Indiabulls

UNITECH LIMITED RESEARCH

EQUITY RESEARCH July 6, 2007

INITIATING COVERAGE

Share Data

Market Cap	Rs. 423.66 bn
Price	Rs. 521.95
BSE Sensex	14964
Reuters	UNTE.BO
Bloomberg	UT IN
Avg. Volume (52 Week)	1.09 mn
52-Week High/Low	Rs. 623.60/156.65
Shares Outstanding	811.68 mn

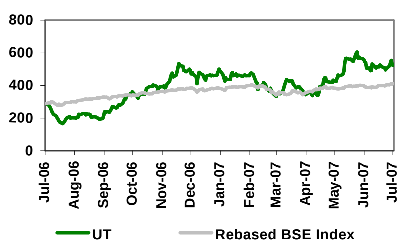
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	20.7	38.4
+/- (%)	28.4%	86.1%
PER (x)	25.3x	13.6x
EV/ Sales (x)	7.5x	4.4x
EV/ EBITDA (x)	14.1x	8.5x

Shareholding Pattern (%)

Promoters	74.6
FIIs	7.4
Institutions	0.3
Public & Others	17.7

Relative Performance



Unitech Limited — Buy

Wealth Creator

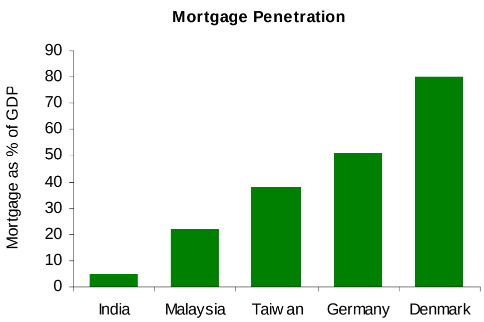
Unitech Limited (Unitech), the second largest real estate company in India, is in the purchase and development of real estate. It is the leading player in the NCR and Kolkata markets with a total land bank of 10,900 acres and development rights of 540 mn sq. ft. Unitech believes in 'Develop and Sell' model focusing primarily on the residential segment with appx. 70% share of total revenues. Currently, the company is focusing on suburbs of Tier I cities and is sitting on a huge land bank in Tier II cities to tap future growth. With a continued focus on residential segment and increasing presence in commercial, retail, and hospitality segments of real estate the company is in a strong position to tap the rising real estate demand.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	6,447	9,264	32,883	60,191	102,903	76.9%
EBITDA	923	1,967	21,019	31,972	52,939	58.7%
Net Profit	334	841	13,055	16,767	31,208	54.6%
Margins(%)						
EBITDA	14.3%	21.2%	63.9%	53.1%	51.4%	
NPM	5.2%	9.1%	39.7%	27.9%	30.3%	
Per Share Data (Rs.)						
EPS	0.4	1.0	16.1	20.7	38.4	54.6%
PER (x)	1324.2x	525.3x	32.4x	25.3x	13.6x	

- The company posted an exceptional rise in net sales for FY07 of 255% driven by huge residential demand and rising property prices. We expect the growth to slow down from the high level of FY07 as rising interest rates will affect demand in the short term; however we anticipate rise in demand by the end of FY08 or beginning FY09.
- Net profit is expected to grow at a CAGR of 54.6% over FY07-09E; however margins are expected to reduce from 39.7% in FY07 to 30.3% in FY09E due to restriction on cheaper overseas borrowings.
- The stock is trading at a forward P/E of 25.3x FY08E and 13.6x FY09E. We initiate coverage with a Buy with target price of Rs. 600 for FY08. Our target price is based on FY08 P/E of 29x and NAV estimate. Our valuation does not include the potential upside from SEZ business, due to lack of clarity on the plans and uncertainty on regulatory issues.

