

RESULTS FIRST LOOK

Puravankara's 2QFY12 PAT at INR265mn (-26%y-y & -15%q-q) missed both our own as well as consensus estimates by 28% and 13% respectively, on account of lower-than-expected revenue, higher interest /tax expense & loss from associates. We expect a negative reaction to this set of headline numbers on the back of an operationally weak quarter, lower-than-expected profits and rise in gearing. However, we expect cash flow visibility to improve in FY12/13F as the company will be launching ~4.6mn sq ft in Bangalore, where absorption has remained stable in the current macro environment. Maintain BUY.

Price target: 168.0 INR

Price (11 Nov 2011): 76.2 INR

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2QFY12 result: Earnings below estimates; new launches to boost sales volume

- Earnings vs. our Forecast: **BELOW**

Likely Impact:

- Earnings Estimates: **NO CHANGE**
- Dividend Estimates: **NO CHANGE**
- Price Target: **NO CHANGE**
- Long-term View: **CONFIRMED**

1. Puravankara's 2QFY12 headline revenue of INR 1.98bn (+28%y-y & 4%q-q) came largely in line with both our own as well as consensus expectation of INR 2.08bn and INR 1.89bn respectively. After change in accounting policy starting April 11, the company booked INR 0.66bn of revenue against land in 2QFY12, which was higher than our expectation of INR 0.25bn. If we strip out this, adjusted revenue of INR 1.32bn (-14%y-y & -20%q-q) was significantly below our expectation and missed our estimates by around 28%.

2. The gross margin at 34.1% remained largely stable q-q; however, given contribution from revenue booked against land rose (we expect higher margin on land component), we believe margin on projects slipped q-q. Management has guided an average margin of around 35% on Puravankara (mid-income & luxury) & Provident (affordable) housing projects.

3. Tax expense was higher, as tax rate rose q-q from 29.5% in 1QFY12 to c.38% (2QFY12).

4. PAT at INR 265mn (-26%y-y & -15%q-q) missed both our own and consensus estimates by 28% and 13% respectively. This miss was on account of lower-than-expected revenue, higher interest / tax expense along with loss of INR 20mn booked from associates.

5. Operationally, area sold during the quarter dipped to 0.57mn sq ft (~totaling INR 2.0bn) after maintaining an average sales run rate of around 0.82mn sq ft over the past four quarters. The lack of no new launches in the quarter resulted in lower sales volume. However, the company noted that it will be launching cumulative 1.73mn sq ft (luxury residential 1.07mn sq ft, affordable residential 0.65mn sq ft) by end-November 2011.

6. On the balance sheet side, net debt rose marginally by INR 334mn over the past quarter to 11.4bn. Notably, net debt/equity has risen from steadily from 60% to 70% over the past year.

7. The company is planning to launch 6 new projects (total saleable area of 4.6mn sf) in FY12 in Bangalore. As evident from the recent strong performance of new launches by other Bangalore based developers namely Prestige & Shobha, we believe Bangalore appears relatively better placed in terms of residential sales absorption. The new launches in the upcoming quarters should help the company achieve higher sales volume, in our view.

Due to an operationally weak quarter, lower-than-expected bottom-line and rise in gearing, we expect a negative reaction to

this set of headline numbers. However, we maintain BUY on the stock on account of better cash flow visibility in FY12/13 from higher sales volume that we believe the company will able to generate.

Exhibit 1: Snapshot of 2QFY12 results

(INR mn)	2QFY12A	1QFY12A	QoQ growth (%)	2QFY11A	YoY growth (%)	2QFY12E
Revenues	1,980	1,905	4%	1,542	28%	2,086
Cost of Revenues	1,304	1,236	6%	1,003	30%	1,353
Gross Profit	676	669	1%	539	25%	734
<i>GP margins</i>	<i>34.1%</i>	<i>35.1%</i>		<i>34.9%</i>		<i>35.2%</i>
Selling expenses	135	130.3	3%	81	67%	135
General and administrative expenses	74	83.6	-11%	71	4%	85
Operating Profit	467	455	3%	387	21%	514
<i>OP margins</i>	<i>23.6%</i>	<i>23.9%</i>		<i>25.1%</i>		<i>24.6%</i>
Net finance income/(charges)	(19.8)	(20)	-1%	9	-318%	7.5
Profit before tax and share of profits in associate	447	435	3%	396	13%	521
Share of profits in associate	(20)	6.8		18	-211%	
Profit before tax	426	442	-3%	414	3%	521
<i>PBT margins</i>	<i>21.5%</i>	<i>23.2%</i>		<i>26.9%</i>		<i>25.0%</i>
Provision for tax	161	130	24%	57	181%	155
Profit after tax	265	311	-15%	357	-26%	366
<i>PAT margins</i>	<i>13.4%</i>	<i>16.4%</i>		<i>23.1%</i>		<i>17.6%</i>
<i>Tax rate</i>	<i>37.8%</i>	<i>29.5%</i>		<i>13.8%</i>		<i>29.7%</i>

