

## Parsvnath Developers

 BSE code: 532780  
 NSE code: PARSVNATH

**CMP: Rs 338**
**Target: Rs 512**
**BUY**
**Suman Memani**

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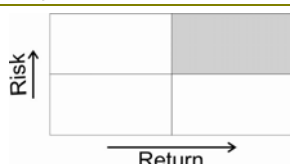
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**Company data**

Particulars	
Market cap (Rs bn / US\$ bn)	63.0/1.5
Outstanding equity shares (mn)	184.6
52-week high/low (Rs)	579/221
2-month average daily volume	748,326

**Financial snapshot**

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	15,103.0	25,740.0	43,243.6
Growth (%)	134.6	70.4	68.0
Adj net profit (Rs mn)	2,922.5	5,552.7	9,702.8
Growth (%)	175.1	90.0	74.7
FDEPS (Rs)	15.9	30.2	52.7
Growth (%)	175.1	90.0	74.7
P/E (x)	21.3	11.2	6.4
ROE (%)	19.6	27.9	33.5

**Risk-return profile**

**Shareholding pattern**

(%)	Sep-07	Mar-07
Promoters	80.3	80.3
FIs	7.3	3.2
Banks & FIs	3.9	5.3
Public	8.5	11.2

**Stock performance**

Returns (%)	CMP	1-mth	3-mth	6-mth
PDL	338	0.1	(4.7)	3.6
Sensex	19,784	14.4	27.2	42.6

**Company website** [www.parsvnath.com](http://www.parsvnath.com)
**On firm ground**

Parsvnath Developers (PDL) has reported a 37.5% YoY rise in net sales to Rs 4bn, largely in line with our estimates. The company has booked sales of 7mn sq ft in H1FY08 with 3.6mn sq ft booked in the second quarter. The EBITDA margin for the quarter has risen significantly to 41.4% as against 26.8% in Q2FY07 and 37.7% in Q1FY08. The sharp year-on-year expansion has come about due to higher price realisations on its properties (excluding plot sales) and increased revenue booking in the commercial and residential segments.

PDL has substantially enlarged its land bank during the quarter from 160mn sq ft as at end-Q1FY08 to 191mn sq ft. It has also begun construction on additional properties with the total under-construction area at 76mn sq ft from 74mn sq ft in Q1FY08. We have estimated that the company would develop 18mn sq ft in FY08.

At the current price of Rs 338, PDL discounts our FY08E and FY09E EPS of Rs 30.2 and Rs 52.7 by 11.2x and 6.4x respectively. We have a Buy rating in the stock with a target price of Rs 512 based on the company's one-year forward NAV.

**Actual vs estimated performance**

(Rs mn)	Actual	Estimated	% Variance
Net sales	4,007.2	4,423.4	(9.4)
EBITDA	1,658.0	1,548.1	7.0
PAT	1,027.7	950.0	8.2
EPS (Rs)	5.6	5.3	8.2

Source: Company, Religare Research

**Quarterly results**

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg
Net sales	4,007.2	2,913.6	37.5	4,034.7	(0.7)
Other income	119.9	19.8	506.8	109.9	9.1
EBIDTA	1,658.0	782.0	112.0	1,521.4	9.0
EBIDTA margin (%)	41.4	26.8	-	37.7	-
Interest	96.7	37.8	155.8	32.9	194.2
Depreciation	45.8	29.0	58.0	48.8	(6.2)
PBT	1,515.5	715.3	111.9	1,439.7	5.3
Tax	487.8	226.0	115.8	418.0	16.7
PAT	1,027.7	489.3	110.1	1,021.7	0.6
Equity capital	1,847.0	1,847.0	-	1,847.0	-
EPS (Rs)	5.6	2.6	110.1	5.5	0.6

Source: Company, Religare Research

## Result highlights

### 3.6mn sq ft of development booked during the quarter

#### Sales up 37.5% YoY, set to gather steam in H2FY08

PDL has logged a 37.5% increase in net sales to Rs 4bn during Q2FY08 as against Rs 2.9bn in Q2FY07. The company has booked revenues on 3.6mn sq ft of development whereas it had accounted for 3.4mn sq ft in Q1FY08. We expect PDL to scale up execution in H2FY08 to ~11mn sq ft, which would translate to higher sales in comparison to the first half. In FY07 as well, the company had booked just 35% of its full-year revenues and 29% of PAT in the first half. PDL witnessed fewer customer additions during the quarter, though we see this as a healthy sign since these buyers are ultimate end users and not investors.

#### Operating margin to be sustained above 35%

The operating margin for the quarter has increased to 41.4% in comparison to 26.8% in Q2FY07 and 37.7% in Q1FY08. The higher margin is on account of better realisations on its properties (excluding plot sales) and increased revenue booking in the high-end commercial and residential space. We expect PDL's margin to settle at ~35% going ahead.

