31 May 2011

Sell

Target price
Rs72.00

Price
Rs34.55

Equity | India | Real Estate Mgmt & Devl

Flashnote

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Unitech

Weak 4Q; company remains optimistic

4Q11 EBITDA declined c990bps yoy on account of few large projects having negligible EBITDA contribution. While 4Q sales booked and FY12 sales guidance of Rs50bn (+16% yoy) is encouraging, margins could remain muted as proportion of Tier II cities is increasing. Increasing debt and receivables are other concerns.

Margin pressure results in earnings disappointment

- Unitech reported 4Q11 revenues of Rs10.5bn (-5% yoy, +60% qoq) compared to our estimate of Rs6.9bn. Unitech management stated that about Rs4.5-5bn of revenues were driven by projects like Grande and Greater Noida plots and Grande apartments (post the latter being repriced from Rs7,200psf to Rs4,500psf) which had negligible impact on EBITDA. Management commented that these projects were launched during the financial crisis to generate cashflows and are now getting recognized in the income statement subsequent to the revenue recognition threshold being met.
- EBITDA declined 47% yoy to Rs1.3bn. EBITDA margin contracted 990bps yoy to 12.4% vs. the 35-39% margin seen in the past three quarters due to the three large projects with negligible EBITDA contribution as discussed above.
- Unitech reported PAT (ex-prior period items) of Rs630m (-65% yoy) vs. our Rs1.5bn estimate. Unitech's FY11 reported PAT were 70% of our FY11 estimates.

Operational highlights - aggressive launch momentum seen

- Unitech launched 4.3msf during the quarter (10.4msf in FY11) and sold c2msf (9.2msf in FY11). The value of sales booking during the quarter was Rs9.8bn (Rs43.2bn in FY11). Unitech has aggresively launched over 6msf since January 2011 spread across 16 projects as a part of their strategy to launch 10msf.
- Gurgaon continues to be its focus area accounting for 32% and 42% of launch and sales volumes during the quarter. For the year, it represented 37% and 48% of launch and sales volume respectively. The company delivered 1.3msf of its past projects (projects launched prior to March 2009) with 12.7msf still pending delivery.

Balance sheet update - auditors comment on receivables and debt repayment

- Unitech's net debt increased 17% qoq to Rs 54bn with net gearing increasing from 40% as at

(Continued on page 2)

Trends in interims

	4Q10	1Q11	2Q11	3Q11	4Q11	% YoY	% QoQ
Revenues (Rsm)	**11,074**	**8,286**	**6,445**	**6,598**	**10,542**	**-5%**	**60%**
EBITDA (Rsm)	2,475	2,938	2,528	2,463	1,309	-47%	-47%
EBITDA margin	22.3%	35.5%	39.2%	37.3%	12.4%	-993 bps	-2492 bps
Interest expense (Rsm)	323	340	439	340	335	4%	-1%
PBT (Rsm)	2,493	2,660	2,305	2,229	1,322	-47%	-41%
Tax rate	28.0%	31.4%	24.5%	33.2%	42.8%	1481 bps	962 bps
Core PAT (Rsm)	1,794	1,802	1,735	1,486	630	-65%	-58%
Core EPS	**0.8**	**0.7**	**0.7**	**0.6**	**0.2**	**-68%**	**-59%**
Net debt (Rsm)	52,810	51,570	51,736	46,160	53,998	2%	17%
Net gearing (%)	52%	48%	47%	40%	47%		
Area launched (msf)	1.78	2.76	1.82	1.57	4.29	141%	173%
Area sold (msf)	3.50	3.01	1.98	2.20	1.97	-44%	-10%
Value of sales booked (Rsm)	14,800	12,980	10,140	10,360	9,760	-34%	-6%

Source: Company data, RBS estimates

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31st Dec 2010 to 47% as at 31st March 2011. As per note to accounts, Unitech's auditors without qualifying have drawn attention to the delays in repayment of dues to banks and financial institutions. The company has attributed this to the slowdown in the real estate business and is hopeful to meet its future obligation in time.

