



Unitech UT IN

INDIA / REAL ESTATE

TARGET INR57.00
PRIOR TP INR79.00
CLOSE INR35.45
UP/DOWNSIDE +60.8%

BUY

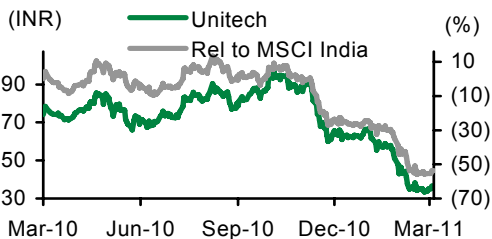
FROM HOLD

HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	57.00	61.00	(6.6)
EPS 2011 (INR)	2.36	3.05	(21.3)
EPS 2012 (INR)	3.13	4.0	(21.6)
	Positive	Neutral	Negative
Market Recs.	16	9	8

KEY STOCK DATA

YE Mar (INR m)	2011E	2012E	2013E
Revenue	28,952	36,491	40,633
Rec. net profit	6,296	8,349	10,718
Recurring EPS (INR)	2.36	3.13	4.02
Prior rec. EPS (INR)	4.30	4.82	-
Chg. In EPS est. (%)	(45.0)	(35.0)	N/A
EPS growth (%)	(15.0)	32.6	28.4
Recurring P/E (x)	15.0	11.3	8.8
Dividend yield (%)	0.2	0.3	0.3
EV/EBITDA (x)	13.6	11.2	9.5
Price/book (x)	0.8	0.7	0.7
Net debt/Equity	47.0	45.3	38.4
ROE (%)	5.6	6.7	8.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(40.9)	(57.2)	(53.4)
Relative to country (%)	(28.9)	(44.1)	(59.3)

Next results	April 2011
Mkt cap (USD m)	2,101
3m avg daily turnover (USD m)	37.8
Free float (%)	55
Major shareholder	Promoters (49%)
12m high/low (INR)	97.55/33.30
3m historic vol. (%)	58.8
ADR ticker	-
ADR closing price (USD)	-

Sources : Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

Gaining confidence.....	27 Aug 2010
1QFY11: Losing steam	16 Aug 2010
Oversupply: no, imbalance: yes	4 Jan 2011
Sales over policy.....	15 Dec 2010

INDUSTRY OUTLOOK ↑

CHANGE IN RECOMMENDATION

At book value: A worthy risk

- Telecom risk minimal, assuming no impact on UT's balance sheet
- Key man risk reduced as UT is a family-run business
- Cash flow risk appears low; core business at discount to BV
- Upgrade to BUY: TP of INR57 based on 1.25x FY12E P/BV

High risk, fairly priced

Unitech (UT) has been hurt by news reports regarding its involvement in the India telecom 2G scam. Investor's key concerns include: 1) impact of liabilities (fines, levies or spectrum cancellation) on UT's telecom business, 2) potential prosecution of the promoter of UT Wireless (not listed) if found guilty, and 3) cash flow risk from real-estate project cancellations.

Telecom write-off impact small
UT's equity investment in its telecom venture is some INR6.5b (INR2/share). A key assumption here is that there will be no recourse to UT's balance sheet as a result of loans taken by the telecom venture. We believe the balance sheet will be unaffected, as it is common practice to provide loans on spectrum because telecom is a recognised sector. Even if we subtract the entire debt on UT Wireless balance sheet, we estimate the value erosion for UT would still be only INR10/share (INR8 for debt and INR2 for investment).

Key man risk reduced as UT is a family-run business
Unitech is a family-owned and operated business that was created by Ramesh Chandra, and currently is run by his sons, Sanjay Chandra (MD) and Ajay Chandra (Joint MD). Although applying a harsh sentence to Unitech Wireless's promoters for their involvement in the 2G scandal may hurt UT's stock performance, we believe the situation would not be grave unless there are some huge liabilities, which may impact UT's balance sheet. In such a dire situation, the property business will likely rely on joint developments.

