

Company Flash

21 August 2008 | 7 pages

Parsvnath Developers (PARV.BO)

Sell: NCR Site Visit Takeaways

- NCR site visit** — We visited some of Parsvnath's key projects in NCR – residential projects in Gurgaon, Gr. Noida and Delhi, site for Gurgaon IT SEZ and some DMRC projects. Our prima facie thoughts – high risk of execution delays for SEZs, pace of pre-sales has slowed and rising costs will affect margins. Progress on DMRC projects was, however, encouraging.
- SEZ timelines pushed back** — Construction is yet to commence on SEZs in Gurgaon, Indore and Dehradun despite being notified ~1-year ago. The company is exploring private equity for funding the same - intends to start construction on all 5 SEZs (incl'd Kochi, Hyderabad, awaiting notification) by 4QFY09. We see high risk of delays given liquidity constraints.
- Pre-sales/construction activity has slowed** — Older projects like Exotica and Greenville are nearing delivery/completion – but pre-sales/construction appears to have slowed as projects launched in 2006-07 like La Tropicana in Delhi and Privilege in Gr. Noida are in relatively early stages of construction.
- Progress on DMRC projects, encouraging** — 7 of the 13 projects are completed – expects 2 more of ~0.6m sqft to be completed in 12-mnths. Leased ~0.3m sqft at net rentals of Rs100-125/sqft/mnth, expects leasing volumes to pickup.
- Rising costs a challenge; Maintain Sell (3H)** — Margins are likely to be under pressure with notable increase in construction costs primarily steel, cement and labor. Maintain our Sell (3H) recommendation given difficult operating and macro conditions.

Sell/High Risk	3H
Price (21 Aug 08)	Rs115.50
Target price	Rs126.00
Expected share price return	9.1%
Expected dividend yield	0.0%
Expected total return	9.1%
Market Cap	Rs21,332M US\$489M

Price Performance (RIC: PARV.BO, BB: PARSV IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	1,070	7.21	62.9	16.0	8.5	70.7	0.0
2007A	2,922	15.82	119.4	7.3	1.4	34.5	2.5
2008E	4,244	22.98	45.2	5.0	1.1	25.1	2.6
2009E	7,452	40.35	75.6	2.9	0.6	26.9	0.0
2010E	9,360	50.68	25.6	2.3	0.4	20.3	0.0

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	16.0	7.3	5.0	2.9	2.3
P/E reported (x)	16.0	7.3	5.0	2.9	2.3
P/BV (x)	8.5	1.4	1.1	0.6	0.4
Dividend yield (%)	0.0	2.5	2.6	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	7.21	15.82	22.98	40.35	50.68
EPS reported	7.21	15.82	22.98	40.35	50.68
BVPS	13.56	80.77	102.31	197.36	302.74
NAVps ordinary	na	na	na	na	na
DPS	0.00	2.92	3.00	0.00	0.00
Profit & Loss (RsM)					
Net operating income (NOI)	1,708	4,511	6,541	18,397	25,172
G&A expenses	-268	-337	-396	-7,320	-11,323
Other Operating items	-42	-143	-239	-235	-258
EBIT including associates	1,398	4,031	5,905	10,842	13,591
Non-oper./net int./except.	72	49	267	117	175
Pre-tax profit	1,470	4,080	6,172	10,959	13,765
Tax	-400	-981	-1,928	-3,507	-4,405
Extraord./Min. Int./Pref. Div.	0	-176	0	0	0
Reported net income	1,070	2,922	4,244	7,452	9,360
Adjusted earnings	1,070	2,922	4,244	7,452	9,360
Adjusted EBIT	1,398	4,031	5,905	10,842	13,591
Adjusted EBITDA	1,440	4,174	6,145	11,077	13,849
Growth Rates (%)					
NOI	119.1	164.2	45.0	181.3	36.8
EBIT adjusted	98.5	188.4	46.5	83.6	25.3
EPS adjusted	62.9	119.4	45.2	75.6	25.6
Cash Flow (RsM)					
Operating cash flow	-2,035	-13,537	-5,809	-18,010	-13,039
Depreciation/amortization	42	143	239	235	259
Net working capital	-2,163	-16,128	-10,609	-35,795	-32,760
Investing cash flow	-452	-1,175	-1,376	-318	-349
Capital expenditure	-414	-721	-1,766	-311	-342
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	2,058	19,756	5,956	16,319	14,139
Borrowings	1,152	9,337	6,510	16,319	14,139
Dividends paid	0	-540	-554	0	0
Change in cash	-429	5,045	-1,229	-2,009	751
Balance Sheet (RsM)					
Total assets	9,496	36,283	49,933	85,037	121,100
Cash & cash equivalent	412	5,458	4,228	2,219	2,970
Net fixed assets	529	1,106	2,649	2,724	2,807
Total liabilities	7,485	21,365	31,022	48,586	65,186
Total Debt	2,359	11,695	18,205	34,524	48,663
Shareholders' funds	2,012	14,918	18,911	36,451	55,914
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	21.7	26.7	33.3	32.6	31.2
ROE adjusted (%)	70.7	34.5	25.1	26.9	20.3
ROA adjusted (%)	14.2	12.8	9.8	11.0	9.1
Net debt to equity (%)	96.7	41.8	73.9	88.6	81.7
Interest coverage (x)	53.6	21.6	15.7	21.1	27.7

