBITDA	**m**	**16,921**	**19,202**	**25,233**	**28,702**
Tax Paid	m	-1,922	-2,646	-5,920	-6,655
Chg in Working Capital	m	-52,419	-1,680	-15,562	1,753
Net Interest Paid	m	-1,408	-2,141	-2,335	-2,335
Other	m	-37	10	23	26
Operating Cashflow	**m**	**-38,864**	**12,745**	**1,439**	**21,491**
Acquisitions	m	-337	0	0	0
Capex	m	-358	-1,465	-1,771	-13,376
Asset Sales	m	0	0	0	0
Other	m	529	700	1,017	1,127
Investing Cashflow	**m**	**-165**	**-765**	**-754**	**-12,249**
Dividend (Ordinary)	m	-1,243	-1,380	-1,634	-1,837
Equity Raised	m	343	612	0	0
Debt Movements	m	27,371	0	0	0
Other	m	16,007	-612	0	-0
Financing Cashflow	**m**	**42,477**	**-1,379**	**-1,634**	**-1,837**
Net Chg in Cash/Debt	**m**	**3,448**	**10,601**	**-949**	**7,406**

Balance Sheet		2008A	2009E	2010E	2011E
Cash	m	3,505	14,106	13,157	20,563
Receivables	m	566	555	8,356	9,266
Inventories	m	55,229	58,334	67,778	65,765
Investments	m	1,915	1,915	1,915	1,915
Fixed Assets	m	0	0	0	0
Intangibles	m	91	91	91	91
Other Assets	m	13,704	15,049	16,585	29,086
Total Assets	**m**	**75,010**	**90,050**	**107,882**	**126,686**
Payables	m	5,763	7,177	8,860	9,511
Short Term Debt	m	0	0	0	0
Long Term Debt	m	31,143	31,153	31,176	31,202
Provisions	m	1,713	1,713	1,713	1,713
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**38,619**	**40,044**	**41,749**	**42,426**
Shareholders' Funds	m	36,391	50,007	66,133	84,260
Minority Interests	m	0	0	0	0
Total S/H Equity	**m**	**36,391**	**50,007**	**66,133**	**84,260**
Total Liab & S/H Funds	**m**	**75,010**	**90,050**	**107,882**	**126,686**

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

INDIA

Indiabulls Real Estate

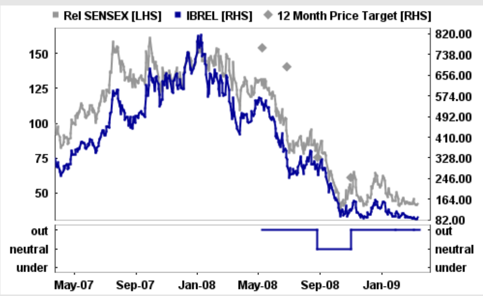
18 March 2009

IBREL IN		**Outperform**
Stock price as of 17 Mar 09	Rs	87.90
12-month target	Rs	202.00
Upside/downside	%	+129.8
Valuation	Rs	311.00
- Sum of Parts		
GICS sector		real estate
Market cap	Rs m	22,636
Market cap	US$m	440
Number shares on issue	m	257.5

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	1,407	5,132	15,927	20,933
EBITDA	m	12	700	6,085	9,528
EBITDA growth	%	-70.0	5,962.2	769.2	56.6
Reported profit	m	3,983	1,308	3,751	5,249
Adjusted profit	m	4,008	1,308	3,751	5,249
EPS rep	Rs	16.54	5.11	12.55	17.56
EPS rep growth	%	2,025.7	-69.1	145.5	39.9
EPS adj	Rs	16.64	5.11	12.55	17.56
EPS adj growth	%	2,039.3	-69.3	145.5	39.9
PE rep	x	5.3	17.2	7.0	5.0
PE adj	x	5.3	17.2	7.0	5.0
Total DPS	Rs	16.889	5.101	12.522	17.520
Total DPS growth	%	0.00	-69.80	145.47	39.92
Total div yield	%	19.2	5.8	14.2	19.9
ROA	%	0.0	0.4	5.4	6.6
ROE	%	13.4	2.8	6.3	7.5
EV/EBITDA	x	-335.1	-3.6	0.2	0.1
Net debt/equity	%	-88.6	-41.2	-41.1	-32.0
Price/book	x	0.5	0.5	0.4	0.4

IBREL IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, March 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.

Impact

- We lower our target price to Rs202 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 13–14% vs 12–13% earlier. Our NAV estimates have been adjusted to reflect this.
  - ⇒ We have also adjusted our target price to account for the change in listed investments.
- 4Q2008 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. However, this is anecdotal. It is difficult to draw any conclusions regarding volume trends or a turnaround for now.

Earnings revision

- We have reduced our NAV estimate by 10% to Rs311. This cut is attributed to the factors discussed above.
- Our target NAV discount has been increased to 35% from 25% earlier.

Price catalyst

- 12-month price target: Rs202.00 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 stock is currently trading below the value of its cash and listed investments.
- The balance sheet appears robust. Some investors had raised concerns regarding disclosures in the annual report. Documentary evidence produced by the management in its various analyst meetings and earnings releases has allayed some of these concerns.

Fig 1 NAV calculation

	Value (Rs m)	Value per share (Rs)
Residential projects	14,738	49
Retail projects	10,618	36
Commercial projects	35,716	120
Retail business	141	0
Gross NAV	**61,213**	**205**
Less		
- Debt/ (cash) in the parent entity	-16,238	-54
- Debt/ (cash) in the power business	-15,512	-52
- Outstanding land payments	0	0
Net NAV	**92,963**	**311**
Assuming 35% discount to NAV		202
Target price		**202**

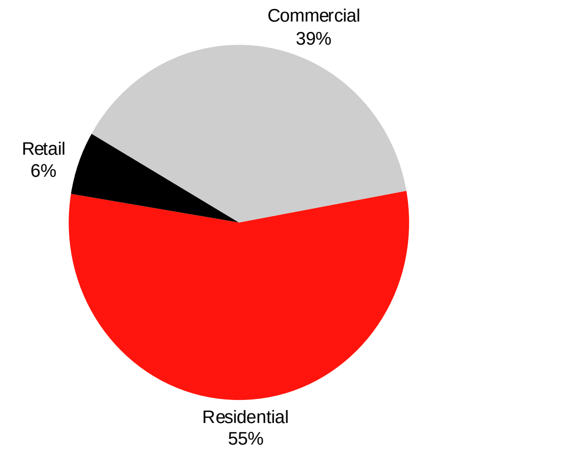
Source: Macquarie Research, March 2009

Fig 2 WACC calculation

Risk-free rate	7.5%
Market risk premium	7.5%
Total market return	15.0%
Beta (x)	1.50
Cost of equity	18.8%
Gross cost of debt	13.0%
Tax rate	33.9%
Net cost of debt	8.6%
Debt/capital ratio	30%
WACC	**15.7%**

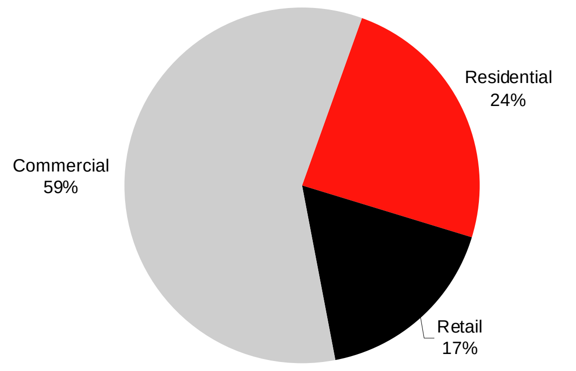
Source: Macquarie Research, March 2009

Fig 3 Product mix – land bank of 197m sqf



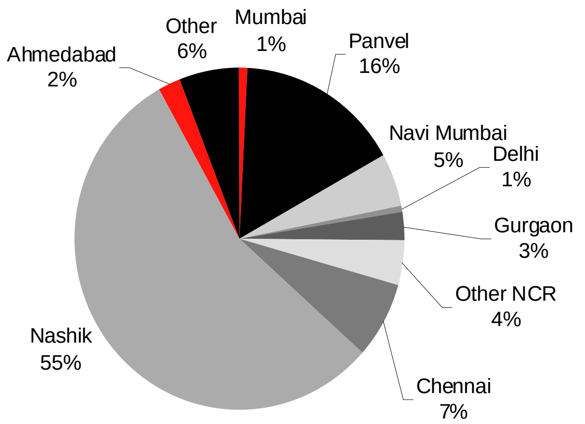
Source: Company data, Macquarie Research, March 2009

