

⊙ Action

Unitech Ltd has come out with its 3Q FY10 operational update, which reveals the company's continued focus on sales and execution of projects past and new. In 3Q FY10, the company recorded incremental sales of 3mn sqft and delivery of 0.8mn sqft, with potential delivery of 18mn sqft in next 12-15 months. We reaffirm our BUY call and price target of INR112.

✂ Catalysts

We think improvement in residential volumes from here, accompanied by increasing office leasing and visible execution, could act as a catalyst.

⚓ Anchor themes

We believe that the residential recovery has so far been restricted to NCR and Mumbai. Assuming affordability, CY10/FY11 could be the year for a country-wide residential recovery which, combined with improving execution ability, could lead to recognition of Unitech's inexpensive valuations

All is well

① Sale run rate slowing but still healthy

After booking more than 10mn sqft for sale between Mar'09 and Sep'09, Unitech booked 3.1mn sqft for sale in 3Q FY10. The booking run rate has slowed, in line with the industry; but at 1mn sqft a month, it remains the highest among all developers in India and is in line to meet our target of 17mn sqft for FY10F. Residential sales have moved up to 10.7mn sqft, while non-residential sales total 2.5mn sqft. Launches stand at 24.4mn sqft for 9M FY10, against a targeted 30mn sqft for full-year FY10F.

② Past project deliveries gaining momentum

Unitech delivered an incremental 0.8mn sqft of projects in 3Q FY10 and has now delivered about 25% of its projects launched in the 2005-07 period. Given the advanced stage of construction on most of the past projects, we believe the company would be able to deliver the rest 75% (17mn sqft) by March 2011.

③ Execution activities gaining pace

Of the past projects, 42% have reached the handing over/finishing stage, while on another 39% the internal work is in progress. Thus, about 18mn sqft of projects are 12 months away from delivery. For the newly launched projects in FY10, 21 of the 30 projects are seeing construction activity, with 8.8mn sqft being brought under construction. About 4,000 workers were added to the workforce in 3Q FY10, taking the total to close to 20,000 workers on all projects.

④ Valuations still inexpensive

Unitech is trading at a discount of 24% to our NAV estimate, and we believe that with further evidence of sales and execution, the stock can close the gap between the CMP and our PT of INR112.

Closing price on 8 Jan	Rs86.6
Price target	Rs112.4 (set on 2 Nov 09)
Upside/downside	29.7%
Difference from consensus	9.1%
FY11F net profit (Rsmn)	15,108
Difference from consensus	16.3%
Source: Nomura	

Nomura vs consensus

Consensus believes that the residential recovery is priced in, while we believe the recovery is still in progress and further improvements will benefit Unitech.

Key financials & valuations

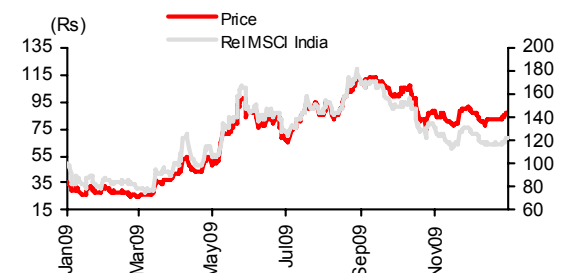
31 Mar (Rsmn)	FY09	FY10F	FY11F	FY12F
Revenue	29,265	22,509	48,201	81,519
Reported net profit	11,964	7,355	15,108	29,296
Normalised net profit	11,964	7,355	15,108	29,296
Normalised EPS (Rs)	7.37	3.01	5.78	11.21
Norm. EPS growth (%)	(28.0)	(59.2)	92.0	93.9
Norm. P/E (x)	11.8	30.8	15.0	7.7
EV/EBITDA (x)	18.3	22.0	11.1	5.4
Price/book (x)	2.7	2.0	1.7	1.4
Dividend yield (%)	0.1	0.0	0.0	0.0
ROE (%)	27.3	9.3	12.8	20.3
Gearing (%)	34.4	23.8	19.3	14.9

Earnings revisions

Previous norm. net profit	7,355	15,108	29,296
Change from previous (%)	-	-	-
Previous norm. EPS (Rs)	3.01	5.78	11.21