## Business developments

#### Land bank totalling 191mn sq ft

PDL has substantially enlarged its land bank during the quarter from 160mn sq ft as at end-Q1FY08 to 191mn sq ft (including joint ventures). The saleable area is spread across 48 cities in 17 states. The management has indicated that it has begun construction on 76mn sq ft and expects its total saleable land bank to be executed over a five to six year timeframe.

### 191 sq ft to be executed by 2013, with 76mn sq ft currently under construction

#### Current land bank

Segments	No of projects	Developable area (mn sq ft)	Under construction (mn sq ft)
Residential	35	33.7	20.5
Commercial	23	4.8	2.4
Township	18	79.9	52.1
DMRC	13	2.0	1.0
Hotels	17	2.3	0.1
IT Parks	5	11.5	-
SEZs	6	57.0	-
<b>Total</b>	<b>117</b>	<b>191.2</b>	<b>76.1</b>

Source: Company; Religare Research

#### Major presence in SEZ development

PDL proposes to develop 12 SEZs covering an aggregate area of 4,016 acres (218mn sq ft of developable area). So far, it has acquired land for six SEZs totalling 57mn sq ft, with formal approval received for five projects and central government notification for three of these. In-principle approvals have been obtained for the balance seven zones. We have considered only the six SEZs for which the land acquisition has been concluded as part of our land bank estimate for PDL.

All six SEZ projects are owned and managed by the company's 100% subsidiary Parsvnath SEZ. The company will build IT/ITES, single product and multi product SEZs on a 50:50 sale-lease model. This will drive growth in the longer term and de-risk PDL's business model.

### SEZ projects

Location	Sector	Area (acres)	Developable area (mn sq ft)
<b>Formal approval</b>			
Gurgaon (notified)	IT/ITES	114	9.9
Dehradun(notified)	IT/ITES	35	3
Indore (notified)	IT/ITES	76	6.6
Kochi	IT/ITES	76	26.1
Hyderabad	Biotechnology	25	2
Mysore (in-principal)	IT/ITES	119	9.4
<b>Sub Total (A)</b>		<b>445</b>	<b>57</b>
<b>In-principal approval</b>			
Kundli	Food Processing	247	11
Agra	Leather	247	11.1
Moradabad	Handicraft	247	11
Jaipur	Gems & Jewellery	113	7.3
Pune	Automotive	247	11
Kancheepuram	Multi Product	2,470	109.5
<b>Sub Total (B)</b>		<b>3,571</b>	<b>160.9</b>
<b>Total (A+B)</b>		<b>4,016</b>	<b>218</b>

Source: Company; Religare Research

### Venture into offshore real estate development

PDL has decided to venture into offshore real estate development in countries like the UK, Singapore, UAE, Muscat, Bahrain and Mauritius. It plans to develop real estate by collaborating with local partners. To this end, it has tied up with the Oman-based Al-Hasan Group of Industries.

### Chandigarh luxury township 'Prideasia' launched

In August, PDL announced the launch of the first phase of its 123-acre luxury township in Chandigarh called Prideasia. This township has a saleable area of 4.4mn sq ft with a realisable value of Rs 40bn. The company received a good response from buyers and has already sold 164 units with a total realisable value of Rs 2.7bn. The construction of the project will commence in the coming quarters and completion is scheduled three years hence. The second phase of Prideasia will be opened for sale post-Diwali.

### Maintain Buy with target of Rs 512

We believe that PDL's efforts towards creating a pan-India presence together with the projected scale up in execution capability would fuel growth. At the current price of Rs 338, the stock discounts its FY09E EPS of Rs 52.7 by 6.4x which is attractive in comparison to its peers. We maintain our NAV-based target price of Rs 512 and reiterate our Buy recommendation on the scrip.

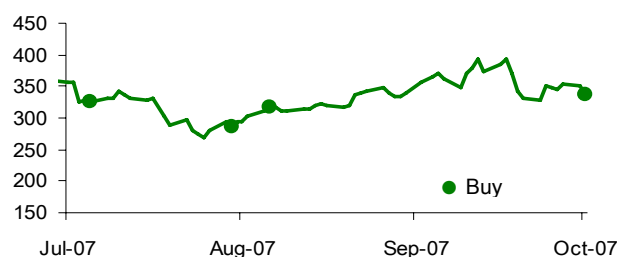
**Luxury township in Chandigarh launched to a strong response; 164 units sold with a realisable value of Rs 2.7bn**

### Recommendation history

Date	Event	Reco price	Tgt price	Reco
6-Aug-07	Initiating Coverage	326	512	Buy
29-Aug-07	Company Update	287	512	Buy
5-Sep-07	Company Update	316	512	Buy
31-Oct-07	Results Update	338	512	Buy

