

RESULTS FIRST LOOK

Prestige's 2QFY12 results missed our as well as consensus revenue/profit estimates, but this was largely on account of slower-than-expected construction progress at one of its ongoing projects. Despite an uncertain macro environment, the company noted strong response at its newly launched residential projects and achieved cumulative sales of INR7.1bn in the quarter vs INR10.8bn for full-year FY11 (residential segment). We expect revenues to pick up from 4QFY12F as newer high-value projects reach the revenue threshold. Liquidation of debtors should be a key catalyst for the stock. Maintain BUY.

Price target: 122.0 INR

Price (03 Nov 2011): 95.7 INR

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2QFY12 results: P&L below expectations; achieved strong sales and on track to achieve FY12 sales guidance

- Earnings vs. our Forecast: **BELOW**

Likely Impact:

- Earnings Estimates: **NO CHANGE**
- Dividend Estimates: **NO CHANGE**
- Price Target: **NO CHANGE**
- Long-term View: **CONFIRMED**

Prestige Estates' standalone 2QFY12 sales of INR1,281mn (-48%q-q) came in below our and consensus estimates of INR2,183mn and INR2,477mn, respectively. The lower revenues on a q-q basis were due to 1) slower construction progress at its Neptune Courtyard project in Cochin which was expected to be completed during the quarter; and 2) lower-than-expected sales at its completed projects. In 2QFY12, the company recognized revenue of only INR0.8bn from its saleable residential & commercial projects, as compared to INR2.07bn in the previous quarter.

The company now expects to complete Neptune Courtyard in 3QFY12 and recognize at least INR700mn from the same in 3Q. It also expects Prestige White Meadows to reach revenue recognition threshold in 4QFY12 and Kingfisher Towers in 2QFY13.

EBITDA margin for 2QFY12 was higher at 38% vs. our expectation of 29% and consensus of 30%. We attribute this difference in the margin to lower contribution from saleable projects, which have a lower margin when compared to high-margin steady lease income from investment properties. With the completion of low-margin Prestige Shantiniketan, we think margins are likely to revert to a higher base, and management expects that EBITDA margins should remain around 35% on saleable projects in the future. On account of lower revenue, standalone EBITDA at INR493mn (-29%q-q) was 23% and 33% lower than our and consensus estimates, respectively.

PAT at INR263mn (-28%q-q) was below both our and consensus estimates of INR334mn and INR326mn, respectively, driven by the lower top line.

Balance sheet

On the balance sheet side, standalone net debt rose q-q from INR6.97bn to INR8.03bn, as company continues to invest towards construction of commercial / residential development and extended advances to landlords pertaining to joint development agreements.

The realisation of sundry debtors remained slow at INR0.8bn during the quarter, with INR9.5bn still remaining to be collected from the customers as of end-Sep11. As mentioned by management, realisation of debtors against Prestige Shantiniketan (approx. INR4.3bn or c. 45% of total outstanding debtors) is expected to pick up pace from 4QFY12 as leasing of Prestige

Shantiniketan's office space is achieved. The payment towards sale of Prestige Shantiniketan office space is subject to leasing of the property, in our view.

We believe realisation of debtors will be a positive catalyst for the stock as this should ease pressure on the overall debt position and help the company ramp up construction on its ongoing commercial and residential developments.

The company was able to lower its cost of borrowings q-q from 14.3% to 13.6% despite an increase in the gearing level from 34% to 38%. We view this as positive especially when other real estate developers are squeezed for liquidity and interest rates have been rising.

Sales performance

Operationally, the company achieved a strong response towards its new launches in Bangalore and managed to sell nearly 1.9mn sq ft in residential segment during the quarter, totalling INR7.1bn vs. sales of INR10.8bn in the residential segment for the full-year FY11. Nearly 80% of sales of INR7.8bn (including commercial segment) achieved during the quarter came from the new mid-income residential launches in Bangalore, namely Prestige Tranquillity (c. INR4.7bn), Prestige Park View (c. INR1.3bn) and Prestige Sunnyside (c. INR0.4bn).

With a large amount of sales coming from mid-income housing projects, the company's average realisation for the residential projects moved lower to INR3,584 per sq ft vs. INR4,773 per sq ft (Jun-11) vs. INR6,962 per sq ft (Mar-11) vs. INR9,139 per sq ft (Dec-10). Despite the drop in average realisation in the residential segment, the company has achieved cumulative sales of INR9.9bn in 1HFY12, and we believe it is on target to achieve its FY12 sales guidance of c. INR14.0bn.

