



Unitech Limited

RATING HISTORY

	Amount in Rs. billion	Rating Outstanding
		April 2010
Long Term Debt Programme	1.0	LBB+ (stable)

ICRA has assigned LBB+ (pronounced L double B plus) rating to the Rs. 1.0 billion Long-term debt programme of Unitech Limited (Unitech)[†]. The outlook on the rating is stable.

The rating reflects Unitech's established position in the real estate sector with presence across all segments, its track record of successful project management and its geographically diversified land bank acquired at relatively low cost. The rating also takes into account an improvement in Unitech's financial risk profile following the fund raising initiatives undertaken by the company, which includes Qualified Institutional Placement (QIP) of Rs. 44.10 billion, replacement of a part of its short term debt with longer term borrowings, and sale of non-core assets. The rating is, however, constrained by Unitech's high debt levels, which coupled with the significant debt repayment due in the short to medium term exposes the company to refinancing risks. ICRA notes that the company's ability to meet its repayment obligation will be contingent on refinancing of its short term debt maturities and improvement in its cash flows from operations. The rating also factors in the company's exposure to execution risk considering the significant area under development; and its ability to maintain its sales volumes and collection efficiency in its on-going and forthcoming projects. While assigning the rating, ICRA has also

[†] For complete rating scale and definitions please refer ICRA's website www.icra.in or other ICRA Rating Publications.

noted the proposed de-merger of Unitech's non-core businesses into separate entities. ICRA will factor in the impact of this development on the credit profile of Unitech once the de-merger process is complete.

ICRA has analysed Unitech's operating and financial performance on a consolidated basis, including all its subsidiaries.

Unitech is the second largest Indian real estate developer with an established position in commercial, retail and residential segments of domestic real estate market having developed six townships covering an area of around 1,381 acres and over 20 million square feet (msft) of residential, commercial and retail space. The company has demonstrated good project management skills and, over the years, has developed a team of qualified professionals, including people from the technical, financial, marketing and legal disciplines, for evaluating, planning and constructing projects.

Unitech's concentration in National Capital Region (NCR) has decreased as the company has diversified into other cities like Kolkata, Chennai, Mumbai etc. While Unitech has an established position in the real estate space in NCR and Kolkata markets, it has increased its presence in Mumbai market by entering into Joint Ventures (JVs) with players executing projects under Slum rehabilitation scheme (SRS).

As on December 2009, Unitech had more than 60 on-going projects with over 35 msft of area covering

residential, commercial, retail, amusement park and hospitality projects across multiple cities. The total area currently under development is significant as compared to the area developed in the past and renders execution risk for the company. Further, in the next 1-2 years, the company plans to launch projects covering about 35 msft of area primarily in NCR, Chennai, Hyderabad, and Kolkata which would require significant scale-up of its resources. However, some comfort can be drawn from the fact that a large number of projects which were launched 3-4 years back are on the verge of completion, which will free up resources and enable the company to concentrate on the newly launched projects. Further, Unitech's tie-up with reputed contractors and its own experience as a construction contractor mitigates the execution risk to some extent.

Unitech's on-going projects consist of 31 projects (about 22.1 msft of area) which were launched in the period of FY2006-09 (henceforth referred to as "old on-going projects"). Significant portion (around 90%) of space in these projects is sold and substantial advances have also been received from customers. However, many of these projects have witnessed delays with a substantial area of these projects yet to be handed over owing to the tight liquidity environment in 2008-09. In 2009-10, Unitech infused a significant part of the fund raised through QIPs to increase the resources deployed at these projects sites in order to expedite the progress of the old on-going projects.



In first nine-months of FY2010 (9m-FY2010), Unitech had launched 24.4 msft out of which 13.1 msft was sold till December 2009. Out of the total area launched by Unitech, almost 54% has been booked that provides the visibility to the future cash flows and also lowers the market risk for these on-going projects. Although the company had been able to book a large part of its residential space, it faces the challenge of achieving sales in the un-booked space in both on-going projects and proposed launches and also maintaining collection efficiency levels from the booked space.

Besides the on-going projects, Unitech has a significant land bank of about 7,500 acres spread across 25 cities in the country. Further, majority of the land bank has been acquired at relatively lower costs increasing the inherent profitability of the projects and from Government agencies which lowers the risk associated with lack of clear titles and licenses. In the next 6-12 months Unitech plans to launch projects in Ambala, Kochi, Rewari, Vishakhapatnam, Agra and Varanasi, which would further decrease its concentration on NCR and Kolkatta markets. In the past, Unitech has been aggressive in land acquisition, which has also resulted in its high gearing (2.08 times as on March 31, 2009). However, going forward, ICRA expects Unitech's land acquisition plans to be moderated on account of significant land bank already in place, which is adequate to support its development requirements for the next 10 years.

