

UBS Investment Research

Unitech

Building strong foundations

■ Initiate coverage with a Buy 2 rating

We initiate coverage of Unitech, one of India's largest, reputable, and diversified real estate developers, with a Buy 2 rating and price target of Rs444. With a land bank of 10,332 acres (saleable area >400msf with three-quarters in residential), we think Unitech is well-positioned to capture a significant portion of the >20% five-year CAGR in the Indian real estate market.

■ Key strengths cannot be easily replicated

We believe the key competitive strengths of Unitech are: (1) its diversified portfolio including special economic zones (SEZ); (2) low acquisition cost of land bank (<5% of sales value); (3) reputation as a quality residential property builder; and (4) higher ROCE business model through faster churning of capital.

■ Volumes and prices to drive EPS CAGR of 126% over FY07-09E

We estimate sales CAGR of 105% over FY07-09 and EPS CAGR of 126% after an 8x YoY sales increase in FY07E. The key drivers are: (1) volumes—we estimate sales/lease of 67.8msf over FY07-09 versus 5msf over FY04-06; (2) better pricing—property prices have risen 40-50% in most markets over the past two years; and (3) accounting-related changes, from FY06 to FY07.

■ Valuation: SOTP based PT of Rs444

Our price target of Rs444 is based on a sum-of-the-parts valuation, but excludes value for SEZs and hotels. At our price target, the stock would trade at a FY08E PE of 19.3x, versus 18-28x for Singapore/Hong Kong property companies and 10x for Chinese companies. Our price target is sensitive to realisations, interest rates, and pace of execution.

Highlights (Rs m)	03/05	03/06	03/07E	03/08E	03/09E
Revenues	6,499	9,322	27,034	63,824	113,094
EBIT (UBS)	862	1,854	11,657	29,375	51,710
Net income (UBS)	345	846	6,842	18,629	34,905
EPS (UBS, Rs)	0.42	1.04	8.43	22.95	43.00
Net DPS (UBS, Rs)	0.12	0.20	2.00	5.00	10.00

Profitability & Valuation	5-yr hist. av.	03/06	03/07E	03/08E	03/09E
EBIT margin %	-	19.9	43.1	46.0	45.7
ROIC (EBIT) %	-	23.7	36.0	44.3	55.3
EV/EBITDA x	-	8.4	25.0	10.2	6.0
PE (UBS) x	-	13.1	39.8	14.6	7.8
Net dividend yield %	-	1.5	0.6	1.5	3.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs335.70 on 12 Oct 2006 23:39 HKT

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Global Equity Research

India

Real Estate

Rating **Buy 2***
Prior: Not Rated

Price target **Rs444.00/US\$9.74**
Prior: Not Rated

Price **Rs335.70/US\$7.36**

RIC: UNTE.BO

13 October 2006

Trading data (local/US\$)

52-wk. range	Rs361.35-9.32/US\$7.92-0.21
Market cap.	Rs272bn/US\$5.98bn
Shares o/s	812m (ORD)
Free float	25%
Avg. daily volume ('000)	717
Avg. daily value (Rsm)	202.6

Balance sheet data 03/07E

Shareholders' equity	Rs7.63bn
P/BV (UBS)	35.7x
Net cash (debt)	(Rs46.3bn)

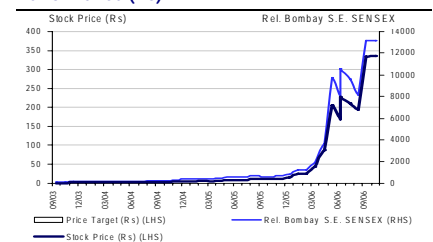
Forecast returns

Forecast price appreciation	+32.3%
Forecast dividend yield	1.5%
Forecast stock return	+33.8%
Market return assumption	12.0%
Forecast excess return	+21.8%

EPS (UBS, Rs)

	03/07E			03/06
	From	To	Cons.	Actual
Q1E	-	-	-	-
Q2E	-	-	-	-
Q3E	-	-	-	-
Q4E	-	-	-	-
03/07E	-	8.43	-	-
03/08E	-	22.95	-	-

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 36

*Exception to core rating bands; See Page 37

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Summary and investment case

Unitech is one of India's largest, most diversified and reputable real estate companies that is emerging as a pan-India player in a market dominated by regional champions. The company's core strengths of land acquisition, reputation in building townships, relationships with governments and customers, and higher ROCE business model have enabled it to build a diversified portfolio. Unitech has built a land bank of 10,332 acres with a total saleable area of 401msf and 8m sq yards, which should help it consolidate its leadership in the US\$40-45bn Indian real estate market, which we estimate to grow at five-year CAGR of 20%+. The residential market (90%) is the largest segment of the market, and Unitech's land bank is skewed towards the residential market (77% of land bank).

In the near term, we estimate sales to grow at a CAGR of 105% over FY07-09 after a nearly 3x jump in FY07E over FY06, EBITDA to grow at 119%, and profit to grow 126% after the 8x jump in FY07E over FY06. We expect growth to be led by: (1) higher scale of operations; and (2) better prices for its products. We estimate operating margins at 45%+ due to the low cost of land (<5-6% of sales value of developed properties). We value Unitech at Rs444, based on sum-of-the-parts. At our price target, the stock would trade at a PE of 19.3x, which compares well with Singapore/Hong Kong companies, which trade at 18-28x, and Chinese companies at 10x. Our price target is 32% above the current level and we initiate coverage with a Buy 2 rating. Our valuation does not include value that could be attributed to Special Economic Zones (SEZs) and hotels. Our price target is highly sensitive to interest rates, real estate prices, and pace of execution.

Secular 20%+ growth in real estate development

In terms of total economic value of real estate development, the size of the activity in the Indian real estate market is currently US\$40-45bn (5-6% of GDP)—residential (90-95% of the market), commercial (4-5%), and organised retail (1%). Over the next five years, we expect the Indian real estate market to grow at a 20% CAGR, driven by 18-19% growth in residential real estate, 55-60% in retail real estate, and 20-22% in commercial real estate.

Table 1: Target market growth rates

(US\$ bn)	FY05	FY10E	CAGR (%)
Residential	38	88	18.3
Commercial	1.5	3.8	20.5
Retail	0.6	6.0	56.2
Total	40	98	19.5
Real estate market as proportion of GDP (%)	5.6	7.8	

Source: UBS estimates

We initiate coverage of Unitech, one of India's largest and most diversified real estate companies

A leading residential developer

See our report, "India's property boom" dated 28 September, for a detailed analysis of the various segments

US\$40bn real estate market to grow 20%+ over five years, in our estimate

Unitech is a leader in the Indian real estate market

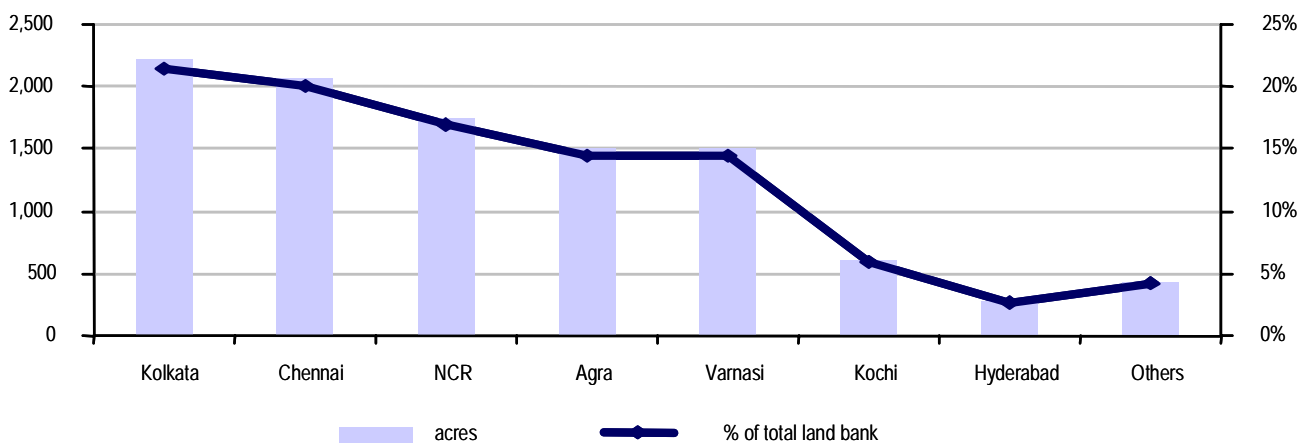
Unitech has a 30-year old history of quality real estate development and construction, and leadership in the markets of National Capital Region (NCR) and Kolkata. The company currently has built a pan-India land bank of 10,332 acres, spread over Kolkata (21%), Chennai (20%), NCR (17%), and Agra (15%). In terms of development, residential projects account for about 77% of the saleable area, commercial 16% and retail 7%. Unitech’s focus areas are: (1) Residential properties and integrated townships in the suburbs of main cities; (2) Commercial IT parks; (3) hotels; (4) SEZs; and (5) retail (but to a more limited extent). We believe Unitech has several distinct advantages.

- Among the land bank details that are publicly available, Unitech has one of largest and most diversified;
- Unitech has 20msf under construction in various locations, and is poised to garner a significant slice of the market in these locations;
- The company is likely to adopt innovative financing structures to churn capital faster in the IT parks until REITs are legislated in the country.
- The cost of its entire land bank is about Rs50bn (US\$1.1bn), which represents only 23% of the first three years of sales.
- Unitech’s properties command a premium given its reputation.

Under construction is 20msf

Land cost is Rs125/sf of value of developed sales value

Chart 1: Unitech's land bank by location



Source: Company data, UBS estimates

Earnings growth of 126% over FY07-09E

We estimate sales will grow at a FY07-09 CAGR of 104.5% to Rs113.1bn, EBITDA to grow 118.5% to Rs55.4bn, and PAT to grow 125.9% to Rs34.9bn after a near 8x YoY jump in profit in FY07E. The figures in FY07 are not comparable to historical data due to changes to accounting. The major markets for Unitech for the next three years will be NCR, Chennai, Kolkata, Bangalore, and Hyderabad. We look for margins to increase from 19.6% in FY06 to 49.0% in FY09, again partly due to the accounting changes. However, the main drivers are:

- **Increase in scale of operations.** Sales of 54.7msf and leased space of 13msf over the next three years versus total sales + lease space of 5msf over the past two years; and
- **Improved pricing conditions.** Prices now are 40-50% higher than two years ago in most locations. Given the percentage of completion method for revenue recognition, the full benefit of current prices will be realised over the next two years.

Prices, volumes drive growth

Major cash costs would be for building the land bank for the SEZs (we estimate at Rs100bn pa FY07-09) and construction costs.

Unitech has a high ROCE model as capital is churned faster due to a higher share of residential business, and we expect the ROCE to increase from 26.9% in FY07E to 42.2% in FY09. *Our forecasts do not estimate any sale of IT parks, which could increase cash churn and ROCE further.*

We initiate with a Buy 2 rating

Our price target of Rs444 is arrived at by using a sum-of-the-parts of the DCFs of the various real estate businesses (98% of value) and a multiple-based valuation of its other businesses. Singapore and Hong Kong developers are trading at between 18-28x, most Chinese developers trade at near 10x, and the larger developers between 12-17x. We believe Unitech's fair value lies below that of Singapore developers (given Singapore's comprehensive REIT legal infrastructure), but above the Chinese developers (given less market fragmentation and Unitech's exceptionally cheap book value of land). Our forecasts are most sensitive to interest rates, and to realisations.

Rs444 price target, at 19.3x FY08E PE

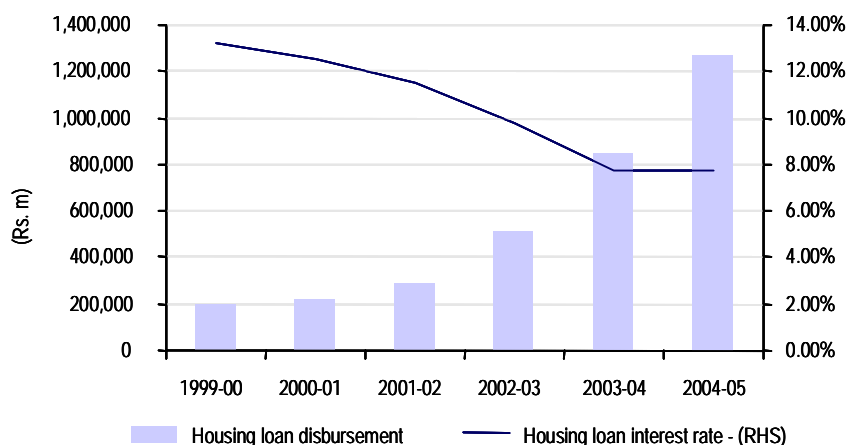
Risk analysis

Macro-economic risks

India's interest rate outlook poses the biggest risk to our estimates

Easy credit has been one of the biggest drivers behind recent trends in property prices. Mortgage rates declined from the highs of 13% in FY00 to 7.75% in FY04 and FY05. Housing loan disbursements have grown at a CAGR of 45% during this period.

Chart 2: Home loan disbursement versus interest rates



Source: NHB, Economic Times

In our view, rising interest rates will be the most significant headwind for the real estate market. Mortgage rates have risen approximately 175bp over the past 18 months, and, coupled with higher property prices, are likely to have impacted affordability. In April 2006, the Reserve Bank of India (RBI) also tried to clamp down on loans to the housing and real estate segment, and since then major banks have hiked home loan rates by a further 25-50bp.

UBS Economist, Sanjay Mathur believes that three favourable developments point towards the view that RBI now has more scope to pause and assess the impact of previous tightening. These developments are: (1) the Fed has more or less exited from the tightening cycle and US bond yields have trended lower; (2) commodity prices have come off measurably; and (3) banks are now reporting weaker demand for consumer loans, albeit selectively. Mathur believes that it cannot be yet concluded that the RBI is done with tightening. However, data flows that go towards determining the policy stance are no longer only pointing to further tightening, but have become more balanced.

Interest rate outlook more benign compared with six months back

Property prices face recession risks

There is a time lag between buying land and developing it commercially that exposes any project to property price risks, especially given the current spurt in prices. In the past 10 months, prices in parts of Delhi have risen by as much as 100%. In Mumbai, prices reached their all-time peaks in 1996, which was then followed by a crash.

