PENINSULA LAND LIMITED

CMP: Rs. 694 Price Target: Rs. 766

ACCUMULATE

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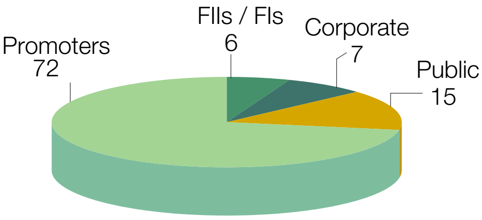
Initiating Coverage : ACCUMULATE

Price	**693**
Target Price	766, 11%
52 Week H/L	967/235
Shares o/s	39.49mn
Market Cap (Rs)	27bn
Market Cap ($)	0.61bn
Avg daily trading vol. (3m)	0.3mn
BSE Sensex	13,799
Nifty	3,962

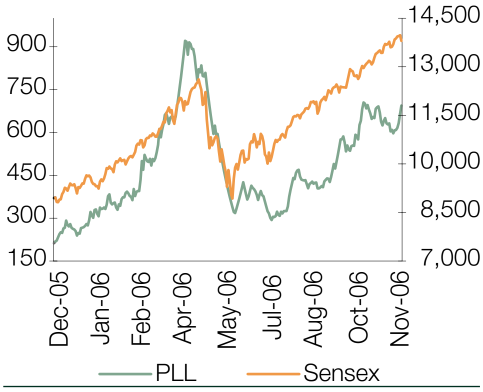
(Source: Bloomberg)

Shareholding Pattern (%)



(Source: BSE)

Price Performance



(Source: Capitaline)

Performance (%)

	1M	3M	12M	YTD
Absolute	6.7	71.8	179.4	160.1
Relative	2.7	43.8	83.6	77.2

(Source: Bloomberg)

Financial Summary

Rs mn (yr end-June)	FY06A*	FY07E	FY08E
Sales	2,724	5,229	7,641
% change	250	140	46
EBIDTA	1,422	3,077	4,785
EBIDTA margin (%)	52.2	58.8	62.6
Net profit	1,387	2,383	2,559
EPS, Rs	28.1	53.6	57.5
% change	163	138	7
RoE (%)	166.6	83.7	49.1
Net D/E (x)	2.9	(0.2)	1.0
P/E (x)	24.7	12.9	12.0
P/BV (x)	16.8	7.8	4.8
EV/EBIDTA (x)	25.0	9.8	7.7

(Source: Company, Ambit Capital Research)
** FY06 is a 15-month period*

PENINSULA LAND LIMITED

(REUTERS: PENL.BO BLOOMBERG: PENL IN)

Peninsula Land Limited (PLL) is a niche player in the real estate business. It operates mainly in the city of Mumbai and is also looking to expand its construction activities in Pune and Goa. Previously, it has built landmark projects like 'Crossroads & CR - 2' shopping malls and 'Peninsula Corporate Park' in Mumbai. The company's current portfolio includes premium residential, commercial, IT Park and SEZ developments. The company currently has over 25mn sq ft of space under development.

We are positive on the overall prospects of the real estate sector, but we believe current valuation of PLL factor's in most of the available information. We recommend accumulating the stock on declines.

Key Investment Rationale

- **Positive Real Estate Outlook:** The real estate sector has given phenomenal returns in the past couple of years. We expect the sector to continue to be attractive.
  - Mumbai residential and commercial prices increased by ~28-40% and ~50-94% respectively in the last year.
  - Goa government's Biotech initiative should help PLL derive substantial value through its 2 Biotech and 1 gems and jewellery SEZ, spread over a total area of 200 acres, land for which is already acquired.
  - IT/ITES sector has led to an increased demand for good quality infrastructure. To tap this demand PLL is building a Techno Park near the industrial Bandra-Kurla Complex (BKC) and 2 IT parks in Pune.
- **Strong Execution Skills:** Within the sector, PLL has made a niche for itself through successful completion of various landmark projects in Mumbai. We expect this execution capability to be a key strength in quality construction and timely delivery and expect the brand name to gain wider recognition as it forays into Pune, Goa and the South Indian Market.
- **Visible growth:** Based on its existing and announced projects, we expect the company to post revenue CAGR of 63% over FY07E-FY09E and a PAT CAGR of 45% over the same period. We believe the company's ability to acquire land at reasonable prices and maintain EBITDA margins through immaculate and immediate execution would be key to growth in the future, as its land bank is limited. Though this strategy would protect the company in case of a downturn in land prices.
- **Realty Fund to open new horizons:** A domestic and a foreign fund with a combined corpus of nearly ~Rs20bn is being floated by PLL. The company intends to co-invest 25% of the total project investments. This would generate revenue by way of (a) AMC fees, (b) profit sharing above hurdle rate and (c) property development activities.

