

## Puravankara Projects

### Mulls second affordable housing tie-up

In a bid to scale up its affordable housing business, Puravankara Projects (PPL) is moving to tie up with an international homebuilder focused on the low-cost segment. We expect the proposed deal together with the recent collaboration with Singapore-based Subarna for prefabricated housing to fuel a sharp increase in revenues from PPL's affordable housing arm, Provident Housing, in FY12. We maintain a Buy on the stock with a revised target price of Rs 129.

**Tie-up to boost low-cost housing:** PPL, through its subsidiary Provident Housing, is scouting for a tie-up with an international homebuilder engaged in the affordable housing segment. The target company should be in a position to help Provident expedite project delivery to 10–12 months via access to technology (such as aluminium shuttering), besides extending Provident's footprint to the Rs 0.8mn–2.2mn price bracket from Rs 1.5mn–2.2mn at present. We understand that Homex, a Mexican-based homebuilder, is a leading contender for such a partnership.

**Expertise in prefab units via Subarna partnership:** Provident has recently tied up with Singapore-based Subarna for a technology transfer related to prefabricated housing. It is now looking to set up a factory for prefab housing in Bangalore at a capex of Rs 400mn–500mn. This plant will cater to an affordable housing project covering 6mn sq ft (msf) planned for launch in Mysore road – Bangalore.

**Provident revenues to ramp up in FY12:** Provident has already launched two projects in Chennai and Bangalore. These have contributed marginally in Q3FY10, but should ramp up in FY11. We expect Provident to launch 6msf in Bangalore over the next quarter and a total of 30msf in 2011 as the benefits of its international partnerships materialise. In all, the company aims to build ~65,000 affordable homes across 60msf in 5–6 years.

Apart from ongoing and planned projects in Chennai, Bangalore, Kochi, Coimbatore and Hyderabad, Provident may extend its reach beyond South India to cities like Delhi, Jaipur, Nagpur, Pune and Kolkata. It intends to opt for joint development agreements with respect to land deals. While the cost of land may vary from Rs 150–250/sq ft for outright purchase, joint development would entail revenue sharing to the extent of 14–18% with the land owner.

**Margin dilution but healthy cash flows:** While PPL earns a standalone EBITDA margin of 30–35%, Provident is likely to earn lower margins of 22–25%. However, cash flows in affordable housing are likely to pip those in the mid segment due to speedy delivery. We expect PPL's margins to stabilise at 25–27% in FY12.

**Target raised to Rs 129; maintain Buy:** We maintain our Buy rating on PPL with a revised target price of Rs 129 from Rs 105 earlier. Our target has been raised to factor in the 7–10% increase in PPL's sale prices post-December '09.

#### Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	4,449	4,293	6,022	7,031
Growth (%)	(21.4)	(3.5)	40.3	16.8
Adj net income	1,444	1,240	1,512	1,532
Growth (%)	(39.8)	(14.1)	21.9	1.4
FDEPS (Rs)	6.8	5.8	7.1	7.2
Growth (%)	(39.8)	(14.1)	21.9	1.4

#### Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	30.7	34.7	30.3	23.3
EBIT margin	29.5	33.4	29.4	22.5
Adj PAT margin	32.5	28.9	25.1	21.8
ROE	15.1	7.0	9.9	9.3
ROIC	6.4	4.9	5.6	4.6
ROCE	7.3	5.6	6.3	6.0

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 106	Rs 129	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532891	PURVA	PVKP IN

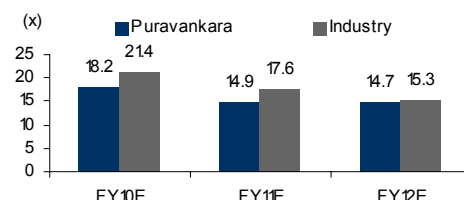
#### Company data

Market cap (Rs mn / US\$ mn)	22,516/482
Outstanding equity shares (mn)	213
Free float (%)	10.0
Dividend yield (%)	-
52-week high/low (Rs)	137/34
2-month average daily volume	550,832

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Puravankara	106	10.6	11.2	(11.7)
BSE Realty	3,430	3.4	(13.4)	(20.5)
Sensex	17,097	7.4	(0.5)	5.4

