Prestige Estates Projects PREG.NS PEPL IN

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Top-line miss; receivables down; volumes strong

Quick Note

February 2, 2012

Rating Remains	**Buy**
Target price Remains	INR 122
Closing price January 31, 2012	INR 76

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Prestige's 3QFY12 top line of ~INR1.7bn missed our as well as consensus estimates by 18% and 12%, respectively. This miss was on account of non-completion of the Prestige Neptune Courtyard project which was expected to be completed during the quarter. At the PAT level, the miss was lower at 8% due to lower-than-expected interest expense.

The key positives from results were continuing strong sales volume momentum at its new projects, as well as a pick-up in the pace of realisation of its sundry debtors. In 9MFY12, the company already nearly achieved its full-year FY12F sales guidance of INR15-16bn. We remain positive and maintain our BUY on the stock, which is currently trading at a 47% discount to our NAV of INR143 per share and 38% discount to our price target of INR122 per share.

Top line misses estimates due to non-completion of one project

- Prestige Estate's standalone 3QFY12 revenue of ~INR1.7bn (-54% y-y and +30% q-q) missed our as well as consensus estimates by 18% and 12%, respectively. The miss was on account of lower revenue contribution from Prestige Neptune Courtyard, the project which was expected to be completed during the quarter.
- Overall EBITDA margin at 30% (+400bps y-y and -800bps q-q) was largely in line with our estimate of 29%. The q-q drop in the margin reflects a higher contribution from sales of residential and commercial projects, which have a lower margin vis-à-vis that on investment properties.
- On the back of lower revenue, EBITDA at INR502mn (-46% y-y and +2% q-q) missed our as well as the Street's estimates by 14% and 11%, respectively.
- Interest expense at INR159mn was lower than our expectation of INR214mn because the higher-than-expected interest cost was capitalised. The reason for higher interest capitalisation was on the back of a higher revenue contribution from the sale of completed commercial property.
- Due to lower interest expense, the earnings miss at the PAT level was only ~8% versus our and consensus estimates of INR306mn and INR308mn, respectively.

Sales momentum remains strong, realisation of debtors gathers pace

- The company maintained strong sales momentum in 3QFY12 after a robust response to its Prestige Tranquillity and Prestige Park View projects, launched in the last quarter (2QFY12). The company sold nearly 1.0mn sq ft in 3QFY12 and approx. 3.6mn sqft in 9MFY12.
- Having achieved sales totalling INR4.8bn in 3QFY12 (~INR7.8bn in 2QFY12), total sales for 9MFY12 now accumulates to ~INR14.7bn. This has already nearly met management sales guidance of INR15-

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

16bn for full-year FY12. After the successful launch of its large-sized residential project Bella Vista, Chennai in January 2012, sales for full-year FY12F should beat the management guidance by a wide margin, we expect.

- In line with management commentary, realisation of its sundry debtors on Prestige Shantiniketan project picked up pace. During the quarter, the company realised INR1.1bn of receivables (nearly 25%) on Prestige Shantiniketan, and as a result, the outstanding debtors on the project have now been reduced to INR3.3bn. We believe further realisation of debtors will be a positive catalyst for the stock.
- Realisation of debtors, coupled with robust sales momentum, led to strong cash flow generation of INR3bn during the quarter. However, an increase in net debt by ~INR1.0bn was on account of cash payment towards land acquisitions or advances pertaining to joint development agreements (JDA), in our view. As of end-Dec11, the company has consolidated net debt of ~INR14bn (or debt: equity ratio of 0.66x) and 13.5% as its average cost of debt, nearly 10bps lower than in its previous quarter.

Maintain BUY; available at 47% discount to NAV

We remain positive on the stock on account of 1) continuing strong sales momentum; 2) a pick-up in revenue recognition as newer high-value projects reach the revenue threshold in FY13F; and 3) further realisation of debtors related to the Prestige Shantiniketan project as the office leasing environment remains conducive in Bangalore. We reiterate our Buy call, with the stock trading at a deep discount of 47% to our NAV of INR143 per share and 38% discount to our price target of INR122 per share.