Over the next three years, we think Unitech would be able to weather a recession (however unlikely) given its very mature land bank, and pre-sales of residential properties. Beyond that, given its geographical and business diversity, we believe Unitech should better withstand any recession than its competitors. This advent of recession could also provide the company with the opportunity to build its land bank at distress prices.

Infrastructure-related risks

Unitech and DLF have developed the commercial district of Gurgaon, but we think the associated infrastructure has not kept pace. The city still lacks reliable public transport and power sources. Companies situated in Gurgaon organise their own transport and run mini-captive plants for power. The SEZ plans of companies require substantial support from state governments for water, public transport and other public infrastructure. Unitech proposes to counter these risks by in-house utility management (as in the case of Gurgaon), by building property on prime locations and by entering into electricity distribution.

Construction cost escalation

We forecast sales volumes to grow more than eight-fold from FY06 to FY09. This growth includes a number of large-scale projects where construction has not yet begun. Timely construction of the company's planned projects is a material risk to our forecasts and valuation of the company. At present, the market is very tight for contractors, with contractors picking and choosing contracts with the best risk-reward ratio. The tightness is due to a shortage of labour. Cement prices have shown no signs of abatement in the past three months, and there are shortages, especially in North India. Unitech has its own construction division and has recently shifted its workforce from the construction business to the real estate segment.

Execution-related risk rank high

Regulatory risks

Land is subject to state regulation, and therefore a developer needs to understand the function and procedures of the state government. For example, reports indicate that the new Master Plan of Delhi could encourage private sector residential development within the city limits and thus put downward pressure on prices in the rest of NCR. Other regulations are decided by the RBI (monetary policy) and the central government (fiscal incentives) and determine real estate value. The fiscal incentives for interest and principal payments have also contributed to the growth of the residential housing segment. The ballot cycle plays an important role in infrastructure orders. National Highways Authority of India (NHAI) orders slowed down after the change in the central government, though it later picked up after a gap of 12-15 months.

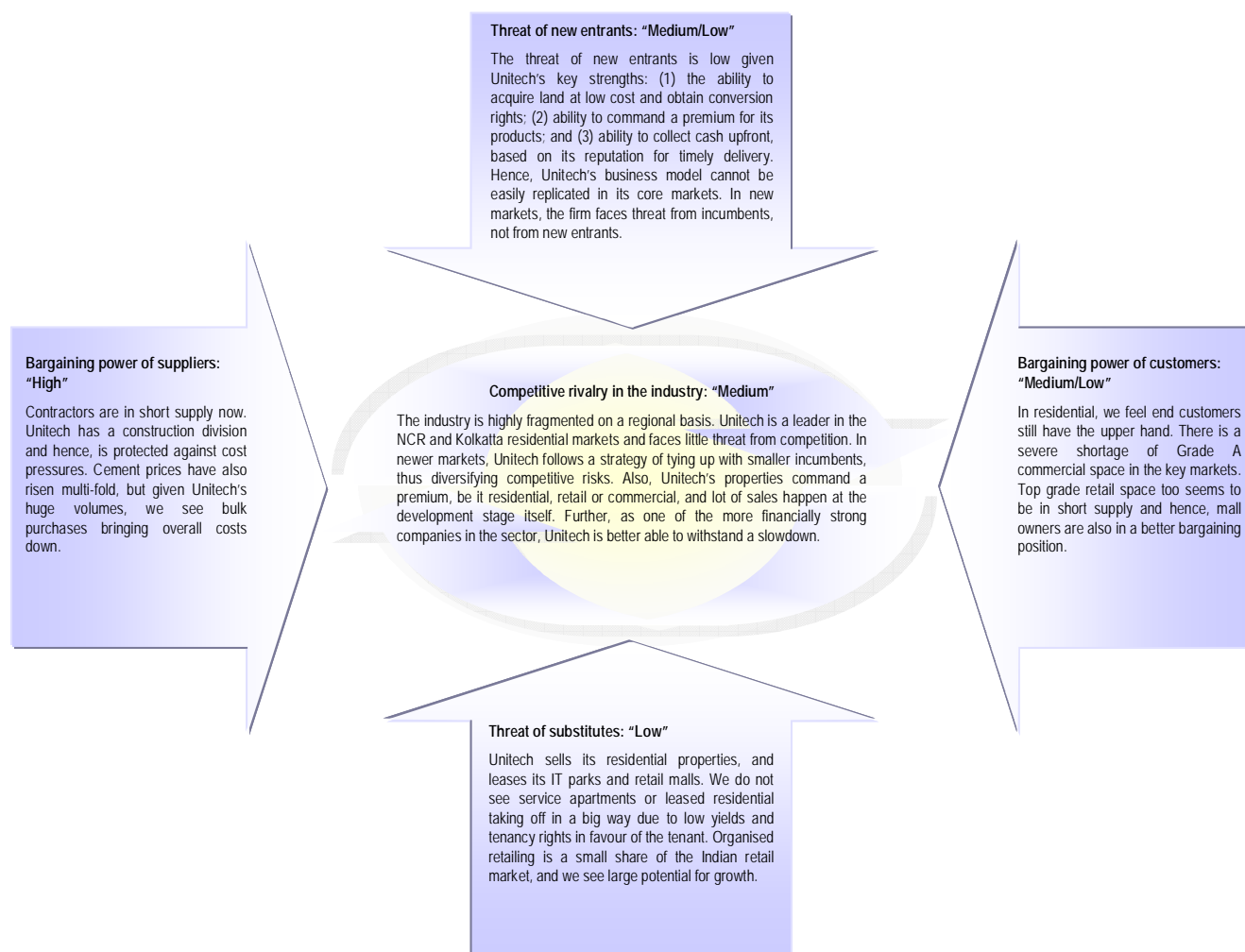
Slowdown in IT spending

IT/ITES sector accounts for 70-75% of the commercial segment. IT sector revenue is driven by US GDP growth. Our IT services analyst has dealt with macro concerns on the US economic down-turn in his report dated 29 September (*What has changed since the last slowdown?*). He argues the expectations for Tier 1 and Tier 2 companies are quite reasonable and does not expect any cuts in earnings estimates in the context of the UBS view on the US economy. However, any slowdown in IT spending could negatively impact Unitech.

Competitive analysis

Assessment of industry attractiveness

Chart 3: Porter's five competitive forces analysis



Source: Michael Porter, UBS

Indian real estate market

We estimate the US\$40-45bn Indian real estate market to grow at CAGR of 20% over the next five years, driven by 18-19% growth in the residential real estate, 55-60% in retail real estate, and 20-22% in commercial real estate.

Table 2: Real estate market size

(US\$ bn)	FY05	FY10E	CAGR
Residential	38	88	18.3%
Commercial	1.5	3.8	20.5%
Retail	0.6	6.0	56.2%
Total	40	98	19.5%
Real estate market as proportion of GDP	5.6%	7.8%	

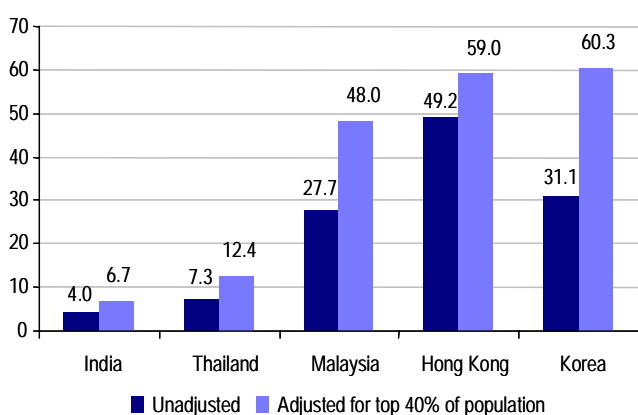
Residential segment accounts for 90% of overall market

Source: CRIS INFAC industry information service, UBS estimates

Statistics on available real estate indicate a rising gap between demand and supply in the country, and the wide disparity between India and some of its closest peers globally:

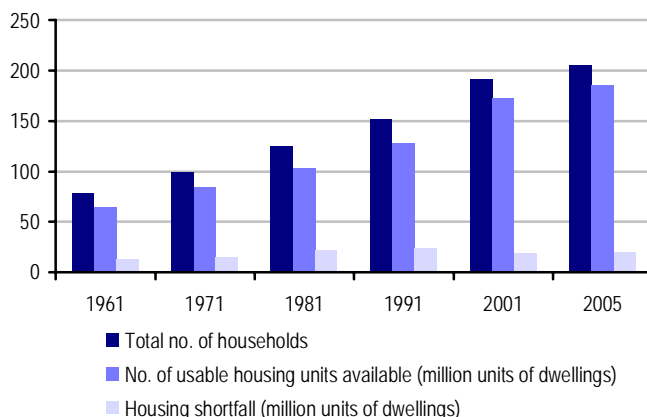
- Ratio of housing loans to GDP is 4.0% versus 7.3% in Thailand and 27.7% in Malaysia, despite a five-year home loan CAGR of 20%.
- The government estimates housing shortages at 22.4m units (Chart 5)
- The office space available in Mumbai is 12msf versus 72msf in Bangkok and 65msf in Singapore. Compared with these cities, the office space available in India is 95-100msf.
- The Indian retail market is about US\$220bn versus the US\$550bn in China. Of India's retail market, only 3% is organised retail.

Chart 4: Housing loan to GDP ratio (2005)



Source: UBS estimates

Chart 5: Housing shortages

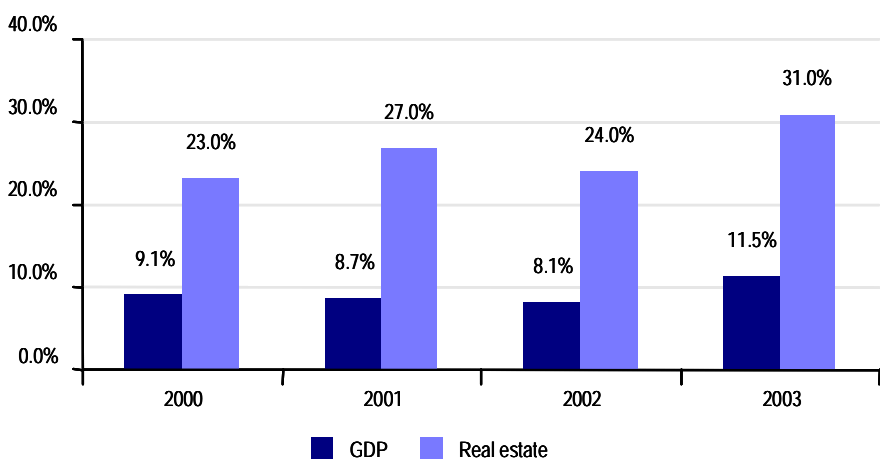


Source: HDFC, National Housing Bank (NHB)

Real estate growth = 2-3x GDP growth

Real estate investment growth is 2-3x GDP growth during the sustained high growth phase in an economy. This can be illustrated by the GDP and real estate growth in China. The Indian economy is currently growing at 7-8% pa, and UBS estimates a growth rate of 7-8% to continue in FY07-08. Using the China model would imply that over the next 3-5 years, the Indian real estate market should grow at 24% CAGR. An interplay of demographics, savings-related investments and GDP should translate into 8% GDP growth for even longer periods to come.

Chart 6: China: GDP growth rate and real estate growth rate



Source: National Bureau of Statistics, China

We examine our expectations with a bottom-up approach. A detailed analysis of the various markets is in our report on the Indian real estate sector *India's property boom*, dated 28 September 2006.

- Given the low housing stock (square meters/person) figures, the rising proportion of high-income class, aspiring consumers (we estimate the middle to high income segment Unitech is targeting to grow by 20%+), urbanisation trends, and cheaper credit, we expect market for residential real estate to grow close to 18%. The market for premium and luxury housing at an all-India level is likely to be upwards of 200,000 units pa, translating into likely demand of 150msf pa, with the top six cities likely to be 70% of the demand.
- We look for impressive 20%+ growth of the IT/ITES industry to contribute to 70% of the incremental demand for office space. Cushman & Wakefield estimates requirements of 70-72msf over FY06-08.
- The share of organised retailing in total retail sales should grow from 3-4% to 10% by FY10, implying a 56% CAGR, in our estimate.

Bottom up approach also shows 20% upside potential

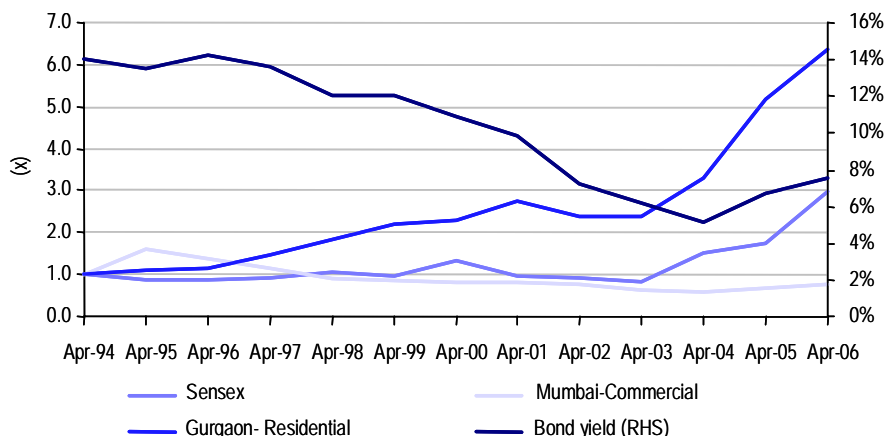
Over the next 4-5 years, we estimate an addition of 750msf of residential, 205msf of commercial, and 76msf of organised retail space in the target markets for Unitech (does not include retail space contained within residential spaces).

Prices reflect underlying growth, but further upside unlikely

In anticipation of booming demand, real estate assets have turned out one of the best returns among the various investment classes in recent years. However, over the past 15 years, property prices have appreciated less than other classes in CBD of Tier 1 cities though at a secular 15%+ growth in Tier 2 cities like Gurgaon. Over the past two years, property prices have risen at a CAGR of 20%-plus in Tier 1 cities, and 50% in Tier 2 cities. This is in addition to the rental yield in these markets.

