

UBS Investment Research

Godrej Properties

Muted Q3 but strong pre-sales momentum

■ Slower execution but expect rampup in Q4

Revenues of Rs 682 million (-18% QoQ, +44% YoY); EBITDA margins of 39% (vs. 61% in Q2). Net Income declined 53% QoQ, 12% YoY to Rs 155 million. This was due to mismatch in revenue recognition; we believe pre-sales momentum was strong & remain comfortable with progress and expected rampup in execution. Net debt increasing to 0.78x, is also a function of likely rampup in construction.

■ Strong pre-sales responses in Q3 highlight business on track

Strong pre-sales momentum with 0.8 msf booked including Gurgaon (0.55 msf), Kolkata (0.18msf) and other key resi. launches at Chennai, Bangalore, Ahmedabad and Mumbai (0.1 msf). Further, with strong pre-sales response to Garden City, Kolkata launch in Q4 (0.4 msf), we believe pre-sales momentum will continue to be strong in Q4. With visible pipeline of launches (~5msf) in Ahd (Phase III), NCR, Hyderabad and Kochi over next six months, we expect cashflows to remain strong

■ Key catalysts— New projects, focus on cash flow, visibility on group assets

1) Announcements on new joint devt. deals in Mumbai & Bangalore; 2) focus on higher cash flow given strategy of monetising assets to maximise returns, mitigate risks & increase scale. 3) Greater visibility on any group asset developments

■ Valuation: Maintain Buy Rating and Rs 890 PT

We think the stock is attractive at a 54% discount to our NAV of Rs1,275 as we believe the embedded value of its developing group assets (Rs671) is available cheap. Our 30% discount to NAV factors in higher risks of slow progress on new project wins and the development of the group's assets in the current environment.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	2,555	3,134	4,817	9,240	14,043
EBIT (UBS)	1,185	2,286	1,680	2,692	5,716
Net Income (UBS)	325	1,230	1,184	1,739	3,872
EPS (UBS, Rs)	5.39	17.61	16.95	24.90	55.44
Net DPS (UBS, Rs)	2.50	4.00	4.00	5.00	5.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	-	72.9	34.9	29.1	40.7
ROIC (EBIT) %	-	20.9	12.4	16.4	27.8
EV/EBITDA (core) x	-	17.7	28.2	18.3	8.9
PE (UBS) x	-	28.1	34.8	23.7	10.6
Net dividend yield %	-	0.8	0.7	0.8	0.8

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs589.75 on 17 Jan 2011 23:39 SGT

Ashish Jagnani

Analyst
ashish.jagnani@ubs.com
+91-22-6155 6061

Ruchi Patwari

Analyst
ruchi.patwari@ubs.com
+91-22-6155 6053

Global Equity Research

India

Real Estate

12-month rating **Buy**
Unchanged

12m price target **Rs890.00/US\$19.52**
Unchanged

Price **Rs589.75/US\$12.93**

RIC: GODR.BO BBG: GPL IB

17 January 2011

Trading data (local/US\$)

52-wk range	Rs790.40-464.95/US\$17.12-10.03
Market cap.	Rs41.2bn/US\$0.90bn
Shares o/s	69.8m (ORD)
Free float	16%
Avg. daily volume ('000)	16
Avg. daily value (m)	Rs10.4

Balance sheet data 03/11E

Shareholders' equity	Rs9.08bn
P/BV (UBS)	4.5x
Net Cash (debt)	(Rs7.02bn)

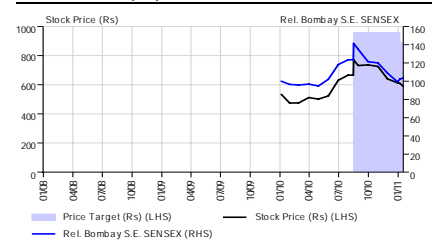
Forecast returns

Forecast price appreciation	+50.9%
Forecast dividend yield	0.8%
Forecast stock return	+51.7%
Market return assumption	13.0%
Forecast excess return	+38.7%

EPS (UBS, Rs)

	03/11E	03/10
	UBS	Cons. Actual
Q1E	-	-
Q2E	-	-
Q3E	-	-
Q4E	-	-
03/11E	16.95	16.95
03/12E	24.90	24.90

Performance (Rs)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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Valuations in attractive zone

We believe Godrej Properties' thrust on the joint-development model (77% of land reserves), emerging pan-India presence, likely access to the group's prime-location land assets, and deleveraged balance sheet differentiates the company. Given its prime land assets and development spread across timeframes, NAV-based valuation methodology is the most appropriate, in our view.

