

Unitech Ltd

What's the land value? At least Rs 62/share, in our view.

What's your land worth? The discrepancy between UT's stock price and inherent land valuation is wide at the moment. Vs. Sep-10 even as the stock has declined 60%, physical prices in two of its key markets Gurgaon / Noida have been heading northwards. **Marking only two prime land holdings on the company's book to market (conservatively), we estimate land value at Rs192B or a 1.7x multiple on its land cost. This is over a 4-5 year holding period implying a 12% CAGR inflation. Net of liabilities this translates into a value of Rs 62/Share.** The stock then is trading at a 40% discount to its land value, which we believe is **CHEAP**. Upgrade to OW.

- **In calculating the land value, we have re-valued just two large parcels in the company's portfolio, viz.** 1) 900 acres of high value land parcels along the company's traditional stronghold of Sohna Road, Gurgaon region. (Land transactions at Rs 35-100MM/Acre vs. Book value Rs 15MM/Acre) and 2) Noida land holdings especially on its 350 acre parcel in Noida (Grande). This is a prime piece of land, 20 minutes away from South Delhi, but where monetization has remained slow. Transaction rates around this parcel have ranged from Rs130-200MM/Acre (Book value Rs 49MM/Acre).
- **Liquidity is not really a issue** with the company having pre-sold approx. Rs 95B of property over the last two years (FY10/11). We estimate UT has yet to receive Rs 30B cash flows from these (net of construction/taxes). This coupled with its annuities of Rs2B should cover large part of its repayments, implying no stress in the business.
- **Earnings ramp up will be the key trigger**- UT's bookings run rate over the last two years has been at Rs10-12B per Q. However, revenue recognition from RE continues to lag at Rs5.5B per Q. As FY11/12 projects contribute to revenues progressively over FY12E, we forecast earnings ramp up can be meaningfully high (JPM FY12E +90% Y/Y).
- **Upgrade to OW, Mar-12 TP Rs 60/share**, based on 10x FCFE and in line with current land value estimate. The upgrade is primarily due to the removal of discount on FV given issues on telco (25% previously). While there is still no clarity on it, newsflow on the same has started to subside.

Unitech Ltd (Reuters: UNTE.BO, Bloomberg: UT IN)

Rs in , year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E	Shares O/S (mn)	2,614
Revenue (Rs mn)	28,502	29,313	29,033	46,075	54,157	Market cap (\$ mn)	2,119
Net Profit (Rs mn)	12,010	6,751	6,259	11,903	14,627	Price (Rs)	36.45
EPS	7.4	2.8	2.4	4.6	5.6	Date Of Price	22 Mar 11
Net debt to Equity	162.7%	51.4%	38.5%	28.7%	19.5%	3mth Avg daily volume (mn)	38.28
EPS growth (%)	-27.7%	-62.6%	-13.5%	90.2%	22.9%	3M - Average daily Value (Rs mn)	1,636
ROE	27.4%	8.8%	5.7%	9.8%	11.1%	Average 3m Daily Turnover (\$ mn)	36.39
P/E (x)	4.9	13.2	15.2	8.0	6.5	BSE30	17,988
P/BV (x)	1.1	0.9	0.8	0.7	0.7	Exchange Rate	44.96

Source: Company data, Bloomberg, J.P. Morgan estimates.

▲ Overweight

Previous: Neutral

UNTE.BO, UT IN

Price: Rs36.45

▲ Price Target: Rs60.00

Previous: Rs45.00

India

India Real Estate

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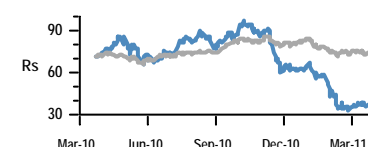
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J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-45.3%	4.1%	-42.3%	-49.0%
Rel	-32.8%	5.8%	-32.2%	-52.3%

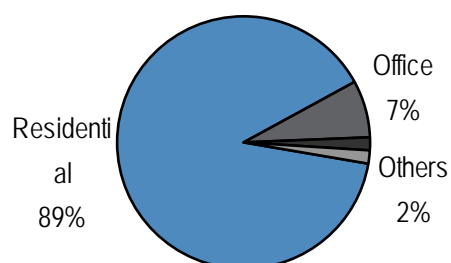
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Company Description

Unitech is one of the largest residential real estate developers in India. The company has developed 1,200 acres of land in five townships with over 12mqft of real estate development in the last three years. Historically, the company has focused on the NCR but has recently successfully ventured into Kolkata as well.

