UBS

Global Equity Research

India

Real Estate

Sector Comment

# UBS Investment Research

# India Real Estate

## Property prices continue upward swing

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### ■ Prices have increased 15-40%

We visited the property exhibition held in Mumbai, where all the leading Mumbai-based developers were present. Three key takeaways were: 1) high price increases before the exhibition—with this, prices have increased 15-40% over the past three months, and are close to the peaks achieved two years ago; 2) the turnout was the highest in the past two years; and 3) there was aggressive selling of mortgages by the banks.

### ■ Affordability could be hit faster than expected, in our view

Prior to this, we had expected a price increase of about 25% over two years, of which 5-7% had already taken place over July-August. If one were to go by the price increases at the exhibition, volumes could be hit faster than expected. Our channel checks suggest the larger listed players such as DLF and Unitech are unlikely to take the lead in increasing prices, except in select cases such as DLF Capital Greens.

### ■ There are still catalysts for the sector

In an earlier note, '*India Real Estate: Catalysts remain*' published 1 September 2009, we had highlighted two catalysts that could help the sector sustain the rally: 1) the possibility of recycling of capital invested in office property; and 2) residential property price inflation. We think that as long as confidence remains in the economy, and the listed players do not rashly increase prices thereby affecting their volumes, they stand to benefit.

### ■ Retain Buy rating on Unitech and IBREL

We retain our Buy rating on IBREL and Unitech, and Sell on DLF on valuation. We see two near-term catalysts in the sector: 1) the merger of DLF Assets with DLF and an increase in promoter stake; and 2) "poster" transaction that sets benchmark cap rates.

### Valuation comparables

| Company | Rating | Price target (Rs) | Price | Mcap | PE | | | EPS Growth (%) | | | Premium (discount) to NAV | Land bank (msf) | Forward NAV (lcy) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 4-Oct-09 | US$ m | FY09 | FY010 | FY11E | FY09 | FY010 | FY11E | | | |
| India | | | | | | | | | | | | | |
| DLF Universal | Sell | 380 | 440.2 | 15,723 | 16.2 | 36.9 | 20.9 | (41) | (56) | 76 | 42.0% | 425 | 310 |
| Unitech Limited | Buy (CBE) | 132 | 105.6 | 5,278 | 14.3 | 19.9 | 18.4 | (28) | (28) | 8 | -1.4% | 621 | 107 |
| Indiabulls Real Estate | Buy | 340 | 272.3 | 2,288 | 67.7 | 34.6 | 21.3 | | 96 | 62 | -19.9% | 199 | 340 |
| Ansal Properties & Infra | Not Rated | | 86.4 | 209 | 30.1 | (29.3) | (3.6) | (79) | (203) | 720 | | 150 | NA |
| Peninsula Land Limited | Not Rated | | 83.0 | 485 | 17.5 | 6.1 | 2.3 | | 186 | 162 | -36.2% | 5 | 130 |
| Mahindra Gesco | Not Rated | | 367.3 | 152 | 23.3 | 17.5 | 11.2 | 493 | 33 | 56 | | 17 | NA |
| Anant Raj Ind | Not Rated | | 151.5 | 937 | 14.1 | 18.3 | 15.4 | (21) | (23) | 19 | -44.9% | 20 | 275 |
| Sobha Developers | Not Rated | | 263.6 | 542 | 17.8 | 22.4 | 17.2 | 5 | (21) | 31 | | 220 | NA |
| Parsvnath | Not Rated | | 147.6 | 571 | 24.1 | 25.8 | 20.9 | | (6) | 23 | | 108 | NA |
| HDIL | Not Rated | | 335.2 | 2,429 | 11.7 | 19.2 | 15.2 | | (39) | 26 | -16.2% | 135 | 400 |
| Brigade | Not Rated | | 128.0 | 301 | 16.6 | 20.6 | 12.4 | | (19) | 65 | | 30 | NA |

