

# Unitech

Bloomberg: UT IN Equity

Reuters: UNTE.BO

Recommendation: **HOLD**

No Change



## EVENT UPDATE

We attended Unitech Ltd.'s recent business restructuring analyst meet. Key takeaways:

- Unitech has proposed demerger of the infrastructure business into Unitech Infrastructure with a 1:1 swap ratio.
- Unitech Infra to house construction services, transmission towers, hotels, warehousing, road BOTs, amusement parks, industrial parks, SEZs, logistic parks and telecom investment.
- Unitech to hold 35% in Unitech Infra, while Unitech's promoters and existing shareholders to hold about 31.7% and 33.3% respectively.

### Key rationale for demerger

- Value creation:** Unitech Infra to add value over the long term, though the entity is expected to have a book value of Rs49,795mn and gross debt of Rs3500mn post demerger (the current book value may be lower at under Rs10bn). We already value these entities at Rs17.5bn in our SOTP and believe that the demerger scheme is value neutral. On a bull case assuming that the new entity gets listed at the proposed net worth giving a holding company discount of 30% post Unitech Infra listing, the SOTP would capture about Rs34bn, which is 2x our earlier estimates and translates to an incremental value of Rs7/share.
- Focus on individual business:** Infrastructure required large capital outlays and long term financing was not available under real estate structure. Besides, shareholders now have the option to choose whether they want to have exposure in real estate or infrastructure development projects. New structure enables Unitech Infra to use Unitech Ltd.'s net worth through cross-holding while bidding for large infrastructure projects viz. mega Expressways and also makes long-term availability of capital.

### Valuation

- Unitech is looking at contraction in volume during FY11E by about 19%, though it intends to maintain sales level in value terms similar to FY10E. The contraction in volume is expected to be compensated by rising real estate prices and change in product mix with focus on the luxury segment. Sales in Noida is seeing good traction during last two months and prices in cities ex-Mumbai are expected to remain stable with a slight positive bias, though they are still 15-20% off from their peak. We maintain our HOLD on the stock with a SOTP of Rs85.

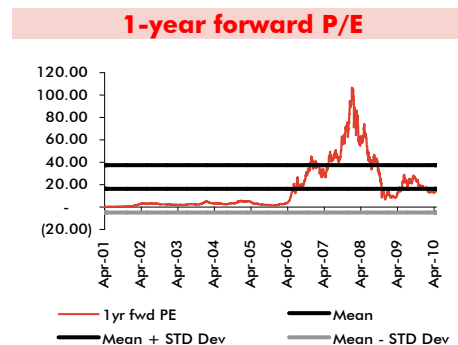
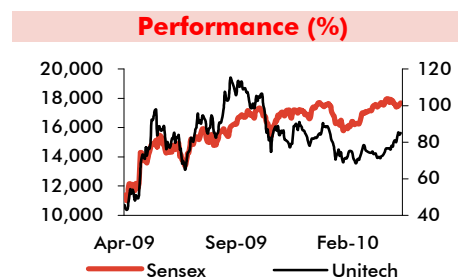
### Key financials

YE March (rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Revenues	32,883	41,404	28,574	30,275	49,751
EBITDA	20,018	22,290	15,565	9,694	17,990
EBITDA (%)	60.9%	53.8%	54.5%	32.0%	36.2%
Net Profit	13,055	16,692	11,968	7,526	14,632
EPS (Rs)	5.0	6.4	4.6	2.9	5.6
RoE (%)	114.6%	58.4%	26.8%	9.4%	12.1%
RoCE (%)	33.4%	18.2%	10.8%	4.6%	7.6%
P/E (x)	17.4	13.6	19.0	30.2	15.6
P/BV (x)	11.4	6.3	4.4	2.1	1.7

Source: Company, Ambit Capital research

Recommendation	
<b>CMP:</b> Rs	85
<b>Target Price (Period):</b> Rs	85
Previous TP: Rs	85
Upside(%)	0
<b>EPS (FY10):</b> Rs	2.9
% change from previous	0
Variance from consensus (%)	(10)

Stock Performance (%)				
	1M	3M	12M	YTD
Absolute	18.4	7.3	84.5	3.5
Rel. to Sensex	16.8	2.2	16.1	2.1



Stock Information	
Mkt cap:	Rs203,218mn/USD4,562mn
52-wk H/L:	118 /40
3M Avg. daily vol.(mn):	82
Beta(x):	1.9
BSE Sensex:	17,694
Nifty:	5,304

Source: Company, Ambit Capital research

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## Position and outlook on subsidiaries

- **General contracting business:** Looking at margins of about 7-10% at the net level, current order book of Rs22bn relating to 14mn sq.ft. of development as per Unitech LOI to Unitech Infra, transmission line order book of about Rs5.1bn.
- **Telecom business:** Unitech aims at achieving EBITDA breakeven within three years and operating cashflow breakeven in five years and a market share of about 8% by 2018E in telecom.
- **Road BOTs' outlook:** Unitech has guided that net worth of Unitech Infra post demerger would technically qualify them for bidding for big ticket road BOTs in the range Rs20-40bn, though they would still require to tie up with existing players for technical qualifications. Company expects to start bidding in FY11E.

