Company In-Depth

4 May 2007 | 15 pages

Unitech (UNTE.BO)

Initiating with Sell: Building on Scale, But Limited Upside

- Diversified — Unitech is India's largest diversified developer with an emerging pan-India presence. We initiate with a Sell/Medium Risk rating and Rs430 target price, a 10% premium to our Rs391 NAV. This premium is based on its large diversified landbank, efforts to recycle capital faster than peers and strong track record. However, it trades at a premium to NAV, so we see limited upside.

- Key drivers — 1) low-risk/high-return model, 2) Large land holdings with plans to develop ~490m sq.ft, significant projects (~60m sq.ft.) in construction phase 3) Reduced concentration in NCR and focus on growth in Tier I and Tier II cities; and 4) Incremental income from lease/management fees.

- Development across segments — While residential projects remain Unitech's focus, it is diversifying into other segments such as IT parks, shopping malls, amusement parks and hotels. This should de-risk the business model, but will likely increase execution and market risks.

- Acceleration of cash flows — Unitech monetized six ongoing IT parks by selling 60% stakes in each to a REIT-structure – this provided it with Rs14.4bn of cash flows, giving it a competitive advantage and reducing some risks. We expect more such structures for its retail and hotel assets.

- Robust earnings growth, but driven by NAV — We expect earnings CAGR of 57% for FY07-09E on higher volumes and exponential margin growth. However, we expect underlying NAV value will drive the share price more than profitability – with stock trading at a premium to NAV, risk/reward is unfavorable.

Sell/Medium Risk	**3M**
Price (03 May 07)	Rs431.95
Target price	Rs430.00
Expected share price return	-0.5%
Expected dividend yield	0.1%
Expected total return	**-0.3%**
Market Cap	Rs350,608M
	US$8,541M

Price Performance (RIC: UNTE.BO, BB: UT IN)

See Appendix A-1 for Analyst Certification and important disclosures.

Figure 1. Unitech – Statistical Abstract

Year to 31-Mar	Net Profit (Rs bn)	EPS (Rs)	P/E (x)	ROCE (%)
FY05	0	0.4	nm	11%
FY06	1	1.0	nm	12%
FY07E	11	13.7	31.4	46%
FY08E	16	20.2	21.4	34%
FY09E	28	33.9	12.7	37%

Source: Citigroup Investment Research estimates

Figure 2. Unitech – Landbank by Segment

Segment	Area (m sq. ft.)	% of Total
Plots	40.6	8%
Residential	324.3	66%
Commercial	31.2	6%
Retail	31.2	6%
IT Parks	25.4	6%
Others	37.55	8%
Total	**490.3**	**100%**

