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Industry Update

India Property

Darkest hour is just before dawn; retain UW

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We expect upcycle on slashed property prices after stock/financial collapse
Just as seen in their stock prices in early 2008, the 3Q financials of developers were in freefall due to a collapse in demand. Interest rates and apartment sizes are now falling. With significant payables and no other sources of funding, we expect developers to slash prices. Despite the stock price collapse, the global slowdown which led to poor demand forces us to retain UW. We cut our estimates, DCF and TP. Improving macro environment (the only missing driver) should lead to the next upcycle and offer sizeable upsides to survivors (such as IBREL and DLF).

As feared, the higher and faster one climbs, the more painful the "freefall"
The India Property sector – a long cycle industry which recorded aggressive growth in property prices, financials and stock prices – has now seen a massive unwinding. While stock prices have fallen 86% in the last 12 months despite using all possible strategies, even large companies reported a sharp drop in financials in the 3Q (revenues collapsed 40%+ on a yoy and qoq basis). Sub-prime was the last straw, leading to a collapse in demand and funding from October 2008.

With drivers falling in place, survivors could win big as demand improves
Despite the sharp fall in mortgage rates and size of properties being constructed, a poor economic outlook and weak consumer sentiment has killed demand from Oct'08. Given the significant asset-liability mismatch and difficulty in raising funds, developers seem to be accepting the inevitable – large price cuts. Unlike China, which saw volume-driven growth last decade, prices were the major sector driver in India during its 5-year upcycle. This indicates significant unmet demand, in our view. Furthermore, as seen in mobile telephony (where India followed the Chinese model of aggressive growth led by aggressive price cuts), we believe property demand could follow similar lines once prices are slashed and the macro environment improves. We believe IBREL (a net cash company) and DLF (an industry leader with a relatively strong balance sheet), which continue to focus on execution, will be survivors and should gain significantly in the medium-long term.

With no demand visibility, we maintain sector Underweight; risks
With poor global macro environment constraining demand, we cut estimates and TP and maintain sector UW. India's property has significantly underperformed the market with stocks trading at a major discount to their book value. Given their high Beta, we expect the sector to rebound on any significant improvement in the macro environment. Hence, we believe this risk-reward scenario provides an entry opportunity for long-term investors. We maintain Buy on IBREL, Hold on DLF, Puravankara and Unitech and Sell on Sobha. Risks: macro environment and financial liquidity outlook, as well as the amount of price cuts by developers. While the risk of bankruptcy for Unitech and Sobha remains, this is partly reflected in the market ascribing negligible value to their real estate businesses.

Top picks

Indiabulls Real Estate (INRL.BO),INR98.80	Buy
DLF (DLF.BO),INR139.85	Hold
Puravankara Projects (PPRO.BO),INR41.90	Hold
Unitech (UNTE.BO),INR29.10	Hold
Sobha Developers (SOBH.BO),INR85.40	Sell

Companies featured

Indiabulls Real Estate (INRL.BO),INR98.80			**Buy**
	2008A	2009E	2010E
P/E(x)	34.7	37.8	26.1
EV/EBITDA(x)	34.0	37.3	15.6
Price/book(x)	2.6	0.5	0.5
DLF (DLF.BO),INR139.85			**Hold**
	2008A	2009E	2010E
P/E(x)	17.5	4.6	7.5
EV/EBITDA(x)	14.3	4.3	6.3
Price/book(x)	5.6	1.0	0.9
Puravankara Projects (PPRO.BO),INR41.90			**Hold**
	2008A	2009E	2010E
P/E(x)	34.4	5.7	10.1
EV/EBITDA(x)	41.5	10.5	19.8
Price/book(x)	4.2	0.6	0.6
Unitech (UNTE.BO),INR29.10			**Hold**
	2008A	2009E	2010E
P/E(x)	31.1	4.3	6.5
EV/EBITDA(x)	26.1	6.8	9.9
Price/book(x)	12.5	1.0	0.9
Sobha Developers (SOBH.BO),INR85.40			**Sell**
	2008A	2009E	2010E
P/E(x)	26.8	4.9	9.4
EV/EBITDA(x)	21.9	8.6	11.9
Price/book(x)	4.4	0.6	0.5

Valuations & Ratings

Company featured	NAV	TP/ CMP	Rating
IBREL	214	155/ 99	Buy
DLF	275	140/ 140	Hold
Puravankara	97	36/ 42	Hold
Unitech	115	26.3/ 29	Hold
Sobha	438	50/ 85	Sell

Change in TP

Company featured	Old TP	New TP	% Chg
IBREL	200	155	-23%
DLF	200	140	-30%
Puravankara	42	36	-14%
Unitech	30	26.3	-12%
Sobha	37	50	+35%

Related recent research **Date**

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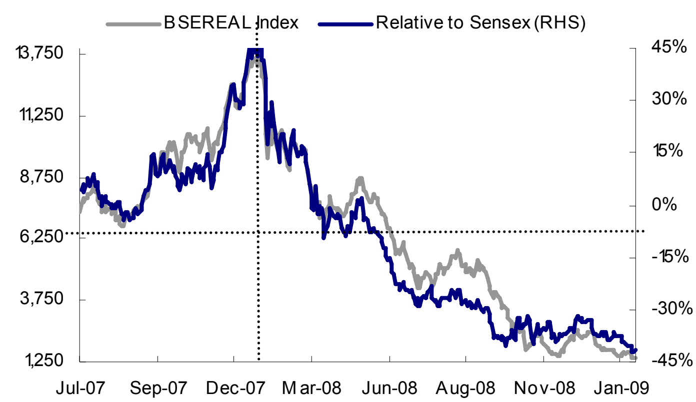
Intensifying downcycle may hasten next upcycle

Freefall in stock prices…

The sector index (BSE Real) has dropped by 86% in the last 12 months and 37% relative to the Sensex. We have seen prices for almost all property stocks (including the large caps) fall sharply in the last 12 months. Almost all stocks are trading at a discount to their book values.

Figure 1: Significant underperformance by BSE Real Index



Source: Bloomberg

Figure 2: If not for large cap DLF, the sector would have fallen 90% + YTD

Company(Y/E Mar)	Price (INR)	Mkt cap	Rating	Absolute change (%)				P/B (x)		
	6-Feb-09	(USD m)		1 m	3 m	6 m	12 m	FY08#	FY09F	FY10F
DLF	138	5,226	Hold	-50%	-49%	-75%	-84%	1.2	1.0	0.9
Unitech	29	1,028	Hold	-38%	-42%	-84%	-93%	1.3	1.0	0.9
IBREL	96	549	Buy	-35%	-38%	-71%	-86%	0.5	0.5	0.5
HDIL	78	479	NR	-44%	-33%	-79%	-90%	0.6	0.5	0.4
Anant Raj Industries	46	301	NR	-45%	-15%	-71%	-87%	0.5	0.4	0.4
Puravankara Projects	43	205	Hold	-19%	-21%	-79%	-88%	0.8	0.7	0.6
Phoenix Mills	61	197	NR	-18%	15%	-70%	-86%	0.6	0.5	0.5
Mahindra Life	121	110	NR	-33%	-34%	-75%	-81%	0.6	0.6	0.5
Sobha Developers	84	135	Sell	-26%	-20%	-72%	-90%	0.6	0.6	0.5
Parsvnath	41	168	NR	-20%	-13%	-67%	-86%	0.4	0.4	0.3
Brigade Enterprises	39	98	NR	-24%	-17%	-71%	NA	0.5	0.4	0.4
Ansal API	26	67	NR	-26%	-44%	-71%	-90%	0.2	0.2	0.2
Orbit Corporation	56	45	NR	-18%	-22%	-80%	-92%	0.4	0.3	0.3
BSE Real Index	**1,415**			**-40%**	**-38%**	**-74%**	**-86%**			
SENSEX Index	**9,301**			**-10%**	**-4%**	**-38%**	**-49%**			

Source: Bloomberg, Deutsche Bank, Note-# is based on Current Market Price

…with significant lag, financials of developers now collapse

Significant attempts to window dress financials…

With no predefined disclosure standards for accounting policies, definitions of land bank and disclosure norms, the industry's data disclosure on financials, land bank and execution are not comparable. To further complicate matters, companies have resorted to window dressing deteriorating financials by:

- **Changes in accounting norms to boost reported financials**. Sobha changed its accounting policy to report yoy growth in revenues and profits (from 1QFY09).
- **Significant increase in debtors/debtor days indicating inflated revenues.** A spike in debtors/debtor days across the sector implies that either customers are delaying payments, have stopped payments or that the sales were aggressively booked.

Figure 3: Significant increase in debtors/debtor days

Year to March (INR m)	Reported Debtors						Debtor Days					
	FY06	FY07	FY08	1QFY09	2QFY09	3QFY09	FY06	FY07	FY08	1QFY09	2QFY09	3QFY09
DLF	6,580	15,195	76,106	76,052	97,535	101,900	206	141	192	182	238	364
HDIL	782	3,113	67	572	1,686	1,530	65	94	9	9	32	35
Puravankara	446	459	824	864	1,028	1,047	58	40	53	50	67	87
Sobha	803	1,577	5,452	4,701	3,170	2,460	49	49	140	124	99	95
Unitech	1,032	1,458	7,460	8,500	14,000	13,500	40	16	66	75	130	167
Parsvnath	638	5,579	12,813	14,495	14,968	13,466	36	135	264	355	617	788

Source: Company

…finally fail with a collapse in 3Q interims

- **Sharp decline in revenue growth (qoq and yoy):** While the above steps enabled the companies to show some yoy revenue growth up to the 2Q (whilst the slowdown was evident in declining qoq revenues for 1Q and 2Q for almost all companies), revenues have now fallen off sharply in this 3Q (even on a yoy basis). The same is true for net income.

Figure 4: While the sector was able to record yoy growth in 1H, revenues collapsed in 3Q even on yoy basis…

	Revenue growth (qoq)							Revenue growth (yoy)			
Y/E March (INR m)	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q08	1Q09	2Q09	3Q09
DLF	-	6%	11%	20%	-12%	-2%	-63%	-	24%	15%	-62%
HDIL	-	5%	7%	96%	-42%	-16%	-34%	-	29%	3%	-37%
Omaxe	-	106%	-5%	-15%	-38%	-42%	-12%	-	3%	-71%	-73%
Parsvnath	1%	-1%	16%	8%	-26%	-41%	-59%	26%	-8%	-45%	-81%
Puravankara	-15%	17%	7%	2%	2%	-12%	-43%	9%	31%	-1%	-47%
Sobha	-25%	22%	9%	33%	-27%	-15%	-38%	33%	30%	-10%	-49%
Unitech	-45%	16%	13%	2%	-11%	-5%	-50%	-27%	19%	-3%	-57%

Source: Company

Figure 5: …as did net income

	Net Income growth (qoq)							Net Income growth (yoy)			
Y/E March (INR m)	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q08	1Q09	2Q09	3Q09
DLF	-	32%	6%	3%	-16%	4%	-65%	-	22%	-4%	-68%
HDIL	-	13%	18%	152%	-53%	-16%	-72%	-	57%	16%	-72%
Omaxe	-	119%	-4%	-30%	-48%	-64%	-71%	-	-23%	-87%	-96%
Parsvnath	-23%	1%	10%	-5%	-31%	-70%	-75%	-19%	-28%	-79%	-95%
Puravankara	-5%	37%	5%	15%	-15%	-18%	-50%	56%	41%	-16%	-60%
Sobha	-34%	38%	9%	15%	-28%	-3%	-85%	13%	24%	-13%	-88%
Unitech	-51%	12%	28%	-29%	15%	-15%	-62%	-51%	16%	-12%	-74%

Source: Company

- **Net debt/adjusted net debt remains high**. Over the last two years developers have taken on huge debt and significant payables for land bank, which has stretched their balance sheets due to high gearing. While net debt increased on an absolute basis, net gearing (although high) remains at similar levels. Despite the shrinkage in land bank and payables on it (driven by weak market conditions and difficulty in acquiring land), adjusted net gearing (adjusted for this payable) remains quite high.

Figure 6: High debt is aggravated by payables on existing land bank

Year to March (INR m)	Reported net debt			Reported net gearing (x)			Payable of existing land bank			Adjusted net gearing (x)		
	1QFY09	2QFY09	3QFY09	1QFY09	2QFY09	3QFY09	1QFY09	2QFY09	3QFY09	1QFY09	2QFY09	3QFY09
DLF	132,194	133,405	148,280	0.61	0.55	0.60	63,280	61,660	59,620	0.90	0.81	0.84
Puravankara	6,128	7,676	7,571	0.48	0.58	0.56	2,320	2,000	600	0.66	0.73	0.61
Sobha	19,845	19,150	18,545	1.91	1.76	1.63	5,600	2,861	3,269	2.45	2.02	1.92
Unitech	72,841	83,700	90,000	1.81	1.85	1.97	38,000	17,900	17,870	2.75	2.24	2.36
Parsvnath	18,212	17,457	18,244	0.93	0.88	0.92	12,980	12,220	9,900	1.59	1.49	1.41

Source: Company

Intensifying sub-prime in Oct’08 – the last straw

Total collapse in demand across verticals (as indicated by DLF)…

- **Housing:** DLF states that there are no incremental sales in luxury, with sales of mid-end housing collapsing from an average of 400 to ~40 per month in Nov-Dec’08. It is reconfiguring projects to enable customers to take advantage of fiscal incentives in the mid-end segment. It expects volume growth only 2-3 quarters later in the mid-end segment. It has postponed launches in the luxury segment.

- **Office space:** While DLF expects marginal cancellations, it states that incremental pre-leases are negligible due to a “wait and watch” policy adopted by customers. While 9.5 of 20 msf proposed would be delivered to DAL by Mar’09e, the balance would be significantly delayed. DLF states that of the 35msf under construction, work on 12msf is suspended until project financing is arranged (and probably also until demand picks up)

- **Retail space:** DLF states that there was no incremental pre-leasing due to the “wait and watch” policy adopted by customers. Of the 12msf under construction, 4msf is suspended until project financing is arranged. All new launches are postponed. Volume growth is expected 3-4 quarters later.

- **Hotels:** All projects, other than the one with Hilton, are suspended by DLF until project financing is arranged for a select few.

…as does fundraising for the sector

As seen in Figure 7, equity issuances by India Property sector at the corporate level dropped by 90% in CY08 to USD 343m. This was raised by two companies: Anant Raj Industries (USD 150m ADR in Mar’08) and Indiabulls Properties Investment Trust (IPIT) (USD 192m Singapore REITs in Jun’08). As such, there was no equity raising by the sector in 2H CY08. While all the developers have been attempting to raise funds from multiple sources for the last two years, there has been almost a complete freeze in global financial markets from Oct’08. While most companies indicate that the worst seems to be over, this has yet to show itself in the number of successful conclusions in fundraising plans for the last three quarters.

Figure 7: Fresh equity raised by India Property sector at parent level

Y/E Dec (in USD m)	2005	2006	2007	1H 2008	2H 2008
Total	108	2,709	3,938	343	Nil

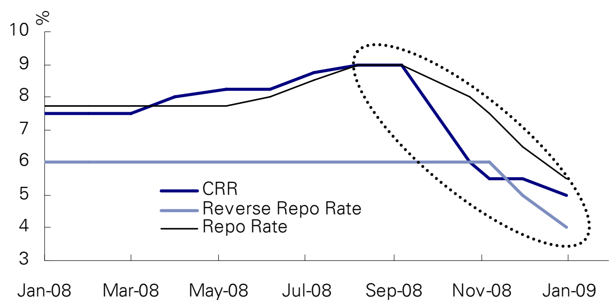
Source: Press, Deutsche Bank

While most drivers to restart next cycle are in place…

Sharp fall in mortgage rates of public sector banks

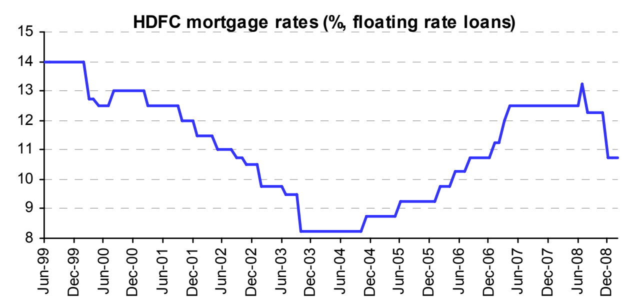
In line with global central banks, RBI has taken steps to aggressively boost liquidity in Indian financial markets. While HDFC's (India's largest mortgage company with ~25% market share) mortgage rate does not seem to have dropped as much, public sector banks (i.e, State Bank, India's largest bank) now offer teaser mortgage rates of ~8% to new customers. Similarly, while HDFC's current average mortgage rate is 10.75%, it offers a rate of 10.25% to new customers.

Figure 8: While CRR/Repo rates have fallen sharply…



Source: Reserve Bank of India

Figure 9: ..these are not reflected in HDFC's official rates



Source: HDFC

Developers now redesigning apartments to be smaller and with fewer amenities…

Wherever possible, all developers are now trying to redevelop their projects for apartments smaller in size and with fewer amenities, which should help to lower the unit price of apartments. For example, DLF successfully launched mid-end housing (defined as apartments with a price ticket of INR 4-5m) in Kolkata, Chennai and new Gurgaon in the last 3-6 months. Currently DLF has launched mid-end housing in Hyderabad at INR 1,800-2,250/s, its lowest price point of the last 4-5 years to allow customers to take advantage of fiscal incentives in the mid-end segment.

…with all new launches in mid-end and low-end segments only

As indicated earlier, all new launches are in mid-end and low-end segments only. All launches in other verticals (which are generally high margin) have been totally deferred.

Developers now accept the inevitable and commence price cuts

While DLF management has been categorical in indicating a 15-20%+ price cut, we believe that the price cuts will be even higher as demand continues to falter.

Government initiatives, however limited, are also falling in place

Unlike most industries, land and property development is driven almost entirely by state and local government and not the central government. Hence we do not expect any significant initiatives by the central government to drive this sector. Initiatives proposed by some regulators that should benefit the sector include:

- Increase in FSI (Floor Space Index), which is same as FAR (the Floor Area Ratio), in major cities (mainly Mumbai)
- Allow for longer deferred payment for land bank by most state government agencies (in Mumbai, Hyderabad, NCR, etc)
- While RBI already allows for ECB borrowing for townships and hotels, the industry expects similar exemptions for IT SEZs
- Short-term survival kit – allow rescheduling of bank debt without it being classified as NPL (non performing loans).

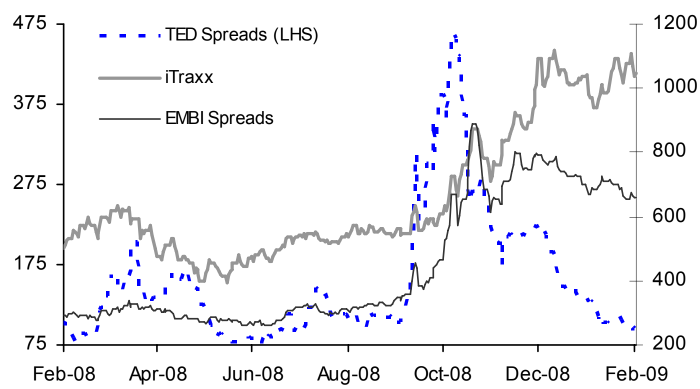
…liquidity and global outlook must also sharply improve

Signs of improving liquidity, but financing for this capital guzzling "toxic" sector far off
While Figure 10 shows:

- The liquidity in US money markets has improved when compared to the previous quarter as seen in falling TED Spreads (spread between US LIBOR and US treasury for a 3m tenure). A leading indicator, we believe credit spreads for US corporates may decline in the near future.
- Liquidity does not seem to be improving for European corporates as seen in stagnant levels of iTraxx (composite of CDS spreads of top European companies) for the last two months.
- Liquidity for government paper of emerging markets has stagnated as seen in the flat EMBI spreads (difference between the composite of sovereign bonds of emerging markets and US treasury yield).

However, we believe most global financial players have excess exposure to the real estate sector, which is considered toxic. Hence we believe it will take quite some time for "normalcy" in fundraising to return for developers in emerging markets.

Figure 10: Unlike US, emerging market risks do not seem to be declining



Source: Bloomberg, Deutsche Bank

Global outlook must improve to boost consumer sentiment and demand, especially for such high capital cost purchases
Continual newsflows of a deteriorating economic outlook, job losses and wage cuts continues to weaken consumer sentiment and demand across markets. Furthermore, as real estate is a high capital cost item, we believe consumer sentiment must significantly improve before demand in the sector picks up.