Fig 4 Composition of NAV (Rs205) by product type



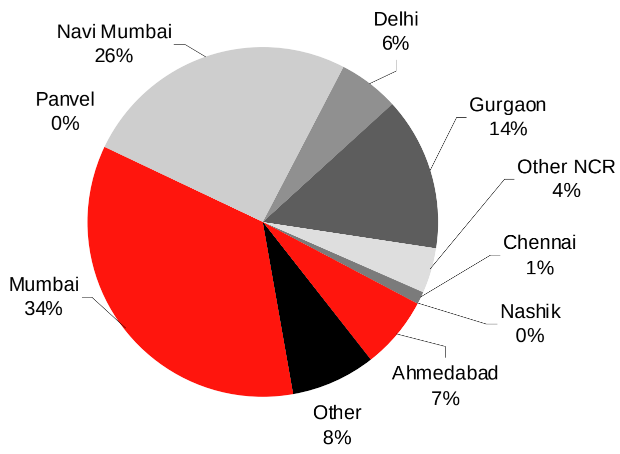
Source: Company data, Macquarie Research, March 2009

Fig 5 Land bank by city – 197m sqf



Source: Company data, Macquarie Research, March 2009

Fig 6 Composition of NAV (Rs205) by city



Source: Company data, Macquarie Research, March 2009

Indiabulls Real Estate (IBREL IN, Outperform, Target price: Rs202.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	1,407	5,132	15,927	20,933
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**1,407**	**5,132**	**15,927**	**20,933**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,395	-4,432	-9,841	-11,405
EBITDA	**m**	**12**	**700**	**6,085**	**9,528**
Dep & Amortisation	m	33	357	1,624	3,388
EBIT	**m**	**-22**	**343**	**4,461**	**6,140**
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	1,274	1,675
Pre-Tax Profit	**m**	**5,645**	**1,906**	**5,298**	**7,378**
Tax Expense	m	-1,598	-533	-1,482	-2,064
Net Profit	**m**	**4,047**	**1,373**	**3,816**	**5,314**
Minority Interests	m	-65	-65	-65	-65
Reported Earnings	**m**	**3,983**	**1,308**	**3,751**	**5,249**
Adjusted Earnings	**m**	**4,008**	**1,308**	**3,751**	**5,249**
EPS (rep)		16.54	5.11	12.55	17.56
EPS (adj)		16.64	5.11	12.55	17.56
EPS Growth (adj)	%	2,039.3	-69.3	145.5	39.9
PE (rep)	x	5.3	17.2	7.0	5.0
PE (adj)	x	5.3	17.2	7.0	5.0
Total DPS		16.89	5.10	12.52	17.52
Total Div Yield	%	19.2	5.8	14.2	19.9
Weighted Average Shares	m	241	256	299	299
Period End Shares	m	241	256	299	299

Profit & Loss Ratios		**2008A**	**2009E**	**2010E**	**2011E**
Revenue Growth	%	910.8	264.8	210.4	31.4
EBITDA Growth	%	-70.0	5,962.2	769.2	56.6
EBIT Growth	%	nmf	nmf	1,200.1	37.6
EBITDA Margins	%	0.8	13.6	38.2	45.5
EBIT Margins	%	-1.5	6.7	28.0	29.3
Net Profit Margins	%	287.8	26.8	24.0	25.4
Payout Ratio	%	101.5	99.7	99.7	99.7
EV/EBITDA	x	-335.1	-3.6	0.2	0.1
EV/EBIT	x	178.9	-7.4	0.3	0.2
Balance Sheet Ratios					
ROE	%	13.4	2.8	6.3	7.5
ROA	%	-0.0	0.4	5.4	6.6
ROIC	%	-0.5	3.8	9.0	9.2
Net Debt/Equity	%	-88.6	-41.2	-41.1	-32.0
Interest Cover	x	-0.0	0.8	10.2	14.1
Price/Book	x	0.5	0.5	0.4	0.4
Book Value per Share		187.5	192.1	234.1	234.0

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**12**	**700**	**6,085**	**9,528**
Tax Paid	m	-1,598	-533	-1,482	-2,064
Chg in Working Capital	m	-2,515	-9,559	-1,261	1,792
Net Interest Paid	m	-522	-437	-437	-437
Other	m	-91	-65	-64	-64
Operating Cashflow	**m**	**-4,715**	**-9,893**	**2,841**	**8,755**
Acquisitions	m	1,703	0	0	0
Capex	m	-2,029	-20,106	-12,703	-12,574
Asset Sales	m	0	0	0	0
Other	m	6,240	2,000	1,274	1,675
Investing Cashflow	**m**	**5,914**	**-18,106**	**-11,428**	**-10,899**
Dividend (Ordinary)	m	-4,067	-1,305	-3,742	-5,236
Equity Raised	m	3,884	-420	-2,236	0
Debt Movements	m	1,969	0	0	0
Other	m	34,863	4,401	23,065	-69
Financing Cashflow	**m**	**36,649**	**2,676**	**17,087**	**-5,304**
Net Chg in Cash/Debt	**m**	**37,848**	**-25,323**	**8,500**	**-7,448**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	53,759	28,436	36,936	29,487
Receivables	m	1,165	4,251	3,273	2,868
Inventories	m	11,441	5,132	6,545	5,735
Investments	m	2,246	21,995	33,073	42,259
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**	**72,877**	**92,890**	**93,411**
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	3,396	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	49,133	69,972	69,917
Minority Interests	m	11,671	11,671	11,671	11,671
Total S/H Equity	**m**	**56,819**	**60,804**	**81,643**	**81,587**
Total Liab & S/H Funds	**m**	**81,674**	**72,877**	**92,890**	**93,411**

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

INDIA

Unitech

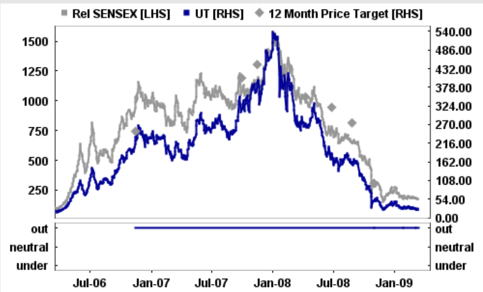
18 March 2009

UT IN		**Outperform**
Stock price as of 17 Mar 09	Rs	25.95
12-month target	Rs	71.00
Upside/downside	%	+173.6
Valuation	Rs	118.00
- Sum of Parts		
GICS sector		real estate
Market cap	Rs m	42,066
Market cap	US$m	818
Number shares on issue	m	1,621

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	bn	41.2	59.4	73.3	81.4
EBITDA	bn	22.0	29.3	35.0	37.6
EBITDA growth	%	8.3	33.1	19.5	7.4
Reported profit	bn	16.6	12.5	15.5	17.1
Adjusted profit	bn	16.6	12.5	15.5	17.1
EPS rep	Rs	10.25	7.68	9.57	10.52
EPS rep growth	%	27.1	-25.1	24.6	10.0
EPS adj	Rs	10.24	7.68	9.57	10.52
EPS adj growth	%	27.3	-25.0	24.6	10.0
PE rep	x	2.5	3.4	2.7	2.5
PE adj	x	2.5	3.4	2.7	2.5
Total DPS	Rs	0.256	0.219	0.273	0.300
Total DPS growth	%	-12.89	-14.41	24.59	9.97
Total div yield	%	1.0	0.8	1.1	1.2
ROA	%	12.0	11.6	12.8	12.9
ROE	%	59.4	29.6	27.9	23.9
EV/EBITDA	x	3.6	2.7	2.3	2.1
Net debt/equity	%	208.8	76.6	54.4	32.7
Price/book	x	1.2	0.9	0.7	0.5

UT IN rel SENSEX performance, & rec history



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

Analysts

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The survivor

Event

- We review our NAV estimates and target prices for all of the developers under our coverage.

Impact

- We lower our target price to Rs71 from Rs100 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 13–14% vs 12–13% earlier. Our NAV estimates have been adjusted to reflect this.
  - ⇒ 4Q2008 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 some pick-up in sales volumes in individual markets after the weak fourth quarter. However, this is anecdotal. It is difficult to draw any conclusions regarding volume trends or a turnaround for now.

Earnings revision

- We have reduced our NAV estimate by 11% to Rs118. This cut is attributed to the factors discussed above.
- Our target NAV discount has been increased to 40% from 25% earlier.