Chart 7: Property gave better returns in past two years, but not over the longer term

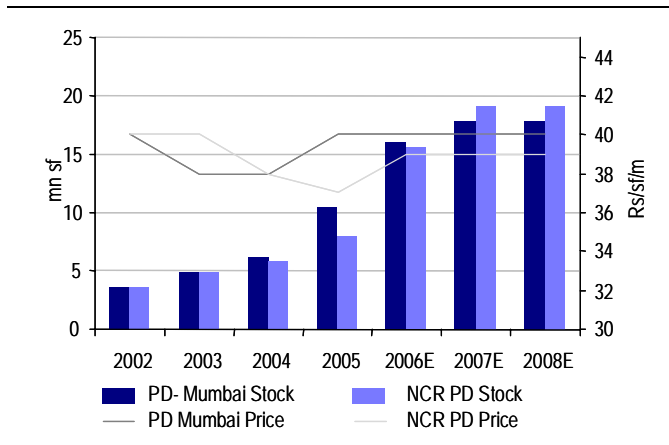
Secular trend in Tier 2 cities over the past 15 years



Source: Knight Frank, UBS

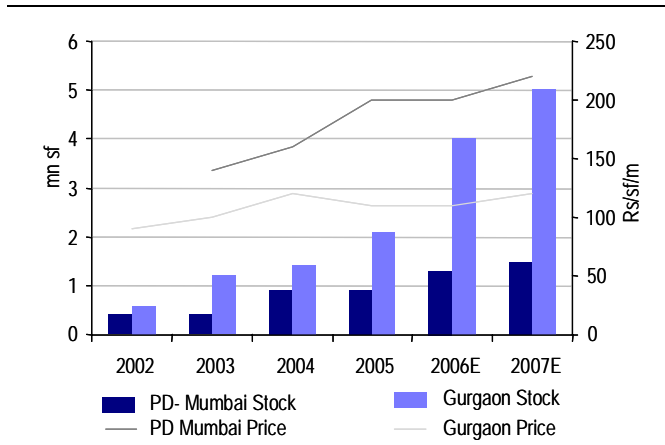
Among the various segments, we see stable to strong pricing in the commercial space, where places like Mumbai and Bangalore and upcoming cities have shortages for Grade A office. We are a little cautious on the retail space given that the retail margins are being squeezed in the face of the higher rents. While we expect the larger malls to be protected from a downturn for up to 60-65% of their demand, there are risks of absorption beyond this. We believe interest rates are the biggest driver for real estate prices in residential segments and pose the highest risks as well though risks could be lower at the super-luxury and premium segments.

Chart 8: Commercial



Source: Jones Lang LaSalle, UBS estimates

Chart 9: Retail



Source: Jones Lang LaSalle, UBS estimates

The institutionalisation process

Up until the 1990s, the real estate market was dominated by single-city and regional builders, primarily family businesses, with single-asset types of development, and there was only a small, fragmented secondary market. The individual markets for residential, retail, and office properties were characterised by outright sales, low mortgages, and long development periods; investors were primarily non-resident Indians (NRIs) and unorganised retail operators.

Over the past decade or so, the market has transformed. Currently about 90% of offices are now leased; there are at least 30 retail malls operating; 90% of incremental homebuyers take out mortgages; and non-NRIs account for a significant proportion of real estate investors.

This has resulted in corporatisation of property companies, emergence of regional and pan-national property companies, the availability of various funding options, and the emergence of a strong secondary market. Various regulatory reforms have accompanied the greater organisation and transparency. These reforms include:

- Government support for the repeal of the Urban Land Ceiling Act, with nine state governments having already repealed the act.
- Modifications in the Rent Control Act to provide greater protection to homeowners wishing to rent out their properties.

Regulatory reforms and liberalisation driving changes

- Rationalisation of property taxes in a number of states; and the proposed computerisation of land records.

We expect regulatory changes permitting foreign investment and proposed regulations (please see the appendix to this report for key regulations governing India's real estate sector) allowing the establishment of REITs and REMFs to further accelerate the process of corporatisation.

Evolving integrated real estate companies

The liberalisation and the regulations have improved the chances of pan-India companies, but with land being regulated at the local level, we expect the market to remain dominated by regional leaders.

Portfolio strategies likely to be adopted

The ongoing liberalisation has opened up a variety of funding options for developers. Those previously focusing on a single-asset type of development are now adopting a mixed-use and portfolio strategy. For example, developers are planning integrated townships in the suburbs of the major metropolitan areas and in the other Tier 1 and Tier 2 cities, in addition to the ongoing development of standalone residential, commercial, and retail space. In a few instances, developers are constructing luxury/business hotels on the same sites as residential projects to enhance the value of the project.

Real estate developers adopting a portfolio strategy

Debate likely on business models

While there are no debates on the portfolio strategy, there are differing views about the benefits of an ownership model versus a build-and-sell model. In our opinion, Grade A commercial property offers a straightforward case for ownership and rental income. On the other hand, residential properties, given low rental yields and rental norms that favour the tenants, are likely to be developed and sold to end users/investors.

Debate about ownership model versus sales model—commercial projects likely to be under lease model

Grade A commercial property is in short supply and the upcoming supply over the next two years is likely to find buyers easily. The yields are in the range of 9-11% for commercial properties and, therefore, still attractive on a rental basis, although there is potential for capital appreciation too at current levels. We believe there are two or three national leaders in the commercial property market, with the other companies maintaining a regional profile.

Residential projects earn substantial cash upfront in the form of customer advances and have high IRRs that exceed 35-40%, according to HDFC Realty Fund. So, even before a residential project is completed, the developer needs to look for more land for future sales. However, we are not sure how many real estate developers have the cash to continually build up land bank for future growth. In our opinion, this is one reason we are seeing active fund raising.

Residential projects have high IRRs

The retail industry in India, as mentioned earlier, has historically been unorganised, with mall owners selling individual shops. We see the larger companies adopting an ownership model for malls, given the likely value enhancement that can be derived by retail planning if the mall owner retains the asset.

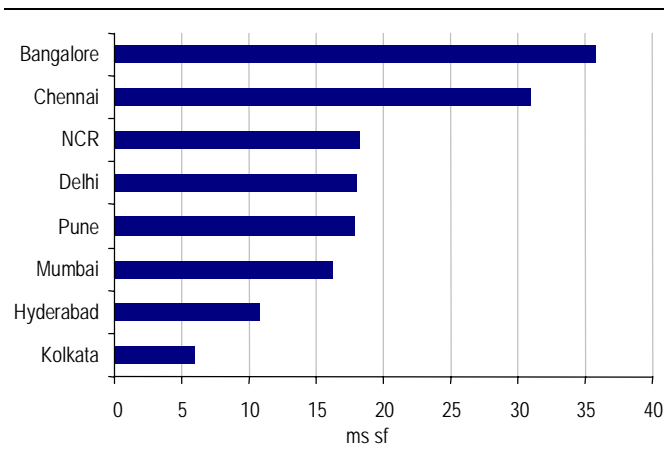
Retail malls on lease models to allow retail planning

We understand about 50% of the 450 odd malls being built in India are for sale on a strata-titled basis. These malls are poorly designed, so there is a high possibility many could fail to sustain footfall over the longer term. We believe that over the next 5 years, the retail mall industry could consolidate, with more than half the malls experiencing a decline in retail profitability and capital value.

Tier 1 and Tier 2 cities likely to be preferred destinations

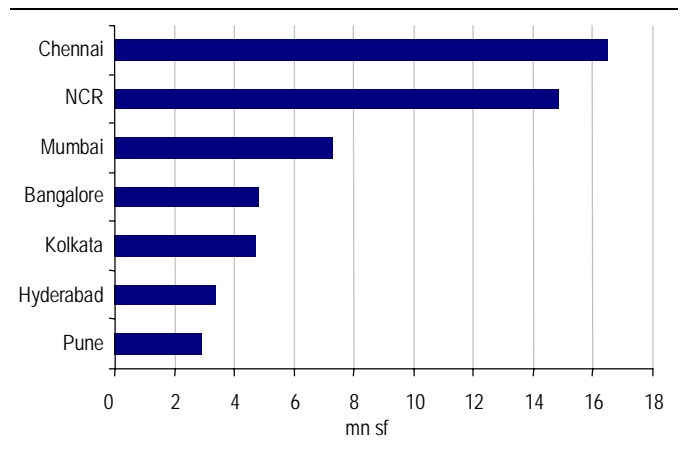
The main locations for the developments are likely to be chosen based on drivers of employment generation, capital flows and regulations. Based on these criteria, the tier-one (Mumbai, NCR, and Bangalore) and now the Tier 2 cities (Chennai, Hyderabad, Pune) are experiencing most of the commercial, residential, and retail development. Foreign developers are concentrating on the larger cities because of criteria of minimum land restrictions for foreign direct investment (FDI), but domestic developers have already begun moving to Tier 3 cities such as Jaipur, Jodhpur, Kochi, and Lucknow.

Chart 10: Commercial space additions over 2003-07E



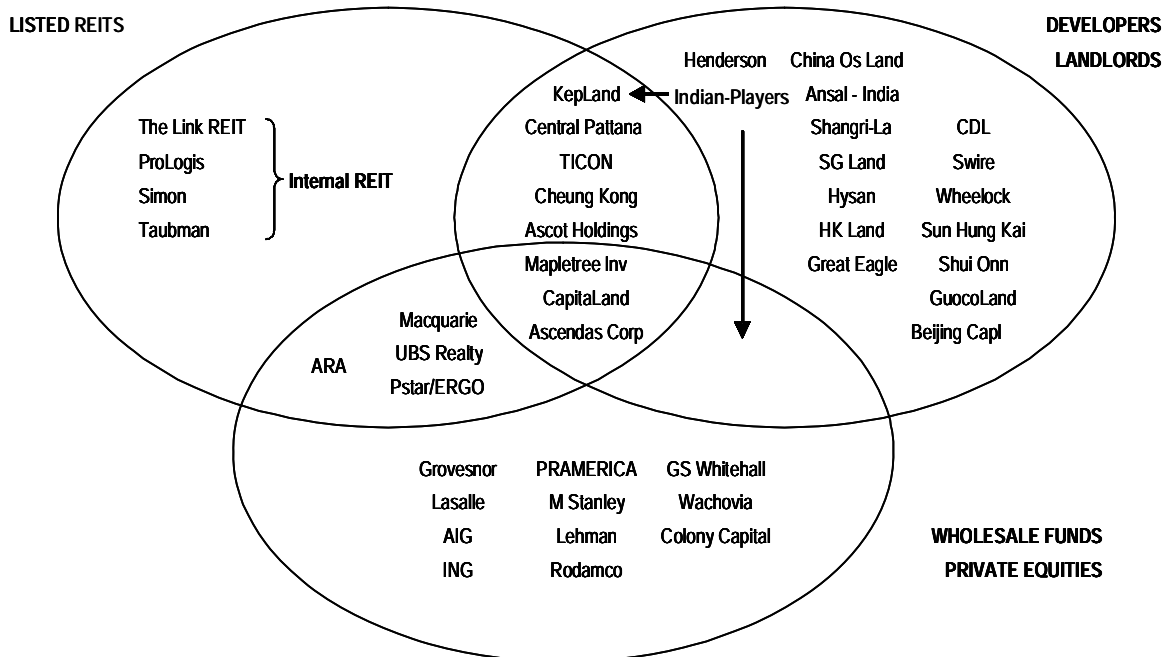
Source: UBS estimates

Chart 11: Retail space additions over 2003-07E



Source: UBS estimates

Chart 12: The evolving integrated Indian property company



Source: UBS

Management strategy & competitive strengths

Unitech is one of only a few property companies who we expect to grow in scale, and to develop a multi-product portfolio at a national level. To achieve its strategy, Unitech has aggregated a pan-national land bank of 10,332 acres towards residential, commercial and retail property development and has received in principle approval for two large integrated projects (with three SEZs—two in West Bengal and one in Kundli). The company is also tying up with leading hotel chains for building hotels. Infrastructure could be another focus area for the company. The company is extensively focusing on the residential market, given the size of the market (90% of the Indian market is residential) and the higher residential ROCE in the Indian context.

Unitech has one of the largest and most diversified portfolio of projects

Table 3: Land bank details

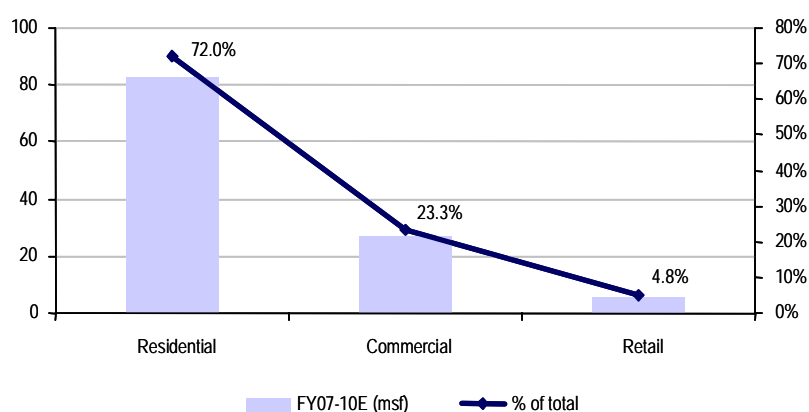
	Total		Unitech's share		Residential		Commercial	Retail		Total	
	acres	% to total	acres	% to total	sq yrds	sq ft	sq ft	sq yrds	sq ft	sq yrds	sq ft
Agra	1,500	11	1,500	15	726,000	19,600,416	7,840,166	580,800	3,920,083	1,306,800	31,360,665
Bangalore	103	1	83	1	-	7,051,940	324,056	-	600,554	-	7,976,550
Chennai	2,085	15	2,063	20	919,600	90,805,460	8,733,074	508,200	3,130,622	1,427,800	102,669,156
Delhi	64	0	29	0	-	-	203,835	-	114,698	-	318,533
Faridabad	10	0	8	0	-	661,501	-	-	-	-	661,501
Greater Noida	251	2	251	2	-	15,964,213	5,403,762	18,077	184,534	18,077	21,552,509
Gurgaon	1,582	11	1,173	11	366,672	33,604,912	9,391,370	477,443	2,956,109	844,115	45,952,391
Hyderabad	359	3	274	3	203,280	11,812,322	3,647,855	-	544,456	203,280	16,004,633
Kochi	673	5	604	6	304,920	28,226,777	3,538,964	-	3,440,962	304,920	35,206,703
Kolkata	5,198	37	2,213	21	729,872	62,341,174	12,740,638	1,190,640	2,640,224	1,920,512	77,722,036
Mohali	350	2	350	3	127,050	10,316,900	-	169,400	1,428,791	296,450	11,745,691
Noida	536	4	286	3	-	7,589,169	6,703,375	36,974	1,180,350	36,974	15,472,894
Varanasi	1,500	11	1,500	15	726,000	22,344,474	3,920,083	871,200	7,840,166	1,597,200	34,104,723
Total	14,211	100	10,332	100	4,103,394	310,319,258	62,447,177	3,852,734	27,981,549	7,956,128	400,747,985

Source: Company data, UBS estimates

Further, Unitech is positioning itself for growth by replenishing land bank at a fast rate, and churning capital through innovative financing schemes. Over the next three years, Unitech plans to develop and sell/lease 8.9msf in FY07, 22.2msf in FY08 and 42.1msf in FY09. Against this, the total developed space by Unitech over the past two years is 5msf (3msf in FY06 and 2msf in FY05).

