KARVY STOCK BROKING

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Institutional Equities

India Research

Real Estate – Stress Analysis

Dejection & Despair – we are getting bored

Over last 3m BSE Realty index has underperformed Sensex by 21%, weak market sentiments (as highlighted by media) paint despair and dejection which is getting us bored. Our 2QFY14E channel checks doesn't paint a gloomy picture yet, as we see our coverage universe reporting strong 2QFY14E sales in a seasonally weak quarter despite an extended monsoon, drop in new launches & pitru paksh coming in during Sep'13 vs Oct'12 last year. During such uncertain times we have run scenario analysis on our Realty coverage universe using multiple valuation tools to arrive at 'bargain basement prices' and 'favorable risk reward'.

Sectoral performance – in dissonance with on ground performance: The weak economic sentiments has yet not reflected on pre-sales of our coverage universe (please refer Exhibit 2). The correction in stock prices has brought in recession memories with DLF, Puravankara, Kolte Patil trading closer to recession multiple whilst fundamentals have changed with (i)improvement in BS (ii) strong sales momentum &(iii) dividends payouts.

Scenario analysis – helpful during sentiment weakness: We have run scenario analysis on base & bear case assumptions to arrive at 'margin of safety' range for our Realty coverage universe. We have also compared our 'market assumptions' (at Current market prices using 'reverse DCF') with our base case target price assumptions to get comfort on whether current prices factor balanced assumptions. Divergence from the mean multiple is most amplified in case Sobha, Puravankara, Oberoi Realty & Kolte Patil. Most of our coverage universe at current prices is factoring in a 20-30% price correction & WACC of 17-22%.

Capex stabilizing - realty an attractive end-cycle asset reflation play: Our analysis of the real estate players asset portfolio suggest that bulk of the office/retail assets have become commercially operational during FY13-14E. With Capex peaking out being supported by a more conducive interest rate cycle, reflation shall help ease pressure on the parent's balance sheet. Likely beneficiary include DLF, Oberoi, Phoenix Mills & Prestige Estates.

Multiple triggers in place – to positively impact stocks: Our coverage universe in maturing toward mid-cycle cashflow stage with some of them now having a stated dividend policy of distributing 20-25% profits as dividend. There in triggers in place with (i) pick up in new launches around 3QFY14E (ii) pick up in new approvals before the election code of conduct (iii) likely peak out of the interest rate cycle & (iv) economic recovery from 2HFY14E. All these triggers stand to lend visibility to future cash-flows.

Top Picks – mix of strong execution and diversified portfolio: Our scenario analysis and valuation assumptions yield players operating in strong demand markets, with robust balance sheets and superior ability to tide the current downturn and gain market share. We prefer Sobha & Puravankara in Southern market, Oberoi Realty & Kolte Patil in Western markets. Amongst Northern developers we prefer DLF.

Table 1: Top Picks

Companies	Upside for (%)	Upside for (%)
	Base case TP	Stress TP
DLF	88.0	(5.0)
Oberoi Realty	85.0	0.0
Prestige Est.	70.0	(8.0)
Phoenix Mills	32.0	(32.0)
Sobha Dev.	70.0	10.0
Puravankara	89.0	11.0
Kolte Patil	112.0	0.0

Source: Karvy Institutional Research

Table 2: Top Picks

Companies	Base case TP (Rs)	Stress TP(Rs)
DLF	248	126
Oberoi Realty	308	165
Prestige Est.	207	113
Phoenix Mills	315	180
Sobha Dev.	495	324
Puravankara	138	82
Kolte Patil	140	68

Source: Karvy Institutional Research

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Exhibit 1: Scenario Assumptions / Valuations: Base Case and Stress Case

Companies	Target Valuations	Reverse DCF implying	Stress case Multiple assumptions	Risk Reward from CMP	Investment Argument
DLF	▪ 5% discount to current base prices ▪ 14% WACC ▪ Property price growth of 6%, cost inflation of 7% ▪ Rental cap rate of 12%.	▪ Reverse DCF (on current price) imply a 20% base year property price correction ▪ 16% WACC ▪ Property price growth of 0%, cost inflation of 6% ▪ Rental cap rate of 14%.	▪ Currently DLF trades closer to its recession multiples on P/BV, P/E, EV/EBIDTA with 40-50% discount to mean multiple. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs126/share target price as bottom	▪ At current prices DLF trades at 5% higher than our stress case offering a favorable risk reward with 88% upside to target price	▪ Asset deleveraging remains key re-rating trigger ▪ Biggest beneficiary of land acqusition bill ▪ High tiering in competitive advantage. Maintain BUY rating with NAV based target of Rs248/share
Sobha Developers	▪ 10% discount to current base prices ▪ 17% WACC ▪ Property price growth of 5%, cost inflation of 5% ▪ In a place like Bangalore we have assumed a price of Rs4,500/sqft which is a 10% discount to average price of Sobha product	▪ Reverse DCF (on current price) imply a 15% base year property price correction ▪ 19% WACC ▪ Property price growth of 4%, cost inflation of 5% ▪ In a place like Bangalore we have assumed price of Rs4,207/sqft which is just the break even cost for doing business	▪ Currently at our base case SDL trades closer to its recession multiples on P/BV, P/E, EV/EBIDTA and 40-50% discount to mean multiple. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs324/share target price as bottom	▪ At current prices SDL trades at 10% lower than our stress case offering a favorable risk reward with 70% upside to target price	▪ Strong balance sheet & brand ▪ Biggest beneficiary of land acqusition bill ▪ High tiering in competitive advantage. Maintain BUY rating with NAV based target of Rs495/share
Oberoi Realty	▪ 5% discount to current base prices ▪ 14% WACC ▪ Property price growth of 5%, cost inflation of 5% ▪ Rental cap rate of 11%. ▪ In Goregaon we have assumed a price of Rs13,000/sqft which is a 5% discount to average ORL price	▪ Reverse DCF (on current price) imply a 30% base year property price correction ▪ 18% WACC ▪ Property price growth of 0%, cost inflation of 5% ▪ Rental cap rate of 14%. ▪ In Goregaon we have assumed price of Rs9,500/sqft which is just the break even cost for Apartment in Goregaon	▪ Currently ORL is trading at 40-60% mean multiple discount to historical P/BV, P/E, EV/EBIDTA. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs165/share target price as bottom	▪ At current prices ORL trades close to our stress case value offering a favorable risk reward with 85% upside to target price	▪ Mulund & Worli launches remain key triggers ▪ High brand value & execution ▪ High tiering in competitive advantage. Maintain BUY rating with NAV based target of Rs308/share

Companies	Target Valuations	Reverse DCF implying	Stress case Multiple assumptions	Risk Reward from CMP	Investment Argument
Prestige Estates	▪ 10% discount to current base prices ▪ 15% WACC, Cap rate 11% ▪ Property price growth of 5%, cost inflation of 5% ▪ In a place like Bangalore we have assumed a price of Rs4,500/sqft which is a 10% discount to average price of Prestige product	▪ Reverse DCF (on current price) imply a 10% base year property price correction ▪ 17% WACC, Retail & Commercial cap. rate of 14% ▪ Property price growth of 0%, cost inflation of 5% ▪ In a place like Bangalore we have assumed price of Rs3,950/sqft which is just the break even cost for doing business	▪ Currently PEL is trading at 20-50% mean multiple discount to historical P/BV, P/E, EV/EBIDTA. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs113/share target price as bottom	▪ At current prices PEL trades at 8% higher than our stress case offering a favorable risk reward with 70% upside to target price	▪ Strong volume traction ▪ CAPEX peaking out ▪ High tiering in competitive advantage. Maintain BUY rating with NAV based target of Rs207/share
Puravankara	▪ 5% discount to current base prices ▪ 18% WACC ▪ Property price growth of 5%, cost inflation of 6% ▪ In a place like Bangalore we have assumed a price of Rs4,400/sqft which is a 5% discount to average price of Puravankara product	▪ Reverse DCF (on current price) imply a 18% base year property price correction ▪ 20% WACC ▪ Property price growth of 4%, cost inflation of 4% ▪ In a place like Bangalore we have assumed price of Rs3,608/sqft which is just the break even cost for doing business	▪ Currently PPL trades closer to its recession multiples on P/BV, P/E, EV/EBIDTA and 30-40% discount to mean multiple. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs82/share target price as bottom	▪ At current prices PPL trades at 11% below our stress case offering a favorable risk reward with 89% upside to target price	▪ Balance sheet deleveraging remains key re-rating trigger ▪ Highly IT/ITES centric land bank ▪ High tiering in competitive advantage. Maintain BUY rating with NAV based target of Rs138/share
Phoenix Mills	▪ 10% discount to current base prices ▪ 14% WACC ▪ Property price growth of 5%, cost inflation of 5% ▪ Rental cap rate of 12%. ▪ Lease Rental CAGR of 6%.	▪ Reverse DCF (on current price) imply a 15% base year property price correction ▪ 17% WACC ▪ Property price growth of 0%, cost inflation of 5% ▪ Rental cap rate of 14%, lease rental CAGR of 5%.	▪ Currently PML is trading at 20-50% mean multiple discount to historical P/BV, P/E, EV/EBIDTA. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs180/share target price as bottom	▪ At current prices PML trades 32% higher than our stress case offering an equal risk reward with 32% upside to target price	▪ Capex & debt has peaked out ▪ Residential launches during 2HFY14E ▪ High quality retail asset portfolio Maintain BUY rating with NAV based target of Rs315/share
Kolte Patil	▪ 5% discount to current base prices ▪ 18% WACC ▪ Property price growth of 6%, cost inflation of 7% ▪ Rental cap rate of 12%.	▪ Reverse DCF (on current price) imply a 15% base year property price correction ▪ 22% WACC ▪ Property price growth of 4%, cost inflation of 5% ▪ Yearly volumes of 2mn sqft in sales	▪ Currently at our base case KPDL trades closer to its recession multiples on P/BV, P/E, EV/EBIDTA and 40-50% discount to mean multiple. Whilst we don't see any meaningful downgrades for FY14E, FY15E EPS our average worst case scenario yields a Rs68/share target price as bottom	▪ At current prices KPDL trades close to stress case offering a favorable risk reward with 112% upside to target price	▪ Low debt to equity of 0.2x ▪ Biggest beneficiary of land acqusition bill ▪ High tiering in competitive advantage. Maintain BUY rating with NAV based target of Rs140/share

Source: Company, Karvy Institutional Research

Real Estate

Over past 3M BSE Realty has underperformed Sensex Index by 21%. Near term concerns weigh upon stock prices as (i) economic slowdown (ii) unaffordability & (iii) slow hiring may impact strong sales momentum. In light of the massive stock price correction we try to deduce whether the current scenario is overpricing the risk of impending slowdown.

Short term concerns – take heavy toll on stock prices

Slowing infrastructure investment, high capital values & liquidity tightening in pockets of Top 8 cities has reduced the utility of real estate as investment alternative. Whilst the near term concerns weigh caution the long term outlook remains positive on back of favorable demographics – dependency ratio, disposable income and urbanization, which augurs well for demand.

