

India: Real Estate Developers

Shaken and stirred; DLF to Conviction Sell, initiate Sobha with Sell

Add DLF to Conviction Sell, downgrade coverage view to Cautious

DLF (DLF.BO) has rallied 34% from its trough on July 1 (vs. the Sensex up 11%), and currently trades at a premium to our revised FY2009E potential RNAV, which we believe appears expensive. DLF—which we downgrade to Sell, and add to our Conviction List, from Neutral—and Unitech (UNTE.BO; Sell) account for 83% of our coverage universe by market capitalization. Accordingly, we downgrade our coverage view to Cautious from Neutral.

Recent sector rally belies grim macro backdrop; sell into strength

Developers still seem to be holding out in the current rising interest rate environment, and primary property prices and commercial rentals are yet to witness a significant correction, in our view. Further, we believe the balance sheets of developers such as Parsvnath (PARV.BO) and Sobha (SOBH.BO) appear increasingly vulnerable. Some stock prices, however, do not reflect this dismal outlook and we recommend selling into the 20% rally in the BSE Realty index since July 1. We revise down our 12-month potential RNAV-based target prices for our coverage universe by 15%-33%.

Best sell ideas: DLF, Unitech, Parsvnath, initiate on Sobha

We lower our TP for DLF by 21% to Rs406 to reflect the exclusion of some long-dated land tracts, a wider discount to RNAV and marginally more bearish property price assumptions. We retain a Sell on Unitech given concerns over its slow pace of execution. We downgrade Parsvnath to Sell from Neutral given concerns over flagging sales volumes, execution delays and a deteriorating balance sheet. We initiate coverage on Sobha with Sell given its large exposure to the Bangalore market, which we believe is saturated, and its high financial gearing relative to peers.

Best buy idea: HDIL

HDIL (HDIL.BO) remains our only Buy in the context of a Cautious coverage view. HDIL has over 80% of its land bank in Mumbai, which may hold up better than other metros in a downturn, in our view. Further, we believe its airport project is on track. Downside risks: weakness in Mumbai/TDR market.

Risks: Reversal in rate cycle

We expect inflation and interest rates to ease in 1H2009E. Property stocks could be back in favor if macro-economic newsflow improves faster than we anticipate.

Summary of ratings and new target prices

Stock	Ticker	Rating	Current Price (Rs)	12-m TP (Rs)	Potential upside / (downside)
HDIL	HDIL.BO	Buy	303	433	43%
DLF	DLF.BO	Sell*	495	406	-18%
Parsvnath	PARV.BO	Sell	114	93	-19%
Sobha	SOBH.BO	Sell	268	246	-8%
Unitech	UNTE.BO	Sell	160	150	-6%
Indiabulls	INRL.BO	Neutral	302	315	4%
Mahindra Lifespace	MALD.BO	Neutral	480	475	-1%
Ansal Properties	ANSP.BO	Neutral	100	96	-4%

*This stock is on our regional Conviction List.

Price/TP discount to potential FY2009E RNAV

Stock	FY2009E Potential RNAV (Rs)	Curr. price /premium	TP (discount) /premium
DLF	478	4%	-15%
HDIL	619	-51%	-30%
Unitech	214	-25%	-30%
Indiabulls	449	-33%	-30%
Mahindra Lifespace	678	-29%	-30%
Sobha	492	-46%	-50%
Parsvnath	186	-38%	-50%
Ansal Properties	192	-48%	-50%

Share price performance (%)

Stock/Index	-1M	-3M	-12M	YTD 2008	Since 7/08
Ansal Properties	8	-33	-58	-76	62
DLF	1	-19	-12	-54	34
Indiabulls	3	-38	-32	-59	21
Mahindra Lifespace	4	-24	-2	-43	18
HDIL	-18	-49	-23	-64	15
Sobha	2	-50	-64	-71	2
Unitech	-3	-40	-30	-67	0
Parsvnath	-3	-46	-59	-75	-1
BSE Realty	0	-33	-26	-60	20
Sensex	1	-13	0	-29	11

Prices as of August 25, 2008.

Source: DataStream, Goldman Sachs Research estimates.

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The prices in the body of this report are based on the market close of August 25, 2008.

Overview: Recent rally offers profit-booking opportunity

The BSE Realty index has bounced back 20% from its trough on July 1 vs. the Sensex up 11%. In our view, this belies a tough backdrop for the real estate market, where prices are yet to undergo a significant correction. We believe it may only be a matter of time before developers give in and bring prices down as end-users are bound to be affected by the recent monetary policy tightening. We believe the balance sheets of developers such as Sobha and Parsvnath appear increasingly vulnerable. Although we have downgraded estimates for our coverage universe over the past few months, we believe the risks remain on the downside as visibility on unit sales, revenue recognition and cash flows is limited. Those sitting on large land banks may struggle to liquidate them easily in the current tough markets, in our view. We, therefore, believe the recent strength in some real estate stocks provides an opportunity to book profits. We now rate DLF Sell, and add it our regional Conviction List, and maintain Sell on Unitech; accordingly, we downgrade our coverage view to Cautious from Neutral.

Exhibit 1: HDIL is our top pick in the sector

Valuation summary, prices as of August 25, 2008

Company Name	Ccy.	Rating	Market Cap (US\$ mn)	Current Price	12-m TP	Upside/ (downside) potential	FY2008E Potential RNAV		FY2009E Potential RNAV		TP (disc./)prem. to Potential RNAV		P/E (X)		Target price/EPS (X)	
							Per share	Prem/(disc.)	Per share	Prem/(disc.)	FY2008E	FY2009E	FY2008E	FY2009E	FY2008E	FY2009E
Sobha Developers	Rs	Sell	446	268	246	-8%	492	-46%	492	-46%	-50%	-50%	8.6	8.2	7.9	7.5
DLF	Rs	Sell*	19,281	495	406	-18%	421	17%	478	4%	-4%	-15%	10.6	10.0	8.7	8.2
Parsvnath	Rs	Sell	483	114	93	-19%	158	-28%	186	-38%	-41%	-50%	5.0	6.6	4.0	5.4
Unitech	Rs	Sell	5,943	160	150	-6%	193	-17%	214	-25%	-22%	-30%	15.7	14.5	14.7	13.6
HDIL	Rs	Buy	1,907	303	433	43%	573	-47%	619	-51%	-24%	-30%	5.6	4.3	8.1	6.2
Indiabulls	Rs	Neutral	1,777	302	315	4%	496	-39%	449	-33%	-37%	-30%	19.4	33.5	20.2	34.8
Mahindra Lifespace	Rs	Neutral	447	480	475	-1%	655	-27%	678	-29%	-28%	-30%	29.5	21.6	29.2	21.3
Ansal Properties	Rs	Neutral	260	100	96	-4%	132	-24%	192	-48%	-27%	-50%	6.7	7.0	6.4	6.7

*This stock is on our regional Conviction List.

Source: DataStream, Goldman Sachs Research estimates.

We downgrade our 12-month FY2009E potential RNAV-based target prices for stocks under our coverage by 15%-33%. This based on a number of factors such as our slightly more bearish property price forecasts, exclusion of some land tracts in the case of DLF and Unitech, earnings and cash flow downgrades such as in Ansal Properties and Parsvnath, and a widening of our target price discount to potential RNAV for all the stocks by 5 pp. In the case of Parsvnath and Ansal, we widen the discount by 10 pp to 50% to reflect a disappointing start to the year with weak 1Q results. Given the steep increase in property prices and rentals over the past three years, the monetary policy tightening and upcoming supply of residential and commercial property, we believe the Indian property

market has entered a downcycle and it may be a while before the environment improves. We, therefore, believe it is reasonable to use wider discounts.

Exhibit 2: Lowering target prices by 15%-33%

Summary of estimate revisions

Stock	FY2009 E Potential RNAV (Rs)			12-month target price (Rs)			FY2008A EPS (Rs)			FY2009E EPS (Rs)			FY2010E EPS (Rs)			FY2011E EPS (Rs)		
	Old	New	% ch	Old	New	% ch	Old	New	% ch	Old	New	% ch	Old	New	% ch	Old	New	% ch
Sobha Developers	NA	492	NA	NA	246	NA	31.29	NA	32.59	NA	NA	35.27	NA	NA	38.92	NA	NA	NA
HDIL	737	619	-16%	553	433	-22%	53.70	71.74	69.94	-3%	75.55	74.74	-1%	77.29	83.09	8%	NA	NA
Unittech	234	214	-8%	176	150	-15%	10.23	13.37	11.06	-17%	17.56	12.00	-32%	27.45	13.03	-53%	NA	NA
Indiabulls	544	449	-17%	408	315	-23%	15.57	17.23	9.03	-48%	22.17	22.80	3%	36.07	38.29	6%	NA	NA
DLF	569	478	-16%	512	406	-21%	46.90	50.59	49.46	-2%	53.40	53.33	0%	57.47	55.00	-4%	NA	NA
Parsvnath	231	186	-19%	139	93	-33%	22.98	24.86	17.31	-30%	25.01	19.09	-24%	33.44	22.37	-33%	NA	NA
Mahindra Lifespace	773	678	-12%	580	475	-18%	16.26	26.25	22.25	-15%	35.30	29.96	-15%	41.11	35.30	-14%	NA	NA
Ansal Properties	189	192	2%	114	96	-15%	15.05	25.77	14.40	-44%	34.20	16.04	-53%	37.86	18.56	-51%	NA	NA

Note: "Old" estimates for HDIL have been adjusted to reflect the recent bonus share issue.

Source: Goldman Sachs Research estimates.

We revise our EPS forecasts for Mahindra Lifespace and Indiabulls following the publication of their annual reports. Further, we lower TP for Mahindra Lifespace to reflect our revised cost of capital assumptions and wider TP discount to potential RNAV, and for Indiabulls to reflect the revised valuations for its REIT stake, the exclusion of its Dombivali land tract, more conservative retail mall construction schedules and a wider TP discount to potential RNAV. We also revise our forecasts and TP for Ansal following its 1Q results.

Valuations may seem low, but this is not unusual. The BSE Realty index is down 60% ytd and with stocks such as HDIL, Sobha, Parsvnath and Ansal now trading at single-digit FY2009E P/E, they may appear cheap. However, we note that it is not unusual to find property stocks trading at low P/E (see Exhibit 3). We believe it is not unreasonable for India property developers to trade at lower multiples than peers in Hong Kong and China as visibility is relatively poor with regard to industry dynamics and revenue recognition. Also, EPS forecasts for listed Indian developers may be volatile as a majority of the earnings are driven by a develop-and-sell model rather than predictable rental income.

Exhibit 3: China property stocks have traded at a wide range of P/E multiples

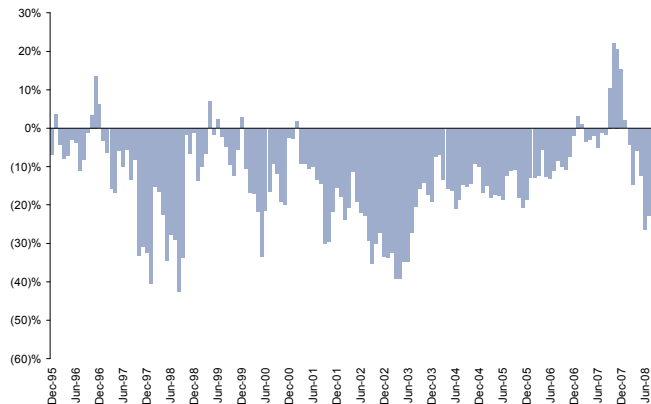
Date	Hopson Development Holdings Ltd.	Beijing Capital Land Ltd.	Beijing North Star Co. Ltd.	Tian An China Investments Co. Ltd.	New World China Land Ltd.	Henderson	China Resources Land Ltd.	China Overseas Land & Investment Ltd.
	12M Forward P/E							
1988	-	-	-	-	-	-	-	-
1989	-	-	-	-	-	-	-	-
1990	-	-	-	-	41.6	-	-	-
1991	-	-	-	-	16.2	-	-	-
1992	-	-	-	-	10.4	-	-	9.0
1993	-	-	-	-	16.4	-	-	10.9
1994	-	-	-	-	12.8	-	-	3.8
1995	-	-	-	-	6.4	-	-	4.3
1996	-	-	-	-	14.2	-	8.8	11.9
1997	-	-	6.8	-	-	3.9	13.5	8.0
1998	2.2	-	5.9	-	-	4.3	7.7	9.0
1999	2.6	-	4.3	-	15.5	11.9	5.6	12.0
2000	2.1	-	7.8	-	8.9	9.0	17.2	10.6
2001	6.4	-	12.7	6.7	9.2	6.7	12.2	12.6
2002	3.9	-	10.6	-	5.5	3.7	8.0	10.1
2003	5.7	10.8	17.3	-	20.6	-	18.2	13.8
2004	7.1	8.4	12.8	-	20.9	-	12.6	14.5
2005	8.6	15.2	11.4	-	48.2	-	14.1	11.8
2006	11.9	10.0	20.2	-	33.6	-	29.8	20.5
2007	9.3	9.5	20.8	16.4	17.7	-	27.4	21.2

Source: Factset, I/B/E/S.

