IDFC SSKI

INDIA RESEARCH

Company update

9 January 2008

BSE Sensex: 20870

Unitech

Rs517

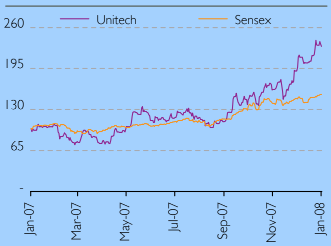
OUTPERFORMER

Transforming earth to gold

Mkt Cap: Rs839.2bn; US $21.4bn

Stock data	
Reuters	UNTE.BO
Bloomberg	UT IN
1-yr high/low (Rs)	547/160
1-yr avg daily volumes	1.45
Free float (%)	25.4

Relative price performance



Performance (%)

	3-mth	6-mth	1-yr	3-yr
Unitech	58.3	96.8	130.3	22134
Sensex	14.2	38.7	53.8	225.1

Unitech is a formidable real estate player with a saleable area of 689 msf and a pan-national, pan-segment presence – a position reinforced by a series of recent high IRR acquisitions. Unitech has an option of listing a business trust on the Singapore Exchange. Besides providing access to cheap capital, the listing will enable Unitech to fetch higher realizations for its rental assets, preparing ground for a significant re-rating. We forecast a significant scale-up for Unitech in the next three years with ~6x rise in revenues and ~7x jump in profits. The real estate AMC and a successful telecom foray provide additional value triggers. We estimate Unitech's FY09 NAV at Rs697 per share. We believe the stock should trade at a 1.25x premium to NAV, indicating a fair value of Rs871 – 68% upside from CMP. Reiterate Outperformer.

Ability to acquire prime and value-accretive projects: Unitech has recently added ~235m sq. ft of land to its bank of ~453m sq. ft – up 51% yoy. One of the new projects marks Unitech's entry into the large and lucrative SRS market of Mumbai. Also, Unitech has acquired a 7m sq. ft residential project in prime location of Chennai, a 103-acre hotel site in Goa, and land parcels in Kolkata and Greater Noida. These prime projects entail nominal upfront investment and offer high IRRs.

A Singapore REIT-type listing – multiple benefits: Unitech may opt to list a REIT-type business trust on the Singapore Exchange. The listing will result into creation and strengthening of funding vehicles, acceleration of cash flows into the company, unlocking value in rental assets and gains on carried interest in Unitech Corporate Parks. Most significantly, the lease capitalization rates would get compressed from 10% to ~7%, which implies 40% higher realizations on rental assets.

Stock offers 68% upside – reiterate Outperformer: We estimate Unitech's NAV at Rs1,130bn (Rs697/ share). Unitech follows a very conservative accounting policy, which has led to understated profits, estimated at ~Rs48bn. Given its ability to source high IRR projects, strong management, entry into telecom business and asset management and a robust business model, we believe the stock should trade at a premium of 1.25x to NAV or Rs871 per share (based on FY09E NAV).

Key valuation metrics

As on 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
Net sales (Rs m)	12,275	32,883	48,320	99,014	234,960
Adj. net profit (Rs m)	846	13,047	19,680	39,546	111,551
Shares in issue (m)	812	1,623	1,623	1,623	1,623
Adj. EPS (Rs)	1.0	8.0	12.1	24.4	68.7
% growth	145.3	671.0	50.8	100.9	182.1
PER (x)	495.9	64.3	42.6	21.2	7.5
Price/Book (x)	148.0	42.0	17.9	8.7	3.6
EV/EBITDA (x)	252.9	44.2	26.6	12.6	4.6
RoE (%)	33.8	114.5	58.8	55.1	68.2
RoCE (%)	13.9	44.3	41.6	65.2	90.1

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INVESTMENT ARGUMENT

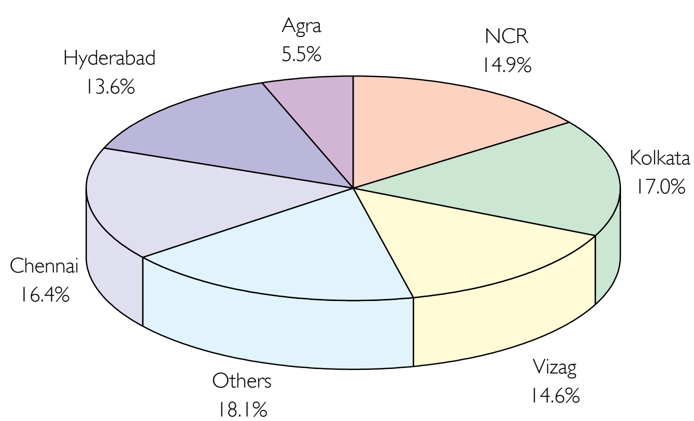
Unitech has a premier position in the Indian real estate market on the back of its pan-India, pan-segment presence and superior execution capabilities. Unitech has recently added large projects (51% yoy addition) to its land bank at low upfront investments and high IRRs. Unitech is also likely to consider listing a REIT-like business trust on Singapore Exchange, as multiple benefits can accrue to the company through this move. We have estimated the value of Unitech's economic interest in its various projects at Rs1130bn or Rs697 per share. We believe Unitech should trade at 1.25x NAV, which implies a fair value estimate of Rs871 per share. Initiatives in telecom and real estate AMC could provide additional upsides to the stock.

❑ Unitech – a pan-India, de-risked presence

Unitech aggressively augmenting land bank; focus on geographic diversification

Unitech has a pan-India footprint with presence across several cities. Of late, the company has been aggressively augmenting its land bank in premium locations in new geographies as also in existing markets. Unitech's land bank of 13,757 acres, i.e. 689m sq. ft. of saleable area, is well-diversified with no region accounting for more than 20% of its saleable area.

Exhibit 1: Unitech – a diversified land bank



Source: Company, IDFC – SSKI Research

Projects in new geographies to account for 42% of Unitech's launches in FY09

While the pan-India rollout would drive volume growth for Unitech, it would importantly reduce its dependence on a single market. We expect rollout from newer geographies to account for 42% of its new launches in FY09.

❑ Ability to add huge projects at low upfront investment, high IRR

Unitech has significantly ramped up its land bank to 689m sq. ft – a 51% yoy increase. The additions are characterized by low upfront investment and high IRRs, and underline the company's ability to source lucrative projects at attractive terms. This ability is further highlighted by Unitech's recent acquisitions at Mumbai and Vizag. Besides Mumbai, Unitech has added land in Chennai, Hyderabad, Goa, Kolkata, Noida and Greater Noida.

SRS a lucrative opportunity as more than 6.3m slum-dwellers still to be rehabilitated

❑ Entry into Mumbai SRS – a lucrative market…

Of the various additions, a prime land parcel near the Bandra Kurla Complex (SRS segment) in Mumbai is expected to be quite lucrative for the company. SRS remains a massive opportunity as ~6.3m slum-dwellers are still to be rehabilitated (as of September 2006). Unitech is putting up two teams in Mumbai to cater to the large opportunity, and we believe that this is the first of several projects of the company in Mumbai.

❑ …via a 97-acre SRS project in western suburbs (near BKC)

Unitech has secured the rights to develop a 97-acre SRS with a possibility that the area may increase to 127 acres. The site (next to the Western Express highway (between Santacruz and Khar railway stations) is close to the fast emerging CBD – Bandra Kurla Complex. The project is estimated to generate ~12 msf of saleable area. We expect construction to commence in FY09, and the project to be executed over five years. We have estimated Unitech's share of the project at ~Rs114bn. We believe Unitech is well placed to secure many more projects at attractive terms in the near future.

Besides providing access to cheap capital, listing to lead to higher realizations for rental assets

❑ A Singapore listing of REIT-like instrument offers multiple benefits

Unitech is likely to apply for listing of a REIT-type instrument on the Singapore Exchange (on the lines of Ascendas India Trust). The listing will imply several benefits for Unitech as it would open up new funding options, while strengthening the existing funding vehicles. It will also enable Unitech to accelerate its cash conversion cycle. Besides, the listing would lead to higher realizations (increase of ~40%) from its rental assets by reducing the lease capitalization rates from 10% to ~7%. A successful listing will also enable Unitech's real estate asset management business to earn significant carried interest and to rapidly attain scale in AUM.

Delayed reveneue, and thus profit, recognition results in ~Rs48bn of understated profits for Unitech

❑ Cumulative understated profits of ~Rs48bn

Unitech follows a very conservative revenue recognition policy, which relies on percentage of completion method with a 30% threshold on the basis of construction cost, excluding land cost. This method differs from the other prevailing methods, which recognize revenues on the basis of total project cost (including the cost of land).