Investment Rationale



Strong residential demand - future growth driver

The residential sector is projected to have a demand of 80 to 90 mn dwelling units over the next 10 to 15 years, primarily driven by the rising middle and lower income groups, decreasing household size, urbanization and increasing mortgage penetration. The company has appx. 25 mn sq. ft. of residential projects under construction and 120 acres of land area designated for upcoming residential projects. Considering the fact that nearly 70 percent of the current revenues of the company is from the residential sector and with the continued focus on residential sector, we believe that the company will strongly benefit from the huge residential demand.

Spurt in Commercial real estate demand, driven by IT & ITES industry

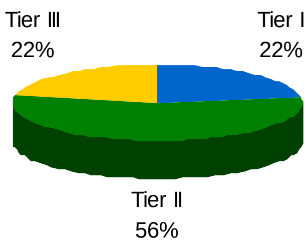
Poised to share growth in commercial real estate market

GDP of India has historically grown at an average rate of 8% for the past 3 years driven by booming service sector which contributes more than 50% to the GDP. The growth in service sector is primarily driven by IT/ITES sector which is driving the demand for office space in Tier I and Tier II cities. Unitech's expertise in commercial land development and strong relationship with global leaders who are occupants of its developed property will help it occupy a major share in the commercial retail space market. Currently, 21 mn sq. ft. of IT space is under construction by the company.

Increasing presence in the Hotel Industry

Major plans to boost presence in hotel industry

The hotel industry is expected to witness strong growth which is reflected by the demand – supply mismatch and rising occupancy costs; demand is expected to outstrip supply by 100% over the next 2 years. The company is targeting hotel development as an integral part of real estate projects. Currently, the company has land available for developing 27 hotels/ services apartments. It has also signed an agreement with Marriott for 832 rooms in the next three years and is in talks with additional properties with Marriott and other hotel chains. The company's focus will be on the development and construction of hotels and the management will be transferred to international operators. We think this is a prudent business strategy as it will help in maintaining focus on the core business activities and thus maximise returns.



Strong geographic presence to fuel further growth

With a diversified land bank across 13 cities the company is sitting at a landbank of more than 10,900 acres with a developable area of appx. 540 mn sq ft. The company has a strong presence in Tier I and Tier II cities which will ensure sufficient potential for future growth. With the exponential rise in rental rates in Tier I cities and no further signs of cooling off in the near term, companies have started to look beyond the traditional Tier I cities. This locational shift could provide a boost to commercial and residential real estate sector in Tier II and Tier III cities. Thus, we believe that Unitech is in a favourable position to leverage its geographically diversified land bank.

Favourable land bank acquisition strategy

Focus on suburbs of Tier I cities

Unitech follows a policy of avoiding open auction process for land acquisition. It acquires land by private negotiation in areas which the company thinks have future growth potential. The company also focuses on suburbs of key towns and cities. Recently, Unitech launched an ultra luxury residential project "Unitech Grande" in Greater Noida, spanning across 347 acres which it acquired for Rs. 15.8 bn (India's largest land deal) in May'06.

Capital efficient business model

Develop and Sell model – Capital efficient

Unitech focuses on high value added activities of the real estate value chain. It believes in 'Develop and Sell' model under which majority ownership is transferred during development phase. Under residential segment once the layout plans are approved, the developer launches the project for booking, thus reducing the working capital requirement. Under commercial segment, majority of ownership is transferred overseas to recently listed Unitech Corporate Parks plc and other outsiders thus making the capital rotation efficient.

Captive construction skills

The company has the benefit of leveraging its workforce from the construction business to develop its captive real estate projects; it is using its origin as a construction company to successfully scale-up its operations by redeploying the existing workforce for the captive projects.

