

July 02, 2024

Company Update | Sector: Real Estate

Prestige Estates Projects

Switch to PEPL from OBER/DLFU to capture growth

Our view

Prestige Estates Projects (PEPL) has achieved the presales of Rs210bn for FY24 and guided Rs260-270bn presales for FY25 on the back of a strong launch pipeline of Rs600bn GDV and Rs120bn ongoing inventory. We valued the residential business at Rs273bn. Company also plans to take its annuity multifold to Rs50bn in next 2-3years, which we valued cumulatively at Rs410bn at 11.7% WACC and 8% Cap rate for office (6.5% for retail). As the company plans to list its hospitality arm, we valued it at Rs146bn at 25x FY27 EV/EBITDA.

PEPL clearly stands out amongst peers with the superior growth prospects for residential segment, multifold annuity growth and value creation by listing the hospitality arm. Company has managed its debt well and expected to remain under control at Net D/E of 0.36x FY25. We believe one should choose pro-growth companies like PEPL for 2years over the companies with capped valuation/growth like OBER & DLFU which have limited/no upside remaining. We suggest switching from OBER/DLFU to PEPL to capture an upside of 64% which includes a 35% premium to the current portfolio. We upgrade it to 'BUY' with a target price of Rs3,021/share.

Strong growth for residential segment on cards with Rs600bn pipeline

PEPL has surpassed presales bookings of Rs210bn and guided for bookings of Rs260-270bn for FY25 on the back of a strong pipeline. Company has a project pipeline of GDV worth Rs600bn at various stages of approvals and ongoing inventory of Rs120bn which will allow PEPL to comfortably achieve its target for FY25. Additionally, the company has 888acres of land bank that can be quickly brought to the markets and will help to replenish the pipeline. Meanwhile the company also plans to spend Rs35-40bn for BD each year to keep the growth momentum ongoing. We believe in the residential space PEPL has superior growth prospects compared to the peers.

Office rentals to grow 7x and retail to grow 3x by FY28

PEPL plans to add 31msf of office space by FY29 to the existing portfolio of 9.35msf and take the current annuity to the Rs41.7bn (PEPL Share). Additionally, PEPL to add another 7msf to its current retail portfolio with an annual run rate of Rs9bn. PEPL needs to do the pending capex of ~133bn to commission all the annuity assets. Once PEPL commissions the annuity portfolio it has plans to explore the REIT option. We valued office assets at WACC of 11.7% and Cap rate of 8% to GNAV of Rs345bn while we used 6.5% cap rate for retail assets and arrived at GNAV of Rs65bn.

Hospitality portfolio monetization on cards

PEPL has 5/7star rated 10 operational hotels with 1489keys and plans to take the keys to ~3209keys in the coming 2-3years. In FY24 the hospitality segment clocked revenues of Rs7.9bn with EBITDA margin of 37%. We estimate with all the hotels operational and 80-82% occupancy total portfolio should achieve revenue of ~Rs20bn by FY28 with similar margin profile. As hotels are witnessing strong demand, PEPL plans to demerge the hospitality arm and list it separately. Hence, we have given 25x FY27 EV/EBITDA and valued Hospitality at Rs146bn.

Strong cashflow visibility and lean B/S allows to accelerate growth

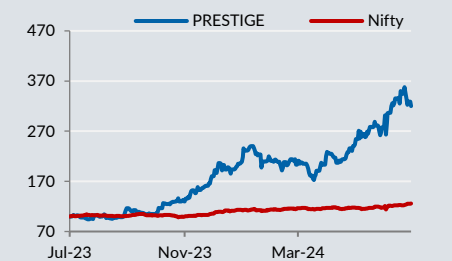
PEPL's planned launches of Rs600bn along with the inventory of Rs120bn gives strong visibility for cashflow. Furthermore, annuity growing multifold coupled with addition of the hotels to generate strong cashflow in coming years. We believe with the strong cashflow visibility, net D/E to remain under control and come down to 0.36x by FY27E.