Unitech's operating income increased at a CAGR of 79% over a three year period of FY2005 to FY2008; however with the downturn in real estate, Unitech's revenues declined by 27% in FY2009. The decline in turnover resulted in decline in operating profits by 26% from Rs. 22.68 billion in FY2008 to Rs. 16.68 billion in FY2009. Moreover with the increased interest burden and higher depreciation costs, the net profits fell by 29% from Rs. 16.68 billion in

FY2008 to Rs. 11.98 billion in FY2009. The de-growth in revenues and profitability continued in 9M-FY2010; however there has been an improvement in the bookings achieved by the company during the period. For the nine months ending December 2009, Unitech reported an operating income (OI) of Rs 18.64 billion and a profit after tax (PAT) of Rs 5.16 billion, as against an OI of Rs. 25.09 billion and a PAT of Rs. 9.21 billion in the corresponding period of last year. The return indicators (RoCE, and RoNW) have also declined as the capital employed in the business had increased (QIPs) whereas profitability has come down.

Unitech, like other real estate players, has witnessed challenging environment since 2008, given the slowdown in sales and difficulty in raising funds, both through the debt as well as the equity route. Hence, to infuse liquidity and de-stress its cash flows, Unitech has taken several measures in FY2010. It raised about Rs. 44.1 billion through QIP issues in April 2009 and July 2009 at price of Rs. 38.5 / share and Rs. 81 / share respectively. The company also allotted 22.75 crore convertible warrants to Harshil Projects, a promoter's concern, at Rs. 50.75 per share (total value Rs. 11.5 billion) which can be converted into equity shares before December 2010. As on date, around 25% of warrants have been converted by the promoters. Unitech has also sold some of its non-core assets like its office building at Saket in Delhi, and Marriott Courtyard Hotel at Gurgaon thereby raising about Rs. 7.5 billion. This has resulted in strengthening of its balance sheet. Moreover, revival in demand for the residential projects also resulted in improved cash flows from operations for the company.

The money raised by the company has been largely utilized for reducing the debt levels thus resulting in improved financial risk profile of the company. The overall debt on company's books has come down from Rs. 108.8 billion as on March

31, 2009 to Rs. 81.4 billion (including deferred land payment obligations of Rs. 17.91 billion) as on December 31, 2009, resulting in an improvement in its gearing levels from 2.08 times to 0.80 times in the same period. Although there had been a reduction in debt levels of the company, a significant amount of this debt is due for repayment in the next 1-2 years (estimated at Rs. 19 billion in FY2011) rendering high refinancing risks for the company in the short to medium term. During the last two-three months, the company was able to raise fresh long-term loans against project receivables; however with significant repayments due in the coming months, its ability to achieve refinancing of its short term debt maturities will be crucial for timely repayment of the scheduled debt obligations.

ICRA has also noted the recent developments regarding Unitech's plans to de-merge its non-core operations into a separate entity to unlock value and focus on real estate operations. ICRA will factor in the impact of this development on the credit profile of Unitech once the de-merger process is complete.

About the company

Unitech Limited, the flagship company of the Delhi-based Unitech Group, is one of India's largest real estate developers with a well-diversified presence – both in terms of geographical presence and in terms of product-price diversity. Unitech was incorporated in 1971, as United Technical Consultants Private Limited. Until 1986 the company was largely constructing thermal power plants, modernizing steel plants and constructing bridges. The constitution of the company was changed to a public limited company in 1985 and the company was rechristened as Unitech Limited. In 1986, the company ventured into real estate development business.

Currently Unitech business consists of Real Estate (Residential, Retail, Entertainment, Hospitality,



Commercial and SEZs), segment accounting for about 84% of Construction, Property Management the company's revenue and 92% of and Consultancy Services, its net profits in FY2009. Transmission Tower, Hospitality and other (includes telecom). Real estate is Unitech's primary business

In the nine-months ending December 31, 2009, Unitech (on consolidated

basis) had registered operating income of Rs. 18.6 billion on which it earned a profit after tax (PAT) of Rs. 5.2 billion.

April 2010

Key Financial Indicators – Unitech Limited - Consolidated

		31/12/09*	31/03/09	31/03/08	31/03/07
Operating Income		18.6	29.2	41.3	33.1
Operating Profit before Depreciation, Interest and Tax (OPBDIT)*		8.6	16.7	22.6	20.6
Profit after Tax		5.2	12.0	16.7	13.1
Tangible Net Worth		101.8	51.7	36.0	19.9
Total Debt		81.4	108.8	104.7	55.6
OPBDIT/ Operating Income	%	46.3%	57.1%	54.7%	62.3%
Profit after Tax/ Operating Income	%	27.6%	41.0%	40.4%	39.4%
Return on Capital Employed	%		13.6%	19.7%	29.0%
Return on Net Worth	%		22.9%	44.9%	65.5%
Net Cash Accruals/Debt	%		11.0%	15.7%	22.8%
OPBDIT / Interest	Times	5.1	2.82	7.13	6.06
Total Debt/ Tangible Net Worth	Times	0.80	2.08	2.82	2.79
Net Working Capital/ Operating Income	%		326%	199%	154%
Operating Income/ Gross Block	%		64%	124%	340%
Total Debt/ OPBDIT	Times	9.4	6.5	4.6	2.7

Note: Amount in Rs. Billion

* Provisional data for nine months period (Apr 2009 – December 2009)

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