Valuation & View

We believe PLL is trading at a discount of 11% to SOTP valuation of its announced projects and believe that at current valuations the growth has been factored in.

Upside risk to our estimates could be on account of better than expected realizations and newer project announcements. Downside risks could be on account of execution and cost escalations due to land acquisition at current market rates for future projects, as the company does not have land tied in for future projects.

We initiate coverage on the stock with a rating of accumulate, with a 12-month target price of Rs. 766 based on SOTP valuation of its projects.

Key Financial (Year end-June)

Balance Sheet, Rs. mn (year end-June)	FY05A	FY06A	FY07E*	FY08E	FY09E
Cash & equivalents	7	87	5,572	628	474
Debtors	11	2,358	860	1,256	1,027
Inventory	1,970	2,508	1,062	1,409	1,488
Investments	0	137	137	1,137	3,137
Fixed Assets	39	242	1,087	9,255	18,530
Other assets	1,384	1,661	1,580	1,380	1,280
Total assets	**3,411**	**6,993**	**10,297**	**15,065**	**25,936**
Current Liabilities	297	637	1,561	1,971	1,776
Interest bearing debt	3,540	4,799	4,799	6,799	14,639
Other Liabilities	0	0	0	0	0
Total liabilities	**3,837**	**5,437**	**6,360**	**8,770**	**16,415**
Shareholders' equity	195	395	445	445	445
Reserves & surpluses	(607)	1,236	3,492	5,925	9,151
Total networth	**(412)**	**1,631**	**3,937**	**6,370**	**9,596**
Net working capital	(2,095)	(5,182)	(1,314)	(1,648)	(1,693)
Net debt/ (Cash)	3,534	4,712	(773)	6,171	14,165

(Source: Company, Ambit Capital Research)

Income statement, Rs mn (year end- June)	FY05A	FY06A	FY07E	FY08E	FY09E
Total revenues	622	2,724	5,229	7,641	9,373
% growth		250	140	46	23
Cost of Sales	472	1,302	2,153	2,856	2,172
EBITDA	**150**	**1,422**	**3,077**	**4,785**	**7,201**
% growth		657	171	56	50
Depreciation	2	63	55	386	727
EBIT	**148**	**1,359**	**3,022**	**4,400**	**6,474**
Net interest/ (income)	(19)	(32)	368	545	1,425
Pre-tax profit	**167**	**1,391**	**2,654**	**3,855**	**5,049**
Tax	0	4	271	1,295	1,696
Net profit	**167**	**1,387**	**2,383**	**2,559**	**3,353**
% growth		566	115	7	31
Extraordinary Income	(262)	55	0	0	0
Reported PAT	**(95)**	**1,442**	**2,383**	**2,559**	**3,353**

(Source: Company, Ambit Capital Research)

Cash flow, Rs. mn (Year end- June)	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT	148	1,359	3,022	4,400	6,474
Other Income/(Expense)	19	87	(368)	(545)	(1,425)
Depreciation/ amortization	2	63	55	386	727
Tax paid	0	(4)	(271)	(1,295)	(1,696)
Net working capital	(273)	(3,087)	3,867	(334)	(45)
Operating cash flow	**(104)**	**(1,582)**	**6,306**	**2,611**	**4,035**
Capital expenditure	12	(265)	(900)	(8,554)	(10,002)
Investments	37	(137)	0	(1,000)	(2,000)
Change in Misc Assets	170	206	156	125	100
Investing cash flows	**219**	**(197)**	**(744)**	**(9,429)**	**(11,901)**
Increase/ (decrease) in borrowings	224	1,259	0	2,000	7,840
Issuance of equity	(144)	714	49	0	(0)
Dividend paid	0	(113)	(127)	(127)	(127)
Financing cash flow	**80**	**1,860**	**(77)**	**1,873**	**7,713**
Net change in cash	195	80	5,485	(4,944)	(153)
Closing cash balance	**7**	**87**	**5,572**	**628**	**474**

(Source: Company, Ambit Capital Research)

** Note that FY06 was a 15-month period ending June. All the growth rates and other ratios and EPS has been annualized for this adjustment.*

Key Financial (Year end-June)

Ratio analysis (%)	FY05A	FY06A	FY07E*	FY08E	FY09E
EBIDTA margin (%)	24.1	52.2	58.8	62.6	76.8
EBIT Margin (%)	23.8	49.9	57.8	57.6	69.1
Net profit margin (%)	26.8	50.9	45.6	33.5	35.8
Return on equity (%)	(57.0)	166.6	83.7	49.1	41.7
Return on capital employed (%)	5.3	26.6	37.1	27.5	23.1
Net debt to equity (%)	(8.6)	2.9	(0.2)	1.0	1.5
Current ratio (x)	8.1	9.3	5.4	2.2	2.2