In the latter cases, a developer can start booking revenues (and profits) as soon as work is commenced. While this results into higher profits (and taxes) on the income statement, it also leads to higher accounts receivable on the balance sheet. In Unitech's case, while delayed revenue recognition leads to understatement of income and profits, cash flows are stronger (due to deference of tax payments) and customer advances (instead of sundry debtors) are reflected on the balance sheet. Owing to Unitech's conservative accounting policy, profits (cumulatively) are estimated to be understated by ~Rs48bn.

❑ Potential upside from telecom license

We expect the telecom foray to create shareholder value with minimal capital investment

Unitech has stated its intention to enter the cellular/ mobile telephony business and has applied for licences to provide Unified Access Services in 22 circles across India. We believe the business diversification will give Unitech access to the large, under-penetrated telecom services market in India and allow it to capture the strong growth opportunities in the sector. Moreover, considering the prospects of releasing additional spectrum and the underpenetrated mid-tier cities and rural areas, we believe new entrants like Unitech can capitalize on the potential offered by the space. Further, the diversification would help boost the company's transmission tower manufacturing business.

We believe Unitech's foray in the telecom business will generate shareholder value in the medium term with minimal capital investment. Our telecom analyst has assigned a value of Rs40bn for the license and an additional Rs40bn once spectrum is allocated to the company.

❑ Revenues and profits likely to jump 6x and 7x respectively by FY11

Unitech estimated to develop and sell ~204m sq. ft of space over FY08-11; sharp jump in profits

Unitech is expected to develop its land bank of 13,757 acres over the next 12 years as a mix of residential, commercial, retail, hotel and SRA projects. We expect Unitech’s property realizations to increase at 10% per annum from FY10. We have also assumed a 5% yoy increase in Unitech’s construction costs from FY08.

With development of ~204m sq. ft planned over the next four years, Unitech’s revenues are expected to increase from Rs37.5bn in FY08 to Rs210bn in FY11, a CAGR of 79%. Over the same period, pre-exceptional profits are estimated to witness a CAGR of 90% to Rs135bn in FY11 from Rs18.3n in FY08.

VALUATIONS AND VIEW

We believe NAV remains the most appropriate measure of valuation for a real estate developer. Real estate developers with a good track record, strong management, superior project acquisition skills and a robust business model should trade at a premium to their NAV in a rapidly-growing market. We have valued Unitech's economic interest in its projects at Rs697 per share and have assigned a premium of 1.25x to its NAV, which throws a fair value estimate of Rs871 per share. We have valued the NAV by estimating future cash flows from various business segments and discounting the same at appropriate rate.

❑ Unitech – NAV of Rs697 per share

We have valued Unitech using the NAV approach by discounting free cash flows from each of its development segment separately and then aggregating them to arrive at the firm's value.

Residential development – expect cash flows of Rs1,815bn over FY08-19

We have discounted cash flows from residential projects (768m sq. ft over FY08-19) at 14%

We have assumed Unitech's residential projects to be developed over a period of 24-36 months. Given that residential properties are generally pre-sold, we have assumed that 60% of the total value of the property is received in the first year and the remaining 40% over the next two years in the form of progress payments. As progress payments are typically linked to the construction schedule, we expect construction to commence and be completed largely in line with advances received.

Considering the relatively low risk in residential development in view of the fact that bulk of the property is pre-sold for the purpose of valuation, we have assumed a rate of 14% for discounting cash flows from residential projects. Over FY08-19, we estimate Unitech to develop 768m sq. ft of residential projects and generate free cash flows to the tune of Rs1,815bn. Discounting these cash flows at 14%, we assign total value of Rs517bn to Unitech's residential projects.

Commercial and retail development – cash flows discounted at16%

Expect free cash flows of Rs1,286bn from commercial and retail projects over FY08-19

Commercial and retail projects are assumed to take between 30-36 months for development and sale. We assume the property to be leased only on completion of construction. We have computed the sale value of a commercial/ retail project by applying a cap rate of 7% to the annual rentals expected on the property.

We expect Unitech to develop and sell 98m sq. ft of commercial property and 37.5m sq. ft of retail projects over FY08-19. Consequently, Unitech is expected to generate free cash flows of Rs706bn and Rs580bn from its commercial and retail projects respectively over FY08-19. For the commercial and retail segment, we have assumed a discount rate 200bp higher than for residential projects, considering the risk of vacancy entailed by such projects. Thus, we arrive at a value of Rs148bn and Rs155bn for Unitech's commercial and retail projects respectively.

Unitech's 4.8m sq. ft of hotel projects valued at Rs44bn

Hotels – projects valued by capitalizing operating profits

We have valued Unitech's hotel projects on an operating basis by capitalizing the operating profit per room for each hotel at a cap rate of 7%. We have assumed a discounting rate of 16% for cash flows from hotel projects, in line with the discount rate for commercial and retail projects. Consequently, for Unitech's 4.8m sq. ft of hotel projects, we arrive at a value of Rs44bn.

❑ De-risked business model

The NAV is widely distributed across cities with NCR having the highest share of NAV at 24%, followed by Mumbai, Chennai, Hyderabad and Kolkata at ~12% each. The extensive footprint and well-diversified NAV helps Unitech diversify and de-risk its business model. It also enables Unitech to serve as a proxy to the fast growing Indian real estate sector.

Exhibit 2: Distribution of NAV across regions segments (Rs m)

Region	Residential	Office	Retail	Hotel	Total	% Resi	% Office	% Retail	% Hotel	% Total
Gurgaon	82,748	33,136	32,926	6,595	155,405	7.5	3.0	3.0	0.6	14.0
Noida	54,694	7,846	4,842	9,210	76,592	4.9	0.7	0.4	0.8	6.9
Greater Noida	25,242	4,292	1,139	-	30,673	2.3	0.4	0.1	0.0	2.8
Delhi	-	1,823	1,051	-	2,874	0.0	0.2	0.1	0.0	0.3
Faridabad	867	-	-	-	867	0.1	0.0	0.0	0.0	0.1
Hyderabad	70,018	43,125	30,083	-	143,226	6.3	3.9	2.7	0.0	12.9
Kolkata	79,312	27,394	8,972	19,584	135,262	7.2	2.5	0.8	1.8	12.2
Chennai	94,186	21,784	16,937	-	132,906	8.5	2.0	1.5	0.0	12.0
Mumbai SRA	-	120,906	11,309	-	132,214	0.0	10.9	1.0	0.0	11.9
Vizag	75,838	11,466	10,532	-	97,836	6.8	1.0	0.9	0.0	8.8
Kochi	31,114	9,452	13,552	2,802	56,919	2.8	0.9	1.2	0.3	5.1
Varanasi	11,257	3,458	29,450	-	44,166	1.0	0.3	2.7	0.0	4.0
Agra	10,472	6,890	14,711	-	32,074	0.9	0.6	1.3	0.0	2.9
Mohali	15,277	-	9,077	-	24,353	1.4	0.0	0.8	0.0	2.2
Bangalore	12,400	1,321	2,359	3,437	19,516	1.1	0.1	0.2	0.3	1.8
Siliguri	9,696	-	-	-	9,696	0.9	0.0	0.0	0.0	0.9
Goa	-	-	-	9,365	9,365	0.0	0.0	0.0	0.8	0.8
Bhubhaneshwar	-	-	2,238	-	2,238	0.0	0.0	0.2	0.0	0.2
Chandigarh	-	-	2,869	-	2,869	0.0	0.0	0.3	0.0	0.3
Total	**573,121**	**292,891**	**192,047**	**50,994**	**1,109,053**	**51.7**	**26.4**	**17.3**	**4.6**	**100.0**

Source: IDFC – SSKI Research

We believe Unitech should trade at 1.25x its NAV

❑ Fair value of stock works out to Rs871 per share

Aggregating the value from each development segment, we arrive at a total company NPV of Rs978.5bn. To this, we have added the value of SEZ developments, and then deduct the enterprise level debt of Rs170bn and Rs150bn of certain land payments not included in project NPVs. Thus, we have arrived at a net firm value of Rs1130bn, which works out to Rs697 per share.

Given Unitech's ability to acquire projects at attractive terms, its pan-India footprint and excellent management credentials, we believe the stock should trade at 1.25x its NAV. This gives a fair value estimate of Rs871 per share.

Strong traction in the AMC business and potential gains from the telecom operations may offer additional upside to our valuations. Our telecom analyst has assigned a value of Rs40bn for the license and an additional Rs40bn once spectrum is allocated to the company.