Source: Company data, Bloomberg consensus, UBS estimates

## Table 1: Property price changes

| Builder | Location | Type | Prices | |
|---|---|---|---|---|
| | | | Current (Rs/sf) | Chg over 3 mths |
| Runwal | Chembur | Residential | 11,000 | 40% |
| | Ghatkopar (W) | Residential | 8,250 | 20% |
| Nirmal | Mulund (W) | Residential | 5,954 | 20% |
| Lodha | Mahalakshmi | Residential | 27,000 | 20% |
| Oberoi | Andheri (E) | Residential | 8,500 | 20% |
| | Andheri (W) | Residential | 20,765 | Flat |
| Kalpataru | Thane | Residential | 4,000 | 25% |
| | Ghatkopar (W) | Residential | 7,000-8,500 | 15% |
| | Kandivili | Residential | 7,200 | 10% |
| | Panvel | Residential | 3,375 | Flat |
| Gundecha | Kanjurmarg | Residential | 8,600 | 15% |
| Rustomjee | Thane | Residential | 4,500-5,500 | 15% |
| Bhakti Park | Wadala | Residential | 9,540 | 15% |
| Everest | Thane (W) | Residential | 3,289 | 10% |
| | Off 5 Gardens, Wadala | Residential | 14,000 | Recent Launch |
| Vasant | Thane (W) | Residential | 7,000 | 10% |
| Arihant | Panvel | Residential | 2,125 | 10% |
| | Vashi | Residential | 4,500-5,500 | 5% |
| | Kharghar | Residential | 3,100-3,900 | Flat |
| Hiranandani | Thane, Ghodbunder | Residential | 5,350 | 5% |
| | Thane, Kolshet | Residential | 5,450 | 5% |
| | Chennai | Residential | 3,650 | Flat |
| | Panvel | Residential | 3,650 | Flat |
| | Chembur | Residential | 13,000 | Flat |
| Godrej | Vikhroli | Residential | 9,000 | Flat |
| Nahar | Powai | Residential | 6,600-6,800 | Flat |

Source: UBS

## ■ Statement of Risk

We think the main risks to investing in Indian property stocks include: 1) property price related risks; 2) government policy related risks; 3) execution risks; and 4) liquidity risks.

## ■ Analyst Certification

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| UBS 12-Month Rating | Rating Category | Coverage[1] | IB Services[2] |
|---|---|---|---|
| **Buy** | **Buy** | 44% | 39% |
| **Neutral** | **Hold/Neutral** | 40% | 35% |
| **Sell** | **Sell** | 15% | 27% |
| **UBS Short-Term Rating** | **Rating Category** | **Coverage[3]** | **IB Services[4]** |
| **Buy** | **Buy** | less than 1% | 33% |
| **Sell** | **Sell** | less than 1% | 0% |

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

### UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|---|---|
| **Buy** | FSR is > 6% above the MRA. |
| **Neutral** | FSR is between -6% and 6% of the MRA. |
| **Sell** | FSR is > 6% below the MRA. |
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## Company Disclosures

| Company Name | Reuters | 12-mo rating | Short-term rating | Price | Price date |
|---|---|---|---|---|---|
| **DLF Limited** | DLF.BO | Sell | N/A | Rs440.15 | 01 Oct 2009 |
| **Indiabulls Real Estate** | INRL.BO | Buy | N/A | Rs272.25 | 01 Oct 2009 |
| **Unitech**[2, 4, 6, 13, 20] | UNTE.BO | Buy (CBE) | N/A | Rs105.55 | 01 Oct 2009 |

