

# UBS Investment Research

## Prestige Estates Projects

### Best proxy to Bangalore growth

#### ■ Strong brand with a robust track record

We initiate coverage of Prestige Estates Projects (Prestige), an established Bangalore-property developer, with a Buy rating and a price target of Rs220.00. We believe its: 1) joint development model, which gives it access to a prime landbank of 51msf; 2) strong track record in value creation; and 3) mix of luxury and mass housing, and rental and saleable office and retail assets, differentiate it from peers. We think Prestige provides the best exposure to Bangalore's growth potential (84% of our NAV estimate).

#### ■ Bangalore: India's IT hub with significant growth potential

Our recent visit to Bangalore and channel checks support our outlook for strong real estate demand in Bangalore. We believe Bangalore real estate has significant growth potential, due to: 1) strong IT hiring, leading to higher leasing volumes; 2) rising residential pre-sales volumes on end-user demand; and 3) favourable demographics and affordable prices and rentals driving demand for new launches.

#### ■ Key catalysts: pre-sales and rental growth, execution momentum

We expect strong pre-sales from the 4-5msf of launches over the next six to 12 months; a 19% CAGR in rental income for FY11-13, and execution momentum in ongoing projects (67% of NAV) to be near-term catalysts. However, its relatively high exposure to luxury housing (amid rising interest rates) and oversupply in some areas of Bangalore could be risks.

#### ■ Valuation: attractive at a 40% discount to our NAV estimate

We base our price target on a 20% discount to our NAV estimate of Rs275.00, which factors in the Bangalore exposure, a superior ROCE, a good track record, and a healthy balance sheet. We view recent share price weakness (down 18% in the past month) as a buying opportunity.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	8,981	10,244	13,465	17,958	22,324
EBIT (UBS)	2,191	1,746	3,168	5,239	6,721
Net Income (UBS)	775	1,454	2,086	3,376	4,433
EPS (UBS, Rs)	2.95	5.54	6.36	10.29	13.51
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	-	17.0	23.5	29.2	30.1
ROIC (EBIT) %	-	8.1	11.8	16.1	17.2
EV/EBITDA (core) x	-	-	14.3	10.2	8.4
PE (UBS) x	-	-	25.6	15.8	12.0
Net dividend yield %	-	-	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs162.70 on 15 Dec 2010 23:38 HKT

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## Global Equity Research

India

Real Estate

12-month rating **Buy**  
Prior: *Not Rated*

12m price target Rs220.00/US\$4.85

Price Rs162.70/US\$3.58

RIC: PREG.BO BBG: PEPL IB

16 December 2010

#### Trading data (local/US\$)

52-wk range	Rs216.40-157.85/US\$4.87-3.45
Market cap.	Rs53.4bn/US\$1.18bn
Shares o/s	328m (ORD)
Free float	20%
Avg. daily volume ('000)	707
Avg. daily value (m)	Rs136.7

#### Balance sheet data 03/11E

Shareholders' equity	Rs21.7bn
P/BV (UBS)	2.5x
Net Cash (debt)	(Rs15.4bn)

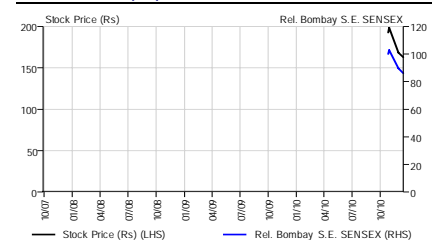
#### Forecast returns

Forecast price appreciation	+35.2%
Forecast dividend yield	0.0%
Forecast stock return	+35.2%
Market return assumption	13.0%
Forecast excess return	+22.2%

#### EPS (UBS, Rs)

	03/11E		Cons.	03/10 Actual
	From	To		
Q1E	-	-	-	-
Q2E	-	-	-	-
Q3E	-	-	-	-
Q4E	-	-	-	-
03/11E	-	6.36	-	-
03/12E	-	10.29	-	-

#### Performance (Rs)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 28.

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Evalueserve staff provide research support services to UBS.

# Investment Thesis

We believe Prestige Estates Projects (Prestige) is the best proxy to potential real estate demand growth in Bangalore (84% of our NAV estimate), India's IT hub. Prestige's joint development model gives it access to prime landbank of 51msf and provides it with a well balanced portfolio of high-end residential (20% of NAV), mass housing (11% of NAV), office-for-sale (27% of NAV), rental assets (23% of NAV) and retail/hotel (9% of NAV) developments.

We have a positive outlook for real estate demand in Bangalore. Our view is supported by our recent visit and channel checks which suggest: 1) strong IT hiring, resulting in a healthy take-up in office space (25% of India's office absorption); 2) strong residential pre-sales volume growth, up 14% YoY YTD, driven by end-user demand for residential property in the Rs5-20m price range; and 3) good response to new launches at affordable prices and rents. Prestige's superior product quality, strong execution track record (it has delivered 34msf) and value creation for customers differentiates it from peers, in our view.

We ascribe 67% of our NAV estimate to ongoing projects and existing rental assets (23% of NAV); with 40% of NAV contributed by CBD-located projects, we expect more visibility on execution and absorption. That said, its joint development agreement (JDA) model (53% of landbank) lowers land costs and provides superior ROCE of 13-15% (compared with 4-7% for peers). Although, its premium pricing in an economic slowdown and high concentration in Whitefield (15% of NAV), an oversupplied market, is a risk, we believe the positives outweigh the risks, given Prestige's superior business model and its valuation, which is at 40% discount to NAV.

Given its healthy balance sheet (0.6x D/E) and the 18% share price correction over the past month (11% below its IPO price of Rs183.00), we initiate coverage of Prestige with a Buy rating and a price target of Rs220.00, which is based on a 20% discount to our NAV estimate of Rs275.00.

## Key catalysts

### ■ Encouraging pre-sale volumes from strong pipeline of new launches.

Prestige's residential projects have generally been well received by buyers—most of the company's projects launched before 2009 are more than 90% sold. This trend is visible in H1 FY11 as well, with a good response to: 1) Kingfisher Towers a super-luxury residential project in Bangalore, priced at Rs22,000/sf; and 2) healthy pre-sales in the first month of the launch of Silver Oak, Whitefield, at Rs9,600/sf. We believe the continuation of the encouraging pre-sales volume trend for its new launches of 4-5msf over the next six to 12 months will reinforce the company's strong brand image, its ability to command premium pricing, and rapid project execution.

- **Healthy growth in rental annuity business.** We believe the company's strategy will help it expand its rental annuity portfolio and result in long-term benefits. Its existing portfolio of 3msf in leased assets, a mix of office, IT, retail space and hotel assets, yields rents of Rs1.46bn pa, and contributes 33% of our NAV estimate. With 1.5msf of ongoing developments in its lease portfolio, the company expects 0.8msf to be leased by H2 FY11 and the balance by end-FY12. We forecast healthy growth for the rental annuity business and expect rentals to increase 50% to Rs2bn by FY13. In addition, we expect its pipeline of 4msf (mix of IT offices and mall assets) to generate rents by FY14-15, increase the rental portfolio, and help diversify earnings risk.
- **Best exposure to potential property market growth in Bangalore:** We think Prestige provides the best exposure to potential Bangalore property market growth, with 84% of its diversified land asset (39msf) portfolio based in this city. Bangalore is India's IT hub and is leveraged to global and Indian IT sector growth. Its high per capita income, growing migrant population of professionals, double income families with improving lifestyles, and progress in infrastructure projects, make the city a potentially strong property market. Residential property sales growth of 15% YoY YTD, and affordable pricing have added stability. We think incremental data points on IT space leasing and residential pre-sales will be catalysts for share price performance.
- **Signs of execution gaining momentum.** With 67% of our NAV estimate based on Prestige's ongoing projects (12msf of the total of 45msf) including its existing lease portfolio (33% of NAV), we expect increasing newsflow on successful execution to be a key trigger for Prestige's share price performance. The company has a strong execution track record, delivering 34msf YTD (including its landmark township project, Shantiniketan, of 14msf), with 10msf delivered in past three years, and management expecting to deliver 17msf in FY11. Once deliveries have normalised, the company plans to ramp-up deliveries to 6-8msf pa over the next two years. In addition, we expect a bigger office and mall asset lease portfolio to increase revenue visibility.

Prestige has 84% of its landbank in Bangalore

## Risks

We believe the key risks for Prestige are: 1) dependence on the Bangalore market with 84% of its total landbank in the city. This exposes the company to any slowdown in the IT sector globally and in India; 2) its relatively high exposure to premium residential housing (20% of NAV) which is more price-sensitive to a slowdown in the economic recovery cycle; and 3) intensifying competition in Bangalore and oversupply concerns in specific areas such as Whitefield (17% of our NAV).