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Parsvnath Developers

Company description

Parsvnath Developers is among the largest real estate developers in North India with dominance in residential projects (c.60% of total development). Its focus is on enhancing presence in tier-two and -three cities across the country, though it is concentrated in the NCR. Management has 15 years of experience in the real estate business and has completed over 5m sq ft of development in the last five years. The company is in the process of building a diversified real estate portfolio and has aggressive plans of developing c.211m sq ft over the next 4-5 years (development rights/land is already acquired). Promoters control and manage the company with an 80% stake.

Investment strategy

We rate Parsvnath Sell/High Risk (3H) with a target price of Rs126. Parsvnath has aggressive plans to develop c.211m sq ft over the next 6-7 years, for which it has already acquired land/development rights. The company's strategy to operate on a develop-and-sell model. The biggest challenge is execution. Management plans to diversify into new segments - commercial, retail, IT/ITES Park, DMRC projects, hotels, multiplexes and SEZs - and enhance its presence in 250 cities by 2010 vs. 51 cities today. The company's aggressive development plans raise execution and market risks, in our view. Although the stock has corrected sharply over the past 3 months, we see limited upside potential in the current environment and believe risk/reward is unfavorable.

Valuation

Our target price of Rs126 is based on a 40% discount to our NAV estimate of Rs210. We accord a discount because: 1) The company is concentrating on tier-two and -three cities; 2) execution risk is high given the company's presence across 51 cities; and 3) demand and pricing risks exist given that Parsvnath's residential-heavy business model could result in liquidity constraints. We believe an NAV-based valuation methodology is most appropriate for valuing Parsvnath, as it factors in the company's varied development projects and spread-out time frames. Our NAV estimate assumes: a) current market prices; b) development volume of 167m sq ft after elimination of c44m recognized as revenue until FY09E and some area representing collaborators' share; c) average cost of capital of 16%; and d) a tax rate of 27%.

Risks

The key reasons for rating Parsvnath High Risk include: 1) the company's concentration in the NCR, where the risk of excess supply over the next 2-3 years is high; 2) aggressive development plans, which raises the risk of execution delays; and 3) evolving regulatory and political risks for the sector's growth. Our High Risk rating is in line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. The main upside risks to our investment thesis and target price include: 1) Any positive developments on execution of the 9 SEZ projects would enhance the company's NAV and valuations; 2) The company is exploring opportunities to monetize some of its assets through stake sale to private equity funds. If this materializes, it would provide sizeable cash flows and boost stock sentiment; 3) Any downward revision in interest rates for housing projects would benefit the company, given its high leverage to the residential segment.

Appendix A-1

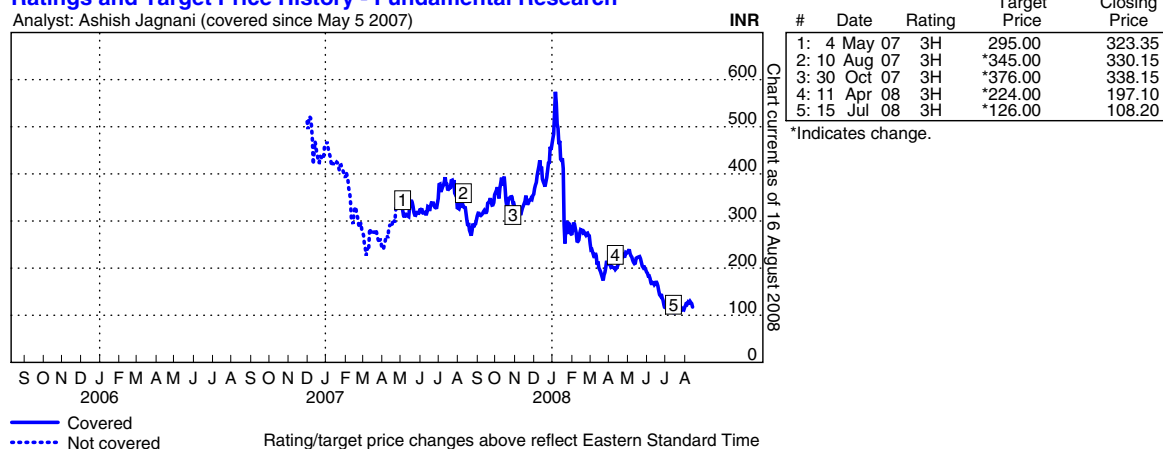
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Analyst: Ashish Jagnani (covered since May 5 2007)



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