March 25, 2013

INITIATION

CIMB

INDIA

PROPERTY DEVT & INVT

SHORT TERM (3 MTH) | LONG TERM

TRADING BUY | OVERWEIGHT

TRADING SELL | NEUTRAL

UNDERWEIGHT

Notes from the Field

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"Uninterrupted access to affordable finance is vital for the health of the urban infrastructure and housing sector"

- KP Singh, DLF Chairman

Set for an extended downcycle

While India's economic growth seems to be bottoming out, we believe high property prices and weak consumer sentiment will continue to weigh on property demand/sales. We think this will affect developers' cash flows and earnings, thereby extending their downcycle.

Figure 1: India property - valuation snapshot

	Rating	Mcap	CMP *	TP	% upside	RNAV	Prem/ (disc)	RoE	P/BV
		(US$bn)	(Rs)	(Rs)		(Rs/ share)	%	FY13F	FY13F
DLF	Underperform	7.5	239.5	220	-8%	266	-10%	3%	1.5
Unitech	Underperform	1.1	23.3	21	-11%	33	-29%	2%	0.5
Oberoi	Outperform	1.6	268.5	300	12%	323	-17%	12%	2.1
Sobha	Outperform	0.7	380	450	18%	511	-26%	10%	1.7

SOURCES: CIMB, COMPANY REPORTS, *Prices as on 21.3.2013

Our channel checks also indicate that investor demand is slowing as they find it more difficult to churn big-ticket properties. Also, while net gearing has stabilised, developers' higher interest outflow on large debt have lowered FCFE (affecting ROEs). We initiate coverage on the sector at Underweight. We prefer Sobha (due its focus on execution) over DLF (as its deleveraging plans could see delays implying high-debt overhang).

Macros bottoming out but expect a gradual recovery

With macro concerns bottoming out (gradual easing of interest rates and inflation, signs of recovery in IT sector and proposed policy reforms), developers have been expressing their optimism by launching more projects at higher prices. However, we expect only a gradual recovery in sales (on high prices) while low ROEs should continue (high interest expenses on large debts), extending developers' downcycle. We highlight that we are 20-30% below consensus on earnings estimates for most developers.

Demand-supply mismatch could continue

A spike in property prices, high interest rates and low visibility of income growth have been affecting affordability since 2010, keeping demand volumes in check. Higher inflation has resulted in a lower savings rate, also affecting affordability. On the supply side, developers' asset churns have been slow, compounded by tight liquidity conditions and high costs (execution delays, project cost inflation and higher interest expenses).

Prefer Sobha to DLF

We prefer developers with better asset turns and execution capability, presence in stable markets and strong balance sheets. We initiate coverage on DLF with an Underperform as we believe its deleveraging/ cashflow generation plans could see delays (given the weak macros) implying high-debt overhang to remain. We rate Unitech an Underperform due to weakening launches, execution concerns and high debt overhang. We initiate coverage on Sobha with Outperform on account of its ability to execute and higher exposure to the Bangalore market (on which we are positive, considering the recovery in IT demand). We rate Oberoi an Outperform as we expect operational improvements given its quality landbank and strong balance sheet.

Highlighted Companies

DLF

We initiate coverage on DLF with an Underperform rating as we believe its deleveraging/ cashflow generation plans could see delays due to weak economic environment (implying high-debt overhang).

Unitech

We initiate coverage on Unitech with an Underperform rating on account of its weakening launches, execution concerns and high debt. Ongoing telecom controversy adds to its woes.

Sobha

We initiate coverage on Sobha with an Outperform rating on account of its ability to execute (expanding its business model) and higher exposure to the Bangalore market (on which we are positive, considering the recovery in IT demand)

KEY CHARTS

Spike in prices has held back sales

We believe that India, boasting long-term structural demand potential from sustainable GDP growth, has a perennial shortage of housing units, favourable demographics (growing number of nuclear families, growing number of young professionals) and an increasing trend of urbanisation.

However, a spike in property prices in recent years has resulted in a decline in sales volumes.

Mumbai	Sales (in units)	% chg	Price (Rs/ sq ft)	% chg	Absorption (%)
2009	16,912	-7%	9,057	1%	6%
2010	23,771	41%	10,480	16%	7%
2011	21,478	-10%	11,235	7%	5%
2012	13,280	-38%	13,161	17%	4%
Gurgaon					
2009	24,331	58%	2,907	-7%	8%
2010	25,043	3%	3,602	24%	11%
2011	28,879	15%	4,341	21%	11%
2012	24,306	-16%	5,566	28%	8%
Bangalore			-		
2009	19,545	-29%	2,866	-9%	5%
2010	26,955	38%	2,952	3%	7%
2011	38,681	44%	3,198	8%	6%
2012	39,824	3%	3,735	17%	6%

Big ticket sizes have impaired affordability

The spike in property prices since 2009 has impaired affordability as the ticket sizes of residential units have ballooned. Our channel checks indicate that even investor demand is slowing as they find it difficult to churn due to the big ticket sizes.

While interest rates are easing, they remain high (10.5% now vs. 8.5% in 2010), adding pressure to the decision-making process of home buyers from higher equated monthly instalments (EMI).

Mumbai	2008	2009	2010	2011	2012
Price (Rs/ sq ft)	8,998	9,057	10,480	11,235	13,161
Avg area per unit (sq. ft)	1,308	1,334	1,478	1,448	1,419
Avg. ticket size (Rs m)	11.8	12.1	15.5	16.3	18.7
Gurgaon					
Price (Rs/ sq ft)	3,111	2,907	3,602	4,341	5,566
Avg area per unit (sq. ft)	2,058	1,666	1,971	2,041	2,071
Avg. ticket size (Rs m)	6.4	4.8	7.1	8.9	11.5
Bangalore					
Price (Rs/ sq ft)	3,142	2,866	2,952	3,198	3,735
Avg area per unit (sq. ft)	1,688	1,604	1,555	1,590	1,655
Avg. ticket size (Rs m)	5.3	4.6	4.6	5.1	6.2

High interest on large debt impacting cashflows

Developers' asset churns have been slow, compounded by high costs from execution delays, project cost inflation and higher interest expenses. This has resulted in weak cashflows.

Also, while net gearings have stabilised (fallen in case of DLF), developers' higher interest on large debt have lowered their FCFE (affecting their ROEs).

	DLF		Sobha		Unitech	
Rs m	FY12	9MFY13	FY12	9MFY13	FY12	9MFY13
Debt	250.7	253.9	12.4	14.5	45.0	60.8
Interest #	30.1	22.8	1.6	1.4	6.3	6.4
Net Debt	227.3	213.5	11.8	13.2	41.9	54.2
Net gearing (%)	83%	76%	59%	62%	35%	43%
Cash from Op. (CFO)	25.2	17.7	3.8	3.1	18.9	N.A.
Interest as % of CFO	119%	129%	42%	45%	33%	N.A.

Interest rate - 12% for FLD, 13% for Sobha, 14% for Unitech

Re-rating from a pick-up in volume

Most developers have aggressively built their land banks (irrespective of execution capability) to boost their net asset values (NAV) in hopes of being rewarded with larger market capitalisations. While they have reduced their land banks from historical highs, we believe they still have more land than required (given their weak sales run-rate and slower execution than regional peers).

Higher asset turns have resulted in better ROEs for regional peers.

	Market cap	Land bank	Sales (msf)		ROE	
Company	(US$ bn)	msf	2011	2012	2011	2012
India						
DLF	7.5	332	10.3	13.6	5.8%	4.5%
Unitech	1.1	350	9.2	7.2	5.2%	2.0%
Oberoi	1.6	20	0.9	0.7	19.8%	13.1%
Sobha	0.7	248	2.8	3.3	10.2%	10.7%
China						
China Overseas	15.9	378	60.1	78.5	20.5%	19.9%
Guangzhou R&F	4.2	295	23.6	31.0	20.8%	20.4%
Agile Property	4.4	378	33.5	34.9	19.7%	18.5%

SOURCE: CIMB, PROPEQUITY, COMPANY REPORTS, BLOOMBERG

CIMB

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Tgt Px (local curr)	Mkt Cap (US$ m)	Core P/E (x) CY2013	Core P/E (x) CY2014	RNAV CY2013	Prem./(Disc.) to RNAV (%)	Gearing(%) CY2013	P/BV (x) CY2013	Dividend Yield (%) CY2013
Sobha Developers Ltd	SOBHA IN	Outperform	380	450	686	15.1	11.3	511	-26%	62.1%	1.6	0.9%
Oberoi Realty Ltd	OBER IN	Outperform	268	300	1,623	15.2	12.5	323	-17%	Net Cash	2.0	1.1%
Unitech Ltd	UT IN	Underperform	23	21	1,120	16.4	11.8	33	-29%	43.1%	0.5	0.0%
DLF Ltd	DLFU IN	Underperform	239	220	7,493	38.5	26.4	266	-10%	71.0%	1.4	0.8%
India average						**26.3**	**19.2**		**-12%**	**54.6%**	**1.2**	**0.8%**
Bukit Sembawang Estates	BS SP	Outperform	7.1	7.3	1,461	8.8	8.5	10.4	-32%	Net Cash	1.3	2.2%
CapitaLand	CAPL SP	Outperform	3.5	4.3	11,930	22.8	14.9	5.1	-31%	48.4%	1.0	2.2%
CapitaMalls Asia	CMA SP	Neutral	2.1	2.2	6,545	31.3	25.7	2.4	-13%	52.6%	1.2	1.4%
City Developments	CIT SP	Neutral	11.0	11.3	7,987	16.9	14.4	13.2	-17%	21.3%	1.3	1.5%
Fraser & Neave	FNN SP	Outperform	9.4	9.8	10,891	17.0	15.3	10.5	-10%	21.1%	1.7	1.9%
Global Logistic Properties	GLP SP	Outperform	2.6	3.1	9,980	24.0	21.8	3.1	-14%	6.6%	1.1	1.4%
Ho Bee Investments	HOBEE SP	Outperform	1.9	2.2	1,027	18.1	10.2	3.1	-39%	35.7%	0.7	2.7%
Keppel Land	KPLD SP	Neutral	3.9	4.0	4,814	13.5	12.5	5.0	-22%	14.3%	0.9	2.2%
Overseas Union Enterprise	OUE SP	Outperform	3.1	3.5	2,280	27.4	22.5	4.4	-29%	74.1%	0.9	1.8%
Singapore Land	SL SP	Outperform	9.0	8.5	2,956	16.0	14.3	14.2	-37%	9.2%	0.7	2.2%
United Engineers	UEM SP	Outperform	3.1	3.6	759	13.4	8.7	5.1	-39%	107.8%	0.7	3.2%
UOL Group	UOL SP	Outperform	7.1	7.8	4,389	14.7	13.8	9.7	-27%	25.9%	0.9	1.7%
Wheelock Properties (S)	WP SP	Neutral	1.9	1.9	1,844	27.7	15.1	2.6	-26%	Net Cash	0.7	3.1%
Wing Tai Holdings	WINGT SP	Underperform	1.9	1.8	1,176	10.1	12.0	2.5	-24%	7.2%	0.7	3.0%
Singapore average						**18.6**	**15.6**		**-24%**	**28.8%**	**1.1**	**1.9%**
Agile Property	3383 HK	Neutral	9.1	11.8	4,021	5.8	4.9	19.5	-54%	69.4%	0.9	4.3%
China Overseas Grand Oceans	81 HK	Outperform	10.1	13.1	2,969	8.4	6.2	14.6	-31%	4.3%	2.2	1.2%
China Overseas Land	688 HK	Outperform	21.2	25.7	22,318	9.1	7.8	27.7	-23%	26.8%	1.7	2.2%
China Resources Land	1109 HK	Neutral	20.9	19.5	15,689	13.8	11.1	27.9	-25%	48.4%	1.6	2.0%
Evergrande Real Estate	3333 HK	Neutral	3.4	4.7	7,081	4.8	4.0	9.4	-63%	73.2%	0.9	6.2%
Guangzhou R&F	2777 HK	Neutral	13.1	12.0	5,429	6.0	5.5	20.0	-34%	83.2%	1.1	5.8%
KWG Property Holding	1813 HK	Outperform	4.8	7.4	1,781	4.6	4.2	10.5	-54%	64.9%	0.7	6.5%
Longfor Properties	960 HK	Outperform	12.8	14.2	8,927	9.7	8.2	21.8	-42%	54.6%	1.6	2.1%
Poly Property	119 HK	Outperform	4.8	6.4	2,240	6.6	5.7	11.6	-59%	82.7%	0.6	4.5%
Shimao Property	813 HK	Outperform	13.7	20.5	6,128	6.2	4.8	25.6	-46%	55.7%	1.0	5.1%
Sino-Ocean Land	3377 HK	Neutral	4.5	5.0	3,413	7.0	6.0	9.9	-54%	52.1%	0.5	5.5%
SOHO China	410 HK	Neutral	6.4	6.5	4,155	8.4	17.2	10.0	-36%	26.6%	0.8	4.8%
Yuexiu Property	123 HK	Outperform	2.3	2.7	2,719	10.1	7.8	5.0	-54%	69.6%	0.7	3.5%
China/Hong Kong average						**8.2**	**7.0**		**-53%**	**53.2%**	**1.2**	**3.3%**
Alam Sutera	ASRI IJ	Outperform	1,130	1,200	2,276	13.8	9.8	1,997	-43%	4.4%	3.8	2.1%
Bekasi Fajar	BEST IJ	Outperform	910	1,100	878	8.0	6.8	1,126	-19%	Net Cash	3.0	2.2%
Bumi Serpong Damai	BSDE IJ	Outperform	1,740	2,200	3,121	16.8	13.9	2,637	-34%	Net Cash	3.2	0.8%
Ciputra Development	CTRA IJ	Outperform	1,130	1,200	1,757	19.7	13.7	1,424	-21%	Net Cash	2.9	0.9%
Ciputra Property	CTRP IJ	Outperform	980	1,250	618	10.2	8.8	1,487	-34%	Net Cash	1.4	1.6%
Lippo Karawaci	LPKR IJ	Outperform	1,220	1,350	2,886	14.2	15.8	1,458	-16%	Net Cash	2.8	1.2%
Metropolitan Land	MTLA IJ	Outperform	660	700	513	18.4	12.1	1,198	-45%	Net Cash	2.9	0.7%
Summarecon Agung	SMRA IJ	Outperform	2,425	2,500	1,793	17.6	14.3	3,127	-22%	Net Cash	4.5	1.2%
Surya Semesta Internusa	SSIA IJ	Outperform	1,580	2,000	762	7.9	6.5	2,533	-38%	Net Cash	3.2	2.2%
Indonesia average						**14.2**	**11.7**		**-25%**	**Net Cash**	**3.1**	**1.3%**
Eastern & Oriental	EAST MK	Neutral	1.6	1.6	571	11.8	10.2	2.6	-38%	4.7%	1.2	2.7%
KLCC Property Holdings	KLCC MK	Outperform	6.6	6.7	1,978	19.8	18.8	6.4	3%	11.2%	1.6	4.8%
Mah Sing Group	MSGB MK	Neutral	2.3	2.1	826	9.0	7.9	2.9	-19%	1.2%	1.5	3.7%
SP Setia	SPSB MK	Trading Buy	3.3	3.6	2,623	16.8	14.5	4.0	-17%	45.8%	1.5	3.1%
UEM Land Holdings	ULHB MK	Neutral	2.7	2.3	3,801	21.7	19.3	3.0	-9%	8.6%	2.1	1.5%
UOA Development	UOAD MK	Trading Buy	2.0	2.0	798	7.3	6.3	3.0	-34%	Net Cash	1.1	6.6%
Malaysia average						**16.0**	**14.3**		**-12%**	**14.9%**	**1.6**	**3.4%**
Amata Corporation	AMATA TB	Outperform	25.3	32.2	924	13.7	11.8	21.8	16%	43.9%	2.7	2.9%
Ananda Development	ANAN TB	Outperform	4.3	6.2	487	8.4	6.9	2.3	81%	23.8%	2.0	0.0%
Asian Property	AP TB	Outperform	9.2	12.0	897	9.0	7.6	7.0	31%	78.8%	1.8	4.4%
Hemaraj	HEMRAJ TB	Outperform	4.4	4.1	1,457	15.0	13.8	2.8	56%	56.7%	3.8	3.2%
Land And Houses	LH TB	Outperform	12.5	9.2	4,296	28.4	23.5	6.0	108%	54.0%	4.0	3.7%
LPN Development	LPN TB	Outperform	22.4	30.6	1,133	11.8	10.2	7.4	203%	5.4%	3.3	4.2%
Pruksa Real Estate	PS TB	Outperform	27.8	40.2	2,113	11.6	10.3	12.5	121%	50.1%	2.5	2.6%
Quality Houses	QH TB	Neutral	4.2	1.6	1,322	37.3	33.2	3.6	17%	129.4%	2.4	2.4%
Sansiri Public Co	SIRI TB	Outperform	4.6	6.1	1,328	10.9	8.9	2.5	87%	87.3%	2.4	4.5%
Supalai PCL	SPALI TB	Underperform	20.4	18.2	1,200	10.9	9.5	9.1	125%	26.1%	2.3	3.7%
Thailand average						**14.8**	**12.6**		**73%**	**59.9%**	**2.8**	**3.4%**
Average Overall						**12.5**	**10.6**		**-37%**	**39.6%**	**1.3**	**2.5%**

SOURCES: CIMB, COMPANY REPORTS

Set for an extended downcycle

Table of Contents

Companies

1. BACKGROUND

1.1 Demand-supply mismatch

We believe India offers long-term structural demand from sustainable GDP growth, a perennial shortage of housing units, favourable demographics (growing number of nuclear families, a growing young working population), and increasing urbanisation.

However, a spike in property prices (resulting in higher property costs) has resulted in lower sales volumes.

Figure 3: High property prices have hurt sales volumes…

	Sales (in units)	% chg	Price (Rs/ sq ft)	% chg	Absorption (%)
Mumbai					
2009	16,912	-7%	9,057	1%	6%
2010	23,771	41%	10,480	16%	7%
2011	21,478	-10%	11,235	7%	5%
2012	13,280	-38%	13,161	17%	4%
Gurgaon					
2009	24,331	58%	2,907	-7%	8%
2010	25,043	3%	3,602	24%	11%
2011	28,879	15%	4,341	21%	11%
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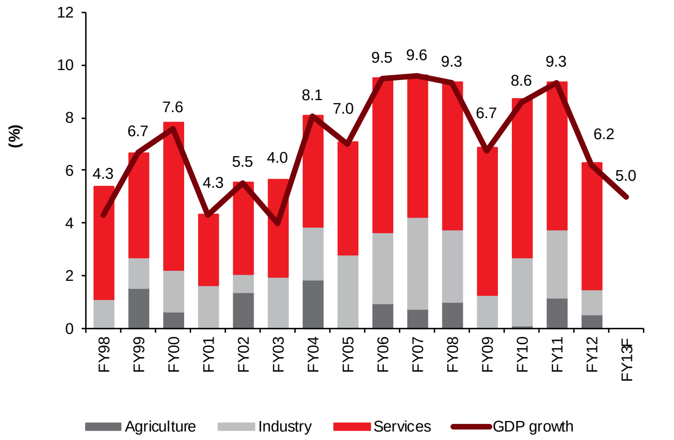
2009	19,545	-29%	2,866	-9%	5%
2010	26,955	38%	2,952	3%	7%
2011	38,681	44%	3,198	8%	6%
2012	39,824	3%	3,735	17%	6%
Chennai					
2009	14,420	20%	2,971	-16%	5%
2010	21,745	51%	3,302	11%	8%
2011	30,152	39%	3,853	17%	7%
2012	27,674	-8%	4,180	8%	6%

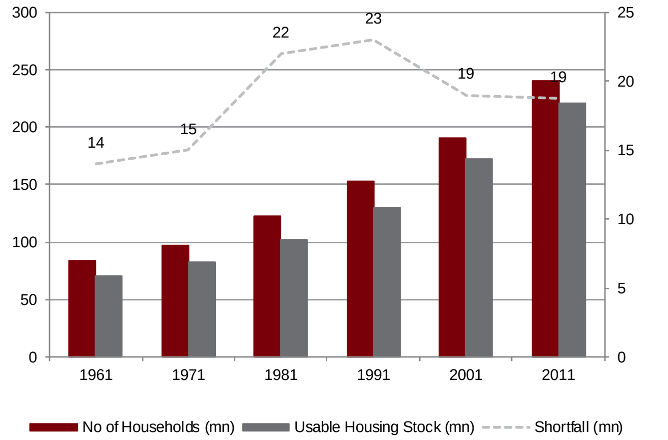
SOURCES: Propequity; Note: Absorption = sales/ (new launch + inventory)

Figure 4: … despite sustainable GDP growth and…



SOURCES: CIMB, COMPANY REPORTS

Figure 5: … housing shortage in India



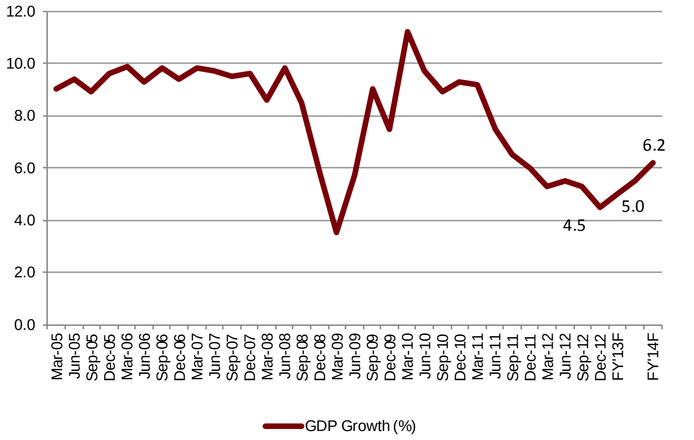
SOURCES: National Building Organisation (NBO)

2. OUTLOOK

2.1 While macro concerns seem to be bottoming…

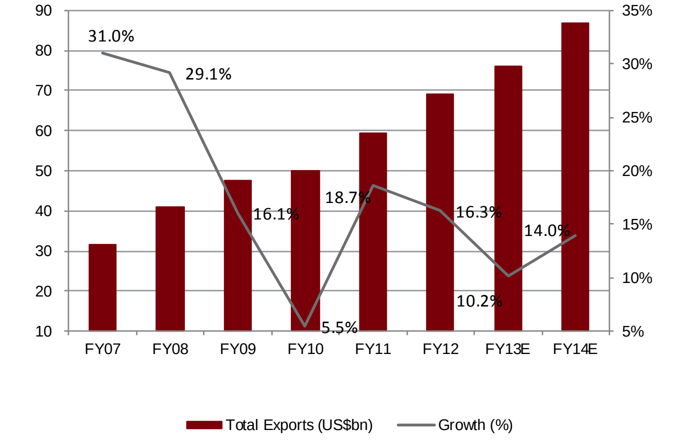
While there are green shoots (bottoming of industrial output, improving Purchasing Managers' Index (PMIs), sequential improvements in exports), growth recovery in India's economy remains tepid. A gradual easing of interest rates on the back of moderating WPI inflation could provide tailwinds but we expect only a gradual recovery. There are also nascent signs of a revival in the IT sector (one of the largest users of real estate) and some traction on the policy front.

Figure 6: GDP growth has bottomed out; we expect a gradual recovery



SOURCES: CIMB, BLOOMBERG, CMIE

Figure 7: Growth in the IT sector is expected to gather pace

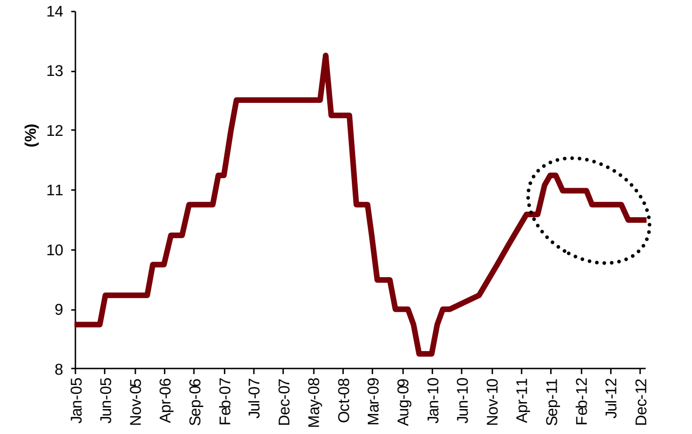


SOURCES: CIMB, NASSCOM

Figure 8: Inflation rates have started to moderate

SOURCES: CMIE

Figure 9: Mortgage rates have started to turn south



SOURCES: HDFC

A few proposed policies which could ensure greater transparency, disclosure and accountability could be implemented in 2013:

- Real Estate Regulation Bill (for stricter monitoring of projects to ensure better transparency and execution),
- Real Estate Investment Trusts (REITs) Bill (to facilitate the recycling of funds)
- Land Acquisition Bill (while this would increase land-acquisition costs, clearer guidelines should speed up the land-acquisition process).

2.2 …we expect only a gradual recovery

We note that a spike in property prices since 2009 has impaired affordability (resulting in lower sales) as the ticket sizes of residential units have swelled. Our channel checks indicate that even investor demand is slowing, as they find it difficult to churn due to the big ticket sizes.

