CLSA
ASIA-PACIFIC MARKETS

India Property

Sector outlook

Mahesh Nandurkar, CFA
mahesh.nandurkar@clsa.com
(9122) 66505079

Abhinav Sinha
(9122) 66505079

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India
Property

Funding scenario

Credit outlook for the property sector has worsened with global credit crunch and adverse demand conditions domestically. In the light of rapidly tightening credit environment, we have analysed property stocks on various funding / credit health parameters. Our tests reveal that DLF, HDIL and Puravankara are in better credit conditions vis-à-vis Unitech, Sobha and Parsavnath. Funding availability does not appear to be an issue for stocks under coverage, unless consumer offtake turns significantly adverse. Back-ending of NAVs remains a concern with the next three years account for only a 24% NAV of the companies.

Indian developers more leveraged than Chinese counterparts

- Net debt to equity for the sector (6 stocks under coverage) as a whole is 0.8x and does not appear alarming – but that's still higher than Chinese counterparts where the average leveraging is 0.4x
- Adding to the outstanding net-debt, land payments yet to be made raise the average leverage to 1.6x
- Net debt to ebitda ratio works out to 0.5x-3.0x for FY08 and 0.3x-2.0x for FY09. This number too appears reasonable unless ebitda surprises negatively.

Larger companies will not face near-term funding issues

- We have analysed the 6 companies on the basis of total funding requirement over the next 2 years and the projected cashflows
- All the six companies will be able to meet all the funding needs over the next two years with internal accruals.
- Sobha and Puravankara are the best placed on this criteria followed by DLF, indicating that even under tight credit conditions, companies will be able to meet their funding requirements.

Back-ending of NAV is a concern in the current environment

- NAV of nearly all the real estate companies is back-ended with FY09-FY11 (3 years) accounting for 9-34% of NAV
- Sobha and Unitech's NAV is the most back-ended with the FY09-FY11 accounting for only 9 and 19% of NAV

Rate cut expectations vanished; but Singapore yields down

- In addition, rising inflation (now at 7% - at its 3 years high) has virtually removed any possibilities of a rate cut by the central bank
- FY09 yield offered by Singapore listed, Ascendas India Reit (AIT SP) has seen an increase of 127bps YTD to 7.0%, implying higher cap rates being demanded by investors and consequently a delay in Reits by Indian developers being listed. However, the yields have come off peak by 45bps over the last 20 days

Valuation matrix

Company	Price (Rs)	Mkt cap (US$m)	Land bank (m sft of saleable area)	NAV/share - 12m fwd	% premium / discount to NAV	EV/Sft	PE (FY09)	PE (FY10)
Anant Raj Industries	222.1	1,527	65.0	580	(61.7)	976	na	na
DLF	617.8	26,347	748.0	703	(12.1)	1,448	10.9	9.3
HDIL	677.3	3,630	178.6	1,469	(53.9)	891	7.9	5.8
Indiabulls Real Estate	501.6	2,885	222.0	931	(46.1)	574	na	na
Parsvnath	203.4	940	201.0	405	(49.8)	251	5.6	3.5
Peninsula Land	93.3	652	24.5	166	(43.8)	1,073	na	na
Purvankara	247.5	1,322	117.3	403	(38.6)	477	11.8	8.2
Sobha Developers	600.7	1,095	236.5	1,347	(55.4)	244	14.9	10.5
Unitech	273.1	11,089	698.9	365	(25.2)	699	19.1	10.5

Indian developers not overleveraged; but higher than Chinese counterparts

Figure 1

Net Debt/Equity ratio as at end Dec-07

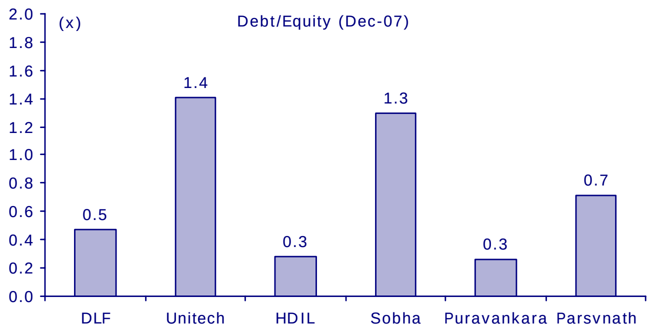
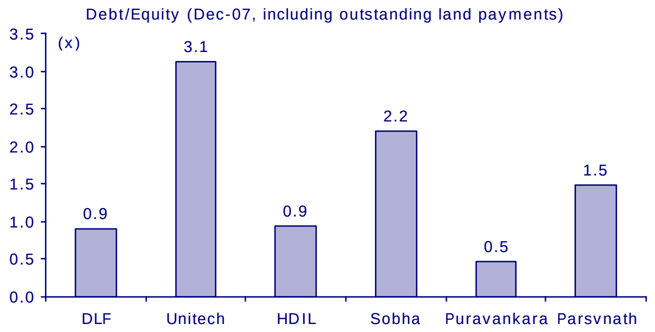