Source: Company Reports and Citigroup Investment Research estimates

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	nm	nm	31.4	21.4	12.7
P/E reported (x)	nm	nm	31.4	21.4	12.7
P/BV (x)	179.2	135.0	26.2	11.9	6.2
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	0.41	1.04	13.74	20.17	33.93
EPS reported	0.41	1.04	13.74	20.17	33.93
BVPS	2.41	3.20	16.51	36.19	69.62
NAVps ordinary	na	na	na	na	na
DPS	0.14	0.23	0.40	0.50	0.50
Profit & Loss (RsM)					
Net operating income (NOI)	**1,244**	**2,427**	**18,802**	**29,435**	**46,495**
G&A expenses	-733	-1,077	-1,576	-2,981	-3,459
Other Operating items	-103	-110	-185	-231	-289
EBIT including associates	**408**	**1,240**	**17,042**	**26,222**	**42,747**
Non-oper./net int./except.	167	152	-2,167	-3,481	-3,956
Pre-tax profit	**575**	**1,392**	**14,875**	**22,741**	**38,791**
Tax	-216	-513	-3,719	-6,368	-11,249
Extraord./Min. Int./Pref. Div.	-25	-38	0	0	0
Reported net income	**334**	**841**	**11,156**	**16,374**	**27,542**
Adjusted earnings	334	841	11,156	16,374	27,542
Adjusted EBIT	397	1,238	17,042	26,222	42,747
Adjusted EBITDA	511	1,350	17,227	26,454	43,036
Growth Rates (%)					
NOI	37.5	95.1	674.7	56.5	58.0
EBIT adjusted	52.5	211.5	nm	53.9	63.0
EPS adjusted	36.6	152.0	nm	46.8	68.2
Cash Flow (RsM)					
Operating cash flow	**115**	**-2,165**	**-11,101**	**695**	**9,122**
Depreciation/amortization	113	113	185	231	289
Net working capital	-1,687	-2,180	-21,093	-16,435	-19,434
Investing cash flow	**-431**	**-3,127**	**-4,118**	**-4,747**	**-5,492**
Capital expenditure	-280	-3,485	-3,786	-4,647	-5,292
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,954**	**6,474**	**21,750**	**8,884**	**1,962**
Borrowings	2,066	6,686	20,576	9,290	2,368
Dividends paid	-112	-188	-325	-406	-406
Change in cash	**1,638**	**1,182**	**6,531**	**4,832**	**5,592**
Balance Sheet (RsM)					
Total assets	**24,368**	**44,522**	**85,921**	**125,515**	**174,546**
Cash & cash equivalent	2,718	3,899	10,430	15,262	20,854
Net fixed assets	1,481	4,887	8,488	12,904	17,907
Total liabilities	**22,201**	**41,688**	**72,279**	**95,905**	**117,800**
Total Debt	3,764	10,449	31,025	40,315	42,683
Shareholders' funds	**2,166**	**2,834**	**13,642**	**29,610**	**56,746**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	6.4	13.9	54.1	48.4	49.4
ROE adjusted (%)	18.2	36.9	139.4	76.6	64.1
ROA adjusted (%)	1.8	2.4	17.1	15.5	18.4
Net debt to equity (%)	48.3	231.1	151.0	84.6	38.5
Interest coverage (x)	2.1	2.9	5.9	6.1	8.6

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Company Background

Unitech is one of India's largest, most diversified real estate developers with an emerging pan-India presence. It enjoys leadership in markets of National Capital Region (NCR) and Kolkata. The company entered civil engineering in 1974 and diversified into real estate. Its core strengths of land acquisition, reputation in building townships, relationships with governments and customers, and higher ROCE business model have enabled it to build a diversified portfolio.

Unitech has built a land bank of 10,761 acres with a total saleable area of ~490m sq.ft. spread over Chennai (24%), NCR (20%), Kolkata (19%) and Tier III cities (32%). In terms of development, residential projects account for about 66% of the saleable area, commercial 6%, IT Parks 6% and retail 6%. The focus areas are: (1) Residential properties and integrated townships in the suburbs of main cities; (2) Commercial IT parks; (3) hotels; (4) Retail & amusement parks (but to a more limited extent); and (5) SEZs. In addition, it also has a small presence in power transmission, prefabricated construction, paving block and ready mix concrete. This is the flagship company of Chandra family, which holds a 75% stake.

Investment Thesis

We initiate coverage on Unitech with Sell/Medium Risk (3M) rating and 12-month price target of Rs430, based on a 10% premium to our NAV estimate of Rs391 per share (excluding SEZs). The premium is attributed to: 1) Unitech's competitive advantage of large diversified land bank, while peers are still aggregating land 2) dynamic business model with thrust on recycling capital faster; 3) strong brand positioning and proven track record.

Unitech's low-risk/high-return model, focus on scale and emerging pan-India presence differentiate it from peers

Unitech's low-risk/high-return model and focus on scale in Tier I and Tier II cities differentiates its growth profile from its peers. Recent efforts to monetize six of its commercial/IT park assets by selling stakes to a REIT has provided it with healthy cash flows, when most developers are facing funding constraints – more such structures to boost Unitech's cash flows are expected. Additionally, initiatives to reduce concentration in NCR and introduce new revenue streams from lease/management fees are positive. This said, management's pan-India development plan of ~490mn sq.ft. is aggressive and does raise execution risks. With significant projects (~60mn sq.ft.) in construction phase, a lot already pre-sold and healthy margins on low land costs; we forecast an exponential growth in Unitech's profitability of FY07-09E. Valuations however would be determined on NAV value, rather than profitability in our view.

