

Prestige Estates Projects

1 August 2012



Reuters: PREG.BO; Bloomberg: PEPL IN

Yet Another Strong Performance

Prestige Estates Projects' (PEPL) 1QFY13 revenue was 8%/7% below our/Bloomberg consensus expectations on account of lower revenue recognition. PAT was 22%/24% above our/consensus estimates due to higher operating margin (OPM) and other income, which includes non-recurring tax free dividend of Rs60mn. Adjusted for this, PAT was 7%/9% ahead of our/ Bloomberg consensus estimates. Operationally, it was yet another strong quarter with a record pre-sales of Rs10.1bn (up 56% QoQ), healthy cash collection (excluding rentals) of Rs4.2bn and reduction in debtors by ~Rs450mn QoQ, thereby reaffirming our positive stance on PEPL. We expect revenue recognition to pick up in FY13 as key projects, including White Meadows (Apartments), Kingfisher Tower and Tranquility, cross their threshold limit. We retain our Buy rating on the stock with a TP of Rs143 (20% discount to our one-year forward NAV of Rs177).

Strong OPM, higher other income and lower tax rate aid PAT: PEPL posted revenue of Rs2,192mn (up 8.4% QoQ) as Techpark III and White Meadows (Villas) crossed the threshold limit however revenue was below our expectations by 7% on account of lower revenue recognition from White Meadows. OPM was healthy at 32.1%, above our estimate of 31.2%, given the favourable project mix. Other income jumped 75% QoQ to Rs272mn as it includes non-recurring tax free dividend of Rs60mn. This also led to lower tax rate of 25% against our estimate (33%). Consequently, PAT stood at Rs493mn versus our estimate (Rs404mn).

Another strong quarter of pre-sales: PEPL reported volume of 2mn sq ft (up 53% QoQ) and pre-sales of Rs10.1bn (up 56% QoQ), largely driven by its new residential project launches (1.4mn sq ft) where it managed to pre-sell 37 % (Rs4bn), and from its earlier launched residential projects like Bella Vista (Rs2.3bn) and Tranquility (Rs0.9bn). Further, its commercial project, Techpark III has witnessed a sharp increase in pre-sales (Rs1.6bn) as the sales have been largely to investors, where the tenancy risk lies on investors, as indicated by management. PEPL has maintained its pipeline of new project launches (8mn sq ft) and pre-sales of Rs25bn (40% achieved so far) in FY13, which we believe is achievable, given our positive view on Bangalore market.

Outlook: PEPL trades at a 36% discount to our NAV, offering an attractive risk-reward profile given its rising rental income, healthy balance sheet (consolidated net D/E ratio of 0.63x), less capital-intensive joint development agreement projects, unrecognised revenue (Rs42bn) and positive operating cash flow. We expect PEPL's Bangalore property (contributing 88% to gross NAV) to continue to do well following steady absorption and inventory levels, thanks to demand from the IT/ITES sector.

We are participating in AsiaMoney's Brokers Poll 2012. We would be pleased if you vote for us as the feedback helps us align our equity research offerings to meet your requirements. [Click Here](#)

BUY

Sector: Real Estate

CMP: Rs112

Target Price: Rs143

Upside: 28%

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Key Data

Current Shares O/S (mn)	328.1
Mkt Cap (Rsbn/US\$m)	36.9/663.5
52 Wk H / L (Rs)	137/58
Daily Vol. (3M NSE Avg.)	135,544

Price Performance (%)

	1 M	6 M	1 Yr
Prestige Estates	(3.6)	49.0	(14.7)
Nifty Index	(0.9)	0.6	(4.6)

Source: Bloomberg

Y/E March (Rsmn) (standalone)	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)	FY11	FY12	YoY (%)
Sales	2,484	2,021	2,192	(11.8)	8.4	13,850	7,455	(46.2)
Expenditure	1,795	1,335	1,488	(17.1)	11.5	10,612	5,086	(52.1)
Construction & land costs	1,559	1,020	1,218	(21.9)	19.3	9,764	4,055	(58.5)
Employee costs	103	127	147	41.8	15.1	391	456	16.8
Other expenditure	133	187	124	(6.8)	(33.8)	458	575	25.5
EBITDA	689	686	704	2.1	2.5	3,238	2,369	(26.8)
OPM (%)	27.7	34.0	32.1	436bps	(185bps)	23.4	31.8	840bps
Interest expenses	80	83	77	(3.5)	(6.9)	332	325	(2.3)
Depreciation	232	181	240	3.2	32.9	787	765	(2.8)
Other income	126	156	272*	115.9	74.8	765	538	(29.7)
PBT	503	579	659	31.0	13.8	2,883	1,817	(37.0)
Tax	139	196	166	19.7	(15.3)	848	526	(37.9)
% PBT	27.5	33.8	25.2	-	-	29.4	29.0	-
Reported PAT	364	383	493	35.3	28.7	2,036	1,291	(36.6)
EPS (Rs)	1.1	1.2	1.5	35.3	28.7	6.2	3.9	(36.6)