Key risks are exposure to premium residential housing and intensifying competition in Bangalore

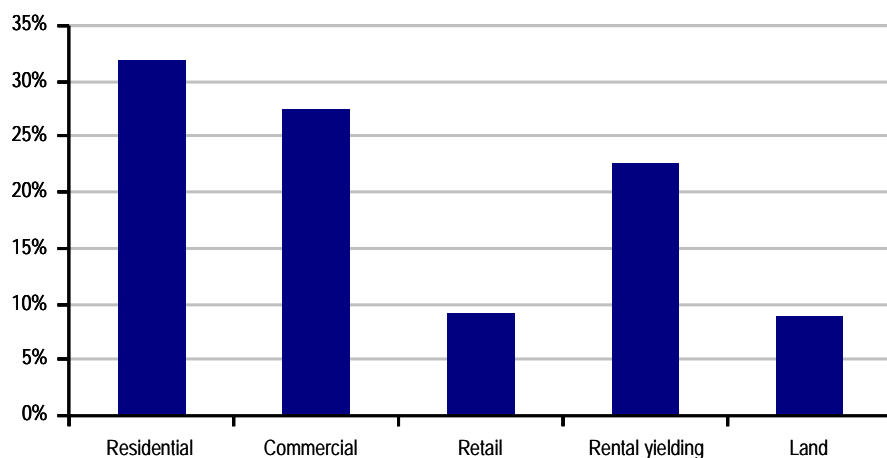
## Valuation and basis for our price target

We believe Prestige's core business in Bangalore's residential and commercial real estate markets, prime location land assets, expertise in residential, commercial and integrated development projects, high proportion of rental assets, and strong brand name, differentiate it from peers. An NAV-based valuation methodology is the most appropriate for Prestige, in our view, as it factors in: 1) the value of its land assets; 2) the scale of development opportunity and the diversified asset-geographic mix across different timeframes; and 3) execution. When comparing Prestige with Indian peers and factoring in business model risks, we expect the stock to trade at a discount to NAV.

We base our price target of Rs220.00 on a 20% discount to our September 2011 NAV/share estimate of Rs275. While the level of the NAV discount is a subjective assessment, we believe our base case of a 20% discount to our NAV estimate is fair. Our lower discount for Prestige than for peers (25-40%) largely factors in: 1) Prestige's dominant position and diversified asset mix in the Bangalore market, which we think is attractive; 2) large contribution (23% of NAV) from rental assets that have growth potential; 3) strong track record and brand franchise; and 4) concerns of oversupply.

Our NAV/share estimate of Rs275 assumes: 1) development volume of 44.85msf; 2) a 9% cap rate for rental assets; 3) no price escalation; 4) average cost of capital of 13%; and 5) a tax rate of 25%.

Chart 1: Prestige NAV breakdown by segment



Source: UBS estimates

### Bull-case and bear-case NAV

Our bull-case scenario builds in: 1) 10% higher prices than our base case; 2) a faster execution cycle for development projects; and 3) faster leasing of commercial assets. Our bear case: 1) factors in five-year development visibility (14msf); 2) values the balance as undeveloped landbank; and 3) a higher than our base case cap rate of 11% for rental assets. We believe this provides a good perspective on NAV risks and upside potential.

Table 1: NAV breakdown (Rs m)

Residential	65,462
Commercial	46,631
Gross NAV	112,094
Less: land o/s	(500)
Less: tax @ 25%	(27,898)
Less: net debt o/s	(4,995)
Less: customer advances	(8,000)
Add: rental assets	19,531
Net NAV	90,231
No. of shares o/s (m)	328
NAV per share (Rs)	275

Source: UBS estimates

Table 2: NAV assumptions

Price escalation	Nil
Cost of capital	13%
Tax rate	25%
Development volume (msf)	44.85
Execution delay	1-2 years

Source: UBS estimates

Table 3: Scenario analysis

(Rs)	Bull case	Bear case
NAV/share	301	194
Upside/downside	14%	-26%

Source: UBS estimates

## Attractive at a 40% discount to our NAV estimate

We believe the stock is trading at an attractive valuation of a 40% discount to our NAV estimate. While the stock has corrected 18% over the past month, it has outperformed its peers by 10% over the same period. We expect the outperformance to continue, given its strong positioning in a growth market such as Bangalore, and its higher-than-peer ROCE. We believe there is upside potential to its current valuation.

**Table 4: Valuation comparison**

	Share price (Rs)	Mkt cap (US\$ m)	Rating	Price target (Rs)	Base case		Bear case		D/E (x) FY11E	P/BV (x) FY11E
					NAV	Discount	NAV	Discount		
Prestige	162.70	1,176	Buy	220.00	275.00	-41%	194.00	-16%	0.60	2.4
DLF	278.00	10,439	Buy	425.00	500.00	-44%	275.00	1%	0.75	1.8
Unitech	61.90	3,254	Buy	108.00	135.00	-54%	70.00	-12%	0.48	1.5
HDIL	187.15	1,426	Buy	236.00	363.00	-48%	253.00	-26%	0.46	0.5
IBREL	136.35	1,205	Buy	235.00	315.00	-57%	181.00	-25%	0.10	0.5
DB Realty	193.75	1,038	Buy	560.00	800.00	-76%	479.00	-60%	0.20	1.8
GPL	611.50	941	Buy	956.00	1275.00	-52%	672.00	-9%	0.80	1.5
Phoenix Mills	221.05	705	Buy	330.00	412.00	-46%	257.00	-14%	0.43	4.8

Note: Above data as at 15 December 2010.

Source: Reuters, UBS estimates

## UBS versus consensus

As the company was listed on 27 October 2010, there is little coverage by brokerages and hence no meaningful consensus estimates are available. Its listing price was Rs193.15/share.

## Sensitivity analysis

We have conducted a sensitivity analysis on a NAV valuation range, based on 10% higher/lower prices to our base case, discount rates of 13-15%, and delays of 12-24 months.

**Table 5: Sensitivity analysis**

(Rs)	Resultant NAV/share	Base-case NAV/share	Sensitivity
Prices +10%	297	275	13%
Cost of capital -200bp	276	275	5%
Prices - 10%	228	275	-13%
Cost of capital + 200bp	250	275	-5%
Delay of 1 year	246	275	-6%

Source: UBS estimates

# Risk analysis

## Concentration risk

Prestige's development plan is concentrated in Bangalore, with approximately 82% of its total landbank (41msf) based in Bangalore and a limited presence in other South India cities such as Chennai (9%), Cochin (1%), Hyderabad (1%), and Mysore (2%). This exposes the company to: 1) any slowdown in the IT sector, a key growth driver for Bangalore; and 2) policy-related risks, especially in light of ongoing media reports of political instability in the state government.

High Bangalore and premium residential exposure are risks to stock

## High exposure to the premium residential segment

Prestige's high exposure to the luxury and premium residential market in Bangalore (20% of our NAV estimate), raises the probability of affordability problems in case of a hiccup in the macro-economic recovery. Prestige commands a premium to peers because of its product quality, location and track record of value creation for its buyers. However, with the average price of most of its luxury homes above Rs6,000/sf (compared with the market average of Rs4,500/sf), prices of Rs20-80m/apartment and the average household income of IT employee of Rs3-5m pa, there is a risk of slower sales during a slowdown in the recovery cycle.

## Intensifying competition in Bangalore market

The Bangalore real estate market is characterised by intense competition—both from incumbents and new entrants. Sobha, Purvankara, Mantri, Adarsh, Brigade have successfully operated in the city for decades. These developers have good reputations for execution and landbank. Land acquisition could prove difficult due to competition; and development activity by any of these developers near a Prestige project would also have an impact on the company's pre-sales. In addition, the entry of new companies such as DLF and Godrej Properties has further intensified competition.

Table 6: Major developers in Bangalore

	Mkt capital (US\$ m)	Portfolio (m sqft)	Revenue FY10 (Rs m)	PAT FY10 (Rs m)	BVPS FY10 (Rs)	Free float
Prestige	1,176	51	10,244	1,454	66	19.99%
Sobha Developers	524	258.2	11,299	1,341	174	23.9%
Purvankara	558	118	4,784	1,453	70	10.0%
Brigade Group	257	NA	3,247	474	92	23.9%
Nitesh Estates	104	19.5	964	47	13	46.5%

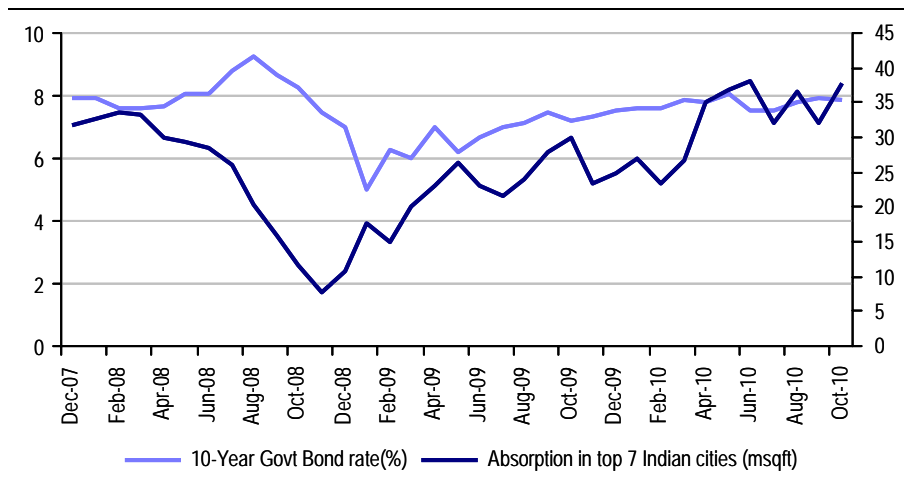
Source: Datastream, Bloomberg, company data

## Rising interest rates could dampen residential absorption/execution

Increasing interest rates are likely to impact real estate financing and demand for residential property. Interest rates in India have remained high; moreover, with the recent credit policy, mortgage rates are likely to rise 50-75bp, and because of higher risk weightings, mortgage rates range from 9.5% to 10.25%, which may dampen residential unit sales in the near term. In addition, we expect tightening credit and liquidity for developers to affect construction financing and this could potentially add to project and construction delays.