We see the company being grouped as a Tier II developer, and factoring in the business model risks, we find stock trading at attractive valuations of 45% discount to NAV vs our target discount of 30%. We see stock's recent underperformance as a good opportunity to accumulate. We foresee upside potential from new project wins and increased development visibility of Group land assets and key triggers to stock performance

Our price target of Rs890 is based on 30% discount to our September 2011E NAV of Rs1,275. Our discount largely factors in 1) concentration risks and absorption challenges in Ahmedabad; 2) a higher discount for attributed NAV from group assets given limited visibility; 3) regulatory and policy risks; and 4) its thrust on capital efficiency with prime-land assets in Mumbai and other cities. Our base-case NAV estimate of Rs1,275 involves the following assumptions: 1) developmental volume of 49msf; 2) 21msf from the group's land reserves at Vikhroli over 10 years and 5msf from the MOUs with other group assets; 3) no price escalations; 4) average cost of capital of 13%; and 5) a tax rate of 28%.

Post the stock's recent underperformance, we believe embedded option value for group assets is available cheap. The group's strong 'Godrej' brand franchise, its MOU with L&T for execution, and long track record of value creation are other advantages.

Table 3: NAV Breakdown

	NAV (Rs m)	NAV Per Share	Target	Target Value	Target Value
		Rs	Disc	(Rs m)	Per Share
Existing Dev Portfolio	42,228	604	25%	31,671	453
Godrej Group MoU	46,937	671	35%	30,509	436
Total	89,165	1,275	-30%	62,180	890

Source: UBS estimates

Bull-case and bear-case NAVs

With NAVs likely to remain volatile during recovery cycles, we highlight our bull-case and bear-case scenarios for Godrej's NAV. The bear case 1) factors in 5-year development visibility (20msf, 39% of NAV); 2) values the balance as undeveloped land reserves of 28msf (4% of NAV); and 3) builds in 500 acres of developable land in Vikhroli (57% of NAV). The bull case builds in: 1) a potential 1,000 acres developable in Vikhroli; 2) a 10% price rise across projects; and 3) a faster absorption cycle for other developments. We believe this provides a good perspective on NAV downside risk and upside potential.

Table 1: NAV breakdown (Rs m)

Residential	25,696
Commercial	35,877
Gross NAV	61,573
Less: Land o/s	(2,923)
Less: Tax @ 28%	(18,853)
Less: Debt o/s	(7,000)
Less: Customer Advances	(2,750)
Add: Cash	3,500
Net NAV	42,228
MOU value for group assets	46,937
Total Value	89,165
No. of Shares Outstanding (m)	70
Est. NAV Per Share (Rs)	1,275

Source: UBS estimates

Table 2: NAV Assumptions

Details	Assumption
Price escalation	nil
Cost of capital	13%
Tax rate	28%
Existing dev volume (msf)	49
Potential Group Assets (msf)	26
Execution delay	1-2 years

