Result Update – Q2FY12

Unity Infraprojects Ltd.

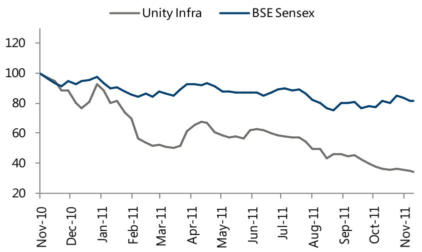
Modest performance; attractive valuation

Buy

Reco	Maintained
CMP	₹ 32
Target Price	₹ 57
Upside Potential	78%

Price Performance

52 wk Hi/Lo	112/32
All time Hi/Lo	225.6/13.60
6 mnth Average Vol	77197
Stock Beta	0.96



Valuation

	FY11	FY12P	FY13P
P/E (x)	2.5	2.5	2.2
P/BV (x)	0.4	0.3	0.3
RONW (%)	15.5	13.8	13.5
ROCE (%)	10.1	9.7	9.7

Peer Valuation (FY13)

	Ahluwalia	C&C Cons
PE	11.1	5.1
P/BV	1.3	0.4

Equity Data

Market Cap. (₹ bln)	2.3
Face value (₹)	2
No of shares o/s (mln)	74

	Sep'10	Sep'11	Δ%
Promoters	62.72	62.72	0.00
DFI's	6.92	6.64	-4.04
FII's	10.89	10.12	-7.07
Public	19.47	20.52	5.39

Unity Infra reported revenue at ₹ 3.9bln, up 12.6% y-o-y but 16% below MSFL est while PAT at ₹ 206mln, down 4.4% y-o-y was 7% below MSFL est. The revenue miss was due to lower execution in its water segment. Even though the EBITDA margins came in higher at 16.1% versus our expectation of 12.8% the net profit miss was on account of sharp increase in interest cost. Although the results have been a tad below expectations we take comfort in the company's ability to secure orders from government entities in the current competitive environment & 76% of its order backlog being from govt. bodies. Also, Unity Infra is on track to achieve its yearly inflow guidance of ₹ 30-35bln with a till-date inflow of ₹ 14.9bln & an L1 position of ₹ 15.3bln. The L1 position does provide some comfort for FY13E as well. On the balance sheet front, the management has been successful in reducing the net working capital & gross debt by 30 days & ₹ 343mln . The recent price correction and current valuations offers a favorable risk-reward we maintain our Buy rating with a revised price target of ₹ 57.

Modest revenue growth; margin improves

Topline came in at ₹ 3.89bln, 12.6% higher y-o-y, v/s expectation of ₹ 4.63bln. This variation was mainly on account of lower than expected execution in water & irrigation projects. Water & irrigation segment contributed 18% of total revenue as against our expectation of 45%. Revenue contribution from building segment stood at 70% and came in at ₹ 2.72bln as against our expectation of ₹ 2.2bln. EBIDTA margin improved at 16.1% and was 327bps above our expectation of 12.8%. Gross margins for the quarter increased by 121bps to 22.4% while fixed cost declined by 65bps which resulted in a 186bps y-o-y increase in operating margin.

Interest costs erode profitability; Net profit declines y-o-y

Unity Infra witnessed a 78.5% y-o-y increase in the interest cost and stood at ₹ 313.0mln but was 20% higher than our expectation of ₹ 262.0mln. Net profit declined 4.4% y-o-y to ₹ 206mln. Company raised additional $13mln debt through ECB during Q2FY12 at the cost of 10%. Gross debt now stands at ₹ 8138mln, 17% higher y-o-y and we believe blended interest cost to remain high in H2FY12 restricting the net profit growth at 1.8% for FY12

Order book comfortable; robust inflow

Current order book for the company stood at ₹ 37.9bln. Also, it is L1 in orders worth ₹ 15.3bln. It has till-date recorded an inflow of ₹ 14.9bln which includes ₹ 5.3bln bagged in Q1FY12. Buildings contribute 90% of the L1 orders which are predominantly government orders.

Valuation

At CMP, the stock is trading at 2.5x FY12E and 2.2x FY13E earnings and a FY12E P/BV of 0.3x. We believe the risk-reward is favorable and maintain Buy rating on the stock with a price target of ₹ 57 (4x FY13E).