Rising interest rates could impact residential demand

Chart 2: Interest rates vs residential absorption in key Indian cities



Source: PropEquity, Bloomberg

## Model risk

The JDA model could lead to litigation or controversies with landowners and this could result in execution delays.



# Competitive analysis

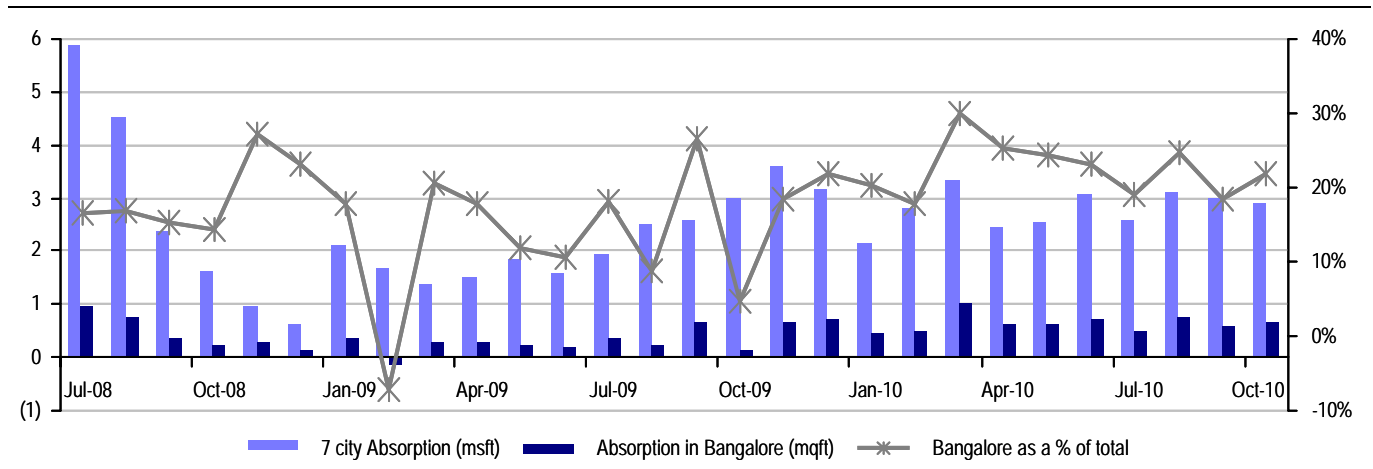
## Assessment of industry attractiveness

With high per capita income and home to a growing number of professionals, we view Bangalore as a tier-I city with the best exposure to IT growth. A growing population, double income families, improving lifestyles, and progress on infrastructure projects make Bangalore one of the strongest property markets in India, in our view.

### IT/ITeS drives 75% of Bangalore demand

There is a turnaround in demand in Bangalore, with 75% of the city’s real estate demand driven by the IT sector in 2010. This is reflected by the city’s increased share of 25% of total commercial absorption among seven key cities in India.

Chart 3: Absorption in Bangalore commercial vs. total of top seven cities\* in India (m sqft)

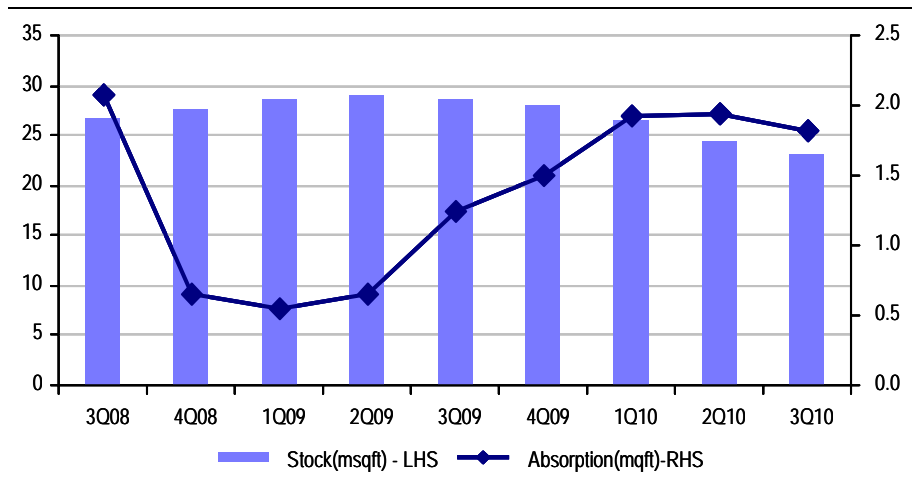


Note: \*The seven cities are: MMR, NCR, Bangalore, Chennai, Pune, Hyderabad, Kolkata.  
Source: PropEquity

### Sustained leasing recovery; inventory high but 20% below peak

With IT/ITeS companies increasing their headcount and concentrating on consolidating their operations in cost-efficient locations, Bangalore is emerging as one of the most favoured destinations for some of the largest global multinational corporations. This, we believe, is visible in Bangalore’s increased share of total commercial absorption in India, and the 45% YoY increase in leasing volumes in Q310, to 1.8msf, and the largely stable QoQ volumes. Bangalore’s cumulative lease volume of 5.7msf in 9M10, against 4msf in 2009 also underscores this view. While inventory levels (22msf) are high, it is 20% below the peak in Q209.

Chart 4: Bangalore commercial supply and absorption

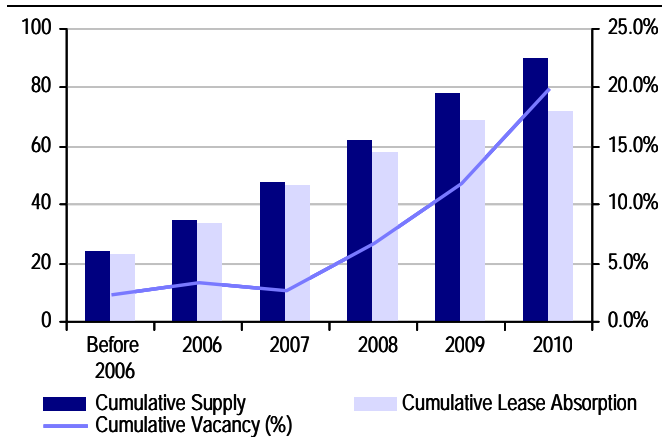


Source: PropEquity

### Rents to remain in check

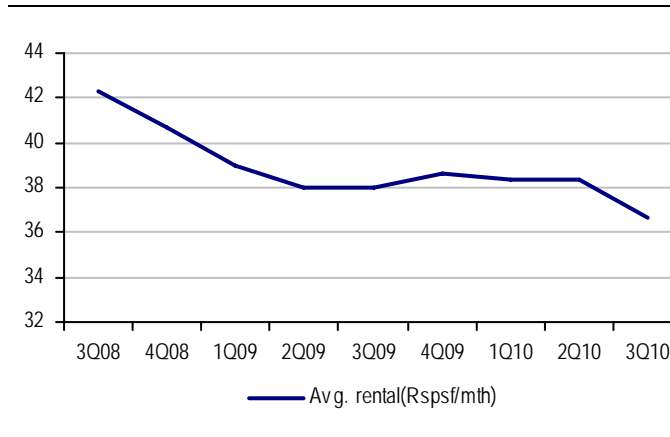
Although rents in Bangalore are 20% of Mumbai rents, 35% of those in Delhi and 60% of Gurgaon, its relatively high vacancy levels and supply should keep rentals in check for the next 18-24 months. We believe growth will be led by higher leasing volumes rather than higher rents.

Chart 5: High vacancy reflects increased inventory



Source: PropEquity

Chart 6: Bangalore commercial rental trend

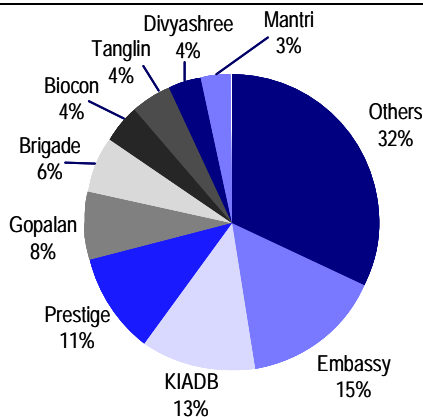


Source: PropEquity

### Demand to be concentrated in peripheral areas

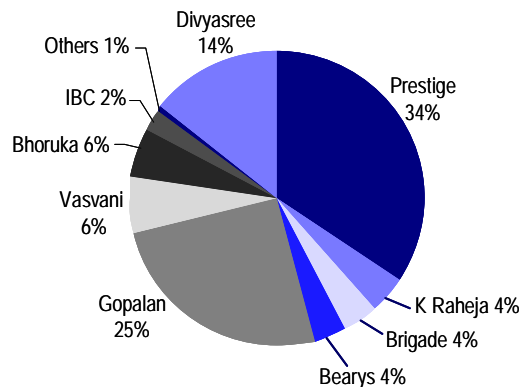
Our channel checks suggest many IT/ITeS companies are planning to expand; and this time the focus will be on consolidating operations at cost-efficient locations. We estimate the bulk of the absorption will be in peripheral locations in southeast Bangalore in places such as Sarjapur, Whitefield and Electronics City—where most of the new supply is concentrated and rentals are still affordable. Prestige Shantiniketan’s 3.5m sqft of office space (Prestige owns 1m sqft) is located in Whitefield, where around 9m sqft of commercial property could be completed in the next five years.