Figure 2

Net Debt/Equity ratio as at end Dec-07, including outstanding land payments



Source: CLSA Asia-Pacific Markets, Company filings

Peninsula and Indiabulls Real Estate are net cash companies

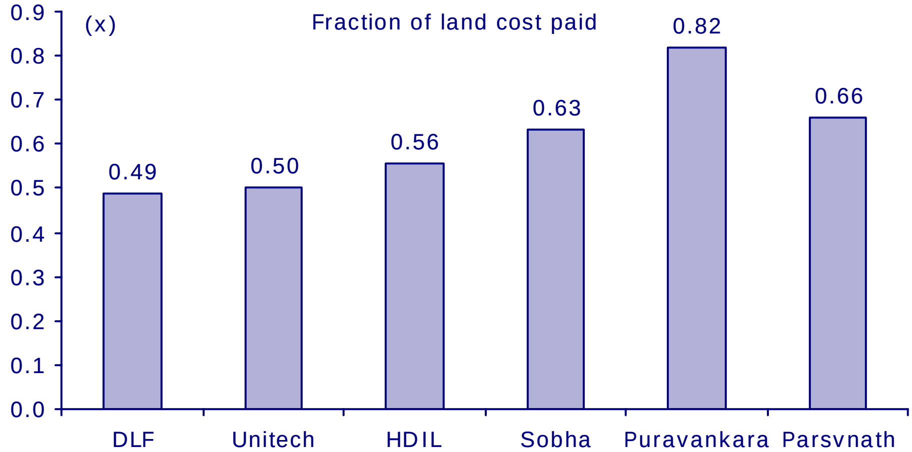
Unitech is the only company not to have raised equity money over the last 18 months

Cumulatively US$4.4bn of land payments are outstanding

Indian developers have an average net debt / equity of 0.8x and a gross debt to equity of 1.1x. While this is higher than an average of 0.4 net debt / equity seen for Chinese developers, still appears reasonable on an absolute basis. The total amount of debt on the books of these six companies has risen from Rs167bn to Rs217bn over the last 1 year – largely attributable to the funding of land bank acquisition. Some of land payment is still outstanding and if one makes an adjustment for the same, the average net debt / equity will rise from 0.8x to 1.6x. DLF needs to make land payments to the tune of Rs77bn as at Dec'07 and includes payments towards large and long gestation township projects viz., Dankuni (near Kolkata) and Bidadi (near Bangalore). Indiabulls Real Estate and Peninsula Land stand out as net cash companies.

Figure 3

Land payments paid as % total land cost



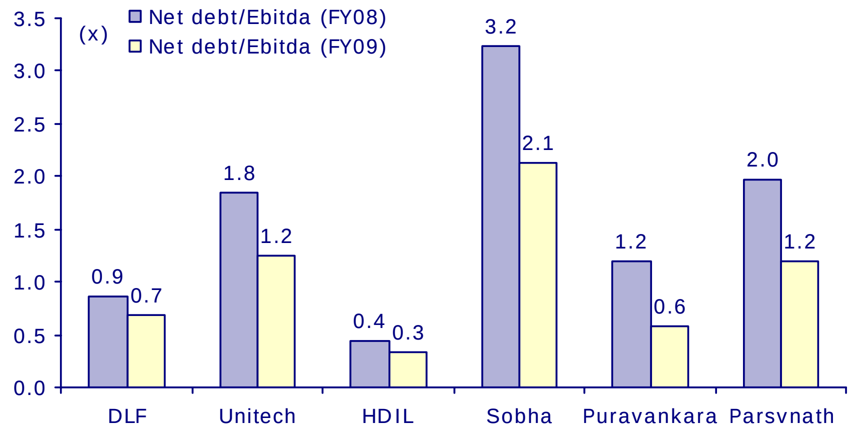
Source: CLSA Asia-Pacific Markets, Company

As per the chart below, average net debt / ebitda ratio appears reasonable 1.6x for FY08 and 1.0x for FY09. HDIL stands out with the best ratios on this parameter. While Parsvnath's ratios appear reasonable, the company's ebitda usually tends to be overstated due to aggressive accounting policies.

