

RESULTS REVIEW

Share Data

Market Cap	Rs. 223.0 bn
Price	Rs. 109.10
BSE Sensex	16,719.50
Reuters	UNTE.BO
Bloomberg	UT IN
Avg. Volume (52 Week)	19.2 mn
52-Week High/Low	Rs. 128.7 / 21.8
Shares Outstanding	2,044.4 mn

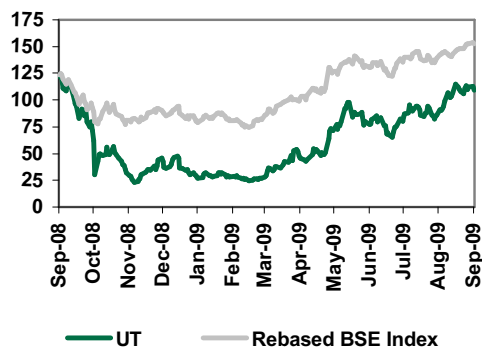
Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	6.0	8.4
+/- (%)	(18.4%)	38.8%
PER (x)	18.1x	13.0x
EV/ Sales (x)	8.1x	6.5x
EV/ EBITDA (x)	14.9x	12.6x

Shareholding Pattern (%)

Promoters	51
FII's	23
Public & Others	26

Relative Performance



Unitech Limited

Buy

Affordable housing is the key for growth

Although Unitech's Q1'10 financial performance improved marginally on qoq basis, it was adversely affected on yoy basis due to a sharp deterioration in demand, a decline in real estate prices, and high interest costs. However, we expect the Company to report better numbers in the coming quarters largely due to the improving residential demand, particularly in the affordable housing segment, and also considering the easing liquidity situation. Accordingly, we have revised our target price from Rs. 103 to Rs. 131 per share and maintained our Buy rating for the stock.

Residential sales volume steadily picking up: Unitech has sold around 5,000 residential apartments in the first quarter of FY10. Moreover, the attractive schemes launched by developers in the affordable housing segment, lower interest rates, easing liquidity scenario, and considerable drop in property prices are expected to propel the demand further, primarily in the mid-income and affordable housing segments.

Improved liquidity position: Unitech has been raising funds from the beginning of this year to improve its cash flow and to reduce its massive debt. The Company has raised nearly Rs. 45 bn through two rounds of qualified institutional placements (QIP). Besides, the Company has raised Rs. 16 bn in cash through the sale of non-core assets. As a result, the Company's debt decreased to ~Rs. 78 bn at the end of June 30, 2009.

Valuation: Unitech's stock is currently trading at a 16.7% discount to our NAV of Rs. 131. We believe that the stock has a long-term upside potential, primarily due to the increasing residential sales volume, coupled with the Company's comfortable liquidity position. Thus, we have maintained our Buy rating for the stock.

Key Figures (Consolidated)

Quarterly Data	Q1'09	Q4'09	Q1'10	YoY%	QoQ%	FY08	FY09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	10,317	3,856	5,149	(50.1%)	33.5%	41,404	28,897	(30.2%)
EBITDA	6,084	1,269	3,151	(48.2%)	148.3%	23,687	20,147	(14.9%)
Adj. Net Profit	4,225	2,776	1,381	(67.3%)	(50.3%)	16,618	11,977	(27.9%)
Margins(%)								
EBITDA	59.0%	32.9%	61.2%			57.2%	69.7%	
Adj. NPM	41.0%	72.0%	26.8%			40.1%	41.4%	
Per Share Data (Rs.)								
EPS	2.6	1.7	0.8	(69.0%)	(52.6%)	10.2	7.4	(27.9%)

Result Highlights

Unitech's consolidated revenue declined by 50.1% yoy to Rs. 5.1 bn in Q1'10 (excluding income from the sale of assets and investments), primarily due to a significant decline in the Real Estate segment's revenue during the period. However, on qoq basis, the Company's revenue surged by 33.5% mainly due to a 13.3% qoq increase in the Real Estate segment's revenue (which represents ~70% of the total revenue), reflecting an improved demand for affordable housing. At the same time, the Construction sector's revenue increased considerably by 61.8% qoq, owing to improved construction activity supported by the Government's stimulus packages and easing liquidity during the period.