Exhibit 3: Valuation Summary

Segment (msf)	Area (mn sq ft)		Segment NAV (Rs bn)		NAV/ sh
	Project area	Unitech's sh.	Project NAV	Unitech's sh.	(Rs)
Residential	747	570	743	573	353
Office space	98	73.5	249	172	106
Retail	37	34.6	205	181	111
Hotel	5	4.8	52	51	31
SRA & Redevelopment	12	5.8	264	132	81
Total	**900**	**688.8**	**1514**	**1109**	**683**
Add: SEZ				53	33
Less: Land pmts o/s excl. specified and projects			17		
Debt o/s excl. project specific			15		
Grand total				**1130**	**697**
Valuation premium					25%
Fair value estimate				**1413**	**871**

Source: IDFC – SSKI Research

UNITECH: FROM STRENGTH TO STRENGTH

Unitech is a pan-India real estate play with a relatively small exposure to specific pockets. The company has demonstrated its superior capability to acquire large projects with low upfront investments and high IRRs. We also believe that Unitech is poised to apply for listing a REIT-like structure on Singapore Exchange as a successful listing would offer various benefits to the company. Unitech follows a conservative accounting policy for revenue recognition, which has resulted in profits being understated to the extent of ~Rs50bn. Further, Unitech has applied for a unified access service license for all 22 circles. We believe that a successful application and allocation of spectrum will create shareholder value over the medium term.

❑ Pan-India, de-risked presence

Total land bank of 689m sq. ft of saleable area is well-diversified across cities and segments

Unitech has a pan-India footprint with presence across several cities. Of late, the company has been aggressively adding to its land bank in premium locations in new geographies. Unitech has also augmented its land bank in existing markets. These initiatives have taken up the total land bank to 689m sq. ft. of saleable area. The land bank is well-diversified with no region accounting for more than more than 20% of its saleable area.

Exhibit 4: Distribution of saleable area across regions and segments

(m sq. ft)	Resi.	Office	Retail	Hotel	Total	% Total
Gurgaon	35.5	4.2	2.4	0.6	42.6	6.2
Noida	29.5	3.0	0.6	0.8	33.9	4.9
Greater Noida	22.4	2.5	0.2	0.0	25.1	3.6
Delhi	0.0	0.1	0.1	0.0	0.3	0.0
Faridabad	0.7	0.0	0.0	0.0	0.7	0.1
Agra	26.1	7.8	3.9	0.0	37.9	5.5
Bangalore	8.9	0.3	0.4	0.3	9.8	1.4
Bhubhaneshwar	0.0	0.0	0.8	0.0	0.8	0.1
Chandigarh	0.0	0.0	0.6	0.0	0.6	0.1
Chennai	100.8	8.7	3.1	0.0	112.7	16.4
Goa	0.0	0.0	0.0	0.9	0.9	0.1
Hyderabad	68.5	19.7	5.4	0.0	93.6	13.6
Kochi	31.0	3.5	3.0	0.4	38.0	5.5
Kolkata	102.2	11.1	1.6	1.9	116.8	17.0
Mumbai SRA	0.0	5.3	0.5	0.0	5.8	0.8
Mohali	11.5	0.0	1.4	0.0	12.9	1.9
Siliguri	15.2	0.0	0.0	0.0	15.2	2.2
Varanasi	28.9	3.9	7.8	0.0	40.6	5.9
Vizag	89.0	8.5	3.2	0.0	100.7	14.6
Total	**570.0**	**78.8**	**35.1**	**4.8**	**688.8**	**100.0**

Source: Company, IDFC – SSKI Research

Unitech plans to launch several projects in new locations over the next 3-4 years, which would drive volume growth and importantly reduce its dependence on a single market. We expect rollout from new geographies to account for 42% of Unitech's new launches in FY09.

The wide footprint and well-diversified NAV helps Unitech diversify and de-risk its business model. It also enables Unitech to serve as a proxy to the fast growing Indian real estate sector.

Prime projects being added at attractive terms

❑ Ability to add big projects at low upfront investment and high IRR

Unitech has recently added ~235m sq. ft of saleable area to its existing base of ~454m sq. ft or a 51% increase over the year. These additions are characterized by low upfront investment and high IRRs, and underline the company's ability to source lucrative projects at very attractive terms. For instance, Unitech had won a bid for developing an 'Integrated Knowledge City' at Vizag in the previous quarter. The bid entailed development of a 1750-acre land parcel in Vizag with a down payment of Rs2m an acre with the remaining payments spread over a 10-year period (most of the payments due in the last 3-4 years).

Unitech has added prime projects to its portfolio on similar lines, where the upfront investment is low and the IRRs high. In the near future too, we expect Unitech to acquire several such projects.

High incomes and acute shortage of houses make Mumbai an attractive real estate market

❑ Unitech enters the very lucrative Mumbai SRS market

The real estate market of Mumbai is arguably the largest and the most lucrative among all the real estate micro-markets in India. High incomes and an acute shortage of housing are the key features of the Mumbai real estate landscape, which makes it an attractive market for real estate developers. The market is also defined by lack of large contiguous land parcels, presence of slums and their rehabilitation schemes, and the old buildings redevelopment scheme.

Slum Rehabilitation Schemes – a huge opportunity

The opportunity: According to World Bank (September 2006), Mumbai's slums are home to 6.3m residents of the city, or 54% of its total population. These inhabitants dwell in 2,000 slums across the city, and occupy 8% of the land area (or ~8,650 acres).

Exhibit 5: Mumbai's slum population – on the rise

Year	Slum settlements (no.)	Slum population (m)	Total population (m)	Proportion of slum population (%)
1976	1680	2.8	5.9	47
1983	1930	5.0	10.0	50
2001	1959	6.2	11.5	54

Source: World Bank 2006

Slum Rehabilitation Scheme: In early 1990s, the Afzalpurkar Committee recommended that additional FSI be allocated for construction of tenements, profits from which would be used to cross-subsidize free tenements to be given to slum-dwellers. Accordingly, the modified Development Control Regulations were sanctioned in 1997 and the Slum Rehabilitation Authority (SRA) was formed as an autonomous body. The SRA is responsible for implementing the SRS.

Every tenement to get a 225 sq ft apartment: Under SRS, every slum structure existing prior to 1 January 1995 is treated as a protected structure, and every slum dweller whose name appears in the electoral rolls on this date and who continues to stay in the slum is eligible for rehabilitation. Residential Units measuring 225 sq. ft carpet area are to be provided per tenement, which translates into a built-up area per unit of 330 sq. ft for calculation of incentive (saleable area) given to developer, in case where the FSI granted is 1:1. Structures used for commercial purposes are also eligible for rehabilitation on the basis of actual size of the tenement, subject to a maximum carpet area of 225 sq. ft. Additionally, three per 100 dwelling units are to be provided for social infrastructure and society office use.

Annexure II and LoI key approvals: The legal processes involved in an SRS scheme entails procuring Annexure II, which conveys the assent of tenants of the rehabilitation scheme and clearance from the land owning authority. After Annexure II, SRA grants a Letter of Intent (LoI), Layout, Intimation of Approval (IoA) and the Commencement Certificate to the developer. Of the four, Annexure II and the LoI are the most critical and definitive to the SRA process. After obtaining the approvals, lots are drawn for allotment of tenements. These tenements are shifted to a transit accommodation or compensated for 18 months rent – the time usually taken for the rehab structures to be completed. After eviction of the tenants, the slums are demolished and work up to the plinth level is completed. The plinth dimensions are inspected and then permission is granted for construction beyond the plinth level. As construction activity progresses on the rehab structures, permission is given to the developer to build the free sale component. The developer books revenues and calls for installments based on the completion of different stages, making the entire process a low-investment and self-financing process.

SRS an extremely profitable opportunity: SRS is a win-win proposition for slum-dwellers as well as developers. It offers the slum-dweller a hygienic unit with acceptable construction quality. For the developer, the scheme means access to land at a very low cost in a prime location – the key costs being the construction of rehabilitation tenements, transit accommodation and payments to the original land owner. The key success factor for obtaining the consent is developer's credibility.

Exhibit 6: Distribution of slums by land ownership

Land ownership	Percentage to total slums (%)
Private	48.0
State government	21.0
Municipal	17.6
Central government	4.7
Indian Railways	0.7
Municipal and private	2.5
State government and private	2.2
Other mixed ownership	3.0
Total	**100**

Source: World Bank, 2006

The tip of the iceberg: According to the World Bank, from the mid 1990s (when SRA was started) till April 2005, 128,000 slum-dwellers were rehabilitated under the SRS. With ~33,000 tenements (>100,000 slum-dwellers) in advanced stages of completion, the SRS opportunity remains massive.

Barring a couple of players, the SRS segment is characterized by presence of smaller unorganized developers that undertake SRS activity in smaller pockets and phases, leading to slower execution of the rehab process. The process for obtaining consent of 70% slum-dwellers is also slow and cumbersome as they need to be convinced of the developer's willingness and ability to deliver.