Price catalyst

- 12-month price target: Rs71.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices/ rents, fund raising.

Action and recommendation

- We believe Unitech can survive the liquidity crunch. Its liquidity requirements are likely to be met by fresh funds raised at the project-specific level or from dilution.
- The recent fund-raising activities – the stake sale in its telecom subsidiary and sale of a hotel property in Gurgaon (northern India) – have provided relief to the balance sheet.

Fig 1 NAV calculation

	Value (Rs m)	Value per share (Rs)
Residential projects	146,166	90
Retail projects	15,024	9
Commercial projects	53,431	33
Institutional projects	23,001	14
Hotel Projects	11,927	7
Gross NAV	**249,549**	**154**
Less		
- Debt	58,416	36
Net NAV	**191,133**	**118**
Assuming 40% discount to NAV		71
Target price		**71**

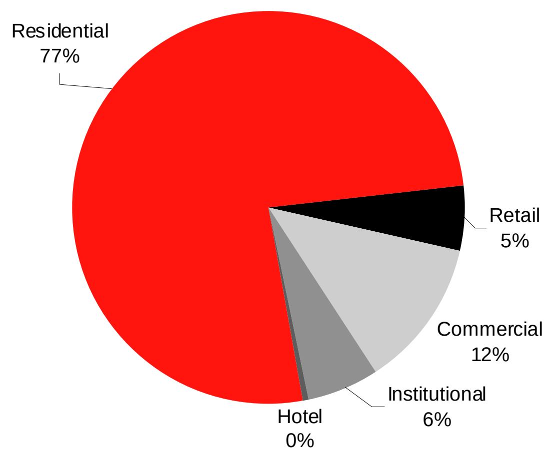
Source: Macquarie Research, March 2009

Fig 2 WACC calculation

Risk-free rate	7.5%
Market risk premium	7.5%
Total market return	15.0%
Beta (x)	1.50
Cost of equity	18.8%
Gross cost of debt	13.0%
Tax rate	33.9%
Net cost of debt	8.6%
Debt/capital ratio	30%
WACC	**15.7%**

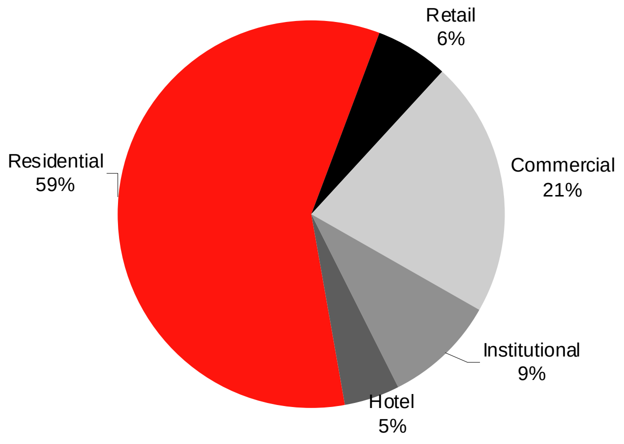
Source: Macquarie Research, March 2009

Fig 3 Product mix – land bank of 588m sqf



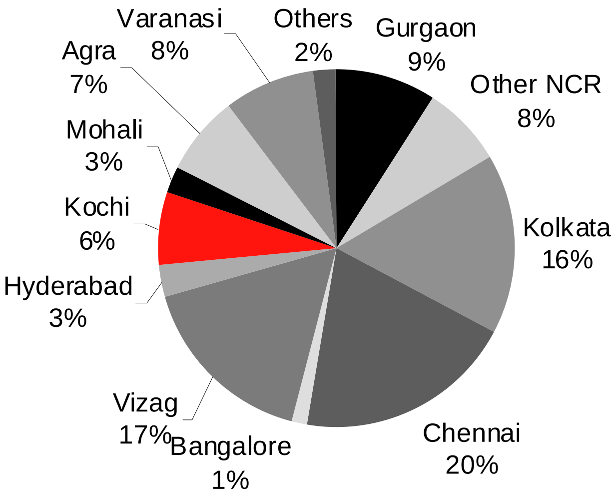
Source: Company data, Macquarie Research, March 2009

Fig 4 Composition of NAV(Rs154) by product type



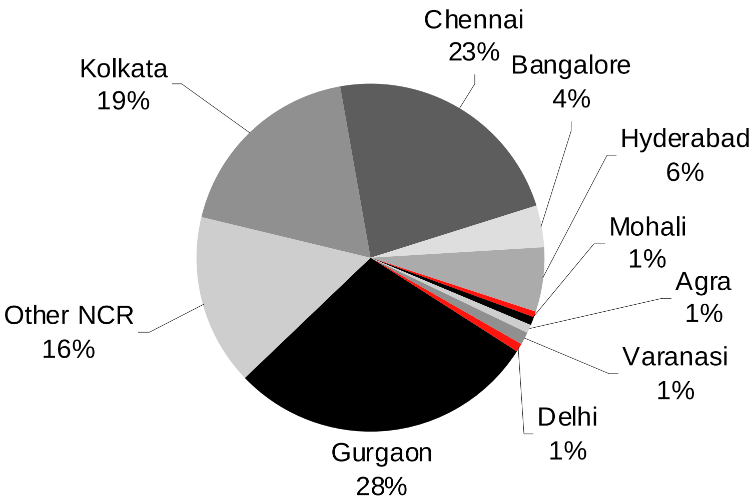
Source: Company data, Macquarie Research, March 2009

Fig 5 Land bank by city – 588m sqf



Source: Company data, Macquarie Research, March 2009

Fig 6 Composition of NAV (Rs154) by city



Source: Company data, Macquarie Research, March 2009

Unitech Limited (UT IN, Outperform, Target price: Rs71.00)

Profit & Loss		2008A	2009E	2010E	2011E
Net Property Income	m	0	0	0	0
Development Income	m	41,152	59,403	73,258	81,376
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**41,152**	**59,403**	**73,258**	**81,376**
Management Fees	m	0	0	0	0
Other Expenses	m	-19,114	-30,078	-38,229	-43,750
EBITDA	**m**	**22,038**	**29,325**	**35,029**	**37,626**
Dep & Amortisation	m	205	639	832	1,250
EBIT	**m**	**21,833**	**28,685**	**34,197**	**36,377**
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	1,485	1,465	1,628
Pre-Tax Profit	**m**	**20,759**	**19,052**	**23,689**	**26,031**
Tax Expense	m	-3,986	-6,459	-8,031	-8,824
Net Profit	**m**	**16,773**	**12,594**	**15,658**	**17,206**
Minority Interests	m	-129	-129	-129	-129
Reported Earnings	**m**	**16,644**	**12,465**	**15,530**	**17,078**
Adjusted Earnings	**m**	**16,619**	**12,465**	**15,530**	**17,078**
EPS (rep)		10.25	7.68	9.57	10.52
EPS (adj)		10.24	7.68	9.57	10.52
EPS Growth (adj)	%	27.3	-25.0	24.6	10.0
PE (rep)	x	2.5	3.4	2.7	2.5
PE (adj)	x	2.5	3.4	2.7	2.5
Total DPS		0.26	0.22	0.27	0.30
Total Div Yield	%	1.0	0.8	1.1	1.2
Weighted Average Shares	m	1,623	1,623	1,623	1,623
Period End Shares	m	1,623	1,623	1,623	1,623

Profit & Loss Ratios		2008A	2009E	2010E	2011E
Revenue Growth	%	23.9	44.3	23.3	11.1
EBITDA Growth	%	8.3	33.1	19.5	7.4
EBIT Growth	%	7.7	31.4	19.2	6.4
EBITDA Margins	%	53.6	49.4	47.8	46.2
EBIT Margins	%	53.1	48.3	46.7	44.7
Net Profit Margins	%	40.8	21.2	21.4	21.1
Payout Ratio	%	2.5	2.9	2.9	2.9
EV/EBITDA	x	3.6	2.7	2.3	2.1
EV/EBIT	x	3.6	2.8	2.3	2.2
Balance Sheet Ratios					
ROE	%	59.4	29.6	27.9	23.9
ROA	%	12.0	11.6	12.8	12.9
ROIC	%	29.0	16.5	26.0	24.2
Net Debt/Equity	%	208.8	76.6	54.4	32.7
Interest Cover	x	7.8	2.6	2.9	3.0
Price/Book	x	1.2	0.9	0.7	0.5
Book Value per Share		22.2	29.6	38.9	49.2

