MOTILAL OSWAL

Unitech

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,962	UT IN
	REUTERS CODE
S&P CNX: 3,897	UNTE.BO

Equity Shares (m)	1,623.4
52-Week Range	547/160
1,6,12 Rel. Perf. (%)	-9/-31/-24
M.Cap. (Rs b)	263.0
M.Cap. (US$ b)	6.6

1 July 2008

Under Review

Previous Recommendation: Under Review

Rs162

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	32,883	13,055	8.1	1,846.7	36.2	11.9	65.7	46.5	15.8	25.9
3/08E	44,911	16,158	10.1	24.7	29.0	13.0	44.8	24.3	12.1	23.6
3/09E	67,863	19,529	12.2	21.5	23.9	9.9	41.7	27.0	7.9	15.9
3/10E	135,930	42,921	26.7	118.2	10.9	6.0	54.5	48.4	3.8	8.0

- **Net profit for 4QFY08 in line with expectations:** Unitech's revenues for 4QFY08 have grown 36.7% YoY to Rs11.6b, below our estimate of Rs14.7b. Net profit has grown 0.9% YoY to Rs3.6b, in line with our estimate. EBITDA margins declined 1,857bp YoY to 41.5% as a result of higher contribution from the mid-income housing segment in Kolkata (25% of 4QFY08 revenues).
- **High leverage a concern:** Unitech's gross debt has increased 22% QoQ to Rs85.5b (Rs70b in 3QFY08), while net debt has grown 43% QoQ to Rs71b (Rs50b in 3QFY08) due to decline in cash from Rs20b in 3QFY08 to Rs14b in 4QFY08. The company's net debt-equity ratio stands at 2x v/s 1.6x in 3QFY08. The sharp increase leverage is primarily due to investment of Rs16.5b for its foray into the telecom sector.
- **Lehman's investment in Mumbai SRA project a positive:** In June 2008, Lehman Brothers has acquired 50% stake in phase I (1msf) of Unitech's SRA project in Mumbai for Rs7.4b. This project is being developed by Unitech's 50:50 JV Shivalik Ventures, which also has several other projects at advanced stages, and could increase Unitech's landbank in Mumbai to ~50msf.
- **Revising NAV estimate from Rs315/share to Rs274/share:** We have revised our NAV estimate for Unitech from Rs315/share to Rs274/share mainly to account for: (1) Increase in cap rate assumption for commercial vertical from 9% to 10.5% and retail vertical from 9% to 11%, (2) Removal of Dankuni project from our NAV estimate (due to political risks). The residential vertical accounts for ~45% of GAV, the commercial vertical for ~27% of GAV, and the retail vertical for ~9% of GAV. The stock currently trades at 41% discount to our NAV of Rs274/share. **Under review.**

QUARTERLY PERFORMANCE (Rs Million)

	FY07*				FY08				FY07	FY08
	1Q*	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales	**2,678**	**4,306**	**10,027**	**8,487**	**8,656**	**10,135**	**11,421**	**11,600**	**33,183**	**41,404**
Change (%)	*88.9*	*150.5*	*483.3*	*307.9*	*223.3*	*135.4*	*13.9*	*36.7*	*114.6*	*24.8*
Total Expenditure	1,918	2,895	3,077	3,387	3,651	5,064	4,077	6,782	12,865	19,114
EBITDA	**760**	**1,411**	**6,950**	**5,101**	**5,005**	**5,071**	**7,344**	**4,818**	**20,318**	**22,290**
Change (%)	-	-	-	-	*558.6*	*259.5*	*5.7*	*-5.5*	*1,088.0*	*9.7*
As of % Sales	*28.4*	*32.8*	*69.3*	*60.1*	*57.8*	*50.0*	*64.3*	*41.5*	*61.2*	*53.8*
Depreciation	10	17	13	12	32	30	55	89	80	205
Interest	159	216	495	744	601	790	980	434	3,020	2,804
Other Income	385	98	139	354	341	508	230	115	700	1,397
Extra-ordinary income	-	-	-	-	-	-	-	255	-	255
PBT	**977**	**1,275**	**6,580**	**4,699**	**4,714**	**4,759**	**6,539**	**4,666**	**17,919**	**20,678**
Tax	237	241	2,057	1,128	1,044	660	1,307	973	4,864	3,986
Effective Tax Rate (%)	*24.2*	*18.9*	*31.3*	*24.0*	*22.1*	*13.9*	*20.0*	*20.9*	*27.1*	*19.3*
Reported PAT	**740**	**1,034**	**4,524**	**3,571**	**3,670**	**4,099**	**5,232**	**3,693**	**13,055**	**16,692**
Minority								-90		-73
Adj PAT	**740**	**1,034**	**4,524**	**3,571**	**3,670**	**4,099**	**5,232**	**3,603**	**13,055**	**16,619**
Change (%)	*917.9*	-	-	-	*396.0*	*296.3*	*15.7*	*0.9*	*206.7*	*27.3*