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	14790	17038	19067	22076
OPBDIT	1935	2295	2531	2861
Net Profit	851	944	961	1060
EPS	11.5	12.7	13.0	14.3
Networth	5652	6508	7371	8324
Debt	6863	8481	9581	10881
Fixed Assets	1010	1325	1508	1556
Net Current Assets	11177	13055	14835	17040

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November 19, 2011

Exhibit 1: Quarterly Financials

Particulars (₹ in mln)	Q2FY12	Q2FY12	% chg	H1FY12	H1FY11	% chg
Sales	**3897**	**3461**	**12.6%**	**7657**	**6859**	**11.6%**
Expenditure	3271	2969	10.7%	6541	5924	10.4%
(Inc)/Dec in WIP	59	24		61	-10	
Consumption of material	1701	1497	15.6%	3352	3018	11.1%
% of sales	45.1%	43.9%		44.6%	43.9%	
Construction Expense	1264	1205	4.9%	2665	2476	7.6%
% of sales	32.4%	34.8%		34.8%	36.1%	
Staff cost	161	147	9.6%	301	276	8.8%
% of sales	4.1%	4.2%		3.9%	4.0%	
Other Expenditure	86	95	-9.5%	163	164	-0.8%
% of sales	2.2%	2.7%		2.1%	2.4%	
EBITDA	**626**	**491**	**27.3%**	**1116**	**935**	**19.4%**
Margin (%)	16.1%	14.2%		14.6%	13.6%	
Interest	314	176	78.5%	536	336	59.7%
Depreciation	51	42	21.5%	96	81	18.1%
OPBT	261	273	-4.3%	484	518	-6.5%
Other income	33	42	-22.3%	90	77	16.1%
PBT	**294**	**316**	**-7.0%**	**574**	**595**	**-3.6%**
Tax	88	101	-12.5%	172	185	-6.8%
Tax rate	30.0%	31.9%		30.0%	31.0%	
PAT	**206**	**215**	**-4.4%**	**402**	**411**	**-2.1%**
Margin (%)	5.3%	6.2%		5.2%	6.0%	

Source: Company, MSFL Research

Order book remains comfortable; robust inflow

The total order book stands at ₹ 37.9bln translating into order book/sales ratio of 2.2 based on FY11 revenue. Unity Infra has till-date recorded an order inflow of ₹ 14.92bln, besides that company is L1 in ₹ 15.25bln. The order inflow was dominated by the civil construction segment, which contributed 55% of total order inflow while remaining 45% is contributed by water and transportation segment. Robust inflow and strong L1 order status indiactes a strong order book in FY12 for the company. Unity Infra has guided for a strong order inflow of ₹ 30-35bln for FY12 and expects civil construction segment to drive the order book in FY12. However we have assumed order inflow to the tune of ₹ 29bln for FY12E.

Exhibit 2: Segmental order book break-up

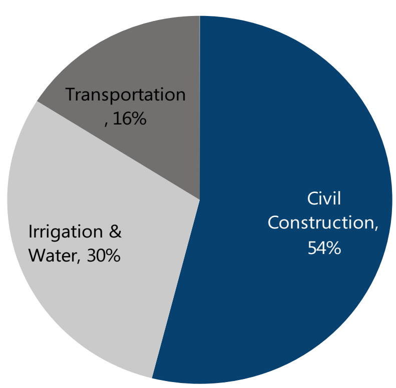
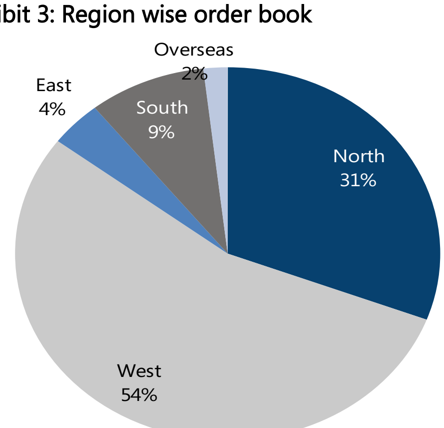


Exhibit 3: Region wise order book



Source: Company

Exhibit 4: L1 order book break up

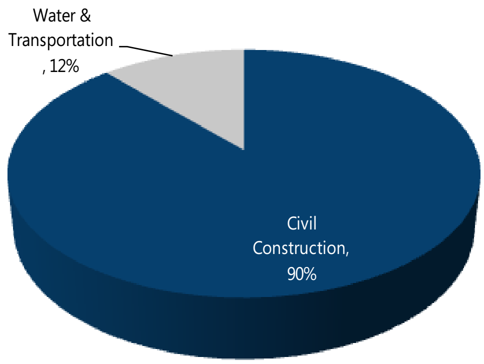
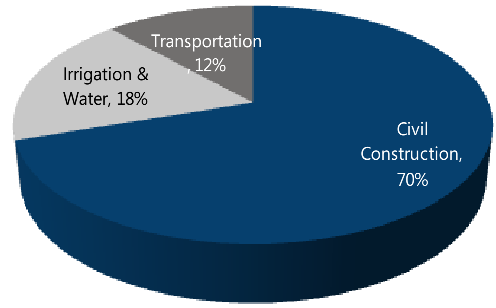