Considering unmet demand, India may follow robust growth of mobiles in China – once developers slash prices

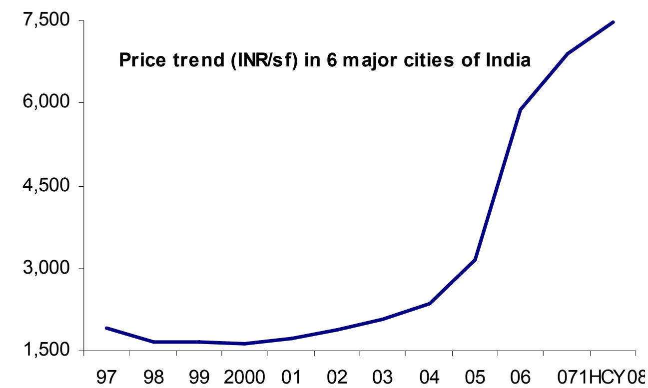
While India has seen significant price speculation in property since 2004…
The Indian residential market has recorded significant price speculation (CAGR of 13% since 1997 and 33% since 2004), which typically restricts volume growth (see Figure 11). While we have no hard data on volumes, we believe the downturn commenced in late 2007, i.e., before this long-cycle industry could deliver significant volumes.

…China has recorded robust volume growth for almost a decade…
The Chinese residential market (Figures 12 and 13) was driven largely by volumes (CAGR in sales volume of 19% since 1997) as compared to price (7%).

…probably indicating higher unmet demand in India, or a chance for faster rebound

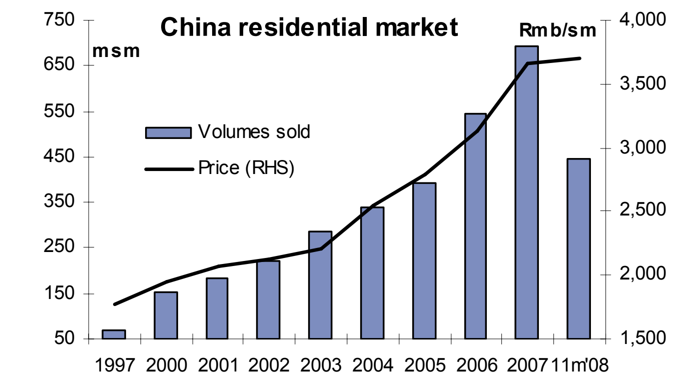
Property prices in India have increased threefold in the last decade, as compared to twofold in China (see Figure 13). Also, while volume growth in China commenced from 1997, we believe volume growth in India commenced only from 2004. Thus, we believe there should be higher unmet demand in India. Hence with property prices expected to collapse, an improvement in the macro environment could lead to a sharp pickup in property demand in India.

Figure 11: 5-year Indian property cycle was price driven…



Source: HDFC, Knight Frank, Deutsche Bank, Prices for major locations in NCR, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad

Figure 12: …while 11-year Chinese cycle was volume driven



Source: China Monthly Intelligence, Deutsche Bank

Figure 13: India has played the price driver in last 4 years, unlike China, where volumes grew robustly in last decade

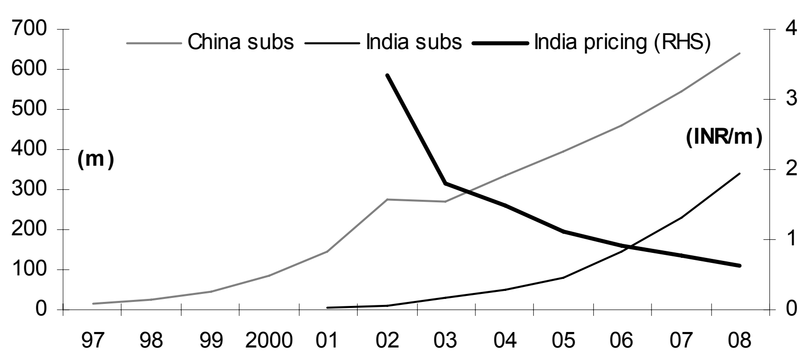
	----------------- Actual/ Average value				--------------	-------- CAGR in period ----		
	1997	**2000**	**2004**	**11m'08 #**	**Change in 11 years**	**1997-08**	**2000-08**	**2004-08**
China residential sales volumes (msm)	69	151	338	446	548%	19%	16%	9%
Average residential price in China (Rmb/sm)	1,766	1,952	2,549	3,699	109%	7%	8%	10%
Average residential price in 6 major Indian cities (INR/sf) $	1,900	1,629	2,357	7,479	294%	13%	21%	33%

Source: China Monthly Intelligence, Deutsche Bank, Note # For India price, average is for 1HCY08, $: Prices for major locations in NCR, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad

Mobile telephony in India kept pace with China with lag due to aggressive price cuts

Aggressive price cuts by the Indian mobile telephony sector (from INR 3.4/minute to INR 0.63/minute) enabled Indian mobile players to keep pace with the aggressive growth in the subscriber base in China, albeit with a lag (as the service was launched in India much after the launch in China). See Figure 14.

Figure 14: Price cuts allow Indian mobile telephony to keep pace with China with a lag



Source: Telecom Regulatory Authority of India, Deutsche Bank

While stock markets take a 9-12 month view…

This high Beta sector with significant long-term potential has collapsed…
As seen in Figure 15, the sector has the highest Beta (2.08) in the index (SENSEX) and this is also reflected in the highest fall (89%) since 1 Jan'08.

Figure 15: BSE Real Estate Index has the highest Beta and has seen the biggest fall from 1 Jan'08

Name	BB Ticker	Beta	Index as on 1st Jan'08	Index as on 6th Feb'09	% change
BSE Realty	**BSEREAL Index**	**2.08**	**13,038**	**1,415**	**-89%**
BSE Metal	BSEMETL Index	1.55	20,061	5,103	-75%
BSE Consumer Durable	BSETCD Index	1.29	6,897	1,620	-77%
BSE Bank	BANKEX Index	1.27	11,510	4,764	-59%
BSE Power	BSEPOWR Index	1.21	4,648	1,757	-62%
BSE Capital Goods	BSETCG Index	1.18	19,748	6,069	-69%
BSE Oil & Gas	BSEOIL Index	1.13	13,281	6,334	-52%
BSE SENSEX	**Sensex Index**	**1.00**	**20,301**	**9,301**	**-54%**
BSE Auto	BSEAUTO Index	0.94	5,716	2,448	-57%
BSE Healthcare	BSETHC Index	0.75	4,412	2,680	-39%
BSE FMCG	BSETMCG Index	0.62	2,375	2,048	-14%
BSE IT	BSET Index	0.59	4,471	2,204	-51%

Source: Bloomberg, Beta represents monthly data for last 12 months with respect to Sensex

…and we expect a sharp rebound on any signs of improvement of the macro outlook
As we believe the macro environment (improving liquidity and outlook) is the missing link in demand, we expect stocks to rebound on any significant signs of improvement in the macro outlook.

…the sector should see significant negative newsflow in near term

Recent mandatory requirement of disclosures on pledged shares could be a concern
To enhance the disclosure requirements, SEBI (the Indian stock market regulator), has decided to make it mandatory for promoters (including promoter groups) to disclose the details of the pledge of shares. Such disclosures have to be made as and when the shares are pledged and periodically to the stock exchanges. While we are unclear on the timelines for complying with these norms, we are concerned that stocks with a high proportion of pledging by promoters may come under pressure. We believe within Sensex, pledging of shares would be the highest in this sector and hence a larger threat.

Poor 3Q has aggravated asset liability mismatch making fundraising a challenge…
The sector has not been able to raise any fresh equity for the last three quarters; a poor 3Q outlook should make fundraising even more difficult.

…which could result in rising defaults and probably quite a few bankruptcies
As seen in Figure 16 (for data as at 20 Nov'08), most of the debt of Puravankara, Sobha and Parsvnath is short term in nature; DLF, Unitech and Sobha have to refinance more than INR 10bn (USD 200m) of their debt in the next 12 months. Most companies have not updated this data after the 3Q interims. Considering the difficulty in raising debt, we believe the risk of defaults and bankruptcies have increased significantly.

Figure 16: Large proportion and/or quantity of debt is repayable in the next 12 months

INR bn	Total Debt (A)	Repayable in next 12m	Payable for land bank in next 12m	Total payable in next 12m (B)	% payable in 12m (B/A)	DB comment
DLF	146.7	46.0	8.1	54.1	37%	Total debt tallies with company numbers for Sep'08
Unitech	101.0	26.3	2.2	28.5	28%	
HDIL	39.5	2.5	1.5	4.0	10%	
Omaxe	21.3	6.5	1.7	8.2	38%	
Sobha	19.5	9.9	1.0	10.9	56%	
Parsvnath	17.0	5.0	2.3	7.3	43%	
Puravankara #	8.1	5.8	na	5.8	72%	

Source: The Economic Times (dated 20th Nov'08), Note: # Company

Distress sales with significant fall in property prices in near term

Considering the worsening outlook and poor liquidity, we believe that developers are getting increasingly cornered. Hence we expect distress sales at all levels (land, semi finished apartments or projects, other assets) to commence resulting in a significant fall in property prices in the near term.

While we rate UW, long-term investors may look to bottom fish

Maintain Underweight rating on sector

Considering the challenging near-term outlook and asset liability mismatch, we maintain an Underweight rating on the sector.

Long-term investors may bottom fish for survivors

- Short previous cycle (2003-2008) in India with aggressive pricing rather than volume growth, unlike in China (where a decade long cycle was driven by volume rather than price), which in our view indicates significant unmet demand in India Property.
- Most sector drivers (fall in mortgage rates, developers downsizing apartments and now proposing aggressive price cuts) other than demand are falling in place.
- High Beta for sector and the propensity to rebound sharply.

We believe stock prices will rebound once the macro environment (liquidity and outlook) shows any significant signs of revival. In our view, long-term investors should look at investing for the next property cycle, i.e., for the survivors from the current cycle: IBREL and DLF.

Cut estimates and TPs; ratings and risks

Sharp cut in estimates, with marginal cut in DCF

Considering deteriorating fundamentals, we cut GAVs by 12-16%…

We believe the continued global sub-prime crisis will constrain global economic growth rates, significantly constraining demand for real estate in India. A significant mismatch between cash inflows and outflows, coupled with an asset/liability mismatch in this period of increasing risk averseness and tightening liquidity reflects deteriorating fundamentals. Hence we now make the following changes in our assumptions for calculating Gross Asset Value (GAV, based on Discounted Cash Flows, DCF):

- Cut property prices by ~5% for current projects and ~10% for future projects. Assume flat prices thereafter.
- Assume a 40%, 30% and 15% fall in completions for next three years.
- Maintain discount rate of 16.5-18.5%, cap rate of 10-12% and 20-30% tax rate.

Considering these changes, we cut GAV for our coverage universe by 12-16%.

…and financial estimates by 15-60% across companies

Considering the above factors and poor 3Q financials of these stocks (lower-than-expected revenues, EBITDA and PAT), we cut financial estimates for our coverage universe by 15-60% over the next three years.

Level of discount to NAVs of Asian developers, though high, seems to be declining

Regional valuations in Asia also indicate that developers trade at significant discount to NAVs (40-70%), though the extent of the discount has marginally declined.

Figure 17: Asian real estate developers trade at significant discount to their NAVs

Country	PE(x)	Market Cap * (A)	NAV (B)	Premium to NAV (A/B) as of	
	CY08	(USD m)	(USD m)	03/02/2009	21/11/2008
China	10.6	20,771	47,861	-57%	-62%
Indonesia	8.9	297	945	-69%	-75%
Malaysia	15.5	2,488	4,125	-40%	-51%
Philippines	12.8	4,223	8,388	-50%	-62%
Emerging Markets	**11.3**	**27,779**	**61,318**	**-55%**	**-61%**
Singapore	8.9	9,293	19,035	-51%	-50%
Hong Kong	10.3	91,075	175,209	-48%	-55%
Japan	12.7	39,339	26,439	49%	44%
Developed Markets	**10.4**	**164,147**	**256,324**	**-36%**	**-44%**
Asian Real Estate (x India)		**191,926**	**317,643**	**-40%**	**-48%**

*Source: Deutsche Bank, *Prices as on 3rd Feb'09*

Our TPs are now at 30-55% discounts (vs. 30-60%) to DCF-based GAV for land bank

Considering the above and the government's measure to reschedule real estate loans, we decrease the discount to GAV from 60% to 55% for Unitech and Sobha (which had relatively higher discounts), while maintain our discount to GAV for DLF (35%), IBREL (30%) and Puravankara (45%). Following this discount on GAV, we exclude net debt and payables on land bank to arrive at our adjusted DCF-based NAV for the property business. We then add the value of any other divisions, which are determined by other valuation methodologies. We then add both these numbers to get our SOTP-based TP for each company.

Figure 18: Discount to DCF-based GAV for property business

Company	Previous	Current	Reasons for the discount (other than sector headwinds)
IBREL	30%	30%	Limited track record in property development, execution risk and concentration risk (Maharashtra)
DLF	35%	35%	Deteriorating product mix, high debt levels and increasing debtors from DAL (company fully owned by promoters)
Puravankara	45%	45%	Concentration risk (Residential ~80% and Bangalore >60%), high FSI assumptions and ~61% of debt being payable in 2m
Unitech	60%	55%	Bankruptcy risk, execution risk and concentration risk (NCR, Chennai) remains, reduce discount by 5% on account of government's measure to reschedule real estate loans
Sobha	60%	55%	Bankruptcy risk, execution risk and concentration risk (Residential >90% and Bangalore> 50%) remains, reduce discount by 5% on account of government's measure to reschedule real estate loans

Source: Deutsche Bank

Figure 19: Valuations and ratings

	Discount Rate	DCF of RE-GAV (a)	Disc. To DCF	Disc. GAV (b)	Liabilities * (c)	Adj. RE NAV (d=b-c)	Other (e)	Total NAV (a-c+e)	TP (d+e)	CMP (09/02/09)	Current disc. to NAV	Upside	Rating
IBREL	18.0%	201	30%	141	-13	154		214	155	96	-55%	60%	Buy
DLF	16.5%	383	35%	249	120	128	13	275	140	138	-50%	2%	Hold
Puravankara	17.5%	136	45%	75	38	36		97	36	43	-56%	-16%	Hold
Unitech	17.5%	162	55%	73	66	6	20	115	26.3	29	-75%	-9%	Hold
Sobha	18.5%	706	55%	318	297	21	29	438	50	84	-81%	-41%	Sell

*Source: Bloomberg, Deutsche Bank, *Liabilities= net debt & payable for land bank*

Figure 20: Change in Target Price (TP) for companies under coverage

	IBREL	DLF	Puravankara	Unitech	Sobha
Old TP	200	200	42	30.0	37
New TP	155	140	36	26.3	50
% change	-23%	-29%	-14%	-12%	35%
% upside to current price	60%	2%	-16%	-9%	-41%

Source: Deutsche Bank

Ratings

Maintain sector Underweight, prefer survivors – IBREL and DLF

Considering the difficult outlook and asset liability mismatch, we maintain Underweight on the sector. Hence investors should look at the next property cycle and hence at survivors.

- **Buy on IBREL**: due to its cash and net investment of INR 181/share, which is at a 83% premium to the current market price
- **Hold on DLF:** due to its good quality land bank and execution capability, reasonably strong balance sheet neutralised by its high base of earnings (due to the DAL structure)

We believe that there is limited downside potential in Puravankara and Unitech

- **Hold on Puravankara:** due to its asset-light business model, low gearing (at 56%, though 61% of its debt is payable in 12 months), which is largely neutralised by intensifying headwinds and significant debt payables in the near term.
- **Hold on Unitech:** post the poor stock price performance (~42% and ~85% in the last month and in the last 6 months respectively) and its binding telecom deal with Telenor (which is valued at INR 20/share), while the risk of bankruptcy remains.

Maintain Sell on Sobha

With financial markets remaining tight and given its inability to raise significant long term funding in last 3 quarters, we remain concerned on its asset liability mismatch (net gearing of 161% and interest cover of only 2x in Q3). Hence, we maintain a Sell rating on Sobha.

Risks on UW rating

- Easing liquidity across financial markets enabling them to raise long-term funds.
- Improving macro environment (with higher GDP growth and a better outlook for IT/ITES).
- Aggressive price cuts by developers' kick-starting demand.

Company Section

Asia India
Property Property

10 February 2009

Indiabulls Real Estate

Reuters: **INRL.BO** Bloomberg: **IBREL IN**

With investments at 183% of CMP; maintain Buy

High float and sector headwinds more than neutralised by investments; Buy
IBREL's strengths - raising funds, securing and executing capital intensive projects with regulatory hurdles - are well utilised in the high-potential sectors of real estate and power. Unlike its peers, however, ~74% free float and sector headwinds have made it a candidate for going short. Investments at 183% of CMP will likely be leveraged to drive inorganic growth in the current downcycle; maintain Buy.

Playing to its strengths
The group plays to its strengths: raising equity and securing and executing capital-intensive projects with major regulatory hurdles. We believe a fall in rentals for its Mumbai projects will constrain near-term cash flow, but that this will be neutralized in the long term by a spike in leasable area. As a net cash company with marquee assets and a power venture that is gaining momentum, we view IBREL as well-positioned in the intensifying downcycle. Bank funding and listing its power foray could boost cash flows in the near and medium terms, respectively. We believe that poor 3Q interims are not relevant for this early stage developer.

Large free float and strong headwinds vs. investment at 183% of CMP
Investments, at ~INR 181/share (value of listed associates, land at cost and net cash), are ~183% of its stock price (Figure 22), and could be used to buy distressed assets in the current tight market. However, unlike peers, its large free float (74%) has made the stock an ideal candidate for going short.

We cut estimates and TP (from INR 200 to INR 155); maintain Buy
We cut our property price estimates by 5-10% and delay project completions for the next three years, resulting in a 30-60% cut in estimates and an 11% cut in our DCF-based GAV (to INR 201). We maintain a 30% discount to GAV; after accounting for net cash and payables for land bank, we arrive at our TP of INR 155. Considering 57% upside potential, we maintain Buy. Risks are further deterioration in the macro outlook, delay in execution and change in government.

Forecasts and ratios

Year End Mar 31	2007A	2008A	**2009E**	2010E	2011E
Sales (INRm)	139.1	5,151.5	**2,828.2**	4,320.2	7,643.9
EBITDA(INRm)	-4.4	3,725.3	**262.2**	929.2	1,926.2
Reported NPAT(INRm)	118.8	3,958.7	**673.3**	975.6	1,298.2
Reported EPS FD(INR)	0.66	15.38	**2.61**	3.79	5.04
DB EPS FD (INR)	0.66	15.38	**2.61**	3.79	5.04
OLD DB EPS FD (INR)	0.66	15.38	**6.90**	7.51	12.09
% Change	0.0%	0.0%	**-62.1%**	-49.6%	-58.3%
DB EPS growth (%)	–	2,225.9	**-83.0**	44.9	33.1
PER (x)	461.3	34.7	**37.8**	26.1	19.6
EV/EBITDA (x)	–	34.0	**37.3**	15.6	9.5

Source: Deutsche Bank estimates, company data

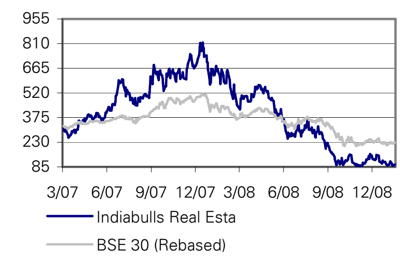
Buy

Price at 9 Feb 2009 (INR)	**98.80**
Price target - 12mth (INR)	**155.00**
52-week range (INR)	**656.55 - 87.05**
BSE 30	**9,301**

Key changes

Price target	200.00 to 155.00 ↓	**-22.5%**
Sales (FYE)	2,742 to 2,828 ↑	**3.2%**
Op prof margin(FYE)	18.1 to 5.7 ↓	**-68.3%**
Net profit(FYE)	1,776.4 to 673.3 ↓	**-62.1%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-14.0*	*-37.1*	*-84.7*
BSE 30	*-1.1*	*-6.7*	*-46.7*

Stock data

Market cap (INRm)	**25,441**
Market cap (USDm)	**524**
Shares outstanding (m)	**257.5**
Major shareholders	**Promoter's (26.1%)**
Free float (%)	**74**
Avg daily value traded (USDm)	**35.3**

Key indicators (FY1)

ROE (%)	**1.4**
Net debt/equity (%)	**-47.4**
Book value/share (INR)	**191.15**
Price/book (x)	**0.5**
Net interest cover(x)	**0.3**
Operating profit margin (%)	**5.7**

Model updated:09 February 2009

Running the numbers

Asia

India

Property

Indiabulls Real Estate

Reuters: INRL.BO Bloomberg: IBREL IN

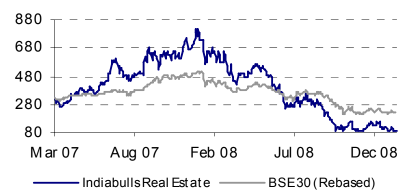
Buy

Price (9 Feb 09)	INR 98.80
Target price	INR 155.00
52-week Range	INR 87.05 - 656.55
Market Cap (m)	INRm 25,441 USDm 524

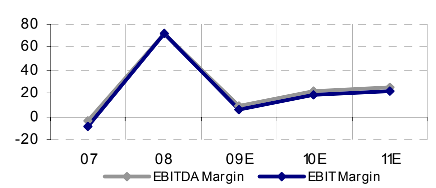
Company Profile

Indiabulls Real Estate (IBREL) is part of Indiabulls group which has made its mark in the financial services sector in India. It sharply focuses on a few high-margin non-residential projects (office properties in Mumbai, retail properties in city centers of 16 tier I cities) and use its strong Balance Sheet to aggressively build its land bank which is at 166msf currently. IBREL pioneers FDI investment into real estate(Farallon), first real estate companies to raise GDR and only company to list two of its SPV's as Indiabulls Property Investment Trust(IPIT) on the Singapore REITs market.