#### P/E comparison



#### Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	15.6	18.2	14.9	14.7
P/E @ Target	19.1	22.3	18.3	18.0
EV/EBITDA @ CMP	22.2	20.4	16.6	18.5





Project work underway in full swing as seen from the site photographs below

**Fig 1 - Provident's launches**

Project name	City	Area (msf)	Launch	Apartments	Launched	Sold	% Sold
Cosmo City	Chennai	2.23	July '09	2,174	1,100	900	82%
Welworth City	Bangalore	3.46	Sept '09	3,360	900	700	78%

Source: Company, RHH

## Cosmo City



**900 workers on site**



Source: Company, RHH





## Welworth City



200 workers on site



Source: Company, RHH



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
<b>Revenues</b>	<b>4,449</b>	<b>4,293</b>	<b>6,022</b>	<b>7,031</b>
Growth (%)	(21.4)	(3.5)	40.3	16.8
<b>EBITDA</b>	<b>1,367</b>	<b>1,489</b>	<b>1,827</b>	<b>1,641</b>
Growth (%)	(35.9)	8.9	22.6	(10.2)
Depreciation & amortisation	56	56	56	60
EBIT	1,312	1,433	1,771	1,581
Growth (%)	(36.8)	9.3	23.5	(10.7)
Interest	38	30	32	33
Other income	46	48	50	82
EBT	1,319	1,452	1,789	1,630
Income taxes	26	363	447	407
Effective tax rate (%)	2.0	25.0	25.0	25.0
Extraordinary items	-	-	-	-
Min into / inc from associates	151	151	170	310
Reported net income	1,444	1,240	1,512	1,532
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>1,444</b>	<b>1,240</b>	<b>1,512</b>	<b>1,532</b>
Growth (%)	(39.8)	(14.1)	21.9	1.4
Shares outstanding (mn)	213.4	213.4	213.4	213.4
<b>FDEPS (Rs) (adj)</b>	<b>6.8</b>	<b>5.8</b>	<b>7.1</b>	<b>7.2</b>
Growth (%)	(39.8)	(14.1)	21.9	1.4
DPS (Rs)	-	1.0	1.0	1.0

### Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	1,500	1,296	1,568	1,592
Non-cash adjustments	29	-	0	-
Changes in working capital	(2,638)	(856)	(1,570)	(2,009)
Cash flow from operations	(1,109)	440	(2)	(417)
Capital expenditure	(21)	(200)	(200)	(200)
Change in investments	(151)	(100)	(100)	(100)
Other investing cash flow	-	-	-	-
Cash flow from investing	(172)	(300)	(300)	(300)
Issue of equity	78	-	-	-
Issue/repay debt	1,622	500	600	600
Dividends paid	(499)	-	(250)	(250)
Other financing cash flow	-	(1)	-	-
Change in cash & cash eq	(81)	639	48	(367)
Closing cash & cash eq	269	908	955	589

### Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	16.1	16.6	16.6	16.6
ROIC (%)	6.4	4.9	5.6	4.6
Invested capital (Rs mn)	21,541	22,646	24,465	26,720
EVA (Rs mn)	(2,095)	(2,656)	(2,681)	(3,196)
EVA spread (%)	(9.7)	(11.7)	(11.0)	(12.0)

### Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	268	908	955	589
Accounts receivable	1,146	1,446	1,546	1,646
Inventories	20,795	21,147	22,552	24,443
Other current assets	2,766	2,646	2,887	3,082
Investments	1,038	1,138	1,238	1,338
Gross fixed assets	632	832	1,032	1,232
Net fixed assets	463	607	751	891
CWIP	-	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(23)	(23)	(23)	(23)
Other assets	-	-	-	-
<b>Total assets</b>	<b>26,453</b>	<b>27,869</b>	<b>29,907</b>	<b>31,966</b>
Accounts payable	1,052	1,202	1,352	1,502
Other current liabilities	3,593	3,114	3,135	3,156
Provisions	14	269	274	279
Debt funds	8,146	8,646	9,246	9,846
Other liabilities	-	-	-	-
Equity capital	1,067	1,067	1,067	1,067
Reserves & surplus	12,582	13,572	14,834	16,117
Shareholder's funds	13,649	14,639	15,901	17,184
<b>Total liabilities</b>	<b>26,453</b>	<b>27,869</b>	<b>29,907</b>	<b>31,966</b>
BVPS (Rs)	69.0	73.6	79.5	85.5

### Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	30.7	34.7	30.3	23.3
EBIT margin	29.5	33.4	29.4	22.5
Net profit margin	32.5	28.9	25.1	21.8
ROE	15.1	7.0	9.9	9.3
ROCE	7.3	5.6	6.3	6.0
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	81	110	91	83
Inventory (days)	2,724	3,283	2,231	1,838
Payables (days)	139	176	130	112
Current ratio (x)	5.4	6.1	6.2	6.4
Quick ratio (x)	0.3	0.3	0.3	0.4
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	7.2	5.9	6.5	6.2
Total asset turnover	0.2	0.2	0.2	0.2
Interest coverage ratio	34.1	48.4	55.7	47.9
Adjusted debt/equity	0.6	0.6	0.6	0.6
<b>Valuation ratios (x)</b>				
EV/Sales	6.8	7.1	5.0	4.3
EV/EBITDA	22.2	20.4	16.6	18.5
P/E	15.6	18.2	14.9	14.7
P/BV	1.5	1.4	1.3	1.2



### Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	800	679	560	2,264	732
YoY growth (%)	(46.8)	(55.9)	(64.5)	62.4	(8.6)
QoQ growth (%)	(42.6)	(15.1)	(17.6)	304.5	(67.7)
EBITDA (Rs mn)	164	116	110	894	282
EBITDA margin (%)	20.5	17.1	19.7	39.5	38.5
Adj net income (Rs mn)	175	146	102	609	305
YoY growth (%)	(72.3)	(79.9)	(83.4)	20.6	74.6
QoQ growth (%)	(65.4)	(16.5)	(29.8)	494.0	(49.9)

### DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	110.5	147.3	68.2	84.5	94.0
Interest burden (PBT/EBIT)	104.7	100.6	101.3	101.0	103.1
EBIT margin (EBIT/Revenues)	36.7	29.5	33.4	29.4	22.5
Asset turnover (Revenues/Avg TA)	30.2	17.9	15.8	20.8	22.7
Leverage (Avg TA/Avg equity)	261.0	193.3	192.0	189.2	187.0
<b>Return on equity</b>	<b>33.5</b>	<b>15.1</b>	<b>7.0</b>	<b>9.9</b>	<b>9.3</b>

### 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

(%)	Jun-09	Sep-09	Dec-09
Promoters	90.0	90.0	90.0
FII's	7.9	6.4	6.2
Banks & FI's	0.9	1.2	0.9
Public	1.3	2.5	2.9

### Recommendation history

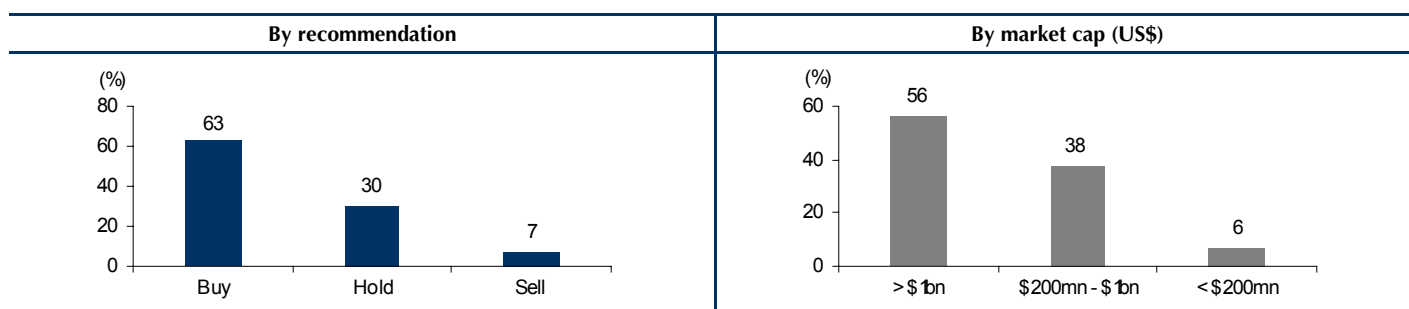
Date	Event	Reco price	Tgt price	Reco
15-Jun-09	Sector Report	96	84	Hold
2-Sep-09	Investor Conference	120	134	Buy
10-Mar-10	Company Update	106	129	Buy

### 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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