Maintain BUY; available at 33% discount to NAV

We maintain our BUY rating on the stock as we expect 1) revenue recognition to improve with newer high-value projects reaching the revenue threshold in 1QFY13F; 2) realisation of debtors to pick up pace; and 3) on track to achieve FY12 sales guidance of c. INR14.0bn (equivalent to FY11 sales of INR13.8bn) despite lower realisation in FY12F.

We also like the fact that 50% of the company's developable land reserves are under construction leading to ~60% of the overall cash flows coming through by FY15F. This, combined with 3.7mn sq ft of completed and leased commercial space, should ensure that ~70% of GAV is visible by FY15F, in our view. We reiterate our BUY call on the stock as it is trading at a nearly 33% discount to our NAV of INR143 per share and 21% discount to our price target of INR122 per share.

Exhibit 1: Snapshot of 2QFY12 results (P&L)

Standalone results (INR mn)	4QFY11	1QFY12	2QFY12		2QFY12E (Nomura)
Income from operations	Mar-11	Jun-11	Sep-11	(q-q)%	Sep11E
Residential & commercial projects		2,072	867	-58%	1,771
Facilities, rental & maintenance income		143	138	-3%	143
Property income		269	276	3%	269
Total revenue	4,655	2,484	1,281	-48%	2,183
Expenditure					
Cost of residential and commercial projects	3,602	1,559	560	-64%	1,340
Employee cost	75	103	121	17%	100
General / administrative and selling expenses	112	133	108	-19%	99
Total	3,789	1,795	788	-56%	1,540
EBITDA	866	689	492.6	-29%	643
Depreciation	83	80	80	0%	86
Other income	370	126	127.1		148
EBIT	1,153	735	540	-27%	705
Interest expense	192	232	193.4	-17%	240
EBT	960	503	347	-31%	464
Tax expense	259	139	83.9	-40%	130
PAT	702	364	263	-28%	334
EBITDA margin (%)	19%	28%	38%	11%	29%
Effective tax rate	27%	28%	24%	-3%	28%
PAT margin (%)	15%	15%	21%	6%	15%

Source: Company data, Nomura estimates

Exhibit 2: Snapshot of 2QFY12 results (B&S)

Balance sheet (INR mn)	4QFY11	1QFY12	2QFY12
	Mar-11	Jun-11	Sep-11
Source of fund			

Shareholders' funds	20,437	20,802	21,064
Total borrowings	10,120	9,521	9,772
Total	30,639	30,406	30,925
Application of fund			
Fixed assets	5,279	5,321	5,302
Investments	7,103	7,084	7,386
Currents assets			
Inventories	8,644	8,650	10,073
Sundry debtors	10,113	10,337	9,473
Cash & bank balances	3,112	2,551	1,740
Interest accrued	52	25	33
Loans & Advances	7,168	7,389	7,703
Total	29,089	28,952	29,022
Current liabilities			
Liabilities	7,264	7,544	8,631
Provisions	3,568	3,407	2,154
Total	10,832	10,951	10,785
Gross debt	10,120	9,521	9,772
Net debt	7,008	6,970	8,032
Net debt / equity	34%	34%	38%

Source: Company data

Exhibit 3: Snapshot of 2QFY12 results (Cash flow)- Nomura estimates

Cashflow	4QFY11	1QFY12	2QFY12
	Mar-11	Jun-11	Sep-11
Cash flow before w/c changes	607	550	409
(Increase) / Decrease in sundry debtors	(4,254)	(224)	864
(Increase) / Decrease in Inventory	(161)	(6)	(1,423)
(Increase) / Decrease in loans & advances	2,772	(221)	(314)
Increase / (Decrease) in current liabilities	372	280	1,087
Increase / (Decrease) in provisions	1,520	(161)	(1,253)
Working capital changes	249	(332)	(1,038)
Net cash inflow / (outflow) from operating activities	856	218	(630)
Net cash inflow / (outflow) from investing activities	(627)	57	(204)
Free cash flow	229	275	(833)
Net cash inflow / (outflow) from financing activities	(2,437)	(704)	184
Net change in cash	(2,208)	(429)	(649)
Net change in cash (from balance sheet)	(2,351)	(561)	(811)