Outlook & Valuations

Near term outlook remains robust

Despite high unaffordability, in NCR and Mumbai markets (high value), the growth and absorption of our coverage universe has been robust. Mumbai witnessed 15% growth in new registration for 1QFY14.

Stock prices in dissonance with on ground performance

After a strong recovery post the FY08-09 recession our coverage universe has witnessed new highs in (i) sales volume (ii) realization (iii) profits whilst on balance sheet front (i) debt/equity has improved (ii) capex assets are maturing & (iii) some companies viz. Puravankara, Kolte Patil have incorporated a stated dividend policy. Despite the changing financial matrix and performance the stock prices continue to languish at 52week lows a clear disconnect from operating performance.

Valuation multiples contraction not backed by earnings downgrades

During FY13 or even 1QFY14 we have not seen any meaningful consensus stock earnings downgrades the valuation multiples have contracted resulting in stock price corrections. Whilst undercurrent in property demand has resulted in strong volumes absorption (FY13 & 1QFY14) the economic slowdown is yet to reflect on volume destruction. We are not proponents of being consciously blind folded on slowdown though appreciate the premise that with slowing demand the 'quality supply' will shrink. In any market top 5 developer with cumulative 25-30% of market share are the ones who continue to do well as buyers focus on execution and delivery and know to distinguish 'peaches' from 'lemons'. Companies with poor financial discipline have faltered and seeing limited buying interest for new launches on account of stressed balance sheet.

Our stress case value

Whilst market participants remain indecisive on buying into such carnage we try to make some logical deductions to determine distressed asset value scenario and **'margin of safety'**. We utilize four methodologies viz (i) Land valuation (ii) Book value (iii) cross cycle comparison & (iv) NAV to assess stress case valuation and entry points.

Our forecast postures a 0-10% 2QFY14E YoY growth

Despite a seasonally weak quarter we forecast a muted to 10% sales growth for our coverage universe as highlighted in the exhibit 2 below with exception being Kolte Patil & Oberoi Realty. There is a sharp deceleration in YoY volumes for Kolte Patil & Oberoi Realty. During 2QFY14 new launches is down 40% in Pune and Kolte Patil is awaiting approval for 6mn sqft of new area (Wakad - 2mn, Hinjewadi - 2mn & Wagholi - 2mn, expected to come by Dec-13E. In case of Oberoi Realty the Company is selling Oberoi Exquisite & Oberoi Esquire whilst Mulund Project is subjudice. *The management highlighted that Supreme Court has started hearing the Oberoi Realty case last Thursday (26th Sep 2013) and the final judgment is expected by mid- Oct'13. The company has already shortlisted the contractor for the projects and expects to launch it within FY14E(subject to Supreme Court judgment).*

Exhibit 2: Sales traction – 0-10% volume growth YoY

	Area Sold sqft			Growth %		Comment
Company	**2QFY13**	**1QFY14**	**2QFY14**	**QoQ**	**YoY**	
DLF	1,590,000	1,810,000	1,614,792	(10.8)	1.6	Muted quarter overall
Sobha Developers	946,128	920,679	925,743	0.6	(2.2)	expect marginal positive growth & YoY decline owing to delay in decision making due to seasonality
Puravankara Projects	670,000	660,000	696,300	5.5	3.9	expect marginal uptick owing to Purva Skydale & Provident Green Park Coimbatore launch. Nearing completion momentum picked up in Purva Swanlake (20 apartment being sold monthly vs 10 earlier), Kochi still slow whilst Purva Highlands momentum lower during 2QFY14E
Prestige Estates	1,620,000	1,970,000	1,790,000	(9.1)	10.5	Expect Rs10bn as new sales. Large ticket launches planned for 3QFY14E viz. Prestige Lakeside Habitat - 5.9mn sqft
Kolte Patil	800,000	420,000	400,000	(4.8)	(50.0)	No major approvals whilst 1.5mns qft launched during Sep-13 hence muted sales. Though realization is expected to move to Rs5200/sqft which is a 10% YoY increase
Oberoi Realty	130,094	48,960	50,204	2.5	(61.4)	existing projects Esquire & Exquisite contribute to sales, expect marginal improvement QoQ despite a seasonally weak quarter

Source: Karvy Institutional Research

Impact of VAT Judgment muted

Our interaction with the listed, unlisted developers, tax consultants suggest that the VAT impact is minuscule as most of the companies have already been complying with the Apex Court ruling in case of K Raheja vs Karnataka State dispute. Southern developers have been upfront in passing on VAT to buyers and depositing the proceeds with the Sales tax department. In case of Maharashtra most of the developers were collecting VAT & mapping it to an escrow account as matter was referred to a larger Supreme Court bench post Mumbai High Court putting stay on Maharashtra Government directive on collecting VAT. With the final Judgment going against developers the proceeds will be utilized to settle the VAT liability. Our coverage universe has largely complied with the earlier HC directive and hence is minimally impacted (0-1% of revenue max) with most of them closer to lower end of the range. From Apr-2010, the Maharashtra Government charges 1% VAT under composite scheme wherein developers won't get any set off.

TABLE 1 – Impact of VAT ruling on Real estate developers

Company	Comment
DLF	Minimal impact on Bangalore projects & UP projects. Not impacted by ruling though as bulk of sales comes from NCR where VAT is not applicable. In future if State Government implements VAT it will be prospective and impact real estate prices as it will be passed on to buyers.
Sobha Developers	Company expects a negligible impact of the VAT ruling as was collecting taxes from buyers
Puravankara Projects	Impacted limited to two Joint Development projects only viz. Atria & Platina. Follows Abatement method of VAT calculation
Prestige Estates	Follows Composite VAT structure. Charges customers 5.5% flat under the composite method. PEPL has been collecting the taxes and hence no liability arises out of this judgment. PEPL has most of the projects under the JDA route with provision of area share/revenue share. The company maintained that they have agreement with owners to collect VAT on their area share/revenue share and hence are protected from tax liability.
Kolte Patil	Minimal impact ~Rs15mn and that too has been paid earlier. May try to recover from buyers
Oberoi Realty	Minimal impact as already tax was being collected
Phoenix Mills	Minimal Impact as limited residential exposure, while commercial assets are on ownership and not for sale

Source:Company, Karvy Research

COMPANY SECTION

DLF

Recommendation	BUY
CMP:	Rs132
Target Price:	Rs248
Upside (%)	88%

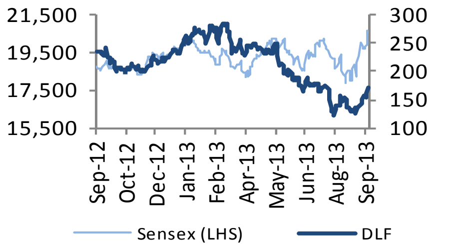
Stock Information

Market Cap. (Rs bn / US$ mn)	241/3,897
52-week High/Low (Rs)	289/120
3m ADV (Rs mn /US$ mn)	1,569/25.3
Beta	1.4
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	1,781

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(1.1)	(19.5)	(42)	(41.2)
Rel. to Sensex	(7.7)	(25)	(45.7)	(42.6)

Performance



Source: Bloomberg

DLF currently trades at P/E of 16.3x FY15E vs. its historical mean valuation of 40.5x 1-Yr forward. We believe that current discount of 58% to its historical mean multiple is unjustified in view of improving balance sheet, movement in new sales and expected margin expansion and return ratios of the Company. We find comfort in movement on net debt reduction plan with FY14E target of Rs175bn from current levels of Rs203bn. We reiterate our **"BUY"** recommendation on DLF with NAV based target price of Rs248 per share. Our valuation is based on 0.77x our end-FY14E NAV forecast.

Trading at 40-50% discount to historical valuation

DLF is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for DLF as **Rs126-248/share**. At CMP of Rs132 DLF offers a 5% downside to test our stress case valuation hence offering favorable risk reward with 88% potential upside.

Exhibit 3: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	40.5	16.3	Despite improving financial matrix
EV/EBIDTA	19.3	10.7	DLF has been trading at 40-50%
P/BV	1.9	0.8	Discount to long term valuation Multiples

Source: Company, Karvy Institutional Sales

Key catalysts

Asset sales; deleveraging materialization key re-rating trigger

DLF is expecting noncore asset sales of Rs46.1bn (includes Aman, Wind/energy divestments and IPP equity raise) the proceeds will be realized over 2HFY14E towards debt reduction to ~Rs175bn. This shall turn the DLF into free cash flow positive zone from FY15E. The deleveraging of balance sheet stress remains the key re-rating trigger for the stock.

Exhibit 4: 1 year forward PE Band

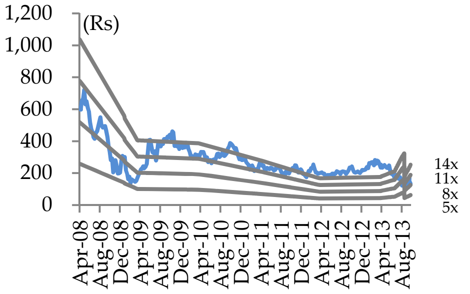


Exhibit 5: 1 year forward P/BV Band

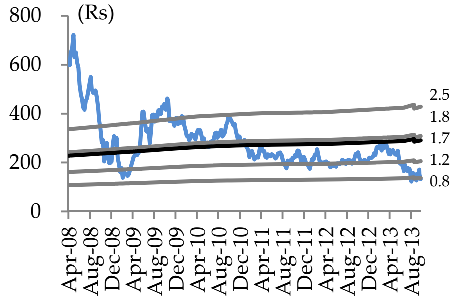
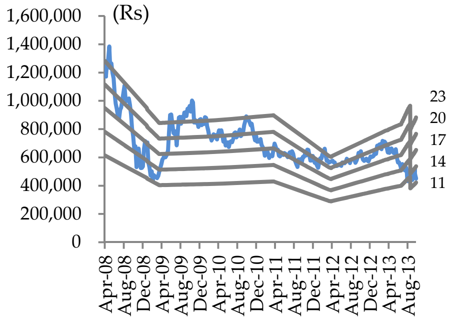


Exhibit 6: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach for valuing real estate sector owing to cyclical nature of the industry. EPS can also be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use recession multiples as proxy to arrive at a distressed case valuation for DLF**. *DLF has traded at 11.5x one-year forwarded multiple during Feb-09.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use recession multiples as proxy to arrive at a distressed case valuation for DLF. ***DLF has traded at 11.6x one-year forwarded multiple during Feb-09.***

P/BV based valuation

Book value can be gamed and is impacted by differences in accounting policies. Besides the equity raises/dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use recession multiples as proxy to arrive at a distressed case valuation for DLF. ***DLF has traded at 0.7x one-year forwarded multiple during Feb-09.***

Replacement Cost

We value the DLF land bank of 400mn sqft using DCF over the next 10yrs with a WACC of 15%. From this DCF value we deduct the Net Debt and arrive at Rs1,500/sqft as the market value being ascribed to DLFs land bank which is a 30-40% discount to the current prevailing market rate for the Non-agri land besides we have not ascribed any value to the land conversion potential. ***Value if entire 400mn sqft is sold now is Rs750/sqft.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 0% and cost inflation of 6% (ii) Wacc of 16% (iii) Commercial cap rate of 14% (iv) 4-5mn sqft of annual sales (v) DCF first year price lowered by 20% for compounding. Viz if for Gurgaon we have assumed base year price of Rs15,000/sqft for Crest project we have build assumption of Rs12,000/sqft price and then build in no price inflation till the life of project.