Cash flows and project execution in fair condition
Our channel checks with brokers in the National Capital Region (NCR) and south India suggest that UT's cash flow is still liquid. Project execution has not suffered any significant lag and that operational cash flow for the past nine months has been positive.

Core business at discount to book; Upgrade to BUY
Unitech's core business is available at a discount to book value (even after the telecom business write-off), which suggests that most of the negatives are priced in. Thus, we upgrade the stock to BUY (from Hold), but lower our TP to INR57 (from INR79) based on a target FY12E P/BV (ex-telecom) of 1.25x (1.5x previously), in line with the historical through-cycle average of global listed developers. Our estimates have been changed to consider lower sales volume in FY12E. Key risks are liabilities arising from the 2G scam, prosecution of 2G promoter, and UT's dependence on the investor-driven NCR market.



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RISK EXPERTS

Impact on indicative NAV in case of changes in base price assumptions

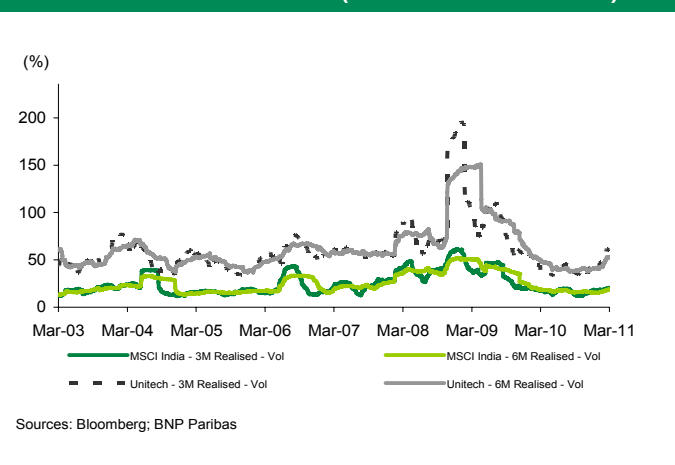
Change in base price assumption	(10%)	0%	10%
NAV (INR/share)	47	58	69

Sources: BNP Paribas estimates

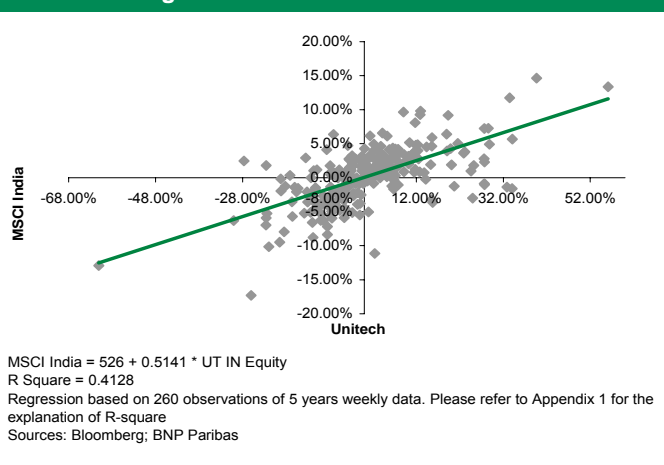
Key Earnings Drivers & Sensitivity

- A 10% change in base price assumption would impact NAV by 16%.

MXIN Index and Unitech (3M and 6M realised-vol)



Regression – MXIN Index to Unitech



India sector correlation matrix at 30 December 2010

	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecoms	Utilities	Property
Autos	1.00	0.65	0.69	0.70	0.60	0.52	0.54	0.63	0.62
Banks		1.00	0.82	0.74	0.74	0.55	0.62	0.71	0.73
Engineering & Construction			1.00	0.77	0.74	0.52	0.67	0.75	0.79
Metals & Mining				1.00	0.76	0.52	0.60	0.73	0.75
Oil & Gas					1.00	0.53	0.62	0.75	0.66
IT Services						1.00	0.42	0.49	0.39
Telecoms							1.00	0.66	0.62
Utilities								1.00	0.71
Property									1.00

Source: BNP Paribas Sector Strategy

Long/short chart



The risk experts

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process.