Source: Company, Nirmal Bang Institutional Equities Research; Note: Includes non-recurring tax free dividend of Rs60mn

Exhibit 1: Financial summary (Consolidated)

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	10,244	15,431	10,523	16,930	23,097
EBITDA	2,234	3,738	2,966	4,817	7,012
Net profit	1,502	1,709	826	2,064	3,446
EPS (Rs)	4.6	5.2	2.5	6.3	10.5
EPS growth (%)	94.3	13.8	(51.7)	149.9	67.0
EBITDA margin (%)	21.8	24.2	28.2	28.5	30.4
PER (x)	24.5	21.5	44.5	17.8	10.7
P/BV (x)	4.8	1.7	1.7	1.6	1.4
EV/EBITDA (x)	22.8	12.9	17.6	11.3	7.9
RoCE (%)	7.6	9.6	5.8	9.4	13.2
RoE (%)	21.7	11.9	3.9	9.2	14.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual versus our/consensus estimates

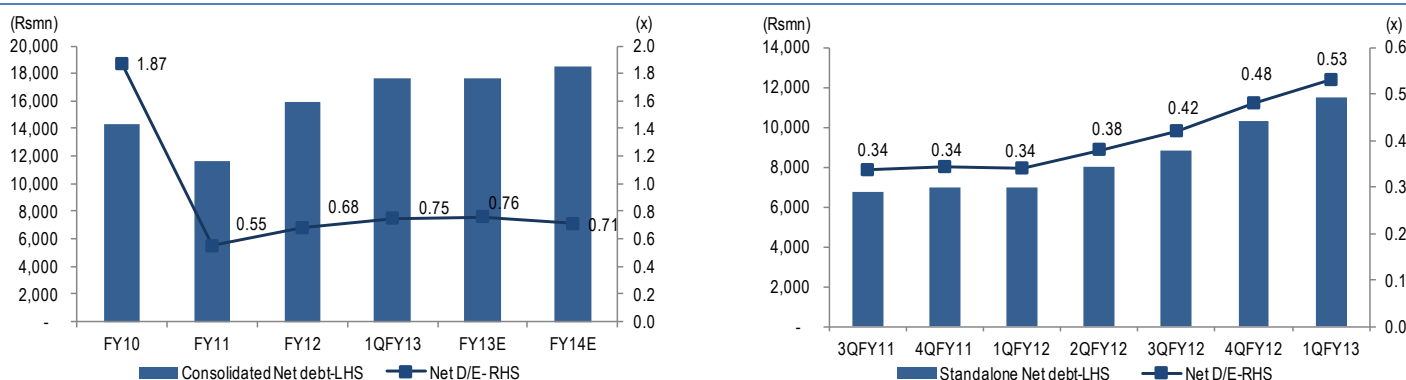
Rsmn (1QFY13)	Actual	NBIE estimates	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenue	2,192	2,385	(8.1)	2,361	(7.2)
EBITDA	704	745	(5.6)	767	(8.2)
OPM (%)	32.1	31.2	86bps	32.5	(38bps)
Reported PAT	493	404	22.0	397	24.1
Adjusted PAT	433*	404	7.2	397	9.1

Source: Bloomberg, Nirmal Bang Institutional Equities Research; Note: Excludes non-recurring tax free dividend of Rs60mn

Rise in gearing on account of land acquisition, Cessna stake buy

During the quarter, PEPL generated Rs2.3bn of positive operating cash flow. However its consolidated net debt rose by Rs 1.8bn QoQ, resulting in net D/E ratio going up to 0.75x from 0.68x in 4QFY12. This was on account of stake purchase in Cessna Business Park, land purchase (Rs900mn) and ongoing capex on rental assets (Rs 1.5bn), as expected. Adjusted for its subsidiary's share, PEPL's consolidated net D/E ratio stood at 0.63x as of end 1QFY13. In 1QFY13, PEPL capitalised interest costs of Rs240mn with the average cost of borrowing remaining constant QoQ at 13.66%. The company's management has given guidance of FY13 net D/E ratio stabilising at current levels. Given the sustained pre-sales momentum and rising rental income, we believe the current debt is manageable. We maintain our assumptions on gearing (net D/E ratio) at 0.76x and 0.71x for FY13E and FY14E, respectively.

