

31 May 2010

**“Strong Volumes ; margins impact due to high cost”**

- Unitech reported consolidated profit at Rs 1.82bn for Q4FY10 was lower than our estimate of Rs 2bn on account of steep rise in construction cost of old projects resulting in to steep decline in margins.
- **Volumes uptick ; profit decline with rise in cost:** Unitech reported revenue of Rs11.3bn were higher than our estimates of Rs 10.3bn due to higher average realisation from sale of properties and strong demand witnessed for sale of affordable housing. EBIDTA margins decline in Q4FY10 to 26% due to higher raw material cost and high interest capitalisation.
- **Debt declined steeply:** Gross debt declined to Rs60bn in Q4FY10 from Rs90bn in Q4FY09 due to repayment of debt from new launch of properties and utilisation of proceeds of QIP. We estimate debt in FY11 likely to decrease to Rs58bn with further repayment from cash generated from operations. Average cost of debt at the end of FY10 is 12.5%.

**Valuation & Recommendation:** We retain our BUY rating on the stock with a revised price target of Rs107/ share from. Further with demerge entity approved from court we would revalue the company separately. However our current value encompasses the value of assets which are likely to be demerged from Unitech. Hence we believe until the new assets are not added the demerged entity does not have significant value.

**Key financial highlights**

(Rs mn)	4QFY10	4QFY09	YoY%	FY10	FY09	YoY%	FY11E	YoY%	FY12E	YoY%
<b>Net Sales</b>	11,338	3,853	194.3	29,568	28,945	2.2	38,675	30.8	42,010	8.6
<b>EBITDA</b>	2,897	1,266	128.9	10,967	15,935	(31.2)	15,693	43.1	16,929	7.9
<b>EBIDTA (%)</b>	26%	33%	-	37%	55%	-	41%	-	40%	-
Other Income	190	3,676	(94.8)	585	4,212	(86.1)	525	(10.2)	550	4.8
Depreciation	106	50	112.3	210	209	0.5	375	78.6	395	5.3
<b>EBIT</b>	2,982	4,892	(39.0)	11,341	19,938	(43.1)	14,793	30.4	15,984	8.0
Interest	321	2,158	(85.2)	2,000	5,546	(63.9)	2,138	6.9	2,007	(6.1)
<b>PBT</b>	2,661	2,733	(2.6)	9,341	14,393	(35.1)	12,655	35.5	13,977	10.4
Tax	676	33	1,925.1	2,239	2,424	(7.6)	3,015	34.7	3,317	10.0
<b>APAT</b>	1,985	2,700	(26.5)	7,102	11,969	(40.7)	9,640	35.7	10,660	10.6
Extra-ord	-	-	-	-	-	-	-	-	-	-
<b>RPAT</b>	1,824	2,736	(33.3)	6,775	11,978	(43.4)	10,690	57.8	11,760	10.0
EPS (Rs)	0.8	1.7	(54.6)	2.8	7.4	(61.5)	4.1	44.1	4.5	10.0

**UNITECH**

**BUY**

**Large Cap**

**Market Data**

Bloomberg code	UT IN
Sensex	16,863
Price	Rs 74
Target Price (Rs)	Rs 107
Target Return (%)	43%
Equity shares o/s (mn)	2436.6
Market Cap (\$ mn)	3,864
Market Cap (Rs mn)	179,089
52 Wk H/L	118/61
FII Limit (%)	100

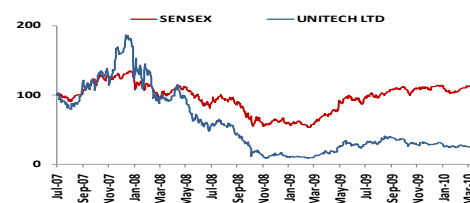
**Stock performance**

(%)	Absolute	Relative
1 Month	(13.7)	(4.7)
6 Months	(9.9)	(8.6)
12 Months	(7.2)	(18.3)

**Shareholding pattern**

Promoter	45%	FII's	32%
Pub. & Oth.	19%	DII's	3.6%

**Sensex Relative chart**



**Rajeev Desai** +91-22-4333 5129 [rajeevdesai@ifinltd.in](mailto:rajeevdesai@ifinltd.in)

## Valuation

We value Unitech based on March 2011 DCF based on Net Asset Value (NAV) of the company. Of the total 429msf of land bank we have considered 80% of land bank to be developed as residential and balanced 20% as commercial properties. Further we have considered Unitech would launch and deliver ~55msf over the next five years. On a conservative basis we have considered higher tax rate due to incidence of service tax which is likely to hurt profitability. Moreover we have considered property rates as per the prevailing current market rates as per the location of property. Also, we have considered discount rate of 15% (WACC) for residential properties and 20% for commercial properties to account for construction delays and change in product mix which is likely to impact margins.