Wide RNAV discounts normal in a downcycle. Stocks such as HDIL, Sobha, Indiabulls, Parsvnath, and Ansal currently trade at a 33%-51% discount to our FY2009E potential RNAV. It is not unusual for property stocks to trade at a deep discount to potential RNAV,

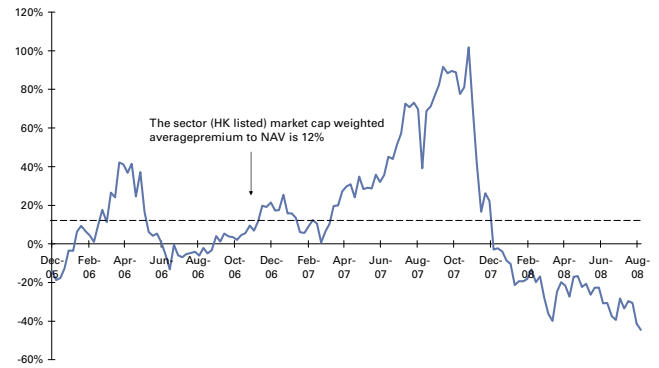
especially during a downcycle, e.g., Hong Kong developers during the Asian crisis in 1997-1998 (See Exhibit 4).

Exhibit 4: HK developers at 40% discount in downcycle
HK developers premium/(discount) to NAV



Source: Goldman Sachs Research estimates.

Exhibit 5: China developers at over 40% discount now
China developers premium/(discount) to NAV



Source Gao Hua Securities Research estimates.

Property prices and rentals yet to witness significant correction

Residential prices in Bangalore and Mumbai have remained broadly unchanged over the past year. However, prices in some pockets in Delhi-NCR have risen significantly in the past year, according to Cushman and Wakefield. Likewise, office and retail rentals are also up considerably in most major micro-markets. Given the current interest rate environment and likely moderation in GDP growth (according to our economics team), we believe the property market may be overdue for a correction. Accordingly, our estimates reflect a 10%-25% correction in residential capital values and office rentals in some cities by FY2011E.

Exhibit 6: Property prices yet to witness significant correction
Market data as of 2Q2008

RESIDENTIAL Location	Capital value Rs/sq ft	% Growth		OFFICE Location	Rent Rs/sq ft pm	% Growth		RETAIL MALLS Location	Rent Rs/sq ft pm	% Growth	
		3 month	1 year			3 month	1 year			3 month	1 year
Bangalore				Kolkata				Kolkata			
Central	6,000 - 8,000	0%	3%	CBD	110	5%	47%	Salt Lake	500	0%	24%
East	3,000 - 4,000	0%	1%	Rajarhat (IT/SEZ)	50	0%	25%	Rajarhat	190	57%	111%
South East	3,000 - 5,000	0%	1%	Salt Lake (IT/SEZ)	55	0%	15%	Elgin Road	404	0%	24%
South	5,000 - 7,000	0%	1%	Mumbai				Mumbai			
North	3,000 - 4,000	0%	2%	CBD	500	0%	43%	Lower Parel	700	0%	36%
South West	3,000 - 4,500	0%	1%	Worli	400	0%	0%	Malad	525	0%	35%
Mumbai				Chennai				Chennai			
South	28,000 - 35,000	0%	0%	Lower Parel	310	0%	13%	Link Road Andheri (W)	415	0%	19%
South Central	35,000 - 45,000	0%	0%	Bandra Kurla	385	0%	22%	Mulund	360	0%	18%
Central	20,000 - 30,000	0%	0%	Andheri	180	0%	9%	Goregaon	600	58%	107%
North	14,000 - 20,000	0%	0%	Malad	100	11%	54%	Chennai			
Far North	8,250 - 10,000	1%	1%	Chennai				Chennai - CBD			
North East	64,000 - 7,400	-2%	-2%	CBD - Anna Salai, RK Salai (Corporate)	92	0%	42%	Chennai - Suburbs	188	0%	25%
Delhi-NCR				Bangalore				Bangalore			
South East	16,000-18,000	0%	13%	CBD/Off CBD	80	3%	19%	Koramangala	485	0%	0%
South Central	20,000-22,000	0%	24%	Peripheral ITPL	46	0%	2%	Cunningham Road	225	0%	0%
Gurgaon	5,000-6,000	0%	10%	Peripheral Whitefield / Electronic City	28	0%	4%	Hyderabad			
Noida	4,000-5,000	0%	18%	Peripheral ORR (Sarjapur-Marathalli)	48	0%	26%	NTR Gardens	110	0%	5%
Delhi-NCR				Hyderabad				Delhi-NCR			
CBD-Prime				CBD/Off CBD- Begumpet/ Raj Bhavan Road	62	3%	48%	South Delhi	662	0%	6%
CBD-Others				Prime Suburban -Banjara Hills/Jubilee Hills	64	3%	33%	West Delhi	410	0%	-4%
Gurgaon (Commercial)				Peripheral -Madhapur/ Gachibowli	43	0%	13%	Noida	478	0%	0%
Gurgaon (IT/SEZ)				Delhi-NCR				Gurgaon	385	0%	16%
Noida (Commercial)				CBD-Prime	348	4%	15%	Delhi-NCR			
Noida (IT/SEZ)				CBD-Others	240	2%	19%	South Delhi			
				Gurgaon (Commercial)	118	4%	6%	West Delhi			
				Gurgaon (IT/SEZ)	76	-3%	-7%	Noida			
				Noida (Commercial)	74	0%	14%	Gurgaon			
				Noida (IT/SEZ)	39	-13%	-16%				

Source: Cushman and Wakefield, Goldman Sachs Research.

High gearing/debtors do not look reassuring

We note that the financial gearing has increased for most developers since FY2007 and is high for companies such as Unitech, Sobha, Parsvnath and HDIL. EBITDA interest cover is also low and again the stocks in our coverage that stand out on this metric include Unitech, Sobha, Parsvnath and Ansal. We also look at revenue conversion into cash flow—that we define as P&L revenue adjusted for the yoy movement in debtors and advances from customers—and stocks that do not rank favorably include DLF, Parsvnath and Sobha.

Exhibit 7: Some stocks have high gearing, low interest cover and low revenue cash conversion

	Net debt/equity			EBITDA/Interest FY2008	Debtors as % revenue FY2008	Advances as % revenue FY2008	Revenue P&L FY2008 (Rs mn)	Revenue C/F FY2008 (Rs mn)	% conversion FY2008
	1Q2009	FY2008	FY2007						
DLF	0.6x	0.5x	2.7x	8.8x	53%	18%	144,375	78,880	55%
Unitech	1.8x	2.0x	1.5x	4.3x	18%	173%	41,152	65,857	160%
HDIL	0.9x	0.8x	0.5x	12.1x	2%	6%	23,804	22,719	95%
Parsvnath	0.9x	0.7x	0.4x	5.2x	72%	14%	17,713	9,543	54%
Sobha	1.9x	1.8x	0.6x	3.3x	39%	8%	14,311	9,180	64%
Puravankara	0.5x	0.5x	2.9x	2.5x	15%	56%	5,658	4,489	79%
Ansal	0.8x	0.8x	0.3x	3.8x	33%	56%	9,998	8,178	82%
Mahindra Lifespace	-	0.3x	-0.1x	31.7x	19%	31%	2,311	2,531	110%

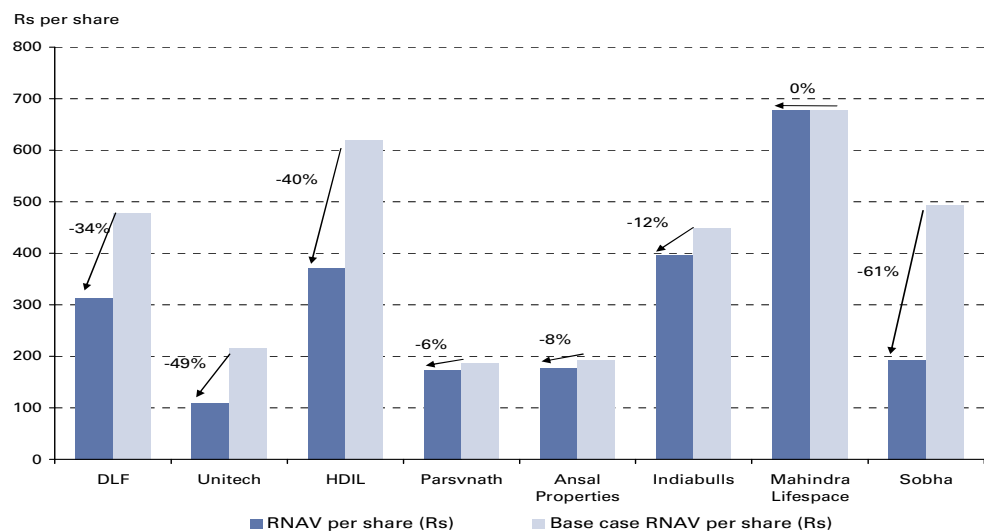
Source: Company data, Goldman Sachs Research estimates.

Further downside if we only value 5 years of land bank with developer's margin

We now exclude some large long-dated land banks from our target price, e.g., Dankuni and Bidadi for DLF and Dankuni, Agra and Varanasi for Unitech, where the land is still not in the developer's possession. In fact, with Dankuni, the process of acquiring land is taking much longer than we anticipated last year. We believe it may be prudent to attribute value to such projects only when we have better visibility on when they are likely to commence, i.e., once the land has been fully acquired and the project is ready to be launched.

We see further downside to our current target prices if we only value land that we believe will be developed over the next five years with a developer's margin and land tracts beyond year five at historical land cost. However, it should be noted that using this method to set target prices may penalize companies such as DLF and Unitech that have been acquiring land for many years relative to recent market entrants such as Indiabulls and Parsvnath.

Exhibit 8: Significant downside if we value long-dated land banks at cost (FY2009E)



Source Goldman Sachs Research estimate.

DLF (DLF.BO): Downgrade to Sell, add to Conviction List

Source of opportunity

We downgrade DLF to Sell, and add it to our Conviction List, from Neutral as we believe the recent strength in the stock price presents an opportunity to book profits. We continue to view DLF as an industry leader given its well recognized brand name and impressive pace of execution relative to peers. The management's strategy of expanding into middle income housing also appears to be the right one at a time when affordability appears stretched. However, the stock is up 34% from its all-time low of Rs368 on July 1 and currently trades at a 4% premium to our FY2009E potential RNAV, which we believe may not be justified in the current tough market environment.

Catalyst

As highlighted during the 1QFY2009 results, DLF is planning a slew of launches in Homes and Retail, although the management admitted that it expects a cautious outlook for the year ahead. It remains to be seen whether DLF can lease out office space at the same rate in FY2009 as it did in FY2008 and increase its area under construction, given the current tough market environment. In this regard, DLF's quarterly results should provide data points to gauge whether there is a slowdown. We believe the stock may remain out of favor until DLF is able to reduce its gearing and debtors, and convert more revenue into cash flow. Also, we believe property prices and rentals are yet to undergo a material correction and we believe this may happen before the year-end, which could lead to further weakness in property stocks.