GAV break up by asset class



Source: Company, J.P. Morgan estimates

EPS:J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	2.4	2.9
FY12E	4.6	3.8

Source: J.P. Morgan estimates, Bloomberg

Valuation and EPS sensitivity metrics

	NAV impact (%)	EPS impact (%)
Price growth post FY10		
Impact of each 5% point change	5%	4%
Cap rate assumption		
Impact of each 1% point change	4%	3%

Source: J.P. Morgan estimates

Price target and valuation analysis

Upgrade to OW, Mar-12 TP Rs 60/share, based on 10x FCFE and in line with the current land value. The upgrade is primarily due to removal of discount on FV given issues on telco (25% previously). While there is still no clarity on it, newsflow on the same has started to subside.

Key downside risks to our PT include:

1. Slowdown in contract sales and execution delays
2. Impact of rate increases on residential demand
3. Newsflow around the ongoing telecom issue

Land value estimated at Rs 62/share

In calculating Unitech's MTM land value, we have re-valued just two large parcels of company's land portfolio, viz. 1) 900 acres of high value land parcels along company's traditional stronghold of Sohna Road, Gurgaon region. (Land transactions at Rs 35-100MM/Acre vs. Book value Rs 15MM/Acre) and 2) A large 350 acre parcel in Noida. This is a prime piece of land, 20 minutes away from South Delhi, but where monetization has remained slow. Transaction rates around this parcel have ranged from Rs 130-200MM/Acre (Book value Rs 49MM/Acre).

Table 1: MTM valuation for Unitech's land

	On book	MTM	Multiple (x)	Comment
Gurgaon				
Sohna Road and others (860 acres)		43,000		Cost on book at Rs 13MM/Acre vs market Value of Rs 35MM to Rs 10MM/Acre.
Karma Lakelands (125 acres)		8,750		Value of large (100 acre+) contiguous land parcels is Rs 70-100MM/acre
Manesar (230 acres)		4,600		Land cost includes licenses on book
Total	25,000	56,350	2.3	Of Rs 12B. Premium for licensed township land is very high
Noida				
Grande (350 acres)		52,500		Most of the revaluation comes from Grande Parcel (350 acres) which the co acquired in in 2005 for Rs 17B
Sec 113 and Expressway (100 acres), Recent 58 acres acquisition		13,580		
Unihomes noida greater noida (320 acres)		4,800		Land rates in the surrounding region
On book cost	30,000	70,880	2.4	Transact at Rs 130-200MM/Acre.
Less unpaid	(23,000)	(23,000)		
Total value	7,000	47,880	6.8	
Other parcels at 1x cost	55,000	55,000	1.0	Mostly relate to Chennai/ Hyd and rest of India parcels. Co. trying to monetize the same With Unihomes but progress there is slow At Knight Frank's valuation
UCP (60% portfolio stake) MTM		9,360		
Total land Value	87,000	168,590	1.9	
Cash flows from pre sold assets over FY10/11		29,610		
Value of pre sold assets over 4 years		19,986		
NPV of annuities		18,182		
Total		38,168		
Net debt		(45,000)		
Net Value		(6,832)		
Total equity value		161,758		
Per share		62		

Source: Company reports and J.P. Morgan estimates.