The six companies have a total net debt of US$8.6bn as of Dec07

Figure 4

Net debt (Dec-07)/Ebitda ratios for FY08/FY09



Source: CLSA Asia-Pacific Markets

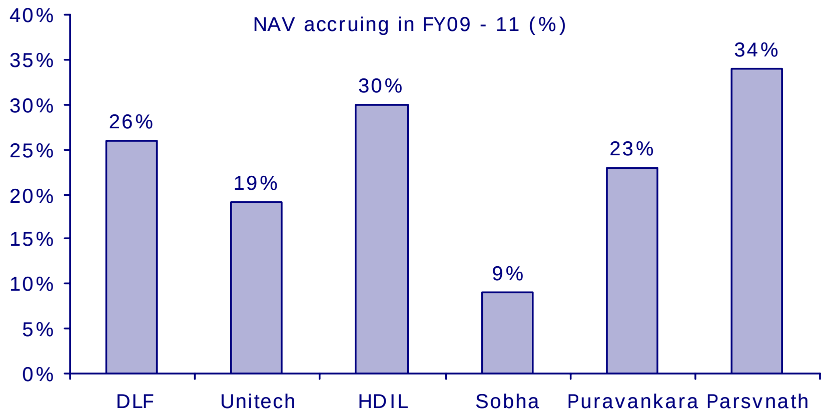
NAVs are back-ended

NAV of nearly all the real estate companies is back-ended with FY09-FY11 (3 years) accounting for 9-34% of NAV. Sobha and Unitech's NAV is the most back-ended with the FY09-FY11 accounting for only 9 and 19% of NAV.

Unitech and Sobha's low visibility on NAV is due to long gestation nature of their land bank

Figure 5

NAV accruing in FY09-11 as a % of total



Source: CLSA Asia-Pacific Markets

Total investment requirements over FY09/FY10

As indicated in the table below, all the six companies will be able to meet all the funding needs over the next two years with internal accruals. For calculating funds availability we have taken a stress situation where asset sales (office and retail assets) do not go through because of lack of availability of PE/primary market funding. Further, it is assumed that companies take these assets on their books and enter into rental securitisation deals for immediate cash flows. DLF, Unitech and HDIl are dependent on asset sales for their near term earnings and are likely to be most impacted.

Sobha and Puravankara are the best placed on this criteria followed by DLF, indicating that even under tight credit conditions, companies will be able to meet their funding requirements.

Figure 6

Cumulative data for FY09 and FY10

(in Rsm)	Construction Costs	Land bank payments	Total fund required	Revenues excluding Asset sales*	Fund raised thru rental securitisation	Total funds available	Funds reqd / funds available	Funds reqd / funds available - assuming land replenishment
DLF	171,480	61,600	253,613	267,542	68,341	335,883	0.76	0.86
Unitech	70,481	44,000	129,148	140,959	15,218	156,177	0.83	1.01
HDIL	40,493	20,000	67,160	62,052	16,206	78,258	0.86	1.24
Sobha	22,687	7,899	33,219	49,356	Na	49,356	0.67	0.81
Puravankara	24,296	2,500	27,629	42,237	Na	42,237	0.65	0.83
Parsvnath	59,986	12,555	76,726	86,354	Na	86,354	0.89	1.00

*E.g. sale to DAL by DLF has been excluded. Source: CLSA Asia-Pacific Markets

Credit ratings remain in the investment grade

Credit ratings for the property companies remain in the investment grade. While the tap of funds from banks has virtually ebbed for property sector companies, incremental borrowing has been in the form of NCDs (Non-convertible debentures) from debt mutual funds. The typical cost of borrowing has been 11-14%.

HDIL raised a Rs3bn, 2yr, non-convertible debenture @13.25% in February'08

Figure 7

Credit ratings

Company	Rating Agency	Ratings		Comments
		Short Term	Long Term	
DLF	CRISIL	P1+	AA	Best P1+/AAA
	ICRA	A1+		Best A1+
Unitech	CARE	PR1+		Best PR1+
	ICRA	A1+		Best A1+
	Fitch	F1+	A+	Best F1+/AAA
HDIL	CARE	PR1		Best PR1+
	Fitch	F1		Best F1+
Sobha	CARE	PR1		Best PR1+
	CRISIL	DA1		Best DA1
	ICRA	A1	LA	Best A1+/LAAA
	Fitch	F1		Best F1+
Puravankara	CRISIL	DA2		Best DA1
	Fitch	F1	A-	Best F1+/AAA
Parsvnath	CARE	PR1		Best PR1+
	Fitch	F1	A	Best F1+/AAA

Source: CARE, CRISIL (S&P's India arm), Fitch, ICRA (Moody's India arm), CLSA Asia-Pacific Markets

Conclusion

The table below summarises the overall outcome from the analysis of all the parameters above. We have given points in the range of 1-5 (5 being the best) to these companies on each of these parameters. DLF scores the highest with 21 (maximum possible 30), Sobha and Parsvnath appear at the bottom end of the score sheet.

DLF, HDIL and Puravankara have healthy credit profiles

Figure 8

Summary of balance sheet analysis

	Debt / Equity	Debt / Ebitda	Fraction land cost paid	Investment Requirement / Funds	% NAV in 3 years	Credit Rating	Overall Score
DLF	4	4	2	3	3	5	21
Unitech	2	2	2	2	2	4	14
HDIL	4	5	2	2	4	3	20
Sobha	2	1	3	4	1	3	14
Puravankara	5	3	4	4	2	3	21
Parsvnath	3	1	3	2	4	3	16

Source: CLSA Asia-Pacific Markets