

Puravankara Projects Ltd

Provident projects start contributing, rev up performance

Q1FY11 saw Puravankara Projects' (PPL's) net sales surge by 108% YoY (to Rs 1.16bn) on higher volumes and an increased revenue share of projects under the *Provident* brand. Better realisations led to a 257% YoY jump in net profits to Rs 367mn, nearly mirroring our estimates for the quarter. We reiterate a Buy on the stock (target at Rs 130) primarily on account of 1) PPL's expected launch of 18msf for the high, middle, and low-income groups under the *Purva* and *Provident* brands (1.3msf already launched in Q1), 2) the expected benefits from the Homex JV: ability to target the lower income segment (Rs 0.8mn-2mn), expedite delivery of such projects, and thus generate higher volumes and 3) diversification of its business model through entry into new cities.

Topline swells 108% YoY: During Q1FY11, PPL posted a sharp 108% YoY growth in its net sales to Rs 1.16bn, on higher volumes and an increasing revenue share of *Provident* projects – to Rs 210mn or 18% as against Rs 50mn in the last quarter and nil in the year-ago quarter. This provident pie will continue to increase, going ahead, as the two residential projects launched under this brand has seen good absorption on its launched project and company is further expected to launch 6 mn project under this brand (see fig 1).

EBIDTA margin inflates 1470bps: PPL's EBIDTA margin increased to 34.4% from 19.7% in Q1FY10 due to an average 10% increase in realisations during this period. We expect the company's FY11 margins to stay in the range of 31-34%, depending on the product mix. However, there would be some dilution in margins post launches of Homex and *Provident* projects.

Strong launches ahead: PPL is expected to launch residential projects covering 18msf (12msf *Puravankara* projects and 6msf *Provident* projects) over the next three to four quarters. During the last quarter, the company has already launched two projects covering 1.30msf under the *Purva* brand. During Q2FY11, PPL is expected to launch a *Provident* project in Bangalore and, over FY11, two projects each in Bangalore and Chennai, and one each in Coimbatore and Colombo. Apart from the ongoing/planned projects in South India, the *Provident* brand may enter Delhi, Jaipur, Nagpur, Pune and Kolkata.

Homex JV to generate strong volumes: Two projects under the PPL-Homex JV have been finalised by the company. Of this, a sanction request for a 2msf launch in Chennai over the next five months has already been submitted. This JV would help PPL expedite (*Provident*) project delivery to 10-12 months via access to aluminum shuttering technology and extend *Provident* brand's footprint to the Rs 0.8mn-2.2mn price bracket from Rs 1.5mn-2.2mn at present.

Reiterate Buy: We maintain our Buy rating on the stock with target price of Rs 130. Going forward, we believe that moves like formation of new JVs/JDAs and outright purchase of land would be value accretive for the company.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	4,784	6,022	7,031	8,788
Growth (%)	7.5	25.9	16.8	25.0
Adj net income	1,454	1,512	1,534	1,971
Growth (%)	0.7	4.0	1.5	28.5
FDEPS (Rs)	6.8	7.1	7.2	9.2
Growth (%)	0.7	4.0	1.5	28.5

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	35.4	30.3	23.3	24.1
EBIT margin	33.1	29.4	22.5	23.4
Adj PAT margin	30.4	25.1	21.8	22.4
ROE	8.5	9.8	9.2	9.7
ROIC	5.8	5.6	4.6	5.5
ROCE	6.5	6.2	5.9	7.0

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 115	Rs 130	BUY	HIGH

BSE	NSE	BLOOMBERG
532891	PURVA	PVKP IN

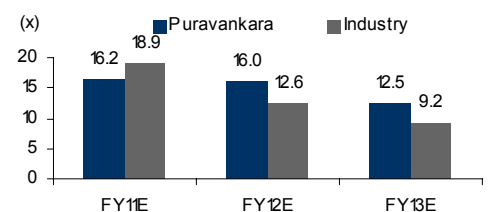
Company data

Market cap (Rs mn / US\$ mn)	24,544/529
Outstanding equity shares (mn)	213
Free float (%)	21.4
Dividend yield (%)	-
52-week high/low (Rs)	137 / 75
2-month average daily volume	176,192

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Puravankara	115	8.4	3.5	12.9
BSE Sector	3,373	5.5	(3.4)	(3.6)
Sensex	17,868	0.9	1.8	9.2

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	16.9	16.2	16.0	12.5
P/E @ Target	19.1	18.4	18.1	14.1
EV/EBITDA @ CMP	19.1	17.7	19.8	15.3



Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	1,163	1,350	(13.9)
EBITDA	400	445	(10.2)
Adj net income	367	360	1.8
FDEPS (Rs)	1.7	1.7	1.8

Source: RCML Research

PAT was in line with our estimates

Fig 2 - Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	1,163	560	107.8	1,228	(5.3)
Expenditure	763	450	69.8	821	(7.0)
Operating profit	400	110	263.2	407	(1.9)
Other income	12	13	(10.8)	12	(5.0)
Interest	9	10	(14.7)	9	(8.9)
Depreciation	9	14	(31.4)	69	(86.3)
PBT	393	99	296.2	341	15.2
Tax	34	1	2,559.6	(39)	(187.6)
PAT	367	102	257.8	437	(16.2)
EBITDA margin (%)	34.4	19.7	1470bps	33.2	119bps
FDEPS (Rs)	1.7	0.5	257.8	2.0	(16.2)

Source: Company, RCML Research

A 108% increase in topline was driven by higher sales volumes

Margins expanded 1470bps on better realisations

Fig 3 - Provident launch project

Project name	City	Area (msf)	Launch	Apartments	Work done	% Sold(of launched project)
Cosmo City	Chennai	2.23	July '09	2,174	17%	80%
Welworth City	Bangalore	3.46	Sept '09	3,360	47%	67%

Source-Company, RCML research



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	4,784	6,022	7,031	8,788
<i>Growth (%)</i>	7.5	25.9	16.8	25.0
EBITDA	1,693	1,827	1,641	2,118
<i>Growth (%)</i>	23.9	7.9	(10.2)	29.1
Depreciation & amortisation	110	56	60	60
EBIT	1,584	1,771	1,581	2,058
<i>Growth (%)</i>	20.8	11.8	(10.7)	30.2
Interest	29	28	30	31
Other income	45	47	81	84
EBT	1,600	1,789	1,632	2,111
Income taxes	298	447	408	540
Effective tax rate (%)	18.6	25.0	25.0	25.6
Extraordinary items	-	-	-	-
Min into / inc from associates	152	170	310	400
Reported net income	1,454	1,512	1,534	1,971
Adjustments	-	-	-	-
Adjusted net income	1,454	1,512	1,534	1,971
<i>Growth (%)</i>	0.7	4.0	1.5	28.5
Shares outstanding (mn)	213.4	213.4	213.4	213.4
FDEPS (Rs) (adj)	6.8	7.1	7.2	9.2
<i>Growth (%)</i>	0.7	4.0	1.5	28.5
DPS (Rs)	1.0	1.0	1.0	1.0

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	1,564	1,568	1,594	2,031
Non-cash adjustments	48	(36)	-	-
Changes in working capital	(1,301)	(1,243)	(2,023)	(1,617)
Cash flow from operations	311	289	(429)	414
Capital expenditure	(10)	(200)	(200)	(200)
Change in investments	(153)	(100)	(100)	(100)
Other investing cash flow	-	-	-	-
Cash flow from investing	(163)	(300)	(300)	(300)
Issue of equity	-	-	-	-
Issue/repay debt	665	600	600	600
Dividends paid	(36)	(213)	(250)	(250)
Other financing cash flow	(123)	96	-	-
Change in cash & cash eq	654	471	(378)	464
Closing cash & cash eq	923	1,394	1,016	1,480

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	13.4	13.9	13.9	13.9
ROIC (%)	5.8	5.6	4.6	5.5
Invested capital (Rs mn)	22,927	24,418	26,686	28,548
EVA (Rs mn)	(1,737)	(2,014)	(2,459)	(2,373)
EVA spread (%)	(7.6)	(8.2)	(9.2)	(8.3)

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	923	1,394	1,016	1,480
Accounts receivable	1,112	1,212	1,312	1,412
Inventories	21,182	22,486	24,390	25,854
Other current assets	2,873	2,887	3,082	3,612
Investments	1,191	1,291	1,391	1,491
Gross fixed assets	642	842	1,042	1,242
Net fixed assets	363	507	647	787
CWIP	-	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(9)	(9)	(9)	(9)
Other assets	-	-	-	-
Total assets	27,636	29,770	31,830	34,627
Accounts payable	577	727	877	1,027
Other current liabilities	3,209	3,230	3,251	3,572
Provisions	281	286	291	510
Debt funds	8,811	9,411	10,011	10,611
Other liabilities	-	-	-	-
Equity capital	1,067	1,067	1,067	1,067
Reserves & surplus	13,690	15,048	16,333	17,840
Shareholder's funds	14,757	16,115	17,400	18,907
Total liabilities	27,636	29,770	31,830	34,627
BVPS (Rs)	74.1	80.5	86.5	93.6

