

Industry : Real Estate

**Subscribe**

IPO Price Band : Rs.250-300

 November 1, 2006  
 Analyst:  
 Surya Narayan Nayak  
 +91 22 30281681  
 suryanarayan@networthstock.com

**Script Scan**

Face Value (INR)	10.00
Equity (INR Mn.) (pre issue)	1483.70
Equity (INR Mn.) (post issue)	1846.96
Market Cap (INR Bn.) (post-issue)	55.41

No of Shares to be issued (Mn)	33.04
- Fresh Issues (Mn)	33.04
Premium (INR)	240-290
Total Issue Size (INR Mn.)	9971.40
Issue Opens on	6 <sup>th</sup> Nov. '06
Issue Closes on	10 <sup>th</sup> Nov. '06
Listing	BSE & NSE

<b>Shareholding Pattern</b> (Post Issue)	(%)
Promoters	80.33
Public	19.67
<b>Total</b>	<b>100.00</b>

**Company Overview**

Parsvnath Developers Limited (PDL) is one of the leading real estate development companies with operations in 41 cities and 14 states of India. As of October 15, 2006, PDL directly owned or held development rights for an estimated 108.64 million square feet (2494 acres) of saleable area in connection with the development of 20 integrated townships, 27 commercial complexes including shopping malls, multiplexes, office space, a complete metro station and 25 residential projects. PDL also intends to construct 14 hotels and four IT parks. So far PDL has completed 9 housing and 8 commercial complexes. Also PDL has obtained in principle approvals from Government of India for the development of 9 SEZs.

**Objects of the Issue**

The objects of the issue are to meet the cost of development and construction of on-going projects. The fund requirements and deployment are based on the estimates of PDL and not appraised by any external body. Total fund requirement is Rs. 14,284.93mn.

Particulars	Rs in Mn	% to total
Cost of Land / Acquisition of development rights	3127.34	21.9%
Cost of development, construction & marketing	11157.59	78.1%
<b>Total</b>	<b>14284.93</b>	
<b>Fund Deployment Schedule</b>		
till 31st, August,2006	4550.2	31.9%
1st Sept' 06-31st March' 07	3902.97	27.3%
FY-2008	3193.76	22.4%
FY-2009	1613	11.3%
FY-2010	1025	7.2%
<b>Total</b>	<b>14284.93</b>	

**Business Overview**

PDL derives 77% of revenue from residential projects. The revenue mix has changed significantly with the inclusion of integrated townships into its product portfolio. Now-a-days more state governments like Gujarat, Andhra Pradesh etc give lot of emphasis to develop integrated townships for better urban area management. This product in future will find greater share in the overall revenue stream of PDL. PDL expects to receive approximately Rs 2500mn per annum from FY-2009 as positive cash flow from its DMRC (Delhi Metro Rail Corporation Ltd) BOT projects under which it has 1.5 mn sq ft as leaseable area. PDL has been granted a concession by the DMRC for a period

of either 12 or 30 years for the purpose of development, procurement, financing, construction, management, maintenance and licensing the use of build-up spaces/ facilities in specified area in and around metro stations in New Delhi.

<b>Rs in million</b>	<b>FY-2003</b>	<b>FY-2004</b>	<b>FY-2005</b>	<b>FY-2006</b>	<b>1Q-07</b>
Residential Projects	565.58	906.79	2805.17	4950.52	1217.76
<i>% to total</i>	<i>82.2</i>	<i>80.9</i>	<i>92.5</i>	<i>76.9</i>	<i>49.3</i>
Malls, Multiplexes, Commercial properties	35.13	84.31	126.82	542.27	42.85
<i>% to total</i>	<i>5.1</i>	<i>7.5</i>	<i>4.2</i>	<i>8.4</i>	<i>1.7</i>
Integrated Townships	0	0	0	822.07	1180.53
<i>% to total</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>12.8</i>	<i>47.8</i>
Lease Rentals	0	0	0	22.42	9.24
<i>% to total</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.3</i>	<i>0.4</i>
Contract Revenues	87.28	130.37	100.08	101.04	18.31
<i>% to total</i>	<i>12.7</i>	<i>11.6</i>	<i>3.3</i>	<i>1.6</i>	<i>0.7</i>
<b>Total</b>	<b>687.99</b>	<b>1121.47</b>	<b>3032.07</b>	<b>6438.32</b>	<b>2468.69</b>