The SRS project in a prime location; to be executed under a 50:50 JV…

Unitech has made significant inroads into the Mumbai real estate market following acquisition of an SRS project in a prime location. Unitech has formed a 50:50 JV for its Mumbai foray, wherein it will assume responsibilities for marketing, developing and funding the projects and the JV partner will be responsible for land acquisition and act as a liaison partner. Given the large opportunity, Unitech is putting up two teams in Mumbai that will be in-charge of the PMC activities at the various sites.

The JV partners enjoy strong goodwill among the slum dwellers. Backed by credibility of Unitech, we believe this is the first of the many projects that will accrue to Unitech in the near future. Also, Unitech brings to the table the expertise and experience of developing and marketing large world-class projects.

…the site is close to the fast emerging CBD – Bandra Kurla Complex

Developing a 97-acre SRS near Bandra Kurla Complex

The slum, also known as Golibar, is a large colony along the busy Western Express highway between the Santacruz and Khar railway stations. This site is in close vicinity to the fast emerging CBD – Bandra Kurla Complex. The complex has been witnessing strong demand for commercial space with rentals being as high as Rs350-400psf. The high-end user demand in Bandra Kurla Complex resulted in historic bids at a recent MMRDA auction.

Exhibit 7: Bids at MMRDA auction

Bidder	Plot size (sq mt)	Developable area (sq mt)	FSI	Saleable area (sq. ft)	Bid amount (Rs bn)	Bid amt (Rs psf)
Wadhwa group	7,107	16,500	2.32	213,125	8.31	38,991
TCG - Hiranandani combine	8,076	28,300	3.50	365,542	10.41	28,478
Reliance	10,183	218,895 sq ft of multi-storeyed car park and a 394,604sq ft of commercial complex			9.41	NA

Source: Economic Times, Business Line, IDFC - SSKI research

The project estimated to genenrate ~12 msf of saleable area

Unitech has secured the rights to develop 97 acres with a possibility that the area may increase to 127 acres. The project is expected to generate ~12 msf of saleable area based on land area of 127 acres. We expect construction on the project to commence in FY09, and to be executed over five years. We have estimated Unitech's share of the project at ~Rs132bn for FY09.

❑ Attractive land acquisitions at Chennai, Goa, Hyderabad, etc

Chennai emerging as a future IT hub; also houses automotive and hardware industries

70-acre land parcel acquired in Chennai: Chennai, the capital of Tamil Nadu, has been attracting several real estate developers owing to its potential as a future IT hub and the presence of automotive and the hardware industries. Unitech has acquired rights to develop 7m sq. ft on a prime 70-acre land parcel in Chennai. This locality, largely populated by wealthy business families, is 7 kms from the railway station with prevailing rates of Rs4,000-4,500 psf for a residential apartment.

Hyderabad a leading IT services centre in India; gems and jewellery companies add to demand

***350-acre project won in Hyderabad*:** Hyderabad is the capital of Andhra Pradesh and has a population of >5m. It is one of the leading centres in IT services in India and a centre for the gems and jewellery industry in India. Unitech had been selected as a winning bidder in a bid floated by the Andhra Pradesh Industrial Infrastructure Corporation Ltd (APIIC) to develop a 350-acre Airport City. This will be an integrated township project close to the upcoming international airport

Hotel site in Goa is a beach front property in proximity to Hotel Leela

***103-acre hotel site in Goa*:** Goa is a favoured tourist destination in India and is immensely popular with both domestic and international tourists. Unitech has added a project in Goa to its portfolio of projects. This is a 103-acre hotel site located close to Hotel Leela and is a beach front property. Unitech intends to build luxury resorts at the site.

***390 acre project in Kolkata*:** Unitech has added a 390-acre township in Kolkata, close to National Highway 2 in the Howrah area. This project is a joint venture with Unitech owning 40% of the project.

Augmenting land bank in existing market: Unitech has added 150 acres in Greater Noida. In addition to the above, Unitech has also added 124 acres in Noida. Both these projects are 100% owned by Unitech.

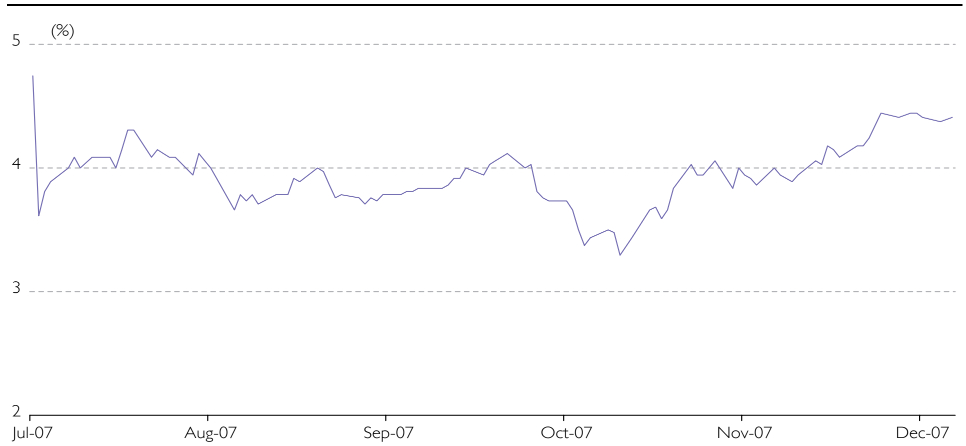
❑ A Singapore listing offers multiple value drivers

The REIT-type instrument expected to be on the lines of Ascendas India Trust

Unitech is likely to list a REIT-type instrument on the Singapore Exchange, on the lines of Ascendas India Trust. If the company decides to exercise this option, we see it well-placed (given its size and solid reputation) to obtain necessary approvals within a short period of time.

A REIT is a pass-through entity that invests in rental assets and distributes most (at least 90%) of its income as dividend. The dividend may or may not be taxable in the hands of an investor, depending on the investor's tax status. REIT offers a relatively stable cash flow stream to the investor, making it a quasi-debt product with low return expectations. Additionally, escalation clauses are usually built into the lease agreement between the landlord (REIT in this case) and tenant. This ensures real returns to the investor as against nominal returns from regular fixed income products. Thus, return expectations of an investor get tempered.

Exhibit 8: Ascendas Lease – capitalization rates



Source: Bloomberg, IDFC - SSKI Research

Besides providing access to cheap capital, listing to improve realizations for Unitech's rental assets

The listing will offer several benefits for Unitech. It will help create new funding options, while strengthening the existing funding vehicles. It will also enable Unitech to accelerate its cash conversion cycle. Besides, the listing would increase realizations from its rental assets by reducing the lease capitalization rates. A successful listing will also enable the asset management business of Unitech to earn significant carried interest and to rapidly attain scale in its AUM.

Listing of REIT to create additional funding vehicle and lower lease capitalization rates

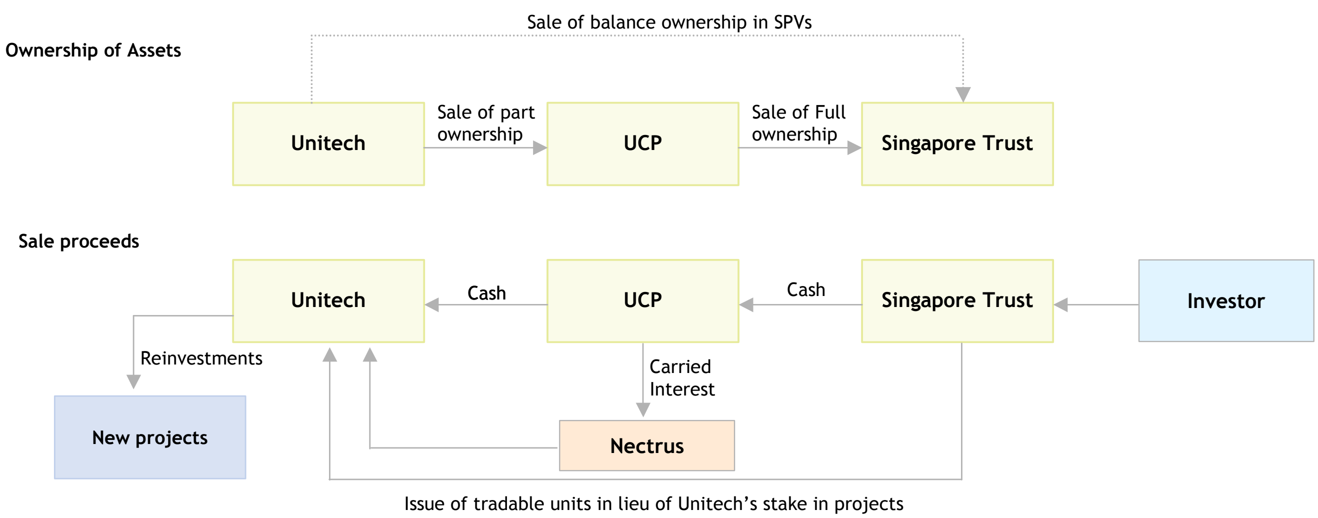
❑ Creation and strengthening of offshore funding vehicles

Creation of funding vehicle

The listing of the business trust will enable creation of an offshore funding vehicle, which in turn would allow Unitech to raise cheap resources. Conservatively, we expect that Unitech will be able to list its rental assets at a cap rate of 7%, as against Ascendas' cap rate of ~4.5% and the prevailing rate of 2.66-2.86% on 10-year government paper. Besides creating an additional funding vehicle, it will lower the lease capitalization rates to 7% from ~10% currently, potentially increasing the effective realization from rental assets by 40%.