(Source: Company, Ambit Capital Research)

Valuation parameters	FY05A	FY06A	FY07E	FY08E	FY09E
Diluted No. of Shares (mn)	19.5	39.5	44.5	44.5	44.5
Diluted EPS (Rs.)	8.5	28.1	53.6	57.5	75.4
Book Value (Rs.)	(21.1)	41.3	88.5	143.2	215.7
P/E (x)	81.1	24.7	12.9	12.0	9.2
P/BV (x)	(32.8)	16.8	7.8	4.8	3.2
EV/ EBIDTA (x)	200.2	25.0	9.8	7.7	6.2
EV/Sales(x)	48.3	11.0	5.7	3.9	3.2

(Source: Company, Ambit Capital Research)

** Note that FY06 was a 15-month period ending June. All the growth rates and other ratios and EPS has been annualized for this adjustment.*

Assumptions

Project Name	Area to be developed (mn sq. ft.)	Realizations (Rs. / sq. ft.)	Land Cost (Rs. mn / acre)	Construction Cost (Rs. / sq. ft.)
Saleable Properties				
Ashok Tower	1.1	7,500	-	2,900
Ashok Garden*	0.9	7,000	-	-
Techno Park*	0.7	10,250	-	-
Dawn Mills	0.6	18,000	-	2,500
Leasable Properties (Lease rents are per month rates)				
IT Park - 1	1.6	35	9.6	1,700
IT Park - 2	7.6	40	8.5	1,700
SEZ	15.7	30	4.5	1,500

**PLL has paid Rs.300mn to Swan Mills for purchasing 22% of the revenues of these two projects. Also, Rs.100mn has been paid for additional FSI granted to TechnoPark.*

(Source: Company, Ambit Cap Research)

Revenue break-up

Rs. mn	FY07E	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E
Ashok Tower	3,218	3,300	0	0	0	0	0
Ashok Garden	416	485	485	0	0	0	0
Techno Park	526	526	526	0	0	0	0
Dawn Mills	0	2,700	5,940	2,160	0	0	0
IT Park - 1	0	0	229	491	655	655	655
IT Park - 2	0	0	732	1,464	2,195	2,927	3,659
SEZ	0	0	1,130	2,826	4,522	5,652	5,652
Leasing Business	130	130	130	130	130	130	130
Realty Fund	0	300	200	1,720	2,000	2,324	3,550
Others	1,140	200					
Total	**5,429**	**7,641**	**9,373**	**8,791**	**9,502**	**11,689**	**13,646**

(Source: Ambit Capital Research)

Background

Peninsula Land Limited (PLL) is a niche player in the real estate business. It operates mainly in the city of Mumbai and is also looking to expand its construction activities in Pune and Goa. Previously, it has built landmark projects like 'Crossroads & CR - 2' shopping malls and 'Peninsula Corporate Park' in Mumbai.

Formation of Peninsula Land Ltd (PLL): PLL was formed following the restructuring of the erstwhile Morarjee Gokaldas Spinning & Weaving Company. Through the restructuring, the pharmaceutical business was demerged to Nicholas Piramal India Ltd and the realty business was transferred to Morarjee Realities Ltd. In FY06, the company rechristened itself to “Peninsula Land Limited”.

Recently, it has merged Piramal Holding Limited (the realty arm of Ashok Piramal's Morarjee group) and the leasing business of Piramyd Retail & Merchandising Ltd.

Promoters: The company is promoted by the Ashok Piramal Group. The promoters of PLL are extremely focused in their growth plans and augur confidence towards the realization of the goals set for the company. They are also cognizant of their limitations and have a clear focus on execution.
The company scores high on corporate governance and transparency among its peers, with all the real estate interests of the group residing within PLL to avoid conflict of interest.

Project Pipeline

Project Name	Location	Expected Completion	Area under construction Mn Sq. ft.	Particulars
Residential				
Ashok Towers	Central Mumbai	FY08	1.10	This is a 4-building project out of which 3 will be 30 storeys each and the 4th will have 50 storeys. Its located opposite to ITC Grand Sheraton in Central Mumbai
Ashok Gardens	Sewri, Mumbai	FY09	0.90	PLL is doing this project in JV with Swan Mills in which PLL gets 22% of the revenue. The project involves construction of area close to 0.9mn sq ft.
Commercial				
Dawn Mills	Lower Parel, Mumbai	FY10	0.60	It plans to build a commercial office space of close to 0.6mn sq ft on the lines of "Peninsula Corporate Park"
IT Parks				
Techno Park	BKC, Mumbai	FY09	0.7	In JV with Swan Mills, in which PLL gets 22% of the revenue. The project involves construction of 3 buildings totaling ~ 0.7mn sq ft. to be completed by FY09 end.
IT Park - 1	Pune	FY11	1.56	PLL would be constructing this IT Park in a JV with PLL's share being 26%. The deal is under negotiations currently. It will involve development of close to 78 acres of land.
IT Park - 2	Pune	FY13	7.62	It would involve development of close to 100 acres of land, fully owned by PLL.
SEZ				
Biotech /Gems Jewellery	Goa	FY11	15.7	The company has acquired approx. 200 acres of land in Goa for development of 3 SEZs (2 Biotech and 1 Gems & Jewellery). PLL expects to develop close to 15.7mn sq ft of area.
Leased Premises	Central Mumbai			Lease rental of Rs.130mn is expected every year from Piramal Chambers.