What's driving returns? A Du pont analysis of land bank

A simple returns (ROCE) and Du pont analysis of UT's returns shows that

1. Gurgaon region is the current cash cow in the company, driving over 70% of the EBITDA.
2. Noida's Grande parcel (large MTM value but low monetization) could be a future earnings driver, but near term faces competition from Jaypee, in our view. While UT has created value here just by sitting on land, better monetization may help the market better understand the potential of this asset.
3. In the rest of India, parcels (Hyd/ Chennai etc) is where the main problem lies. While the company has approx Rs 55B land cost on these, EBITDA contribution of the same is sub 10%. The returns here could be scaled up using Unihomes model. However as of now the scale up is not as high as we would like it to see. Even assuming a 14% ROCE as base case, we estimate the company needs to generate Rs 7B as EBITDA. Assuming an average ASP of Rs2,200 psf and margins of 20%, we forecast under Unihomes the company needs to sell close to 16 msf just to achieve that. Against this the company's current sales run rate is around 3-4 msf only.

Table 2: Du pont analysis of UT's ROE

	ROCE EBITDA/Assets	Sales /Assets	Assets/equity	PAT/ Sales	ROE
Overall business	12%%	0.25	1.4	30%	10%
Gurgaon	30%	0.66	1.5	29%	29%
Noida***	9%	0.20	1.2	28%	6%
Rest of India	2%	0.07	1.7	-26%	-3%
Other business	12%	0.34	1.3	23%	10%

Source: Company reports and J.P. Morgan estimates. In Noida UT has Rs 23B unpaid land given deferred land scheme. We have assumed that as part of total assets. UT pays interest on the deferred payments

JPM Q-Profile
Unitech Ltd. (INDIA / Financials)

As Of: 18-Mar-2011

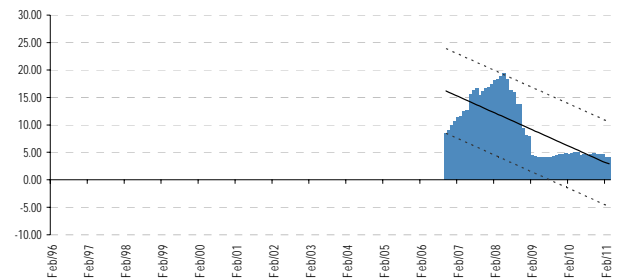
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

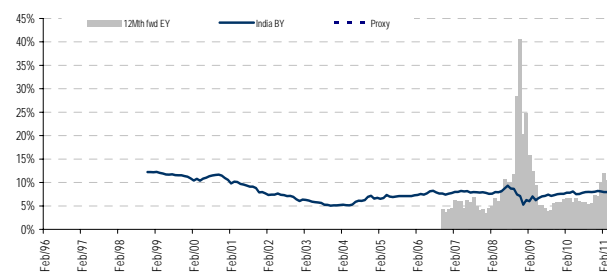
Local Share Price Current: **38.40**



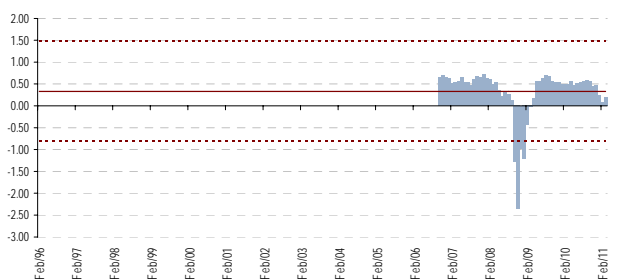
12 Mth Forward EPS Current: **4.06**



Earnings Yield (& local bond Yield) Current: **11%**



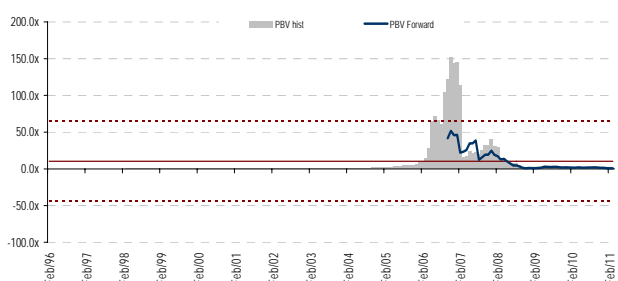
Implied Value Of Growth* Current: **18.51%**