A trusted brand name

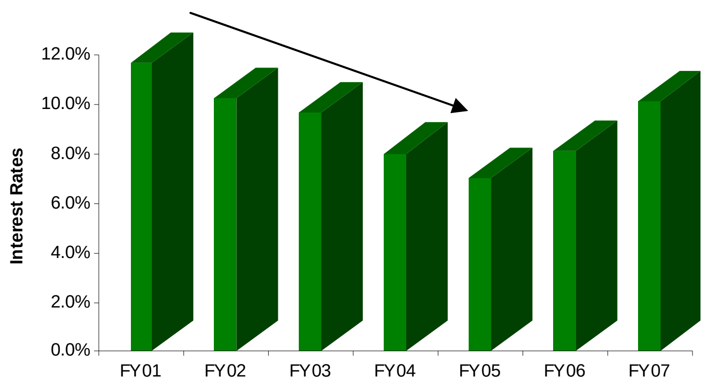
Unitech is a leading developer with over 30 years of experience in the industry. The company enjoys a strong brand name and a high level of customer satisfaction based on superior designs and timely execution. This enables the company to command a premium over its properties.

Key Risks

Further tightening of Interest rates

Hike of over 300 bps in PLR in the last 2-3 years

RBI's annual monetary policy increased the CRR and Repo rates on home loans which had the effect of banks passing on their burden to the borrowers. The private sector banks increased the average floating interest rates on housing loans from 10.5% to 12.75% and fixed interest rates from 12% to 13.5% since last quarter. Although late, public sector banks also hiked the floating interest rate to 10.75% and fixed rate to 12.5%. The hike in interest rates has its effect on the slow down in residential demand. Any further rise in interest rates will cause the residential demand to fall further thus effecting company's top line growth.



Increase in scope of Service tax coverage

Imposition of service tax on commercial real estate of 12.36%

Budget 2007 imposed a service tax on commercial real estate of 12.36% which is expected to further hike the rental rates. The real estate sector is already overburdened with taxes and any new imposition or even an increase in the scope of coverage is likely to have a negative impact to the already increased rentals and in turn will slow down the demand for commercial properties.

Borrowing costs expected to increase by 300-500 bps

Restricting overseas borrowings

Recently, the finance ministry by a ruling enforced a restriction on overseas borrowings which is expected to raise the borrowing costs by 300-500 bps. Credit restrictions will negatively affect the future acquisition and development plans, which will delay revenue generation and hence our estimates.

Change in FDI regulations

The allowance of 100% FDI in the real estate had a tremendous impact on the rapid growth in real estate. A lot of foreign investors are looking for investment opportunities in India and this sector provides a secure investment option. Any negative change in the FDI policy will affect the money supply and thus lower the future development of the sector.

Rise in cement and steel prices

The construction sector is primarily dependent on the cement and steel industry for the supply of raw materials. With the rise in the cement prices during the last 2-3 years, the cost of construction has risen sharply which has in turn affected the profitability of the company. We are expecting the cement prices to remain firm in the near future, however any further upside would negatively impact the bottom line and therefore our estimates.

Delay in completion of planned projects

The company is in to the development of app. 65 mn sq. ft. of which 70% is residential. The delay in completion will raise the project costs and revenue recognition which will affect the topline and profitability of the company.

Overall decline in Indian economy

For the past three years the Indian economy is growing at an average rate of 8%. Though, the economy is estimated to grow at a rate of over 8% in the near future, any slow down will have a ripple effect on the real estate construction industry.

Outlook

Earnings are expected to grow at a CAGR of 54.6% over FY07-09E

Real estate is expected to grow at a rate of 30% p.a. driven by strong GDP growth, rising middle class, rapid urbanisation, easy availability of credit and improving transparency. With the recent rise in interest rates and tightening of liquidity the growth is expected to slow down in the near term; however, in the long term the sector will continue to grow. The company with its capital efficient business model, strong land bank acquisition strategy with continued focus on residential segment and substantial land reserves in Tier I and Tier II cities is well positioned to tap the growing opportunity in real estate market. We expect that the company's strong brand equity and consistent track record will enable it to command a premium over its peers.

Based on the relative valuation (FY08 P/E 29x) and NAV estimate we value Unitech at of Rs. 600 per share and initiate coverage with Buy.

