

Prestige Estates Projects

Estimate change



TP change



Rating change



Bloomberg	PEPL IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	235 / 2.8
52-Week Range (INR)	615 / 391
1, 6, 12 Rel. Per (%)	-1/35/24
12M Avg Val (INR M)	307

Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	83.2	96.1	104.2
EBITDA	20.9	24.0	25.5
EBITDA (%)	25.1	24.9	24.4
Adj. PAT	7.2	8.0	6.4
EPS (INR)	19.2	21.4	17.0
EPS Gr. (%)	69.9	110.4	21.6
BV/Sh. (INR)	266.0	285.8	301.2

Ratios

Net D/E	0.6	0.7	0.8
RoE (%)	7.6	7.8	5.8
RoCE (%)	8.5	8.7	7.6
Payout (%)	6.5	7.5	9.4

Valuations

P/E (x)	30.5	27.4	34.5
P/BV (x)	2.2	2.1	1.9
EV/EBITDA (x)	14.3	13.2	12.7
Div Yield (%)	0.3	0.3	0.3

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	65.5	65.5	65.5
DII	11.3	10.5	7.6
FII	20.7	21.2	23.7
Others	2.6	2.8	3.2

CMP: INR586
TP: 750 (+28%)
Buy

Strong operational momentum sustains

Net debt up by INR9b on higher land investments

Strong response to launch drives pre-sales growth

- Prestige Estates Projects (PEPL) maintained strong momentum in pre-sales, with bookings up 30% YoY at INR39b (5% above estimate), in line with the quarterly run rate of the company's FY24 guidance of INR160b.
- Growth was largely driven by strong response to its Bengaluru project launch (Prestige Lavender fields), which contributed over 50% of pre-sales during the quarter as 85% of the project sold out. In 1QFY24, PEPL launched just one project with developable area of 3.1msf.
- Sales volumes were up 6% YoY, while blended realizations were up 28% YoY at over INR10,000/sqft largely due to higher pricing and premium mix.
- **P&L performance:** PEPL delivered 5.8msf of projects during the quarter. Revenue was down 13% YoY at INR17b (24% below estimate) due to a 28% decline in residential revenue. However, EBITDA grew 14% YoY to INR5.3b, due to a 750bp improvement in margin to 31% on account of a 700bp rise in Residential EBITDA margin. The company recognized a fair value gain of INR2.4b in 'other income' due to MTM gain for its stake in Nexus REIT. Thus, reported PAT grew 30% YoY to INR2.7b.

Higher spending on land led to INR9b increase in net debt

- Total collections stood at INR31b, with residential collections up 14% YoY/ 23% QoQ at INR25b. PEPL spent INR20b on construction, overheads and taxes to generate OCF of INR10.5b.
- The company spent INR19b on capex (INR6b) and land (INR13b) leading to a deficit of INR7b. Net debt increased by INR9b to INR65b or 0.6x equity.
- With a pending capex outlay of INR160b on the ongoing and upcoming office/retail/hospitality projects over the next five years and simultaneous investments of INR40-50b in land to sustain residential growth, we believe net debt should continue to rise for at least next two years. We expect PEPL's net debt at ~INR80b at FY24 end.

Rental scale-up on track; Hospitality delivers strong performance

- Revenue from office and retail assets more than doubled to INR1.2b. EBITDA stood at INR0.8b, generating a margin of 66%. The company expects exit rentals of INR7b at FY24 end.
- With 26msf of ongoing office and retail projects and additional 21msf of upcoming projects, rental income is expected to inch up to INR38b once these projects are delivered by FY28 end.
- **Hospitality segment:** Revenue grew by 22% YoY to INR1.8b. EBITDA margin grew 100bp YoY to 36%, leading to 25% growth in EBITDA to INR0.6b. PEPL currently has an ongoing and upcoming portfolio of ~1670 keys, which should generate steady state revenue of INR23b.

Key highlights from Management Commentary

- **Launch pipeline:** PEPL has a robust project pipeline, which includes few large developments in Hyderabad (Prestige City), Chennai (Pallava Gardens), Mumbai (Nautilus and Ocean Tower) and NCR (Bougainvillea Gardens). It has spent INR30b+ on these projects, which have GDV of ~INR275b and are expected to be launched over the next 15 months.
- **Debt:** Cash flows remain robust from the residential business and if the company requires external funding for capex, then debt can be taken given the strong balance sheet.
- ~INR40-50b worth of revenue recognition is pending and will boost the company's equity, resulting in D/E coming in line with guidance of 0.5x.
- The management expects net debt to reach ~INR70b by FY24 but focus is to maintain it at 0.5x rather than aiming for absolute level.
- **Asset monetization:** Monetizing opportunities always exists but the management intends to create significant value by monetizing assets (if at all necessary) once they are ready and stabilized, which will enable it to command premium valuations.
- The overall annuity assets can be valued at USD4-5b+ and the company is open to monetizing them at appropriate time depending on its cash flow needs.