- Auditors have also raised questions on advances against project pending commencement and advances recoverable. Management maintains such advances are in normal course of the business and even though unsecured and unconfirmed are considered to be good.
- As against a 10% yoy increase in FY11 revenues to Rs31.9bn, debtors have increased 69% yoy to Rs21.5bn due to its aggressive launches and revenue recognition policy. Management took note of auditor's observations regarding inadequate provisions against non realisation of receivables. Unitech states they have been setting tighter control measures on debtors and are confident of realisations as its customers have seen good price appreciation on their properties

Key takeaways from our management contact

- Guidance: Encouraged by the healthy response to its recently launched projects across cities, Unitech guides to sales bookings of Rs50bn for FY12 compared to Rs43.2bn in FY11. EBITDA margins could however be muted (FY11 margins were at 29%) as contribution from Tier II cities would increase, in our view.
- It also states there is no one-time provision for cost escalation (as was seen in DLF 4Q11 interims). Unitech had accounted for the cost escalation in 3Q-4Q10 where it reported OPM of 22-24%, post which have been accounting for cost revisions every quarter and hence there are no one-time provisions
- Staff costs during the quarter increased 69% yoy and 52% qoq due to provisions of gratuity and bonuses for employees. Tax rate was also higher at 42.8% due to losses in their SPVs (last quarter one of its SPV sold an aircraft at a loss) not being set-off against profits
- Debt repayment: Debt Repayment for FY12F is about Rs10bn - of which it plans to repay half by generating cashflows from its projects (have sold projects worth Rs10bn in 4Q) and the other half through refinancing. It admitted that it is challenging to avail/refinance credit for the real estate sector but expects it to the situation to ease in the next 3-6 months.
- Telenor update: Unitech states there has been no update from the court in terms of determining the date of hearing with respect to its MD getting bail and further clarified that the ongoing telecom matter pertains to Unitech Wireless Tamilnadu Pvt. Ltd. (Uninor), which is a separate legal entity engaged in the telecom business, and will not impact Unitech Limited (the real estate company).

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Net rental income	0.00	0.00	0.00	0.00	0.00
Prop development income	28502	28874	31997	42688	56458
Other revenue	0.00	0.00	0.00	0.00	0.00
Total property income	**28502**	**28874**	**31997**	**42688**	**56458**
Other costs	-13009	-18602	-19605	-25850	-34235
EBITDA	15493	10272	12392	16837	22222
DDA & Impairment (ex gw)	-209.2	-341.1	-352.6	-410.5	-471.9
EBITA	15283	9931	12039	16427	21751
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**15283**	**9931**	**12039**	**16427**	**21751**
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Net interest	-5546	-2000	-1870	-2286	-2339
Other pre-tax items	4654	1279	910.0	755.0	820.0
Reported PTP	**14392**	**9210**	**11079**	**14896**	**20232**
Taxation	-2437	-2424	-2881	-4022	-5665
Minority interests	21.4	-31.4	-37.6	-45.2	-54.2
Other post-tax items	-12.4	-4.85	14.0	12.0	12.0
Reported net profit	**11964**	**6751**	**8175**	**10841**	**14525**
Dividends declared	-204.4	-855.1	-503.6	-629.5	-755.4
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	15493	10272	12392	16837	22222
Normalised PTP	14392	9210	11079	14896	20232
Normalised net profit	11964	6751	8175	10841	14525

Source: Company data, RBS forecasts — year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	6448	6095	8852	3785	4167
Props under dev	n/a	n/a	n/a	n/a	n/a
Other current assets	195740	216299	231300	248556	266304
Investment prop	n/a	n/a	n/a	n/a	n/a
Other non-current assets	60738	61271	69355	73537	75564
Total assets	**262927**	**283666**	**309507**	**325879**	**346035**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Long term debt (3)	90558	60078	64578	66078	67578
Other liabilities	120059	119164	115259	120026	125041
Total liabilities	**210618**	**179242**	**179837**	**186104**	**192619**
Total equity (incl min)	52309	104424	129671	139775	153416
Total liab & sh equity	**262927**	**283666**	**309507**	**325879**	**346035**
Net debt	84110	53983	55726	62293	63411

