



### Issue Highlights

<b>Industry</b>	<b>Real Estate</b>
Issue Size (Cr.)	1200
Price Band (₹)	172-183
Offer Date	12-Oct-10
Close Date	14-Oct-10
Face Value	10
Lot Size	30
<b>IPO Grade</b>	<b>ICRA IPO Grade 3</b>
	Indicating average fundamentals

### Issue Composition

	In shares
Total Issue	65,573,770
Employee reservation*	327,869
Net Issue	65,245,901
QIB	39,147,541
NIB	6,524,590
Retail	19,573,770

\*assuming 0.5% of the total issue

#### Book Running Lead Manager

Enam Securities Private Limited  
Kotak Mahindra Capital Company Ltd.  
J.P. Morgan India Pvt.Ltd.  
UBS Securities India Private Limited

#### Name of the registrar

Link Intime India Pvt.Ltd.

### Shareholding Pattern (%)

Particulars	Pre-issue	Postissue
Promoters and promoters group	100	80.01
QIB	-	11.93
NIB	-	1.99
Retail	-	6.07
<b>Total</b>	<b>100</b>	<b>100</b>

### Analyst

Shilpi Agarwal  
shilpiagarwal@smcindiaonline.com

### Business Profile

Prestige Estates Projects Limited (PEPL) is one of the leading real estate developing players in South India. The company started its operations in the year 1986 as a partnership firm. Currently it owns or hold development rights for 57.36 million sq. ft. of Developable Area comprising of 28.43 million sq. ft. of Saleable Area and 11.04 million sq. ft. of Leasable Area.

There are 32 Ongoing Projects of the company at present that includes 11 residential projects with a Developable Area of 10.92 million sq. ft. (Saleable Area 9.27 million sq. ft.), 14 commercial projects with a Developable Area of 18.32 million sq. ft. (Saleable Area 5.91 million sq. ft. and the leasable area 6.14 million sq. ft.), 4 hospitality projects with a Developable Area of 1.26 million sq. ft. (equivalent to approx. 655 keys, Leasable Area 0.91 million sq. ft.) and 3 retail projects with a Developable Area of 3.39 million sq. ft. (Leasable Area 1.20 million sq. ft.). As of August 31, 2010, the company's land bank aggregates to approximately 483.16 acres. PEPL caters to IT/ITeS market segment and its clientele includes Cisco Systems, Reliance Industries.

### Strengths

**Strong execution track record and brand name:** The company has a proven execution track record. As of August 31, 2010, it has completed construction of 150 real estate projects with approx. 34.23 million sq. ft. of Developable Area in Bangalore. Some of the identifiable landmarks developed by the company in Bangalore, includes Prestige Shantiniketan, one of the largest integrated township in the city, UB City, one of the largest mixed-use development in Bangalore's Central Business District; The Forum Mall, named as Most Admired Shopping Centre Of The Year: Retailer's Choice, at the 2008 India Retail Forum Awards; Cessna Business Park, a dedicated IT/ITeS SEZ development; and Angsana Spa & Resort, an exclusive 79-room resort in Bangalore.

**Diversified Portfolio:** PEPL has developed a diversified portfolio of real estate development projects focusing on projects in the residential (apartments, villas, plotted developments and integrated townships), commercial corporate office blocks, built-to-suit facilities, technology parks and campuses and SEZs), hospitality (hotels, resorts and serviced accommodation) and retail (shopping malls) segments of the real estate industry. Its ongoing, under development, forthcoming projects are also targets diverse categories that gives stable cash flows.

**Partnership with CRIDF:** The company has entered into a joint venture with CRIDF, an associate of CapitaMalls Asia. CapitaMalls Asia is one of the largest listed "pure-play" shopping mall owners, developers and managers in Asia by total property value of assets and by geographic reach, in terms of number of malls and cities. Its JV with CRIDF is aimed at developing retail projects in south India in cities such as Bangalore, Mysore, Mangalore, Hyderabad and Cochin. The total Developable Area and Leasable Area under projects will be approximately 5.61 sq. ft. and 1.83 million sq. ft. respectively.

### Strategy

**Continue to increase land bank across South India:** To increase its market share in different segments it intends to continue acquiring land at strategic locations in Bangalore and across south Indian cities of Chennai, Cochin, Hyderabad, Mangalore and Mysore. The company intends to focus on geographic areas having capital appreciation opportunities by developing projects for sale or lease.