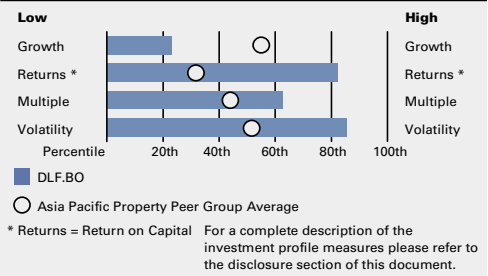
Valuation

We lower FY2009E-FY2011E EPS estimates by 0%-4% and our 12-month FY2009E potential RNAV-based target price by 21% to Rs406 from Rs512. We err on the side of caution and now exclude the land tracts related to DLF's projects in Dankuni and Bidadi from our valuation. This is based on the slow progress of land acquisition to date and the long duration of these projects. Our TP is set at a 15% discount to potential RNAV versus 10% previously as we have widened discounts across our coverage universe to reflect challenging times for property developers. We also use more bearish property price assumptions for DLF's luxury residential projects.

Key risks

Aside from an improvement in the macro environment, upside risks to our view include any improvement in DLF's operating cash flow that was negative in 1QFY2009, potential conversion of revenue derived from DLF Assets (DAL) into cash and funding.

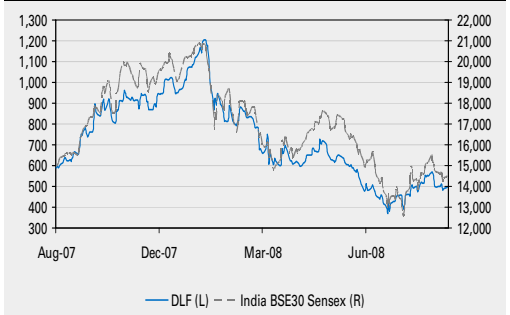
Investment Profile: DLF



Key data	Current
Price (Rs)	498.05
12 month price target (Rs)	406.00
Market cap (Rs mn / US\$ mn)	849,091.6 / 19,365.8
Foreign ownership (%)	7.3

	3/08	3/09E	3/10E	3/11E
EPS (Rs) New	46.90	49.46	53.33	55.00
EPS revision (%)	(1.0)	(2.2)	(0.1)	(4.3)
EPS growth (%)	267.8	5.5	7.8	3.1
EPS (dil) (Rs) New	46.90	49.46	53.33	55.00
P/E (X)	10.6	10.1	9.3	9.1
P/B (X)	4.5	3.2	2.5	2.0
EV/EBITDA (X)	14.8	8.6	7.8	7.2
Dividend yield (%)	0.8	0.8	1.0	1.2
ROE (%)	73.2	37.5	29.9	24.3

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(17.2)	(40.2)	(11.6)
Rel. to Bombay SE Sensitive Index	(6.5)	(26.5)	(11.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/26/2008 close.

Exhibit 9: Summary financials – DLF

Profit model (Rs mn)	3/08	3/09E	3/10E	3/11E	Balance sheet (Rs mn)	3/08	3/09E	3/10E	3/11E
Total revenue	144,375.0	172,570.3	187,134.1	200,390.5	Cash & equivalents	21,421.4	23,273.2	48,547.1	95,973.8
Cost of goods sold	(40,898.1)	(55,645.8)	(62,605.9)	(72,208.9)	Accounts receivable	76,106.1	106,377.3	128,346.1	122,852.0
SG&A	(7,226.7)	(7,425.6)	(7,629.9)	(7,839.8)	Inventory	94,544.0	104,540.4	112,178.3	120,458.5
R&D	--	--	--	--	Other current assets	73,929.3	93,929.3	93,929.3	93,929.3
Other operating profit/(expense)	154.6	170.6	187.5	206.1	Total current assets	266,000.8	328,120.3	383,000.9	433,213.7
EBITDA	97,305.3	110,680.2	118,424.3	122,379.8	Net PP&E	100,031.1	125,378.0	156,505.5	195,094.1
Depreciation & amortization	(900.6)	(1,010.7)	(1,338.6)	(1,832.1)	Net intangibles	20,930.7	20,930.7	20,930.7	20,930.7
EBIT	96,404.7	109,669.5	117,085.8	120,547.7	Total investments	9,102.0	9,102.0	9,102.0	9,102.0
Interest income	2,121.6	2,950.0	4,102.8	7,192.6	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(3,100.0)	(2,946.5)	(2,946.5)	(2,946.5)	Total assets	396,064.6	483,530.9	569,539.1	658,340.5
Income/(loss) from uncons. subs.	264.1	0.0	0.0	0.0	Accounts payable	17,046.4	16,547.8	17,944.4	19,215.5
Others	175.6	188.0	188.0	188.0	Short-term loans	0.0	0.0	0.0	0.0
Pretax profits	95,866.0	109,861.0	118,430.1	124,981.8	Other current liabilities	55,111.0	65,302.3	68,750.9	74,266.5
Income tax	(17,390.8)	(25,337.6)	(27,294.2)	(30,999.7)	Total current liabilities	72,157.4	81,850.2	86,695.3	93,482.0
Minorities	(354.8)	0.0	0.0	0.0	Long-term debt	122,770.8	122,770.8	122,770.8	122,770.8
Net income pre-preferred dividends	78,120.4	84,523.4	91,135.9	93,982.1	Other long-term liabilities	358.9	1,587.3	1,587.3	1,587.3
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	123,129.7	124,358.2	124,358.2	124,358.2
Net income (pre-exceptionals)	78,120.4	84,523.4	91,135.9	93,982.1	Total liabilities	195,287.1	206,208.3	211,053.4	217,840.1
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	9,495.8	9,495.8	9,495.8	9,495.8
Net income	78,120.4	84,523.4	91,135.9	93,982.1	Total common equity	187,387.0	263,932.1	345,095.1	427,109.8
EPS (basic, pre-exception) (Rs)	46.98	49.58	53.46	55.13	Minority interest	3,894.7	3,894.7	3,894.7	3,894.7
EPS (basic, post-exception) (Rs)	46.98	49.58	53.46	55.13	Total liabilities & equity	396,064.6	483,530.9	569,539.1	658,340.5
EPS (diluted, post-exception) (Rs)	46.90	49.46	53.33	55.00	BVPS (Rs)	109.92	154.81	202.42	250.53
DPS (Rs)	4.00	4.00	5.00	6.00	RNAV (Rs mn)	817,137.1	928,290.2	--	--
Dividend payout ratio (%)	8.5	8.1	9.4	10.9	RNAVPS (Rs)	478.19	543.23	--	--
Free cash flow yield (%)	(5.6)	0.7	4.0	7.1					
Growth & margins (%)	3/08	3/09E	3/10E	3/11E	Ratios	3/08	3/09E	3/10E	3/11E
Sales growth	448.0	19.5	8.4	7.1	ROE (%)	73.2	37.5	29.9	24.3
EBITDA growth	547.6	13.7	7.0	3.3	ROA (%)	27.1	19.2	17.3	15.3
EBIT growth	567.3	13.8	6.8	3.0	ROACE (%)	36.6	24.9	22.3	20.2
Net income growth	304.0	8.2	7.8	3.1	Inventory days	675.3	652.9	631.7	588.0
EPS growth	268.5	5.5	7.8	3.1	Receivables days	115.2	193.0	228.9	228.8
Gross margin	71.7	67.8	66.5	64.0	Payable days	88.0	110.2	100.5	93.9
EBITDA margin	67.4	64.1	63.3	61.1	Net debt/equity (%)	50.5	35.9	20.7	6.1
EBIT margin	66.8	63.6	62.6	60.2	Interest cover - EBIT (X)	98.5	NM	NM	NM
Cash flow statement (Rs mn)	3/08	3/09E	3/10E	3/11E	Valuation	3/08	3/09E	3/10E	3/11E
Net income pre-preferred dividends	78,120.4	84,523.4	91,135.9	93,982.1	P/E basic (X)	10.6	10.1	9.3	9.1
D&A add-back	900.6	1,010.7	1,338.6	1,832.1	P/B (X)	4.5	3.2	2.5	2.0
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	14.8	8.6	7.8	7.2
Net (inc)/dec working capital	(50,654.4)	(34,562.2)	(26,756.2)	2,006.0	Dividend yield (%)	0.8	0.8	1.0	1.2
Other operating cash flow	(54,410.8)	(19,812.0)	188.0	188.0					
Cash flow from operations	(26,803.1)	32,200.3	65,718.3	97,820.2	Underlying valuation	3/08	3/09E	3/10E	3/11E
Capital expenditures	(47,831.4)	(26,357.6)	(32,466.1)	(40,420.7)	Underlying profit (Rs mn)	78,120.4	84,523.4	--	--
Acquisitions	(16,459.2)	0.0	0.0	0.0	Underlying EPS (Rs)	46.98	49.58	--	--
Divestitures	2,196.0	0.0	0.0	0.0					
Others	(990.8)	0.0	0.0	0.0	Underlying ROE (%)	73.2	37.5	--	--
Cash flow from investments	(63,085.4)	(26,357.6)	(32,466.1)	(40,420.7)	Underlying ROA (%)	27.1	19.2	--	--
Dividends paid (common & pref)	(7,978.9)	(3,990.9)	(7,978.3)	(9,972.8)	Underlying ROACE (%)	36.6	24.9	--	--
Inc/(dec) in debt	23,177.0	0.0	0.0	0.0	Underlying P/E (X)	10.6	10.0	--	--
Common stock issuance (repurchase)	94,701.2	0.0	0.0	0.0	Underlying dividend payout (%)	8.5	8.1	--	--
Other financing cash flows	(2,743.7)	0.0	0.0	0.0	Underlying EPS growth (%)	--	5.5	--	--
Cash flow from financing	107,155.7	(3,990.9)	(7,978.3)	(9,972.8)					
Total cash flow	17,267.1	1,851.9	25,273.9	47,426.6					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 10: Our 12-month potential RNAV-based target price is Rs406

RNAV calculations	Current (FY09E)			(FY10E)		
	Rs mn	Per sh	% total	Rs mn	Per sh	% total
Development	839,447	491	100%	904,814	529	100%
Office Sales	221,640	130	26%	223,729	131	25%
Retail Sales	157,131	92	19%	161,073	94	18%
Residential Sales	257,913	151	31%	280,112	164	31%
Mid Housing	133,807	78	16%	150,566	88	17%
Super Luxury	59,618	35	7%	63,621	37	7%
Luxury	64,488	38	8%	65,925	39	7%
Office Lease	57,903	34	7%	70,403	41	8%
Retail Lease	144,860	85	17%	169,497	99	19%
Gross RNAV	839,447	491	100%	904,814	529	100%
Net debt/(cash)	99,498	58		74,224	43	
RNAV (a)	739,949	433		830,590	486	
# of shares	1,708.82			1,708.82		
Potential RNAV accretion (b)		-0.15208			14.856	
				Rs mn	Rs per sh	
Potential RNAV accretion (b)				77,188	45	
Hotels	Wgt:100%	73,828	43	94,340	55	
Land acquisitions	Wgt:100%	3,360	2	3,360	2	
		Rs mn	Rs per sh	Rs mn	Rs per sh	
Potential RNAV (a+b)		817,137	478	928,290	543	
Valuation @ 15% discount			406		462	
Current price			495		495	
Potential upside/(downside)			-18%		-7%	

WACC Calculation		
FY2009	% total	Cost
Equity	80.0%	15.6% = $R_f + B(R_m - R_f)$
Debt	20.0%	7.3% = $K_d * (1-t)$
Total capital	100.0%	13.9% = WACC
Cost of equity and debt		
		Source
Ke =	15.6%	CAPM = $R_f + B(R_m - R_f)$
Kd =	11.0%	GS Research
t =	34.0%	effective tax rate
Rf =	9.0%	10-yr bond
B	1.10	GS Research
E(Rm) =	6.0%	GS Asia-Pacific Strategy

Source: Company data, DataStream, Goldman Sachs Research estimates.

