

Unitech

Non-core spin-off to unlock value

Unitech plans to spin off its non-core businesses (construction, telecom, power, SEZs and amusement parks) and focus entirely on real estate. We believe the objective behind the de-merger is to create two separate listed entities that will allow for a sharper business focus. The move will also enable the management to raise funds more easily in the non-core entity as compared to the real estate business. We see value-accretion for investors from the spin-off and hence maintain a Buy on Unitech with a target price of Rs 101.

Non-core line up: We believe the proposed non-core entity would comprise the company's 40% stake in Unitech Corporate Park (UCP), 50% stake in Unitech Amusement Park, 32.5% holding in Uninor Wireless (telecom), and the in-house construction and power transmission divisions.

Unitech Corporate Park – the SEZ vehicle: UCP – an AIM-listed entity – operates in India's commercial real estate segment with a focus on IT and IT-enabled services. The company has six properties (five SEZs and one IT park) in the national capital region (NCR) and Kolkata with a total development potential of 21.4mn sq ft (1.05 msf leased out). UCP is a debt-free company with cash of £ 48.3mn as on December '09. Knight Frank has valued the company's six assets at £ 517.7mn; we have built in this figure for our best-case valuation of UCP. Accordingly, the value of Unitech's 40% stake stands at Rs 14bn (Rs 68/£).

Amusement parks: Unitech holds a 50% stake in Unitech Amusement Park which owns two parks, one in Noida and another in Rohini (Delhi). The Noida amusement park is spread over 148 acres in Sector 38. Phase I has been concluded and comprises 20 rides along with 1msf of operational retail space. The park in Rohini called 'Adventure Island' covers 61.7 acres and has 22 rides and 0.2msf of retail space operational under the first phase. We have valued this business based on the leased portfolio, at Rs 5bn in the best case scenario.

Telecom, construction and power: Unitech holds a 32.5% stake in its telecom business – Uninor Wireless, which we have valued at Rs 29.6bn (based on Telenor's 67.5% stake acquisition in Uninor for Rs 61.3bn). We value the construction business at 4x Market cap/EBITDA (~Rs 1bn) and power at Rs 1bn.

De-merger to be value-accretive for investors: Including subsidiaries and JVs, we arrive at a value of Rs 19.5/share for the de-merged entity in the best case and Rs 12.9/share in the bear case at full dilution (see Fig-1). We expect the spin-off to unlock value for investors and hence maintain our Buy rating on the stock with a target of Rs 101. We reintroduce a discounted value for the realty business on concerns of rising interest rates and escalating realty prices, which affect volumes.

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	28,502	26,187	46,753	59,317
Growth (%)	(30.7)	(8.1)	78.5	26.9
Adj net income	11,964	6,845	15,836	20,179
Growth (%)	(28.0)	(42.8)	131.4	27.4
FDEPS (Rs)	5.6	3.2	6.1	7.7
Growth (%)	(28.0)	(42.8)	87.5	27.4

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	54.4	38.4	48.6	47.0
EBIT margin	53.6	37.2	47.5	46.1
Adj PAT margin	42.0	26.1	33.9	34.0
ROE	27.3	8.2	12.8	14.3
ROIC	8.8	4.6	9.6	11.4
ROCE	11.0	5.1	10.2	11.8

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 76	Rs 101	BUY	MEDIUM

BSE	NSE	BLOOMBERG
507878	UNITECH	UT IN

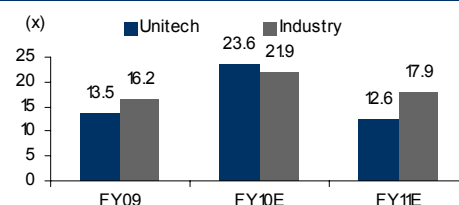
Company data

Market cap (Rs mn / US\$ mn)	199,612 / 3991
Outstanding equity shares (mn)	2,616
Free float (%)	56.2
Dividend yield (%)	0.7
52-week high/low (Rs)	547 / 22
2-month average daily volume	9,623,298

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Unitech	76	1.2	(12.2)	(22.9)
BSE Realty	3,498	2.8	(14.1)	(20.3)
Sensex	17,933	5.2	2.2	7.8

P/E comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	13.5	23.6	12.6	9.9
P/E @ Target	17.9	31.3	16.7	13.1
EV/EBITDA @ CMP	19.5	30.0	13.3	10.8




Fig 1 - Non-core entity valuation

Particulars (Rs mn)	Best case	Bear Case	Remarks
UCP (Knight Frank valuation)	14,081	11,265	20% discount to Knight Frank valuation (£ 517.7mn) in bear case
Amusement parks	5,000	4,320	Only factors in 1.2msf of the leased portfolio (1msf Noida and 0.2msf Rohini). Amusement park business not valued at present and hence holds upside potential
Telecom business	29,649	16,580	Best case based on Telenor valuation; Bear case based on cost of licence at the time it was acquired
Power business	1,000	800	Bear case at 20% discount
Construction business	1,141	856	4x and 3x of MCap/EBITDA for Best and Bear case respectively
Total value	50,871	33,821	
Per share value (Rs)	19.5	12.9	