**Chart 7: Upcoming commercial supply in Bangalore by developer (m sqft)**



Note: Projects to be completed in 2010-15.  
Source: PropEquity

**Chart 8: Upcoming commercial supply in Whitefield by developer (m sqft)**



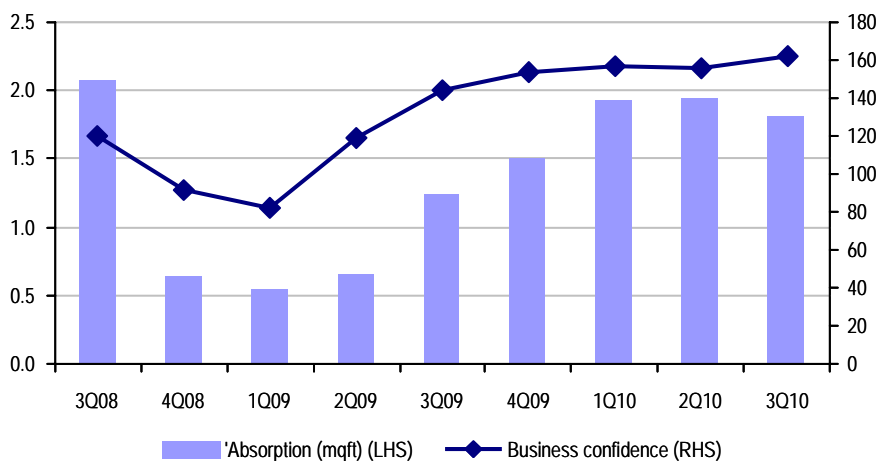
Note: Projects to be completed in 2010-15.  
Source: PropEquity

### Improving business sentiment

Business confidence in India has turned, and as Chart 9 suggests, absorption in Bangalore’s commercial real estate closely follows the business confidence index. Our channel checks suggest a higher interest in office space from IT/ITeS companies that are planning to expand. Major MNCs such as IBM, CISCO, Accenture and Cognizant are gearing up for expansion.

Growing interest in office by IT/ITES companies

**Chart 9: Commercial absorption in Bangalore vs business confidence**



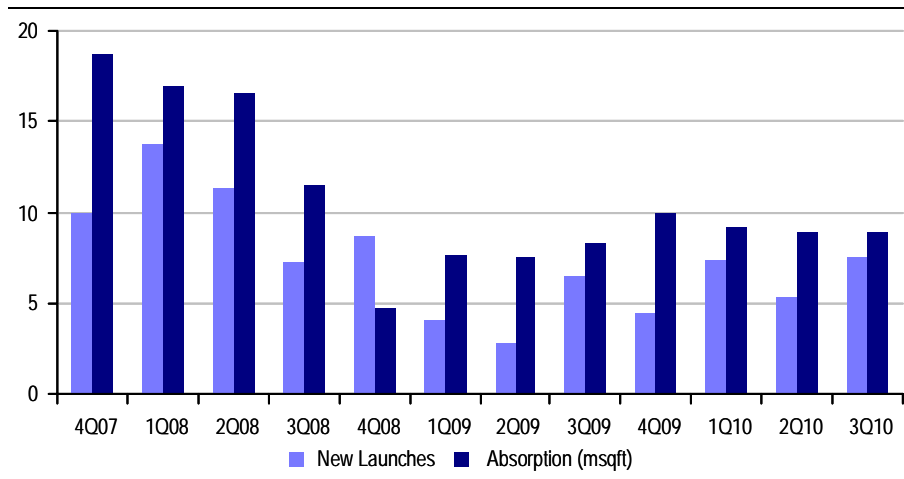
Source: NCAER, PropEquity

### End-user driven demand in residential

Bangalore is one of the most attractive destinations for internal migrants, especially among the rapidly expanding upper middle income group. Bangalore provides employment opportunities in IT and allied sectors, and it has a cosmopolitan and safe lifestyle, while the cost of living is still low vis-à-vis other cities with similar amenities. The average residential real estate price in the city is one-third of that in Delhi and about 16% of that in Mumbai.

End-user demand driving residential real estate in Bangalore

Chart 10: New residential launches vs absorption in Bangalore

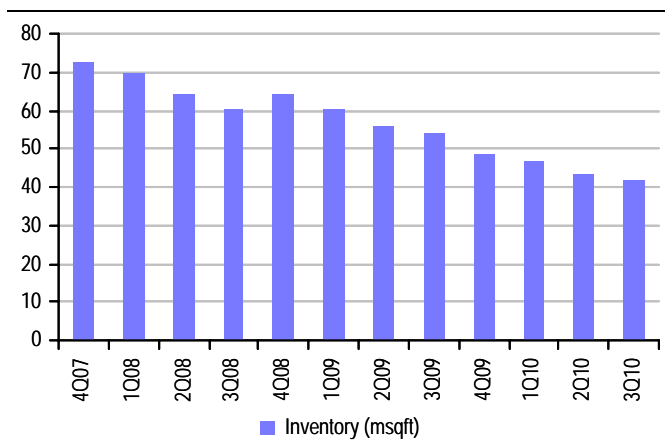


Source: PropEquity

### 12-month worth of inventory; more launches expected

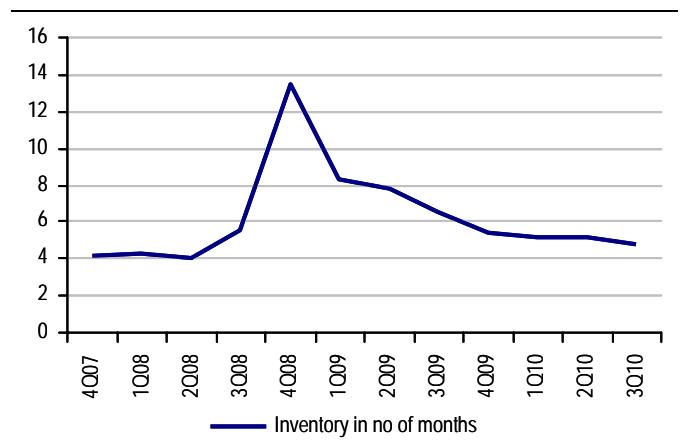
We expect the pace of launches to accelerate in 2011, with inventory marginally above 12-month sales. Although, we believe there is ample supply in the city, it is 50% below peak levels. As most developers in Bangalore have reasonable exposure to commercial projects and land holdings, we think they have the incentive to monetise their land holdings and also balance their annuity-based commercial portfolio through higher turnover in the residential segment. As a result, we think most companies are leaning towards more sales rather than higher prices, which we believe is a healthy trend.

Chart 11: Residential Inventory is about half its peak level



Source: PropEquity

Chart 12: Residential inventory by quarter



Source: PropEquity

### Prices remain affordable

Prices in Bangalore are still 10-12% lower than the peak in 2008. However, there are more launches of luxury residences, and while there is room for price upside, we believe demand is price-sensitive and growth will be driven by higher volumes from new launches at attractive prices.