*E: MOSt Estimates;*Standalone, # Consolidated*

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4QFY08 and FY08 PAT in line

Unitech's revenues for 4QFY08 have grown 36.7% YoY to Rs11.6b, below our estimate of Rs14.7b. Net profit has grown 0.9% YoY to Rs3.6b, in line with our estimate. EBITDA margins declined 1,857bp YoY to 41.5% as a result of higher contribution from the mid-income housing segment in Kolkata (25% of 4QFY08 revenues). For FY08, revenues grew 24.8% to Rs41.4b (v/s our estimate of Rs44.9b) while net profit grew 27.3% to Rs16.6b (v/s our estimate of Rs16.7b). EBITDA margins declined 740bp to 53.8% as a result of lower contribution from the commercial vertical.

Area delivered to increase from ~8.5msf in FY08 to ~15msf in FY09

During FY08, Unitech recognized revenues on ~12msf of development area (guidance of ~14msf), comprising ~8.4msf of residential area and ~3.6msf of commercial/ retail area. The company delivered ~8.5msf of real estate development, while our expectation was for 11-12msf. The shortfall was largely due to delay in commissioning of few commercial and residential projects. For FY09, Unitech has guided revenue recognition of ~20msf of development area (earlier guidance 30msf) and delivery of 14-15msf. We believe that the company's planned ramp-up of development plans could witness moderation due to the prevailing slowdown in the real estate industry.

Planned launches of ~40msf in FY09

Unitech currently has ~55msf (v/s ~50msf in 3QFY08) of projects under various stages of construction, comprising of ~30msf residential and ~25msf commercial/retail. During 4QFY08, it launched mid-income residential projects (average rate of ~Rs6.5m/unit) in Greater Noida, Mohali, Kolkata and Lucknow. It has plans to launch ~40msf in FY09, with ~20msf in NCR and Kolkata, and ~20msf in Southern/Western India. The company's first hospitality project, Marriott Courtyard, Gurgaon is likely to be operational towards the end of FY09.

Two of UCPs projects could be delayed

Some projects in the Unitech-sponsored UCP have witnessed delays. Development of Gurgaon G1 and Greater Noida is delayed and would spill over to FY10. All the six commercial IT parks in UCP's portfolio have been notified as IT SEZs. About 2.5msf of the total area of ~21msf under UPC's IT parks is already leased. The Gurgaon G2 (3.4msf), Kolkata (4.3msf) and Noida IT Park (5.8msf) have been leased at rates higher than management's expectations. This is a positive development considering expected slowdown in commercial rentals.

Highly leveraged balance sheet a concern

Unitech's gross debt has increased 22% QoQ to Rs85.5b (Rs70b in 3QFY08), while net debt has grown 43% QoQ to Rs71b (Rs50b in 3QFY08) due to decline in cash from Rs20b in 3QFY08 to Rs14b in 4QFY08. The company's net debt-equity ratio stands at 2x v/s 1.6x in 3QFY08. The sharp increase leverage is primarily due to investment of Rs16.5b for its foray into the telecom sector. Furthermore, If we add/include the total land cost outstanding of Rs40b to Unitech's net debt, the total outstanding increases to Rs111b (Rs93b in 3QFY08), which implies a leverage of 3.1x. During 4QFY08, total customer advances increased by 25% QoQ to Rs71b v/s Rs57b in 3QFY08 due to sale of new residential projects.

KEY FINANCIALS (RS M)

PARTICULARS	3QFY08	4QFY08	CHG %
Gross Debt	70,000	85,500	22.1
Cash	20,000	14,082	-29.6
Net Debt	**50,000**	**71,418**	**42.8**
Networth	31,247	36,479	16.7
Net DER (x)	**1.6**	**2.0**	**22.3**
Land Cost Outstanding	43,000	40,000	-7.0
Total Outstanding	93,000	111,418	19.8
Net DER incl Land cost O/s (x)	**3.0**	**3.1**	**2.6**
Customer Advances	57,000	71,020	24.6
Debtors	3,000	7,400	146.7
Area under development (msf)	50	55	10.0

