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Slow execution continues to impact revenue

Quick Note

August 14, 2012

Rating Remains	**Buy**
Target price Remains	INR 42
Closing price August 14, 2012	INR 21

Unitech's struggles in improving its execution continue, as liquidity for the company remains tight. In this scenario, its revenue recognition is faltering, and 1QFY13 results disappointed yet again on the top line, which missed our and consensus estimates by 30% and 38%, respectively. EBITDA margins at 20% were in line with our estimate of 21%, while a lower interest cost recognized on the P&L helped the company report a PAT of INR459 mn, slightly below our estimate. **Our target price and rating are under review.**

The sales run rate has started dipping, as Unitech now focuses more on execution than new launches. Also, with execution significantly delayed on many projects, the scope to launch new projects remains limited. The company sold 1.5mn sqft of projects in 1QFY13 worth INR7 bn, down from 1.8mn sqft in 4QFY12 and 1.9mn sqft in 1QFY12, a fall in line with the dip in the overall property market. The company managed to deliver only ~0.8mn sqft in 1QFY13. Deliveries of older projects launched before 2009 at 0.3mn sqft in 1Q were still extremely slow, despite 80% of the older projects being in finishing or handover stage. The company has provided the balance sheet for FY12, where consolidated net debt is down INR3.25 bn YoY at INR54 bn, which is a minor positive.

Key results highlights

- 1QFY13 revenues at INR4.1bn (-32% YoY and -43% QoQ) came in lower than our and Street expectations of INR5.9bn and INR6.6bn, respectively.
- EBITDA margins at 20% were in line with our estimate of 21%. However, from the segment results, EBIT margins in the real estate segment are extremely low at 13.5%, which is a concern.
- Below the EBITDA level, lower interest cost at INR1.2 bn vs. our estimate of INR3.4 bn saved the day for Unitech and helped it report PAT only slightly below our estimate of INR497 mn.
- The average residential realisation was up QoQ to INR4,215/sqft (vs INR 3,863/sq ft in 4QFY12). The Noida region was a larger contributor to sales in the last two quarters, with Gurgaon slowing down significantly with the dependence on National Capital Region (NCR) as a whole still continuing.
- Execution remains a key disappointment, as the company managed to deliver only an additional 0.8mn sqft even with ~80% of the older projects being in finishing or handover stage. Of this, 0.3mn sqft was from older projects launched before 2009 and 0.4mn sqft from projects launched after 2009.
- On the balance sheet side, inventory moved up by a large INR10 bn YoY as of Mar'12, with a similar reduction in fixed assets, which could be a case of realignment of some land parcels.
- Short-term loans and advances are down ~INR5 bn. The auditors have remarked that, of the total INR43.2 bn of short-term loans and advances, INR16.1 bn has been outstanding for long period and they are unable to ascertain the recoverability of the same.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: Profit & loss statement

(INR mn)	1QFY13A	1QFY12A	YoY growth (%)	4QFY12A	QoQ growth (%)	1QFY13E
Revenues	**4,077**	**5,959**	*-32%*	**7,161**	*-43%*	**5,821**
Other income	345	714	*-52%*	544	*-36%*	410
Construction and other cost	3,141	4,398	*-29%*	6,239	*-50%*	4,513
Staff cost	389	363	*7%*	533	*-27%*	440
Total expenditure	3,530	4,761	*-26%*	6,772	*-48%*	4,953
EBITDA	**893**	**1,912**	*-53%*	**933**	*-4%*	**1,278**
EBITDA margin (%)	*20%*	*29%*		*12%*		*21%*
Interest	117	337	*-65%*	252	*-54%*	342
Depreciation	99	84	*18%*	172	*-42%*	140
PBT	**677**	**1,491**	*-55%*	**509**	*33%*	**797**
Tax	261	468	*-44%*	475	*-45%*	274
Minority interest/adjustments	42	(39)	*-208%*	(12)	*-455%*	(25)
PAT	**459**	**984**	*-53%*	**23**	*1930%*	**497**
PAT margin (%)	*10.4%*	*15%*		*0.3%*		*8.0%*
Tax rate	*38%*	*31%*		*93%*		*34%*

Source: Company data, Nomura estimates

Fig. 2: New launches geographical breakdown

	Area launched each quarter (mn sq ft)					
	Mar'11	**Jun'11**	**Sep'11**	**Dec'11**	**Mar'12**	**Jun'12**
Gurgaon	1.37	0.30	1.23	0.58	0.12	0
Noida + Gr. Noida	0.15	0.54	0.58	0.00	0.46	0.93
Chennai	0.32	1.37	0.38	0.00	0.00	0
Kolkata	1.13	0.00	0.00	0.00	0.00	0
Other cities	1.26	1.00	0.59	0.60	0.05	0.33
Total	**4.2**	**3.2**	**2.8**	**1.2**	**0.6**	**1.3**
NCR	1.5	0.8	1.8	0.6	0.6	0.9
NCR as % of total	**36%**	**26%**	**65%**	**49%**	**92%**	**74%**

