

PARSVNATH DEVELOPERS



Execution to pick up

Deliveries behind schedule

PDL has disappointed on its delivery target in FY10, delivering ~1.8msf against the target of ~5.1msf. Of the ~1.83msf delivered, ~87% has been delivery of plots. In terms of new sales in FY10, PDL has sold 2,371 units in FY10 comprising an area of 5.33msf against our expectations of 7.4msf.

However, sales momentum and improved execution to drive revenues

In FY10, PDL launched 7 new projects across 3.89msf - key projects being La Tropicana, Delhi (1.97msf), Elite Floors, Dharuhera (0.7msf) and Parsvnath Technica IT Park, Gurgaon (0.7msf). Execution on these and certain other projects (Palacia – Gr. Noida, Privilege – Gr. Noida, Exotica – Ghaziabad and Gurgaon are expected to drive revenues for FY10-FY12E at a CAGR of 32%.

Net debt to ~halve to INR 9.8bn by FY12E as compared to peak

PDL's net debt had increased from INR 6.2bn in FY07 to INR 18.2bn (net D/E: 0.92x) in Q3FY09. However, post a QIP of INR 1.7bn and asset monetization (INR 3.35bn) net debt has reduced to INR 15bn in FY10 (net D/E: 0.66x). We expect the net debt to reduce further to ~INR9.8bn in FY12E (net D/E: 0.4x) through operating cash flows.

Asset monetization/stake dilution in FY10 a key positive

PDL has been aggressively monetizing its' non-core land assets, by way of sale / return of land to developers/government agencies. During FY10, PDL has monetized INR 3.35bn, of which the company has received INR 2.07bn with balance money of INR 1.28bn receivable in FY11E.

Outlook and valuations: Execution to pick up, Maintain 'BUY'

We value PDL based on SOTP valuation. We have valued PDL's real estate business on a DCF basis for its' land bank of 97 mn sq ft and its' DMRC rental assets of 2.52 mn sq ft at an average rental of INR 90 per sq ft and a cap rate of 12%. PDL's 6 hotel projects have been valued at an EV of INR 3.4 bn. Adjusting for balance sheet items, we estimate the fair value of PDL at INR 151 / share or 1x FY11E P/BV. We maintain a 'BUY' and rate it '**Sector Performer**' on a relative return basis.

Financials

Year to March	FY09	FY10	FY11E	FY12E
Revenue (INR mn)	6,984	9,522	10,487	16,671
Rev. growth (%)	(60.6)	36.3	10.1	59.0
EBITDA (INR mn)	2,077	2,619	3,111	5,250
Net profit (INR mn)	1,128	1,406	1,699	3,345
Shares outstanding (mn)	184.7	198.6	198.6	198.6
Diluted EPS (INR)	6.1	7.1	8.6	16.8
EPS growth (%)	(73.4)	16.0	20.8	96.9
Diluted P/E (x)	20.2	17.4	14.4	7.3
EV/ EBITDA (x)	18.8	15.0	12.0	6.5
ROE (%)	5.8	6.5	7.2	12.9

June 30, 2010

Reuters: PARV.BO Bloomberg: PARSV IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 124
52-week range (INR)	:	152 / 70
Share in issue (mn)	:	198.6
M cap (INR bn/USD mn)	:	24 / 526
Avg. Daily Vol. BSE/NSE ('000):	:	1,397.2

SHARE HOLDING PATTERN (%)

Promoters*	:	74.7
MFs, FIs & Banks	:	0.1
FIIIs	:	4.8
Others	:	20.3
* Promoters pledged shares (% of share in issue)	:	60.0

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	4.0	3.7	2.2
3 months	(12.4)	(0.9)	(2.9)
12 months	13.9	19.7	(13.1)