We take the average of these approaches to arrive at the stress case valuation and 'margin of safety' range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions

In our bear case we have cut our pricing assumption by 20% and increase our cost of capital from 14% to 16%. This has resulted in our EPS projections being lower by 31.6% for FY14E and 53.8% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 9, 10 & 11. We utilize the stress/bear case target prices to derive implied multiples which again are 20-50% lower than our base case multiples.

Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs126-248 per share**, using different methodologies of valuation as listed below.

Exhibit 7: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	80	80	We have assumed a 20% base price correction from current price levels into the bear case
Sales inflation %	5.00	5.00	-	-	
Cost inflation %	5.00	5.00	6	6	
WACC %	14.0	14.0	16.0	16.0	We have assumed a 200bps increase in WACC
Cap Rate %	11.0	11.0	13.0	13.0	We have built in a 200bps increase in Cap rate
Revenues	92,743	94,206	82,915	78,888	
Growth	19.3	1.6	6.7	-4.9	Revenue de-growth owing to lower base price assumption
EBIDTA	34,487	41,953	29,093	29,635	
Margins	37.2	44.5	35.1	37.6	Margin contraction on account of assumption of property price correction
EPS	4.4	8.1	3.0	3.7	
Cut in estimates vs FY14E			-31.6	53.8	
Growth	4.7	84.0	(28.1)	24.0	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 8: DLF's Base case and Stressed case valuations

	Base case	Bear Case
Target Multiple P/E	30.7	25#
Target Price (Rs)	248	93
Target Multiple P/B	1.42*	0.7#
Target Price (Rs)		122
Replacement value of land bank		
Target Price (Rs)		135
Target Multiple EV/EBIDTA	15.6*	11.6#
Target Price (Rs)		153
Average of above		
Target Price (Rs)	248	126

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs93-248/share**. Average of approaches A, B, C & D gives a stress case price of **Rs126/share.** At CMP of Rs132 DLF offers a 5% downside to test our stress case valuation hence offering favorable risk reward with 88% potential upside.

Exhibit 9: P/E based valuation - A

		Comments
EPS(Rs/share)	8.1	Current EPS estimate FY15E
Multiple based valuation	11.5	Assumed recession multiple as a proxy.
Stress case value (Rs/share)	93	

Source: Karvy Institutional Research

Exhibit 10: P/BV based valuation - B

		Comments
BVPS(Rs/share)	174	Current BV estimate FY15E
Multiple based valuation	0.7	Assumed recession multiple as a proxy
Stress case value (Rs/share)	122	

Source: Karvy Institutional Research

Exhibit 11: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	41,953	FY15E
EV/EBIDTA(x)	11.6	Assumed recession multiple
EV	486,655	
Less: Net Debt	214,667	FY14E net debt
Equity value	271,988	
Stress case	153	

Source: Karvy Institutional Research

Exhibit 12: Reverse DCF implying – 20% discount to current price - D

Replacement cost	Rs mn	Comments
Commercial Asset rental	20,000	FY15E exit rental
Capitalization rate %	13%	Higher than LRD rate of 11%
Commercial asset value	153,846	
Land bank value	300,582	Rs1500/share land price for total land bank, assumed 30-40% discount to current prices
Total value	454,428	
Less: Net Debt	214,667	FY14E net debt
Equity value	239,761	
Stress case value (Rs/share)	135	

Source: Karvy Institutional Research

Exhibit 13: NAV based valuation – Base case valuation

	Rs mn	Rs/share	Comments
Gross NAV Residential	594,903	334	NAV based
Gross NAV Commercial	147,521	83	
Other business	59,572	33	8x FY15E EV/EBIDTA end FY14E
Total Gross NAV	801,996	451	
Less: Net Debt	(216,794)	(122)	
Unpaid land bank	(12,800)	(7)	
NAV	572,402	322	
Discount to NAV		23%	
NAV/Share (Rs/share)		248	

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on DLF at current market price explains market is (i) factoring a 20% base year property price correction (ii) 18% WACC (iii) Property price growth of 0%, cost inflation of 6%. Alternatively in exhibit 12 we highlight that CMP is factoring in DLF land bank market value at Rs1500/share which is a 30-40% discount to current prevailing price in Mumbai.

Recommendation	**BUY**
CMP:	Rs166
Target Price:	Rs308
Upside (%)	85%

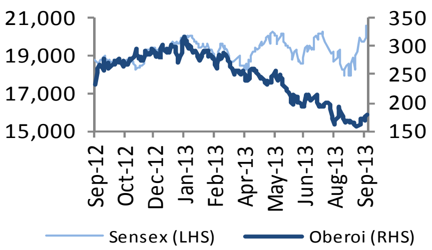
Stock Information

Market Cap. (Rs bn / US$ mn)	57/922
52-week High/Low (Rs)	328/153
3m ADV (Rs mn /US$ mn)	26/0.4
Beta	0.9
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	328

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.8	(9.4)	(33.5)	(39.6)
Rel. to Sensex	(4.1)	(15.5)	(37.8)	(41)

Performance



Source: Bloomberg

Oberoi Realty

ORL currently trades at P/E of 4.9x FY15E vs. its historical mean valuation of 12.9x 1-Yr forward. We believe that current discount of 60% to its historical mean multiple is unjustified in view of debt free balance sheet, attractive land parcels & strong brand positioning. We reiterate our **"BUY"** recommendation on ORL with NAV based target price of Rs308 per share. Our valuation is based on 1x our end-FY14E NAV forecast as most of the projects have next 5-7 years visibility.

Trading at 40-60% discount to historical valuation

ORL is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for ORL as **Rs165-308/share**. At CMP of Rs166 ORL trades near its stress case valuation hence offering favorable risk reward with 85% potential upside.

Exhibit 14: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	12.9	4.9	Despite strong operational Performance ORL has been trading at 40-60% Discount to long term valuation Multiples
EV/EBIDTA	9.1	2.4	
P/BV	1.7	0.9	

Source: Company, Karvy Institutional Sales

Key catalysts

Approvals in key projects

ORL has unsold inventory of 9mn sqft as of end FY13 and has planned 4mn sq ft of new launches over FY14E (Mulund-3.2mn sqft, Worli gross profit share 0.6mnsqft). Whilst we forecast the FY14E sales run-rate from the existing projects to be maintained at ~0.6mn sq ft, we build in ~0.6mn sq ft addition from proposed launches in new locations largely contributed by Mulund launch. The speed of Mulund approval remains the key re-rating trigger for ORL.

Exhibit 15: 1 year forward PE Band

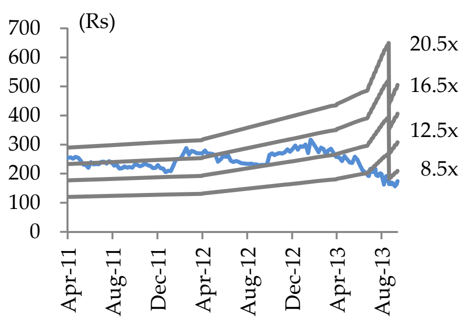


Exhibit 16: 1 year forward P/BV Band

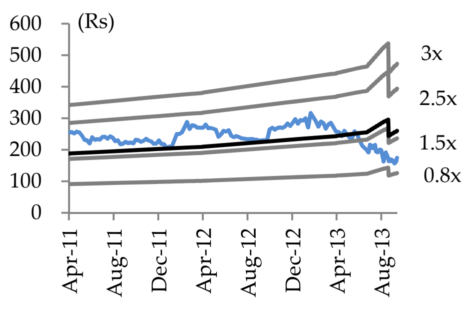
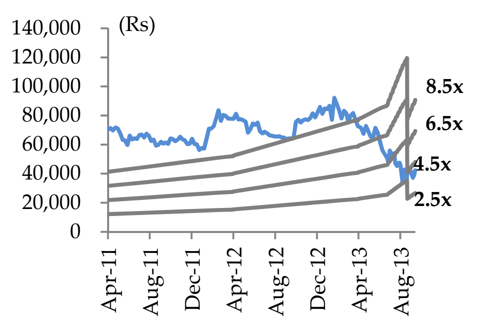


Exhibit 17: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach as EPS can be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for ORL. ORL got listed (Oct'10) post recession and hence we don't have any benchmark for the recession multiples though since listing ***ORL has recorded lowest one-year forward multiple of 5.4x.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for ORL. ORL got listed (Oct'10) post recession and hence we don't have any benchmark for the recession multiples though since listing ***ORL has recorded lowest one-year forward multiple of 2.5x.***

P/BV based valuation

Book value can be gamed and is impacted by accounting policies. Besides the equity dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for ORL. ORL got listed (Oct'10) post recession and hence we don't have any benchmark for the recession multiples though since listing ***ORL has recorded lowest one-year forward multiple of 0.9x.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 0% and cost inflation of 5% (ii) Wacc of 18% (iii) 0.5mn sqft of annual sales (v) DCF first year price lowered by 30% for compounding (base year price assumed at 5% discount to current market prices and hence the total discount is ~35%). Viz if for Goregaon we have assumed base year price of Rs13,000/sqft (a 5% discount to Rs13,700/sqft) in our bear case we have build assumption of Rs9,500/sqft price.

Replacement Cost

We value the ORL land bank of 12mn sqft (9mn sqft residential & 3mn commercial) using DCF over the next 10yrs with a WACC of 15%. From the DCF value we deduct the Net Debt and arrive at Rs7,100/sqft as the market value being ascribed which is a 30-40% discount to the current prevailing market rate for the Non-agri land in Goregaon besides we have not ascribed any value to the land conversion potential. *Value if entire 12mn sqft is sold now is Rs3,560/sqft.*

We take the average of these approaches to arrive at the stress case valuation and 'margin of safety' range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions:

In our bear case we have cut our pricing assumption by 30% and increase our cost of capital from 14% to 18%. This has resulted in our EPS projections being lower by 18.3% for FY14E and 25.3% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 20, 21 & 22. We utilize the stress/bear case target prices to derive implied multiples. Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs165-308 per share**, using different methodologies of valuation as listed below.

Exhibit 18: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	70	70	We have assumed a 30% base price correction from current price levels into the bear case
Sales inflation %	5	5	0	0	
Cost inflation %	5	5	5	5	
WACC %	14	14	18	18	We have assumed a 400bps increase in WACC to 18%
Cap Rate %	11	11	14	14	
Revenues	15,383	23,618	13,660	19,890	
Growth	47	54	30	46	Revenue cut owing to lower base price assumption
Cut in estimates vs base case			-11.2	-15.8	The bear case estimates are 11.2% and 15.8% lower than our base case estimates
EBIDTA	9,027	14,056	7,386	10,508	
Margins %	58.7	59.5	54.1	52.8	Margin contraction on account of assumption of property price correction
EPS	21.6	33.9	17.6	25.3	
Growth	40.4	56.9	14.8	43.3	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth
Cut in estimates vs FY14E			-18.3	-25.3	The bear case estimates are 18.3% and 25.3% lower than our base case estimates

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 19: ORL's Base case and Stressed case valuations

	Base case	Bear Case
Target Multiple P/E	9.1	7.2#
Target Price (Rs)	308	183
Target Multiple P/B	1.7*	1.0#
Target Price (Rs)		167
Replacement value of land bank		
Target Price (Rs)		167
Target Multiple EV/EBIDTA	5.7*	3.4#
Target Price (Rs)		145
Average of above		
Target Price (Rs)	308	165

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs145-308/share**. Average of approaches A, B, C & D gives a stress case price of **Rs165/share.** At CMP of Rs166 ORL trades closer to worst case valuation hence offering favorable risk reward with 85% potential upside.