NAV of Unitech	FY11 ( Rsm)	NAV per share
NAV of Projects under construction	110,579	42
NAV of Residual Projects and Land bank	202,104	77
Telecom	19,841	8
Gross NAV	332,525	127
Less: Land Liability	(7,577)	(3)
Less: Net Debt	(46,406)	(18)
<b>Net NAV</b>	<b>278,542</b>	<b>107</b>
No of shares (mn; Rs 2 paid up)	2,613	
<b>NAV per share ( Rs)</b>	<b>107</b>	

Income Statement (Rs mn)				
Year end 31 March	FY09	FY10	FY11E	FY12E
Net Sales	28,945	29,568	38,675	42,010
Expenditure	13,010	18,602	22,982	25,082
<b>Operating Profit</b>	<b>15,935</b>	<b>10,967</b>	<b>15,693</b>	<b>16,929</b>
Other Operating Income	-	-	-	-
<b>EBITDA</b>	<b>15,935</b>	<b>10,967</b>	<b>15,693</b>	<b>16,929</b>
Other Income	4,212	585	525	550
Depreciation	209	341	375	395
<b>EBIT</b>	<b>19,938</b>	<b>11,210</b>	<b>15,843</b>	<b>17,084</b>
Interest	5,546	2,000	1,973	1,924
<b>PBT (before non-recurring)</b>	<b>14,393</b>	<b>9,210</b>	<b>13,870</b>	<b>15,159</b>
Non Recurring	-	-	-	-
Tax on non recurring	-	-	-	-
<b>PBT (after non-recurring)</b>	<b>14,393</b>	<b>9,210</b>	<b>13,870</b>	<b>15,159</b>
Total Tax	2,424	2,239	3,051	3,335
<b>Reported PAT</b>	<b>11,969</b>	<b>6,971</b>	<b>10,819</b>	<b>11,824</b>
<b>Adjusted PAT</b>	<b>11,969</b>	<b>6,971</b>	<b>10,819</b>	<b>11,824</b>
Prior period items	-	-	-	-
Minority interest	9	(31)	-	-
Preference dividend	-	(165)	-	-
<b>Net Income</b>	<b>11,978</b>	<b>6,775</b>	<b>10,819</b>	<b>11,824</b>

Cash Flow Statement (Rs mn)				
Year end 31 March	FY09	FY10E	FY11E	FY12E
<b>Oper.profit before w.cap.changes</b>	<b>19,938</b>	<b>11,210</b>	<b>15,843</b>	<b>17,084</b>
Change in current assets	(34,798)	8,389	(17,686)	(23,510)
Change in current liabilities	25,565	(29,720)	2,522	17,829
Others activities	(6,999)	(3,846)	(3,599)	(9,866)
<b>Cash flow from operation (a)</b>	<b>3,707</b>	<b>(13,968)</b>	<b>(2,920)</b>	<b>1,536</b>
Capital expenditure	(12,704)	(750)	(1,200)	(1,200)
Investments	(1,643)	-	-	-
Dividend received	-	-	-	-
Interest received	-	-	-	-
Others	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(14,347)</b>	<b>(750)</b>	<b>(1,200)</b>	<b>(1,200)</b>
<b>Free cash Flow (a+b)</b>	<b>(10,640)</b>	<b>(14,718)</b>	<b>(4,120)</b>	<b>336</b>
Equity capital + share premium	-	43,835	8,773	-
Debt	5,034	(29,878)	(1,800)	(1,135)
Interest paid	(5,546)	(2,000)	(1,973)	(1,924)
Dividend paid	-	(165)	(216)	(1)
Others	4,053	4,062	375	-
<b>Cash flow from financing (c)</b>	<b>3,007</b>	<b>15,823</b>	<b>5,158</b>	<b>(3,060)</b>
<b>Net change in cash (a+b+c)</b>	<b>(7,634)</b>	<b>1,105</b>	<b>1,038</b>	<b>(2,724)</b>
<b>Cash and equivalents at the end</b>	<b>6,448</b>	<b>7,553</b>	<b>8,592</b>	<b>5,868</b>