### Key Strengths

- **Vision:** Identification of emerging markets and assessment of the potential of a location post-evaluation of its demographic trends. This capability has enabled it to acquire important prime properties in many parts of the country by outbidding even stalwarts in India INC.
- **Reputation:** High reputation in the market as a trusted professionally managed builder with regard to transparency in dealings and timely delivery of developed properties backed by strong project monitoring system
- **Strong presence in non-metro cities:** As of June 30, 2006, 88% of its revenue came from non-metro cities, down from 99.65% as of FY-2006. With disposable income and spending pattern rising in Tier-II and Tier-III towns, these places are expected to see several malls coming up, which augurs well for PDL. As per a study by Chusman & Wakefield, the smaller cities will account for a substantial portion of the 700 upcoming malls and the approximate new retail supply of 20mn square feet per annum. Thus, there would be strong demand seen for its products like housing units, office premises, multiplexes, malls and budget hotels/ resorts in the years ahead.
- **Pan India presence having diversified business:** Barring few eastern and northern regions of the country, PDL has presence in the 41 cities across 14 states which will insulate it from any downturn in any particular market. Varied geography apart, its cash cow lies in residential projects that are directed towards both the high and the economy income groups, thus ensuring spread of business across all segments.
- **Strong marketing network:** PDL's structured and sustained marketing over the cycle of the project result in wide exposure of its products to the target audience. As of

## Strategy ahead

September 25 2006 approximately 61% of the residential and commercial units are sold out. Presence of well known brands like Big Bazaar, Raymonds, Spencers, PizzaHut, McDonald's etc. in its large retail outlets ensures confidence among potential customers.

- **Expanding into new locations across India:** To enlarge presence to more non-metro cities which will consolidate its Pan-India presence further.
- **Diversify the project portfolio:** In addition to integrated townships, residential complexes, Delhi Metro Rail Corporation BOT projects, commercial complexes, PDL intends to undertake projects for developing hotels, SEZs and IT parks.
- **Outsourcing:** Selective outsourcing of critical activities to ramp up scale of operations and reduce capital investment and lower overhead expenses.
- **Customizing projects to take advantage of tax benefits:** To exploit the benefits under the provisions of Sec-80-IB of the IT Act the residential projects are customized, to avail exemption on payment of Income Tax on such projects.

## Financial Highlights

The revenue base of PDL has grown @88.3% CAGR from Rs.272.27 mn in FY-2002 to Rs. 6438.32 mn in FY-2006. The EBIDTA and net profit have risen @ 105.6% and 100.6% respectively during this period. Revenue in FY-2006 has registered a growth of 112.3% to Rs 6438.32mn over Rs3032.07 in FY-2005. Net Profit grew by 62.9% to Rs1069.86mn in FY-2006 over Rs656.56mn in FY-2005.

## Valuation

Currently PDL has a land bank of 108.64 mn sq.ft (2494acres). Whereas the comparable peer, Unitech Limited has a land bank of four times its size of 10,000 acres. Margin at EBIDTA level of PDL is better at 22.4% in comparison to Unitech's 18.7% as on 31<sup>st</sup> March, 2006. During the first quarter of the FY-2007 margins of both the players have further improved. We believe PDL will be able to sustain the growth it has seen in the past on the back of its existing land bank and aggressive land acquisition strategy adopted in current times. We believe PDL would exercise the greenshoe option. Hence our assumption for equity capital base is after the retention of greenshoe option. The fully diluted FY-2006 EPS of Rs 5.79 and the annualised EPS of Rs 7.91 for 1Q2007 discount the offer price on the higher band of Rs300 by 51.8X and 37.9X respectively. As on 31<sup>st</sup>, October, 2006 Unitech's TTM (twelve month trailing) EPS of Rs2.75 is enjoying a much higher discounting of 142X. Looking at the fanciness for the realty sector in the bourses and the aggressiveness shown by PDL to maintain the growth momentum alive, we envision a bright prospect lies ahead for PDL. We recommend investors to subscribe to the issue at the cut-off price.