Chart 13: Trend in Bangalore residential prices

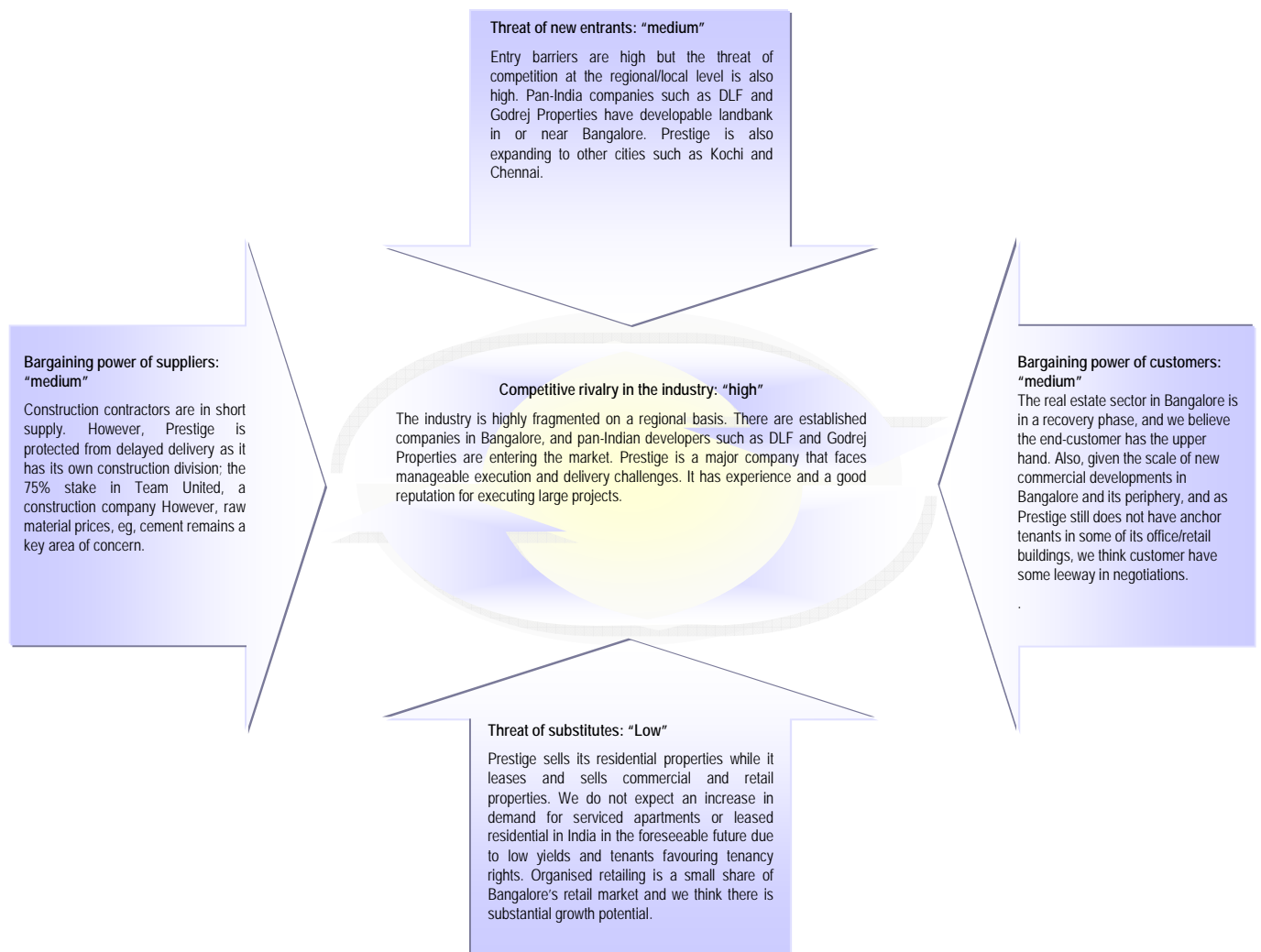


Source: PropEquity

### Outlook: well positioned for growth

Our recent Bangalore visit and meetings with real estate agents suggest: 1) healthy commercial demand backed by strong IT hiring; 2) end-user residential demand in the Rs5-20m price range; 3) good pre-sales volumes, following new launches; 4) north and southeast Bangalore are most favoured development locations, mainly targeting IT demand. With 1) Bangalore absorbing 25% of India's office space over the past six months; 2) potential strong headcount additions and wage hikes (14-15%) by large IT/ITeS companies; and 3) a slew of residential launches, we think there is strong growth potential in IT space leasing and residential pre-sales. That said, we expect demand to remain price-sensitive. We believe growth will be largely volume-led in the near term as we anticipate healthy supply. We expect prices to be stable over the next 12 months and developers' margins to vary, based on their product offerings and ability to scale up execution.

Figure 1: Five competitive forces analysis



Source: Michael Porter, UBS

## Competitive strengths

### Flexible strategy of build-sell and lease

Prestige believes in constantly developing its landbank. It aims to develop and sell land within a four-year cycle from land acquisition. Its strategy is to: 1) maintain a stable portfolio mix, while diversifying its revenue stream; 2) continue to focus on Bangalore, with some diversification to key South India cities such as Chennai, Hyderabad, Cochin where it can leverage its brand premium; and 3) operate on a flexible build-sell and lease model, depending on assets, to tap growth opportunities across asset classes. It plans to leverage its experience in premium housing, leased office-retail assets; and 4) run on an integrated model so as to diversify its revenue stream and be cost competitive.

### Strong and established brand franchise

Prestige has established a strong brand franchise in the Bangalore market. This is backed by: 1) developing landmark projects, for example, UB City; 2) a strong execution track record of having delivered 27.08msf across asset classes; 3) its solid relationship with marquee clients such as Cisco, JP Morgan, IBM, and Microsoft for leased office space; and 4) its residential properties commanding a premium, given their strategic locations and superior product quality. The company plans to leverage its brand franchise for growth.

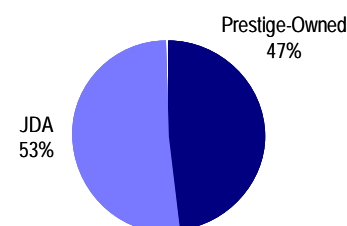
### A capital-efficient JDA model

Prestige operates a significant proportion of its business under the joint development model (JDA) model, whereby a developer enters into an agreement with a landowner to develop an asset and, in lieu of the land contributed by the latter, shares a part of revenue or profit with the landowner. This is a capital-cost efficient model as it limits investments and launch costs—Prestige has acquired 53% of its total landbank through JDAs. Low upfront land payments give Prestige an edge over competitors that may have large payments for land acquisition, even before cash starts flowing in from pre-sales payments. That said, the risk of litigation or controversies with landowners could result in execution delays.

### Diversified portfolio: residential, office and retail assets

We think Prestige's landbank of 45msf, largely in South India, is well balanced across all assets classes: 1) luxury, premium, middle income housing; 2) rental office and retail, 2) offices on sale; and 4) hotels. There should be further visibility with a large part of the portfolio being launched over the next two to three years. The company plans to leverage its expertise and relationships to execute across different asset classes. This adds flexibility to the business model, allowing it to adapt its offerings by changing land development plans according to its perception of market requirements.

Chart 14: Land reserve ownership



Source: Company data

Table 7: Development area by segment (msf)

Residential	21.6
Commercial	9.6
Hospitality	1.3
Retail	1.5
Land holding (paid for in RHP)	17.0
<b>TOTAL</b>	<b>51.1</b>

Source: Company data

## Partnerships with CapitaLand and Red Fort Capital

Prestige has entered into joint venture agreements with CapitaLand (of Singapore), CapitaRetail India Development Fund Investments (Mauritius) (CRIDF), and Red Fort Capital to develop retail, commercial and residential projects, respectively. The joint ventures give it access to technical expertise, such as managing malls to international standards, and capital. The agreement with CapitaLand requires equal ownership for both partners and first preference to CapitaLand in future retail projects. The JV with Red Fort Capital has four projects, two townships (Bidadi and Sarjapur Road) and two office projects that were launched in 2007.

## Integrated model

Prestige has an integrated business model with end-to-end services. The services include facilities management, design (including office and residential interiors), marketing and construction-related activities. Prestige has acquired a 75% stake in Team United, a construction company that will help Prestige undertake independent construction operations in future. Prestige's facilities management business operates on a cost-plus-15% mark-up basis. This gives the company more control over quality and enabling it to offer better products in a competitive market.

## Management strategy

Prestige believes in constantly developing its land reserves. It aims to develop and sell its land reserve within four years of land acquisition. Its main strategies are to 1) continue developments with a stable portfolio mix and diversify its revenue streams; 2) maintain Bangalore as its focus area, with geographical diversification to other South Indian cities, such as Hyderabad, Chennai, Cochin, and Mangalore, as well as Goa in the west; and 3) integrate various segments of its operations by developing in-house construction, project management and interior design capabilities.

As of 31 August 2010, the company had a 483.16 acre landbank. As part of its growth strategy, Prestige will continue to expand its landbank and acquire land in strategic locations in Bangalore and South India to maximise opportunities for projects in the future.

To implement its strategy, the company has a number of ongoing projects and potential projects in its pipeline.

**Table 8: Project pipeline**

(msf)	Ongoing	Under development
Residential	11.0	6.7
Commercial	10.5	2.0
Retail/Hospitality	2.0	1.6
<b>Total</b>	<b>23.5</b>	<b>10.3</b>

Note: Numbers refer to leasable/saleable areas which might be different from developable area.  
Source: Company data

Strategy to expand presence in South and develop in-house construction capabilities



**Residential:** Residential comprises 43% of the total developable area. The company develops a wide range of projects catering to the middle, upper income and high-end segments of the residential property market in South India. Over the past five years, Prestige has developed 16 projects with a total saleable area of 8.59msf while 9.27msf is under development and a further 12.08msf is planned for future development. Its landmark residential projects include, Prestige Shantiniketan, Prestige Ozone and Prestige Exotica.

**Prestige has developed 16 residential projects with a total saleable area of 8.59msf**

The company's strategy is to: 1) launch projects in the mid-to-upper income segments of the market, as the number of launches, especially in the upper income segments, has been low; 2) focus on large developments; and 3) provide end-to-end services, superior quality, and raise its price realisation.

**Table 9: Some landmark residential projects**

Project	Saleable area	Remarks
Prestige Shantiniketan	6.1msf - Residential 4.4msf - commercial 0.7msf - Retail	The project is one of the first and biggest integrated township in Bangalore with residential, commercial and retail space in one location. Prestige completed 10.5msf (residential and commercial portion) in four years.
Prestige Ozone	0.78msf	The apartments, the prices of which range from Rs15m to Rs40m/unit have increased 4-5 times from the launch price of Rs3.5-7.5m/unit.
Prestige Exotica	0.18msf	Prestige Exotica received the Best High Rise Development award by CNBC Asia Pacific Property Awards (2008). The two blocks in the projects are so placed that each apartment has unobstructed views.

Source: Company data

**Commercial:** Prestige has a significant presence in commercial property, with approximately 23% of its total developable area in commercial. Its best known commercial projects include UB City, Cessna Business Park, and Prestige Tech Park.

**Prestige is moving from a sale to a lease model for its commercial projects**

Over time, the company seems to be moving from a sale model to a lease model—6.14msf is being developed under a build and lease model. Management's strategy relating to the commercial segment includes, 1) developing campus/IT and ITES facilities and the BioTech Park, and servicing high profile clients; and 2) geographical expansion to other South Indian cities with a significant IT presence.

**Table 10: Some landmark commercial projects**

Project	Saleable area	Remarks
UB City, Bangalore	0.59msf	UB City has been developed in collaboration with UB Group and is one of the biggest mixed-use developments in Bangalore's CBD. The project is one of the tallest structures in Bangalore at 127 metres. UB City won the "Best Developer" award in the Cityscape Real Estate Awards in 2007 for the best commercial property in Bangalore.
Cessna Park, Bangalore	4.9msf	Cessna Business Park is an approved SEZ and includes offices and a hotel. The Cessna Business Park houses CISCO's Globalisation Centre East, its largest campus outside the US.
Prestige Tech Park, Bangalore	0.99msf	Prestige Tech Park includes four multi-storey (six to nine floors) office blocks and one 10-floor car park with 1,900 parking bays. All this space has been sold or leased.