UNITECH IS HIGHLY LEVERAGED COMPARED TO PEERS

	NET WORTH	NET DEBT	NET DEBT/ EQUITY (X)	LAND COST O/S*	NET DEBT	NET DEBT/ EQUITY (X)*
DLF	205.8	103.2	0.5	31.0	134.2	0.7
Unitech	**36.5**	**71.4**	**2.0**	**30.0**	**101.4**	**2.8**
HDIL	36.4	27.6	0.8	2.8	30.4	0.8
MLL	8.1	-0.8	-0.1	0.0	-0.8	-0.1
IBREL	34.0	-38.3	-1.1	5.3	-33.0	-1.0
Ganesh Hsg	3.6	-0.5	-0.1	9.6	9.1	2.5
Bombay Dyeing	5.4	5.2	1.0	0.0	5.2	1.0

**Includes land cost O/S* *Source: Company/MOSL*

Telecom stake sale, SPV-level dilution for hotel/ retail vertical to help reduce leverage in FY09

The management expects leverage to reduce to 1.2-1.3x by the end of FY09 primarily due to stake sale in the telecom vertical and SPV level dilution in its hotel/retail vertical. Considering the prevalent liquidity scenario, we believe that this would be challenging. For FY09, Unitech's capex stands at Rs35b, comprising of (1) Rs30b towards construction costs, and (2) Rs5b towards land cost obligations. Any new land bank acquisition would be over and above the stated capex. The company plans to fund its capex requirements through internal accruals and SPV-level dilution in its hotel/ retail vertical.

Shift in focus towards high volume mid-income housing segment

During FY08, Unitech expanded its presence in Eastern and Southern India, and launched projects for the upper and middle income groups in Kolkata, Greater Noida and Lucknow. The company has shifted focus towards affordable homes and has launched projects at Rs3.5m (1,200sf @ Rs2,700/sf) in Greater Noida. The company has plans to launch similar projects in other markets.

Entry into Mumbai a big positive

Unitech has formed a strategic JV christened Shivalik Ventures for its foray into the Mumbai RE market with two local Mumbai developers – Rohan Group and Shivalik Ventures. While Unitech has 50% stake in this JV, the other two local partners cumulatively hold the remaining 50% stake. Unitech would be investing ~Rs8b for its 50% stake in the JV. The other partners have transferred their land holdings as their consideration for their share of 50% in the JV. The JV is currently developing one large SRA project of ~8msf (97acres) on the Western Express Highway region in Mumbai and is expected to announce several other projects, which are still in various stages of clearances and acquisition. The JV is at advanced stages of acquiring another ~26msf of SRA and redevelopment projects in Mumbai and is also working on several other projects which have the potential to increase Unitech's total land bank in Mumbai to ~50msf, which could result in significant value creation possibilities. The management expects to be able to deliver 3-5msf/per annum by FY12 in Mumbai alone.

Lehman's investment in Mumbai SRA project a positive

Lehman Brothers acquired 50% stake in phase 1 (comprising of 1msf) of Unitech's project at Western Expressway (Golibar) in Mumbai for Rs7.4b. This project is being developed by its 50:50 JV, Shivalik Ventures. Post this stake sale, Unitech's stake in phase 1 of the Golibar project would be 25%. The Golibar SRA project is of ~18msf (we have valued ~8msf). It is located on the Western Express Highway region in Mumbai and is in close proximity to BKC. While permission for 11-12msf has been obtained, land for the remaining 6-7msf is yet to be acquired. As per the agreement, Lehman would also contribute proportionately to the construction cost, going forward. Currently, we have considered only ~4msf (Unitch's 50% share) in our NAV calculations for Unitech. We have

DETAILS OF LANDBANK IN MUMBAI: SRA

PARTICULARS	TYPE OF LAND	ACRES	TOTAL MSF	UNITECH'S SHARE	RESIDENTIAL	COMMERCIAL
Golibar	Mixed	97	8.0	4.0	0.0	4.0
Powai	Private	22	1.9	0.9	0.9	0.0
Vakola	Public	40	3.4	1.7	1.7	0.0
Juhu	Private	12	1.0	0.5	0.3	0.3
Ghatkopar	Private	40	3.4	1.7	1.7	0.0
Kandivali	Public	22	1.9	0.9	0.9	0.0
Goregaon	Private	20	1.7	0.8	0.6	0.2
Bhandup	Private	35	3.0	1.5	1.5	0.0
Sub Total		**288**	**24.2**	**12.1**	**7.6**	**4.5**
Re-development						
Mumbai CBD Area	-	-	1.5	0.8	0.8	0
Total		**288**	**25.7**	**12.9**	**8.4**	**4.5**

Source: Company/Motilal Oswal Securities assumed lease rentals of Rs183/sf/month (cap rate of 10.5%) and construction cost of Rs4,700/sf (including cost of SRA), valuing Unitech's share at ~Rs75.4b or ~Rs46/ share.