Exhibit 20: P/E based valuation - A

		Comments
EPS(Rs/share)	33.9	Current EPS estimate FY15E
Multiple based valuation	5.4	Assumed lowest multiple as a proxy
Stress case value (Rs/share)	183	

Source: Karvy Institutional Research

Exhibit 21: P/BV based valuation - B

		Comments
BVPS(Rs/share)	179	Current BV estimate FY15E
Multiple based valuation	0.9	Assumed lowest multiple as a proxy
Stress case value (Rs/share)	167	

Source: Karvy Institutional Research

Exhibit 22: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	14,056	FY15E estimate
EV/EBIDTA(x)	2.5	Assumed lowest multiple
EV	35,559	
Less: Net Debt	-12,022	FY14E net debt
Equity value	47,581	
Stress case	145	

Source: Karvy Institutional Research

Exhibit 23: Reverse DCF implying – 35% discount to current price - D

Replacement cost	Rs mn	Comments
Land bank value	42,760	Market is factoring a valuation of Rs7,100/sqft land price for total land bank assumed at 12mn (9mn unsold inventory & 3mn commercial assets). We have used DCF approach to monetize ORL land bank over next 10yrs. Value if entire 12mn sqft is sold now is Rs3,560/sqft.
Total value	42,760	
Less: Net Debt	-12,022	FY14E net debt
Equity value	54,782	
Stress case value (Rs/share)	167	

Source: Karvy Institutional Research

Exhibit 24: NAV based valuation – Base case valuation

	Rs mn	Comments
Gross Residential NAV	43,768	NAV based
Gross NAV Hotels	6,961	8x FY14E EV/EBIDTA
Gross NAV Commercial	30,246	NAV based
Others	8,045	Social infra, other assets at book value
Less: Net Debt	13,131	
Residential NAV	-12,022	
NAV	101,042	
NAV/share	308	Post 30% NAV discount

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on ORL at current market price explains market is (i) factoring a 35% base year property price correction (ii) 18% WACC (iii) Property price growth of 0%, cost inflation of 5%(iv) yearly volumes of 1.0mn sqft in sales. Alternatively in exhibit 23 we highlight that CMP is factoring in ORL land bank market value at Rs3,560/share which is a 30-40% discount to current prevailing price in Mumbai.

Prestige Estates

Recommendation

CMP:	Rs122
Target Price:	Rs207
Upside (%)	70%

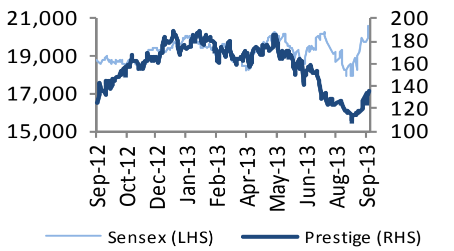
Stock Information

Market Cap. (Rs bn / US$ mn)	43/699
52-week High/Low (Rs)	195/105
3m ADV (Rs mn /US$ mn)	47/0.8
Beta	1.0
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	350

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.4	(16.2)	(13.2)	(31)
Rel. to Sensex	(0.7)	(21.8)	(18.7)	(32.7)

Performance



Source: Bloomberg

PEL currently trades at P/E of 9.8x FY15E vs. its historical mean valuation of 19.9x 1-Yr forward. We believe that current discount of 50% to its historical mean multiple is unjustified in view of strong sales volume, stable balance sheet, attractive commercial assets & strong brand positioning. We reiterate our **"BUY"** recommendation on PEL with NAV based target price of Rs207 per share. Our valuation is based on 1x our end-FY14E NAV forecast as most of the projects have next 7-10 years visibility.

Trading at 20-50% discount to historical valuation

PEL is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for PEL as **Rs113-207/share**. At CMP of Rs122 PEL trades 8% higher than its stress case valuation hence offering favorable risk reward with 70% potential upside.

Exhibit 25: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	19.9	10.0	Despite strong operational Performance PEL has been trading at 20-60% Discount to long term valuation Multiples
EV/EBIDTA	10.9	7.3	
P/BV	1.6	1.3	

Source: Company, Karvy Institutional Sales

Key catalysts

Approvals in key projects

PEL has 33mn sqft ongoing projects end 1QFY14 and has planned 27.5mn sq ft of new launches of which 14mn sqft being launched in FY14E. Whilst we forecast the FY14E sales run-rate at 6.4mn sqft PEPL has guided for a 8mn sqft os new sales(2x of nearest competitor Sobha). Success of new launch remains key re-rating trigger. This is further supported by peaking of asset capex and debt.

Exhibit 26: 1 year forward PE Band

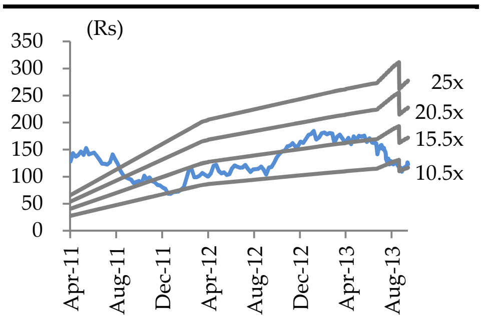


Exhibit 27: 1 year forward P/BV Band

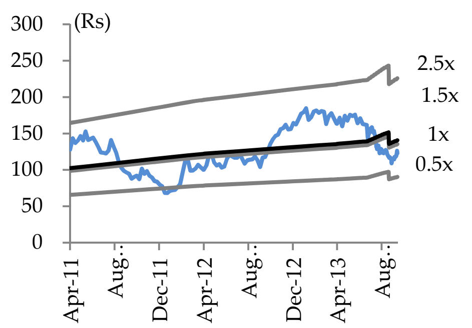
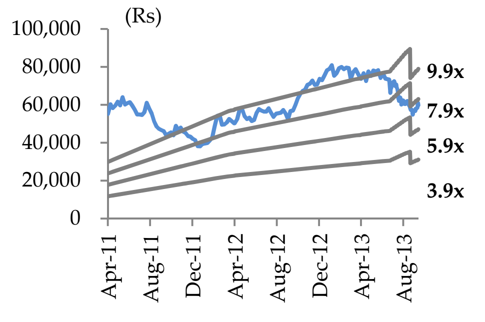


Exhibit 28: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach as EPS can be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PEL. PEL got listed (Oct'10) post recession and hence we don't have any benchmark for the recession multiples though since listing ***PEL has recorded lowest one-year forward multiple of 9.5x.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PEL. PEL got listed (Oct'10) post recession and hence we don't have any benchmark for the recession multiples though since listing ***PEL has recorded lowest one-year forward multiple of 6.5x.***

P/BV based valuation

Book value can be gamed and is impacted by accounting policies. Besides the equity dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PEL. PEL got listed (Oct'10) post recession and hence we don't have any benchmark for the recession multiples though since listing ***PEL has recorded lowest one-year forward multiple of 0.9x.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 0% and cost inflation of 5% (ii) Wacc of 17% (iii) 3.5mn sqft of annual sales (v) DCF first year price lowered by 10% for compounding (base year price assumed at 10% discount to current market prices and hence the total discount is ~20%). Viz if for Bangalore we have assumed base year price of Rs4,500/sqft (a 10% discount to Rs5,000/sqft) in our bear case we have build assumption of Rs3,950/sqft price.

Replacement Cost

We value the PEL land bank of 76mn sqft using DCF over the next 10yrs with a WACC of 15%. From the DCF value we add the commercial asset value at 14% cap rate deduct the Net Debt and arrive at Rs875/sqft as the market value being ascribed which is a 25-30% discount to the current prevailing market rate for the Non-agri land in Bangalore besides we have not ascribed any value to the land conversion potential. *Value if entire 76mn sqft is sold now is Rs440/sqft.*

We take the average of these approaches to arrive at the stress case valuation and 'margin of safety' range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions:

In our bear case we have cut our pricing assumption by 10% and increase our cost of capital from 14% to 17%. This has resulted in our EPS projections being lower by 13% for FY14E and 18.5% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 31, 32 & 33. We utilize the stress/bear case target prices to derive implied multiples. Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs113-207 per share**, using different methodologies of valuation as listed below.

Exhibit 29: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	90	90	We have assumed a 10% base price correction from current price levels into the bear case
Sales inflation %	5	5	0	0	
Cost inflation %	5	5	5	5	
WACC %	14	14	17	17	We have assumed a 300bps increase in WACC to 17%
Cap Rate %	11	11	13	13	
Revenues	25,670	30,773	24,883	29,431	
Growth	31.8	19.9	27.8	18.3	Revenue cut owing to lower base price assumption
Cut in estimates vs base case			-3.1	-4.4	The bear case estimates are 3.1% and 4.4% lower than our base case estimates
EBIDTA	7,466	9,037	6,761	7,842	
Margins %	29.1	29.4	27.2	26.6	Margin contraction on account of assumption of property price correction
EPS	10.4	12.5	9.1	10.2	
Growth	27.8	19.3	11.2	11.8	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth
Cut in estimates vs FY14E			-13.0	-18.5	The bear case estimates are 13% and 18.5% lower than our base case estimates

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 30: PEL's Base case and Stressed case valuations

	Base case	Bear Case
Target Multiple P/E	16.6	7.2#
Target Price (Rs)	207	118
Target Multiple P/B	2.1*	1.0#
Target Price (Rs)		88
Replacement value of land bank		
Target Price (Rs)		124
Target Multiple EV/EBIDTA	10.4*	3.4#
Target Price (Rs)		121
Average of above		
Target Price (Rs)	207	113

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs88-207/share**. Average of approaches A, B, C & D gives a stress case price of **Rs113/share.** At CMP of Rs124 PEL trades 11% above our worst case valuation hence offering favorable risk reward with 64% potential upside.