The stock appreciated 15% over the past two months and now trades at a premium to NAV, so upside is limited. The stretched valuation does not leave much margin for errors from potential execution delay for its aggressive development plans, in our view.

Strategic initiatives and strengths

Low-risk high return model

Thrust on residential development; early monetization of some commercial/IT Park assets

Unitech's focus is a low-risk/high-return business model. Thrust on residential development where working capital requirements are generally low and plan to recycle capital faster for other assets, is in line with this strategy. Recent listing on the Alternate Investment Market (AIM) seeking early monetization of some of its commercial assets also suggests the same. Company's strategy of acquiring large tracts of land on the outskirts of cities and gradually developing them, does lower the risk of pricing volatility and tends to drive steady price appreciation

Differentiate with scale

Pan-India landbank of ~10,760 acres; developing ~490m sq.ft. across residential, commercial and retail projects

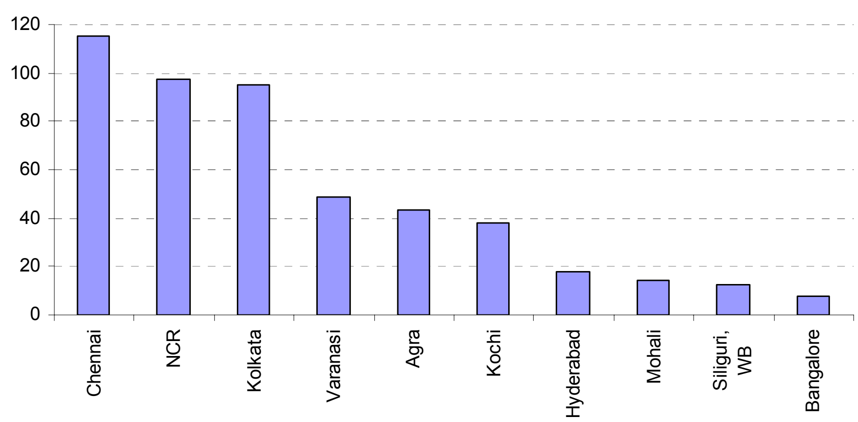
Unitech is one of only a few property companies who we expect to grow in scale, and to develop a multi-product portfolio at a national level. Focus on scale will differentiate the company's growth profile from its peers. The company has aggregated a pan-India land bank of ~10,760 acres for developing ~490m sq.ft. across residential, commercial and retail projects. Additionally, it has tied-up with leading hotel chains for building hotels, plans to set up three SEZs and replenish its land bank for future growth. Infrastructure could be another focus area for the company. We expect Unitech to develop and sell/lease ~60msf in FY07-09E while the total space developed by Unitech over the past two years is 5msf (3msf in FY06 and 2msf in FY05).

Geographically spread land bank

Diversifying into new geographies like Chennai, Kolkata and Tier-II cities

Unitech began operations in the NCR region, but over the past 3-4 years has considerably diversified its land bank of 10,760 acres to new geographies like Chennai, Kolkatta and some Tier II cities. This is in line with its plans to target demand in locations that offer significant job creation potential and where income levels are rising. The NCR (20%), Chennai (24%) and Kolkata (19%) currently account for 63% of the company's land bank.

Figure 3. Unitech – Diversified Landbank by Location (Million sq. ft.)



Source: Company Reports and Citigroup Investment Research

Reducing weighting on NCR

Upcoming projects at Kolkata, Chennai, Hyderabad and Kochi

While Unitech's near-term earnings will remain dependent (69% of total revenues in FY07-08E) on the NCR, it is making concerted efforts to reduce its weighting in this region. We see this concentration coming off as new projects are launched in other cities, predominantly Kolkata, Chennai, Hyderabad and Kochi.

- In Kolkatta, it is developing residential housing in Rajarhat and pre-sold ~2000 units with more launches in the pipeline; it has aggressive development plans in the region. It has a JV township project with DLF as well
- First project in Chennai, is a residential project spread over 45 acres on the Old Mahabalipuram Road, i.e., Chennai's IT corridor. – envisages 4m sf of residential apartments as a 50:50 JV with a local partner Arihant.
- In Hyderabad, it will launch a group housing project at Alwal and luxury housing at Banjara Hills in addition to a high-rise apartment project near Moulali road.
- Plotted development will be launched in Kochi shortly. Going forward, it intends to develop villas and residential apartments at its land in Aluva.