Parsvnath (PARV.BO): Downgrade to Sell

Source of opportunity

We downgrade Parsvnath to Sell from Neutral based on three areas of concern: 1) we believe the group appears to be struggling to sell properties in the current market based on its run rate during 1Q, 2) Parsvnath’s execution also seems to be lagging as its area under construction of ~75 mn sq ft has remained static over the past three quarters. This is well below the 150 mn sq ft by FY2008 that the management had guided towards last year, 3) we believe Parsvnath’s balance sheet is looking increasingly vulnerable, given high gearing and a high level of debtors. We believe Parsvnath has continued to expand its land bank over the past 12 months even when it has not been able to stick to its original execution targets. Parsvnath could face a cash crunch if sales volumes remain weak and we believe it may not be able to liquidate its large undeveloped land bank with ease in the current tough market environment.

Significant downgrade to EPS

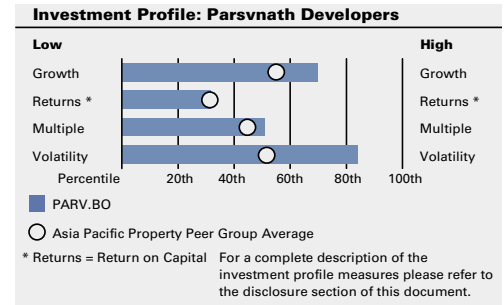
Parsvnath was one of the few real estate developers in our coverage to report an EPS decline in 1QFY2009 yoy. We believe this trend could continue through FY2009 and accordingly downgrade EPS forecasts by 24%-33% for FY2009E-FY2011E. Although we already forecast negative cash flow before funding in each of the next three years, we believe risks to earnings remain on the downside.

Valuation

We downgrade our 12-month FY2009E potential RNAV-based TP by 33% to Rs93 from Rs139. This reflects more bearish area-sold and area-under-construction assumptions. We also widen our TP discount to RNAV to 50% from 40%, given Parsvnath’s flagging sales volumes and pace of execution, weak 1Q results and vulnerable balance sheet.

Key risks

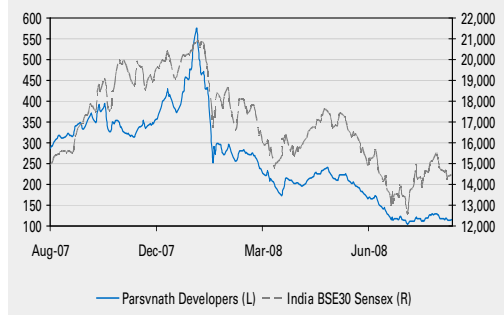
Upside risks to our view include an improvement in the macro backdrop and stake sales in projects that could improve Parsvnath’s cash flow position.



Key data	Current
Price (Rs)	114.45
12 month price target (Rs)	93.00
Market cap (Rs mn / US\$ mn)	21,138.5 / 482.8
Foreign ownership (%)	3.1

	3/08	3/09E	3/10E	3/11E
EPS (Rs) New	22.98	17.31	19.09	22.37
EPS revision (%)	0.0	(30.3)	(23.7)	(33.1)
EPS growth (%)	26.5	(24.6)	10.3	17.2
EPS (dil) (Rs) New	22.98	17.31	19.09	22.37
P/E (X)	5.0	6.6	6.0	5.1
P/B (X)	1.1	0.9	0.8	0.7
EV/EBITDA (X)	12.0	7.9	6.5	6.0
Dividend yield (%)	--	--	--	--
ROE (%)	25.1	14.9	13.7	14.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(46.1)	(57.6)	(59.1)
Rel. to Bombay SE Sensitive Index	(37.9)	(48.3)	(59.2)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/25/2008 close.

Exhibit 11: Summary financials - Parsvnath

Profit model (Rs mn)	3/08	3/09E	3/10E	3/11E	Balance sheet (Rs mn)	3/08	3/09E	3/10E	3/11E
Total revenue	17,713.3	18,551.3	21,562.2	25,425.4	Cash & equivalents	4,228.4	603.0	821.6	149.5
Cost of goods sold	(11,001.3)	(12,828.1)	(14,562.7)	(16,923.8)	Accounts receivable	12,813.9	11,816.2	11,966.6	12,422.5
SG&A	(806.6)	(844.7)	(981.8)	(1,157.7)	Inventory	22,610.8	30,521.9	31,481.4	31,530.8
R&D	--	--	--	--	Other current assets	7,477.2	7,477.2	7,477.2	7,477.2
Other operating profit/(expense)	84.5	84.5	84.5	84.5	Total current assets	47,130.3	50,418.2	51,746.7	51,579.9
EBITDA	6,229.0	5,304.5	6,592.6	8,131.2	Net PP&E	2,634.9	8,763.6	13,508.0	19,774.1
Depreciation & amortization	(239.1)	(341.5)	(490.4)	(702.8)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	5,989.9	4,963.0	6,102.2	7,428.4	Total investments	167.5	488.1	1,052.6	1,742.3
Interest income	573.5	370.0	52.8	71.9	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(391.2)	(706.9)	(1,021.9)	(1,476.9)	Total assets	49,932.7	59,670.0	66,307.4	73,096.3
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	4,344.3	4,549.9	4,726.0	5,224.4
Others	0.0	0.0	0.0	0.0	Short-term loans	2,592.7	2,592.7	2,592.7	2,592.7
Pretax profits	6,172.2	4,626.1	5,133.1	6,023.4	Other current liabilities	8,472.3	9,946.2	11,359.2	8,486.0
Income tax	(1,928.5)	(1,428.3)	(1,584.8)	(1,859.7)	Total current liabilities	15,409.2	17,088.7	18,677.8	16,303.0
Minorities	(0.2)	0.0	(22.6)	(32.3)	Long-term debt	15,612.6	18,612.6	20,112.6	25,112.6
Net income pre-preferred dividends	4,243.5	3,197.8	3,525.7	4,131.4	Other long-term liabilities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	15,612.6	18,612.6	20,112.6	25,112.6
Net income (pre-exceptionals)	4,243.5	3,197.8	3,525.7	4,131.4	Total liabilities	31,021.8	35,701.3	38,790.4	41,415.6
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	4,243.5	3,197.8	3,525.7	4,131.4	Total common equity	18,896.9	23,954.8	27,480.5	31,611.9
EPS (basic, pre-except) (Rs)	22.98	17.31	19.09	22.37	Minority interest	13.9	13.9	36.5	68.8
EPS (basic, post-except) (Rs)	22.98	17.31	19.09	22.37	Total liabilities & equity	49,932.7	59,670.0	66,307.4	73,096.3
EPS (diluted, post-except) (Rs)	22.98	17.31	19.09	22.37	BVPS (Rs)	102.31	129.70	148.79	171.16
DPS (Rs)	--	--	--	--	RNAV (Rs mn)	29,263.0	34,351.6	--	--
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	RNAVPS (Rs)	158.44	185.99	--	--
Free cash flow yield (%)	(12.7)	(32.4)	(9.2)	(31.4)					
Growth & margins (%)	3/08	3/09E	3/10E	3/11E	Ratios	3/08	3/09E	3/10E	3/11E
Sales growth	17.3	4.7	16.2	17.9	ROE (%)	25.1	14.9	13.7	14.0
EBITDA growth	42.8	(14.8)	24.3	23.3	ROA (%)	9.8	5.8	5.6	5.9
EBIT growth	42.0	(17.1)	23.0	21.7	ROACE (%)	15.2	8.9	9.0	9.5
Net income growth	29.6	(24.6)	10.3	17.2	Inventory days	647.8	755.9	777.0	679.5
EPS growth	26.5	(24.6)	10.3	17.2	Receivables days	190.4	242.3	201.3	175.1
Gross margin	37.9	30.9	32.5	33.4	Payable days	135.5	126.5	116.2	107.3
EBITDA margin	35.2	28.6	30.6	32.0	Net debt/equity (%)	73.9	86.0	79.5	87.0
EBIT margin	33.8	26.8	28.3	29.2	Interest cover - EBIT (X)	NM	14.7	6.3	5.3
Cash flow statement (Rs mn)	3/08	3/09E	3/10E	3/11E	Valuation	3/08	3/09E	3/10E	3/11E
Net income pre-preferred dividends	4,243.5	3,197.8	3,525.7	4,131.4	P/E basic (X)	5.0	6.6	6.0	5.1
D&A add-back	223.4	341.5	490.4	702.8	P/B (X)	1.1	0.9	0.8	0.7
Minorities interests add-back	0.2	0.0	22.6	32.3	EV/EBITDA (X)	12.0	7.9	6.5	6.0
Net (inc)/dec working capital	(10,261.0)	(5,234.0)	479.3	(2,880.1)	Dividend yield (%)	--	--	--	--
Other operating cash flow	(339.1)	1,860.0	(22.6)	(32.3)					
Cash flow from operations	(6,110.0)	(155.3)	3,953.4	1,296.7	Underlying valuation	3/08	3/09E	3/10E	3/11E
Capital expenditures	(1,754.2)	(6,470.2)	(5,234.8)	(6,968.9)	Underlying profit (Rs mn)	4,243.5	3,197.8	3,525.7	4,131.4
Acquisitions	389.8	0.0	0.0	0.0	Underlying EPS (Rs)	22.98	17.31	19.09	22.37
Divestitures	0.0	0.0	0.0	0.0	Underlying ROE (%)	25.1	14.9	13.7	14.0
Others	0.0	0.0	0.0	0.0	Underlying ROA (%)	9.8	5.8	5.6	5.9
Cash flow from investments	(1,364.5)	(6,470.2)	(5,234.8)	(6,968.9)	Underlying ROACE (%)	15.2	8.9	9.0	9.5
Dividends paid (common & pref)	0.0	0.0	0.0	0.0	Underlying P/E (X)	5.0	6.6	6.0	5.1
Inc/(dec) in debt	6,510.2	3,000.0	1,500.0	5,000.0	Underlying dividend payout (%)	0.0	0.0	0.0	0.0
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0	Underlying EPS growth (%)	26.5	(24.6)	10.3	17.2
Other financing cash flows	(264.8)	0.0	0.0	0.0					
Cash flow from financing	6,245.4	3,000.0	1,500.0	5,000.0					
Total cash flow	(1,229.1)	(3,625.5)	218.7	(672.2)					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 12: Our 12-month potential RNAV-based target price is Rs93

RNAV calculations	Current (FY09E)			(FY10E)		
	Rs mn	Per sh	% total	Rs mn	Per sh	% total
Development	47,001	254	86%	51,884	281	85%
Residential Projects	5,604	30	10%	2,924	16	5%
Integrated Townships	20,556	111	37%	23,047	125	38%
Residential	13,482	73	25%	15,281	83	25%
Plots	2,811	15	5%	2,661	14	4%
Commercial	4,262	23	8%	5,105	28	8%
Commercial Projects	10,337	56	19%	11,100	60	18%
IT Parks	2,728	15	5%	3,656	20	6%
SEZ	5,128	28	9%	7,581	41	12%
Hospitality	2,648	14	5%	3,577	19	6%
DMRC	7,953	43	14%	9,214	50	15%
Gross RNAV	54,954	298	100%	61,098	331	100%
Net debt/(cash)	20,602	112		21,884	118	
RNAV (a)	34,352	186		39,215	212	
# of shares	184.70			184.70		
Potential RNAV accretion (b)						
	Factored RNAV accretion			Factored RNAV accretion		
	Rs mn	Rs per sh		Rs mn	Rs per sh	
Potential RNAV accretion (b)	0	0		0	0	
	Rs mn	Rs per sh		Rs mn	Rs per sh	
Potential RNAV (a+b)	34,352	186		39,215	212	
Valuation @ 50% discount		93			106	
Current price		114			114	
Potential upside/(downside)		-19%			-7%	
WACC Calculation						
FY2009	Value (mn)	% total	Cost			
Equity		80.0%	18.8% = $R_f + B(R_m - R_f)$			
Debt		20.0%	8.6% = $K_d * (1-t)$			
Total capital		100.0%	16.8% = WACC			
Cost of equity and debt			Source			
K_e =	18.8%		CAPM = $R_f + B(R_m - R_f)$			
K_d =	13.0%		GS Research			
t =	34.0%		effective tax rate			
R_f =	9.0%		10-yr bond			
B	1.40		GS Research			
$E(R_m)$ =	7.0%		GS Asia-Pacific Strategy			

Source: Company data, DataStream, Goldman Sachs Research estimates.

