

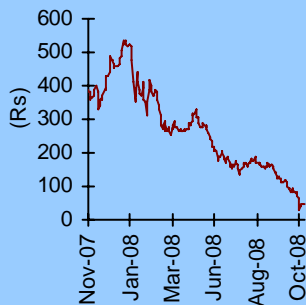
Real Estate

Shareholding pattern

	Mar '08	Jun '08	Sep '08
Promoters	74.6	74.6	74.6
Institutional investors	7.5	7.5	7.1
MFs and UTI	0.5	0.5	0.3
Insurance Cos.	1.5	1.5	1.5
FII's	5.4	5.4	5.3
Others	18.0	18.0	18.3

Source: NSE

Price chart



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INDIA

Unitech

HOLD

Upgrade from Sell

Rs48

Prolonged drudgery

Reason for report: Recommendation change & Q2FY09 results review

Unitech's Q2FY09 results were slightly below expectations, with revenues and PAT decreasing 3% YoY & 12% YoY to Rs9.8bn & Rs3.6bn respectively. EBITDA margin was at 62% versus 52% in Q2FY08. Q2FY09 revenues came in mainly from residential sale in Kolkata & national capital region (with respective contribution at 60:40) and stake sale to Lehman Brothers (that contributed Rs1bn to PAT). The company has managed to sell 60% stake in its telecom venture to Telenor for Rs61.2bn. This will help reduce Unitech's leverage by Rs12bn and contribute marginally to cashflow (cash inflow of Rs3bn).

To account for tight liquidity, sluggish transaction and price correction, we are lowering FY09E NAV 17% to Rs113/share from Rs137/share (target price lowered to Rs57/share from Rs117/share). Similarly, we are lowering FY09E & FY10E earnings 8% and 7% respectively. We have assumed 170bps and 200bps increase in the cost of equity & debt respectively, and 100bps rise in capitalisation rate. We continue to remain cautious on Unitech. However, there is limited downside from the current levels. We upgrade Unitech to HOLD from SELL.

- **Revenues & PAT dipped 3% YoY & 12% YoY** to Rs9.8bn & Rs3.6bn respectively. EBITDA margin was at 62% versus 52% in Q2FY08. Revenues and PAT were down 12% & 5% below our estimates. Higher contribution from stake sale to Lehman Brothers led to better margins and higher tax in Q2FY09. Unitech has Rs16bn cash & Rs100bn debt (Rs10bn to be paid by March '09) outstanding on its balance sheet.
- **NAV & earnings downgrade.** We are lowering FY09E NAV estimates 17% to Rs113/share from Rs137/share to account for slowdown in transaction volumes, tightening liquidity and delays in execution of large projects such as Bidadi (contributing Rs6 to NAV). We are also lowering FY09E & FY10E earnings 8% & 7% respectively. We have assumed 170bps and 200bps increase in the cost of equity & debt respectively, and 100bps rise in capitalisation rate to account for tight liquidity and adverse investor sentiments as regards realty.
- **Upgrade to HOLD.** We expect Unitech to trade at 50% discount to its NAV at Rs57/share and estimate revenue and PAT CAGR of 14% and 3% respectively through FY08-11E. Based on EPS estimates, Unitech trades at FY09E, FY10E & FY11E P/E of 4.8x, 4.5x & 4.4x respectively. We upgrade Unitech to HOLD from Sell.

Market Cap	Rs78bn/US\$1.7bn
Reuters/Bloomberg	UNTE.BO/UT IN
Shares Outstanding (mn)	1,623
52-week Range (Rs)	538/30
Free Float (%)	25.4
FII (%)	5.3
Daily Volume (US\$'000)	69,000
Absolute Return 3m (%)	(71.1)
Absolute Return 12m (%)	(87.4)
Sensex Return 3m (%)	(29.1)
Sensex Return 12m (%)	(47.2)

Year to March	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	41,145	46,608	53,642	60,688
Net Income (Rs mn)	16,613	16,125	17,208	17,908
EPS (Rs)	10.2	9.9	10.6	11.0
% Chg YoY	27.2	(2.9)	6.7	4.1
P/E (x)	4.7	4.8	4.5	4.4
CEPS (Rs)	10.4	10.4	11.5	12.5
EV/E (x)	6.2	5.9	5.7	5.7
Dividend Yield (%)	0.5	0.6	0.8	1.0
RoCE (%)	17.4	13.1	11.9	10.7
RoE (%)	59.4	36.8	28.8	23.4