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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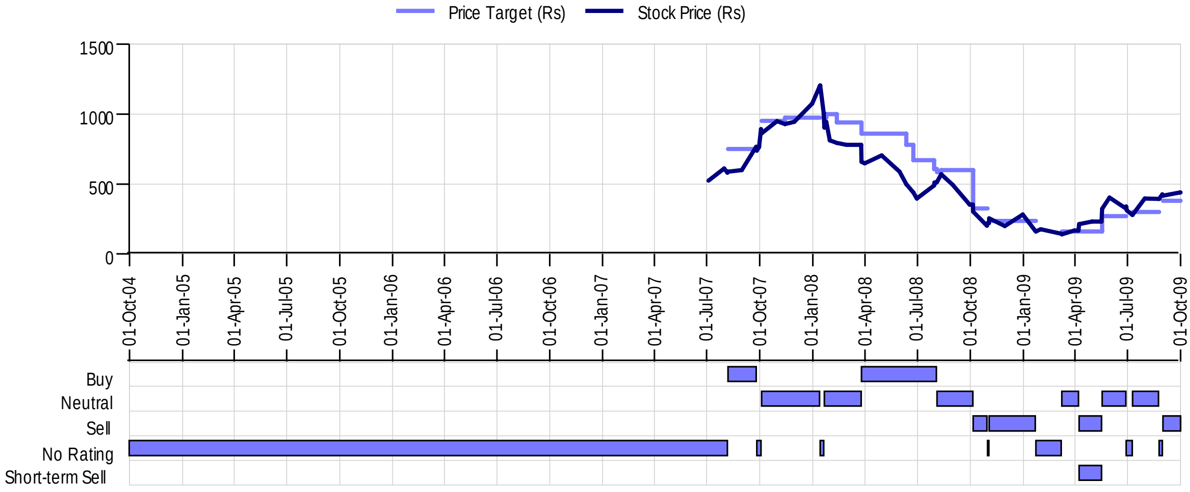
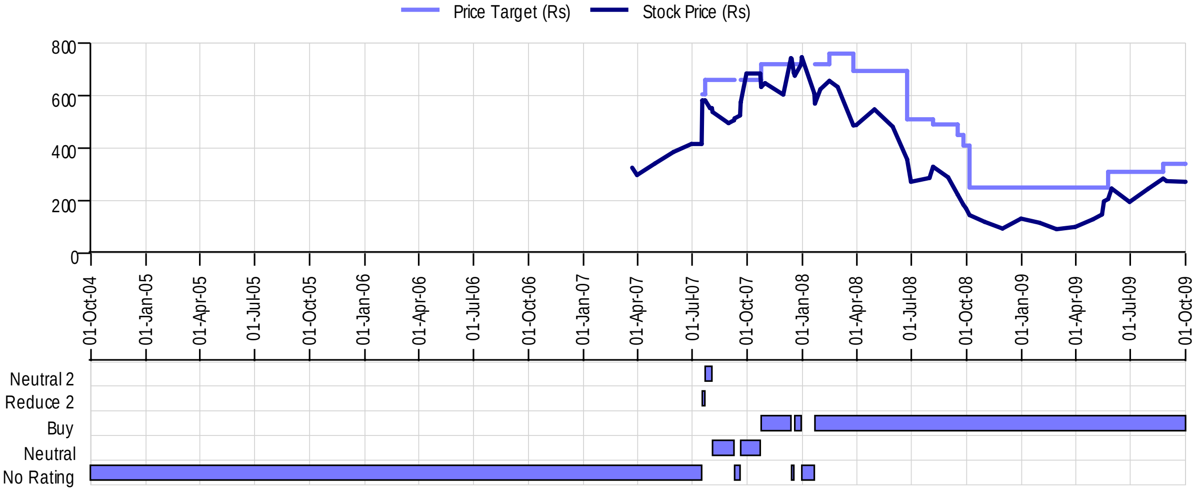


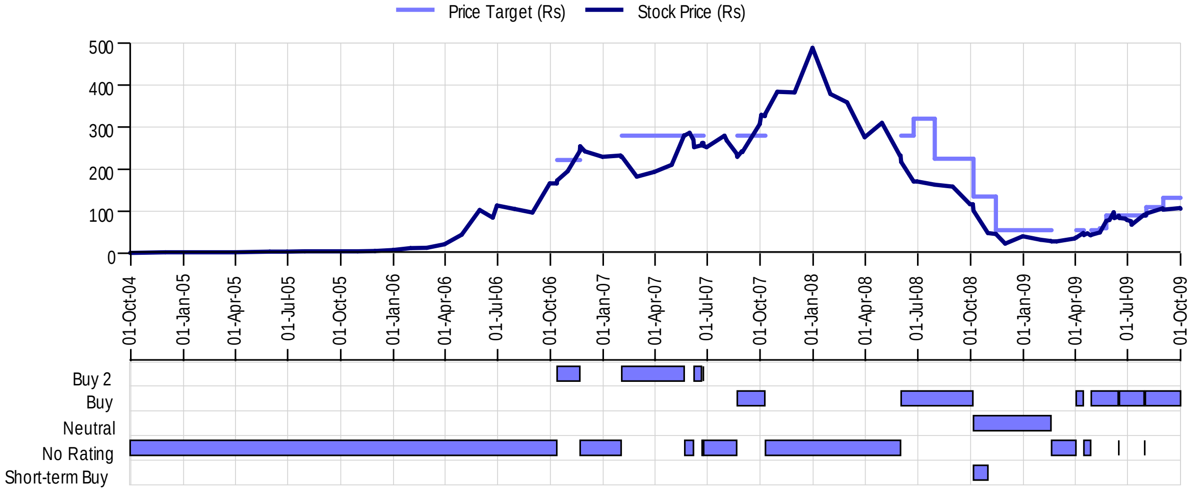

Source: UBS; as of 01 Oct 2009

## Indiabulls Real Estate (Rs)




Source: UBS; as of 01 Oct 2009

## Unitech (Rs)




Source: UBS; as of 01 Oct 2009

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