

Prestige Estates Projects

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	PEPL IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	333.8 / 4
52-Week Range (INR)	853 / 391
1, 6, 12 Rel. Per (%)	26/63/73
12M Avg Val (INR M)	426

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	96.1	104.2	114.3
EBITDA	26.8	27.5	31.7
EBITDA (%)	27.9	26.4	27.7
Adj. PAT	10.3	7.4	9.6
EPS (INR)	27.6	19.7	25.5
EPS Gr. (%)	170.8	41.2	113.9
BV/Sh. (INR)	292	310.1	333.9

Ratios

Net D/E	0.7	0.8	0.8
RoE (%)	9.9	6.5	7.9
RoCE (%)	10.3	8.2	8.9
Payout (%)	5.8	8.1	6.3

Valuations

P/E (x)	30.2	42.2	32.7
P/BV (x)	2.8	2.7	2.5
EV/EBITDA (x)	15	15.4	13.4
Div Yield (%)	0.2	0.2	0.2

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	65.5	65.5	65.5
DII	12.8	11.3	8.1
FII	19.5	20.7	23.2
Others	2.2	2.6	3.3

CMP: INR833 **TP: 1000 (+20%)** **Buy**

Best ever quarter, driven by successful launches

Debt continued to be on an upward trajectory

- PEPL reported pre-sales of INR71b, up 102% YoY (29% higher than estimate of INR55b), driven by the successful launch of “Prestige Park Grove” project in Bengaluru, which generated sales of INR46b. Overall, PEPL launched five new projects with a developable area of 13msf in 2QFY24.
- Volumes increased 50% YoY/79% QoQ to 6.8msf and blended realizations were up 34% YoY to ~INR10,400/sft, due to price growth and premium mix.
- Total collections in 2Q remained flat YoY at INR26b and the company generated OCF of INR11b. Continued spend on capex and BD resulted in net debt increasing by INR5b sequentially to INR70b with net D/E of 0.6x.
- **P&L performance:** The company delivered 2.2msf of projects during the quarter. Revenue was up 57% YoY/33% QoQ to INR22.4b (6% above estimate) and EBITDA increased 61% YoY to INR5.5b, aided by 70bp increase in EBITDA margin to 26.5%. Other income grew 3x YoY to INR1.7b, driven by fair value gain on residual stake held in Nexus REIT. Additionally, PEPL also recognized INR8.5b as other income on account of gain resulting from the acquisition of 100% stake in BKC projects. Adj. PAT increased 174% to INR1.86b.

Consistent scale up in annuity income

- Revenue from Office and retail assets increased 125% YoY to INR1.4b. EBITDA stood at INR1.1b, generating margin of 74%. The company expects exit rentals of INR7b at the end of FY24.
- With 26msf of ongoing office and retail projects and an additional 21msf of upcoming projects, rental income is expected to step up to INR38b once these projects are delivered by the end of FY28.
- **Hospitality segment** – Revenue grew 5% YoY to INR1.7b. EBITDA margin declined 500bp YoY to 30%, leading to a 5% decline in EBITDA to INR0.5b. The company currently has an ongoing and upcoming portfolio of ~1,570 keys and the segment can generate a steady state revenue of INR22b.

Key highlights from Management Commentary

- **Launch pipeline:** Prestige Ocean Tower is expected to get approvals in the next few days. This, along with Nautilus, will be launched in 2HFY24. The company is launching its flagship Prestige city in Hyderabad soon. Management remains confident of achieving INR200b pre-sales in FY24.
- **Cash flows:** Collections should comfortably cross INR120b in FY24. The company has invested INR42b on a few large projects such as Ocean Tower, Budvel (Hyderabad), Prestige City (Hyderabad), Rain tree Park, and King’s County (Bengaluru), and this will be released as projects get launched in 2HFY24.

- **Debt:** Although the company is mindful of increasing debt, it intends to capture the potential growth opportunities. Apart from the initial capital requirements, a residential project does not require debt. Borrowed money along with surplus capital from ongoing projects is being re-deployed to acquire new projects and sustain the increased scale of business.