Valuation and view

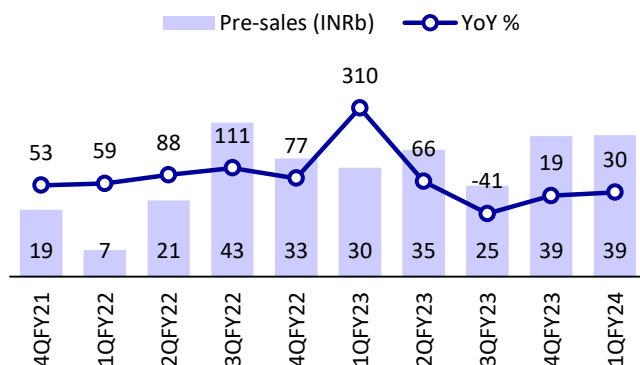
- The company delivered a healthy operational performance in 1QFY24 and remains on track to meet its FY24 pre-sales guidance. Thus, we retain our FY24 pre-sales estimate of INR155b.
- We remain positive about the company's pre-sales growth trajectory and resultant cash flows from the residential business. While an increase in net-debt remains a concern in the near term, we believe a ramp-up in cash flows beyond FY25 will allay leverage concerns.
- We incorporate a higher stake in Mumbai commercial projects and an increase in the hospitality portfolio, while higher capex assumptions lead to an increase in FY24E net debt to INR80b. **Thus, our SOTP-based TP is revised to INR750, indicating 28% upside potential. We reiterate BUY rating on the stock.**

Quarterly Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1Q	(%/bp)
Net Sales	19,385	14,277	23,170	26,318	16,809	21,136	24,018	34,109	83,150	96,071	22,145	-24
YoY Change (%)	42.3	9.8	74.5	9.6	-13.3	48.0	3.7	29.6	30.1	15.5	14.2	
Total Expenditure	14,768	10,591	17,428	19,500	11,542	16,114	18,490	25,964	62,287	72,110	16,926	
EBITDA	4,617	3,686	5,742	6,818	5,267	5,022	5,528	8,145	20,863	23,962	5,219	1
Margins (%)	23.8	25.8	24.8	25.9	31.3	23.8	23.0	23.9	25.1	24.9	23.6	
Depreciation	1,468	1,626	1,698	1,679	1,655	1,707	1,868	2,078	6,471	7,308	1,615	
Interest	1,847	1,863	2,009	2,347	2,382	2,344	2,400	2,357	8,066	9,483	2,250	
Other Income	733	470	305	3,062	2,854	793	845	792	4,570	5,284	730	
PBT before EO expense	2,035	667	2,340	5,854	4,084	1,764	2,105	4,502	10,896	12,455	2,085	96
Extra-Ord expense	1,497	1,463	0	119	0	0	0	0	3,079	0	0	
PBT	3,532	2,130	2,340	5,973	4,084	1,764	2,105	4,502	13,975	12,455	2,085	96
Tax	996	625	704	1,150	863	441	526	1,283	3,475	3,114	521	
Rate (%)	28.2	29.3	30.1	19.3	21.1	25.0	25.0	28.5	24.9	25.0	25.0	
MI & Profit/Loss of Asso. Cos.	487	98	358	139	552	289	328	144	1,250	1,313	302	
Reported PAT	2,049	1,407	1,278	4,684	2,669	1,034	1,251	3,076	9,250	8,029	1,262	
Adj PAT	974	373	1,278	4,588	2,669	1,034	1,251	3,076	7,213	8,030	1,262	112
YoY Change (%)	112.7	-52.3	47.6	87.6	174.0	177.0	-2.1	-33.0	58.5	11.3	29.5	
Margins (%)	5.0	2.6	5.5	17.4	15.9	4.9	5.2	9.0	8.7	8.4	5.7	
Key metrics												
Sale Volume (msf)	3.6	4.6	2.9	4.0	3.8	3.7	3.8	3.9	15.1	15.2	4	-3
Sale Value (INRb)	30.1	35.1	25.2	38.9	39.1	34.2	38.9	43.3	129.3	155.6	37	5
Collections - PEPL share (INRb)	19	20	20	25	25	21	24	27	83.8	97.5	24	5
Realization (INR/sft)	8,298	7,716	9,371	9,722	10,221	9,260	10,308	10,987	8,569	10,208	9,397	9