Industry Overview

Second largest employer next only to agriculture

Real estate sector in India is estimated to be valued at USD 12 bn in 2005 and is expected to be growing at a rate of 30% p.a. Almost 80% of real estate developed in India is residential space and the rest comprise office, shopping malls, hotels and hospitals. Five percent of the current GDP is contributed by the housing sector and in 3 to 5 years this contribution is expected to rise to 6%. The importance of the real estate sector as an engine of nation's growth can be gauged from the fact that it is the second largest employer next only to agriculture.

Strong potential in terms of value addition and contribution to GDP

The real estate industry has significant linkages with several other sectors of the economy and over 250 associated industries. One rupee invested in this sector results in 78 paise being added to the GDP. A unit increase in expenditure has a multiplier effect and a capacity to generate income as high as five times. If the economy grows at a rate of 10% the real estate sector has the capacity to grow at a rate of 14% and generate 3.2 mn new jobs over a decade. This shows the capacity and promise that the sector holds in the development of the economy.

KEY DEMAND DRIVERS

Residential	Office/ IT Parks	Retail	Hotel	SEZ's
• Demographics • Urbanization • Rising Income levels • Access to finance • Fiscal incentives	• Most attractive destination for IT & ITeS services • Demand from other sectors is growing	• India is the most attractive retail destination • Organized retail gaining share • Relaxation of FDI regime	• Buoyant economic growth & FDI driving business travel • India expected to be among top tourist destinations by 2020	• Govt. introduced SEZ policy to boost economic activity/exports • Transformational opportunity for real estate developers

Source: Company data

Future growth drivers

The future of real estate sector in India is going to be guided by two important factors, namely suitable amendments in the FDI guidelines and modifications in the Service Tax regime. Currently, service tax in relation to construction of residential complexes (having more than 12 houses) has been imposed. The sector is currently overburdened with taxes, and any further imposition of taxes in any form would adversely affect the growth of the sector.

Company Background

Unitech Limited (Unitech) is a leading real estate company established in 1972. The company is in to the purchase and development of real estate and is the leading player in the NCR and Kolkata markets.

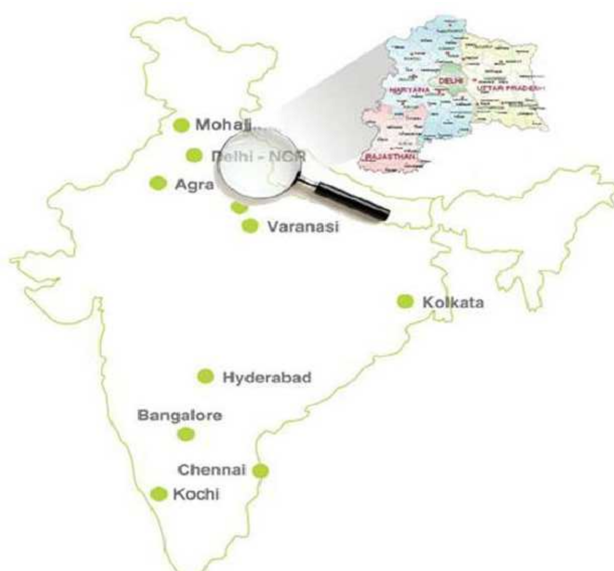
Unitech is the first to achieve ISO 9002 certification for design, planning, construction and marketing of Real estate in North India.

Focus on building pan India presence

Company has a diversified product mix of Residential, Office/ IT parks, Retail malls, Amusement parks, Hotel/ Convention centres, and SEZs with strong focus on the Residential segment.

The company has the strategy to establish a pan India presence with a focus on markets experiencing strong economic growth such as Bangalore, Chennai, Kochi, Hyderabad, Kolkata, Varanasi, Mohali and Agra.

Company has a geographically diversified land reserve of over 10,900 acres with a developable area of appx. 540 mn sq.ft.



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