

RESULTS REVIEW
Unitech Limited
Hold
Share Data

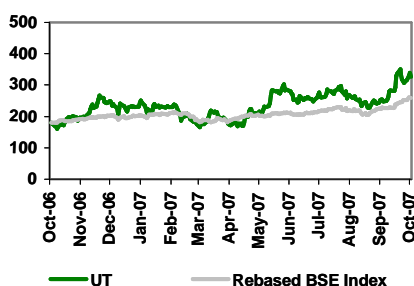
Market Cap	Rs. 530.6 bn
Price	Rs. 326.9
BSE Sensex	Rs. 17,773.4
Reuters	UNTE.BO
Bloomberg	UT IN
Avg. Volume (52 Week)	2.1 mn
52-Week High/Low	Rs. 367.9/157.1
Shares Outstanding	1,623.4 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	9.3	16.7
+/- (%)	16.0%	78.8%
PER (x)	35.0x	19.6x
EV/ Sales (x)	10.6x	6.6x
EV/ EBITDA (x)	20.2x	13.3x

Shareholding Pattern (%)

Promoters	75
FII's	8
Institutions	0
Public & Others	18

Relative Performance

Rising high

Unitech Limited (Unitech) registered an impressive performance in the quarter with net sales at Rs. 7,637 mn, an increase of 185.2% over the same period last year. On yoy basis, income from real estate sector accounted for more than 90% of the net sales while contribution from the construction business reduced to 4.9% from 21.7%. The rise in sales was driven by increase in the volume of residential units sold and higher realisation rates. Surge in demand from IT/ITeS sector for commercial space further contributed to the sales. On yoy basis, EBITDA increased by 546.3% to Rs. 4,912 mn, and margins improved by 3,590 bps to 64.3% as a result of higher realisation rate and reduction in construction costs. Net profit stood at Rs. 3,478 mn in Q108, an increase of 370.5% yoy.

Unitech's sales are expected to grow at a CAGR of 62.5% during FY07-09E as a result of rising demand for residential, commercial and retail space. The Company's venture in the hospitality segment is also expected to improve its topline. Currently, the real estate market is experiencing a low growth phase in comparison to the recent past and going forward we expect this to stabilize. Considering this, we expect EBITDA margins to come down from the present levels to 52.2% in FY08E.

Currently, Unitech is trading at a P/E of 35x for FY08E. Based on our results analysis and NAV estimate, we feel the stock is fairly valued at the current levels and any substantial reduction in price can be considered an opportunity to buy. Hence, we recommend a **Hold** rating on the stock.

Key Figures (Standalone)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	2,678	8,487	7,637	185.2%	(10.0%)
EBITDA	760	5,101	4,912	546.3%	(3.7%)
Net Profit	739	3,571	3,478	370.5%	(2.6%)
Margins(%)					
EBITDA	28.4%	60.1%	64.3%		
NPM	27.6%	42.1%	45.5%		
Per Share Data (Rs.)					
EPS	0.5	2.2	2.1	371.4%	(2.5%)

Result Highlights

Riding high on strong demand in residential segment

Unitech's net sales increased by 185.2% yoy to Rs. 7,637 mn which can be attributed to growing contribution of real estate business especially in the residential segment. On a yoy basis, Unitech's real estate business increased from Rs. 2,036.1 mn to Rs. 7,071.8 mn. The increase was primarily due to tremendous demand for residential units, early and improved realisations and the Company's widespread presence in urban as well as peripheral locations that captured the surge in demand.

Low acquisition cost of land helps realise better margins

EBITDA increased by 546.3% yoy to Rs. 4,912 mn and margins increased by 3,590 bps to 64.3%. Lower land acquisition rates, reduced material costs and lower development costs provided thrust to margins. We expect Unitech to continue its emphasis on the sale of luxury residential units that are less sensitive to price fluctuations.

Increase in debt causes interest expense to shoot up

Unitech's net profit jumped by 370.5% to Rs. 3,478 mn yoy while margins increased by 1,790 bps. On yoy basis, the Company's interest expense increased from Rs. 158.5 mn to Rs. 688.6 mn and we expect it to increase in the near term as it has various construction activities in the pipeline which include 28 hotels and 4 SEZs, which will increase the capital outlay.

Variety of projects in the luxury-segment launched in the quarter

Key Events

- The Company has announced a bonus issue in the ratio of 1:1 effective from 31 August, 2007.
- Unitech launched the following projects in this quarter: The Gateway, Harmony, Capella and The Grande.
- The Company plans to invest USD 720 mn in the next four years to construct 28 hotels in partnership with Marriott International, the world's biggest operator of luxury hotels.

Key Risks

- Delay in project completion and slowdown in residential demand to affect the Company's topline.
- Change in interest rates might affect the demand situation for residential units.
- Contribution from SEZ projects can be a possible upside.

Outlook and Valuation

The real estate sector is experiencing a boom and is expected to grow 30% yoy wherein residential properties will account for 80% of the total demand. With the launch of 'The Grande', Unitech expects to earn Rs. 150,000 mn from this project alone over a period of 7 years. The Company has also diversified its activities to include construction of amusement parks, IT SEZs, ownership of hotels and lately the telecom sector. It not only reduces Unitech's dependence on real estate sector but also provide scope for earning higher margins.

Currently, the demand from IT/ITeS has led to an increase in office space rentals while residential unit prices are stable due to hike in interest rates.

Unitech is currently trading at a forward PE of 35x and 19.6x for FY08E and FY09E, respectively. Based on our results analysis and NAV estimate, we feel the stock is fairly valued at the current levels and any substantial reduction in price can be considered an opportunity to buy. Hence, we recommend a **Hold** rating on the stock.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	6,447	9,264	32,883	53,942	86,807	62.5%
EBITDA	923	1,967	21,019	28,149	42,976	43.0%
Net Profit	334	841	13,055	15,149	27,089	44.0%
Margins(%)						
EBITDA	14.3%	21.2%	63.9%	52.2%	49.5%	
NPM	5.2%	9.1%	39.7%	28.1%	31.2%	
Per Share Data (Rs.)						
EPS	0.2	0.5	8.0	9.3	16.7	44.0%
PER (x)	14.3x	44.8x	40.6x	35.0x	19.6x	

Expected to generate long term benefits backed by high margin portfolio and economies of scale

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