(Source: Company)

Real Estate Funds: PLL is planning to start 2 real estate venture funds: one domestic and one foreign. The domestic fund is expected to be of the order of Rs.45bn and the foreign fund is expected to be of the order of $350mn. The total size of the fund is expected to be Rs.20bn and will be for the duration of at least seven years with an option to extend it for another two years.

It proposes to float two separate schemes Scheme A, which would undertake various real estate projects and will be open only to domestic investors; while Scheme B would undertake investments only in projects that are compliant with FDI-related policies of the government, besides all other applicable laws and regulations.

Business Model

PLL's business model is very different from the other players in the segment. It plans to continue with this model in the future also. The basic model it follows is

- Acquire developable land for immediate construction & get better margins
- Joint arrangement with other developers for land acquisition
- Innovative models such as that with Swan Mills in which PLL has paid a total amount of Rs.400mn for purchasing 22% of the revenue from the two projects 'Ashok Gardens' and 'Techno Park'
- Providing a superior construction quality to command a premium
- PLL has followed a conscious branding exercise in which all its residential properties are named as 'Ashok' after its promoter Mr. Ashok Piramal. Also, its commercial properties have the stamp of 'Peninsula', which signifies highest quality construction.

Execution Focused Player

PLL's approach toward land acquisition is different from its peers:

1. Land is acquired for immediate development and not for hoarding to be taken up for development when prices increase.
2. Land is acquired at valuations at which it can earn EBITDA margins in excess of 25-30%. The company does not intend to participate in competitive bidding, which can raise the project cost abnormally. It is more focused on bilateral arrangements to minimize risk of land price decline.
3. The focus is on premium construction where land requirements are not huge, thus the target customers are fewer in number compared to developments on huge tracts of land. Thus marketability of the project is easier.
4. Finally, the ability to execute is a key decision criteria in taking up land. So it takes only whatever it can chew.

Thus PLL tries to minimize risks of downturn in land prices through effective margin management and prudent land acquisition. The company has industry leading margins, which it intends to keep intact through these practices.

Investment Thesis

A name to reckon with

The runaway success of Peninsula Corporate Park in Lower Parel, Mumbai, a commercial office space, has put PLL in the league of the best players in the industry in terms of quality and execution. Also, noteworthy is the success of the shopping mall 'Crossroads'. PLL now is a name to reckon with in the real estate sector. Its residential project 'Ashok Towers' has also seen tremendous response and this adds on to our confidence on the execution skills and quality of development of any project from PLL's stable.

Lucrative real estate sector in Mumbai

The most important thing to look for in any real estate company is the location of its projects and it's costing. PLL scores on this count. Most of its projects are in Mumbai, which are being constructed on mill lands owned by it or by its distressed JV partners, this has resulted in lower land cost, which is the dominant cost element in its business.

The Mumbai real estate, residential or commercial, has been an extremely lucrative market for most of the real estate players considering the residential real estate prices which has gone as high as Rs.60,000 per sq. ft in select deals and in case of commercial space, the lease rates of commercial space are among the highest in the country. Considering the prevailing real estate prices, the developers who are able to secure land at a low cost are the best placed to ride this growth cycle in the real estate sector as the land price constitute the major portion of the construction cost. PLL holds this cost advantage in terms of land for its projects under development.

• Ashok Towers

Project Details

Type	Residential
Location	Parel - Central Mumbai
Under development	1.1mn sq. ft.
Expected Completion	FY08
JV Partner	-

(Source: Company, Ambit Capital Research)

It is an up market project with four towers being constructed by PLL in central Mumbai. It is one of the prestigious projects of the company. The project consists of

- 3 towers of 30 floors each, and
- 1 tower of 50 floors.

Though the project had to be stalled for sometime for lack of clarity on regulation regarding development of properties on mill land, the project is back on track now. According to the management it will be completed by end FY08. With already 90% of the project getting booked, the management is extremely confident of a more than positive response for the remaining part. Realization from this project is expected to be Rs.7,500 per sq. ft.