The saleable area for the SRA project has increased from the earlier ~8msf to ~18msf on account of: (1) addition of land in the adjoining area (~33acres); and (2) recent increase in FSI for slums by the Maharashtra Government (net impact of ~30%). However, till date, notifications have been received only for 97acres of land of the total proposed area of 130acres. Of the 97acres, rehabilitation work for 30acres is already completed.

Telecom partner likely to be announced shortly

Unitech holds unified access service license (UASL) for all 22 circles (license fee paid - Rs16.6b) and is one of the four potential wireless entrants, along with Datacom, Loop Telecom, and Shyam Telecom, which currently have a pan-India license. The company has received start-up GSM spectrum in five circles over the past two months and is targeting a commercial launch by March 2009. Telecom is an unrelated diversification for Unitech and there is no potential synergy with its real estate business. Unitech plans to rope in an international telecom company as a strategic partner (by divesting ~26% stake) and envisages an investment of US$3-4b over the next 2-3 years in the project. In our view, the project is still at a relatively early stage. We believe it would be difficult for a pan-India greenfield venture to be NAV-accretive, given the industry structure.

NKID project kicks off, with WB government transferring ~12,500acres land

The 38,000-acre New Kolkata International Development (NKID) project has taken off, with the West Bengal (WB) government having transferred possession of ~12,500acres at Nayachar, to PCR Chemicals Private Limited for the development of a chemical SEZ. PCR Chemicals is a 51:49 JV between NKID and West Bengal Industrial Development Corporation. The consideration of this project is in the form of infrastructure obligations of ~Rs40b. NKID is a consortium between Unitech (40%), Salim Group of Indonesia (40%) and Universal Success of Indonesia (20%). NKID had entered into a development agreement with the WB government on 31 July 2006 for the development of mega infrastructure in WB.

Unitech is working towards converting the proposed Nayachar SEZ into the newly announced Petroleum Chemical Petrochemical Investment Region (PCPIR), which would allow larger size and further sops to the developer. NKID project entails development of

DETAILS OF NKID PROJECT

SEZ	LOCATION	PROJECT	ACRE
Haldia	SEZ Township	Multi Product SEZ	12,500
	Nayachar	Petrochem SEZ	12,500
		Township	5,000
Economic Corridor	Ribbon development along the road	10 Plots of 100 acres each	1,000
	115.5kms 4 lane road + 15 Km 2 lane road	100 Km Barasat to Raichak	
		11.5Km Extention of EM Bypass	2,930
		Raod + 4Km Gobindpur-Jagdishpur	
		15Km Pailan Jagdishpur Road	
	1000 acre mixed development	500 Acre District HQ - South 24 Parganas	1,000
		100 Acre Rehabilitation land	
		400 acre SME Comm Zone (JV with WBIDC)	
	3750 acre township near Baruipur	3750 acre township	3,750
Near Rajarhat, Bhangar, South 24 Parganas	Residential township including Health & Knowledge City	1500 acre township	1,500
Rajarhat	Resimdential township	150 acre township	150
Nandigram-Haldia	Bridge	4-Lane - 1.4 Km long over Haldia	
Raichak-Kukkurhati-Haldia	Bridge	4-Lane - 3.5Km long (approx) over Hoogly	
Total			**37,830**

Source: Company/Motilal Oswal Securities approximately 37,830acres, of which the WB government has already given about 13,457 acres to the developer. With about 35% of the total land already under possession, the project is gaining momentum. Unitech is hopeful of the remaining land being transferred and the entire NKID project becoming a reality in the near term. We believe this is a positive development for Unitech. Previously, we had ascribed no value to the NKID project, as Unitech did not possess the land. With the transfer of land, we would look to value the SEZ project after we get further details on the project.

Land bank additions and changes in development plans

Unitech's gross land bank has increased from 14,638acres to 18,512acres, whereas its share has increased from 10,585acres to 13,763acres. The land bank increase of ~3,100acres is mainly on account of Vizag (1,750acres), Kolkata (957acres), Hyderabad (350acres), Greater Noida (150acres), Goa (103acres) and Chennai (~70acres). Unitech's saleable area has increased from 472msf in September 2007 to 690.3msf in January 2008, with increased focus on commercial offices and IT park development.

