

Parsvnath -----Downgrade to UNDERPERFORM

Weighed down by high leverage, Tier III focus

EPS: ▼ TP: ▼

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- In a deteriorating macro environment, real estate developers are seeing slowing demand for both residential and commercial projects – which coupled with difficulties in fund raising from other sources, will likely lead to delays in launches in our view.
- We believe that Parsvnath may find it difficult to raise money to fund its projects, given its high level of gearing. Coupled with Parsvnath's large presence in Tier-III cities, the company may be heavily impacted by a slowdown in the sector, in our view.
- We revise our estimates for Parsvnath to account for slower launches in FY3/09 and FY3/10. We also factor in a higher WACC and increase our cap rate assumptions for lease projects in order to reflect the changing macro environment. Our NAV for Parsvnath stands reduced to Rs198 from Rs259.
- Our new target price of Rs96 for Parsvnath is based on a 60% discount to our FY09E NAV and implies a downside of ~16% from current levels – although we believe the company should realise its NAV in the long run. Downgrade to UNDERPERFORM

Bbg/RIC	PARSVN IN / PARV.BO	Price (14 Jul 08, Rs)	115.10		
Rating (prev. rating)	U (N) [V]	TP (Rs) (prev. TP)	96 (212)		
Shares outstanding (mn)	184.70	Est. pot. % chg. to TP	(16)		
Daily trad vol-6m avg (mn)		52-wk range (Rs)	574.20 - 112.55		
Daily trad val-6m avg (US\$ mn)		Mkt cap (Rs/US\$ mn)	21,258.5/ 531.1		
Free float (%)	20.0	Performance	1M 3M 12M		
Major shareholders	Promoter group (80%)	Absolute	(32.1) (41.6) (70.0)		
		Relative	(23.5) (31.5) (66.8)		
NAV (Rs)	198.1	Prem./disc to NAV (%)	(41.9)		
3 yr EPS CAGR (%)	14.3	Dividend yield (%)	2.6		
Year	3/06A	3/07A	3/08E	3/09E	3/10E
EBITDA (Rs mn)	1,440	4,174	6,145	6,773	7,268
Net profit (Rs mn)	1,067	2,922	4,244	4,274	4,359
EPS (Rs)	7.2	15.8	23.0	23.1	23.6
- Change from prev. EPS (%)	n.a.	n.a.	-17	-48	-54
- Consensus EPS (Rs)	n.a.	n.a.	24.7	34.0	58.6
EPS growth (%)	62.5	119.9	45.2	0.7	2.0
P/E (x)	16.0	7.3	5.0	5.0	4.9
DPS (Rs)	0.44	2.50	3.00	3.50	4.00
EV/EBITDA (x)	16.1	6.6	5.6	6.1	6.8
ROE (%)	70.5	34.6	25.4	21.1	18.5
Net debt/equity (%)	93	38	69	91	112

Note 1: Parsvnath was incorporated in 1900 with its promoters having more than two decades of real estate experience. Parsvnath has a pan India presence with projects in 47 cities across 17 states. The Company uses inhouse construction for its projects.

Slower demand, liquidity constraints to impact launches

As a result of the rapidly deteriorating macro environment, demand for real estate has witnessed a slow down in recent times - demand for residential projects has dried up due to rising interest rates, lower wage hikes and high inflation, whilst commercial projects are also seeing slower off-take given the uncertain business environment.

The problem is compounded by liquidity worries – developers are becoming hard pressed to fund ongoing developments: debt is available only at high cost, volatility in equity markets is making fund raising difficult and private equity transactions are few and far between. We see the above coupled with lower cash generation from existing projects leading to a slow down in new launches in FY09/10.

We believe that Parsvnath is likely to be heavily impacted by the issues outlined above: the company's high gearing levels mean that it may face difficulty in borrowing without having to pay high rates of interest. Further, Parsvnath's large presence in Tier-III cities, which are more likely to be impacted by a slowdown than larger cities where the demand-supply balance is more favourable, is also a negative.