Table 1: Q2FY09 results review*(Rs mn, year ending March 31)*

	Q2FY09	Q2FY08	% chg (YoY)	Q1FY09	% chg (QoQ)
Gross sales	9,831	10,135	(3.0)	10,317	(4.7)
Excise duty		0		0	
Net Sales	9,831	10,135	(3.0)	10,317	(4.7)
Other operating income		0		0	
Total Operating income	9,831	10,135	(3.0)	10,317	(4.7)
Raw Materials	3,426	4,829	(29.0)	3,935	(12.9)
Personnel Cost	312	30	944.8	298	4.9
Research & Development	0	0	-	0	-
Other Expenses	0	0	-	0	-
Total Expenses	3,739	4,859	(23.1)	4,233	(11.7)
EBITDA	6,092	5,276	15.5	6,084	0.1
Interest (Net)	1,341	790	69.8	1,079	24.3
Depreciation	38	236	(83.7)	68	(43.9)
Other Income	184	508	(63.8)	227	(19.1)
Recurring pre-tax income	4,896	4,759	2.9	5,164	(5.2)
Taxation	1,300	660	97.0	927	40.2
Recurring Net Income	3,597	4,099	(12.3)	4,237	(15.1)
Extraordinary item					
Less: Minority Interest	6	7	(17.4)	6	3.6
Add: Associates Profits	-2	9	(118.1)	2	-
Reported Net income	3,589	4,101	(12.0)	4,233	(15.2)

Source: Company data

Telenor acquired 60% in Unitech's telecom venture

Unitech has sold 60% in its telecom venture to Telenor (a Norwegian company) for Rs61.2bn, which pegs the value of Unitech's 40% stake at Rs40.8bn. However, we value this stake at 50% discount owing to significant execution and funding risks. Further, we have also factored in the valuation premium given by Telenor to acquire the majority stake.

Impact on Unitech's balance sheet

Unitech has made an equity contribution of Rs1.38bn and raised debt of Rs20bn for its telecom venture. Post the stake acquisition by Telenor, the telecom venture will transfer Rs3bn to Unitech, which was earlier given as debt to the telecom venture (Unitech intends to use the debt for its realty projects). Rs5bn debt will remain on Unitech's balance sheet as loan to the telecom subsidiary and the remaining Rs12bn debt will be transferred to the subsidiary from Unitech's consolidated balance sheet as the company will become a minority holder in the subsidiary. The transaction will slightly reduce Unitech's leverage by Rs 12bn and contribute marginally to cashflow (cash inflow at Rs3bn).

Valuations

We are lowering our FY09E NAV estimates 17% to Rs113/share from Rs137/share to account for slowdown in transaction volumes, tightening liquidity and execution delay in large projects such as Bidadi (contributing Rs6/share to NAV). We expect Unitech to trade at 50% discount to its NAV at Rs57/share.

We have assumed 170bps and 200bps increase in the cost of equity & debt respectively, and 100bps increase in capitalisation rate to account for tight liquidity and adverse investor sentiments as regards realty. We have valued Unitech's telecom venture at 50% discount to the valuation paid by Telenor.

Table 2: NAV revision*(Rs mn)*

Valuation	Current	Earlier	Remarks
Plots	8,145	8,775	
Villas	34,366	37,407	
Apartments	84,550	91,124	
Commercial	66,469	80,510	170bps& 200bps rise in cost of equity & cost of debt
IT Parks	15,932	19,958	respectively, 100bps rise in capitalisation rate
Retail	18,898	24,126	
Hotels	7,051	9,403	
Institutional	6,577	7,089	
Terminal value	7,336	10,577	PAT realisations decreased from Rs493/sqft to Rs429/sqft
Other assets	31,885	14,885	Telecom contribution now at Rs20.4bn versus Rs3.4bn
Pipeline value	281,210	303,853	
Land payment due	(21,613)	(22,277)	
Net debt	(75,859)	(58,928)	
NAV	183,739	222,648	
NAV/share	113	137	

Source: I-Sec Research

Financial Summary

Table 3: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	41,145	46,608	53,642	60,688
of which Exports	0	0	0	0
of which Domestic	41,145	41,626	48,581	55,564
Operating Expenses	19,107	22,613	26,284	29,895
EBITDA	22,038	23,995	27,358	30,793
% margins	53.6	51.5	51.0	50.7
Depreciation & Amortisation	205	760	1,398	2,346
Gross Interest	2,804	4,924	5,953	7,561
Other Income	1,649	1,845	1,914	2,073
Recurring PBT	20,678	20,156	21,921	22,959
Add: Extraordinaries	0	0	0	0
Less: Taxes	3,991	4,031	4,713	5,051
- Current tax	3,968	0	0	0
- Deferred tax	23	0	0	0
Less: Minority Interest	73	0	0	0
Net Income (Reported)	16,613	16,125	17,208	17,908
Recurring Net Income	16,613	16,125	17,208	17,908