UNITECH'S LANDBANK AS OF SEPTEMBER 2007

LOCATION	ACRES	SF	% OF TOTAL	*RES	#COMM	INST. PLOTS	HOT -ELS
Gurgaon	1,128	47.4	10.1	36.9	3.3	4.3	0.6
Delhi	29	0.3	0.1	-	0.2	-	-
Faridabad	8	0.7	0.1	0.7	-	-	-
Noida	370	20.0	4.2	18.7	-	0.3	0.6
Greater Noida	201	16.9	3.6	16.0	0.6	0.2	-
Kolkata	2,172	91.1	19.3	68.9	8.8	10.7	1.0
Chennai	2,063	115.5	24.5	99.1	8.7	4.6	0.0
Kochi	604	38.0	8.0	31.0	3.5	-	0.4
Bangalore	83	8.0	1.7	7.1	0.3	-	0.3
Hyderabad	274	17.8	3.8	13.6	3.6	-	-
Mohali	350	14.4	3.1	11.5	-	1.5	-
Agra	1,500	43.1	9.1	26.1	7.8	5.2	-
Varanasi	1,500	48.5	10.3	28.9	3.9	7.8	-
Siliguri	232	9.0	1.9	7.8	0.8	-	-
Chandigarh	73	1.0	0.2	-	-	-	-
Total	**10,585**	**471.7**	**100.0**	**366.1**	**41.7**	**34.7**	**2.9**

*Residential, # Commercial Source: Company/MOSL

UNITECH'S NEW LANDBANK

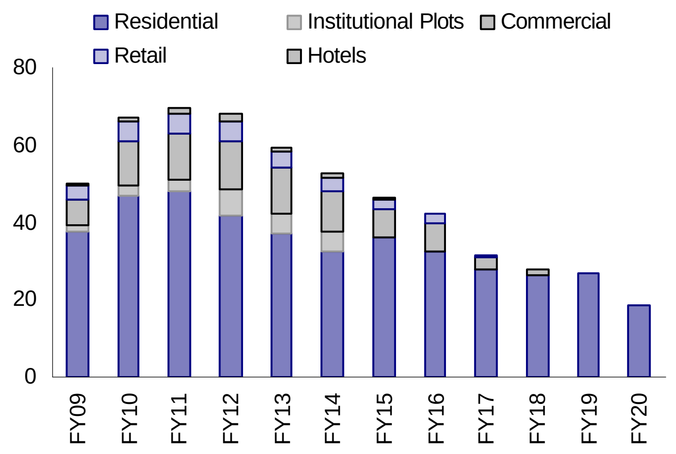
LOCATION	ACRES	SF	% OF TOTAL	*RES	#COMM	HOT -ELS	INST. PLOTS
Gurgaon	1,145	51.7	7.5	38.7	5.7	0.6	4.3
Delhi	29	0.3	-	-	0.2	-	-
Noida	380	23.3	3.4	18.6	3.2	0.6	0.3
Greater Noida	371	27.3	4.0	24.5	2.5	-	0.2
Kolkata	2,958	148.5	21.5	110.5	23.1	1.3	12.1
Chennai	2,082	116.9	16.9	99.8	9.2	-	4.6
Hyderabad	624	49.2	7.1	27.4	17.4	-	-
Kochi	604	38.0	5.5	31.0	3.5	0.4	-
Bangalore	83	8.0	1.2	7.1	0.3	0.3	-
Mohali	350	14.4	2.1	11.5	-	-	1.5
Agra	1,500	43.1	6.2	26.1	7.8	-	5.2
Varanasi	1,500	48.5	7.0	28.9	3.9	-	7.8
Mumbai	49	4.0	0.6	-	4.0	-	-
Goa	91	3.5	0.5	-	-	3.5	-
Chandigarh	73	0.9	0.1	-	-	0.3	-
Silliguri	167	11.3	1.6	6.5	3.3	-	-
Bhubhaneshwar	9	0.8	0.1	-	-	-	-
Vishakhapatnam	1,750	100.6	14.6	89.0	8.5	0.3	0.8
Total	**13,763**	**690.3**	**100.0**	**519.5**	**92.7**	**7.2**	**36.8**

*Residential, # Commercial Source: Company/MOSL

Development voulmes to peak at 69.5msf in FY11

We expect Unitech's development volumes to increase from 49.8msf in FY09 to 69.5msf in FY11. We estimate the total residential volumes at 37.8msf in FY09 and peak at 47.8msf in FY11. We estimate the commercial and retail launches to peak at 12.6msf and 5.1msf, respectively in FY12.