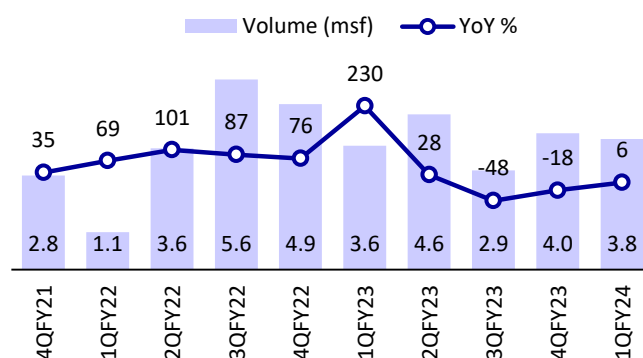
Key exhibits

Exhibit 1: PEPL reported sales of INR39b, up 30% YoY...



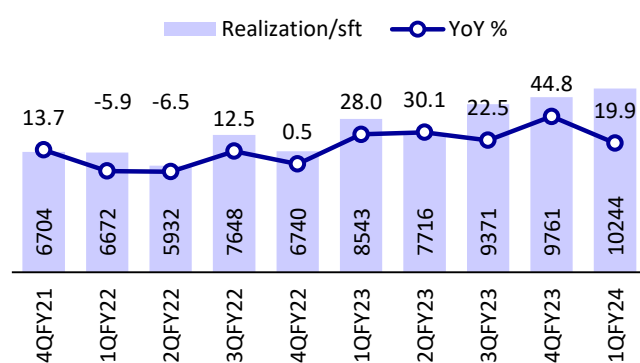
Source: Company, MOFSL

Exhibit 2: ...and volumes increased 6% YoY in the same period



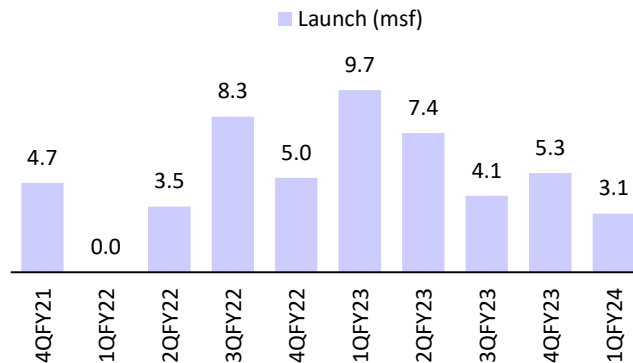
Source: Company, MOFSL

Exhibit 3: Realizations improved 20% YoY, driven by higher sales from Mumbai projects

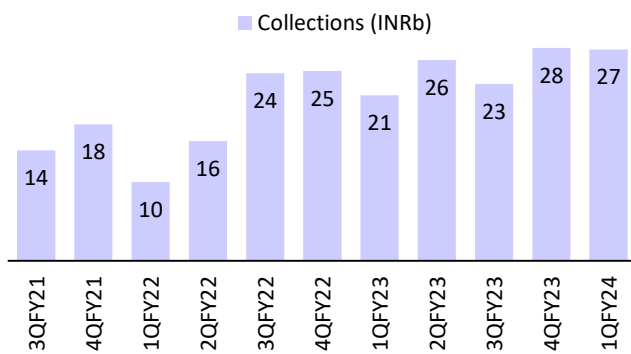


Source: MOFSL, Company

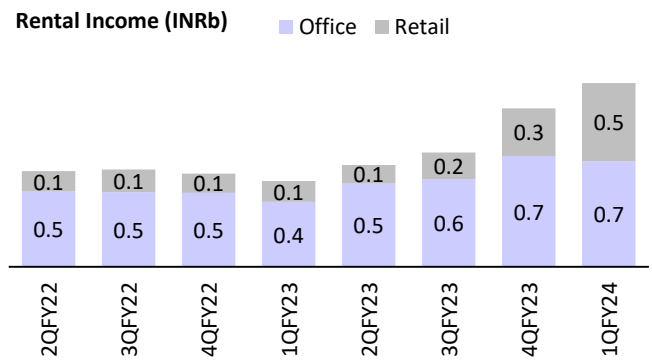
Exhibit 4: Company launched just one project in 1QFY24