Figure 1: Revised schedule of launches for Parsvnath

Launches (mn sq ft)	FY3/09E			FY3/10E		
	Old	New	% change	Old	New	% change
Residential	15.1	7.2	(52.4)	16.8	8.4	(50.4)
Commercial	6.8	4.6	(32.8)	6.8	6.1	(10.6)
Retail	-	-	n.a	-	-	n.a
Total	21.9	11.8	(46.3)	23.6	14.4	(39.0)

Source: Company data, Credit Suisse estimates.

We revise our NAV estimates for Parsvnath to account for slower launches over the next 2 years. We have also increased our WACC estimates and cap rate assumptions to account for a worsening macro environment. We now factor in a WACC of 15.35% for Parsvnath (13.8% earlier), on a higher risk free rate assumption of 9.5% (8.2% earlier), and higher cap rates of 10.5% and 12% (9% and 10% earlier) for commercial and retail projects. Accordingly, our FY09E NAV for Parsvnath stands reduced to Rs198 (previously Rs259).

Figure 2: FY09E NAV valuation summary

	mn sq ft	Value (Rs bn)	Rs/share
Residential development	122.1	24.1	130.6
Commercial & Retail development	79.7	20.7	112.3
DMRC Projects	2.3	8.2	44.3
Less: Land cost payable		(5.5)	(29.7)
Less: Net Debt		(11.0)	(59.4)
FY08 Net Asset Value (NAV)		36.6	198.1
Premium/Discount to NAV		(22.0)	(118.9)
Value of Real estate business		14.6	79.2
Hotel business	2.6	3.1	17.0
Net Firm value		17.8	96.2

Source: Company data, Credit Suisse estimates.

As a result of slower launches, our EPS estimates for Parsvnath in FY3/09 and FY3/10 also stand revised downwards by 48% and 54% respectively. Our new target price of Rs96 for Parsvnath is based on a 60% discount to our FY09E NAV and implies a downside of ~16% from current levels. We downgrade our recommendation on the stock to UNDERPERFORM from NEUTRAL

Figure 3: Summary of changes to our estimates

Rs bn	FY3/09E			FY3/10E		
	Old	New	% change	Old	New	% change
Net revenues	35.9	21.2	(41.0)	42.3	22.5	(46.7)
EBITDA	11.9	6.8	(43.3)	14.0	7.3	(48.2)
EBITDA Margin (%)	33.2	31.9		33.1	32.2	
PAT	8.2	4.3	(48.0)	9.5	4.4	(53.9)
EPS (Rs)	44.5	23.1	(48.0)	51.2	23.6	(53.9)

Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 14 Jul 08)

Parsvnath Developers Ltd (PARV.BO, Rs115.10, UNDERPERFORM [V], TP Rs96.20)

Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for PARV.BO

PARV.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
27-Sep-07	334.2	425	O	X
29-Apr-08	233.25	238	N	
3-Jun-08	189.3	212		



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Price Target: (12 months) for (PARV.BO)

Method: We arrive at a target price of Rs96.2 for Parsvnath on a sum of parts valuation with Rs79 (at 60% discount to the 12-month forward NAV) for the real estate business and Rs17 (1x investment) for its hotel venture. We believe that the 60% discount is warranted due to 1) a worsening receivable position in a slowing volume environment; and 2) significant exposure to Tier III cities which could be hurt the most by a slowdown in the sector.

Risks: The risks to our Rs96.2 target price for Parsvnath are 1) overall slowdown in economic growth in India in general and IT/ITES sector in particular is a key risk to the real estate business; 2) Increasing competition, delays in infrastructure creation and lack of employment generation in Tier III cities could adversely impact Parsvnath, given that 2/3rd of its land reserves are situated in Tier III cities; 3) Execution risks as the company attempts to complete development of 160msf by FY12 against a track record of having delivered 5.8msf till date; and 4) risk of failure as the company diversifies into telecom services and explore development in overseas market

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