Source: Company data

**Retail:** The company develops retail property on a 100% lease model and manages the property on its own. Prestige has developed the largest mall in Bangalore, Forum Mall, in 2004. The mall's anchor tenants include several well known brands, such as Westside, Tommy Hilfiger, Adidas, and Pizza Hut. It also has an 11-screen multiplex cinema.

**JV with Capitaland to develop 6 malls with developable area of 5.23msf**

Prestige has a joint venture with CapitaLand (a Singapore-listed real estate company) that will develop six malls with a developable area of 5.27msf. Prestige also plans: to 1) expand its investment portfolio to widen its rental income base; and 2) expand to other high-growth cities in South India.

**Hospitality:** Prestige has more than seven years experience in setting up and managing hotels. The company has entered into agreements with international hotel companies such as Marriott, Hilton, and Starwood Hotels to develop and manage their hospitality projects. The company plans to: 1) aggressively expand its presence in the segment while popularising the spa concept in Bangalore; and 2) focus on self-owned and managed properties. It is also focusing on building mixed-use properties with malls and hotels, which would lower costs and hence increase returns. We believe the ownership of the hotel at Prestige Shantiniketan will also be handed over to Prestige within the next two quarters.

**Other services:** Prestige provides a number of services relating to its product categories, including property management services (also for malls), sub-leasing, fit-out services, project management services, and interior design services. These customised services help the company provide end-to-end services to customers. Management plans to expand and grow these service offerings. Prestige's JV with CapitaLand has also helped strengthen its mall management services.

# Financials

## Profit and loss

We forecast a revenue CAGR of 30% from FY10-13, driven by successful execution of its ongoing construction pipeline of 12msf and execution of potential new launches from its land reserves. We estimate pre-sales volume of 1.75msf, 4msf and 5msf in FY11, FY12 and FY13, respectively; and stronger earnings growth on improved EBITDA margins, from 22% in FY10 to 33% in FY13, a result of increasing high-value sales, operating leverage on ramping up construction. We expect net income to grow from Rs1.4bn in FY10 to Rs4.4bn in FY15.

**We expect Prestige's revenue to grow at a CAGR of 30% from FY10-13E**

**Table 11: Prestige income statement FY06-13E (Rs m)**

Year to 31 Mar	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Total revenue	4,664	4,209	9,768	8,981	10,244	13,465	17,958	22,324
YoY growth (%)	0%	-10%	132%	-8%	14%	31%	33%	24%
EBITDA	594	941	1,389	2,589	2,236	3,693	5,799	7,301
Margin (%)	13%	22%	14%	29%	22%	27%	32%	33%
Depreciation & amortisation	(194)	(191)	(269)	(399)	(492)	(525)	(560)	(580)
Other income	79	62	125	180	616	493	443	488
EBIT	479	811	1,245	2,371	2,360	3,660	5,682	7,208
Interest income(expense)	(45)	(204)	(455)	(1,340)	(783)	(878)	(993)	(875)
Profit before tax	434	607	790	1,031	1,577	2,782	4,689	6,333
Tax	(129)	(216)	(249)	(323)	(283)	(695)	(1,313)	(1,900)
Profit after tax	305	391	542	707	1,294	2,086	3,376	4,433
Min interest & share of associates	82	(48)	127	(18)	136	0	0	0
Adj PAT	388	343	669	689	1,431	2,086	3,376	4,433
Extraordinary items	0	0	0	0	0	0	0	0
Reported net income	388	343	669	689	1,431	2,086	3,376	4,433

Source: Company data, UBS estimates

## Balance sheet

Following its listing, we expect Prestige's leverage to decline to 0.6x by end-FY11, a result of the IPO proceeds and pre-sales momentum from new launches.

**Table 12: Prestige balance sheet FY06-13E (Rs m)**

Year to 31 Mar	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
<b>Source of funds</b>								
Equity share capital	125	125	125	125	2,625	3,281	3,281	3,281
Reserves	1,085	1,688	4,905	6,060	5,013	18,448	21,824	26,257
<b>Net worth</b>	<b>1,210</b>	<b>1,813</b>	<b>5,030</b>	<b>6,185</b>	<b>7,638</b>	<b>21,729</b>	<b>25,105</b>	<b>29,538</b>
Minority interest	147	725	2,324	2,305	2,721	2,921	3,121	3,321
Long-term debt	1,849	4,634	7,594	8,684	13,892	14,262	11,262	10,262
Short-term debt	630	780	1,543	2,440	2,123	1,090	1,250	1,800
<b>Total debt</b>	<b>2,478</b>	<b>5,414</b>	<b>9,137</b>	<b>11,125</b>	<b>16,015</b>	<b>15,352</b>	<b>12,512</b>	<b>12,062</b>
<b>Capital employed</b>	<b>3,835</b>	<b>7,952</b>	<b>16,491</b>	<b>19,615</b>	<b>26,374</b>	<b>40,002</b>	<b>40,738</b>	<b>44,921</b>
<b>Application of funds</b>								
Gross block	2,906	3,566	7,441	10,679	11,307	11,410	11,657	11,919
Depreciation	683	880	1,148	1,542	2,065	2,590	3,150	3,730
<b>Net fixed assets</b>	<b>2,223</b>	<b>2,686</b>	<b>6,293</b>	<b>9,138</b>	<b>9,242</b>	<b>8,820</b>	<b>8,506</b>	<b>8,189</b>
Capital WIP	368	721	3,266	1,309	2,054	1,643	1,315	1,052
Investments	870	1,245	1,707	1,125	1,609	10,902	4,778	2,778
Goodwill	97	633	969	1,081	1,098	1,098	1,098	1,098
Inventories	4,831	9,164	7,681	9,786	12,502	17,504	23,345	30,137
Sundry debtors	943	1,714	1,270	2,490	3,627	4,713	6,285	7,813
Other current assets	3,085	4,794	7,145	5,791	6,408	7,540	8,182	7,678
Cash and bank	336	232	903	1,410	1,729	2,443	2,432	2,704
<b>Current assets</b>	<b>9,196</b>	<b>15,904</b>	<b>16,999</b>	<b>19,475</b>	<b>24,266</b>	<b>32,200</b>	<b>40,243</b>	<b>48,333</b>
<b>Current liabilities</b>	<b>(8,908)</b>	<b>(13,232)</b>	<b>(12,750)</b>	<b>(12,481)</b>	<b>(11,893)</b>	<b>(14,658)</b>	<b>(15,199)</b>	<b>(16,526)</b>
<b>Net current assets</b>	<b>288</b>	<b>2,672</b>	<b>4,249</b>	<b>6,994</b>	<b>12,373</b>	<b>17,542</b>	<b>25,045</b>	<b>31,807</b>
<b>Total net assets</b>	<b>3,835</b>	<b>7,952</b>	<b>16,491</b>	<b>19,615</b>	<b>26,374</b>	<b>40,002</b>	<b>40,739</b>	<b>44,922</b>

Source: Company data, UBS estimates

## Cash flow

We expect net cash outflows through FY13E as a result of increased investments on execution of its pipeline.

**Table 13: Prestige cash flow statement FY06-13E (Rs m)**

Year to 31 Mar	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Adj PAT	275	340	675	774	1,452	2,086	3,376	4,433
Depreciation & amortisation	194	191	269	399	492	525	560	580
Minority interest	-10	-21	-5	42	36	0	0	0
Changes in working capital	0	-2,488	-906	-2,239	-5,060	-4,454	-7,514	-6,491
Operating cash flow	459	-1,977	32	-1,024	-5,213	-1,643	-3,377	-1,278
Net capital expenditure	0	-1,012	-6,421	-1,281	-1,373	308	82	0
Net investments	0	-375	-462	583	-484	-9,293	6,124	2,000
Investing cash flow	0	-1,387	-6,883	-698	-1,857	-8,985	6,206	2,000
Net change in debt	0	2,936	3,723	1,988	4,890	-663	-2,840	-450
Dividends paid	0	0	0	0	0	0	0	0
Equity issued	0	0	0	0	2,500	12,005	0	0
Non-recurring items		324	3,799	241	-2,134	0	0	0
Financing cash flow	0	3,260	7,522	2,229	5,256	11,342	-2,840	-450

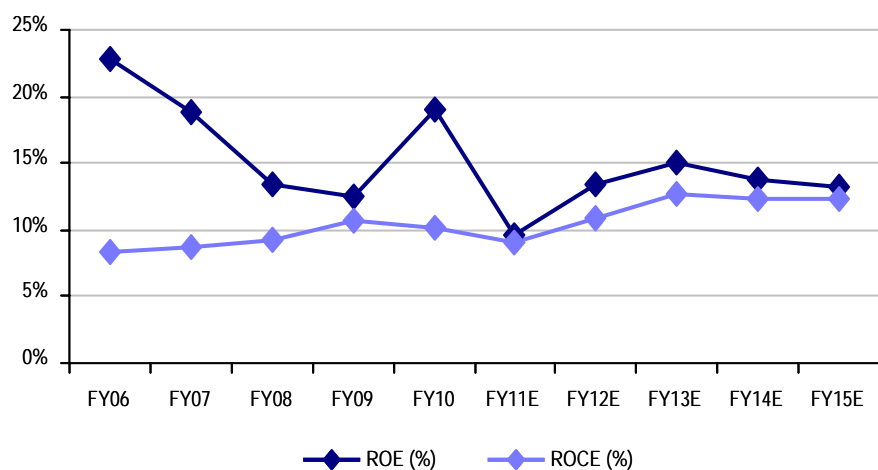
Source: Company data, UBS estimates

## Return on capital

We forecast Prestige's ROE to increase from 10% in FY10 to 15% in FY13, and stabilise thereafter as a result of improved revenue and profitability. We expect ROCE to increase to 13% in FY13 and stabilise thereafter.