Figure 10: Spike in property prices has swelled the average ticket size

Mumbai	2008	2009	2010	2011	2012
Price (Rs/ sq ft)	8,998	9,057	10,480	11,235	13,161
Avg area per unit (sq. ft)	1,308	1,334	1,478	1,448	1,419
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Avg area per unit (sq. ft)	1,688	1,604	1,555	1,590	1,655
Avg. ticket size (Rs m)	5.3	4.6	4.6	5.1	6.2

SOURCES: CIMB, PROPEQUITY

High interest rates (up by 200bp from 8.5% in 2010 to 10.5% now) have been another consideration in the purchasing decisions of home buyers, due to higher EMI, especially in the current inflationary environment.

Figure 11: Rates remain high (despite a recent cut)

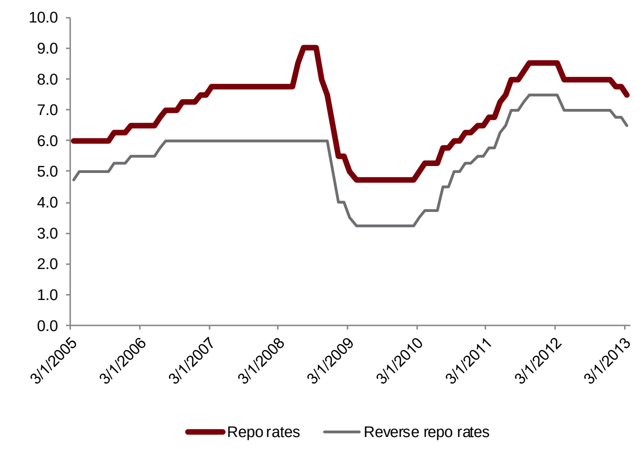
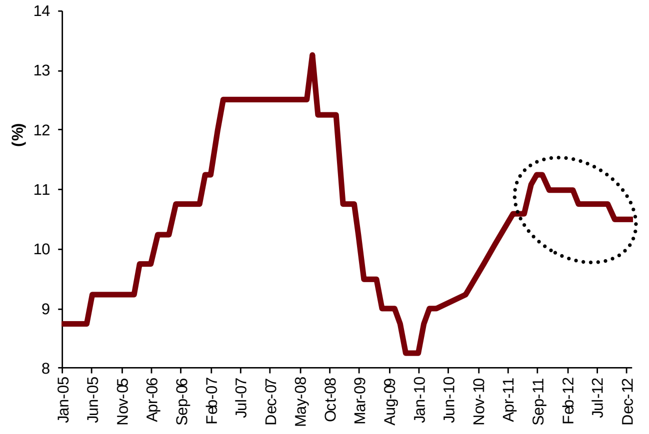


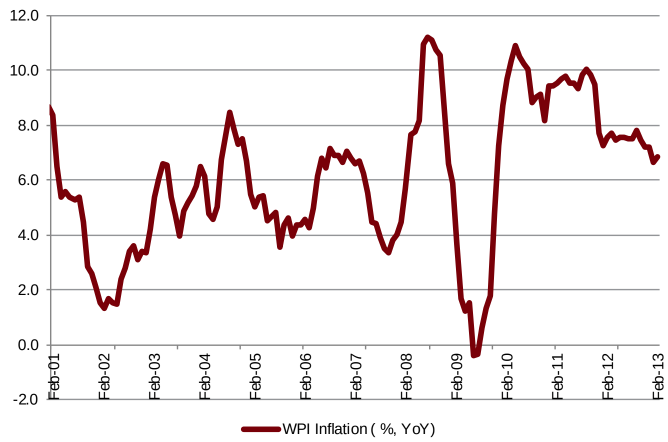
Figure 12: Mortgage rates declining (but still high)



SOURCES: CIMB, COMPANY REPORTS

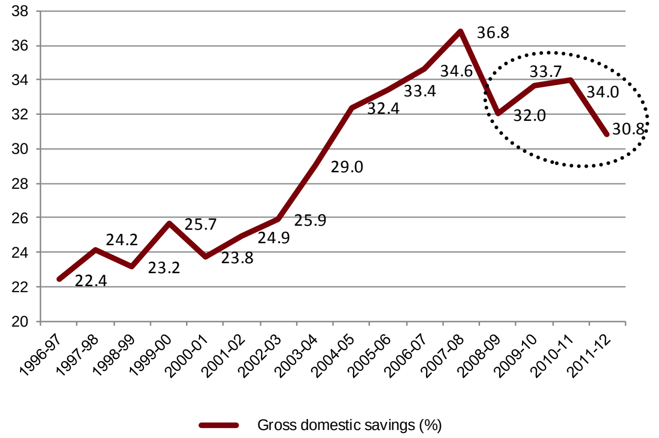
Higher inflation and lower GDP growth have lowered savings rates, which we believe has equally affected volume demand.

Figure 13: High inflation rates and …



SOURCES: CMIE

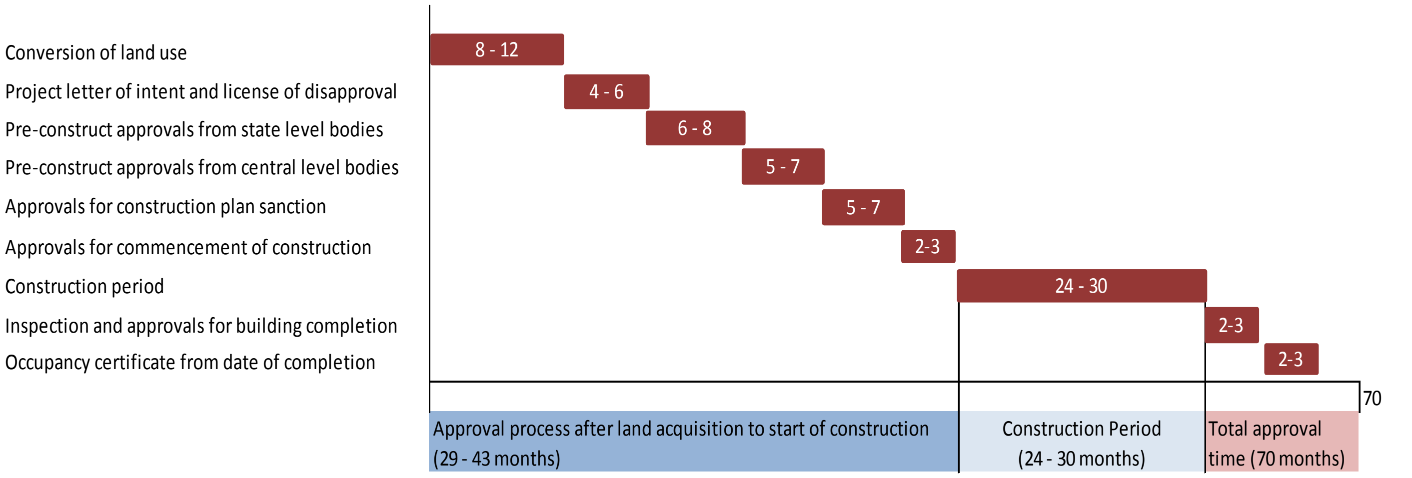
Figure 14: … lower savings rates have delayed purchasing decisions



SOURCES: CIMB, CMIE

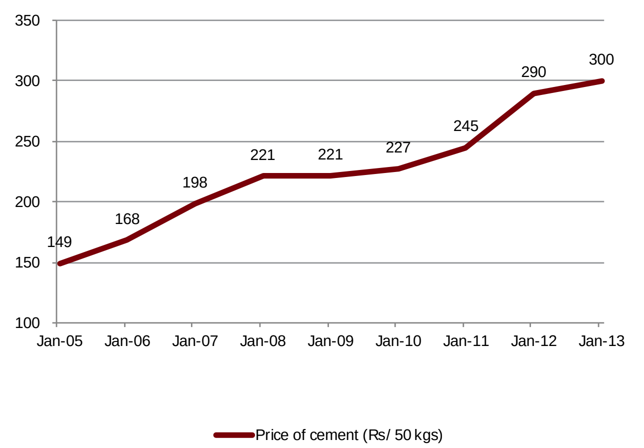
On the supply side, developers have been caught up in delays in approval, tight liquidity conditions and high funding costs, which have resulted in high debts (as they add more landbanks than required and as holding costs for land bank are capitalised, while construction costs have risen etc.).

Figure 15: Long approval process extends developers' asset-churn cycle and increases their costs of construction



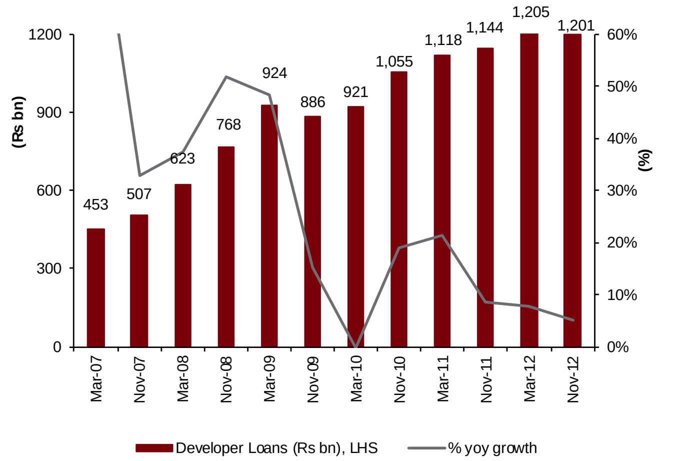
SOURCES: KPMG, CIMB

Figure 16: Spike in cement prices (30% in the last two years)



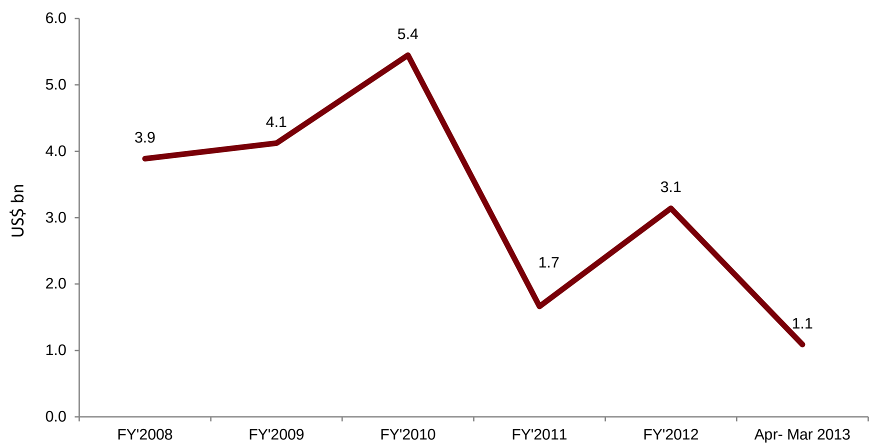
SOURCES: CIMB, CMA

Figure 17: Developers' loan growth from banks is declining – implying higher interest costs



SOURCES: CIMB, RBI

Figure 18: Declining trends FDI investments in Indian real estate sector



SOURCES: RBI

We note that liquidity to the sector remains tight due to – banks reducing their exposure, slow private equity investments as they are in exit mode from their first wave of investment done in 2005-2007 and declining FDI flows (US$5.5bn in FY10 to US$1.1bn during 9MFY13).

We also note that most developers have been aggressively building their landbanks (irrespective of their execution capability) to boost their NAVs in hopes of being rewarded with larger market capitalisations. While developers have reduced their landbanks from their historical highs, we believe they still have more land than required given their weak sales and execution run rates.

Figure 19: Weak execution (given large landbanks)…

Company	Market cap (US$ bn)	Land bank msf (a)	Execution 2011	Execution 2012	Average execution (b)	No. of years for land bank to exhaust (a/b)
India						
DLF	7.5	332	2.7	10.2	6.5	51
Unitech	1.1	350	4.2	1.7	3.0	119
Oberoi	1.6	20	0.2	1.2	0.7	29
Sobha	0.7	248	7.6	5.2	6.4	39
China						
China Overseas	15.9	378	56	75	65.6	6
Guangzhou R&F	4.2	295	27	26	26.6	11
Agile Property	4.4	378	26	42	34.2	11

SOURCES: CIMB, COMPANY REPORTS

Figure 20: … and weak sales have resulted in lower ROEs than regional peers, which boast higher asset turns

Company	Market cap (US$ bn)	Land bank msf	Sales (msf) 2011	Sales (msf) 2012	EBITDA margins 2011	EBITDA margins 2012	ROE 2011	ROE 2012	Net Gearing 2011	Net Gearing 2012
India										
DLF	7.5	332	10.3	13.6	39.3%	40.5%	5.8%	4.5%	84.2%	85.2%
Unitech	1.1	350	9.2	7.2	27.5%	13.5%	5.2%	2.0%	46.4%	34.6%
Oberoi	1.6	20	0.9	0.7	57.4%	58.3%	19.8%	13.1%	-41.8%	-34.6%
Sobha	0.7	248	2.8	3.3	25.8%	33.1%	10.2%	10.7%	64.4%	58.1%
China										
China Overseas	15.9	378	60.1	78.5	39.0%	36.0%	20.5%	19.9%	33.0%	29.0%
Guangzhou R&F	4.2	295	23.6	31.0	43.0%	38.0%	20.8%	20.4%	85.0%	81.0%
Agile Property	4.4	378	33.5	34.9	46.0%	35.0%	19.7%	18.5%	66.0%	71.0%

SOURCES: CIMB, COMPANY REPORTS, FY for India and CY for China

Figure 21: Higher interest expenses (and outflows vs. CFO) on high debts…

	DLF*			Unitech##			Sobha#			Oberoi		
Rs bn	FY11	FY12	9MFY13	FY11	FY12	9MFY13	FY11	FY12	9MFY13	FY11	FY12	9MFY13
Debt	238.1	250.7	253.9	58.5	45.0	60.8	12.4	12.4	14.5	-	-	-
Interest outflow	28.6	30.1	22.8	8.2	6.3	6.4	1.6	1.6	1.4	-	-	-
Net debt	208.7	227.3	213.5	54.0	41.9	54.2	12.1	11.8	13.2	(14.0)	(12.9)	(10.9)
Net gearing (%)	79%	83%	76%	47%	35%	43%	66%	59%	62%	-42%	-35%	-27%
Cash from Op. (CFO)	27.6	25.2	17.7	12.6	18.9	N.A	4.0	3.8	3.1	2.8	3.3	0
Interest as % of CFO	104%	119%	129%	65%	33%	N.A	41%	42%	45%	-	-	-

SOURCES: CIMB, COMPANY REPORTS; Interest rate assumption: * 12%, # 13%, ## 14%, DLF's net gearing is adjusted Pref. Shares

Figure 22: Weak execution (given large landbanks)…

	ROE % FY09	ROE % FY10	ROE % FY11	ROE % FY12	Average RoE (last 4 years)
DLF	20.4%	6.3%	5.8%	4.5%	9.2%
Sobha	10.4%	9.6%	10.2%	10.7%	10.2%
Unitech	27.3%	8.7%	5.2%	2.0%	10.8%
Oberoi	18.9%	27.6%	19.8%	13.1%	19.9%

SOURCES: CIMB, COMPANY REPORTS

Continued macro and consumer-sentiment weakness coupled with issues of affordability has delayed demand (and hence financials). Compounded by higher costs (from execution delays, project cost inflation and higher interest expenses), this has weakened the financials of most companies.

Figure 23: Though bottoming out of earnings; we expect extended downcycle

DLF	Rs m	FY11	FY12	% yoy change	9MFY12	9MFY13	% yoy change
	Revenues	95,606	96,294	0.7%	70,126	55,473	-20.9%
	EBITDA	37,527	39,043	4.0%	31,067	19,004	-38.8%
	EBITDA margins	39.3%	40.5%	-	44.3%	34.3%	-
	Other income	5,839	5,945	1.8%	4,638	12,297	165.1%
	PAT	16,396	12,008	-26.8%	9,891	7,176	-27.5%
Sobha	**Rs m**	**FY11**	**FY12**	**% yoy change**	**9MFY12**	**9MFY13**	**% yoy change**
	Revenues	13,945	14,079	1.0%	8,848	12,778	44.4%
	EBITDA	3,600	4,666	29.6%	2,749	3,857	40.3%
	EBITDA margins	25.8%	32.9%	-	31.1%	30.2%	-
	Other income	51	65	26.9%	52	45	-13.5%
	PAT	1,813	2,060	13.6%	1,093	1,477	35.1%
Unitech	**Rs m**	**FY11**	**FY12**	**% yoy change**	**9MFY12**	**9MFY13**	**% yoy change**
	Revenues	31,226	24,219	-22.4%	17,358	15,923	-8.3%
	EBITDA	8,594	3,281	-61.8%	3,652	2,473	-32.3%
	EBITDA margins	27.5%	13.5%	-	21.0%	15.5%	-
	Other income	1,695	2,080	22.7%	1,451	1,031	-29.0%
	PAT	5,677	2,374	-58.2%	2,460	1,792	-27.2%
Oberoi	**Rs m**	**FY11**	**FY12**	**% yoy change**	**9MFY12**	**9MFY13**	**% yoy change**
	Revenues	9,843	8,184	-16.9%	5,654	7,403	30.9%
	EBITDA	5,653	4,772	-15.6%	3,139	4,308	37.3%
	EBITDA margins	57.4%	58.3%	-	55.5%	58.2%	-
	Other income	744	1,564	110.1%	1,248	812	-34.9%
	PAT	5,172	4,629	-10.5%	3,193	3,597	12.7%

SOURCES: CIMB, COMPANY REPORTS

While cost overruns for past projects had been largely captured in past financials, we do not expect major improvements in earnings and cash flows as we expect sales to remain weak (on high prices) and weak ROEs to continue (on high interest expenses from high debts), thereby extending developers' downcycle.

Figure 24: BSE Realty Index has underperformed the Sensex due to weak fundamentals

	21-Mar-13	Absolute Performance					Relative Performance to BSE Index (%)				
Company Name	Price(Rs)	1 month	3 months	6 months	1 year	3 year	1 month	3 months	6 months	1 year	3 year
DLF	239	-12%	9%	2%	18%	-38%	-9%	11%	2%	11%	-45%
Oberoi Realty	268	-5%	-9%	16%	2%	N.A	-2%	-6%	16%	-5%	N.A
Sobha developers	380	-6%	-2%	11%	23%	25%	-3%	1%	11%	16%	18%
Unitech	23	-22%	-29%	-2%	-23%	-74%	-19%	-27%	-2%	-30%	-81%
Anant Raj	61	-9%	-33%	6%	-2%	-60%	-6%	-31%	6%	-8%	-67%
Ansal Infra	22	-26%	-40%	-26%	-34%	-72%	-24%	-37%	-26%	-41%	-79%
HDIL	48	-30%	-56%	-46%	-53%	-87%	-27%	-53%	-46%	-60%	-95%
Indiabull Real Estate	54	-21%	-24%	-6%	-24%	-70%	-19%	-22%	-6%	-31%	-77%
Mahindra Life	390	-6%	-6%	5%	19%	10%	-3%	-3%	5%	12%	3%
Parsvnath	40	-8%	3%	-1%	-31%	-40%	-5%	5%	-1%	-38%	-47%
Peninsula Land	40	-32%	-44%	-5%	10%	-56%	-29%	-42%	-5%	4%	-63%
Phoenix Mill	266	3%	11%	38%	21%	26%	5%	14%	37%	14%	19%
Puravankara	83	-22%	-17%	21%	15%	-29%	-19%	-14%	21%	8%	-36%
BSE Realty Index	1,805	-13%	-12%	2%	-2%	-56%	-11%	-10%	1%	-9%	-63%
BSE Sensex	18,793	-3%	-2%	0%	7%	7%					

SOURCES: CIMB, BLOOMBERG

3. VALUATION AND RECOMMENDATION

3.1 Initiate with Underweight; prefer Sobha to DLF

We prefer developers with better asset turns and execution capability, present in stable markets and have strong balance sheets.

We have Outperform ratings for:

- Sobha Developers, which we believe has the ability to churn assets. We also like its higher exposure to the Bangalore market (where we are more positive on with a recovery in IT demand).
- Oberoi Realty, whose muted sales/approval delays had led to its underperformance, creating buying opportunities as we are anticipating improvements from its quality land bank and strong balance sheet.

We have Underperform ratings for:

- DLF, whose recent spike in its stock price (it outperformed Sensex by 11% in last three months) has more than captured initiatives in deleveraging/cashflow generation - as its high-debt overhang is likely to stay, in our view.
- Unitech, whose weak launches/sales are increasing source of concern on top of its high debt.

Figure 25: Valuation snapshot – Prefer Sobha over DLF

	Rating	Mcap (US$bn)	DCF based GAV a	Disc to GAV	Disc. GAV b	Liabilities # c	Adj. RE NAV (d = a + b - c)	Others # # e	TP (Rs) (d + e)	CMP * (Rs)	% upside	RNAV (Rs/ share)	Prem/ (disc) %
DLF	Underperform	7.5	310	15%	263	118	146	74	220	240	-8%	266	-10%
Unitech	Underperform	1.1	60	20%	48	30	18	3	21	23	-11%	33	-29%
Oberoi	Outperform	1.6	225	10%	202	-33	236	65	300	269	12%	323	-17%
Sobha	Outperform	0.7	613	10%	552	149	402	47	450	380	18%	511	-26%

SOURCES: CIMB, COMPANY REPORTS, Note # includes payable for land bank and net debt, ## includes lease assets/ contractual business *Prices as on 21.3.2013

3.2 Valuation methodology

We use DCF-based Net Asset Value (NAVs) for Mar 15 to value the property sector. Our valuations assume:

- 5% inflation for base property prices and costs over the entire land bank;
- 5-10-year delays in project launches and completions (execution) vs. developers' guidance which seems very aggressive;
- Discount rates (WACC) of 15%, cap rates (for valuing leased commercial assets) of 11-12% and tax rates of 30%.

We apply premiums or discounts to our DCF Gross Asset Value (GAVs) depending on the companies' potential in land banks and execution capabilities, quality of balance sheets and risks associated with their business models.

- We further exclude net debts and outstanding payables on landbanks, and add the values of their other divisions (commercial lease assets, contract businesses etc.) to arrive at adjusted NAVs, which form the basis of our target prices.
- Excluding premiums or discounts to GAVs, we arrive at our NAVs.

NAVs at discounts or premiums would depend on business cycles and company-specific issues. We believe most real-estate companies in the region historically (until 2005) traded at discounts to their NAVs. However, they traded at premiums over 2005-07 on account of the strong growth in real-estate demand and prices. The subsequent slowdown has reversed this and regional peers are back to trading at discounts to their NAVs.

Figure 26: Asian real-estate sector trading at significant discounts to RNAVs

	PE (x)		P/BV (x)		Market Cap	RNAV	Premium
	2013	2014	2013	2014	(US$ mn)	(US$ mn)	%
Singapore	18.6	15.5	1.1	1.0	68,854	90,354	-24%
China/Hong Kong	8.2	7.0	1.2	1.1	78,902	167,551	-53%
Indonesia	14.4	11.8	3.1	2.6	15,639	N.A	N.A
Malaysia	16.0	14.3	1.6	1.5	12,606	14,201	-11%
Thailand	15.1	12.9	2.9	2.5	14,868	8,635	72%
Asia Real Estate (ex- India & Indonesia)	**11.6**	**9.9**	**1.2**	**1.1**	**175,230**	**280,740**	**-38%**

SOURCES: CIMB, Asia real estate sector (as per CIMB coverage)

4. RISKS

4.1 Economic recovery and policy reforms

We expect the macro environment to remain weak in the near term, affecting real-estate demand. Any major economic recovery and policy reforms could improve demand.

4.2 Recovery in sales volumes / cash flows

We have factored in a gradual recovery in sales volumes and cash flows in our estimates. Any major recovery could result in changes to our estimates.

4.3 Major debt reductions via asset sales

We have not assumed big debt reductions for the sector (except from an Aman resort/wind-power sale by DLF by 1QFY14) due to a weak economic environment and also due to a lack of monetisable assets. Any significant reductions in debts via asset sales would be positive.

5. APPENDIX

5.1 View on micro markets

We are positive on the Bangalore and Chennai markets as we believe these markets are stable (rises in property price have been moderate). We are cautious on the Gurgaon market (speculation-driven) where sales volumes had declined in 2012 due to spikes in property prices in the last three years. We are also cautious on Mumbai where sales have been retreating on higher prices.