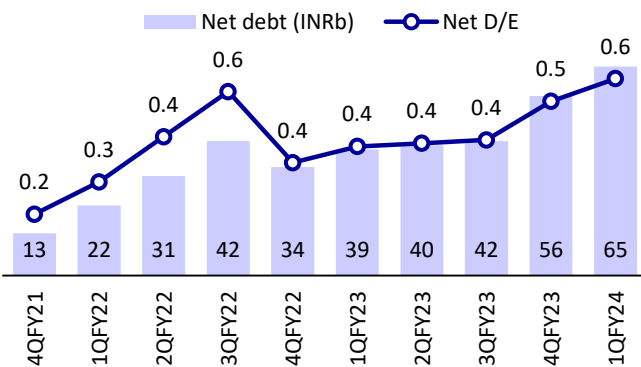
Source: MOFSL, Company

Exhibit 5: Collections declined 28% YoY to INR23b

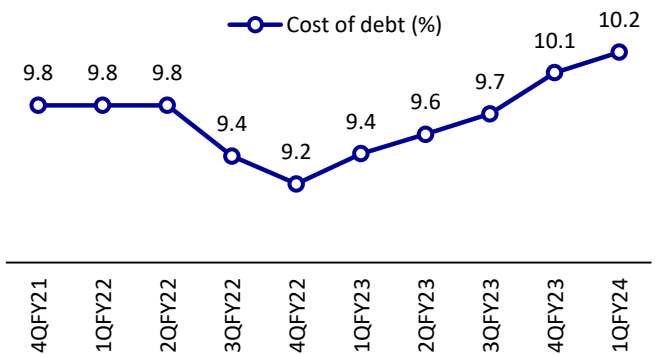
Source: Company, MOFSL

Exhibit 6: Rental income from annuity assets improved 114% YoY to INR1.2b

Source: Company, MOFSL

Exhibit 7: Net debt increased to INR65b

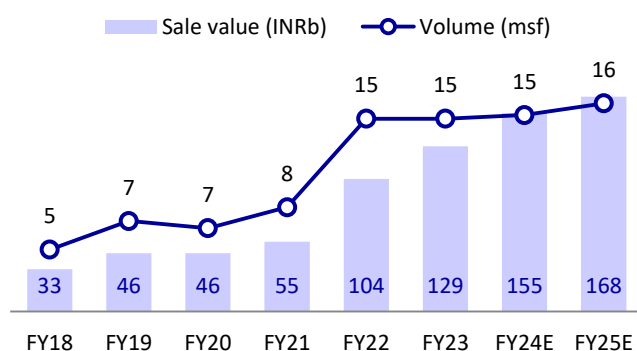
Source: MOFSL, Company

Exhibit 8: Cost of debt increased to 10.2%

Source: MOFSL, Company

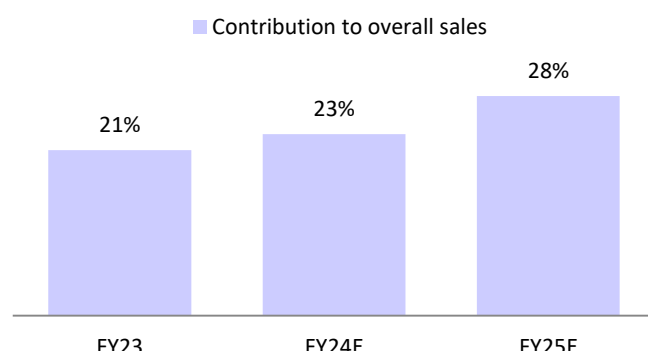
Story in charts

Exhibit 9: Expects sales to improve by 20% YoY in FY24...



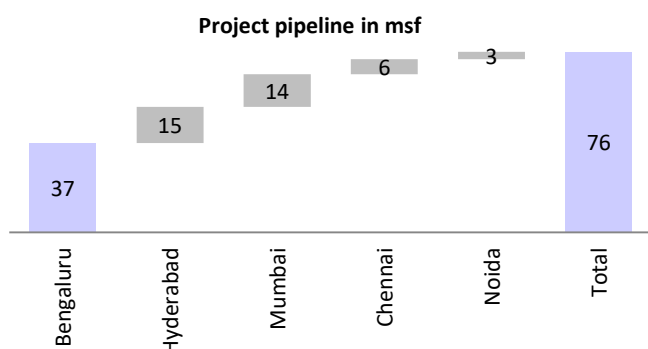
Source: Company, MOFSL

Exhibit 10: ...with contribution from Mumbai projects touching 23-38% over FY24-25



