

Management continues to focus on affordable housing. We met with Ashish Puravankara, Director of Puravankara, in Bangalore to get an update on the business. Puravankara has made good progress on the affordable housing projects under Provident Housing. Puravankara has also signed a JV with Homex from Mexico to foray into low-cost housing in the price range of Rs0.8-1.5 mn. Management has indicated a strong launch pipeline for FY2011E. We maintain REDUCE with a target price of Rs100.

Company data and valuation summary

Puravankara Projects

Stock data

| | |
|-------------------------------|--------|
| 52-week range (Rs) (high,low) | 137-40 |
| Market Cap. (Rs bn) | 21.8 |

Shareholding pattern (%)

| | |
|-----------|------|
| Promoters | 90.0 |
| FIs | 6.2 |
| MFs | 0.0 |

Price performance (%)

| | 1M | 3M | 12M |
|----------------|-----|------|-------|
| Absolute | 8.1 | 10.8 | 149.5 |
| Rel. to BSE-30 | 1.4 | 10.4 | 38.2 |

Forecasts/Valuations

| | 2010 | 2011E | 2012E |
|---------------------|-------|-------|-------|
| EPS (Rs) | 6.4 | 8.3 | 8.2 |
| EPS growth (%) | (5.4) | 29.1 | (1.4) |
| P/E (X) | 16.0 | 12.4 | 12.6 |
| Sales (Rs bn) | 4.8 | 6.6 | 8.2 |
| Net profits (Rs bn) | 1.4 | 1.8 | 1.7 |
| EBITDA (Rs bn) | 1.5 | 2.2 | 2.5 |
| EV/EBITDA (X) | 20.4 | 13.7 | 13.5 |
| ROE (%) | 9.9 | 11.9 | 10.8 |
| Div. Yield (%) | 2.0 | 2.0 | 2.0 |

Announces JV with Homex for low-cost housing product

Puravankara has entered into an agreement with Mexico-based Homex India Pvt. Ltd to form a joint venture company for low-cost housing projects. The first project of the joint venture is expected to be located in Chennai. According to the management, these projects will be targeted at factory workers and the price range for the product will be Rs0.8-1.5 mn. Puravankara intends to benefit from its access to technology which will help in expediting the delivery of affordable and low-cost housing projects.

Desarrolladora Homex, SAB de CV is a leading home developer specializing in building communities for affordable entry-level and low middle-income housing markets. Homex is the largest home builder in Mexico, based on the number of homes sold, revenues and net income. Its affordable entry-level housing ranges between 452 sq. ft and 818 sq. ft in size and its middle-income apartments are typically in the range of 818-1,851 sq. ft.

With entry into low-cost housing, Puravankara now has a diverse product offering for different customer segments—(1) Puravankara developing projects in the price range Rs4.5-7.5 mn, (2) Provident provides housing in the range of Rs1.5-2.5 mn and (3) JV with Homex will provide homes in the range of Rs0.8-1.5 mn.

Encouraging response to affordable housing projects

Puravankara has received encouraging response to its first two affordable projects of Provident Housing. The first two projects have a total of 5,534 homes, covering an area of 5.7 mn sq. ft (CosmoCity, Chennai—2.2 mn sq. ft and Welworth City in Bangalore—3.5 mn sq. ft, which also includes over 0.2 mn sq. ft of retail space). The price range of homes in these two projects is between Rs1.5 mn and Rs2 mn. Management has indicated that the sale has been encouraging and these projects marginally contributed to revenues in 3QFY10. We believe there will be a significant ramp-up of revenues in FY2011E as execution picks up.

REDUCE

MARCH 31, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **102**

Target price (Rs): **100**

BSE-30: **17,528**

QUICK NUMBERS

- **JV announced with Homex**
- **Plans to launch 12 mn sq. ft of projects**

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Management indicated that Puravankara has sold 67% in Cosmos City and construction is in full swing. Provident has given the contract to BL Kashyap for a fixed cost of Rs950/sq. ft and with land cost in the range of Rs250-300/sq. ft; the project will earn net margins of 20-25%. They have also sold 30% in Welworth City and excavation work has started at the site. These projects will start contributing meaningfully to revenues in the next 2-3 quarters.

Provident intends to expand its business to other cities and has already tied in 27 acres of land in Coimbatore to launch a 1.5 mn sq. ft housing project. Other land deals which have not been concluded include a 55-acre joint development agreement in Bangalore and 140 acres in Hyderabad. Puravankara is also acquiring 61 acres in Mysore for a Provident Housing project where it has already made 33% of the payment. Management highlighted that most of the JDAs are being signed where the partner gets a 14-20% share in the project.