Cashflow Analysis		2008A	2009E	2010E	2011E
EBITDA	**m**	**22,038**	**29,325**	**35,029**	**37,626**
Tax Paid	m	-3,986	-6,459	-8,031	-8,824
Chg in Working Capital	m	-29,548	27,492	-1,811	2,988
Net Interest Paid	m	-2,804	-11,118	-11,973	-11,973
Other	m	-53	-92	-83	-78
Operating Cashflow	**m**	**-14,353**	**39,148**	**13,132**	**19,739**
Acquisitions	m	-1,069	0	0	0
Capex	m	-23,479	-348	-11,378	-12,331
Asset Sales	m	0	0	0	0
Other	m	1,649	1,485	1,465	1,628
Investing Cashflow	**m**	**-22,899**	**1,137**	**-9,913**	**-10,704**
Dividend (Ordinary)	m	-475	-356	-443	-487
Equity Raised	m	1,623	0	0	0
Debt Movements	m	45,718	0	0	0
Other	m	2,789	0	0	0
Financing Cashflow	**m**	**49,656**	**-356**	**-443**	**-487**
Net Chg in Cash/Debt	**m**	**12,404**	**39,930**	**2,776**	**8,547**

Balance Sheet		2008A	2009E	2010E	2011E
Cash	m	27,108	67,038	69,813	78,361
Receivables	m	7,460	10,768	13,280	14,751
Inventories	m	136,076	118,805	120,425	111,475
Investments	m	31,442	31,150	41,697	52,778
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**	**259,471**	**276,924**	**289,074**
Payables	m	82,562	96,092	98,412	93,922
Short Term Debt	m	0	0	0	0
Long Term Debt	m	104,720	104,757	104,803	104,853
Provisions	m	9,350	9,350	9,350	9,350
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**196,632**	**210,199**	**212,565**	**208,125**
Shareholders' Funds	m	36,004	48,114	63,200	79,791
Minority Interests	m	1,159	1,159	1,159	1,159
Total S/H Equity	**m**	**37,163**	**49,272**	**64,359**	**80,949**
Total Liab & S/H Funds	**m**	**233,794**	**259,471**	**276,924**	**289,074**

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

INDIA

Mahindra Lifespace

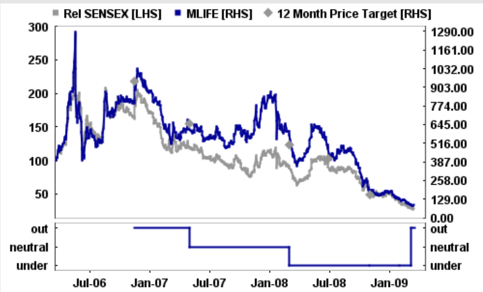
18 March 2009

MLIFE IN		**Outperform**
Stock price as of 17 Mar 09	Rs	105.05
12-month target	Rs	139.00
Upside/downside	%	+32.3
Valuation	Rs	231.00
- Sum of Parts		
GICS sector		real estate
Market cap	Rs m	4,287
Market cap	US$m	83
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	7,442.5
EBITDA	m	654.1	826.5	1,049.4	1,224.1
EBITDA growth	%	112.1	26.3	27.0	16.7
Reported profit	m	664.1	495.9	742.8	1,049.6
Adjusted profit	m	664.1	495.9	742.8	1,049.6
EPS rep	Rs	16.27	12.15	18.20	25.72
EPS rep growth	%	264.4	-25.3	49.8	41.3
EPS adj	Rs	16.27	12.15	18.20	25.72
EPS adj growth	%	264.4	-25.3	49.8	41.3
PE rep	x	6.5	8.6	5.8	4.1
PE adj	x	6.5	8.6	5.8	4.1
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	7.1
ROE	%	8.5	5.8	8.2	10.8
EV/EBITDA	x	3.6	2.8	2.2	1.9
Net debt/equity	%	-7.8	-21.4	-27.7	-16.3
Price/book	x	0.5	0.5	0.5	0.4

MLIFE IN rel SENSEX performance, & rec history



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

Analysts

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Adequate compensation for risk

Event

- We review our NAV estimate and target price for Mahindra Lifespace (MLIFE). We believe all risks and potential downgrades due to falling physical market prices have already been factored into the current stock price. We cut our target price by 13% but upgrade the stock to Outperform from Underperform. Our revised target price implies 32% upside.

Impact

- We adjust our target price to Rs139 from Rs160 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 13–14% vs 12–13% earlier. Our NAV estimates have been adjusted to reflect this.

- Residential sales volumes were the weakest in 4Q CY08. This is because mortgage rates had not fallen along with policy rates. Consumers were also postponing buying decisions due to the expectation of a massive decline in property prices. We have seen some pick-up in sales volumes in individual markets after the weak 4Q. However, this is anecdotal. It is difficult to draw any conclusions regarding volume trends or a turnaround for now.
- **Upgrade to Outperform**: Our primary concern in the past 12 months on MLIFE was its product mix. Multi-product special economic zones (SEZs) contribute nearly half of MLIFE's NAV. Most large SEZs in India are running behind schedule, due to issues surrounding land acquisition, which is politically sensitive. Slowing GDP growth has also impacted absorption. However, we believe clarity should emerge, once central government elections are complete in June 2009. We expect to see some progress on land acquisition for some large SEZ projects from that time.
- Its net cash balance sheet provides comfort regarding funding issues.

Earnings revision

- We have reduced our NAV estimate by 6% to Rs231. This cut accounts for the factors discussed above.
- Our target NAV discount has been increased to 40% from 35% earlier.

Price catalyst

- 12-month price target: Rs139.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices.

Action and recommendation

- We cut our target price to Rs139 but upgrade to Outperform. We believe concerns related to SEZs should ease from June 2009. We believe the risk of a decline in physical market prices and rents have already been priced in.

Fig 1 NAV calculation

	Value (Rs m)	Value per share (Rs)
Residential projects	5,102	128
Commercial projects	239	6
SEZ projects	3,179	80
Gross NAV	**8,520**	**213**
Less		
- Debt/ (cash)	-715	-18
Net NAV	**9,235**	**231**
Assuming 40% discount to NAV		139
Target price		**139**

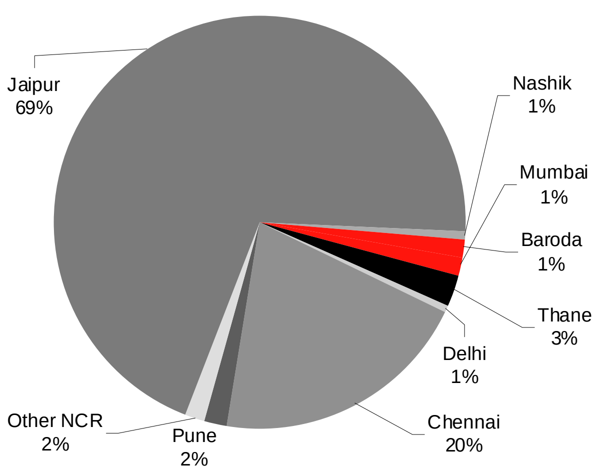
Source: Macquarie Research, March 2009

Fig 2 WACC calculation

Risk-free rate	7.5%
Market risk premium	7.5%
Total market return	15.0%
Beta (x)	1.60
Cost of equity	19.5%
Gross cost of debt	13.0%
Tax rate	33.9%
Net cost of debt	8.6%
Debt/capital ratio	30%
WACC	**16.2%**

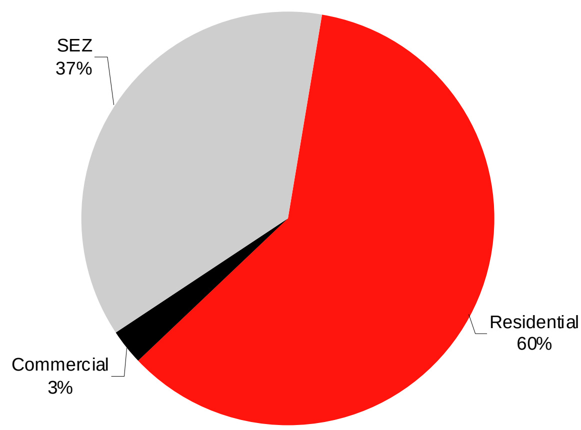
Source: Macquarie Research, March 2009

Fig 3 Product mix – land bank of 83m sqf



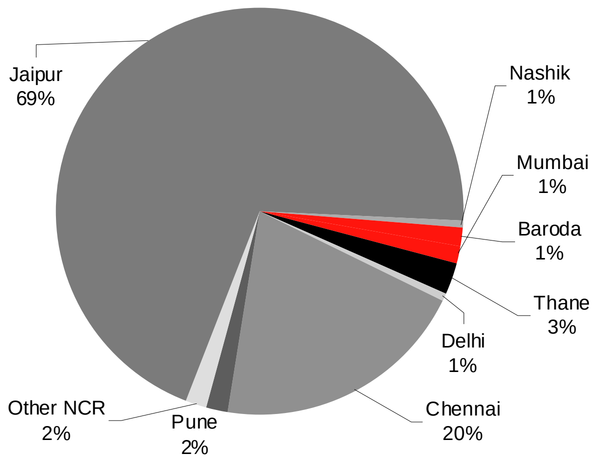
Source: Company data, Macquarie Research, March 2009