Exhibit 31: P/E based valuation - A

		Comments
EPS(Rs/share)	12.5	Current EPS estimate FY15E
Multiple based valuation	9.5	Assumed lowest multiple as a proxy
Stress case value (Rs/share)	118	

Source: Karvy Institutional Research

Exhibit 32: P/BV based valuation - B

		Comments
BVPS(Rs/share)	97.2	Current BV estimate FY15E
Multiple based valuation	0.9	Assumed lowest multiple as a proxy
Stress case value (Rs/share)	88	

Source: Karvy Institutional Research

Exhibit 33: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	9,037	FY15E estimate
EV/EBIDTA(x)	6.5	Assumed lowest multiple
EV	58,738	
Less: Net Debt	16,553	FY14E net debt
Equity value	42,184	
Stress case	121	

Source: Karvy Institutional Research

Exhibit 34: Reverse DCF implying – 20% discount to current price - D

Replacement cost	Rs mn	Comments
Land bank value	33,375	Market is factoring a valuation of Rs875/sqft land price for total land bank assumed at 76mn. We have used DCF approach to monetize PEL land bank over next 10yrs. Value if entire 76mn sqft is sold now is Rs440/sqft.
Commercial asset	26,564	14% cap rate
Total value	59,939	
Less: Net Debt	16,553	FY14E net debt
Equity value	43,386	
Stress case value (Rs/share)	124	

Source: Karvy Institutional Research

Exhibit 35: NAV based valuation – Base case valuation

	Rs mn	Comments
Gross Residential NAV	39,510	NAV based
Gross NAV Retail	18,367	
Gross NAV Commercial	24,181	NAV based
Others	6,984	
Less: Net Debt	16,553	
NAV	72,488	
NAV/share	207	

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on PEL at current market price explains market is (i) factoring a 10% base year property price correction (ii) 17% WACC (iii) Property price growth of 0%, cost inflation of 5%(iv) yearly volumes of 3.5mn sqft in sales. Alternatively in exhibit 34 we highlight that CMP is factoring in PEL land bank market value at Rs875/share which is a 25-30% discount to current prevailing price in Mumbai.

Phoenix Mills

Recommendation

CMP:	Rs238
Target Price:	Rs315
Downside (%)	32%

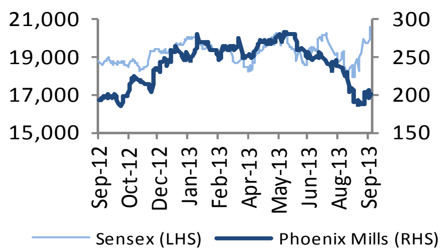
Stock Information

Market Cap. (Rs bn / US$ mn)	33/530
52-week High/Low (Rs)	293/181
3m ADV (Rs mn /US$ mn)	15/0.2
Beta	0.8
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	145

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	8.6	(10)	16.3	(11.7)
Rel. to Sensex	1.3	(16.1)	8.9	(13.7)

Performance



Source: Bloomberg

PML currently trades at P/E of 17.5x FY15E vs. its historical mean valuation of 27.8x 1-Yr forward. We believe that current discount of 37% to its historical mean multiple is unjustified in view of peaking capex & debt, attractive commercial assets & strong brand positioning. We reiterate our **"BUY"** recommendation on PML with NAV based target price of Rs315 per share. Our valuation is based on 1x our end-FY14E NAV forecast as most of the projects have next 4-5 years visibility.

Trading at 20-50% discount to historical valuation

PML is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for PML as **Rs180-315/share**. At CMP of Rs238 PML trades 32% higher than its stress case valuation hence offering equal risk reward with 42% potential upside.

Exhibit 36: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	27.8	17.5	Despite peaking of Capex PML has been trading at 20-60% Discount to long term valuation Multiples
EV/EBIDTA	16.3	9.0	
P/BV	1.6	1.6	

Source: Company, Karvy Institutional Sales

Key catalysts

Approvals in key projects

PML has planned 3mn sq ft of new launches over FY14-15E (Bangalore - 1.4mn sqft, Chennai - 0.4mn, Pune - 0.4mn sqft). We forecast the FY14E sales at 1.4mn sqft and value at Rs15.5bn. Ramp up in Palladium Hotel occupancy and success of new residential launches (in the premium segment) remains key re-rating trigger.

Exhibit 37: 1 year forward PE Band

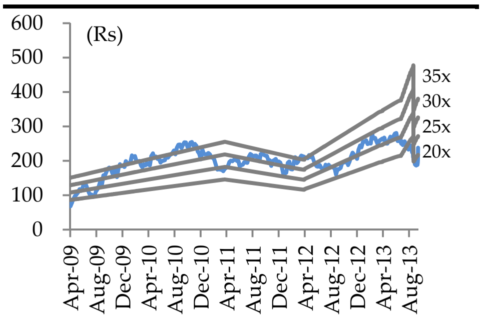


Exhibit 38: 1 year forward P/BV Band

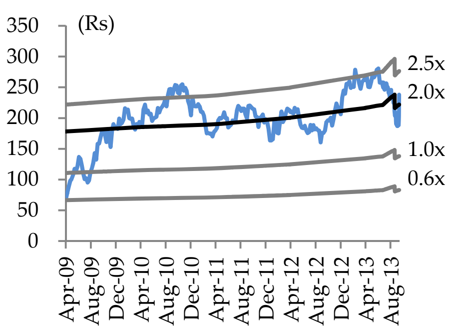
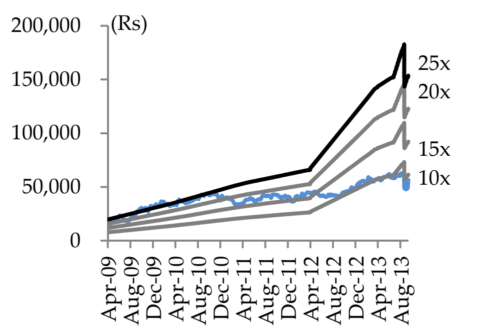


Exhibit 39: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach as EPS can be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PML. ***PML has recorded lowest one-year forward multiple of 10.7x.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PML. ***PML has recorded lowest one-year forward multiple of 8.7x.***

P/BV based valuation

Book value can be gamed and is impacted by accounting policies. Besides the equity dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PML. ***PML has recorded lowest one-year forward multiple of 0.46x.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 0% and cost inflation of 5% (ii) Wacc of 17%, Cap rate 14% (iii) Lease escalation CAGR of 5% (v) Residential DCF first year price lowered by 15% for compounding (base year price assumed at 10% discount to current market prices and hence the total discount is ~25%).

Replacement Cost

We value the PML land bank of 3mn sqft using DCF over the next 5yrs with a WACC of 15%. From the DCF value we add the commercial asset value at 17% cap rate deduct the Net Debt and arrive at Rs2000/sqft as the market value being ascribed which is a 25-30% discount to the current prevailing market rate for the premium land parcels in Bangalore besides we have not ascribed any value to the land conversion potential. *Value if entire 3mn sqft is sold now is Rs1,462/sqft(excluding the Phoenix mill land of 0.25mn sqft valued at Rs26,000/sqft).*

We take the average of these approaches to arrive at the stress case valuation and 'margin of safety' range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions:

In our bear case we have cut our pricing assumption by 15% and increase our cost of cap rate from 12% to 14%. This has resulted in our EPS projections being lower by 17.2% for FY14E and 19.1% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 42, 43 & 44. We utilize the stress/bear case target prices to derive implied multiples. Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs180-315 per share**, using different methodologies of valuation as listed below.

Exhibit 40: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	85	85	We have assumed a 15% base price correction from current price levels into the bear case
Sales inflation %	5	5	0	0	
Cost inflation %	5	5	5	5	
WACC %	14	14	17	17	We have assumed a 300bps increase in WACC to 17%
Cap Rate %	12	12	14	14	We have assumed 200bps higher cap rate
Revenues	11,078	13,866	10,812	13,387	
Growth	135.7	25.2	130.1	23.8	Revenue cut owing to lower base price & rental assumption
Cut in estimates vs base case			-2.4	-3.5	The bear case estimates are 2.4% and 3.5% lower than our base case estimates
EBIDTA	5,711	7,302	5,458	6,858	
Margins %	51.6	52.7	50.5	51.2	Margin contraction on account of assumption of property price & rentals correction
EPS	9.8	13.6	8.2	11.0	
Growth	69.5	38.4	40.4	35.3	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth
Cut in estimates vs FY14E			-17.2	-19.1	The bear case estimates are 17.2% and 19.1% lower than our base case estimates

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 41: PML's Base case and Stressed case valuations

	Base case	**Bear Case**
Target Multiple P/E	23.1	13.2#
Target Price (Rs)	315	146
Target Multiple P/B	2.1*	0.5#
Target Price (Rs)		68
Replacement value of land bank		
Target Price (Rs)		203
Target Multiple EV/EBIDTA	10.5*	11.1#
Target Price (Rs)		301
Average of above		
Target Price (Rs)	315	180

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs68-315/share**. Average of approaches A, B, C & D gives a stress case price of **Rs180/share.** At CMP of Rs238 PML trades 32% above our worst case valuation hence offering equal risk reward with 32% potential upside.

Exhibit 42: P/E based valuation - A

		Comments
EPS(Rs/share)	13.6	Current EPS estimate FY15E
Multiple based valuation	10.7	Assumed lowest multiple as a proxy
Stress case value (Rs/share)	146	

Source: Karvy Institutional Research

Exhibit 43: P/BV based valuation - B

		Comments
BVPS(Rs/share)	148	Current BV estimate FY15E
Multiple based valuation	0.5	Assumed lowest multiple as a proxy
Stress case value (Rs/share)	68	

Source: Karvy Institutional Research

Exhibit 44: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	7,302	FY15E estimate
EV/EBIDTA(x)	8.7	Assumed lowest multiple
EV	63,527	
Less: Net Debt	19,892	FY14E net debt
Equity value	43,635	
Stress case	301	

Source: Karvy Institutional Research

Exhibit 45: Replacement cost - D

Replacement cost	Rs mn	Comments
Land bank value	9,675	Market is factoring a valuation of Rs2000/sqft land price for total land bank assumed at 3mn. We have used DCF approach to monetize PML land bank over next 5yrs. Value if entire 3mn sqft (excluding Phoenix land) is sold now is Rs1,462/sqft.
Commercial asset	32,006	14% cap rate
Palladium Hotel	3,708	erstwhilst Shangrila Hotel
Others	3,947	Other malls and investment at 30% discount
Total value	49,336	
Less: Net Debt	19,892	FY14E net debt proportionate share
Equity value	29,443	
Stress case value (Rs/share)	203	

Source: Karvy Institutional Research

Exhibit 46: NAV based valuation – Base case valuation

	Rs mn	Comments
Gross Residential NAV	13,223	NAV based
Gross NAV Commercial	45,490	All market cities, HSP & Palladium hotel
Others	6,410	
Less: Net Debt	19,567	Proportionate share of consolidated debt
NAV	45,555	
NAV/share	315	

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on PML at current market price explains market is (i) factoring a 15% base year property price correction (ii) 14% cap rate, 17% WACC (iii) Property price growth of 0%, cost inflation of 5%. Alternatively in exhibit 45 we highlight that CMP is factoring in PML land bank market value at Rs1,462/share which is a 25-30% discount to current prevailing price for land parcel in premium locations in Bangalore.