Large number of new launches planned for FY2011E

Puravankara is planning to launch 12 mn sq. ft of real estate in FY2011E— 4 mn sq. ft in Chennai (relaunch of Windmere), 4 mn sq. ft in Bangalore (Sarjapur, Dollars Colony) and 4 mn sq. ft in Kochi (Edapally). We would highlight that Bangalore is expected to see a pick-up in launches after a hiatus in project launches by Sobha and Puravankara for the past 2 years.

Puravankara currently has 11 mn sq. ft of projects under execution and has sold ~65% of its total project portfolio as of 3QFY10, compared to 62% in 2QFY10.

We have changed our model to incorporate faster execution of affordable housing projects and also decrease our construction cost for these projects to Rs1,000/sq. ft (earlier Rs1,200/sq. ft). Based on these changes, our PAT for FY2011E is revised to Rs1.8 bn (earlier Rs1.7 bn) and Rs1.7 bn for FY2012E (earlier Rs1.5 bn).

Maintain REDUCE with a target price of Rs100

We maintain our REDUCE rating with a target price of Rs100. Our target price is based on a 20% discount to March 2011 NAV of Rs126/share. We factor in discount of 20% to account for continued mismatch between cash-flows and debt/interest servicing. Balance sheet improvement will hinge on ability to generate operating cash-flow or further equity fund-raising, which in turn will be dependent on the success of affordable housing projects.

We have a target price of Rs100/share

| | March '10 based NAV | | | |
|--|-------------------------------|-------------|-------------|-------------|
| | Growth rate in selling prices | | | |
| | 0% | 3% | 5% | 10% |
| Valuation (Rs bn) | 15.1 | 26.5 | 34.9 | 59.4 |
| Residential | 15.6 | 31.0 | 27.0 | 40.8 |
| Retail | 0.5 | 1.0 | 0.8 | 1.2 |
| Commercial | (1.0) | 8.7 | 7.1 | 17.4 |
| Less: Net debt | (8.0) | (8.0) | (8.0) | (8.0) |
| NAV | 7.1 | 18.5 | 26.9 | 51.4 |
| NAV/share | 33 | 86 | 126 | 240 |
| Total no. of shares | | | | 214.5 |
| Target price @20% discount to NAV | | | | 100 |

Source: Kotak Institutional Equities estimates

PPL to focus on execution of large portion of pre-sold flats
Project details (mn sq. ft)

| Name of the project | Year of launch | City | SBA (mn sq. ft) | No. of apartments | Launched (mn sq. ft) |
|--------------------------------|----------------|-----------|--------------------|----------------------|-------------------------|
| Puravankara Residential | | | | | |
| Purva Vantage | Jun-05 | Bangalore | 0.1 | 76 | 0.1 |
| Purva Atria | Jan-06 | Bangalore | 0.3 | 131 | 0.2 |
| Elita Promenade | Jun-06 | Bangalore | 2.6 | 1,573 | 1.3 |
| Purva Venezia | Jan-06 | Bangalore | 2.1 | 1,332 | 2.1 |
| Purva Highlands | Oct-06 | Bangalore | 2.5 | 1,589 | 1.4 |
| Purva Grand Bay | Dec-05 | Kochi | 0.5 | 265 | 0.5 |
| Purva Eternity | Apr-06 | Kochi | 1.0 | 600 | 0.8 |
| Purva Swanlake | Apr-07 | Chennai | 0.8 | 522 | 0.8 |
| Jade | Jun-07 | Chennai | 0.1 | 55 | 0.1 |
| Moon Reach | Jun-07 | Kochi | 0.4 | 198 | 0.2 |
| Oceana | Sep-07 | Kochi | 0.3 | 95 | 0.3 |
| Parkway | | Bangalore | 0.0 | 10 | 0.0 |
| Elita Garden Vista | Dec-07 | Kolkata | 2.3 | 1,376 | 0.4 |
| Total Residential | | | 12.9 | 7,822 | 8.0 |
| Provident Housing | | | | | |
| Cosmos City | Mar-09 | Chennai | 2.2 | 2,174 | 1.4 |
| Welworth City | Jul-09 | Bangalore | 3.5 | 3,360 | 1.1 |
| Total Provident Housing | | | 5.7 | 5,534 | 2.5 |
| Puravankara Commercial | | | | | |
| Moneta | | Chennai | 0.4 | | 0.4 |
| Primus | | Chennai | 0.2 | | 0.1 |
| Total Commercial | | | 0.5 | | 0.5 |
| Total | | | 19.1 | 13,356 | 10.9 |