UNITECH'S DEVELOPMENT PLAN



Source: Company/Motilal Oswal Securities

Revising NAV estimate from Rs315/share to Rs274/share

We have revised our NAV estimate for Unitech from Rs315/share to Rs274/share mainly to account for: (1) Increase in cap rate assumption for commercial vertical from 9% to 10.5% and retail vertical from 9% to 11%, (2) Removal of Dankuni project from our NAV estimate (due to political risks). We have excluded the land cost (Rs10b) for the Dankuni project from our NAV calculation, as we are not considering any value from this project. This is because the Dankuni project involves land acquisition issues that has political overtones. Additionally, we believe that delay in land acquisition/transfer would only add to the parameter of long gestation period. The residential vertical accounts for ~45% of GAV, the commercial vertical for ~27% of GAV, and the retail vertical for ~9% of GAV. The stock currently trades at 41% discount to our NAV of Rs274/share. **Under review.**

FY10 NAV OF RS274/SHARE

NAV CALCULATIONS	(RS M)	PER/SHARE (RS)	% OF NAV	% OF GAV
Residential	389,165	240	87	45
Apartment	220,726	136	50	26
Villas	151,132	93	34	18
Plots	17,307	11	4	2
Commercial	234,663	145	53	27
Retail	77,091	47	17	9
Hotels	87,427	54	20	10
IT Parks	0	0	0	0
Institutional Plots	18,747	12	4	2
Entertainment Park	6,539	4	1	1
Total	**813,633**	**501**	**183**	**95**
Add: Fund Mgt Business	5,537	3	1	1
Add: UCP	39,488	24	9	5
Gross Asset Value (GAV)	**858658**	**529**	**193**	**100**
Less: Tax	180,318	111	-40	-21
Add: Cash	14,082	9	-3	-2
Less: Debt	85,523	53	-19	-10
Less: Land Cost	30,000	18	-7	-3
Less: Operating Exp	73,227	45	-16	-9
Less: C Advances	58,250	36	-13	-7
Net Asset Value (NAV)	**445,422**	**274**	**100**	**52**

Source: Company/Motilal Oswal Securities

NAV calculation: key assumptions

1) We have factored in development plans which will be executed over the next 10 years (till FY17).
2) 'No' price increase in Gurgaon for apartments during FY08-17 and for commercial and retail space during FY08-12. From FY13 onwards, we assume a price CAGR of 5% in the commercial and retail space in the national capital region (NCR). Even in the existing lease contracts, which provide for a 15% increase at the end of every three years, we have assumed no increases in NCR till FY12. For other cities, we assume a price increase of 5% CAGR post FY09.
3) Stagnant prices across all cities and verticals for FY09.
4) 5% CAGR for cost of construction across all verticals and cities.
5) In the retail and commercial verticals, we have assumed a cap rate of 11% and 10.5% respectively. We have assumed 90% occupancy rates in both retail and commercial verticals across all cities.
6) Tax rate of 33.9% at corporate level for all projects (excluding IT SEZs).
7) We have assumed average construction period of 24 months for residential projects, 18 months for IT parks, 18-24 months for commercial offices, 24-30 months for retail, and 30 months for hotels.

NAV calculation: what we have not considered

Our estimated NAV of Rs274/share does not factor in the possible value creation from SEZs and fund management business.

A) SEZ plans: Given the uncertainty in terms of land acquisition and real estate development around large SEZ projects, we have not assigned any value to the SEZ plans of Unitech

1) New Kolkata International Development (SPV promoted by Salim Group, Universal Success Group and Unitech), which plans real estate development of 37,830acres, including 22,500acres as SEZ.
2) Planned 9,884acres SEZ at Kundli.

B) Fund management business: Unitech is fast transforming its business model on the lines of CapitaLand, Singapore, whose asset light business model focuses on early monetization for commercial projects through an REIT structure, thus increasing 'assets under management'. In FY07, Unitech sponsored Unitech Corporate Park (listed on AIM), which raised Rs32b, primarily intended towards investment in 21.5msf of office space under development by Unitech. Going forward, we expect Unitech to adopt a similar strategy and sponsor vehicles for early monetization of retail, hotel and amusement park ventures. Post completion of these projects, Unitech could also sponsor REIT structures to acquire constructed projects at lower capitalization rates, and further expand the fund management business.

The arrangement with UCP entitles Unitech to 2% of AUM as investment fees per year and a carry profit based on the IRR delivered. Going forward, this fee structure will lead to substantial value creation by the fund management business, as assets under management expand. Currently, our NAV estimate just factors in a value of Rs4b for the fund management business, based on the expected receivables from the current investment portfolio of UCP, which ignores future value creation possibility.

