Initiating Coverage

September 2, 2008

INDIA / REAL ESTATE

MF Global

Unitech Ltd.

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Underperformer / Rs 158
Target Rs 146 (-8%)

Stock Rating

B	OP	N	UP	S
> 10%	5% to 10%	5% to –5%	-5% to -10%	< -10%

Cracks wide open

We initiate coverage on Unitech Ltd. with an 'Underperformer' rating and FY09E price target of ~Rs 146, based on an NAV of ~Rs 126 per share, derived from the real estate business, and a value of ~Rs 20 per share attributed to its telecom venture. Unitech has a total land bank of ~13,756 acres, translating into a developable area of ~684 msf, spread across 17 cities. Amidst concerns such as waning property market, highly-leveraged balance sheet, significant setback in project launches, and inflationary pressures could lead to cost overruns, we believe that the current valuations do not price in the significant slowdown in the real estate cycle with execution and absorption risks.

Investment Concerns

- **Highly-leveraged balance sheet:** We believe that liquidity management (net debt/equity ratio of 1.9 x in FY08) would be a very challenging task, given the fact that the credit outlook has worsened with the tightening environment and adverse domestic demand conditions. We have modeled a *'pre-sales trend'* in the residential space, which may not exist going forward in certain geographies. This may call for further debt requirements in the absence of customer advances.
- **Delays in project launches:** Of the 25 projects expected to be launched, post Sept-2006 over 15 projects got delayed, which include some of the small-ticket projects measuring less than 50 acres also. The average period of delay is ~15 months till date.
- **Regional concentration poses absorption risk:** The residential segment constitutes 72% of the total developable area, of which, Chennai, Vizag and Kolkata, collectively account for ~284 msf (60% of the residential pie). We believe that this may expose Unitech to absorption and price risks in these markets.
- **Delay in REIT listing:** Unitech has postponed its ~USD 750mn Singapore listing, earlier scheduled for Jan '08, in the wake of the intrinsically stressed financial environment and overall adverse market sentiment. This would delay the process of asset monetisation.
- **Telecom venture is far from earnings-accretive:** We believe that Unitech's foray in telecom does not possess any real potential synergy with the existing business. Although the company is looking for fresh infusion of capital from a foreign telecom operator, we believe that the project is still in a nascent phase and it will take time to unlock value.

Valuation

We project earnings CAGR of ~23% for the company through FY08E-FY10E, primarily on account of sales booking of ~35msf in FY09 and FY10. At our FY09E price target of Rs 146, the stock currently trades at a premium of ~8%. Our valuation does not incorporate mega SEZs' plans, given issues related to land acquisition and low visibility.

This note should be read for
- Unitech's business model
- Investment concerns

Bloomberg code :	UT IN
Reuters code:	UNTE.BO
www.unitechgroup.com	
BSE Sensex:	14499
NSE Nifty:	4349

Company data	
Diluted shares :	1623mn
Market cap (Rs) :	257bn
Market cap (USD) :	5.8bn
52 - wk Hi/Lo (Rs) :	547 / 135
Avg. daily vol. (3mth) :	10mn
Face Value (Rs) :	2

Share holding pattern, %	
Promoters :	74.6
FII / NRI :	6.7
Non Promoter Corp. Holdings :	2.0
Indian Public:	8.6
Others:	8.1

Price performance, %	1mth	3mth	1yr
Abs	-6.7	-31.9	-34.3
Rel to BSE	-5.6	-20.2	-29.0

Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Total income	9,323	32,975	41,400	51,801	62,080
Growth, %	43.9	255.0	25.1	24.0	17.9
Core EBIDTA	1,744	18,373	22,286	25,000	29,816
EBIDTA margin, %	18.7	55.7	53.8	48.3	48.0
Net profit	844	1,2744	16,237	17,269	19,368
Net profit margin, %	9.1	38.7	39.5	33.8	32.2
EPS, Rs	0.5	7.9	10.0	10.6	11.9
Growth, %	152.4	1,410.5	27.4	6.4	12.2
PER, x	307.9	20.4	16.0	15.0	13.4
EV/EBIDTA, x	166.6	17.1	16.0	14.4	12.4
EV/Net Sales, x	31.4	9.6	8.6	7.0	6.1
Price/Book Value, x	100.4	14.2	7.6	5.3	3.9
ROIC, %	17.5	44.7	23.3	17.7	16.2
ROE, %	33.8	111.9	56.9	38.0	30.6
Dividend Yield, %	0.1	0.2	0.2	0.2	0.2

Source: Company, MF Global India Research Estimates. Report priced as of September 1, 2008.

Price vs. Sensex

Source: Bloomberg, MF Global India Research

INVESTMENT OVERVIEW

Sustainable competitive advantage	1) Low-cost sizeable land bank enables the company to offer its products at more attractive prices. 2) Nearly 70% of its land bank is procured from the government, which indicates the quality of land with clear titles and minimal risk. 3) Its execution and operating history of over three decades provides the company preferential advantage over its peers. Also, its successfully completed projects act as a model for first-time customers with regard to quality and final output of the product.
Financial structure	Highly-leveraged balance sheet, with net debt/equity ratio of 1.9x FY08. Our model assumes the continuation of the pre-sales trend in residential space, which may not be the case going forward, and this may call for further debt requirement in the absence of customer advances. As per our estimates, the company will shell out over Rs 10bn as interest cost, implying an interest coverage ratio of 2.4x. We have not factored in any external financing through the dilution of stakes at the project level.
Earnings visibility	We expect 23% CAGR in revenues, during FY08E-10E on account of sales recognition of ~35 msf of saleable space in FY09-10E. EBITDA margin is likely to remain under pressure on the back of a steep rise in input costs and as revenue from smaller cities, that is, Agra, Varanasi, Kochi, Vizag, etc., starts coming in.
Valuation	Our target price of ~Rs 146 is based on NAV of ~Rs 126 per share, derived from the real estate business and value of ~Rs 20 per share attributed to its recent telecom venture. At the CMP of Rs 160, the stock is trading at 15x FY09E earnings.
MF Global vs. Consensus	We are conservative on our EPS FY09E at Rs 10.6 versus consensus estimates of Rs 12.6
Future event triggers	Positive sentiments of the overall real estate market, favourable macro indicators, clarity on the telecom venture with respect to strategic alliances and rollout plans, and visibility in mega SEZ projects.
Expected price momentum	We expect Unitech to under-perform the market with an FY09E target price of Rs 146.

Source: MF Global India Research

Risks

- Steeper price correction in certain markets, unexpected delays in project launches, slower-than-expected absorption, and project level dilution (which reduces the company’s economic interest in the total land bank), poses a downside risk to our valuation.

- Quick development in the telecom foray and higher visibility on the SEZ front exposes our valuation to upside risks.

Rating and price target

Concerns such as waning property market (worsening credit outlook with the tightening environment, adverse domestic demand conditions, and overall poor market sentiment), highly-leveraged balance sheet (net debt/equity at 1.9x in FY08), significant setback in project launches (of the 25 projects expected to be launched post Oct-2006, over 15 of them are yet to get underway, with an average delay of 15 months till date), and inflationary pressures (could lead to cost overruns leading to a profit roll-over if actual costs incurred are higher than anticipated), we believe that the current valuations do not price in the significant slowdown in the realty cycle with execution and absorption risks.

We initiate coverage on Unitech with an 'Underperformer' rating and our FY09E target price of ~Rs 146, based on an NAV of ~Rs 126 per share derived from the realty business and ~Rs 20 per share attributed to its recent telecom venture.

Fair value calculation

Particulars	Rs mn	Rs / share	msf	% of target value
Plots	24,269	14.9	71.2	10%
Villas / Row houses	45,929	28.3	132.4	19%
Group Housing	115,709	71.3	361.0	49%
Commercial	87,926	54.2	86.5	37%
Retail	16,435	10.1	32.9	7%
GAV	290,268	178.8	684.0	122%
Hotels	8,423	5.2		4%
Other business, 10x FY09E earnings	15,449	9.5		7%
Net debt as on FY09E	-74,788	-46.1		-32%
Unpaid land cost as on FY09E	-35,000	-21.6		-15%
NAV	204,353	125.9		86%
Telecom business, 2x license cost	33,000	20.3		14%
Target value	237,353	146.2		100%

Source: MF Global India Research

Price Performance

Rs, %	CMP Close	1M	3M	6M	1Year	YTD
BSE Sensex	14,499	-1.1	-11.7	-17.5	-5.4	-28.5
Nifty	4,349	-1.5	-10.7	-16.7	-2.6	-29.2
BSE Reality	5,000	-3.8	-28.7	-47.7	-31.0	-60.7
Unitech	158	-6.7	-31.9	-55.9	-34.3	-67.6
DLF	495	-4.9	-15.8	-36.6	-17.3	-53.9
IBREL	294	0.8	-38.9	-53.5	-40.5	-60.6
Parsvnath	120	2.4	-39.0	-55.3	-60.3	-73.4

Source: Bloomberg

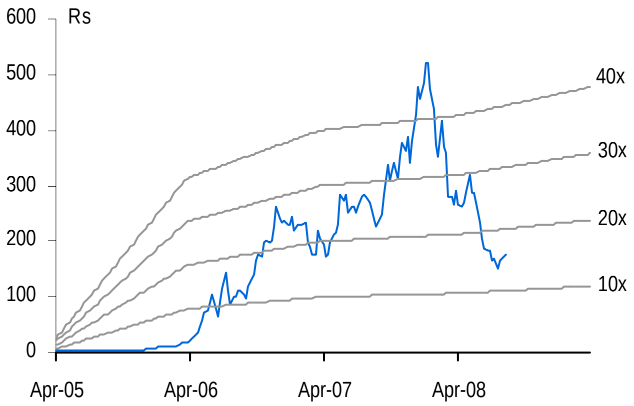
Peer group comparison

FY2009E	Unitech	DLF
PER	15.0	9.9
PBR	5.3	3.4
PSR	5.0	4.8
EV/EBITDA	14.4	7.4
EV/Sales	7.0	4.8

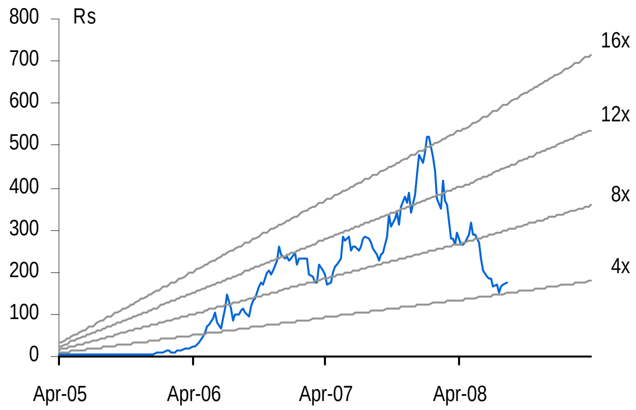
Source: Bloomberg, MF Global India Research Estimates