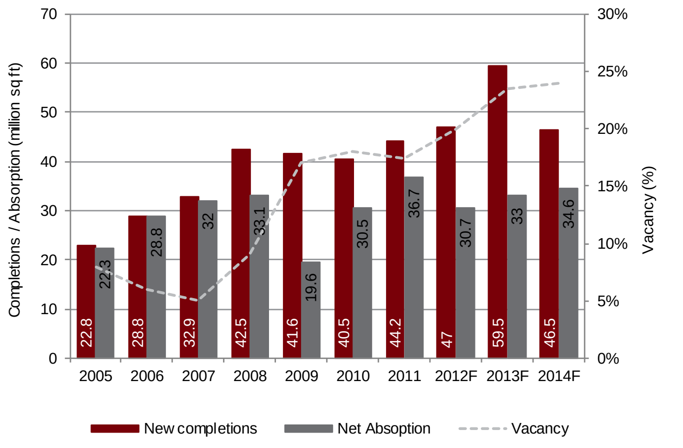
Figure 27: High property prices have lowered sales in the residential segment

	Sales (in units)	% chg	Price (Rs/ sq ft)	% chg	Absorption (%)
Mumbai					
2009	16,912	-7%	9,057	1%	6%
2010	23,771	41%	10,480	16%	7%
2011	21,478	-10%	11,235	7%	5%
2012	13,280	-38%	13,161	17%	4%
Gurgaon					
2009	24,331	58%	2,907	-7%	8%
2010	25,043	3%	3,602	24%	11%
2011	28,879	15%	4,341	21%	11%
2012	24,306	-16%	5,566	28%	8%
Bangalore					
2009	19,545	-29%	2,866	-9%	5%
2010	26,955	38%	2,952	3%	7%
2011	38,681	44%	3,198	8%	6%
2012	39,824	3%	3,735	17%	6%
Chennai					
2009	14,420	20%	2,971	-16%	5%
2010	21,745	51%	3,302	11%	8%
2011	30,152	39%	3,853	17%	7%
2012	27,674	-8%	4,180	8%	6%

SOURCES: Propequity; Note: Absorption = sales/ (new launch + inventory)

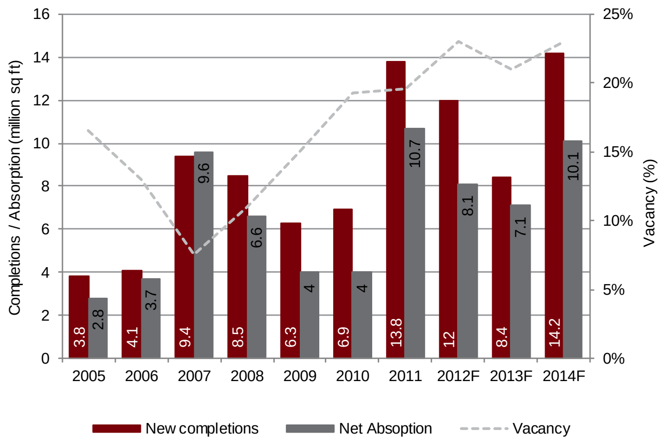
The outlook for commercial offices and retail malls remains weak due to excess supply and weak economic conditions.

Figure 28: Commercial (office) segment remains weak…



SOURCES: JLL 4Q12

Figure 29: … as is the commercial (retail) segment



SOURCES: JLL 4Q12

Note: Figures represent the top seven cities of India – Mumbai, NCR-Delhi, Bangalore, Chennai, Pune, Hyderabad and Kolkata

INITIATION

DLF Ltd

DLFU IN /

COMPANY NOTE

Market Cap	Avg Daily Turnover	Free Float
US$7,493m	**US$45.83m**	**21.4%**
Rs406,755m	Rs2,481m	10,695 m shares

Current	**Rs239.5**
Target	**Rs220.0**
Previous Target	**N/A**
Up/downside	**-8.1%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

Notes from the Field

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Company Visit ☑ Expert Opinion ☐
Channel Check ☑ Customer Views ☐

"DLF had foreseen the possibility of a moderation of the growth momentum and had put into place prudent corporate strategies to mitigate risks by off-loading certain non-core assets and focusing on key strengths."

\- K.P.Singh, Chairman

Burden of high expectations

DLF's plan to reduce debt & resume launches has created expectations (outperformed the Sensex by 11% in last 3 months), as interest outflow has been higher than the operating cashflows. While these are positive steps, it could see some delays due to a weak macro environment.

Furthermore, DLF's plan to generate net cash of Rs30bn annually (under steady state basis in the next 2-3 years) seems aggressive to us as it expects Rs27bn of rental income (vs Rs17-18bn now) in the face of weak demand, and Rs10bn of interest outflow (Rs30.5bn now) with not much asset sales ahead. Given the fact that asset sales are a long-winded process and premium housing sells at a gradual pace, we expect its debt reduction/cashflow generation to be slower than expected. Hence initiate coverage with an Underperform and SOP-based TP of Rs220.

Debt reduction - huge task ahead, despite initiatives

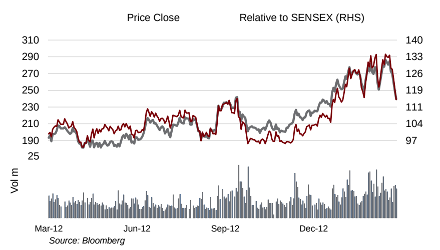
Aggressive land banking and the consolidation of its commercial assets in the past have resulted in high debt for DLF. While DLF's land bank has now been reduced significantly, its net debt has remained high due to weak cashflows (weak sales, execution, slow asset sale and higher interest outflow). Thus, DLF's recent plan to reduce debt and resume launches has created expectations (it outperformed Sensex by 11% in last three months). DLF remains confident of reducing its net debt from the current Rs213bn to Rs170bn via the sale of Aman resorts and wind assets for Rs20bn (by Mar'13) and Rs20+bn of equity offering (by Jun'13). DLF's plan is to reduce its net debt to Rs120bn-150bn (which could be serviced by lease rentals) in the next 2-3 years. These seem aggressive given the weak demand environment.

What can change our view

We believe DLF needs more initiatives to reduce its net debt and generate positive cashflows via: 1) faster asset turnover (given the scale and size of DLF), 2) more non-core asset monetisation to reduce net debt to Rs150bn by FY14 as this would ensure the rental income takes care of interest outflow), 3) recovery in commercial demand (given DLF's strong pipeline in commercial assets). Also, better disclosure of land bank could result in change of estimates.

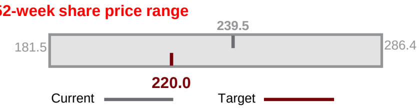
Underperform

Our target price of Rs220 comprises: 1) Rs146/share for its real estate and 2) Rs74/share for its lease business. We highlight that we are 20% below the consensus estimates.



Source: Bloomberg

52-week share price range



Financial Summary

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues (Rsm)	95,606	96,294	75,508	89,686	100,269
Operating EBITDA (Rsm)	37,527	39,043	27,820	38,170	45,638
Net Profit (Rsm)	16,396	12,008	8,635	11,191	16,792
Core EPS (Rs)	9.66	7.07	5.08	6.59	9.89
Core EPS Growth	(4.7%)	(26.8%)	(28.1%)	29.6%	50.0%
FD Core P/E (x)	24.80	33.87	47.10	36.34	24.22
DPS (Rs)	2.00	2.00	2.00	2.00	2.00
Dividend Yield	0.84%	0.84%	0.84%	0.84%	0.84%
EV/EBITDA (x)	17.02	16.56	21.93	15.59	12.64
P/FCFE (x)	4.56	11.39	NA	29.55	NA
Net Gearing	84.2%	85.2%	71.0%	64.0%	55.1%
P/BV (x)	1.54	1.49	1.47	1.43	1.37
Recurring ROE	5.78%	4.48%	3.14%	3.99%	5.78%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.79	0.80	0.78

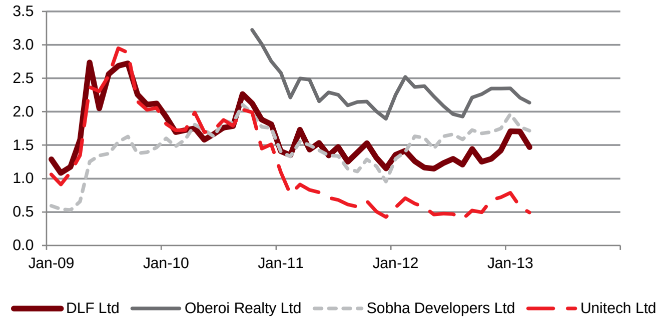
SOURCE: CIMB, COMPANY REPORTS

PEER COMPARISON

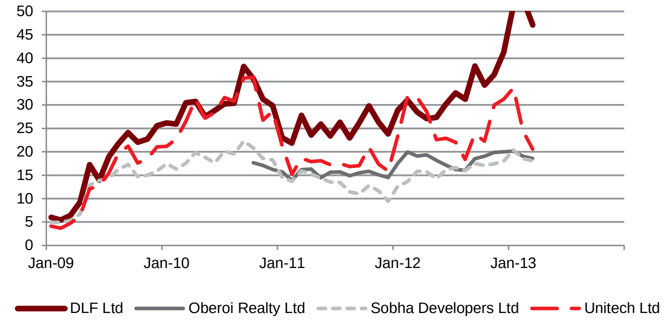
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US$m	Price	Target Price	Upside
DLF Ltd	**DLFU IN**	**IN**	**UNDERPERFORM**	**7,493**	**239.5**	**220.0**	**-8.1%**
Oberoi Realty Ltd	OBER IN	IN	OUTPERFORM	1,623	268.5	300.0	11.8%
Sobha Developers Ltd	SOBHA IN	IN	OUTPERFORM	686	380.0	450.0	18.4%
Unitech Ltd	UT IN	IN	UNDERPERFORM	1,120	23.25	21.00	-9.7%

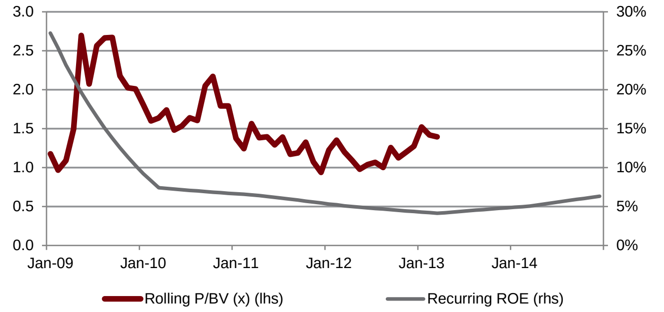
Rolling P/BV (x)



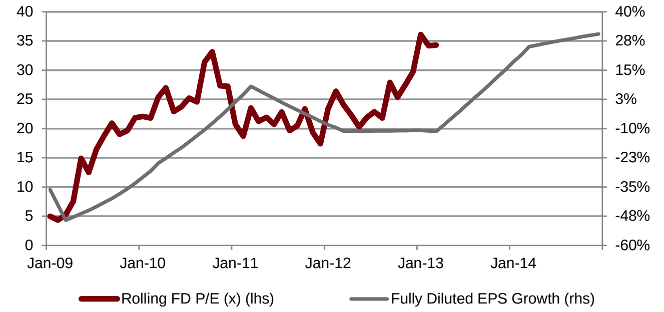
Rolling FD P/E (x)



Peer Aggregate: P/BV vs Recurring ROE



Peer Aggregate: FD P/E vs FD EPS Growth



Valuation

	P/E (FD) (x)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
DLF Ltd	**42.85**	**38.51**	**26.39**	**1.47**	**1.44**	**1.38**	**20.18**	**16.81**	**13.27**
Oberoi Realty Ltd	18.66	15.24	12.48	2.19	1.95	1.72	13.93	10.97	8.90
Sobha Developers Ltd	18.07	15.10	11.30	1.75	1.59	1.41	9.57	7.92	6.40
Unitech Ltd	21.61	16.40	11.77	0.50	0.48	0.46	30.99	23.93	16.65

Growth and Returns

	Fully Diluted EPS Growth			Recurring ROE			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
DLF Ltd	**-27.4%**	**11.3%**	**45.9%**	**3.5%**	**3.8%**	**5.3%**	**0.84%**	**0.84%**	**0.84%**
Oberoi Realty Ltd	-0.6%	22.4%	22.1%	12.3%	13.5%	14.7%	0.89%	1.07%	1.26%
Sobha Developers Ltd	3.4%	19.7%	33.6%	10.1%	11.0%	13.2%	1.02%	0.92%	0.92%
Unitech Ltd	-11.6%	31.8%	39.3%	2.3%	3.0%	4.0%	0.00%	0.00%	0.00%

SOURCE: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

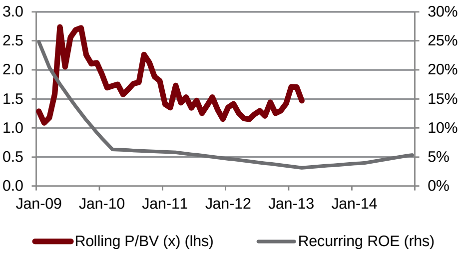
BY THE NUMBERS

Share price info

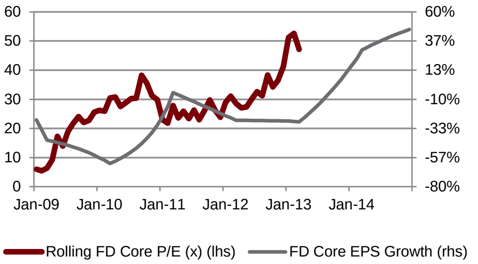
Share px perf. (%)	1M	3M	12M
Relative	-9.3	11.4	10.8
Absolute	-12.1	9.1	17.6

Major shareholders	% held
Pancsheel Investments	18.4
Siddhant Housing	14.0
Kohinoor Real Estate	5.6

P/BV vs Recurring ROE



FD Core P/E vs FD Core EPS Growth



A revenue ramp-up has been slower-than-expected on account of the delay in approvals and the lack of demand for high value properties.

Profit & Loss

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues	**95,606**	**96,294**	**75,508**	**89,686**	**100,269**
Gross Profit	**52,606**	**56,619**	**46,626**	**58,296**	**67,180**
Operating EBITDA	**37,527**	**39,043**	**27,820**	**38,170**	**45,638**
Depreciation And Amortisation	(6,307)	(6,888)	(8,039)	(7,320)	(7,512)
Operating EBIT	**31,220**	**32,155**	**19,781**	**30,850**	**38,126**
Total Financial Income/(Expense)	(11,217)	(16,520)	(9,874)	(15,700)	(15,393)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**20,002**	**15,635**	**9,907**	**15,150**	**22,732**
Exceptional Items					
Pre-tax Profit	**20,002**	**15,635**	**9,907**	**15,150**	**22,732**
Taxation	**(4,594)**	**(3,741)**	**(1,981)**	**(3,939)**	**(5,910)**
Exceptional Income - post-tax					
Profit After Tax	**15,408**	**11,893**	**7,925**	**11,211**	**16,822**
Minority Interests	(72)	(15)	650	(100)	(110)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	1,061	130	60	80	80
Net Profit	**16,396**	**12,008**	**8,635**	**11,191**	**16,792**
Recurring Net Profit	16,396	12,008	8,635	11,191	16,792
Fully Diluted Recurring Net Profit	**16,396**	**12,008**	**8,635**	**11,191**	**16,792**

Cashflows are expected to improve gradually, led by debt reduction.

Cash Flow

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
EBITDA	37,527	39,043	27,820	38,170	45,638
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(12,239)	(15,987)	27,352	(1,332)	12,160
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(15,796)	(19,940)	(11,145)	(19,659)	(21,334)
Other Operating Cashflow	42,791	56,047	11,051	39,233	25,221
Net Interest (Paid)/Received	(17,056)	(22,465)	(23,374)	(18,839)	(17,399)
Tax Paid	(7,470)	(11,501)	(8,131)	(10,538)	(15,811)
Cashflow From Operations	**27,757**	**25,198**	**23,573**	**27,036**	**28,475**
Capex	(11,265)	(2,116)	8,293	1,730	(14,000)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	49,605	1,879	(2,640)	0	0
Cash Flow From Investing	**38,340**	**(237)**	**5,653**	**1,730**	**(14,000)**
Debt Raised/(repaid)	23,136	10,757	(33,840)	(15,000)	(17,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,395)	(3,974)	(3,974)	(4,008)	(4,008)
Preferred Dividends					
Other Financing Cashflow	(81,660)	(30,145)	10,862	(9,757)	8,099
Cash Flow From Financing	**(61,919)**	**(23,362)**	**(26,952)**	**(28,765)**	**(12,910)**

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

We believe debt reduction would be gradual, led by the proposed sale of the Aman resorts and its wind power business.

Balance Sheet

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Cash And Equivalents	13,461	15,062	17,337	17,337	18,902
Properties Under Development					
Total Debtors	17,257	17,659	15,722	17,200	19,230
Inventories	150,388	161,755	172,825	189,953	199,377
Total Other Current Assets	151,612	131,484	140,466	147,429	164,825
Total Current Assets	**332,717**	**325,960**	**346,349**	**371,919**	**402,334**
Fixed Assets	281,841	277,069	260,737	251,687	258,175
Total Investments	**9,958**	**11,268**	**27,000**	**27,000**	**27,000**
Intangible Assets	13,840	16,248	15,670	15,670	15,670
Total Other Non-Current Assets	1,633	3,349	0	0	0
Total Non-current Assets	**307,272**	**307,934**	**303,407**	**294,357**	**300,845**
Short-term Debt	17,141	19,898	11,058	7,608	4,158
Current Portion of Long-Term Debt					
Total Creditors	38,146	25,807	25,321	27,950	29,916
Other Current Liabilities	92,868	80,862	126,814	148,422	187,466
Total Current Liabilities	**148,155**	**126,567**	**163,193**	**183,981**	**221,540**
Total Long-term Debt	222,762	230,762	205,762	194,212	180,662
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	**222,762**	**230,762**	**205,762**	**194,212**	**180,662**
Total Provisions	0	0	0	0	0
Total Liabilities	**370,917**	**357,329**	**368,955**	**378,193**	**402,202**
Shareholders' Equity	**263,321**	**272,357**	**277,019**	**284,202**	**296,985**
Minority Interests	5,766	4,221	3,796	3,896	4,006
Total Equity	**269,087**	**276,579**	**280,815**	**288,098**	**300,991**

Key Ratios

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue Growth	28.8%	0.7%	(21.6%)	18.8%	11.8%
Operating EBITDA Growth	6.9%	4.0%	(28.7%)	37.2%	19.6%
Operating EBITDA Margin	39.3%	40.5%	36.8%	42.6%	45.5%
Net Cash Per Share (Rs)	(133.3)	(138.7)	(117.4)	(108.6)	(97.7)
BVPS (Rs)	155.0	160.3	163.1	167.3	174.8
Gross Interest Cover	1.83	1.43	0.85	1.64	2.19
Effective Tax Rate	23.0%	23.9%	20.0%	26.0%	26.0%
Net Dividend Payout Ratio	0%	0%	0%	0%	0%
Accounts Receivables Days	63.85	66.36	80.68	66.99	66.31
Inventory Days	1,168	1,440	2,114	2,109	2,147
Accounts Payables Days	226.6	295.0	323.1	309.7	319.2
ROIC (%)	6.71%	6.62%	3.95%	6.81%	8.56%
ROCE (%)	6.01%	6.21%	3.86%	6.25%	7.81%

Key assumptions for our DCF-based GAV Calculations

Inflation in property prices across land bank	5%
Inflation in construction costs across land bank	5%
WACC	15%
Capitalization Rate	11%
Tax Rate	30%

SOURCE: CIMB, COMPANY REPORTS

Burden of high expectations

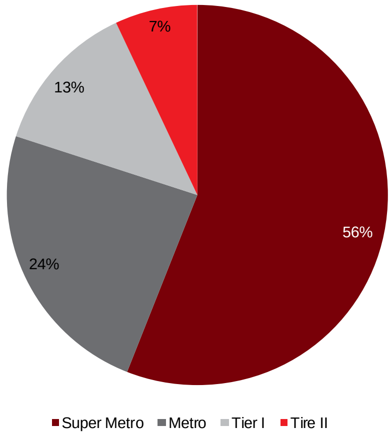
Table of Contents

1. BACKGROUND

1.1 Largest developer with quality land bank in Gurgaon

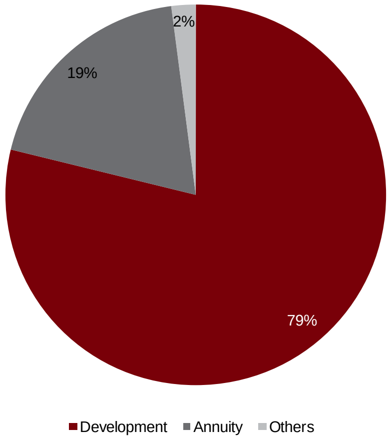
DLF began developing properties in Delhi in 1946. However, due to regulatory changes, it shifted its focus early on to the neighbouring suburb of Gurgaon. While Gurgaon remains DLF's core strength, it has spread its land bank across 24 cities. We believe DLF's scale and size, coupled with its quality land bank (332 msf, super metros and metros represent 80%), gives it the flexibility to capture the demand for both residential and commercial projects depending on the economic cycle. DLF classifies its land bank into four micro markets - Mumbai and NCR as super metros, Bangalore, Chennai and Kolkata as metros, eight cities as tier I and ten cities as tier II.

Figure 1: Land bank - by location (high concentration in Metros)



SOURCES: CIMB, COMPANY REPORTS

Figure 2: Land bank - by business segments



SOURCES: CIMB, COMPANY REPORTS

1.2 Weak sales, execution and slow asset sales have kept its debt at high levels

Aggressive land banking and the consolidation of its commercial assets in the past have resulted in high debt for DLF. While DLF's land bank has now been reduced significantly, its net debt has remained high due to weak cashflows (weak sales, execution and slow asset sales).

Figure 3: While land banks have reduced, slow sales and execution…

	Land Bank (msf)				Sales (msf)				Execution (msf)			
	2007	2008	2009	2012	FY10	FY11	FY12	FY13#	FY10	FY11	FY12	FY13#
DLF	574	751	425	332	12.2	10.3	13.6	6.9	1.6	2.7	10.2	0.6
Sobha	158	220	166	220	2.1	2.8	3.3	3.6	1.8	4.1	4.1	3.5
Unitech	550	840	429	350	13.5	7.6	6.3	5.5	6.8	4.2	1.7	3.1
Oberoi	20	20	20	20	NA	0.7	0.7	0.5	NA	NA	3.4	3.1

SOURCES: CIMB, COMPANY REPORTS; # Annualised 9M data

Figure 4: …coupled with lower than expected non-core asset sale …

	FY10		FY11		FY12	
	Guidance	Achieved	Guidance	Achieved	Guidance	Achieved
Development business booking (msf)	15	12.2	15-18	10.3	12-15	13.6
Rental business leasing (msf)	na	0.7	3-4	4.4	2-4	1.4
De-leveraging	40%	53%	40-50%	79%	50-60%	83%
Non-core divestment (Rs bn)	45.0	18.0	27.0	12.7	28.0	17.7

SOURCES: CIMB, COMPANY REPORTS

Figure 5: … has resulted in higher net debt & increase in Interest outflow (vs. CFO)…

	FY08	FY09	FY10	FY11	FY12	9MFY13
Gross Debt	122,600	163,580	163,200	238,130	250,660	253,880
Interest outgo @ 12%	(14,712)	(19,630)	(19,584)	(28,576)	(30,079)	(30,466)
Net Debt	103,230	139,580	148,210	208,720	227,250	213,500
Equity	196,883	241,538	304,327	263,321	272,360	279,940
Net gearing (%)	52.4%	57.8%	48.7%	79.3%	83.4%	76.3%
CFO	(25,970)	1,750	86,280	27,570	25,200	17,680
Interest as % of CFO	56.6%	-1121.7%	-22.7%	-103.6%	-119.4%	-172.3%

SOURCES: CIMB, COMPANY REPORTS; Note: Debt is as reported by the company

Figure 6: … affecting ROEs for companies having high debt and low asset churn

	FY09	FY10	FY11	FY12	Average RoE (last 4 years)
DLF	20.4%	6.3%	5.8%	4.5%	9.2%
Sobha	10.4%	9.6%	10.2%	10.7%	10.2%
Unitech	27.3%	8.7%	5.2%	2.0%	10.8%
Oberoi	18.9%	27.6%	19.8%	13.1%	19.9%

SOURCES: CIMB, COMPANY REPORTS

2. OUTLOOK

2.1 While debt reduction initiatives have started…

We note that DLF's focus on selling non-core assets has picked up momentum in FY13 as it has sold the long-awaited Mumbai NTC land in Mumbai in 1HFY13, reducing its net debt from Rs232bn to Rs213.5bn in 3QFY13.

It has also announced the sale of the Aman resorts for US$300m in 3QFY13 which it expects to close by 4QFY13, along with sale of its wind power business. These, combined, are expected to reduce its net debt to Rs190bn by end-FY13.

Furthermore, DLF plans to raise about Rs20+bn by April-June 2013 via institutional placement (to meet the regulatory guideline of maintaining a maximum of 75% ownership by promoters) which would reduce its net debt to Rs170bn.

DLF aims to further reduce its net debt to Rs120bn-150bn of net debt (which could be serviced only by lease rentals) in the next 2-3 years, which it plans to achieve via more asset sales, potential equity dilution (after the conversion of CCPS) and operational cashflows.