We forecast Prestige's ROE to increase from 10% in FY10 to 15% in FY13

**Chart 15: We expect return ratios to stabilise in FY13E**



Source: UBS estimates

Table 14: Regional valuation summary

	Market cap (US\$, m)	Share price	Rating	Price target	Upside/down side to PT (%)	2011E NAV	Premium/ (Discount) to NAV (%)	PE (x)	2011E EV/ EBITDA (x)	2011E Net debt/ EBITDA (x)
<b>Hong Kong</b>										
Sun Hung Kai P.	42,606	128.90	Buy	225.90	75%	205.3	-37%	16.7	16.6	1.9
Henderson Land	14,633	53.00	Buy	99.70	88%	105	-50%	21.6	27.2	2.8
Sino Land	9,635	15.48	Buy	30.70	98%	27.9	-45%	21.0	35.7	11.3
Cheung Kong	34,197	114.80	Buy	207.30	81%	188.5	-39%	11.5	34.3	4.3
Swire Pacific	24,195	125.00	Buy	205.10	64%	227.9	-45%	15.0	18.0	2.2
<b>Singapore</b>										
CapitaLand	11,827	3.65	Buy	4.65	27%	5	-27%	18.1	10.5	2.5
Allgreen	1,445	1.19	Neutral	1.24	4%	1.6	-26%	10.6	9.3	2.9
City Developments	9,025	13.00	Sell	11.70	-10%	12.3	6%	19.0	13.2	1.5
Keppel Land	4,834	4.62	Buy	5.08	10%	4.3	7%	16.7	16.6	7
<b>China</b>										
Country Garden	6,305	2.98	Neutral	3.25	9%	6.8	-56%	10.0	6.7	1.9
COLI	15,546	14.80	Sell	13.47	-9%	26	-43%	12.9	7.7	n.a.
Shimao	5,376	11.84	Neutral	14.85	25%	37.4	-68%	9.1	8.1	4.2
Agile Property	5,294	11.58	Neutral	12.62	9%	39.6	-71%	9.8	9.4	4.1
Guangzhou R&F	4,492	10.84	Neutral	12.74	18%	32.9	-67%	6.8	7.4	6.2
CR Land	8,902	13.78	Buy	18.50	34%	19.5	-29%	12.7	9.1	2.8
Sino-Ocean	3,755	5.18	Buy	7.14	38%	11.7	-56%	8.6	6.4	2.8
<b>Indonesia</b>										
Ciputra Development	604	360.00	Buy	625.00	74%	623.4	-42%	26.9	13.4	n.a.
Summarecon	869	1140.00	Buy	1755.00	54%	208.9	446%	30.2	18.3	1.5
<b>Malaysia</b>										
SP Setia	1,830	5.65	Buy	6.70	19%	6.1	-7%	21.7	16.8	1.5
<b>Philippines</b>										
Ayala Land	4,896	16.52	Buy	23.50	42%	21.8	-24%	38.0	20.8	1.3
<b>Thailand</b>										
Central Pattana	2,047	28.25	Buy	34.00	20%	30.1	-6%	34.9	16.2	4.1
<b>India:</b>										
Prestige	1,177	162.70	Buy	220.00	35%	275	-41%	24.1	18.3	3.5
DLF Limited	10,454	278.00	Buy	425.00	53%	500	-44%	24.1	16.8	4.3
Unitech	3,258	61.90	Buy	108.00	74%	363	-83%	21.3	15.5	4.3
IBREL	1,206	136.35	Buy	235.00	72%	135	1%	37.5	24.2	4.3
HDIL	1,428	187.15	Buy	236.00	26%	800	-77%	8.6	5.3	3.6
Godrej Properties	942	611.50	Buy	956.00	56%	1275	-52%	36.5	29.1	4.2
DB Realty	1,040	193.75	Buy	560.00	189%	412	-53%	13.2	8.6	1.3
Phoenix Mills	706	221.05	Buy	330.00	49%	315	-30%	35.8	21.5	5.3

Note: NAV, share prices and price targets in local currency. Above data as at 15 December 2010.

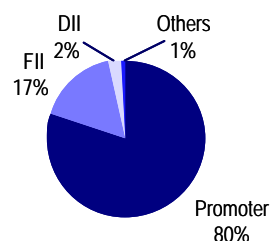
Source: Reuters, UBS estimates

## Company background

Prestige is a South India-focused real estate developer with a diversified real estate portfolio in residential, commercial, retail, and hospitality. Most of its developable area is in Bangalore (84%) and the company is now expanding to other South Indian cities. Prestige also provides allied services, such as interior design, property management services, and sub-letting services. Established 24 years ago, Prestige has developed a number of landmark properties in Bangalore including: UB City (one the tallest buildings in Bangalore), Prestige Shantiniketan (one of the biggest integrated complexes in Bangalore) and the Forum Mall.

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Chart 16: Shareholding



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Source: Company data, BSE







# Prestige Estates Projects

Income statement (Rsm)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	-	4,209	9,768	8,981	10,244	13,465	31.4	17,958	33.4	22,324	24.3
Operating expenses (ex deprn)	-	(3,269)	(8,379)	(6,392)	(8,008)	(9,772)	22.0	(12,159)	24.4	(15,023)	23.6
EBITDA (UBS)	-	941	1,389	2,589	2,236	3,693	65.1	5,799	57.0	7,301	25.9
Depreciation	-	(191)	(269)	(398)	(491)	(525)	7.0	(560)	6.7	(580)	3.6
Operating income (EBIT, UBS)	-	749	1,120	2,191	1,746	3,168	81.5	5,239	65.4	6,721	28.3
Other income & associates	-	62	125	180	616	493	-20.0	443	-10.0	488	10.0
Net interest	-	(204)	(455)	(1,340)	(783)	(878)	12.2	(993)	13.0	(875)	-11.8
Abnormal items (pre-tax)	-	0	0	0	0	0	-	0	-	0	-
Profit before tax	-	607	791	1,031	1,579	2,782	76.2	4,689	68.6	6,333	35.1
Tax	-	(216)	(249)	(323)	(283)	(695)	146.2	(1,313)	88.8	(1,900)	44.7
Profit after tax	-	391	542	708	1,296	2,086	60.9	3,376	61.8	4,433	31.3
Abnormal items (post-tax)	-	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	-	(51)	133	67	158	0	-	0	-	0	-
Net income (local GAAP)	-	340	675	775	1,454	2,086	43.5	3,376	61.8	4,433	31.3
Net Income (UBS)	-	340	675	775	1,454	2,086	43.5	3,376	61.8	4,433	31.3
Tax rate (%)	-	36	31	31	18	25	39.7	28	12.0	30	7.1
Pre-abnormal tax rate (%)	-	36	31	31	18	25	39.7	28	12.0	30	7.1
Per share (Rs)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	-	1.30	2.57	2.95	5.54	6.36	14.8	10.29	61.8	13.51	31.3
EPS (UBS)	-	1.30	2.57	2.95	5.54	6.36	14.8	10.29	61.8	13.51	31.3
Net DPS	-	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	2.02	3.59	4.47	7.41	7.96	7.4	12.00	50.7	15.28	27.4
BVPS	-	5.53	15.33	18.85	23.28	66.23	184.5	76.52	15.5	90.04	17.7
Balance sheet (Rsm)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	-	2,686	6,293	9,138	9,242	8,820	-4.6	8,506	-3.6	8,189	-3.7
Net intangible fixed assets	-	633	969	1,081	1,098	1,098	0.0	1,098	0.0	1,098	0.0
Net working capital (incl. other assets)	-	3,392	7,515	8,303	14,427	19,185	33.0	26,359	37.4	32,859	24.7
Other liabilities	-	0	0	0	0	0	-	0	-	0	-
Operating invested capital	-	6,711	14,777	18,521	24,768	29,103	17.5	35,964	23.6	42,146	17.2
Investments	-	1,241	1,714	1,094	1,606	10,899	578.6	4,775	-56.2	2,775	-41.9
Total capital employed	-	7,952	16,491	19,615	26,374	40,002	51.7	40,739	1.8	44,922	10.3
Shareholders' equity	-	1,813	5,030	6,185	7,638	21,728	184.5	25,105	15.5	29,538	17.7
Minority interests	-	725	2,324	2,305	2,721	2,921	7.3	3,121	6.8	3,321	6.4
Total equity	-	2,538	7,354	8,491	10,359	24,650	138.0	28,227	14.5	32,860	16.4
Net debt / (cash)	-	5,414	9,137	11,125	16,015	15,352	-4.1	12,512	-18.5	12,062	-3.6
Other debt-deemed items	-	0	0	0	0	0	-	0	-	0	-
Total capital employed	-	7,952	16,491	19,615	26,374	40,002	51.7	40,739	1.8	44,922	10.3
Cash flow (Rsm)	-	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	-	749	1,120	2,191	1,746	3,168	81.5	5,239	65.4	6,721	28.3
Depreciation	-	191	269	398	491	525	7.0	560	6.7	580	3.6
Net change in working capital	-	(2,488)	(906)	(2,239)	(5,060)	(4,454)	-12.0	(7,514)	68.7	(6,491)	-13.6
Other (operating)	-	0	0	0	0	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	-	(1,547)	483	350	(2,823)	(762)	-73.0	(1,716)	125.3	810	-
Net interest received / (paid)	-	(204)	(455)	(1,340)	(783)	(878)	12.2	(993)	13.0	(875)	-11.8
Dividends paid	-	0	0	0	0	0	-	0	-	0	-
Tax paid	-	(216)	(249)	(323)	(283)	(695)	146.2	(1,313)	88.8	(1,900)	44.7
Capital expenditure	-	(1,012)	(6,421)	(1,281)	(1,373)	308	-	82	-73.3	0	-
Net (acquisitions) / disposals	-	0	0	0	0	0	-	0	-	0	-
Other	-	-	3,334	871	(2,577)	(9,093)	252.8	6,325	-	2,200	-65.2
Share issues	-	0	0	0	2,500	12,005	380.2	0	-	0	-
Cash flow (inc)/dec in net debt	-	(3,050)	(3,308)	(1,723)	(5,339)	885	-	2,386	169.7	235	-90.2
FX / non cash items	-	-	(415)	(264)	449	(222)	-	454	-	215	-52.6
Balance sheet (inc)/dec in net debt	-	-	(3,723)	(1,988)	(4,890)	663	-	2,840	328.5	450	-84.2
Core EBITDA	-	941	1,389	2,589	2,236	3,693	65.1	5,799	57.0	7,301	25.9
Maintenance capital expenditure	-	(191)	(269)	(398)	(491)	(525)	7.0	(560)	6.7	(580)	3.6
Maintenance net working capital	-	(2,488)	(906)	(2,239)	(5,060)	(4,454)	-12.0	(7,514)	68.7	(6,491)	-13.6
Operating free cash flow, pre-tax	-	(1,739)	214	(48)	(3,314)	(1,287)	-61.2	(2,276)	76.9	230	-