• Ashok Garden

Project Details

Type	Residential
Location	Sewri Central Mumbai
Under development	0.9mn sq ft
Expected Completion	FY09
JV Partner	Swan Mills

(Source: Company, Ambit Capital Research)

This project of PLL is in alliance with Swan Mills, which is expected to complete by FY09 end, with the project having a saleable area of close to 0.9mn sq. ft. PLL has an arrangement with Swan mills under which it has bought the development rights for the project by paying Rs.300mn (this includes the rights for the IT Park also) and PLL's share is 22% of the revenue generated by the project.

According to the management, approximately 65-70% of the projects have already been booked. The project is scheduled to complete by September 2009. Average realization expected for this project is in the range of Rs. 7,000 per sq ft.

• Peninsula Techno Park near Bandra Kurla Complex (BKC), Mumbai

Project Details

Type	IT Park
Location	BKC -Suburban Mumbai
Under development	0.7mn sq ft.
Expected Completion	FY09
JV Partner	Swan Mills

(Source: Company, Ambit Capital Research)

This is another project in alliance with Swan Mills and the arrangement is the same as that in the 'Ashok Garden' project. Also, PLL has paid an additional Rs.100mn for this project as in the construction of an IT Park, they would be entitled for an higher FSI than that of the residential project. This project also entails construction of 0.9mn sq ft. out of which PLL's 22% share of revenue will be only on the development of 0.7mn sq ft.

• Project on Dawn Mills land

Project Details

Type	Commercial
Location	Lower Parel Central Mumbai
Area to be developed	15acres - 0.6mn sq.ft.
Expected Completion	FY10
JV Partner	-

(Source: Company, Ambit Capital Research)

PLL is in the process of acquiring Dawn Mills and is only awaiting the approval from Hon'ble Mumbai High Court. This acquisition would result in an equity dilution for the company and would result in the no. of shares increasing to 44.5mn shares. After the acquisition, PLL is planning to develop a commercial project after getting high acclaim and astounding response for its Peninsula Corporate Park project in Lower Parel, Mumbai. The management plans to develop close to 0.6mn sq ft on an area of 15 acres. This project is expected to start soon after it gets the approval and will take approximately 3 years to complete.

Representative rates in Lower Parel are currently ruling in the range of Rs.14,000 to Rs.17,000 per sq ft. (Source: C&W).

Looking to expand outside Mumbai

PLL is looking to expand its horizon outside Mumbai as well and is planning to develop two IT Parks in Pune and 3 SEZs in Goa, which will include 2 Biotech / Pharma SEZs and 1 Gems & Jewellery SEZ. The management has also indicated that they are keenly looking at the south Indian market and is planning to foray in that region in future.

• IT Park, Pune

Project Details

Type	IT Park
Location	Pune
Area to be developed	(1) 78 acres (2) 100acres
Expected Completion	(1) FY11 (2) FY13
JV Partner	Under Negotiation

(Source: Company, Ambit Capital Research)

PLL is planning to develop two IT Parks in Pune. It is looking at developing two plots, one of which is 78acres and the other one is close to 100acre. With the first one in JV, with PLL having a 26% stake and the other being a sole development. Management expects these two projects to be finalized by this year end.

Special Economic Zones (SEZ)

PLL is venturing into development of SEZs. It is planning to develop approximately 200 acres of land for its 3 SEZ projects. This seems like the company is initially trying to take small steps and gain experience and then would take up larger size projects in future.

This is on the back of the Biotech policy being formulated by the Goa government in which they are trying to develop the state as a biotechnology hub. The biotechnology industry as such is poised for tremendous growth with the industry turnover expected to be USD 5bn by 2010 from USD 1mn in 2005. (Source: Biotechnology Policy, Government of Goa). Based on this, we expect the SEZs to be developed by PLL to get enthusiastic response. According to the management the initial market survey results have been positive.

• Biotech / Pharma / Gems & Jewellery SEZ

Project Details

Type	SEZ
Location	Goa
Area to be developed	200acres - 15.7mn sq ft
Expected Completion	Fy12
JV Partner	-

(Source: Company, Ambit Capital Research)

PLL has made an agreement with the Goa government to develop 3 SEZs which will include 2 Biotech / Pharma SEZ and 1 Gems & Jewellery SEZ. Approximately 200 acres of land has been acquired by the company through Goa government and is planning to develop close to 15mn sq ft of saleable area inclusive of both processing and non-processing area. The land cost has been Rs.900mn. The company expects this project to finish by Fy12.

The SEZs are located strategically near the Airport and in Varna - near the Industrial hub of Goa.

Realty Fund

PLL is planning to start two real estate venture funds, which will be invested in real estate projects across the country. It will be managed independently through a separate SPV created for this purpose.

