

February 2, 2012

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs86	Rs81
EPS change FY12E/13E (%)	2%/4%
Target Price change (%)	NA
Nifty	5,270
Sensex	17,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	16	(15)	(33)	(39)
Rel. to Nifty	5	(15)	(32)	(37)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Real Estate
Bloomberg	PEPL@IN
Equity Capital (Rs mn)	3281
Face Value(Rs)	10
No of shares o/s (mn)	328
52 Week H/L	165/58
Market Cap (Rs bn/USD mn)	28/570
Daily Avg Volume (No of sh)	229079
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	80.0	80.0	80.0
FII/NRI	14.0	15.5	17.9
Institutions	4.6	3.2	1.1
Private Corp	0.8	0.8	0.7
Public	0.6	0.5	0.4

Source: Capitaline

Tejas Sheth

tejas.sheth@emkayglobal.com
+91 22 66242 482

- Prestige Estates Projects' (PEPL) Q3FY12 results are below expectations; Gross Margins on residential segment fell substantially QoQ and is expected to stabilize at 35-40%
- Collections from large completed projects remain subdued, PEPL expects to collect 75% over 2 quarters. Net Core Working Capital from residential segment was stable QoQ.
- PEPL sold 1.0msf in Q3FY12, of which 0.9msf was in Residential space and balance in Commercial. Company leased 0.07msf (own share) in the quarter, as expected
- We maintain our Hold rating with TP of Rs 81. We would re-rate stock positively once company generates composite +ve operating cashflows and reduce debt in absolute terms

Profitability below expectations mainly due to fall in gross margins sequentially

PEPL reported revenue of 1.67bn which fell 54.1% YoY and is 9.1% below our estimate. EBITDA at Rs 502mn was down 46.4% YoY and 31.9% below our estimate mainly due to lower gross margins, which fell from 53.6% in Q2FY12 to 39.1% in Q3FY12. PAT at Rs 281mn was 48.9% down YoY and 30.2% below estimates.

Company expects completion of 2msf over three large projects in Q4FY12 which will boost the topline substantial QoQ. It stated that going forward EBITDA margins will be maintained at 35-40% levels.

Company's Saleable Asset segment generated +ve cashflows; but slow collection cycle from completed project is a concern

PEPL collected Rs 2.9bn in the quarter from its develop-n-sale business while it spent to 1.9bn towards its construction leading to Rs 1.0bn of gross cash generation. Company's collection from the large completed projects was at Rs 965mn in the quarter with still Rs 4.7bn remain outstanding. Company expects to receive the same over next 2-3 quarters, which we believe would be extended by another 1-2 quarters.

Our concerns lie in repetition of the slow collection cycle in company's other large projects viz Tranquility, Park View & Bella Vista wherein the construction commitments would run ahead of collection leading to higher working capital. Unlike their close competitor who collects 30% of sale value in 1st quarter of launch, company has just collected 10-20% within 1-2 quarters of its recent launches, although, as on Q3FY12, the same is higher than what it spent towards the construction of same projects.

Company generated core Operating Cashflows of Rs 364mn while it spent Rs 1.6bn towards land acquisitions and Rs 0.5bn for leaseable asset development which were financed through this free cash generated and additional net debt of Rs 827mn

Financial Snapshot

Rs Mn

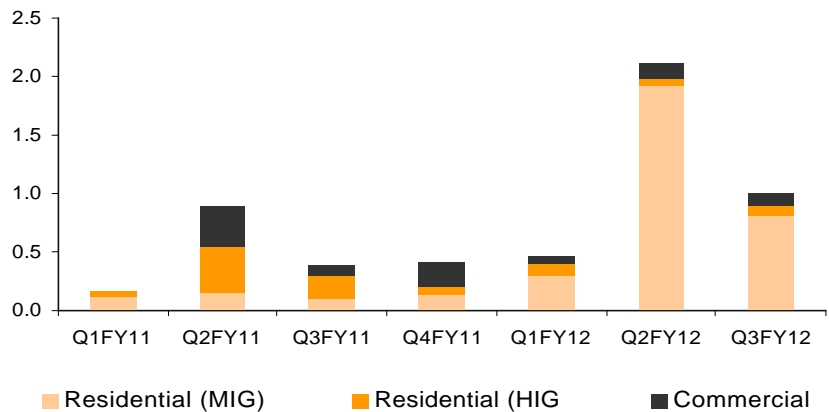
YE-	Net	EBITDA			EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	10,244	2,236	21.8	1,456	4.4	105.9	21.1	19.3	18.9	3.7
FY11	15,431	3,739	24.2	1,800	5.5	23.6	12.5	15.6	10.6	1.3
FY12E	12,062	3,720	30.8	1,568	4.8	(12.9)	7.2	17.9	11.2	1.3
FY13E	19,349	6,724	34.8	3,248	9.9	107.1	13.7	8.6	6.2	1.1

Sales bookings above expectations, while commercial leasing was in-line

PEPL had second consecutive quarter of healthy sales booking in the residential space. Although lower than Q2FY12, the total sales booking at 1.01msf was quite good and above our expectations. Company leased 0.07msf in the quarter was in-line with our estimates.