Fig 4 Composition of NAV (Rs213) by product type



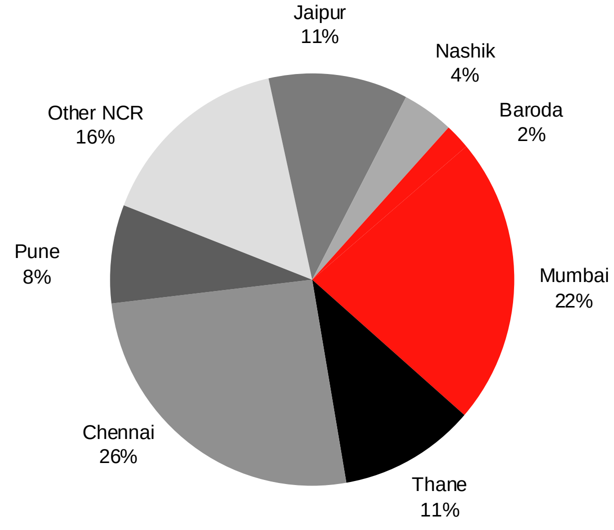
Source: Company data, Macquarie Research, March 2009

Fig 5 Land bank by city – 83m sqf



Source: Company data, Macquarie Research, March 2009

Fig 6 Composition of NAV (Rs213) by city



Source: Company data, Macquarie Research, March 2009

Mahindra Lifespace Developers Ltd (MLIFE IN, Outperform, Target price: Rs139.00)

Profit & Loss		2008A	2009E	2010E	2011E
Net Property Income	m	0	0	0	0
Development Income	m	2,311	3,422	4,888	7,443
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**2,311**	**3,422**	**4,888**	**7,443**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,657	-2,596	-3,839	-6,218
EBITDA	**m**	**654**	**826**	**1,049**	**1,224**
Dep & Amortisation	m	42	67	87	97
EBIT	**m**	**613**	**760**	**962**	**1,128**
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	870
Pre-Tax Profit	**m**	**926**	**789**	**1,162**	**1,626**
Tax Expense	m	-237	-267	-394	-551
Net Profit	**m**	**690**	**521**	**768**	**1,075**
Minority Interests	m	-25	-25	-25	-25
Reported Earnings	**m**	**664**	**496**	**743**	**1,050**
Adjusted Earnings	**m**	**664**	**496**	**743**	**1,050**
EPS (rep)		16.27	12.15	18.20	25.72
EPS (adj)		16.27	12.15	18.20	25.72
EPS Growth (adj)	%	264.4	-25.3	49.8	41.3
PE (rep)	x	6.5	8.6	5.8	4.1
PE (adj)	x	6.5	8.6	5.8	4.1
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	52.2
EBITDA Growth	%	112.1	26.3	27.0	16.7
EBIT Growth	%	117.2	24.1	26.6	17.2
EBITDA Margins	%	28.3	24.2	21.5	16.4
EBIT Margins	%	26.5	22.2	19.7	15.2
Net Profit Margins	%	29.8	15.2	15.7	14.4
Payout Ratio	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	3.6	2.8	2.2	1.9
EV/EBIT	x	3.8	3.1	2.4	2.1
Balance Sheet Ratios					
ROE	%	8.5	5.8	8.2	10.8
ROA	%	5.4	5.7	6.8	7.1
ROIC	%	9.3	6.2	8.8	10.6
Net Debt/Equity	%	-7.8	-21.4	-27.7	-16.3
Interest Cover	x	28.8	2.0	2.6	3.0
Price/Book	x	0.5	0.5	0.5	0.4
Book Value per Share		203.6	213.5	228.4	249.4

Cashflow Analysis		2008A	2009E	2010E	2011E
EBITDA	**m**	**654**	**826**	**1,049**	**1,224**
Tax Paid	m	-237	-267	-394	-551
Chg in Working Capital	m	-2,679	1,486	205	-1,711
Net Interest Paid	m	-21	-371	-371	-371
Other	m	-51	47	81	123
Operating Cashflow	**m**	**-2,334**	**1,720**	**570**	**-1,287**
Acquisitions	m	-10	0	0	0
Capex	m	-461	-682	-147	-223
Asset Sales	m	0	0	0	0
Other	m	335	400	571	870
Investing Cashflow	**m**	**-136**	**-282**	**425**	**647**
Dividend (Ordinary)	m	-132	-90	-136	-191
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**	**-191**
Net Chg in Cash/Debt	**m**	**492**	**1,347**	**859**	**-832**

Balance Sheet		2008A	2009E	2010E	2011E
Cash	m	3,570	4,918	5,777	4,945
Receivables	m	447	662	946	1,440
Inventories	m	6,626	4,688	4,688	7,137
Investments	m	1,078	1,694	1,753	1,880
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**	**16,990**
Payables	m	1,398	1,160	1,649	2,881
Short Term Debt	m	0	0	0	0
Long Term Debt	m	2,889	2,961	3,067	3,215
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	10,177
Minority Interests	m	449	449	449	449
Total S/H Equity	**m**	**8,755**	**9,161**	**9,768**	**10,626**
Total Liab & S/H Funds	**m**	**13,310**	**13,549**	**14,752**	**16,990**

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

INDIA

Provogue

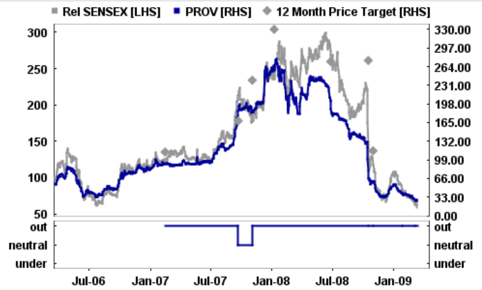
18 March 2009

PROV IN		**Outperform**
Stock price as of 17 Mar 09	Rs	29.20
12-month target	Rs	65.00
Upside/downside	%	+122.6
Valuation	Rs	96.00
- Sum of Parts		
GICS sector		consumer durables & apparel
Market cap	Rs m	2,983
Market cap	US$m	58
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	8,364.2
EBITDA	m	444.0	556.9	794.6	1,115.8
EBITDA growth	%	38.7	25.4	42.7	40.4
Reported profit	m	249.5	282.1	334.9	445.8
Adjusted profit	m	249.5	282.1	334.9	445.8
EPS rep	Rs	2.50	2.80	3.32	4.42
EPS rep growth	%	24.5	12.0	18.7	33.1
EPS adj	Rs	2.50	2.80	3.32	4.42
EPS adj growth	%	24.5	12.0	18.7	33.1
PE rep	x	11.7	10.4	8.8	6.6
PE adj	x	11.7	10.4	8.8	6.6
Total DPS	Rs	0.47	0.52	0.62	0.83
Total div yield	%	1.6	1.8	2.1	2.8
ROA	%	5.5	4.3	5.5	6.6
ROE	%	6.8	6.0	6.5	8.2
EV/EBITDA	x	13.0	10.4	7.3	5.2
Net debt/equity	%	23.8	56.7	73.3	86.5
Price/book	x	0.7	0.6	0.6	0.5

PROV IN rel SENSEX performance, & rec history



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

Analysts

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More icing than cake

Event

- We review our NAV estimate and target price for all developers under our coverage.

Impact

- We adjust our target price to Rs65 from Rs115 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 same-store sales growth for retailers across India.
  - ⇒ We are now assuming cap-rates of 13–14% versus 12–13% earlier. Our NAV estimates have been adjusted to reflect this.

Earnings revision

- We have reduced our NAV estimate by 38% to Rs96. This cut accounts for the factors discussed above.
- Our target NAV discount has been increased to 40% from 35% earlier.