Valuation and view

- The company delivered a healthy operational performance and remains on track to meet its revised pre-sales guidance. Thus, we retain our FY24E pre-sales estimates of INR200b.
- We remain positive on the company's pre-sales growth trajectory and resultant cash flows from the residential business. While the increase in net debt remains a concern in the near term, we believe the ramp-up in cash flows beyond FY25 will allay leverage concerns.
- **We roll forward our estimates to Sep'24 and reiterate our BUY rating on the stock with increased TP of INR1,000, indicating a 20% upside potential.**

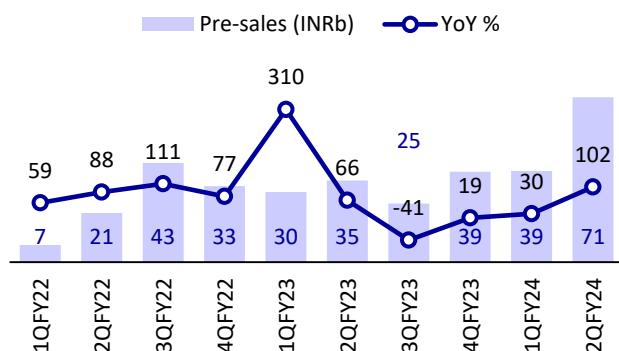
Quarterly Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E Variance	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2Q	(%/bp)
Net Sales	19,385	14,277	23,170	26,318	16,809	22,364	24,018	32,881	83,150	96,071	21,136	6
YoY Change (%)	42.3	9.8	74.5	9.6	-13.3	56.6	3.7	24.9	30.1	15.5	48.0	
Total Expenditure	14,768	10,591	17,428	19,500	11,542	16,439	17,358	23,889	62,287	69,228	15,917	
EBITDA	4,617	3,686	5,742	6,818	5,267	5,925	6,660	8,992	20,863	26,844	5,219	14
Margins (%)	23.8	25.8	24.8	25.9	31.3	26.5	27.7	27.3	25.1	27.9	24.7	
Depreciation	1,468	1,626	1,698	1,679	1,655	1,741	1,868	1,998	6,471	7,262	1,707	
Interest	1,847	1,863	2,009	2,347	2,382	2,639	2,850	2,905	8,066	10,776	2,344	
Other Income	733	470	305	3,062	2,854	1,684	1,076	1,111	4,570	6,725	793	
PBT before EO expense	2,035	667	2,340	5,854	4,084	3,229	3,018	5,200	10,896	15,531	1,960	65
Extra-Ord expense	1,497	1,463	0	119	0	8,512	0	0	3,079	0	0	
PBT	3,532	2,130	2,340	5,973	4,084	11,741	3,018	5,200	13,975	15,531	1,960	499
Tax	996	625	704	1,150	863	2,564	755	1,540	3,475	3,883	490	
Rate (%)	28.2	29.3	30.1	19.3	21.1	21.8	25.0	29.6	24.9	25.0	25.0	
Minority Interest & Profit/Loss of Asso. Cos.	487	98	358	139	552	668	328	-236	1,250	1,313	289	
Reported PAT	2,049	1,407	1,278	4,684	2,669	8,509	1,936	3,895	9,250	10,336	1,181	
Adj PAT	974	373	1,278	4,588	2,669	1,856	1,936	3,895	7,213	10,356	1,181	57
YoY Change (%)	112.7	-52.3	47.6	87.6	174.0	397.2	51.5	-15.1	58.5	43.6	216.5	
Margins (%)	5.0	2.6	5.5	17.4	15.9	8.3	8.1	11.8	8.7	10.8	5.6	
Key metrics												
Sale Volume (msf)	3.6	4.6	2.9	4.0	3.8	6.8	4.4	3.7	15.1	18.8	6	15
Sale Value (INRb)	30.1	35.1	25.2	38.9	39.1	70.9	44.0	45.9	129.3	199.9	55	29
Collections - PEPL share (INRb)	19	20	20	25	25	24	33	37	83.8	119.4	33	-27
Realization (INR/sft)	8,298	7,716	8,656	9,722	10,221	10,369	9,955	12,318	8,569	10,627	9,260	12