- PLL's 100% subsidiary will act as an AMC for the fund and it will co-invest upto 25% in the project investments of the fund, with the fund contributing the remaining 75%.
- The fund will have a lock in period of 7 years, which can be extended for another 2 years in a phased manner.
- The domestic fund is expected to be ~Rs.4.5bn which is expected to be floated in Dec,2006.
- The other fund will be targeted at foreign investors and PLL is looking to raise Rs.16bn ($350mn) through this. This fund is expected to be launched in Jan,2007.

The funds would be looking to invest in land and good quality projects. To avoid conflict of interest, this fund will not be investing in any of the PLL's already announced projects.

Possible Benefits from these funds: PLL should gain immensely from these two realty funds.

- PLL will receive AMC fees (2% of the fund size)
- PLL will have a share in the profits generated by the fund (close to 20%, if profits cross a hurdle rate)
- It may generate additional business if the fund decides to award the project to PLL for development, which is expected for most of the projects.
- Considering that the fund size would of the order of Rs.20bn, the project portfolio of PLL can expand substantially on account of this money. Also since the number of projects to be undertaken would increase, this reduces the risk for PLL

.

Also this is the first fund involving a real estate developer as the AMC, whereas the other funds have financial partners, so the profitability is expected to be better due to PLL's understanding of the business and associated value add.

Financial Analysis

PLL in the past has gone through a major restructuring, in which Morarjee Gokuldas Spinning & Weaving Company was splitted into various business and the realty business was made Peninsula Land Limited (formerly Morarjee Realities Ltd.). In FY06, it merged Piramal Holding Limited and the leasing business of Piramyd Retail & Merchandising Ltd. These two entities have merged with the company effective from April 1, 2005. Also, FY06 being a 15-month year, the figures for FY06 are not exactly comparable to other figures.

Revenue recognition: PLL follows the percentage completion method for recognition of revenues and we have also followed this methodology for revenue estimation in future years.

Strong revenue growth: Based on the ongoing projects and the projects in pipeline, as has been discussed earlier in the report, we expect the revenues to grow by a CAGR of 63% over FY06-FY09 based on annualized FY06 revenues. The major contribution in FY07 is expected from 'Ashok Towers', in FY08 and FY09 from 'Dawn Mills' and subsequently from the IT Parks and SEZ.

Earnings visibility is high: In case of PLL, the earnings visibility is extremely high, at least for the next few years. With limited projects on hand, PLL is concentrating to deliver quality construction within the stated completion dates. We have assumed that the earnings from the SEZ project will only kick start in FY09.

We expect the net profit to increase at a CAGR of 45% over FY06-FY09E from Rs.1,387mn in FY06 to Rs.3,353 mn in FY09E.

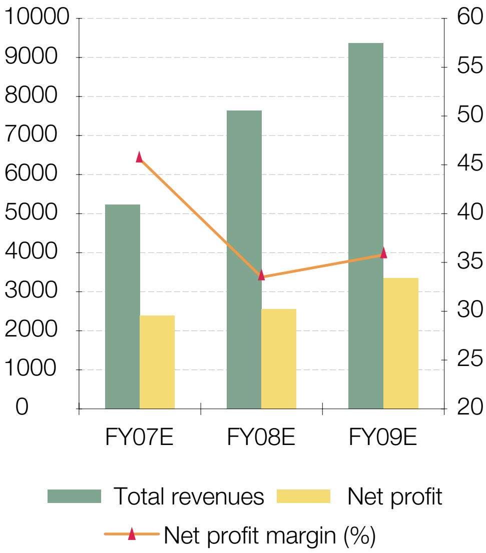
Healthy margins to continue: PLL has very strong EBITDA and net margins. The basic reason for these high margins is that the major cost in real estate development, the land cost, is extremely small for PLL. As the properties being constructed in Mumbai are on its own erstwhile textile mills or land acquired through an arrangement with Swan Mill or Dawn Mills at low cost, leading to higher than average industry margins. Another factor has been high realizations on account of escalation in property prices in the Mumbai region.

The land for the announced projects as well have been acquired at attractive pricing, but we do believe that going forward the margins should normalize, as the company does not hoard land and would buy land as and when required at market prices.

We expect the net margins to be in the range of 33-36% in the period FY08E-FY09E.

Tax expense to increase: PLL would be paying tax at MAT rates in FY07E due to its past losses being carried forward. However, from FY08E, the company would attract marginal tax rate and so the tax liability will be higher in FY08E thus depressing the net margins from FY07E levels of 45.6% to 33.5%.