ABSOLUTE ROLLING VALUATION BAND CHARTS

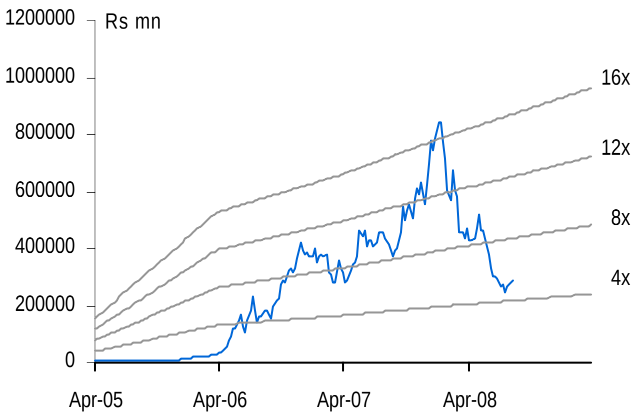
P/E band



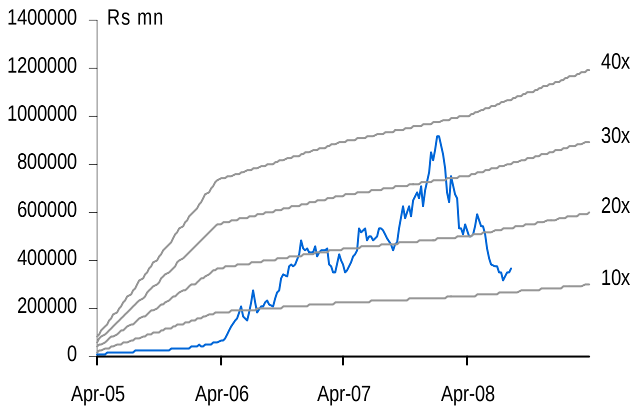
P/BV band



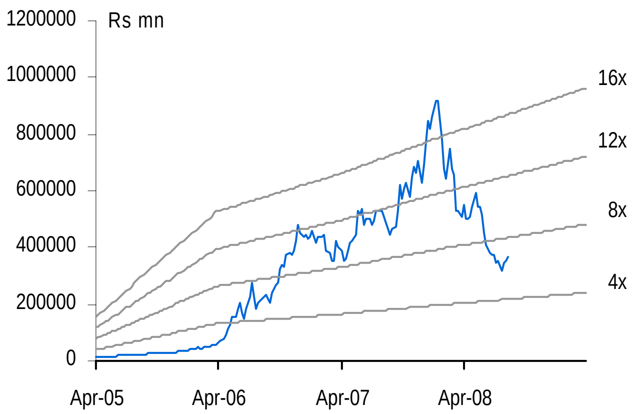
MCap/Sales band



EV/EBIDTA band



EV/Sales band



Source: MF Global India Research

FAIR VALUE CALCULATION

Our FY09E target price of ~Rs 146 is based on NAV of ~Rs 126 per share derived from real estate business and ~Rs 20 per share attributed to its recent telecom venture.

Fair value calculation

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Source: MF Global India Research

Our valuation model factors in the following key assumptions:

- Entire land bank of ~684msf (Unitech's economic interest) is to be developed by FY2030, with ~50% to be executed till FY15, ~28% over FY16-20 and the balance ~22% post FY20.
- Base realisation (Rs/sft) is taken at 10-15% discount from the peak levels in select geographies, with a 5% annual inflation post FY09.
- Annual inflation of 5% in construction cost, irrespective of the verticals and geographies.
- For commercial and retail properties, we have assumed, on a selective basis, that Unitech would exit ~45% of the properties and the rest would remain in Unitech's book generating lease rentals. Further, we have assumed an occupancy level of 90% across all cities.
- We have taken the tax rate at 34% for all the verticals.

WACC Calculation

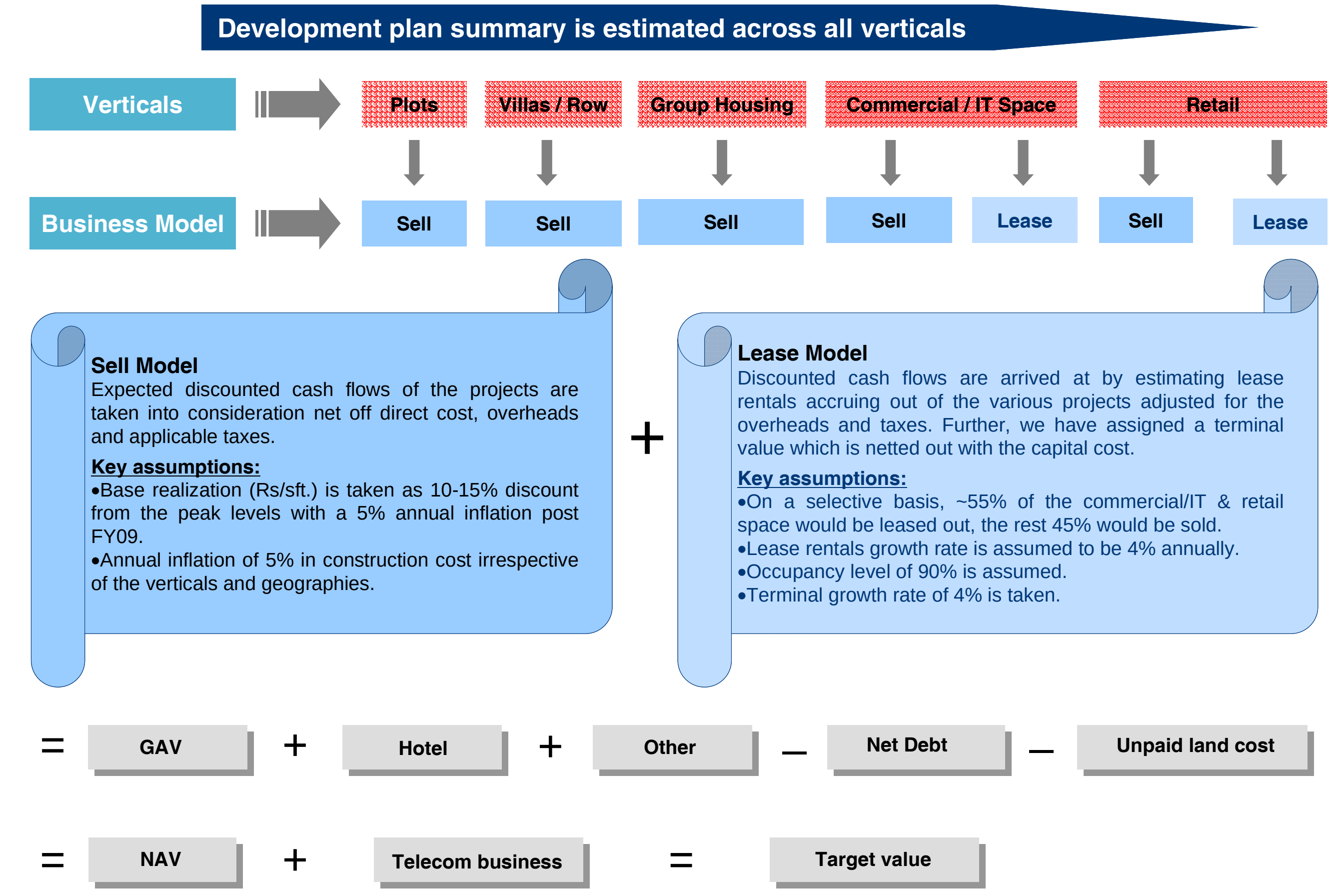
Risk-free rate, %	9%
Risk premium, %	6%
Beta, x	1.6
Cost of equity, %	18%
Cost of debt, %	14%
Tax rate, %	34%
Post-tax cost of debt, %	9%
Debt/Equity, x	1.0
WACC, %	14%

Source: MF Global India Research

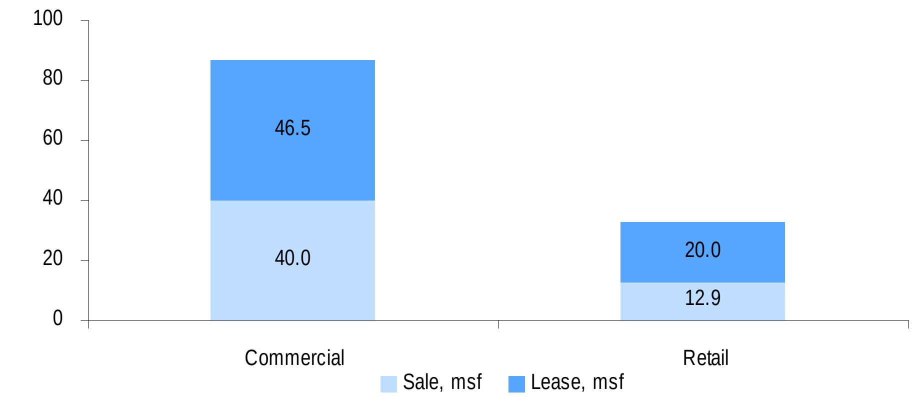
VALUATION METHODOLOGY, LAND BANK & GAV ANALYSIS, SENSITIVITY VALUATION

Valuation methodology

We detail our valuation methodology in as follows:



Break-up of Sale/Lease, msf



Source: MF Global India Research

Key base price assumptions

Residential space

City	Location	Rs/ sf
Chennai	OMR belt	3,000
Hyderabad	Moulali, Alwal	2,250
Vizag	Northern side of the city, Bimalipatnam	2,250
Kochi	Multiple locations	2,250
Bangalore	New airport, Yelahanka, Whitefield	2,500
Kolkata	Rajarhat	3,000
Kolkata	Dankuni	1,500
Kolkata	Kalyani, Baruipur, Haringatta	2,000
Siliguri	-	1,800
Agra	Near Fatehabad Road	2,000
Varanasi	Near G.T.Kanpur Road	2,000
Gurgaon	Multiple locations	4,500
Noida	G.N.Expressway, Unitech Grande	7,200
Greater Noida	Multiple locations	3,000

Source: MF Global India Research

Commercial office rentals

City	Rs / sf / month
Chennai	35
Hyderabad	35
Agra	28
Varanasi	28
Siliguri	28
Mumbai	225
Kolkata	35
Kolkata, Dankuni	25
Bangalore	42
Delhi	125

Source: MF Global India Research

Mall rentals

City	Rs / sf / month
Delhi	150
Gurgaon	80
Bangalore	60
Kolkata	45
Chennai	55
Hyderabad	50
Agra	40
Varanasi	40

Source: MF Global India Research

LAND BANK & GAV ANALYSIS

Unitech has a total land bank of ~13,756 acres, translating into a developable area of ~684 msf at an average acquisition cost of Rs 200/sq. ft. which is in line with industry peers.