Source: Company, MOSL

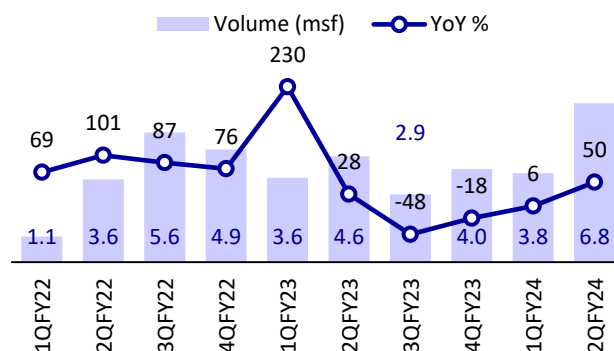
Key exhibits

Exhibit 1: PEPL reported sales of INR102b, up 71% YoY...



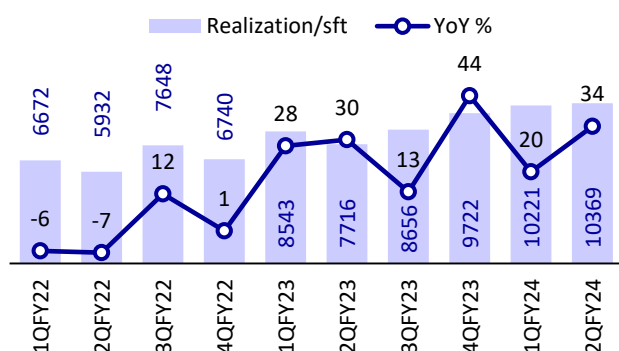
Source: Company, MOFSL

Exhibit 2: ...and volumes increased 50% YoY in the same period



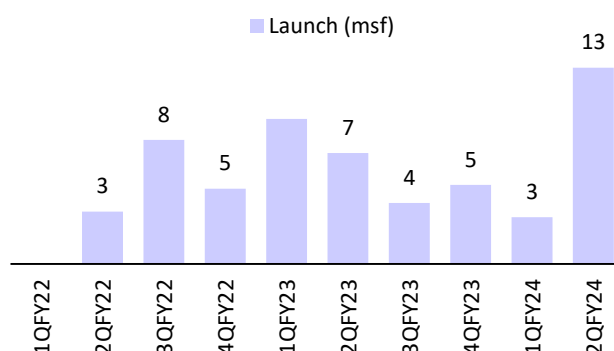
Source: Company, MOFSL

Exhibit 3: Realizations improved 34% YoY, driven by higher prices and premium mix