Source: Company data, i-SEC Research

Table 4: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	199,575	226,346	264,340	299,860
of which cash & cash eqv.	26,596	30,400	36,687	39,867
Total Current Liabilities & Provisions	91,912	108,485	129,403	146,045
Net Current Assets	107,663	117,861	134,937	153,814
Investments				
of which	1,652	1,982	2,379	2,855
Strategic/Group	1,652	1,982	2,379	2,855
Other Marketable	0	0	0	0
Net Fixed Assets	31,442	44,479	63,468	86,089
of which				
Capital Work-in-Progress	20,982	26,624	29,631	34,059
Goodwill	1,126	1,126	1,126	1,126
Total Assets	141,882	165,448	201,909	243,883
Liabilities				
Borrowings	85,524	93,524	113,524	138,524
Deferred Tax Liability	19,196	19,196	19,196	19,196
Minority Interest	1,159	1,159	1,159	1,159
Equity Share Capital	3,247	3,247	3,247	3,247
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	27,670	43,235	59,696	76,671
Less: Misc. Exp. n.w.o.	1	0	0	0
Net Worth	36,004	51,570	68,031	85,005
Total Liabilities	141,882	165,448	201,909	243,883

Source: Company data, i-SEC Research

*excluding revaluation reserves; # = not written off

Table 7: Quarterly trends

(Rs mn, year ending March 31)

	Dec-07	Mar-08	Jun-08	Sep-08
Net sales	11,421	11,601	10,317	9,831
% growth (YoY)	13.9	36.7	19.2	(13.9)
EBITDA	7,344	4,818	6,084	6,092
Margin (%)	64.3	41.5	59.0	62.0
Other income	230	371	227	184
Add: Extraordinaries	0	0	0	0
Net profit	5,258	3,603	4,233	3,589

Source: Company data, i-SEC Research

Table 5: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	18,743	15,975	17,721	19,312
Working Capital Changes	(33,118)	(7,328)	(11,818)	(16,829)
Capital Commitments	(24,653)	(14,128)	(20,784)	(25,443)
Free Cash Flow	(39,029)	(5,481)	(14,881)	(22,959)
Cash flow from Investing Activities	1,649	1,845	1,914	2,073
Issue of Share Capital	1,623	0	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	45,718	8,000	20,000	25,000
Dividend paid	(475)	(560)	(747)	(933)
Extraordinary Items	0	0	0	0
Chg. in Cash & Bank balance	12,298	3,804	6,286	3,180

Source: Company data, i-SEC Research

Table 6: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (Rs)				
EPS(Basic Recurring)	10.2	9.9	10.6	11.0
Diluted Recurring EPS	10.2	9.9	10.6	11.0
Recurring Cash EPS	10.4	10.4	11.5	12.5
Dividend per share (DPS)	0.3	0.3	0.4	0.5
Book Value per share (BV)	22.2	31.8	41.9	52.4
Growth Ratios (%)				
Operating Income	25.1	13.3	15.1	13.1
EBITDA	20.5	8.9	14.0	12.6
Recurring Net Income	27.2	-2.9	6.7	4.1
Diluted Recurring EPS	27.2	-2.9	6.7	4.1
Diluted Recurring CEPS	28.0	0.4	10.2	8.9
Valuation Ratios (x)				
P/E	4.7	4.8	4.5	4.4
P/CEPS	4.6	4.6	4.2	3.8
P/BV	2.2	1.5	1.1	0.9
EV / EBITDA	6.2	5.9	5.7	5.7
EV / Operating Income	3.3	3.0	2.9	2.9
EV / Operating FCF	(3.5)	(25.7)	(10.4)	(7.7)
Operating Ratio				
Raw Material/Sales (%)	39.0	46.3	46.2	46.3
SG&A/Sales (%)	5.3	5.4	5.0	4.6
Other Income / PBT (%)	8.0	9.2	8.7	9.0
Effective Tax Rate (%)	19.3	20.0	21.5	22.0
NWC / Total Assets (%)	57.1	52.9	48.7	46.7
Inventory Turnover (days)	2,374	2,556	2,470	2,385
Receivables (days)	40	75	83	88
Payables (days)	151	150	151	151
D/E Ratio (x)	2.2	1.6	1.4	1.4
Return/Profitability Ratio (%)				
Recurring Net Income Margins	38.8	33.3	31.0	28.5
RoCE	17.4	13.1	11.9	10.7
RoNW	59.4	36.8	28.8	23.4
Dividend Payout Ratio	2.4	3.0	3.8	4.5
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margins	53.6	51.5	51.0	50.7

Source: Company data, i-SEC Research

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