Geographically, the top four cities, i.e. Kolkata (144.5 msf, 21.1%), Chennai (117 msf, 17.1%), Vizag (100.3 msf, 14.7%) and Gurgaon (51.1 msf, 7.5%), account for 60% of the total land bank and the balance ~40% is in the remaining 14 cities. To our mind, the concentration of land holdings, especially in the smaller cities (where operating margins are usually lower), such as Vizag, Dankuni (Kolkata), Agra, and Varanasi together account for 35% of the total developable area and this exposes Unitech to absorption and price risks in these markets.

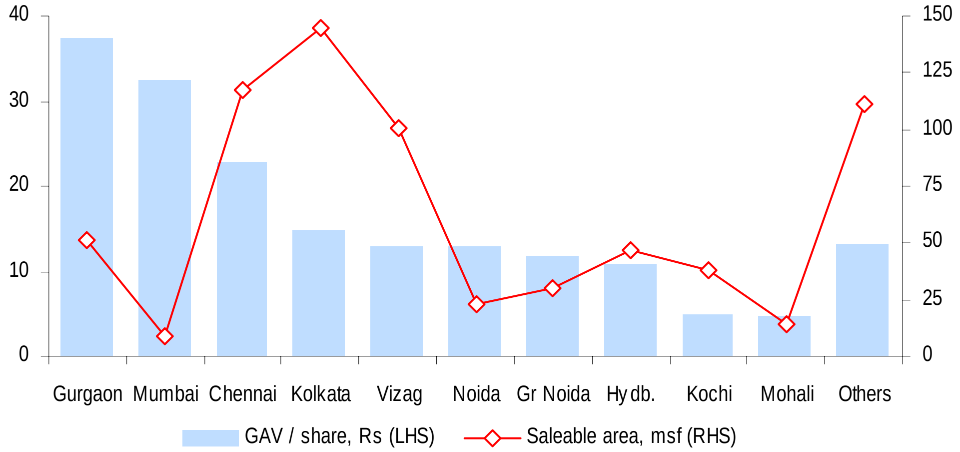
The residential segment constitutes 72% of the total developable area, of which Chennai, Vizag and Kolkata collectively account for ~284msf (60% of the residential pie). Given the current state of economic activities, we do not believe that these cities will have such high residential absorption rate, keeping in mind the ambitious plans of other realty players. Moreover, some of the developers have announced their plans for affordable housing formats, which would keep pricing of residential space in check.

Development plans, msf

Location	Resi. Plots	Villas/ Row	Group Hous.	Comm.	Comm. IT	Retail	Institutional Plots	Total	*% of total*
Chennai	8.3	50.3	41.6	6.2	2.9	3.2	4.6	117.0	*17.1%*
Hyderabad	1.8	3.3	29.9	4.0	5.8	2.1	-	46.8	*6.8%*
Vizag	-	27.0	62.0	-	8.5	2.0	0.8	100.3	*14.7%*
Kochi	2.7	10.5	17.7	1.1	2.5	3.0	-	37.5	*5.5%*
Bangalore	-	-	7.1	0.3	-	0.4	-	7.7	*1.1%*
Kolkata	7.4	10.8	92.3	13.9	4.9	3.3	12.1	144.5	*21.1%*
Bhubaneshwar	-	-	-	-	-	0.8	-	0.8	*0.1%*
Siliguri	-	-	7.4	1.1	1.1	0.5	-	10.1	*1.5%*
Chandigarh	-	-	-	-	-	0.6	-	0.6	*0.1%*
Mohali	1.1	3.4	6.9	-	-	1.4	1.5	14.4	*2.1%*
Agra	6.5	6.5	13.1	7.8	-	3.9	5.2	43.1	*6.3%*
Varanasi	6.5	4.7	17.6	3.9	-	7.8	7.8	48.5	*7.1%*
Mumbai	-	-	-	8.8	-	-	-	8.8	*1.3%*
Goa	-	-	-	-	-	-	-	-	*0.0%*
Gurgaon	-	15.8	22.9	1.5	4.2	2.4	4.3	51.1	*7.5%*
Noida	-	-	18.6	-	3.2	0.6	0.3	22.8	*3.3%*
Gr. Noida	-	-	24.0	1.7	3.1	0.8	0.2	29.7	*4.3%*
Delhi	-	-	-	0.2	-	0.1	-	0.3	*0.0%*
Total	34.5	132.4	361.0	50.4	36.1	32.9	36.8	684.0	*100.0%*

Source: Company, MF Global India Research

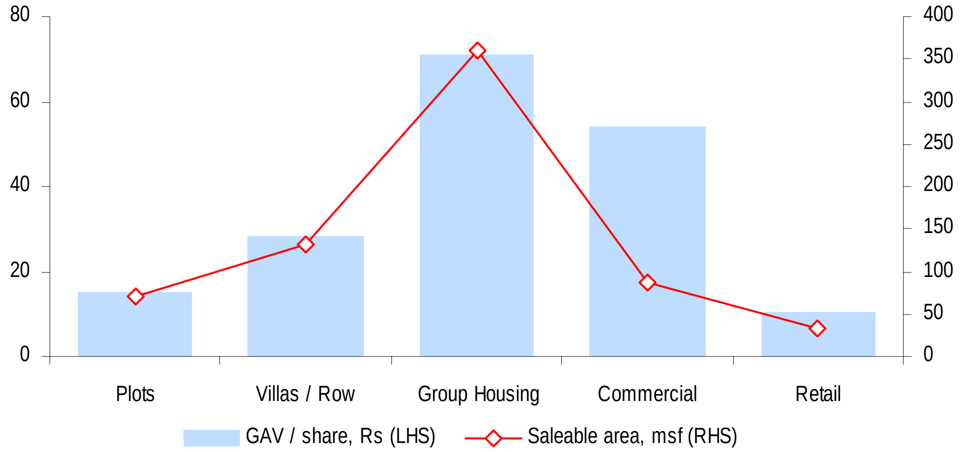
Location-wise contribution to GAV



Source: MF Global India Research

Presence in cities like Vizag, Agra, Varanasi, Kochi and Kolkata accounts for 23% of GAV, although developable area constitutes for 55% of the total.

Vertical-wise contribution to GAV



Source: MF Global India Research

The residential segment contributes ~56% of the GAV and within the residential space, land holdings are concentrated in Chennai, Vizag and Kolkata; this exposes the company to absorption and price risks.

Sensitivity Valuation

Change in Realisation	- 10%	- 5%	0%	+ 5%	+ 10%
Target Value, Rs/share	116	132	146	163	178

Change in Construction cost	- 7%	- 3%	0%	+ 3%	+ 7%
Target Value, Rs/share	160	152	146	140	133

Change in WACC	- 200 bps	- 100 bps	0 bps	+ 100 bps	+ 200 bps
Target Value, Rs/share	183	163	146	132	120

Source: MF Global India Research

Sensitivity of sell/lease model for commercial properties to valuation

	Rs/share
Lease, 35%	57.9
Lease, 55% (our assumption)	54.2
Lease, 75%	50.4

Source: MF Global India Research

INVESTMENT CONCERNS

Waning property market

Any slowdown in the pace of economic growth could impact the real estate sector adversely. Mortgage rates are already up by 125-150 bps over the past two quarters and any further hike may impact housing demand adversely. Considering the capital-intensive nature of the real estate industry, any unfavourable change in government policies with regard to the availability of real estate financing, could impact the availability of finance for real estate development, thereby impacting cash flows and expansion plans.

The real estate industry is cyclical in nature, which might limit the realisation in property prices. The situation gets aggravated, as not only do the prices decline, but property inventory also becomes illiquid over a longer period of time. A significant decline in property prices could affect our earnings estimates and valuations.

It is a well-known fact that in the past couple of years, the commercial sector, led by IT and ITES, has been the driving force behind the increasing demand for office space in cities across India. For commercial IT space, Unitech has not confined only to the NCR region, but has also spread out into second rung cities such as Hyderabad, Vizag, Kolkata, Kochi and Chennai. Also, for some of the projects, residential space plays have business models derived on the IT/ITES business. Any slowdown in the corporate sector would adversely impact Unitech's growth in the residential as well as retail space. *(Please refer to Appendix for the current real estate outlook in major micro markets across India)*.

Liquidity management - A tough task ahead

The option of debt financing for the sector has become expensive over the past 12 months. This is manifested in the fact that the company raised non-convertible debentures (NCDs) at 12.25% in FY08 as compared to 9.05% (a rise of 320bps), a year earlier. Unitech's FY08 gross debt/equity ratio stood at 2.3x, with a debt of Rs 85bn. However, this could be attributed to a debt of Rs 15bn taken as payment for a pan-India telecom license. For FY09, we have estimated debt of Rs 87bn. However, our model assumes continuation of pre-sale phenomena in residential sales, which may not be the case going forward. This may call for further debt raising in the absence of customer advances. As per our estimates, the company will shell out over Rs 10bn, implying an interest coverage ratio of 2.4x. We have not factored in any external financing through stake dilution at the project level. However, the company expects the debt level to come down primarily due to project level dilution in some of its hotel and retail projects. Going forward, we believe that the liquidity management would be a challenging task for the company, given the fact that credit outlook for realty sector has exacerbated with the global credit crunch, tightening environment (hardening of interest rates), adverse domestic demand conditions and overall adverse market sentiments. This would further delay Unitech's plans for a REIT listing in Singapore.

Delays in project launches

Of the 25 projects expected to be launched post Sept-2006, over 15 projects got delayed, which include some of the small-ticket projects measuring less than 50 acres also. The average period of delay is ~15 months till date.