Figure 7: DLF plans of net debt reduction

Expected net debt position of DLF by June 2013 (1QFY14F)	**Rs mn**
Net debt as at 31st December 2012 (9MFY13)	213,500
less : expected sale of Aman resort sale for US$300 mn by end of FY13F	16,290
Less: expected sale of Wind Power business by end of FY13F	7,000
Expected net debt by FY13F	**190,210**
Less: proppsed equity offering (Institutional placement) by June 2013	20,000
Expected net debt by end of June 2013 (1QFY14F)	**170,210**

SOURCES: CIMB, COMPANY REPORTS

2.2 …we expect only a gradual deleveraging from here on

We believe DLF's plans to reduce its net debt to Rs190bn by March 2013 (Rs213.5bn in 3QFY13), via the sale of the Aman hotel and remaining wind power units, could see delays as these transactions take time to close in a weak economic environment.

While the proposed institutional equity placement programme (IPP) could fetch DLF Rs20bn (proposed in April 2013) and reduce net debt accordingly, it would also result in dilution. Thus, the initiatives listed above by DLF to sell Aman, and equity dilution could bring its net debt to Rs170bn by June 2013.

While DLF indicates that it has more non-core asset sales planned (though not disclosed), we believe reducing its net debt from this base would be gradual as it would be led by the sale of some small non-strategic land parcels or from the payments made earlier for government land (Rs7bn refund from the TIDEL SEZ (special economic zone) project and the Rs9bn refund from the Dwarka convention centre project) – which seems difficult to come by.

Figure 8: Expect gradual reduction in debt

Rs m	FY10	FY11	FY12	FY13F	FY14F	FY15F
Gross Debt	163,200	238,130	250,660	216,820	201,820	184,820
Net Debt	148,210	208,720	227,250	199,483	184,483	165,918
Equity	304,327	263,321	272,357	277,019	284,202	296,985
Gearing (%)	49%	79%	83%	72%	65%	56%

SOURCES: CIMB, COMPANY REPORTS; Note: Gross debt is not accounted for proposed equity offering

2.3 While launches/sales have resumed…

We believe DLF's scale and size, coupled with its quality land bank (332 msf, super metros and metros represent 80%), give it the flexibility to capture the demand for real estate. After the weak sales momentum in 9MFY13 (5.2 msf vs the average of 12 msf in the last three years) due to the delay in launches because of approval issues, DLF has picked up the launch momentum again.

Figure 9: Development business slowing down

	FY09	FY10	FY11	FY12
Area Sold (msf)	7.6	12.2	10.3	13.6
Sales booked (Rsm)	36,195	71,506	66,588	52,780

SOURCES: CIMB, COMPANY REPORTS

We have seen momentum in the launch of residential projects picking up in 2H in Gurgaon. We have also seen the launch of a commercial project in Okhla (New Delhi) and residential launch in Bangalore (0.5msf) in 4QFY13. We highlight DLF needs more such successful launches to be come out of the weak cashflow situation.

Figure 10: Launch of residential projects picking up in 2H in Gurgaon

Launch period	Property name	Average size (sf)	Saleable area (msf)	Base Price (Rs/ sf)	Selling Price# (Rs/ sf)	Total sales (Rs mn)	Status
Dec'12	Skycourt	1,848-1,867	1.2	6,300	7,700	9,240	mostly sold out
Mar'13	Ultima	1,911-2,829	2msf (launched 0.75msf now)	7,500	9,020	6,765	mostly sold out

SOURCES: CIMB, COMPANY REPORTS

2.4 …management's guidance seems aggressive to us

During DLF's two-day site visit and management interaction in mid-February 2013, DLF showcased its projects that are under construction, and the upcoming launches where it also showed confidence in achieving sales of atleast 8 msf in the next 2-3 years on a steady state basis .

Figure 11: 45% of total gross margins are expected from luxury residential projects

Area (msf)	Region	Management expectations	Gross Realizations (Rs bn)
1.5	Gurgaon Phase 5	gross margins of Rs 17000/sf	25
2.5	New Gurgaon	gross margins of Rs 5000/sf	12.5
0.5	Mumbai, Chennai & Delhi	gross margins of Rs 15000/sf	7.5
3.5	Rest of India	gross margins of Rs 3000/sf	10.0
8.0		**Total**	**55.0**

SOURCES: CIMB, COMPANY REPORTS

DLF expects its current rental EBITDA of about Rs17.5bn a year to ramp up to Rs27bn in the next three years via: 1) natural escalation of 15 percent every three years, and a couple of rental assets coming on (such as the Mall of India in Noida expected to be commissioned in CY13) and 2) incremental leasing volume of about 1.5 msf a year going forward.

DLF states that this could result in Rs82bn of operating income every year. Accounting for expenses and overheads of Rs52.5bn (Rs10bn for financial expense, Rs15bn for capex/land, Rs20bn for other expenditures/depreciation and taxes, and Rs7.5bn for dividends), DLF expects free cashflows of about Rs30bn every year under steady state conditions in the next 2-3 years.

Figure 12: DLF expects to generate about 30bn per year on steady state

	Rs bn
Annual gross cashflow from development assets	55
Annual rental EBITDA	27
Total cashflow post operational costs	82
finance expense	10
capex/ land acquistion	15
Other expenses, depreciation and taxes	20
dividend	7.5
Total cash outflow	52.5
Net cash generated	29.5

SOURCES: CIMB, COMPANY REPORTS

The above guidance seems aggressive to us because:

- We believe given the weak demand environment, the spike in annual rental expectations from the current Rs17.5bn to Rs27bn is aggressive (despite additions assuming new leasing and rental appreciation).
- Also, the other big challenge for DLF would be to execute sales of super-premium projects of 1.5 msf every year as there is higher reliance (45% of total gross realisations) on luxury residential projects.
- While we certainly expect debt reduction in the next three years, a financial expense (interest cost) assumption of Rs10bn implies gross debt of less than Rs100bn which seems aggressive to us.

2.5 …we expect gradual improvement in its financials

We note that DLF has generated negative cashflows for the last few quarters due to weak launches/sales and high costs (expenses, interest costs and purchase of land). We expect operational cashflow to improve by end-FY14 as net debt reduces and new launch momentum picks up, but we maintain that more non-core asset sales/faster asset turnover has to be done to generate positive cashflows.

Figure 13: Higher interest cost has led to poor cash generation

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net cash from operations	6.5	8.3	6.4	4.9	8.4	2.8	4.0	9.8	6.7	9.1	1.9
Net cash used in investing activities	25.0	13.8	2.9	(0.1)	(3.0)	(7.1)	10.1	(5.3)	(2.9)	(3.8)	10.9
(Purchase) / Sale of fixed assets (Including CWIP), net	(1.7)	(0.1)	(1.4)	(3.9)	(3.3)	(1.7)	0.0	2.9	(4.8)	(3.6)	17.1
(Purchase) / Sale of Investment(net)	25.5	13.6	3.7	3.2	(0.8)	(5.6)	3.8	1.2	(0.6)	(0.1)	(5.3)
Net cash used in financing activities	(28.0)	(19.5)	(13.0)	(3.0)	(7.8)	4.9	(13.5)	(7.6)	(7.1)	(5.8)	(10.7)
Interest paid	(5.5)	(6.3)	(6.7)	(7.1)	(5.8)	(6.9)	(9.1)	(8.3)	(7.4)	(7.3)	(8.1)
Proceeds/ (repayment) from borrowings (net)	17.0	(1.3)	3.7	3.8	(1.3)	15.8	(4.8)	1.0	(0.0)	5.9	(2.6)
Net change in cash and cash equivalents	3.4	2.6	(3.7)	1.8	(2.4)	0.6	0.6	2.8	(3.3)	(0.0)	2.1
Opening cash and cash equivalents	8.4	0.0	14.4	10.6	12.5	0.0	0.0	(0.0)	9.3	6.0	5.6
Closing cash and cash equivalents	**11.8**	**2.6**	**10.6**	**12.4**	**10.1**	**0.6**	**0.6**	**2.8**	**6.0**	**5.6**	**7.7**

SOURCES: CIMB, COMPANY REPORTS

Also, the change in accounting policy where revenue recognition for projects launched after 1 April 2013 would need to cross the threshold of 25% of total construction costs, implies slower revenue recognition in the initial quarters. We expect DLF to recognise the remaining sales of about Rs50bn-55bn (which are yet to be recognised) and an annual rental of about Rs18bn-20bn over the next four quarters.

2.6 Demand for office space remains weak

DLF is the largest play on the commercial-leased assets in India with a current portfolio of 23.64 msf (as at 31 December 2012) of leased assets, which is now yielding a quarterly annuity income of Rs4.4bn (rentals of Rs4bn). With 5-6 msf of rental assets ready to be deployed and a pipeline of 58msf, it is likely to be the major beneficiary among Indian developers of any revival of demand for commercial properties. However, due to the weak economic environment demand has currently been slow which is reflecting in slower pick-up in Annuity business (see Figure 13 below).

Figure 14:Annuity income has been declining

Sales (msf)	FY09	FY10	FY11	FY12	9MFY13
Annuity Business	6.2	0.7	4.4	1.4	1.0

SOURCES: CIMB, COMPANY REPORTS

2.7 Other headwinds remain which can result in overhang

While DLF remains confident of resolving most of the headwinds mentioned below, these could result in overhang:

- CCI penalty – In August 2011, the Competition Commission of India (CCI) on a complaint filed by the Belaire/ Park Place owners associations had passed orders imposing a penalty of fined DLF Rs6.3bn for "abuse of dominant position", which DLF has challenged and remains confident of a favourable resolution.
- Income tax demand notice – According to FY12 Annual report, DLF received an assessment order for A.Y. 2009-10 from the Income Tax Authorities, creating a demand of Rs 4.57bn out of which, Rs 3.55bn pertains to demand on account of disallowance of SEZ profits U/s 80IAB of the Income Tax Act. Similar disallowance of SEZ profits were made by the Income Tax Authorities for the Company and its subsidiaries amounting to Rs 10.3bn for the assessment year 2009-10 and Rs 16.4bn for assessment year 2008-09 as per the assessment orders received during the year. The Company and the respective subsidiary companies have filed appeals before the appropriate Appellate Authorities against the said assessment orders. Based on the advice from independent tax experts, DLF remains confident of a favourable resolution.
- Silokhera SEZ issue - In FY11, the High Court of Punjab and Haryana, in two separate judgements, cancelled the sale deed of land relating to two of DLF's SEZ projects in Gurgaon at Silokhera and Cybercity, on the grounds that the land was acquired from farmers by the state government for public purposes other than for a SEZ or commercial development. The High Court has asked for the structures on these lands to be demolished, and for the land to be returned to the farmers. DLF has appealed against the said order in the Supreme Court where the Supreme Court has stayed the operation of the impugned judgment till further orders. Based on the advice of the independent legal counsels, the management believes that there is a reasonably strong likelihood of succeeding before the Supreme Court.
- In Feb 2011, the Supreme Court passed an order directing the state governments to evict encroachers from lands belonging to the village community which have been transferred for private and commercial use with a retrospective effect. Based on this judgement, villagers whose land was supposedly acquired by the Haryana Government for development of public utilities are demanding to return their lands as it was later sold for the private development for Gurgaon Recreation township. DLF has plans to develop a 10 msf high-end residential township on the said land parcel.

3. FINANCIALS

Figure 15: DLF – Key Financials

Rsm	FY11	FY12	FY13F	FY14F	FY15F
Revenues	95,606	96,294	75,508	89,686	100,269
EBITDA	37,527	39,043	27,820	38,170	45,638
EBITDA margins	39.3%	40.5%	36.8%	42.6%	45.5%
PBT	20,002	15,635	9,907	15,150	22,732
Tax Rate%	-23%	-24%	-20%	-26%	-26%
PAT	16,396	12,008	8,635	11,191	16,792
EPS	9.1	7.2	5.1	6.6	9.9
Growth					
Revenues	29%	1%	-22%	19%	12%
EBITDA	7%	4%	-29%	37%	20%
PAT - Core	-15%	-21%	-29%	30%	50%
Balance sheet					
Net worth (Rs m)	263,321	272,357	277,019	284,202	296,985
Net debt (Rs m)	226,442	235,598	199,483	184,483	165,918
Net gearing (%)	84.2%	85.2%	71.0%	64.0%	55.1%
ROE	5.8%	4.5%	3.1%	4.0%	5.8%
ROCE	6.0%	6.2%	3.9%	6.2%	7.8%

SOURCES: CIMB, COMPANY REPORTS

4. RISKS

4.1 Recovery in commercial demand

While the demand in the commercial segment remains weak due to the economic slowdown, we believe DLF is well prepared to ride the upcycle (whenever we see a recovery in demand) as it has 5-6 msf of nearly completed commercial assets.

4.2 Faster net debt reduction via asset sales

Faster net debt reduction to Rs150bn by FY14 via asset sales would ensure the rental income would take care of interest outflow – thus, not impacting the operational cashflow from its development assets.

4.3 Faster than 8 msf of sales every year

Given the scale and size of DLF, faster sales would ensure better asset turnover and return ratios.

4.4 Better disclosure of land bank

Land bank data disclosures have so far been restricted to sub-segments of cities (super metro, metro, Tier-1 and Tier 2) and segments (residential, commercial) with indicative property prices across segments. We believe better disclosures could result in a change in our estimates.

Figure 16: SWOT Analysis

Strengths	Opportunities
Quality land bank	Revival in commercial segment
Stable annuity income	Demand pick-up in premium properties
Weaknesses	**Threats**
High debt	Unfavorable verdict in various litigations
Slower asset turn (sales)	Weak demand environemnt
Slower non core asset sale	

SOURCES: CIMB, COMPANY REPORTS

5. VALUATION AND RECOMMENDATION

5.1 Initiate with Underperform

We value DLF on a DCF-based Net Asset Value (NAV) of Rs220/share, based on the following assumptions:

- 5% inflation on property prices and costs for the entire land bank.
- Project launches and completions after delays of 5-10 years from the company's guidance.
- Discount rate (WACC) of 15% and cap rate (used for valuing rent-yielding commercial properties) of 11%, tax rate of 30%.

Thus, we arrive at our DCF-based Gross Asset Value (GAV) of Rs310/share.

We apply a discount of 15% to the GAV and exclude the net debt of Rs109/share and outstanding payables of Rs9/share on the land bank to arrive at our adjusted real estate value of Rs146/share (real estate NAV of Rs192/share).

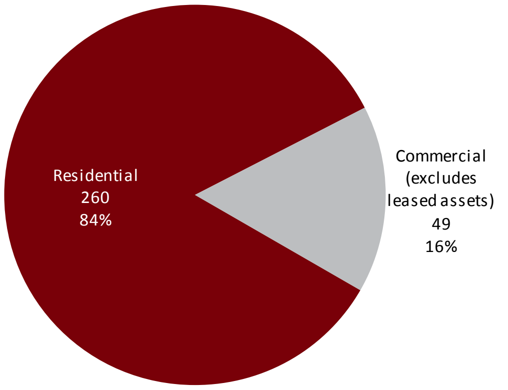
To this we add the value realised from the completed leased assets at Rs74/share to arrive at our adjusted real estate value, to arrive at a target price of Rs220/share. Excluding the discount, we arrive at a total NAV of Rs266/share.

Figure 17: SOP based target price of Rs220

Valuation (INR bn)	(INR bn)	INR/sh
DCF based GAV (a)	526	310
Adj.GNAV (Discounted by 15% - (b)	447	263
Less: Net debt (c')	184	109
Less: Payable for Land bank (d)	15.9	9
NAV-Real estate (g = a-c-d)	325.7	192
Adj. NAV - Real estate - (e = b- c-d)	**246.8**	**146**
Add: Leased assets (f)	126	74
Target Price (e+f)	**373**	**220**
Total NAV (g+f)	**452**	**266**

SOURCES: CIMB, COMPANY REPORTS

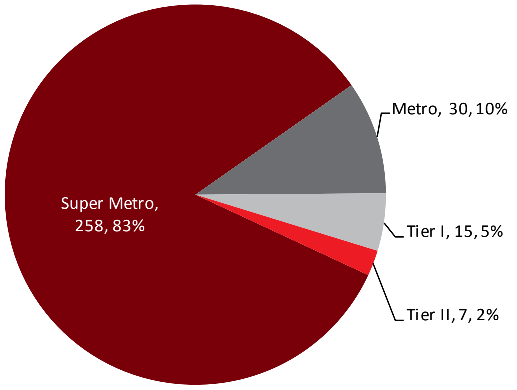
Figure 18: Residential contributes 84% to the GAV



Per share value (Rs/ share), % contribution

SOURCES: CIMB, COMPANY REPORTS

Figure 19: Segment-wise contribution to GAV



Per share value (Rs/ share), % contribution

SOURCES: CIMB, COMPANY REPORTS

INITIATION

CIMB

Unitech Ltd

UT IN /

COMPANY NOTE

Market Cap	Avg Daily Turnover	Free Float
US$1,120m	**US$29.56m**	**51.7%**
Rs60,788m	Rs1,602m	2,616 m shares

Current	**Rs23.25**
Target	**Rs21.00**
Previous Target	**N/A**
Up/downside	**-9.7%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

Notes from the Field

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Company Visit ☐ Expert Opinion ☐
Channel Check ☑ Customer Views ☐

"Construction activity has been picking up gradually since beginning of calendar year (CY) 2012 and we expect to soon expand to the desired levels of construction."

– Ramesh Chandra, Chairman

Weak execution - an overhang

Unitech's inability to scale up its execution after aggressive launches disappointed in the past. While construction appears to be improving, we believe it is far from reaching the optimal level required for better margins and cash flows.

Given its forte in Gurgaon, its ability to launch new projects there (weak in the last few quarters) would be key to sustaining its cash flows. While net gearing (43%) has come down, debt and interest outflow as a percentage of cash flow remain high. We expect its high debt (Rs 60bn) to further increase by Rs9bn-10bn once its settlement with Telenor is achieved. We initiate coverage with a SOP target price and Underperform rating, with de-rating catalysts expected from slower execution and the ongoing telecom controversy.

Execution risks remain

Unitech's aggressive launches of 27 msf from FY10 to 1HFY12 followed by tight liquidity condition (due to telecom controversy) had added pressure to its 11msf of projects launched before Mar 09. Its average execution in the last nine years had been 4-5m sf per year. Given this run rate, clearing the backlog is a daunting task, in our view. We note that Unitech's inability to scale up execution after its aggressive launches had led to earnings disappointments (on project cost inflation). While execution appears to be improving (2.3msf in 9MFY13 vs. 1.7msf in FY12), we believe it is far from reaching the optimal level required for any major improvements in cash flows. We expect margins to improve only after the clearance of its backlog, by end-FY14. While net gearing (43%) has stabilsed, debt and interest outflow as a percentage of cash flow remain high.

Needs to hasten Gurgaon launches

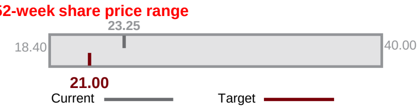
Given Unitech's forte in Gurgaon, its ability to launch new projects there would be crucial for sustaining its cash flows. While launches/sales had been weak in the past few quarters, Unitech is now focusing on execution and will kick-start launches soon. (NCR – Gurgaon, Noida and Greater Noida – represents 40% of its Gross Asset Value).

Initiate with Underperform

We initiate with a SOP target price of Rs21: Rs18 for its real estate (valued at a 20% discount to our FY15 DCF-based NAV) and Rs3 for its 40% stake in commercial assets.

Source: Bloomberg

52-week share price range



Financial Summary

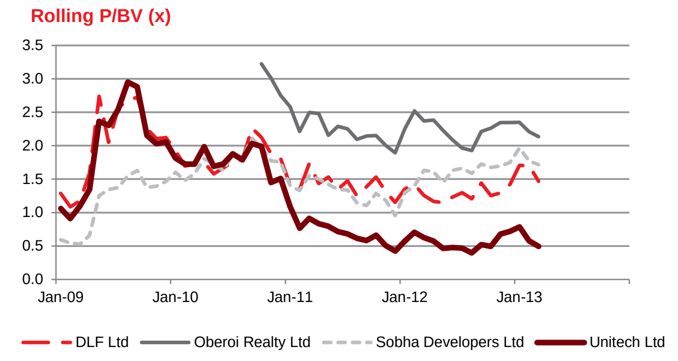
	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues (Rsm)	31,226	24,219	24,309	29,186	35,187
Operating EBITDA (Rsm)	8,594	3,281	3,719	5,224	7,565
Net Profit (Rsm)	5,677	2,374	2,953	3,957	5,562
Core EPS (Rs)	2.17	0.91	1.13	1.51	2.13
Core EPS Growth	(21.6%)	(58.2%)	24.4%	34.0%	40.6%
FD Core P/E (x)	10.72	25.63	20.60	15.37	10.94
DPS (Rs)	0.10	0.00	0.00	0.00	0.00
Dividend Yield	0.430%	0.000%	0.000%	0.000%	0.000%
EV/EBITDA (x)	13.42	31.52	30.91	22.30	15.37
P/FCFE (x)	10.90	NA	2.69	4.56	5.94
Net Gearing	46.4%	34.6%	43.1%	43.0%	41.0%
P/BV (x)	0.53	0.51	0.49	0.48	0.46
Recurring ROE	5.16%	2.01%	2.43%	3.16%	4.28%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.95	0.99	1.00

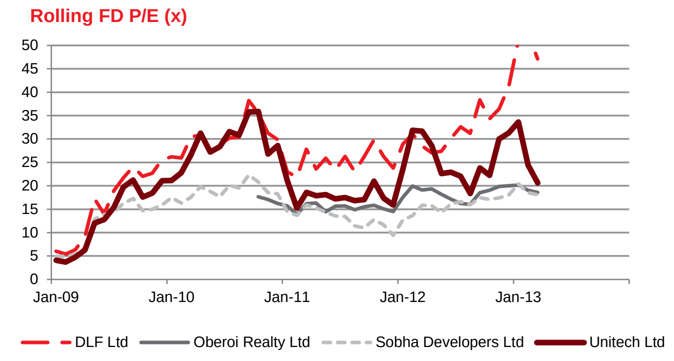
SOURCE: CIMB, COMPANY REPORTS

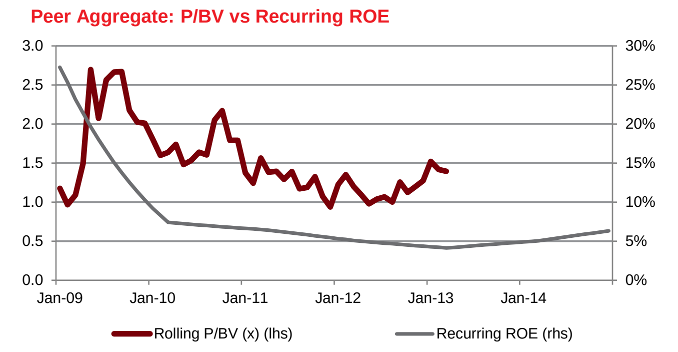
PEER COMPARISON

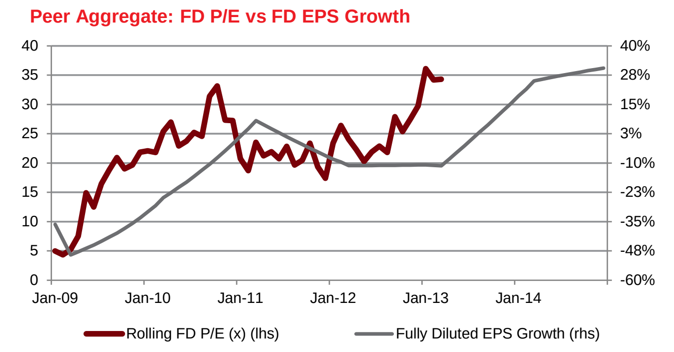
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US$m	Price	Target Price	Upside
DLF Ltd	DLFU IN	IN	UNDERPERFORM	7,493	239.5	220.0	-8.1%
Oberoi Realty Ltd	OBER IN	IN	OUTPERFORM	1,623	268.5	300.0	11.8%
Sobha Developers Ltd	SOBHA IN	IN	OUTPERFORM	686	380.0	450.0	18.4%
Unitech Ltd	**UT IN**	**IN**	**UNDERPERFORM**	**1,120**	**23.25**	**21.00**	**-9.7%**









Valuation

	P/E (FD) (x)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
DLF Ltd	42.85	38.51	26.39	1.47	1.44	1.38	20.18	16.81	13.27
Oberoi Realty Ltd	18.66	15.24	12.48	2.19	1.95	1.72	13.93	10.97	8.90
Sobha Developers Ltd	18.07	15.10	11.30	1.75	1.59	1.41	9.57	7.92	6.40
Unitech Ltd	**21.61**	**16.40**	**11.77**	**0.50**	**0.48**	**0.46**	**30.99**	**23.93**	**16.65**

Growth and Returns

	Fully Diluted EPS Growth			Recurring ROE			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
DLF Ltd	-27.4%	11.3%	45.9%	3.5%	3.8%	5.3%	0.84%	0.84%	0.84%
Oberoi Realty Ltd	-0.6%	22.4%	22.1%	12.3%	13.5%	14.7%	0.89%	1.07%	1.26%
Sobha Developers Ltd	3.4%	19.7%	33.6%	10.1%	11.0%	13.2%	1.02%	0.92%	0.92%
Unitech Ltd	**-11.6%**	**31.8%**	**39.3%**	**2.3%**	**3.0%**	**4.0%**	**0.00%**	**0.00%**	**0.00%**

