

Company

28 May 2010 | 7 pages

Puravankara Projects (PPRO.BO)

Equity

Takeaways from India Investor Conference, May 26-28

- Takeaways from Mumbai** — Puravankara spoke at our India Investor Conference on May 26-28. Here are key takeaways:
- Company updates** — Next two quarters should see revenues equivalent to 6msf being recognized. It is looking at making 30-35% margins under the Provident Housing Segment and ~27% in the Homex JV. On the funding side it is looking at internal revenue and debt restructuring. While approvals are in place for a QIP, currently no plans are there to raise the same. With aggressive expansion plans in place, it might look at raising funds at SPV levels, albeit couple of quarters later.
- Premium housing** — Puravankara & Puravankara Keppel: Under the Puravankara Brand, management re-iterated the 12msf launch target for FY11 spread across Bangalore (~5.5msf in 3 projects), Chennai (~3.0msf), Coimbatore and a project in Cochin. Atria Platina Project began construction in Feb10 and was launched to public last month - 10% already stands sold. Projects under Keppel-Puravankara JV across 3 projects in Bangalore and Chennai are also picking up steam. The company is not too keen to venture into Hyderabad as yet.
- Affordable housing** — Homex JV and Provident Housing: Under Provident Housing (100% subs of the Co.) segment, the company is currently working towards timely execution of the two projects launched in Bangalore and Chennai. It has contracted with BL Kashyap in Chennai at Rs 940/sf construction cost, against a realisation of ~Rs2,100/sf. In Bangalore, it has tied up with JMC Contractors for Rs 1,075/sf and realisations are at ~Rs 2,150. Under non-exclusive Homex JV of 50:50 profit sharing, two projects are on the cards - in Chennai, then followed by Bangalore. Management shared that they are targeting Tier-II cities in the industrial belt of Karnataka (Hubli, Belgaum and the likes) for expansion under this affordable segment, with the blue-collared workers as their primary focus, given the strong impetus coming from the Karnataka Govt.
- Market commentary** — Bangalore has seen a 15% price hike on an average. It's more an end-user directed market today given that speculative demand has dried up. There is a clear preference directed towards ready-to-move-in houses (max. 6-months delivery) and 2-3 bedroom is the popular segment in residential vs. larger homes earlier. Other than IT and ITes, allied industries are also aiding in creating housing demand in Bangalore today. While May has been a rather difficult month across the city in terms of transactions, next few months would typically see fewer transactions given the inauspicious season to buy homes will begin. Chennai markets have picked up well recently, but Cochin is still struggling impacted by the recent downturn seen in middle east. Other Tier-II cities in Kerala are more appealing to the company for expansion of their low cost housing business.

Sell/High Risk	3H
Price (28 May 10)	Rs94.55
Target price	Rs38.00
Expected share price return	-59.8%
Expected dividend yield	1.1%
Expected total return	-58.8%
Market Cap	Rs20,179M US\$432M

Price Performance (RIC: PPRO.BO, BB: PVKP IN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	14.1	8.4	12.1	17.6	14.9
P/E reported (x)	14.1	8.4	12.1	17.6	14.9
P/BV (x)	8.2	1.7	1.5	1.4	1.3
Dividend yield (%)	0.8	2.1	1.1	1.1	1.1
Per Share Data (Rs)					
EPS adjusted	6.72	11.24	7.82	5.37	6.34
EPS reported	6.72	11.24	7.82	5.37	6.34
BVPS	11.55	56.80	63.63	68.00	73.34
NAVps ordinary	na	na	na	na	na
DPS	0.71	2.00	1.00	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	1,558	2,349	1,874	1,543	1,880
G&A expenses	-198	-216	-191	-171	-216
Other Operating items	115	236	21	-65	-68
EBIT including associates	1,476	2,369	1,704	1,308	1,596
Non-oper./net int./except.	-12	98	-5	-4	-4
Pre-tax profit	1,463	2,467	1,700	1,304	1,592
Tax	-172	-67	-29	-156	-239
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Reported net income	1,291	2,400	1,670	1,147	1,353
Adjusted earnings	1,291	2,400	1,670	1,147	1,353
Adjusted EBIT	1,336	2,075	1,625	1,308	1,596
Adjusted EBITDA	1,361	2,133	1,683	1,373	1,664
Growth Rates (%)					
NOI	57.1	50.7	-20.2	-17.6	21.8
EBIT adjusted	49.9	55.3	-21.7	-19.5	22.0
EPS adjusted	75.6	67.2	-30.4	-31.3	18.0
Cash Flow (RsM)					
Operating cash flow	-5,584	-6,691	-1,352	-345	69
Depreciation/amortization	25	59	59	65	68
Net working capital	-5,968	-9,072	-3,090	-1,557	-1,353
Investing cash flow	-379	-677	-298	-125	-230
Capital expenditure	-239	-161	-85	-70	-115
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	5,892	7,344	1,613	437	237
Borrowings	5,139	-237	1,826	650	450
Dividends paid	-137	-427	-213	-213	-213
Change in cash	-71	-24	-38	-33	75
Balance Sheet (RsM)					
Total assets	14,073	23,394	27,996	30,409	33,732
Cash & cash equivalent	374	350	312	279	354
Net fixed assets	389	497	523	528	575
Total liabilities	11,856	11,267	14,412	15,892	18,074
Total Debt	6,761	6,524	8,350	9,000	9,450
Shareholders' funds	2,218	12,127	13,584	14,517	15,657
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	32.0	36.7	33.8	31.4	30.7
ROE adjusted (%)	77.5	33.5	13.0	8.2	9.0
ROA adjusted (%)	12.0	12.8	6.5	3.9	4.2
Net debt to equity (%)	288.0	50.9	59.2	60.1	58.1
Interest coverage (x)	110.9	na	357.0	323.5	435.7