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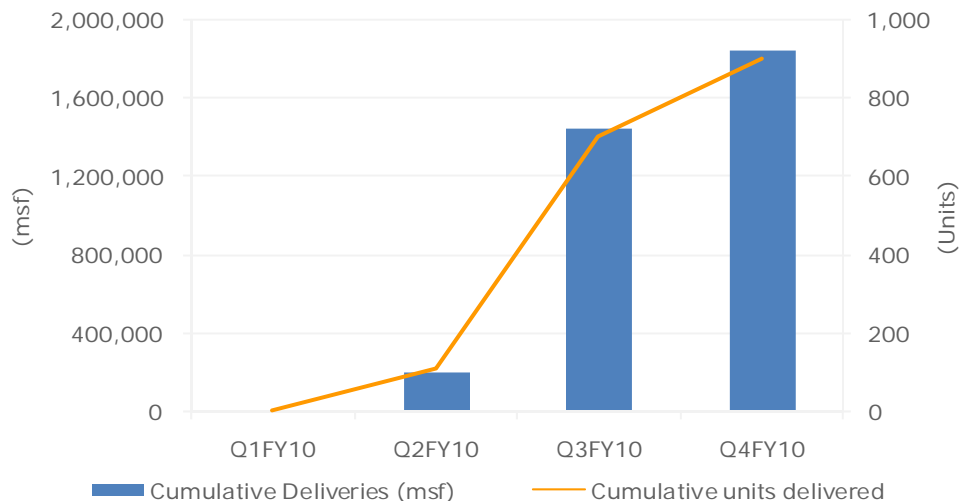
▪ **Deliveries behind schedule**

PDL has disappointed on its delivery target in FY10, delivering ~1.8msf against a stated target of ~5.1msf. Of the ~1.83msf delivered, ~87% has been delivery of plots, with the balance being deliveries of group housing and commercial space. In terms of new sales in FY10, PDL has sold 2,371 units in FY10 comprising an area of 5.33msf against our expectations of 7.4msf.

▪ **Majority of deliveries were in H2FY10**

During FY10, PDL delivered 899 units spread across ~1.8msf, majority of which was in H2FY10 on the back of improved sales and execution. Key projects delivered in FY10 are the plots at Jaipur (1.25msf), Jodhpur (.15msf), Sonapat (0.1msf) and Rajpura (.07msf) townships.

Chart 1: Deliveries in FY10



Source: Company

▪ **However, sales momentum and improved execution to drive revenues**

In FY10, PDL launched 7 new projects comprising an area of 3.89msf - the key projects launched being La Tropicana, Delhi residential group housing (1.97msf), Elite Floors, Dharuhera (0.7msf) and Parsvnath Technica IT Park, Gurgaon (0.7msf). PDL sold 5.33msf across 2,371 units in FY10. Execution on these projects and pick up in execution on certain other projects (Palacia – Gr. Noida, Privilege – Gr. Noida, Exotica – Ghaziabad and Gurgaon are expected to drive revenues for FY10-FY12E at a CAGR of 32%.

Table 1: Key project launches in FY10

Project	Segment	Area (sft)
Parsvnath Technica (Cyber Park), Gurgaon, Haryana	IT Park	700,000
Elite Floors, Dharuhera, Haryana	Floors	709,185
La Tropicana, Khyber Pass, Delhi	Group Housing	1,970,573
Royale Floors, Panipat, Haryana	Floors	88,110
Parsvnath City, Saharanpur, U.P.	Plots	167,033
Parsvnath Royal Villas, Saharanpur, U.P.	Villas	39,235
Parsvnath Elite Floors, Saharanpur, U.P.	Floors	219,120
Total		3,893,256

Source: Company

- **Monetisation activities and fund raising activities have reduced debt burden**

With a view to recapitalizing its' balance sheet, PDL has been aggressively monetizing its' non-core land assets. This monetization is essentially by way of sale / return of land to developers/government agencies. During FY10, PDL has been able to monetize Rs3.35bn of assets of which the company has received INR 2.07bn in FY10 with balance money of INR 1.28bn receivable in FY11E.

Table 2: Key asset monetization taken up by Parsvnath in FY10

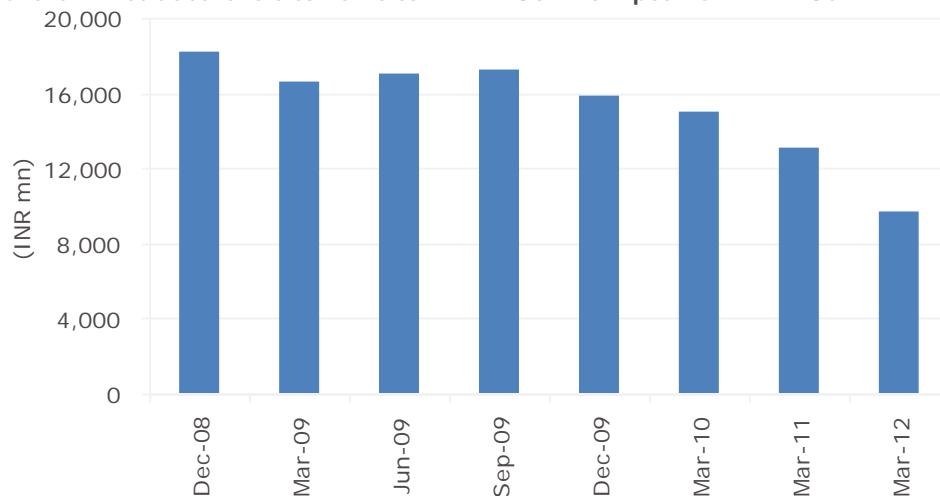
Asset Monetisation	(INR mn)
Mahim Bus Depot - Mumbai	198
Kurla Bus Depot - Mumbai	1,820
Pune - Plots	245
Sahibabad Plot	140
Ahmedabad Commercial	950
Total	3,353