Additionally, Unitech can optionally own up to 35-40% of the units issued by the Singapore listed entity without incurring any cash outflow, if it chooses to swap its holding in the SPVs for listed units of the trust. Unitech can then use these units as collateral, creating an additional source of funding for itself while retaining 40% of the listed business trust.

Exhibit 9: A possible cash flow based on takeout structures



Source: IDFC-SSKI Research

UCP seeking shareholder approval for selling three of the six seed assets to the Singapore REIT

Strengthening of Unitech Corporate Parks

Unitech sponsored a £360m realty fund – Unitech Corporate Park (UCP) – in December 2006 on the Alternative Investments Market (AIM) in London by divesting a partial stake in the six projects and issuing fresh capital. Known as Unitech Corporate Parks (UCP), UCP invested in six SPVs of Unitech developing IT SEZ/ IT Parks. These projects added to 21.5m sq. ft of saleable area.

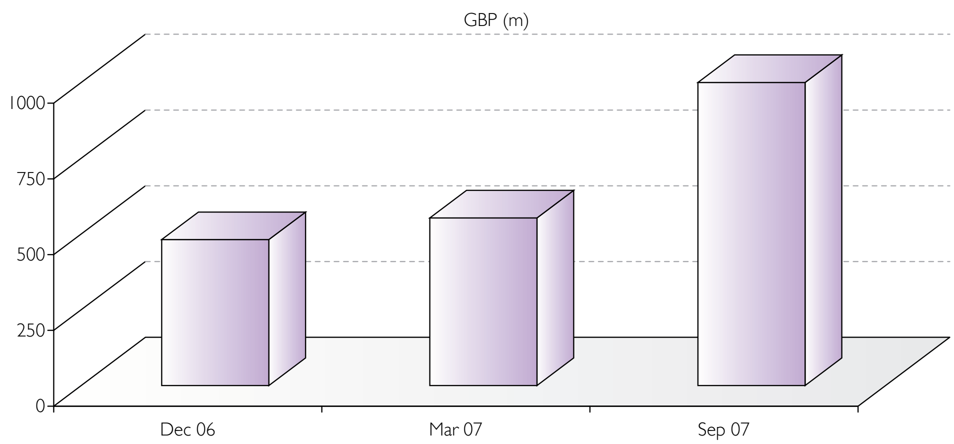
Exhibit 10: Projects in Unitech Corporate Parks

SPV	Project	Leasable area (msf)	Expected completion
Unitech Realty Projects	InfoSpace, Gurgaon	3.26	Nov-11
Unitech Developers & Projects	InfoSpace, Dundahera, Gurgaon	3.65	Jul-10
Shantiniketan Properties	InfoSpace, Sector 62, Noida	2.06	Oct-09
Seaview Developers	InfoSpace, Sector 135, Noida	3.17	Feb-11
Unitech Infra-Con	InfoSpace, Greater Noida	4.95	Mar-12
Unitech Hi-Tech Structures	InfoSpace, Kolkata	4.35	Oct-10

Source: Unitech Corporate Parks

UCP is now seeking shareholders' approval to exit three of the six seed assets by selling them to a Singapore-listed REIT type structure (Singapore REIT).

Exhibit 11: UCP - market value of portfolio



Source: Unitech Corporate Parks

Listing to also enable Unitech to infuse funds into UCP

A successful listing of the business trust in Singapore will infuse funds into UCP that can be used to acquire further projects from Unitech.

Additionally, a successful exit with a high IRR within a short period of time will reinforce Unitech's credibility and enable it to raise further resources from AIMs/ European markets.

Unlocking value from rental assets to accelerate cash flow cycle

The funding vehicles would enable Unitech to make an early exit from rental assets and monetize the same. The process of early monetization significantly shortens the payback period and results in higher IRR for the project. Further, the cash released from the project can be reinvested into developing newer projects, where the IRRs can be potentially higher.

❑ Nectrus – AMC of Unitech to gain from carried interest

Nectrus earns a 2% investment fee plus performance fee

UCP is managed by Nectrus – a 100% subsidiary of Unitech based in Cyprus. Besides the investment management fee of 2% on the average invested capital, Nectrus also receives a performance fee by way of a carried interest calculated on the basis of IRR of the project.

For the first 10%, Nectrus does not earn any carry. For the next 10%, it earns a carry of 20%. And finally, for the remaining part, it earns a carry of 30%.

Exhibit 12: Performance fee paid to Nectrus linked to IRRs

Project IRR achieved (%)	Performance fees (%)
< 10	0
10 - 20	20
20 >	30

Source: Unitech Corporate Parks

Indicated valuation implies performance fees calculated at 30%

UCP to earn 38.9% IRR on sale at floor price, much lower than our estimate

UCP had purchased the three IT SEZs which UCP proposes to transfer to the Singapore listed entity at an estimated GBP150m; and on the floor price of GBP234m for the assets, it will earn an IRR of 38.9%. However, we believe that the value of the three SEZs will be much higher than the average implied realization of ~Rs1,800m sq. ft at the set floor price.

Our estimates indicate higher values and carried interest

We have estimated the value of these assets at ~Rs63bn and UCP's share comes to ~GBP500m. Conservatively, assuming the transfer to the Singapore trust effected at a 10% discount to the estimated value, or at GBP450m, the carried interest can be estimated at Rs2.8bn.

Exhibit 13: Details of SEZs being transferred

Project	Leasable area (msf)	Expected completion	Avg lease rates (Rs70 psf)	Asset value at 7% cap rate on completion (Rs m)	Present value at discount rate of 16%
InfoSpace, Dundahera, Gurgaon	3.65	Jul-10	70	42000	31213
InfoSpace, Sector 62, Noida	2.06	Feb-11	45	15891	10181
InfoSpace, Kolkata	4.35	Oct-10	40	29486	21913

Source: Unitech Corporate Parks, IDFC SSKI Research

A successful listing will also enable Unitech to accelerate the process and transfer the remaining three SEZs in UCP to UOT and earn a further carry of Rs2bn-3bn for Nectrus.

❑ Traction on asset management business

With listing of Unitech's own REIT, the AUM for Unitech will increase

Unitech already has a fund under its management – the UCP, which is a GBP360m AIM-listed fund. With the listing of Unitech's own REIT, the AUM for Unitech will increase. The transfer of the second tranche of SEZs will further augment assets under management for Unitech's AMC. Each successful transfer from Unitech to UCP to Unitech's trust will add to the AUM, and result in increases in asset management fees, and possibly carried interest.

❑ Conservative accounting policy – ~Rs48bn of understated profits

Unitech follows a conservative accounting policy which leads to delayed revenue recognition…

Unitech follows a very conservative revenue recognition policy, wherein the company relies on percentage of completion method with a 30% threshold for revenue recognition on the basis of construction cost, exclusive of the land cost. This method differs from the other prevailing methods, which recognize revenues on the basis of total project cost, which includes the land cost.

... and in turn delayed profit recognition

In the latter cases, a developer can start booking revenues (and profits) as soon as work is commenced. While this results into higher profits (and taxes) on the income statement, it also leads to higher accounts receivable on the balance sheet. In Unitech's case, while delayed revenue recognition leads to understatement of income and profits, cash flows are stronger (due to deference of tax payments) and customer advances (instead of sundry debtors) are reflected on the balance sheet. Owing to Unitech's conservative accounting policy, profits are estimated to be understated by ~Rs48bn.

❑ Potential upside from telecom license

Unitech further diversifying into the underpenetrated telecom services market

Unitech has applied for licences to provide Unified Access Services in 22 circles across India. We believe the business diversification will give Unitech access to the large under-penetrated telecom services market in India and allow it to capture the strong growth opportunities in the sector. Moreover, considering the prospects of releasing additional spectrum and the underpenetrated mid-tier cities and rural areas, we believe new entrants like Unitech can capitalize on the potential offered by the space. Further, the diversification would help boost the company's transmission tower manufacturing business.

