

June 16, 2008

Rating	Under Review
Price	Rs139
Target Price	Under Review
Implied Upside	NA
Sensex	15,190

(Prices as on June 13, 2008)

Trading Data

Market Cap. (Rs bn)	5.6
Shares o/s (m)	40.2
Free Float	83.6%
Avg. Daily Vol ('000)	93.2
Avg. Daily Value (Rs m)	23.9

Major Shareholders

Promoters	16.4%
Foreign	71.0%
Domestic Inst.	NA
Public & Others	12.6%

Stock Performance

(%)	1M	6M	12M
Absolute	(41.2)	(62.8)	(42.9)
Relative	(30.0)	(40.1)	(52.3)

Price Performance (RIC: PRJE.BO, BB: PES IN)

Source: Bloomberg

Prajay Engineers Syndicate**Big plans continue**

- **Increased development potential:** Prajay Engineers' total land bank has increased to 45 million sq.ft. from 32 million sq.ft. on account of enhanced FSI on some of its properties. There is additional potential of increasing this by another 5-8 million sq.ft. over the next couple of months. Most of the increased development potential has been on account of increased FSI on existing properties. Consequentially, the project execution period has also gone up from five years to seven years.
- **Rollout plans:** The company is planning to undertake development on 20 million sq.ft. in FY09. Of this, 16 million sq.ft. is residential and remaining four million sq.ft. is retail, commercial and IT park. In FY09, the company is targeting to deliver around 3.85 million sq.ft. as against 2.35 million sq.ft. in FY08. This would largely be from the Vizag property and Prajay Enclave.
- **Fund raising:** Prajay plans to raise US\$50m through a QIP issue. This funding is important and sufficient to execute its development plans. Delay in flow of funds could result in delay in rolling out its plans as well. While the company is open to project level funding also, it would prefer to dilute at the entity level as this brings in greater flexibility in deployment of funds. While corporate debt is always an option, it has become increasingly difficult to syndicate debt.
- **Valuations:** Prajay has a development potential of 45 million sq.ft. to be developed over the next seven years, which we think is a key challenge to the company to execute, as project funding is difficult given the present economic scenario. At the CMP of Rs139, the stock trades at 3.1x FY08E EPS of Rs44.8. Rating is currently under review.

Key financials (Y/e March)	FY05	FY06	FY07	FY08E
Revenue (Rs m)	233	730	2,096	4,606
Growth (%)	31.0	213.8	187.1	119.7
EBITDA (Rs m)	74	310	990	2,495
PAT (Rs m)	44	227	772	1,801
EPS (Rs)	5.7	15.3	35.7	44.8
Growth (%)	843.8	167.0	133.6	25.6
Net DPS (Rs)	1.2	2.0	2.0	2.5

Source: Company Data; PL Research

Profitability & valuation	FY05	FY06	FY07	FY08E
EBITDA margin (%)	31.9	42.5	47.2	54.2
RoE (%)	38.7	64.7	50.0	39.3
RoCE (%)	21.7	29.4	22.1	22.7
EV / sales (x)	5.2	3.7	3.1	2.0
EV / EBITDA (x)	16.3	8.8	6.6	3.7
PE (x)	24.3	9.1	3.9	3.1
P / BV (x)	8.3	3.6	1.2	0.8
Net dividend yield (%)	0.9	1.4	1.4	1.8

Source: Company Data; PL Research

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Management representatives:

Mr. Ravinder Reddy, COO

Q: Have there been any land bank additions in the recent past?

A: The total land bank has increased to 45 million sq.ft. from 32 million sq.ft. on account of enhanced FSI on some of its properties. There is additional potential of increasing this by another 5-8 million sq.ft. over the next couple of months. Most of the increased development potential has been on account of increased FSI on existing properties.

Consequentially, the project execution period has also gone up from five years to seven years. Out of this land bank, 70% would be residential and remaining retail, commercial and hotels; and a major chunk of the 70% residential is mid-income housing accounting for around 60-70% and the remaining in premium and luxury.

Q: How much has been developed in FY08, and going forward how is development going to be rolled out?

A: The company is planning to undertake development on 20 million sq.ft. in FY09. Of this, 16 million sq.ft. is in residential and remaining four million sq.ft. is in retail, commercial and IT park.

In FY09, the company is targeting to deliver around 3.85 million sq.ft. as against 2.35 million sq.ft. in FY08. This would largely be from the Vizag property and Prajay Enclave.

Q: What are the key projects that would be launched in the current year?

A: Some of the key projects to be launched include Prajay Windsor Park, which is a 1.3 million sq.ft. project, Prajay Waterfront City, which is a 3.3 million sq.ft. residential project, and Prajay Virgin County, which is a 6.25 million sq.ft. mixed development project. Apart from this, the company also plans to launch a couple of retail and commercial projects, which include Prajay Technopark and Prajay Megapolis.

Q: Are you sufficiently funded to undertake this development?

A: The company has plans to raise US\$50m through a QIP issue. This funding is important and sufficient to execute the development plans. Delay in access to funds could entail some delay in rollout plans as well. While the company is open to project level funding as well, they would prefer to dilute at the entity level as this brings in greater flexibility in deployment of funds. We have tied-up with Lehman for our Virgin County project, and for our Waterfront City project we have tied for debt with HSBC.

This is important in light of the fact that individual projects could witness some delays in rollout on account of delayed clearances, etc.

Q: How has real estate demand been in Hyderabad over the last couple of months and what is the outlook on real estate prices?

A: There has been a dip in residential transaction volumes vis-à-vis last six months, although it has improved a bit as compared to last six month, but still much lower than the peak offtake a year ago.

Lower volumes have been particularly in the high end luxury segment where volumes in some cases have been lower by almost 70% as against mid-income housing, where volumes have fallen by 10-15%.

However, prices have not declined in the period. In the recent past there have been some signs of pick-up in demand across residential properties, but transaction volumes are still lower than what was witnessed a year ago.

Q: Has your cost of construction been impacted on account of increased input prices?

A: On YoY basis the cost of construction has increased by 15-20% depending on the type of project.



Q: What is your cost of construction?

A: It varies from segment to segment, for mid-segment it's around Rs800-850, for upper mid-segment it's Rs1,000-1,100, for premium it's around Rs1,250-1,400, for luxury it's Rs1,750-2,000 and for retail space it's Rs1,700-2,000.

Q: What is the ramp-up plan for the hotel business?

A: Currently, Prajay has 100 rooms operational in two properties. However, the company eventually plans to ramp this up to 2,200 rooms in the next 3-4 years. Currently, there are about 1,000 hotel rooms that are in various stages of construction. The new hotel properties would be under management contract with reputed hotel chains.



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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