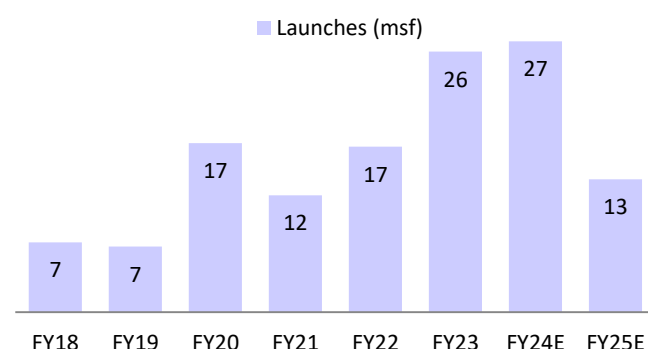
Source: Company, MOFSL

Exhibit 11: PEPL has 76msf of diverse project pipeline...



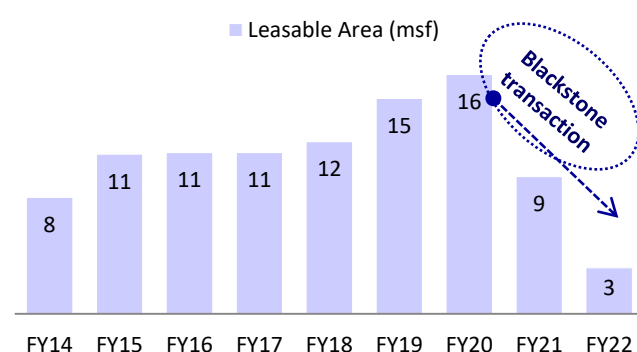
Source: MOFSL, Company

Exhibit 12: ...which will drive the new launches in near term



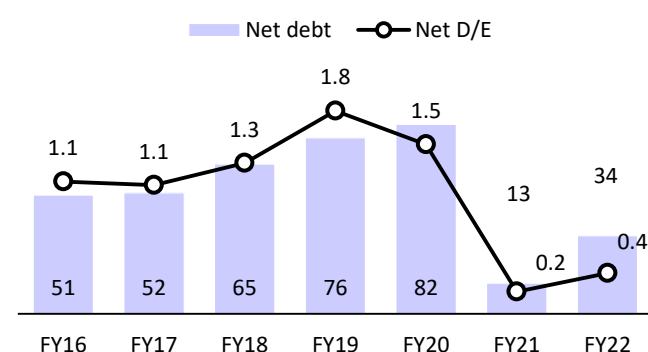
Source: MOFSL, Company

Exhibit 13: Leasable area in Annuity portfolio doubled during FY14-20...

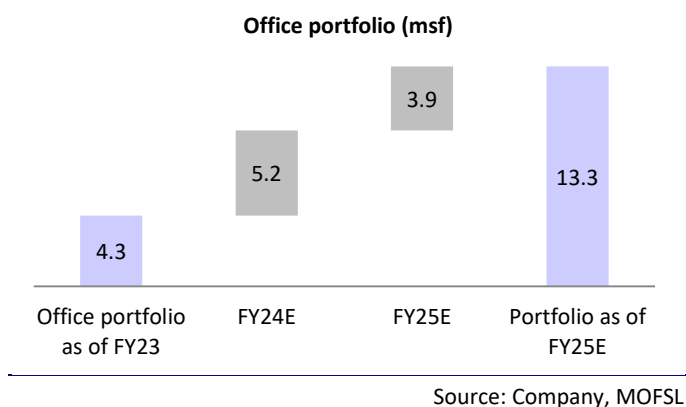
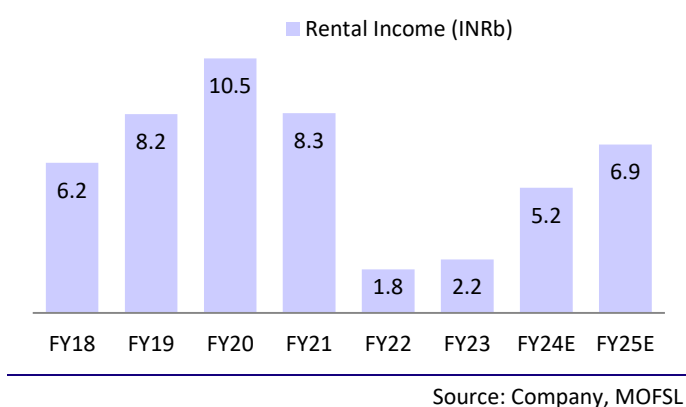
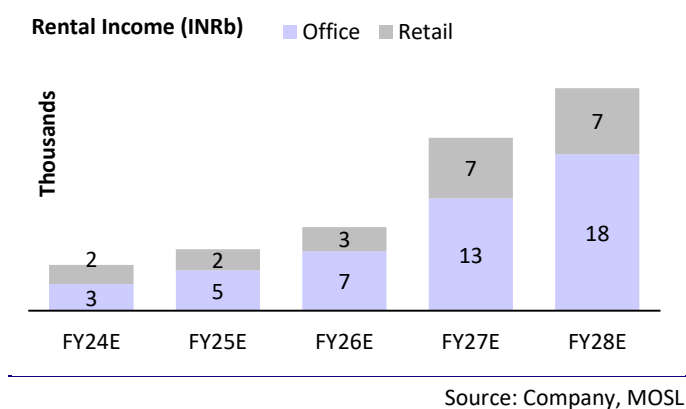
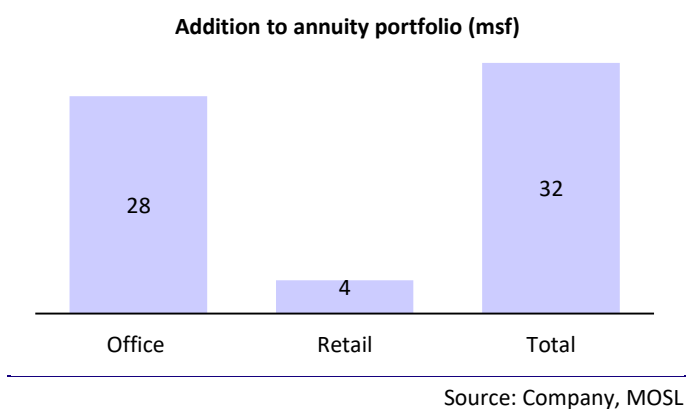