Source: Company data, RBS forecasts — year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	15493	10272	12392	16837	22222
Change in working capital	-12549	-21472	-17907	-10489	-10733
Net interest (pd) / rec	-891.6	-720.6	-959.8	-1531	-1519
Taxes paid	-2437	-2424	-2881	-4022	-5665
Other oper cash items	132.2	0.64	0.00	0.00	0.00
Cash flow from ops (1)	**-252.4**	**-14344**	**-9355**	**795.4**	**4306**
Capex (2)	-2157	-664.9	-2894	-6455	-2498
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-12181	-246.0	-5566	1828	-42.2
Cash flow from invest (3)	**-14338**	**-910.9**	**-8460**	**-4627**	**-2540**
Incr / (decr) in equity	3965	46541	17661	0.00	0.00
Incr / (decr) in debt	5035	-30480	4500	1500	1500
Ordinary dividend paid	-239.2	-936.1	-589.2	-736.5	-883.8
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-1804	-223.5	-999.9	-2000	-2000
Cash flow from fin (5)	**6956**	**14901**	**20572**	**-1236**	**-1384**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-7634**	**-353.0**	**2757**	**-5068**	**381.8**
Equity FCF (1+2+4)	-2410	-15008	-12249	-5659	1808

Lines in bold can be derived from the immediately preceding lines. — year to Mar
Source: Company data, RBS forecasts

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.
Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.
Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.
Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.
Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 30 May 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	788 (13)	512 (3)
Hold	412 (7)	229 (2)
Sell	90 (2)	56 (0)
Total (IB%)	1290 (10)	797 (2)

Source: RBS

Trading recommendations (as at 30 May 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	3 (0)	3 (0)
Trading Sell	2 (0)	2 (0)
Total (IB%)	5 (0)	5 (0)

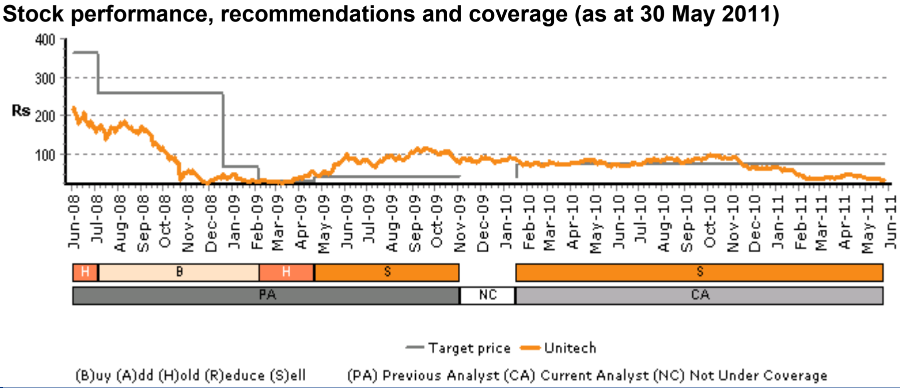
Source: RBS

Valuation and risks to target price

Unitech (RIC: UNTE.BO, Rec: Sell, CP: Rs34.55, TP: Rs72.00): Our target price is derived by valuing the real estate business on a March 2012F DCF-based approach (post a 25% discount). Downside risks include Unitech being implicated in the 2G Telecom scam and lower-than-anticipated sales and execution performance.

Unitech coverage data (UNTE.BO, UT IN)

Stock performance, recommendations and coverage (as at 30 May 2011)



Prakash Agarwal started covering this stock on 18 Jan 10. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 30 May 2011)

	(1M)	(3M)	(12M)
Price (Rs)	36.95	33.85	73.50
Absolute (%)	-6.5	2.1	-53.0
Rel market (%)	-1.9	-0.2	-56.5
Rel sector (%)	-3.7	2.5	-59.0

Source: Bloomberg
Market: Sensex
Sector: Real Estate Holding & Development

Regulatory disclosures

None

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