Exhibit 5: Q2FY12 Revenue break up



Source: Company

Exhibit 6: Key projects bagged in Q2FY12

Orders	Segment	Location	Value ₹ bln
Construction of commercial building	Building	Maharashtra	0.62
Construction of residential building	Building	Gujarat	1.84
Construction of building in Delhi University	Building	Delhi	1.22
Construction of major & minor bridges	Transportation	West Bengal	1.35
Construction of various buildings at Gularga	Building	Karnataka	1.35
Construction of distributaries & minor area	Water	Gujarat	0.83

Source: Company

Operating margins surprises: interest cost remains concern

Over the last four quarters, Unity Infra has managed to maintain its operating margin in the range of 13-13.5%. However, this quarter company surprised positively on EBITDA front and witnessed a 186bps y-o-y increase. Company effectively managed its fixed cost during the quarter and witnessed a 70bps y-o-y decline. Besides favorable order book mix and company's strategy of being selective in the projects supports higher EBITDA margin. However, PAT margin has been under pressure on account of higher interest cost. Interest cost has increased 78.5% y-o-y and it is 50.1% of EBITDA. The current cost of debt has increased to 14%. Company has raised $20mln through ECB borrowing till date and has indicated that they might raise debt through ECB during FY12.

Exhibit 7: Stable EBITDA & PAT margin

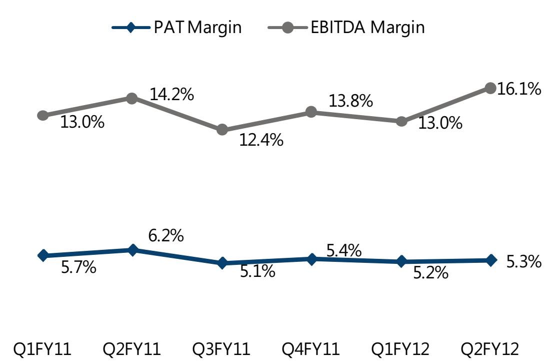
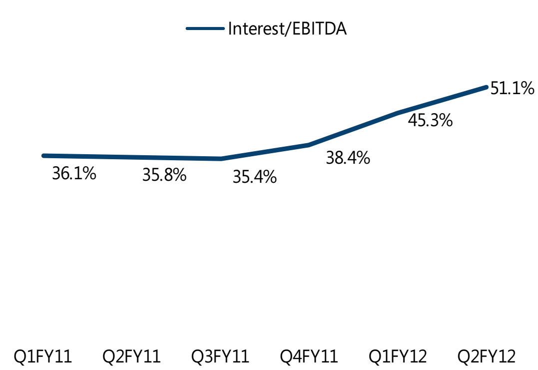


Exhibit 8: Rising Interest / EBITDA



Source: Company

Working Capital cycle improves; expects to remain high

Working capital cycle for the company has improved to 199 days from 233 days in Q2FY11. The improvement in working capital cycle was account of decline in debtors and loans and advances days. The avearge debtors days has remained high at 145 days during FY08-FY11 but the company has managed to reduce its debtors days to 108days in Q2FY12. However we believe that debtors days to remain high at the end of FY12 as government orders now contributes 74% of total order book. We expect the debtor days to remain high 154 days in FY12 and expect the net working capital cycle to remain high with a cycle of 240 days. We believe that adjusting to the advance given to subsidiaries the working capital cycle days would remain close to 216 and 220 days for FY12E & FY13E respectively.

Change in estimates

We have revised our estimates downward due to slow moving projects in water segments. The revenue contribution has declined by 60% on a y-o-y basis and it currently contributes only 18% of total revenue as against 51% in Q2FY11. We have now assumed a lower execution rate in the water segment which has resulted in a revenue decline of 4.1% and 4.4% for FY12E and FY13E respectively. Higher interest cost has led to downward revision in earnings by 2.2% and 5.4% for FY12E and FY13E respectively.