With this, Unitech intends to corner 12% of its target residential market, 11% of the commercial market, and 1% of retail market over the next four years.

Chart 13: Mix of development over FY07-10E



Source: Company data, UBS estimates

Of its sales over next three years, the NCR accounts for 55%, the South 31%, and East India 14%, giving it a diversified portfolio but also exposing it to execution-related risks.

Table 4: City-wise sales (FY07-09E)

location	Residential sale (msf)	Commercial-sale (msf)	Retail- sale (msf)	Plots (m sq yds)	Lease cum (msf)	Total development (msf)
NCR	22.34	1.14	1.10	0.29	9.96	37.12
Chennai	7.63	0.21	0.22	0.06	0.37	9.01
Kolkata	4.89	0.62	0.48	0.04	2.01	8.33
Hyderabad	3.53	0.23	0.14	0.06	0.68	5.12
Kochi	3.17	0.03	0.15	0.09	-	4.17
Bangalore	2.35	0.10	0.12	-	-	2.57
Others	-	-	-	0.16	-	1.42
Total	43.91	2.33	2.20	0.70	13.02	67.75

*1 square yard = 9 square feet. Source: UBS estimates

Residential projects in key locations

Unitech has traditionally focused on the residential segment and is retaining that focus with 77% of its land bank targeting residential projects. It has a leading position in NCR and in Kolkata in the residential segment and is also expanding in the South and the East. The land parcels under acquisition are in Central, South and North India. The focus would be on: (1) middle to upper middle class housing projects; (2) townships; and (3) luxury apartments. In the medium term, Unitech intends to focus on prime locations in the top 20-30 emerging suburbs. The premium projects in these markets have the highest profitability.

Focuses on the suburbs of the main cities

We think the total market for Unitech's residential space is upwards of 100,000 units pa pan-India. Over the next four years, we estimate it could be an aggregate 12%.

The projects being recognised as sales over the next three years are in NCR, Chennai, Kolkata, and Hyderabad and Kochi. Of the projects to be recognised as sales over the next three years, 100% is pre-sold for FY07, and near 90% for FY08. The cash receipts are faster with nearly 70-80% of cash received for properties which are due in FY07 and FY08. As a result, residential projects in India are build and sell properties, and with generation of cash flow upfront, we estimate the IRRs of residential projects to be between 35-40%, higher than commercial and retail, which could be closer to 20-25%.

Commercial projects to be sold at development stage

The commercial segment is primarily focussed on IT parks within and beyond NCR and on the strata titled ones (single shops). There are in total 10 IT parks, with total rental area of 31.2msf in Gurgaon, Kolkata, Greater Noida, Chennai, and Hyderabad. Unitech currently supplies Grade A office space in the NCR region (Gurgaon) with Unitech Business Park, Signature Towers, etc. The firm's strategy going forward would be to focus on integrated development projects with townships in the prime locations in NCR and Tier 1 and Tier 2 cities, with standalone offices only in select key cities.

The key variable is the occupancy rate and Unitech's existing business parks have occupancy rates of 95%+. The properties are pre-leased at the construction phase and the pre-lease for properties coming up over the next two years is almost 100%. At the time of the commissioning, we expect occupancy rates of 95% and above. Most of Unitech's IT parks are coming up in areas where there is good infrastructure connectivity and is another reason for the expected high occupancy rates. Of the total commercial property being developed over the next three years, we expect 13msf to be leased and 4.3msf to be sold.

Occupancy rates of commercial properties are the high 90s for Unitech

Unitech will develop and sell the assets at an appropriate time, which could be even at the development stage. This could help faster churning of capital while also retaining the benefits of annuity income as Unitech intends to only partly sell down its holdings. In our estimates, we have not assumed sales of IT parks.

Bearish stance on retail

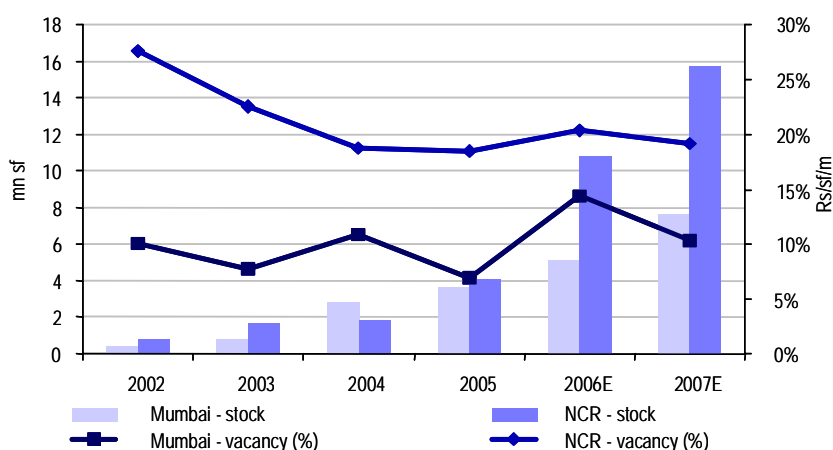
Unitech will have a mix of large retail malls where it would retain the ownership and smaller shops in the residential townships that it would ultimately sell. Unitech is developing two large mix-type projects: Entertainment City in Noida, developed over 143 acres is a mix of amusement parks and retail space, and Adventure Island, developed over 65 acres in alliance with Turner International for Pogo & Cartoon Network is another mix type project. These two projects have cumulative retail space of 1.67msf (Unitech's share is 0.7msf), and we think the amusement parks could be value accretive for the retail.

Unitech is adopting a cautious stance on retail given the concerns that high retail rentals affecting the margins of the retailers. Rentals at Rs40/sf/month is the highest non-consumables cost of a retailer at about 6-7% of the sales of a retailer and with the margins for an Indian retailer already at 11%, increases in retail rentals could dent its margins.

Non-anchor tenant rates at 6-7x that of anchor tenants

We think the concerns are valid, but we think anchor tenants, and the F&B/entertainment sections would continue to be profitable as the anchor rentals are generally 50% lower than that of the average rentals for the mall. These two make up 65-70% of a retail demand leaving the small shops to generate the most returns for a mall owner. With rising costs for the small shops, we expect high churn for them and resultantly, higher vacancy in a few markets.

Chart 14: Rising vacancy trends



Source: Jones Lang LaSalle, UBS estimates

For Phase I of Unitech's largest mall, the 1.45msf Noida malls, the anchor tenants make up 50%, F&B/entertainment 15%, and others 35%. The final 1% of the mall was leased at a rate 7x the anchor tenant rates.

Special Economic Zones—The big rush

In July 2006, New Kolkata International Development, the three-way joint venture between Unitech Ltd, Indonesia-based Salim Group and Universal Success were invited by government (State of West Bengal) to develop 38,000 acres. One of the largest infrastructure development project in the country, the project entails: (1) construction of a 130 km expressway between Kolkata and Haldia including two bridges over Hooghly and Haldi; (2) development of two SEZs (Petrochemical SEZ in 10,000 acres and multiproduct SEZ in 12,500 acres at Haldia); (3) industrial estates for small- and medium-scale enterprises; (4) development of the residential townships / commercial complexes; and (5) development of a Health City and a Knowledge City. More details of the project are in the Appendix of this report. Also, several Unitech-developed IT parks have received in principle approvals for notification as IT SEZs. Unitech has received 'in principle' approval for 20,000 acre SEZ in Kundli (Haryana, North India). The benefits of these projects will accrue over a longer period of time and are not captured in near-term income. However, the land acquisition for the project would commence in FY08, and we estimate spending of Rs100bn pa towards this over FY07-09.

Land acquisition towards three SEZs began in FY07

Other businesses

Hotels

The business encompasses luxury business hotels, serviced apartments, resorts, and limited service hotels (management/franchisee). The hotels strategy is limited to building hotels as an integrated part of the real estate projects. Unitech will focus on hotel development and construction with the international operators managing the hotel/resort. Over next three years, we expect 800 new rooms to be created.

Infrastructure and construction

Unitech is engaged in infrastructure development, through construction of roads and highways, transmission towers. We expect Unitech to actively participate in BOT projects where it makes strategic sense. We do not think the business would increase significantly given the focus on real estate development. Much of the manpower from the construction division is likely to be diverted to real estate.

Unitech's competitive strengths

History of execution

Unitech has a 30-year old history of delivering prime residential properties in and around NCR. Within a short span of time, Unitech has become the leader in Kolkata. The company's products command a 15-20% premium in its existing markets, and while it might be difficult to receive such premium in new markets, we expect Unitech to achieve this over course of time given its delivery quality. Unitech is one of the few real estate companies to have ISO 9001 certification from TUV.

Unitech's projects are premium projects

Table 5: Select completed projects

Project	Location	Area (msf)	Number of apartments
Residential projects			
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
Commercial projects			
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	
Townships (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	

Source: Company data

Tie-ups with segment leaders and with well networked relationships

Unitech has tied up with Marriott for its hospitality business, and with Turner International and Cartoon Network for its amusement park business. The company's tie up with the Salim Group for the integrated project in Kolkata is, we think, on a very strong wicket given the excellent relationships the Group has with the West Bengal government.

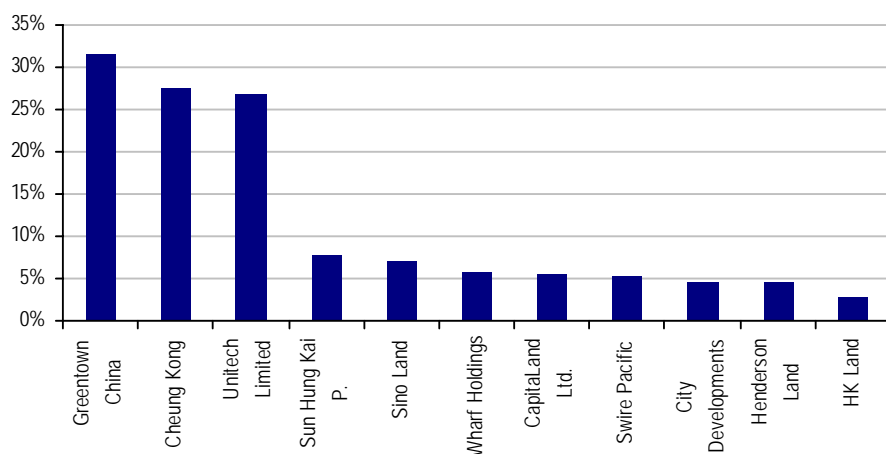
Land bank and business model

The total land bank of Unitech is 10,332 acres, of which the proposed saleable area of developed space is 401msf and sales of plotted properties are 8mn sq yards. The main cities of development are Kolkata (21%), Chennai (20%) and NCR (17%). In terms of development, residential projects account for about 77% of the saleable area, commercial 16%, and retail 7%. The land bank is one of the most diversified land banks. The focus on residential makes it a high ROCE business in the Indian context.

One of the largest land banks

In India, there are no restrictions on pre-sales. For China, the restrictions vary according to cities. Some only require the foundation and pipes established. Some high-rises require 2/3 construction is completed. For villas, some require completion of the top. Usually, pre-sales happen 6-9 months after commencement of construction for low-rises and 12-15 months for high-rises.

Chart 15: ROCE of regional companies (FY07E)



Source: UBS estimates

Table 6: Land bank by size

Company	Land bank disclosed (acres)
Unitech	10,332
Sobha Developers	6,049
Ansal Properties	5,924
Mahindra Gesco	1,637
Anant Raj	796

Source: Company data

Purchase of land bank at optimal cost

The total cost of land bank is Rs50bn (US\$1.1bn), of which Rs40bn (US\$800m) is yet to be paid for. This translates into an average acquisition cost of Rs125/sf. Over the next 4-5 years, most of the profits are from land that has already been acquired and titles are in Unitech's favour. The main land acquisition costs to be incurred over the next three years would be towards the Kolkata integrated project and the other SEZs. The land is likely to be a key differentiator amongst the property companies and the arbitrage provided by this should drive the profits over the next three years. Further, Unitech does not intend to participate in auctions for trophy properties.

Innovative financing and structuring skills

The company aims to achieve its development plan by recycling its capital faster through innovative financing schemes. The proposed schemes as per various reports include the AIM (alternative investment market, in London) fund. Unitech would retain part stake in the developed projects and would earn proportionate lease income and also earn management fees. We think this circumvents the problems associated with FDI participation at completed stage while retaining stakes in the specific projects.

AIM listing could churn capital faster

Captive construction skills

Unitech's origin was as a construction company. Given the significant increase in scale of operations, we think this would be useful in scaling up operations. Already a significant part of its workforce has been redeployed in its real estate/SEZ projects.