SOURCE: CIMB, COMPANY REPORTS

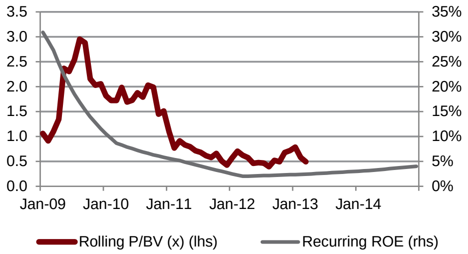
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

BY THE NUMBERS

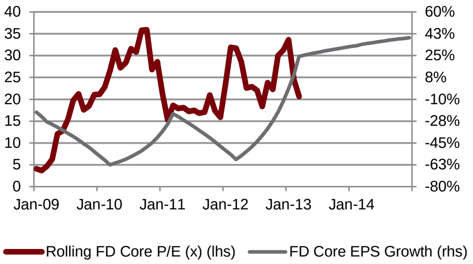
Share price info

Share px perf. (%)	1M	3M	12M
Relative	-19.2	-26.6	-30.1
Absolute	-22	-28.9	-23.3
Major shareholders			**% held**
HSBC			6.2
Platinum			2.9
Vanguard			1.1

P/BV vs Recurring ROE



FD Core P/E vs FD Core EPS Growth



Revenues have been under pressure due to slower execution in recent years

Profit & Loss

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues	**31,226**	**24,219**	**24,309**	**29,186**	**35,187**
Gross Profit	**13,970**	**8,965**	**6,806**	**9,048**	**12,140**
Operating EBITDA	**8,594**	**3,281**	**3,719**	**5,224**	**7,565**
Depreciation And Amortisation	(319)	(434)	(388)	(465)	(474)
Operating EBIT	**8,275**	**2,847**	**3,331**	**4,760**	**7,091**
Total Financial Income/(Expense)	(1,455)	(563)	(378)	(436)	(443)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Total Non-Operating Income/(Expense)	1,695	2,080	1,450	1,600	1,700
Profit Before Tax (pre-EI)	**8,516**	**4,365**	**4,403**	**5,924**	**8,348**
Exceptional Items					
Pre-tax Profit	**8,516**	**4,365**	**4,403**	**5,924**	**8,348**
Taxation	**(2,704)**	**(1,896)**	**(1,321)**	**(1,777)**	**(2,504)**
Exceptional Income - post-tax					
Profit After Tax	**5,812**	**2,469**	**3,082**	**4,147**	**5,844**
Minority Interests	(104)	(81)	(121)	(182)	(272)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(31)	(14)	(8)	(8)	(9)
Net Profit	**5,677**	**2,374**	**2,953**	**3,957**	**5,562**
Recurring Net Profit	5,677	2,374	2,953	3,957	5,562
Fully Diluted Recurring Net Profit	**5,677**	**2,374**	**2,953**	**3,957**	**5,562**

Cash flow from operations has been weak given Unitech's inability to scale-up its execution

Cash Flow

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
EBITDA	8,594	3,281	3,719	5,224	7,565
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(11,861)	26,007	(7,896)	(5,486)	(5,774)
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	19,602	(7,811)	21,638	16,810	12,562
Net Interest (Paid)/Received	(1,455)	(563)	(378)	(436)	(443)
Tax Paid	(2,289)	(1,982)	(2,459)	(3,294)	(4,631)
Cashflow From Operations	**12,592**	**18,933**	**14,625**	**12,818**	**9,278**
Capex	(1,342)	11,143	(7,159)	(644)	(179)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4,100)	(16,716)	169	152	136
Cash Flow From Investing	**(5,442)**	**(5,572)**	**(6,990)**	**(492)**	**(43)**
Debt Raised/(repaid)	(1,571)	(13,460)	15,000	1,000	1,000
Proceeds From Issue Of Shares	6,437	2,022	0	(0)	(0)
Shares Repurchased					
Dividends Paid	(304)	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	(11,001)	(3,246)	(19,180)	(13,883)	(9,673)
Cash Flow From Financing	**(6,439)**	**(14,684)**	**(4,180)**	**(12,883)**	**(8,673)**

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

While gearing has come down, debt remains high

Balance Sheet

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Cash And Equivalents	4,509	3,186	6,641	6,083	7,303
Properties Under Development					
Total Debtors	21,474	18,384	16,650	18,391	22,173
Inventories	194,405	50,266	58,709	64,920	71,425
Total Other Current Assets	33,843	97,671	102,555	108,708	113,057
Total Current Assets	**254,232**	**169,507**	**184,555**	**198,103**	**213,957**
Fixed Assets	34,728	23,156	29,926	30,105	29,810
Total Investments	**16,125**	**17,476**	**17,308**	**17,156**	**17,020**
Intangible Assets	16,540	21,398	21,398	21,398	21,398
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	**67,393**	**62,029**	**68,632**	**68,659**	**68,227**
Short-term Debt	38,503	34,189	42,189	43,189	44,189
Current Portion of Long-Term Debt					
Total Creditors	121,248	64,283	68,144	75,444	83,479
Other Current Liabilities	1,526	1,096	932	2,252	3,077
Total Current Liabilities	**161,276**	**99,569**	**111,266**	**120,885**	**130,745**
Total Long-term Debt	20,005	10,858	17,858	17,858	17,858
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	24,020	154	154	154	154
Total Non-current Liabilities	**44,024**	**11,012**	**18,012**	**18,012**	**18,012**
Total Provisions	0	0	0	0	0
Total Liabilities	**205,300**	**110,580**	**129,277**	**138,897**	**148,756**
Shareholders' Equity	**115,836**	**120,238**	**123,191**	**127,148**	**132,710**
Minority Interests	489	718	718	718	718
Total Equity	**116,325**	**120,956**	**123,909**	**127,866**	**133,428**

Key Ratios

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue Growth	8.1%	(22.4%)	0.4%	20.1%	20.6%
Operating EBITDA Growth	(16.3%)	(61.8%)	13.4%	40.5%	44.8%
Operating EBITDA Margin	27.5%	13.5%	15.3%	17.9%	21.5%
Net Cash Per Share (Rs)	(20.64)	(16.00)	(20.41)	(21.01)	(20.92)
BVPS (Rs)	44.27	45.96	47.09	48.60	50.72
Gross Interest Cover	5.69	5.06	8.80	10.92	16.00
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	3.12%	0.00%	0.00%	0.00%	0.00%
Accounts Receivables Days	199.6	301.2	263.0	219.1	210.4
Inventory Days	3,876	2,935	1,136	1,120	1,080
Accounts Payables Days	306.3	263.3	168.9	186.9	187.4
ROIC (%)	5.05%	1.60%	2.29%	2.97%	4.28%
ROCE (%)	4.88%	1.67%	1.90%	2.55%	3.69%

Key assumptions for our DCF-based GAV Calculations

Inflation in property prices across land bank	5%
Inflation in construction costs across land bank	5%
WACC	15%
Capitalization Rate	11%
Tax Rate	30%

SOURCE: CIMB, COMPANY REPORTS

Execution remains an overhang

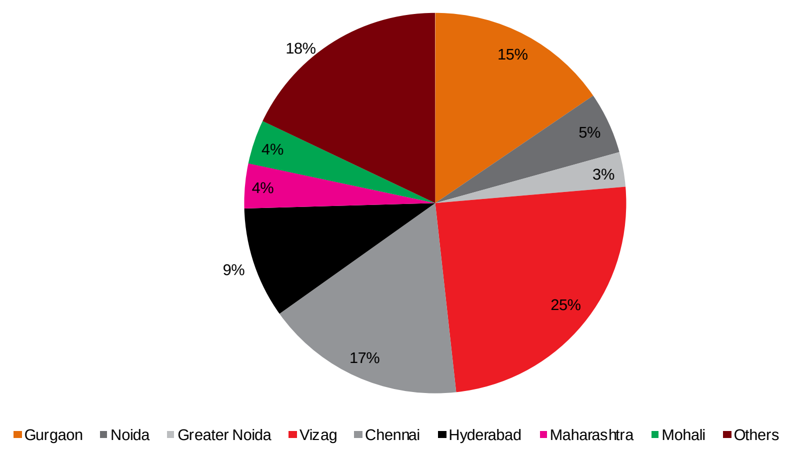
Table of Contents

1. BACKGROUND

1.1 NCR developer that has expanded its land bank

Unitech has four decades of experience in construction/real-estate development and has built significant brand equity. It has developed more than 20msf of residential, commercial and retail space, largely in the NCR (Gurgaon, Noida and Greater Noida). When the market was buoyant, it had shifted its focus to the higher-margin commercial segment. However, changes in demand caused by the economic downturn forced Unitech to return to the development of residential projects. Unitech has land bank of more than 7,000 acres (350+msf) spread across the country.

Figure 1: Land bank (% shares): NCR represents 23% of its land bank



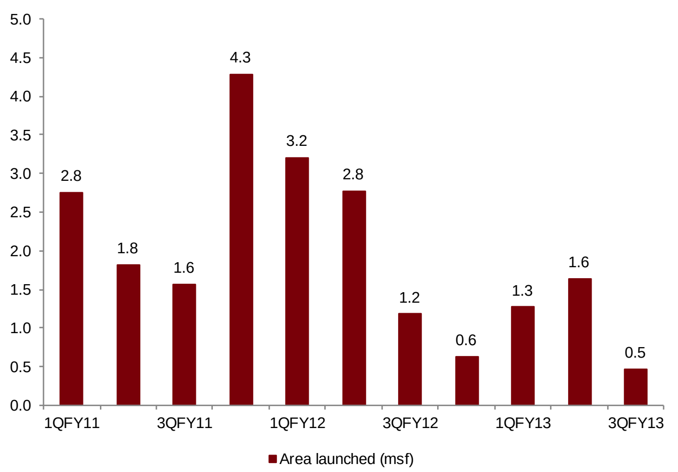
SOURCES: CIMB, COMPANY REPORTS

2. OUTLOOK

2.1 Aggressive launches in the past…

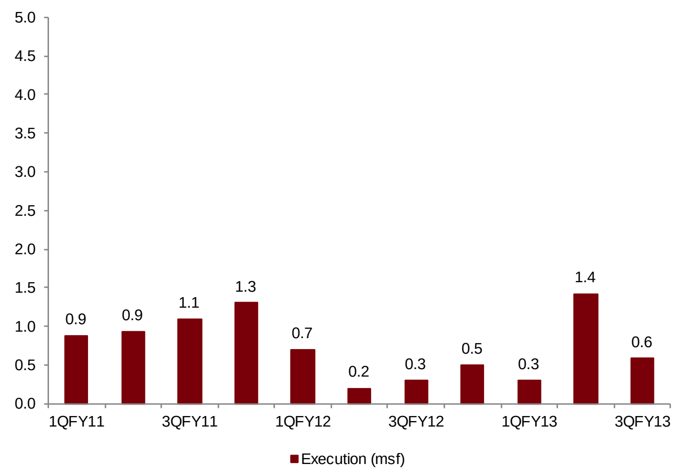
While Unitech had aggressively launched projects until 1HFY12, its execution had not followed at the same pace, resulting in a backlog of projects under construction. This, in turn, had slowed down the ramp-up of its launches.

Figure 2: Aggressive launches in the past (until 2QFY12)



SOURCES: CIMB, COMPANY REPORTS

Figure 3: Execution remains weak

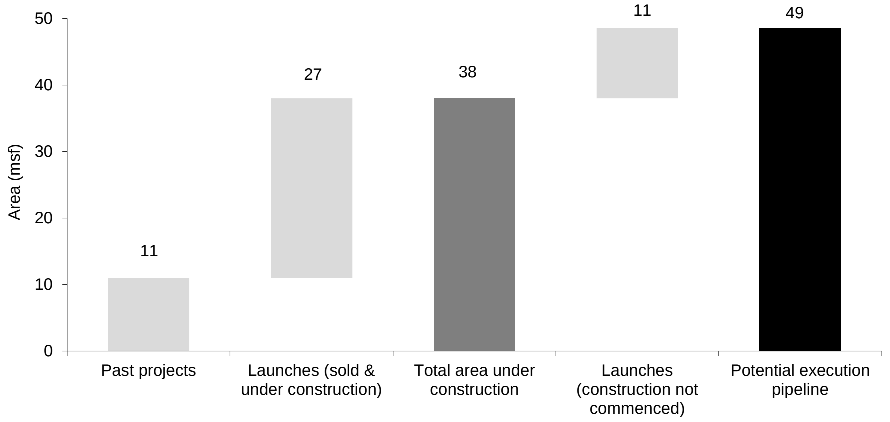


SOURCES: CIMB, COMPANY REPORTS

2.2 …had resulted in a backlog

Unitech has already 11msf of past projects (launched before Mar 09) under construction, to which its aggressive launches from FY10 to 1HFY12 had added 27msf (sold). This resulted in 38msf of projects under construction which have been sold. Its potential pipeline is 49msf if we add 11msf of projects launched with construction yet to commence.

Figure 4: Poor execution remains our key concern



SOURCES: CIMB, COMPANY REPORTS

Of the total 24.8 msf area under construction (as seen in Figure below), 13.85 msf has been handed over/ delivered by 31st Dec 12. The remaining 11msf yet to be delivered is in the handover/ finishing stage. Given its slow pace of delivery/handover, we do not expect its backlog to get cleared in the near term.

Figure 5: Progress of projects launched before Mar 09

	FY11	FY12	9MFY13	Progress from FY11 till date	Progress over last 1 year
Handover/Finishing	17.5	19.5	20.2	2.7	0.7
Structure complete, Internal work in progress	3.6	2.35	3.7	0.1	1.4
Piling/Structure work in progress	2.1	1.55	0.0	-2.1	-1.6
Pre-construction	0.9	0.9	0.9	0.0	0.0
Total (msf)	**24.1**	**24.3**	**24.8**		

SOURCES: CIMB, COMPANY REPORTS

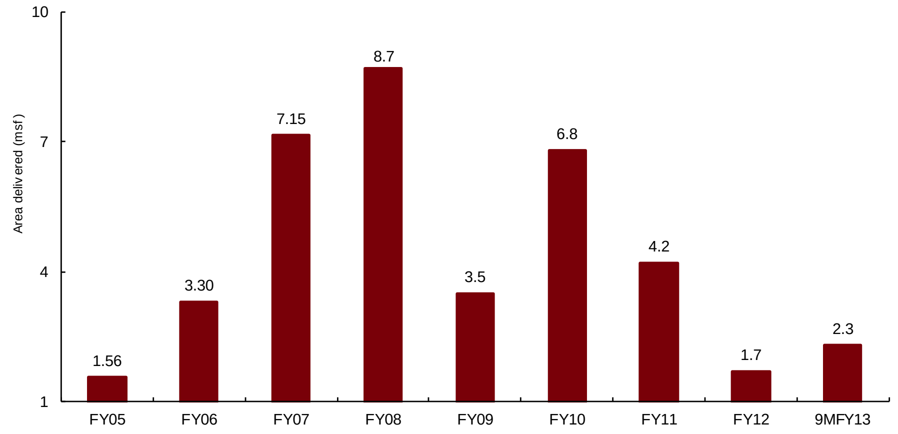
Figure 6: Progress of projects launched since Mar 09

	FY11	FY12	9MFY13	Progress from FY11 till date	Progress over last 1 year
Handover/Finishing	0	1.5	2.2	2.2	0.7
Structure complete, Internal work in progress	3.65	6.6	8.8	5.2	2.2
Piling/Structure work in progress	9.95	9.65	11.5	1.6	1.9
Pre-construction	3.65	4.5	3.9	0.2	-0.6
Yet to start	0.35	1.25	1.3	0.9	0.0
Total (msf)	**17.6**	**23.5**	**27.7**		

SOURCES: CIMB, COMPANY REPORTS

Unitech's average execution in the last nine years had been 4-5msf per year. Given this run rate, clearing its backlog would seem a daunting task. While construction appears to be improving (2.3msf in 9MFY13 from 1.7msf in FY12), we believe the company is far from attaining the optimal level required for clearing its backlog.

Figure 7: Unitech's execution has slowed

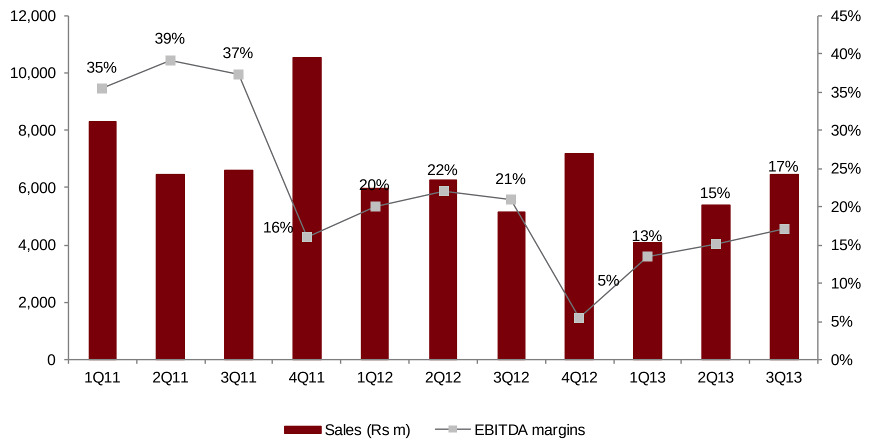


SOURCES: CIMB, COMPANY REPORTS

2.3 Weak execution also added to margin pressure…

Unitech's inability to scale up its execution after its aggressive launches has led to earnings disappointments as construction costs have escalated without any revision in revenue booked earlier. While construction appears to be improving (with some easing of liquidity and close resolution of telecom issues), we believe it is far from reaching the optimal level required for an improvement in its margins and cash flows. We expect margins and launches to improve after the clearance of its backlog only by end-FY14.

Figure 8: Slower launches have piled pressure on its margins



SOURCES: CIMB, COMPANY REPORTS

2.4 …and kept launches and sales in check

Weak execution coupled with a slowdown in the economy has led to a slowdown in launches and sales.

Figure 9: Annual operational performance is decelerating

Pre-Sales Trend	FY11	FY12	9MFY13
Area launched (msf)	10.44	7.80	3.38
Area sold (msf)	9.16	7.18	4.42
Total booked value (Rsm)	43,240	38,080	22,140
Realization (Rs/msft)	4,721	5,304	5,009

SOURCES: CIMB, COMPANY REPORTS

CIMB

2.5 Sales focus on Gurgaon (key forte) has been slipping

Gurgaon contributed 41% to the number of projects it sold from 1QFY10 to 3QFY13 with success rates of 85%.

Figure 10: Sales largely driven by its monetisable NCR (largely Gurgaon) land bank

Quarterly Sales Value (Rs m)	Launches 1Q10-3Q12) (a)	% Share	Sold (1Q10-3Q12) (b)	% Share	% Sold (b/a)
City					
Gurgaon	18.0	33%	15.4	41%	85%
Noida +G Noida	13.2	24%	8.7	23%	66%
Mumbai	2.2	4%	1.9	5%	86%
Chennai	7.5	14%	4.8	13%	64%
Kolkata	3.9	7%	2.7	7%	69%
Others	10.3	19%	4.1	11%	40%
Total	**55.0**	**100%**	**37.6**	**100%**	**68%**

SOURCES: CIMB, COMPANY REPORTS

While we note that launches/ sales had been weak in the past, Unitech says it is currently focused on execution and will be launching projects in Gurgaon.

Figure 11: Volumes in Gurgaon have been slipping; Noida has picked up the slack

Sales Volume (msft)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Gurgaon	0.5	0.9	0.7	0.3	0.1	0.2	0.2
% of total volume	24%	48%	43%	17%	7%	13%	15%
Noida +G Noida	0.2	0.1	0.4	1.0	0.9	0.8	0.6
Chennai	0.6	0.4	0.1	0.1	0.2	0.1	0.2
Kolkata	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Others	0.5	0.3	0.3	0.3	0.1	0.3	0.2
Total	**1.9**	**1.8**	**1.7**	**1.8**	**1.5**	**1.6**	**1.4**

SOURCES: CIMB, COMPANY REPORTS

2.6 This has resulted in lower sales momentum

The decline in volume at high-value Gurgaon projects has lowered its sales bookings. Given Unitech's forte in Gurgaon, its ability to launch new projects there would be key to sustaining its volumes and cash flows, in our view.

Figure 12: …leading to a slower sales momentum

Sales Value (Rsm)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Gurgaon	4,420	5,890	4,820	2,070	1,390	1,480	1,330
% of total value	43%	55%	51%	27%	20%	18%	20%
Noida +G Noida	1,090	1,040	2,260	4,090	3,780	4,920	3,470
Chennai	2,660	1,500	380	210	590	360	380
Kolkata	730	720	650	770	790	700	820
Others	1,310	1,520	1,300	650	450	910	770
Total	10,210	10,670	9,410	7,790	7,000	8,370	6,770
Avg. Realization (Rs/sft)	**5,374**	**5,928**	**5,568**	**4,304**	**4,667**	**5,400**	**4,978**

SOURCES: CIMB, COMPANY REPORTS

2.7 Marketing in non-metro markets is another challenge

We believe the weak response to its launches in non-metropolitan areas is cause for greater concern as about 48% of its landbank are in Tier-2 cities.

Figure 13: Execution/ profitability challenges with 48% of its landbank in Tier-2 cities

Land bank	% share	Land bank	% share
NCR (Gurgaon, Noida, Gr. Noida)	24%	Vizag	25%
Chennai	17%	Maharashtra	4%
Hyderabad	9%	Mohali	4%
Kolkata	2%	Agra	3%
		Others	12%
Metros	**52%**	**Non Metros**	**48%**

SOURCES: CIMB, COMPANY REPORTS

2.8 Asset monetisation looks challenging

Unitech plans to cut its net debt (Rs54bn as at 31 Dec 12) by 10-15% every year via asset sales. We believe its plan to reduce debt by generating cash flows from operations and asset sales is aggressive.

Unitech has been selling its assets (Saket office, hotels, retail mall and land) since 2009 as a part of its de-leveraging, leaving the company with few monetisable assets like its investments in IT SEZs and IT Parks (60% owned by Unitech Corporate Park or UCP).

Figure 14: Asset monetisation has been declining

Asset monetised (Rsm)	FY07	FY08	FY09	FY10	FY11	FY12
Sale of investments in real estate projects	15,788	17,124	14,524	8,672	4,191	741
Total reported revenues	32,883	41,154	28,502	28,874	33,960	24,218
% share of asset monetisaton	48%	42%	51%	30%	12%	3%

SOURCES: CIMB, COMPANY REPORTS

2.9 Telecom controversy (which is nearing resolution) could yet linger

Unitech in Oct 12 had amicably settled all disputes with its telecom partner, Telenor. However, according to recent press reports (Times of India on 13 Feb 2013), the Central Bureau of Investigations (CBI) is probing an overseas "investment" of US$51m (about Rs2.8bn) made by the Unitech Group before 2G licences were awarded.

The agency says the funds were invested in a 1-year yield certificate dated 3 Jan 08. The certificate had expired without any worth. CBI feels that the proximity of the US$51m investment to the 2G events raises the suspicion of the use of the money for illegal gratification. The controversy could yet linger. But once a settlement with Telenor has been implemented, Unitech's debt could rise by Rs9bn-10bn.

Figure 15: SWOT analysis

Strengths	Opportunities
Strong experties in residential domain	Sale of office properties (UCP)
Strong foothold in Gurgaon market	Recovery in sales can result in better cash flows
Weaknesses	**Threats**
Poor execution has led to weakness in cash flows	Potential negative news on telecom controversy
Weak land bank (non-metro - 48%) quality	Risk of contingent liabilities may strain cashflows

SOURCES: CIMB, COMPANY REPORTS

3. FINANCIALS

Figure 16: Key financials

Rsm	FY11	FY12	FY13F	FY14F	FY15F
Revenues	31,226	24,219	24,309	29,186	35,187
EBITDA	8,594	3,281	3,719	5,224	7,565
EBITDA margins	27.5%	13.5%	15.3%	17.9%	21.5%
PBT	8,516	4,365	4,403	5,924	8,348
Tax Rate%	31.8%	43.4%	32.0%	32.0%	32.0%
PAT - Reported	5,677	2,374	2,953	3,957	5,562
PAT -Core	5,653	2,380	2,953	3,957	5,562
EPS - Reported	2.2	0.9	1.1	1.5	2.1
EPS - Core	2.2	0.9	1.1	1.5	2.1
Growth					
Revenues	8%	-22%	0%	20%	21%
EBITDA	-16%	-62%	13%	40%	45%
PAT - Core	-18%	-58%	24%	34%	41%
Balance sheet					
Net worth (Rs m)	116,325	120,956	123,909	127,866	133,428
Net debt (Rs m)	53,998	41,862	53,406	54,964	54,744
Net gearing (%)	46.4%	34.6%	43.1%	43.0%	41.0%
ROE	5.2%	2.0%	2.4%	3.2%	4.3%
ROCE	4.9%	1.7%	1.9%	2.6%	3.7%

SOURCES: CIMB, COMPANY REPORTS

Figure 17: While gearing has come down, debt and interest outflow as a percentage of cash flow remain high

Rs m	FY08	FY09	FY10	FY11	FY12	9MFY13
Gross Debt	85,524	90,558	60,078	58,507	45,047	60,760
Interest outflow@ 14%	11,973	12,678	8,411	8,191	6,307	8,506
Net debt	71,441	84,110	56,279	53,998	41,862	54,210
Equity	36,005	51,695	104,050	115,836	120,238	124,880
Net gearing (%)	198.4%	162.7%	54.1%	46.6%	34.8%	43.4%
Cash from operations (CFO)	10,342	1,436	13,395	12,591	18,932	N.A
Interest as % of CFO	115.8%	883.2%	62.8%	65.1%	33.3%	N.A

SOURCES: CIMB, COMPANY REPORTS

4. RISKS

4.1 Contingent liability of Rs28bn

The company has a contingent liability of Rs28bn on its balance sheet for: a) a Rs16bn claim in dispute relating to an ex-Lehman investment; and b) Rs12bn in tax claims relating to its telecom investments. If these liabilities are not realised, its outlook may improve.

