

February 1, 2007

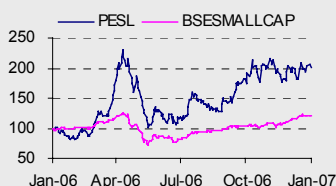
Stock Details

Recommendation	BUY
Target Price	Rs340
CMP	Rs289
Upside	18%
52 Week H/L	Rs308/255
Avg. Volume (6m)	0.1mn
Market Cap	Rs6bn
Face Value	Rs10
BSE Code	531746
NSE Code	PRAENG
Bloomberg Code	PES@IN
Reuters Code	PRJE.BO

Share Holding Pattern

	Sep' 06	Dec' 06
Promoter	19.8	20.2
Institutions	0.6	0.3
FII	53.5	59.5
Public & Others	26.1	20.0

Relative performance chart



Analyst

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Sustained high property prices in the Hyderabad market powered PESL's 204% profit growth in Q3 FY07. Operating margins for the company also continued to remain high at 43%, which is one of the highest in the industry. PESL is on track to developing around 16mn sqft over the next 3years. In addition it is also expecting to add another 200acres to its land bank. High prices have prompted us to revise our margin assumptions upwards by 3% in FY08. We maintain our BUY rating on the stock with a revised price target of Rs340, implying an upside of 18%. Political tension, increasing supply and rising interest rates remain major concerns to our estimates.

Result update

Sales growth of 120%, on the back of high property prices

Property prices in Hyderabad sustained the higher levels observed in Q2 FY07. While there has been no price rise over the past three months, there has been no downward revision either. This helped PESL record a sales growth of 120% during the quarter. The company is expected to launch Prajay Waterfront City encompassing 1.1mn sq ft from March 2007, which will drive revenue growth in FY08.

Operating margins remain high at 43%, one of the best in the industry

PESL enjoys one of the highest operating margins in the industry at 43% and have expanded by 10.8% over Q3 FY06. However, they have dropped 6.3% sequentially from 49.2%. This was mainly on account of low cost housing project revenues (50% in Q3 FY07) from Prajay Enclave and Prajay Harbour city.

We have revised our margin and profit forecasts upwards

Most of PESL's new projects are high income group projects including the expected launch of Waterfront city (Villas) in FY08. With property prices remaining firm, we have revised our margin expectation by 3% to 39.8%, which is still lower than our current year expectation of 43.8%. In line with this we net profit has been revised upwards by 10% in FY07 and 3% in FY08.

Political tension and increasing supply major concerns

While there was some political tension in the last quarter relating to the Telangana issue, the situation is under control. However, any flare up on the issue in the future could lead to disruptions in the state putting downward pressure on property prices. This apart rising supply both in the commercial and domestic segment remain major concerns to our estimates.

Table: Valuation summary

	FY05	FY06	FY07E	FY08E	FY09E
Sales (Rs mn)	233	730	1,653	4,892	10,033
Growth (%)	31.2	213.5	126.4	196.0	105.1
Operating margins (%)	32.2	42.5	43.8	39.5	37.0
Net Profit (Rs mn)	45	227	587	1,416	2,736
Growth (%)	451.9	399.8	158.3	141.2	93.2
ROCE	27.3	38.0	22.0	34.6	53.6
ROAE	39.7	64.7	43.7	36.5	41.5
EPS	5.9	15.3	22.3	35.7	68.9
PE (x)	49.1	18.9	12.9	8.1	4.2
EV/ EBITDA (x)	45.2	17.4	9.6	4.7	2.5

Source: Company data, India Infoline estimates

Table: Quarterly financials

	Q3 FY07	Q3 FY06	Growth	Q2 FY07	Growth	Q3 FY07	Q3 FY06	Growth
(Rs mn)	(3)	(3)	(%)	(3)	(%)	(9)	(9)	(%)
Operating Income	421	191	120.4	319	31.9	1,111	437	154.0
Operating Expenses	(240)	(130)	85.5	(162)	48.4	(620)	(264)	135.0
Operating Profit	180	61	194.4	157	15.0	491	173	183.1
Operating Margin (%)	42.9	32.1		49.2		44.2	39.6	
Other Income	11	1	979.6	2	360.5	15	3	393.8
EBITDA	192	62	207.3	159	20.2	505	176	186.6
Depreciation	(4)	(2)	57.9	(4)	0.1	(10)	(7)	48.7
EBIT	188	60	213.2	156	20.7	495	169	192.3
Interest	(16)	(4)	246.0	(16)	(4.4)	(46)	(13)	266.7
Profit Before Tax	172	55	210.5	139	23.6	449	157	186.4
Tax	(20)	(5)	273.3	(5)	280.2	(30)	(26)	14.8
Profit After Tax	152	50	203.8	134	13.6	419	130	221.1

Source: Company data, India Infoline estimates

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