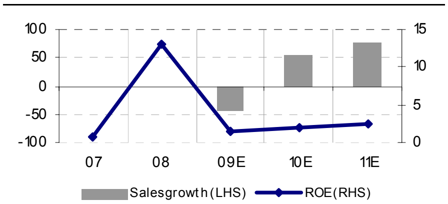
Price Performance



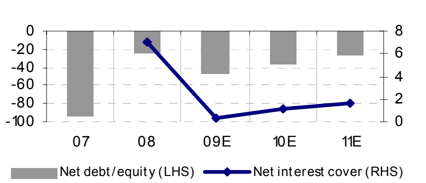
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Financial Summary					
DB EPS (INR)	0.66	15.38	2.61	3.79	5.04
Reported EPS (INR)	0.66	15.38	2.61	3.79	5.04
DPS (INR)	0.00	13.50	1.50	2.00	2.50
BVPS (INR)	83.8	187.5	191.1	193.8	197.2
Weighted average shares (m)	180	241	257	257	257
Average market cap (INRm)	54,785	128,455	25,441	25,441	25,441
Enterprise value (INRm)	40,988	126,621	9,779	14,482	18,378
Valuation Metrics					
P/E (DB) (x)	461.3	34.7	37.8	26.1	19.6
P/E (Reported) (x)	461.3	34.7	37.8	26.1	19.6
P/BV (x)	3.56	2.60	0.52	0.51	0.50
FCF Yield (%)	nm	nm	10.1	5.4	6.9
Dividend Yield (%)	0.0	2.5	1.5	2.0	2.5
EV/Sales (x)	294.6	24.6	3.5	3.4	2.4
EV/EBITDA (x)	nm	34.0	37.3	15.6	9.5
EV/EBIT (x)	nm	34.3	60.3	18.6	11.0
Income Statement (INRm)					
Sales revenue	**139**	**5,151**	**2,828**	**4,320**	**7,644**
Gross profit	**139**	**5,151**	**2,025**	**2,917**	**4,420**
EBITDA	**-4**	**3,725**	**262**	**929**	**1,926**
Depreciation	8	33	100	150	255
Amortisation	0	0	0	0	0
EBIT	**-12**	**3,692**	**162**	**779**	**1,671**
Net interest income(expense)	-53	-522	-488	-647	-1,021
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	316	2,495	2,139	1,659	1,644
Profit before tax	**250**	**5,665**	**1,814**	**1,792**	**2,295**
Income tax expense	120	1,598	580	591	764
Minorities	-9	65	400	75	83
Other post-tax income/(expense)	-21	-44	-160	-150	-150
Net profit	**119**	**3,959**	**673**	**976**	**1,298**
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	**119**	**3,959**	**673**	**976**	**1,298**
Cash Flow (INRm)					
Cash flow from operations	**-5,281**	**-39,829**	**6,255**	**3,557**	**3,728**
Net Capex	-257	-1,964	-3,684	-2,175	-1,960
Free cash flow	**-5,537**	**-41,793**	**2,571**	**1,382**	**1,768**
Equity raised/(bought back)	7,191	38,658	0	0	0
Dividends paid	0	-3,836	-456	-608	-760
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	12,839	4,219	-10,825	-10,129	-6,871
Net cash flow	**14,492**	**-2,752**	**-8,710**	**-9,355**	**-5,862**
Change in working capital	*13,153*	*57,083*	*52,161*	*49,954*	*48,012*
Balance Sheet (INRm)					
Cash and other liquid assets	18,073	16,894	36,500	41,629	44,500
Tangible fixed assets	249	2,246	6,030	8,355	10,570
Goodwill/intangible assets	0	213	373	652	1,141
Associates/investments	0	0	0	0	0
Other assets	5,696	62,322	49,902	56,784	67,587
Total assets	**24,018**	**81,674**	**92,805**	**107,420**	**123,798**
Interest bearing debt	1,420	3,389	6,250	19,000	28,100
Other liabilities	4,679	21,465	22,752	26,841	35,590
Total liabilities	**6,099**	**24,854**	**29,002**	**45,841**	**63,690**
Shareholders' equity	15,063	45,149	49,215	49,908	50,772
Minorities	2,857	11,671	14,588	11,671	9,337
Total shareholders' equity	**17,919**	**56,820**	**63,803**	**61,579**	**60,109**
Net debt	*-16,654*	*-13,505*	*-30,250*	*-22,629*	*-16,400*
Key Company Metrics					
Sales growth (%)	nm	nm	-45.1	52.8	76.9
DB EPS growth (%)	na	2,225.9	-83.0	44.9	33.1
EBITDA Margin (%)	-3.1	72.3	9.3	21.5	25.2
EBIT Margin (%)	-8.9	71.7	5.7	18.0	21.9
Payout ratio (%)	0.0	82.1	57.4	52.8	49.6
ROE (%)	0.8	13.1	1.4	2.0	2.6
Capex/sales (%)	184.4	38.1	130.3	50.3	25.6
Capex/depreciation (x)	32.0	59.2	36.8	14.5	7.7
Net debt/equity (%)	-92.9	-23.8	-47.4	-36.7	-27.3
Net interest cover (x)	nm	7.1	0.3	1.2	1.6

Source: Company data, Deutsche Bank estimates

Well-positioned for the intensifying downcycle

While it had poor Q3 interims, IBREL is largely an asset play

Poor Q3 interims…

- Revenues (including interest income, as its real estate business is in the early stages of development) decreased 81% yoy on account of high other income (one-off income received from stake sales of its SPVs) in Q3FY08. While income from business operations (largely management and advisory fees) was flat (+3%) to INR 389m, other income (largely interest income) declined 88% to INR 563m.

- PAT declined 94% to INR 180m and PAT (post minority) declined 96% to INR 113m.

Figure 21: IBREL's consolidated interim trends

Y/E Mar (INR m)	Q108	Q208	Q308*	Q408	Q109	Q209	Q309	YoY chg	QoQ chg
Revenue	419	782	4,918	1,528	1,125	1,438	953	-81%	-34%
- Income from operations	93	253	378	682	459	816	389	3%	-52%
--Other Income (largely Interest)	325	529	4,540	845	666	623	563	-88%	-10%
EBITDA	330	491	4,411	989	572	527	392	-91%	-26%
EBITDA margins	78.8%	62.8%	89.7%	64.7%	50.9%	36.7%	41.2%		
PAT	195	349	3,033	490	266	258	180	-94%	-30%
PAT (post minority)	195	349	3,033	447	130	80	113	-96%	42%

*Source: Company, * Note –Other Income includes one-off income from stake sales in SPVs*

…are not very relevant, as IBREL is largely an asset play

We believe that IBREL is largely an asset play since almost all its properties are in the early stages of development and thus not flowing into its P&L. While its Mumbai office projects are in advanced stages, they are a part of Indiabulls Property Investment Trust (IPIT), which is not yet consolidated.

Moreover, land bank remains a key asset for developers, particularly in India, where land acquisition is quite a long-winded process and where it takes time to unlock value. Hence, developers are valued based on their land bank. This is even truer for IBREL, as its projects are not yet consolidated in its P&L.

Well-positioned for the intensifying downcycle at IPIT

Marquee assets of IPIT (IBREL owns 45%) with little competition in the next two years

IPIT (a REIT-like structure listed in Singapore in which IBREL owns a 45% stake) is seeded with two marquee properties -- Jupiter Mills (now One Indiabulls Centre, OIC) and Elphinstone Mills at Lower Parel (an emerging Central Business District (CBD) in Mumbai) -- midway between two existing CBDs in Mumbai (Nariman Point and the new CBD at Bandra Kurla Complex, BKC). We believe that these offer significant value to IBREL because of the following:

- While there is no supply of grade A office space at Nariman Point, there are quite a few developers focusing on BKC, and IBREL is the only developer to offer finished grade A office space in the near term at Lower Parel. We believe that tight liquidity will significantly constrain peers, as we expect competing supply only by the end of 2010, if at all.

- IPIT is the only developer in India to have a listed vehicle on the Singapore exchange, which should enable IPIT and IBREL to raise funds at a lower cost in future.

Lower rentals should be largely neutralized by the increase in leasable area (LA)

- **~43% increase in LA for the Jupiter and Elphinistone properties:** As per the new car park policy of the Government of Maharashtra (dated 6 Nov'08), the FSI (Floor Space Index) has increased from 2.66 to 4.0 for properties in the vicinity of railway stations if they offer their spare car parks to the local municipal corporation. This has resulted in a ~43% increase in LA from 3.5 to ~5msf for IPIT.

- **Higher FSI expected in IPIT's 1.5 acre plot:** In addition to the Jupiter and Elphinstone office projects, IPIT owns a 1.5 acre plot directly between the two large projects. With the Government of Maharashtra's Urban Development department proposing to increase FSI from 1.33 to 5.0 for luxury hotel projects, IPIT's Board is currently evaluating a proposal to develop a luxury 5 star hotel (including service apartments) in that plot. While there are two luxury hotels in the vicinity (the recently launched Four Seasons and the currently under-construction Shangri-La), we believe that the 5msf of Grade-A office space of IPIT will act as a significant captive target audience for this proposed hotel project.

- **Execution is slow due to demand weakness and a change in plans:** While IPIT previously expected to complete its entire earlier proposed 3.5msf by Mar'09e, we expect it to be completed by Jun'10e. The delay is largely due to 1) demand weakness and 2) a significant change in plans to avail of higher FSI.

- **Unlike peers that are cash starved, IPIT's project completions will be driven by demand dynamics:** As stated previously, the sector and almost all sector companies are significantly cash starved. IBREL, however, is a net cash company (~USD 500m). IPIT has a line of credit of INR 7bn, of which it has drawn down INR 5.5bn. In the past fortnight, it has secured INR 2bn construction finance from LIC Housing Finance. In addition, it has already received ~INR 1bn of deposits from its tenants. While the cost of construction for the entire 5msf of office space is ~INR 11bn (at construction cost of INR 2200/sf), the 6-month tenant deposit itself will fetch INR 5.25bn in a phased manner post completion. Hence we believe that IPIT's execution will be driven by demand dynamics.

- **While this increase in FSI should largely neutralize the expected fall in rentals post completions…** Demand for office properties in Mumbai (the financial hub of India) has dropped significantly due to the meltdown of global and Indian financial markets. Hence, we expect rentals to drop by 36% from the earlier INR 275/sf/m to ~INR 175/sf/m. However, we believe that this will be neutralized by the +40% increase in leasable area.

- **…short-term cash flows will be constrained:** In Jun'08e, while IPIT had tied-up with tenants for ~1msf (of which the Indiabulls group accounted for ~ 0.3msf) at INR 275/sf/m, it now indicates that tenants have signed up for 0.7msf (0.2msf). With average rents also expected to be lower, we believe that short-term cash flows (in terms of rentals) will be much lower.

And well-positioned for other projects

Going slow (given the current headwinds) on other projects to conserve cash

There have been few launches in the residential segment (which has a negative working capital cycle): 1) the luxury Tehkhand project in Delhi, 2) the mid-income housing project in Chennai (off OMR), 3) plotted land at Sonepat (NCR) and 4) a commercial complex at Vadodara. IBREL states that all its projects are competitively priced; for example, its Chennai mid-end housing project was launched at a price of INR 2,400/sf, which would be ~20% lower than the official price points of peers.

Power venture gaining initial momentum

IBREL states that three of its power projects, with an initial capacity of ~3,300MW of the total proposed capacity +9,000MW are in various stages of development (in terms of securing land, water, fuel linkages) and financial closures.

- 1320MW (Phase-1) at Amravati, Maharashtra, has land, water and fuel linkages in place, with the company expecting financial closure by Mar'09. It has already commenced order placement with various Chinese capital goods companies.
- 1320MW (Phase-1) at Bhaiyathan, Chattisgarh has secured water linkage.
- 660MW (Phase-1) at Nashik, Maharashtra has secured land, water and fuel linkages.

The power division is capitalized through equity of INR 22bn-INR 16bn from Farallon and L N Mittal and INR 6bn from IBREL. Hence, we believe that weak equity markets will not constrain project execution for the next 4-6 quarters.

Gross cash of INR 107/share and net investments of ~INR 181/share as of 31 Dec'08

- Cash (including liquid investments) stands at INR 27.5bn vs. INR 36.3bn (Sept'08).
- The value of IBREL's investments (cash in books, value of listed subsidiaries and land at cost) is INR 181 (Figure 22) – an 83% premium to the current market price of INR 92.

Figure 22: Net investment analysis of IBREL

Net Investments as of 30 Sept'08	INR m	INR/share	Remarks
Gross cash on Balance Sheet	27,500	107	Includes ICD's, FMPs and interest accrued
Net cash for IBREL shareholders	4,920	19	Adjusted for debt, minority interests and preference capital
IPIT stake at current* price (S$ 0.185)	6,365	25	45% stake owned by IBREL
Annuity of Management Fees from IPIT	5,407	21	At a cap rate of 10%
Land (almost entirely paid up) at cost	30,000	117	Includes advances for land
Net Investments per share	**56,376**	**181**	**~83% above the current stock price**

*Source: Company, Deutsche Bank, *Prices as on 9th Feb'09*

Downgrade financial estimates and TP; maintain Buy

Considering deteriorating fundamentals, we cut GAV by 11%...

We believe that the continued global sub-prime crisis will constrain global economic growth rates and significantly constrain demand for real estate in India. Hence, we now make the following changes in our Gross Asset Value (GAV) assumptions:

- We cut our property price assumptions by ~5% for current and future projects, and we assume flat prices thereafter.
- We assume falls in completions of 40%, 30% and 15% over the next three years, respectively.
- We maintain our assumption of an increased saleable area for the Jupiter and Elphinistone projects of +5msf (previously 3.5msf); we also maintain our revised rental assumption on these assets of INR 175/sf/m (previously INR 275).
- We maintain our discount rate assumption of 18.0%, our cap rate assumption of 10% for office space, and our assumption of a 30% tax rate.

Thus our DCF-based GAV is INR 201/share (previously INR 225/share) for IBREL's real estate business.

...and we also cut our financial estimates

Considering the aforementioned factors and poor 3Q financials (lower-than-expected EBITDA and PAT) and assuming a poorer product mix, we cut our EBITDA and PAT estimates by 33-62%.

Figure 23: Cut in financial estimates for IBREL

(INR m)	Old estimates			New estimates			% change		
Y/E Mar	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Sales	2,742	3,716	7,239	2,828	4,320	7,644	3%	16%	6%
-Income from operations	2,242	2,966	5,739	2,328	3,570	6,144	4%	20%	7%
-Stake sale in subsidiaries	500	750	1,500	500	750	1,500	0%	0%	0%
EBITDA	553	780	2,890	262	929	1,926	-53%	19%	-33%
Net Profit	1,776	1,934	3,112	673	976	1,298	-62%	-50%	-58%

Source: Deutsche Bank

Downgrade our TP to INR 155 (from INR 200)

Considering the sector headwinds (weak market conditions amidst tight financial markets), we maintain our 30% discount to GAV of INR 201/share. Following this discount on GAV, we adjust for net cash (INR 19) and payables for land bank (INR 6), to arrive at a TP of INR 155 (previously INR 200/share).

Despite significant underperformance in the past year, we maintain our Buy rating

Despite the stock price's decline of 85% in the past year, which resulted in a 47% underperformance to the Sensex, our TP of INR 155 suggests 57% upside potential. Hence we maintain our Buy rating.

Risks

- Further deterioration in the macro environment (fall in GDP growth, liquidity remains tight in financial markets)
- Delays in execution, marketing and exit from REIT markets for its projects.

Key financials

Figure 24: Consolidated income statement

Y/E March (INR m)	FY07	FY08	FY09e	FY10e	FY11e
Total Income	**139**	**5,151**	**2,828**	**4,320**	**7,644**
--Income from operations	139	1,407	2,328	3,570	6,144
--Sale of stake in subsidiaries	-	3,745	500	750	1,500
Total Expenditure	144	1,426	2,566	3,391	5,718
Employee costs	37	177	389	544	762
Reported EBITDA	**(4)**	**3,725**	**262**	**929**	**1,926**
EBITDA margin		72%	9%	22%	25%
Financial Charges	53	522	488	647	1,021
Other Income	316	2,495	2,139	1,659	1,644
Reported PBT	250	5,665	1,814	1,792	2,295
Reported PAT	**131**	**4,067**	**1,233**	**1,201**	**1,531**
PAT (post minority)	**119**	**3,959**	**673**	**976**	**1,298**
Growth (%)					
Sales			-45%	53%	77%
EBITDA			-93%	254%	107%
PAT			-70%	-3%	27%

Source: Company, Deutsche Bank

Figure 25: Consolidated balance sheet

As on March 31st (INR m)	FY07	FY08	FY09e	FY10e	FY11e
Net Block	249	2,246	6,030	8,355	10,570
Investments	5,944	675	11,500	21,629	28,500
Goodwill	-	213	373	652	1,141
Inventory	1,993	11,441	32,450	35,000	42,000
Cash & Bank (inc. Investments)	**12,129**	**16,219**	**25,000**	**20,000**	**16,000**
Loans & Advances	3,645	49,542	13,477	16,350	18,500
' ICDs	-	37,324	6,000	5,000	4,000
Net Working Capital	13,153	57,083	52,161	49,954	48,012
Total Assets	**19,346**	**60,216**	**70,063**	**80,591**	**88,224**
Net Worth	**14,502**	**42,572**	**46,215**	**46,408**	**46,772**
Minority Interest	2,857	11,671	14,588	11,671	9,337
Pref. Share Capital of Subsidiary	561	2,577	3000	3500	4000
Total Debt	**1,420**	**3,389**	**6,250**	**19,000**	**28,100**
Total Liabilities	**19,346**	**60,216**	**70,063**	**80,591**	**88,224**
Key Ratios					
Debt/ Equity (Gearing)	10%	8%	14%	41%	60%
Net Gearing	-115%	-31%	-64%	-48%	-34%

Source: Company, Deutsche Bank

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Asia India
Property Property

10 February 2009

DLF

Reuters: **DLF.BO** Bloomberg: **DLFU IN**

Bracing for the worst, cut TP and estimates; maintain Hold

Collapse in demand forces DLF to further brace itself for the worst
While DLF has positioned itself to prepare for industry headwinds since mid CY07, the collapse in demand is forcing the company to tighten further with (a) a 26% cut in projects under construction, (b) suspension of almost all new launches and (c) focus on raising long-term funds. Given its quality land bank, brand equity, focus on execution and relatively reasonable balance sheet, we believe DLF is poised to do well in next upcycle. We significantly reduced our estimates and TP.

Q3 financials fall off sharply; outlook is dismal
Revenues, EBITDA and PAT declined by 62%, 69% and 68% yoy respectively with no new sales/leases in high-margin products and a significant drop in new sales in mid-end housing. Increasing debtors led to a rise in debtor days from 182 to 364. Unlike Q2, net debt increased 12% with net gearing returning to 60%. With a collapse in demand resulting in the deferment of new projects and a significant drop in DAL sales, outlook is now dismal. Guidance stands effectively withdrawn.

While reasonably positioned, DLF now braces itself for the worst
This industry leader has a quality land bank, great brand equity, good execution capabilities and a reasonable balance sheet. It was quite well positioned with slowing land accretion, diluted product mix and downsizing manpower. However it is now bracing for the worst with a 26% cut in projects under construction (mainly high-margin ones), postponing almost all new launches other than mid-end housing (at very low price points), and a focus on raising long-term funds.

Lowered estimates and TP (from INR 200 to INR 140); maintain Hold
We cut property prices 5-10% and delay project completions in the next three years resulting in a 33-57% reduction to our estimates and a 15% cut to our DCF-based GAV to INR 383. We maintain the 35% discount to our GAV and exclude net debt, resulting in a 30% cut in TP to INR 140. Our new TP implies limited upside potential, as such we maintain our Hold rating. Risks: change in the macro outlook, ability to raise funds and demand for mid-end housing.