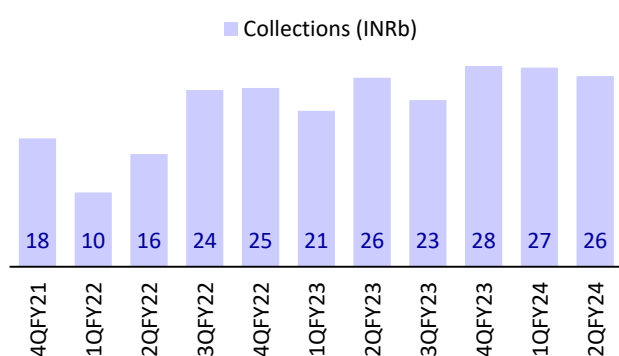
Source: MOFSL, Company

Exhibit 4: Company launched 13msf across five projects 2QFY24



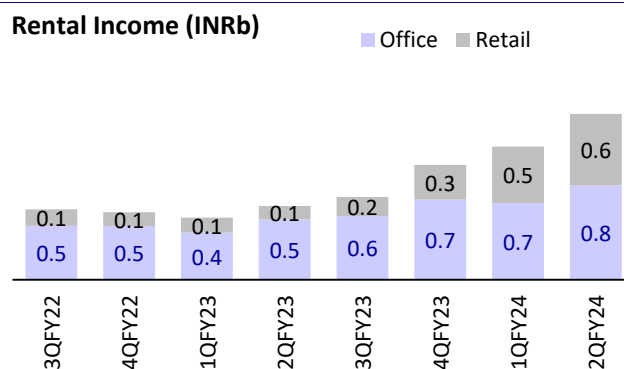
Source: MOFSL, Company

Exhibit 5: Collections remained flat YoY to INR26b

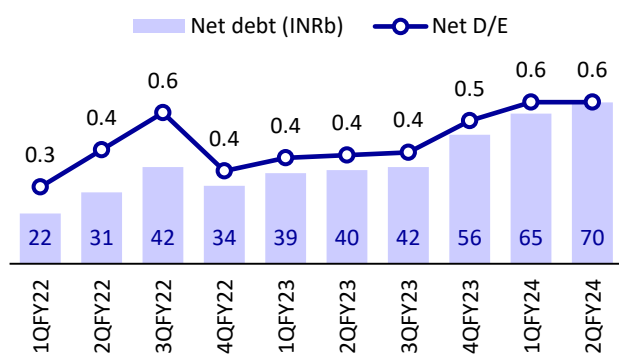


Source: Company, MOFSL

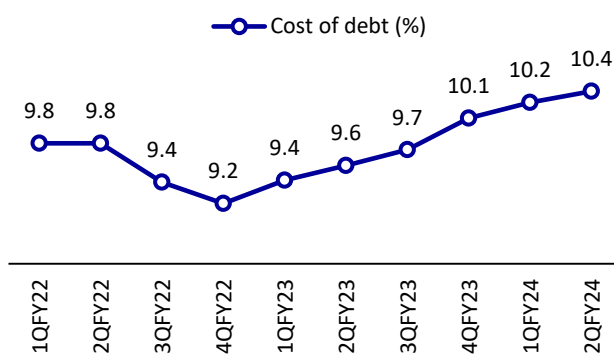
Exhibit 6: Rental income from annuity assets improved 125% YoY to INR1.2b



Source: Company, MOFSL

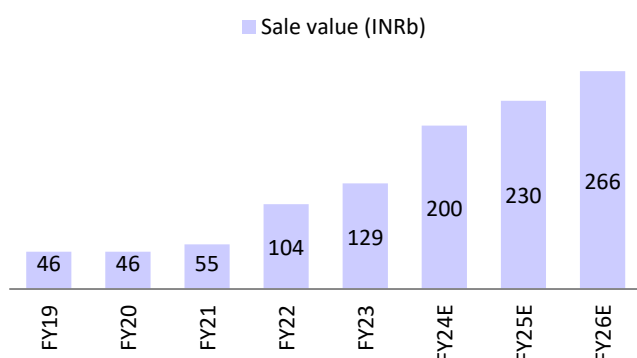
Exhibit 7: Net debt increased to INR70b

Source: MOFSL, Company

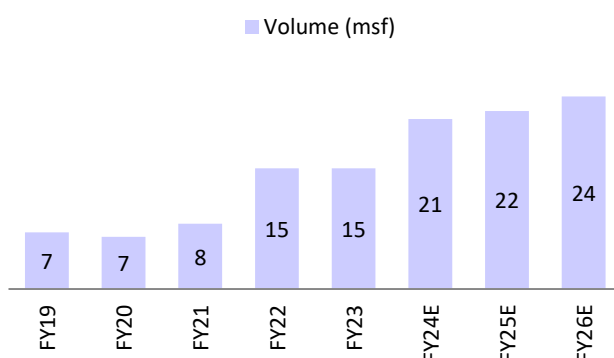
Exhibit 8: Cost of debt increased to 10.4%