Going forward we believe the sales booking will remain strong as company's large project launch in Chennai has got good response (sold 0.5msf @ avg. ~Rs 4350) and it plans another 7 new launches in Q4FY12E aggregating total of 2.9msf (PEPL's share) saleable area. We expect sales bookings of another 1.0msf in Q4FY12E. Leasing will remain subdued for another 3 quarters as there is no project nearing completion for another 2-3 quarters.

Quarterly Sales (msf)



Quarterly performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTDFY12
Revenue	2,595	2,964	3,636	4,655	2,484	1,281	1,669	(54.1)	30.3	5,434
Expenditure	2,098	2,026	2,701	3,789	1,795	788	1,167	(56.8)	48.1	3,751
<i>as % of sales</i>	<i>80.8</i>	<i>68.3</i>	<i>74.3</i>	<i>81.4</i>	<i>72.3</i>	<i>61.5</i>	<i>69.9</i>			<i>69.0</i>
Cost of Sales	1,912	1,807	2,443	3,602	1,559	560	915	(62.5)	63.4	3,034
<i>as % of sales</i>	<i>73.7</i>	<i>61.0</i>	<i>67.2</i>	<i>77.4</i>	<i>62.8</i>	<i>43.7</i>	<i>54.8</i>			<i>55.8</i>
Employee Cost	88	76	152	75	103	121	105	(30.9)	(12.9)	329
<i>as % of sales</i>	<i>3.4</i>	<i>2.6</i>	<i>4.2</i>	<i>1.6</i>	<i>4.2</i>	<i>9.4</i>	<i>6.3</i>			<i>6.1</i>
Other expenditure	98	143	106	112	133	108	147	39.0	36.8	388
<i>as % of sales</i>	<i>3.8</i>	<i>4.8</i>	<i>2.9</i>	<i>2.4</i>	<i>5.4</i>	<i>8.4</i>	<i>8.8</i>			<i>7.1</i>
EBITDA	497	938	935	866	689	493	502	(46.4)	1.8	1,683
Depreciation	82	83	84	83	80	80	82	(1.6)	3.6	242
EBIT	415	855	852	783	609	413	419	(50.8)	1.4	1,442
Other Income	79	133	183	370	126	127	129	(29.6)	1.5	382
Interest	155	218	223	192	232	193	159	(28.6)	(17.8)	585
PBT	339	770	812	960	502	347	389	(52.1)	12.2	1,239
Total Tax	92	229	268	259	139	84	108			331
Adjusted PAT	248	541	544	702	364	263	281	(48.3)	6.8	908
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0	0			0
APAT after MI	248	541	544	702	364	263	281	(48.3)	6.8	908
Extra ordinary items	0	0	0	0	0	0	0			0
Reported PAT	248	541	544	702	364	263	281	(48.3)	6.8	908
Reported EPS	0.8	1.6	1.7	2.1	1.1	0.8	0.9			2.8

Margins (%)								(bps)	(bps)	
EBIDTA	19.2	31.7	25.7	18.6	27.7	38.5	30.1	433	-842	31.0
EBIT	16.0	28.9	23.4	16.8	24.5	32.3	25.1	170	-715	26.5
EBT	13.1	26.0	22.3	20.6	20.2	27.1	23.3	99	-377	22.8
PAT	9.5	18.3	15.0	15.1	14.6	20.5	16.8	188	-370	16.7
Effective Tax rate	27.0	29.7	33.0	26.9	27.6	24.2	27.8	(524)	362	56.5