Sobha Developers

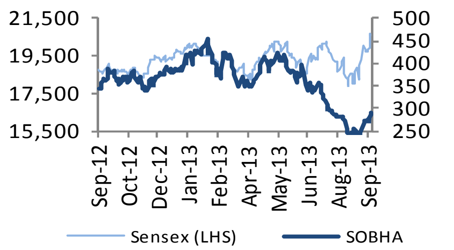
Recommendation	
CMP:	Rs291
Target Price:	Rs495
Upside (%)	70%

Stock Information	
Market Cap. (Rs bn / US$ mn)	28/447
52-week High/Low (Rs)	498/213
3m ADV (Rs mn /US$ mn)	48/0.8
Beta	1.0
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	98

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	15.3	(20.4)	(21)	(25.7)
Rel. to Sensex	7.6	(25.7)	(26)	(27.4)

Performance



Source: Bloomberg

SDL currently trades at P/E of 7.6x FY15E vs. its historical mean valuation of 12.3x 1-Yr forward. We believe that current discount of 40% to its historical mean multiple is unjustified in view of strong brand positioning, healthy balance sheet, stable southern markets and strong execution capability. We reiterate our **"BUY"** recommendation on SDL with NAV based target price of Rs495 per share. Our valuation is based on 0.7x our end-FY14E NAV forecast.

Trading at 30-40% discount to historical valuation

SDL is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for SDL as **Rs324-495/share**. At CMP of Rs291 SDL trades 10% below its stress case valuation hence offering favorable risk reward with 70% potential upside.

Exhibit 47: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	12.3	7.6	Despite strong operational Performance SDL has been trading at 30-40% Discount to long term valuation Multiples
EV/EBIDTA	8.7	5.5	
P/BV	1.3	1.1	

Source: Company, Karvy Institutional Sales

Key catalysts

Approvals in key projects

SDL has planned ~12mn sqft of new launches over FY14E with 45% of the launches at locations outside Bangalore. We expect SDL to outperform its sales guidance of 4.2mnsqft for FY14E with a sales number closer to ~4.5mn sqft. Southern markets new sales has been healthy and SDL remains the key beneficiary of this buoyant demand.

Exhibit 48: 1 year forward PE Band

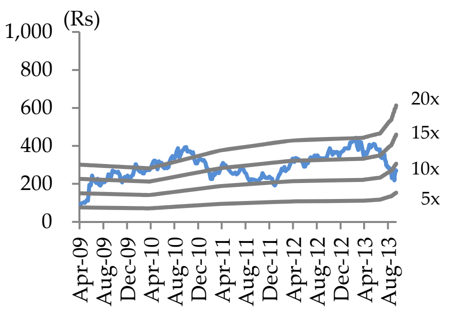


Exhibit 49: 1 year forward P/BV Band

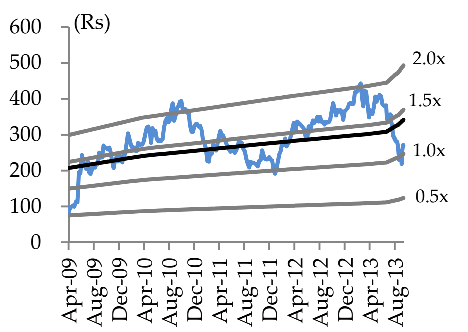
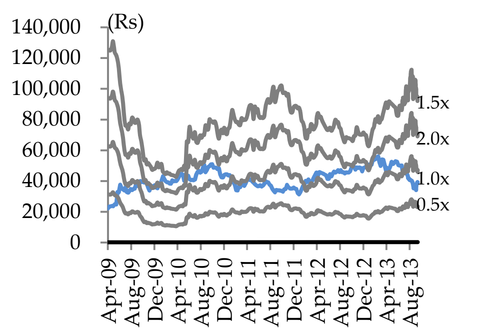


Exhibit 50: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach for valuing real estate sector owing to cyclical nature of the industry. EPS can also be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use recession multiples as proxy to arrive at a distressed case valuation for SDL. ***SDL has traded at 5.4x one-year forwarded multiple during Mar-09.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use recession multiples as proxy to arrive at a distressed case valuation for SDL. ***SDL has traded at 8.7x one-year forwarded multiple during Mar-09.***

P/BV based valuation

Book value can be gamed and is impacted by differences in accounting policies. Besides the equity raises/dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use recession multiples as proxy to arrive at a distressed case valuation for SDL. ***SDL has traded at 0.4x one-year forwarded multiple during Mar-09.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 4% and cost inflation of 5% (ii) Wacc of 19% (iii) 2.5mn sqft of annual sales (v) DCF first year price lowered by 15% for compounding (base year price assumed at 10% discount to current market prices and hence the total discount is ~24%). Viz if for Bangalore we have assumed base year price of Rs4,950/sqft (a 10% discount to Rs5,500/sqft) in our bear case we have build assumption of Rs4,207/sqft price.

Replacement Cost

We value the SDL land bank of 159mn sqft (assuming 1x FSI on 2,557acres and 30% loading) using DCF over the next 10yrs with a WACC of 15%. From this DCF value we deduct the Net Debt and arrive at Rs420/sqft as the market value being ascribed to SDLs land bank which is a 25-30% discount to the current prevailing market rate for the Non-agri land besides we have not ascribed any value to the land conversion potential. ***<u>Value if entire 159mn sqft is sold now is Rs211/sqft.</u>***

We take the average of these approaches to arrive at the stress case valuation and 'margin of safety' range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions:

In our bear case we have cut our pricing assumption by 15% and increase our cost of capital from 17% to 19%. This has resulted in our EPS projections being lower by 72.2% for FY14E and 64.7% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 53, 54 & 55. We utilize the stress/bear case target prices to derive implied multiples. Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs324-495 per share**, using different methodologies of valuation as listed below.

Exhibit 51: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	85	85	We have assumed a 15% base price correction from current price levels into the bear case
Sales inflation %	5	5	4	4	
Cost inflation %	5	5	5	5	
WACC %	17	17	19	19	We have assumed a 200bps increase in WACC to 19%
Revenues	20,705	25,260	17,832	21,432	
Growth	11	22	-4	20	Revenue de-growth owing to lower base price assumption
Cut in estimates vs base case			-13.9	-15.2	The bear case estimates are 13.9% and 15.2% lower than our base case estimates
EBIDTA	6,053	7,515	3,406	4,143	
Margins %	29.2	29.7	19.1	19.3	Margin contraction on account of assumption of property price correction
EPS	26.9	38.3	7.5	13.5	
Growth	21.7	42	-66.1	79.9	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth
Cut in estimates vs FY14E			-72.2	-64.7	The bear case estimates are 72.2% and 64.7% lower than our base case estimates

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 52: SDL's Base case and Stressed case valuations

	Base case	Bear Case
Target Multiple P/E	12.9	15.3#
Target Price (Rs)	495	207
Target Multiple P/B	1.9*	0.53#
Target Price (Rs)		117
Replacement value of land bank		
Target Price (Rs)		275
Target Multiple EV/EBIDTA	8.1*	20.9#
Target Price (Rs)		695
Average of above		
Target Price (Rs)	495	324

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs324-495/share**. Average of approaches A, B, C & D gives a stress case price of **Rs324/share.** At CMP of Rs291 SDL trades 10% below worst case valuation hence offering favorable risk reward with 70% potential upside.

Exhibit 53: P/E based valuation - A

		Comments
EPS(Rs/share)	38	Current EPS estimate FY15E
Multiple based valuation	5.4	Assumed recession multiple as a proxy.
Stress case value (Rs/share)	207	

Source: Karvy Institutional Research

Exhibit 54: P/BV based valuation - B

		Comments
BVPS(Rs/share)	267	Current BV estimate FY15E
Multiple based valuation	0.4	Assumed recession multiple as a proxy
Stress case value (Rs/share)	117	

Source: Karvy Institutional Research

Exhibit 55: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	7,515	FY15E EBIDTA
EV/EBIDTA(x)	8.7	Assumed recession multiple
EV	65,377	
Less: Net Debt	12,684	FY14E net debt
Equity value	52,693	
Stress case	695	

Source: Karvy Institutional Research

Exhibit 56: Reverse DCF implying – 25% discount to current price - D

Replacement cost	Rs mn	Comments
Land bank value	33,540	Market is factoring a valuation of Rs420/sqft land price for total land bank assumed at 159mn sqft (FSI 1x, loading -30%). We have used DCF approach to monetize SDL land bank over next 10yrs. Not ascribed any value to the exisitng projects under development
Total value	33,540	
Less: Net Debt	12,684	FY14E net debt
Equity value	20,856	
Stress case value (Rs/share)	275	

Source: Karvy Institutional Research

Exhibit 57: NAV based valuation – Base case valuation

	Rs mn	Comments
Gross Residential NAV	77,984	Adjusted for net debt & 30% NAV discount
Less: Net Debt	12,683	
Residential NAV	65,301	
NAV/share	466	Post 30% NAV discount
Add: Others - C&M (Rs/share)	29	
NAV/share	495	

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on SDL at current market price explains market is (i) factoring a 24% base year property price correction (ii)19% WACC (iii) Property price growth of 4%, cost inflation of 5%(iv) yearly volumes of 2.5mn sqft in sales. Alternatively in exhibit 56 we highlight that CMP is factoring in SDL land bank market value at Rs420/share which is a 30-40% discount to current prevailing land price. Value if entire 159mn sqft is sold now is Rs211/sqft

Puravankara Projects

Recommendation

CMP:	Rs73
Target Price:	Rs138
Upside (%)	89%

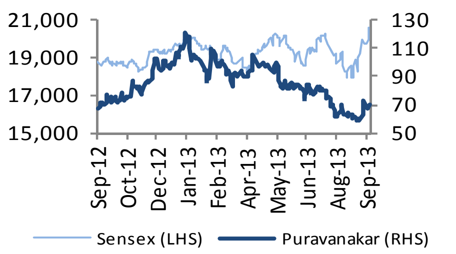
Stock Information

Market Cap. (Rs bn / US$ mn)	17/281
52-week High/Low (Rs)	123/56
3m ADV (Rs mn /US$ mn)	06/0.1
Beta	1.2
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	237

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	15.2	(5.1)	3.0	(27)
Rel. to Sensex	7.5	(11.5)	(3.5)	(28.7)

Performance



Source: Bloomberg

PPL currently trades at P/E of 6.0x FY15E vs. its historical mean valuation of 10.7x 1-Yr forward. We believe that current discount of 40% to its historical mean multiple is unjustified in view of balance sheet deleveraging, liquidation of ready inventory, stable southern markets and high dividend yield of 4-5%. We reiterate our **"BUY"** recommendation on PPL with NAV based target price of Rs138 per share. Our valuation is based on 0.65x our end-FY14E NAV forecast.

Trading at 30-40% discount to historical valuation

PPL is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for KPDL as **Rs82-138/share**. At CMP of Rs73 PPL trades 11% below its stress case valuation hence offering favorable risk reward with 89% potential upside.

Exhibit 58: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	10.7	6.0	Despite strong operational Performance PPL has been trading at 30-40% Discount to long term valuation Multiples
EV/EBIDTA	8.0	5.0	
P/BV	1.0	0.6	

Source: Company, Karvy Institutional Sales

Key catalysts

Approvals in key projects

PPL has planned ~10.6mn sqft of new launches over FY14E with 5.5mn sqft as part of 'Purva' and 5.1mn sqft under provident. New launch success remains key re-rating trigger. Besides PPL has guided for reduction in net D/E to 0.55x by end FY14E using mix of IPP proceeds and cash accruals from existing projects. Any concrete movement on deleveraging shall augur well in a scenario of slow cyclical recovery.

