

January 11, 2009

Industry View  
In-Line

## India Property

### “Asatyamic” Risk: Sector Vulnerability to Accounting Practices

#### **Quick Comment - Focus on corporate disclosure:**

We expect investor attention to corporate accounts and disclosure to rise in the ensuing months, given the recent developments with Satyam in India. This could make Indian Property vulnerable, specifically with regard to profit reporting under Accounting Standards.

**We identify two accounting areas** that give latitude to companies in preparing financial statements such that profits appear to be recognized earlier and/or higher than in the actual present situation. The Accounting Standards (AS) relate to 1) Revenue Recognition and 2) Borrowing Costs.

**Revenue Recognition (AS9)** - Companies in our coverage universe (DLF, UT, SDL and PDL) recognize revenues based on ‘Percentage of Completion Method’ (PoCM), wherein revenue recognition is based on percentage of actual cost incurred (including land cost for most companies) as a proportion of total estimated project cost subject to certain minimum threshold completion (varies from 20%-30% for companies). In practice, companies are able to recognize revenues a few quarters ahead of actual customer payment, which leads to a rise in receivables and increase in book value without concomitant cash flows. DLF’s (6-8 months of sales) and PDL’s (10-12 months) receivables (F2Q09) have risen significantly. ***In contrast, Chinese property companies recognize revenues on (100%) project completion.***

**Borrowing Costs - AS16** allows companies to capitalize interest cost related to borrowings for assets/inventories (i.e., property projects), which take a substantial period to prepare for its intended use. To this extent, interest cost is understated in reported numbers. We estimate that capitalized interest cost for DLF, UT, PDL and SDL is roughly 17%, 20%, 65% and 45% of EBIT for F2Q09.

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**Investment thesis:** Weak demand and stretched balance sheets keep us on the sidelines for DLF (DLF.BO, Rs217.6, UW), UT (UNTE.BO, Rs35.9, UW), PDL (PARV.BO, Rs41.6, UW) and SDL (SOBH.BO, Rs89.1, EW).

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(as of December 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>811</b>	<b>34%</b>	<b>240</b>	<b>40%</b>	<b>30%</b>
<b>Equal-weight/Hold</b>	<b>1060</b>	<b>45%</b>	<b>271</b>	<b>45%</b>	<b>26%</b>
<b>Not-Rated/Hold</b>	<b>33</b>	<b>1.4%</b>	<b>8</b>	<b>1.3%</b>	<b>24.2%</b>
<b>Underweight/Sell</b>	<b>463</b>	<b>20%</b>	<b>87</b>	<b>14%</b>	<b>19%</b>
<b>Total</b>	<b>2,367</b>		<b>606</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

### Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated/Hold (NA or NAV) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months. Please note that NA or NAV may also be used to designate stocks where a rating is not currently available for policy reasons. For the current list of Not-Rated/Hold stocks as counted above in the Global Stock Ratings Distribution Table, please email [morganstanley.research@morganstanley.com](mailto:morganstanley.research@morganstanley.com).

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

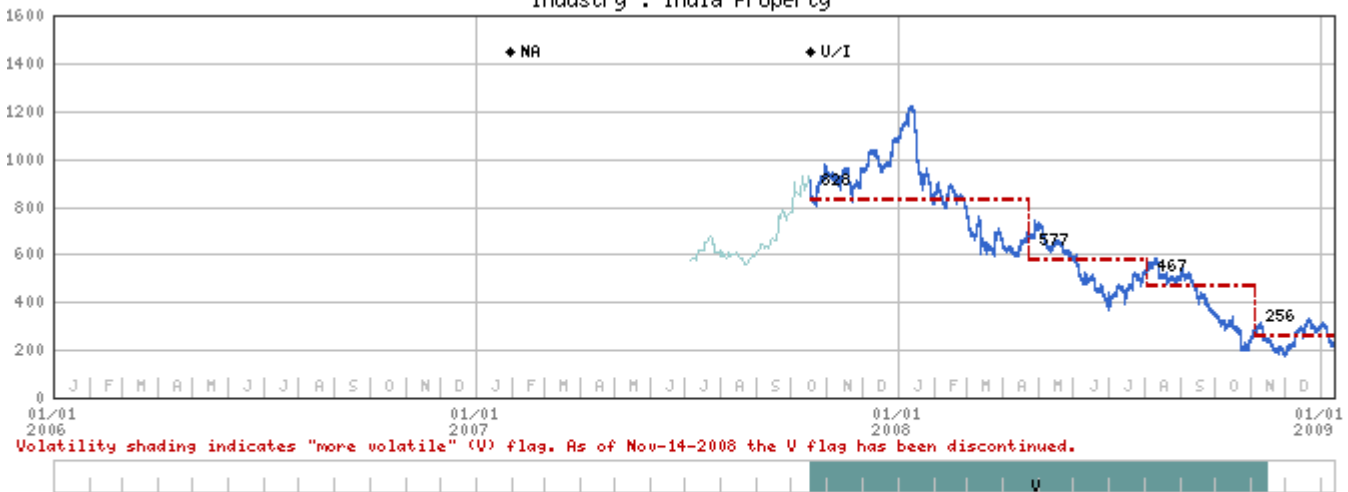
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