Source: Company data, Nomura research

Fig. 3: Sales volume geographical breakdown

	Area sold each quarter (mn sq ft)					
	Mar'11	**Jun'11**	**Sep'11**	**Dec'11**	**Mar'12**	**Jun'12**
Gurgaon	0.84	0.45	0.86	0.72	0.26	0.14
Noida + Gr. Noida	0.27	0.20	0.13	0.42	1.00	0.88
Chennai	0.32	0.58	0.40	0.14	0.09	0.20
Kolkata	0.17	0.18	0.15	0.15	0.17	0.16
Other cities	0.38	0.49	0.26	0.26	0.27	0.13
Total	**2.0**	**1.9**	**1.8**	**1.7**	**1.8**	**1.5**
NCR	1.1	0.7	1.0	1.1	1.3	1.0
NCR as % of total	**56%**	**34%**	**55%**	**67%**	**70%**	**68%**

Source: Company data, Nomura research

Fig. 4: Sales volume by type

	Area sold each quarter (mn sq ft)					
	Mar'11	**Jun'11**	**Sep'11**	**Dec'11**	**Mar'12**	**Jun'12**
Residential	1.8	1.7	1.56	1.44	1.68	1.44
Non-residential	0.2	0.2	0.24	0.25	0.11	0.08
Total	**2.0**	**1.9**	**1.8**	**1.7**	**1.8**	**1.5**
Residential as % of total	91%	87%	87%	85%	94%	95%

Source: Company data, Nomura research

Fig. 5: Realisation and new sales value

	Average realisation for the quarter (INR/sqft)					
	Mar'11	Jun'11	Sep'11	Dec'11	Mar'12	Jun'12
Residential	4,353	4,360	5,393	4,729	3,863	4,215
Non-residential	12,113	12,293	9,499	10,400	11,818	11,750

	Total bookings for the quarter (INR mn)					
Booking amount (INR mn)	Mar'11	Jun'11	Sep'11	Dec'11	Mar'12	Jun'12
Residential	7,835	7,238	8,412	6,810	6,490	6,070
Non-residential	2,059	2,950	2,280	2,600	1,300	940
Total	**9,894**	**10,188**	**10,692**	**9,410**	**7,790**	**7,010**

Source: Company data, Nomura research

Fig. 6: Unsold inventory from launches since Mar'09

	Unsold launched inventory since Mar09 (mn sq ft)					
	Mar'11	Jun'11	Sep'11	Dec'11	Mar'12	Jun'12
Gurgaon	1.0	0.8	1.2	1.0	0.9	0.8
Noida + Gr. Noida	3.7	4.1	4.5	4.1	3.6	3.6
Chennai	0.9	1.7	1.7	1.6	1.5	1.3
Mumbai	0.0	0.0	0.0	0.0	0.0	0.0
Kolkata	2.4	2.2	2.1	1.9	1.8	1.6
Other cities	2.7	3.2	3.5	3.8	3.6	3.8
Total	**10.7**	**12.0**	**13.0**	**12.5**	**11.3**	**11.1**

Source: Company data, Nomura research

Appendix A-1

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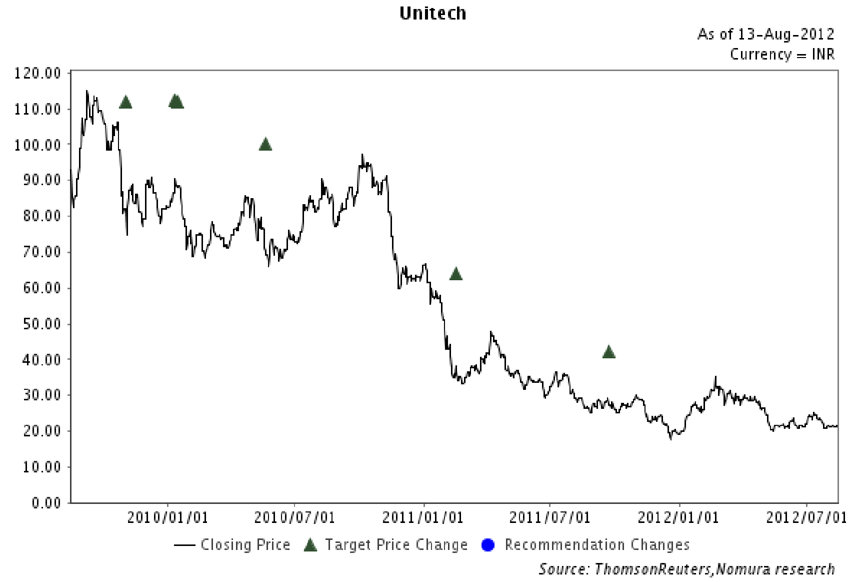
Unitech	UT IN	INR 21	14-Aug-2012	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Unitech	Reduce	26-Jun-2009

Unitech (UT IN) **INR 21 (14-Aug-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
22-Sep-11		42.00	27.80
16-Feb-11		64.00	38.20
20-May-10		100.00	70.20
14-Jan-10		112.00	88.25
11-Jan-10		112.40	90.45
02-Nov-09		112.00	82.25

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our 12-month target price is INR42. We value the company in two parts: 1) net asset value of the current land bank at INR49 per share and a discount of 20% on the same in line with the historical discount, and 2) Unitech Infra valued at INR3 per share. Our WACC assumption is 15.25%.

Risks that may impede the achievement of the target price Downside risks include 1) any negative outcome of the investigation in the telecom scandal, 2) dumping of pledged shares in the market by lenders, 3) a reduction in liquidity and capital availability for developers, 4) stalled economic growth recovery, 5) inability to successfully sell projects or construct them, and 6) rising interest rates.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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