We believe the earnings stream will start to appear more diversified by FY09E when the share of NCR in revenue will likely come down to a third. This should be positive, given that NCR property prices are expect to soften by 5-20% in some pockets in the near-term, largely due to overheating in prices and affordability issues given the spike in interest rates.

Diversifying development portfolio

Figure 4. Unitech – Total Development Plan (Million sq. ft.) by Region & Segment

Location	Apartments	Villas	Plot	Institutional	Commercial	Retail	IT Parks	Hotel	Total
NCR	52.6	10.7	3.3	4.8	2.3	19.4	3.3	1.1	97.5
Kolkata	62.3	-	6.6	10.7	8.8	3.9	1.6	1.0	95.0
Varanasi	17.6	4.7	6.5	7.8	3.9	-	7.8	-	48.5
Chennai	40.5	50.3	8.3	4.6	6.0	2.7	3.1	-	115.5
Agra	13.1	6.5	6.5	5.2	7.8	-	3.9	-	43.1
Siligudi	6.0	2.6	3.7	-	-	-	-	-	12.3
Kochi	17.7	10.5	2.7	-	1.1	2.5	3.0	0.4	38.0
Hyderabad	8.5	3.3	1.8	-	0.9	2.7	0.5	-	17.8
Mohali	6.9	3.4	1.1	1.5	-	-	1.4	-	14.4
Bangalore	7.1	-	-	-	0.3	-	0.4	0.3	8.0
Chandigarh	-	-	-	-	-	-	0.3	-	0.3
Total	**232.3**	**92.0**	**40.6**	**34.7**	**31.2**	**31.2**	**25.4**	**2.9**	**490.3**

Source: Company Reports and Citigroup Investment Research

Residential development, a domain area for growth

Residential development is not only low-risk by also high-return. This is a dominant proportion of property development undertaken by Unitech will help it deliver higher returns. These projects require funds largely to buy land, while most of the construction costs are funded through instalment payments

~15-20% of Unitech's residential customers prefer paying the full amount upfront

made by buyers. As initial capital investment is low, the project delivers a higher return. Further, Unitech's strong brand helps reduce working capital requirements further with ~15-20% of its customers preferring to pay the full amount upfront to obtain a 10-11% discount and also lowers the pricing risk, as typically projects are sold nearly a year before construction is finished and hence prices are already locked in.

Growing presence in Commercial/IT Park projects

10 IT Parks with a total area of 31.2m sq. ft. planned

With demand for Grade A office space outpacing supply, Unitech is growing its presence in commercial and IT Park projects (~12% of total development), primarily focused on IT parks within and beyond NCR. The firm's strategy going forward would be to focus on integrated development projects with townships in the prime locations in NCR and Tier 1 and Tier 2 cities, with standalone offices only in select cities. There are in total 10 IT parks (including stake in assets sold to the AIM fund), with total rental area of 31.2msf in Gurgaon, Kolkata, Greater Noida, Chennai, and Hyderabad. Unitech currently supplies Grade A office space in the NCR region (Gurgaon) with Unitech Business Park, Signature Towers, etc. Most of Unitech's IT parks are coming up in areas where there is good infrastructure connectivity and is another reason for the expected high occupancy rates. The company will develop and sell the assets at an appropriate time. This could help faster churning of capital while also retaining the benefits of annuity income as Unitech intends to only partly sell out its holdings. In our NAV estimates, we have assumed capitalization model for valuing the IT parks.