Source: RCML Research



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	28,502	26,187	46,753	59,317
Growth (%)	(30.7)	(8.1)	78.5	26.9
EBITDA	15,493	10,050	22,701	27,903
Growth (%)	(29.7)	(35.1)	125.9	22.9
Depreciation & amortisation	209	320	481	544
EBIT	15,284	9,730	22,220	27,359
Growth (%)	(30.0)	(36.3)	128.4	23.1
Interest	5,546	2,231	3,003	2,703
Other income	4,641	850	935	1,029
EBT	14,378	8,349	20,152	25,684
Income taxes	2,424	1,837	4,736	6,036
Effective tax rate (%)	16.9	22.0	23.5	23.5
Extraordinary items	-	-	-	-
Min into / inc from associates	(34)	(333)	(420)	(530)
Reported net income	11,964	6,845	15,836	20,179
Adjustments	-	-	-	-
Adjusted net income	11,964	6,845	15,836	20,179
Growth (%)	(28.0)	(42.8)	131.4	27.4
Shares outstanding (mn)	1,623.4	2,616.2	2,616.2	2,616.2
FDEPS (Rs) (adj)	5.6	3.2	6.1	7.7
Growth (%)	(28.0)	(42.8)	87.5	27.4
DPS (Rs)	0.1	0.3	0.5	1.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	12,173	7,165	16,317	20,723
Non-cash adjustments	969	1,837	2,899	1,300
Changes in working capital	(10,784)	(17,116)	(6,561)	1,370
Cash flow from operations	2,358	(8,114)	12,655	23,393
Capital expenditure	(1,988)	(2,836)	(3,485)	(5,872)
Change in investments	(13,537)	2,278	-	-
Other investing cash flow	1,382	-	-	-
Cash flow from investing	(14,143)	(559)	(3,485)	(5,872)
Issue of equity	2,147	57,540	-	0
Issue/repay debt	1,263	(49,774)	(8,659)	(5,000)
Dividends paid	(475)	(239)	(153)	(306)
Other financing cash flow	1,215	385	-	-
Change in cash & cash eq	(7,635)	(760)	358	12,215
Closing cash & cash eq	6,448	5,688	6,046	18,261

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	14.8	15.5	15.5	15.5
ROIC (%)	8.8	4.6	9.6	11.4
Invested capital (Rs mn)	154,618	171,915	181,499	185,457
EVA (Rs mn)	(9,272)	(18,685)	(10,704)	(7,622)
EVA spread (%)	(6.0)	(10.9)	(5.9)	(4.1)

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	6,448	5,688	6,046	18,261
Accounts receivable	9,310	9,456	12,987	16,477
Inventories	157,756	166,874	195,455	157,354
Other current assets	28,674	30,659	38,961	57,669
Investments	15,808	13,531	13,531	13,531
Gross fixed assets	22,502	24,163	26,354	30,804
Net fixed assets	21,500	22,840	24,551	28,457
CWIP	11,758	12,933	14,227	15,649
Intangible assets	11,672	11,672	11,672	11,672
Deferred tax assets, net	(14)	(14)	(14)	(14)
Other assets	-	-	-	-
Total assets	262,913	273,640	317,416	319,056
Accounts payable	22,549	7,174	8,966	11,376
Other current liabilities	79,278	88,843	120,904	103,963
Provisions	297	1,990	5,042	6,648
Debt funds	108,480	58,706	50,047	45,047
Other liabilities	615	1,000	1,000	1,000
Equity capital	3,247	5,232	5,232	5,232
Reserves & surplus	48,448	110,694	126,224	145,791
Shareholder's funds	51,695	115,926	131,457	151,023
Total liabilities	262,913	273,640	317,416	319,056
BVPS (Rs)	31.8	44.3	50.2	57.7

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	54.4	38.4	48.6	47.0
EBIT margin	53.6	37.2	47.5	46.1
Net profit margin	42.0	26.1	33.9	34.0
ROE	27.3	8.2	12.8	14.3
ROCE	11.0	5.1	10.2	11.8
Working Capital & Liquidity ratios				
Receivables (days)	107	131	88	91
Inventory (days)	5,906	4,218	3,159	2,338
Payables (days)	624	386	141	135
Current ratio (x)	2.0	2.2	2.0	2.2
Quick ratio (x)	0.2	0.1	0.1	0.1
Turnover & Leverage ratios (x)				
Gross asset turnover	1.7	1.1	1.9	2.1
Total asset turnover	0.1	0.1	0.2	0.2
Interest coverage ratio	2.8	4.4	7.4	10.1
Adjusted debt/equity	1.0	0.5	0.4	0.3
Valuation ratios (x)				
EV/Sales	10.6	11.5	6.5	5.1
EV/EBITDA	19.5	30.0	13.3	10.8
P/E	13.5	23.6	12.6	9.9
P/BV	2.4	1.7	1.5	1.3