The foray has the potential to generate incremental shareholder value

Considering the clutter in the Indian mobile telephony market present and that Unitech is a late entrant, it would be a challenge for the company. In our opinion, Unitech is likely to tie up with an experienced global mobile phone operator for technology and operating the business. In addition to this, we expect Unitech to also tie up with a financial/ strategic investor for bringing in a large share of capital requirements for the business. Consequently, we expect Unitech to commit limited capital to the business (to the extent necessary for procuring the licenses), but have a significant equity stake in the telecom business. As a result, we believe Unitech's foray in the telecom business will generate shareholder value in the medium term with minimal capital investment.

Our telecom analyst has assigned a value of Rs40bn for the license and an additional Rs40bn once spectrum is allocated to the company.

FINANCIAL ANALYSIS

Unitech is expected to develop its land bank of 13,757 acres over the next 12 years in a mix of residential, commercial, retail, hotel and SRA projects. We expect Unitech's property realizations to increase at 10% yoy from FY10. We have also assumed a 5% yoy increase in Unitech's construction costs from FY08. Over FY08-11, Unitech is estimated to develop and sell ~204m sq. ft of space. Consequently, Unitech's revenues are expected to grow ~6x over FY08-11 to Rs210bn and profits 7x to Rs135bn.

❑ Land bank to be developed over the next 12 years

We have assumed the 13,757 acres land bank to be developed over the next 12 years

Unitech plans to develop its land bank of 13,757 acres over the next 12 years (up to FY19), involving construction of 689m sq. ft of saleable area across real estate segments. The company has announced estimated start and end dates of specific projects and we have assumed the projects to be developed equally over the stated period. In case of certain larger projects, we have assumed absorption to increase with passage of time and then attaining a steady state with back-ended peak deliveries.

❑ Residential developments – a diversified mix

In residential segment, Unitech plans to develop 768 msf in the next 12 years

Residential and housing development are the key focus areas for Unitech. The company develops and sells a diversified mix of residential products including integrated townships, apartment complexes, villas, golf courses and developed plots. Within the residential segment, Unitech caters largely to the middle class and upper-middle class buyers. Increasing urbanisation and rising income levels have progressively reduced first time homebuyers' average age while increasing their aspiration levels. The focus on providing quality housing for this section of the population would significantly strengthen Unitech's market position in the longer term. Unitech has planned residential projects of about 768m sq. ft over the next 12 years, which would be 85% of its total development.

Exhibit 14: Unitech – development in residential segment

City	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Gurgaon	3.8	5.9	5.3	5.4	6.2	6.4	4.0	4.0	4.0	4.0	-	-	-
Noida	-	0.7	1.0	1.0	5.0	7.3	7.5	9.8	4.4	-	-	-	-
Greater Noida	1.3	1.5	1.5	2.2	4.3	2.6	3.0	3.0	3.0	1.3	-	-	-
Faridabad	-	-	0.4	0.4	-	-	-	-	-	-	-	-	-
Chennai	-	-	4.6	7.2	13.3	13.3	8.9	8.1	7.7	11.3	11.3	11.3	11.3
Kolkata	1.8	2.3	4.5	5.4	5.9	8.0	17.0	26.5	29.0	33.1	33.9	97.0	5.0
Hyderabad	-	-	2.5	2.7	10.0	10.2	6.0	11.0	11.0	11.0	8.8	-	-
Bangalore	0.1	0.1	1.9	2.2	2.7	2.0	-	-	-	-	-	-	-
Vizag	-	-	-	-	7.1	7.1	7.1	17.8	17.8	17.8	14.2	-	-
Agra	-	-	1.3	1.6	1.9	2.5	3.4	4.4	5.2	2.1	1.3	1.3	1.3
Varanasi	-	-	0.4	0.9	1.3	2.6	4.4	5.4	3.9	3.0	3.0	2.0	2.0
Kochi	-	-	1.1	3.1	5.6	6.8	7.8	3.7	5.1	1.5	-	-	-
Mohali	-	-	-	0.9	0.9	0.9	1.3	1.3	2.8	3.4	-	-	-
Siliguri	-	-	-	-	-	0.5	0.5	0.8	1.5	2.3	2.3	7.4	-
Total	**7.0**	**10.5**	**24.5**	**33.2**	**64.2**	**70.3**	**70.7**	**95.6**	**95.3**	**90.7**	**74.7**	**119.0**	**19.6**

Source: Company, IDFC – SSKI Research

❑ Commercial development – mainly on lease model

Unitech developing commerical space mainly for IT and ITeS sectors

The IT and ITeS sectors are expected to remain the key demand drivers for commercial real estate. In line with the industry trend, Unitech's business strategy in the commercial real estate segment is centred on these two sectors. Unitech – having developed and delivered office space to global majors such as Fidelity, McKinsey, Gillette, HP, Master Card, etc – has established a strong position in commercial and office development in the NCR. To meet the stringent global standards insisted on by MNC tenants/ buyers, Unitech has entered into tie-ups with leading international architects in designing office buildings. The company also offers services such as maintenance, disaster management, etc in order to add value to the property and attract large buyers.

We expect Unitech's experience in developing quality office buildings in the NCR to yield significant advantages as it develops office space in emerging IT and ITeS destinations such as Kolkata, Greater Noida and Kochi.

Unitech proposes to develop 98 msf of commercial space over the next 12 years

Unitech aims to develop 98m sq. ft of commercial and office space over the next 12 years, of which about half is expected to be for the IT and ITeS sectors. Commercial real estate development is likely to be ~10% of the company's total development over the next 12 years.

Unitech has adopted a strategy of early monetization of its rental assets by selling partial stakes in these projects to funds managed by its affiliates. Unitech could further extend this strategy by listing a Singapore REIT-type structure and command better realizations on its rental assets. Going forward, we believe Unitech will adopt this strategy more aggressively as it enables it to retain control over the assets as well as faster conversion of its capital.

Exhibit 15: Unitech – commercial development plans

City	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Gurgaon	1.70	2.29	1.85	1.53	1.72	0.63	0.71	-	-	-	-	-	-
Noida	0.58	1.08	1.66	1.66	1.80	0.39	0.39	-	-	-	-	-	-
Greater Noida	-	0.87	0.87	1.11	1.11	1.44	-	-	-	-	-	-	-
Delhi	0.07	0.07	0.07	-	-	-	-	-	-	-	-	-	-
Hyderabad	-	-	3.02	3.02	3.02	3.02	3.02	2.29	2.29	-	-	-	-
Kolkata	0.60	1.62	2.37	2.75	3.00	3.85	1.61	1.61	1.50	2.00	2.00	2.00	-
Vizag	-	-	0.85	2.55	2.98	2.13	-	-	-	-	-	-	-
Kochi	-	-	-	1.18	1.18	1.18	0.27	-	-	-	-	-	-
Agra	-	-	0.78	0.78	0.78	0.78	0.78	0.78	3.14	-	-	-	-
Mumbai SRA				2.12	2.12	2.12	2.12	2.12					
Chennai	-	-	1.25	1.25	1.25	1.25	1.25	1.25	1.25	-	-	-	-
Varanasi	-	-	0.39	0.39	0.39	0.39	0.39	0.39	1.57	-	-	-	-
Bangalore	-	-	0.16	0.16	-	-	-	-	-	-	-	-	-
Total	**2.9**	**5.9**	**13.3**	**18.5**	**19.3**	**17.2**	**10.5**	**8.4**	**9.7**	**2.0**	**2.0**	**2.0**	**-**

Source: Company, IDFC – SSKI Research

Unitech developing 'destinations' – a mix of retail, entertainment and commercial space, and not just standalone projects

❑ Retail development – Unitech developing 'destinations'

Retail development is a relatively smaller portion of Unitech's business with ~37.5m sq. ft expected to be developed over the next 10-12 years. Unitech aims to develop retail real estate as an extension of its other mixed development projects. The company focuses on developing a 'destination' – involving a mix of retail, entertainment and commercial space, rather than just standalone projects.

This is a sound strategy as malls, in themselves, are an easily replicable model. Also, a competing mall in the same locality can drive down vacancy levels in existing properties. By combining retail space with commercial projects or hotels, the chances of the composite project being successful are high. For example, Unitech has conceptualised 'The Great India Place', a 1.5m sq. ft mall, as part of an amusement park being developed at Noida. The amusement park, the first of its kind in India with an integrated water park and separate zones for families, children and young adults, is expected to attract a high number of footfalls. This, in turn, can be expected to have a positive impact on the prospects of the mall.

Further, by leveraging its strong relationships with major Indian retailers, Unitech has managed to secure India's leading department stores and discount retailers as tenants, including Shopper's Stop, Pantaloon, Big Bazaar, Lifestyle and Globus. This is the first time that all these retailers are coming under one roof. The feat is expected to significantly improve the mall's popularity and also speaks volumes about Unitech's retail development capabilities.