Low profile on retail

Strategy of clubbing retail plans with amusement parks to reduce risks

The company has a cautious stance on Retail development given concerns that high retail rentals are affecting the margins of retailers. Spiraling rentals at Rs50-90/sf/month is about 8-9% of the sales of a retailer and with the margins for an Indian retailer already at 11%, increase in retail rentals could dent margins. These concerns are valid in our view, however anchor tenants, and the F&B/entertainment sections that make up 65-70% of retail demand should continue to be profitable. Rising vacancy given the high turnaround of small shops at malls is also a concern. Unitech has clubbed its Retail plans with Amusement Parks to address these concerns. Focus is to sell the shops in malls but retain some control in the amusement parks. It is developing two large projects – Entertainment City in Noida, developed over 147 acres is a mix of amusement parks and retail space, Adventure Island, Rohini developed over 652 acres in alliance with Turner International for Pogo & Cartoon Network is another mix type project and there is one more such project at Chandigarh in pipeline. These two projects have cumulative retail space of 1.67msf (Unitech's share is 0.7msf). We think the amusement parks could be value accretive for the retail business – will reduce footfall risk in retail malls and grow revenues from amusement park.

New growth areas for development

Growth plans include Hotels and SEZs

- Hospitality segment – Plans to build hotels and is in process of tying up with hotel chains for managing these. Over the next three years, it has plans to build 800 new rooms.

- Plans to develop large-scale SEZs – 1) Petrochemical SEZ over 10,000 acres, 2) Multi-product SEZ across 12,500 acres, both projects are part of New Kolkatta International Development project, to be developed by Unitech (40%

share) in joint venture with Salim Group (40% shares) and a local partner. The third project is a SEZ at Kundli planned over 20,000 acres in Sonepat, near Delhi. However, given the regulatory / political issues around land acquisition for these projects, progress has taken a back seat. We have not built these in our NAV estimates, and look forward to more visibility on these projects before we factor the same in our NAV value.

- Leverage its construction experience for infrastructure projects and consider participating in build operate transfer (BOT) projects for growth. However, the construction business is unlikely to scale up significantly given the focus on real estate development.

Acceleration of the cash flow cycle

60% stake in 6 IT Parks sold to Unitech Corporate Parks (REIT Structure) for Rs14bn

Unitech has further accelerated its cash flow cycle and by early monetization of some of its commercial/IT Park assets by floating a REIT like structure, Unitech Corporate Parks Plc (The Fund). The Fund's strategy is to invest in the commercial real estate sector in India. The company intends to focus on investment in special economic zones (SEZ) dedicated to the IT and ITES industries, or IT Parks that are suitable for foreign direct investment. Unitech has sold a 60% stake in each of its six IT parks that are under various stages of construction to this fund, raising ~Rs14bn making ~Rs10bn in pre-tax profit and Rs8bn on post tax profit on this transaction. This has provided the company with significant cash to deploy in newer projects, at a time when the most developers are witnessing funding constraints, thereby reducing some of the risks. We believe this vehicle will be used repeatedly to boost Unitech's cash flow cycle from IT Parks; similarly we expect more such structures for monetizing Unitech's retail and hotel assets going forward.

Figure 5. Unitech – IT Park Projects with UCP (Unitech Corporate Parks)

Project	Description	Total Area (Acres)	Start	End	Leasable Area (m. sq.ft.)	Valuation* (Rs m)
G1-ITC	IT/ITES SEZ in Gurgaon	24.7	Feb-07	Jul-09	3.26	11,143
G2-IST	IT/ITES SEZ in Gurgaon	28.4	Oct-05	Mar-09	3.75	9,441
N1	IT Park in Noida	19.3	Jul-06	Dec-08	2.03	4,102
N2	IT/ITES SEZ in Noida	29.7	Jan-07	Jun-09	3.13	6,730
N3	IT/ITES SEZ in G. Noida	50.0	Jan-07	Jun-09	4.95	3,523
K1	IT/ITES SEZ in Kolkata	45.4	Dec-05	Apr-10	4.35	6,434
Total		**197.5**			**21.47**	**41,373**

Source: Company Reports; * Valuation by Jones Lang LaSalle as at November 8, 2006

Captive construction skills

Unitech's origin was as a construction company, this experience should help it in scaling up faster than peers. Given the significant increase in scale of operations, we think this would be useful in scaling up operations. Already a significant part of its workforce has been redeployed in its real estate/SEZ projects.