Snapshot of key projects that got delayed

Project	Likely start date	Delay, in months	Acres
Kolkata - 3	Jan - 2008	8	4840
Chennai - 1	Jun - 2007	15	2040
Agra -1	Aug - 2007	13	1500
Varanasi - 1	Aug - 2007	13	1500
Gurgaon - 12	Jun - 2007	15	410
Kochi - 1	Sep - 2007	12	353
Gurgaon -1	Oct - 2007	11	258
Kochi - 3	Feb - 2007	19	250
Hyderabad - 3	Dec -2006	21	120
Hyderabad - 1	Feb - 2007	19	119
Hyderabad - 4	Oct - 2007	11	84
Kochi - 2	Dec - 2007	9	70
Chennai - 2	Nov - 2006	22	45
Bangalore - 1	Sep - 2007	12	36
Hyderabad - 2	Feb - 2007	19	36

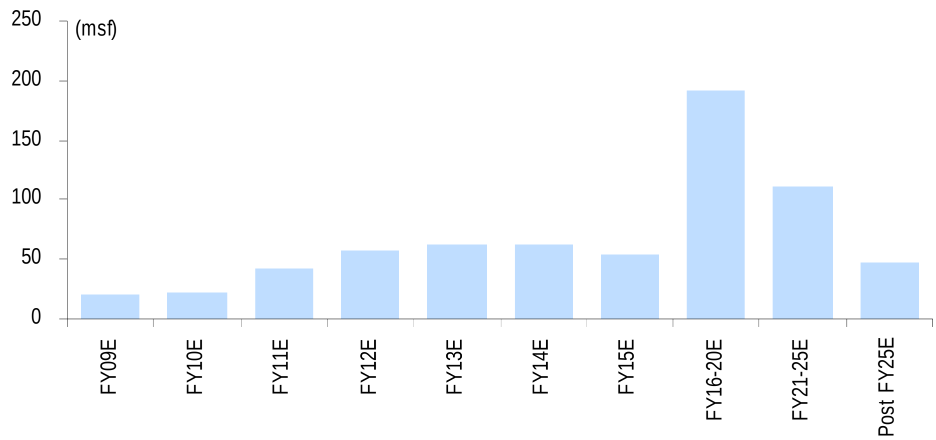
Source: MF Global India Research

Even the small-ticket size projects are getting delayed

Execution concern looming large

Unitech currently has over 50 msf of area under construction, consisting of ~30 msf of residential space and over 20 msf of commercial space. The company intends to launch ~40 msf in FY09, consisting of ~20 msf in NCR and Kolkata and the rest ~20 msf in Chennai, Hyderabad, Kochi, Bangalore and Mumbai.

Execution schedule, msf



Source: MF Global India Research

We believe that the company needs to ramp up their launch plans aggressively to achieve growth post FY10. Although the company would be entering newer geographies, which would speed up the launch of new projects, the execution plans could observe temperance due to the existing slowdown in the real estate industry.

Regional concentration poses absorption risk

The concentration of land holdings, especially in cities (where operating margins are usually lower), such as Vizag, Dankuni (Kolkata), Agra and Varanasi together accounts for 35% of the total developable area and exposes Unitech to absorption and price risks in these markets.

The residential segment constitutes 72% of the total developable area, of which Chennai, Vizag and Kolkata collectively accounts for ~284 msf (60% of the residential pie). Going forward, we believe that this may put extra pressure, given the current state of economic activities. Also, we do not anticipate that these cities will have such high residential absorption rates, keeping in mind the ambitious plans of other realty players. In addition, some of the developers have announced their plans for affordable housing formats, which would make competition intense and keep pricing of residential space in check.

Unitech intends to develop 11.8 msf of retail space in Agra and Varanasi. Given the fact that Unitech currently has three operational malls with a cumulative area of 1.34 msf; "The Great India Place, Noida" being one of the largest malls in India with a leaseable area of 1 msf, we believe that this poses an absorption risk of retail space in these two cities.

Cost pressure

Inflationary pressures in terms of increase in cement and steel prices over the last two years will have an impact on the company's margins as developers are left with no room even to increase the prices of their products. Any further rise in the construction cost could impact Unitech's bottom-line adversely. Going forward, we believe that there could be cost overruns leading to profit rollover if actual costs incurred are higher than anticipated.

COMPANY BACKGROUND

Established in 1971, Unitech, led by Ramesh Chandra, is India's second largest real estate company by market capitalisation. Although the company started off as a civil engineering company, presently, it has a significant interest in all segments of real estate, such as residential apartments, commercial office space, entertainment, hospitality and retail malls. Primarily, the company focused on NCR region for its real estate development; however the company has fast established a pan-India presence. It also has a presence on a small scale in fund management and transmission towers. Recently, the company has acquired a pan-India telecom license to operate across 22 telecom circles across India and also has been allotted spectrum for Tamil Nadu (including Chennai), Kerala, Andhra Pradesh, Orissa and Karnataka circles. According to the management, a roll out is expected to happen by the end of this fiscal year.

Business model overview

Residential	Develop and sell; self liquidating model
Commercial	Develop, lease, retain operational control and monetize stake
Entertainment	Develop and operate
Retail	Develop, lease, provide efficient mall management and monetize stake
Hotels	Develop, own, ensure professional management by hotel chains, and exit
SEZs	To capitalize on the experience of real estate business

Completed projects

Unitech is credited with the development of ~1065 acres of township development and over 15 msf of residential and commercial space since inception.

Selected Apartment Complexes

Project	Location	Area, msf	# of apartments
Heritage City	Gurgaon	1.8	725
The Palms	Gurgaon	0.8	499
Uniworld City	Gurgaon	1.3	516
Ivory & Rakshak	Gurgaon	0.5	388
Nirvana Country	Gurgaon	1.0	797
Heritage Estate	Bangalore	0.3	372
Sunbreeze Towers	Ghaziabad	0.3	222
Total		6.0	3,519

Source: Company, MF Global India Research

Selected Townships

Project	Location	Area, acres
South City-I	Gurgaon	300
Vista Villas	Gurgaon	15
Greenwood City	Gurgaon	130
South City-II	Gurgaon	200
South City	Lucknow	300
South City	Aurangabad	120
Total		1,065.0

Source: Company, MF Global India Research

Selected Commercial Projects

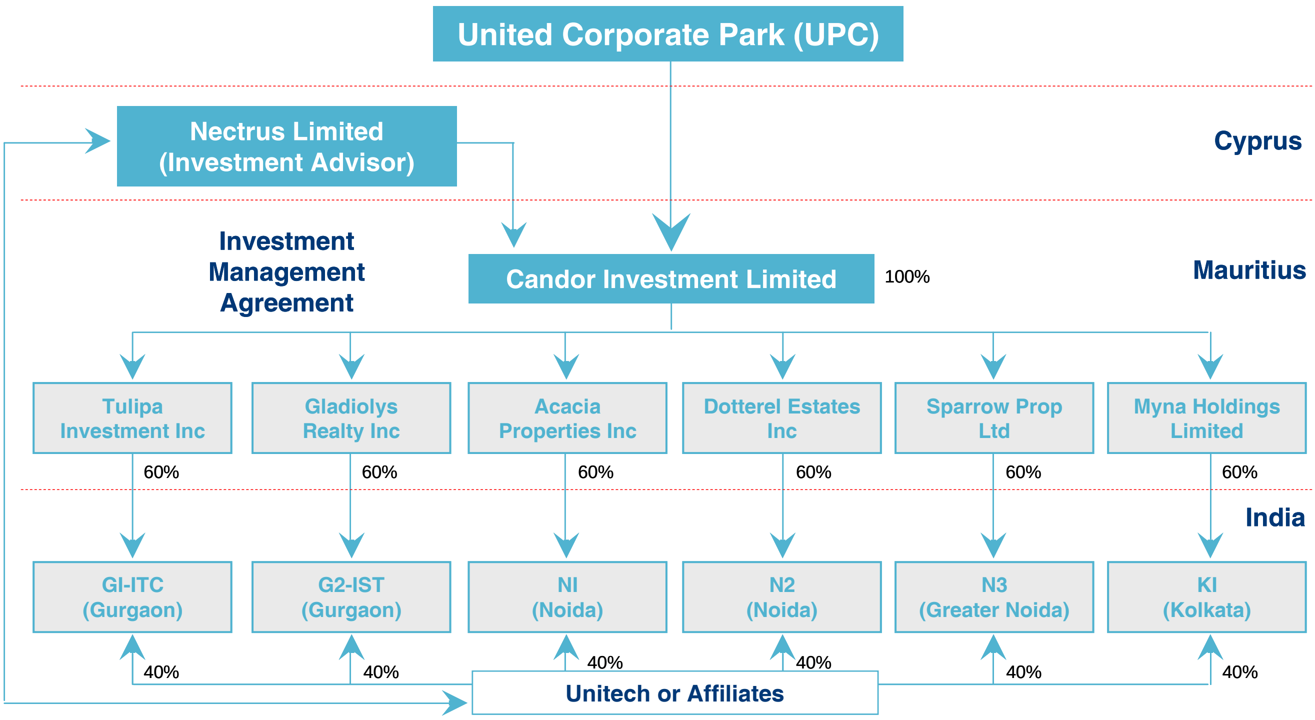
Project	Location	Area, msf
Signature Towers	Gurgaon	0.3
Millennium Plaza	Gurgaon	0.2
Global Business Park	Gurgaon	0.5
Unitech Trade Center	Gurgaon	0.3
Unitech Business Park	Gurgaon	0.2
Infocity	Gurgaon	0.2
Unitech Crest	Gurgaon	0.1
Ciena Telecom (Built-to-suit)	Gurgaon	0.1
Total		1.9

Source: Company, MF Global India Research

Unitech Corporate Park Plc.

Singapore trust listing to monetise commercial assets

UCP is an AIM-listed entity in UK, incorporated to invest in Indian real estate, primarily focused on IT Parks/IT SEZs developments in order to speed up the monetisation process of Unitech's properties. UCP raised £360 mn in December 2006, of which £317mn was invested to acquire a 60% stake in Unitech's 6 seed portfolio assets with a developable area of 21 msf spanning across Gurgaon, Noida, Greater Noida and Kolkata. Unitech, along with its affiliates, holds around a 40% stake in each of these six properties. Market cap as on 1 September 2008 stood at £162 mn, a discount of 53% on the issue price.



Source: Company

Further, Unitech expects UCP to cash out by listing the assets on the Singapore Stock Exchange through a REIT listing. However, given the fact that the credit outlook for the realty sector has exacerbated with a global credit crunch, tightening environment (hardening of interest rates), adverse domestic demand conditions and overall adverse market sentiments, Unitech had to delay the listing of its business trust, which is likely to impede UCP's objective to buy more assets from Unitech, thereby putting a strain on cash flows.