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Puravankara Projects

Company description

Puravankara Projects is a leading developer in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business. Puravankara was incorporated in 1986. It has self-constructed most of its properties developed in Bangalore. Though Puravankara remains focused on Bangalore, it is also expanding to other regions in South India. These expansions are spread over locations such as Chennai, Coimbatore, Mysore, Cochin and Hyderabad, and to Colombo in Sri Lanka.

Investment strategy

We rate Puravankara Sell/High Risk, with a target price of Rs38. Puravankara's residential-heavy model has a quality landbank of ~114m sq ft. The company's clear development titles with landbank almost entirely paid for and in-house construction capabilities differentiate it from other developers. Puravankara's focus on South India, in the larger markets of Bangalore and Chennai, is in our view an advantage over developers with a National Capital Region (NCR) bias. However, macro conditions are deteriorating and we expect a slowdown in Puravankara's pre-sales volumes given the company's residential-heavy model, with a bias toward Bangalore (66% of landbank). We see downside risks for the stock and hence maintain a Sell/High Risk rating.

Valuation

Our target price of Rs38 is based on a 50% discount to our NAV of Rs76. We ascribe the discount to: 1) Puravankara's concentration risk in Bangalore; 2) the company's residential-heavy business model, exposing its business to demand/pricing risks; 3) possible execution delays; and 4) lower investor preference for tier-two players with low stock liquidity. We believe an NAV-based valuation methodology is most appropriate for property developers, as it factors in the varied development projects and spread out time frame. Our NAV estimate of Rs76 is based on the following assumptions: 1) 18-24 months delay in project execution; 2) development volume of ~108m sq ft (as ~6m sq ft is already/to be recognized as revenue till FY09); 3) an average cost of capital of 18% given tight credit/volatile capital markets; and 4) a tax rate of 26%.

Risks

We rate Puravankara High Risk, reflecting: 1) its extremely high volatility; 2) reduced risk appetite for real estate stocks globally, particularly smaller regional players, as most developers are facing fund constraints; and 3) the company's large exposure to South India, the country's IT hub. Residential demand could take a hit if the IT/ITES sector slows down markedly. Main upside risks to our target price are: 1) any decrease in home loan rates would stimulate demand for residential property; and 2) faster than expected execution of projects.

Appendix A-1

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Puravankara Projects (PPRO.BO)

Ratings and Target Price History

Fundamental Research

Analyst: Ashish Jagnani

Covered since October 5 2007



Chart current as of 22 May 2010

	Date	Rating	Target Price	Closing Price
1	4-Oct-07	*1M	*536.00	444.50
2	11-Apr-08	*1H	*358.00	241.40

	Date	Rating	Target Price	Closing Price
3	15-Jul-08	*2H	*212.00	165.50
4	30-Jul-08	*3H	212.00	201.55

	Date	Rating	Target Price	Closing Price
5	2-Nov-08	3H	*52.00	47.65
6	1-Feb-09	3H	*38.00	41.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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