The Company's EBIDTA margin also increased considerably from 32.9% in Q4'09 to 61.2% in Q1'10, largely due to a drop in construction and staff cost during the period. On yoy basis, the Company's EBITDA margin increased by 223 bps.

Unitech's Q1'10 adjusted net profit declined by 67.3% yoy and 50.3% qoq to Rs. 1.4 bn. This was primarily due to a considerable decline in other income and a significant increase in minority interest in Q1'10. At the same time, the Company's reported net profit declined considerably, though at a slightly lesser rate due to the income from the sale of assets and investments worth Rs. 250.6 mn during the period. The adjusted net profit margin also declined significantly from 41% in Q1'09 to 26.8% in Q1'10.

Key Events

- Unitech has sold ~5,000 residential apartments in Q1'10, compared to 300–400 units in the previous quarter.
- The Company has raised ~Rs. 16 bn cash through the sale of non-core assets such as the Saket office in New Delhi, Budget Hotel, Country Inns & Suites, and the sale of school plots in Gurgaon.

- Unitech has raised Rs. 45 bn equity capital since April 2009, which has placed the Company in a comfortable liquidity position. Further, the Company has repaid approximately Rs. 7 bn debt in the current year.
- Unitech has received approximately Rs. 3.9 bn towards repayment of loan from the first trench of investment received by Unitech Wireless from Telenor.

Quarterly Data	Q1'09	Q4'09	Q1'10	YoY%	QoQ%	TTM Ended Q1'09	TTM Ended Q1'10	YoY%
(Figures in Rs. mn, except per share data)								
Revenue								
Real Estate	9,140	3,199	3,623	(60.4%)	13.3%	37,557	18,647	(50.4%)
Construction	316	291	471	49.3%	61.8%	2,071	1,172	(43.4%)
Consulting	251	(327)	369	46.8%	NM	1,665	1,279	(23.2%)
Hospitality	31	19	27	(11.0%)	46.5%	125	119	(4.9%)
Electrical	206	379	352	71.2%	(7.2%)	722	1,092	51.4%
Others	373	295	306	(17.9%)	3.8%	1,335	1,421	6.4%
Total	10,317	3,856	5,149			43,473	23,730	
EBIT								
Real Estate	6,049	2,611	2,950	(51.2%)	13.0%	24,490	13,039	(46.8%)
Construction	42	8	170	310.6%	NM	135	229	70.0%
Consulting	251	(348)	365	45.6%	NM	1,179	1,253	6.2%
Hospitality	2	(13)	2	(5.3%)	NM	(0)	(1)	150.0%
Electrical	8	27	4	(47.4%)	(84.7%)	59	(5)	(107.9%)
Others	24	21	15	(37.0%)	(28.2%)	185	89	(52.1%)
Total	6,376	2,307	3,507			26,048	14,604	
EBIT margins								
Real Estate	66.2%	81.6%	81.4%			65.2%	69.9%	
Construction	13.1%	2.8%	36.1%			6.5%	19.5%	
Consulting	99.9%	NM	99.1%			70.9%	98.0%	
Hospitality	6.2%	(67.9%)	6.6%			(0.3%)	(0.8%)	
Electrical	3.8%	7.1%	1.2%			8.2%	(0.4%)	
Others	6.5%	7.2%	5.0%			13.9%	6.2%	

Source: Company data, Indiabulls Research

Note: Figures are presented on a consolidated basis

TTM - Trailing twelve months

Outlook

The fundamentals of the Real Estate industry are showing certain positive signals, primarily due to the easing liquidity scenario and the lower interest rates. Further, the stable government at the Centre is expected to encourage more FDI/FII investments into the Real Estate sector. The total number of PE deals announced during the first half of 2009 stood at a value of USD 2.9 bn, of which the highest proportion (USD 1.6 bn) was invested in real estate and infrastructure management.