Return on capital

Table 7: ROE and ROCE decomposition (FY04-FY09E)

(%)	FY04	FY05	FY06	FY07E	FY08E	FY09E
Asset turnover	182.3	167.5	119.3	83.4	96.3	121.0
EBIT margin	11.5	13.3	19.9	43.1	46.0	45.7
EBIT ROIC	21.0	22.2	23.7	36.0	44.3	55.3
Taxes	68.3	61.6	63.0	74.8	75.8	76.3
Returns on invested capital	14.3	13.7	15.0	26.9	33.6	42.2
IC as % of capital employed	100.0	100.0	100.0	100.0	100.0	100.0
Returns on other invested capital	5.9	-0.1	-0.6	0.0	0.0	0.0
Other assets/CE	0.0	0.0	0.0	0.0	0.0	0.0
Returns on capital employed	14.3	13.7	15.0	26.9	33.6	42.2
Leverage	100.9	125.5	237.8	483.0	369.7	234.1
Minorities	115.6	113.4	110.0	107.3	105.9	105.5
Exceptionals	106.9	96.0	96.2	96.2	96.2	96.2
ROE	17.9	18.7	37.6	134.2	126.6	100.4
ROE (adjusted)	16.8	19.1	37.8	134.2	126.6	100.4

Source: Company data, UBS estimates

We estimate ROCE to increase from 26.9% in FY07 to 42.2% in FY09 driven by: (1) higher realisations; (2) higher share of residential which improves the working capital cycle; and (3) operating leverage from increased scale of operations. The major investments are towards purchasing land for the SEZ in Kolkata and Kundli. The returns from these investments are back-ended and hence, we expect ROCE ratios to improve further. Further improvements in ROCE could arise from sale of IT parks.

Table 8: Movements in inventory and advances from customers (FY07-09E)

	FY07E	FY08E	FY09E
Inventory and projects in progress			
Opening stock	30,870	38,979	46,716
Add: Land cost & construction expenses	20,493	34,522	59,601
Less: expenses in P&L	(12,384)	(26,785)	(49,155)
Closing Stock	38,979	46,716	57,161
Advances from customers			
Opening advances	23,428	24,787	47,562
Add: Sales receipts	20,216	66,966	112,975
Add: 3 month's lease advance	63	862	2,274
Less: Recognised as revenue	(18,921)	(45,053)	(81,315)
Closing advances	24,787	47,562	81,496

Source: UBS estimates

Financials

Profit and loss

Sales CAGR of 104.5% over FY07-09E, after 3x YoY jump in FY07E

We estimate sales to grow from Rs9.3bn in FY06 to Rs27bn in FY07 and to Rs113.1bn in FY09. The main drivers of the revenue growth are:

Increase in volumes. We estimate total sales and leased volumes of 42.1msf in FY09 versus 3msf in FY06 (total leased + sold property) and 8.5msf in FY07.

Table 9: Sales volume (FY07-09E)

(msf)	FY07E	FY08E	FY09E
Sold during the year			
Residential	7.44	13.56	22.91
Commercial	0.28	0.76	1.29
Retail	0.26	0.64	1.31
Plots (sq yard)*	0.06	0.24	0.39
Total	8.55	17.14	29.05
Leased till date			
Commercial	-	4.32	12.30
Retail	0.43	0.72	0.72
Total	0.43	5.04	13.02

Projects reach critical stage of completion

* 1square yard = 9 square feet. Source: Company data, UBS estimates

This is a result of more projects being at the critical second or third year of completion—very similar to a construction company crossing the threshold for profit recognition and reaching its highest stage of execution of its order book.

Higher prices to be recognised in FY09E. For the residential projects, the full impact of the current appreciation in prices should be felt in FY09 as the percentage of completion method is used for recognition of revenues. Revenues in FY07 are largely based on projects that were pre-sold at least 1-2 years back when the realisations were lower by 40-50% from current levels. A list of major projects and cities towards sales are in the following table.

Table 10: City-wise and project wise sales

Location	Volumes (sf)	Category	FY07E		FY08E		FY09E	
			sales (sf)	realisation (Rs/sf)	sales (sf)	realisation (Rs/sf)	sales (sf)	realisation (Rs/sf)
Chennai	50,307,734	Residential - villas	503,077	2,100	503,077	2,400	2,515,387	3,000
Hyderabad	1,550,167	Residential - villas	-	2,450	155,017	2,800	310,033	3,500
Kochi	2,221,381	Residential - villas	-	1,540	222,138	1,760	444,276	2,200
Chennai	38,469,083	Residential- Apt	384,691	2,100	384,691	2,400	1,923,454	2,700
Gurgaon	4,092,888	Residential- Apt	1,637,155	2,450	409,289	2,800	-	3,150
Gurgaon	2,768,915	Residential- Apt	830,675	2,940	1,107,566	3,360	553,783	3,780
Kochi	4,900,104	Residential- Apt	-	1,400	490,010	1,600	980,021	1,800
Kolkata	10,894,131	Residential- Apt	544,707	2,100	1,634,120	2,400	2,178,826	2,700
Delhi	203,835	Commercial	81,534	8,500	81,534	10,000	40,767	10,000
Gurgaon	308,731	Commercial	92,619	5,950	123,492	7,000	92,619	7,000
Gurgaon	436,761	Commercial	-	5,950	87,352	7,000	131,028	7,000
Gurgaon	76,227	Retail	38,114	8,500	38,114	10,000	-	10,000
Delhi	19,668	Retail	5,900	12,750	9,834	15,000	3,934	15,000
Gurgaon	197,750	Retail	49,438	8,500	79,100	10,000	69,213	10,000

Source: UBS estimates

Retail and commercial lease revenues to kick in: Phase I of the 1.45msf Noida mall is getting commissioned in Q3 FY07 and the 221,000sf Delhi mall is being commissioned this year. As a result, we estimate retail revenues (including those from the amusement parks) which were nil in FY06 to rise to Rs371m in FY07 and to rise to Rs2.4bn in FY09. Further, key commercial properties are likely to accrue to earnings as well over the next two years. The major commercial complexes that are likely to be commissioned are the IT parks in Gurgaon, Noida and Kolkata. Overall, we estimate lease revenues to rise from nil in FY06 to 8.4% of total real estate revenues in FY09. We have not assumed any sale of IT parks.

Table 11: Real estate revenues segment-wise

FYE 31 Mar (Rs m)	FY07E	FY08E	FY09E
Residential	18,921	45,053	81,315
Commercial	1,607	4,309	6,303
Retail	2,682	6,510	11,242
Total sales	23,209	55,872	98,860
Lease rental	253	3,446	9,096
Total	23,463	59,318	107,956

Source: UBS estimates

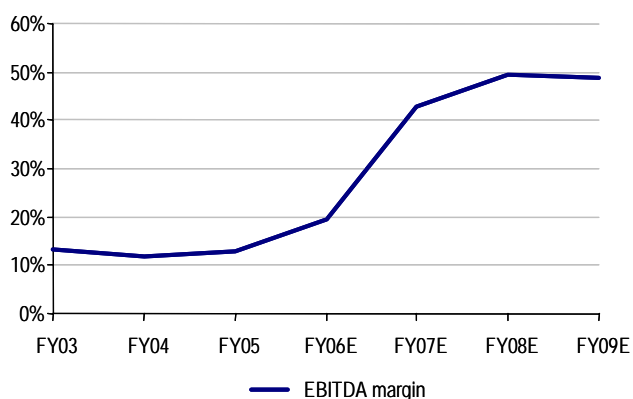
Residential sales are 80% of total real estate revenues

Changes to accounting norms. Residential sales are recognised on a percentage of completion method for all projects launched since April 2004. For projects prior to that, the accounting principle was based on estimated profit basis. Revenue was recognised to estimate profit at 20% of actual receipts and instalments falling due during the year towards booking of properties subject to final adjustment on the completion of the respective project. Hence, the financials are not directly comparable on a YoY basis.

Operating margins to increase due to lower land costs

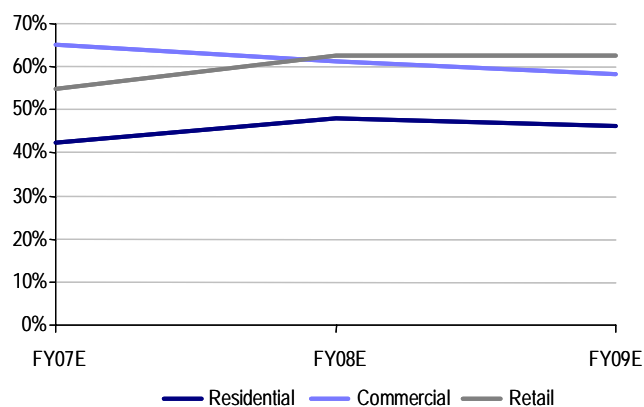
The total land cost in the balance sheet (as of FY06) is likely to be around Rs50bn (estimated as sum of amount to be paid, land in book, and capital work in progress and work in progress under construction). This translates into an average cost of Rs125/sf for the entire land bank, at <5% of the sales given the appreciation in property prices. This should drive the operating margins of between 45-48% over FY07-FY09. Margins are not comparable for years preceding FY06 due to accounting norm changes. We expect margins to decline as the company starts to exhaust its land bank, which we expect only beyond FY10-11.

Chart 16: EBITA margins—Unitech consolidated



Source: Company data, UBS estimates

Chart 17: Sectoral gross margins



Source: UBS estimates

Interest during construction to be written off as project costs: We estimate the debt to increase from Rs11.5bn in FY06 to Rs60bn in FY09. However, we estimate interest costs to increase from Rs465m in FY06 to Rs4.2bn in FY09 despite the higher costs of borrowings, as these costs are captured as a part of the project costs for future years. The construction costs we have estimated include the capitalised interest during construction.

Tax breaks available for commercial IT parks and smaller residential units:

The IT parks are classified as SEZs and hence, would enjoy 100% tax breaks on profits for the first five years, and 50% break for five years after that. IT parks are 80% of the lease sales. Sales of residential projects with area <1,500sf in Tier 2 cities and <1,000sf in Tier 1 cities are tax-exempt.

Tax breaks in commercial and residential projects

Extra-ordinary sales of IT parks not captured: Unitech could also partly sell the IT parks at various stages of development. We have not assumed any sales of IT parks in our estimates.

Commercial and retail assets to be capitalised: The commercial and retail assets on lease are to be capitalised and written off over a period of 20 years, the depreciation rate used for buildings.

Table 12: Profit and loss (FY04-09E)

FYE 31 March (Rs m)	FY04	FY05	FY06	FY07E	FY08E	FY09E
Revenues	5,071	6,499	9,322	27,034	63,824	113,094
Cost of goods sold	(3,758)	(4,742)	(6,136)	(12,384)	(26,785)	(49,155)
Gross profit	1,313	1,757	3,186	14,650	37,039	63,939
SGA	(813)	(1,029)	(1,473)	(3,393)	(7,764)	(12,329)
Other core income	83	134	141	400	100	100
EBIT	583	862	1,854	11,657	29,375	51,710
Interest	(208)	(297)	(465)	(2,153)	(3,850)	(4,200)
Profit before taxes	408	564	1,387	9,504	25,525	47,510
Taxes	(130)	(216)	(513)	(2,395)	(6,169)	(11,244)
Profit after tax	279	347	874	7,109	19,356	36,266
Minorities	19	(14)	(33)	(267)	(727)	(1,362)
Net income	298	334	841	6,842	18,629	34,905
Revenue growth (%)	48	28	43	190	136	77
EBIT margin (%)	12	13	20	43	46	46
EBIT growth (%)	23	48	115	529	152	76
Net profit growth (%)	144	12	152	714	172	87
Margins/ others (%)						
Gross margin (%)	26	27	34	54	58	57
EBIT margin (%)	12	13	20	43	46	46
PAT margin (%)	5	5	9	26	30	32
Tax rate (%)	32	38	37	25	24	24

Source: Company data, UBS estimates

Balance sheet

We estimate capex of Rs30bn pa over the next three years to fund acquisition of land in Kolkata and Kundli (for the SEZs). Other major cash outlay is towards construction cost where we expect cash outflows of Rs105.5bn over the next three years. Without taking any sale of IT parks, we estimate the debt to rise from Rs11.5bn in FY06 to Rs50bn in FY07 and to Rs60bn in FY09. However, we estimate debt equity to fall from 4.1x in FY06 to 1.2x in FY09.

The increase in net tangible fixed assets in FY07 over FY06 and so on is on account of capitalisation of retail and commercial assets which are leased. The capital work in progress is increasing on account of the work on these projects. The creditors /payables are rising on account of the timing difference between receipt of customer payments towards residential apartments and recognition of sales. The stocks are rising on account of the difference in payment of land costs and recognition of land costs in the P&L. See Table 13 for details on movements of working capital.

Negative working capital cycle due to customer advances

Table 13: Balance sheet (FY04-09E)

FYE 31 March (Rs m)	FY04	FY05	FY06	FY07E	FY08E	FY09E
Net tangible fixed assets	1,249	1,434	4,863	10,127	19,152	31,741
Net intangible fixed assets	208	845	824	824	824	824
Net working capital	864	2,551	4,731	13,442	(1,789)	(23,751)
Other long-term liabilities	(122)	(121)	(151)	(151)	(151)	(151)
Total invested capital	2,199	4,709	10,267	24,242	18,036	8,663
Investments/other assets	351	502	145	30,145	60,145	100,145
Total capital employed	2,551	5,211	10,412	54,386	78,180	108,807
Net (cash)/debt	618	3,095	7,607	46,253	55,155	58,445
Minority Interests	268	210	237	504	1,230	2,592
Shareholders Funds	1,665	1,907	2,568	7,629	21,794	47,770
Total capital employed	2,551	5,211	10,412	54,386	78,180	108,807
Fixed asset growth (%)	25	15	239	108	89	66
Working capital growth (%)	-48	195	85	184	nm	nm
Capital employed growth (%)	-15	104	100	422	44	39

Source: Company data, UBS estimates

Table 14: Net working capital (FY04-09E)

FYE 31 March (Rs m)	FY04	FY05	FY06	FY07E	FY08E	FY09E
Accounts receivable	854	853	1,032	2,994	4,075	7,221
Inventory	7,928	16,562	30,870	38,979	46,716	57,161
Other current assets	1,034	1,404	2,860	3,575	4,469	5,586
Accounts payable	(1,807)	(2,008)	(5,270)	(6,061)	(6,970)	(8,015)
Other short-term liabilities	(7,145)	(14,260)	(24,761)	(26,046)	(50,078)	(85,704)
Net working capital	864	2,551	4,731	13,442	(1,789)	(23,751)
Days of receivables	61	48	40	40	23	23
Days of Inventory	571	930	1,209	526	267	184
Days of payables	175	155	314	179	95	60
Days of NWC	62	143	185	181	(10)	(77)

Source: Company data, UBS estimates

Cash flow

Major cash costs are towards: (1) purchase of land towards SEZs and the payment of the land costs towards existing land bank; (2) construction and development costs. The working capital cycle is negative due to customer advances from residential sales and customer deposits for commercial properties. The increase in capex is due to capitalisation of the commercial and retail lease properties.