Source: MOFSL, Company

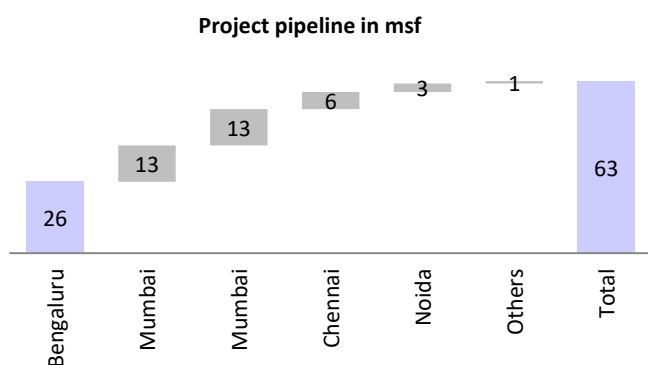
Story in charts

Exhibit 9: Expects sales to register a CAGR of 27% over FY23-26E...

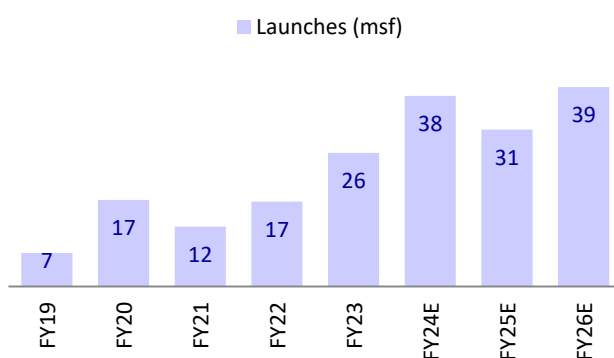
Source: Company, MOFSL

Exhibit 10: ...and volume to witness 17% CAGR during the same period

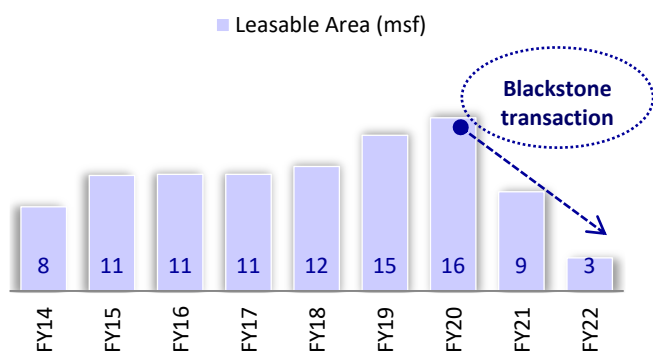
Source: Company, MOFSL

Exhibit 11: PEPL has 63msf of diverse project pipeline...