Real estate industry is showing some positive signals primarily due to easing liquidity and lower interest rates

Improvement in residential-property demand: During the past three-four months, home sales have been steadily picking up, primarily in the affordable housing segment as compared to the slack witnessed during the second half of 2008 and most of Q1'09. We believe this improvement is largely due to the gradually increasing end-user confidence and realisation that prices have more or less bottomed out. In addition, the attractive schemes launched by developers in the affordable housing segment, lower interest rates, easing liquidity scenario, and considerable drop in property prices have improved the buyers' interest in affordable housing. In the Q1'10 quarter, Unitech has sold ~5,000 units primarily in the affordable housing segment, while DLF has managed to sell ~2,500 units during the period. Going forward, in the next few quarters we believe that the demand for residential property will continue to be driven by the affordable housing segment. In fact, the demand in this segment should accelerate further considering the Government's focus on promoting affordable housing and the huge untapped demand in this segment. Recently, the Government has announced a 1% interest rate subsidy on housing loans upto Rs. 1 mn (provided the cost of the house is not more than Rs. 2 mn) to spur the demand in this segment. As per Knight Frank Research, the total affordable housing demand across seven major cities in India is approximately 2.06 million units by 2011.

Commercial and retail property sales sluggish: The continuing slowdown in the IT/ITeS industry and the cautious expansion plans of the retailers has sapped the demand for property in the Commercial and Retail segments. In addition, the new supply in the market at regular intervals has created an oversupply situation in most of the prime cities. Thus, we expect the property sales and prices to remain under pressure in the medium term.

Unitech's Q1'10 financial performance has improved marginally on qoq basis, but was adversely affected on yoy basis due to the liquidity crisis and the slump in real estate demand. However, the Company's new launches have received good responses already. Unitech is planning to launch around ~30 mn sq. ft. (90% represents residential area) primarily in the

The Company's top line is expected to increase significantly in the coming years

affordable housing segment in this financial year. The Company has launched around 25 projects across seven cities and already sold ~5000 residential units in the first quarter of the current financial year. Further, Unitech's strategic focus on mid-income/affordable housing, coupled with slum redevelopment projects, with its joint venture partners is expected to boost its top-line in the coming years. We expect revenue to increase in the coming years at a CAGR of ~28% between FY09 and FY11.

EBITDA margins are expected to decline in the coming years. However, it can be offset to a certain extent by an increase in sales volume

However, we expect a drop in the EBITDA margins in future due to a shift in the Company's focus on building affordable and low-cost housing, which generally has margins lower than the luxury segment. We forecast the Company's EBITDA margins to be in the range of 50–55% in the coming years. At the same time, we believe that the decline in margins can be offset to a certain extent by an increase in sales volumes as affordable housing projects have the fastest absorption rate.

Valuation

We have revised our fair value estimate to Rs. 131 per share considering the improvement in the Company's residential sales volumes and better liquidity scenario. We have used a 17.8% cost of equity to value the Company and have arrived at a WACC of 14.8%. Our fair-value estimate of the Company represents a 20% potential upside to the current share price. Thus, we have maintained our Buy rating.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09	FY10E	FY11E	CAGR (%)
(Figures in Rs mn, except per share data)							(FY09-11E)
Net Sales	9,266	32,883	41,404	28,897	37,828	47,206	27.8%
EBITDA	1,806	20,109	23,687	20,147	20,616	24,311	9.9%
Net Profit	925	12,667	16,618	11,977	11,046	15,333	13.1%
Margins(%)							
EBITDA	19.5%	61.2%	57.2%	69.7%	54.5%	51.5%	
NPM	10.0%	38.5%	40.1%	41.4%	29.2%	32.5%	
Per Share Data (Rs.)							
EPS	0.6	7.8	10.2	7.4	6.0	8.4	6.5%
PER (x)	40.7x	62.6x	10.7x	14.8x	18.1x	13.0x	

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