Project	Micro market	Type	Area, acres	Developable area, msf	Current status
G1-ITC	Gurgaon	IT/ITES SEZ	24.7	3.3	Commenced construction, rentals expected in end FY10
G2-IST	Gurgaon	IT/ITES SEZ	28.4	3.7	Rentals accruing from first phase on ~0.5 msf
N1	Noida	IT Park	19.3	2.0	Construction on, rentals expected in FY10
N2	Noida	IT/ITES SEZ	29.7	3.1	Construction on, rentals expected in FY10
N3	Greater Noida	IT/ITES SEZ	50.0	4.9	Commenced construction, rentals expected in end FY10
K1	Kolkata	IT/ITES SEZ	45.4	4.4	Rentals accruing from part of the project
Total			197.5	21.5	

Source: MF Global India Research

Note: Of the total 21.5 msf, 2.5 msf has been pre-leased so far and each of the projects is developed in phases.

New Kolkata International Development Project (NKID)

Value to emerge in future

Other than the five SEZs of the six projects sold to UCP, Unitech also has four mega SEZ projects in the pipeline.

Unitech is a part of the NKID consortium with its share of 40%, along with the Salim Group of Indonesia (40%) and Universal Success of Indonesia (20%), which signed an agreement with the government of West Bengal for the development of infrastructure in West Bengal. Two mega SEZs form a part of the NKID project, a petrochemical SEZ of over 10,000 acres and a multi-product SEZ of over 12,500 acres. At present, Unitech has not firmed up the NKID project. The value will come in once the project goes on-stream. We believe the project will take a couple of years to contribute to the revenues of Unitech.

NKID Project

S.No.	Location	Project	Details	Area, acres
1.	HALDIA	SEZ & Township	Multi-Product SEZ	12,500
			Chemical Cluster (JVC with WBIDC)	10,000
			Township	5,000
2.	ECONOMIC CORRIDOR	Ribbon development along the road	10 Plots of 100 acres each	1,000
		115.5 km 4 lane Road + 15 km 2 lane Road	100 km from Barasat to Raichak + 11.5 km extension of the EM Bypass Road + 4 km Gobindpur - Jagdishpur road + 15 km Pailan-Jagdishpur Road	2,930
		1000 acre mixed development	500 acres - Dist HQ - South 24 Parganas	1,000
			100 acres - Rehabilitation Land	
			400 acres - SME Commercial Zone (JV with WBIDC)	
		3750 acres ownership near Baruipur	3,750 acres township	3,750
3.	Near Rajarhat, Bhangar, South 24 Parganas	Residential township including Health and Knowledge City	1,500 acres township	1,500
4	Rajarhat	Residential Township	150 acre township	150
5	Nandigram - Haldia	Bridge	4 lane - 1.4 km long over river Haldia	na
6	Raichak - Kukkurhatti, Haldia	Bridge	4 lane - 3.5 km long (approx) over river Hooghly	na

Source: Company

Apart from this, Unitech has also received in-principle approvals for two SEZs, one multi-product SEZ (9,884 acres, expandable up to 20,000 acres) in Kundli, Haryana and the other auto-component SEZ (250 acres) in Gurgaon. However, given the uncertainties in government policies and issues related to land acquisition, progress has been slow in these projects.

Hospitality and Leisure projects

Unitech has also ventured into developing amusement parks. The two amusement parks at Rohini and Noida are located along with the retail malls. While 80% of 'Adventure Island', Rohini is operational, the 'Water Park' is under development. At 'Entertainment City', Noida, two of the four proposed zones, namely teen zone and family zone are operational. The children's zone and Water Park are in the process of development. In order to add value to the offerings at its amusement parks, the company has tied up with Turner International to use Pogo and Cartoon Network characters. Unitech is developing another amusement park at Chandigarh on a 73 acre land parcel. This project, too, will have retail and hotel developments.

Unitech's hospitality plans include 35 hotels with ~6000 keys spanning luxury hotels, business hotels, serviced apartments, resorts and limited service hotels as part of its various mixed use projects, the first of which, Marriott Courtyard in Gurgaon is expected to be operational by March 2009. Unitech intends to outsource the management of the hotels to leading hotel chains. Unitech currently has five properties under construction. With the commissioning of these hotels, Unitech will have around 800 keys across India by 2010.

Project	Location	Expected commissioning
Marriott Courtyard	Gurgaon	Feb-09
Marriott Executive Apartments	Gurgaon	2010
Limited service hotel	Gurgaon	2010
Marriott Courtyard	Kolkata	2010
Budget Hotel	R B Connector Road, Kolkata	2010

Source: Company, MF Global India Research

Entry in Mumbai to provide impetus in the long run

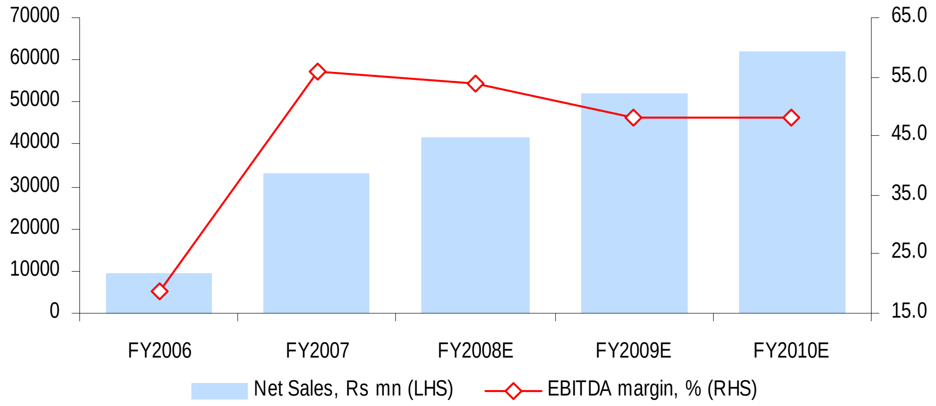
Unitech has entered into a 50:50 joint venture with Mumbai-based Rohan Developers to redevelop 97 acres on the Western Express highway at Santa Cruz. Unitech has tied up with Lehman Brothers Real Estate Partners, which has invested Rs 7.4bn to acquire a 50% stake in Phase-1 of this project, which constitutes the development of 1 msf of commercial space out of the total developable area of 18 msf.

Telecom foray

Unitech has acquired a pan-India telecom license through a wholly-owned subsidiary with an investment of Rs 16bn to operate across 22 telecom circles across India and also has been allotted spectrum for five circles, that is, Tamil Nadu (including Chennai), Kerala, Andhra Pradesh, Orissa and Karnataka circles. The subsidiary was financed through equity capital of ~Rs 1.38bn and debt of Rs 15.5bn from Unitech. Looking at the intense competition in this sector, it will be tough for the company to operate on its own, so the company is looking for fresh infusion of capital at a premium from a strategic partner with a track record on the execution and operational front (share of strategic partner not exceeding 26% post infusion). As per the management, a roll out is expected to happen by the end of this fiscal year. Later on, Unitech may spin off the telecom arm into a separate company. In our view, the project is still in a nascent phase, so we have valued it at twice the cost of the license. We will revisit our price target once more clarity emerges.

FINANCIAL ANALYSIS

Net sales and EBITDA margin

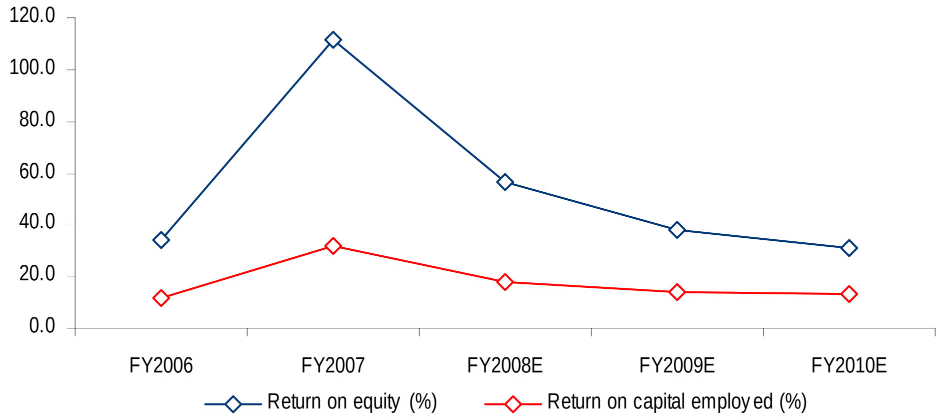


Source: Company, MF Global India Research Estimates

Net sales to grow at a CAGR of 23% over FY08-10E on account of sales recognition of ~35 msf of development in FY09-10.

Post FY09, we believe EBITDA margin to further contract as revenue from smaller cities like Agra, Varanasi, Kochi, Vizag, etc., starts coming in.

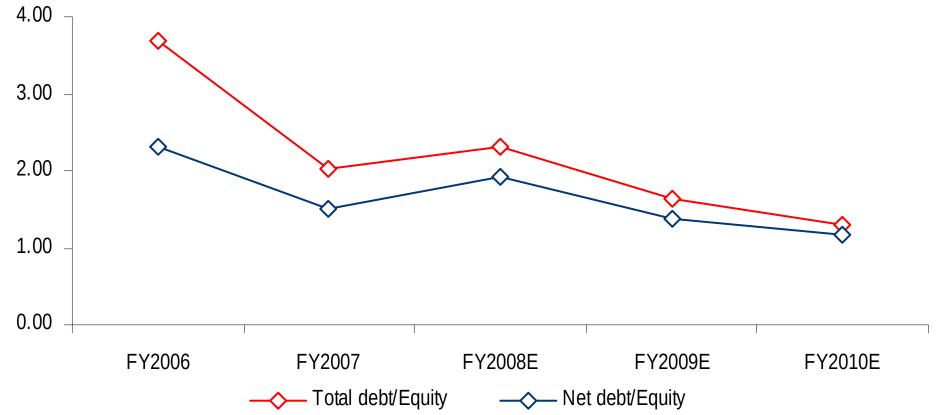
Return ratios



Source: Company, MF Global India Research Estimates

Return ratios to moderate on account of decline in margins and delays in project launches

Leverage



Source: Company, MF Global India Research Estimates

Leverage to come down, as debt levels remain flat on account of debt repayment of ~Rs 15bn from the wireless subsidiary