Source: Company data, Nomura estimates

Exhibit 2: Snapshot of Balance Sheet

Balance Sheet (INR mn)	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Share Capital	1,067	1,067	1,067	1,067	1,067
Reserves and Surplus	14,490	14,777	14,697	15,008	15,273
Loans	9,744	10,502	11,587	12,274	12,447
Deferred tax liability	5	5	3	-	-
Total liabilities	25,306	26,351	27,354	28,349	28,788
Total fixed assets	367	365	461	494	686
Investments	1,217	1,230	1,189	1,196	1,178
Properties held for development	13,182	13,697	11,605	8,220	8,231
Cash	408	650	999	1,180	1,020
Inventories	241	217	284	303	312
Trade debtors	1,360	1,236	1,144	1,375	1,769
Properties under development	8,044	8,555	11,623	15,726	15,917
Properties held for sale	748	731	706	707	541
Loans and advances	2,989	2,971	3,287	3,283	3,071
Total current assets	13,790	14,359	18,043	22,574	22,629

Current liabilities	3,208	3,239	3,649	3,810	3,793
Provisions	41	62	295	330	146
Total current liabilities	3,249	3,301	3,944	4,140	3,939
Net current assets	10,541	11,059	14,099	18,434	18,690
Total assets	25,306	26,351	27,354	28,349	28,788
Net debt	9,336	9,852	10,588	11,094	11,428
<i>Net debt / Equity</i>	<i>60.0%</i>	<i>62.2%</i>	<i>67.2%</i>	<i>69.0%</i>	<i>69.9%</i>

Source: Company data, Nomura research

Exhibit 3: Snapshot of area sold (based on bookings)

Based on Bookings	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Area sold (mn sf)					
Puravankara	0.59	0.41	0.51	0.60	0.43
Associates	0.06	NA	NA	0.01	0.02
Provident	0.35	0.36	0.27	0.12	0.12
Total	1.00	0.77	0.78	0.73	0.57
Provident area sold as % of total area sold	35	47	35	16	21

Based on Bookings	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Sale realisation (INR /psf)					
Puravankara	3,127	3,255	3,437	3,937	3,736
Associates	3,026	NA	NA	3,231	4,262
Provident	2,009	1,981	2,027	2,388	2,360
Total	2,726	2,660	2,945	3,677	3,464

Source: Company data, Nomura research

Valuation Methodology and Investment Risks: see below

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://go.nomuranow.com/research/globalresearchportal>) rather than the date of this email.

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Puravankara Projects	PVKP IN	76.2 INR	11 Nov 2011	Buy	49

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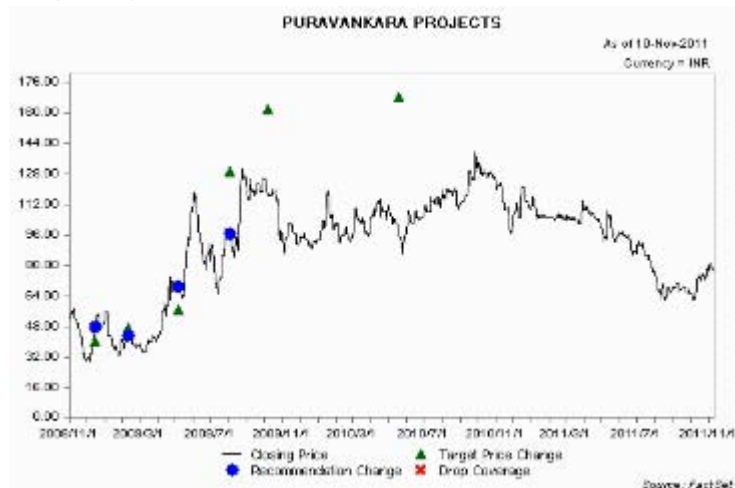
Previous Rating

Issuer name	Previous Rating	Date of change
Puravankara Projects	Reduce	04 Aug 2009

Puravankara Projects (PVKP IN)

76.2 INR (11 Nov 2011) Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
20-May-2010		168.00	95.80
08-Oct-2009		162.00	116.50
04-Aug-2009		129.00	96.25
04-Aug-2009	Buy		96.25
08-May-2009		57.00	68.90
08-May-2009	Reduce		68.90
11-Feb-2009		47.00	43.55
11-Feb-2009	Neutral		43.55
17-Dec-2008		40.00	47.50
17-Dec-2008	Reduce		47.50

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value the stock using our net asset value estimate of its current land bank at Rs168 per share, without any discount to NAV, and with cost of capital at 13.5%.

Risks that may impede the achievement of the target price We think the biggest risk is the potential failure to sell and execute projects on time, resulting in cash flow problems. Other downside risks include: 1) A reduction in liquidity and capital availability for developers; 2) stalled economic growth; and 3) rising interest rates along with policy action to restrict lending to property developers, which could lead to refinancing risks for Puravankara.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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