Source: Company, MOFSL

Exhibit 14: ... which led to net D/E ratio rising to 1.5x in FY20 from 1x in FY16



Source: Company, MOFSL

Exhibit 15: Expect leasable area to touch 13msf by FY25**Exhibit 16: Expect rental income to reach pre-Blackstone level by FY25****Exhibit 17: By the end of the capex cycle, PEPL aspires to scale up the annuity rentals to INR25b over next five years...****Exhibit 18: ...driven by 32msf addition to annuity portfolio****Exhibit 19: Earnings Revision**

(INR b)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	96	102	96	104	0%	2%
EBITDA	24	25	24	25	0%	2%
Adj. PAT	6	5	8	6	25%	20%
Pre-sales	155	168	156	168	0%	0%
Collections (PEPL share)	99	118	97	117	-1%	-1%

Valuation and view

■ We value PEPL using the DCF approach:

- Its Residential business is valued using DCF at a WACC of 11% and assuming a nil terminal growth rate
- Its operational Commercial assets are valued at a cap rate of 8.75% on FY24E EBITDA and ongoing/upcoming projects using DCF
- Its Hospitality business is valued at 17.5x EV/EBITDA on an FY24E basis.

Based on the above approach, we arrive at a GAV of INR381b. Netting off FY25E net debt of INR80b, we derive NAV of INR301b, or INR750 per share, indicating an upside of 28%.

Exhibit 20: Our SoTP-based approach implies 28% upside potential; reiterate BUY

NAV calculation	Rationale	INR b	per share (INR)	%
Residential	❖ DCF of five year cash flow at a WACC of 11% and nil terminal growth	219	546	73
Office – Operational	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	18	45	6
Office – Ongoing and Upcoming	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	50	125	17
Retail Malls	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	36	90	12
Hospitality	❖ FY24E EBITDA at 17.5x EV/EBITDA	50	124	17
Property Management Services	❖ FY24E EBITDA at 10x EV/EBITDA	8	20	3
Gross Asset Value		381	950	127
Less: Net debt	❖ FY24E	(80)	(200)	(27)
Net Asset Value		301	750	100
CMP			586	
Upside (%)			28	