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	35.4	30.3	23.3	24.1
EBIT margin	33.1	29.4	22.5	23.4
Net profit margin	30.4	25.1	21.8	22.4
ROE	8.5	9.8	9.2	9.7
ROCE	6.5	6.2	5.9	7.0
Working Capital & Liquidity ratios				
Receivables (days)	86	70	66	57
Inventory (days)	2,891	2,229	1,833	1,591
Payables (days)	112	67	63	60
Current ratio (x)	6.9	7.1	7.2	7.0
Quick ratio (x)	0.5	0.3	0.3	0.3
Turnover & Leverage ratios (x)				
Gross asset turnover	7.5	8.1	7.5	7.7
Total asset turnover	0.2	0.2	0.2	0.3
Interest coverage ratio	55.3	62.1	53.2	66.6
Adjusted debt/equity	0.6	0.6	0.6	0.6
Valuation ratios (x)				
EV/Sales	6.8	5.4	4.6	3.7
EV/EBITDA	19.1	17.7	19.8	15.3
P/E	16.9	16.2	16.0	12.5
P/BV	1.6	1.4	1.3	1.2



Quarterly trend

Particulars	Q4FY09	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	560	2,264	732	1,228	1,163
YoY growth (%)	(64.5)	62.4	(8.6)	80.8	107.8
QoQ growth (%)	(17.6)	304.5	(67.7)	67.8	(5.3)
EBITDA (Rs mn)	110	894	282	407	400
EBITDA margin (%)	19.7	39.5	38.5	33.2	34.4
Adj net income (Rs mn)	102	609	305	437	367
YoY growth (%)	(83.4)	20.6	74.6	199.7	257.8
QoQ growth (%)	(29.8)	494.0	(49.9)	43.4	(16.2)

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	9.7	9.7	9.7	9.7	9.7
Interest burden (PBT/EBIT)	9.7	9.7	9.7	9.7	9.7
EBIT margin (EBIT/Revenues)	9.7	9.7	9.7	9.7	9.7
Asset turnover (Revenues/Avg TA)	9.7	9.7	9.7	9.7	9.7
Leverage (Avg TA/Avg equitiy)	9.7	9.7	9.7	9.7	9.7
Return on equity	9.7	9.7	9.7	9.7	9.7

Company profile

Established in 1986 and publicly listed six years later, Puravankara Projects (PPL) is a mid-sized real estate developer with a focus on the South India property market. PPL has a cumulative land reserve of 125msf as on March 31, 2009.

Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	90.0	90.0	90.0
FIs	6.2	6.5	6.4
Banks & FIs	0.9	1.2	1.5
Public	2.9	2.4	2.2

Recommendation history

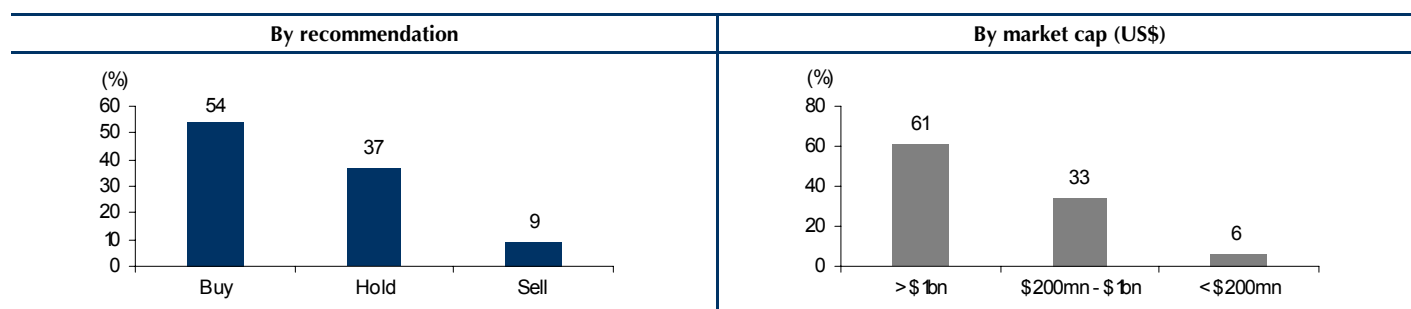
Date	Event	Reco price	Tgt price	Reco
10-May-10	Company Update	102	130	Buy
2-Aug-10	Company Update	115	130	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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