Company Flash

1 February 2008 | 6 pages

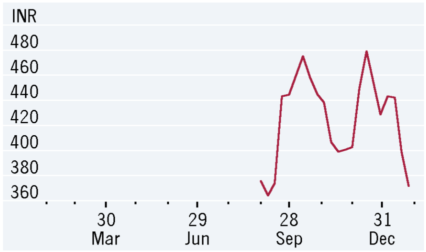
Puravankara Projects (PPRO.BO)

Strong 3Q – Valuations Look Compelling, Maintain Buy

- **Strong results** — Revenues grew 78% yoy to Rs1,505m while net profit increased 122% yoy to Rs631m on account of a sharp increase in EBITDA margin by 830bps YoY to 39.4% and net interest income of Rs62m in 3Q FY08, compared to interest expense of Rs3m in 3Q FY07, given the healthy cash balance of ~Rs1.3bn as at 31 Dec 2007.
- **What's new?** — 1) ~72.8 acres of land added – 30 acres in Hyderabad near Hitech City and 42.8 acres in Sriperumbudur near Chennai. These are still to be included in our NAV estimate. 2) Area under construction has increased to 18.8m sq ft with the launch of two large residential projects in Chennai and Kolkata (JV with Keppel Land) with a total area of ~6m sq ft. Initial response to these two new launches has been healthy.
- **Key strengths** — 1) Quality landbank that is largely within the city limits of Bangalore; 2) Direct sales model, which tends to reduce speculative activity; and 3) In-house construction expertise. These factors position the company as a quality mid-scale developer.
- **Exposure to South an advantage** — Puravankara's large exposure to Bangalore and Chennai is an advantage over North India-based developers in our view since we believe South India appears to have lower supply risks, more reasonable property prices and lesser speculation.
- **Maintain Buy/Medium Risk** — Valuations look attractive with the stock trading at a discount of 44% to our NAV estimate of Rs564.

Buy/Medium Risk	1M
Price (01 Feb 08)	Rs317.10
Target price	Rs536.00
Expected share price return	69.0%
Expected dividend yield	0.3%
Expected total return	**69.3%**
Market Cap	Rs67,677M US$1,723M

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



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	735	3.83	93.3	82.8	54.6	90.2	0.0
2007A	1,304	6.79	77.4	46.7	27.5	78.3	0.2
2008E	2,527	11.83	74.3	26.8	5.2	32.9	0.3
2009E	4,868	22.80	92.7	13.9	3.8	31.6	0.5
2010E	6,477	30.34	33.0	10.5	2.9	31.3	0.6

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Figure 1. Puravankara 3Q and 9-month Earnings Summary

Rs in Millions	3Q FY07	3Q FY08	YoY	9M FY07	9M FY08	YoY
Revenues	843	1,505	78%	2,759	4,119	49%
EBITDA	262	593	126%	871	1,592	83%
EBITDA Margin	31.1%	39.4%		31.6%	38.7%	
Depreciation	6	24	285%	18	45	153%
Interest Expense	3	-62		11	-96	
Profit of associates	61	66	9%	93	214	131%
PBT	314	697	122%	935	1,857	99%
PAT	284	631	122%	826	1,673	103%

Source: Company Reports and Citi Investment Research

Puravankara Projects

Company description

Puravankara Projects is one of the leading developers in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business, with Puravankara being incorporated in 1986. The company 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 Buy/Medium Risk with a target price of Rs536. Growth for Puravankara's residential-heavy model stems from its quality landbank of ~107m sq ft. Its clear development titles, acquired at a low cost of ~Rs100/sq ft and a large part already paid, differentiates it from other developers. We believe its competitive strength lies in some of its operating virtues: it runs primarily a direct marketing model, supports its development activity with its own construction capabilities, has relatively high levels of in-house execution, and enjoys a strong execution and post-delivery record. Puravankara's focus on S. India, in the larger markets of Bangalore (73% of gross NAV) and Chennai (8%), is in our view an advantage over developers with a National Capital Region (NCR) bias.

Valuation

Our target price of Rs536 is based on a 5% discount to an estimated core NAV of Rs564. We believe an NAV-based valuation methodology is most appropriate for developers, as it factors in the varied development projects and spread out time frame. Our NAV estimate of Rs564 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume will be 105.3m sq ft (as ~1.5m is already recognized as revenue in FY07); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Bangalore and Chennai and 10% for other locations; 4) all projects undertaken by Puravankara will be completed largely on schedule; 5) an average cost of capital of 14%; and 6) a tax rate of 25%. We expect Puravankara, a quality mid-scale developer, to trade at a 5% discount to NAV. We ascribe the discount to the following factors: 1) Puravankara's concentration risk in Bangalore (73% of total development), where the potential supply could be large; 2) the company's residential-heavy business model, exposing its business to demand/price risks; 3) possible execution delays, given the large development; and 4) risk of slower than expected sales, given its direct sales model could push back cash flows.

Risks

We rate Puravankara Medium Risk, as opposed to the Speculative Risk rating assigned by our quantitative risk-rating system to stocks that have less than 260-day trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's integrated model with in-house construction expertise and direct marketing channel; 2) relatively healthy cash flows, at a time when most developers are facing fund constraints; and 3) the company's large exposure to South India, which we believe is a relatively less speculative market and has strong demand potential. The main downside risks to our target price include: 1) Concentration in the Bangalore region (73% of development), where excess supply over the next 2-3 years could adversely impact our price realization assumptions; 2) Delays in the execution of projects and planned developments would impact the company's reputation and our NAV assumptions; and 3) A rapidly changing property market environment could lead to property price-demand risks, regulatory risks and potential supply risks.

Appendix A-1

Analyst Certification

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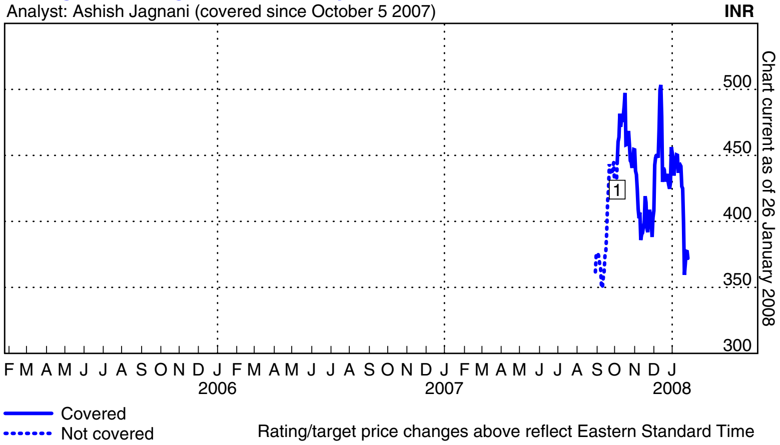
Puravankara Projects (PPRO.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since October 5 2007)



Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	4 Oct 07	1M	536.00	444.50

*Indicates change.

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