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	4,894	3,461	5,149	5,095	7,745
YoY growth (%)	(57.1)	(70.2)	(50.1)	(48.2)	58.3
QoQ growth (%)	(50.2)	(29.3)	48.8	(1.1)	52.0
EBITDA (Rs mn)	2,443	874	3,151	2,978	1,857
EBITDA margin (%)	49.9	25.3	61.2	58.5	24.0
Adj net income (Rs mn)	1,361	2,794	1,578	1,779	1,760
YoY growth (%)	(74.1)	(22.5)	(62.7)	(50.4)	29.4
QoQ growth (%)	(62.1)	105.3	(43.5)	12.7	(1.0)

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	80.4	83.2	82.0	78.6	78.6
Interest burden (PBT/EBIT)	94.7	94.1	85.8	90.7	92.8
EBIT margin (EBIT/Revenues)	53.1	53.6	37.2	47.5	46.1
Asset turnover (Revenues/Avg TA)	22.6	11.5	9.8	15.8	18.5
Leverage (Avg TA/Avg equity)	651.7	566.3	320.1	238.9	227.2
Return on equity	59.4	27.3	8.2	12.8	14.1

Company profile

Unitech is the second-largest developer in India with three decades of experience in infrastructure and real estate development. The company owns a land bank of 700mn sq ft (economic interest), which is well diversified and scheduled for development by FY21. Unitech has high exposure to high-growth metros such as Kolkata, Chennai, Hyderabad, Noida, and the NCR (70% exposure).

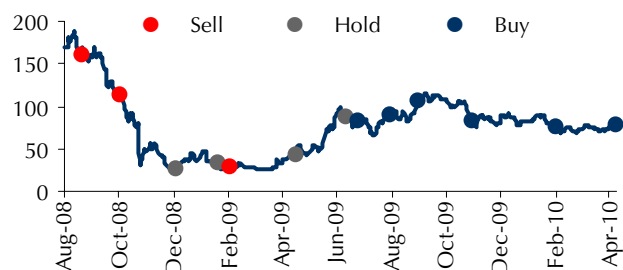
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	51.2	43.8	43.8
FIIIs	22.8	36.4	33.5
Banks & Fls	4.8	4.1	3.5
Public	21.2	15.7	19.2

Recommendation history

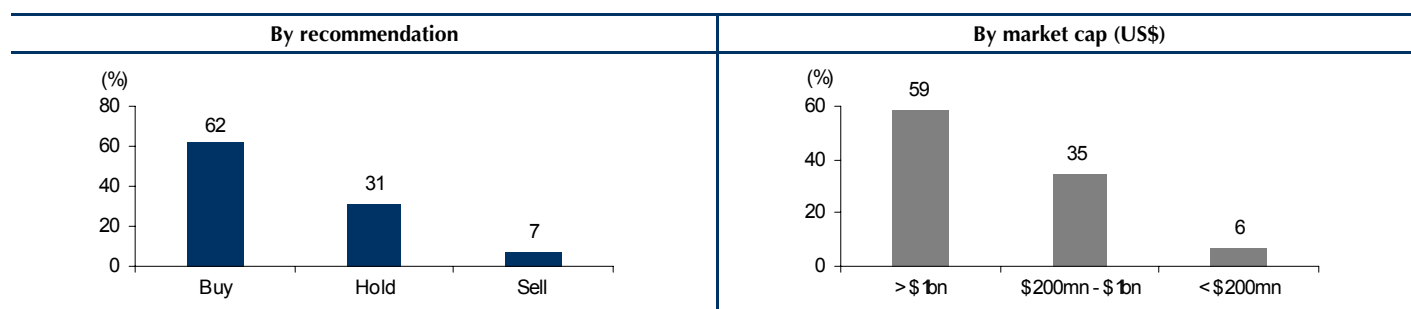
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	160	171	Sell
6-Oct-08	Quarterly Preview	112	105	Sell
5-Dec-08	Sector Report	24	34	Hold
20-Jan-09	Company Update	32	34	Hold
2-Feb-09	Results Review	29	26	Sell
17-Apr-09	Company Update	43	51	Hold
15-Jun-09	Sector Report	86	90	Hold
29-Jun-09	Results Review	82	101	Buy
3-Aug-09	Results Review	90	101	Buy
2-Sep-09	Company Update	103	123	Buy
31-Oct-09	Results Review	82	123	Buy
1-Feb-10	Results Review	76	123	Buy
9-Apr-10	Company Update	76	101	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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