Key ratios				
Year end 31 March	FY09	FY10E	FY11E	FY12E
<b>Growth rates (%)</b>				
Net sales	-30.9	2.2	30.8	8.6
EBITDA	-29.9	-31.2	43.1	7.9
APAT	-28.3	-41.8	55.2	9.3
<b>Margins (%)</b>				
EBITDA	55.1	37.1	40.6	40.3
EBIT	68.9	37.9	41.0	40.7
PBT	49.7	31.1	35.9	36.1
APAT	41.4	23.6	28.0	28.1
<b>Valuation ratios (x)</b>				
EPS (Rs)	7.4	2.9	4.1	4.5
EPS Growth (%)	-28.3	-60.4	41.7	9.3
PER (x)	10.0	25.3	17.9	16.4
Price / Cash EPS (PCEPS) (x)	9.9	24.8	17.3	15.8
Price /Book Value (P/BV) (x)	2.3	1.7	1.5	1.4
EV/Net Sales (x)	9.6	8.3	6.3	5.8
EV/EBITDA (x)	17.4	22.5	15.5	14.5
<b>DuPont</b>				
ROE (%)	27.3	8.8	9.3	9.0
Net Margin (%)	41.4	23.6	28.0	28.1
Asset Turnover (x)	0.1	0.1	0.1	0.1
Leverage (x)	5.6	3.3	2.3	2.2
<b>Other key ratios</b>				
ROCE (%)	13.2	6.5	8.2	8.3
Net Debt / Equity (x)	1.6	0.5	0.4	0.4
Dividend Payout (%)	0.0	0.0	2.0	0.0

Balance Sheet (Rs mn)				
Year end 31 March	FY09	FY10E	FY11E	FY12E
Share Capital	3,247	4,771	5,226	5,226
Reserves & Surplus	48,448	101,385	120,306	132,129
<b>Shareholder's funds</b>	<b>51,695</b>	<b>106,156</b>	<b>125,532</b>	<b>137,355</b>
Minorities Interest	615	615	615	615
Short term debt	19,261	16,866	16,074	3,169
Long term debt	71,297	43,814	42,806	54,575
<b>Total Debt</b>	<b>90,558</b>	<b>60,680</b>	<b>58,880</b>	<b>57,745</b>
Creditors	97,002	64,663	65,743	63,703
Other current liab & provn	9,620	10,633	13,528	28,616
Other non-current liabilities	17,936	17,936	15,936	14,186
<b>Total Liabilities</b>	<b>267,426</b>	<b>260,682</b>	<b>280,232</b>	<b>302,219</b>
F.Assets (net) incl. Cap WIP	44,930	45,470	46,295	47,100
Investments	15,808	15,808	15,808	15,808
Cash & Bank	6,448	7,553	8,592	6,263
Inventory	162,255	155,338	159,302	182,691
Debtors	9,310	6,025	7,417	8,057
Other current assets	28,674	30,488	42,818	42,300
<b>Total current assets</b>	<b>206,687</b>	<b>199,404</b>	<b>218,129</b>	<b>239,310</b>
Other non-current assets	-	-	-	-
<b>Total Assets</b>	<b>267,426</b>	<b>260,682</b>	<b>280,232</b>	<b>302,219</b>
<b>Key Balance Sheet parameters (Rs mn)</b>				
Capital Employed	160,803	185,387	200,962	209,900
Net Current Assets	100,065	124,108	138,858	146,992
Book Value ( Net Worth )	51,695	106,156	125,532	137,355
Working Capital	93,617	116,555	130,267	140,729

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Rating	LARGE CAP	MID CAP	SMALL CAP
	Market Cap > Rs 100 bn	Market Cap Rs 25 – Rs 100 bn	Market Cap < Rs 25 bn
BUY (B)	> 20%		>30%
Overweight (OW)	5% to +20%		10% to +30%
Neutral (N)	-5% to +5%		-10% to+10%
Underweight (UW)	-5% to -20%		-10% to -30%
SELL (S)	< (20)%		< (30)%
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## IFCI Financial Services Limited

**Corporate Office:** 'Continental Chambers', III Floor | 142, Mahatma Gandhi Road | Nungambakkam | Chennai - 600 034 | Tel: +91-44-2830 6600 | Fax: +91-44-2830 6650

**Mumbai Office:** 7th Floor, Earnest House | Nariman Point | Mumbai - 400 021 | Tel: +91-22-2283 8805

**E-mail:** [sales@ifinltd.in](mailto:sales@ifinltd.in) | **Website:** [www.ifinltd.in](http://www.ifinltd.in)

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