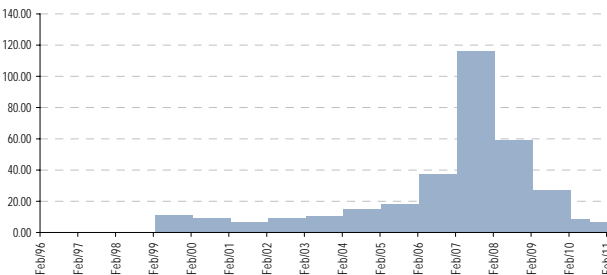
PE (1Yr Forward) Current: **9.5x**



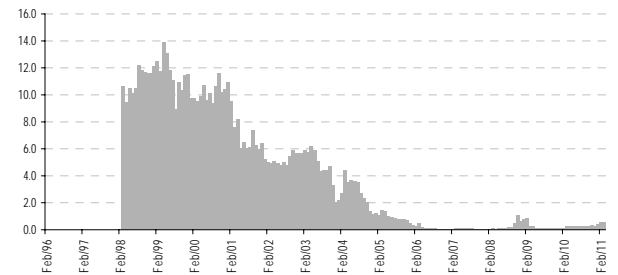
Price/Book Value Current: **0.9x**



ROE (Trailing) Current: **6.73**



Dividend Yield (Trailing) Current: **0.59**



Summary

Unitech Ltd.										As Of:		18-Mar-11	
INDIA										Local Price:		38.40	
SEDOL B17MRV5										EPS:		4.06	
Financials													
	Latest	Min	Max	Median	Average	2 S.D. +	2 S.D. -	% to Min	% to Max	% to Med	% to Avg		
12mth Forward PE	9.47x	2.46	28.87	16.57	15.88	28.19	3.58	-74%	205%	75%	68%		
P/BV (Trailing)	0.88x	0.30	151.56	0.99	10.30	64.49	-43.89	-66%	17160%	13%	1073%		
Dividend Yield (Trailing)	0.59	0.04	13.86	2.08	4.05	12.69	-4.58	-93%	2250%	253%	587%		
ROE (Trailing)	6.73	6.73	115.89	11.01	27.11	88.38	-34.15	0%	1621%	63%	303%		
Implied Value of Growth	18.5%	-2.36	0.73	0.53	0.33	1.48	-0.81	-1376%	294%	188%	79%		

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = $(1 - EY / \text{Cost of equity})$ where cost of equity = Bond Yield + 5.0% (ERP)