Forecasts and ratios

Year End Mar 31	2007A	2008A	**2009E**	2010E	2011E
Sales (INRm)	39,211.4	144,375.7	**101,255.5**	74,218.7	86,903.5
EBITDA(INRm)	28,010.6	97,151.6	**62,452.9**	39,187.0	45,342.9
Reported NPAT(INRm)	19,390.6	78,132.8	**51,541.1**	31,574.0	36,168.0
Reported EPS FD(INR)	12.68	45.83	**30.27**	18.54	21.24
DB EPS FD (INR)	12.68	45.83	**30.27**	18.54	21.24
OLD DB EPS FD (INR)	12.68	45.83	**45.41**	42.97	46.54
% Change	0.0%	0.0%	**-33.3%**	-56.8%	-54.4%
DB EPS growth (%)	774.9	261.6	**-34.0**	-38.7	14.5
PER (x)	–	17.5	**4.6**	7.5	6.6

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

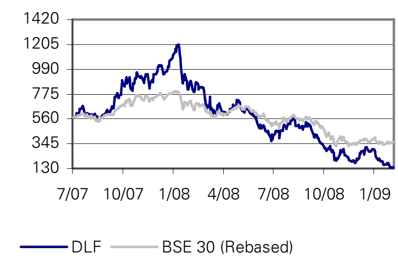
Hold

Price at 9 Feb 2009 (INR)	**139.85**
Price target - 12mth (INR)	**140.00**
52-week range (INR)	**878.95 - 132.90**
BSE 30	**9,301**

Key changes

Price target	200.00 to 140.00 ↓	**-30.0%**
Sales (FYE)	152,869 to 101,256 ↓	**-33.8%**
Op prof margin(FYE)	61.5 to 59.2 ↓	**-3.8%**
Net profit(FYE)	77,407.7 to 51,541.1 ↓	**-33.4%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-35.7*	*-50.2*	*-82.9*
BSE 30	*-1.1*	*-6.7*	*-46.7*

Stock data

Market cap (INRm)	**238,124**
Market cap (USDm)	**4,902**
Shares outstanding (m)	**1,702.7**
Major shareholders	**Promoter group (88.3%)**
Free float (%)	**12**
Avg daily value traded (USDm)	**91.6**

Key indicators (FY1)

ROE (%)	**23.4**
Net debt/equity (%)	**53.7**
Book value/share (INR)	**143.58**
Price/book (x)	**1.0**
Net interest cover(x)	**19.1**
Operating profit margin (%)	**59.2**

Model updated:09 February 2009

Running the numbers

Asia

India

Property

DLF

Reuters: DLF.BO Bloomberg: DLFU IN

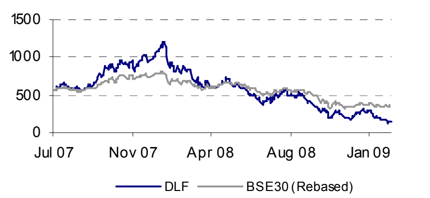
Hold

Price (9 Feb 09)	INR 139.85
Target price	INR 140.00
52-week Range	INR 132.90 - 878.95
Market Cap (m)	INRm 238,124 USDm 4,902

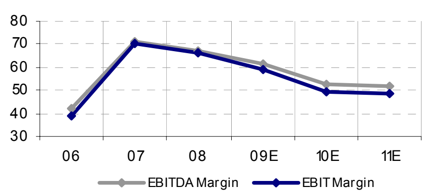
Company Profile

DLF is the largest property developer in India. It has a huge land bank of ~700msf (of which significant portion is in the high-margin geographies (super metros and metros) across 31 cities, a clear focus on high-end properties (commercial, retail and residential) in the near term, a strong brand equity and significant execution capabilities. DLF expects to maintain its leadership position by scaling up its execution capabilities and leveraging its customer/ supplier relationships and brand equity. Currently looking to meet demand in high-end verticals, it will refocus on mid-end townships in the medium term.

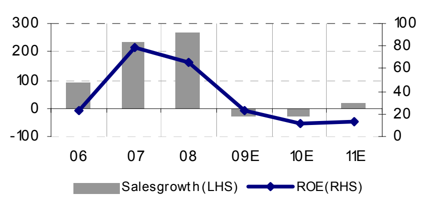
Price Performance



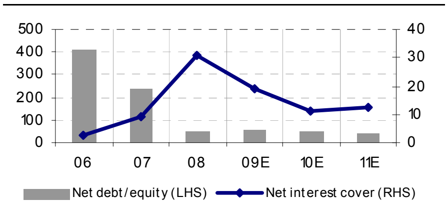
Margin Trends



Growth & Profitability



Solvency



Abhay Shanbhag

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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	1.45	12.68	45.83	30.27	18.54	21.24
Reported EPS (INR)	1.45	12.68	45.83	30.27	18.54	21.24
DPS (INR)	0.42	0.01	4.64	2.32	2.90	3.48
BVPS (INR)	251.6	25.9	115.5	143.6	159.2	177.0
Weighted average shares (m)	38	1,530	1,705	1,703	1,703	1,703
Average market cap (INRm)	na	na	1,370,013	238,124	238,124	238,124
Enterprise value (INRm)	na	na	1,392,469	266,062	248,464	233,909
Valuation Metrics						
P/E (DB) (x)	na	na	17.5	4.6	7.5	6.6
P/E (Reported) (x)	na	na	17.5	4.6	7.5	6.6
P/BV (x)	0.00	0.00	5.60	0.97	0.88	0.79
FCF Yield (%)	na	na	nm	nm	17.3	16.7
Dividend Yield (%)	na	na	0.6	1.7	2.1	2.5
EV/Sales (x)	nm	nm	9.6	2.6	3.3	2.7
EV/EBITDA (x)	nm	nm	14.3	4.3	6.3	5.2
EV/EBIT (x)	nm	nm	14.5	4.4	6.8	5.5
Income Statement (INRm)						
Sales revenue	**11,649**	**39,211**	**144,376**	**101,256**	**74,219**	**86,904**
Gross profit	**6,405**	**32,121**	**104,380**	**70,067**	**46,147**	**53,465**
EBITDA	**4,869**	**28,011**	**97,152**	**62,453**	**39,187**	**45,343**
Depreciation	361	571	901	2,522	2,648	2,912
Amortisation	0	0	0	0	0	0
EBIT	**4,508**	**27,440**	**96,251**	**59,931**	**36,539**	**42,430**
Net interest income(expense)	-1,685	-3,074	-3,100	-3,131	-3,288	-3,452
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	770	1,107	2,463	3,393	3,986	4,674
Profit before tax	**3,593**	**25,473**	**95,614**	**60,193**	**37,237**	**43,652**
Income tax expense	1,668	6,058	17,391	8,427	5,213	6,984
Minorities	10	24	91	225	450	500
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**1,915**	**19,391**	**78,133**	**51,541**	**31,574**	**36,168**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**1,915**	**19,391**	**78,133**	**51,541**	**31,574**	**36,168**
Cash Flow (INRm)						
Cash flow from operations	**-7,753**	**-47,039**	**-12,438**	**13,047**	**43,428**	**42,390**
Net Capex	-6,472	-24,258	-57,259	-28,278	-2,143	-2,736
Free cash flow	**-14,225**	**-71,297**	**-69,697**	**-15,231**	**41,285**	**39,653**
Equity raised/(bought back)	0	9,498	90,791	1,500	0	0
Dividends paid	-16	-18	-7,910	-3,950	-4,938	-5,925
Net inc/(dec) in borrowings	29,174	56,887	5,940	236	-5,000	-6,500
Other investing/financing cash flows	-15,877	5,723	-19,081	-12,225	-25,450	-20,500
Net cash flow	**-944**	**793**	**43**	**-29,671**	**5,897**	**6,728**
Change in working capital	*-8,589*	*-67,025*	*-90,212*	*-39,142*	*10,855*	*4,906*
Balance Sheet (INRm)						
Cash and other liquid assets	1,950	4,155	21,421	5,800	4,000	5,000
Tangible fixed assets	17,043	41,872	100,031	130,830	135,621	141,270
Goodwill/intangible assets	8,489	8,935	20,931	22,931	32,931	42,931
Associates/investments	18,942	54,478	82,788	111,657	121,555	126,610
Other assets	23,012	72,268	170,893	206,584	211,248	222,174
Total assets	**69,436**	**181,708**	**396,065**	**477,802**	**505,355**	**537,985**
Interest bearing debt	41,320	99,328	122,771	140,000	130,000	121,000
Other liabilities	18,561	42,616	72,516	87,934	98,351	109,238
Total liabilities	**59,881**	**141,944**	**195,287**	**227,934**	**228,351**	**230,238**
Shareholders' equity	9,501	39,672	196,883	244,474	271,110	301,352
Minorities	54	92	3,895	5,395	5,895	6,395
Total shareholders' equity	**9,555**	**39,764**	**200,778**	**249,868**	**277,005**	**307,747**
Net debt	*39,370*	*95,173*	*101,349*	*134,200*	*126,000*	*116,000*
Key Company Metrics						
Sales growth (%)	91.1	236.6	268.2	-29.9	-26.7	17.1
DB EPS growth (%)	105.9	774.9	261.6	-34.0	-38.7	14.5
EBITDA Margin (%)	41.8	71.4	67.3	61.7	52.8	52.2
EBIT Margin (%)	38.7	70.0	66.7	59.2	49.2	48.8
Payout ratio (%)	0.8	0.1	10.1	7.7	15.6	16.4
ROE (%)	22.6	78.9	66.1	23.4	12.2	12.6
Capex/sales (%)	55.6	61.9	39.7	27.9	2.9	3.1
Capex/depreciation (x)	17.9	42.5	63.6	11.2	0.8	0.9
Net debt/equity (%)	412.0	239.3	50.5	53.7	45.5	37.7
Net interest cover (x)	2.7	8.9	31.0	19.1	11.1	12.3

Source: Company data, Deutsche Bank estimates

Positions for even more difficult times ahead

Q3FY09 interims fall off sharply…

Poor Q3FY09 interims reflect a total collapse in demand

- Revenues declined 62% yoy. While proportion of high-margin sales to DAL (company fully owned by promoters) declined on a yoy basis, but increased on a qoq basis to 48% of revenues, gross margins of DLF jumped 570bp on a yoy basis and 1,360 bp on a qoq basis to 79.3%—the highest level ever. However EBITDA margins declined significantly with an increase in staff and other costs. PAT dropped 68% yoy.
- Despite a sharp drop in revenues, increasing debtors resulted in debtor days rising from 182 to 364 (based on moving annual average), with even non DAL debtors increasing from 171 days to 289 days in the last six months. While with no payments, an increase in DAL debtors was expected (now at INR 55bn); the sharp increase in other debtors is a worry.
- Unlike Q2, net debt ballooned by 11% in the quarter to INR 148bn. Thus net gearing returned to 60% from 55% on 30 Sep'08.

Some clarifications to address investor concerns

- DLF states that it has met all debt servicing commitments on time. It adds that it has tied-up for the INR 20bn, which is repayable in the next three months.
- The promoter clarifies that none of their shares are pledged or encumbered.
- While most peers seem to be borrowing at exorbitant interest rates, DLF maintains that it has a borrowing rate of <14%.

Figure 26: Trend in DLF consolidated interims

Year to Mar (INR m)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	YoY chg	QoQ chg
Net Revenue	30,740	32,499	35,984	43,065	38,106	37,444	13,670	-62%	-63%
-% from DAL	53%	41%	56%	42%	41%	39%	48%		
Cost of construction/ land	7,470	8,326	9,512	12,002	12,060	12,862	2,830	-70%	-78%
EBITDA	22,040	22,637	25,014	27,829	23,445	22,170	7,720	-69%	-65%
EBITDA Margins	71.7%	69.7%	69.5%	64.6%	61.5%	59.2%	56.5%		
Net Income	15,240	20,182	21,389	22,069	18,640	19,354	6,820	-68%	-65%
Net Debt	8,774	59,922	84,643	101,349	132,194	133,405	148,280	75%	11%
Net gearing (%)	6%	38%	48%	51%	61%	55%	60%		
Adjusted net gearing	-	83%	97%	88%	90%	81%	83%		
Debtors	37,478	38,936	64,790	76,106	76,052	97,535	101,900	57%	4%
% from DAL	3%	13%	31%	27%	44%	49%	54%		
Debtor days	111	109	164	161	182	238	364		

Source: Company

…as does outlook for at least next 2-3 quarters

Demand collapses across verticals

- **Housing:** No incremental sales in luxury as sales of mid-end housing collapsed from an average of 400 to ~40 per month in Nov-Dec'08. DLF launched mid-end housing in Hyderabad at INR 1,800-2,250/sf – its lowest price point in the last 4-5 years. DLF is reconfiguring projects to allow customers to take advantage of fiscal incentives in the mid-end segment and expects volume growth for the segment 2-3 quarters later. It has postponed launches in the luxury segment.

- **Office space:** While DLF expects marginal cancellations, it states that incremental preleases are negligible due to the "wait and watch" policy adopted by customers. Given the environment, while 9.5 of 20msf proposed would be delivered to DAL by Mar'09e, the balance would be significantly delayed. Hence revenues from DAL would be very low for the next 4-6 quarters. DLF states that of the 35msf under construction, work on 12msf has been suspended until project financing is arranged (and probably also until demand picks up).
- **Retail space:** No incremental pre-leasing due to "wait and watch" policy adopted by customers. Of the 12msf under construction, 4msf has been suspended until project financing is arranged. All new launches postponed. Volume growth expected 3-4 quarters later.
- **Hotels:** All projects, other than the one with Hilton, are suspended until project financing is arranged for a select few.

DLF expects significant price cuts in near future

DLF expects corrections to current prices of ~20% in the near future, which it states have already fallen by ~20% from their peak. We are more bearish and believe that higher price cuts will be required to kick-start demand.

Fundraising is a very tough, despite its aggressive focus

While the company (like all its peers) has been attempting to raise funds through multiple sources (borrowing from domestic or global banks, sale of equity stake at the SPV level, sale of strategic stake in non-core businesses like power, etc), the tight liquidity in financial markets and significant risk aversion against real estate has made fundraising quite difficult. However, unlike the past, the phased-in commencement of rents for future office and retail projects should make it easier to securitize and factor rentals.

While DLF states that it has tied-up long-term funds to meet its repayment obligation of INR 20.6bn in the next three months, the USD 450m funding for DAL is also falling into place.

Positions for even more difficult times ahead

While DLF was reasonably positioned for a difficult environment, reality seems worse

While the company has been preparing itself for difficult times for 4-6 quarters (with a stagnant land bank and projects under construction, as well as the slow rationalization of overheads), the Q3 interims and outlook indicates that the reality is actually worse than expected (see Figure 27). We discuss steps taken by the company to brace itself for even more difficult times below.

Figure 27: Across the board cut in activity

	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	Comment
Projects under construction (msf)	44.0	49.0	54.0	59.0	61.0	63.0	63.2	62.0	Construction on 16msf is suspended in 3Q
Land bank (msf)	574	615	738	748	751	755	753	751	Slow and steady decline for last 2 quarters
Employees (no.)			3,136	3,697	3,700	3,693	3,266	3,122	Slow and steady decline for last 3 quarters
Payable for Land bank (INR m)			71,860	86,290	71,860	63,300	61,660	57,120	Continual decline for last 4 quarters

Source: Company

Significant curtailment in execution; focus on cashflows

Considering the sector headwinds (poor demand conditions, tight financial markets), the company is aggressively focusing on managing cash outflows:

- Almost all new launches (other than those in mid-end housing and a select few in other verticals) were suspended.

- 16msf (26%) of the 62msf projects under construction are on hold. Thus, tight control on cash outflows with construction continuing on committed projects only.
- Attempt to boost sales (and cash inflows) by launching products in mid-end segment at aggressive prices; launched mid-end housing in Hyderabad at INR 1,800-2,250/sf – its lowest price point in the last 4-5 years.
- It states that its much awaited funding for DAL (of ~ USD 450m) is in advanced stages with due diligence underway. This is likely to be completed shortly.
- Continual focus on sale of equity stake at SPV level, the sale of strategic stake in non-core businesses like power, etc.

Proposes to sacrifice margins for cashflow
Future margins should fall significantly:

- We believe that aggressive price cuts of 30%+ would be required to kick-start demand. While input costs have also dropped, these would not be as sufficient to neutralize the fall in property prices as developers used to enjoy margins of 50%+ in the past.
- Generally office and retail space offer much higher margins as compared to other verticals. 16msf (26%) of the 62msf suspended projects under construction are in these high-margin verticals.
- DLF postpones all new launches, other than those in mid-end housing (the vertical with the lowest margin).
- DLF states that the proposed mid-end launch at Hyderabad would have margins of only 25% as against 60%+ recorded since FY06. While the net realizations at Hyderabad would be ~INR 2,400/sf (including other charges), cost of construction (~ INR 1400/sf) and high cost of land (~INR 300/sf) would limit margins at ~INR 600+/sf. This test launch, if successful, is expected to be replicated in other cities.
- With a drop in volumes and lower prices, fixed overhead would have to be absorbed on a low base, which would further constrain margins.

Focus on raising only long-term funds
DLF, amongst peers, had the lowest proportion of its debt being of short-term nature. Even then, it clearly states that its focus is on substituting short-term debt with asset backed long-term debt.

While guidance is effectively withdrawn, we expect some clarity in next 2-3 months
In the past the company guided on launch details for the next three years. However, considering the significant fall in visibility, the curtailment of almost all new projects and 26% of current projects being suspended, this guidance is effectively withdrawn. We expect some clarity from the company in the next 2-3 months.

Downgrade financial estimates and TP; maintain Hold

Considering the deteriorating fundamentals, we cut GAVs by 15%…
We believe that the continued global sub-prime crisis will constrain global economic growth rates, significantly constraining demand for real estate in India. Hence we now make the following changes in our Gross Asset Value (GAV) assumptions:

- ~5-10% further cut in current property prices and assuming flat prices thereafter
- Assume a 40%, 30% and 15% fall in completions for next three years
- Maintain the discount rate of 16.5%, cap rate of 10% for office space and 20% tax rate

Thus, we derive a DCF-based GAV of INR 383/share (earlier INR 450/share) for its real estate business.

…as also financial estimates by 33-57%

We cut financial estimates by 33-57% due to the above factors and poor 3Q financials (lower-than-expected revenues, EBITDA and PAT), and a significant fall in sales to DAL and in projects under execution. The fall in margins is protected by the higher proportion of lease income, as lease income largely flows into EBITDA.

Figure 28: Cuts in our DLF financial estimates

(INR m)	Old estimates			New estimates			% change		
Y/E Mar	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Sales	152,869	163,902	181,495	101,256	74,219	86,904	-34%	-55%	-52%
- of which lease income	3.6%	5.5%	7.5%	5.1%	11.4%	14.6%			
EBITDA	96,333	91,579	100,334	62,453	39,187	45,343	-35%	-57%	-55%
- -margins	63.0%	55.9%	55.3%	61.7%	52.8%	52.2%			
Net Profit	77,408	73,261	79,350	51,541	31,574	36,168	-33%	-57%	-54%

Source: Deutsche Bank

Downgrade our TP to INR 140 (from INR 200)

Considering the sector headwinds (weak market conditions amidst tight financial markets), we maintain our 35% discount to GAV of INR 383/share. Following this discount on GAV, we exclude net debt (INR 87/share) and payables for land bank (INR 33/share) and then add value of other assets (INR 13/share), to arrive at a SOTP-based TP of INR 140 (earlier INR 200/share).

Despite the significant underperformance in last year, we maintain Hold

Despite its stock declining by 84% in the last 12 months resulting in a 35% underperformance to Sensex, our TP has limited upside potential from the current stock price. Hence we retain our Hold rating.

Risks

- Change in the macro environment (GDP growth, interest rates, liquidity in financial markets and the resultant demand), as compared to expectations
- Demand for conservatively priced mid-end housing (which is being test marketed in Hyderabad) – the only segment with new product launches.
- While its net gearing is reasonable (60%), with most of it being long term in nature, the quantity of repayments is quite large (INR 50bn due in next 4-5 months). Hence the ability to raise funds in the company and at DAL in the near term is critical.