## Objects of the Issue

Particular	Amt. (₹Cr.)
Financing of Ongoing projects	59.09
Acquisition of land	29.63
Invest in Subsidiaries	44.36
Repay loans	28.00
General Corporate purpose	[•]
<b>Total</b>	<b>[•]</b>

**Diversify revenue streams:** The company intends to diversify revenues by developing a wide price range of apartments, corporate office space, integrated townships and mixed-use developments, hotels, malls, multiplexes and shopping complexes. It also intends to expand and grow the service offerings of its real estate services business by offering property management services, sub-leasing and fit-out services, project and construction management services, interior design services and mall management and facilities management services.

**To integrate business operations:** The company intends to integrate its business and operations by further developing in-house construction management, property management and interior design capabilities. This will help company in setting efficient budgets and better control over the completion and quality standards of the projects.

## Risks

**Concentrated presence:** As of June 30, 2010, 82.06%, 83.13% and 51.21%, respectively of its ongoing, under development and forthcoming projects are located in Bangalore. Major dependence on a single city could adversely impact its revenues in case of unfavorable market condition of the city.

**Rate of Progress of Construction and Development:** In real estate business companies follow the percentage of completion method for revenue recognition. Sales depend upon the volume of bookings obtained for the developments as well as the rate of progress of construction of the projects. Delay in the completion of the projects poses risk of cost overrun due to increasing cost of construction.

**Fluctuating market price:** The market prices of the property are mainly driven by market forces of demand and supply that are affected by various factors that includes prevailing local economic, income and demographic conditions, interest rates available to purchasers requiring financing, the availability of comparable properties completed or under development, changes in governmental policies relating to zoning and land use, changes in applicable regulatory schemes, and competition from other real estate development firms. The success of projects depends on the general economic growth and demographic conditions in India.

## Industry overview

The real estate business involves the purchase, development and sale of land, including both residential and nonresidential buildings. Real estate sector activities also encompass activities in the housing and construction sectors. The Indian real estate sector has traditionally been dominated by a number of small regional or local players with low levels of expertise. There has been a rapid change as the sector is experiencing higher growth rates and significantly improved quality expectations as India becomes more integrated with the global economy along with high GDP growth of India, increased urbanization, improving demographics, as well as growth across various sectors such as IT /ITeS, retail, consumer durables, automobiles, telecommunications, banking, insurance, tourism, hospitality and logistics. Known as the "Silicon Valley" of India, Bangalore is the sixth largest city in India, with numerous public sector industries, software companies, aerospace companies, textile industries and IT / ITeS and biotechnology companies based in the city.

## Peer Comparison

Company name	Mcap	EPS	P/E	P/BV	Face value	Price
Sobha Developers	3708.14	13.22	28.61	2.18	10	378
Purvankar projects	2744.29	8.05	15.98	1.85	5	128
<b>Prestige Estate projects Ltd.*</b>	<b>6003.75</b>	<b>4.43</b>	<b>41.34</b>	<b>3.06</b>	<b>10</b>	<b>183</b>

\*calculated on the upper price band

### **Valuation**

On the upper price band of ₹183, the stock is priced at P/E of 33.07x on pre issue FY10 EPS of ₹5.53. At post issue FY10 EPS of ₹4.43, the P/E multiple will be 41.34x. Accordingly, the stock is priced at pre-issue P/B of 6.29x on its book value of ₹29.10. Post issue, the stock is priced at P/B of 3.06x on its post issue book value of ₹59.86.

### **Outlook**

Improved sentiments in the real estate industry provide opportunity for growth to the company. The premium ongoing projects of the company's are expected to enhance its profitability, going forward. However, the revenues from its projects in other cities depend on its market acceptance and are yet to be proven. Major dependence on the IT city poses risk of any slowdown in the IT industry. On the valuation part, the stock seems to be stretched when compared to its established peers which are available on much lower multiples.

## Annexure

### Profit & Loss

₹ in Cr.