## Stock Price, Price Target and Rating History (See Rating Definitions)

DLF Limited (DLF.BO) - As of 1/11/09 in INR  
Industry : India Property



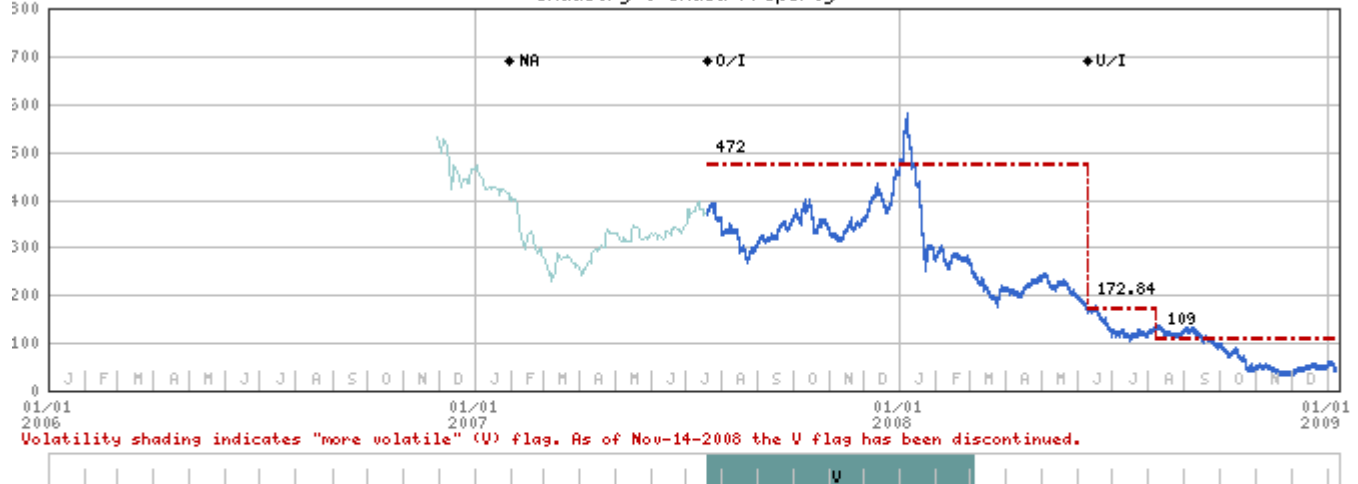
Stock Rating History: 1/31/07 : NA; 10/17/07 : U/I

Price Target History: 10/17/07 : 828; 4/24/08 : 577; 8/3/08 : 467; 11/5/08 : 256

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) ---      Stock Price (Covered by Current Analyst) ■  
 Stock Ratings abbreviated as below ( Effective 3/18/02, ratings appear as Stock Ratings/Industry View ) ♦  
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)  
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Parsvnath Developers Limited (PARV.BO) - As of 1/10/09 in INR  
Industry : India Property