Key financials

Figure 29: Consolidated income statement

Y/E Mar (INR m)	FY06	FY07	FY08	FY09e	FY10e	FY11e
Revenues	**11,649**	**39,211**	**144,376**	**101,256**	**74,219**	**86,904**
Cost of Revenues	5,244	7,090	39,995	31,189	28,072	33,438
Staff Expenses	397	922	3,000	3,600	3,060	3,825
EBDITA	**4,869**	**28,011**	**97,152**	**62,453**	**39,187**	**45,343**
EBITDA margins	41.8%	71.4%	67.3%	61.7%	52.8%	52.2%
Finance Charges	1,685	3,074	3,100	3,131	3,288	3,452
PAT post minority	**1,925**	**19,415**	**78,224**	**51,541**	**31,574**	**36,168**
Growth (%)						
Revenues		237%	268%	-30%	-27%	17%
EBITDA		475%	247%	-36%	-37%	16%
PAT		909%	303%	-34%	-38%	15%

Source: Company, Deutsche Bank

Figure 30: Consolidated balance sheet

As on Mar 31 (INR m)	FY06	FY07	FY08	FY09e	FY10e	FY11e
Net Block	17,043	41,872	100,031	130,830	135,621	141,270
Investments	8,300	2,107	9,102	19,102	34,102	44,102
Goodwill	8,489	8,935	20,931	22,931	32,931	42,931
Stocks	16,409	57,006	94,544	113,453	131,625	138,207
Sundry Debtors	6,580	15,195	76,106	92,331	79,373	83,717
Cash & bank balances	1,950	4,155	21,421	5,800	4,000	5,000
Loans & advances	10,642	52,371	73,686	92,555	87,453	82,508
Total Current Assets	**120,807**	**128,794**	**266,001**	**304,939**	**302,701**	**309,682**
Current Liabilities	15,095	33,450	42,639	49,202	53,863	59,454
Provisions	3,374	8,979	29,518	38,373	44,129	49,425
Total assets	**50,967**	**139,279**	**323,907**	**390,227**	**407,364**	**429,106**
Net worth	9,555	39,764	200,778	249,868	277,005	307,747
Total debt	**41,320**	**99,328**	**122,771**	**140,000**	**130,000**	**121,000**
Short-term Loans	4,383	5,504	23,006	40,000	35,000	32,500
Long-term Loans	36,937	93,824	99,764	100,000	95,000	88,500
Total liabilities	**50,967**	**139,279**	**323,907**	**390,227**	**407,364**	**429,106**
Key Ratios						
Debt/ Equity (Gearing)	432%	250%	61%	58%	50%	48%
Net Gearing	412%	239%	50%	54%	46%	42%

Source: Company, Deutsche Bank

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Asia India
Property Property

10 February 2009

Puravankara Projects

Reuters: **PPRO.BO** Bloomberg: **PVKP IN**

Sector headwinds neutralise its strengths; cut TP, Hold

Despite underperformance, poor outlook forces us to maintain Hold
Sector headwinds (resulting in a poor 3Q) dilute Puravankara's strengths – an asset-light strategy, reasonable gearing (although high short-term debt) and good financial disclosures. However, tight financial markets and the global economic slowdown resulting in poor demand visibility (apart from its over-concentration in the residential vertical and in Bangalore) force us to cut estimates and TP. Despite the 88% fall in the stock price in the last year, we maintain a Hold rating.

Q3 financials fall off the cliff; ~61% of debt payable in the next 12 months
Revenues, recurring EBITDA and PAT fell by 47%, 58% and 60% yoy, respectively. Debtors increased from 67 to 87 days with ~40% outstanding for >6 months. Net gearing is only 56% but ~61% of debt is payable in the next 12 months -- a challenge in the current market. The company boosted transparency by indicating no defaults on liabilities and no pledging of shares by promoters.

Sector headwinds continue to dilute Puravankara's strengths
Despite its asset-light model, strong balance sheet and largely paid land bank, the company is facing sector headwinds. The recently aggravated sub-rime crisis in the global financial markets should directly affect the Indian IT sector, which in turn drives real estate demand. This is a significant concern as Bangalore, India's major IT hub, accounts for ~69% of Puravankara's land bank. This has forced the company to cut ongoing projects by 49%.

Valuation & risks
We cut property prices by 5-10% and delay project completions in the next three years, resulting in 15-45% estimates cuts and a 16% cut in our DCF-based GAV to INR 136. We keep the 45% discount to our GAV and exclude net debt, resulting in a 14% cut in TP to INR 36. Despite the stock's 88% fall over the last 12 months, we maintain Hold on 14% downside potential. Risks: change in the macro outlook, over-exposure to Bangalore and the residential vertical, and ability to raise funds. Detail pp. 4-5.

Forecasts and ratios

Year End Mar 31	2007A	2008A	**2009E**	2010E	2011E
Sales (INRm)	4,168.6	5,658.1	**4,781.0**	3,804.5	4,640.6
EBITDA(INRm)	1,353.1	2,122.3	**1,576.0**	956.2	1,322.7
Reported NPAT(INRm)	1,304.0	2,400.5	**1,570.4**	886.9	1,110.1
Reported EPS FD(INR)	6.79	11.25	**7.36**	4.16	5.20
DB EPS FD (INR)	6.79	11.25	**7.36**	4.16	5.20
OLD DB EPS FD (INR)	6.79	11.25	**8.77**	7.62	8.49
% Change	0.0%	0.0%	**-16.1%**	-45.5%	-38.8%
DB EPS growth (%)	77.4	65.6	**-34.6**	-43.5	25.2
PER (x)	–	34.4	**5.7**	10.1	8.1
EV/EBITDA (x)	–	41.5	**10.5**	19.8	16.0

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

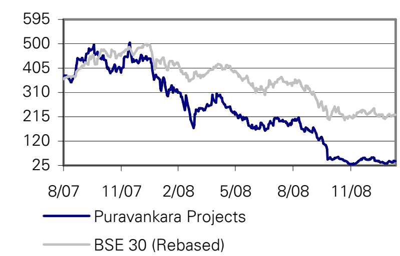
Hold

Price at 9 Feb 2009 (INR)	**41.90**
Price target - 12mth (INR)	**36.00**
52-week range (INR)	**337.20 - 29.60**
BSE 30	**9,301**

Key changes

Price target	42.00 to 36.00	↓	**-14.3%**
Sales (FYE)	5,818 to 4,781	↓	**-17.8%**
Op prof margin(FYE)	31.3 to 31.8	↑	**1.5%**
Net profit(FYE)	1,872.1 to 1,570.4	↓	**-16.1%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-2.7*	*-24.8*	*-87.4*
BSE 30	*-1.1*	*-6.7*	*-46.7*

Stock data

Market cap (INRm)	**8,941**
Market cap (USDm)	**184**
Shares outstanding (m)	**213.4**
Major shareholders	**Promoter's (90%)**
Free float (%)	**10**
Avg daily value traded (USDm)	**0.3**

Key indicators (FY1)

ROE (%)	**12.0**
Net debt/equity (%)	**62.1**
Book value/share (INR)	**65.31**
Price/book (x)	**0.6**
Net interest cover(x)	**151.8**
Operating profit margin (%)	**31.8**

Model updated:09 February 2009

Running the numbers

Asia

India

Property

Puravankara Projects

Reuters: PPRO.BO Bloomberg: PVKP IN

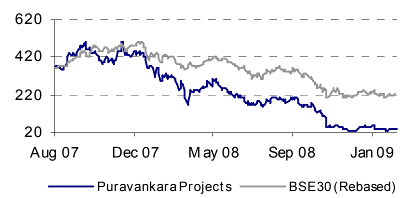
Hold

Price (9 Feb 09)	INR 41.90
Target price	INR 36.00
52-week Range	INR 29.60 - 337.20
Market Cap (m)	INRm 8,941 USDm 184

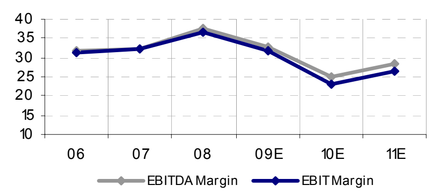
Company Profile

Puravankara Projects is primarily a residential player which has largely focused on Bangalore since 1986. Its integrated operations (spanning from identification and acquisition of land, planning and execution, and in-house marketing team) has enabled it to develop high quality projects on a timely basis resulting in a strong brand image. Puravankara has asset light business model with strong Balance Sheet and good financial disclosures, furthermore its landbank is largely paid thereby reducing the conversion risks.

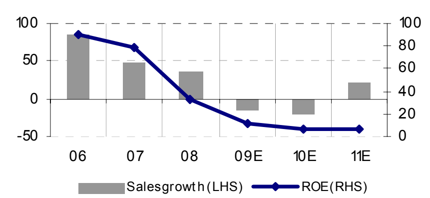
Price Performance



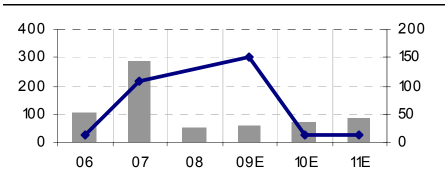
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	3.83	6.79	11.25	7.36	4.16	5.20
Reported EPS (INR)	3.83	6.79	11.25	7.36	4.16	5.20
DPS (INR)	15.00	0.94	2.00	1.00	1.00	1.50
BVPS (INR)	5.8	11.6	56.8	65.3	70.8	77.5
Weighted average shares (m)	192	192	213	213	213	213
Average market cap (INRm)	na	na	82,693	8,941	8,941	8,941
Enterprise value (INRm)	na	na	87,980	16,591	18,887	21,207
Valuation Metrics						
P/E (DB) (x)	na	na	34.4	5.7	10.1	8.1
P/E (Reported) (x)	na	na	34.4	5.7	10.1	8.1
P/BV (x)	0.00	0.00	4.24	0.64	0.59	0.54
FCF Yield (%)	na	na	nm	nm	nm	nm
Dividend Yield (%)	na	na	0.5	2.4	2.4	3.6
EV/Sales (x)	nm	nm	15.5	3.5	5.0	4.6
EV/EBITDA (x)	nm	nm	41.5	10.5	19.8	16.0
EV/EBIT (x)	nm	nm	42.4	10.9	21.4	17.1
Income Statement (INRm)						
Sales revenue	**2,797**	**4,169**	**5,658**	**4,781**	**3,805**	**4,641**
Gross profit	**1,206**	**1,860**	**2,792**	**2,273**	**1,670**	**2,108**
EBITDA	**889**	**1,353**	**2,122**	**1,576**	**956**	**1,323**
Depreciation	11	18	48	58	72	85
Amortisation	0	0	0	0	0	0
EBIT	**878**	**1,336**	**2,075**	**1,518**	**884**	**1,238**
Net interest income(expense)	-72	-12	98	-10	-70	-100
Associates/affiliates	11	140	295	145	200	250
Exceptionals/extraordinaries	-18	13	0	0	0	0
Other pre-tax income/(expense)	7	0	0	0	0	0
Profit before tax	**837**	**1,463**	**2,467**	**1,653**	**1,014**	**1,388**
Income tax expense	71	172	67	83	127	278
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**735**	**1,304**	**2,400**	**1,570**	**887**	**1,110**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**735**	**1,304**	**2,400**	**1,570**	**887**	**1,110**
Cash Flow (INRm)						
Cash flow from operations	**2,177**	**-797**	**-1,055**	**437**	**253**	**1,499**
Net Capex	-2,537	-4,136	-5,972	-2,573	-2,298	-3,532
Free cash flow	**-359**	**-4,933**	**-7,027**	**-2,136**	**-2,045**	**-2,033**
Equity raised/(bought back)	0	0	7,966	0	0	0
Dividends paid	0	-137	-211	-242	-279	-320
Net inc/(dec) in borrowings	615	5,139	-237	2,526	2,646	2,720
Other investing/financing cash flows	-231	-140	-516	-113	-250	-250
Net cash flow	**25**	**-71**	**-24**	**35**	**72**	**117**
Change in working capital	*1,590*	*-2,029*	*-3,160*	*-1,544*	*-1,091*	*-134*
Balance Sheet (INRm)						
Cash and other liquid assets	444	374	350	400	500	650
Tangible fixed assets	175	389	497	544	588	640
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	231	371	887	1,000	1,250	1,500
Other assets	6,669	12,908	21,660	26,990	31,531	36,533
Total assets	**7,520**	**14,043**	**23,394**	**28,933**	**33,869**	**39,322**
Interest bearing debt	1,622	6,761	6,524	9,050	11,696	14,416
Other liabilities	4,784	5,064	4,743	5,944	7,068	8,371
Total liabilities	**6,406**	**11,825**	**11,267**	**14,994**	**18,764**	**22,787**
Shareholders' equity	1,114	2,218	12,127	13,940	15,105	16,535
Minorities	0	0	0	0	0	0
Total shareholders' equity	**1,114**	**2,218**	**12,127**	**13,940**	**15,105**	**16,535**
Net debt	*1,178*	*6,387*	*6,174*	*8,650*	*11,196*	*13,766*
Key Company Metrics						
Sales growth (%)	85.2	49.0	35.7	-15.5	-20.4	22.0
DB EPS growth (%)	93.3	77.4	65.6	-34.6	-43.5	25.2
EBITDA Margin (%)	31.8	32.5	37.5	33.0	25.1	28.5
EBIT Margin (%)	31.4	32.0	36.7	31.8	23.2	26.7
Payout ratio (%)	391.8	13.8	17.8	13.6	24.1	28.8
ROE (%)	90.2	78.3	33.5	12.0	6.1	7.0
Capex/sales (%)	90.7	99.2	105.6	53.8	60.4	76.1
Capex/depreciation (x)	222.9	235.7	125.6	44.4	31.9	41.6
Net debt/equity (%)	105.7	288.0	50.9	62.1	74.1	83.3
Net interest cover (x)	12.2	108.8	nm	151.8	12.6	12.4

Source: Company data, Deutsche Bank estimates

Challenging times continue

Poor interims reflect the intensifying Q3FY09 downcycle

Poor Q3FY09 interims; ~61% of debt payable in the next 12 months

Despite its asset-light model, strong balance sheet and largely paid land bank, Puravankara is facing sector headwinds. Key highlights of Q3FY09 interims include the following:

- Revenue declined 47% yoy and 43% qoq. EBITDA recorded 72% and 66% declines yoy and qoq, respectively. Excluding the extraordinary costs (write-offs towards landscaping and other enhancements), recurring EBITDA declined by 58% yoy and 49% qoq. PAT declined 72% yoy and 65% qoq while pre–extraordinary PAT declined by 60% yoy and 50% qoq.
- Despite a sharp drop in revenues, stagnating debtors resulted in debtor days (based on the moving annual average) rising from 50 to 87 days in the last six months with ~40% of the debtors being outstanding for >6 months.
- While net debt remained stagnant in Q3 at INR 7.6bn, net gearing increased from 48% to 56% in the last six months. While this is quite healthy, we are concerned that ~61% of its debt is repayable within the next 12 months.

Clarifications to further improve transparency

- Puravankara is the only developer to disclose its entire balance sheet every quarter.
- It now states that "the group has repaid all loan installments as per the individual loan agreements and there has not been a single case of loan repayment default".
- It also clarified that all of the promoters' equity holdings in Puravankara are directly held by them, with no shares pledged or encumbered.

Figure 31: Trend in Puvankara's consolidated interims

Year to Mar (INR m)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	YoY chg	QoQ chg
Revenues	1,204	1,410	1,505	1,539	1,576	1,394	800	-47%	-43%
Cost of land/construction	638	673	741	809	784	695	419	-43%	-40%
EBITDA	415	589	592	545	603	485	164	-72%	-66%
- Margins	34.5%	41.8%	39.4%	35.4%	38.3%	34.8%	20.5%		
Recurring EBITDA #	415	589	592	545	603	485	249	-58%	-49%
- Margins	34.5%	41.8%	39.4%	35.4%	38.3%	34.8%	31.1%		
PAT	440	602	631	727	619	505	175	-72%	-65%
Recurring PAT #	440	602	631	727	619	505	254	-60%	-50%
Sundry Debtors	251	360	635	824	864	1,028	1,047	65%	2%
- outstanding over 6m	72	58	90	264	438	412	439	-	6%
Debtor days $	19	23	38	49	50	67	87	126%	29%
Total Debt	7,474	4,956	4,362	6,524	6,524	8,050	8,269	90%	3%
– % repayable in 12m	62%	77%	67%	59%	76%	72%	61%		
Net Debt	7,056	(553)	3,070	6,174	6,128	7,676	7,571	147%	-1%
Net Gearing	265%	-5%	26%	51%	48%	58%	56%		

Source: Company, Deutsche Bank, Note - # One time write-off of INR 85m, $ Based on moving annual average

Global economic gloom (sub-prime) continues to be a major threat

Continual sub-prime crisis is a major threat for this Bangalore-centric developer…

The Indian IT sector derives a third of its revenues from global financial services and in turn drives ~70% of demand for office space and ~35% of residential space in India. Bangalore, one of India's largest IT hubs, accounts for ~45% and ~69% of Puravankara's ongoing projects and land bank, respectively. Hence, the global economic slowdown (led by the sub-prime crisis, which has paralysed the global financial services sector) remains a significant threat for developers in Bangalore and hence for Puravankara.

…forcing it to slow down its execution of ongoing projects, declining 49%...
Considering the sector headwinds (poor demand conditions, tight financial markets), the saleable area in ongoing projects has dropped 49% (from ~16msf in Sep'08 to 8.4msf) as a result of the company:

- Stalling some of its ongoing commercial projects
- Holding back on residential launches despite a few of the existing projects getting completed
- Reducing its manpower by 33% to 400 employees

…and foray into low-margin affordable housing
Puravankara forayed into affordable housing projects through its 100% subsidiary, Provident Housing & Infrastructure, and proposes to build 64,500 homes over the next five years. These would be priced in the range of INR 1.2 - 2m vs. INR 4-6m for its regular apartments. While these should drive revenues, their margins will be lower. It has submitted its project plans for approval and expects to launch Phase 1 (Bangalore and Mysore) in the next three months.

Partly salvages what it can out of its aggressive bid for the Hyderabad land parcel
In Nov'07, Puravankara aggressively bid for and won a 30-acre prime land in Hitech City, Hyderabad, for INR 6.3bn; it planned to build high-end residential and commercial properties. The company had already paid INR 4.03bn and had received 20 acres of land (2/3 of the original deal) from the AP government. Considering the "land title" issues on the remaining 10 acres, Puravankara requested the waiver of the last installment (of INR 2.3bn) and the land parcel, which has now been agreed upon by the AP government. Thus, while the original deal was a negative, Puravankara seems to have partially salvaged the situation by "not throwing good money after bad" in the current difficult financial times.

Downgrade financial estimates and TP; maintain Hold

Considering the deteriorating fundamentals, we cut GAVs by 16%…
We believe that the continued global sub-prime crisis will constrain global economic growth rates, significantly constraining demand for real estate in India. Hence, we now make the following changes in our Gross Asset Value (GAV) assumptions:

- We cut property prices by ~5% for current projects and ~10% for future projects; We assume flat prices thereafter
- We assume a 40%, 30% and 15% falls in completions for the next three years, respectively
- We maintain a discount rate of 17.5%, cap rate of 12% for office space and a 20% tax rate

Thus we have a DCF-based GAV of INR 136/share (previously INR 162/share) for Puravankara.

… and cut our financial estimates
Considering the above factors, the poor 3Q financials (lower-than-expected revenues, EBITDA and PAT) and sharp fall in projects under execution, we cut financial estimates by 16-46%.

Figure 32: Cut in financial estimates for Puravankara

(INR m)	Old estimates			New estimates			% change		
Y/E Mar	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Sales	5,818	6,076	7,060	4,781	3,805	4,641	-18%	-37%	-34%
EBITDA	1,886	1,773	2,055	1,576	956	1,323	-16%	-46%	-36%
Net Profit	1,872	1,626	1,812	1,570	887	1,110	-16%	-45%	-39%

Source: Deutsche Bank

Downgrade our TP to INR 36 (from INR 42)

Considering the sector headwinds (weak market conditions amidst tight financial markets), we maintain our 45% discount to GAV of INR 136/share. After this discount on GAV, we exclude net debt (INR 35/share) and payables for land bank (INR 3/share) to arrive at a TP of INR 36 (earlier INR 42/share).

Despite the significant underperformance in the last year, we maintain Hold rating

Despite the stock declining by 88% in the last year resulting in a 40% underperformance to the Sensex, our TP results in 14% downside potential from the current stock price. Hence, we retain our Hold rating on Puravankara.