Source: Company, Nomura estimates

Share price relative to MSCI India



	1m	3m	6m
Absolute (Rs)	(4.9)	(14.3)	26.5
Absolute (US\$)	(3.0)	(13.0)	35.5
Relative to Index	(7.0)	(20.3)	(5.8)
Market cap (US\$m)			4,517
Estimated free float (%)			50.0
52-week range (Rs)			115.1/24.80
3-mth avg daily turnover (US\$m)			106.8
Stock borrowability			Easy
Major shareholders (%)			50.0

Source: Company, Nomura estimates

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Drilling down

Improving physical parameters

Exhibit 1. Sales performance

City	Area Launched (mn sq ft)		Area sold (mn sq ft)	
	Sep'09	Dec'09	Sep'09	Dec'09
Gurgaon	6.6	8.8	4.9	6.1
Noida + Gr. Noida	6.2	6.2	1.7	2.4
Chennai	2.3	2.4	1.7	1.8
Mumbai	1.3	1.9	1.2	1.6
Kolkata	2.6	2.6	0.4	0.5
Other cities	2.5	2.7	0.3	0.8
Total	21.3	24.4	10.1	13.2

Source: Company data

NCR region witnessing strongest sales momentum

Exhibit 2. Segmental performance

Segment	Area Launched (mn sq ft)		Area sold (mn sq ft)		Average realisation (INR/sqft)	
	Sep'09	Dec'09	Sep'09	Dec'09	Sep'09	Dec'09
Residential	17.8	NA	8.2	10.7	3,234*	3,733
Non-residential	3.5	NA	2.0	2.5	6,533*	6,401
Total	21.3	24.4	10.1	13.2	3,870	4,225

Source: Company data; *For Sep'09 realisation is base selling price while for Dec'09 it is all inclusive

Exhibit 3. Past projects delivery status

City	Area to be delivered (mn sq ft)	Area delivered till (mn sq ft)		Balance to be delivered (mn sq ft)	
		Sep'09	Dec'09	Sep'09	Dec'09
Noida + G Noida	6.2	0.6	0.8	5.6	5.9
Gurgaon	9.6	4.0	4.4	5.5	5.3
Kolkata	5.7	0.2	0.4	5.4	5.2
Lucknow	0.1	0.0	0.0	0.1	0.1
Mohali	0.5	0.0	0.0	0.5	0.5
Total	22.1	4.8	5.6	17.1	17.0

Source: Company data

Most deliveries currently in Gurgaon

Exhibit 4. Increasing workforce

City	4Q FY09	1Q FY10	2Q FY10	3Q FY10
Gurgaon	1,000	6,500	7,100	7,945
Noida + G Noida	1,000	2,000	4,000	5,684
Kolkata	1,500	2,000	2,600	4,166
Other cities	-	-	1,900	1,900
Total	3,500	10,500	15,600	19,695

Source: Company data

Workforce increased significantly in Kolkata and Noida + Gr. Noida

Exhibit 5. Past projects: construction progress

Construction stage	Number of projects		mn sqft		%age of total	
	Sep'09	Dec'09	Sep'09	Dec'09	Sep'09	Dec'09
Handover/ finishing	5	9	5.7	9.4	26	42
Structure complete, internal work in progress	14	11	11.6	8.4	52	39
Piling/ structure work in progress	9	8	3.7	3.4	17	15
Pre-construction	3	3	1.2	0.9	5	4
Total	31	31	22.2	22.1	100	100

Source: Company data

Almost half of the past projects in handing-over or finishing stage

Exhibit 6. Current projects: construction progress

Construction stage	Number of projects		mn sqft		%age of total	
	Sep'09	Dec'09	Sep'09	Dec'09	Sep'09	Dec'09
Handover/ finishing	0	1	0.0	0.1	0	1
Structure in progress	3	2	0.8	0.8	10	7
Piling in progress	8	10	2.9	4.8	36	45
Pre-construction	6	8	1.7	3.1	22	30
Yet to start	12	9	2.6	1.8	32	17
Total	29	30	8	10.6	100	100

Source: Company data

Most of the new projects are witnessing some construction activity

Valuation methodology and risks

Our 12-month price target is INR112 (target unchanged). We value the company in two parts: 1) net asset value of the current landbank at INR103 per share; and 2) the telecom stake valued at INR9 per share (method unchanged).