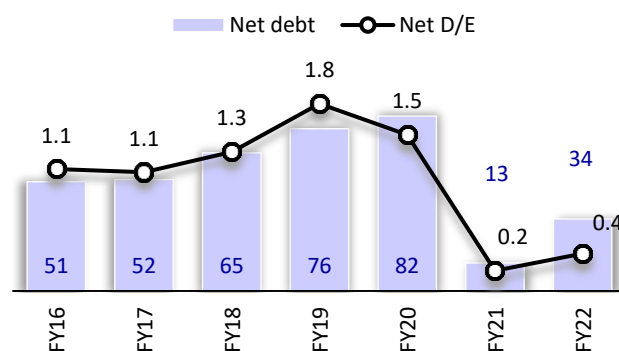
Source: MOFSL, Company

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

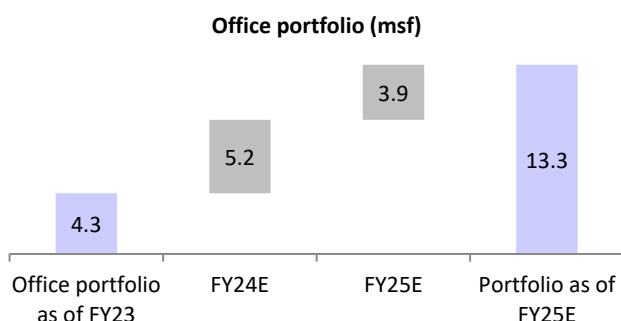
Source: MOFSL, Company

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

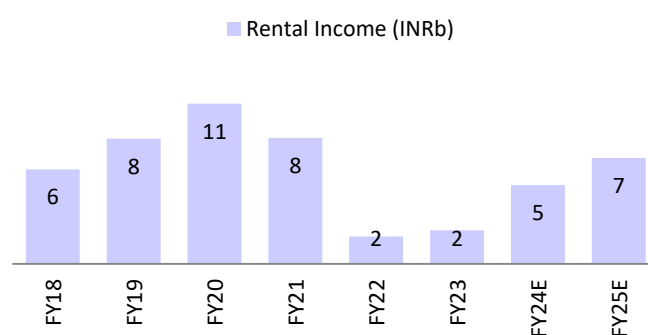
Source: Company, MOFSL

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

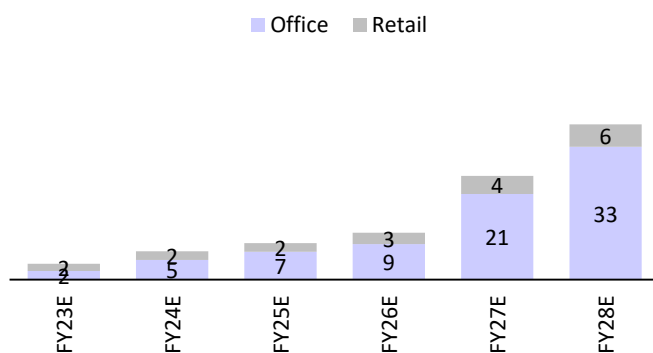
Source: Company, MOFSL

Exhibit 15: Expect leasable area to touch 13msf by FY25

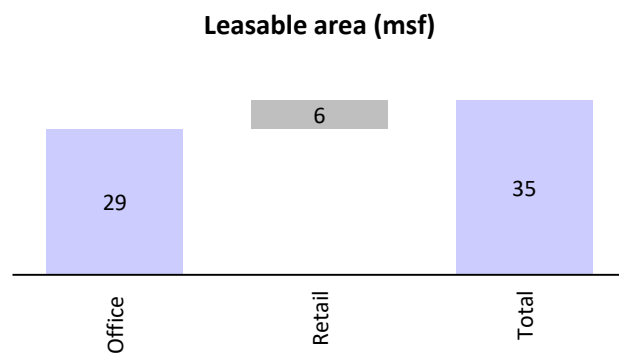
Source: Company, MOFSL

Exhibit 16: Expect rental income to reach pre-Blackstone level by FY25

Source: Company, MOFSL

Exhibit 17: By the end of the capex cycle, PEPL aspires to scale up the annuity rentals to INR38b over the next five years...

Source: Company, MOSL

Exhibit 18: ...driven by 35msf addition to annuity portfolio

Source: Company, MOSL

Exhibit 19: Earnings Revision

(INR b)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	96	104	96	104	0%	0%
EBITDA	24	28	27	28	10%	0%
Adj. PAT	9	9	10	7	10%	-16%
Pre-sales	200	230	200	230	0%	0%
Collections (PEPL share)	119	161	119	161	0%	0%

Source:

Valuation and view

■ We value PEPL using the DCF approach where:

- 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 INR495b. Netting-off FY25E net debt of INR94b, we derive a NAV of INR401b, or INR1,000/share, indicating an upside of 20%.