Cash expenses of Rs100bn over next three years towards SEZs

Table 15: Cash flow (FY04-09E)

FYE 31 March (Rs m)	FY04	FY05	FY06	FY07E	FY08E	FY09E
EBIT	583	862	1,854	11,657	29,375	51,710
Depreciation	108	113	112	348	2,400	3,789
Change in working cap	749	(1,852)	(2,678)	(8,637)	13,972	20,271
Operating cash flow	1,440	(878)	(711)	3,368	45,747	75,770
Interest	(208)	(297)	(465)	(2,153)	(3,850)	(4,200)
Taxes paid	(130)	(216)	(513)	(2,395)	(6,169)	(11,244)
Capex	(378)	(297)	(3,518)	(5,612)	(11,424)	(16,378)
Free cash flow	725	(1,688)	(5,208)	(6,792)	24,304	43,948
Net acquisitions / disposals	54	(151)	358	(30,000)	(30,000)	(40,000)
Dividends (common)	(101)	(112)	(188)	(1,786)	(4,464)	(8,929)
Share issues / buybacks	23	-	(23)	-	-	-
Other	(30)	(526)	549	(68)	1,258	1,692
Cash flow (inc)/dec in net debt	673	(2,477)	(4,512)	(38,646)	(8,902)	(3,289)
Free cash flow yield (%)	81.5	-69.7	-46.9	-2.6	9.3	16.8
Dividend yield (%)	5.0	1.5	0.1	0.6	1.6	3.1
Capex/sales (%)	7.4	4.6	37.7	20.8	17.9	14.5
Net debt to equity (%)	37.1	162.3	296.3	606.2	253.1	122.3

Source: Company data, UBS estimates

Sensitivity to earnings

The earnings are sensitive to (1) property prices; (2) occupancy rates of commercial and retail properties; and (3) pace of execution. Of this, earnings are most sensitive to real estate prices.

1% lower prices lower EPS by 2%

- We estimate 1% lower property price lowers EPS by 2%.
- There is an almost 1:1 relationship between volumes and EPS.
- Lowering occupancy from 95% to 80% would lower FY08E EPS by 1.1%.

Table 16: Sensitivity to property prices

% change in EPS	-10%	-5%	0%	5%	10%
FY07E EPS	0	0	0	0	0
FY08E EPS	-21	-10	0	10	21
FY09E EPS	-20	-10	0	10	20

Source: UBS estimates

Q1 numbers on track

Table 17: Q1 FY07 result summary (standalone)

Standalone (Rs m)	Jun-05	Sep-05	Dec-05	Mar-06	FY06	Jun-06
Revenues	1,418	1,314	1,719	2,081	6,531	2,678
Real estate division	1,066	881	1,254	1,024	4,225	2,036
Construction division	352	350	429	852	1,982	582
Consultancy division	1	83	36	204	324	59
Expenses	1,243	1,094	1,482	1,491	5,310	1,918
EBITDA	175	220	237	589	1,221	760
EBITDA margins (%)	12.3%	16.7%	13.8%	28.3%	18.7%	28.4%
Other income	15	30	47	124	216	84
Income from sale of investment						300
Depreciation	7	7	7	10	31	10
Interest expense (income)	55	55	83	132	325	159
PBT	128	188	194	571	1,081	977
Tax	46	66	57	216	385	237
Tax rate (%)	36%	35%	29%	38%	36%	24%
PAT	82	122	138	355	697	740

Source: Company data

Unitech reported standalone PAT of Rs740m in Q1 FY07 versus Rs355m in Q4 FY06. Standalone PAT for the quarter was 88% of consolidated PAT for FY07 (Rs841m). EBITDA margins were stable QoQ at 28.4%. The company recorded a one time gain of Rs300m on sale of its investment in the hotel venture. The tax rate for the quarter was 24%.

Valuation

Price target derivation

Valuation basis

We base our price target on a sum of the parts of the DCFs of the real estate businesses and multiple based valuations of the other businesses. The valuations do not take into consideration the hotels and the SEZ businesses. The major assumptions are as shown below.

Table 18: Valuation summary

	Main assumptions	Terminal value assumptions:	PV of cash flow (Rs m)	Terminal value (Rs m)	Total value (Rs m)
Residential sales	COE- 14.1%; Interest cost- 11%; 0% property price appreciation beyond FY09	Terminal year- FY12; Sales pa- 17.5msf; Profit per sq ft.- 850; Margins- 35% vs 48% in FY08	132,071	51,246	183,317
Commercial sales	COE- 14.1%; interest cost- 11%; 5% property price appreciation from FY09-12	Terminal year- FY12; Sales pa- 3.75msf; Profit per sq ft.- 1,700; Margins- 45% vs 60% in FY08	3,127	21,962	25,090
Retail sales	COE- 14.1%; interest cost- 11%; 0% property price appreciation beyond FY09	Terminal year- FY12; Sales pa- 3.75msf; Profit per sq ft.- 1,350; Margins- 35% vs 63% in FY08	18,858	17,441	36,299
Leased properties	COE- 14.1%; interest cost- 11%; 5% property price appreciation from FY09-12	Terminal year- FY17; COE- 14.1%; Terminal growth - 3%	38,305	72,128	110,433
Others	10x 1-year forward PE		5,425		5,425
Total			197,787	162,777	360,564
No of equity shares (m)					812
Per share value (Rs)					444

Source: UBS estimates

At our price target of Rs444, Unitech would trade at a FY08E PE of 19.3x. In our view, Unitech's unique position as one of the leading real estate companies in one of the fastest growing real estate markets, the size and scale of its development, and earnings strength could help it sustain these valuations. The biggest risks to our valuation are the real estate prices, time to completion, and the occupancy of the leased properties.

Table 19: Sensitivity to property prices

value per share	-10%	-5%	0%	5%	10%
Residential sales	192	209	226	243	260
Commercial sales	29	30	31	32	33
Retail sales	41	43	45	47	48
Leased properties	119	128	136	144	153
Total	382	410	437	465	493

Source: UBS estimates

5% lower price reduces valuation by at least 5%

Table 20: Sensitivity to occupancy rates

% change	80%	90%	95%	100%
Target price	-6.0%	-2.0%	0.0%	2.0%
FY07E EPS	0.3%	0.3%	0.3%	0.3%
FY08E EPS	-1.1%	-0.4%	0.0%	0.4%
FY09E EPS	-1.6%	-0.5%	0.0%	0.5%

Source: UBS estimates

Lowering occupancy rate lowers valuation marginally

Comparables

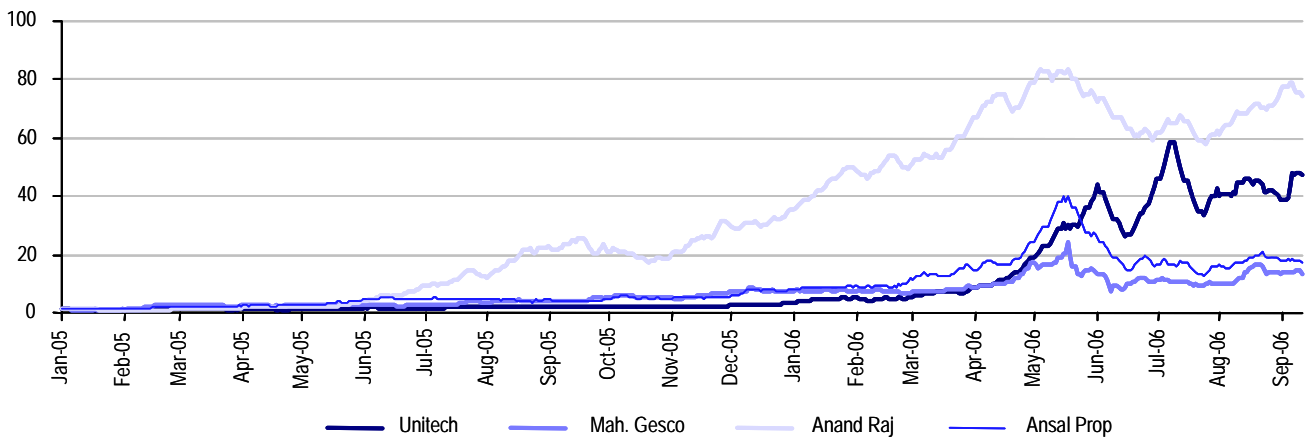
As we had argued in our report *India's property boom* (28 September 2006), there is unlikely to be a single valuation metric for Indian real estate companies, as it is almost impossible to track land bank value and the final real estate product value. These values depend on the rate of economic growth, urbanisation, and the potential negative implications from higher oil prices and interest rates. The listed shares have already risen multi-fold driven by the growth prospects, rising real estate prices, and lower interest rates.

Property prices and interest rates key to assessment

Over the past two years, property prices have risen at a CAGR of 20%+ in Tier 1 cities such as Delhi and Mumbai, and 50% in Tier 2 cities such as Gurgaon. The stock prices have also risen in tandem with the real estate prices.

Lower interest rates and higher property prices have driven share prices

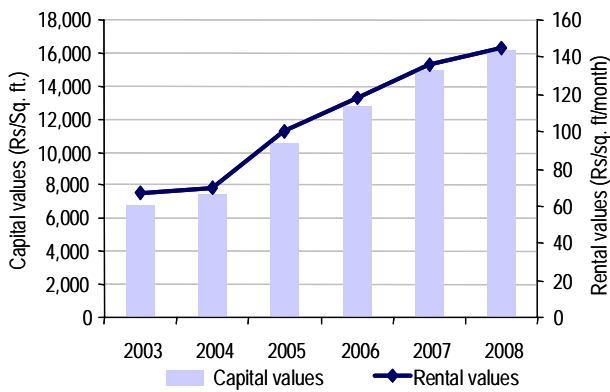
Chart 18: Price performance of listed real estate companies



Source: Bloomberg

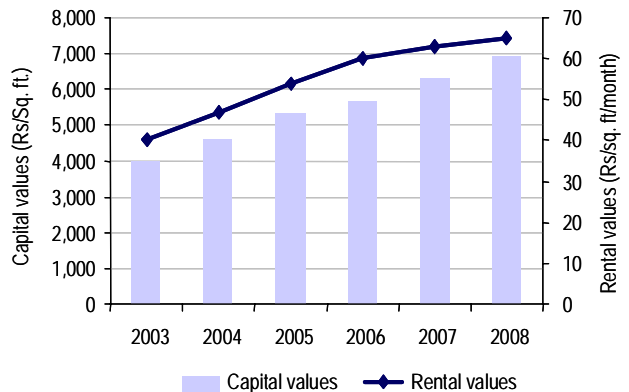
This is in addition to the yields in these cities, which are driven by the prevailing interest rates.

Chart 19: Average rental & capital values in Pune



Source: Jones Lang LaSalle Research

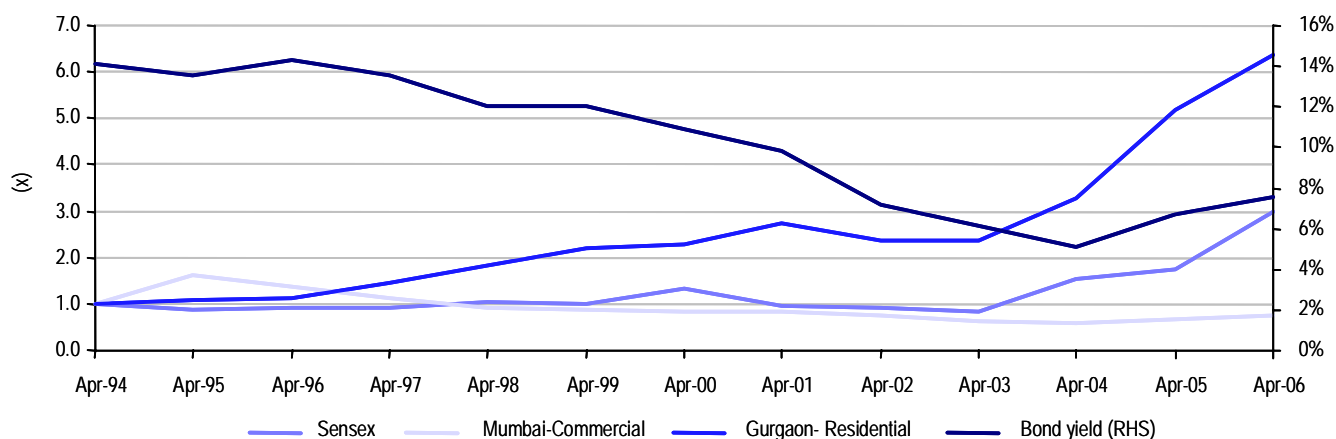
Chart 20: Average rental & capital values in Hyderabad



Source: Jones Lang LaSalle Research

However, the growth trend differs in the various markets in India. In the main commercial centres in Delhi and Mumbai, prices have shown a cyclical effect over 10 years, whereas prices in other markets are more secular, given the relatively younger stages of development. For example, in Gurgaon, average price appreciation has been 10-15% CAGR over the past 15 years. We expect growth trends similar to Gurgaon for the Tier 2 cities and companies with exposure to Tier 2 cities are likely to benefit from such increases.

Chart 21: Real estate prices show a secular trend in non-metros



Source: Bloomberg, UBS

As can be seen from the above chart, even as prices have risen the last two years, over a longer time frame, the prices in the developed markets are flattish. Hence, we think it is fair to assume that prices would increase at the base level of inflation in these markets, while the Tier 2 cities could show faster rate of growth in the initial few periods. We are not yet calling for a peaking of prices in these markets. Improved liquidity and avenues of funding has also strengthened the financial position of the developers to withstand a slowdown. Foreign/domestic funds have lined up at least US\$4bn (excluding the US\$750m HDFC Realty Fund) for investments in the real estate sector.