Source: Company data, Nomura estimates

Exhibit 4: Company's sales performance

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Sales data (Area in sq ft)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Residential						
Mid income segment	118,307	154,296	108,740	134,377	293,718	1,925,849
Premium segment	48,031	383,024	179,037	78,788	101,830	56,349
Total residential	166,338	537,320	287,777	213,165	395,548	1,982,198
Commercial	708	365,000	87,967	197,144	60,704	135,660
Total residential & commercial	167,046	902,320	375,744	410,309	456,252	2,117,858
Area in sq ft breakup (%)						
Mid income segment	71%	29%	38%	63%	74%	97%
Premium segment	29%	71%	62%	37%	26%	3%
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12

Value (INR mn)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Residential						
Mid income segment	490	631	512	690	1,125	6,686
Premium segment	333	5,266	2,118	794	763	418
Total residential	823	5,897	2,630	1,484	1,888	7,104
Commercial	-	1,460	543	1,003	211	694
Total residential & commercial	823	7,357	3,173	2,487	2,099	7,798
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Realisation (psf)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Residential						
Mid income segment	4,142	4,090	4,708	5,135	3,830	3,472
Premium segment	6,933	13,748	11,830	10,078	7,493	7,418
Average	4,948	10,975	9,139	6,962	4,773	3,584
Commercial	-	4,000	6,173	5,088	3,476	5,116
Residential & Commercial (Avg)	4,927	8,153	8,445	6,061	4,601	3,682

Source: Company data

Exhibit 5: Debtors summary for completed projects

Period end (INR mn)	1QFY12	2QFY12
Completed projects	Jun-11	Sep-11
Prestige Alecto	74	74
Prestige Andree Residences	3	3
Prestige Ashcroft	86	26
Prestige Atrium	232	130
Prestige Cyber Towers	457	445
Prestige Dynasty 2	-	20
Prestige Melbrooke	43	42
Prestige Nebula	82	12
Prestige Oasis	1,377	1,239
Prestige Palladium	70	15
Prestige Shantiniketan	4,783	4,290
Prestige SILVERDALE	49	21
Prestige Southridge	640	471
Prestige Wellington Park	182	178
Land Owners Dues	939	939
Others	11	36
Total (INR mn)	9,029	7,943

Source: Company data

Valuation Methodology and Investment Risks: We adopt a NAV-based valuation method to arrive at a one-year forward NAV of INR143. To arrive at our target price of INR122 per share we apply a 15% discount to our NAV. This discount is on account of the uncertainty involved in forecasting given the volatility induced by the JDA model and the fact that the company has several commercial assets under construction which would suck out cash from the residential projects. Risks that may impede the achievement of the target price 1) Prestige Estate is primarily a Bangalore-based developer, so any deterioration of global macroeconomic fundamentals will result in a slowdown in the IT/ITES industry which will have a direct impact on the property market of Bangalore. 2) Prestige has accumulated sundry debtors of around INR9.3bn on the balance sheet. Cash realisation from these debtors is important to fund ongoing construction. If realisation takes time or takes place only partly due to bad debts, then our net debt estimate will see upside risk.

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Prestige Estates Projects	PEPL IN	95.7 INR	03 Nov 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Prestige Estates Projects	Not Rated	21 Sep 2011

Prestige Estates Projects (PEPL IN)

95.7 INR (03 Nov 2011) Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Sep-2011		122.00	92.35
21-Sep-2011	Buy		92.35

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

Valuation Methodology We adopt a NAV-based valuation method to arrive at a one-year forward NAV of INR143. To arrive at our target price of INR122 per share we apply a 15% discount to our NAV. This discount is on account of the uncertainty involved in forecasting given the volatility induced by the JDA model and the fact that the company has several commercial assets under construction which would suck out cash from the residential projects.

Risks that may impede the achievement of the target price 1) Prestige Estate is primarily a Bangalore-based developer, so any deterioration of global macroeconomic fundamentals will result in a slowdown in the IT/ITES industry which will have a direct impact on the property market of Bangalore. 2) Prestige has accumulated sundry debtors of around INR9.3bn on the balance sheet. Cash realisation from these debtors is important to fund ongoing construction. If realisation takes time or takes place only partly due to bad debts, then our net debt estimate will see upside risk.

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