Risks

- A change in the macro environment (GDP growth, interest rates, liquidity in financial markets and the resultant demand), as compared to expectations
- Overexposure of its land bank to residential (80% of land bank) and Bangalore (66%)
- Assumption of a high average FSI (Floor Space Index) of ~3 vs. 1.25 for peers
- The ability to raise funds to repay 61% of its debt (INR 8.2bn as of 31 Dec’08), which is due in the next 12 months

Key financials

Figure 33: Consolidated income statement

Y/E March (INR m)	FY06	FY07	FY08	FY09e	FY10e	FY11e
Total Revenues	**2,797**	**4,169**	**5,658**	**4,781**	**3,805**	**4,641**
Materials & Contract cost	1,285	2,006	2,183	1877	1539	1878
Land cost	198	182	316	300	270	297
Employee Cost	51	87	205	348	313	345
EBITDA	**889**	**1,353**	**2,122**	**1,576**	**956**	**1,323**
- Margin%	31.8%	32.5%	37.5%	33.0%	25.1%	28.5%
Finance charges	72	12	(98)	10	70	100
Profit/ (loss) share of associates	11	140	295	145	200	250
% Tax	8.4%	11.8%	2.7%	5.0%	12.6%	20.0%
Profit After Tax	**735**	**1,304**	**2,400**	**1,570**	**887**	**1,110**
Growth (%)						
- Sales	85%	49%	36%	-16%	-20%	22%
- EBITDA	88%	52%	57%	-26%	-39%	38%
- PAT	107%	68%	86%	-35%	-44%	25%

Source: Company, Deutsche Bank

Figure 34: Consolidated balance sheet

As of March 31 (INR m)	FY06	FY07	FY08	FY09e	FY10e	FY11e
Net Block	175	389	497	544	588	640
Investments	231	371	887	1,000	1,250	1,500
Properties held for development	3,068	7,008	12,920	15,504	17,829	21,395
Current Assets, Loans & Advances	**4,046**	**6,275**	**9,090**	**11,886**	**14,202**	**15,788**
Inventory	191	159	171	205	246	295
Sundry Debtors	446	459	824	1,112	1,279	1,343
Cash & Bank Balances	444	374	350	400	500	650
Properties under development	1,577	2,471	3,958	5,344	6,145	7,067
Properties held for sale	201	515	910	1,228	1,535	1,765
Current Liabilities and Provisions	**4,782**	**5,053**	**4,732**	**5,934**	**7,058**	**8,361**
Total Assets	**2,738**	**8,989**	**18,661**	**23,000**	**26,811**	**30,961**
Net Worth	1,114	2,218	12,127	13,940	15,105	16,535
Total Debt	**1,622**	**6,761**	**6,524**	**9,050**	**11,696**	**14,416**
Total Liabilities	**2,738**	**8,989**	**18,661**	**23,000**	**26,811**	**30,961**
Key ratio (%)						
Debt Equity (Gearing)	146%	305%	54%	65%	77%	87%
Net Gearing	106%	288%	51%	62%	74%	83%

Source: Company, Deutsche Bank

Asia India
Property Property

10 February 2009

Unitech

Reuters: **UNTE.BO** Bloomberg: **UT IN**

Poor 3Q to aggravate asset liability mismatch; Hold

Poor 3Q likely to aggravate tight financial markets and impede fundraising
Everything that could have gone wrong probably has -- but following the 93% fall in its stock price in the past 12m, we believe Unitech's high gearing and asset liability mismatches in a weak macro environment and tight financial markets are likely priced in. Due to a poor 3Q and outlook, we cut estimates and our SOTP-based TP by 12% to INR 26.3 (INR 20 for its telecom business); maintain Hold.

Q3 financials fall off the cliff…
Revenues, EBITDA and PAT declined by 57%, 66% and 74% yoy respectively with net debt increasing 8% to INR 90bn and net gearing rising from 185% to 197% in the quarter. Fitch's Dec'08 downgrade note stated that Unitech has repayments of INR 15bn due in Dec'08-Jan'09. While market reports indicate significant rollovers, there is no official communication with data on its new repayment schedule.

…making fundraising even more difficult in current tight financial market
While Unitech continues its efforts to conserve cash (rationalizing land bank, non-committed ongoing projects and employees) and raise funds (raising fresh equity at parent or SPV level, long-term bank financing, sale of assets, etc), fundraising plans will likely be delayed by weak interims, fall in promoter stake (74% to 67% in 3Q) and further delay in the Telenor deal (sale of 60% of wireless business).

We further cut estimates and TP (from INR 30 to INR 26.3); maintain Hold
We cut assumptions on property prices 5-10% and delay project completions in the next three years, resulting in a 15-36% cut in estimates and a 12% cut in our DCF-based GAV to INR162. We decrease the discount to GAV from 60% to 55% given the government's measure to restructure real estate loans. Adjusting for net debt and payables for land bank, we arrive at a TP for the real estate business of INR6.3 (37% cut). Adding INR20 for the telecoms business, our overall SOTP-based TP is INR26.3. Risks (up- and downside): change in macro outlook, ability to raise funds and timely completion of telecom deal. (Please see pages 5-6 for details on valuation and risks.)

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	32,883.0	41,154.0	**36,713.0**	28,438.0	36,203.3
EBITDA(INRm)	20,018.0	22,040.3	**17,331.2**	12,784.2	16,107.6
Reported NPAT(INRm)	13,057.8	16,613.9	**11,048.1**	7,234.4	9,375.9
Reported EPS FD(INR)	8.04	10.23	**6.81**	4.46	5.78
DB EPS FD (INR)	8.04	10.23	**6.81**	4.46	5.78
OLD DB EPS FD (INR)	8.04	10.23	**7.98**	7.01	7.76
% Change	0.0%	0.0%	**-14.7%**	-36.5%	-25.5%
DB EPS growth (%)	1,442.9	27.2	**-33.5**	-34.5	29.6
PER (x)	18.6	31.1	**4.3**	6.5	5.0

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

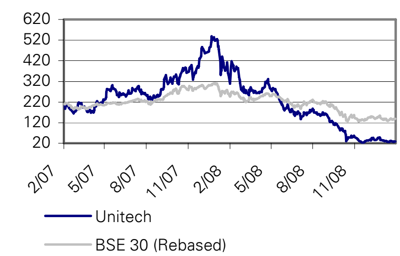
Hold

Price at 9 Feb 2009 (INR)	**29.10**
Price target - 12mth (INR)	**26.30**
52-week range (INR)	**417.15 - 23.10**
BSE 30	**9,301**

Key changes

Price target	30.00 to 26.30	↓	**-12.3%**
Sales (FYE)	37,495 to 36,713	↓	**-2.1%**
Op prof margin(FYE)	51.2 to 46.5	↓	**-9.1%**
Net profit(FYE)	12,953.4 to 11,048.1	↓	**-14.7%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-18.9*	*-42.7*	*-91.7*
BSE 30	*-1.1*	*-6.7*	*-46.7*

Stock data

Market cap (INRm)	**47,238**
Market cap (USDm)	**972**
Shares outstanding (m)	**1,623.3**
Major shareholders	**Promoter group (67.5%)**
Free float (%)	**32**
Avg daily value traded (USDm)	**61.3**

Key indicators (FY1)

ROE (%)	**26.8**
Net debt/equity (%)	**164.9**
Book value/share (INR)	**28.69**
Price/book (x)	**1.0**
Net interest cover(x)	**4.1**
Operating profit margin (%)	**46.5**

Model updated:09 February 2009

Running the numbers

Asia

India

Property

Unitech

Reuters: UNTE.BO Bloomberg: UT IN

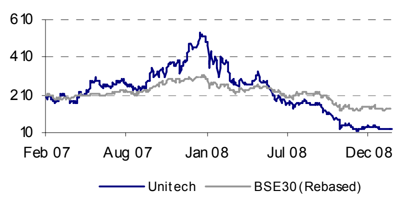
Hold

Price (9 Feb 09)	INR 29.10
Target price	INR 26.30
52-week Range	INR 23.10 - 417.15
Market Cap (m)	INRm 47,238 USDm 972

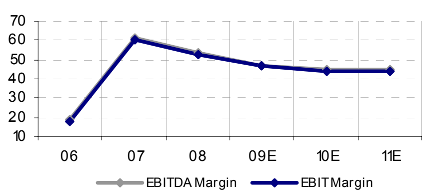
Company Profile

Unitech Ltd is one of the largest property developers in India. It has a huge landbank with a concentrated presence in 10-12 major cities and is strengthening its execution capabilities through a ramp-up in manpower, improvement in the management structure, and tie-up with quite a few specialized global companies. Unitech's core focus has been development of large-sized residential townships in the peripherals of major metro cities.It has recently won the telecom license and proposes to setup a mobile telecom network across the country in partnership with a global/ local telecom player.

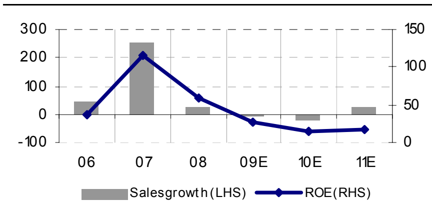
Price Performance



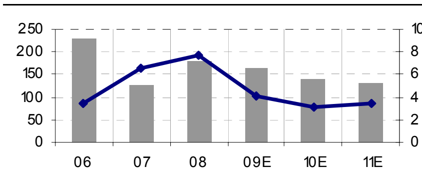
Margin Trends



Growth & Profitability



Solvency



Abhay Shanbhag
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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	0.52	8.04	10.23	6.81	4.46	5.78
Reported EPS (INR)	0.52	8.04	10.23	6.81	4.46	5.78
DPS (INR)	13.23	0.51	0.25	0.25	0.25	0.00
BVPS (INR)	207.9	24.6	22.2	28.7	32.9	38.3
Weighted average shares (m)	12	812	1,623	1,623	1,623	1,623
Average market cap (INRm)	85	121,546	516,639	47,238	47,238	47,238
Enterprise value (INRm)	6,727	146,589	575,074	118,193	126,943	137,487
Valuation Metrics						
P/E (DB) (x)	13.0	18.6	31.1	4.3	6.5	5.0
P/E (Reported) (x)	13.0	18.6	31.1	4.3	6.5	5.0
P/BV (x)	0.10	7.88	12.45	1.01	0.89	0.76
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	194.5	0.3	0.1	0.9	0.9	0.0
EV/Sales (x)	0.7	4.5	14.0	3.2	4.5	3.8
EV/EBITDA (x)	3.9	7.3	26.1	6.8	9.9	8.5
EV/EBIT (x)	4.1	7.4	26.3	6.9	10.2	8.7
Income Statement (INRm)						
Sales revenue	**9,323**	**32,883**	**41,154**	**36,713**	**28,438**	**36,203**
Gross profit	**2,826**	**21,151**	**24,209**	**19,718**	**14,816**	**18,709**
EBITDA	**1,747**	**20,018**	**22,040**	**17,331**	**12,784**	**16,108**
Depreciation	112	80	205	246	296	370
Amortisation	0	0	0	0	0	0
EBIT	**1,635**	**19,938**	**21,835**	**17,085**	**12,489**	**15,738**
Net interest income(expense)	-465	-3,020	-2,804	-4,206	-3,996	-4,475
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	221	1,000	1,647	799	661	601
Profit before tax	**1,390**	**17,918**	**20,678**	**13,678**	**9,153**	**11,864**
Income tax expense	513	4,864	3,991	2,633	1,922	2,491
Minorities	31	-3	73	-3	-3	-3
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**846**	**13,058**	**16,614**	**11,048**	**7,234**	**9,376**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**846**	**13,058**	**16,614**	**11,048**	**7,234**	**9,376**
Cash Flow (INRm)						
Cash flow from operations	**-2,163**	**-19,266**	**-9,302**	**-24,637**	**-4,471**	**-6,469**
Net Capex	-3,495	-3,645	-23,499	12,596	-3,800	-3,500
Free cash flow	**-5,659**	**-22,910**	**-32,800**	**-12,041**	**-8,271**	**-9,969**
Equity raised/(bought back)	-18	4,766	-74	0	0	0
Dividends paid	-188	-477	-479	-479	-479	-575
Net inc/(dec) in borrowings	6,686	29,356	45,718	8,476	-5,250	9,394
Other investing/financing cash flows	361	-156	-9,509	-4,400	10,000	-150
Net cash flow	**1,182**	**10,579**	**2,856**	**-8,444**	**-4,000**	**-1,299**
Change in working capital	*-3,172*	*-32,057*	*-26,200*	*-35,931*	*-12,001*	*-16,215*
Balance Sheet (INRm)						
Cash and other liquid assets	3,899	14,479	18,444	12,000	9,000	8,700
Tangible fixed assets	4,887	8,148	31,442	17,875	21,080	23,910
Goodwill/intangible assets	823	1,126	1,126	1,850	2,150	2,450
Associates/investments	145	296	9,803	14,203	4,203	4,353
Other assets	34,767	106,851	172,979	195,906	217,617	244,394
Total assets	**44,521**	**130,900**	**233,795**	**241,835**	**254,050**	**283,808**
Interest bearing debt	10,449	39,805	85,524	94,000	88,750	98,144
Other liabilities	31,237	71,139	111,108	98,103	107,813	118,374
Total liabilities	**41,686**	**110,944**	**196,632**	**192,103**	**196,563**	**216,519**
Shareholders' equity	2,597	19,944	36,005	46,574	53,330	62,131
Minorities	237	13	1,159	3,159	4,159	5,159
Total shareholders' equity	**2,833**	**19,956**	**37,163**	**49,733**	**57,488**	**67,289**
Net debt	*6,550*	*25,326*	*67,080*	*82,000*	*79,750*	*89,444*
Key Company Metrics						
Sales growth (%)	43.4	252.7	25.2	-10.8	-22.5	27.3
DB EPS growth (%)	166.7	1,442.9	27.2	-33.5	-34.5	29.6
EBITDA Margin (%)	18.7	60.9	53.6	47.2	45.0	44.5
EBIT Margin (%)	17.5	60.6	53.1	46.5	43.9	43.5
Payout ratio (%)	19.5	3.2	2.4	3.7	5.6	0.0
ROE (%)	37.2	115.9	59.4	26.8	14.5	16.2
Capex/sales (%)	37.5	11.1	57.1	0.0	13.4	9.7
Capex/depreciation (x)	31.2	45.6	114.5	0.0	12.9	9.5
Net debt/equity (%)	231.2	126.9	180.5	164.9	138.7	132.9
Net interest cover (x)	3.5	6.6	7.8	4.1	3.1	3.5

Source: Company data, Deutsche Bank estimates

When it rains, it pours

Poor Q3 interims with a collapse in demand

~74% yoy decline in Q3FY09 PAT

Unitech's Q3 interims saw significant decline in financials. The key highlights are:

- Revenues and EBITDA declined 57% and 66% yoy, respectively. EBITDA margins declined by 1400 basis points due to a deteriorating product mix (mid-income housing). Interest expense was at ~40% of EBITDA due to continual high gearing and rising interest rates. PAT declined 74%.
- Net debt and gearing remains very high, at INR 90bn and 197%, respectively. Adjusted gearing (after accounting for payables for land bank) remains even higher, at ~236%.
- Customer Advances remain high at INR 70bn and have increased 21% yoy and 4% qoq.
- While Unitech does not provide regular updates on its projects, its peers indicate a collapse in real estate demand. Data from Unitech Corporate Parks (associate company listed on AIMs exchange in London and owns 60% stake in six of Unitech's IT office projects) indicate significant demand slowdown and the delay in execution for all these projects.

Figure 35: Unitech's consolidated interim trends

Year to Mar (INR m)	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	YoY chg	QoQ chg
Revenues	**8,708**	**10,135**	**11,421**	**11,601**	**10,327**	**9,831**	**4,912**	**-57%**	**-50%**
Cost of land/ construction	3,651	5,064	4,077	6,782	4,233	3,739	2,451	-40%	-34%
EBITDA	**5,058**	**5,071**	**7,344**	**4,818**	**6,094**	**6,092**	**2,461**	**-66%**	**-60%**
- Margin (%)	58.1%	50.0%	64.3%	41.5%	59.0%	62.0%	50.1%		
Interest expense	601	790	980	434	1,079	1,341	967	-1%	-28%
Profit before tax	4,714	4,759	6,539	4,666	5,164	4,896	1,599	-76%	-67%
Tax rate (%)	22%	14%	20%	21%	18%	27%	14%		
Profit after tax	**3,667**	**4,099**	**5,232**	**3,694**	**4,237**	**3,597**	**1,380**	**-74%**	**-62%**
Customer advances	-	48,230	57,764	71,120	69,120	67,400	70,000	21%	4%
Net Debt	36,470	43,268	45,363	71,441	72,841	83,700	90,000	98%	8%
Net debt/ equity (%)	159%	171%	150%	198%	181%	185%	197%		
Adjusted Net debt/ equity (%)	-	-	-	301%	273%	224%	236%		

Source: Company

Negative newsflow continues

Collapse of real estate demand; companies focus on cashflows

Unitech does not provide granular updates of its projects, and it held no conference call following the 3Q interims. However almost all peers indicate that:

- Demand has collapsed across verticals
- The primary focus of most developers is to raise funds
- Most new projects, other than those in mid-end housing, have been deferred
- Most developers project price weakness in the near future
- Companies are focusing on conserving cashflows by downsizing land banks, projects under construction, manpower, etc.

While Unitech agrees with this outlook, it does not provide granular data. Given its high gearing of 197%, we believe that it is more susceptible to this demand slowdown than peers.

No official communication of completion of any of its fundraising plans in recent past
As discussed below, the company has taken multiple steps towards raising long-term funds over the past two years. To date it has only announced 1) the USD 170m deal with Lehman (in Jun'08), 2) the launch of a USD 300m real estate fund in mid CY08 and 3) the Telenor deal (for its wireless business) in Nov'08. While the first two deals have been completed, the last one is still pending regulatory approvals.

Promoter holding drops from 74% to 67% in Q3
Promoter holding in Unitech declined from 74% on 30 Sept'08 to 67% on 31 Dec'08 (according to data provided to stock exchanges).

Recent mandatory requirements of disclosures on pledged shares could be a concern
In order to enhance disclosure requirements, the SEBI (Indian stock market regulator), has decided to make it mandatory for promoters (including promoter group) to disclose details regarding the pledge of shares. Such disclosures have to be made to the stock exchanges when the shares are pledged and on a periodic basis. While the timeline for complying with these new rules is unclear, we are concerned that stocks with a high proportion of pledging by promoters may come under pressure.

Poor interims could aggravate tight financial markets, resulting in continued delay in fundraising

Delay in conclusion in sale of "largely completed" projects
According to media reports, Unitech was in advanced stages of negotiations for the sale of two of its premier properties -- the Courtyard hotel in Gurgaon and an office property in Saket (both in the NCR region). However, even after a lapse of about three months, none of these deals have been concluded.

No significant sale of stake at the SPV level since the Jun'08 Lehman deal for USD 170m
While Unitech was looking to raise funds for more projects, and even for other phases of the Mumbai slum rehabilitation project, there have been no additional deals since the Lehman deal in Jun'08.

Equity dilution at parent level
While Unitech proposed a large QIP placement (sale of shares of up to USD 1bn to institutional investors) of shares in late CY07/early CY08, the collapse of equity markets from early CY08 forced the company to cancel this issuance. In the Jan'09 shareholder's meeting, the company renewed the enabling resolution of raising up to USD 1bn of long-term funds. For the past few months there have been press reports that the company will raise ~USD 500m at the parent level from strategic/financial investors. Considering the current market conditions and Unitech's complex balance sheet (280 fully owned subsidiaries, ~36 other subsidiaries and ~21 joint venture/associates, as well as quite a few structured deals), we believe that raising significant equity at the parent level in a short time would be a challenge.

Significant delay in conclusion of the Telenor deal
In Nov'08, Telenor (a USD 9bn market cap Norwegian telecom company) signed a definitive agreement to invest ~INR 61.2bn (~USD 1.2bn) for a 60% stake in Unitech Wireless (UW), subject to regulatory approvals.

- Unitech indicates that it would receive INR 3bn from the first tranche of USD 250m to be infused into UW by the current fiscal year. This tranche had been expected by end-Dec'08, but has been delayed due to a lack of approval. We are uncertain about the timing of the remaining INR 4.7bn that Unitech would receive.
- The company states that INR 12bn of its net debt was for its foray into telecoms. Hence, once the UW is capitalized by Telenor, Unitech would not have to consolidate this debt into its books.

No clarity on rescheduling of loans for the real estate sector

RBI's circular dated 15 Dec'08 allows banks to reschedule outstanding debt to developers until 30 Jun'09 without treating these as NPAs. While press reports indicate that quite a few developers are negotiating with banks for rescheduling their loans, there is no clarification on:

- The new repayment schedule for such loans.
- The quantity of such loans being rescheduled.

Furthermore, such rescheduling is only for loans issued by domestic banks. Most developers have significant amounts to be repaid to mutual funds and foreign banks, which will not be covered under this scheme.

Cut financial estimates and TP; maintain Hold

Considering deteriorating fundamentals, we cut GAV by 12%...

We believe that the continued global sub-prime crisis will constrain global economic growth rates and significantly constrain demand for real estate in India. Hence we now make the following changes in our Gross Asset Value (GAV) assumptions:

- We assume a further cut in property prices by ~5-10%, and we assume flat prices thereafter.
- We assume falls in completions of 40%, 30% and 15% for the next three years, respectively.
- We maintain our discount rate assumption of 17.5%, our cap rate assumption of 10-12%, and our 20% tax rate assumption.

Thus we derive a DCF-based GAV of INR 162/share (previously INR 184/share) for its real estate business.

...and cut financial estimates by 2-36%

We sharply cut our financial estimates by 2-36% due to the aforementioned factors and 1) poor 3Q financials (lower-than-expected revenues, EBITDA and PAT), 2) execution of significant fall projects , and 3) difficulty in selling stakes at an SPV level,

Figure 36: Cuts in financial estimates for Unitech

(INR m)	Old estimates			New estimates			% change		
Y/E Mar	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Sales	37,495	38,587	44,187	36,713	28,438	36,203	-2%	-26%	-18%
- Income from operations	27,126	33,403	41,595	29,769	24,966	34,467	10%	-25%	-17%
- Stake sale in subsidiaries	10,368	5,184	2,592	6,944	3,472	1,736	-33%	-33%	-33%
EBITDA	19,457	17,884	19,716	17,331	12,784	16,108	-11%	-29%	-18%
PAT	12,950	11,382	12,590	11,045	7,231	9,373	-15%	-36%	-26%

Source: Deutsche Bank

Telenor deal (already included into our estimates) reduces gearing by Mar'09e

While Telenor (as per its binding agreement) will likely invest its proposed USD 1.1bn and take a 60% stake of UW by Sep'09e, we believe suitable structures will be in place and that by Mar'09e Unitech will not have to consolidate UW. Thus by Mar'09e, we believe that Unitech should receive INR 7.7bn of debt loaned to UW and will not consolidate UW (which has drawn INR 12bn debt from local banks) into itself. We believe that Unitech's adjusted net gearing (including payables on land bank that fell from 296% in Mar'08 to 224% to Sep'08) should drop further to ~158% by Mar'09e.