**Financials**

<b>(Rs.mn)</b>	<b>FY-02</b>	<b>FY-03</b>	<b>FY-04</b>	<b>FY-05</b>	<b>FY-06</b>	<b>1Q-06</b>	<b>1Q-07</b>
Income from Operations	272.27	687.99	1121.47	3032.07	6438.32	1477.59	2468.69
<i>Growth YoY %</i>		152.7	63.0	170.4	112.3		67.1
Cost of Construction/Dev	216.93	533.9	853.63	2213.15	4649.53	1208.56	1788.84
<i>Growth YoY %</i>		146.1	59.9	159.3	110.1		48.0
% to Sales	79.7	77.6	76.1	73.0	72.2	81.8	72.5
Personnel Expenses	6.57	12.84	24.85	39.61	81	20.13	32.21
<i>Growth YoY %</i>		95.4	93.5	59.4	104.5		60.0
% to Sales	2.4	1.9	2.2	1.3	1.3	1.4	1.3
SG &A Expenses	9.57	15.68	35.29	54.88	267.76	26.77	89.1
<i>Growth YoY %</i>		63.8	125.1	55.5	387.9		232.8
% to Sales	3.5	2.3	3.1	1.8	4.2	1.8	3.6
Total Expenditures	233.07	562.42	913.77	2307.64	4998.29	1255.46	1910.15
<i>Growth YoY %</i>		141.3	62.5	152.5	116.6		52.1
% to Sales	85.6	81.7	81.5	76.1	77.6	85.0	77.4
Operating Profit	39.2	125.57	207.7	724.43	1440.03	222.13	558.54
<i>Growth YoY %</i>		220.3	65.4	248.8	98.8		151.4
<b>OPM %</b>	<b>14.4</b>	<b>18.3</b>	<b>18.5</b>	<b>23.9</b>	<b>22.4</b>	<b>15.0</b>	<b>22.6</b>
Financial Expenses	0.83	1.19	3.56	10.55	26.87	4.54	13.2
Depreciation	3	4.55	10.68	20.32	42.17	8.74	24.78
PBT before Other Income	35.37	119.83	193.46	693.56	1370.99	208.85	520.56
Other Income	0.68	5.81	7.98	36.39	99.35	20.03	21.46
Profit before Tax	36.05	125.64	201.44	729.95	1470.34	228.88	542.02
Current Tax	3.08	11.11	18.14	72.04	398.74	68.5	180
Deferred Tax	0	-0.11	-0.8	1.26	-0.76	-1.19	-4.05
Fringe Benefit Tax	0	0	0	0	2.5	0.4	0.62
Total Provision for Tax	3.08	11	17.34	73.3	400.48	67.71	176.57
<i>Effective Taxation %</i>	8.5	8.8	8.6	10.0	27.2	29.6	32.6
Net Profit	32.97	114.64	184.1	656.65	1069.86	161.17	365.45
<i>Growth YoY %</i>		247.7	60.6	256.7	62.9		126.7
<i>Net Profit Margin %</i>	12.1	16.7	16.4	21.7	16.6	10.9	14.8
Equity Capital #					1846.96		
EPS					5.79		7.91
PEM @ Rs 250/-					43.2		31.6
PEM @ Rs 300/-					51.8		37.9

# After greenshoe option

**Disclaimer:** The information contained in this report is obtained from reliable sources and is directed at market professionals and institutional investors. In no circumstances should it be considered as an offer to sell/buy or, a solicitation of any offer to, buy or sell the securities or commodities mentioned in this report. Networth, and/or its affiliates, may or may not have position in securities mentioned in this report. No representation is made that the transactions undertaken based on the information contained in this report will be profitable, or that they will not result in losses. Networth Stock Broking Ltd. and/or its representatives will not be liable for the recipients' investment decision based on this report.

Networth Stock Broking Ltd., 143-B, Mittal Court, 224, Nariman Point, Mumbai – 400021.