Source: Company, Kotak Institutional Equities

Consolidated summary statement of assets and liabilities (in Rs mn)
PPL's balance model as of 4QFY07-2QFY10

| Particulars | Mar-08 | Jun-08 | Sep-08 | Dec-08 | Mar-09 | Jun-09 | Sep-09 | Dec-09 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net fixed assets | 497 | 493 | 484 | 477 | 463 | 452 | 440 | 430 |
| Investments | 887 | 928 | 967 | 998 | 1,038 | 1,043 | 1,071 | 1,134 |
| Current assets, loans and advances | 9,090 | 9,707 | 10,235 | 10,842 | 11,051 | 11,384 | 12,870 | 12,442 |
| Cash and cash equivalents | 350 | 396 | 374 | 698 | 268 | 262 | 276 | 812 |
| Inventories | 171 | 169 | 194 | 191 | 197 | 189 | 175 | 229 |
| Trade debtors | 824 | 863 | 1,028 | 1,047 | 1,146 | 1,244 | 2,499 | 1,268 |
| Properties under development | 3,958 | 4,354 | 4,800 | 5,093 | 5,700 | 6,025 | 6,390 | 6,485 |
| Properties held for sale | 910 | 865 | 865 | 948 | 974 | 946 | 915 | 873 |
| Loans and advances | 2,878 | 3,060 | 2,974 | 2,865 | 2,766 | 2,718 | 2,614 | 2,774 |
| Properties held for development | 12,919 | 13,016 | 13,630 | 13,839 | 13,924 | 13,995 | 13,338 | 13,393 |
| Total application of funds | 23,393 | 24,144 | 25,317 | 26,157 | 26,476 | 26,873 | 27,718 | 27,400 |
| Total loans | 6,524 | 6,524 | 8,050 | 8,269 | 8,146 | 8,297 | 8,326 | 8,326 |
| Current liabilities and provisions | 4,732 | 4,858 | 3,997 | 4,366 | 4,659 | 4,802 | 5,007 | 4,384 |
| Deferred tax liability (net) | 10 | 17 | 19 | 21 | 23 | 23 | 25 | 25 |
| Shareholders funds | 12,127 | 12,746 | 13,251 | 13,501 | 13,649 | 13,751 | 14,360 | 14,665 |
| Total sources of fund | 23,394 | 24,145 | 25,317 | 26,157 | 26,476 | 26,873 | 27,718 | 27,400 |

Source: Company, Kotak Institutional Equities

Profit model of Puravankara Projects, March fiscal year-ends, 2007-2012E (Rs mn)

| | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total revenues | 4,169 | 5,658 | 4,449 | 5,253 | 7,105 | 7,332 |
| Land costs | (182) | (316) | (282) | (1,155) | (243) | (284) |
| Construction costs | (2,213) | (2,756) | (2,315) | (2,031) | (4,113) | (4,620) |
| Selling expenses | (204) | (225) | (216) | (263) | (355) | (293) |
| G&A expenses | (217) | (240) | (271) | (210) | (284) | (257) |
| EBITDA | 1,353 | 2,122 | 1,366 | 1,594 | 2,110 | 1,879 |
| Other income | 33 | 135 | 46 | 46 | 46 | 46 |
| Interest | (46) | (36) | (38) | (47) | (229) | (324) |
| Depreciation | (18) | (48) | (54) | (85) | (116) | (153) |
| Pretax profits | 1,323 | 2,173 | 1,319 | 1,509 | 1,811 | 1,448 |
| Profit/(loss) share of associates | 140 | 295 | 151 | 207 | 188 | 365 |
| Current tax | (150) | (68) | (13) | (266) | (308) | (472) |
| Deferred tax | (9) | 1 | (13) | 5 | 10 | (20) |
| Net income | 1,304 | 2,400 | 1,444 | 1,454 | 1,701 | 1,321 |
| EPS (Rs) | | | | | | |
| Primary | 6.8 | 11.5 | 6.8 | 6.8 | 8.0 | 6 |
| Fully diluted | 6.8 | 11.5 | 6.8 | 6.8 | 8.0 | 6 |
| Shares outstanding (mn) | | | | | | |
| Year end | 192 | 213 | 213 | 213 | 213 | 213 |
| Primary | 192 | 208 | 213 | 213 | 213 | 213 |
| Fully diluted | 192 | 208 | 213 | 213 | 213 | 213 |
| Cash flow per share (Rs) | | | | | | |
| Primary | 9 | 7 | 3 | 3 | 5 | 3 |
| Fully diluted | 9 | 7 | 3 | 3 | 5 | 3 |
| Growth (%) | | | | | | |
| Net income (adjusted) | 77 | 84 | (40) | 1 | 17 | (22) |
| EPS (adjusted) | 77 | 70 | (41) | 1 | 17 | (22) |
| DCF/share | 158 | (26) | (57) | (3) | 82 | (36) |
| Cash tax rate (%) | 11 | 3 | 1 | 18 | 17 | 33 |
| Effective tax rate (%) | 12 | 3 | 2 | 17 | 16 | 34 |