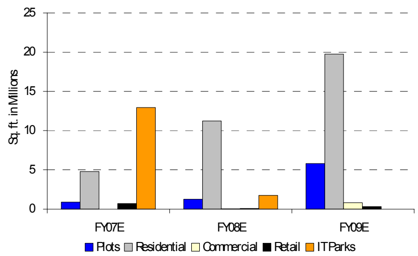
Financial Analysis

Unitech has a complex corporate structure with many subsidiaries and associate companies – due to land holdings and joint development agreements. We believe, consolidated operations largely reflect the company's true earnings potential; hence we have modelled this in our forecast.

We forecast exponential growth in profitability for FY07-09E

Given the company's aggressive development plans, we forecast an exponential growth in Unitech's profitability with earnings CAGR of 57% for FY07-09E. This would be driven by significant increase in volumes and higher prices, primarily on residential projects already pre-sold but now starting to get recognized as revenues – with quite a few projects at the critical second or third year of completion. Additionally, the company's initiatives to migrate to percentage completion method for all projects launched since Apr'2004 will further boost profitability. With this change, revenues are recognized on a proportionate basis subject to actual costs incurred being 20% or more of the total estimated costs of the projects. Hence, financials are not directly comparable on a YoY basis.

Figure 6. Unitech – Sales Volumes (M sq. ft.)



Source: Citigroup Investment Research

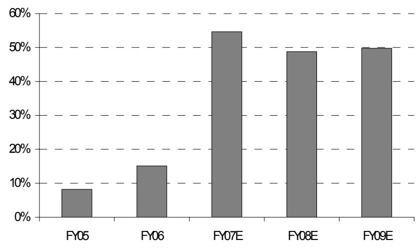
Unitech has different strategy for residential and commercial/IT Park/retail projects – residential projects follow develop and sell model and commercial/IT Park/retail projects follow a lease model, with assets being sold at a later date. We assume the commercial/IT Park assets to be sold to REIT's immediately on completion/under construction (taking average cap rates of 10%) given the uncertainty on timing of sale. The transfer of 60% stake in six projects to the Fund has boosted revenues in FY07E. Residential projects will largely dominate revenues in FY07-09E, while commercial/IT Parks would contribute more in FY2010E, when most IT Park projects get completed.

Figure 7. Unitech – Consolidated Revenue Mix (FY07E-FY09E) (Rs Billions)

	FY07E	FY08E	FY09E
Plots	0.3	0.4	3.3
Residential	14.9	37.4	67.9
Commercial	0.0	0.0	9.7
Retail	0.1	0.5	3.4
IT Parks	14.5	14.0	0.0
Other	1.8	1.8	2.1
Total Revenues	**31.5**	**54.2**	**86.5**

Source: Citigroup Investment Research estimates

Figure 8. Unitech – EBITDA Margins (F05-FY09E)



Source: Company Reports and Citigroup Investment Research estimates

Operating margins to increase on back of low cost land holdings

The company's operating margins should benefit significantly from its low cost land bank. With most projects under construction using this low cost land and high prices booked on residential projects starting to get recognized, we see margins increasing from 15.1% in FY06 to 50% levels over FY08-09E. Margins are expected to be significantly higher at 54.7% in FY07E – largely due to significant gains on 60% stake sale of IT Park assets during the year. However, we expect margins to decline as the company starts to exhaust its low cost land bank, largely beyond FY10-11.

Balance Sheet to get stronger

With a large number of projects in the construction phase, the company's capital work in progress is likely to increase significantly. Most of the capex is to fund construction cost with the outstanding (~Rs35bn) to be paid on land. This would be funded through cash raised on pre-sales for residential projects (~Rs33bn), increased debt and cash flows realized on account capitalization of retail and commercial assets which are leased. The recent sale of 60% stake in six IT Parks in 3QFY07E, to the Fund has provided the company with healthy cash flows (Rs14.4bn). This is expected to give Unitech an advantage over peers, most of whom are facing funding constraints due to loan restrictions to real estate sector and high volatility in capital markets. Although the debt equity is high at 4x in FY06 this is likely to reduce to less than 1x in FY09E given the sharp increase in profitability. We see Unitech's balance sheet getting stronger over the next 3-4 years, if momentum for growth continues.