Source: MOFSL

Financials and Valuation

Consolidated Profit & Loss (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	54,986	51,719	81,248	72,644	63,895	83,150	96,071	1,04,178
Change (%)	15.2	-5.9	57.1	-10.6	-12.0	30.1	15.5	8.4
Construction Cost	35,751	28,599	47,911	44,753	38,904	47,244	54,761	59,902
Employees Cost	2,958	3,986	4,206	4,206	4,510	6,034	6,781	7,353
Other Expenses	3,507	4,596	5,571	3,963	5,146	9,009	10,568	11,460
Total Expenditure	42,216	37,181	57,688	52,922	48,560	62,287	72,110	78,715
% of Sales	76.8	71.9	71.0	72.9	76.0	74.9	75.1	75.6
EBITDA	12,770	14,538	23,560	19,722	15,335	20,863	23,962	25,463
Margin (%)	23.2	28.1	29.0	27.1	24.0	25.1	24.9	24.4
Depreciation	1,547	3,229	6,667	5,926	4,710	6,471	7,308	9,271
EBIT	11,223	11,309	16,893	13,796	10,625	14,392	16,654	16,191
Int. and Finance Charges	5,657	7,228	10,233	9,899	5,553	8,066	9,483	10,033
Other Income	679	1,122	1,185	2,374	2,107	4,570	5,284	4,167
PBT bef. EO Exp.	6,245	5,203	7,845	6,271	7,179	10,896	12,455	10,326
EO Items	0	895	380	14,698	8,079	3,079	0	0
PBT after EO Exp.	6,245	6,098	8,225	20,969	15,258	13,975	12,455	10,326
Total Tax	2,135	1,985	2,783	5,198	2,945	3,475	3,114	2,581
Tax Rate (%)	34.2	32.6	33.8	24.8	19.3	24.9	25.0	25.0
Minority Interest	-136	-307	-44	250	165	1,250	1,313	1,378
Reported PAT	4,246	4,420	5,486	15,521	12,148	9,250	8,029	6,366
Adjusted PAT	4,246	3,816	5,235	4,466	5,628	7,213	8,029	6,366
Change (%)	13.4	-10.1	37.2	-14.7	26.0	58.5	11.3	-20.7
Margin (%)	7.7	7.4	6.4	6.1	8.8	8.7	8.4	6.1

Consolidated Balance Sheet (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	3,750	3,750	4,009	4,009	4,009	4,009	4,009	4,009
Total Reserves	43,577	38,516	49,593	62,744	86,937	95,744	1,03,171	1,08,936
Net Worth	47,327	42,266	53,602	66,753	90,946	99,753	1,07,180	1,12,945
Minority Interest	2,300	1,120	2,284	4,198	4,523	2,832	2,832	2,832
Total Loans	69,078	82,108	86,269	36,112	65,130	81,208	91,208	91,208
Deferred Tax Liabilities	2,434	2,651	2,955	2,688	2,731	3,118	3,118	3,118
Capital Employed	1,21,139	1,28,145	1,45,110	1,09,751	1,63,330	1,86,911	2,04,338	2,10,103
Gross Block	52,917	73,269	1,01,117	50,188	75,671	91,370	1,26,770	1,58,500
Less: Accum. Deprn.	4,638	9,014	16,428	12,918	17,628	24,099	31,407	40,678
Net Fixed Assets	48,279	64,255	84,689	37,270	58,043	67,271	95,363	1,17,822
Goodwill on Consolidation	3,069	3,069	5,167	534	534	534	534	534
Capital WIP	25,081	16,450	21,431	27,396	17,246	23,987	21,008	19,125
Total Investments	4,346	7,784	7,893	9,072	7,724	10,228	10,228	10,228
Curr. Assets, Loans&Adv.	1,08,941	1,95,424	1,78,536	1,92,917	2,20,894	2,63,809	2,69,158	2,76,133
Inventory	57,127	1,31,501	1,13,750	95,805	1,15,667	1,43,671	1,56,073	1,68,213
Account Receivables	9,645	16,544	14,765	13,740	14,196	13,286	18,171	18,552
Cash and Bank Balance	7,385	7,123	9,508	24,012	21,712	18,146	10,372	3,942
Loans and Advances	34,784	40,256	40,513	59,360	69,319	88,706	84,543	85,426
Curr. Liability & Prov.	68,577	1,58,837	1,52,606	1,57,438	1,41,111	1,78,918	1,95,098	2,16,884
Account Payables	13,542	12,530	12,249	10,820	9,800	14,514	15,805	17,253
Other Current Liabilities	53,517	1,43,608	1,35,265	1,41,805	1,23,211	1,59,270	1,72,928	1,92,729
Provisions	1,518	2,699	5,092	4,813	8,100	5,134	6,365	6,902
Net Current Assets	40,364	36,587	25,930	35,479	79,783	84,891	77,205	62,394
Appl. of Funds	1,21,139	1,28,145	1,45,110	1,09,751	1,63,330	1,86,911	2,04,338	2,10,103