Source: UBS estimates

Table 4: Scenario analysis

	Bull case	Bear case
NAV/share (Rs)	1,593	672
Upside/downside	25%	-47%

Source: UBS estimates

Godrej Properties

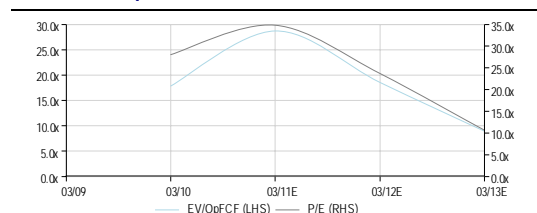
Income statement (Rsm)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	-	1,372	2,274	2,555	3,134	4,817	53.7	9,240	91.8	14,043	52.0
Operating expenses (ex depn)	-	(869)	(1,084)	(1,360)	(2,249)	(3,107)	38.2	(6,514)	109.7	(8,285)	27.2
EBITDA (UBS)	-	504	1,191	1,196	2,312	1,710	-26.0	2,726	59.4	5,758	111.2
Depreciation	-	(7)	(9)	(11)	(26)	(30)	15.4	(34)	13.3	(42)	23.5
Operating income (EBIT, UBS)	-	497	1,182	1,185	2,286	1,680	-26.5	2,692	60.2	5,716	112.3
Other income & associates	-	0	0	0	0	350	-	280	-20.0	308	10.0
Net interest	-	(41)	(38)	(527)	(662)	(452)	-31.8	(556)	23.1	(645)	16.1
Abnormal items (pre-tax)	-	0	0	0	0	0	-	0	-	0	-
Profit before tax	-	456	1,143	658	1,624	1,578	-2.8	2,416	53.1	5,378	122.6
Tax	-	(17)	(404)	(323)	(382)	(395)	3.3	(676)	71.4	(1,506)	122.6
Profit after tax	-	439	739	335	1,242	1,184	-4.7	1,739	47.0	3,872	122.6
Abnormal items (post-tax)	-	0	0	410	(2)	0	-	0	-	0	-
Minorities / pref dividends	-	1	2	(9)	(12)	0	-	0	-	0	-
Net income (local GAAP)	-	440	741	735	1,228	1,184	-3.6	1,739	47.0	3,872	122.6
Net Income (UBS)	-	440	741	325	1,230	1,184	-3.8	1,739	47.0	3,872	122.6
Tax rate (%)	-	4	35	49	24	25	6.3	28	12.0	28	0.0
Pre-abnormal tax rate (%)	-	4	35	49	24	25	6.3	28	12.0	28	0.0
Per share (Rs)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	-	6.84	12.26	12.17	17.58	16.95	-3.6	24.90	47.0	55.44	122.6
EPS (UBS)	-	6.84	12.26	5.39	17.61	16.95	-3.8	24.90	47.0	55.44	122.6
Net DPS	-	41.90	10.00	2.50	4.00	4.00	0.0	5.00	25.0	5.00	0.0
Cash EPS	-	6.95	12.42	5.58	17.98	17.38	-3.4	25.39	46.1	56.04	120.7
BVPS	-	6.39	34.48	42.79	117.00	129.95	11.1	149.85	15.3	200.29	33.7
Balance sheet (Rsm)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	-	44	373	392	278	1,144	310.9	1,675	46.4	2,269	35.5
Net intangible fixed assets	-	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	-	1,825	5,167	9,234	12,514	13,851	10.7	17,084	23.3	21,396	25.2
Other liabilities	-	(127)	(411)	(198)	(370)	(398)	7.5	(552)	38.8	(801)	45.1
Operating invested capital	-	1,742	5,129	9,428	12,422	14,597	17.5	18,206	24.7	22,864	25.6
Investments	-	0	0	0	2,078	1,500	-27.8	1,020	-32.0	950	-6.9
Total capital employed	-	1,742	5,129	9,428	14,500	16,097	11.0	19,226	19.4	23,814	23.9
Shareholders' equity	-	446	2,409	2,989	8,173	9,077	11.1	10,467	15.3	13,990	33.7
Minority interests	-	4	7	17	30	0	-	0	-	0	-
Total equity	-	450	2,416	3,005	8,202	9,077	10.7	10,467	15.3	13,990	33.7
Net debt / (cash)	-	1,292	2,713	6,422	6,298	7,020	11.5	8,759	24.8	9,824	12.2
Other debt-deemed items	-	0	0	0	0	0	-	0	-	0	-
Total capital employed	-	1,742	5,129	9,428	14,500	16,097	11.0	19,226	19.4	23,814	23.9
Cash flow (Rsm)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	-	497	1,182	1,185	2,286	1,680	-26.5	2,692	60.2	5,716	112.3
Depreciation	-	7	9	11	26	30	15.4	34	13.3	42	23.5
Net change in working capital	-	-	3,342	4,066	3,282	1,341	-59.1	3,232	141.1	4,312	33.4
Other (operating)	-	0	0	0	0	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	-	-	4,533	5,262	5,594	3,051	-45.5	5,958	95.3	10,070	69.0
Net interest received / (paid)	-	(41)	(38)	(527)	(662)	(452)	-31.8	(556)	23.1	(645)	16.1
Dividends paid	-	(270)	(246)	(151)	(279)	(279)	0.0	(349)	25.0	(349)	0.0
Tax paid	-	(17)	(404)	(323)	(382)	(395)	3.3	(676)	71.4	(1,506)	122.6
Capital expenditure	-	-	(336)	(30)	89	(895)	-	(565)	-36.9	(636)	12.6
Net (acquisitions) / disposals	-	0	0	0	0	0	-	0	-	0	-
Other	-	-	0	0	2,078	(578)	-	(480)	-17.0	(70)	-85.4
Share issues	-	-	(1,962)	(580)	(5,184)	(904)	-82.6	(1,390)	53.7	(3,523)	153.4
Cash flow (inc)/dec in net debt	-	-	1,547	3,651	1,254	(453)	-	1,941	-	3,340	72.1
FX / non cash items	-	-	(2,968)	(7,360)	(1,129)	(270)	-76.1	(3,680)	1262.4	(4,405)	19.7
Balance sheet (inc)/dec in net debt	-	-	(1,421)	(3,709)	125	(723)	-	(1,739)	140.6	(1,064)	-38.8
Core EBITDA	-	504	1,191	1,196	2,312	1,710	-26.0	2,726	59.4	5,758	111.2
Maintenance capital expenditure	-	(7)	(9)	(11)	(26)	(30)	15.4	(34)	13.3	(42)	23.5
Maintenance net working capital	-	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	-	497	1,182	1,185	2,286	1,680	-26.5	2,692	60.2	5,716	112.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