Downgrade our TP to INR 26.3 (from INR 30)

While sector headwinds (weak market conditions amidst tight financial markets) and Unitech's financial woes continue, we decrease the discount to GAV from 60% to 55% due to government measures to reschedule real estate loans. After this 55% discount to GAV, and excluding net debt (INR 55) and payables for land bank (INR 11), we derive a SOTP based TP of INR 6.3/share for its real estate business. Adding INR 20/share (25% discount on the telecom business value of INR 25 on account of delay and increasing competition) for its telecom foray, we arrive at a SOTP-based TP of INR 26.3 (earlier INR 30) for Unitech.

Despite significant underperformance of last year, we maintain Hold
Despite its stock declining by 93% in the past 12 months, resulting in a ~43% underperformance to the Sensex, our TP suggests limited downside from the current stock price. Hence we retain our Hold rating.

Risks

Upside risks to our rating: (a) sharp improvement in macro environment (improving demand on better customer sentiment due to increasing GDP growth, fall in interest rates and property prices; improving liquidity in financial markets) (b) Ability of the company to raise long-term (equity/ debt) funds at company/SPV level to address its near-term liquidity constraints.

Downside risks to our rating: (a) inability to complete its proposed deal with Telenor, (b) poorer-than-expected execution, (c) inability to raise long-term resources (equity/debt at a company/SPV level) and the resultant risk of liquidity constraints.

Key financials

Figure 37: Consolidated income statement

Y/E Mar (INR m)	FY06	FY07	FY08	FY09e	FY10e	FY11e
Net sales	**9,323**	**32,883**	**41,154**	**36,713**	**28,438**	**36,203**
Operating Income	9,323	17,095	24,030	29,769	24,966	34,467
Sale of investments	-	15,788	17,124	6,944	3,472	1,736
EBDITA	**1,747**	**20,018**	**22,040**	**17,331**	**12,784**	**16,108**
EBITDA Margins	19%	61%	54%	47%	45%	44%
Interest	(465)	(3,020)	(2,804)	(4,206)	(3,996)	(4,475)
Other income	221	1,000	1,647	799	661	601
PAT	**877**	**13,055**	**16,687**	**11,045**	**7,231**	**9,373**
Growth (%)						
-Sales		253%	25%	-11%	-23%	27%
-EBITDA		1046%	10%	-21%	-26%	26%
-PAT		1389%	28%	-34%	-35%	30%

Source: Company, Deutsche Bank

Figure 38: Consolidated balance sheet

As on March 31st (INR m)	FY06	FY07	FY08	FY09e	FY10e	FY11e
Net fixed assets	4,887	8,148	31,442	17,875	21,080	23,910
Investments	145	4,548	14,165	16,704	6,204	6,354
Cash & bank balances	3,899	10,227	14,083	9,500	7,000	6,700
Sundry debtors	1,032	1,458	7,460	12,960	14,760	17,560
Projects in progress	30,174	86,447	135,653	156,001	176,281	199,198
Total current assets	**38,661**	**117,077**	**187,062**	**205,406**	**224,617**	**251,094**
Current liabilities	29,159	49,551	82,562	69,907	76,817	84,498
Total current liabilities	30,032	55,331	91,912	77,907	85,617	94,178
Total assets	**14,490**	**75,570**	**141,883**	**163,929**	**168,434**	**189,630**
Total debt	**10,449**	**39,805**	**85,524**	**94,000**	**88,750**	**98,144**
Liability-against land	1,056	15,787	19,136	20,136	22,136	24,136
Shareholders' funds	2,597	19,944	36,005	46,574	53,330	62,131
Total liabilities	**14,490**	**75,570**	**141,883**	**163,929**	**168,434**	**189,630**
Key Ratios						
Debt Equity (Gearing)	402%	200%	238%	202%	166%	158%
Net Gearing	252%	127%	186%	176%	150%	144%

Source: Company, Deutsche Bank

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Asia India
Property Property

10 February 2009

Sobha Developers

Reuters: **SOBH.BO** Bloomberg: **SOBHA IN**

Poor outlook to aggravate asset liability mismatch

Tight financial markets with poor interims make fundraising a challenge
Sharp falls in Sobha's Q3 interims reflect worsening fundamentals. With financial markets tight and Sobha's inability to raise significant long-term funding in the past three quarters, we remain concerned with its asset liability mismatch (net gearing of 161%, interest cover of only 2x in Q3). We cut estimates and maintain Sell.

Declining fundamentals (as seen in Q3) to aggravate asset liability mismatch
Revenues, EBITDA and PAT declined 49%, 51% and 88% yoy, respectively. Interest expense jumped 67% and is ~60% of EBITDA. Interest cover has fallen from ~6x in Q408 to ~2x in Q309. Net gearing and adjusted net gearing (including payables for land bank), while declining, are 161% and 190%, respectively.

Poor market conditions remain a threat to Sobha's fundraising plans
A rights issuance, considered critical for filling the cash flow and asset liability gaps, has been deferred due to poor market conditions. However, Sobha hopes to reschedule its near-term debt from banks (in line with the RBI circular in Dec'08 allowing banks to reschedule real estate loans until Jun'09 without treating them as NPAs), issue preference shares, and sell individual land parcels and stakes at the SPV level in some of its township projects. Yet we remain concerned as Sobha has not been able to raise significant long-term funds in the past three quarters.

Cut estimates, increase TP, maintain Sell; risks
We cut property price ests by ~5-8% and delay completions for the next three years, resulting in cuts of 22-58% to estimates and 8% to our DCF-based GAV (to INR706). Sobha's financial woes will likely continue, so we cut the discount to GAV to 55% due to government's measure to reschedule real estate loans. Adjusting for net debt and payables for land bank, results in a TP of INR 21 for the property business. We add INR29 for the contract and manufacturing business, resulting in an overall TP of INR50. With ~42% downside potential, we maintain our Sell. Risks: ability to raise funds; change in macro environment). See P.5.

Forecasts and ratios

Year End Mar 31	2007A	2008A	**2009E**	2010E	2011E
Sales (INRm)	11,865.2	14,244.7	**10,457.7**	8,580.8	9,861.9
EBITDA(INRm)	2,562.2	3,637.4	**2,893.9**	2,270.6	2,764.1
Reported NPAT(INRm)	1,608.8	2,281.3	**1,233.5**	619.0	856.8
Reported EPS FD(INR)	22.07	31.29	**16.92**	8.49	11.75
DB EPS FD (INR)	22.07	31.67	**17.38**	9.04	12.30
OLD DB EPS FD (INR)	22.07	31.67	**24.07**	21.55	26.15
% Change	0.0%	0.0%	**-27.8%**	-58.1%	-53.0%
DB EPS growth (%)	-47.8	43.5	**-45.1**	-48.0	36.1
PER (x)	40.8	26.8	**4.9**	9.4	6.9
EV/EBITDA (x)	27.4	21.9	**8.6**	11.9	10.3

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

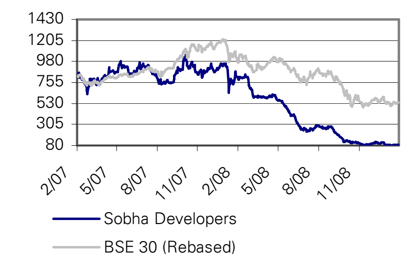
Sell

Price at 9 Feb 2009 (INR)	**85.40**
Price target - 12mth (INR)	**50.00**
52-week range (INR)	**839.50 - 80.80**
BSE 30	**9,301**

Key changes

Price target	37.00 to 50.00	↑	**35.1%**
Sales (FYE)	13,366 to 10,458	↓	**-21.8%**
Op prof margin(FYE)	24.8 to 24.2	↓	**-2.7%**
Net profit(FYE)	1,721.1 to 1,233.5	↓	**-28.3%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-4.2*	*-19.3*	*-89.5*
BSE 30	*-1.1*	*-6.7*	*-46.7*

Stock data

Market cap (INRm)	**6,226**
Market cap (USDm)	**128**
Shares outstanding (m)	**72.9**
Major shareholders	**Promoter's (87%)**
Free float (%)	**13**
Avg daily value traded (USDm)	**0.5**

Key indicators (FY1)

ROE (%)	**11.9**
Net debt/equity (%)	**167.6**
Book value/share (INR)	**148.33**
Price/book (x)	**0.6**
Net interest cover(x)	**2.2**
Operating profit margin (%)	**24.2**

Model updated:09 February 2009

Running the numbers

Asia

India

Property

Sobha Developers

Reuters: SOBH.BO Bloomberg: SOBHA IN

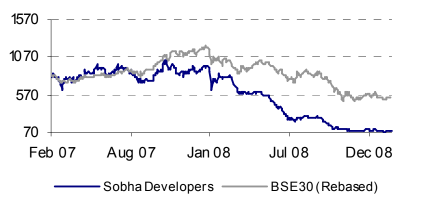
Sell

Price (9 Feb 09)	INR 85.40
Target price	INR 50.00
52-week Range	INR 80.80 - 839.50
Market Cap (m)	INRm 6,226 USDm 128

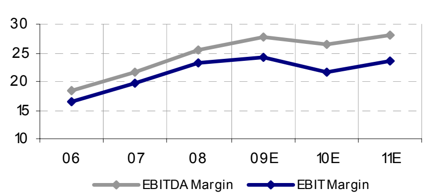
Company Profile

Sobha developers are one of the reputed residential developers in South India with major focus on Bangalore. It has a well designed scaleable business model with the land bank of ~4030 acres having the potential of 230 msf of development in 10 cities (IT/ITES and manufacturing hubs). Its focus on quality and timely execution through backward integration at its manufacturing division enabled it to build a significant brand franchise. The contractual projects segment offers the advantages of stable cashflows, earnings visibility and strengthening execution capability without any capital employed but it constrains margins.

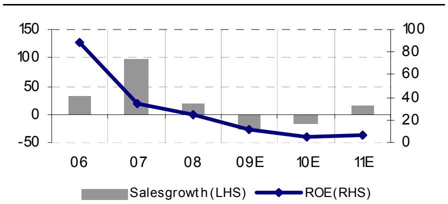
Price Performance



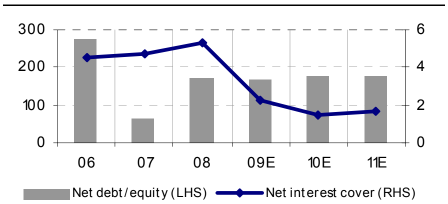
Margin Trends



Growth & Profitability



Solvency



Abhay Shanbhag

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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	42.29	22.07	31.67	17.38	9.04	12.30
Reported EPS (INR)	42.29	22.07	31.29	16.92	8.49	11.75
DPS (INR)	2.50	5.50	6.50	1.00	1.00	1.50
BVPS (INR)	64.8	111.9	135.5	148.3	156.2	166.7
Weighted average shares (m)	21	73	73	73	73	73
Average market cap (INRm)	na	65,694	61,902	6,226	6,226	6,226
Enterprise value (INRm)	na	70,317	79,646	24,828	27,053	28,603
Valuation Metrics						
P/E (DB) (x)	na	40.8	26.8	4.9	9.4	6.9
P/E (Reported) (x)	na	40.8	27.1	5.0	10.1	7.3
P/BV (x)	0.00	7.16	4.44	0.58	0.55	0.51
FCF Yield (%)	na	nm	nm	nm	nm	nm
Dividend Yield (%)	na	0.6	0.8	1.2	1.2	1.8
EV/Sales (x)	nm	5.9	5.6	2.4	3.2	2.9
EV/EBITDA (x)	nm	27.4	21.9	8.6	11.9	10.3
EV/EBIT (x)	nm	30.3	24.2	9.8	14.5	12.4
Income Statement (INRm)						
Sales revenue	**5,966**	**11,865**	**14,245**	**10,458**	**8,581**	**9,862**
Gross profit	**2,210**	**5,391**	**6,965**	**5,397**	**4,467**	**5,331**
EBITDA	**1,097**	**2,562**	**3,637**	**2,894**	**2,271**	**2,764**
Depreciation	112	244	350	368	405	457
Amortisation	0	0	0	0	0	0
EBIT	**985**	**2,318**	**3,287**	**2,526**	**1,866**	**2,307**
Net interest income(expense)	-219	-486	-615	-1,137	-1,251	-1,376
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	318	29	119	300	300	350
Profit before tax	**1,083**	**1,861**	**2,792**	**1,689**	**915**	**1,281**
Income tax expense	191	252	483	422	256	384
Minorities	0	0	28	33	40	40
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**892**	**1,609**	**2,281**	**1,234**	**619**	**857**
DB adjustments (including dilution)	0	0	28	33	40	40
DB Net profit	**892**	**1,609**	**2,309**	**1,267**	**659**	**897**
Cash Flow (INRm)						
Cash flow from operations	**-838**	**-4,880**	**-11,991**	**-17**	**-1,590**	**-799**
Net Capex	-605	-1,161	-44	-484	-543	-613
Free cash flow	**-1,443**	**-6,042**	**-12,035**	**-501**	**-2,133**	**-1,412**
Equity raised/(bought back)	0	5,652	-27	0	0	0
Dividends paid	-145	-474	-556	-85	-85	-128
Net inc/(dec) in borrowings	1,998	1,606	11,994	1,170	2,250	1,500
Other investing/financing cash flows	-27	-501	0	-372	-100	0
Net cash flow	**384**	**242**	**-625**	**211**	**-68**	**-40**
Change in working capital	*-1,816*	*-6,747*	*-14,617*	*-1,652*	*-2,654*	*-2,153*
Balance Sheet (INRm)						
Cash and other liquid assets	450	686	287	325	350	400
Tangible fixed assets	1,030	1,948	2,142	2,258	2,396	2,552
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	27	528	28	400	500	500
Other assets	8,520	17,172	31,229	33,329	37,140	41,251
Total assets	**10,027**	**20,333**	**33,685**	**36,312**	**40,387**	**44,703**
Interest bearing debt	4,231	5,837	17,831	19,000	21,250	22,750
Other liabilities	4,427	6,340	5,746	6,171	7,322	9,270
Total liabilities	**8,658**	**12,177**	**23,576**	**25,171**	**28,572**	**32,020**
Shareholders' equity	1,368	8,155	9,881	10,813	11,387	12,155
Minorities	0	0	228	328	428	528
Total shareholders' equity	**1,368**	**8,155**	**10,109**	**11,141**	**11,814**	**12,683**
Net debt	*3,781*	*5,151*	*17,544*	*18,675*	*20,900*	*22,350*
Key Company Metrics						
Sales growth (%)	31.7	98.9	20.1	-26.6	-17.9	14.9
DB EPS growth (%)	164.1	-47.8	43.5	-45.1	-48.0	36.1
EBITDA Margin (%)	18.4	21.6	25.5	27.7	26.5	28.0
EBIT Margin (%)	16.5	19.5	23.1	24.2	21.7	23.4
Payout ratio (%)	5.9	24.9	20.8	5.9	11.8	12.8
ROE (%)	88.5	33.8	25.3	11.9	5.6	7.3
Capex/sales (%)	10.1	9.8	3.8	4.6	6.3	6.2
Capex/depreciation (x)	5.4	4.8	1.6	1.3	1.3	1.3
Net debt/equity (%)	276.4	63.2	173.5	167.6	176.9	176.2
Net interest cover (x)	4.5	4.8	5.3	2.2	1.5	1.7

Source: Company data, Deutsche Bank estimates

Poor outlook to aggravate asset liability mismatch

While poor interims continues, financial re-structuring is critical

~88% yoy decline in Q3 profits

For Q3, Sobha reported significant declines in financials. The key highlights are:

- Revenues declined 49% and EBITDA declined by 51%. Continued high gearing coupled with higher interest rates resulted in a 67% increase in interest expense, which accounted for ~60% of EBITDA. Thus PAT declined 88%.
- While debt levels have declined marginally, net gearing remains high at 161%. Adjusted gearing (after accounting for payables for land bank) is 190%.
- A deteriorating interest coverage ratio (falling from ~6x in Q4FY08 to ~2x in Q3FY09) indicates significant stress the company's debt servicing capability.

Figure 39: Sobha's interim trends

Year to Mar (INR m)	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	YoY chg	QoQ chg
Revenue	2,677	3,254	3,553	4,741	3,468	2,934	1,805	-49%	-38%
Cost of land/construction	1,552	3,626	2,991	3,618	2,118	1,686	1,545	-48%	-8%
EBITDA (a)	670	825	961	1,080	1,016	868	475	-51%	-45%
EBITDA Margins	25%	25%	27%	23%	29%	30%	26%	-3%	-11%
Interest Expenses (c)	101	133	171	192	267	285	286	67%	0%
Depreciation (b)	83	88	87	92	89	89	91		
Other Income	15	76	4	24	20	87	71	-	-18%
Tax rate (%)	19%	17%	14%	14%	26%	16%	56%		
PAT	408	562	611	702	505	490	75	-88%	-85%
Net Debt				17,544	19,845	19,150	18,545		
Net gearing (%)				178%	191%	176%	161%		
Payable for land bank				6,600	5,600	2,861	3,269		
Adjusted net gearing (%)				244%	245%	202%	190%		
Interest coverage ratio (a+b)/ c	7.5	6.9	6.1	6.1	4.1	3.4	2.0		

Source: Company data

Several measures (reduction in land bank and manpower) to address these issues

Sobha has taken the following steps to address the slowdown and worsening liquidity:

- Downsize of its land bank by 24% to 3,073 acres in the past three quarters. However, its payable for land bank has increased from INR 2.9bn to INR 3.3bn due to the increase in its stake in the JV with Chintels in Gurgaon project.
- 26% cut in employees to 2,447 in the past three quarters.
- Other steps include focus on cost control. To improve cash flows, Sobha has reduced its property prices, and it is undertaking aggressive marketing with attractive payment terms to boost demand.

Figure 40: Steps taken to improve cash flows

Quarter ending	Mar'08	Sept'08	Dec'08	% change since Mar'08
Employees (no.'s)	3,308	2,965	2,447	-26%
Land bank (acres)	4,024	3,328	3,073	-24%

Source: Company data

Outlook remains challenging…

The Indian IT sector derives a third of its revenues from global financial services and in turn drives ~70% of the demand for office space and ~35% of the demand for residential space in India. Bangalore (including Hosur, which is ~40kms from Bangalore), one of India's largest IT hubs, accounts for ~47% of Sobha's land bank. Hence the global economic slowdown led by sub-prime crisis, and which has paralysed global financial services sector, remains a significant threat for developers in Bangalore and thus for Sobha.

…with fresh funding and financial restructuring critical for survival

Given tight financial markets, poor demand conditions and Sobha's deteriorating financials, Sobha is facing severe headwinds in fundraising. As of 31 Dec'08, it managed its cash flows by:

- Repaying ~75% of its payables through fresh debt, advances from its proposed Rights Issue (~INR 430m as at 31st Dec'08), and internal accruals.
- Rescheduling the balance of its payable.

While the Rights Issuance of INR 3.5bn was critical to honouring its financial commitments, Sobha has deferred the Rights Issuance (with a reduction in issue size from INR 3.5bn to INR 2.5bn) due to poor market conditions. It hopes to honour its near-term commitments by:

- Asking banks to reschedule its outstanding debt (RBI has allowed banks to reschedule real estate loans without treating them as non-performing) until 30 Jun'09.
- A proposed issue of INR 2.5bn of preference shares.
- A proposed sale of individual land parcels from its current land bank totalling 3,072 acres.
- A proposed stake sale at the SPV level of its two township projects (~5msf each and which are in advanced stages of being launched).

However, we remain concerned about Sobha's fundraising plans as the company has not been able to raise any significant long-term funds in the past three quarters, and:

- The proposed Rights Issuance would result in a 40% dilution at the current stock price.
- It would be quite difficult to find any strategic investors (private equity, individuals, etc.) considering the market environment.

No clarity on the rescheduling of loans for the real estate sector

RBI's circular dated 15 Dec'08 allows banks to reschedule outstanding debt to developers until 30 Jun'09 without treating these as NPAs. While press reports indicate that quite a few developers are negotiating with banks for the rescheduling of their loans, there is no clarification on:

- The new repayment schedule for such loans.
- The quantity of such loans getting rescheduled.

Furthermore, such rescheduling is only for loans issued by domestic banks. Most developers have significant amounts to be repaid to mutual funds and foreign banks, and these will not be covered under this scheme.

Downgrade financial estimates, raise TP; maintain Sell

Considering deteriorating fundamentals, we cut GAV by 8%…

We believe that the continued global sub-prime crisis will constrain global economic growth rates, as well as significantly constrain demand for real estate in India. Thus we now make the following changes in our Gross Asset Value (GAV) assumptions:

- We assume a ~5-8% further cut in current property prices, and we assume flat prices thereafter.