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	11.3	10.2	14.0	11.9	15.0	19.2	21.4	17.0
Cash EPS	15.4	18.8	31.7	27.7	27.6	36.5	40.9	41.7
BV/Share	126.2	112.7	142.9	178.0	242.5	266.0	285.8	301.2
DPS	0.7	0.8	0.7	2.6	0.0	1.5	1.5	1.5
Payout (%)	7.7	8.2	6.4	8.2	0.0	6.5	7.5	9.4
Valuation (x)								
P/E	40.5	45.1	32.9	38.5	30.6	30.5	27.4	34.5
Cash P/E	29.7	24.4	14.5	16.6	16.6	16.1	14.3	14.1
P/BV	3.6	4.1	3.2	2.6	1.9	2.2	2.1	1.9
EV/Sales	4.3	4.8	3.2	2.7	3.6	3.6	3.3	3.1
EV/EBITDA	18.3	17.0	11.1	9.9	14.8	14.3	13.2	12.7
Dividend Yield (%)	0.2	0.2	0.2	0.6	0.0	0.3	0.3	0.3
FCF per share	-9.9	11.6	-2.8	27.3	-3.3	-2.8	-21.2	3.5
Return Ratios (%)								
RoE	9.3	8.5	10.9	7.4	7.1	7.6	7.8	5.8
RoCE	7.1	7.0	9.1	10.0	7.9	8.5	8.7	7.6
RoIC	8.6	8.4	11.0	13.3	10.3	8.6	8.4	7.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.0	0.7	0.8	1.4	0.8	0.9	0.8	0.7
Asset Turnover (x)	0.5	0.4	0.6	0.7	0.4	0.4	0.5	0.5
Inventory (Days)	379	928	511	481	661	631	593	589
Debtor (Days)	64	117	66	69	81	58	69	65
Creditor (Days)	90	88	55	54	56	64	60	60
Leverage Ratio (x)								
Current Ratio	1.6	1.2	1.2	1.2	1.6	1.5	1.4	1.3
Interest Cover Ratio	2.0	1.6	1.7	1.4	1.9	1.8	1.8	1.6
Net Debt/Equity	1.2	1.6	1.3	0.0	0.4	0.6	0.7	0.8

Consolidated Cash flow (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	6,245	5,203	7,845	20,719	15,093	14,143	12,455	10,326
Depreciation	1,547	3,229	6,667	5,926	4,710	6,471	7,308	9,271
Interest & Finance Charges	4,978	6,106	9,048	9,899	5,553	8,066	4,199	5,866
Direct Taxes Paid	-2,135	-1,985	-2,783	-2,074	-2,361	-3,288	-3,114	-2,581
(Inc)/Dec in WC	8,152	3,515	13,042	545	8,141	-2,418	3,057	8,381
CF from Operations	18,787	16,068	33,819	35,015	31,136	22,974	23,905	31,262
Others	0	0	0	-16,495	-9,737	-7,579	0	0
CF from Operating incl EO	18,787	16,068	33,819	18,520	21,399	15,395	23,905	31,262
(Inc)/Dec in FA	-22,502	-11,721	-34,927	-7,591	-22,704	-16,502	-32,421	-29,847
Free Cash Flow	-3,714	4,347	-1,108	10,929	-1,305	-1,107	-8,517	1,416
(Pur)/Sale of Investments	-1,808	-3,438	-109	-4,060	-18,144	-9,111	0	0
Others	679	1,122	1,185	16,562	394	-1,948	5,284	4,167
CF from Investments	-23,631	-14,037	-33,851	4,911	-40,454	-27,561	-27,137	-25,679
Issue of Shares	0	0	259	0	0	0	0	0
Inc/(Dec) in Debt	9,518	13,030	4,161	4,812	21,358	17,027	10,000	0
Interest Paid	-5,657	-7,228	-10,233	-9,847	-5,341	-7,412	-9,483	-10,033
Dividend Paid	-326	-365	-354	0	0	-601	-601	-601
Others	-533	-263	-1,455	-1,415	-33	-3,559	-1,313	-1,378
CF from Fin. Activity	3,002	5,174	-7,622	-6,450	15,984	5,455	-1,397	-12,012
Inc/Dec of Cash	-1,842	7,205	-7,654	16,981	-3,071	-6,711	-4,629	-6,429
Opening Balance	15,935	14,094	21,299	7,031	24,012	21,712	15,001	10,372
Closing Balance	14,094	21,299	13,646	24,012	20,941	15,001	10,372	3,942

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NOTES

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BUY	>=15%
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