Fig. 1: Snapshot of standalone 3QFY12 results

Standalone results	3QFY11	2QFY12	3QFY12	(y-y)%	(q-q)%	3QFY12E (Nomura)
Income from operations	**Dec-10**	**Sep-11**	**Dec11**			**Dec11E**
Residential & commercial projects	3257	867	1,246	-62%	44%	1,617
Facilities, rental & maintenance income	131	138	142	8%	3%	145
Property income	248	276	281	13%	2%	280
Total revenue	**3,636**	**1,281**	**1,669**	**-54%**	**30%**	**2,042**
Expenditure						
Cost of residential and commercial pro	2,443	560	915	-63%	63%	1,238
Employee cost	152	121	105	-31%	-13%	120
General / administrative and selling ex	106	108	147	39%	37%	99
Total	**2,701**	**788**	**1,167**	**-57%**	**48%**	**1,457**
EBITDA	**935**	**493**	**502**	**-46%**	**2%**	**585**
Depreciation	84	80	82	-2%	4%	82
Other income	183	127.1	129	-30%	1%	136
EBIT	**1,035**	**540**	**548**	**-47%**	**1%**	**638**
Interest expense	223	193	159	-29%	-18%	214
EBT	**812**	**347**	**389**	**-52%**	**12%**	**425**
Tax expense	**268**	**83.9**	**108.2**	**-60%**	**29%**	119
PAT	**544**	**263**	**281**	**-48%**	**7%**	**306**
EBITDA margin (%)	26%	38%	30%	4%	-8%	29%
Effective tax rate	33%	24%	28%	-5%	4%	28%
PAT margin (%)	15%	21%	17%	2%	-4%	15%

Source: Company data, Nomura estimates

Fig. 2: Estimated cash flow (in INR mn)

Cashflow	4QFY11	1QFY12	2QFY12	3QFY12
	Mar-11	Jun-11	Sep-11	Dec11
Cash flow before w/c changes	**607**	**550**	**409**	**393**
(Increase) / Decrease in sundry debtors	(4,254)	(224)	864	1,064
(Increase) / Decrease in Inventory	(161)	(6)	(1,423)	(528)
(Increase) / Decrease in loans & advances	2,772	(221)	(314)	(1,650)
Increase / (Decrease) in current liabilities	372	280	1,087	1,012
Increase / (Decrease) in provisions	1,520	(161)	(1,253)	(468)
Working capital changes	249	(332)	(1,038)	(571)
Net cash inflow / (outflow) from operating activities	**856**	**218**	**(630)**	**(177)**
Net cash inflow / (outflow) from investing activities	**(627)**	**57**	**(205)**	**(460)**
Free cash flow	**229**	**275**	**(834)**	**(638)**
Net cash inflow / (outflow) from financing activities	**(2,636)**	**(816)**	**40**	**430**
Net change in cash	**(2,407)**	**(541)**	**(795)**	**(207)**

Source: Company data, Nomura research

Fig. 3: Sales volume trend

	4QFY11	1QFY12	2QFY12	3QFY12
Sales data (Area in sq ft)	Mar-11	Jun-11	Sep-11	Dec11
Residential				
Mid income segment	134,377	293,718	1,925,849	810,620
Premium segment	78,788	101,830	56,349	80,289
Total residential	**213,165**	**395,548**	**1,982,198**	**890,909**
Commercial	197,144	60,704	135,660	115,509
Total residential & commercial	**410,309**	**456,252**	**2,117,858**	**1,006,418**
Area in sq ft breakup (%)				
Mid income segment	63%	74%	97%	91%
Premium segment	37%	26%	3%	9%
	4QFY11	1QFY12	2QFY12	3QFY12
Value (INR mn)	Mar-11	Jun-11	Sep-11	Dec11
Residential				
Mid income segment	690	1,125	6,686	3,145
Premium segment	794	763	418	779
Total residential	**1,484**	**1,888**	**7,104**	**3,924**
Commercial	1,003	211	694	820
Total residential & commercial	**2,487**	**2,099**	**7,798**	**4,744**