Source: Company, Edelweiss research

- **Net debt to ~halve to INR 9.8bn by FY12E as compared to peak**

Parsvnath Developers' net debt had increased from INR 6.2bn (net D/E of 0.42x) in March 2007 to INR 18.2bn (net D/E of 0.92x) in Dec 2008. However, post a QIP of INR 1.7bn, monetization activities (INR 3.35bn) and operational cash flows, net debt has reduced to INR 15bn in March 2010, (net D/E of 0.66x). We expect the net debt to reduce further to INR9.75bn in FY12E (net D/E of 0.4x) through generation of operating cash flows.

Chart 2: Net debt levels to halve to ~INR9.8bn from peak of ~INR18bn



Source: Company, Edelweiss research

- Quality partnerships with financial investors a key positive

PDL has tied up PE funding with Red Fort Capital of INR 1,150mn for its La Tropicana, Delhi project (2 rounds of funding) and also tied up funding of INR 750mn with Sun Apollo for Phase II of its' Exotica Extension in Gurgaon. We believe that such quality tie ups are a strong endorsement of investor comfort in the company and augurs well for future tie ups.

Table 3: PE deals

Date	SPV	Project	Amount (INR mn)	Stake (%)
11-Jun-09	Parsvnath Landmark Developers	La Tropicana, New Delhi	900	18.0
1-Oct-09	Parsvnath Landmark Developers	La Tropicana, New Delhi	250	4.0
11-Dec-09		Exotica, Gurgaon	750	50.0
Total			1,900	

Source: Company

- Outlook and valuations

We value PDL based on SOTP valuation. We have valued PDL's real estate business on a DCF basis for its' land bank of 97 mn sq ft. We have valued its' DMRC rental assets of 2.52 mn sq ft at an average rental of INR 90 per sq ft and a cap rate of 12%. PDL's 6 hotels under execution have been valued at an EV of INR 3.4 bn, capitalized at 12%. Adjusting for balance sheet items, we revise our fair value to INR 151 per share (INR 165 earlier) of PDL or 1x FY11E P/BV, to account for execution delays in select ongoing projects. We maintain a 'BUY' and rate it 'Sector Performer' on a relative return basis.

- **Company Description**

Parsvnath Developers (PDL) is a leading real estate development company with a presence in 16 states and 47 cities. PDL is a multi-faceted real estate and construction entity with a focus on affordable housing projects and integrated township development. It has a rich experience of over two decades during which it has spread its wings to cover segments like residential, commercial/shopping, integrated townships, hotels, multiplexes, IT parks & SEZs, BOT projects (Delhi Metro projects) etc.

- **Investment Theme**

PDL is a play on the affordable housing segment, which has a very large potential. It is reputed for its expertise in developing residential projects and integrated townships. With a large land bank spread across 3259 acres with a developable area of 193 mn sq ft (80 mn sq ft currently under development, apart from the SEZs), we see the company going from strength to strength in future.

PDL's agreement with Delhi Metro Rail Corporation allows it to develop 13 shopping malls/complexes with an area of 2.59 mn sq ft at metro stations on a BOT basis. Of this, 2.39 mn sq ft will be leased out for 30 years and the balance 0.2 mn sq ft will be leased out for 12 years. With demand for retail spaces likely to re-emerge in the near future and metro emerging as the mode of mass transport in Delhi, we expect these assets to generate significant value for PDL, going forward.

PDL has been actively working on deleveraging its' balance. With this objective, it has raised additional equity capital by way of a QIP, diluted stake in certain project SPVs in favour of PE investors, monetized delayed projects and also rescheduled its' loan repayments. Cumulatively, PDL has raised INR (4.9 bn plus QIP) 6.6 bn from balance sheet deleveraging activities.