Peers have traded excess of 20x during boom times

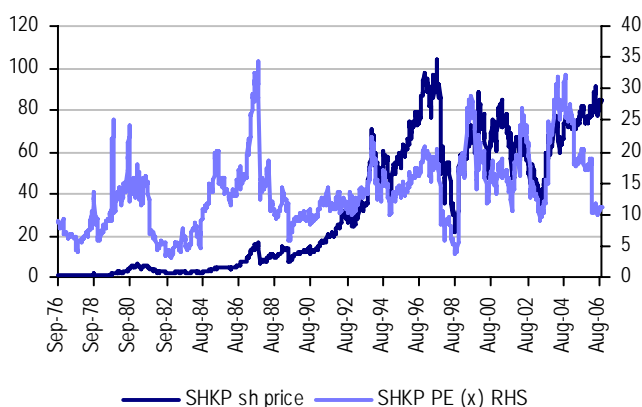
Peers from developed countries

The following charts illustrate how the leading property stocks in Japan, Australia, Hong Kong, and Singapore have traded since 1980. Sun Hung Kai Properties (SHKP), Mitsui Fudosan, and Westfield are currently the world’s largest property stocks by market capitalisation.

SHKP is run by the Kwok brothers. Its market capitalisation is US\$26.3bn. SHKP owns almost 30% of Hong Kong retail malls by value. The company has traded as high as 30x PE in the 1980s and 20-30x in the mid-1990s. Japan’s largest developer Mitsui Fudosan traded in excess of 40x PE before the real estate bubble burst in the late 1980s. After a long period of deflation, Mitsui Fudosan has re-rated again and is currently trading at 30x PE, in our estimates.

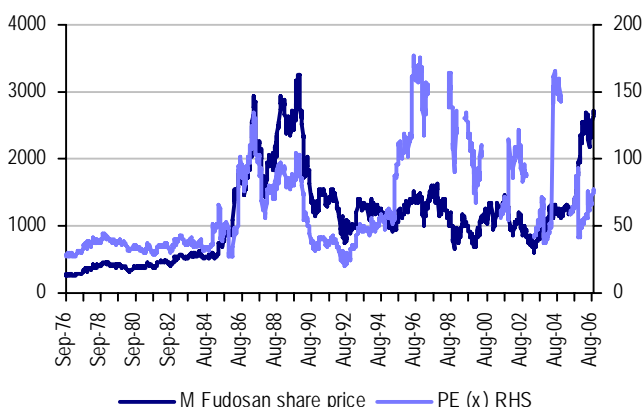
Property companies at early cycle have traded upwards 20x

Chart 22: SHKP share price and PE (x)



Source: Datastream, UBS estimates

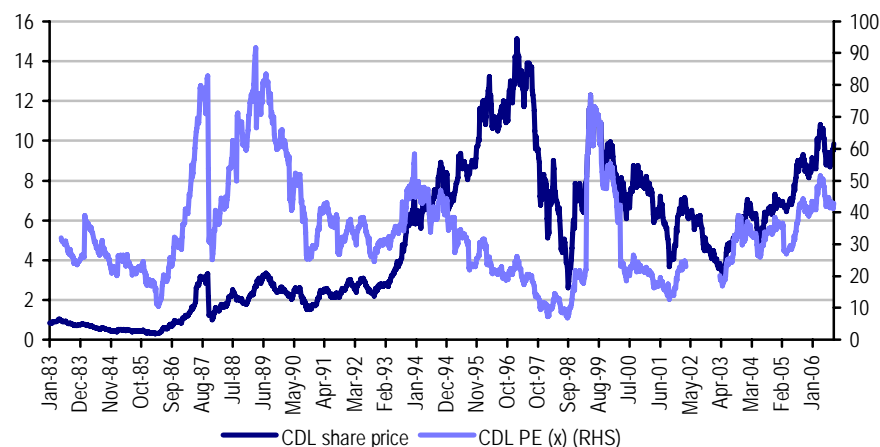
Chart 23: Mitsui Fudosan share price and PE (x)



Source: Datastream, UBS estimates

City Developments traded above 30x PE in the early 1990s at the beginning of asset reflation. It traded to a low double-digit multiple at the end of the property cycle in the late 1990s because of the lag in profit recognition. City Developments is now testing new highs, given the current property upcycle.

Chart 24: City Developments share price and PE (x)



Source: Datastream, UBS estimates

If we analysed the leading property stocks in Asia Pacific in the past 20 years and how it has traded around the PE-band, we believe that large, marquee India brands could trade around 15-20x PE multiple if it is able to deliver solid and sustainable earnings growth. The latter is a function of various factors including management ability to execute strategies, macro story remaining robust, and lower interest rates.

Marquee Indian brands could trade at 15-20x

Larger Indian companies could be superior to Chinese companies

In our view, China developers provide the best comparables given that the India property cycle is similar to China in many ways. Greentown China Holdings and Guangzhou R&F are the two largest China developers by market capitalisation. Chinese developers trade at PEs of 14.2x FY07E and 10.3x FY08E, according to Reuters consensus estimates.

Table 21: Regional comparables

	UBS rating	Price target	Price (local)	Market cap	PE (x)				Growth
			12-Oct-06	(US\$ m)	2004	2005	2006E	2007E	2007E/06E
India									
Unitech Limited	Buy 2 (CBE)	444.0	322.1	5,736	7.0	13.1	38.2	14.0	172%
Ansal Properties & Infrastructure	Not Rated		553.7	422	14.7	NA	NA	NA	NA
Peninsula Land Limited	Not Rated		542.0	466	NM	38.6	NA	NA	NA
Mahindra Gesco	Not Rated		805.0	544	1,083.6	173.8	NA	NA	NA
Anant Raj Ind	Not Rated		887.0	488	106.9	50.8	NA	NA	NA
China									
China Overseas	Not Rated		6.0	5,315	12.1	14.2	18.0	12.2	48%
Shanghai Forte	Not Rated		2.8	900	13.8	11.4	9.5	7.6	25%
Beijing CapitaLand	Not Rated		2.9	653	15.0	19.1	16.7	7.3	131%
Guangzhou R&F	Not Rated		10.0	3,991	NA	14.4	12.3	9.2	33%
China Resources Land	Not Rated		4.9	2,086	94.3	13.0	17.8	15.7	13%
Greentown China Holdings	Buy 2	12.0	9.7	1,789	NA	NA	8.3	7.6	10%
Average							13.8	9.9	50%
Singapore									
City Developments Limited	Buy 2	12.3	11.0	6,130	14.9	35.0	34.8	27.4	27%
CapitaLand Ltd.	Suspended		5.1	8,592	13.8	20.2	32.5	28.9	12%
Average							33.6	28.2	20%
Hong Kong									
Sun Hung Kai P.	Buy 1	123.0	85.3	26,280	20.5	18.3	16.2	17.0	-5%
Henderson Land	Buy 1	62.6	44.1	10,269	19.8	14.7	13.7	NA	NA
Sino Land	Buy 1	16.0	13.6	7,489	12.0	12.4	16.9	17.5	-3%
Swire Pacific	Buy 1	95.0	84.3	16,552	13.3	16.5	19.7	16.0	24%
Cheung Kong	Buy 2	137.7	84.4	25,070	13.0	16.2	9.9	16.6	-41%
HK Land	Buy 1	5.1	3.8	8,413	15.9	32.7	32.6	24.6	32%
Wharf Holdings	Buy 1	39.5	26.0	8,148	15.9	14.5	15.3	13.6	13%
Average							17.8	17.5	3%

Note: Above data as at 12 October 2006. *Estimates from Reuters Knowledge estimate centre

Source: Reuters, UBS estimates

However, we argue that Indian real estate companies should trade at a premium to its peers in China as Indian companies operate in a market whereby it has the government protectionism. This allows for these companies to grow rapidly acquiring prime land at reasonable cost. We think liberalisation is inevitable and this should lift existing land bank valuation for India companies over the next five years as the sector is liberalised.

The table below provides a summary of key differentiation factors between the competitive positioning of India property development relative to the rest in Asia.

Indian companies could trade at premium to Chinese counterparts

Table 22: Key comparable characteristics in Asia property development

	India	China	Hong Kong	Singapore
Land title	Mostly freehold	60 years leasehold	leasehold to 2049	99 years leasehold
Foreign ownership of residential development	Minimum 50,000sm/10 ha	No restrictions	No restrictions	No restrictions
Foreign ownership of properties	Only hotels & IT parks	No restrictions	No restrictions	No restrictions
Foreign ownership of commercial property	Only if acquired in construction stage & >50,000sm	No restrictions	No restrictions	No restrictions
Foreign retailers	Only through franchise or single brand	Fully liberalised in 2001	No restrictions	No restrictions
Real estate capital market	No REIT legislation	No REIT legislation But active foreign REIT & private equity funds	3 REITs US\$4.5bn market cap	10 REITs US\$8bn market cap
Number of developers	>100	>100	>30	>20

Source: UBS

Appendix

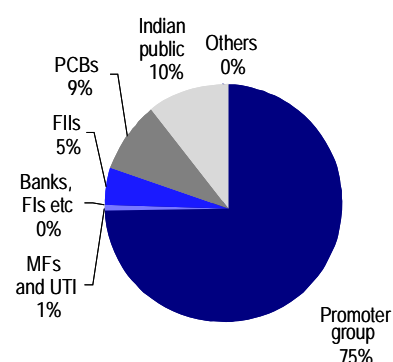
(1) Company background

Unitech is one of India's three largest real estate developers and is the largest listed real estate company in the country. Unitech entered civil engineering in 1974 and diversified into real estate. The promoters hold 75% of the company.

Key board members and senior management team

Mr. Ramesh Chandra is the Chairman and his two sons, Mr. Ajay Chandra and Mr. Sanjay Chandra are the Managing Directors. Mr. A.S. Johar is a whole time Director. Of the 6 Non-executive directors, Ms. Minoti Bahri is part of the promoter group and others are Independent Directors.

Chart 25: shareholding (Jun-06)



Source: Company data

Table 23: Key board and management team at Unitech

Name	Position	Background
Mr. Ramesh Chandra	Chairman	He did his Civil Engineering from IIT, Kharagpur with masters Degree in Structural Engineering from the University of South Hampton, UK. He has been actively associated with the company since 1976.
Mr. Ajay Chandra	Managing Director	He has done his bachelor's degree in civil engineering from Cornell University USA and MBA from University of North Carolina. He has been with Unitech since Nov03. His last assignment was as Equity and finance analyst at Jardine Fleming.
Mr. Sanjay Chandra	Managing Director	He has done business management at University of Massachusetts and Boston University. He has been with unitech since Aug02. His last assignment was as founder President, Ikon clothing in New York from 1996.
Mr. A. S. Johar	Whole Time Director	Mr. Johar is a Chartered Accountant with 36 years of experience in Finance, Accounts, Taxation, Administration and Commercial activities. He has been with Unitech since 1982. His previous assignment was with Sitac Limited, Iraq
Ms. Minoti Bahri	Non-executive Director	Ms. Bahri is a Hotel Management graduate from IHM Pune and an Interior Design graduate from Delhi. Her past experience include managing her own design consultancy firm, founder chairperson of Shikshantar, a Unitech school for learning.
Mr. Anil Harish	Independent Director	Mr. Harish is a 'Master in Law' from University of Miami, USA and an advocate by profession. He has been with Glenmark since 1982.
Dr. P. K. Mohanty	Independent Director	Dr. Mohanty did hi Doctorate (PhD) in Civil Engineering from Utah State University. He also currently holds the position of Vice-Chairman and managing Director in Orissa Sponge iron Ltd
Mr. Ravinder Singhania	Independent Director	Mr. Singhania is a Law graduate with an experience of about 13 years as a legal advisor.
Mr. G. R. Ambwani	Independent Director	
Mr. Sanjay Bahadur	Independent Director	

Source: Company

(2) Details of the Kolkata Integrated Project

New Kolkata International Development Private Limited is the special purpose Company promoted by the Salim Group, the Universal Success Group and Unitech for development of various projects

Table 24: New Kolkata International Development Project details

Project	Details
SEZ and commercial projects	
Chemical Industrial Estate	Development of a Mega Chemical Industrial Estate, including a chemical SEZ on 10,000 acres in Nandigram, Purba Medinipur district, in 50-50 joint venture in WBIDC.
Multi-product SEZ	Development of a Multi-Product SEZ on 12,500 acres in Haldia.
Small and Medium Enterprises (SME) Industrial Estates	Development of 400 acres in different locations as SME Industrial Estates in South 24 Parganas and Purba Medinipur districts, in 50-50 joint venture with WBIDC. In these Estates, the Consortium will create the basic infrastructure required for SMEs, including land development, internal roads, power.
Road infrastructure	
Eastern Link Highway	The Consortium will construct the Eastern Link Highway, a four-lane 100km highway from Barasat Bypass to Raichak. In addition, a 11.5km four-lane extension of the EM Bypass road, a 4 km four-lane road from Gobindpur to Jagdishpur and a 15km two-lane road from Pailan to Jagdishpur. Total land required for the road project will be about 2930 acres.
Raichak – Kukkurhatti Bridge	A four-lane 3.5km road bridge over the river Hooghly, from Raichak to Kukkurhatti, construction of the bridge will be completed in 2012.
Haldia-Nandigram Bridge	Construction of a four-lane 1.4km road bridge over the river Haldi, from Haldia to Nandigram, thereby providing a link between Haldia and the proposed Chemical SEZ in Nandigram.
Residential development	
Haldia	Development of a residential township on 5000 acres in Haldia complementing the multi-product SEZ and chemical industrial estate.
Rajarhat	Development of a residential township on 150 acres in Rajarhat.
Baruipur Township	Development of a residential complex on 3750 acres in Baruipur, South 24 Parganas district.
Bhangar Township	Development of a Health City and a Knowledge City on about 250 acres and residential township on 1250 acres, total 1500 acres, in Bhangar, South 24 Parganas district, Near Rajarhat.
Commercial blocks	Development of 1000 acres (10 plots of 100 acres each) as Commercial Development in different locations, adjacent to the Eastern Link Highway and other roads.
Projects for economic rehabilitation and social development	
Rehabilitation land	100 acres of rehabilitation land will be provided to families losing homestead land, in accordance with the guidelines issued by the Land and Land Reforms Department.
Land for institutional area	The Consortium will pay for the acquisition of over 500 acres of undeveloped land for the district headquarters of South 24 Paraganas.