Price catalyst

- 12-month price target: Rs65.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on retail rents and absorption, fund raising.

Action and recommendation

- We maintain our Outperform recommendation on Provogue, but cut our target price to Rs65 from Rs115. Provogue's net cash position (due to its recent capital raising) and execution of its JV (with Liberty) reduce operational risk, in our view.
- We expect positive stock triggers (similar to those seen in the last six months) as Prozone raises capital to fund new projects and exploit emerging opportunities.

Fig 1 NAV calculation

	Contribution to value of Provogue (Rs m)	Contribution to value of Provogue (Rs/share)
Retail business		
Multiple store formats	1,975	20
Retail real estate development		
Net NAV of Prozone	7,670	76
Total value per share	**9,645**	**96**
Target price *		**65**

* Target price includes a 35% discount to Prozone NAV
Source: Macquarie Research, March 2009

Fig 2 WACC calculation

Risk-free rate	7.5%
Market risk premium	7.5%
Total market return	15.0%
Beta (x)	1.60
Cost of equity	19.5%
Gross cost of debt	13.0%
Tax rate	33.9%
Net cost of debt	8.6%
Debt/capital ratio	30%
WACC	**16.2%**

Source: Macquarie Research, March 2009

Provogue (PROV IN, Outperform, Target price: Rs65.00)

Profit & Loss		2008A	2009E	2010E	2011E
Revenue	**m**	**3,378**	**4,665**	**6,410**	**8,364**
Gross Profit	**m**	**1,559**	**2,132**	**3,028**	**4,010**
Cost of Goods Sold	m	1,820	2,533	3,382	4,354
EBITDA	**m**	**444**	**557**	**795**	**1,116**
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**	**818**
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	181
Pre-Tax Profit	**m**	**314**	**355**	**421**	**560**
Tax Expense	m	-64	-72	-86	-115
Net Profit	**m**	**250**	**282**	**335**	**446**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**250**	**282**	**335**	**446**
Adjusted Earnings	**m**	**250**	**282**	**335**	**446**
EPS (rep)		2.50	2.80	3.32	4.42
EPS (adj)		2.50	2.80	3.32	4.42
EPS Growth (adj)	%	24.5	12.0	18.7	33.1
PE (rep)	x	11.7	10.4	8.8	6.6
PE (adj)	x	11.7	10.4	8.8	6.6
Total DPS		0.47	0.52	0.62	0.83
Total Div Yield	%	1.6	1.8	2.1	2.8
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	30.5
EBITDA Growth	%	38.7	25.4	42.7	40.4
EBIT Growth	%	32.4	12.3	46.2	38.5
Gross Profit Margin	%	46.1	45.7	47.2	47.9
EBITDA Margin	%	13.1	11.9	12.4	13.3
EBIT Margin	%	10.6	8.7	9.2	9.8
Net Profit Margin	%	7.4	6.0	5.2	5.3
Payout Ratio	%	18.7	18.7	18.7	18.7
EV/EBITDA	x	13.0	10.4	7.3	5.2
EV/EBIT	x	16.0	14.3	9.8	7.1
Balance Sheet Ratios					
ROE	%	6.8	6.0	6.5	8.2
ROA	%	5.5	4.3	5.5	6.6
ROIC	%	11.7	4.6	6.0	7.1
Net Debt/Equity	%	23.8	56.7	73.3	86.5
Interest Cover	x	3.0	2.7	1.9	1.9
Price/Book	x	0.7	0.6	0.6	0.5
Book Value per Share		44.6	49.7	52.4	56.0

Cashflow Analysis		2008A	2009E	2010E	2011E
EBITDA	**m**	**444**	**557**	**795**	**1,116**
Tax Paid	m	-64	-72	-86	-115
Chgs in Working Cap	m	-856	-484	-773	-699
Net Interest Paid	m	-120	-150	-308	-438
Other	m	9	0	-0	-0
Operating Cashflow	**m**	**-588**	**-149**	**-372**	**-136**
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	181
Investing Cashflow	**m**	**-3,336**	**-412**	**-594**	**-794**
Dividend (Ordinary)	m	-47	-53	-63	-84
Equity Raised	m	-32	-39	0	0
Debt Movements	m	1,552	1,190	1,029	1,013
Other	m	1,405	363	-0	0
Financing Cashflow	**m**	**2,879**	**1,461**	**966**	**930**
Net Chg in Cash/Debt	**m**	**-1,045**	**901**	**0**	**-0**

Balance Sheet		2008A	2009E	2010E	2011E
Cash	m	800	493	493	493
Receivables	m	779	1,086	1,492	1,947
Inventories	m	1,537	2,142	2,855	3,437
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**	**13,209**
Payables	m	827	1,255	1,603	1,941
Short Term Debt	m	1,074	1,074	1,074	1,074
Long Term Debt	m	1,072	2,262	3,291	4,304
Provisions	m	169	169	169	169
Other Liabilities	m	75	75	75	75
Total Liabilities	**m**	**3,217**	**4,835**	**6,211**	**7,563**
Shareholders' Funds	m	4,458	5,012	5,284	5,646
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**	**5,646**
Total Liab & S/H Funds	**m**	**8,883**	**9,847**	**11,495**	**13,209**

All figures in INR unless noted.
Source: Macquarie Research, March 2009

INDIA

Akruti City

18 March 2009

AKCL IN		**Underperform**
Stock price as of 17 Mar 09	Rs	1,596.00
12-month target	Rs	475.00
Upside/downside	%	-70.2
Valuation	Rs	792.00
- Sum of Parts		
GICS sector		real estate
Market cap	Rs m	106,453
Market cap	US$m	2,071
Number shares on issue	m	66.70

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	4,397	14,039	28,183	28,564
EBITDA	m	3,738	6,515	14,925	15,220
EBITDA growth	%	253.0	74.3	129.1	2.0
Reported profit	m	2,992	5,673	12,008	12,249
Adjusted profit	m	2,995	5,673	12,008	12,249
EPS rep	Rs	44.86	85.05	180.03	183.65
EPS rep growth	%	287.5	89.6	111.7	2.0
EPS adj	Rs	44.90	85.05	180.03	183.65
EPS adj growth	%	286.0	89.4	111.7	2.0
PE rep	x	35.6	18.8	8.9	8.7
PE adj	x	35.5	18.8	8.9	8.7
Total DPS	Rs	2.925	5.868	12.422	12.672
Total DPS growth	%	66.67	100.63	111.68	2.01
Total div yield	%	0.2	0.4	0.8	0.8
ROA	%	25.1	27.2	42.4	32.7
ROE	%	46.0	53.8	64.1	40.8
EV/EBITDA	x	30.7	17.6	7.7	7.5
Net debt/equity	%	98.5	63.2	-7.6	-48.9
Price/book	x	13.4	8.1	4.4	3.0

AKCL IN rel SENSEX performance, & rec history

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

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Unfavourable risk/return dynamics

Event

- We review our NAV estimates and target prices for all of the developers under our coverage.

Impact

- We adjust our target price to Rs475 from Rs520 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 assuming cap-rates of 13–14%. Our NAV estimates have been adjusted to reflect this.
  - ⇒ 4Q2008 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 buying decisions due to expectations of a significant decline in property prices. We have seen some pick-up in sales volumes in individual markets after the weak fourth quarter. However, this is anecdotal. It is difficult to draw any conclusions regarding volume trends or a turnaround for now.

Earnings revision

- We have reduced our NAV estimate by 1% to Rs792. This cut is attributed to the factors discussed above.
- Our target NAV discount has been increased to 40% from 35% earlier.

Price catalyst

- 12-month price target: Rs475.00 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 an unfavourable product mix, ie, its residential-heavy model.
- We cut our target price by 9% to Rs475. Visibility on execution of projects and on leverage are our other major concerns.