PDL has also ventured into the hospitality segment with a diversified portfolio of 18 projects of luxury, business and mid-segment hotels to be managed by leading national and international hotel chains. Also, it plans to develop 17 SEZs across 8 different verticals through its subsidiary Parsvnath SEZ. We expect these projects to create value in the long term.

- **Key Risks**

- **Execution delays may cause significant cash flow pressures**

PDL needs to run a very tight ship for the next 2 years. PDL will need to execute its' plans – to launch, to sell, to construct and to collect receivables – very aggressively over the next 2 years. Delays or slippages in these can cause significant cash flow pressures for PDL. While these cash flow mismatches may be temporary, they can cause a dent in the valuations of the company. Further, the RBI had provided a window of opportunity for the real estate developers to restructure their debts. We do not foresee another such opportunity in the near future. Any further cash flow mismatches can therefore have a debilitating effect on the company.

Financial Statements

Income statement

(INR mn)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Income from operations	17,713	6,984	9,522	10,487	16,671
Direct costs	10,762	3,998	6,173	6,666	10,457
Other expenses	807	909	730	710	965
Total operating expenses	11,569	4,907	6,902	7,375	11,422
EBITDA	6,145	2,077	2,619	3,111	5,250
Depreciation and amortisation	239	281	215	314	315
EBIT	5,905	1,795	2,404	2,797	4,934
Other income	658	308	360	397	631
Interest expenses	391	734	803	658	572
Profit before tax	6,172	1,369	1,962	2,535	4,993
Provision for tax	1,928	241	556	837	1,648
Core profit	4,244	1,128	1,406	1,699	3,345
Profit after tax	4,244	1,128	1,406	1,699	3,345
Adjusted PAT	4,244	1,128	1,406	1,699	3,345
Basic shares outstanding (mn)	185	185	199	199	199
Basic EPS (INR)	23.0	6.1	7.1	8.6	16.8
Diluted equity shares (mn)	185	185	199	199	199
Diluted EPS (INR)	23.0	6.1	7.1	8.6	16.8
Dividend per share (INR)	2.9	-	-	-	-
Dividend payout (%)	15.3	-	-	-	-

Common size metrics

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	65.3	70.3	72.5	70.3	68.5
Depreciation	1.4	4.0	2.3	3.0	1.9
Interest expenditure	2.2	10.5	8.4	6.3	3.4
EBITDA margins	34.7	29.7	27.5	29.7	31.5
Net profit margins	24.0	16.2	14.8	16.2	20.1

Growth ratios (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	17.3	(60.6)	36.3	10.1	59.0
EBITDA	47.2	(66.2)	26.1	18.8	68.7
PBT	51.3	(77.8)	43.3	29.2	96.9
Net profit	37.0	(73.4)	24.7	20.8	96.9
EPS	45.2	(73.4)	16.0	20.8	96.9

Balance sheet**(INR mn)**

As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	1,847	1,847	1,986	1,986	1,986
Reserves & surplus	17,050	18,200	20,908	22,366	25,472
Shareholders funds	18,897	20,047	22,893	24,352	27,457
Minority interest (BS)	14	13	13	13	13
Secured loans	17,227	19,074	16,874	15,574	12,574
Unsecured loans	979	237	237	237	237
Borrowings	18,205	19,310	17,110	15,810	12,810
Sources of funds	37,116	39,371	40,017	40,176	40,281
Gross block	1,654	2,022	2,522	2,178	2,842
Depreciation	457	735	950	1,265	1,580
Net block	1,198	1,286	1,571	914	1,262
Capital work in progress	1,451	2,291	2,625	3,175	4,200
Total fixed assets	2,649	3,578	4,197	4,089	5,462
Investments	144	296	296	296	296
Inventories	22,611	24,574	24,578	26,830	26,188
Sundry debtors	10,363	9,676	11,688	8,389	8,336
Cash and equivalents	4,228	2,710	2,047	2,649	3,062
Loans and advances	7,477	7,061	9,823	10,314	10,314
Total current assets	44,679	44,021	48,137	48,182	47,900
Sundry creditors and others	9,190	8,281	12,056	11,555	11,729
Provisions	1,175	292	556	837	1,648
Total current liabilities & provisions	10,365	8,572	12,612	12,392	13,376
Net current assets	34,314	35,449	35,525	35,791	34,524
Net deferred tax	9	49	-	-	-
Uses of funds	37,116	39,371	40,017	40,176	40,281
Book value per share (INR)	102.3	108.5	115.3	122.6	138.3