Exhibit 3: Rise in gearing on account of land buy/stake acquisition

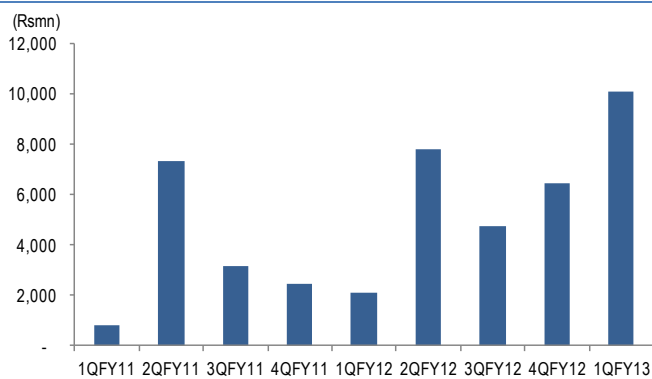


Source: Company, Nirmal Bang Institutional Equities Research

Other key result highlights

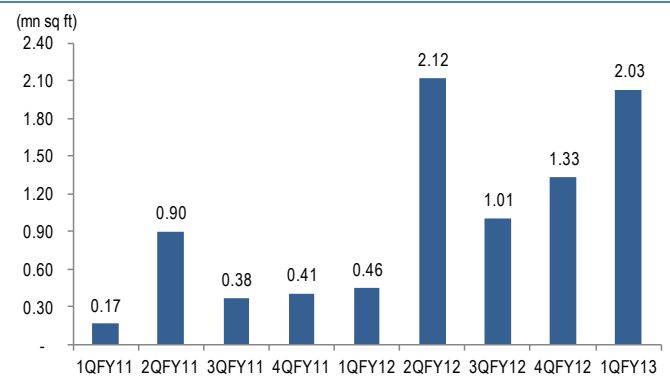
- PEPL reported Rs489mn (up 3% QoQ) of rental income, as it purchased a 23% stake in Cessna Business Park. During the quarter, the company leased out 0.46mn sq ft (PEPL share-0.06mn sq ft) thereby taking its cumulative leased area to 5.1mn sq ft.
- PEPL soft launched its Ferns Residency project (Bangalore) in July 2012 where the market response has been strong so far, as indicated by the management. The project is of 2mn sq ft (PEPL share) which should drive pre-sales in FY13.
- The company has changed its accounting policy on revenue recognition to 25% threshold limit of construction completion (from 30% earlier), in line with the new accounting norms. However, this will not impact our FY13E/FY14E revenue estimates as we had incorporated new accounting norms post 4QFY12 results.
- PEPL's unrecognised revenue was Rs41.4bn in 1QFY13 against Rs32.8bn in 4QFY12, which would be recognised over the next three years, thereby providing strong earnings visibility.

Exhibit 4: Record pre-sales in 1QFY13



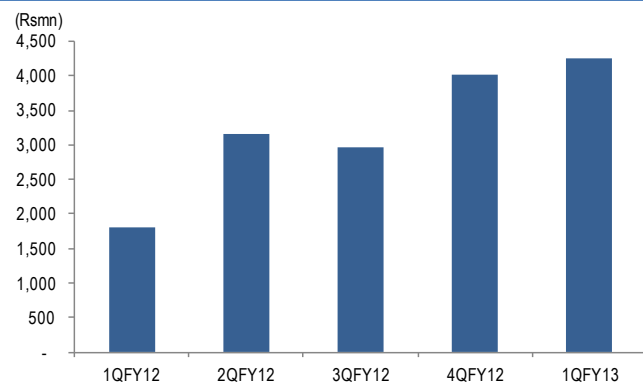
Source: Company

Exhibit 5: Volume trend



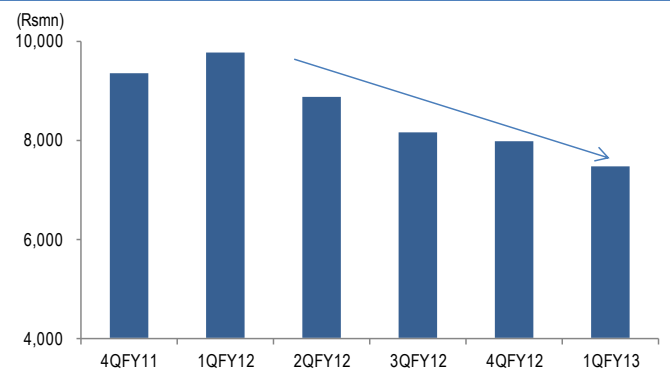
Source: Company

Exhibit 6: Cash collections remain healthy



Source: Company

Exhibit 7: Reduction in debtors continues



Source: Company

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
9 April 2012	Buy	106	143
13 April 2012	Buy	120	143
10 July 2012	Buy	121	143

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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