Exhibit 59: 1 year forward PE Band

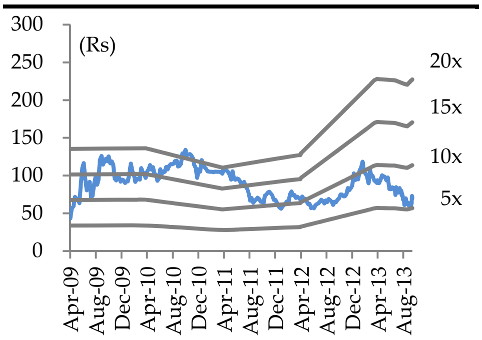


Exhibit 60: 1 year forward P/BV Band

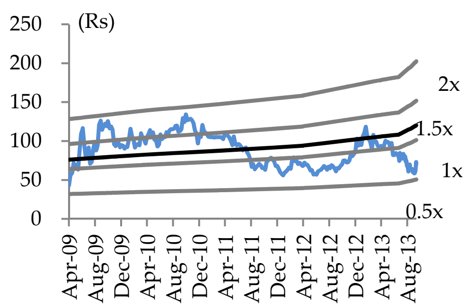
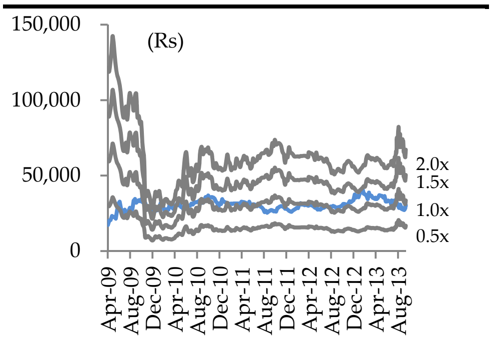


Exhibit 61: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach for valuing real estate sector owing to cyclical nature of the industry. EPS can also be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PPL. ***PPL has traded at 4.4x one-year forward multiple during Mar-09 recession.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PPL. ***PPL has traded at 8.0x one-year average 10 yrs forward multiple.***

P/BV based valuation

Book value can be gamed and is impacted by differences in accounting policies. Besides the equity raises/dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use minimum of last 10 yrs average or lowest recession multiples as proxy to arrive at a distressed case valuation for PPL. ***PPL has traded at 0.44x one-year forwarded multiple during Mar-09.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 4% and cost inflation of 4% (ii) Wacc of 20% (iii) 2.5mn sqft of annual sales (v) DCF first year price lowered by 18% for compounding (base year price assumed at 5% discount to current market prices and hence the total discount is ~23%). Viz if for Bangalore we have assumed base year price of Rs4,400/sqft (a 5% discount to Rs4,630/sqft) in our bear case we have build assumption of Rs3,608/sqft price.

Replacement Cost

We value the PPL land bank of 83mn sqft (assuming 1x FSI, loading 30%) using DCF over the next 10yrs with a WACC of 15%. From this DCF value we deduct the Net Debt and arrive at Rs710/sqft as the market value being ascribed. On saleable area of 110mn sqft(FSI – 1.35x, loading 30%) the pricing works out to be Rs530/sqft. PPLs land bank which is a 20-25% discount to the current prevailing market rate for the Non-agri land besides we have not ascribed any value to the land conversion potential.

We take the average of these approaches to arrive at the stress case valuation and 'margin of safety' range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions:

In our bear case we have cut our pricing assumption by 18% and increase our cost of capital from 18% to 20%. This has resulted in our EPS projections being lower by 75.2% for FY14E and 70.5% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 64, 65 & 66. We utilize the stress/bear case target prices to derive implied multiples. Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs82-138 per share**, using different methodologies of valuation as listed below.

Exhibit 62: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	82	82	We have assumed a 18% base price correction from current price levels into the bear case
Sales inflation %	5	5	4	4	
Cost inflation %	5	5	5	5	
WACC %	18	18	20	20	We have assumed a 200bps increase in WACC to 20%
Revenues	13,515	14,996	10,766	12,187	
Growth	8	11	-14	13	Revenue de-growth owing to lower base price assumption
Cut in estimates vs base case			-20.3	-18.7	The bear case estimates are 20.3% and 18.7% lower than our base case estimates
EBIDTA	5,953	6,345	3,020	3,333	
Margins %	44	42	28	27	Margin contraction on account of assumption of property price correction
EPS	11.0	12.1	2.7	3.6	
Growth	7.3	9.8	-73.4	30.9	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth
Cut in estimates vs FY14E			-75.2	-70.5	The bear case estimates are 75.2% and 70.5% lower than our base case estimates

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 63: PPL's Base case and Stressed case valuations

	Base case	Bear Case
Target Multiple P/E	11.4	14.9#
Target Price (Rs)	138	53
Target Multiple P/B	1.3*	0.52#
Target Price (Rs)		48
Replacement value of land bank		
Target Price (Rs)		69
Target Multiple EV/EBIDTA	7.4*	17.2#
Target Price (Rs)		159
Average of above		
Target Price (Rs)	138	82

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs48-138/share**. Average of approaches A, B, C & D gives a stress case price of **Rs82/share.** At CMP of Rs73 PPL trades 11% below worst case valuation hence offering favorable risk reward with 89% potential upside.

Exhibit 64: P/E based valuation - A

		Comments
EPS(Rs/share)	12.1	Current EPS estimate FY15E
Multiple based valuation	4.4	Assumed recession multiple as a proxy.
Stress case value (Rs/share)	53	

Source: Karvy Institutional Research

Exhibit 65: P/BV based valuation - B

		Comments
BVPS(Rs/share)	108	Current BV estimate FY15E
Multiple based valuation	0.44	Assumed recession multiple as a proxy
Stress case value (Rs/share)	48	

Source: Karvy Institutional Research

Exhibit 66: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	6,345	FY15E EBIDTA
EV/EBIDTA(x)	8.0	Assumed lower of 10 yrs or recession multiple
EV	50,759	
Less: Net Debt	13,131	FY14E net debt
Equity value	37,628	
Stress case	159	

Source: Karvy Institutional Research

Exhibit 67: Reverse DCF implying – 23% discount to current price - D

Replacement cost	Rs mn	Comments
Land bank value	29,576	Market is factoring a valuation of Rs710/sqft land price for total land bank assumed at 83mn sqft (FSI 1x, loading -30%). We have used DCF approach to monetize PPL land bank over next 10yrs. Not ascribed any value to the exisitng projects under development
Total value	29,576	
Less: Net Debt	13,131	FY14E net debt
Equity value	16,444	
Stress case value (Rs/share)	69	

Source: Karvy Institutional Research

Exhibit 68: NAV based valuation – Base case valuation

	Rs mn	Comments
Gross Residential NAV	63,372	
Less: Net Debt	13,131	
Residential NAV	50,241	
NAV/share	138	Post 30% NAV discount

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on PPL at current market price explains market is (i) factoring a 23% base year property price correction (ii) 20% WACC (iii) Property price growth of 4%, cost inflation of 4%(iv) yearly volumes of 2.5mn sqft in sales. Alternatively in exhibit 67 we highlight that CMP is factoring in PPL land bank market value at Rs710/share which is a 30-40% discount to current prevailing non-agri land price. Value if entire 83mn sqft is sold now is Rs356/sqft.

Kolte Patil

Kolte Patil currently trades at P/E of 3.6x FY15E vs. its historical mean valuation of 6.7x 1-Yr forward. We believe that current discount of 48% to its historical mean multiple is unjustified in view of strong balance sheet, low net debt/equity of 0.2x , presence in a more end-user driven market & strong movement in new sales. We find comfort with management conservatism on debt and focus on deleveraging over rest of 9MFY14E from current consolidated gross debt levels of Rs2.4bn (net debt is Rs1.4bn). We reiterate our **"BUY"** recommendation on KPDL with NAV based target price of Rs140 per share. Our valuation is based on 0.9x our end-FY14E NAV forecast.

Recommendation

CMP:	Rs66
Target Price:	Rs140
Upside (%)	112%

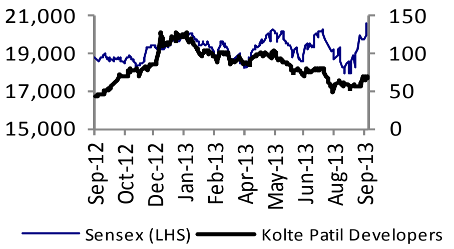
Stock Information

Market Cap. (Rs bn / US$ mn)	05/79
52-week High/Low (Rs)	136/39
3m ADV (Rs mn /US$ mn)	13/0.2
Beta	1.2
Sensex/ Nifty	19,894/5,882
Share outstanding (mn)	76

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	9.1	(10.5)	44.6	(43.1)
Rel. to Sensex	1.7	(16.5)	35.4	(44.5)

Performance



Source: Bloomberg

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Trading at 40-50% discount to historical valuation

KPDL is trading at significant discount to the mean multiples. In our Stress case valuation analysis framework (discussed below) we get a margin of safety range for KPDL as **Rs68-120/share**. At CMP of Rs67 KPDL trades close to stress case valuation hence offering favorable risk reward with 112% potential upside.

Exhibit 69: Valuation Multiple Mean vs. Implied

Valuation Methodology	Mean Valuation Multiple	Implied Valuation Multiple at CMP	Remark
P/E	6.7	3.6	Despite strong operational Performance KPDL has been trading at 40-50% Discount to long term valuation Multiples
EV/EBIDTA	4.8	2.4	
P/BV	0.7	0.5	

Source: Company, Karvy Institutional Sales

Key catalysts

Approvals in key projects

KPDL is awaiting locational clearance for Life Republic for residual 200acres and Environment clearance for Wakad & Wagholi projects (each with 2mn sqft in saleable area). These approvals are expected to come by Dec-13E. The slower pace of approvals may impact revenue for FY15E onwards and hence meeting approval timeline remain key re-rating trigger.