Free cash flow**(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	4,244	1,128	1,406	1,699	3,345
Depreciation	239	281	215	314	315
Others	1,413	3,060	-	-	-
Gross cash flow	5,896	4,469	1,621	2,013	3,661
Less: Changes in WC	10,603	2,654	739	(336)	(1,680)
Operating cash flow	(4,706)	1,815	882	2,349	5,341
Less: Capex	1,781	1,210	834	207	1,688
Free cash flow	(6,488)	605	49	2,142	3,653

Cash flow metrics

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating cash flow	(4,706)	1,815	882	2,349	5,341
Investing cash flow	(884)	(1,157)	(834)	(207)	(1,688)
Financing cash flow	4,361	(2,178)	(760)	(1,300)	(3,000)
Net cash flow	(1,229)	(1,519)	(711)	842	653
Capex	(1,781)	(1,210)	(834)	(207)	(1,688)
Dividends paid	(648)	-	-	-	-
Share issuance/(buyback)	-	-	1,440	-	-

Profitability & efficiency ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	25.1	5.8	6.5	7.2	12.9
ROACE (%)	18.7	4.7	6.1	7.0	12.4
Inventory day	662	2,154	1,453	1,407	925
Debtors days	129	524	409	349	183
Payable days	249	797	601	646	406
Cash conversion cycle (days)	543	1,880	1,261	1,110	702
Current ratio	4.3	5.1	3.8	3.9	3.6
Debt/EBITDA	3.0	9.3	6.5	5.1	2.4
Debt/Equity	1.0	1.0	0.7	0.6	0.5
Adjusted debt/equity	1.0	1.0	0.7	0.6	0.5

Operating ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	0.6	0.2	0.2	0.3	0.4
Fixed asset turnover	18.5	5.6	6.7	8.4	15.3
Equity turnover	1.0	0.4	0.4	0.4	0.6

Du pont analysis

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	24.0	16.2	14.8	16.2	20.1
Total assets turnover	0.6	0.2	0.2	0.3	0.4
Leverage multiplier	1.9	2.0	1.8	1.7	1.6
ROAE (%)	25.1	5.8	6.5	7.2	12.9

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	23.0	6.1	7.1	8.6	16.8
Y-o-Y growth (%)	45.2	(73.4)	16.0	20.8	96.9
CEPS (INR)	24.3	7.6	8.2	10.1	18.4
Diluted PE (x)	5.4	20.2	17.4	14.4	7.3
Price/BV (x)	1.2	1.1	1.1	1.0	0.9
EV/Sales (x)	2.1	5.6	4.1	3.6	2.0
EV/EBITDA (x)	6.0	18.8	15.0	12.0	6.5
Dividend yield (%)	2.4	-	-	-	-



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Anant Raj Industries	BUY	SO	M	DLF	BUY	SP	L
India Bulls Real Estate	BUY	SU	H	Orbit corporation	BUY	SP	L
Parsvnath Developers	BUY	SP	M	Sobha Developers	HOLD	SU	L
Unitech	BUY	SP	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



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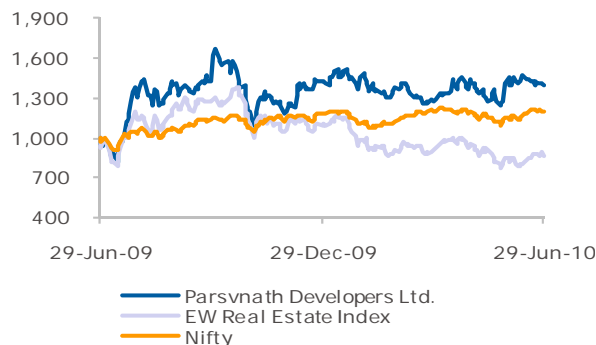
Coverage group(s) of stocks by primary analyst(s): Real Estate

Anant Raj Industries, DLF, India Bulls Real Estate, Mahindra Lifespace Developers, Orbit corporation, Parsvnath Developers, Sobha Developers, Unitech

Parsvnath Developers



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	103	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Jun-10	Anant Raj Industries	Successful project launches in NCR; <i>Company Update</i>	117	Buy
14-Jun-10	Mahindra Lifespace	Steady growth, attractively valued; <i>Initiating Coverage</i>	415	Buy
28-May-10	Unitech	In execution mode; <i>Result Update</i>	73	Buy

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