## Strategy for Unitech Infra for next 2 years

- Monetise some of its existing assets and invest in highways, transmission lines BOTs and expanding in setting up and managing captive power at multiple real estate development locations.
- Stake monetisation in Telenor – until January 2011 Unitech cannot monetise its telecom investment since the sector will open for consolidation post this date. Unitech would evaluate opportunities post January 2011.
- Unitech's promoters' warrants conversion would occur before the effective merger date, funds will likely come into Unitech
- About Rs3,500mn of debt in Unitech Infra to be guaranteed by Unitech and no obligation beyond that.
- Unitech is looking at being a debt-free company in next two years resulting in a more favourable D/E ratio (In case no new land bank is acquired). Company is not looking at diluting any stake as of now.
- Unitech Infra – No dilution in near term; may look at fund raising if development pipeline starts ramping up; currently D/E at 0.1x and may change over longer term.
- Industrial and logistics park shall be initially monetised, one hotel can be monetised as early as end-CY10.
- Unihomes – launched six projects under this, which evinced mixed response; company trying to assess reasons for this and probably look at refining the product further
- Currently 35mn sq.ft. under execution mostly residential, 12-15mn sq.ft. may get added in FY11E. So there is a need for capacity augment and hence Unitech Infra will have to play a role there. Already Unitech Infra has about 14mn sq.ft. construction order book based on LOI from Unitech to Unitech Infra.
- Potential cities – there is pick up in Gurgaon, Mumbai, Chennai that have higher development potential while Kolkata is still trailing.
- For full year Unitech did sales of about 16.6mn sq.ft. which on an adjusted basis is about 14.81mn sq.ft. (of this, sales in 1.9mn sq.ft. Unitech has 50% share and in another 1.2mn sq.ft. Unitech has about 30% share). Revenue breakup Rs70bn expected to be reported during FY10 which on an adjusted basis should be about Rs60.45bn (Rs17bn sales Unitech has 50% share and for Rs1.5bn sales Unitech has about 30% stake).

**Exhibit 1: Profit & Loss**

<b>Y/E March (Rsmn)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>
<b>Sales</b>	<b>32,883</b>	<b>41,404</b>	<b>28,574</b>	<b>30,275</b>	<b>49,751</b>
Cost of Construction	11,164	16,870	10,508	17,422	26,804
Gross Profit	21,719	24,534	18,066	12,853	22,948
Salary	621	901	1,032	988	1,787
Other Expenses	1,080	1,343	1,469	2,170	3,171
<b>EBIDTA</b>	<b>20,018</b>	<b>22,290</b>	<b>15,565</b>	<b>9,694</b>	<b>17,990</b>
Depreciation	80	205	209	417	418
EBIT	19,938	22,085	15,356	9,277	17,571
Net Interest Expense	2,556	2,048	1,753	674	(1,092)
Other Income	536	641	789	828	870
<b>Profit Before Tax</b>	<b>17,918</b>	<b>20,678</b>	<b>14,392</b>	<b>9,431</b>	<b>19,534</b>
Tax	4,864	3,986	2,424	1,905	4,902
<b>Net Profit</b>	<b>13,055</b>	<b>16,692</b>	<b>11,968</b>	<b>7,526</b>	<b>14,632</b>
Adjusted Profit	13,055	16,692	11,968	7,526	14,632
<b>Key Parameters</b>					
<b>Margins %</b>					
EBIDTA Margin	60.9%	53.8%	54.5%	32.0%	36.2%
Net Profit Margin	39.7%	40.3%	41.9%	24.9%	29.4%
<b>Growth (%YoY)</b>					
Sales	134.6%	25.9%	-31.0%	6.0%	64.3%
EBIDTA	190.0%	11.3%	-30.2%	-37.7%	85.6%
Net Profit	173.1%	27.9%	-28.3%	-37.1%	94.4%