Valuations

Our target price of Rs430 is based on 10% premium to our NAV value of Rs391 (excluding SEZs). While the level of NPV premium will be a matter of subjective assessment, we believe that a 10% premium to NAV is fair. The premium is attributed to: 1) Unitech's competitive advantage of large diversified land bank, while peers are still aggregating land 2) dynamic business model with thrust on recycling capital faster; 3) strong brand positioning and proven track record.

We believe a NAV-based valuation methodology is most appropriate for developers – as it factors the varied development projects and spread out time frames. Our estimates for the NAV of Rs391 involve the following key assumptions: a) current market price levels to sustain with no price inflation; b) development volume of 471m sq.ft (as ~19mn is already recognized as revenue in FY07) c) all projects undertaken by Unitech will be completed largely as per schedule: though given the scale of the roll-out, we expect a sizeable risk of delays; d) an average cost of capital of 14%; e) lower tax rate of 28% and f) does not include any value attributed towards SEZ projects.

Figure 9. Unitech – NAV Summary, Mar '07 (Rupees in Billions)

Gross NAV of Residential Development	366
Gross NAV of Non-Residential Development	202
Gross Total NAV	**568**
Less: Tax @ 28%	159
Less: Amt outstanding for land & govt. dues	35
Less: Debt Outstanding	31
Less: Net Customer Advances	26
Net NAV	**317**
No. of Shares Outstanding (Billions)	0.81
NAV Per Share (Rupees)	391

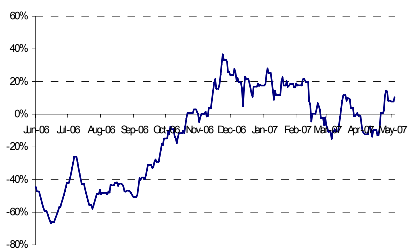
Source: Citigroup Investment Research estimates

Figure 10. Unitech – NAV Sensitivity

Price Change	**0%**	**+ 5 %**	**+ 10 %**
NAV (Rs)	391	431	471
Cost of Capital	**13%**	**14%**	**15%**
NAV (Rs)	409	391	374
Project Delays	**3 months**	**6 months**	**12 months**
NAV (Rs)	375	359	329

Source: Citigroup Investment Research estimates

Figure 11. Discount/Premium to NAV



Source: Citigroup Investment Research

With the stock having recently appreciated by 15% over the past two months and trading at a premium to NAV, upside is limited. The stretched valuation does not leave much margin for errors from potential execution delay for its aggressive development plans, in our view

Risks

We rate Unitech Medium Risk. This is different from the High Risk rating assigned by our quantitative risk rating system which measures the stock's volatility over a 260-day period.

The key reasons for that we assign a Medium Risk rating are: 1) its low-risk/high-return business model 2) pan-India land bank with initiatives to reduce weighting on NCR, where risk of excess supply over next 2-3 years is high 3) relatively healthy cash flows, at a time when most developers are facing funding constraints.

Main company-specific risks include:

- Developments on monetization of retail and hotel assets similar to IT Parks, could result in healthy cash flows and unlocking of value early on – should positively drive profitability and valuations
- SEZ projects have become political issues as they involve the acquisition of large tracts of land from farmers. While we have not factored the value of the SEZ into our NPV calculation, any developments providing higher visibility on execution of these project is likely to create long-term value.
- Any interest rate reversals, would positively impact earnings growth assumption – given its high leverage (debt/equity at 2.3x FY07E)

If any of these risk factors plays out, Unitech's share price is likely to have difficulty attaining our target price.