Particulars	Jun-10	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06
Total Operating Income	303.96	1024.44	898.11	974.04	420.94	466.40
Total expenditure	239.76	801.00	704.39	837.88	326.91	406.95
Operating Profit	64.20	223.44	193.72	136.16	94.03	59.45
OPM%	21%	22%	22%	14%	22%	13%
Other Income	5.50	61.57	18.04	15.22	6.21	7.93
<b>PBDIT</b>	<b>69.70</b>	<b>285.01</b>	<b>211.76</b>	<b>151.38</b>	<b>100.24</b>	<b>67.38</b>
Depreciation	14.73	49.06	39.83	26.86	19.12	19.44
<b>PBIT</b>	<b>54.97</b>	<b>235.95</b>	<b>171.93</b>	<b>124.53</b>	<b>81.12</b>	<b>47.94</b>
Interest	26.99	78.25	68.86	45.48	20.40	4.50
<b>Profit/loss Before Tax and EO</b>	<b>27.98</b>	<b>157.70</b>	<b>103.06</b>	<b>79.05</b>	<b>60.72</b>	<b>43.44</b>
Tax	10.72	28.25	32.33	24.89	21.63	12.91
Profit before minority interest	17.27	129.45	70.73	54.16	39.09	30.53
Profit/loss from associates	(0.62)	17.17	2.34	12.47	(6.90)	7.20
Adjustments on consolidation	(1.96)	(2.84)	0.07	0.03	0.55	0.00
Minority interest	(0.08)	3.57	4.18	(0.50)	(2.09)	(1.03)
Profit after minority interest	14.61	147.35	77.31	66.16	30.65	36.70
Profit after restatement	14.61	145.24	77.45	67.50	34.00	27.54

### Balance Sheet

₹ in Cr.

Particulars	Jun-10	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06
Net Block	1,214.73	924.19	913.77	629.33	268.61	222.31
Capital WIP	346.02	205.39	130.86	326.58	72.07	36.84
<b>Total Fixed Assets</b>	<b>1,560.75</b>	<b>1,129.59</b>	<b>1,044.63</b>	<b>955.92</b>	<b>340.68</b>	<b>259.14</b>
Goodwill	118.89	109.84	108.07	96.89	63.28	9.68
Deferred tax assets	(1.74)	(0.24)	(3.07)	0.68	(0.48)	(1.10)
Investments	166.19	160.86	112.46	170.73	124.53	87.00
Current assets, Loans & Advances	2,488.24	2,426.61	1,947.55	1,699.90	1,590.37	919.57
<b>Total Assets</b>	<b>4,332.33</b>	<b>3,826.65</b>	<b>3,209.64</b>	<b>2,924.11</b>	<b>2,118.38</b>	<b>1,274.28</b>
Liabilities & Provisions	3,284.19	2,790.76	2,360.58	2,188.68	1,864.60	1,138.59
Minority interest	270.10	272.14	230.53	232.44	72.47	14.74
<b>Net Worth</b>	<b>778.04</b>	<b>763.76</b>	<b>618.53</b>	<b>502.99</b>	<b>181.31</b>	<b>120.95</b>
Represented by:						
Share Capital	262.50	262.50	12.50	12.50	12.50	12.50
Reserves & Surplus	515.54	501.26	606.03	490.49	168.81	108.45
<b>Net Worth</b>	<b>778.04</b>	<b>763.76</b>	<b>618.53</b>	<b>502.99</b>	<b>181.31</b>	<b>120.95</b>



Moneywise. Be wise.

## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★ ★
<b>FAIR</b>	★ ★ ★
<b>GOOD</b>	★ ★ ★ ★
<b>EXCELLENT</b>	★ ★ ★ ★ ★

E-mail: [researchfeedback@smcindiaonline.com](mailto:researchfeedback@smcindiaonline.com)



Moneywise. Be wise.

**Corporate Office:**  
 11/6B, Shanti Chamber,  
 Pusa Road, New Delhi - 110005  
 Tel: +91-11-30111000  
[www.smcindiaonline.com](http://www.smcindiaonline.com)

**Mumbai Office:**  
 Dheeraj Sagar, 1st Floor,  
 Opp. Goregaon sports club, link road  
 Malad (West), Mumbai - 400064  
 Tel: 91-22-67341600, Fax: 91-22-28805606

**Kolkata Office:**  
 18, Rabindra Sarani,  
 "Poddar Court", Gate No. 4,  
 4th Floor, Kolkata - 700001  
 Tel: 91-33-39847000, Fax: 91-33-39847004

**Disclaimer:**

This report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to you. It is only for private circulation and use. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of the report. The report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC.

The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions.

Please note that we and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned here in or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such company(ies) or © may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.