FINANCIAL STATEMENTS

Unitech

Profit and Loss (INR m) Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Revenue	33,156	30,153	28,952	36,491	40,633
Cost of sales ex depreciation	(9,080)	(15,667)	(14,385)	(18,618)	(19,898)
Gross profit ex depreciation	24,077	14,486	14,568	17,873	20,735
Other operating income	0	0	0	0	0
Operating costs	(3,930)	(2,935)	(3,772)	(4,266)	(4,806)
Operating EBITDA	20,147	11,551	10,796	13,607	15,929
Depreciation	(209)	(341)	(337)	(362)	(386)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	19,938	11,210	10,459	13,245	15,543
Net financing costs	(5,546)	(2,000)	(1,465)	(2,113)	(2,145)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	14,392	9,210	8,994	11,132	13,397
Tax	(2,424)	(2,239)	(2,698)	(2,783)	(2,679)
Profit after tax	11,968	6,971	6,296	8,349	10,718
Minority interests	22	(31)	0	0	0
Preferred dividends	0	0	0	0	0
Other items	(25)	(165)	0	0	0
Reported net profit	11,964	6,775	6,296	8,349	10,718
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	11,964	6,775	6,296	8,349	10,718

Residential projects account for more than 60% of revenue

Per share (INR)

Recurring EPS *	7.37	2.78	2.36	3.13	4.02
Reported EPS	7.37	2.78	2.36	3.13	4.02
DPS	0.13	0.35	0.07	0.09	0.12

Growth

Revenue (%)	(22.5)	(9.1)	(4.0)	26.0	11.4
Operating EBITDA (%)	(14.9)	(42.7)	(6.5)	26.0	17.1
Operating EBIT (%)	(15.1)	(43.8)	(6.7)	26.6	17.3
Recurring EPS (%)	(28.1)	(62.3)	(15.0)	32.6	28.4
Reported EPS (%)	(28.0)	(62.3)	(15.0)	32.6	28.4

Operating performance

Gross margin inc depreciation (%)	72.0	46.9	49.2	48.0	50.1
Operating EBITDA margin (%)	60.8	38.3	37.3	37.3	39.2
Operating EBIT margin (%)	60.1	37.2	36.1	36.3	38.3
Net margin (%)	36.1	22.5	21.7	22.9	26.4
Effective tax rate (%)	16.8	24.3	30.0	25.0	20.0
Dividend payout on recurring profit (%)	1.7	12.6	3.0	3.0	3.0
Interest cover (x)	3.6	5.6	7.1	6.3	7.2
Inventory days	15.9	8.1	8.3	11.2	15.7
Debtor days	92.3	133.0	183.4	122.3	76.2
Creditor days	3,706.2	2,349.6	2,759.5	2,326.4	2,303.5
Operating ROIC (%)	11.2	5.7	4.6	5.4	6.4
Operating ROIC – WACC (%)	(2.6)	(8.2)	(9.3)	(8.4)	-
ROIC (%)	9.6	4.7	3.8	4.6	5.3
ROIC – WACC (%)	(4.3)	(9.1)	(10.0)	(9.3)	-
ROE (%)	27.3	8.7	5.6	6.7	8.0
ROA (%)	6.4	3.0	2.4	3.0	3.7

Margins forecast to decline due to higher contribution of mid-income residential projects in FY12

* Pre exceptional, pre-goodwill and fully diluted

Sources: Unitech; BNP Paribas estimates

Unitech

Cash Flow (INR m)					
Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Recurring net profit	11,964	6,775	6,296	8,349	10,718
Depreciation	209	341	337	362	386
Associates & minorities	(22)	31	0	0	0
Other non-cash items	0	0	0	0	0
Recurring cash flow	12,152	7,148	6,633	8,711	11,104
Change in working capital	(4,539)	(19,147)	(13,191)	(8,087)	(3,690)
Capex - maintenance	0	0	0	0	0
Capex – new investment	(20,141)	(5,346)	(2,000)	(2,000)	(2,000)
Free cash flow to equity	(12,528)	(17,346)	(8,558)	(1,376)	5,414
Net acquisitions & disposals	(13,537)	(3,963)	(5,549)	0	0
Dividends paid	(475)	(607)	(189)	(250)	(322)
Non recurring cash flows	18,104	4,572	0	0	0
Net cash flow	(8,435)	(17,343)	(14,296)	(1,627)	5,092
Equity finance	(463)	43,619	11,081	0	0
Debt finance	1,263	(26,628)	0	0	(5,000)
Movement in cash	(7,634)	(353)	(3,214)	(1,627)	92