Figure 12. Unitech – Income Statement, FY05-09E (Rupees in Billions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Total Revenues	**6.2**	**8.9**	**31.5**	**54.2**	**86.5**
YoY Growth (%)	28%	43%	253%	72%	60%
EBITDA	**0.5**	**1.4**	**17.2**	**26.5**	**43.0**
Margin (%)	8%	15%	55%	49%	50%
Depreciation & Amortization	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Other income	0.4	0.6	0.7	0.9	1.1
EBIT	**0.8**	**1.9**	**17.8**	**27.1**	**43.8**
Interest income(expense)	(0.2)	(0.5)	(2.9)	(4.4)	(5.0)
Profit before tax	**0.6**	**1.4**	**14.9**	**22.7**	**38.8**
Tax	(0.2)	(0.5)	(3.7)	(6.4)	(11.2)
Net Income	**0.3**	**0.8**	**11.2**	**16.4**	**27.5**

Source: Company Reports and Citigroup Investment Research estimates

Figure 13. Unitech – Balance Sheet, FY05-09E (Rupees in Billions)

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Source of Funds					
Equity Share Capital	0.1	0.1	1.6	1.6	1.6
Reserves	1.8	2.5	11.7	27.7	54.9
Net Worth	2.0	2.6	13.3	29.3	56.5
Deferred Liability	2.2	1.2	1.5	2.0	2.7
Minority Interest	0.2	0.2	0.2	0.2	0.2
Long Term Debt	3.5	10.1	30.6	39.7	41.9
Short Term Debt	0.3	0.4	0.4	0.6	0.8
Total Debt	3.8	10.4	31.0	40.3	42.7
Capital Employed	**8.1**	**14.5**	**46.0**	**71.8**	**102.1**
Application of Funds					
Gross Block	2.2	4.5	8.1	12.4	17.3
Depreciation	0.8	0.9	1.1	1.3	1.6
Net Fixed Assets	1.3	3.6	7.0	11.1	15.7
Capital WIP	0.1	1.3	1.5	1.8	2.2
Investments	0.5	0.1	0.5	0.6	0.8
Goodwill	0.8	0.8	0.8	0.8	0.8
Inventories	16.6	30.9	58.3	84.0	121.1
Sundry Debtors	0.9	1.0	3.5	6.0	8.6
Other Current Assets	1.4	2.9	3.9	5.9	4.4
Cash and Bank	2.7	3.9	10.4	15.3	20.9
Current Assets	21.5	38.7	76.1	111.2	155.0
Current Liabilities	(16.3)	(30.0)	(39.8)	(53.6)	(72.5)
Net Current Assets	5.3	8.6	36.3	57.5	82.5
Total Net Assets	**8.1**	**14.5**	**46.0**	**71.8**	**102.1**

Source: Company Reports and Citigroup Investment Research estimates

Figure 14. Unitech – Key Ratios, FY05-09E

Year to 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
EPS (Rs)	0.4	1.0	13.7	20.2	33.9
EPS YoY Gr. (%)	37%	152%	1227%	47%	68%
Book value (Rs)	2.4	3.2	16.5	36.2	69.6
Debt/Equity (x)	1.9	4.0	2.3	1.4	0.8
ROE (%)	17%	32%	83%	56%	49%
ROCE (%)	11%	12%	46%	34%	37%

Source: Citigroup Investment Research

Appendix A-1

Analyst Certification

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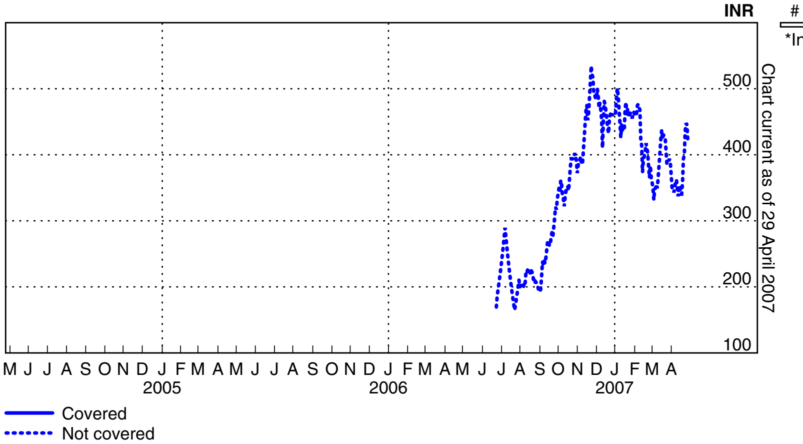
Unitech (UNTE.BO)
Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price

*Indicates change.

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