QUARTERLY PERFORMANCE

Rs mn	Q1FY09	Q4FY08	Q3FY08	Q2FY08	Q1FY08
Net Sales	10,317	11,601	11,421	10,135	8,656
Construction Cost	3,935	6,510	3,844	4,829	3,432
Employees Cost	298	272	234	236	219
EBITDA	6,084	4,818	7,344	5,071	5,005
Depreciation	68	89	55	30	32
EBIT	6,015	4,729	7,289	5,041	4,974
Interest	1,079	434	980	790	601
Other income	227	115	230	308	341
PBT	5,164	4,411	6,539	4,559	4,714
Tax	927	973	1,307	660	1,046
PAT	4,237	3,438	5,232	3,899	3,667
Adjusted Net Profit	4,233	3,603	5,258	4,101	3,657
EPS, Rs	2.61	2.22	3.24	2.53	2.25
EBITDA margin, %	59.0%	41.5%	64.3%	50.0%	57.8%
EBIT margin, %	58.3%	40.8%	63.8%	49.7%	57.5%
PBT margin, %	50.0%	38.0%	57.3%	45.0%	54.5%
PAT margin, %	41.1%	29.6%	45.8%	38.5%	42.4%
ETR, %	17.9%	22.1%	20.0%	14.5%	22.2%
Construction cost as a % of net sales	38.1%	56.1%	33.7%	47.6%	39.6%
Employees cost as a % of net sales	2.9%	2.3%	2.0%	2.3%	2.5%
Interest cost as a % of net sales	10.5%	3.7%	8.6%	7.8%	6.9%

Source: MF Global India Research

Key Highlights

- Revenue has remained flat for the last 3-4 quarters, which shows that there has been a delay in project launches.
- Margins are largely determined by product mix and geographical mix. Margins are maintained as revenue from projects sold earlier are still recognised (real estate companies follow the percentage completion method). Going forward, we sense that margins will decline due to price correction in certain pockets, cost overruns, the shift to affordable housing formats, and when revenue from smaller cities starts contributing to the top line.
- Rising interest cost signifies a higher cost of debt and a significant increase in debt levels.
- ETR is low as revenue from tax-exempt projects is being recognised.

KEY RISKS

- **Steeper price correction in certain markets:** We have assumed a base realisation at 10-15% discount from the peak levels for certain geographies. Any steeper price correction poses a downside risk to our NAV estimates.

- **Unexpected delays in project launches:** Though we have assumed an extended period till FY30, for the absorption of the current land bank (~50% to be executed till FY15, ~28% over FY16-20 and the balance ~22% post FY20), any unexpected delay over and above our schedule could impact our valuation adversely.

- **Slower-than-expected absorption:** We have assumed 100% absorption in the case of residential and 90% absorption in the case of commercial /retail formats. Slower than expected absorption could impact our NAV estimates.

- **Project level dilution to reduce the company's economic interest:** To meet liquidity requirements, Unitech is exploring options for project level financing. Although this would address the liquidity constraints of the company, this would lead to reduction of economic interest in the overall land bank, thereby impacting the NAV, as PE players vie for 18-25% IRR in the projects in which they invest.

- **Quick development on telecom foray:** Any concrete development with respect to a tie-up with a strategic partner and clarity as to roll out plans of the telecom venture could boost our NAV estimates. Presently, we have valued the telecom business as twice the licence cost, i.e. Rs 33bn.

- **Firming of SEZ plans:** Our valuation does not incorporate mega SEZ plans, given issues related to land acquisition and low visibility. Any visibility on the SEZ front exposes our valuation to upside risks.

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net sales	9,265	32,890	41,149	51,031	60,146
Growth, %	*43.9*	*255.0*	*25.1*	*24.0*	*17.9*
Other operating income	58	86	252	770	1,933
Total income	9,323	32,975	41,400	51,801	62,080
Operating expenses	-7,578	-14,602	-19,114	-26,801	-32,264
EBITDA	1,744	18,373	22,286	25,000	29,816
Growth, %	*127.7*	*953.3*	*21.3*	*12.2*	*19.3*
Margin, %	*18.7*	*55.7*	*53.8*	*48.3*	*48.0*
Depreciation	-112	-73	-205	-369	-558
EBIT	1,632	18,300	22,081	24,632	29,258
Growth, %	*149.8*	*1,021.2*	*20.7*	*11.6*	*18.8*
Margin, %	*17.6*	*55.6*	*53.7*	*48.3*	*48.6*
Interest paid	-337	-935	-2,329	-3,555	-4,000
Other income	95	554	926	509	566
Pre-tax profit	1,390	17,919	20,678	21,586	25,824
Tax provided	-513	-4,864	-3,986	-4,317	-6,456
Profit after tax	876	13,055	16,692	17,269	19,368
Net Profit	844	13,044	16,692	17,269	19,368
MF Global Net profit	844	12,744	16,237	17,269	19,368
Growth, %	*152.4*	*1,410.5*	*27.4*	*6.4*	*12.2*
Extraordinary items: Gains/(Losses)	-3	18	50	-	-
Diluted shares, mn	1,623	1,623	1,623	1,623	1,623

Cash Flow

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Pre-tax profit	1,390	17,919	20,678	21,586	25,824
Depreciation	112	73	205	369	558
Chg in working capital	-3,639	-37,848	-29,161	-8,768	-19,768
Total tax paid	-123	-388	-393	-7,492	-3,676
Cash flow from operating activities	-2,260	-20,244	-8,671	5,694	2,938
Capital expenditure	-3,518	-3,335	-23,499	-8,566	-12,835
Chg in investments	358	-4,403	-9,617	-	-
Cash flow from investing activities	-3,161	-7,738	-33,116	-8,566	-12,835
Free cash flow	-5,421	-27,981	-41,787	-11,439	-22,732
Equity raised/(repaid)	-27	6,202	1,708	-	-
Chg in minorities	-6	-235	1,146	-	-
Debt raised/(repaid)	6,686	29,948	45,127	1,976	6,992
Dividend (incl. tax)	-60	-187	-475	-475	-475
Other financing activities	9	-1,418	-1,864	-	-
Cash flow from financing activities	6,602	34,309	45,643	1,501	6517
Net chg in cash	1,182	6,328	3,856	-1,371	-3380

Balance Sheet

As at 31st Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Cash & bank	3,899	10,227	14,083	12,713	9,334
Debtors	1,032	1,458	7,460	11,144	13,498
Inventory	30,870	86,995	136,076	151,719	179,237
Loans & advances	2,860	18,225	29,295	29,363	35,594
Other current assets	0	172	148	148	148
Total current assets	38,661	117,077	187,062	205,087	237,811
Investments	145	4,548	14,165	14,165	14,165
Gross fixed assets	4,530	6,470	11,120	18,438	25,363
Less: Depreciation	-911	-475	-661	-1,030	-1,588
Add: Capital WIP	1,268	2,153	20,982	22,102	27,883
Net fixed assets	4,887	8,148	31,442	39,510	51,658
Non-current assets	5,855	13,822	46,733	54,801	66,949
Total assets	44,517	130,899	233,795	259,888	304,760
Current liabilities	29,160	48,959	82,562	88,227	99,599
Provisions	845	5,740	9,294	6,119	8,899
Total current liabilities	30,004	54,699	91,856	94,346	108,498
Non-current liabilities	11,684	56,245	104,777	111,714	123,669
Total liabilities	41,688	110,944	196,633	206,060	232,168
Paid-up capital	125	1,623	3,247	3,247	3,247
Reserves & surplus	2,472	18,320	32,758	49,423	68,188
Shareholders' equity	2,828	19,955	37,163	53,828	72,592
Total equity & liabilities	44,517	130,899	233,795	259,888	304,760

Per-share data

	FY2006	FY2007	FY2008	FY2009E	FY2010E
MF Global EPS (INR)	0.5	7.9	10.0	10.6	11.9
Growth, %	*152.4*	*1410.5*	*27.4*	*6.4*	*12.2*
Book NAV/share (INR)	1.7	12.3	22.9	33.2	44.7
FDEPS (INR)	0.5	7.9	10.0	10.6	11.9
Growth, %	*152.4*	*1410.5*	*27.4*	*6.4*	*12.2*
CEPS (INR)	0.6	7.7	9.8	10.9	12.3
CFPS (INR)	-1.5	-12.4	-5.6	3.2	1.5
DPS (INR)	0.1	0.3	0.3	0.3	0.3

Financial structure

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Total debt/Equity, x	3.69	2.02	2.30	1.63	1.30
Net debt/Equity, x	2.32	1.51	1.92	1.39	1.17

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Return on assets (%)	3.9	16.3	10.7	8.7	8.4
Return on equity (%)	33.8	111.9	56.9	38.0	30.6
Return on Invested capital (%)	17.5	44.7	23.3	17.7	16.2
RoIC/Cost of capital (x)	1.6	3.6	1.9	1.4	1.3
RoIC - Cost of capital (%)	6.3	32.4	11.3	5.2	3.4
Return on capital employed (%)	11.8	31.6	17.9	13.9	13.1
Cost of capital (%)	11.2	12.3	12.0	12.5	12.8
RoCE - Cost of capital (%)	0.6	19.3	5.8	1.4	0.3
Asset turnover (x)	1.6	1.1	0.5	0.5	0.4
Sales/Total assets (x)	0.3	0.4	0.2	0.2	0.2
Sales/Net FA (x)	2.9	5.0	2.1	1.4	1.3
Working capital/Sales (x)	0.5	1.6	2.0	1.9	2.0
Fixed capital/Sales (x)	0.4	0.2	0.3	0.3	0.4
Receivable days	41	16	66	80	82
Inventory days	1216	966	1207	1085	1088
Payable days	254	183	162	168	167
Current ratio (x)	1.3	2.1	2.0	2.2	2.2
Quick ratio (x)	0.3	0.5	0.6	0.6	0.5
Interest cover (x)	4.8	19.6	9.5	6.9	7.3
Dividend cover (x)	4.5	26.7	34.2	36.4	40.8
PER (x)	307.9	20.4	16.0	15.0	13.4
PEG (x) - y-o-y growth	2.2	0.0	0.6	2.6	1.2
Price/Book (x)	100.4	14.2	7.6	5.3	3.9
Yield (%)	0.1	0.2	0.2	0.2	0.2
EV/Net sales (x)	31.4	9.6	8.6	7.0	6.1
EV/EBITDA (x)	166.6	17.1	16.0	14.4	12.4
EV/EBIT (x)	178.1	17.2	16.1	14.6	12.6
EV/NOPLAT (x)	282.3	23.6	19.9	18.2	16.8
EV/CE	20.0	4.1	2.5	2.2	1.9
EV/IC (x)	49.3	10.5	4.6	3.2	2.7