High growth expected in Revenues and earnings



(Source: Ambit Capital Research)

FY06 Margins of Other Players

	EBITDA Margin (%)	NPM (%)
PLL	52	51
Unitech	23	11
Mahindra Gesco	20	9
Ansal Properties	26	16
Ansal Housing	30	15

(Source: Company, Capitaline)

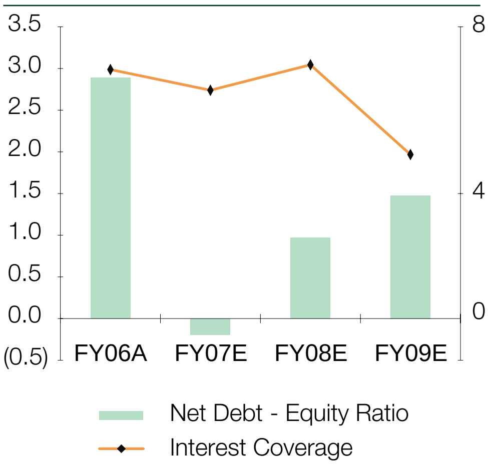
A look at the Balance Sheet

Reinstated Net Worth: The balance sheet of PLL till FY05 had a dismal look with the net worth of the company being in the red. However, with the merger of Piramal Holdings Ltd (PHL) into the company, the net worth has been reinstated and currently stands at Rs.1631mn as on FY06.

Gearing to decrease substantially: PLL had total debts close to Rs.4.80bn out of which a substantial part is legacy debt. Also, coupled with the fact that the net worth is coming into the black, and improved cash flows from its projects, it will reduce the net debt-equity levels substantially from about 2.9x in FY06 to 1.0x in FY08E.

Return ratios extremely comfortable: The return ratios for PLL are extremely comforting with the RoE in the range of 42-49% in FY08E-FY09E. This is on the back of high EBITDA margins in the range of 62-70% in coming years. Also, the improved working capital situation pushes up the return ratios, with a large part of the receivables related to Crossroads sale being realized in FY07E.

Falling Debt - Equity ratio



(Source: Company, Ambit Capital Research)

Valuation and Outlook

There has been lots of debate on how to value a real estate company. Here's our take on it. We have done a sum-of-projects (SOTP) valuation for PLL. We have valued each project of PLL on the basis of discounted value of their expected free cash flows (FCF).

We have tried to project the financials of each project separately and have done sum-of projects calculation to arrive at the final price. The rationale for this methodology is that PLL's business model differs from other real estate companies in terms of:

- PLL does not have any substantial land bank unlike most of the other players, so does not require an estimate of excess land bank.
- It has known number of projects that are either under construction or projects which are under planning stage and which are announced by the company.
- The visibility of the projects is extremely high. Also land in most cases, is in possession of PLL.

Fair Value using DCF

- We have assumed a debt-equity ratio of 70:30 for the SEZ and IT Park 2. The rest of the projects are assumed to be funded through equity.
- We have assumed a weighted average cost of capital (WACC) of 9.8% and a cost of equity of 13%, for discounting the free cash flows from these projects.

Sum of Parts DCF Calculation Summary

PV of Cash Flows	Rs. mn	Per share Value (Rs.)	Assumptions	
Ashok Towers	3,129	70	Beta	0.9
Ashok Gardens	982	22	Risk Free Rate (%)	7.5
Techno Park	995	22	Risk Premium (%)	6.0
Dawn Mills	6,366	143	Cost of Equity (%)	13.0
IT Park	11,645	262		
SEZ	3,367	76	Before tax Cost of Debt (%)	10
Lease	1,523	34	Marginal tax Rate (%)	33.6
Realty fund, fee	11,497	258	After-tax Cost of Debt (%)	6.6
Others	763	17		
Total	**40,266**	**905**	Target D/E ratio	1:1
Less: Debt	6,799	153		
Add: Cash & equivalents	628	14	**WACC (%)**	**9.8**
Total Equity Value	**34,095**	**766**		
No. of shares post Dawn acquisition (mn.)		44.5		
Upside (%)		**11**		

(Source: Ambit Capital Research)

Stock is Fairly Valued

Based of the SOTP valuation, we have arrived at a one-year forward target price of Rs.766 per share, an upside of 11% from current levels. The projects in the pipeline will bring in substantial value to PLL with the Dawn Mills, IT Parks in Pune, and Realty Fund contributing the most.

Based on this we believe that the stock is fairly valued at its current market price and provides nominal upsides. Hence, we recommend accumulating the stock on declines.

We believe there could be possible upside to our estimates on account of higher realizations than assumed by us, on account of continued robustness in the real estate market. Also upside risk are possible on announcement of newer projects or fructification of its foray into South India.