Sobha Developers (SOBH.BO; Sell): Going south; initiate with Sell

Source of opportunity

We initiate coverage on Sobha Developers with a Sell rating and a 12-month FY2009E potential RNAV-based TP of Rs246, implying 8% potential downside. Sobha's exposure to South Indian markets, its well established business with Infosys and backward integration model differentiate it from the rest of our coverage universe. We believe the management team is well regarded for its quality of execution. However, the Bangalore market, which accounts for 66% of Sobha's NAV, is saturated, in our view. We also do not assign much value to long-dated land banks as visibility on market dynamics is low. Further, Sobha's high gearing relative to peers is not reassuring in the current tough market environment.

Catalyst

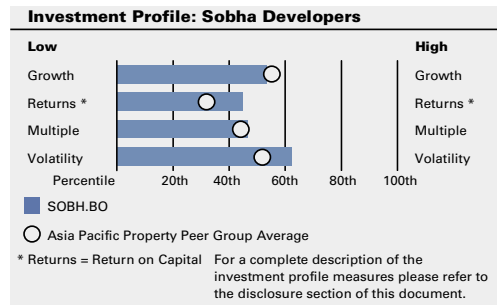
Residential projects in Bangalore, Trissur, Pune and Coimbatore should be key near-term revenue drivers, while the share of contractual income is likely to fall over time, in our view. We believe current EBIT margins of ~23% have downside, given flagging property prices and rising construction costs.

Valuation

Although we believe the Sobha brand is well recognized, our 12-month TP is set at a 50% discount to FY2009E potential RNAV as we believe Sobha's balance sheet is relatively weak compared with peers.

Key risks

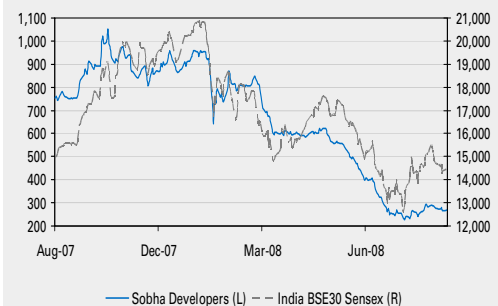
Bangalore property prices have been stable over the past year, but any signs of growth here could prompt a re-rating of the stock. Further, any pick up in IT/ITES growth should be positive for Sobha's business with Infosys. Any reduction in gearing may boost the stock price, in our view.



Key data	Current
Price (Rs)	267.95
12 month price target (Rs)	246.00
Market cap (Rs mn / US\$ mn)	19,534.1 / 446.1
Foreign ownership (%)	6.0

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	31.29	32.59	35.27	38.92
EPS growth (%)	29.0	4.2	8.2	10.4
EPS (diluted) (Rs)	31.29	32.59	35.27	38.92
EPS (basic pre-ex) (Rs)	31.29	32.59	35.27	38.92
P/E (X)	8.6	8.2	7.6	6.9
P/B (X)	2.0	1.5	1.3	1.1
EV/EBITDA (X)	21.4	8.2	7.4	6.9
Dividend yield (%)	2.4	--	--	--
ROE (%)	25.3	21.1	18.4	17.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(50.0)	(66.7)	(63.8)
Rel. to Bombay SE Sensitive Index	(42.4)	(59.4)	(63.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/25/2008 close.

Exhibit 13: Summary financials - Sobha

Profit model (Rs mn)	3/08	3/09E	3/10E	3/11E	Balance sheet (Rs mn)	3/08	3/09E	3/10E	3/11E
Total revenue	14,310.7	16,855.4	20,204.4	24,784.2	Cash & equivalents	286.6	942.3	1,946.7	2,178.8
Cost of goods sold	(7,992.7)	(10,364.4)	(13,285.9)	(17,497.8)	Accounts receivable	5,548.1	6,069.0	6,032.0	5,635.4
SG&A	(2,965.3)	(2,408.6)	(2,819.8)	(2,903.0)	Inventory	8,393.2	10,299.2	12,001.2	12,895.7
R&D	--	--	--	--	Other current assets	17,277.1	17,277.1	17,277.1	17,277.1
Other operating profit/(expense)	16.7	0.0	0.0	0.0	Total current assets	31,505.0	34,587.6	37,256.9	37,987.0
EBITDA	3,719.8	4,438.0	4,459.7	4,749.8	Net PP&E	2,142.0	3,458.3	3,331.3	4,757.1
Depreciation & amortization	(350.4)	(355.7)	(361.0)	(366.4)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	3,369.4	4,082.4	4,098.7	4,383.4	Total investments	38.3	235.1	357.5	432.7
Interest income	36.1	57.6	86.6	108.3	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(614.6)	(695.4)	(646.6)	(597.9)	Total assets	33,685.3	38,281.0	40,945.7	43,176.7
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	810.7	1,154.5	1,383.9	1,697.5
Others	1.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
Pretax profits	2,791.9	3,444.6	3,538.7	3,893.8	Other current liabilities	4,934.9	5,998.2	8,102.5	6,904.8
Income tax	(482.7)	(688.9)	(707.7)	(778.8)	Total current liabilities	5,745.6	7,152.7	9,486.4	8,602.3
Minorities	(27.7)	(379.6)	(259.9)	(278.0)	Long-term debt	17,830.5	17,830.5	15,330.5	15,330.5
Net income pre-preferred dividends	2,281.5	2,376.1	2,571.0	2,837.1	Other long-term liabilities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	17,830.5	17,830.5	15,330.5	15,330.5
Net income (pre-exceptionals)	2,281.5	2,376.1	2,571.0	2,837.1	Total liabilities	23,576.1	24,983.2	24,816.9	23,932.8
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	2,281.5	2,376.1	2,571.0	2,837.1	Total common equity	9,881.5	12,690.5	15,261.5	18,098.6
EPS (basic, pre-except) (Rs)	31.29	32.59	35.27	38.92	Minority interest	227.7	607.4	867.3	1,145.3
EPS (basic, post-except) (Rs)	31.29	32.59	35.27	38.92	Total liabilities & equity	33,685.3	38,281.0	40,945.7	43,176.7
EPS (diluted, post-except) (Rs)	31.29	32.59	35.27	38.92	BVPS (Rs)	135.55	174.08	209.35	248.27
DPS (Rs)	6.50	--	--	--	RNAV (Rs mn)	0.0	35,873.4	--	--
Dividend payout ratio (%)	20.8	0.0	0.0	0.0	RNAVPS (Rs)	0.00	492.09	--	--
Free cash flow yield (%)	(21.2)	0.6	15.5	(1.0)					
Growth & margins (%)	3/08	3/09E	3/10E	3/11E	Ratios	3/08	3/09E	3/10E	3/11E
Sales growth	20.6	17.8	19.9	22.7	ROE (%)	25.3	21.1	18.4	17.0
EBITDA growth	44.3	19.3	0.5	6.5	ROA (%)	8.6	6.6	6.5	6.7
EBIT growth	44.4	21.2	0.4	6.9	ROACE (%)	13.6	11.3	11.0	11.3
Net income growth	41.2	4.1	8.2	10.4	Inventory days	280.9	329.1	306.3	259.7
EPS growth	29.0	4.2	8.2	10.4	Receivables days	90.9	125.8	109.3	85.9
Gross margin	44.1	38.5	34.2	29.4	Payable days	39.4	34.6	34.9	32.1
EBITDA margin	26.0	26.3	22.1	19.2	Net debt/equity (%)	173.5	127.0	83.0	68.3
EBIT margin	23.5	24.2	20.3	17.7	Interest cover - EBIT (X)	5.8	6.4	7.3	9.0
Cash flow statement (Rs mn)	3/08	3/09E	3/10E	3/11E	Valuation	3/08	3/09E	3/10E	3/11E
Net income pre-preferred dividends	2,281.5	2,376.1	2,571.0	2,837.1	P/E basic (X)	8.6	8.2	7.6	6.9
D&A add-back	350.4	355.7	361.0	366.4	P/B (X)	2.0	1.5	1.3	1.1
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	21.4	8.2	7.4	6.9
Net (inc)/dec working capital	(7,888.5)	(1,019.8)	668.8	(1,382.0)	Dividend yield (%)	2.4	--	--	--
Other operating cash flow	(6,313.6)	433.0	0.0	0.0					
Cash flow from operations	(12,108.9)	2,291.5	3,702.3	1,988.2	Underlying valuation	3/08	3/09E	3/10E	3/11E
Capital expenditures	(549.0)	(1,672.0)	(234.0)	(1,792.2)	Underlying profit (Rs mn)	2,281.0	2,376.1	--	--
Acquisitions	(8,551.8)	0.0	0.0	0.0	Underlying EPS (Rs)	31.29	32.59	--	--
Divestitures	9,092.9	36.1	36.1	36.1	Underlying ROE (%)	25.3	21.1	--	--
Others	0.0	0.0	0.0	0.0	Underlying ROA (%)	8.5	6.6	--	--
Cash flow from investments	(7.9)	(1,635.9)	(197.9)	(1,756.1)	Underlying ROACE (%)	13.6	11.3	--	--
Dividends paid (common & pref)	(474.1)	0.0	0.0	0.0	Underlying P/E (X)	8.6	8.2	--	--
Inc/(dec) in debt	11,993.7	0.0	(2,500.0)	0.0	Underlying dividend payout (%)	20.8	0.0	--	--
Common stock issuance (repurchase)	200.0	0.0	0.0	0.0	Underlying EPS growth (%)	--	4.2	--	--
Other financing cash flows	0.0	0.0	0.0	0.0					
Cash flow from financing	11,719.6	0.0	(2,500.0)	0.0					
Total cash flow	(397.2)	655.6	1,004.4	232.1					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 14: Our 12-month potential RNAV-based target price is Rs246

RNAV calculations	Current (FY09E)			(FY10E)		
	Rs mn	Per sh	% total	Rs mn	Per sh	% total
Development	12,089	166	26%	9,856	135	22%
Residential	9,177	126	20%	8,572	118	20%
Super Luxury	6,508	89	14%	6,753	93	15%
Luxury	1,455	20	3%	1,643	23	4%
Dreams	1,023	14	2%	587	8	1%
Row Houses	118	2	0%	218	3	0%
Villas	73	1	0%	-629	-9	-1%
Commercial	586	8	1%	596	8	1%
Retail	2,139	29	5%	469	6	1%
Others	187	3	0%	218	3	0%
Open land bank	33,996	466	74%	33,996	466	78%
Open land bank	33,996	466	74%	33,996	466	78%
Gross RNAV	46,085	632	100%	43,852	602	100%
Net debt/(cash)	16,888	232		13,384	184	
RNAV (a)	29,197	401		30,468	418	
# of shares	72.90			72.90		
	Rs mn	Rs per sh		Rs mn	Rs per sh	
P/E based valuation (b)	6,676	92		4,605	63	
Contracts + Manufacturing	6,676	92		4,605	63	
	Rs mn	Rs per sh		Rs mn	Rs per sh	
Potential RNAV (a+b)	35,873	492		35,073	481	
Valuation @ 50% discount		246			241	
Current price		268			268	
Potential upside/(downside)		-8%			-10%	
WACC Calculation						
FY2009		% total			Cost	
Equity	19,534	80.0%		16.2% = Rf + B(Rm - Rf)		
Debt	16,888	20.0%		9.2% = Kd * (1-t)		
Total capital	36,422	100.0%		14.8% = WACC		
Cost of equity and debt				Source		
Ke =	16.2%			CAPM = Rf + B(Rm - Rf)		
Kd =	14.0%			GS Research		
t =	34.0%			effective tax rate		
Rf =	9.0%			10-yr bond		
B =	1.20			GS Research		
E(Rm) =	6.0%			GS Asia-Pacific Strategy		

Source: Company data, DataStream, Goldman Sachs Research estimates.

