



Between the Lines

Daily Corporate News Analysis

Dec 7th, 2006

Parsvnath Developers Ltd.

Initiating Coverage

Key Data

CMP	Rs 518
Date	Dec 7 th , 2006
Sector	Real Estate
Face Value	10/-
BSE Code	532780
52 Week H/L	Rs 579
Market Cap	Rs 9407 Cr

Investment Rationale

Diversified business model: PDL has a diversified business model in terms of development projects, client profile and geographical spread. In addition to integrated township, residential complexes, DMRC projects, PDL is keen to undertake projects for developing hotels, SEZ's and IT Parks.

Focus on non-metro cities: Company main focus area is non metro cities in India. With an increase of economic activities in non-metro cities in India will result to increase in demand for real estate projects in those cities and towns. In FY06, 99.6% of revenues came from non-metro cities.

Sustainable revenue growth: In FY06, PDL reported robust net sales growth of 112.3%. Company is now intends to undertake projects for the development of hotels, IT parks and integrated townships. We expect the good revenue growth from all these initiatives by the company.

Real estate boom: Indian real estate market is growing at a rapid pace on the back of improved real estate prices and sustained demand from end users as well as investors. High economic growth, favorable demographic and socio-economic factors have led to a sharp rise in demand for housing and commercial real estate. Huge investments are lined up in infrastructure, IT/ITES sector and SEZ's leads to real estate boom.

However, we believe that the current valuations already factor in the growth. Hence, we recommend investors to Hold the stock.

Company Background:

Parsvnath Developers Ltd. (PDL) is one of the leading real estate development companies in India having diversified portfolio of real estate development projects by acquiring land



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or development rights in connection with the development of 20 integrated townships, 27 commercial complexes including shopping malls, multiplexes, office space and a complete metro station and 25 residential projects.

PDL has operations in 41 cities such as Noida, Gurgaon, Faridabad, Ghaziabad & others and 14 states, wherein it directly owns or holds development rights for 108.64 mn square feet of saleable area as on October 2006. Till date company has completed 17 projects, including 9 housing projects and 8 commercial complexes.

Recently concluded issue details

PDL came out with an initial public offer in the month of November. Key takeaways of the offerings were:

- To meet the construction cost of 11 ongoing projects. Total cost of project is Rs 1428.5 crore out of which Rs 455 crore is already deployed.

Means of Finance	Rs crore
Total Cost of Development and Construction	1429
Deployed till date	455
Which has been financed through	
Debt	41
Customer advances	384
internal Accruals	31
Balance*	973

Cost of Project

Period	Rs crore
7 month period ending FY07	390
FY08E	319
FY09E	161
FY10E	103

* Financed through IPO proceeds

Parsvnath offered 33.24mn equity shares of Rs.10 paid up in the price band of Rs250 to Rs300. This issue of shares increased the paid up capital from Rs.148.3 crore to Rs.181.6 crore.

Key Developments

Long term revenue visibility

The revenue mix of the company changed significantly with an inclusion of integrated townships, SEZ's and Hotels. PDL recently concluded IPO. IPO proceeds of Rs 973 crore would be utilized on construction of 11 projects. Out of 11 projects, 7 are likely to complete by FY07, 3 projects by FY08 and rest by FY10. Company recognized revenue based on "percentage of completion basis". Company came out with an IPO in the month of November. The utilization of the capital raised will be spread over a period of 4 years, on the 11 residential and commercial projects.



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**Financial Performance:
Robust financial growth**

For Q1FY07 PLD has reported net sales of Rs. 247 crore as compared to Rs. 148 crore for Q1FY06, an increase of 67.1 percent. During the June quarter the operating profit jumped 151.4 percent to Rs 56 crore as compared to Rs 22 crore in Q1FY07. The growth has largely been driven by buoyancy in the real estate activities in India as well as infrastructure development. In Q1FY07, company witnessed the sharp increase in the Net profit by 126.7 percent to Rs 37 from Rs 16 crores.

Valuations:

The fully diluted FY-2006 EPS of Rs7.2 and the annualized EPS of Rs10 for Q1FY07 discount the CMP of Rs518 by 71.9x respectively. While it may seem expensive, we believe that such a business cannot be valued on the basis of the P/E multiple or other such conventional valuation methods. We value this company on the basis of there present land bank, long term revenue visibility from the projects, an established brand name and above all the positive potential of the infrastructure segment in the country.

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Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.
1102, Stock Exchange Tower, Dalal Street, Mumbai 400
001. Phone : 91-22-56338050 Fax : 5633 8060

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www.krchoksey.com