Exhibit 9: Change in Estimates

Details	FY12E New	FY12E Old	% chg	FY13E New	FY13E Old	% chg
Sales	19067	19892	-4.1%	22076	23101	-4.4%
EBITDA	2531	2599	-2.6%	2861	2983	-4.1%
PAT	961	983	-2.2%	1060	1121	-5.4%
EPS	13.0	13.3		14.3	15.1	

Source: MSFL Research

Valuation

At CMP, the stock is trading at 2.5x FY12E and 2.2x FY13E earnings. Order backlog/sales remain comfortable at 2.2x based on FY11 revenue. Higher revenue visibility on account of robust order inflow and any progress on real estate could be a positive trigger for the stock. We maintain Buy rating on the stock with a price target of ₹ 57 valuing it at 4x FY13E earnings.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sales	**11323**	**14790**	**17038**	**19067**	**22076**
Total Expenditure	9880	12855	14743	16536	19215
EBIDTA	**1443**	**1935**	**2295**	**2531**	**2861**
EBIDTA Margin (%)	12.7%	13.1%	13.5%	13.3%	13.0%
Depreciation	159	175	180	217	253
EBIT	1284	1760	2115	2314	2608
Interest cost	400	584	833	1084	1228
Operating Profit	884	1177	1282	1230	1380
Other Income	156	122	150	204	202
PBT	**1039**	**1299**	**1432**	**1434**	**1583**
Tax	343	447	487	473	522
PAT	**697**	**851**	**944**	**961**	**1060**
PAT Margin (%)	6.2%	5.8%	5.5%	5.0%	4.8%
EPS	10.4	11.5	12.7	13.0	14.3
Sales Growth (%)	33%	31%	15.2%	11.9%	15.8%
EBITDA Growth (%)	35%	34%	19%	10.3%	13.0%
PAT Growth (%)	16.0%	22.2%	10.8%	1.8%	10.4%

Key Assumptions

Order inflow	-	-	15514	28133	22032
EBIDTA margin	12.7%	13.1%	13.5%	13.3%	13.0%
Debtor days	132	139	156	154	152
Creditor days	119	77	75	72	70

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	134	148	148	148	148
Reserves & Surplus	4049	5503	6360	7223	8175
Networth	**4182**	**5652**	**6508**	**7371**	**8324**
Secured Loans	4325	4528	5646	6446	7546
Unsecured Loans	395	2336	2836	3136	3336
Total Loans	**4720**	**6863**	**8481**	**9581**	**10881**
TOTAL	**8920**	**12530**	**15003**	**16966**	**19218**
Application of Funds					
Net Fixed Assets	**1073**	**1010**	**1325**	**1508**	**1556**
Investment	338	342	623	623	623
Current Assets	11587	14647	16710	18811	21511
Current Liabilities	4080	3470	3655	3976	4471
Net Current Assets	**7507**	**11177**	**13055**	**14835**	**17040**
Deferred Tax Asset (Net)	0	0	0	0	0
Misc. expenditure not w/o	0	0	0	0	0
TOTAL	**8920**	**12530**	**15003**	**16966**	**19218**

Cash Flow

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	856	1026	1123	1178	1313
(Inc)/Dec in Net Current Assets	-1766	-2784	-1263	-1701	-2050
Cash flow from Operations	**-910**	**-1758**	**-139**	**-524**	**-737**
Inc/(Dec) in Debt	1926	2143	1618	1100	1300
Inc/(Dec) in Equity	0	14	0	0	0
Dividend & Tax	-63	-70	-87	-98	-108
Cash flow from Financing	**1463**	**2287**	**1531**	**1002**	**1192**
Fixed Asset formation	-659	-111	-496	-400	-300
Inc/(Dec) in Investment	169	79	-281	0	0
Cash flow from Investment	**-490**	**-32**	**-777**	**-400**	**-300**
Net Change in Cash	**63**	**497**	**616**	**79**	**155**

Ratio

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	3.1	2.8	2.5	2.5	2.2
P/BV	0.5	0.4	0.4	0.3	0.3
EV/EBIDTA	4.0	3.9	3.8	3.8	3.8
EV/Sales	0.5	0.5	0.5	0.5	0.5
Dividend Yield (%)	2.8%	3.1%	3.1%	3.5%	3.9%
EPS	10.42	11.49	12.7	13.0	14.3
DPS	0.9	1.0	1.0	1.1	1.2
Book Value	62.6	76.3	87.8	99.5	112.3
Adj. ROE	18.0%	17.3%	15.5%	13.8%	13.5%
Adj. ROCE	11.3%	10.8%	10.1%	9.7%	9.7%
Solvency Ratio (x)					
Debt/Equity	1.1	1.2	1.3	1.3	1.3
Debt/EBIDTA	3.3	3.5	3.7	3.8	3.8
Turnover Ratio (x)					
Asset Turnover	1.3	1.2	1.1	1.1	1.1
Fixed Asset Turnover	7.9	9.6	8.8	8.2	8.4
Current Ratio	2.8	4.2	4.6	4.7	4.8
Inventory (days)	35.6	32.8	16.7	24.0	28.0
Debtors (days)	132.2	138.6	156.5	154.0	152.0
Creditors (days)	118.9	78.5	75.3	72.0	70.0

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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