Per share (INR)

Recurring cash flow per share	7.49	2.93	2.49	3.27	4.17
CF to equity per share	(7.72)	(7.11)	(3.21)	(0.52)	2.03

Balance Sheet (INR m)

Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Working capital assets	38,352	44,560	51,900	46,015	48,984
Working capital liabilities	(101,827)	(99,870)	(117,631)	(119,700)	(131,454)
Net working capital	(63,475)	(55,310)	(65,730)	(73,684)	(82,470)
Tangible fixed assets	190,645	205,320	236,126	244,273	254,363
Operating invested capital	127,171	150,010	170,396	170,589	171,893
Goodwill	11,673	15,264	15,264	15,264	15,264
Other intangible assets	0	0	0	0	0
Investments	15,808	12,427	17,976	17,976	17,976
Other assets	0	0	0	0	0
Invested capital	154,652	177,700	203,636	203,828	205,132
Cash & equivalents	(6,448)	(6,095)	(2,881)	(1,254)	(1,347)
Short term debt	0	0	0	0	0
Long term debt *	90,558	60,078	60,078	60,078	55,078
Net debt	84,110	53,983	57,197	58,824	53,731
Deferred tax	14	46	46	46	46
Other liabilities	17,921	17,907	23,440	13,907	9,907
Total equity	51,695	104,050	121,224	129,322	139,719
Minority interests	615	373	389	389	389
Invested capital	154,652	177,700	203,636	203,829	205,133

* includes convertibles and preferred stock which is being treated as debt

Per share (INR)

Book value per share	31.84	42.66	45.47	48.51	52.41
Tangible book value per share	24.65	36.41	39.75	42.79	46.69

Financial strength

Net debt/equity (%)	160.8	51.7	47.0	45.3	38.4
Net debt/total assets (%)	32.0	19.0	17.6	18.1	15.9
Current ratio (x)	0.4	0.5	0.5	0.4	0.4
CF interest cover (x)	2.4	(5.0)	(3.5)	1.3	4.5

Valuation	2009A	2010A	2011E	2012E	2013E
Recurring P/E (x) *	4.8	12.8	15.0	11.3	8.8
Recurring P/E @ target price (x) *	7.7	20.5	24.1	18.2	14.2
Reported P/E (x)	4.8	12.8	15.0	11.3	8.8
Dividend yield (%)	0.4	1.0	0.2	0.3	0.3
P/CF (x)	4.7	12.1	14.2	10.8	8.5
P/FCF (x)	(4.6)	(5.0)	(11.0)	(68.7)	17.5
Price/book (x)	1.1	0.8	0.8	0.7	0.7
Price/tangible book (x)	1.4	1.0	0.9	0.8	0.8
EV/EBITDA (x) **	6.8	12.3	13.6	11.2	9.5
EV/EBITDA @ target price (x) **	8.5	16.0	18.7	15.5	13.1
EV/invested capital (x)	0.9	0.8	0.7	0.8	0.7

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Unitech; BNP Paribas estimates

We anticipate UT will report positive operational cash flows in FY13

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE



Sandeep Mathew started covering this stock from 17 March 2008
 Price and TP are in local currency

Valuation and risks: Key upside risk to our P/BV-based TP liabilities arising from the 2G scam, prosecution of 2G promoter, and UT's dependence on the investor-driven NCR market.

Sources: Bloomberg, BNP Paribas

DISCLAIMERS & DISCLOSURES

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All share prices are as at market close on 7 March 2011 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

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*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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