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	10244	15431	12062	19349
<i>Growth (%)</i>	14.1	50.6	(21.8)	60.4
Expenditure	8008	11692	8341	12625
Materials Consumed	7033	10479	7239	11098
Employee Cost	490	548	630	725
Other Exp	485	666	472	802
EBITDA	2236	3739	3720	6724
<i>Growth (%)</i>	(13.6)	67.2	(0.5)	80.7
EBITDA margin (%)	21.8	24.2	30.8	34.8
Depreciation	491	606	606	686
EBIT	1746	3133	3114	6037
EBIT margin (%)	17.0	20.3	25.8	31.2
Other Income	615	682	200	0
Interest expenses	783	1234	1151	1166
PBT	1579	2580	2163	4872
Tax	330	823	595	1624
<i>Effective tax rate (%)</i>	20.9	31.9	27.5	33.3
Adjusted PAT	1249	1757	1568	3248
<i>Growth (%)</i>	66.7	40.7	(10.8)	107.1
Net Margin (%)	12	11	13	17
(Profit)/loss from JVs/Ass/MI	(207)	(43)	0	0
Adj. PAT After JVs/Ass/MI	1456	1800	1568	3248
E/O items	0	0	0	0
Reported PAT	1456	1800	1568	3248
<i>Growth (%)</i>	99.1	23.6	(12.9)	107.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	1171	2397	2424	5332
Depreciation	491	606	606	686
Interest Provided	783	1234	1151	1166
Other Non-Cash items	0	0	0	0
Chg in working cap	(5060)	(6845)	(3226)	468
Tax paid	(330)	(823)	(595)	(1624)
Operating Cashflow	(2946)	(3430)	359	6029
Capital expenditure	1358	3457	918	4438
Free Cash Flow	(4304)	(6887)	(559)	1590
Other income	615	682	200	0
Investments	(484)	(1070)	86	0
Investing Cashflow	131	(389)	286	0
Equity Capital Raised	(4)	12161	(0)	(0)
Loans Taken / (Repaid)	4890	(840)	340	54
Interest Paid	(783)	(1234)	(1151)	(1166)
Dividend paid (incl tax)	0	(456)	(461)	(461)
Income from investments	0	0	0	0
Others	388	(406)	(78)	0
Financing Cashflow	4492	9226	(1349)	(1572)
Net chg in cash	319	1950	(1622)	19
Opening cash position	1410	1729	3679	2057
Closing cash position	1729	3679	2057	2075

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	2,625	3,281	3,281	3,281
Reserves & surplus	5,013	17,862	18,969	21,756
Net worth	7,638	21,142	22,250	25,037
Minority Interest	2,721	2,240	2,240	2,240
Secured Loans	13,892	14,692	15,032	15,087
Unsecured Loans	2,123	483	483	483
Loan Funds	16,015	15,175	15,516	15,570
Net deferred tax liability	2	78	-	-
Total Liabilities	26,376	38,636	40,005	42,847
Gross Block	11,307	13,163	13,769	16,736
Less: Depreciation	2,066	2,971	3,577	4,264
Net block	9,242	10,192	10,192	12,472
Capital work in progress	2,054	3,975	4,286	5,758
Investment	1,098	1,078	1,078	1,078
Current Assets	1,609	2,679	2,593	2,593
Inventories	23,194	33,664	33,103	33,322
Sundry debtors	12,502	14,275	15,007	16,786
Cash & bank balance	3,628	9,347	9,736	8,157
Loans & advances	1,729	3,679	2,057	2,075
Other current assets	5,332	6,303	6,303	6,303
Current lia & Prov	4	59	-	-
Current liabilities	10,821	12,951	11,247	12,376
Provisions	10,206	9,396	9,840	10,630
Net current assets	615	3,555	1,407	1,746
Goodwill	12,374	20,713	21,856	20,946
Total Assets	26,376	38,636	40,005	42,847

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	21.8	24.2	30.8	34.8
Net Margin	12.2	11.4	13.0	16.8
ROCE	7.6	9.6	7.9	14.6
ROE	21.1	12.5	7.2	13.7
ROIC	9.5	12.7	10.5	19.0
Per Share Data (Rs)				
EPS	4.4	5.5	4.8	9.9
CEPS	5.9	7.3	6.6	12.0
BVPS	23.3	64.4	67.8	76.3
DPS	2.0	2.0	2.0	2.0
Valuations (x)				
PER	19.3	15.6	17.9	8.6
P/CEPS	14.4	11.7	12.9	7.1
P/BV	3.7	1.3	1.3	1.1
EV / Sales	4.3	2.8	3.6	2.3
EV / EBITDA	18.9	10.6	11.2	6.2
Dividend Yield (%)	2.3	2.3	2.3	2.3
Gearing Ratio (x)				
Net Debt/ Equity	1.9	0.5	0.6	0.5
Net Debt/EBITDA	1.8	0.5	0.5	0.4

Recommendation History: Prestige Estates Projects – PEPL@IN

Date	Reports	Reco	CMP	Target
12/01/2012	Bangalore Real Estate Sector Report			

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2012	Phoenix Mills Q3FY12 Result Update	Accumulate	189	231
23/01/2012	Oberoi Realty Q3FY12 Result Update	Accumulate	243	275
23/01/2012	Sobha Developers Q3FY12 Result Update	Accumulate	244	272
16/11/2011	Arshiya International Q2FY12 Result Update	Not Rated	150	NA

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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