Fig 1 NAV calculation

	Value (Rs m)	Value per share (Rs)
Residential projects	36,409	546
Retail projects	537	8
Commercial projects	23,720	356
Gross NAV	**60,666**	**910**
Less		
- Debt/ (cash)	7,858	118
Net NAV	**52,808**	**792**
Assuming 40% discount to NAV		475
Target price		**475**

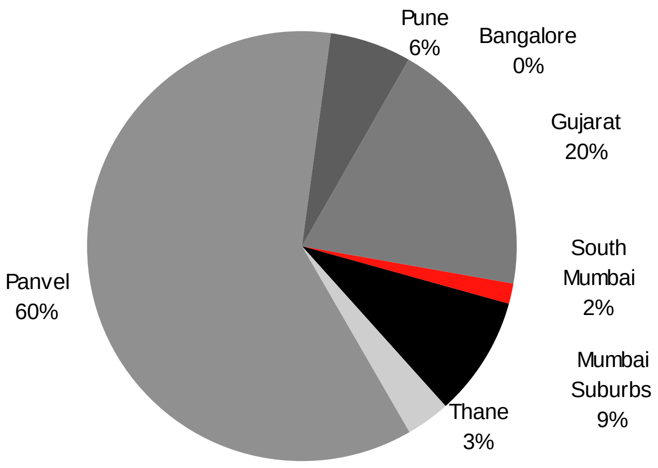
Source: Macquarie Research, March 2009

Fig 2 WACC calculation

Risk-free rate	7.5%
Market risk premium	7.5%
Total market return	15.0%
Beta (x)	1.60
Cost of equity	19.5%
Gross cost of debt	13.0%
Tax rate	33.9%
Net cost of debt	8.6%
Debt/capital ratio	30%
WACC	**16.2%**

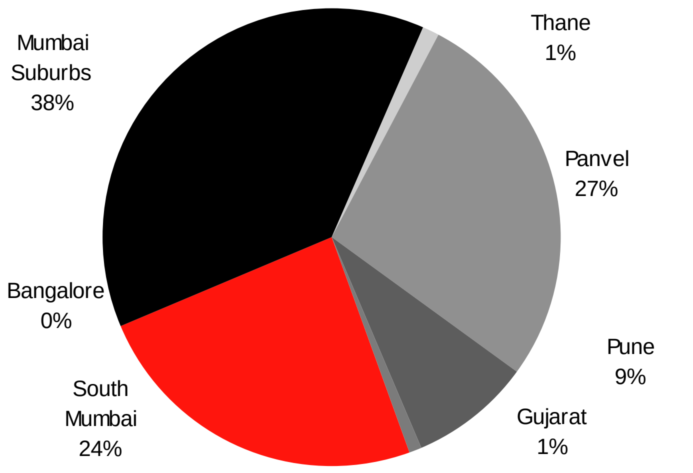
Source: Macquarie Research, March 2009

Fig 5 Land bank by city – 86m sqf



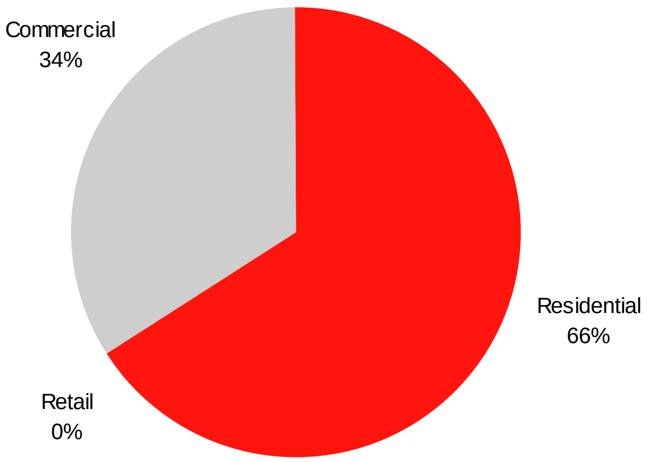
Source: Company data, Macquarie Research, March 2009

Fig 6 Composition of NAV (Rs910) by city



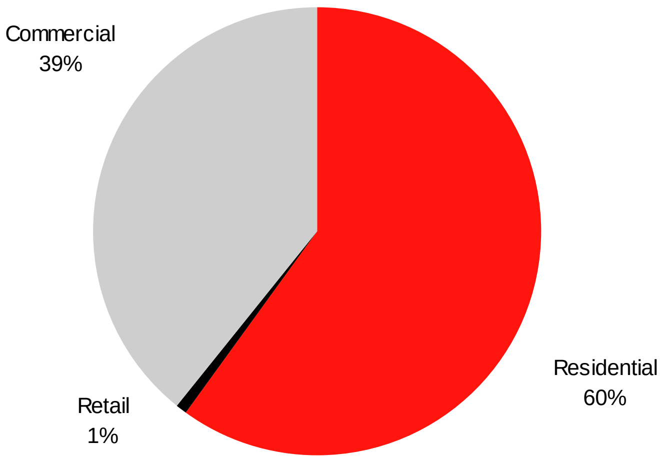
Source: Company data, Macquarie Research, March 2009

Fig 3 Product mix – land bank of 86m sqf



Source: Company data, Macquarie Research, March 2009

Fig 4 Composition of NAV (Rs910) by product type



Source: Company data, Macquarie Research, March 2009

Akruti City Ltd (AKCL IN, Underperform, Target price: Rs475.00)

Profit & Loss		**2008A**	**2009E**	**2010E**	**2011E**
Net Property Income	m	0	0	0	0
Development Income	m	4,397	14,039	28,183	28,564
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**4,397**	**14,039**	**28,183**	**28,564**
Management Fees	m	0	0	0	0
Other Expenses	m	-659	-7,523	-13,258	-13,344
EBITDA	**m**	**3,738**	**6,515**	**14,925**	**15,220**
Dep & Amortisation	m	69	100	100	100
EBIT	**m**	**3,669**	**6,415**	**14,825**	**15,119**
Net Interest Income	m	-615	-722	-782	-782
Associates	m	0	0	0	0
Exceptionals	m	-2	0	0	0
Other Pre-Tax Income	m	360	980	1,968	1,994
Pre-Tax Profit	**m**	**3,411**	**6,673**	**16,010**	**16,331**
Tax Expense	m	-419	-1,001	-4,002	-4,083
Net Profit	**m**	**2,992**	**5,672**	**12,007**	**12,248**
Minority Interests	m	1	1	1	1
Reported Earnings	**m**	**2,992**	**5,673**	**12,008**	**12,249**
Adjusted Earnings	**m**	**2,995**	**5,673**	**12,008**	**12,249**
EPS (rep)		44.86	85.05	180.03	183.65
EPS (adj)		44.90	85.05	180.03	183.65
EPS Growth (adj)	%	286.0	89.4	111.7	2.0
PE (rep)	x	35.6	18.8	8.9	8.7
PE (adj)	x	35.5	18.8	8.9	8.7
Total DPS		2.92	5.87	12.42	12.67
Total Div Yield	%	0.2	0.4	0.8	0.8
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	219.3	100.7	1.4
EBITDA Growth	%	253.0	74.3	129.1	2.0
EBIT Growth	%	268.1	74.9	131.1	2.0
EBITDA Margins	%	85.0	46.4	53.0	53.3
EBIT Margins	%	83.4	45.7	52.6	52.9
Net Profit Margins	%	68.0	40.4	42.6	42.9
Payout Ratio	%	6.5	6.9	6.9	6.9
EV/EBITDA	x	30.7	17.6	7.7	7.5
EV/EBIT	x	31.3	17.9	7.7	7.6
Balance Sheet Ratios					
ROE	%	46.0	53.8	64.1	40.8
ROA	%	25.1	27.2	42.4	32.7
ROIC	%	48.4	34.4	51.8	50.5
Net Debt/Equity	%	98.5	63.2	-7.6	-48.9
Interest Cover	x	6.0	8.9	18.9	19.3
Price/Book	x	13.4	8.1	4.4	3.0
Book Value per Share		119.4	196.9	364.5	535.4

Cashflow Analysis		**2008A**	**2009E**	**2010E**	**2011E**
EBITDA	**m**	**3,738**	**6,515**	**14,925**	**15,220**
Tax Paid	m	-419	-1,001	-4,002	-4,083
Chg in Working Capital	m	-7,500	-5,614	-1,021	4,158
Net Interest Paid	m	-615	-722	-782	-782
Other	m	54	22	85	87
Operating Cashflow	**m**	**-4,742**	**-800**	**9,204**	**14,599**
Acquisitions	m	-1,447	0	0	0
Capex	m	-321	-95	-100	-50
Asset Sales	m	0	0	0	0
Other	m	307	980	1,968	1,994
Investing Cashflow	**m**	**-1,461**	**885**	**1,868**	**1,944**
Dividend (Ordinary)	m	-195	-391	-829	-845
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**	**496**	**-829**	**-845**
Net Chg in Cash/Debt	**m**	**-2,848**	**581**	**10,243**	**15,698**