Source: Company

Land acquisition

The Consortium will pay the cost of acquisition of all the land required for the Project. They will pay the cost upfront to the Requiring Body, as per requisition. The Requiring Bodies will be WBIDC for the lands in Purba Medinipur district, for the township lands in South 24 Parganas district, for the Institutional Area land in South 24 Parganas district, and for the 1,500 acres to be acquired adjacent to the highway in South 24 Parganas and Purba Medinipur districts, KMDA for the land for the district headquarters and EM Bypass extension, and WBIIDC for the Eastern Link Highway and Pailan-Baruipur Road.

■ Unitech

Unitech, 62%-owned by the Chandra family, is one of India's largest and most diversified real estate companies. It is a leading developer of residential apartments, commercial/IT parks and retail malls. It has a small business presence in power transmission, prefabricated construction, paving block and ready mix concrete. Unitech has received approval in principle to develop three SEZs in the country.

■ Statement of Risk

Major risks to our estimates are: (1) recession in property markets; (2) interest rates; (3) slowdown in IT spending; (4) oversupply in key markets; and (5) execution risks. We assign a predictability level of 2 due to unpredictability of execution cycle and hence, recognition of profits.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	49%	34%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	38%	32%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	12%	27%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 30 September 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Companies mentioned

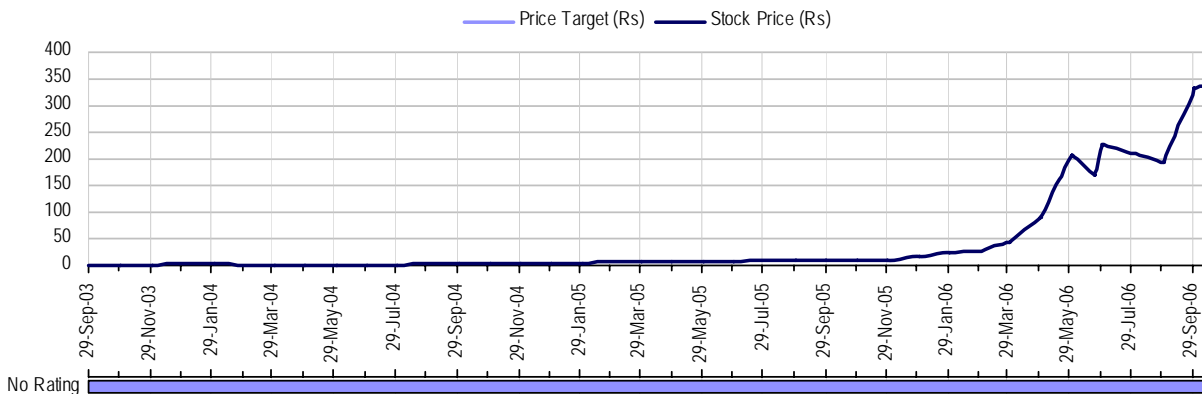
Company Name	Reuters	Rating	Price	Price date/time
Mitsui Fudosan ^{2,4,5,13}	8801.T	Buy 2	¥2,790	12 Oct 2006 23:50 JST
Unitech ²⁰	UNTE.BO	Buy 2 (CBE)	Rs335.70	12 Oct 2006 23:39 HKT

Source: UBS. HKT: Hong Kong time; JST: Japanese standard time.

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past five years.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
20. Because UBS believes this security presents significantly higher-than-normal risk, its rating is deemed Buy if the FSR exceeds the MRA by 10% (compared with 6% under the normal rating system).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Unitech (Rs)



Source: UBS; as of 12 October 2006.

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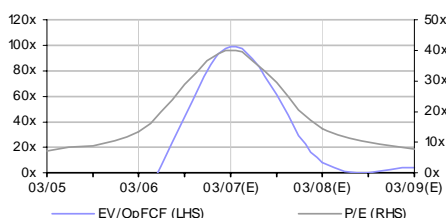
Income statement (Rs m)	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Revenue	3,434	5,071	6,499	9,322	27,034	190.0	63,824	136.1	113,094	77.2
Operating expenses (ex depn)	(2,984)	(4,463)	(5,659)	(7,496)	(15,429)	105.8	(32,150)	108.4	(57,695)	79.5
EBITDA (UBS)	571	691	974	1,967	12,004	510.4	31,775	164.7	55,499	74.7
Depreciation	(95)	(108)	(113)	(112)	(348)	210.0	(2,400)	589.9	(3,789)	57.9
Operating income (EBIT, UBS)	475	583	862	1,854	11,657	528.6	29,375	152.0	51,710	76.0
Other income and associates	(12)	8	11	2	0		0		0	
Net interest	(219)	(208)	(297)	(465)	(2,153)	363.0	(3,850)	78.8	(4,200)	9.1
Abnormal items (pre-tax)	0	25	(11)	(5)	0		0		0	
Profit before tax	244	408	564	1,387	9,504	585.4	25,525	168.6	47,510	86.1
Tax	(121)	(130)	(216)	(513)	(2,395)	366.8	(6,169)	157.6	(11,244)	82.3
Profit after tax	123	279	347	874	7,109	713.8	19,356	172.3	36,266	87.4
Abnormal items (post-tax)	0	0	0	0	0		0		0	
Minorities / pref dividends	(2)	19	(14)	(33)	(267)	713.8	(727)	172.3	(1,362)	87.4
Net income (local GAAP)	122	298	334	841	6,842	713.8	18,629	172.3	34,905	87.4
Net income (UBS)	122	273	345	846	6,842	709.0	18,629	172.3	34,905	87.4
Tax rate (%)	49	32	38	37	25	-31.9	24	-4.1	24	-2.1
Pre-abnormal tax rate (%)	47	35	38	37	25	-31.8	24	-4.1	24	-2.1
Per share (Rs)	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
EPS (local GAAP)	0.15	0.37	0.41	1.04	8.43	713.8	22.95	172.3	43.00	87.4
EPS (UBS)	0.15	0.34	0.42	1.04	8.43	709.0	22.95	172.3	43.00	87.4
Net DPS	0.25	0.11	0.12	0.20	2.00	900.0	5.00	150.0	10.00	100.0
Cash EPS	0.27	0.47	0.56	1.18	8.86	650.5	25.91	192.5	47.67	84.0
BVPS	1.84	2.05	2.35	3.16	9.40	197.3	26.85	185.7	58.85	119.2
Balance sheet (Rs m)	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Net tangible fixed assets	1,003	1,249	1,434	4,863	10,127	108.2	19,152	89.1	31,741	65.7
Net intangible fixed assets	61	208	845	824	824	0.0	824	0.0	824	0.0
Net working capital	1,672	864	2,551	4,731	13,442	184.1	(1,789)		(23,751)	122.7
Other liabilities	(131)	(122)	(121)	(151)	(151)	0.0	(151)	0.0	(151)	0.0
Operating invested capital	3,011	2,551	5,211	10,412	54,386	422.4	78,180	43.7	108,807	39.2
Investments / other assets	406	351	502	145	30,145	2075.5	60,145	99.5	100,145	66.5
Total capital employed	3,417	2,902	5,714	10,556	84,531	700.8	138,325	63.6	208,952	51.1
Shareholders' equity	1,496	1,665	1,907	2,568	7,629	197.1	21,794	185.7	47,770	119.2
Minority interests	224	268	210	237	504	112.7	1,230	144.3	2,592	110.7
Total equity	2,126	2,284	2,619	2,949	38,278	1198.	83,169	117.3	150,507	81.0
Net debt/(cash)	1,291	618	3,095	7,607	46,253	508.0	55,155	19.2	58,445	6.0
Debt deemed provisions	0	0	0	0	0		0		0	
Total capital employed	3,417	2,902	5,714	10,556	84,531	700.8	138,325	63.6	208,952	51.1
Cash flow (Rs m)	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Operating income (EBIT, UBS)	475	583	862	1,854	11,657	528.6	29,375	152.0	51,710	76.0
Depreciation	95	108	113	112	348	210.0	2,400	589.9	3,789	57.9
Net change in working capital	(1,822)	749	(1,852)	(2,678)	(8,637)	222.5	13,972		20,271	45.1
Other (operating)	0	0	0	0	0		0		0	
Operating cash flow	(1,252)	1,440	(878)	(711)	3,368		45,747	1258.	75,770	65.6
Net interest received / (paid)	(219)	(208)	(297)	(465)	(2,153)	363.0	(3,850)	78.8	(4,200)	9.1
Dividends paid	(209)	(101)	(112)	(188)	(1,786)	848.0	(4,464)	150.0	(8,929)	100.0
Tax paid	(121)	(130)	(216)	(513)	(2,395)	366.8	(6,169)	157.6	(11,244)	82.3
Capital expenditure	(1,122)	(378)	(297)	(3,518)	(5,612)	59.5	(11,424)	103.6	(16,378)	43.4
Net acquisitions / disposals	(406)	54	(151)	358	(30,000)		(30,000)	0.0	(40,000)	33.3
Other	-	83	134	141	400	182.7	100	-75.0	100	0.0
Share issues	429	23	0	(23)	0		0		0	
Cash flow (inc)/dec in net debt	(2,779)	786	(1,817)	(4,920)	(38,177)	675.9	(10,060)	-73.6	(4,881)	-51.5
FX / non cash items	-	(113)	(659)	408	(468)		1,158		1,592	37.5
Balance sheet (inc)/dec in net debt	-	673	(2,477)	(4,512)	(38,646)	756.4	(8,902)	-77.0	(3,289)	-63.1
Core EBITDA	571	691	974	1,967	12,004	510.4	31,775	164.7	55,499	74.7
Maintenance capital expenditure	(95)	(108)	(113)	(112)	(348)	210.0	(2,400)	589.9	(3,789)	57.9
Maintenance net working capital	(1,822)	749	(1,852)	(2,678)	(8,637)	222.5	13,972		20,271	45.1
Operating free cash flow, pre-tax	(1,347)	1,332	(990)	(824)	3,020		43,347	1335.	71,981	66.1

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

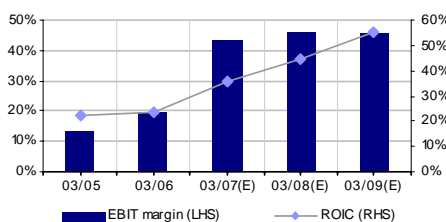
Company profile

Unitech, 62%-owned by the Chandra family, is one of India's largest and most diversified real estate companies. It is a leading developer of residential apartments, commercial/IT parks and retail malls. It has a small business presence in power transmission, prefabricated construction, paving block and ready mix concrete. Unitech has received approval in principle to develop three SEZs in the country.

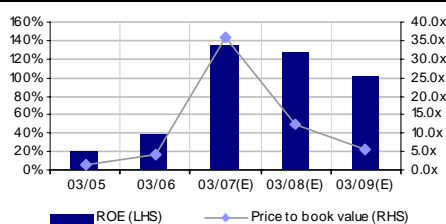
Value (EV/OpFCF & P/E)



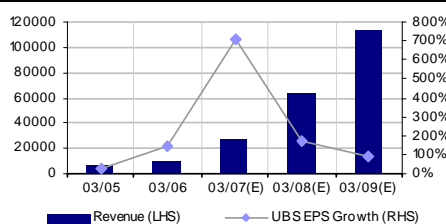
Profitability



ROE v Price to book value



Growth (UBS EPS)



*Exception to core rating bands; See page 37

Valuation (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
P/E (local GAAP)	-	7.3	13.2	39.8	14.6	7.8
P/E (UBS)	-	7.0	13.1	39.8	14.6	7.8
P/CEPS	-	5.3	11.6	37.9	13.0	7.0
Net dividend yield (%)	-	4.1	1.5	0.6	1.5	3.0
P/BV	-	1.3	4.3	35.7	12.5	5.7
EV/revenue (core)	-	0.7	1.8	NM	5.1	2.9
EV/EBITDA (core)	-	4.4	8.4	25.0	10.2	6.0
EV/EBIT (core)	-	5.0	8.9	25.7	11.0	6.4
EV/OpFCF (core)	-	NM	NM	NM	7.5	4.6
EV/op. invested capital	-	1.1	2.1	9.2	4.9	3.5

Enterprise value (Rs m)	03/05	03/06	03/07E	03/08E	03/09E
Average market cap	2,421	11,096	272,484	272,484	272,484
+ minority interests	14	33	267	727	1,362
+ average net debt (cash)	1,856	5,351	26,930	50,704	56,800
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	4,291	16,480	299,681	323,915	330,646

Growth (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue	-	28.2	43.4	190.0	136.1	77.2
EBITDA (UBS)	-	41.0	101.8	NM	164.7	74.7
EBIT (UBS)	-	47.8	115.2	NM	152.0	76.0
EPS (UBS)	-	26.4	145.2	NM	172.3	87.4
Cash EPS	-	20.1	109.4	NM	192.5	84.0
DPS Net	-	11.1	63.8	NM	150.0	100.0
BVPS	-	14.5	34.7	197.3	185.7	119.2

Margins (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBITDA / revenue	-	15.0	21.1	44.4	49.8	49.1
EBIT / revenue	-	13.3	19.9	43.1	46.0	45.7
Net profit (UBS) / revenue	-	5.3	9.1	25.3	29.2	30.9
Return on capital (%)	-	22.2	23.7	36.0	44.3	55.3
EBIT ROIC (UBS)	-	13.7	15.0	26.9	33.6	42.2
Net ROE	-	19.3	37.8	NM	NM	NM

Coverage ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT / net interest	-	2.9	4.0	5.4	7.6	12.3
Dividend cover (UBS EPS)	-	3.5	5.2	4.2	4.6	4.3
Div. payout ratio (%), UBS EPS)	-	28.7	19.2	23.7	21.8	23.3
Net debt / EBITDA	-	3.2	3.9	3.9	1.7	1.1

Efficiency ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue / op. invested capital	-	1.7	1.2	0.8	1.0	1.2
Revenue / fixed assets	-	3.5	2.3	3.2	4.1	4.3
Revenue / net working capital	-	3.8	2.6	3.0	11.0	NM

Investment ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
OpFCF / EBIT	-	NM	NM	0.3	1.5	1.4
Capex / revenue (%)	-	4.6	NM	20.8	17.9	14.5
Capex / depreciation	-	2.6	NM	NM	4.8	4.3

Capital structure (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Net debt / total equity	-	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	-	61.9	74.8	85.8	71.7	55.0
Net debt (core) / EV	-	43.3	32.5	9.0	15.7	17.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs335.70 on 12 Oct 2006 23:39 HKT; Market cap (E) may include forecast share issues/buybacks.

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