UCP: fee structure for Unitech

1) Investment management fees of 2% per year on AUM
2) Performance fees depending on IRR generated: 20% of that part of net cash flow generated that resulted in a project IRR of 10% to 20%; and 30% of that part of net cash flow generated that resulted in a project IRR of 20%+.
3) Project management expenses of 5% of construction cost
4) Brokerage income of three months for leased properties

Unitech: an investment profile

Unitech is the second largest listed real estate developer in India by market capitalization. It was incorporated in February 1971 and converted to a public limited company in October 1985. In 1986, it launched its real estate development business with its first project in Gurgaon. Unitech Group also has a construction business, which undertakes both civil construction and infrastructure projects.

Key investment arguments

- Asset Light model
- Introduction of new revenue streams from lease/ management fees.
- Aggregate additional land bank
- Improved revenue mix, with the share of residential segment to total revenues likely to decline from 94% during FY07 to 51% by FY10.

Key investment risks

- Highly leveraged balance sheet, a key concern
- Concentration in the NCR region
- Any weaker-than-expected GDP growth for the domestic economy could negatively impact sentiment of buyers, leading to elusive demand.

Recent developments

- Unitech has formed a strategic JV christened Shivalik Ventures for its foray into Mumbai RE market with two local developers – Rohan Group and Shivalik Ventures
- Lehman Brothers acquired 50% stake in phase I (1msf) of Unitech's SRA project on Western Express Highway (Golibar).
- It holds unified access service license (UASL) for all 22 circles and has paid Rs16.6b for license fee.

Valuation and view

- We have revised our NAV estimate for Unitech from Rs315/share to Rs274/share mainly to account for: (1) Increase in cap rate assumption for commercial vertical from 9% to 10.5% and retail vertical from 9% to 11%, (2) Removal of Dankuni project from our NAV estimate (due to political risks). **Under Review**

Sector view

- Indian real estate industry is witnessing consolidation and increase in market share of large RE companies.
- Indian real estate market will pass through a phase of efficient asset pricing and consolidation over the next 18-24 months. This would be largely driven by access to institutional funding.

COMPARATIVE VALUATIONS

		UNITECH	DLF	IBREL
P/E (x)	FY09E	23.9	14.2	20.7
	FY10E	10.9	12.8	6.5
P/BV (Rs)	FY09E	9.9	4.8	1.6
	FY10E	6.0	3.8	1.3
EV/Sales (x)	FY09E	7.9	7.0	8.9
	FY10E	3.8	6.1	1.6
EV/EBITDA (x)	FY09E	15.9	11.2	13.2
	FY10E	8.0	9.4	2.2

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	12.2	16.7	-27.0
FY10	26.7	25.3	5.5

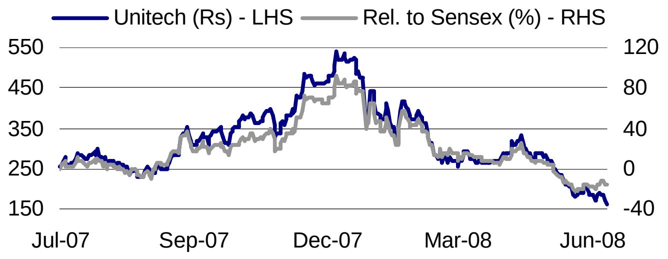
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
162	-	-	UR

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	74.6	74.6	74.6
Domestic Inst	2.0	1.9	0.3
Foreign	6.7	7.4	7.5
Others	16.7	16.1	17.6

STOCK PERFORMANCE (SINCE 29 JULY 2007)



INCOME STATEMENT					(Rs Million)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Net Sales	**9,264**	**32,883**	**44,911**	**67,863**	**135,930**
Change (%)	*-13.7*	*343.7*	*36.6*	*51.1*	*100.3*
Construction Expenses	9,142	10,946	18,070	26,250	56,922
Staff Cost	-1	0	0	0	1
Office & Site Establis. Exps	4,267	1,234	1,642	4,266	7,520
EBITDA	**1,686**	**20,018**	**23,112**	**33,877**	**64,796**
% of Net Sales	*18.2*	*60.9*	*51.5*	*49.9*	*47.7*
Depreciation	112	80	175	247	304
Interest	465	3,020	3,810	7,584	5,520
Other Income	281	1,000	1,127	693	689
PBT	**1,390**	**17,918**	**20,253**	**26,739**	**59,660**
Tax	513	4,864	4,096	7,210	16,739
Rate (%)	*36.9*	*27.1*	*20.2*	*27.0*	*28.1*
Reported PAT	**876**	**13,055**	**16,158**	**19,529**	**42,921**
Adjusted PAT	**871**	**13,055**	**16,158**	**19,529**	**42,921**
Change (%)	*51.2*	*1,846.7*	*24.7*	*20.9*	*119.8*