Source: Kotak Institutional Equities estimates

Balance model of Puravankara Projects, March fiscal year-ends, 2007-2012E (Rs mn)

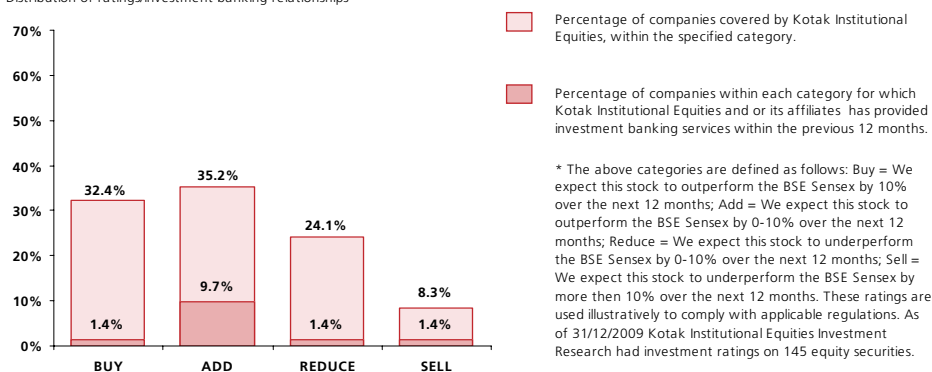
| | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity | | | | | | |
| Share capital | 960 | 1,067 | 1,067 | 1,067 | 1,067 | 1,067 |
| Reserves/surplus | 1,258 | 11,060 | 12,582 | 13,547 | 14,762 | 15,864 |
| Total equity | 2,218 | 12,127 | 13,649 | 14,614 | 15,829 | 16,931 |
| Deferred tax liability/(asset) | 11 | 10 | 23 | 18 | 8 | 28 |
| Liabilities | | | | | | |
| Secured loans | 6,761 | 5,774 | 8,106 | 8,322 | 8,322 | 11,322 |
| Unsecured loans | — | 750 | 40 | 11 | 11 | 11 |
| Total borrowings | 6,761 | 6,524 | 8,146 | 8,333 | 8,333 | 11,333 |
| Current liabilities | 5,053 | 4,732 | 4,659 | 4,296 | 5,298 | 6,343 |
| Total capital | 14,043 | 23,394 | 26,476 | 27,261 | 29,468 | 34,636 |
| Assets | | | | | | |
| Cash | 374 | 350 | 268 | 319 | 1,171 | 214 |
| Current assets | 12,908 | 21,660 | 24,707 | 24,624 | 24,334 | 26,022 |
| Gross block | 443 | 611 | 632 | 745 | 1,291 | 4,941 |
| Less: accumulated depreciation | 61 | 115 | 169 | 253 | 369 | 522 |
| Net fixed assets | 382 | 497 | 463 | 492 | 922 | 4,419 |
| Capital work-in-progress | 7 | - | - | 789 | 2,003 | 2,943 |
| Total fixed assets | 389 | 497 | 463 | 1,280 | 2,925 | 7,362 |
| Intangible assets | — | — | — | — | — | — |
| Investments | 371 | 887 | 1,038 | 1,038 | 1,038 | 1,038 |
| Misc. expenses | — | — | — | — | — | — |
| Total assets | 14,043 | 23,394 | 26,477 | 27,262 | 29,468 | 34,636 |
| Leverage ratios (%) | | | | | | |
| Debt/equity | 303.4 | 53.8 | 59.6 | 57.0 | 52.6 | 66.8 |
| Debt/capitalization | 75.2 | 35.0 | 37.3 | 36.3 | 34.5 | 40.1 |
| Net debt/equity | 286.6 | 50.9 | 57.6 | 54.8 | 45.2 | 65.6 |
| Net debt/capitalization | 74.1 | 33.7 | 36.6 | 35.4 | 31.1 | 39.6 |
| RoAE | 78.0 | 33.4 | 11.2 | 10.3 | 11.2 | 9.5 |
| RoACE | 20.7 | 15.5 | 6.6 | 5.7 | 7.2 | 5.5 |

Source: Kotak Institutional Equities estimates

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2009

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ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

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