Downside risks include: 1) a reduction in liquidity and capital availability for developers; 2) stalled economic growth recovery; 3) an inability to successfully sell projects or construct them; and 4) rising interest rates.

Financial statements

Income statement (Rsmn)					
Year-end 31 Mar	FY08	FY09	FY10F	FY11F	FY12F
Investment properties	252	395	781	1,284	2,276
Property development	35,719	23,670	17,232	43,306	75,602
Hotels/serviced apartments					
Other Revenue	5,856	5,200	4,496	3,611	3,641
Revenue	41,826	29,265	22,509	48,201	81,519
EBIT contributions					
Investment properties					
Property development	22,085	15,679	11,151	20,744	39,036
Hotels/serviced apartments					
Other income					
Management expenses					
EBITDA	22,291	15,888	11,446	21,129	39,528
Depreciation and amortisation	(205)	(209)	(295)	(385)	(492)
EBIT	22,085	15,679	11,151	20,744	39,036
Net interest expense	(2,804)	(5,546)	(3,373)	(4,413)	(6,222)
Associates & JCEs					
Other income	1,397	4,259	1,846	3,439	5,364
Earnings before tax	20,678	14,392	9,624	19,770	38,178
Income tax	(3,986)	(2,424)	(2,270)	(4,662)	(8,883)
Net profit after tax	16,692	11,968	7,355	15,108	29,296
Minority interests	(79)	(4)	-	-	-
Other items					
Preferred dividends					
Normalised NPAT	16,613	11,964	7,355	15,108	29,296
Extraordinary items					
Reported NPAT	16,613	11,964	7,355	15,108	29,296
Dividends	(812)	(162)			
Transfer to reserves	15,801	11,802	7,355	15,108	29,296
Valuation and ratio analysis					
FD normalised P/E (x)	8.5	11.8	30.8	15.0	7.7
FD normalised P/E at price target (x)	11.0	15.2	39.9	19.4	10.0
Reported P/E (x)	8.5	11.8	28.8	15.0	7.7
Dividend yield (%)	0.6	0.1	-	-	-
Price/cashflow (x)	na	37.6	na	23.1	8.5
Price/book (x)	3.9	2.7	2.0	1.7	1.4
EV/EBITDA (x)	12.5	18.3	22.0	11.1	5.4
EV/EBIT (x)	12.6	18.5	22.5	11.3	5.5
EBIT margin (%)	52.8	53.6	49.5	43.0	47.9
Effective tax rate (%)	19.3	16.8	23.6	23.6	23.3
Dividend payout (%)	4.9	1.4	-	-	-
ROA (pretax %)	13.3	6.7	4.4	8.1	14.8
Growth (%)					
Revenue	23.1	(30.0)	(23.1)	114.1	69.1
EBITDA	18.5	(28.7)	(28.0)	84.6	87.1
EBIT	17.8	(29.0)	(28.9)	86.0	88.2
Normalised EPS	(36.4)	(28.0)	(59.2)	92.0	93.9
Normalised FDEPS	(36.4)	(28.0)	(61.8)	105.4	93.9
Per share					
Reported EPS (Rs)	10.2	7.4	3.0	5.8	11.2
Norm EPS (Rs)	10.2	7.4	3.0	5.8	11.2
Fully diluted norm EPS (Rs)	10.2	7.4	2.8	5.8	11.2
Book value per share (Rs)	22.2	31.8	43.3	49.6	60.8
DPS (Rs)	0.5	0.1	-	-	-

Estimated sales volume of 17mn sqft in FY10F should support revenue growth in FY11F and FY12F

Source: Nomura estimates

Cashflow (Rsmn)