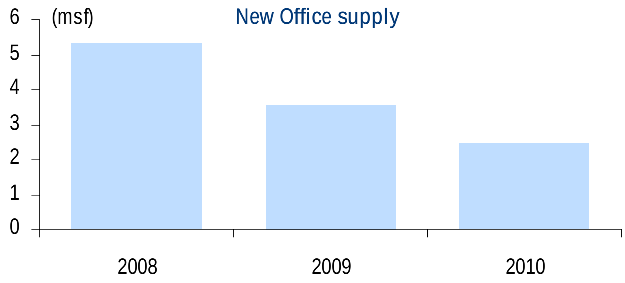
Source: Company, MF Global India Research Estimates

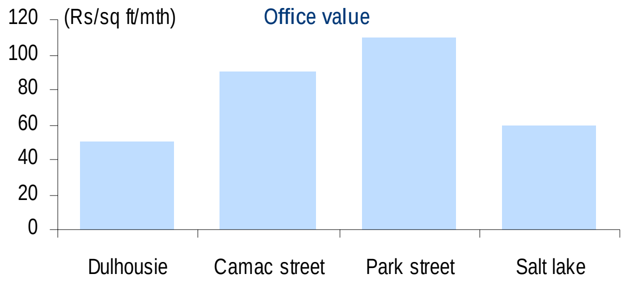
APPENDIX

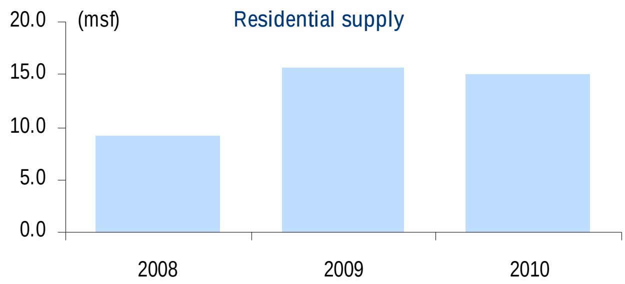
Real estate prices set to soften

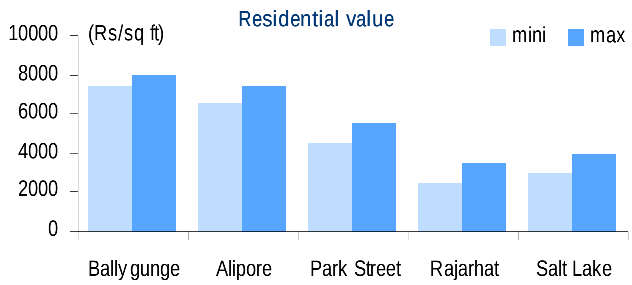
Kolkata

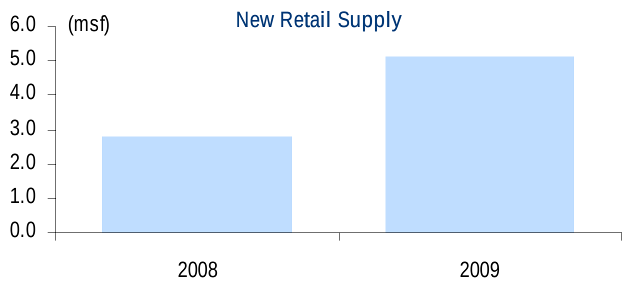
Kolkata has witnessed a good boom in the past couple of years, in residential, commercial and retail penetration on the back of a number of infrastructural initiatives with heightened construction activities and a spurt in economic development. The government has been keen on township development, which is making available the big land parcels to cater to all segments. This development is more prominent on some parts, where the activities are more confined, specifically on the eastern parts of Salt lake and Rajarhat (Unitech has some of the major projects lined here). In commercial office space, markets have witnessed rather a stable price scenario. We believe that prices will remain soft in the near term on both residential as well as commercial space as fresh supply will be hitting the market in the next 9-12 months.

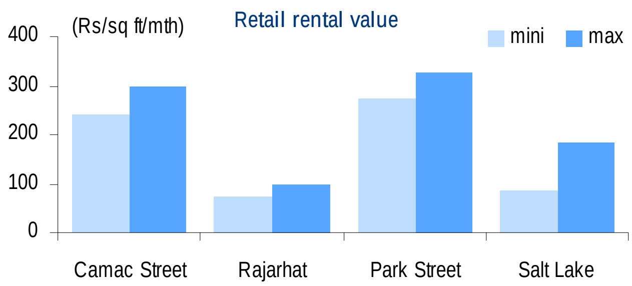








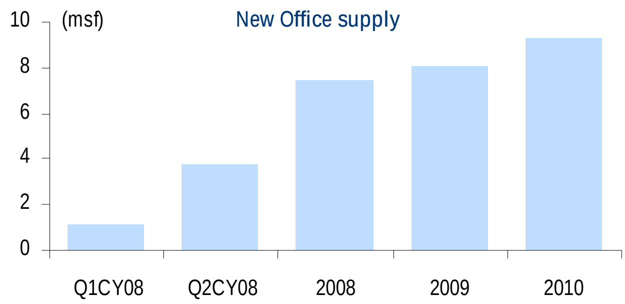


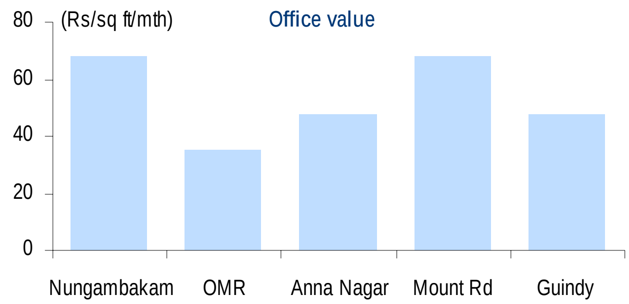


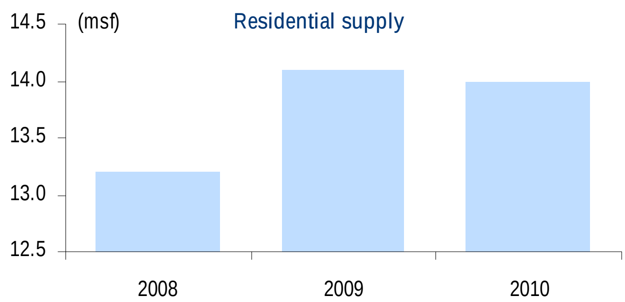
Source: Knight Frank Q1CY08 report

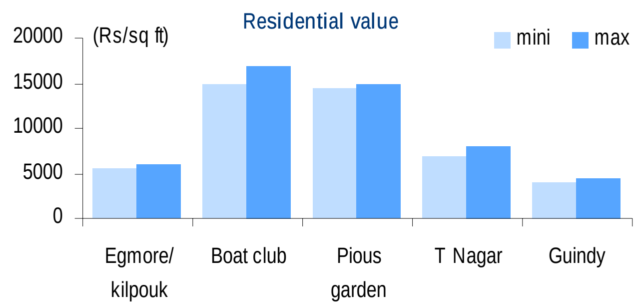
Chennai

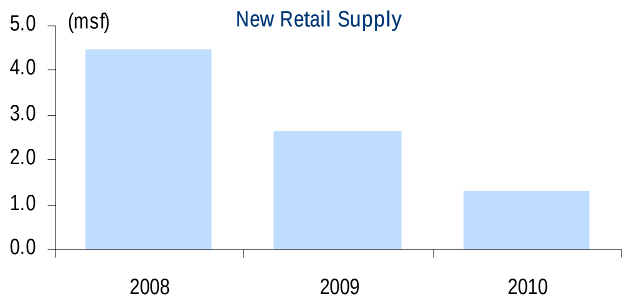
Chennai is witnessing an over supply situation in certain pockets, especially OMR, which has seen a rental fall of around 5-10% in Q2CY08. Also, new transactions have reduced with vacancy levels as low as 40%, which might result in further softening in rentals. In the residential segment though, there has been a spurt in the prices, especially from the demand of institutional and domestic investors. This demand, going forward, may soften as a large number of projects are on the verge of completion, which may increase supply, and hence, prices are going to remain stable at these levels.

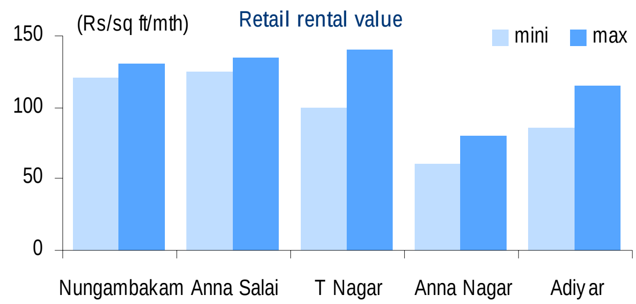








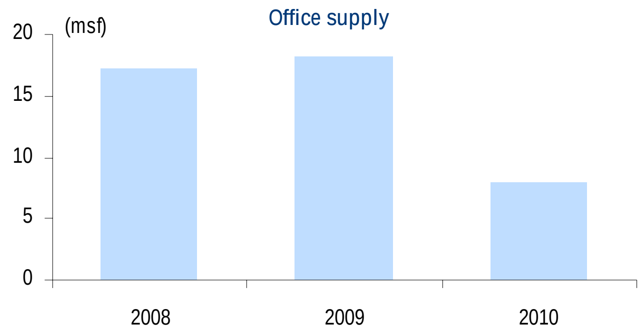


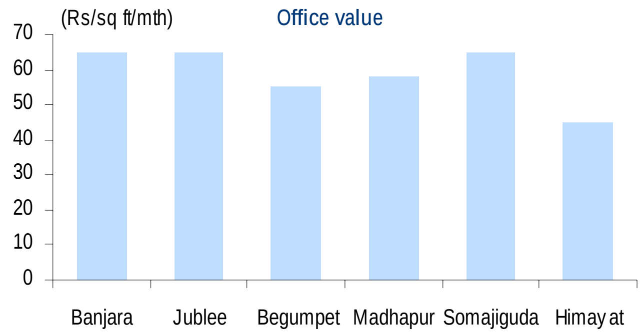


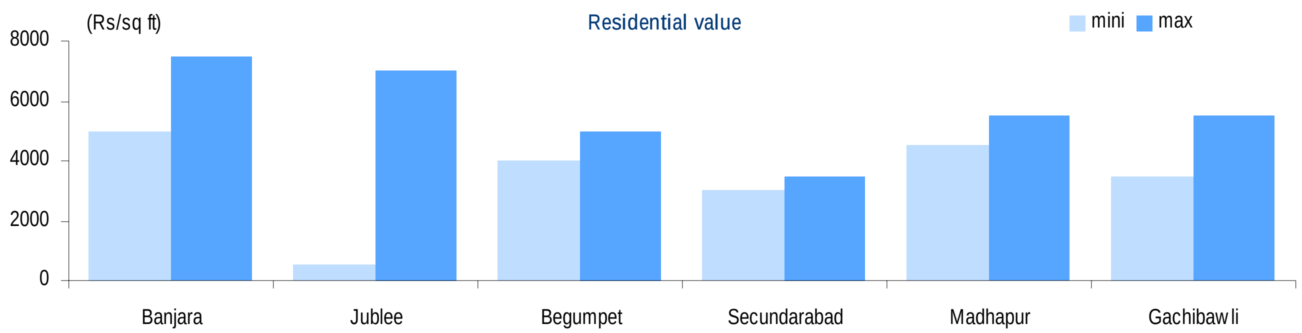
Source: Knight Frank Q1CY08 report

Hyderabad

The Hyderabad market is mixed in terms of residential and commercial, with residential prices slightly under pressure, though commercial prices are still firm. In the commercial segment, there have been construction delays in some of the projects, which have resulted in slightly firm rentals. But, we expect a supply of around 6mn sq. ft. by the end of CY08, which may change this situation.