Sobha's balance sheet is not reassuring

Sobha's net debt/equity ratio was 1.9x in 1QFY2009, which is higher than most peers and up significantly from 0.6x in FY2007. Its FY2008 EBITDA/interest (cash flow) cover was 3.3x, which does not appear favorable when compared with other Indian real estate stocks. We note that Sobha's loans and advances increased from Rs11 bn in FY2007 to Rs17 bn in FY2008 and the company has been active in acquiring land over the past year. It remains to be seen whether this is the right strategy as we believe the real estate market is entering a downcycle. Of the total outstanding debt of Rs17.8 bn, we believe Rs8.5 bn is due in FY2009. Sobha indicated that it has refinanced Rs3.5 bn at 12% and hopes to generate operating cash flow of Rs5 bn in FY2009 to repay the balance. However, there is a risk this may not be possible if there is a drastic slowdown in transaction volumes, in our view.

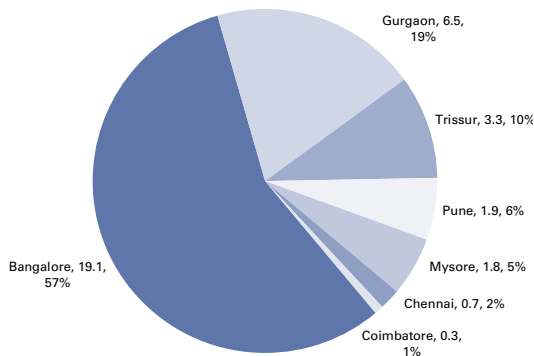
Leading developer in South India

Sobha Developers was incorporated in August 1995 by Mr. PNC Menon. The shareholding of the promoter group is 87%. Sobha’s first residential project was launched in Bangalore in September 1997. Sobha’s revenue streams can be divided into three groups: 1) development of residential and commercial real estate which is essentially a develop-and-sell model and contributed 60% of group revenues in FY2008; 2) its contractual business where it undertakes specific project development for clients such as Infosys; this segment accounted for 27% of group revenues in FY2008; and 3) manufacturing, which includes four areas—interiors, glazing and metal works, concrete products and furnishing; manufacturing accounted for 13% of group revenues in FY2008.

Residential development likely to remain key earnings driver. Sobha has a land bank of over 4,000 acres and this is equivalent to a developable area of about 230 mn sq ft. This includes about 34 mn sq ft for which there are project plans, while the remaining portion is its open land bank where it is yet to come up with development plans. Of the 34 mn sq ft, residential property accounts for 85% of saleable area. Ongoing projects in Bangalore, Trissur, Coimbatore and Chennai comprise about 10 mn sq ft and forthcoming projects in Bangalore, Gurgaon, Kochi, Trissur, Mysore and Coimbatore account for about 24 mn sq ft. Sobha expects sustainable gross margins of about 40% for its develop-and-sell business.

Exhibit 15: Large exposure to Bangalore market (as of FY2008)

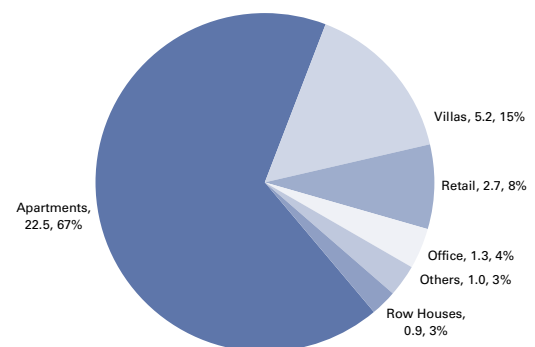
Total ongoing and upcoming projects of 34 mn sq ft by city



Source: Company data.

Exhibit 16: Residential accounts for 85% of saleable area (as at FY2008)

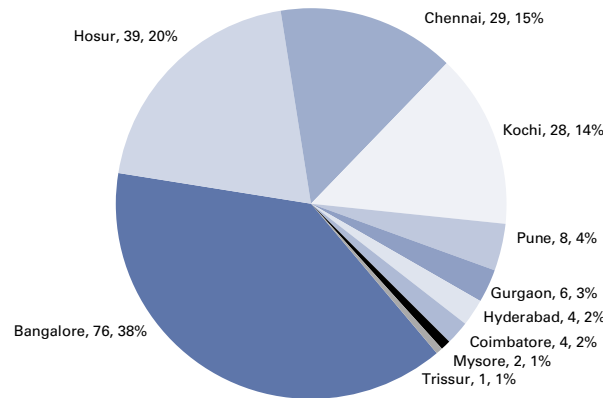
Total ongoing and upcoming projects of 34 mn sq ft by type



Source: Company data.

Sobha’s open land bank is close to 200 mn sq ft and is largely in Bangalore (38%). Management has indicated that it is yet to come up with specific development plans for this area, but expects to develop the total land bank of over 4,000 acres in the next 10 years. We believe a majority of Sobha’s land bank has zoning approval with only about 60 acres still classified as agricultural land. The book value of Sobha’s total land bank is about Rs26 bn, of which close to Rs7 bn worth of land payment is pending. Sobha has indicated that nearly 3,400 acres of land is registered under its name/nominee’s name and/or in its possession. It should be noted that Rs16 bn of land cost on the balance sheet is shown under loans and advances, so it would appear that Sobha may still be in the process of obtaining clear titles for the related land, in our view.

Exhibit 17: Land bank yet to be earmarked for development ~200 mn sq ft (as of FY2008)



Source: Company data.

Bangalore prices may remain flat at best, in our view. According to Cushman & Wakefield’s 1Q2008 market update, residential prices in Bangalore were up 3% in the past six months and 6% over the past year on average. Prices in prime residential suburbs such as JP Nagar and Koramangala are Rs5,000-Rs6,000/sq ft, which from an affordability standpoint appear stretched, in our view. Our interaction with brokers and local developers suggests that prices in these areas are likely to be stable as supply is limited; however, for the current affordability ratio of 80% to reach our targeted ratio of 50%, prices will need to fall by 30% in these pockets. It may be the case that affordability may not be as bad as we envisage as income levels of buyers targeting these areas may be higher than what we assume in our analysis. However, we believe areas such as Sarjapur Road, Outer Ring Road, Kanakpura Road, Banerghatta Road and Whitefield are hardly attracting interest from buyers at present. Sobha has a few ongoing projects in these areas and our model assumes a 10% fall in prices by FY2010E in a number of micro-markets.

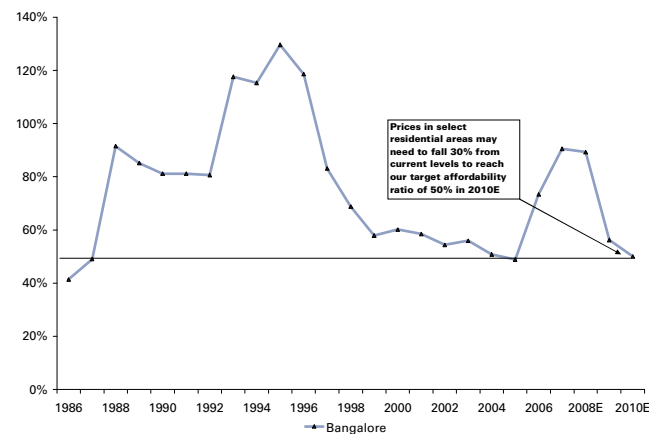
Exhibit 18: Slowdown in Bangalore residential
Premium residential property price trends 1Q2008

	Rs/sq ft	% -6M	% -1Y
Brunton Road, Langford Town, Lavelle Rd	14,800	6%	13%
Indiranagar, Palace Orchards, Cunningham Road, Richmond Town	7,900	5%	7%
Jayanagar, JP Nagar, Basavangudi, Koramangala	5,650	3%	6%
Kanakpura Road, Banerghatta Road	2,850	2%	6%
Jakkasandra, HSR Layout	4,075	3%	3%
Sarjapur Road, Outer Ring Road	3,175	4%	6%
Marathahalli, Whitefield, Airport Rd	2,900	4%	5%
Cox town, Frazer town, Banaswadi, HRBR, Benson Town	6,050	1%	3%
Dollars Colony, RMV Extn, Kumarpark E & W	4,250	5%	8%
Hebbal, RT Nagar, Bellary Road, Yelahanka, Dodballapur Road	3,200	4%	7%
Malleswaram, Rajajinagar	4,675	2%	2%
Vijaya Nagar, Mysore Rd, Tumkur Rd, Jalahalli, Rajarajeshwari Nagar	2,400	1%	2%

Average figures for premium 3 bedroom unfurnished apartments measuring 2,000-3,000 sq ft

Source: Cushman & Wakefield.

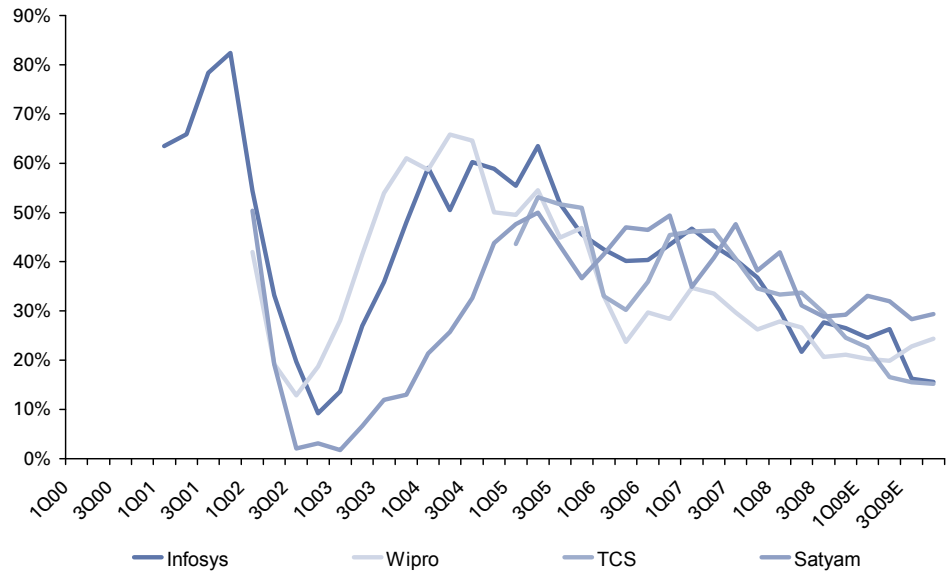
Exhibit 19: Bangalore affordability appears stretched
Average affordability ratio in Jayanagar, JP Nagar, Basavangudi and Koramangala



Source: Goldman Sachs Research estimates.

Our interaction with industry contacts suggests that Bangalore has a supply of about 150,000 residential units, of which close to 70% is pre-sold. The IT industry also adds about 100,000 professionals a year, so clearly there is pent up demand although it should be noted that revenue and headcount growth in IT companies have been slowing for a number of quarters. For end-users to step in, we believe prices will need to fall or remain stable at best for 2-3 years until interest rates fall and income growth catches up.

Exhibit 20: Slowdown in IT industry headcount growth
Headcount growth (%) yoy



Source: Company data, Goldman Sachs Research estimates.

HDIL (HDIL.BO; Buy): Airport take-off reassuring; retain Buy

Source of opportunity

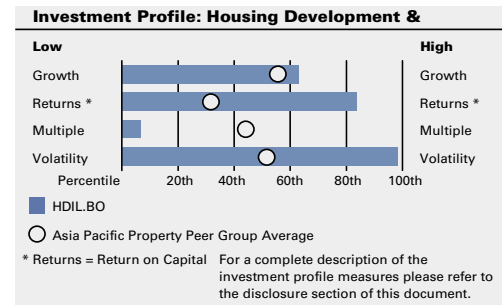
We retain a Buy on HDIL given the stock's large exposure to the Mumbai market (over 80% of land bank), where we believe supply-demand dynamics are more favorable than other major cities. The current stock price does not appear to be attributing much value to HDIL's airport project, which we believe is not justified. We recently visited the airport rehabilitation site in Kurla for the second time in 10 weeks and were impressed with the rate of construction progress. HDIL appears on track to execute phase 1 of its three-phase airport rehabilitation project by June 2009. The management also indicated that it launched TDR sales and achieved a selling price of Rs2,600-Rs2,800/sq ft, which is reassuring in current markets.