4.2 Mumbai launch

Unitech's entry into Mumbai with Shivalik (50% JV) has been delayed as this project is a slum-redevelopment project (SRA) which requires long gestation. While there is no certainty on the timeline for clearing the slum land, a launch in Mumbai could provide upside.

4.3 Ramp-up in construction

A better-than-expected ramp-up in construction could lead to faster project execution. This would help to improve its cash generation.

4.4 More launches in Gurgaon

Gurgaon is one of Unitech's key markets. More launches and sales in this region will likely improve its margins and cash flows.

5. VALUATION AND RECOMMENDATION

5.1 Initiate with Underperform

We value Unitech on its Mar 15 DCF NAV based on the following assumptions:

- 5% inflation for property prices and costs for its entire land bank
- Project launches and completions after delays of 5-10 years from the company's guidance.
- A discount rate (WACC) of 15%, cap rates (used for valuing rent-yielding commercial properties) of 11% and a tax rate of 30%.

We arrive at a DCF-based Gross Asset Value (GAV) of Rs60/ share.

We apply a discount of 20% to our GAV and exclude net debt of Rs21/share and outstanding payables on its land bank of Rs9/share to arrive at our adjusted real-estate value of Rs18/share (real-estate NAV of Rs30/share).

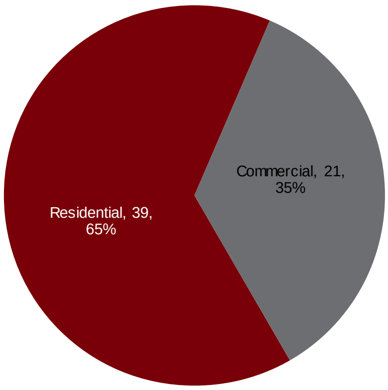
We add the value of the company's 40% stake in commercial properties (60% owned by Unitech Corporate Park) at Rs3/share (current market prices) to its adjusted real-estate value to arrive at our target price of Rs21. Excluding the discount, our NAV value is Rs33/share.

Figure 18: SOP based target price of Rs21

SOP based target price for Unitech	Rs mn	Rs/ share
DCF based GAV (a)	156,817	60
Adj.GNAV (Discounted by 20%) - (b)	125,454	48
Less: Net debt (c')	54,964	21
Less: Payable for Land bank (d)	23,380	9
NAV-Real estate (g = a-c-d)	78,474	30
Adj. NAV - Real estate - (e = b- c-d)	**47,110**	**18**
Add: Others - 40% stake in Commercial assets (UCP) - (f)	7,000	3
Target Price (e+f)	**54,110**	**21**
Total NAV (g+f)		**33**

SOURCES: CIMB, COMPANY REPORTS

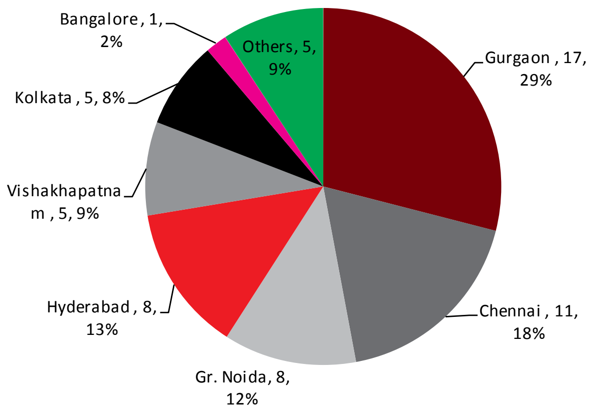
Figure 19: Residential contributes 65% to the GAV



Per share value (Rs/ share), % contribution

SOURCES: CIMB, COMPANY REPORTS

Figure 20: City-wise contributions to GAV



Per share value (Rs/ share), % contribution

SOURCES: CIMB, COMPANY REPORTS

INITIATION

CIMB

Oberoi Realty Ltd

OBER IN /

COMPANY NOTE

Market Cap	Avg Daily Turnover	Free Float
US$1,623m	**US$0.48m**	**21.5%**
Rs88,114m	Rs26.32m	328.2 m shares

Current	**Rs268.5**
Target	**Rs300.0**
Previous Target	**N/A**
Up/downside	**11.8%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	**OUTPERFORM**
TRADING SELL	NEUTRAL
	UNDERPERFORM

Notes from the Field

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Company Visit ☑ Expert Opinion ☐
Channel Check ☐ Customer Views ☐

"The best way to predict the future is to create it."

– Vikas Oberoi, CMD

Near-term headwinds provide good entry point

Oberoi Realty is the best in class in terms of landbank, balance sheet and brand equity. However, it is currently affected by stoppage of work at Esquire (Goregaon), uncertainty over its Mulund project launch and weak demand for its office project (Goregaon).

Its inability to acquire any large landbank since IPO has led to a 5% underperformance vs. the Sensex in the last 12 months. But we believe any value-accretive landbank acquisition, the resumption of work at Esquire (by Jun 2013) and approval of the Mulund project (by Sep/Dec 2013) would result in a strong PAT CAGR of 17% for FY12-15. We initiate coverage with an Outperform rating and an SOP-based target price of Rs300.

Quality developer

We view Oberoi Realty as the best in class in terms of landbank and balance sheet quality, brand recognition and corporate governance. We believe its landbank plots have clean titles as they were mostly acquired via public auctions (factory land sales). We believe that Oberoi will enjoy good demand for its well-located projects in Mumbai (financial capital of India) and this will provide the biggest growth driver for Oberoi. Also, its fewer but large land parcels enable Oberoi to achieve higher reporting transparency – it is one of the few developers which disclose sales, revenue recognition and execution details by project.

Headwinds delay upside

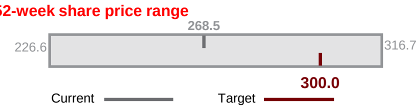
We note that Oberoi is currently facing headwinds: 1) stoppage of work at Esquire by a local government body which requires Oberoi to hand over part of its landbank in Goregaon for social purposes (the final handover plan is being worked on by Oberoi); and 2) uncertainty over its Mulund project launch due to environment clearance delays. We also note that Oberoi's ROEs could compress due to capex for its commercial project (Goregaon) and possibility of softer demand for Worli (super-luxury residential). The resolution of any of the above headwinds could lead to more robust earnings and cashflows.

Valuations and risks

Our target price of Rs300 comprises: 1) Rs235/share for its real estate business, using DCF-based NAV; and 2) Rs65/share for its rental business. Any delay that is longer than expected could lead to consensus downgrades.

Source: Bloomberg

52-week share price range



Financial Summary

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues (Rsm)	9,843	8,184	10,125	13,248	16,071
Operating EBITDA (Rsm)	5,653	4,772	5,730	7,541	9,154
Net Profit (Rsm)	5,172	4,629	4,741	6,120	7,365
Core EPS (Rs)	15.76	14.10	14.44	18.65	22.44
Core EPS Growth	(0.4%)	(10.5%)	2.4%	29.1%	20.3%
FD Core P/E (x)	17.04	19.04	18.58	14.40	11.96
DPS (Rs)	2.00	2.00	2.50	3.00	3.50
Dividend Yield	0.75%	0.75%	0.93%	1.12%	1.30%
EV/EBITDA (x)	13.11	15.76	13.47	10.35	8.51
P/FCFE (x)	35.48	NA	NA	NA	69.37
Net Gearing	(41.8%)	(34.6%)	(26.5%)	(21.7%)	(19.3%)
P/BV (x)	2.63	2.36	2.14	1.90	1.67
Recurring ROE	19.8%	13.1%	12.1%	14.0%	14.9%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.92	0.69	0.63

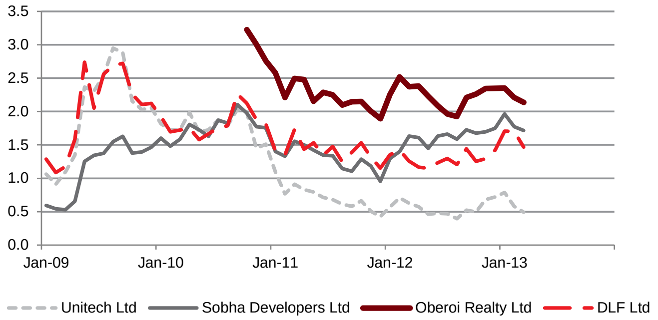
SOURCE: CIMB, COMPANY REPORTS

PEER COMPARISON

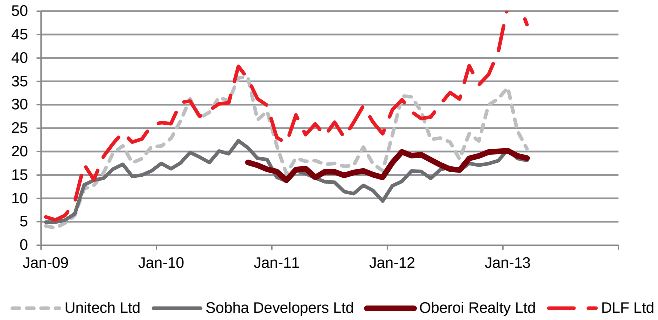
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US$m	Price	Target Price	Upside
Unitech Ltd	UT IN	IN	UNDERPERFORM	1,120	23.25	21.00	-9.7%
Sobha Developers Ltd	SOBHA IN	IN	OUTPERFORM	686	380.0	450.0	18.4%
Oberoi Realty Ltd	**OBER IN**	**IN**	**OUTPERFORM**	**1,623**	**268.5**	**300.0**	**11.8%**
DLF Ltd	DLFU IN	IN	UNDERPERFORM	7,493	239.5	220.0	-8.1%

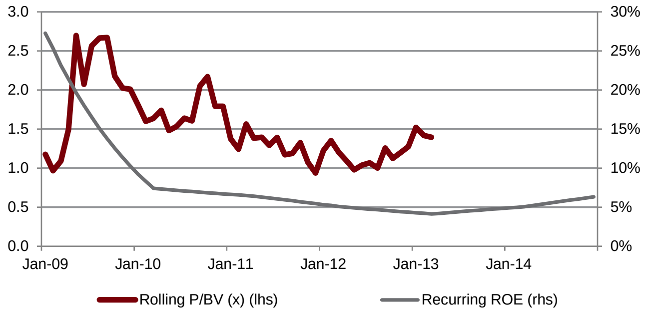
Rolling P/BV (x)



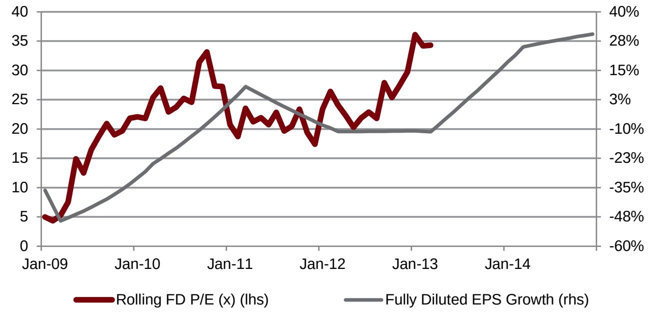
Rolling FD P/E (x)



Peer Aggregate: P/BV vs Recurring ROE



Peer Aggregate: FD P/E vs FD EPS Growth



Valuation

	P/E (FD) (x)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Unitech Ltd	21.61	16.40	11.77	0.50	0.48	0.46	30.99	23.93	16.65
Sobha Developers Ltd	18.07	15.10	11.30	1.75	1.59	1.41	9.57	7.92	6.40
Oberoi Realty Ltd	**18.66**	**15.24**	**12.48**	**2.19**	**1.95**	**1.72**	**13.93**	**10.97**	**8.90**
DLF Ltd	42.85	38.51	26.39	1.47	1.44	1.38	20.18	16.81	13.27

Growth and Returns

	Fully Diluted EPS Growth			Recurring ROE			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Unitech Ltd	-11.6%	31.8%	39.3%	2.3%	3.0%	4.0%	0.00%	0.00%	0.00%
Sobha Developers Ltd	3.4%	19.7%	33.6%	10.1%	11.0%	13.2%	1.02%	0.92%	0.92%
Oberoi Realty Ltd	**-0.6%**	**22.4%**	**22.1%**	**12.3%**	**13.5%**	**14.7%**	**0.89%**	**1.07%**	**1.26%**
DLF Ltd	-27.4%	11.3%	45.9%	3.5%	3.8%	5.3%	0.84%	0.84%	0.84%

SOURCE: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

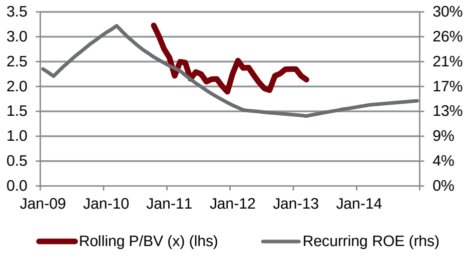
BY THE NUMBERS

Share price info

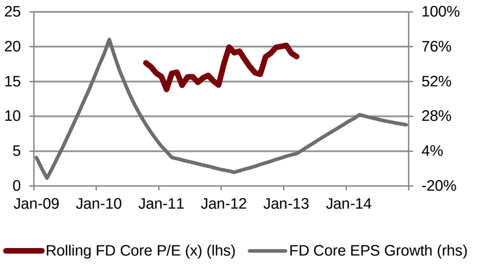
Share px perf. (%)	1M	3M	12M
Relative	-1.8	-6.5	-4.5
Absolute	-4.6	-8.8	2.3

Major shareholders	% held
T Rowe Price	1.6
Willian Blair	1.0
Morgan Stanley	0.7

P/BV vs Recurring ROE



FD Core P/E vs FD Core EPS Growth



Revenues are driven by well-located land parcels in Mumbai which command premium pricing and hence strong revenue growth

Profit & Loss

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues	**9,843**	**8,184**	**10,125**	**13,248**	**16,071**
Gross Profit	**6,077**	**5,224**	**6,227**	**8,147**	**9,884**
Operating EBITDA	**5,653**	**4,772**	**5,730**	**7,541**	**9,154**
Depreciation And Amortisation	(237)	(269)	(387)	(423)	(459)
Operating EBIT	**5,416**	**4,502**	**5,343**	**7,118**	**8,695**
Total Financial Income/(Expense)	(2)	(3)	0	0	0
Total Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Total Non-Operating Income/(Expense)	744	1,564	1,150	1,265	1,392
Profit Before Tax (pre-EI)	**6,159**	**6,063**	**6,493**	**8,383**	**10,087**
Exceptional Items					
Pre-tax Profit	**6,159**	**6,063**	**6,493**	**8,383**	**10,087**
Taxation	**(983)**	**(1,430)**	**(1,752)**	**(2,262)**	**(2,722)**
Exceptional Income - post-tax					
Profit After Tax	**5,176**	**4,633**	**4,741**	**6,120**	**7,365**
Minority Interests					
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(5)	(4)	0	0	0
Net Profit	**5,172**	**4,629**	**4,741**	**6,120**	**7,365**
Recurring Net Profit	5,172	4,629	4,741	6,120	7,365
Fully Diluted Recurring Net Profit	**5,172**	**4,629**	**4,741**	**6,120**	**7,365**

Cashflow from operations has been healthy, as being a negative net debt company interest outgo is nil

Cash Flow

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
EBITDA	5,653	4,772	5,730	7,541	9,154
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,066)	(2,849)	(4,613)	(4,853)	(4,960)
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,606	2,665	567	624	777
Net Interest (Paid)/Received	(2)	(3)	0	0	0
Tax Paid	(1,399)	(1,321)	(1,352)	(1,745)	(2,100)
Cashflow From Operations	**2,793**	**3,263**	**332**	**1,566**	**2,870**
Capex	(1,746)	(3,076)	(1,500)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,437	(2,750)	(488)	(100)	(100)
Cash Flow From Investing	**(309)**	**(5,826)**	**(1,988)**	**(1,600)**	**(1,600)**
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(656)	(656)	(821)	(985)	(1,149)
Preferred Dividends					
Other Financing Cashflow	8,559	2,160	727	321	258
Cash Flow From Financing	**7,903**	**1,503**	**(94)**	**(663)**	**(890)**

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

Oberoi Realty has strong balance sheet due to its net cash position

Balance Sheet

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Cash And Equivalents	13,993	12,934	10,950	10,056	10,170
Properties Under Development					
Total Debtors	468	679	832	1,089	1,321
Inventories	7,742	10,196	12,621	16,514	20,034
Total Other Current Assets	7,335	11,532	13,642	16,370	19,644
Total Current Assets	**29,538**	**35,341**	**38,045**	**44,029**	**51,169**
Fixed Assets	9,691	12,504	13,617	14,694	15,735
Total Investments	**650**	**0**	**100**	**200**	**300**
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	9	0	0	0	0
Total Non-current Assets	**10,350**	**12,504**	**13,717**	**14,894**	**16,035**
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	6,002	9,642	10,124	12,149	14,215
Other Current Liabilities	410	783	376	376	376
Total Current Liabilities	**6,412**	**10,426**	**10,500**	**12,525**	**14,591**
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	**0**	**0**	**0**	**0**	**0**
Total Provisions	0	78	0	0	0
Total Liabilities	**6,412**	**10,504**	**10,500**	**12,525**	**14,591**
Shareholders' Equity	**33,476**	**37,341**	**41,262**	**46,398**	**52,613**
Minority Interests					
Total Equity	**33,476**	**37,341**	**41,262**	**46,398**	**52,613**

Key Ratios

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue Growth	26.7%	(16.9%)	23.7%	30.8%	21.3%
Operating EBITDA Growth	23.2%	(15.6%)	20.1%	31.6%	21.4%
Operating EBITDA Margin	57.4%	58.3%	56.6%	56.9%	57.0%
Net Cash Per Share (Rs)	42.63	39.40	33.36	30.64	30.98
BVPS (Rs)	102.0	113.8	125.7	141.4	160.3
Gross Interest Cover	3,472	1,452	N/A	N/A	N/A
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	0%	0%	0%	0%	0%
Accounts Receivables Days	16.15	25.64	27.24	26.46	27.36
Inventory Days	675	1,109	1,068	1,043	1,078
Accounts Payables Days	617.7	967.3	925.4	797.0	777.6
ROIC (%)	38.0%	23.9%	21.8%	23.6%	24.1%
ROCE (%)	20.8%	12.7%	13.6%	16.2%	17.6%

Key assumptions for our DCF-based GAV Calculations

Inflation in property prices across land bank	5%
Inflation in construction costs across land bank	5%
WACC	15%
Capitalization Rate	11%
Tax Rate	30%

SOURCE: CIMB, COMPANY REPORTS

Table of Contents

Near-term headwinds provide good entry point

1. BACKGROUND

1.1 Quality developer coupled with quality landbank

Oberoi is spearheaded by Mr. Vikas Oberoi (who owns 78.5% of the company) – an individual who has been associated with property development, and the real estate and construction sectors in Mumbai for over 20 years. He has been primarily responsible for the growth of Oberoi's business and has been instrumental in setting its strategic direction. Under Mr. Oberoi's leadership, the developer has shifted its focus on:

- Brand-building - Oberoi has repositioned itself in the premium housing segment by building premium residences in Mumbai suburbs.
- Mumbai-driven growth – We note that Oberoi has set its sights on large developments in Mumbai. For example, it acquired 83 acres of land from 1999 to 2005 for the development of the Oberoi Garden City project at Goregaon, Mumbai which boasts a residential complex, a retail mall, commercial office space, a premium hotel and a school. Given Mumbai being the financial capital of India, the property prices and demand have been strong.
- Clean titles – It has built up its landbank by purchasing factory land plots with clean titles, including Famous Studio Oberoi Splendour and Grande (Andheri JVLR), Novartis land for developing Oberoi Garden City, and Glaxo land for developing the Mulund project.

Figure 1: Oberoi has focussed on factory land to ensure clean titles

Project Name	Location in Mumbai	Land area (acres)	Purchased for (Rs m)	Purchased from	Date of Purchase	Development Type
Oberoi Garden City	Goregaon	83	1,068	Novartis/ Ciba	Dec 1999- Sept 2005	mixed use
Oberoi Springs	Andheri (West)	7	317	Excel Industries & Shroff family	February ' 2005	residential
Oberoi Splendour/ Grande	Andheri (JVLR)	24	1,060	Madhu Fantasy land	18th October 2005	residential
Oberoi Exotica	Mulund	19	2,210	GlaxoSmithKline Pharma Ltd	September '2005	residential

SOURCES: CIMB, COMPANY REPORTS

- Fewer large land parcels to ensure higher transparency – Oberoi is one of the few developers which disclose details on sales, revenue recognition and execution by project.
- Strong balance sheet/execution – Thanks to its strong balance sheet (net cash of Rs10.9bn as at 31 Dec 2012), Oberoi has a strong ability to execute its strategies.

By focussing on its landbank in Mumbai (the financial capital of India), Oberoi could capitalise on the rapidly rising income of the Mumbai business community as well as the upwardly mobile lifestyle of the Mumbai population.

Figure 2: Snapshot of Oberoi's landbank

	Ongoing			Planned			Total		
Segment	Estimated SA	No. of projects	% share	Estimated SA	No. of projects	% share	Estimated SA	No. of projects	% share
Residential	5.8	5	58%	6.5	4	64%	12.3	9	61%
Office Space	3.7	5	36%	0.4	2	4%	4.0	7	20%
Retail	0.1	1	1%	0.3	1	3%	0.4	2	2%
Hospitality	0.2	1	2%	1.3	1	13%	1.5	2	7%
Social Infrastructure	0.3	1	3%	1.7	3	17%	2.0	4	10%
Total	10.1	13	100%	10.1	11	100%	20.3	24	100%

SOURCES: CIMB, COMPANY REPORTS

2. OUTLOOK

2.1 Strong portfolio of residential projects in Mumbai

Oberoi has four projects spread across Mumbai – Splendour Grande in Andheri JVLR, Exquisite and Esquire in Goregaon, and Oasis in Worli – that are currently under construction. Of these, we note that revenue recognition is only taking place for Splendour Grande and Exquisite at the moment. On the other hand, Seven and Splendour (projects that are completed with some remaining inventory) are generating cashflow.

We note that while the Esquire project has generated cashflow, revenue recognition has still not commenced even after selling 45% of the launch units as at 9MFY13. This situation is due to the project's construction progress being below the required threshold for revenue recognition due to the stop work order issued by Brihanmumbai Municipal Corporation (BMC), which is a local government body.

Figure 3: Synopsis of projects till date – Development Properties

Residential Projects	Est. Area	Area Sold Till Date	Project Sold	Inventory As on Date	Sales Value Till Date	Revenues Recognized Till Date	Project Completion
	(msf)	(msf)	%	(msf)	(Rsm)	(Rsm)	(%)
Oberoi Seven	0.04	0.03	86%	0.01	500	500	100%
Oberoi Splendor	1.28	1.26	98%	0.02	15,209	15,209	100%
Oberoi Splendor Grande	0.28	0.27	96%	0.01	3,907	3,590	92%
Oberoi Exquisite	1.54	0.93	61%	0.61	11,969	7,627	64%
Oberoi Esquire #	1.97	0.89	45%	1.08	11,347	0	0%
Oberoi Oasis (not launched yet)							
Total	5.11	3.38	66%	1.72	42,932	26,926	

SOURCES: CIMB, COMPANY REPORTS

We note that Oberoi has soft-launched its super-luxury project Oasis (1.5 msf) in Worli (priced at Rs40,000/ sq ft) under joint development, where it is entitled for 30% of net realisations (revenue minus cost).

The other launch in the near term in the residential segment is the Mulund project (3.2 msf) which Oberoi plans to sell at Rs12,000+/ sq ft in phases. However, this project's launch is subject to environment clearance.

We note that Oberoi has few other projects that it could develop over the medium to long term:

- Worli project (4.1 acres), where it bought a 50% stake from ICICI Ventures in Oct 2011 for Rs3bn (according to industry sources). The remaining stake is held by Oberoi's promoter (Mr. Vikas Oberoi). We highlight we have not factored in any value for this project due to the ongoing ltigation with the local government body - Brihanmumbai Municipal Corporation (BMC).
- Andheri JVLR (Prisma, 0.5m sq ft) which was initially a commercial project, but it has been converted into a residential project due to weak demand from the commercial segment.
- Pune (Sangamwadi, about 80 acres) – Oberoi holds a 31.7% interest in Sangam City Township Private Limited, a special purpose vehicle that was established for aggregating landbank in Pune.