Scenario Analysis

Equity Dilution

The company is planning a dilution of 6mn shares through a QIP offering. We have not considered this dilution in our valuation. We have done a sensitivity of the key financial parameters based on the equity dilution, the results of which is as under:

	Pre dilution			Post dilution		
	FY07E	**FY08E**	**FY09E**	**FY07E**	**FY08E**	**FY09E**
EPS (diluted) Rs	53.6	57.5	75.4	47.2	50.7	67.1
ROE(%)	83.7	49.1	41.7	47.9	27.2	27.7
Net Debt/Equity(x)	(0.2)	1.0	1.5	(0.6)	0.2	0.7
DCF Value(Rs.)		766			746	

(Source: Ambit Capital Research)

Base Case v/s Best Case Scenario

We have done a sensitivity of the target price based on our assumptions and possible deviations based on management feedback.

Realization	Base Case	Best Case
Ashok Tower	7,500	7,500
Ashok Garden	7,000	7,500
Techno Park	10,250	11,000
Dawn Mills	18,000	20,000
IT Park - 1	35	40
IT Park - 2	40	40
SEZ	30	30
Realty Fund - Avg. Deployment (%)	55	55
1-year forward DCF Value	**766**	**821**

(Source: Ambit Capital Research)

Based on the best-case scenario, the price target would be Rs.821, which implies an upside of 19% over current levels. This gives a potential return range of 10%-19% for the stock over a 12-month period.

Relative Valuation

PLL is not exactly comparable on a relative basis to most other players in the sector due to the difference in its business model. Most of the real estate players have huge land banks, which are highly susceptible to fluctuating land prices, whereas PLL acquires land for immediate development and does not maintain land banks.

Name	Price	Mkt Cap (Rs.bn)	P/E	FY07E P/E	FY08E P/E	FY07E EPS	FY08E EPS	EBITDA (%)	NPM (%)	RoE (%)	P/S	P/B	EV/ EBITDA
PENINSULA	**694**	**30.83**	**24.7**	**12.9**	**12.0**	**53.6**	**57.5**	**52.2**	**50.9**	**83.7**	**11.3**	**16.8**	**25.0**
ANSAL PROPERTIES	1,037	36.28	96.9	N.A.	N.A.	N.A.	N.A.	26.8	10.3	28.8	10.0	24.1	14.7
D.S. KULKARNI	430	9.47	26.9	N.A.	N.A.	N.A.	N.A.	(570.5)	106.0	62.5	28.5	13.7	24.0
ANSAL HOUSING	338	4.63	21.7	N.A.	N.A.	N.A.	N.A.	(47.2)	15.7	29.4	3.4	5.5	N.A.
UNITECH	468	379.10	451.8	57.2	19.5	8.2	24.0	21.4	8.9	36.9	40.4	146.3	21.9
MAHINDRA GESCO	946	35.02	355.7	86.6	15.9	10.9	59.3	17.1	7.6	7.3	13.6	25.4	48.5
ANANT RAJ	1,433	36.23	104.9	N.A.	N.A.	N.A.	N.A.	12.7	136.0	50.3	142.7	34.8	1,553.2
PARSVNATH	502	91.22	69.7	N.A.	N.A.	N.A.	N.A.	22.4	16.6	70.7	11.6	N.A.	N.A.

(Source: Ambit Capital Research, Bloomberg)

Conclusion

Based on SOTP valuation we believe the stock is fairly valued and provides nominal upsides from current levels based on available information.

But we maintain a positive bias on the sector and believe that there could be possible upside to our target on two counts:
1. Better realizations than estimated
2. New project announcements

We recommend accumulating the stock on declines and would revisit our recommendation if the stock corrects from these levels or newer developments surface.

Key Risks to Valuation

Execution Risks
- Execution risks exist if the company is unable to secure the land for the two IT parks in Pune, which is under negotiation and get the necessary permissions for the SEZ project in Goa.
- Cost and time overrun is another major risk.

Market Risks
- Demand for TechnoPark in Mumbai and the planned IT Parks in Pune does not meet the expected levels. With numerous real estate players looking to build IT Parks or SEZs, the demand estimated for PLL projects may not be as expected. This would adversely impact the revenue generation for PLL. In our estimates we have assumed lease rentals of Rs.35-40 per sq ft for the IT parks and sale value of Rs10,250 per sq.ft. for the TechnoPark, which we believe is achievable under current conditions.
- Interest rates have gone up substantially in the past 1 year thereby increasing the home loan rate from about ~7.5% to ~9.5% currently. Any further increase on this count or any restriction from the government or the banking sector in terms of lending to the real estate sector will have negative consequences on the overall demand for real estate.

Regulatory Risks
- The final approval from Hon'ble High Court of Mumbai for merger of Dawn Mill with PLL is still awaited. If the company does not get this approval, it may affect future revenues as PLL is expecting major revenues from a commercial project on Dawn Mill land.
- There is still a lot of regulatory uncertainty and confusion over the SEZ policy of government. Any change in the SEZ policy may adversely impact PLL's plan of building up 3 SEZs in Goa.

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