Exhibit 16: Unitech – retail development plans

City	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Gurgaon		0.32	0.41	0.44		0.36	0.41	0.45	0.54		0.28	-	-
Noida		0.24	0.24	0.24		-	-	-	-		-	-	-
Greater Noida		0.00	0.04	0.04		0.03	0.03	0.03	-		-	-	-
Delhi		0.06	0.01	0.01		-	-	-	-		-	-	-
Hyderabad		-	-	0.35		0.60	1.09	1.82	1.58		-	0.08	-
Kolkata		0.12	0.26	0.26		0.33	0.35	0.45	0.21		0.26	-	-
Chennai		-	-	0.31		0.31	0.38	0.38	0.50		0.56	0.69	-
Kochi		-	-	-		0.75	0.75	0.75	0.75		-	-	-
Vizag		-	-	0.16		0.32	0.64	1.12	0.96		-	-	-
Varanasi		-	-	0.24		0.39	0.63	0.86	0.86		1.18	3.61	-
Agra		-	-	0.12		0.20	0.31	0.43	0.43		0.59	1.80	-
Bhubhaneshwar		-	-	-		-	0.33	0.33	0.33		-	-	-
Chandigarh		-	-	-		-	0.20	0.20	0.20		-	-	-
Mumbai SRA			-	-		0.20	0.20	0.20	0.20		0.20	-	-
Bangalore		-	-	0.18		0.18	-	-	-		-	-	-
Mohali		-	-	-		0.36	0.36	0.36	0.36		-	-	0.20
Total		**0.74**	**0.96**	**2.34**		**4.02**	**5.69**	**7.39**	**6.92**		**3.06**	**6.18**	**0.20**

Source: Company, IDFC – SSKI Research

In hotels, business segment likely to be Unitech's mainstay over the next 4-5 years

❑ Hotels – management to be outsourced

Unitech seeks to build a diversified portfolio of hotels, spanning all categories including luxury business hotels, service apartments, resorts and budget hotels. The business hotels segment is likely to be Unitech's mainstay over the next 4-5 years.

Unitech proposes to build most of its hotel properties as an integrated part of the commercial real estate portfolio. Being in close proximity to a business hotel, this strategy is expected to enhance the value of the developed commercial real estate within the project area. Unitech has already tied up with Marriott for development of about 800 rooms and is in talks for more projects. The company is also talking to other global hotel majors for developing budget hotels.

In all its hotel projects, the development and construction will be undertaken by Unitech while the hotel will be managed by the partner.

Exhibit 17: Unitech – hotels development plan

City	Area in m sq. ft	Construction commencement
Gurgaon	0.58	FY07
Noida	0.81	FY07
Kolkata	1.88	FY07
Kochi	0.44	FY08
Bangalore	0.25	FY08
Goa	1.00	FY11 (0.5msf) FY12 (0.5msf)

Source: Company, IDFC SSKI Research

Unitech is considering multi-product and sector-specific SEZs

❑ SEZs – large projects on the anvil

Unitech sees development of SEZs as a natural extension of its business on the back of its experience in developing large integrated townships. Unitech is planning to develop SEZs in Haryana and Kolkata. While the main focus is on developing multi-product SEZs, the company is also looking at sector-specific SEZs in the IT and auto industries.

Unitech has received an in-principle approval for development of a multi-product SEZ at Kundli (Haryana) over 9,884 acres, which is expandable to 20,000 acres. The company has also received an in-principle approval for development of an auto component SEZ in Gurgaon spread over 250 acres.

Unitech is part of the consortium, New Kolkata International Development Pvt Ltd, which has signed an agreement with the Government of West Bengal for developing two SEZs at Haldia, West Bengal – a petrochemical SEZ on >10,000 acres and a multi-product SEZ on >12,500 acres.

Unitech to be master developer for SEZs; sub-projects to be contracted to other companies

Unitech has decided to assume the role of a 'master developer' for all its SEZ ventures. Given the mega size of the SEZs, Unitech will break down the projects into smaller sub-projects and contract development of the sub-projects to other companies. We believe Unitech will retain the larger roles of planning, designing, marketing, etc, while capital intensive and complex infrastructure and services (electricity generation and distribution, telecom, etc) will be contracted out to specialized companies.

In our opinion, this is a step in the right direction in view of the size of the SEZ projects – a single SEZ of 20,000 acres is almost equivalent to a big city like Chandigarh.

❑ Realizations assumed to increase at 10% p.a. from FY10

Unitech claims to be selling its properties at a premium to next door prices

We have assumed realizations for Unitech's properties across different cities based on indicative current market prices in case of announced projects, and on the basis of likely realizations for future projects.

Unitech, with its strong track record, focussed quality orientation and key relationships with retail and corporate occupiers, claims to command a higher than next door prices for its properties. We have adjusted our realization assumptions to account for the same.

Exhibit 18: Unitech – assumed base realizations

City	Realisations (Rs / sq. ft).		Lease rentals (Rs / sq ft. / month)	
	Residential	Plots	Commercial	Retail
Gurgaon	5000-15,500	-	75-80	175
Delhi	-	-	100	150
Faridabad	3,200	-	-	-
Noida	8,000	-	40-	120
Gr. Noida	3,500-4,500	-	30	80
Kolkata	3,000-3,700	2,500	35-40	75
Chennai	3,000-4,200	2,500	40	80
Kochi	2,200 - 3,200	1,800	45	70
Bangalore	3,500		55	85
Hyderabad	3,000-3,750	2,800	40	80
Mohali	3,500-4,200	3,200	-	85
Agra	2,000-2,200	1,000	20	60
Varanasi	2,000-2,200	1,000	20	60
Siliguri -	2,900			
Mumbai Rentals			340	340
Bhubhaneshwar				55
Vizag	2800-3300		29	55

Source: Company, IDFC - SSKI Research

We have assumed property prices to remain flat till FY10 and increase at a rate of 10% p.a. thereafter.

❑ Construction costs – a 5% p.a. increase assumed from FY08

Commercial properties more expensive to construct than residential; retail and mall properties the most expensive

We have assumed construction costs in accordance with the type of development and the geographical location of the project. Construction costs are the least for plotted development as it involves just land levelling and plotting. On the other hand, residential apartments cost Rs1,200-1,800 / sq. ft to construct, depending on building height, amenities, etc. Construction costs for row houses and villas are usually lower than those for apartments as the former do not require activities such as digging deep for constructing foundations, erecting elevators, etc. However, we have taken construction costs for villas on par with apartments as several of these projects would have higher finishing costs.

Commercial properties are more expensive to construct than residential apartments, as the former entail the necessity to provide centralised air-conditioning, car parking, etc. Retail and mall construction is generally the most expensive as compared to all other segments due to the added cost of constructing escalators and a general higher use of glass.

Exhibit 19: Unitech – assumed base construction costs (Rs / sq. ft)

City	Villas / Row houses	Apartments	Plots	Commercial	Retail
Gurgaon	1,500-1,800	1,400-1500	100	1,500	2,500
Delhi	-	-	-	1,300	2,500
Faridabad		1,250	-	-	-
Noida		1,800	-	1500-1550	2,500
Gr. Noida		1,300	-	1,450-1500	1,600
Kolkata		1,200-1,300	100	1,400-1600	1,500-1650
Chennai	1,300	1,300	100	1,400	1,800
Kochi	1,200-1,300	1,200-1250	100	1,500	1,550
Bangalore		1,300	-	1,500	1,700
Hyderabad	1,300	1,300	100	1,500	1,700
Mohali	1,500	1,200	100	-	1,400
Agra	1,200	1,200	100	1,250	1,400
Varanasi	1,200	1,200	100	1,250	1,400
Add Siliguri	1,400				
Mumbai				3,500	3,500
Bhubhaneshwar					1,400
Vizag	1,300	1,300		2,750	2,350

Source: Company, IDFC - SSKI Research

We have assumed ~Rs115/sq. ft as marketing costs, employee costs and other overheads

We have also assumed a total of ~Rs115/sq. ft as marketing costs, employee costs and other overheads. We have factored in a 5% annual increase in construction costs as also in employee costs, marketing costs and overheads from FY08.

❑ Cash flow schedule and revenue accounting assumptions

We have assumed a 24-36 months end-to-end time frame for construction and development of properties across all real estate segments.

Cash flows expected to remain strong

Differing cash flow cycles for different project types

Given that residential properties are generally pre-sold, we have assumed 60% of the total value of the property to accrue in the first year from booking (~25% upfront payment and 35% in progress payments over the next 12 months). The remaining 40% is received over a period of two years with 30% being received in year two and 10% in year three.

Plots are assumed to be sold upfront; consequently, the full value of the property is received in the first year itself.

In case of commercial and retail development, the property is assumed to be leased on completion of construction (i.e. in the third year), while a nominal rental deposit may be secured by way of pre-leasing.