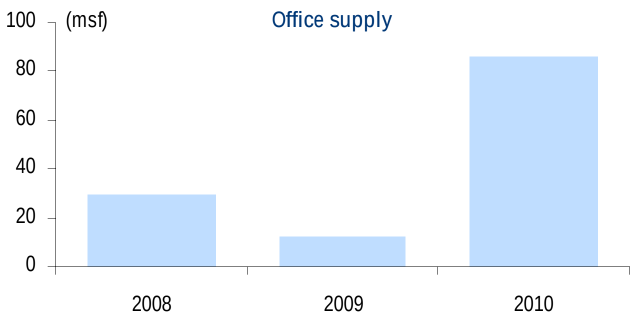


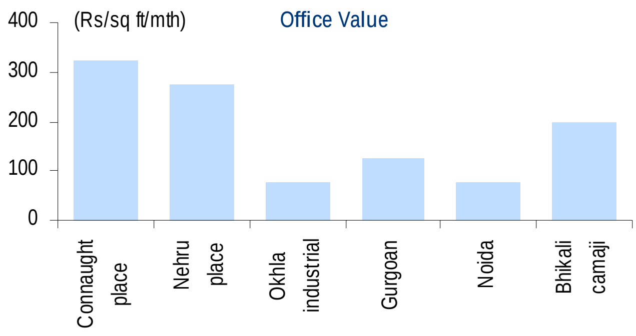
Source: Knight Frank Q1CY08 report

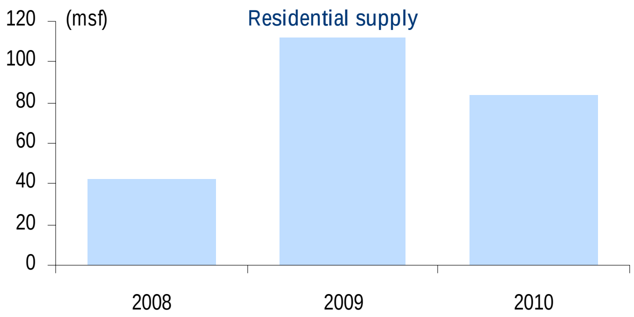
Gurgoan & NCR

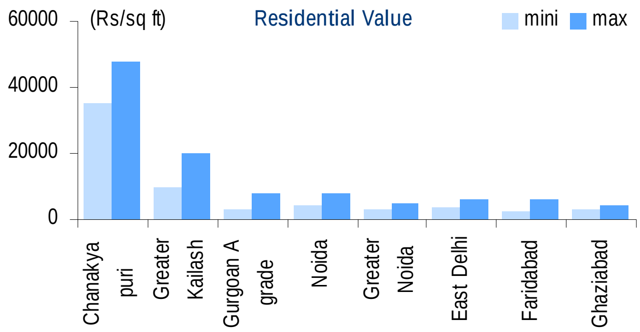
On the residential side, for the past two quarters, there has been a status quo in demand; developers are not able to sell their high/premium products, with sales in luxury residential space falling by 60-70% YoY. This has, in fact, affected some projects of both Unitech as well as DLF. Going forward, with new inventory hitting the market, we may see a price correction of 10-15%.

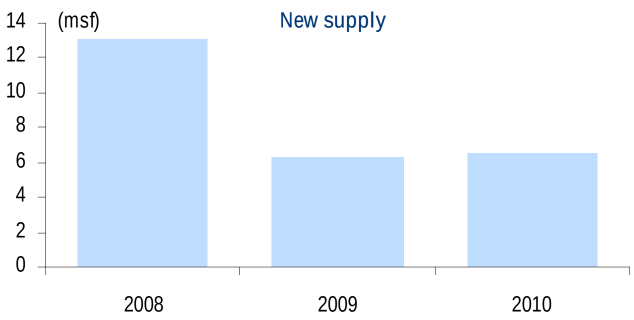
In commercial space, there has been a decline in rentals for IT SEZs, both in Gurgoan and NOIDA, to an extent of 5%-15%. Going forward, there may be a fresh supply of around 3.5mn sq. ft. in 3QCY08, which may put prices under check.

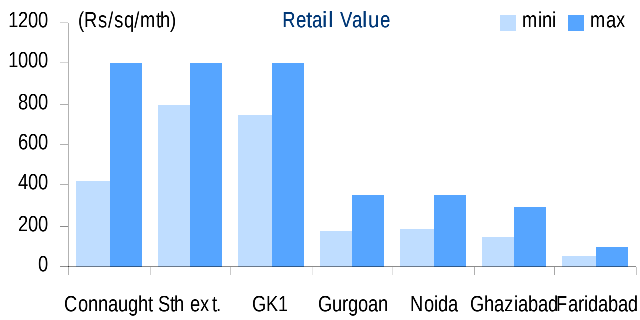












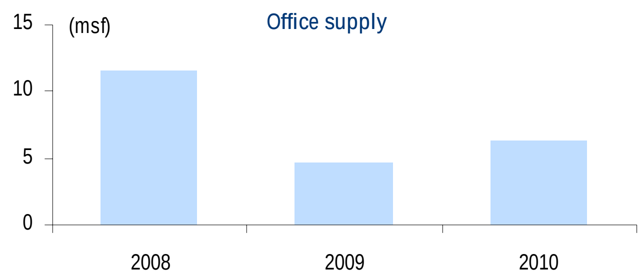
Source: Knight Frank Q1CY08 report

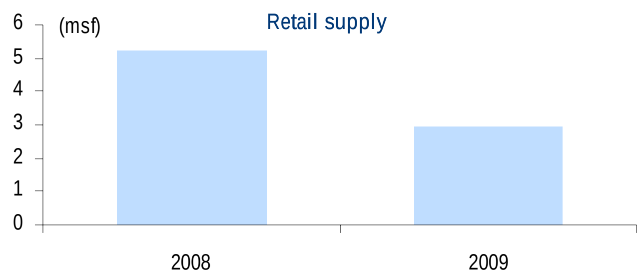
Mumbai

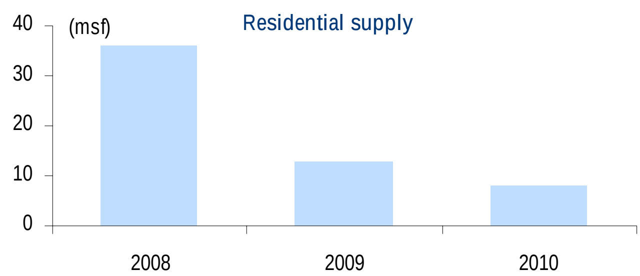
The Mumbai real estate market has shown phenomenal growth in the past three years, with demand outstripping supply, while the values continued moving northward. In South Mumbai, on the residential front, though the city has developed various new projects, sales have inevitably slowed in new home purchases with bookings down. Developers have still not dropped their prices as they are well-cushioned by their past profits. Also, being a land-scarce area, the city is more or less still insulated to a sudden collapse in prices. There has, however, been stagnation in the transactions in the high-end market. Also, in the case of secondary markets, sales are falling significantly with sellers maintaining their prices, despite the fact that there are no buyers.

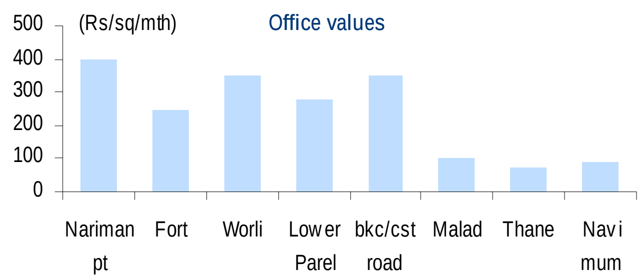
In case of projects in the suburbs, the slowdown is evident and developers are offering discounts ranging from 5-10%. We believe that there might be a fall of 10-15% in the coming quarter, as there are reports of second-three tier developers accepting finance as high as 2-3% p.m. as interest cost, which may lead to distressed sales at a particular point.

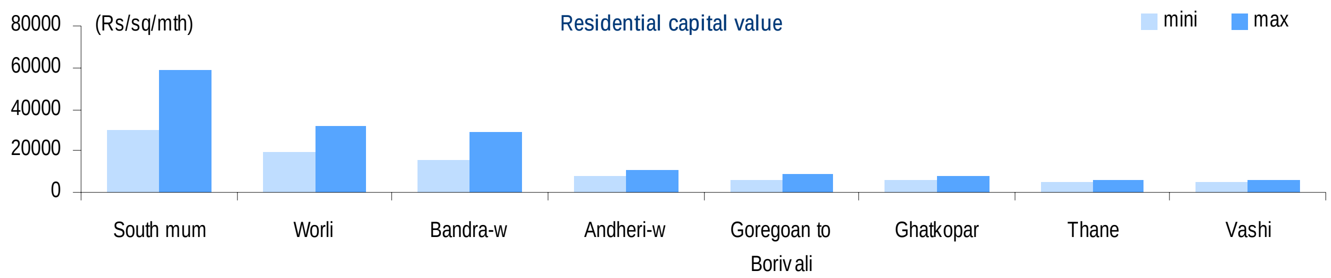
In the commercial space also, the picture is not rosy. On the demand side, we witness a slowdown in absorption. Also, there is an inherent resistance from buyers to high prices. We are not seeing developers aggressively cut prices, but, if this scenario persists for some more time, then they will have to cut prices. Also, we expect a fresh supply to hit the market. So, all in all, there may be a significant correction in rentals in commercial space.











Source: Knight Frank Q1CY08 report

NOTES

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