- We assume falls in completions over the next three years of 40%, 30% and 15%, respectively.
- We assume the company's land bank will be 3,073 acres in Dec'08, a decrease from 3,327 acres in Sep'08, as the company has excluded ~250 acres (largely in Hosur near Bangalore).
- We maintain our discount rate assumption of 18.5%, our cap rate assumption of 12% and our tax rate assumption of 22.5%.

Thus we calculate a DCF-based GAV of INR 706/share for its real estate business (down from INR 764/share previously)

…while we cut our financial estimates by 22-58%
Considering the aforementioned factors and poor 3Q financials (lower-than-expected revenues, EBITDA and PAT), we cut our financial estimates by 22-58%.

Figure 41: Cut in financial estimates for Sobha

(INR m)	Old estimates			New estimates			% change		
Y/E Mar	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Sales	13,366	13,608	15,736	10,458	8,581	9,862	-22%	-37%	-37%
EBITDA	3,720	3,704	4,403	2,894	2,271	2,764	-22%	-39%	-37%
Net Profit (pre minority)	1,754	1,571	1,906	1,267	659	897	-28%	-58%	-53%

Source: Deutsche Bank estimate

However, we increase our TP to INR 50 (from INR 37)
While sector headwinds (weak market conditions amidst tight financial markets) and Sobha's financial woes will likely continue, we decrease the discount to GAV from 60% to 55% on account of the government's measure to reschedule real estate loans. Following this 55% discount to GAV, and excluding net debt (INR 252/share) and payables for land bank (INR 45), we arrive at a SOTP-based TP of INR 21/share for Sobha's real estate business. Adding INR 29 (vs. INR 34 previously) for its manufacturing and contracting business (valued at 6x EBITDA), we arrive at a SOTP-based TP of INR 50 (previously INR 37) for Sobha as a whole.

Despite the significant underperformance of the past year, we maintain our Sell rating
Even though Sobha's stock price declined by ~90% over the past 12 months (i.e. a 41% underperformance to the Sensex), our TP suggests ~42% downside potential from the current stock price. Thus, we maintain a Sell rating.

Risks

- A change in the macro environment (GDP growth, interest rates, liquidity in financial markets and the resultant demand), as compared to expectations.
- The company's ability to raise long-term resources (equity/debt at a company/SPV level, including the proposed rights issuance) and the resultant risk of bankruptcy.
- Overexposure of its land bank in the residential segment and in Bangalore.

Key financials

Figure 42: Consolidated income statement

Y/E Mar (INR m)	2006	2007	2008	2009e	2010e	2011e
Total Sales	**5,966**	**11,865**	**14,245**	**10,458**	**8,581**	**9,862**
Land Cost	781	1,832	4,333	3,466	3,397	4,008
Construction expenses	3,613	4,952	6,370	5,096	5,147	5,919
Staff costs	-	707	1,025	1,035	1,014	1,136
Total Operating cost	4,870	9,303	10,607	7,564	6,310	7,098
EBITDA	**1,097**	**2,562**	**3,637**	**2,894**	**2,271**	**2,764**
Margin (%)	18.4%	21.6%	25.5%	27.7%	26.5%	28.0%
Interest	(219)	(486)	(615)	(1,137)	(1,251)	(1,376)
Profit before tax	**1,083**	**1,861**	**2,792**	**1,689**	**915**	**1,281**
Tax rate (%)	17.6%	13.2%	18.5%	25.0%	28.0%	30.0%
PAT (pre minority)	**892**	**1,609**	**2,309**	**1,267**	**659**	**897**
Growth (%)						
Sales	31.7%	98.9%	20.1%	-26.6%	-17.9%	14.9%
EBITDA	104.6%	133.6%	42.0%	-20.4%	-21.5%	21.7%
PAT	163.6%	80.3%	43.5%	-45.1%	-48.0%	36.1%
% of Sales						
Real estate	66%	64%	61%	60%	51%	56%
Contractual projects	34%	26%	27%	24%	29%	26%
Manufacturing	0%	11%	13%	16%	20%	18%

Source: Company, Deutsche Bank

Figure 43: Consolidated balance sheet

Y/E Mar 31 (INR m)	2006	2007	2008	2009e	2010e	2011e
Net fixed assets	1,030	1,948	2,142	2,258	2,396	2,552
Cash & bank balances	450	686	287	325	350	400
Inventories	2,544	3,778	8,393	9,400	10,810	12,108
Sundry debtors	803	1,577	5,548	4,134	4,350	4,959
Loans & advances	5,167	11,818	17,277	19,762	21,940	24,134
Total current assets	**8,963**	**17,859**	**31,505**	**33,621**	**37,450**	**41,601**
Current liabilities	4,010	5,288	4,846	5,131	6,158	8,005
Total current liabilities	4,405	6,318	5,746	6,171	7,322	9,270
Total assets	**5,622**	**14,015**	**27,940**	**30,141**	**33,064**	**35,433**
Total debt	**4,231**	**5,837**	**17,831**	19,000	21,250	22,750
Shareholders' funds	1,368	8,155	9,881	10,813	11,387	12,155
Total liabilities	**5,622**	**14,015**	**27,940**	**30,141**	**33,064**	**35,433**
Key Ratio's						
Debt/ Equity (Gearing)	309%	72%	180%	176%	187%	187%
Net Gearing	276%	63%	178%	173%	184%	184%

Source: Company, Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Indiabulls Real Estate	INRL.BO	98.80 (INR) 9 Feb 09	6
DLF	DLF.BO	139.85 (INR) 9 Feb 09	8,SD11
Puravankara Projects	PPRO.BO	41.90 (INR) 9 Feb 09	NA
Unitech	UNTE.BO	29.10 (INR) 9 Feb 09	8,17
Sobha Developers	SOBH.BO	85.40 (INR) 9 Feb 09	8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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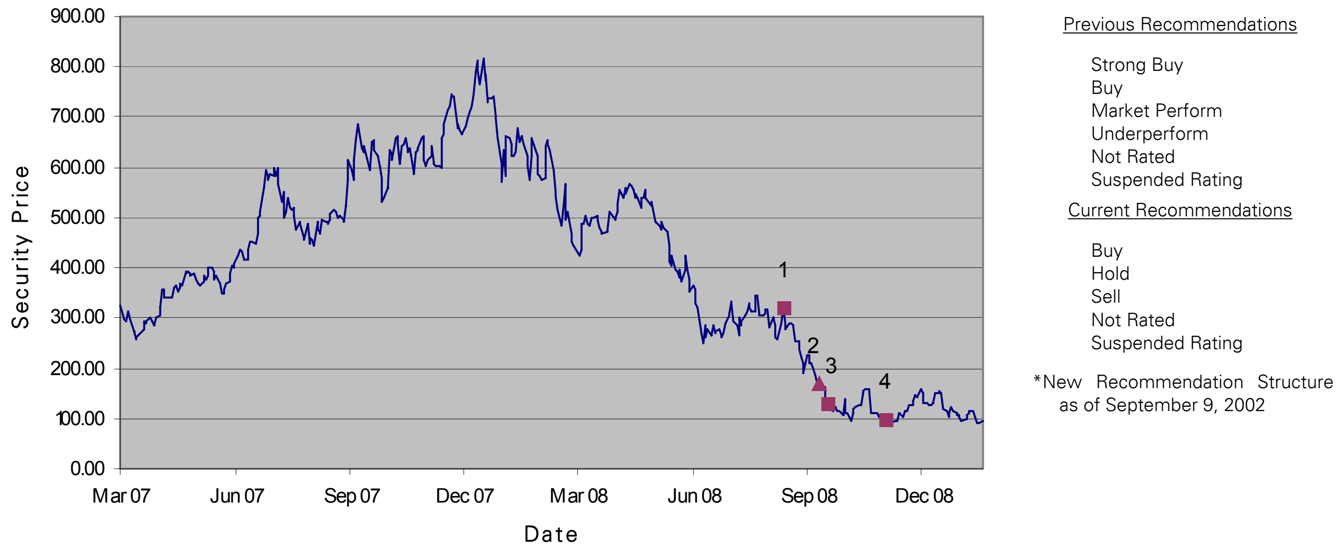
The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Abhay Shanbhag

Historical recommendations and target price: Indiabulls Real Estate (INRL.BO)

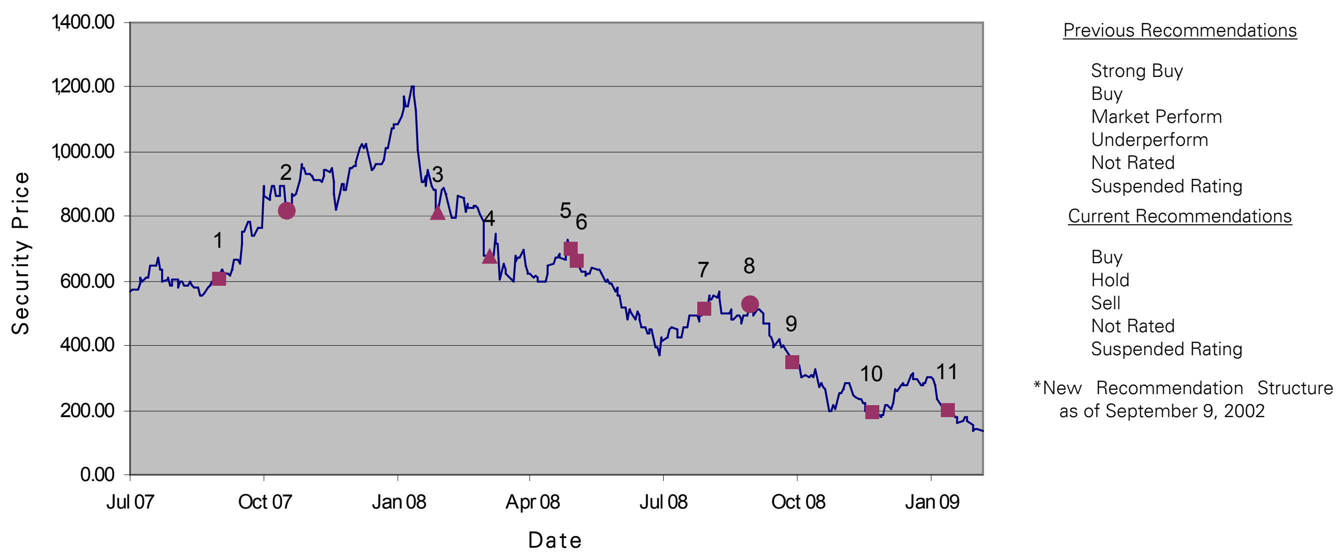
(as of 9/02/2009)



1.	2/9/2008:	Hold, Target Price Change INR300.00	3.	8/10/2008:	Buy, Target Price Change INR274.00
2.	1/10/2008:	Upgrade to Buy, Target Price Change INR288.00	4.	24/11/2008:	Buy, Target Price Change INR200.00

Historical recommendations and target price: DLF (DLF.BO)

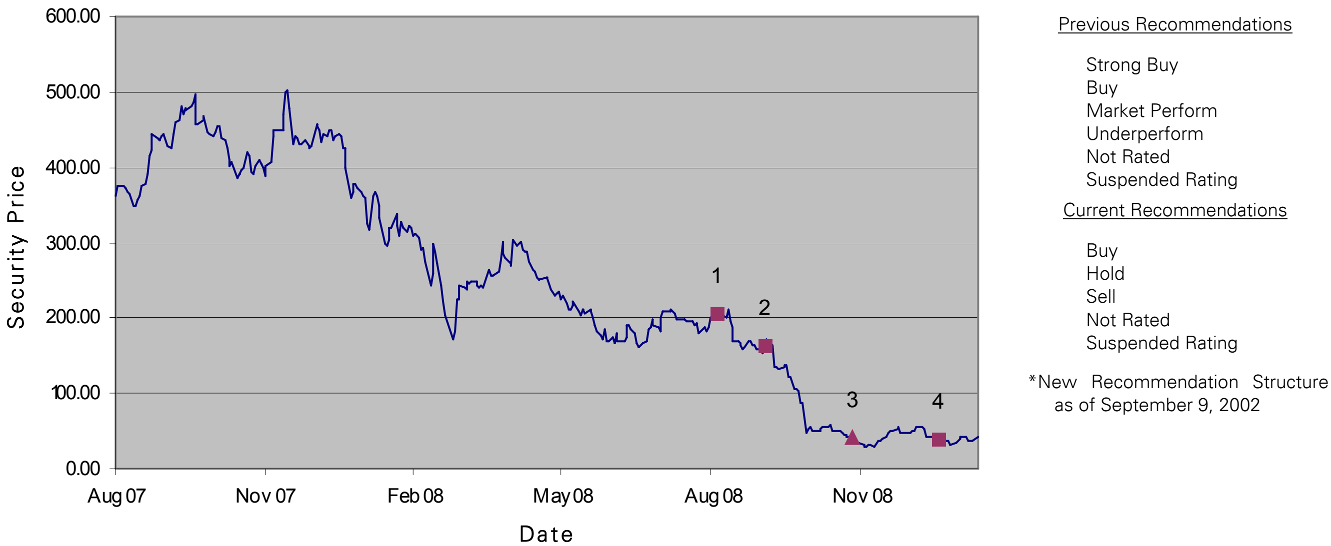
(as of 9/02/2009)



1.	3/9/2007:	Buy, Target Price Change INR670.00	7.	1/8/2008:	Buy, Target Price Change INR700.00
2.	19/10/2007:	Downgrade to Sell, Target Price Change INR760.00	8.	2/9/2008:	Downgrade to Hold, Target Price Change INR425.00
3.	1/2/2008:	Upgrade to Hold, Target Price Change INR875.00	9.	1/10/2008:	Hold, Target Price Change INR350.00
4.	7/3/2008:	Upgrade to Buy, INR875.00	10.	24/11/2008:	Hold, Target Price Change INR225.00
5.	2/5/2008:	Buy, Target Price Change INR800.00	11.	16/1/2009:	Hold, Target Price Change INR200.00
6.	6/5/2008:	Buy, Target Price Change INR770.00			

Historical recommendations and target price: Puravankara Projects (PPRO.BO)

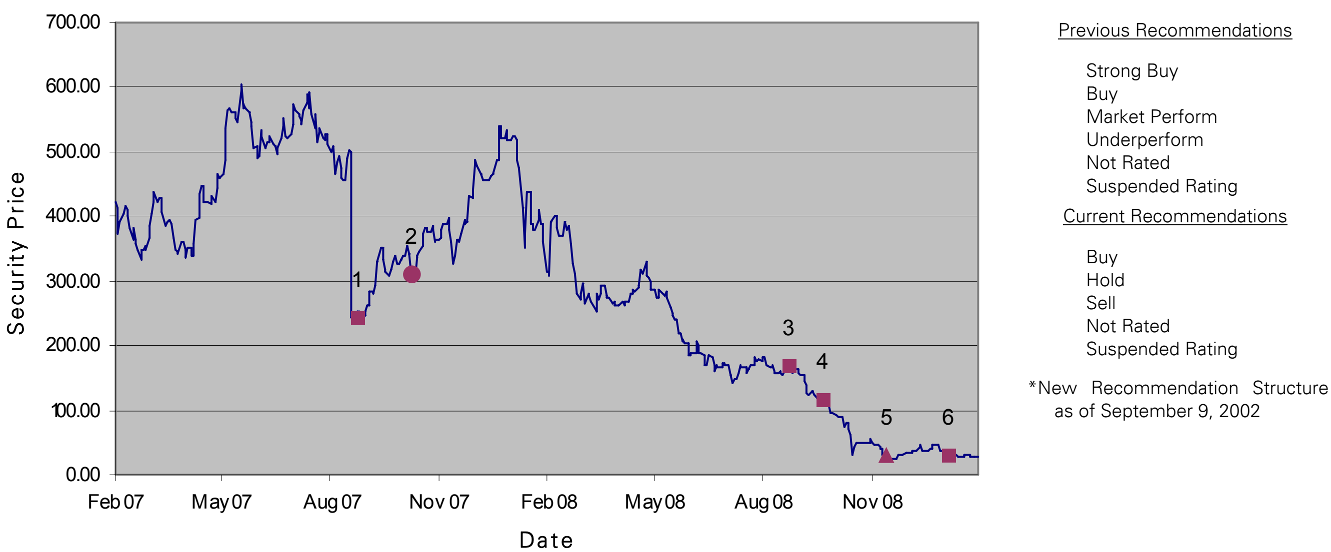
(as of 9/02/2009)



1.	2/9/2008:	Sell, Target Price Change INR165.00	3.	24/11/2008:	Upgrade to Hold, Target Price Change INR50.00
2.	1/10/2008:	Sell, Target Price Change INR135.00	4.	16/1/2009:	Hold, Target Price Change INR42.00

Historical recommendations and target price: Unitech (UNTE.BO)

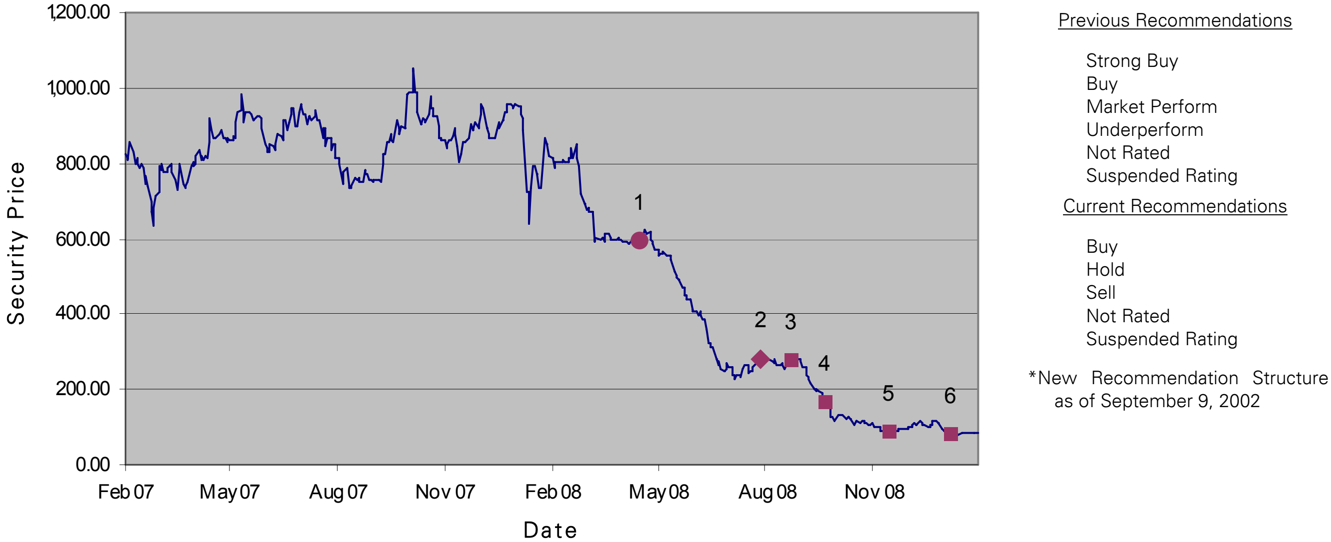
(as of 9/02/2009)



1.	3/9/2007:	Buy, Target Price Change INR285.00	4.	1/10/2008:	Sell, Target Price Change INR102.00
2.	19/10/2007:	Downgrade to Sell, Target Price Change INR300.00	5.	24/11/2008:	Upgrade to Hold, Target Price Change INR45.00
3.	2/9/2008:	Sell, Target Price Change INR130.00	6.	16/1/2009:	Hold, Target Price Change INR30.00

Historical recommendations and target price: Sobha Developers (SOBH.BO)

(as of 9/02/2009)



1.	25/4/2008:	Transferred to EMC coverage.	4.	1/10/2008:	Sell, Target Price Change INR125.00
2.	8/8/2008:	Transferred to sector coverage.	5.	24/11/2008:	Sell, Target Price Change INR75.00
3.	2/9/2008:	Sell, Target Price Change INR200.00	6.	16/1/2009:	Sell, Target Price Change INR37.00

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

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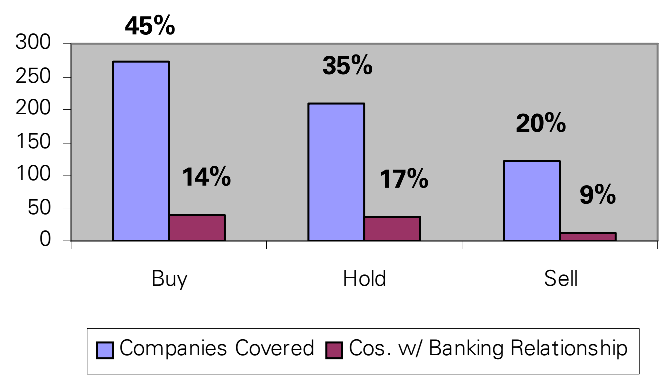
Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

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