Exhibit 20: Schedule of cash flows as percent of property value

Year (%)	1	2	3
Residential	60	30	10%
Plots	100	-	-
Office / Retail (deposits)	5	5	90%

Source: IDFC SSKI Research

We have assumed ~90% of construction in first two years of commencement of project; remaining 10% in the third year

Construction assumed in line with advances received

In case of residential properties, progress payments are typically linked to the construction schedule. Therefore, we have assumed that construction on any given project is taken up in accordance with the advances received from buyers. Accordingly, construction work equivalent to 60% of the total development is taken up in year one, 30% in year two and the remaining 10% in year three. Plots involve only development costs and are taken as expended fully in the year of sale.

For commercial and retail properties, development is not directly bound by pre-sale agreements like in the case of residential properties. Accordingly, we have assumed that ~90% of the construction is taken up in the first two years of commencement of a project and the remaining 10% in the third year.

Exhibit 21: Commencement of construction - % of total construction costs

Year	1	2	3
Residential	60	30	10%
Plots	100	0	0%
Commercial	40	50	10%

Source :IDFC SSKI Research

The quantum of construction assumed to be completed in a given year is as under:

Exhibit 22: Completion of construction - % of total construction costs

Year	1	2	3
Residential	60	30	10%
Plots	100	0	0%
Commercial	0	0	100%

Source: IDFC SSKI Research

Costs incurred on construction completed in a given year are booked in profit and loss account in the year of expenditure

The costs incurred on construction completed in any given year are booked in the profit and loss account in the year of expenditure. The land cost is charged to the income statement in proportion to the construction expenditure in the year to the estimated overall construction cost (over the life of the project). The revenues are booked in proportion to the construction completed.

In case of commercial assets, the asset on completion is transferred to the balance sheet at cost. It is assumed that the completed rental asset will be capitalized in the year following completion, when it is sold. The post depreciation book value of assets sold is transferred to income statement as a cost, and the capitalized value is treated as revenue.

The difference between construction commenced but not completed is treated as WIP.

❑ Revenues to grow 6x and profits 7x by 2011E

Development of an estimated 204 msf in 3-4 years to drive steep revenue and profit growth

With development of ~204m sq. ft planned over the next 3-4 years, Unitech's revenues are expected to increase from Rs37.5bn in FY08 to Rs210bn in FY11, a CAGR of 79%. Over the same period, pre-exceptional profits are estimated to witness a CAGR of 90% to Rs135bn in FY11 from Rs18.3n in FY08E.

Income statement

Year to 31 Mar (Rs m)	FY06	FY07	FY08E	FY09E	FY10E
Net sales	**12,275**	**32,883**	**48,320**	**99,014**	**234,960**
% growth	*90.7*	*167.9*	*46.9*	*104.9*	*137.3*
Operating expenses	10,589	12,865	15,970	31,697	61,364
EBITDA	**1,686**	**20,018**	**32,350**	**67,317**	**173,596**
% growth	*120.8*	*1,087.3*	*61.6*	*108.1*	*157.9*
Other income	281	1,003	1,053	1,106	1,161
Net interest	(465)	(3,020)	(2,576)	(4,914)	(5,463)
Depreciation	112	80	84	88	93
Pre-tax profit	1,390	17,921	30,743	63,421	169,201
Current Tax	513	4,864	5,942	12,392	33,562
Profit after tax	877	13,058	24,802	51,029	135,640
Minorities	(31)	(11)	(5,122)	(11,483)	(24,088)
Preference dividend	0	0	0	0	0
Non-recurring items	(5)	0	0	0	0
Net profit after non-recurring items	**841**	**13,047**	**19,680**	**39,546**	**111,551**
% growth	*151.9*	*1,451.2*	*50.8*	*100.9*	*182.1*

Balance sheet

As on 31 Mar (Rs m)	FY06	FY07	FY08E	FY09E	FY10E
Paid-up capital	125	1,623	1,623	1,623	1,623
Preference share capital	0	0	0	0	0
Reserves & surplus	2,472	18,320	36,964	75,049	185,208
Total shareholders' equity	2,834	19,957	46,925	96,493	230,740
Total current liabilities	30,031	55,331	6,456	7,228	10,364
Total Debt	10,449	55,593	32,711	30,211	27,711
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	1,208	19	19	19	19
Total liabilities	41,688	110,942	39,187	37,459	38,094
Total equity & liabilities	**44,522**	**130,899**	**86,112**	**133,952**	**268,834**
Net fixed assets	4,887	8,148	8,556	8,983	9,433
Investments	974	5,673	5,673	5,673	5,673
Total current assets	38,661	117,077	71,883	119,295	253,727
Other non-current assets	0	0	0	0	0
Working capital	8,630	61,746	65,427	112,067	243,364
Total assets	**44,522**	**130,899**	**86,112**	**133,952**	**268,834**

Cash flow statement

Year to 31 Mar (Rs m)	FY06	FY07	FY08E	FY09E	FY10E
Pre-tax profit	1,390	17,921	30,743	63,421	169,201
Depreciation	112	80	84	88	93
chg in Working capital	(3,142)	(47,977)	7,263	(25,845)	(61,903)
Total tax paid	(513)	(4,864)	(5,942)	(12,392)	(33,562)
Ext ord. Items	(5)	-	-	-	-
Operating cash Inflow	(2,158)	(34,839)	32,149	25,272	73,829
Capital expenditure	(3,406)	(3,261)	(407)	(428)	(449)
Free cash flow (a+b)	(5,564)	(38,100)	31,742	24,844	73,380
Chg in investments	376	(4,700)	-	-	-
Debt raised/(repaid)	6,686	45,143	(22,881)	(2,500)	(2,500)
Capital raised/(repaid)	-	1,498	-	-	-
Dividend (incl. tax)	(231)	(429)	(559)	(671)	(805)
Misc	(85)	2,915	2,643	(878)	(680)
Net chg in cash	1,182	6,328	10,943	20,795	69,395

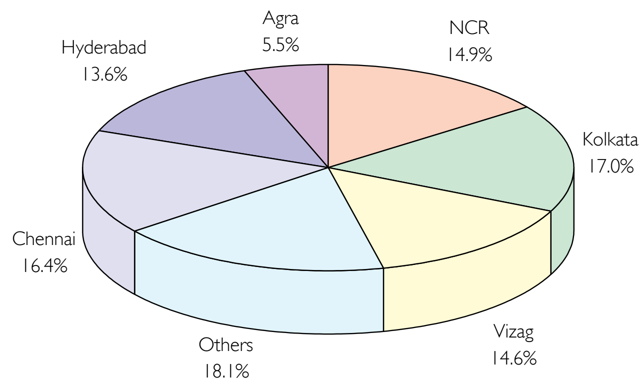
Key ratios

Year to 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	13.7	60.9	66.9	68.0	73.9
EBIT margin (%)	12.8	60.6	66.8	67.9	73.8
PAT margin (%)	6.9	39.7	40.7	39.9	47.5
RoE (%)	33.8	114.5	58.8	55.1	68.2
RoCE (%)	13.9	44.3	41.6	65.2	90.1
Gearing (x)	3.7	2.8	0.7	0.3	0.1

Valuations

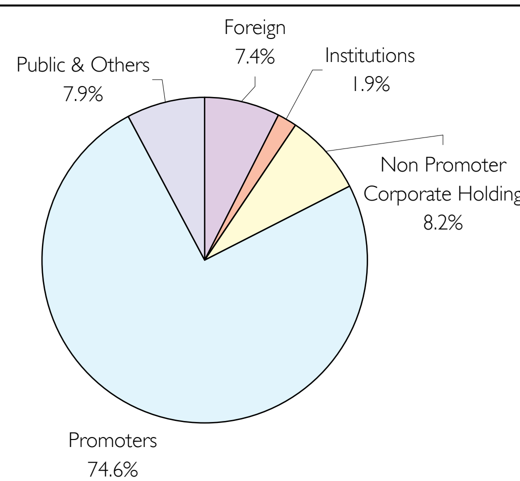
Year to 31 Mar	FY06	FY07	FY08E	FY09E	FY10E
Reported EPS (Rs)	1.0	8.0	12.1	24.4	68.7
Adj. EPS (Rs)	1.0	8.0	12.1	24.4	68.7
PER (x)	495.9	64.3	42.6	21.2	7.5
Price/Book (x)	148.0	42.0	17.9	8.7	3.6
EV/Net sales (x)	34.7	26.9	17.8	8.6	3.4
EV/EBITDA (x)	252.9	44.2	26.6	12.6	4.6
EV/CE (x)	29.4	11.7	10.8	6.7	3.1

Distribution of land bank across cities



Source: Company

Shareholding pattern



As of September 2007

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