2.2 Sales run-rate has been slowing…

We note that area sold (in sq ft) and sales have been declining yoy (but largely flat on a sequential basis) largely due to:

- Higher prices compared to that for projects launched in the past.
- Lack of contribution from past projects as its inventory is declining.
- Lack of new launches (with newer projects such as Mulund facing environment clearance delays).

Figure 4: The sales run-rate has been slowing of late

	3Q12	4Q12	1Q13	2Q13	3Q13
Area Sold (sqft)	124,023	175,887	123,871	130,094	124,056
Sales Value (Rsm)	1,780	2,789	2,076	2,220	2,164
Realisations (Rs/ sq ft)	14,355	15,858	16,761	17,065	17,443
% change (yoy)					
Area Sold (sqft)	-18%	-38%	-41%	-30%	0%
Sales Value (Rsm)	-13%	-18%	-21%	-4%	22%
Realisations (Rs/ sq ft)	6%	32%	35%	37%	22%

SOURCES: CIMB, COMPANY REPORTS

2.3 …due to recent headwinds

We note that Oberoi's 5% underperformance vs. the Sensex in the last 12 months is due to the following headwinds:

- Stoppage of work at Esquire (Goregaon) by local government body Brihanmumbai Municipal Corporation (BMC) which requires Oberoi to hand over part of its landbank in Goregaon for building social facilities such as recreation garden, hospital, etc.
- Uncertainty over the launch of the Mulund project due to environment clearance delays.
- Also, Oberoi's ROEs could compress due to capex for its commercial project (Goregaon) and thus far softer demand for Worli (super-luxury residential).
- While its balance sheet remains strong (net cash of Rs10.9bn), its inability to acquire any large landbank since IPO has turned out be an overhanging issue.

2.4 Commercial off-take has been slower than expected

While Oberoi's maiden office project in Goregaon (Commerz-1 with a leasable area of 0.36m sq ft) was successfully launched (80% leased at an average lease rental of Rs130/ sq ft), its second office project Commerz-2 (South block, 0.73m sq ft) has seen lower leasing interest at similar rental rates due to the economic slowdown. This has resulted in higher vacancy rates and downward pressures on lease rentals.

Given the weak demand in the commercial segment, Oberoi could change its development plans for its upcoming commercial project – Commerz-2 North block, 1.66m sq ft.

Figure 5: Snapshot of Oberoi's commercial assets

	Hotels			Office			Malls		
	FY11	FY12	9MFY13	FY11	FY12	9MFY13	FY11	FY12	9MFY13
Area leased (sf)	269 *	269	269	275,162	288,367	294,282	517,794	521,120	522,797
Occupancy (%)	51.6%	65.0%	66.7%	76.8%	76.5%	80.3%	91.3%	94.2%	94.1%
Rent (Rs psf)/ ARR (Rsm)	7,368	5,900	7,513	136	130	130	110	125	127
Rentals (Rsm)	694	906	698	458	436	342	665	782	595

SOURCES: CIMB, COMPANY REPORTS; * No. of rooms for hotels; ARR: Average room rate

We believe that Oberoi is a prudent developer that has no qualms about changing its project plans due to weak demand. As mentioned earlier, it has changed the development plan for the Prisma (Andheri JVLR) project due to weak demand for commercial property and higher benefits from residential development (as developer gets FSI benefits) under new DCR (Development Control Rules) norms.

2.5 We expect resumption of projects in the near to medium term

Given Oberoi's strong management execution capability, we expect the company to overcome the various headwinds via:

- Restarting construction works at Esquire (Goregaon) by Jun 2013
- Kicking off leasing activities for Commerz-2 (we have assumed 50% occupancy by end-FY14).
- Obtaining approval for its Mulund project by Sep 2013 (with the project's launch expected by Dec 2013)
- Securing value-accretive landbank in FY14. While this development is not factored in our estimates, it should not be a problem given Oberoi's strong balance sheet.
- Achieving gradual off-take for its super-luxury project – Oasis

Any delay that is longer than expected could lead to consensus downgrades, in our view.

3. RISKS

3.1 Concentration risks

Oberoi's landbank is concentrated in Mumbai. Any significant change in regulations or the occurrence of natural calamities in Mumbai could have an adverse impact on the company.

3.2 Mulund – environment clearance

Following Oberoi's acquisition of the Oberoi Exotica (Mulund) project, the Government of Maharashtra issued a communication to effectively designate this land as a private forest under the provisions of the Maharashtra Private Forest (Acquisition Act), 1975. Since then, Oberoi has been waiting for the official environment clearance despite receiving positive feedback on its chances of starting this project in the near term.

3.3 Slower-than-expected sales for Oasis

Oberoi is developing a super-luxury project (10,000 sq ft apartments priced at Rs40,000/ sq ft with a ticket size of Rs400m) in Worli, which is a premium location in Mumbai. Slower-than-expected sales could be a risk despite the fact that Mumbai is the financial capital of India – with ample potential demand for high-end properties coming from industrialists, Non-resident Indians and senior professionals.

3.4 Units in higher floors could be hard to sell

Oberoi has seen strong sales momentum for its high-rise Exquisite and Esqure projects in Goregaon (50+ storeys high, 3 tower buildings). The prices for such properties have increased over the last 2-3 years from Rs9,000/ sq ft to Rs14,000/ sq ft currently, with each floor rise of 1% charged by developers also increasing from Rs90/ sq ft to Rs140/ sq ft. While certain customers prefer units in higher floors that offer good views, the steeper prices of such units could see slower sales.

3.5 Foray into new types of projects – redevelopment

Given its cash-rich balance sheet and property development experience, Oberoi could participate in redevelopment projects which require long gestation periods and hefty initial investments. While redevelopment projects have higher margins, we have seen such projects being hindered by severe delays due to regulatory hurdles.

Figure 6: SWOT analysis

Strengths	Opportunities
Quality land bank (Mumbai)	Acquire landbank as strong balance sheet
Transparent disclosures	Well prepared for turnaroung in office demand
Weaknesses	**Threats**
Limited inventory for future growth	Further delay in Mulund project
No exposure to mid-income housing	Stoppage of work continues at Esquire (Goregaon)

SOURCES: CIMB, COMPANY REPORTS

4. FINANCIALS

Figure 7: Financials to see consistent growth

Rsm	FY11	FY12	FY13F	FY14F	FY15F
Revenues	9,843	8,184	10,125	13,248	16,071
EBITDA	5,653	4,772	5,730	7,541	9,154
EBITDA margins	57.4%	58.3%	56.6%	56.9%	57.0%
PBT	6,159	6,063	6,493	8,383	10,087
Tax Rate%	14%	24%	27%	27%	27%
PAT - Reported	5,172	4,629	4,741	6,120	7,365
EPS - Reported	15.8	14.1	14.4	18.6	22.4
Growth					
Revenues	27%	-16.9%	23.7%	30.8%	21.3%
EBITDA	23%	-15.6%	20.1%	31.6%	21.4%
PAT - Core	14%	-10.5%	2.4%	29.1%	20.3%
Balance sheet					
Net worth (Rs m)	33,476	37,341	41,262	46,398	52,613
Net debt (Rs m)	(13,993)	(12,934)	(10,950)	(10,056)	(10,170)
Net gearing (%)	-41.8%	-34.6%	-26.5%	-21.7%	-19.3%
ROE	19.8%	13.1%	12.1%	14.0%	14.9%
ROCE	20.8%	12.7%	13.6%	16.2%	17.6%

SOURCES: CIMB, COMPANY REPORTS

4.1 Strong balance sheet could provide potential upside

While its balance sheet remains strong (cash proceeds of Rs10.3bn from its equity offering (IPO) in 2010), its inability to acquire value-accretive landbank since its IPO has turned out to be an overhanging issue. Thus, any value-accretive landbank acquisition made by Oberoi could enhance its earnings visibility, cashflows and net asset value (NAV).

Figure 8: Oberoi is one the few developers with a net cash position

	DLF			Sobha			Unitech			Oberoi		
Rs m	FY11	FY12	9MFY13	FY11	FY12	9MFY13	FY11	FY12	9MFY13	FY11	FY12	9MFY13
Net debt	208,720	227,250	213,500	12,130	11,820	13,208	53,998	41,862	54,210	(13,993)	(12,934)	(10,928)
Equity	263,321	272,359	279,940	18,508	19,998	21,473	115,836	120,238	124,880	33,476	37,341	40,938
Net gearing (%)	79%	83%	76%	66%	59%	62%	47%	35%	43%	-42%	-35%	-27%

SOURCES: CIMB, COMPANY REPORTS

5. VALUATION AND RECOMMENDATION

5.1 Initiate with Outperform

We value the real estate business of Oberoi on a DCF-based net asset value (NAV) using the following assumptions:

- 5% inflation for property prices and costs that pertain to its entire landbank.
- Project launches and completions after delays of 5-10 years from the company's guidance.
- Discount rate (WACC) of 15%, cap rate (used for valuing rent-yielding commercial properties) of 11-12% and tax rate of 30%.

Using the above assumptions, we arrive at a DCF-based Gross Asset Value (GAV) of Rs225/share for Oberoi's real estate business.

After applying a discount of 10% to GAV, we then add this discounted GAV to the net cash of Rs33/share to obtain our adjusted real estate value of Rs235/share (real estate NAV of Rs258/share).

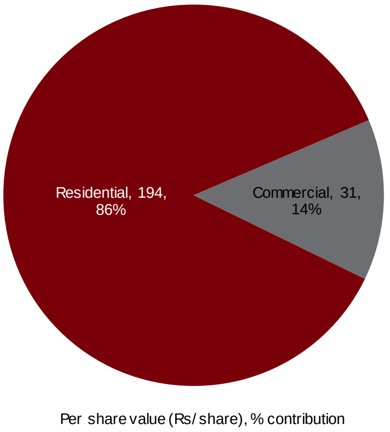
Finally, we add the value of the company's completed leased assets of Rs65/share to the adjusted real estate value of Rs235/share, which gives our target price of Rs300/share. Excluding the 10% discount to GAV, our total NAV works out to Rs323/share.

Figure 9: SOP-based target price of Rs300

DCF based target price	Rs mn	Rs/ share
DCF based GAV (a)	73,794	225
Adj.GAV (Discounted by 10%) - (b)	66,414	202
Less: Net debt (c')	(10,928)	(33)
NAV-Real estate (g = a - c)	84,722	258
Adj. NAV - Real estate - (e = b - c)	**77,343**	**235**
Add: Others - value of completed leased assets- (f)	21,208	65
Target Price (e+f)	**98,550**	**300**
Total NAV (g+f)	**105,930**	**323**

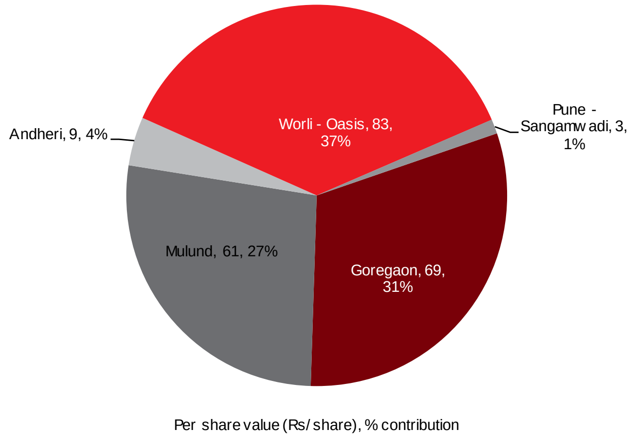
SOURCES: CIMB, COMPANY REPORTS

Figure 10: Residential segment contributes 86% to GAV



SOURCES: CIMB, COMPANY REPORTS

Figure 11: City-wise contribution to GAV



SOURCES: CIMB, COMPANY REPORTS

Sobha Developers Ltd

COMPANY NOTE

SOBHA IN /

Market Cap	Avg Daily Turnover	Free Float
US$686.4m	**US$1.71m**	**39.439.4%**
Rs37,259m	Rs92.28m	98.06 m shares

Current	**Rs380.0**
Target	**Rs450.0**
Previous Target	N/A
Up/downside	**18.4%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	**OUTPERFORM**
TRADING SELL	NEUTRAL
	UNDERPERFORM

Notes from the Field

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"We plan on sustaining our focus on investments which have a high development visibility and pursue sustainable growth."

– PNC Menon, Chairman

Preparing for higher growth

Sobha Developers is expanding from the steady Bangalore residential market to other cities such as Gurgaon, Chennai and Kochi. With its strong presales and pipeline, we believe that it is well-placed to report strong cashflows and 20% earnings CAGR in FY12-15.

Sobha plans to expand its business model by entering into joint development projects in attractive locations (to avoid high land costs) and commercial projects (for annuity-like rental income) to gain scale. We believe its business expansion will be supported by the improving outlook for IT sector where 80% of its landbank is in IT hubs. We initiate with an SOP-based target price of Rs450.

Strong presales & pipeline

Sobha's focus on execution in the steady Bangalore residential market (50%+ of its current and future projects) has resulted in strong presales of Rs15.4bn in 9MFY13. We note that 80% of Sobha's landbank is in IT hubs (which are seeing improving outlook), with Bangalore having the largest share of 32%. With Sobha's expansion to other cities (Gurgaon/Chennai/Kochi) implying a strong launch pipeline, we believe that it is well positioned to report strong cashflows (Rs34bn from ongoing projects over 3-4 years) and earnings (20% CAGR for FY12-15).

Scaling up its business model

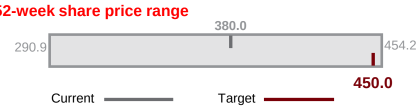
Sobha is capitalising on its strong execution capabilities by expanding its projects under construction (8msf+ of ongoing and 8.8msf of future projects) to gain scale via more joint development projects where it has 88% share in ongoing projects and 70% share in future projects. Its share of commercial projects has also increased from 5% for ongoing projects to 26% in future projects. While Sobha acknowledges that commercial projects are capital intensive and entail long gestation periods before they start generating rental income, it confirmed that it will keep its net gearing under 0.6x. We believe that Sobha's focus on execution will make this business model scalable.

Initiate at Outperform

We initiate coverage with SOP-based TP of Rs450, which comprises Rs403 for the real estate business (based on DCF-based NAV) and Rs47 for the contractual business which is valued at 6x EV/EBITDA. With 18% upside, we initiate at Outperform.

Source: Bloomberg

52-week share price range



Financial Summary

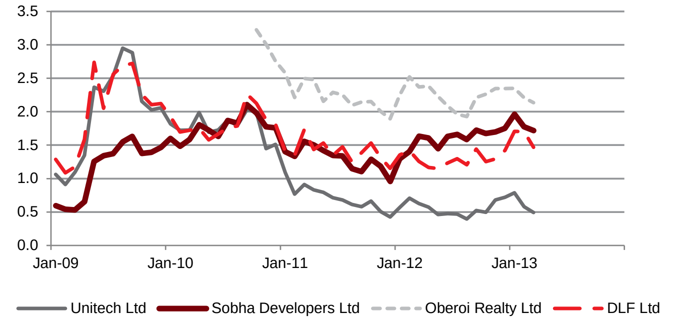
	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues (Rsm)	13,945	14,079	17,838	21,453	25,690
Operating EBITDA (Rsm)	3,600	4,666	5,532	6,631	8,078
Net Profit (Rsm)	1,813	2,060	2,056	2,602	3,524
Core EPS (Rs)	18.49	21.00	20.97	26.54	35.93
Core EPS Growth	17.8%	13.6%	(0.2%)	26.6%	35.4%
FD Core P/E (x)	20.55	18.09	18.12	14.32	10.57
DPS (Rs)	3.00	5.00	3.50	3.50	3.50
Dividend Yield	0.79%	1.32%	0.92%	0.92%	0.92%
EV/EBITDA (x)	13.81	10.60	9.31	7.54	6.09
P/FCFE (x)	26.10	13.65	9.90	12.13	11.29
Net Gearing	64.4%	58.1%	62.1%	48.7%	39.0%
P/BV (x)	2.01	1.86	1.72	1.55	1.37
Recurring ROE	10.2%	10.7%	9.9%	11.4%	13.8%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.88	0.82	0.82

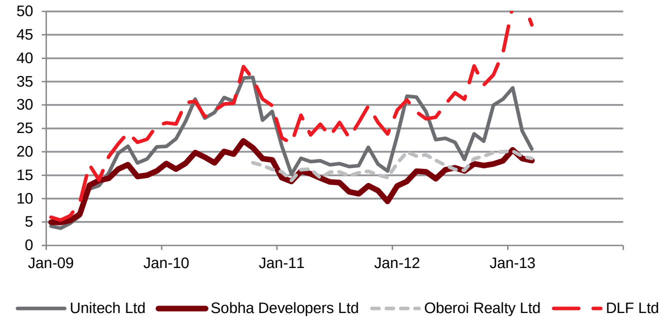
SOURCE: CIMB, COMPANY REPORTS

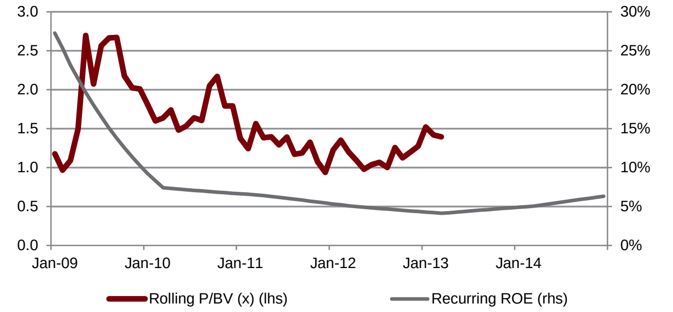
PEER COMPARISON

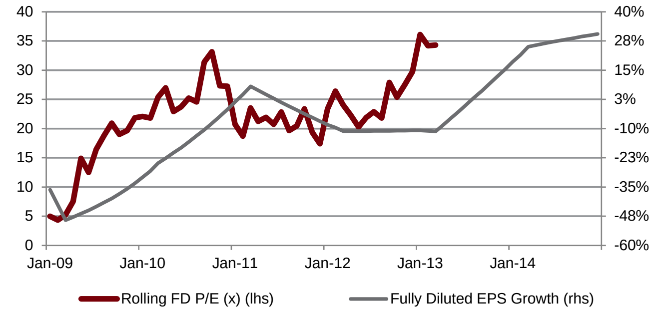
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US$m	Price	Target Price	Upside
Unitech Ltd	UT IN	IN	UNDERPERFORM	1,120	23.25	21.00	-9.7%
Sobha Developers Ltd	**SOBHA IN**	**IN**	**OUTPERFORM**	**686**	**380.0**	**450.0**	**18.4%**
Oberoi Realty Ltd	OBER IN	IN	OUTPERFORM	1,623	268.5	300.0	11.8%
DLF Ltd	DLFU IN	IN	UNDERPERFORM	7,493	239.5	220.0	-8.1%









Valuation

	P/E (FD) (x)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Unitech Ltd	21.61	16.40	11.77	0.50	0.48	0.46	30.99	23.93	16.65
Sobha Developers Ltd	**18.07**	**15.10**	**11.30**	**1.75**	**1.59**	**1.41**	**9.57**	**7.92**	**6.40**
Oberoi Realty Ltd	18.66	15.24	12.48	2.19	1.95	1.72	13.93	10.97	8.90
DLF Ltd	42.85	38.51	26.39	1.47	1.44	1.38	20.18	16.81	13.27

Growth and Returns

	Fully Diluted EPS Growth			Recurring ROE			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Unitech Ltd	-11.6%	31.8%	39.3%	2.3%	3.0%	4.0%	0.00%	0.00%	0.00%
Sobha Developers Ltd	**3.4%**	**19.7%**	**33.6%**	**10.1%**	**11.0%**	**13.2%**	**1.02%**	**0.92%**	**0.92%**
Oberoi Realty Ltd	-0.6%	22.4%	22.1%	12.3%	13.5%	14.7%	0.89%	1.07%	1.26%
DLF Ltd	-27.4%	11.3%	45.9%	3.5%	3.8%	5.3%	0.84%	0.84%	0.84%

SOURCE: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

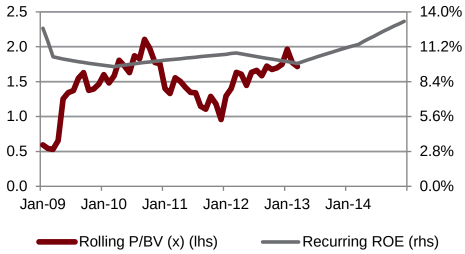
BY THE NUMBERS

Share price info

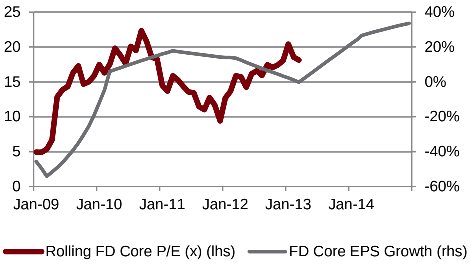
Share px perf. (%)	1M	3M	12M
Relative	-3	1.1	16.3
Absolute	-5.8	-1.2	23.1

Major shareholders	% held
East Spring	3.1
HSBC	2.9
Morgan Stanley	2.4

P/BV vs Recurring ROE



FD Core P/E vs FD Core EPS Growth



Revenue has been increasing on the back of strong execution

Profit & Loss

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues	**13,945**	**14,079**	**17,838**	**21,453**	**25,690**
Gross Profit	**6,168**	**9,632**	**11,061**	**14,676**	**17,840**
Operating EBITDA	**3,600**	**4,666**	**5,532**	**6,631**	**8,078**
Depreciation And Amortisation	(278)	(388)	(550)	(660)	(792)
Operating EBIT	**3,323**	**4,278**	**4,982**	**5,971**	**7,286**
Total Financial Income/(Expense)	(860)	(1,165)	(1,704)	(1,618)	(1,538)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Total Non-Operating Income/(Expense)	51	65	0	0	0
Profit Before Tax (pre-EI)	**2,514**	**3,177**	**3,278**	**4,352**	**5,748**
Exceptional Items					
Pre-tax Profit	**2,514**	**3,177**	**3,278**	**4,352**	**5,748**
Taxation	**(669)**	**(1,077)**	**(1,102)**	**(1,500)**	**(1,974)**
Exceptional Income - post-tax					
Profit After Tax	**1,846**	**2,101**	**2,176**	**2,852**	**3,774**
Minority Interests	(33)	(41)	(120)	(250)	(250)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**1,813**	**2,060**	**2,056**	**2,602**	**3,524**
Recurring Net Profit	1,813	2,060	2,056	2,602	3,524
Fully Diluted Recurring Net Profit	**1,813**	**2,060**	**2,056**	**2,602**	**3,524**

Sobha has been generating strong operating cash flows which we expect to continue

Cash Flow

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
EBITDA	3,600	4,666	5,532	6,631	8,078
Cash Flow from Invt. & Assoc.					
Change In Working Capital	294	(767)	(3,790)	(87)	(2,265)
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2,781	4,500	4,560	4,104	5,130
Other Operating Cashflow	(1,436)	(1,834)	(2,671)	(3,902)	(3,801)
Net Interest (Paid)/Received	(860)	(1,165)	(1,704)	(1,618)	(1,538)
Tax Paid	(356)	(538)	(557)	(731)	(967)
Cashflow From Operations	**4,023**	**4,861**	**1,369**	**4,396**	**4,637**
Capex	(242)	(1,126)	(687)	(550)	(600)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(31)	(995)	0	0	0
Cash Flow From Investing	**(273)**	**(2,121)**	**(687)**	**(550)**	**(600)**
Debt Raised/(repaid)	(2,322)	(11)	3,080	(774)	(736)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(294)	(490)	(343)	(343)	(343)
Preferred Dividends					
Other Financing Cashflow	(1,671)	(1,940)	(2,299)	(1,755)	(2,626)
Cash Flow From Financing	**(4,287)**	**(2,441)**	**437**	**(2,873)**	**(3,705)**

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

Though cash generation has been strong, net gearing has held at 62% due to its investment in commercial assets and joint development initiatives where construction costs are higher

Balance Sheet

(Rsm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Cash And Equivalents	288	588	1,707	2,681	3,013
Properties Under Development					
Total Debtors	4,252	1,180	1,955	2,645	2,815
Inventories	10,685	16,759	17,104	16,457	19,707
Total Other Current Assets	21,583	20,919	23,011	24,392	24,879
Total Current Assets	**36,807**	**39,446**	**43,778**	**46,175**	**50,415**
Fixed Assets	2,041	2,852	3,112	3,199	3,297
Total Investments	**37**	**0**	**0**	**0**	**0**
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	74	74	74	74	74
Total Non-current Assets	**2,152**	**2,926**	**3,186**	**3,273**	**3,371**
Short-term Debt	12,335	12,163	13,136	12,480	11,856
Current Portion of Long-Term Debt					
Total Creditors	6,766	7,895	8,053	9,664	11,307
Other Current Liabilities	943	1,386	650	376	376
Total Current Liabilities	**20,044**	**21,445**	**21,840**	**22,519**	**23,538**
Total Long-term Debt	83	244	2,351	2,233	2,122
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	**83**	**244**	**2,351**	**2,233**	**2,122**
Total Provisions	0	330	587	0	0
Total Liabilities	**20,127**	**22,020**	**24,778**	**24,753**	**25,660**
Shareholders' Equity	**18,508**	**19,998**	**21,711**	**23,970**	**27,150**
Minority Interests	324	355	475	725	975
Total Equity	**18,832**	**20,353**	**22,186**	**24,695**	**28,126**

Key Ratios

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue Growth	23.4%	1.0%	26.7%	20.3%	19.7%
Operating EBITDA Growth	46.2%	29.6%	18.6%	19.9%	21.8%
Operating EBITDA Margin	25.8%	33.1%	31.0%	30.9%	31.4%
Net Cash Per Share (Rs)	(123.7)	(120.5)	(140.5)	(122.7)	(111.8)
BVPS (Rs)	188.7	203.9	221.4	244.4	276.9
Gross Interest Cover	3.86	3.67	2.92	3.69	4.74
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	0%	0%	0%	0%	0%
Accounts Receivables Days	113.6	70.6	32.1	39.1	38.8
Inventory Days	511	1,129	912	904	841
Accounts Payables Days	299.2	603.4	429.5	477.1	487.5
ROIC (%)	10.6%	13.8%	15.3%	16.3%	19.8%
ROCE (%)	10.5%	13.3%	14.0%	15.4%	17.9%

Key assumptions for our DCF-based GAV Calculations

Inflation in property prices across land bank	5%
Inflation in construction costs across land bank	5%
WACC	15%
Capitalization Rate	11%
Tax Rate	30%

SOURCE: CIMB, COMPANY REPORTS

Preparing for higher growth

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1. BACKGROUND

1.1 Quality developer with a focus on execution

A focus on quality and execution through backward integration has enabled Sobha to build a significant franchise. Since its inception in 1995, the company has delivered over 54 msf of residential and contractual (office) projects. Sobha also has a presence in various segments such as residential, commercial and retail with landbank spanning nine cities.