Source: Religare Research

### Stock performance



Source: Religare Research

## Consolidated financials

### Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	6,438.3	15,103.0	25,740.0	43,243.6
Growth (%)	-	134.6	70.4	68.0
EBITDA	1,444.1	4,174.1	9,467.8	16,479.2
Growth (%)	-	189.0	126.8	74.1
Depreciation	58.8	143.3	190.0	270.0
EBIT	1,385.3	4,030.8	9,277.8	16,209.2
Growth (%)	-	187.8	117.1	74.7
Interest	26.9	193.2	1,160.0	2,030.0
Other income	99.3	66.0	-	-
EBT	1,457.8	3,903.6	8,117.8	14,179.2
Growth (%)	-	179.9	99.0	74.7
Tax	395.5	981.1	2,565.1	4,476.5
Effective tax rate	27.1	25.1	31.6	31.6
Adj net income	1,062.4	2,922.5	5,552.7	9,702.8
Growth (%)	-	175.1	90.0	74.7
Shares outstanding (mn)	98.9	184.7	184.7	184.7
FDEPS (Rs)	5.8	15.9	30.2	52.7
DPS (Rs)	0.7	2.5	2.5	3.0
CEPS (Rs)	11.3	16.6	31.1	54.0

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,457.8	4,080.1	8,117.8	14,179.2
Depreciation	58.8	143.3	190.0	270.0
Other adjustments	(131.0)	(939.2)	926.5	(537.1)
Changes in WC	(2,408.3)	(16,651.1)	(18,076.8)	(15,311.7)
Operating cash flow	(1,022.7)	(13,367.0)	(8,842.4)	(1,399.6)
Capital expenditure	(417.3)	(720.7)	(720.4)	(832.0)
Investments	-	(453.8)	-	-
Other investing inc/(exp)	8.8	-	-	-
Investing cash flow	(408.5)	(1,174.6)	(720.4)	(832.0)
Free cash flow	(1,431.2)	(14,541.5)	(9,562.8)	(2,231.6)
Issue of equity	-	10,517.7	-	-
Issue/repay debt	1,146.0	9,336.5	8,805.5	4,999.5
Dividends paid	(18.8)	(74.3)	(540.2)	(537.9)
Others	(124.6)	(193.2)	(1,160.0)	(2,030.0)
Financing cash flow	1,002.6	19,586.7	7,105.3	2,431.6
Beg. cash & cash eq	(428.6)	5,045.1	(2,457.5)	200.0
Chg in cash & cash eq	841.0	412.4	5,457.5	3,000.0
Closing cash & cash eq	412.4	5,457.5	3,000.0	3,200.0

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	412.4	5,457.5	3,000.0	3,200.0
Accounts receivable	637.7	5,578.8	9,100.0	13,324.3
Inventories	3,894.2	16,438.4	23,000.0	33,500.0
Others current assets	3,609.1	7,168.2	12,246.6	15,383.9
Current assets	8,553.4	34,642.9	47,346.6	65,408.2
LT investments	80.1	534.0	534.0	534.0
Net fixed assets	356.3	716.8	1,226.8	1,788.8
CWIP	172.7	389.6	410.0	410.0
Total assets	9,162.5	36,283.3	49,517.4	68,141.0
Payables	4,542.4	8,865.6	5,950.0	8,500.0
Others	250.1	804.5	3,133.9	5,148.3
Current liabilities	4,792.5	9,670.1	9,083.9	13,648.3
LT debt	2,358.5	11,695.0	20,500.5	25,500.0
Other liabilities	-	-	-	-
Equity capital	989.1	1,847.0	1,847.0	1,847.0
Reserves	1,022.4	13,071.2	18,086.0	27,145.7
Net worth	2,011.5	14,918.1	19,932.9	28,992.6
Total liabilities	9,162.5	36,283.3	49,517.4	68,141.0
BVPS (Rs)	20.3	80.8	107.9	157.0

Source: Company, Religare Research

### Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	24.0	29.2	36.8	38.1
EBIT margin (%)	23.1	28.3	36.0	37.5
Net profit margin (%)	16.5	19.4	21.6	22.4
FDEPS growth (%)	-	175.1	90.0	74.7
Receivables (days)	36.2	134.8	129.0	112.5
Inventory (days)	-	339.5	442.3	385.3
Payables (days)	-	235.9	177.4	108.1
Current ratio (x)	1.8	3.6	5.2	4.8
Interest coverage (x)	57.4	22.9	8.2	8.1
Debt/equity ratio (x)	1.2	0.8	1.0	0.9
ROE (%)	52.8	19.6	27.9	33.5
ROCE (%)	34.0	16.1	22.9	29.7
ROAE (%)	11.6	8.1	11.2	14.2
EV/Sales (x)	5.2	4.2	3.2	2.0
EV/EBITDA (x)	21.8	14.2	8.8	5.3
P/E (x)	58.5	21.3	11.2	6.4
P/BV (x)	16.6	4.2	3.1	2.2
P/CEPS (x)	29.8	20.4	10.9	6.3

Source: Company, Religare Research

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**Recommendation parameters**

<b>Large-caps*</b>	> 10%	< - 5%	<b>Returns</b>	<b>Absolute</b>
	BUY	SELL		
<b>Mid-caps**</b>	> 25%	< 10%		

*\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn*

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