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Company profile

Prestige Estates Projects (Prestige) is a South India-focused real estate developer with a diversified real estate portfolio in residential, commercial, retail, and hospitality. Most of its developable area is in Bangalore (84%) and it is now expanding to other South Indian cities. Prestige also provides allied services, such as interior design, property management services, and sub-letting services. Established 24 years ago, Prestige has developed a number of landmark properties in Bangalore, including UB City, Prestige Shantiniketan, and the Forum Mall.

Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	-	-	25.6	15.8	12.0
P/E (UBS)	-	-	-	25.6	15.8	12.0
P/CEPS	-	-	-	20.4	13.6	10.6
Net dividend yield (%)	-	-	-	0.0	0.0	0.0
P/BV	-	-	-	2.5	2.1	1.8
EV/revenue (core)	-	-	-	3.9	3.3	2.7
EV/EBITDA (core)	-	-	-	14.3	10.2	8.4
EV/EBIT (core)	-	-	-	16.6	11.3	9.1
EV/OpFCF (core)	-	-	-	NM	NM	NM
EV/op. invested capital	-	-	-	2.0	1.8	1.6

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	-	-	53,377	53,377	53,377
+ minority interests	2,305	2,721	2,921	3,121	3,321
+ average net debt (cash)	7,275	7,275	7,275	7,275	7,275
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(1,094)	(1,606)	(10,899)	(4,775)	(2,775)
Core enterprise value	-	-	52,675	58,999	61,199

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	-	-8.1	14.1	31.4	33.4	24.3
EBITDA (UBS)	-	86.4	-13.6	65.1	57.0	25.9
EBIT (UBS)	-	95.6	-20.3	81.5	65.4	28.3
EPS (UBS)	-	14.8	87.7	14.8	61.8	31.3
Cash EPS	-	24.3	65.8	7.4	50.7	27.4
Net DPS	-	-	-	-	-	-
BVPS	-	23.0	23.5	184.5	15.5	17.7

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	-	28.8	21.8	27.4	32.3	32.7
EBIT / revenue	-	24.4	17.0	23.5	29.2	30.1
Net profit (UBS) / revenue	-	8.6	14.2	15.5	18.8	19.9

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	13.2	8.1	11.8	16.1	17.2
ROIC post tax	-	9.0	6.6	8.8	11.6	12.0
Net ROE	-	13.8	21.0	14.2	14.4	16.2

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	1.8	3.0	4.2	5.7	8.2
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	4.3	7.2	4.2	2.2	1.7

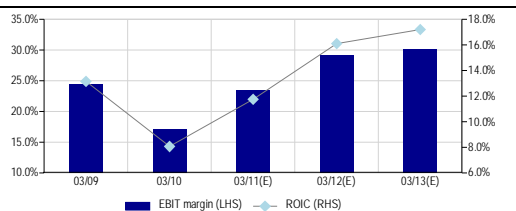
Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	0.5	0.5	0.5	0.6	0.6
Revenue / fixed assets	-	1.0	1.0	1.3	1.8	2.4
Revenue / net working capital	-	1.6	1.1	0.9	0.8	0.8

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	-	NM	NM	NM	NM	0.0
Capex / revenue (%)	-	14.3	13.4	NM	NM	0.0
Capex / depreciation	-	3.2	2.8	NM	NM	0.0

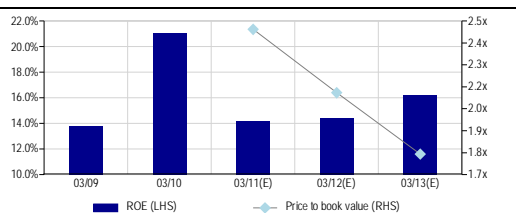
Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	-	NM	NM	70.7	49.8	40.8
Net debt / (net debt + equity)	-	64.3	67.7	41.4	33.3	29.0
Net debt (core) / EV	-	-	-	13.8	12.3	11.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs162.70 on 15 Dec 2010 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

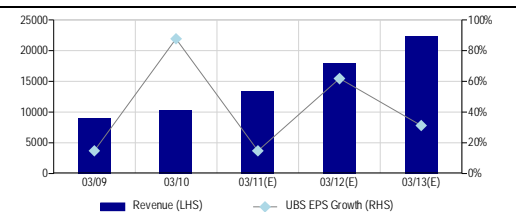
Profitability



ROE v Price to book value



Growth (UBS EPS)



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## ■ Prestige Estates Projects

Prestige Estates Projects (Prestige) is a South India-focused real estate developer with a diversified real estate portfolio in residential, commercial, retail, and hospitality. Most of its developable area is in Bangalore (84%) and it is now expanding to other South Indian cities. Prestige also provides allied services, such as interior design, property management services, and sub-letting services. Established 24 years ago, Prestige has developed a number of landmark properties in Bangalore, including UB City, Prestige Shantiniketan, and the Forum Mall.

## ■ Statement of Risk

We believe the key risks for Prestige are: 1) its high dependence on the Bangalore market (84% of total land reserve), that exposes the company to any slowdown in the global and Indian IT sector; 2) its relatively high exposure to premium residential housing (20% of NAV) which is more prone to affordability if there is a slowdown in the recovery cycle; and 3) intensifying competition in Bangalore and oversupply concerns in particular areas such as Whitefield (17% of our NAV). There is risk of litigation or controversy in its JDA model could result from execution delays.

## ■ Analyst Certification

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	20%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2010.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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**UBS Securities India Private Ltd:** Ashish Jagnani; Ruchi Patwari.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Prestige Estates Projects <sup>2, 4, 5, 13</sup>	PREG.BO	Not Rated	N/A	Rs162.70	15 Dec 2010

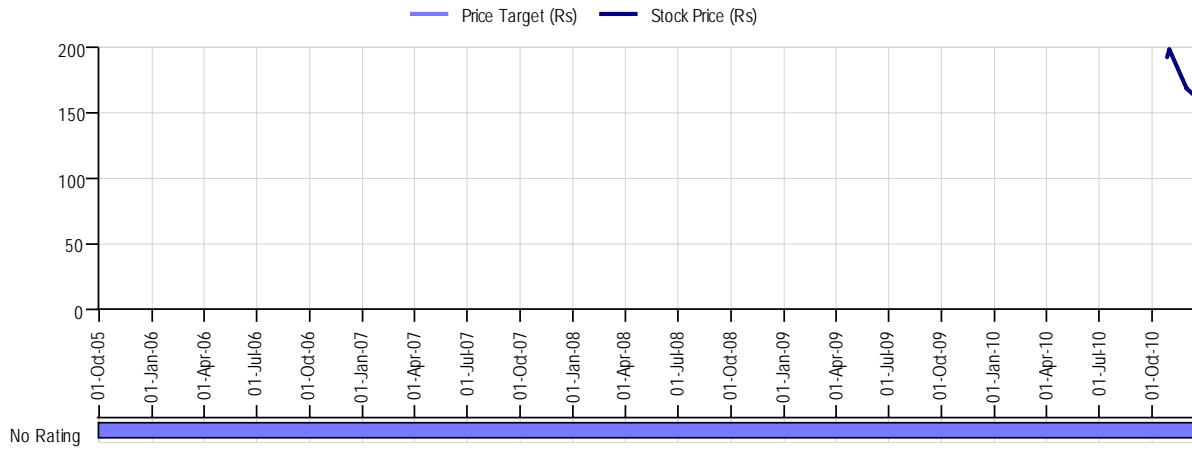
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### Prestige Estates Projects (Rs)



Source: UBS; as of 15 Dec 2010

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