Exhibit 70: 1 year forward PE Band

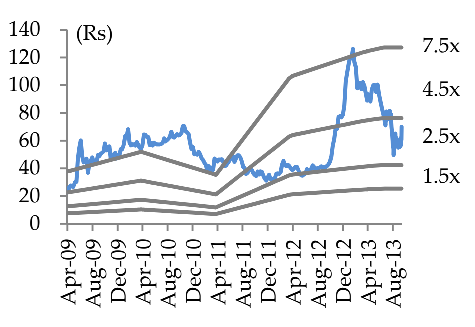


Exhibit 71: 1 year forward P/BV Band

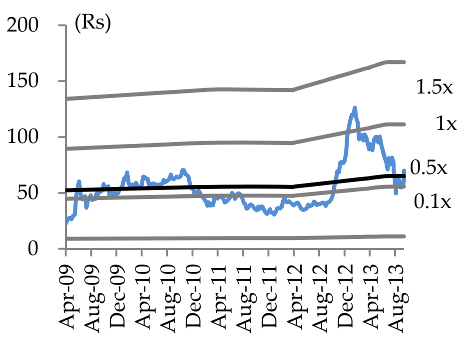
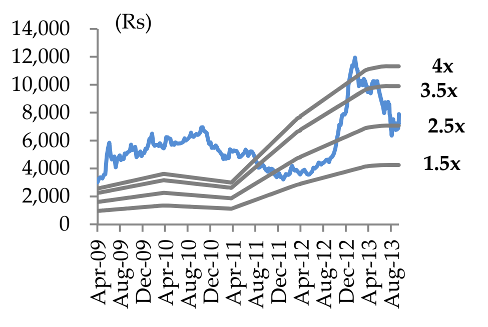


Exhibit 72: 1 year forward EV/EBITDA



Source: Bloomberg, Karvy Institutional Research

Stress Valuation Methodology

P/E based valuation

Not the right approach for valuing real estate sector owing to cyclical nature of the industry. EPS can also be subject to difference in accounting practices being followed by different companies. Aggressive revenue recognition, one offs and limited segmental disclosures are key detriments of using P/E based approached. For our analysis we compare the P/E ratio during FY08-09 recession multiples for our distress case valuation. We use recession multiples as proxy to arrive at a distressed case valuation for KPDL. ***KPDL has traded at 4.1x one-year forwarded multiple during Feb-09.***

EV/EBITDA

EV/EBIDTA ignores capital expenditure and is unaffected by depreciation and capital structure effects. In case of Real estate again similar issues around aggressive revenue accounting using percentage completion methodology make EV/EBIDTA not a preferred approach. We use recession multiples as proxy to arrive at a distressed case valuation for KDPL. ***KPDL has traded at 3.3x one-year forwarded multiple during Feb-09.***

P/BV based valuation

Book value can be gamed and is impacted by differences in accounting policies. Besides the equity raises/dilution for deleveraging has bloated the book values. For our analysis we compare the P/BV ratio during FY08-09 recession multiples for our distress case valuation. We use recession multiples as proxy to arrive at a distressed case valuation for KPDL. ***KPDL has traded at 0.3x one-year forwarded multiple during Feb-09.***

NAV – Bear Case

We value the company at discounted cash flows using our bear case assumptions viz (i) Annual Sale price inflation of 4% and cost inflation of 5% (ii) Wacc of 22% (iii) 2mn sqft of annual sales (v) DCF first year price lowered by 15% for compounding. Viz if for Hinjewadi we have assumed base year price of Rs5,000/sqft for Life Republic project we have build assumption of Rs4,250/sqft price and then build in 4% price inflation till perpetuity growth for the life of project and 5% cost inflation till perpetuity.

Replacement Cost

From the 26.7mn sqft gross saleable area we arrive at KPDL net economic interest at 15.1mn sqft and we value it at 25% discount to current prevailing market rates. We don’t ascribe any value to the future gross saleable area of 37.3mn sqft with ~20mn sqft of economic interest owing to limited clarity on development timelines. We don’t ascribe any value to the construction development potential of the land bank.

We take the average of these approaches to arrive at the stress case valuation and ‘margin of safety’ range. We believe that our assumptions on NAV is conservative and valuation multiples have been mapped to the recession multiples. Margin of safety provides comfort as (i) real estate sector has witnessed deleveraging (ii) volumes absorption remains robust & (iii) liquidity is available to companies with strong balance sheets.

Base Case & Stress Case Assumptions:

In our bear case we have cut our pricing assumption by 15% and increase our cost of capital from 20% to 22%. This has resulted in our EPS projections being lower by 62.1% for FY14E and 60.9% for FY15E. To arrive at the stress/bear case target prices we have multiplied the lowest recession multiple with our base case EPS as highlighted in Exhibit 75, 76 & 77. We utilize the stress/bear case target prices to derive implied multiples. Based on the assumptions and Stress Case valuations, we get a *'Margin of Safety'* in the range of **Rs68-140 per share**, using different methodologies of valuation as listed below.

Exhibit 73: Bear and Base case estimates

	Base Case		Bear Case		Remarks
Rsmn	**FY14E**	**FY15E**	**FY14E**	**FY15E**	
Price factor %	100	100	85	85	We have assumed a 15% base price correction from current price levels into the bear case
Sales inflation %	6	6	4	4	
Cost inflation %	7	7	5	5	
WACC %	20	20	22	22	We have assumed a 200bps increase in WACC to 22%
Revenues	9,488	8,895	7,542	6,462	
Growth	30.4	-6.3	3.7	-14.3	Revenue de-growth owing to lower base price assumption
Cut in estimates vs base case			-20.5	-27.3	The bear case estimates are 20.5% and 27.3% lower than our base case estimates
EBIDTA	2,773	3,018	1,505	1,652	
Margins %	29.2	33.9	20.0	25.6	Margin contraction on account of assumption of property price correction
EPS	16.6	18.2	6.3	7.1	
Growth	17.0	9.8	-55.6	13.1	Lower revenue growth and EBIDTA margins contraction impacts the EPS growth
Cut in estimates vs FY14E			-62.1	-60.9	The bear case estimates are 62.1% and 60.9% lower than our base case estimates

*Source: Karvy Institutional Research; * Note: Implied Multiples at our Base case TP.*

Exhibit 74: KPDL's Base case and Stressed case valuations

	Base case	Bear Case
Target Multiple P/E	7.7	10.5#
Target Price (Rs)	140	75
Target Multiple P/B	1.14*	0.4#
Target Price (Rs)		38
Replacement value of land bank		
Target Price (Rs)		68
Target Multiple EV/EBIDTA	4.2*	7.3#
Target Price (Rs)		95
Average of above		
Target Price (Rs)	140	68

*Source: Karvy Institutional Research *target multiple #implied multiple derived using bear case EPS; bear case target derived from the Exhibits below*

Stress case valuation

Based on the assumption discussed above we get a 'margin of safety' range of **Rs38-140/share**. Average of approaches A, B, C & D gives a stress case price of **Rs68/share.** At CMP of Rs66 KPDL trades below worst case valuation hence offering favorable risk reward with 112% potential upside.

Exhibit 75: P/E based valuation - A

		Comments
EPS(Rs/share)	18.2	Current EPS estimate FY15E
Multiple based valuation	4.1	Assumed recession multiple as a proxy.
Stress case value (Rs/share)	75	

Source: Karvy Institutional Research

Exhibit 76: P/BV based valuation - B

		Comments
BVPS(Rs/share)	123	Current BV estimate FY15E
Multiple based valuation	0.3	Assumed recession multiple as a proxy
Stress case value (Rs/share)	38	

Source: Karvy Institutional Research

Exhibit 77: EV/EBIDTA valuation - C

Rs mn		Comments
EBIDTA	3,018	FY15E
EV/EBIDTA(x)	3.3	Assumed recession
EV	9,960	multiple
Less: Net Debt	2,737	FY14E net debt
Equity value	7,223	
Stress case	95	

Source: Karvy Institutional Research

Exhibit 78: Reverse DCF implying – 30% discount to current price - D

Replacement cost	Rs mn	Comments
Land bank value	7,928	Assumed a valuation of Rs525/sqft land price for total undeveloped land bank economic interest of 15.1mn sqft. Assumed 25% discount to current market prices. Not considered ~20mn sqft of land economic interest which is yet under planning stage
Total value	7,928	
Less: Net Debt	2,737	FY14E net debt
Equity value	5,191	
Stress case value (Rs/share)	68	

Source: Karvy Institutional Research

Exhibit 79: NAV based valuation – Base case valuation

	Rs mn	Comments
Gross NAV	14,016	NAV based
Less: Net Debt	2,737	As of end Mar-14E
Add: Current Investments	491	Investment in mutual funds
NAV	11,770	
Shares outstanding (mn)	76	As of end Jun-13
NAV/share	155	
Discount to NAV	10%	
NAV/Share (Rs/share)	140	

Source: Karvy Institutional Research

Reverse DCF Implications: Running a reverse DCF model on KPDL at current market price explains market is (i) factoring a 15% base year property price correction (ii) 22% WACC (iii) Property price growth of 4%, cost inflation of 5%(iv)Yearly volumes of 2mn sqft in sales. Alternatively in exhibit 78 we highlight that CMP is factoring in KPDL economic interest of 15.1mn sqft market value at Rs525/share which is a 25-30% to current prevailing land price. Not considered ~20mn sqft of land economic interest which is yet under planning stage.

Sectoral Valuation

Exhibit 80: Sector Valuation

Name of company	Rating	CMP#	TP	Upside#	Revenue (Rs mn)			EBIDTA (Rs mn)			PAT			EPS (Rs)		
		Rs	Rs	%	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
DLF	BUY	132	248	88	77,728	92,743	94,206	26,262	34,487	41,953	7,078	7,811	14,376	4.2	4.4	8.1
Oberoi Realty	BUY	166	308	86	10,476	15,383	23,618	6,121	9,027	14,056	5,049	7,087	11,117	15.4	21.6	33.9
Prestige Estates	BUY	122	207	70	19,476	25,670	30,773	5,791	7,466	9,037	2,860	3,656	4,362	8.2	10.4	12.5
Phoenix Mills	BUY	238	315	32	4,699	11,078	13,866	2,632	5,711	7,302	813	1,370	1,894	5.8	9.8	13.6
Sobha Developers	BUY	291	495	70	18,645	20,705	25,260	5,483	6,053	7,515	2,214	2,641	3,751	22.1	26.9	38.3
Puravankara	BUY	73	138	89	12,459	13,515	14,996	5,768	5,953	6,345	2,434	2,613	2,870	11.4	11.0	12.1
Kolte Patil	BUY	66	140	112	7,275	9,488	8,895	1,921	2,773	3,018	1,074	1,257	1,379	14.2	16.6	18.2

Name of company	P/E (x)#			P/BV (x)#			EV/EBIDTA (x)#			ROE (%)			ROCE (%)			Net debt/Equity (x)		
	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E		FY13	FY14E		FY13	FY14E	FY15E
DLF	31.5	30.1	16.3	0.8	0.8	0.8	17.7	13.1	10.7	2.3	2.4	4.4	6.2	6.4	7.6	0.8	0.7	0.7
Oberoi Realty	10.8	7.7	4.9	1.3	1.1	0.9	7.1	4.7	2.4	12.8	15.8	20.8	17.3	21.0	28.0	(0.3)	(0.2)	(0.4)
Prestige Estates	14.9	11.7	9.8	1.6	1.4	1.3	10.7	8.5	7.1	11.8	12.0	12.9	12.3	13.4	14.8	0.7	0.7	0.6
Phoenix Mills	41.0	24.2	17.5	1.9	1.8	1.6	20.4	11.1	9.0	4.7	7.6	9.6	8.0	11.6	12.7	1.1	1.5	1.5
Sobha Developers	13.1	10.8	7.6	1.3	1.2	1.1	7.6	6.8	5.5	10.5	11.9	15.2	9.6	10.7	12.7	0.6	0.5	0.5
Puravankara	6.4	6.6	6.0	0.8	0.7	0.7	5.7	5.1	5.0	8.0	12.8	11.3	14.3	15.5	15.2	0.8	0.6	0.6
Kolte Patil	4.7	4.0	3.6	0.7	0.6	0.5	2.9	2.8	2.4	14.9	16.4	15.8	13.8	16.2	15.2	0.1	0.3	0.2

Source: Company, Karvy Institutional Research

 # current market prices as of 27th September 2013, all ratios based on 27th September 2013 prices

KARVY STOCK BROKING

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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