BALANCE SHEET					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Share Capital	125	1,623	3,247	3,247	3,247
Reserves	2,472	18,320	33,232	44,363	76,296
Net Worth	**2,597**	**19,944**	**36,479**	**47,610**	**79,543**
Loans	10,449	55,593	85,523	83,000	55,000
Deffered Tax Liability	1,208	20	430	1,151	2,825
Minority Interest	237	13	0	0	0
Capital Employed	**14,492**	**75,569**	**122,432**	**131,761**	**137,368**
Goodwill	**824**	**1,126**	**1,126**	**1,126**	**1,126**
Gross Fixed Assets	4,530	5,995	7,744	9,246	14,548
Less: Depreciation	911	0	175	423	727
Net Fixed Assets	**3,620**	**5,995**	**7,569**	**8,823**	**13,822**
Capital WIP	1,268	2,153	4,599	15,608	30,357
Investments	145	4,548	4,548	4,548	4,548
Curr. Assets	**38,661**	**117,078**	**146,369**	**195,904**	**241,450**
Inventory	5,831	548	0	0	0
Debtors	1,032	1,458	1,635	2,304	6,491
Cash & Bank Balance	3,899	10,229	14,082	17,314	11,476
Loans & Advances	2,860	18,397	44,466	83,552	132,437
Other Current Assets	25,039	86,447	86,187	92,735	91,045
Current Liab. & Prov.	**30,031**	**55,331**	**47,605**	**93,123**	**152,808**
Creditors	29,159	49,551	45,763	90,896	147,915
Provisions	872	5,780	1,842	2,226	4,893
Net Current Assets	**8,630**	**61,748**	**98,764**	**102,782**	**88,642**
Application of Funds	**14,491**	**75,569**	**115,479**	**131,761**	**137,368**

E: MOSt Estimates; # Fifteen months ended Mar 2006

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Basic (Rs)					
Adjusted EPS	**0.4**	**8.1**	**10.1**	**12.2**	**26.7**
Growth (%)	*148.1*	*1,846.7*	*24.7*	*21.5*	*118.2*
Cash EPS	1.2	20.3	24.1	32.7	66.2
Book Value	41.5	24.6	22.5	29.3	49.0
DPS	0.0	0.8	1.0	1.2	2.6
Payout (incl. Div. Tax.)	0.0	10.0	10.0	10.0	10.0
Valuation (x)					
P/E (standalone)	703.9	36.2	29.0	23.9	10.9
Cash P/E	241.6	14.4	12.1	8.9	4.4
EV/EBITDA	355.9	25.9	23.6	15.9	8.0
EV/Sales	64.8	15.8	12.1	7.9	3.8
Price/Book Value	7.0	11.9	13.0	9.9	6.0
Dividend Yield (%)	0.0	0.3	0.3	0.4	0.9
Profitability Ratios (%)					
RoE	26.0	65.7	44.8	41.7	54.5
RoCE	13.1	46.5	24.3	27.0	48.4
Leverage Ratio					
Debt/Equity (x)	4.0	2.8	2.3	1.7	0.7

CASH FLOW STATEMENT					
Y/E MARCH	2006	2007	2008E	2009E	2010E
PBT before Extraordinary It	**1,390**	**17,918**	**20,253**	**26,739**	**59,660**
Add : Depreciation	112	80	175	247	304
Interest	465	3,020	3,810	7,584	5,520
Less : Direct Taxes Paid	513	4,864	4,096	7,210	16,739
(Inc)/Dec in WC	-2,162	-47,276	-31,872	-454	8,757
CF from Operations	**-708**	**-31,121**	**-18,683**	**33,849**	**57,446**
(Inc)/Dec in FA	-3,518	-3,341	-4,195	-12,512	-20,051
(Pur)/Sale of Investments	358	-4,403	0	0	0
CF from Investments	**-3,161**	**-7,744**	**-4,195**	**-12,512**	**-20,051**
(Inc)/Dec in Networth	-1,165	4,559	2,453	-5,773	-4,820
(Inc)/Dec in Debt	6,686	45,143	29,930	-2,523	-28,000
Less : Interest Paid	465	3,020	3,810	7,584	5,520
Dividend Paid	0	1,488	1,842	2,226	4,893
CF from Fin. Activity	**5,056**	**45,194**	**26,731**	**-18,105**	**-43,233**
Inc/Dec of Cash	**1,182**	**6,329**	**3,853**	**3,232**	**-5,837**
Add: Beginning Balance	2,718	3,899	10,229	14,082	17,314
Closing Balance	**3,899**	**10,229**	**14,082**	**17,314**	**11,476**

E: MOSt Estimates

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