Valuation

We downgrade our 12-month FY2009E potential RNAV-based TP by 39% to Rs433 from Rs711 (Rs553 post bonus share issue). This partly reflects the recent bonus share issue and adjusting for it, our revised TP is 22% lower. Factors prompting this downgrade include a 25% reduction in our rental assumptions for commercial development related to the airport site and also a widening of our TP discount to RNAV to 30% from 25%. We revise our FY2009E-FY2011E EPS estimates by -3% to 8%.

Key risks

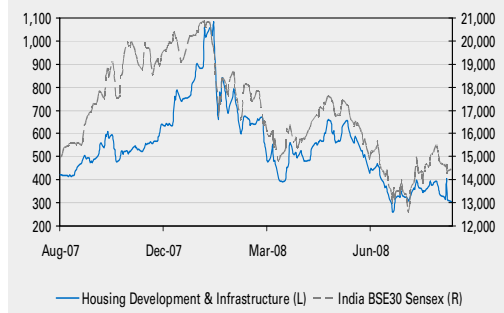
Downside risks to our positive stance include any prolonged weakness in the Mumbai market or delays in the airport project. HDIL's gearing has also increased from 0.5x in FY2007 to 0.9x in 1QFY2009 and it remains to be seen if the company generates positive cash flow this year to pay down debt.



Key data	Current
Price (Rs)	303.15
12 month price target (Rs)	433.00
Market cap (Rs mn / US\$ mn)	83,516.0 / 1,907.4
Foreign ownership (%)	11.6

	3/08	3/09E	3/10E	3/11E
EPS (Rs) New	53.70	69.94	74.74	83.09
EPS revision (%)	(0.2)	(2.5)	(1.1)	7.5
EPS growth (%)	127.0	30.2	6.9	11.2
EPS (dil) (Rs) New	53.70	69.94	74.74	83.09
P/E (X)	5.6	4.3	4.1	3.6
P/B (X)	2.3	1.5	1.1	0.9
EV/EBITDA (X)	10.7	4.5	3.8	2.4
Dividend yield (%)	1.7	1.7	1.9	2.0
ROE (%)	64.4	42.6	32.5	27.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(48.6)	(52.7)	(23.0)
Rel. to Bombay SE Sensitive Index	(40.8)	(42.2)	(23.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/25/2008 close.

Exhibit 21: Summary financials - HDIL

Profit model (Rs mn)	3/08	3/09E	3/10E	3/11E	Balance sheet (Rs mn)	3/08	3/09E	3/10E	3/11E
Total revenue	23,803.7	32,500.2	42,129.6	52,373.5	Cash & equivalents	3,505.1	14,956.0	30,294.0	58,338.0
Cost of goods sold	(6,343.9)	(7,642.2)	(16,993.6)	(23,565.4)	Accounts receivable	566.5	566.5	566.5	566.5
SG&A	(553.4)	(795.0)	(761.7)	(1,069.0)	Inventory	55,228.7	64,145.5	69,333.0	65,883.4
R&D	--	--	--	--	Other current assets	13,107.8	26,161.7	26,161.7	26,161.7
Other operating profit/(expense)	150.1	122.8	317.3	364.9	Total current assets	72,408.0	105,829.6	126,355.2	150,949.5
EBITDA	17,071.4	24,220.6	24,726.3	28,138.8	Net PP&E	596.3	4,978.1	8,685.9	12,393.7
Depreciation & amortization	(14.9)	(34.8)	(34.8)	(34.8)	Net intangibles	91.1	91.1	91.1	91.1
EBIT	17,056.5	24,185.8	24,691.6	28,104.0	Total investments	1,914.8	2,139.8	2,365.0	2,590.3
Interest income	267.5	1,308.6	2,650.7	5,104.6	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(1,407.7)	(1,409.0)	(1,604.0)	(1,604.0)	Total assets	75,010.1	113,038.6	137,497.2	166,024.7
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	3,877.6	5,294.2	5,194.1	6,457.0
Others	100.5	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
Pretax profits	16,016.8	24,085.5	25,738.3	31,604.6	Other current liabilities	3,598.9	12,071.0	18,076.6	22,717.1
Income tax	(1,918.3)	(4,817.1)	(5,147.7)	(6,320.9)	Total current liabilities	7,476.4	17,365.2	23,270.7	29,174.1
Minorities	0.0	0.0	0.0	(2,392.1)	Long-term debt	31,127.4	41,127.4	41,127.4	41,127.4
Net income pre-preferred dividends	14,098.5	19,268.4	20,590.7	22,891.6	Other long-term liabilities	15.4	576.2	355.5	(310.7)
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	31,142.8	41,703.6	41,483.0	40,816.7
Net income (pre-exceptionals)	14,098.5	19,268.4	20,590.7	22,891.6	Total liabilities	38,619.2	59,068.8	64,753.7	69,990.8
Post-tax exceptionals	(24.7)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	14,073.8	19,268.4	20,590.7	22,891.6	Total common equity	36,390.8	53,969.7	72,743.4	93,641.7
EPS (basic, pre-except) (Rs)	53.80	69.94	74.74	83.09	Minority interest	0.1	0.1	0.1	2,392.1
EPS (basic, post-except) (Rs)	53.70	69.94	74.74	83.09	Total liabilities & equity	75,010.1	113,038.6	137,497.2	166,024.7
EPS (diluted, post-except) (Rs)	53.70	69.94	74.74	83.09	BVPS (Rs)	132.09	195.90	264.05	339.90
DPS (Rs)	5.26	5.24	5.64	6.18	RNAV (Rs mn)	0.0	170,516.8	--	--
Dividend payout ratio (%)	9.8	7.5	7.5	7.4	RNAVPS (Rs)	0.00	618.95	--	--
Free cash flow yield (%)	(26.3)	2.8	21.7	39.4					
Growth & margins (%)	3/08	3/09E	3/10E	3/11E	Ratios	3/08	3/09E	3/10E	3/11E
Sales growth	97.7	36.5	29.6	24.3	ROE (%)	64.4	42.6	32.5	27.5
EBITDA growth	153.4	41.9	2.1	13.8	ROA (%)	29.7	20.5	16.4	15.1
EBIT growth	153.4	41.8	2.1	13.8	ROACE (%)	40.3	26.8	24.1	27.7
Net income growth	157.1	36.9	6.9	11.2	Inventory days	1,969.8	2,850.7	1,433.5	1,047.2
EPS growth	127.0	30.2	6.9	11.2	Receivables days	28.2	6.4	4.9	3.9
Gross margin	73.3	76.5	59.7	55.0	Payable days	189.1	219.0	112.6	90.2
EBITDA margin	71.7	74.5	58.7	53.7	Net debt/equity (%)	75.9	48.5	14.9	(17.9)
EBIT margin	71.7	74.4	58.6	53.7	Interest cover - EBIT (X)	15.0	241.1	NM	NM
Cash flow statement (Rs mn)	3/08	3/09E	3/10E	3/11E	Valuation	3/08	3/09E	3/10E	3/11E
Net income pre-preferred dividends	14,098.5	19,268.4	20,590.7	22,891.6	P/E basic (X)	5.6	4.3	4.1	3.6
D&A add-back	14.9	34.8	34.8	34.8	P/B (X)	2.3	1.5	1.1	0.9
Minorities interests add-back	(0.0)	0.0	0.0	2,392.1	EV/EBITDA (X)	10.7	4.5	3.8	2.4
Net (inc)/dec working capital	(41,579.7)	34.5	590.7	9,176.5	Dividend yield (%)	1.7	1.7	1.9	2.0
Other operating cash flow	(13,381.3)	(13,053.9)	0.0	(2,392.1)					
Cash flow from operations	(39,154.2)	6,844.8	20,995.4	33,828.7	Underlying valuation	3/08	3/09E	3/10E	3/11E
Capital expenditures	(454.7)	(4,416.6)	(3,742.6)	(3,742.6)	Underlying profit (Rs mn)	14,098.5	19,268.4	20,590.7	22,891.6
Acquisitions	(225.3)	(225.3)	(225.3)	(225.3)	Underlying EPS (Rs)	53.80	69.94	74.74	83.09
Divestitures	0.1	0.0	0.0	0.0	Underlying ROE (%)	64.5	42.6	32.5	27.5
Others	5.3	0.0	0.0	0.0	Underlying ROA (%)	29.8	20.5	16.4	15.1
Cash flow from investments	(674.6)	(4,641.9)	(3,967.9)	(3,967.9)	Underlying ROACE (%)	40.3	26.8	24.1	27.7
Dividends paid (common & pref)	(491.0)	(752.1)	(1,689.5)	(1,816.9)	Underlying P/E (X)	5.6	4.3	4.1	3.6
Inc/(dec) in debt	27,370.6	10,000.0	0.0	0.0	Underlying dividend payout (%)	9.8	7.5	7.5	7.4
Common stock issuance (repurchase)	17,136.0	0.0	0.0	0.0	Underlying EPS growth (%)	127.2	30.0	6.9	11.2
Other financing cash flows	(738.8)	0.0	0.0	0.0					
Cash flow from financing	43,276.7	9,247.9	(1,689.5)	(1,816.9)					
Total cash flow	3,448.0	11,450.9	15,338.0	28,044.0					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 22: Our 12-month potential RNAV-based target price is Rs433

RNAV calculations	Current (FY09E)			(FY10E)		
	Rs mn	Per sh	% total	Rs mn	Per sh	% total
Development	107,974	392	55%	110,809	402	54%
Residential	33,610	122	17%	33,267	121	16%
Commercial	31,890	116	16%	27,078	98	13%
Commercial - IT	1,093	4	1%	2,658	10	1%
Multiplex	2,555	9	1%	3,483	13	2%
Retail	38,825	141	20%	44,324	161	22%
MIAL	83,964	305	43%	89,971	327	44%
MIAL	83,964	305	43%	89,971	327	44%
SEZ	4,750	17	2%	4,750	17	2%
SEZ	4,750	17	2%	4,750	17	2%
Gross RNAV (a)	196,688	714	100%	205,530	746	100%
Net debt/(cash)	26,171	95		10,833	39	
RNAV	170,517	619		194,697	707	
# of shares	275.49			275.49		
	Rs mn	Rs per sh		Rs mn	Rs per sh	
Potential RNAV	170,517	619		194,697	707	
Valuation @ 30% discount		433			495	
Current price		303			303	
Potential upside/(downside)		43%			63%	
WACC Calculation						
FY2009	% total			Cost		
Equity	85.0%			16.2% = $R_f + B(R_m - R_f)$		
Debt	15.0%			7.9% = $K_d * (1-t)$		
Total capital	100.0%			15.0% = WACC		
Cost of equity and debt						
Ke =	16.2%			Source		
Kd =	12.0%			CAPM = $R_f + B(R_m - R_f)$		
t =	34.0%			GS Research		
Rf =	9.0%			effective tax rate		
B	1.20			10-yr bond		
E(Rm) =	6.0%			GS Research		
				GS Asia-Pacific Strategy		

Source: Company data, DataStream, Goldman Sachs Research estimates.

Unitech (UNTE.BO; Sell): Execution concerns persist

Source of opportunity

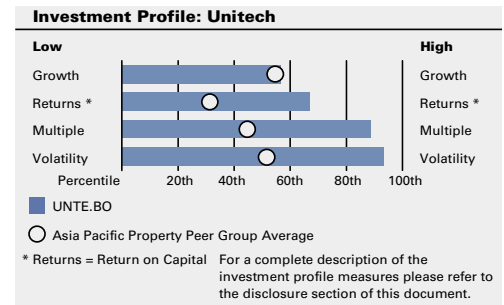
We retain a Sell on Unitech as our concerns over volume growth and execution remain unchanged: 1) Unitech's sales volumes remain sluggish with over a 40% yoy decline in FY2008. We believe the management recognizes that housing needs to be more affordable and is starting to offer lower ticket sizes. However, it is early to gauge whether this will lead to volume recovery in the current environment, 2) Unitech indicated that it would look to book revenues on 20 mn sq ft of construction in FY2009, up from 12 mn sq ft in FY2008. The company has said that this figure may vary depending on market conditions. We believe Unitech's target appears ambitious given that projects in Chennai and Hyderabad that were slated to start over the past 12 months are yet to be launched. With regard to the balance sheet, we note that Unitech's net gearing of 1.8x as of 1QFY2009 is high relative to peers and we expect cash flow before funding to be negative in FY2009E.