Exhibit 20: Our SoTP-based approach denotes 20% 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	307	767	77%
Office – Operational	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	19	48	5%
Office – Ongoing and Upcoming	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	67	167	17%
Retail Malls	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	42	105	11%
Hospitality	❖ FY24E EBITDA at 17.5x EV/EBITDA	52	129	13%
Property Management Services	❖ FY24E EBITDA at 10x EV/EBITDA	8	20	2%
Gross Asset Value		495	1236	123%
Less: Net debt	❖ FY25E	(94)	(235)	(23%)
Net Asset Value		401	1001	100%
CMP			832	
Upside			20%	

Source: MOFSL

Financials and Valuation

Consolidated Profit & Loss (INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	72,644	63,895	83,150	96,071	1,04,178	1,14,313
Change (%)	-10.6	-12.0	30.1	15.5	8.4	9.7
Construction Cost	44,753	38,904	47,244	46,114	59,902	65,387
Employees Cost	4,206	4,510	6,034	6,781	7,353	8,069
Other Expenses	3,963	5,146	9,009	16,332	9,376	9,145
Total Expenditure	52,922	48,560	62,287	69,228	76,632	82,600
% of Sales	72.9	76.0	74.9	72.1	73.6	72.3
EBITDA	19,722	15,335	20,863	26,844	27,546	31,712
Margin (%)	27.1	24.0	25.1	27.9	26.4	27.7
Depreciation	5,926	4,710	6,471	7,262	9,243	10,553
EBIT	13,796	10,625	14,392	19,582	18,303	21,159
Int. and Finance Charges	9,899	5,553	8,066	10,776	10,776	11,064
Other Income	2,374	2,107	4,570	6,725	4,167	4,573
PBT bef. EO Exp.	6,271	7,179	10,896	15,531	11,694	14,668
EO Items	14,698	8,079	3,079	0	0	0
PBT after EO Exp.	20,969	15,258	13,975	15,531	11,694	14,668
Total Tax	5,198	2,945	3,475	3,883	2,923	3,667
Tax Rate (%)	24.8	19.3	24.9	25.0	25.0	25.0
Minority Interest	250	813	1,250	1,313	1,378	1,447
Reported PAT	15,521	11,500	9,250	10,336	7,392	9,554
Adjusted PAT	4,466	4,552	7,213	10,336	7,392	9,554
Change (%)	-14.7	1.9	58.5	43.3	-28.5	29.2
Margin (%)	6.1	7.1	8.7	10.8	7.1	8.4

Consolidated Balance Sheet (INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	4,009	4,009	4,009	4,009	4,009	4,009
Total Reserves	62,744	86,937	95,744	1,05,478	1,12,269	1,21,222
Net Worth	66,753	90,946	99,753	1,09,487	1,16,278	1,25,231
Minority Interest	4,198	4,523	2,832	2,832	2,832	2,832
Total Loans	36,112	65,130	81,208	91,208	96,208	96,208
Deferred Tax Liabilities	2,688	2,731	3,118	3,118	3,118	3,118
Capital Employed	1,09,751	1,63,330	1,86,911	2,06,645	2,18,436	2,27,389
Gross Block	50,188	75,671	91,370	1,25,403	1,58,997	1,92,769
Less: Accum. Deprn.	12,918	17,628	24,099	31,361	40,604	51,157
Net Fixed Assets	37,270	58,043	67,271	94,042	1,18,394	1,41,612
Goodwill on Consolidation	534	534	534	534	534	534
Capital WIP	27,396	17,246	23,987	19,641	21,810	20,686
Total Investments	9,072	7,724	10,228	10,228	10,228	10,228
Curr. Assets, Loans&Adv.	1,92,917	2,20,894	2,63,809	2,73,523	2,70,335	2,82,624
Inventory	95,805	1,15,667	1,43,671	1,49,835	1,60,611	1,69,727
Account Receivables	13,740	14,196	13,286	18,171	18,552	20,357
Cash and Bank Balance	24,012	21,712	18,146	20,974	5,746	4,519
Loans and Advances	59,360	69,319	88,706	84,543	85,426	88,021
Curr. Liability & Prov.	1,57,438	1,41,111	1,78,918	1,94,467	2,06,009	2,31,441
Account Payables	10,820	9,800	14,514	15,173	16,796	18,104
Other Current Liabilities	1,41,805	1,23,211	1,59,270	1,72,928	1,82,311	2,05,763
Provisions	4,813	8,100	5,134	6,365	6,902	7,574
Net Current Assets	35,479	79,783	84,891	82,201	67,470	54,328
Appl. of Funds	1,09,751	1,63,330	1,86,911	2,06,645	2,18,436	2,27,389