Unitech Ltd: Summary of Financials

Profit and Loss Statement					Cash flow statement				
Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E	Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E
Revenues	28,502	29,313	29,033	46,075	EBIT	15,284	10,371	10,076	18,619
% change Y/Y	(30.7%)	2.8%	(1.0%)	58.7%	Depr. & amortization	209	341	320	384
EBIT	15,284	10,371	10,076	18,619	Change in working capital	-9,717	-16,295	-10,556	-2,819
% change Y/Y	NM	NM	NM	84.8%	Others	-535	-437	-413	-45
EBIT margin (%)	53.6%	35.4%	34.7%	40.4%	Cash flow from operations	7,459	-7,444	-2,478	11,719
Net Interest	-846	-1,160	-680	-1,550	Capex	-965	-5,433	-150	-150
Earnings before tax	14,425	9,206	9,396	17,069	Disposal/(purchase)	-	-	-	-
% change Y/Y	-30.4%	-36.2%	2.1%	81.7%	Net Interest	-5,500	-2,000	-1,500	-2,250
Tax	-2,437	-2,264	-2,725	-5,121	Free cash flow	6,494	-12,877	-2,628	11,569
as % of EBT	107.4%	116.4%	110.6%	111.3%	Equity raised/(repaid)	0	46,202	352	0
Net income (reported)	12,010	6,751	6,259	11,903	Debt raised/(repaid)	5,034	-30,480	-2,078	-11,000
% change Y/Y	-27.7%	-43.8%	-7.3%	90.2%	Other	-16,885	953	11,809	-0
Core net profit	12,010	6,911	6,634	11,903	Dividends paid	-162	-488	-523	-1,046
% change Y/Y	-27.7%	-42.5%	-4.0%	79.4%	Beginning cash	17,468	6,448	7,758	13,191
Shares outstanding	1,623	2,439	2,614	2,614	Ending cash	6,448	7,758	13,191	10,464
EPS (reported)	7.40	2.77	2.39	4.55					
% change Y/Y	(27.7%)	(62.6%)	(13.5%)	90.2%					
Balance sheet					Ratio Analysis				
Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E	Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E
Cash and cash equivalents	6,448	7,758	13,191	10,464	EBIT Margin	53.6%	35.4%	34.7%	40.4%
Accounts receivable	9,310	12,670	11,260	11,578	Operating margin	53.6%	35.4%	34.7%	40.4%
Inventories	157,756	172,070	188,426	194,302	Net margin	42.1%	23.0%	21.6%	25.8%
Others	34,895	31,558	36,558	41,558	Sales growth	(30.7%)	2.8%	(1.0%)	58.7%
Current assets	208,410	224,057	249,435	257,901	Net profit growth	-27.7%	-43.8%	-7.3%	90.2%
Investments	9,587	10,764	10,764	10,764	EPS growth	(27.7%)	(62.6%)	(13.5%)	90.2%
Net fixed assets	33,258	33,581	33,411	33,177	Interest coverage (x)	18.32	9.23	15.29	12.26
Total Assets	262,927	283,666	308,873	317,105	Net debt to total capital	63.8%	34.4%	26.7%	21.0%
Liabilities					Net debt to equity	162.7%	51.4%	38.5%	28.7%
Current Liabilities	0	0	0	0	Sales/assets	0.11	0.11	0.10	0.15
Others	102,124	101,211	110,599	118,974	Assets/equity	5.03	2.66	2.66	2.49
Total current liabilities	102,124	101,211	110,599	118,974	ROE	27.4%	8.8%	5.7%	9.8%
Total debt	90,558	60,078	58,000	47,000	ROCE	11.6%	6.8%	6.0%	10.7%
Other liabilities	17,936	17,953	23,653	23,653					
Total Liabilities	210,618	179,242	192,253	189,627					
Shareholders' equity	51,695	101,798	116,247	127,105					
BVPS	31.84	41.74	44.47	48.62					

Source: Company reports and J.P. Morgan estimates.

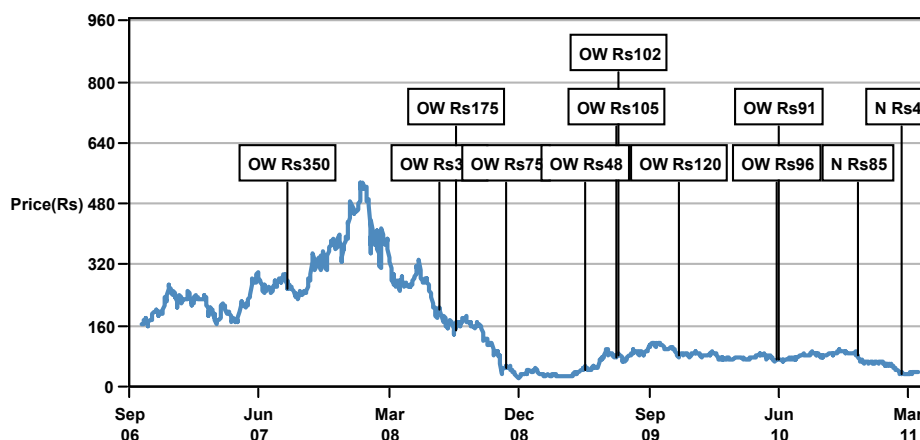
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Unitech Ltd (UNTE.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
01-Aug-07	OW	257.18	350.00
18-Jun-08	OW	200.25	330.00
21-Jul-08	OW	149.20	175.00
02-Nov-08	OW	49.00	75.00
17-Apr-09	OW	43.35	48.00
25-Jun-09	OW	78.00	105.00
28-Jun-09	OW	82.35	102.00
01-Nov-09	OW	82.25	120.00
30-May-10	OW	73.50	96.00
01-Jun-10	OW	69.00	91.00
15-Nov-10	N	79.45	85.00
15-Feb-11	N	34.95	45.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

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IB clients*	53%	50%	38%
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IB clients*	71%	63%	59%

*Percentage of investment banking clients in each rating category.

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