

Realty Sector

18 September 2012

Bangalore Realty Market Continues To Remain Healthy

Our interaction with Bangalore-based brokers indicates that absorption in the residential segment is strong, but they expect capital appreciation to remain muted in 2012. Further, they believe there is slowdown in office leasing as occupiers defer space requirement, but select areas like Bangalore East (Sarjapur, Whitefield, Outer Ring Road etc.) continue to witness strong absorption and may witness marginal capital appreciation due to pick-up in commercial activity. We believe Prestige Estates Projects (PEPL) will be a major beneficiary with its new project launches and more than 50% of its commercial portfolio in these peripheral areas. We expect pre-sales of Bangalore-based realty companies in our coverage universe to continue to remain healthy in 2QFY13 on the back of strong absorption in their projects launched recently. We retain our Buy rating on PEPL and Hold rating on Sobha Developers (SDL).

SDL & PEPL likely to achieve FY13 pre-sales guidance: In the current quarter, so far SDL has launched three new projects totaling 0.92mn sq ft and re-launched its Sobha signature luxury residential project as mid-income Sobha Eternia (0.22mn sq ft). PEPL has launched its Ferns residency project (Bangalore) totaling 2mn sq ft (PEPL share). The projects have been launched at healthy prices and our channel checks indicate a good response for the projects. We believe PEPL and SDL are likely to meet their FY13 pre-sales guidance of Rs25bn and Rs20bn respectively.

Residential volume to remain healthy, capital appreciation to halt: Residential property prices in Bangalore have gone up by 10-15% over the past six-nine months. Unlike other property markets, prices in Bangalore have moved in tandem with growth in salary levels over the past three years, thereby making it affordable for end-users. Our channel checks with brokers indicate volume to remain healthy but expect halt in capital appreciation in the near term. We have factored in a 5% capital appreciation YoY from FY13. However, select areas like Bangalore East (Sarjapur, Whitefield, Outer Ring Road etc.) may witness marginal capital appreciation due to pick-up in commercial activity. We believe PEPL and SDL will be major beneficiaries with new launches like Ferns Residency, Misty Waters and Eternia in the peripheral areas of Bangalore East.

Slowdown in office leasing; absorption driven by Bangalore East: According to Cushman & Wakefield, Bangalore has witnessed highest absorption of 3mn sq ft in 1HCY12 as compared to other cities, but posted a significant decline of 45% YoY. This was on account of lack of supply and cautious approach from occupiers, thereby deferring space requirement. Our interaction with brokers also indicated slowdown in office leasing. However, absorption of Grade A properties in peripheral areas of Outer Ring Road, Whitefield & Electronic City continues to remain healthy, accounting for more than 75% of total absorption in 1HCY12. PEPL has over 50% of its commercial portfolio in these peripheral areas, which will enable the company to evolve as largest office space provider in these areas.

BUY

Prestige Estates
CMP: Rs121

Target Price: Rs143

Upside: 18%

HOLD

Sobha Developers
CMP: Rs339

Target Price: Rs364

Upside: 7%

Param Desai

 param.desai@nirmalbang.com
 +91-22-3926 8128

| Y/E March | CMP | | TP | NAV | Discount / (Premium) to NAV | EPS CAGR | FY14E P/E | FY14E RoE | FY14E P/BV |
|------------------|------|--------|------|------------|--------------------------------|--------------|--------------|--------------|---------------|
| | (Rs) | Rating | (Rs) | (Rs/share) | (%) | FY12-14E (%) | (x) | (%) | (x) |
| Prestige Estates | 121 | Buy | 143 | 177 | 31.6 | 104.9 | 11.5 | 14.0 | 1.5 |
| Sobha Developers | 339 | Hold | 364 | 455 | 25.5 | 26.0 | 10.2 | 14.2 | 1.4 |

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track - Prestige Estates

| Date | Rating | Market price (Rs) | Target price (Rs) |
|---------------|--------|-------------------|-------------------|
| 9 April 2012 | Buy | 106 | 143 |
| 13 April 2012 | Buy | 120 | 143 |
| 10 July 2012 | Buy | 121 | 143 |
| 1 August 2012 | Buy | 112 | 143 |

Ratings track - Sobha Developers

| Date | Rating | Market price (Rs) | Target price (Rs) |
|------------------|--------|-------------------|-------------------|
| 4 October 2011 | Hold | 208 | 227 |
| 10 October 2011 | Hold | 212 | 227 |
| 15 November 2011 | Hold | 226 | 227 |
| 5 January 2012 | Hold | 206 | 227 |
| 11 January 2012 | Hold | 220 | 227 |
| 23 January 2012 | Sell | 246 | 227 |
| 11 April 2012 | Hold | 321 | 354 |
| 13 April 2012 | Hold | 334 | 354 |
| 8 May 2012 | Hold | 320 | 354 |
| 10 July 2012 | Hold | 327 | 354 |
| 8 August 2012 | Hold | 362 | 364 |

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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Team Details:

| Name | | Email Id | Direct Line |
|-----------------|------------------|--------------------------------|-----------------------|
| Rahul Arora | CEO | rahul.arora@nirmalbang.com | +91 22 3926 8098 / 99 |
| Hemindra Hazari | Head of Research | hemindra.hazari@nirmalbang.com | +91 22 3926 8017 / 18 |

Sales and Dealing:

| | | | |
|----------------|--------------|-------------------------------|---|
| Neha Grover | AVP Sales | neha.grover@nirmalbang.com | +91 22 3926 8093 |
| Ravi Jagtiani | Dealing Desk | ravi.jagtiani@nirmalbang.com | +91 22 3926 8230, +91 22 6636 8832 |
| Sudhindar Rao | Dealing Desk | sudhindar.rao@nirmalbang.com | +91 22 3926 8229 |
| Pradeep Kasat | Dealing Desk | pradeep.kasat@nirmalbang.com | +91 22 3926 8102/8103, +91 22 6636 8831 |
| Michael Pillai | Dealing Desk | michael.pillai@nirmalbang.com | +91 22 3926 8100/8101, +91 22 6636 8830 |

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010