Sobha has built up a landbank of about 248msf across nine cities, with the highest concentration in Bangalore (32%). It is taking its scalable business model from Bangalore to other cities in India. While a large landbank and focus on execution will drive growth, its contractual business offers some financial stability.

Figure 1: Strong execution track record

Cumulative Area Completion	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	9MFY13
Developed Area (msf)	2.3	3.2	4.3	5.7	10.1	14.6	18.7	23.9	33.1	39.0	46.6	51.8	54.6
Saleable area (msf)	2.3	3.1	4.2	5.5	9.7	13.9	17.8	22.3	30.8	36.4	42.7	46.8	49.3
Area Completion	**FY01**	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**9MFY13**
Developed Area (msf)	2.2	0.9	1.1	1.4	4.5	4.5	4.1	5.2	9.2	5.9	7.6	5.2	2.8
Sold area (msf)	2.2	0.8	1.1	1.3	4.2	4.2	3.9	4.5	8.4	5.6	6.3	4.1	2.4

SOURCES: CIMB, COMPANY REPORTS

2. OUTLOOK

2.1 Focus on growth via IT hubs, primarily Bangalore

Sobha's landbank is largely based in south India and is well positioned to capture the demand from the information technology (IT) sector. We note that the IT sector is one of the largest users of real estate – both in terms of office space (by IT companies) and residential units (by IT employees). 80% of Sobha's landbank is in IT hubs, with Bangalore having the largest share (32%) of landbank. Sobha's status as the preferred contractor for Infosys has helped it to expand its client base and complements its expansion plans for property development in newer locations.

Figure 2: Sobha's land bank is focused on IT hubs (primarily Bangalore)

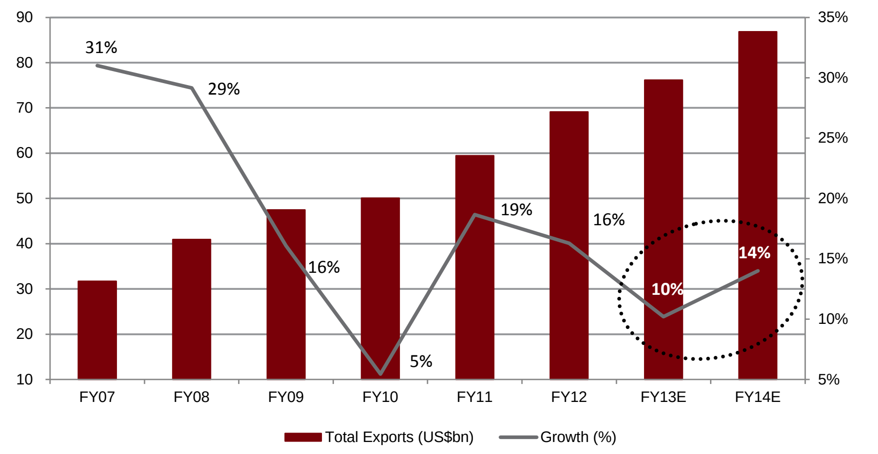
Land bank (msf)	Developable Area	Sobha's Share	% Share	Comments
Bangalore	87.0	78.6	32%	Largest IT hub of India
Chennai	52.0	50.7	20%	Established IT hub
Hosur	47.5	47.5	19%	-
Cochin	43.2	43.2	17%	Emerging IT hub
Pune	11.5	11.2	5%	Established IT hub
Coimbatore	9.2	9.2	4%	Established IT hub
Mysore	3.2	3.2	1%	New IT hub
Thrissur	1.6	1.6	1%	Emerging IT hub
Calicut	3.0	2.3	1%	
Total	**258.3**	**247.5**	**100%**	

SOURCES: CIMB, COMPANY REPORTS

2.2 Improving IT outlook enhances visibility

The National Association of Software and Services Companies (NASSCOM) expects the growth of IT exports to rise from 10% to 12-14% in FY14. Currently, most IT companies are holding back on discretionary spending, leading to very few hirings in this space. However, our IT team estimates that the discretionary spending has bottomed out, implying an improving IT industry outlook.

Figure 3: Improving IT outlook enhances visibility



SOURCES: NASSCOM

We have already seen rising contributions from the IT sector and expect it to increase further given the improving industry outlook.

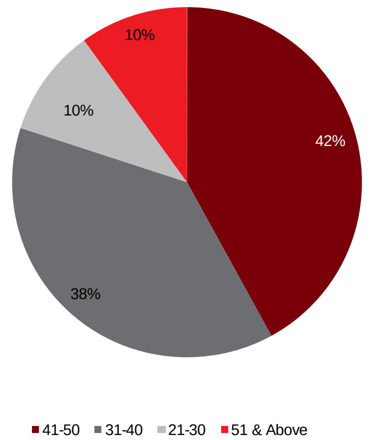
Figure 4: Contribution from IT/ ITES segment is on the rise

	FY11	FY12	9MFY13
IT/ ITES	37%	39%	41%
Non IT	45%	44%	34%
Others	4%	4%	12%
Business entrepreneurs	8%	9%	8%
Medical/ Pharma	6%	4%	5%

SOURCES: CIMB, COMPANY REPORTS

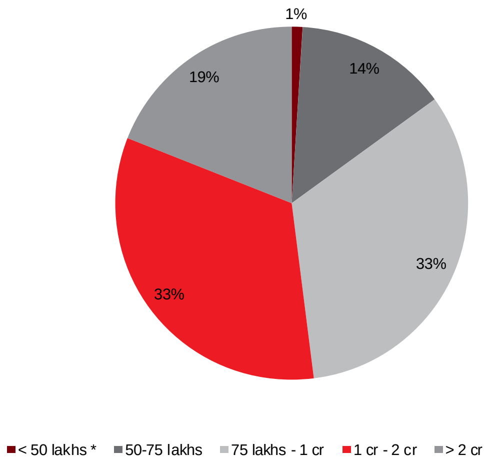
The profile of Sobha's buyers suggests a focus on premium housing (with ticket size of Rs7.5m-20m) representing two-thirds of its residential sales and bought by experienced/successful individuals (80% in 31-50 age bracket).

Figure 5: Focus on experienced/ successful individuals…



SOURCES: CIMB, COMPANY REPORTS

Figure 6: …as ticket size are high (Rs 7.5-20m)

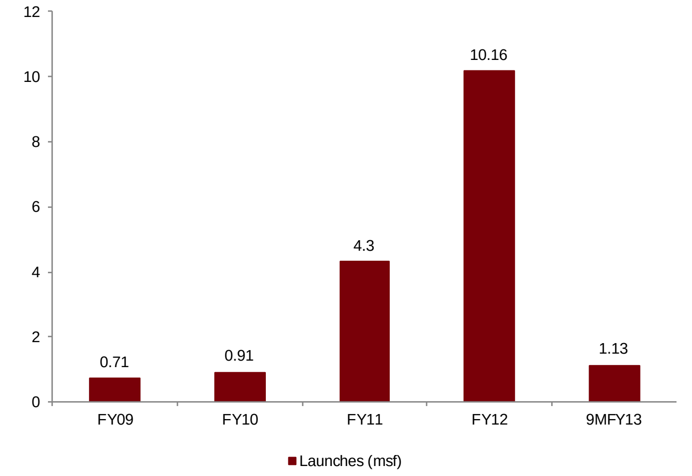


SOURCES: CIMB, COMPANY REPORTS; * < 50 lakhs represents 1 BHK in Tamilnadu

2.3 Strong presales led by higher volumes

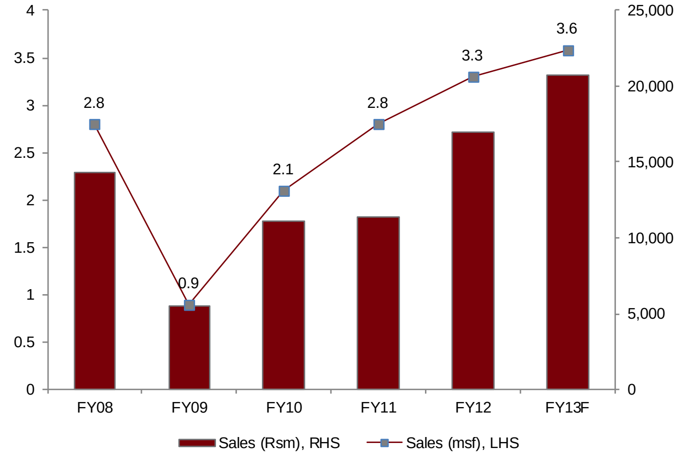
After the financial crisis which continued to affect FY09, Sobha's sales bounced back due to its focus on execution and quality. We have also seen significant launches in FY11 and FY12, which will drive future sales. Sobha's annual sales run-rate has increased from 0.9msf in FY09 to an expected 3.6msf in FY13. In terms of value, sales are even better, with annual sales improving from Rs4bn in FY09 to an expected Rs20.9bn in FY13. We expect sales to pick up to Rs24.1bn in FY14 and Rs27.7bn in FY15.

Figure 7: Pick-up in launches…



SOURCES: CIMB, COMPANY REPORTS

Figure 8: …has resulted in steady presales



SOURCES: CIMB, COMPANY REPORTS

2.4 Strong pipeline to drive FY14 volumes and cashflows

We note that Sobha has 15.24msf of ongoing projects, of which 45% has been sold, with outstanding receivables of Rs18bn. Adding the sales value expected from the unsold stock of about 8msf+ to Rs58.4bn (as seen from Figure below) and adjusting for the construction cost required to complete the entire development, Sobha expects cash flows of Rs34bn from the ongoing projects in the next 3-4 years.

Figure 9: Location-wise stock details of ongoing projects

Area (msf)	Opening stock	Area sold during 9MFY13	Closing stock as on 31st Dec 2012	Area not offered for sale	Net unsold stock as on 31st Dec 2012
Bangalore	6.1	1.7	4.4	1.5	2.9
Gurgaon	2.4	0.4	2.1	1.4	0.6
Chennai	0.8	0.2	0.6	0.0	0.6
Pune	0.4	0.1	0.3	0.0	0.3
Coimbatore	0.3	0.1	0.2	0.2	0.1
Thrissur	1.0	0.3	0.8	0.0	0.8
Mysore	0.1	0.0	0.1	0.0	0.1
Total	**11.2**	**2.7**	**8.6**	**3.1**	**5.5**

SOURCES: CIMB, COMPANY REPORTS

Figure 10: Real estate projects - Cash flow status on 31 Dec 2012

Description	Ongoing Projects
Sobha share of Saleable area (msf)	15.24
Total area sold till 31st December-12 (msf)	6.83
Unsold area (msf)	8.41
Sales value of unsold stock, Rs m (a)	58,402
Outstanding receivables + Balance to be collected on sold units, Rsm (b)	18,133
Construction cost required to complete the entire developments, Rsm (c)	42,633
Positive cash flow expected over 3-4 years, Rsm (a+b-c)	**33,902**

SOURCES: CIMB, COMPANY REPORTS

Sobha plans to launch around 8.8msf of projects in the near- to medium-term which will drive sales, cash flows and volume. Out of the above, 64% of the projects are focused on Bangalore.

We note that Sobha has entered newer markets in the past five years, with the initial focus on south India and gradually moving to the rest of India (Gurgaon). Currently, the company operates in seven cities across India – Bangalore, NCR (Gurgaon) and Chennai among the Tier 1 cities; Pune, Coimbatore and Mysore among the Tier 2 cities and Thrissur which is a Tier 3 city.

Figure 11: Proposed launches in next 4 quarters

S.No	Projects (As on 3QFY13)	Location	Type	Site Area (in Acres)	~Total SBA (sft)	% of Sobha share	Sobha share of SBA (sft)	% Share of landbank
	BANGALORE							
1	Devanahalli Property	IVC Road	Plotted Development	9.9	201,759	100%	201,759	
2	City Property	Minerva Mills, Gopalapura	Residential + Commercial	11.4	1,486,403	55%	817,522	
3	Doddanekundi Property	Yamlur, HAL Road	SL Apartments	5.6	540,000	60%	324,000	
4	Kanakapura Road property	Thalaghattapura	Residential	11.0	981,500	70%	682,143	
5	Hirandahalli Property	Old Madras Road	Villas + Villaments	22.5	585,066	64%	374,442	
6	Hosakerehalli Property	Mysore Road	SL Apartments	15.7	1,406,687	80%	1,119,020	
7	Mark's Road Property	St.Mark's Road	Commercial	1.8	203,357	50%	101,679	
8	APMC Project	Jakkur, Bellary Road	Commercial+Hotel	29.2	2,889,918	70%	2,018,718	
	Total				**8,294,690**	**68%**	**5,639,283**	**64.0%**
9	**Chennai**							
	Sholinghanallur Property	Sholinghanallur, OMR	Residential Apartments	19.2	2,141,556	65%	1,392,011	15.8%
12	**Cochin**							
	Vyittla property	Vyittla	Residential Apartments	6	1,149,984	85%	975,570	11.1%
11	**Calicut**							
	Faroke Property	Faroke Petta	Apartments	3.5	618,000	78%	482,040	5.5%
13	**Thrissur**							
	Sobha City-Commercial 2	Thrissur, Kerala	Office + Hotel Space	3.4	191,309	100%	191,309	2.2%
10	**Mysore**							
	Nadanahalli property	Nadanahalli	Plotted Development	6.2	135,036	100%	135,036	1.5%
	Total			**145**	**12,530,575**	**70%**	**8,815,249**	**100.0%**

SOURCES: CIMB, COMPANY REPORTS

2.5 Contractual business adds earnings visibility

We believe that the contractual business offers a hedge against the real estate business as it follows an asset-light model which offers the advantages of stable cash flows and strengthening execution capability. Sobha's status as the preferred contractor for Infosys has helped it to expand its client base and also complement its expansion plans for real estate development in newer locations. Sobha has executed 224 projects with saleable area of 28.5 msf. Infosys accounts for 87% (75% of ongoing projects) of all the contractual work undertaken by Sobha.

Figure 12: Ongoing contractual business

S.No.	Description	Projects Under Progress: No of Projects	Projects Under Progress: SBA (msft)
1	Bangalore	15	2.2
2	Hyderabad	7	1.8
3	Mysore	3	1.9
4	Chennai	2	0.5
5	Pune	4	1.1
6	Mangalore	4	1.0
7	Coimbatore	1	0.3
9	Trivendrum	3	1.3
	TOTAL	**39**	**10.1**

SOURCES: CIMB, COMPANY REPORTS

Figure 13: Client profile (led by Infosys)

	Projects	Area (msft)
Completed	**242**	**28.47**
Infosys		24.79
Corporates		3.68
Under Progress	**39**	**10.06**
Infosys		7.53
Corporates		2.53

SOURCES: CIMB, COMPANY REPORTS

2.6 Business model expanding via joint development…

Sobha is capitalising on its strong execution capabilities by expanding its projects under construction (8msf+ of ongoing and 8.8msf of future projects) to gain scale via more joint development projects where Sobha has 88% share in ongoing projects and 70% share in future projects.

While Bangalore is expected to make up a higher portion (64% in future projects vs. 56% in current projects) of Sobha's share of saleable projects, we note that Sobha's share of the total saleable area has fallen significantly, largely due to its joint development projects. While it is prudent to enter into joint development in an inflationary environment where land costs have skyrocketed, we note that it already has 248msf landbank (78msf in Bangalore alone). According to Sobha, some parcels of open landbank are in growing corridors and it plans to launch these, along with joint development projects.

Figure 14: Sobha's business model expanding via towards joint development

	Total Saleable area (msf)	Sobha's Saleable area (msf)	Sobha's share
Current Projects	17.9	15.7	88%
Bangalore	9.1	8.8	97%
% Bangalore	51%	56%	
Future Projects	12.5	8.8	70%
Bangalore	8.3	5.6	68%
% Bangalore	66%	64%	

SOURCES: CIMB, COMPANY REPORTS

2.7 … and commercial projects

Sobha's commercial projects make up 26% of future projects compared to 5% for ongoing projects. It expects positive cash flow from its ongoing projects (95% residential) and plans to use the cash flows in capital-intensive commercial projects. This is part of its expanding business model initiative where it plans to start reaping annuity-like rental income from commercial projects.

Figure 15: Increasing contribution from commercial projects

	Ongoing projects (msf)	Future projects (msf)
Sobha's share of saleable area	15,739,363	8,815,249
Commercial	715,989	2,311,706
% commercial	5%	26%

SOURCES: CIMB, COMPANY REPORTS

While Sobha acknowledges that commercial projects are capital-intensive and entail long gestation periods before they start generating rental income, it confirmed that it will keep its net gearing under 0.6x. We believe that Sobha's focus on execution will make this business model scalable.

Figure 16: SWOT analysis

Strengths	Opportunities
Strong execution track record	Improving IT industry outlook
Large land bank in IT hubs	Current investments in joint development/ commercials
Threats	**Weaknesses**
Slowdown in IT industry as large land bank is primarily in IT cities	Absolute debt remains high at Rs14.7bn
Joint dev. business has risk of higher construction cost and disputes	

SOURCES: CIMB, COMPANY REPORTS

3. FINANCIALS

3.1 Strong residential pipeline provides earnings visibility

We note that Sobha has Rs17bn of revenues yet to be recognised from its sales in the past 2-3 years. Also, with Sobha's focus on execution, we expect progress billings for more projects will improve earnings.

Figure 17: Income recognised

Rs m	FY11	FY12	9MFY13
Sales Value	11,335	17,015	15,402
% Income recognized	81%	53%	56%
Sales value yet to be recognized	2,154	7,997	6,777

SOURCES: CIMB, COMPANY REPORTS

Figure 18: Key financials

Rsm	FY11	FY12	FY13F	FY14F	FY15F
Revenues	13,945	14,079	17,838	21,453	25,690
EBITDA	3,600	4,666	5,532	6,631	8,078
EBITDA margins	25.8%	33.1%	31.0%	30.9%	31.4%
PBT	2,514	3,177	3,278	4,352	5,748
Tax Rate%	27%	34%	33%	34%	34%
PAT - Reported	1,813	2,060	2,056	2,602	3,524
EPS - Reported	18.5	21.0	21.0	26.5	35.9
Growth					
Revenues	23%	1.0%	26.7%	20.3%	19.7%
EBITDA	46%	29.6%	18.6%	19.9%	21.8%
PAT - Core	35%	13.6%	-0.2%	26.6%	35.4%
Balance sheet					
Net worth (Rs m)	18,508	19,998	21,711	23,970	27,150
Net debt (Rs m)	12,130	11,820	13,780	12,032	10,964
Net gearing (%)	64.4%	58.1%	62.1%	48.7%	39.0%
ROE	10.2%	10.7%	9.9%	11.4%	13.8%
ROCE	10.5%	13.3%	14.0%	15.4%	17.9%

SOURCES: CIMB, COMPANY REPORTS

4. RISKS

4.1 Concentration risks – IT slowdown or regulatory change could affect sales

Sobha's 32% of its landbank is located in Bangalore, which accounts for 50%+ of ongoing and future projects. Any major change in regulations or natural calamity in Bangalore could have an adverse impact. Also, its landbank is heavily skewed (84% of landbank) towards IT/ITES cities, which means that any major slowdown of the IT sector could lead to slow sales momentum.

4.2 Refocus on capital-intensive commercial segment

Commercial projects are set to increase from 5% of ongoing projects to 26% of future projects. As Sobha plans to direct the cash inflows from residential projects to capital-intensive commercial projects, this could mean less debt reduction than in the past.

4.3 Business model moving towards joint development

While it is prudent to enter into joint development when land cost has skyrocketed, it requires huge construction cost outlay as Sobha would be constructing on behalf of the landlord. This is despite the fact that Sobha has 220msf landbank (82msf in Bangalore).

5. VALUATION AND RECOMMENDATION

5.1 Initiate with Outperform

We value Sobha on a DCF-based net asset value (NAV) of Rs450/share, based on the following assumptions:

- 5% inflation of property prices and costs for the entire landbank
- project launches and completions after delays of 5-10 years from the company's guidance.
- discount rate (WACC) of 15% and cap rate (used for valuing rent-yielding commercial properties) of 12%, tax rate of 30%.

We arrive at a DCF-based gross asset value (GAV) of R613/share.

We apply a discount of 10% to the GAV and exclude the net debt of Rs135/share and outstanding payables on the landbank of Rs15/share, giving us an adjusted real estate value of Rs403/share (real estate NAV of Rs464/share).

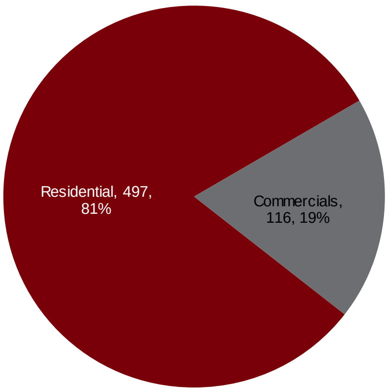
We add the Rs47/share value from the company's contracting and manufacturing business to the adjusted real estate value, arriving at a target price of Rs450. Total NAV is Rs511/share.

Figure 19: SOP-based target price of Rs450

DCF based TP	**Rs mn**	**Rs/ share**
DCF based GAV (a)	60,121	613
Adj.GAV (Discounted by 10% - (b)	54,109	552
Less: Net debt (c')	13,208	135
Less: Payable for Land bank (d)	1,433	15
NAV-Real estate (g = a-c-d)	45,481	464
Adj. NAV - Real estate - (e = b- c-d)	**39,469**	**403**
Add: Others-Contractual and Manufacturing unit-(f)	4,612	47
Target Price (e+f)	**44,081**	**450**
Total NAV (g+f), Rs/ share		**511**

SOURCES: CIMB, COMPANY REPORTS

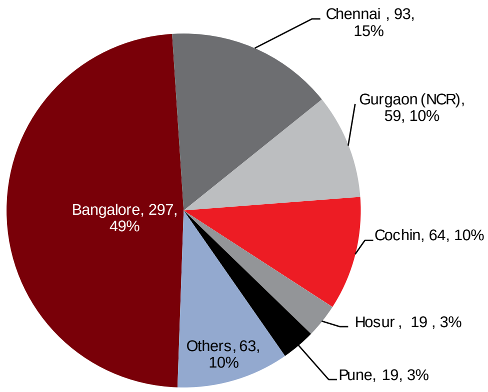
Figure 20: Residential segment represents 81% of GAV



Per share value (Rs/ share), % contribution

SOURCES: CIMB, COMPANY REPORTS

Figure 21: Bangalore remains the key market in terms of GAV



Per share value (Rs/ share), % contribution

SOURCES: CIMB, COMPANY REPORTS

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Distribution of stock ratings and investment banking clients for quarter ended on 28 February 2013
958 companies under coverage

	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	51.7%	8.6%
Neutral	35.0%	4.3%
Underperform/Sell/Trading Sell	13.3%	7.1%

Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

AAV – not available, ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent , BAY - Excellent , BBL - Excellent, BCH - Good, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, GRAMMY – Excellent, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, INTUCH – Very Good, ITD - Good, IVL - Very Good, JAS – Very Good, KAMART – not available, KBANK - Excellent, KK – Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, RS – Excellent, SC – Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, THCOM – Very Good, TICON – Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good, WORK – Good.