Source: Company, Ambit Capital research

**Exhibit 2: Balance sheet**

<b>Y/E March (Rsmn)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>
Equity Capital	1,623	3,247	3,247	4,778	5,233
Reserves & Surplus	18,320	32,758	48,448	102,636	127,943
<b>Shareholders funds</b>	<b>19,944</b>	<b>36,005</b>	<b>51,695</b>	<b>107,414</b>	<b>133,175</b>
Minority	13	1,159	615	615	615
<b>Loans</b>	<b>39,805</b>	<b>85,524</b>	<b>90,558</b>	<b>95,854</b>	<b>98,854</b>
Deferred Land payments	15,787	19,136	17,922	17,922	17,922
Deferred tax liability	20	60	14	14	14
<b>Total capital employed</b>	<b>75,569</b>	<b>141,883</b>	<b>160,803</b>	<b>221,818</b>	<b>250,579</b>
Gross block	6,986	11,120	22,502	22,577	22,652
Less: accu. Depreciation	991	661	1,003	1,419	1,838
Net Block	5,995	10,459	21,500	21,158	20,815
Capital WIP	2,153	20,982	11,758	14,693	17,759
<b>Net Fixed assets</b>	<b>8,148</b>	<b>31,442</b>	<b>33,257</b>	<b>35,851</b>	<b>38,574</b>
<b>Goodwill</b>	<b>1,126</b>	<b>1,126</b>	<b>11,672</b>	<b>11,672</b>	<b>11,672</b>
<b>Investments</b>	<b>4,548</b>	<b>14,165</b>	<b>15,808</b>	<b>15,808</b>	<b>15,808</b>
<b>Current Assets</b>	<b>117,077</b>	<b>178,094</b>	<b>202,081</b>	<b>265,336</b>	<b>318,035</b>
Inventories	548	422	368	368	368
Debtors	1,458	7,460	9,310	16,634	16,402
Cash and bank	10,227	14,083	6,448	50,719	88,157
Loans and advances	18,397	21,757	28,566	29,211	28,465
Projects in progress	86,447	134,372	157,388	168,403	184,644
<b>Current Liabilities</b>	<b>49,550</b>	<b>82,562</b>	<b>101,827</b>	<b>104,689</b>	<b>128,148</b>
Creditors	7,312	8,497	22,549	7,157	11,023
Advance from customers	41,533	71,119	74,453	92,466	111,805
Others	706	2,945	4,825	5,066	5,319
<b>Provisions</b>	<b>5,779</b>	<b>531</b>	<b>297</b>	<b>2,161</b>	<b>5,363</b>
<b>Net Current Assets</b>	<b>61,748</b>	<b>95,002</b>	<b>99,957</b>	<b>158,486</b>	<b>184,524</b>
<b>Misc Expenditure</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total capital employed</b>	<b>75,569</b>	<b>141,735</b>	<b>160,695</b>	<b>221,818</b>	<b>250,579</b>

Source: Ambit Capital research, Company

**Exhibit 3: Cash flow statement**

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Profit after tax	13,055	16,692	11,968	7,526	14,632
Depreciation	80	205	209	417	418
Other Adjustments	(566)	(641)	(809)	(828)	(870)
<b>Operating Income</b>	<b>12,569</b>	<b>16,257</b>	<b>11,368</b>	<b>7,115</b>	<b>14,180</b>
+ (Inc)/Dec in Debtors	(426)	(6,002)	(1,850)	(7,324)	233
+ (Inc)/Dec in Inventories	5,282	126	54	-	-
+ (Inc)/Dec in Loans & Advances	(15,537)	(3,361)	(6,809)	(645)	746
+ (Inc)/Dec in Projects in progress	(61,408)	(47,925)	(23,016)	(11,015)	(16,241)
+ Inc/(Dec) in Current Liab.	20,392	33,011	19,265	2,862	23,459
+ Inc/(Dec) in Provisions	4,907	(5,248)	(234)	1,864	3,202
<b>Operating cash flow</b>	<b>(34,221)</b>	<b>(13,142)</b>	<b>(1,221)</b>	<b>(7,143)</b>	<b>25,579</b>
+ (Inc)/Dec in Capital Expenditure	(3,341)	(23,499)	(2,025)	(3,011)	(3,141)
+ (Inc)/Dec in Investments	(4,403)	(9,617)	(1,643)	-	-
+ (Inc)/Dec in Goodwill	(302)	(0)	(10,547)	-	-
<b>Free Cash Flow</b>	<b>(42,267)</b>	<b>(46,258)</b>	<b>(15,436)</b>	<b>(10,154)</b>	<b>22,438</b>
+ Increase in Equity Capital	5,392	84	2,147	44,104	11,546
+ Inc/(Dec) in Long Term Loans	29,356	45,718	5,035	5,295	3,000
+ Other Income	566	661	809	828	870
+ (Inc)/Dec in Deferred liability-land	14,731	3,349	(1,214)	-	-
- Final Dividend	(477)	(475)	(340)	(214)	(416)
<b>Total Cash Generated</b>	<b>6,328</b>	<b>3,855</b>	<b>(7,634)</b>	<b>44,271</b>	<b>37,437</b>

Source: Company, Ambit Capital research

**Exhibit 4: Ratio analysis**

	FY07	FY08	FY09	FY10E	FY11E
EBIDTA Margin	60.9%	53.8%	54.5%	32.0%	36.2%
EBIT Margin	60.6%	53.3%	53.7%	30.6%	35.3%
Net Profit Margin	39.7%	40.3%	41.9%	24.9%	29.4%
ROCE	33.4%	18.2%	10.8%	4.6%	7.6%
ROE	114.6%	58.4%	26.8%	9.4%	12.1%
Current ratio	2.1	2.1	2.0	2.5	2.4

Source: Company, Ambit Capital research

**Exhibit 5: Valuation parameters**

	FY07	FY08	FY09	FY10E	FY11E
EPS (Rs)	5.0	6.4	4.6	2.9	5.6
Book Value per share (Rs)	7.6	13.8	19.8	41.1	50.9
P/E (x)	17.4	13.6	19.0	30.2	15.6
P/BV (x)	11.4	6.3	4.4	2.1	1.7
EV/EBITDA (x)	11.4	10.2	14.6	23.5	12.7
EV/Sales (x)	7.8	7.2	10.9	9.0	4.8

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	< 5%

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