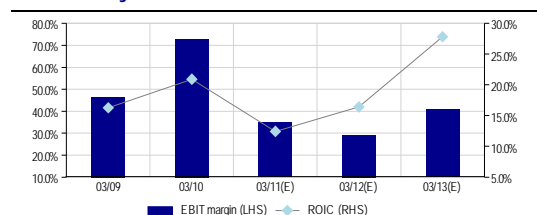
Company profile

Godrej Properties Limited (GPL) is the real estate development arm of the Godrej Group. Godrej Industries Limited, the parent company, owns 69.43% of the equity capital in GPL. The company focuses on residential, commercial and integrated township developments. GPL has completed 16 residential and seven commercial projects, aggregating 5.13msf since its incorporation in 1990.

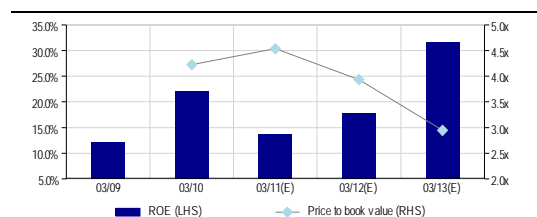
Value (EV/OpFCF & P/E)



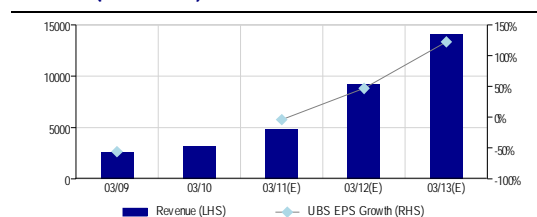
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	-	28.1	34.8	23.7	10.6
P/E (UBS)	-	-	28.1	34.8	23.7	10.6
P/CEPS	-	-	27.5	33.9	23.2	10.5
Net dividend yield (%)	-	-	0.8	0.7	0.8	0.8
P/BV	-	-	4.2	4.5	3.9	2.9
EV/revenue (core)	-	-	NM	NM	5.4	3.6
EV/EBITDA (core)	-	-	17.7	28.2	18.3	8.9
EV/EBIT (core)	-	-	17.9	28.7	18.6	8.9
EV/OpFCF (core)	-	-	17.9	28.7	18.6	8.9
EV/op. invested capital	-	-	3.7	3.6	3.0	2.5

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	-	34,526	41,194	41,194	41,194
+ minority interests	-	12	23	15	0
+ average net debt (cash)	-	6,422	6,298	7,020	8,759
+ pension obligations and other	-	0	0	0	0
- non-core asset value	-	0	0	0	0
Core enterprise value	-	40,847	48,229	49,953	51,018