Source: Company data, Nomura research

Fig. 4: Debtors summary for completed projects

Completed projects	1QFY12	2QFY12	3QFY12
Prestige Alecto	74	74	38
Prestige Andree Residences	3	3	3
Prestige Ashcroft	86	26	12
Prestige Atrium	232	130	98
Prestige Cyber Tow ers	457	445	392
Prestige Dynasty 2	-	20	20
Prestige Melbrooke	43	42	13
Prestige Nebula	82	12	9
Prestige Oasis	1,377	1,239	1164
Prestige Palladium	70	15	495
Prestige Shantiniketan	4,783	4,290	3328
Prestige SILVERDALE	49	21	21
Prestige Southridge	640	471	390
Prestige Wellington Park	182	178	171
Land Ow ners Dues	939	939	987
Others	11	36	9
Total (INR mn)	**9,028**	**7,941**	**7,150**

Source: Company data, Nomura research

Appendix A-1

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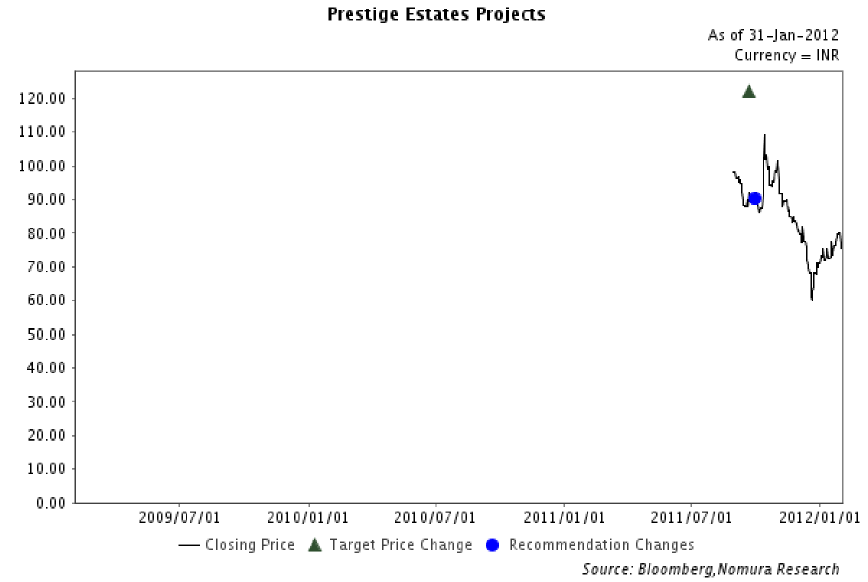
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Prestige Estates Projects	PEPL IN	INR 76	31-1-2012	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Prestige Estates Projects	Not Rated	21-9-2011

Prestige Estates Projects (PEPL IN) **INR 76 (31-1-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Sep-11	Buy		91.90
21-Sep-11		122.00	91.90

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

Valuation Methodology We adopt a NAV-based valuation method to arrive at a one-year forward NAV of INR143. To arrive at our target price of INR122 per share we apply a 15% discount to our NAV. This discount is on account of the uncertainty involved in forecasting given the volatility induced by the JDA model and the fact that the company has several commercial assets under construction which would suck out cash from the residential projects.

Risks that may impede the achievement of the target price 1) Prestige Estate is primarily a Bangalore-based developer, so any deterioration of global macroeconomic fundamentals will result in a slowdown in the IT/ITES industry which will have a direct impact on the property market of Bangalore. 2) Prestige has accumulated sundry debtors of around INR9.3bn on the balance sheet. Cash realisation from these debtors is important to fund ongoing construction. If realisation takes time or takes place only partly due to bad debts, then our net debt estimate will see upside risk.

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