Valuation

We lower our FY2009E-FY2011E EPS estimates by 17%-53% and downgrade our 12-month FY2009E potential RNAV-based TP to Rs150 from Rs176. Our TP does not attribute value to long-dated land banks such as Dankuni, Agra and Varanasi that are not yet in Unitech's possession. We also widen our TP discount to RNAV to 30% from 25% as we have done across our coverage universe to reflect the current tough market environment.

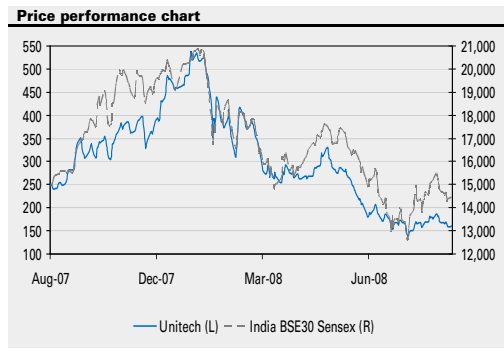
Key risks

Unitech is in the process of rolling out telecom services, having secured spectrum in a number of states. It is still in the process of finding a joint venture partner and any announcement on this front over the next three months may be positive for the stock price. Although visibility is low at present, our TP already assumes a valuation of Rs24/share for the telecom venture.



Key data	Current
Price (Rs)	160.30
12 month price target (Rs)	150.00
Market cap (Rs mn / US\$ mn)	260,226.7 / 5,943.3
Foreign ownership (%)	7.4

	3/08	3/09E	3/10E	3/11E
EPS (Rs) New	10.23	11.06	12.00	13.03
EPS revision (%)	(0.0)	(17.2)	(31.7)	(52.6)
EPS growth (%)	27.2	8.1	8.5	8.6
EPS (dil) (Rs) New	10.23	11.06	12.00	13.03
P/E (X)	15.7	14.5	13.4	12.3
P/B (X)	7.2	4.3	3.3	2.6
EV/EBITDA (X)	25.8	12.2	11.3	10.5
Dividend yield (%)	0.2	0.2	0.2	0.4
ROE (%)	59.4	37.1	27.7	23.6



Share price performance (%)	3 month	6 month	12 month
Absolute	(40.2)	(58.1)	(29.7)
Rel. to Bombay SE Sensitive Index	(31.1)	(48.8)	(29.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/25/2008 close.

Exhibit 23: Summary financials - Unitech

Profit model (Rs mn)	3/08	3/09E	3/10E	3/11E	Balance sheet (Rs mn)	3/08	3/09E	3/10E	3/11E
Total revenue	41,152.4	48,005.7	53,372.1	68,786.3	Cash & equivalents	14,082.7	13,617.6	18,096.0	19,812.7
Cost of goods sold	(15,919.0)	(17,886.3)	(20,999.6)	(33,246.2)	Accounts receivable	7,459.8	8,240.7	4,469.6	5,440.0
SG&A	(3,400.2)	(3,966.5)	(4,409.9)	(5,683.5)	Inventory	136,075.6	162,244.6	192,798.4	234,691.4
R&D	--	--	--	--	Other current assets	29,443.8	29,443.8	29,443.8	29,443.8
Other operating profit/(expense)	718.5	774.3	838.5	908.4	Total current assets	187,061.9	213,546.7	244,807.8	289,387.9
EBITDA	22,757.0	27,166.7	29,067.4	31,108.2	Net PP&E	31,441.5	31,922.1	32,456.3	33,144.9
Depreciation & amortization	(205.3)	(239.5)	(266.3)	(343.2)	Net intangibles	1,125.9	1,125.9	1,125.9	1,125.9
EBIT	22,551.7	26,927.2	28,801.1	30,765.0	Total investments	14,164.9	14,164.9	14,164.9	14,164.9
Interest income	475.3	1,232.2	1,191.5	1,583.4	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(2,804.1)	(5,262.8)	(5,262.8)	(5,262.8)	Total assets	233,794.3	260,759.6	292,554.9	337,823.6
Income/(loss) from uncons. subs.	68.6	0.0	0.0	0.0	Accounts payable	8,497.3	10,454.6	7,967.0	8,123.3
Others	454.9	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
Pretax profits	20,746.4	22,896.5	24,729.8	27,085.6	Other current liabilities	83,414.5	83,851.3	99,766.8	124,413.5
Income tax	(4,004.3)	(4,579.3)	(4,946.0)	(5,417.1)	Total current liabilities	91,911.8	94,305.9	107,733.8	132,536.8
Minorities	(128.7)	(359.0)	(306.0)	(522.3)	Long-term debt	85,523.7	85,523.7	85,523.7	85,523.7
Net income pre-preferred dividends	16,613.4	17,958.3	19,477.8	21,146.1	Other long-term liabilities	19,196.0	18,524.8	17,868.1	17,804.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	104,719.7	104,048.5	103,391.9	103,328.6
Net income (pre-exceptionals)	16,613.4	17,958.3	19,477.8	21,146.1	Total liabilities	196,631.5	198,354.5	211,125.7	235,865.5
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	16,613.4	17,958.3	19,477.8	21,146.1	Total common equity	36,004.2	60,887.7	79,605.8	99,612.3
EPS (basic, pre-except) (Rs)	10.23	11.06	12.00	13.03	Minority interest	1,158.5	1,517.5	1,823.5	2,345.8
EPS (basic, post-except) (Rs)	10.23	11.06	12.00	13.03	Total liabilities & equity	233,794.3	260,759.6	292,554.9	337,823.6
EPS (diluted, post-except) (Rs)	10.23	11.06	12.00	13.03	BVPS (Rs)	22.18	37.51	49.04	61.36
DPS (Rs)	0.25	0.25	0.40	0.60	RNAV (Rs mn)	0.0	348,113.7	--	--
Dividend payout ratio (%)	2.4	2.3	3.3	4.6	RNAVPS (Rs)	0.00	214.44	--	--
Free cash flow yield (%)	(7.0)	(1.4)	0.5	(0.3)					
Growth & margins (%)	3/08	3/09E	3/10E	3/11E	Ratios	3/08	3/09E	3/10E	3/11E
Sales growth	25.1	16.7	11.2	28.9	ROE (%)	59.4	37.1	27.7	23.6
EBITDA growth	11.8	19.4	7.0	7.0	ROA (%)	9.1	7.3	7.0	6.7
EBIT growth	11.2	19.4	7.0	6.8	ROACE (%)	23.6	17.7	16.3	15.6
Net income growth	27.2	8.1	8.5	8.6	Inventory days	2,557.3	3,043.9	3,085.5	2,346.6
EPS growth	27.2	8.1	8.5	8.6	Receivables days	39.5	59.7	43.5	26.3
Gross margin	61.3	62.7	60.7	51.7	Payable days	183.4	193.4	160.1	88.3
EBITDA margin	55.3	56.6	54.5	45.2	Net debt/equity (%)	192.2	115.2	82.8	64.4
EBIT margin	54.8	56.1	54.0	44.7	Interest cover - EBIT (X)	9.7	6.7	7.1	8.4
Cash flow statement (Rs mn)	3/08	3/09E	3/10E	3/11E	Valuation	3/08	3/09E	3/10E	3/11E
Net income pre-preferred dividends	16,613.4	17,958.3	19,477.8	21,146.1	P/E basic (X)	15.7	14.5	13.4	12.3
D&A add-back	205.3	239.5	266.3	343.2	P/B (X)	7.2	4.3	3.3	2.6
Minorities interests add-back	11.1	128.7	359.0	306.0	EV/EBITDA (X)	25.8	12.2	11.3	10.5
Net (inc)/dec working capital	(29,955.7)	(24,555.8)	(13,639.6)	(18,440.3)	Dividend yield (%)	0.2	0.2	0.2	0.4
Other operating cash flow	97.6	6,962.2	(699.0)	(680.1)					
Cash flow from operations	(9,275.0)	420.7	5,413.8	3,134.1	Underlying valuation	3/08	3/09E	3/10E	3/11E
Capital expenditures	(24,810.3)	(720.1)	(800.6)	(1,031.8)	Underlying profit (Rs mn)	16,613.4	17,958.3	19,477.8	21,146.1
Acquisitions	(11,920.8)	0.0	0.0	0.0	Underlying EPS (Rs)	10.23	11.06	12.00	13.03
Divestitures	4,381.4	309.1	340.0	374.0	Underlying ROE (%)	59.4	37.1	27.7	23.6
Others	0.0	0.0	0.0	0.0	Underlying ROA (%)	9.1	7.3	7.0	6.7
Cash flow from investments	(32,349.7)	(411.0)	(460.6)	(657.8)	Underlying ROACE (%)	23.6	17.7	16.3	15.6
Dividends paid (common & pref)	(474.8)	(474.8)	(474.8)	(759.7)	Underlying P/E (X)	15.7	14.5	13.4	12.3
Inc/(dec) in debt	45,342.7	0.0	0.0	0.0	Underlying dividend payout (%)	2.4	2.3	3.3	4.6
Common stock issuance (repurchase)	84.3	0.0	0.0	0.0	Underlying EPS growth (%)	27.2	8.1	8.5	8.6
Other financing cash flows	528.0	0.0	0.0	0.0					
Cash flow from financing	45,480.1	(474.8)	(474.8)	(759.7)					
Total cash flow	3,855.4	(465.1)	4,478.4	1,716.7					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 24: Our 12-month potential RNAV-based target price is Rs150

RNAV calculations	Current (FY09E)			(FY10E)		
	Rs mn	Per sh	% total	Rs mn	Per sh	% total
Development	273,192	168	100%	296,521	183	100%
Residential Projects	122,125	75	45%	117,848	73	40%
Hospitality	7,619	5	3%	7,138	4	2%
Commercial	71,535	44	26%	82,534	51	28%
Retail	51,764	32	19%	63,986	39	22%
SEZ	15,996	10	6%	21,536	13	7%
Plots	4,154	3	2%	3,479	2	1%
Gross RNAV	273,192	168	100%	296,521	183	100%
Net debt/(cash)	71,906	44		67,428	42	
RNAV (a)	201,286	124		229,093	141	
# of shares	1,623.38			1,623.38		
Potential RNAV accretion (b)						
		Factored RNAV accretion		Factored RNAV accretion		
		Rs mn	Rs per sh	Rs mn	Rs per sh	
Potential RNAV accretion (b)		146,827	90	146,827	90	
Mumbai	Wgt:100%	104,514	64	104,514	64	
Hyderabad	Wgt:100%	2,714	2	2,714	2	
Other	Wgt:100%	39,600	24	39,600	24	
		Rs mn	Rs per sh	Rs mn	Rs per sh	
Potential RNAV (a+b)		348,114	214	375,920	232	
Valuation @ 30% discount			150		162	
Current price			160		160	
Potential upside/(downside)			-6%		1%	
WACC Calculation						
FY2009		% total		Cost		
Equity		85.0%		15.6% = $R_f + B(R_m - R_f)$		
Debt		15.0%		7.9% = $K_d * (1-t)$		
Total capital		100.0%		14.4% = WACC		
Cost of equity and debt				Source		
K_e =		15.6%		CAPM = $R_f + B(R_m - R_f)$		
K_d =		12.0%		GS Research		
t =		34.0%		effective tax rate		
R_f =		9.0%		10-yr bond		
B		1.10		GS Research		
$E(R_m)$ =		6.0%		GS Asia-Pacific Strategy		

Source: Company data, DataStream, Goldman Sachs Research estimates.

Reg AC

I, Vishnu Gopal, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

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