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	-	12.3	22.7	53.7	91.8	52.0
EBITDA (UBS)	-	0.5	93.2	-26.0	59.4	111.2
EBIT (UBS)	-	0.3	92.9	-26.5	60.2	112.3
EPS (UBS)	-	-56.1	NM	-3.8	47.0	122.6
Cash EPS	-	-55.1	NM	-3.4	46.1	120.7
Net DPS	-	-75.0	60.0	0.0	25.0	0.0
BVPS	-	24.1	173.5	11.1	15.3	33.7

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	-	46.8	73.8	35.5	29.5	41.0
EBIT / revenue	-	46.4	72.9	34.9	29.1	40.7
Net profit (UBS) / revenue	-	12.7	39.3	24.6	18.8	27.6

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	16.3	20.9	12.4	16.4	27.8
ROIC post tax	-	8.3	16.0	9.3	11.8	20.0
Net ROE	-	12.1	22.0	13.7	17.8	31.7

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	2.2	3.5	4.5	5.3	9.3
Dividend cover (UBS EPS)	-	2.2	4.4	4.2	5.0	11.1
Div. payout ratio (% , UBS EPS)	-	46.4	22.7	23.6	20.1	9.0
Net debt / EBITDA	-	5.4	2.7	4.1	3.2	1.7

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	0.4	0.3	0.4	0.6	0.7
Revenue / fixed assets	-	6.7	9.4	6.8	6.6	7.1
Revenue / net working capital	-	0.4	0.3	0.4	0.6	0.7

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	-	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	-	1.2	NM	18.6	6.1	4.5
Capex / depreciation	-	2.6	NM	NM	NM	NM

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	-	NM	77.1	77.3	83.7	70.2
Net debt / (net debt + equity)	-	68.2	43.5	43.6	45.6	41.3
Net debt (core) / EV	-	-	15.4	14.6	17.5	19.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs589.75 on 17 Jan 2011 23:39 SGT Market cap(E) may include forecast share issues/buybacks.

Ashish Jagnani

Analyst

ashish.jagnani@ubs.com

+91-22-6155 6061

Ruchi Patwari

Analyst

ruchi.patwari@ubs.com

+91-22-6155 6053

■ Godrej Properties

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■ Statement of Risk

Key risks to Godrej Properties are exposure to Ahmedabad, litigation risks and rising interest rates

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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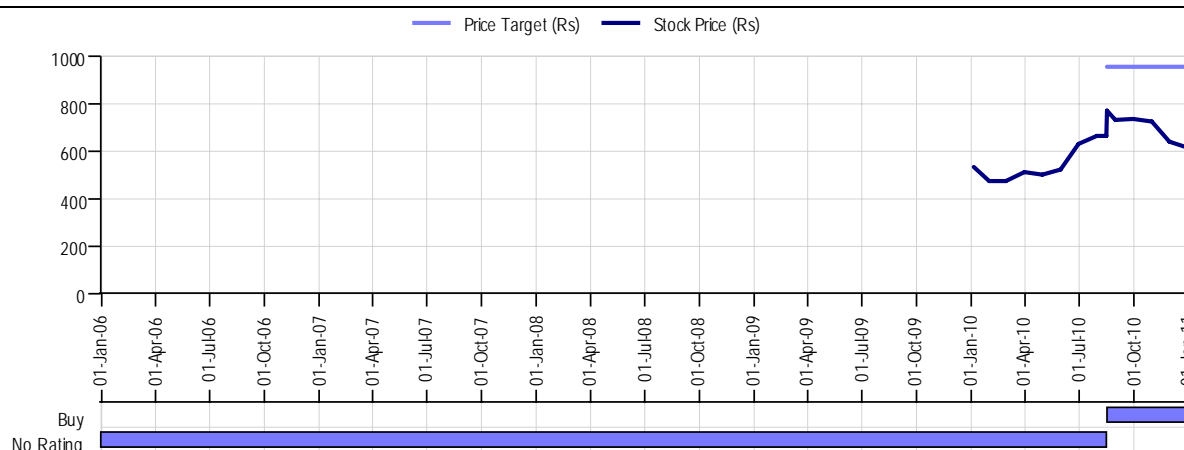
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Godrej Properties	GODR.BO	Buy	N/A	Rs589.75	17 Jan 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Godrej Properties (Rs)



Source: UBS; as of 17 Jan 2011

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