Balance Sheet		**2008A**	**2009E**	**2010E**	**2011E**
Cash	m	434	1,015	11,257	26,955
Receivables	m	1,103	3,521	5,791	3,913
Inventories	m	4,245	11,539	11,582	7,826
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	10,392	10,342
Total Assets	**m**	**18,426**	**28,714**	**41,270**	**51,283**
Payables	m	1,549	5,647	6,939	5,462
Short Term Debt	m	0	0	0	0
Long Term Debt	m	8,298	9,319	9,403	9,489
Provisions	m	598	598	598	598
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**10,445**	**15,564**	**16,940**	**15,549**
Shareholders' Funds	m	7,962	13,130	24,310	35,714
Minority Interests	m	20	20	20	20
Total S/H Equity	**m**	**7,982**	**13,150**	**24,330**	**35,734**
Total Liab & S/H Funds	**m**	**18,426**	**28,714**	**41,270**	**51,283**

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

INDIA

Ansal Properties

18 March 2009

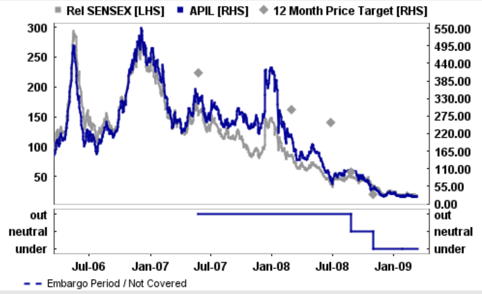
APIL IN **Underperform**

Stock price as of 17 Mar 09	Rs	23.70
12-month target	Rs	17.00
Upside/downside	%	-28.3
Valuation	Rs	17.00
- Other		
GICS sector		real estate
Market cap	Rs m	2,710
Market cap	US$m	53
Number shares on issue	m	114.3

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	m	9,881	9,446	9,990	13,215
EBITDA	m	2,515	2,491	715	-2,264
EBITDA growth	%	20.8	-1.0	-71.3	0.0
Reported profit	m	1,740	988	-585	-3,866
Adjusted profit	m	1,740	988	-585	-3,866
EPS rep	Rs	15.33	8.70	-5.16	-34.07
EPS rep growth	%	25.5	-43.2	0.0	-560.5
EPS adj	Rs	15.33	8.70	-5.16	-34.07
EPS adj growth	%	25.5	-43.2	nmf	-560.5
PE rep	x	1.5	2.7	nmf	nmf
PE adj	x	1.5	2.7	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	%	6.2	0.0	0.0	0.0
ROA	%	8.5	6.7	1.6	-5.4
ROE	%	16.4	8.0	-4.7	-37.4
EV/EBITDA	x	4.6	4.7	16.2	-5.1
Net debt/equity	%	73.8	69.0	64.5	117.0
Price/book	x	0.2	0.2	0.2	0.3

APIL IN rel SENSEX performance, & rec history



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

Analysts

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No reason to bottom fish

Event

- We review our NAV estimates and target prices for all of the developers under our coverage.

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 13–14% vs 12–13% earlier. Our NAV estimates have been adjusted to reflect this.
- **We look at APIL a bit differently:** Ansal Properties' (APIL) stretched balance sheet and the general scenario of tight liquidity are our primary concerns. In this scenario, we have limited visibility on sources of capital that will be used to generate profits from this land bank. Investors are unlikely to (and should not, in our view) attribute any value to profits earned over and above the replacement cost of the land bank. We therefore value the company on the replacement cost of the land bank.
- **Some projects left out of valuation:** A full 100% of APIL's land bank (~240m sqft) is contributed 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 Ansal's land bank is not liquid. We therefore leave some of the company's projects in Lucknow, Dadri, Punjab and Haryana out of our replacement cost calculation.

Earnings revision

- We have reduced our NAV estimate by 43% to Rs17. This cut accounts for the change in observed market price of land parcels in the geographies where Ansal's land bank is located.

Price catalyst

- 12-month price target: Rs17.00 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 Ansal Properties. Our biggest concerns are its unfavourable product mix and high leverage.
- We cut our target price to Rs17 from Rs30 based on a change in observed land prices. APIL's entire NAV and land bank is contributed by projects in Northern India. This concentrated land bank limits its ability to focus elsewhere if this market experiences a slowdown.

Ansal Properties & Infrastructure (APIL IN, Underperform, Target price: Rs17.00)

Profit & Loss		2008A	2009E	2010E	2011E
Net Property Income	m	0	0	0	0
Development Income	m	9,881	9,446	9,990	13,215
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**9,881**	**9,446**	**9,990**	**13,215**
Management Fees	m	0	0	0	0
Other Expenses	m	-7,366	-6,955	-9,275	-15,479
EBITDA	**m**	**2,515**	**2,491**	**715**	**-2,264**
Dep & Amortisation	m	84	91	121	174
EBIT	**m**	**2,431**	**2,400**	**594**	**-2,438**
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	222	235	310
Pre-Tax Profit	**m**	**2,460**	**1,317**	**-585**	**-3,866**
Tax Expense	m	-720	-329	0	0
Net Profit	**m**	**1,740**	**988**	**-585**	**-3,866**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**1,740**	**988**	**-585**	**-3,866**
Adjusted Earnings	**m**	**1,740**	**988**	**-585**	**-3,866**
EPS (rep)		15.33	8.70	-5.16	-34.07
EPS (adj)		15.33	8.70	-5.16	-34.07
EPS Growth (adj)	%	25.5	-43.2	nmf	-560.5
PE (rep)	x	1.5	2.7	nmf	nmf
PE (adj)	x	1.5	2.7	nmf	nmf
Total DPS		1.46	0.00	0.00	0.00
Total Div Yield	%	6.2	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	-4.4	5.8	32.3
EBITDA Growth	%	20.8	-1.0	-71.3	nmf
EBIT Growth	%	18.9	-1.3	-75.3	nmf
EBITDA Margins	%	25.5	26.4	7.2	-17.1
EBIT Margins	%	24.6	25.4	5.9	-18.5
Net Profit Margins	%	17.6	10.5	-5.9	-29.3
Payout Ratio	%	9.5	0.0	nmf	nmf
EV/EBITDA	x	4.6	4.7	16.2	-5.1
EV/EBIT	x	4.8	4.8	19.5	-4.8
Balance Sheet Ratios					
ROE	%	16.4	8.0	-4.7	-37.4
ROA	%	8.5	6.7	1.6	-5.4
ROIC	%	14.8	8.7	2.7	-12.0
Net Debt/Equity	%	73.8	69.0	64.5	117.0
Interest Cover	x	12.0	1.8	0.4	-1.4
Price/Book	x	0.2	0.2	0.2	0.3
Book Value per Share		104.6	113.4	108.2	74.1

Cashflow Analysis		2008A	2009E	2010E	2011E
EBITDA	**m**	**2,515**	**2,491**	**715**	**-2,264**
Tax Paid	m	-720	-329	0	0
Chg in Working Capital	m	-8,061	-1,200	2,601	2,691
Net Interest Paid	m	-203	-1,305	-1,414	-1,739
Other	m	-80	0	0	0
Operating Cashflow	**m**	**-6,549**	**-343**	**1,902**	**-1,312**
Acquisitions	m	-3	0	0	0
Capex	m	-1,061	0	-1,180	-951
Asset Sales	m	0	0	0	0
Other	m	232	222	235	310
Investing Cashflow	**m**	**-832**	**222**	**-946**	**-641**
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**	**-111**	**957**	**3,047**

Balance Sheet		2008A	2009E	2010E	2011E
Cash	m	2,083	1,972	2,929	5,976
Receivables	m	4,285	4,658	4,926	6,517
Inventories	m	15,566	16,822	17,790	23,534
Investments	m	1,549	1,457	2,517	3,294
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**	**36,437**	**39,689**	**50,847**
Payables	m	11,887	12,317	16,154	26,179
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**	**27,365**	**42,390**
Shareholders' Funds	m	11,867	12,865	12,280	8,414
Minority Interests	m	44	44	44	44
Total S/H Equity	**m**	**11,911**	**12,909**	**12,324**	**8,458**
Total Liab & S/H Funds	**m**	**35,009**	**36,437**	**39,689**	**50,847**

All figures in INR unless noted.
Source: Company data, Macquarie Research, March 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
Neutral (Hold) – return within 5% of benchmark return
Underperform (Sell)– return >5% below benchmark return

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 December 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	38.55%	50.61%	64.52%	53.13%	65.55%	43.00%
Neutral	41.82%	15.92%	25.81%	40.63%	27.73%	48.00%
Underperform	19.64%	33.47%	9.68%	6.25%	6.72%	9.00%

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