Financials and valuations

Consolidated Cash flow (INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)						
EPS	11.9	12.1	19.2	27.6	19.7	25.5
Cash EPS	27.7	24.7	36.5	46.9	44.4	53.6
BV/Share	178.0	242.5	266.0	292.0	310.1	333.9
DPS	2.6	1.5	1.5	1.5	1.5	1.5
Payout (%)	8.2	5.2	6.5	5.8	8.1	6.3
Valuation (x)						
P/E	60.7	59.6	37.6	30.2	42.2	32.7
Cash P/E	26.1	29.3	19.8	17.7	18.8	15.5
P/BV	4.1	3.0	2.7	2.8	2.7	2.5
EV/Sales	4.2	5.2	4.2	4.2	4.1	3.7
EV/EBITDA	15.3	21.7	16.9	15.0	15.4	13.4
Dividend Yield (%)	0.4	0.2	0.2	0.2	0.2	0.2
FCF per share	27.3	-3.3	-2.8	4.8	-29.0	18.2
Return Ratios (%)						
RoE	7.4	5.8	7.6	9.9	6.5	7.9
RoCE	10.0	7.9	8.5	10.3	8.2	8.9
RoIC	13.3	10.3	8.6	10.1	8.2	8.5
Working Capital Ratios						
Fixed Asset Turnover (x)	1.4	0.8	0.9	0.8	0.7	0.6
Asset Turnover (x)	0.7	0.4	0.4	0.5	0.5	0.5
Inventory (Days)	481	661	631	569	563	542
Debtor (Days)	69	81	58	69	65	65
Creditor (Days)	54	56	64	58	59	58
Leverage Ratio (x)						
Current Ratio	1.2	1.6	1.5	1.4	1.3	1.2
Interest Cover Ratio	1.4	1.9	1.8	1.8	1.7	1.9
Net Debt/Equity	0.0	0.4	0.6	0.7	0.8	0.8

Consolidated Cash flow (INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	20,719	15,093	14,143	15,531	11,694	14,668
Depreciation	5,926	4,710	6,471	7,262	9,243	10,553
Interest & Finance Charges	9,899	5,553	8,066	4,051	6,609	6,491
Direct Taxes Paid	-2,074	-2,361	-3,288	-3,883	-2,923	-3,667
(Inc)/Dec in WC	545	8,141	-2,418	8,663	-498	11,916
CF from Operations	35,015	31,136	22,974	31,624	24,125	39,961
Others	-16,495	-9,737	-7,579	0	0	0
CF from Operating incl EO	18,520	21,399	15,395	31,624	24,125	39,961
(Inc)/Dec in FA	-7,591	-22,704	-16,502	-29,686	-35,764	-32,647
Free Cash Flow	10,929	-1,305	-1,107	1,938	-11,639	7,314
(Pur)/Sale of Investments	-4,060	-18,144	-9,111	0	0	0
Others	16,562	394	-1,948	6,725	4,167	4,573
CF from Investments	4,911	-40,454	-27,561	-22,961	-31,597	-28,075
Issue of Shares	0	0	0	0	0	0
Inc/(Dec) in Debt	4,812	21,358	17,027	10,000	5,000	0
Interest Paid	-9,847	-5,341	-7,412	-10,776	-10,776	-11,064
Dividend Paid	0	-601	-601	-601	-601	-601
Others	-1,415	568	-3,559	-1,313	-1,378	-1,447
CF from Fin. Activity	-6,450	15,984	5,455	-2,690	-7,756	-13,112
Inc/Dec of Cash	16,981	-3,071	-6,711	5,973	-15,228	-1,226
Opening Balance	7,031	24,012	21,712	15,001	20,974	5,746
Closing Balance	24,012	20,941	15,001	20,974	5,746	4,519

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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