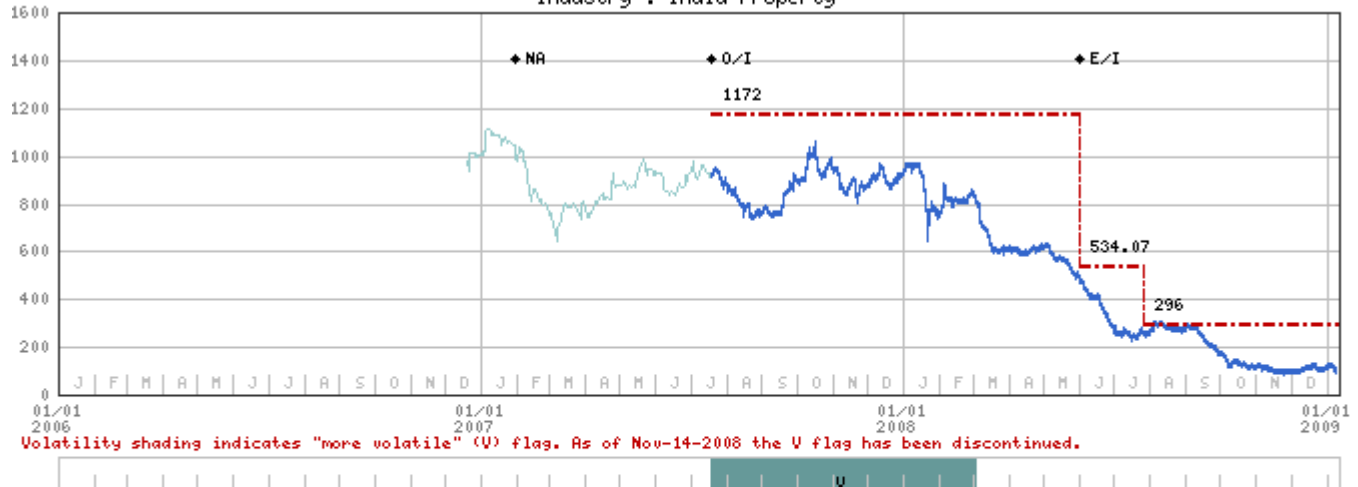


Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 1/31/07 : NA; 7/19/07 : O/I; 6/9/08 : U/I  
Price Target History: 7/19/07 : 472; 6/9/08 : 172.84; 8/7/08 : 109

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
Stock Ratings abbreviated as below ( Effective 3/18/02, ratings appear as Stock Ratings/Industry View ) ♦  
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)  
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Sobha Developers Ltd. (SOBH.BO) - As of 1/10/09 in INR  
Industry : India Property



Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

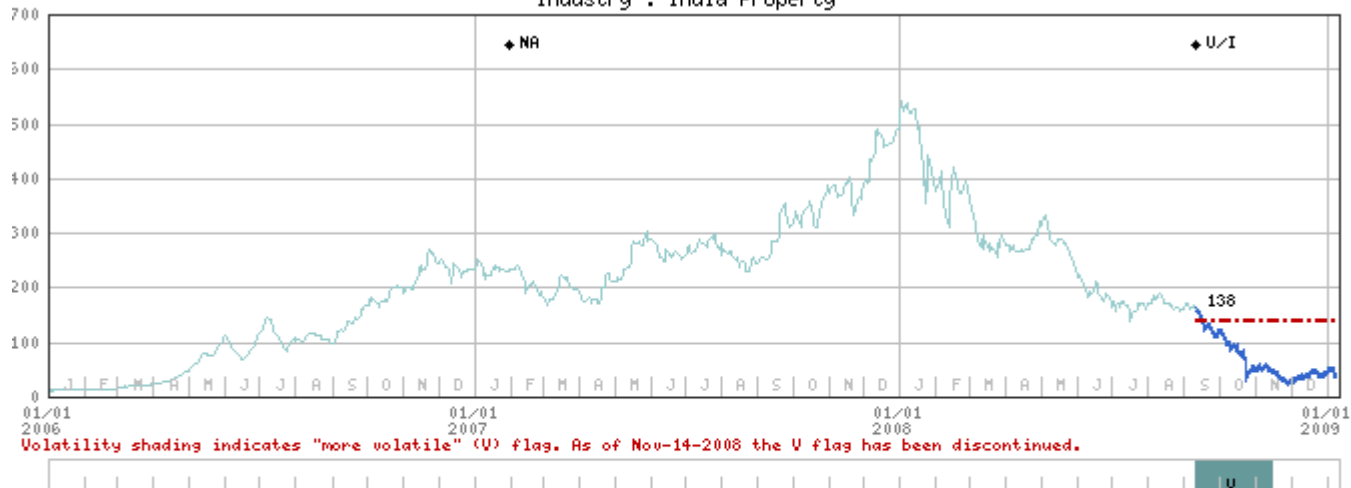
Stock Rating History: 1/31/07 : NA; 7/19/07 : O/I; 6/2/08 : E/I  
Price Target History: 7/19/07 : 1172; 6/2/08 : 534.07; 7/27/08 : 296

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
Stock Ratings abbreviated as below ( Effective 3/18/02, ratings appear as Stock Ratings/Industry View ) ♦  
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)  
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Unitech Limited (UNTE.BO) - As of 1/10/09 in INR  
Industry : India Property



Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 1/31/07 : NA; 9/11/08 : U/I

Price Target History: 9/11/08 : 138

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target --      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦  
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (U) No Rating Available (NAU)  
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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**Industry Coverage:India Property**

Company (Ticker)	Rating (as of)	Price (01/09/2009)
<b>Sameer Baisiwala, CFA</b>		
DLF Limited (DLF.BO)	U (10/17/2007)	Rs217.6
Parsvnath Developers Limited (PARV.BO)	U (06/09/2008)	Rs41.6
Sobha Developers Ltd. (SOBH.BO)	E (06/02/2008)	Rs89.1
Unitech Corporate Parks Plc (UCP.L)	O (02/02/2007)	13p
Unitech Limited (UNTE.BO)	U (09/11/2008)	Rs35.9

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