Year-end 31 Mar	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	22,291	15,888	11,446	21,129	39,528
Change in working capital	(29,550)	(12,549)	(15,001)	(1)	(1)
Other operating cashflow	(8,040)	400	(12,363)	(11,309)	(12,946)
Cashflow from operations	(15,299)	3,740	(15,917)	9,820	26,581
Capital expenditure	(23,508)	(1,988)	8,511	(2,140)	(4,326)
Free cashflow	(38,807)	1,752	(7,406)	7,679	22,255
Reduction in investments	(3,409)	(13,537)	-	-	-
Net acquisitions					
Reduction in other LT assets	(9,617)	(12,190)	-	-	-
Addition in other LT liabilities	3,388	(1,260)	(1,792)	(1,613)	(1,452)
Adjustments	6,788	12,988	1,792	1,613	1,452
Cashflow after investing acts	(41,657)	(12,248)	(7,406)	7,679	22,255
Cash dividends	(475)	(475)	-	-	-
Equity issue	53	3,825	46,832	8,640	-
Debt issue	45,935	1,263	(25,000)	(10,000)	(10,000)
Convertible debt issue					
Others					
Cashflow from financial acts	45,513	4,614	21,832	(1,360)	(10,000)
Net cashflow	3,855	(7,634)	14,426	6,320	12,255
Beginning cash	10,227	14,083	6,449	20,875	27,195
Ending cash	14,083	6,449	20,875	27,195	39,450
Ending net debt	71,441	84,109	44,683	28,364	6,108

Source: Nomura estimates

Balance sheet (Rsmn)

As at 31 Mar	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	14,083	6,449	20,875	27,195	39,450
Properties held for sale	126,835	149,808	149,808	149,808	149,808
Accounts receivable	7,460	9,311	9,311	9,311	9,311
Other current assets	29,819	36,574	36,574	36,575	36,575
Total current assets	178,196	202,141	216,568	222,888	235,144
Investment properties	21,030	11,804	46	45	45
Other fixed assets (net)	10,459	21,500	31,226	37,042	42,630
Associates					
Other LT assets	15,290	27,481	27,481	27,481	27,481
Total assets	224,975	262,925	275,321	287,456	305,300
Short-term debt					
Accounts payable	83,093	102,123	87,123	87,123	87,123
Other current liabilities					
Total current liabilities	83,093	102,123	87,123	87,123	87,123
Long-term debt	85,524	90,558	65,558	55,558	45,558
Convertible debt					
Other LT liabilities	19,196	17,936	16,143	14,530	13,079
Total liabilities	187,812	210,616	168,824	157,211	145,760
Minority interest	1,159	615	615	615	615
Preferred stock					
Shareholders' Equity	3,247	3,247	4,888	5,229	5,229
Other equity and reserves	32,758	48,448	100,993	124,401	153,696
Total shareholders' equity	36,005	51,695	105,881	129,630	158,925
Total equity & liabilities	224,975	262,926	275,320	287,456	305,300

Leverage

Interest cover	7.9	2.8	3.3	4.7	6.3
Gross debt/property assets (%)	38.0	34.4	23.8	19.3	14.9
Net debt/EBITDA (x)	3.20	5.29	3.90	1.34	0.15
Net debt/equity (%)	198.4	162.7	42.2	21.9	3.8

Dupont decomposition

Net margin (%)	39.7	40.9	32.7	31.3	35.9
Asset utilisation (x)	0.2	0.1	0.1	0.2	0.3
ROA (%)	9.3	4.9	2.7	5.4	9.9
Leverage (Assets/Equity x)	6.4	5.6	3.4	2.4	2.1
ROE (%)	59.4	27.3	9.3	12.8	20.3

Source: Nomura estimates

Cashflows should be strong in FY11F and FY12F, enabling reduction in leverage

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Issuer	Ticker	Price (as at last close)	Closing Price Date	Rating	Disclosures
Unitech Ltd.	UT IN	90.40 INR	11 Jan 2010	Buy	

Previous Ratings

Issuer	Previous Rating	Date of change
Unitech Ltd.	Reduce	17 Jun 2009

Three-year stock price and rating history

Not Available for Unitech Ltd.

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- A "**Strong buy**" recommendation indicates that upside is more than 20%.
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A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Price targets

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