Reco	: BUY
CMP	: Rs 1,840
Target Price	: Rs 3,021
Potential Return	: +64%

Stock data (as on Jul 01, 2024)

Nifty	24,142
52 Week h/l (Rs)	2075 / 521
Market cap (Rs/USD mn)	743638 / 8912
Outstanding Shares (mn)	401
6m Avg t/o (Rs mn):	1,515
Div yield (%):	0.1
Bloomberg code:	PEPL IN
NSE code:	PRESTIGE

Stock performance



	1M	3M	1Y
Absolute return	15.2%	40.1%	220.2%

Shareholding pattern (As of Mar'24 end)

Promoter	65.5%
FII+DII	31.0%
Others	3.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	REDUCE
Target Price	3,021	1,000

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenues	78,771	111,552	130,933
YoY growth	(5.3)	41.6	17.4
EBITDA	24,984	30,814	39,344
YoY growth	19.8	23.3	27.7
PAT	13,741	11,037	14,899
YoY growth	45.9	(19.7)	35.0
EPS	34.3	27.5	37.2
P/E	53.7	66.9	49.5
P/BV	6.5	6.0	5.4
D/E	1.0	0.9	0.9
EV/EBITDA	32.9	26.7	20.8
RoE (%)	12.2	9.0	10.9
RoCE (%)	7.8	9.9	11.4

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Exhibit 1: SoTP at WACC 11.7%

Valuation Breakup	Rs. Mn	Rs./share	(%)	Comments
Residential	272,754	680	23	1-year forward NAV
Office Leasing	345,211	861	29	FY27 NAV at 8% Cap Rate
Retail Segemnt	64,857	162	5	FY27 NAV at 6.5% Cap Rate
Hospitality	146,039	364	12	25x FY27 EV/EBITDA
FMS Services	35,844	89	3	20x FY26 EV/EBITDA
Land Bank	132,796	331	11	Avg Yield at Rs1375/sft
Net Debt	89,041	222	(7)	As of FY24
Business Development	302,647	755	25	35% premium to current portfolio
Total	1,211,107	3,021		
CMP		1,840		
Upside		64.1%		

Source: Company, YES Sec

KEY CONFERENCE CALL HIGHLIGHTS

- PEPL through its subsidiaries, has entered into a landmark deal with ADIA and Kotak AIF for Rs20bn to capitalize on growth opportunities in the residential sector; by developing projects with gross development value (GDV) of Rs180bn across Bangalore, Mumbai & NCR.
- Company has Rs600bn worth of launches in the pipeline where these are not something where land has to be tied up or designed.
- PEPL guided for presales of Rs260-270bn for FY25 guided by the Rs600bn new launch pipeline and Rs120bn of unsold inventory from the recently launched projects.
- Company to spend Rs35-40bn towards the business development including the pending payments for FY25.
- Management is confident to bring down the debt/equity from the current level on the back of strong cashflow visibility from the ongoing projects.
- PEPL plans to demerge and list the Hospitality arm by the end of FY25.
- Company is closing a large transaction under JD in Pune and wanted to quickly bring it to the markets as there is no point in sitting idle for a longer time. It will be similar to The Prestige City township.
- In MMR, PEPL is now focusing on micro markets like Thane, Panvel, etc. under the mid-income group.
- Once a company's office asset starts yielding annuity of Rs40bn and R6bn for retail, the company might explore REIT option.

Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	q/q %	y/y %	FY23	FY24	y/y %
Sales	26,318	16,809	22,364	17,958	21,640	20.5	(17.8)	83,150	78,771	(5.3)
EBITDA	6,818	5,267	5,925	5,515	8,277	50.1	21.4	20,863	24,984	19.8
<i>EBITDA Margin %</i>	<i>25.9</i>	<i>31.3</i>	<i>26.5</i>	<i>30.7</i>	38.2	<i>754 bps</i>	<i>1234 bps</i>	<i>25.1</i>	<i>31.7</i>	<i>663 bps</i>
Depreciation	1,679	1,655	1,741	1,797	1,972	9.7	17.5	6,471	7,165	10.7
EBIT	5,139	3,612	4,184	3,718	6,305	69.6	22.7	14,392	17,819	23.8
<i>EBIT Margin %</i>	<i>19.5</i>	<i>21.5</i>	<i>18.7</i>	<i>20.7</i>	29.1	<i>843 bps</i>	<i>961 bps</i>	<i>17.3</i>	<i>22.6</i>	<i>531 bps</i>
Interest charges	2,347	2,382	2,639	2,932	4,238	44.5	80.6	8,066	12,191	51.1
Other Income	3,062	2,854	10,196	1,747	685	(60.8)	(77.6)	4,570	15,482	238.8
Profit/ (loss) of JV (net)	5,973	4,084	11,741	2,533	2,752	8.6	(53.9)	13,975	21,110	51.1
PBT	1,150	863	2,564	723	786	8.7	(31.7)	3,475	4,936	42.0
Tax	19.3	21.1	21.8	28.5	28.6	2 bps	931 bps	18.5	14.7	(382 bps)
Effective Tax Rate (%)	4,684	2,669	8,509	1,163	1,400	20.4	(70.1)	9,418	13,741	45.9
PAT	<i>17.8</i>	<i>15.9</i>	<i>38.0</i>	<i>6.5</i>	6.5	<i>(1 bps)</i>	<i>(1133 bps)</i>	<i>11.3</i>	<i>17.4</i>	<i>612 bps</i>
<i>PAT Margin %</i>	<i>11.7</i>	<i>6.7</i>	<i>21.2</i>	<i>2.9</i>	3.5	20.4	(70.1)	23.5	34.3	45.9
EPS (Rs)	26,318	16,809	22,364	17,958	21,640	20.5	(17.8)	83,150	78,771	(5.3)

Source: Company, YES Sec

Exhibit 3: Quarterly snapshot (Console)

Particulars (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	q/q %	y/y %	FY23	FY24	y/y %
Sales Volumes (msf)	4.00	3.83	6.84	5.46	4.11	(24.7)	2.8	15.1	20.2	34.1
Sales (Rs Mn)	38,888	39,147	70,926	53,261	47,068	(11.6)	21.0	129309	210402	63
Collections (Rs Mn)	27,633	27,408	26,237	31,163	34,741	11.5	25.7	98055	119549	21.9
Prestige Share	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	q/q %	y/y %	FY23	FY24	y/y %
Sales Volumes (msf)	3.74	3.41	6.01	5.29	3.86	(27.0)	3.2	13.6	18.6	36.8
Sales (Rs Mn)	36,990	35,579	62,691	51,677	44,330	(14.2)	20	118375	194277	64.1
Collections (Rs Mn)	24,501	24,843	23,923	28,757	32,967	14.6	35	87252	110490	26.6

Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	4,009	4,009	4,009	4,009	4,009
Reserves	86,937	95,744	108,879	118,949	132,882
Net worth	90,946	99,753	112,888	122,958	136,891
Debt	65,130	81,208	114,623	116,646	119,146
Deferred tax liab (net)	(5,615)	(5,598)	(4,842)	(4,842)	(4,842)
Other non-current liabilities	11,952	14,185	24,325	25,665	27,508
Total liabilities	162,413	189,548	246,994	260,427	278,703
Fixed Asset	75,289	91,258	107,530	190,728	219,684
Investments	7,724	10,228	12,786	12,786	12,786
Other Non-current Assets	12,535	8,207	5,628	5,628	5,628
Net Working Capital	46,180	65,291	98,371	28,128	11,600
Inventories	115,667	143,671	241,562	173,998	157,594
Sundry debtors	14,196	13,286	12,340	10,752	10,826
Loans and Advances	22,080	36,666	22,892	22,892	22,892
Sundry creditors	9,800	14,514	16,574	17,665	17,864
Other current liabilities	123,488	152,314	210,638	210,638	210,638
Cash & equivalents	20,685	14,564	22,679	23,157	29,005
Total Assets	162,413	189,548	246,994	260,427	278,703

Source: Company, YES Sec

Exhibit 5: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
PBIT	15,093	14,143	21,223	13,519	18,706
Depreciation	4,710	6,471	7,165	7,049	10,124
Tax paid	(2,361)	(3,288)	(4,164)	(2,483)	(3,806)
Working capital Δ	8,141	(2,418)	(8,383)	71,583	18,371
Other operating items	(4,184)	487	(2,868)	12,406	12,672
Operating cashflow	21,399	15,395	12,973	#####	56,066
Capital expenditure	(22,704)	(16,502)	(19,067)	(90,247)	(39,080)
Free cash flow	(1,305)	(1,107)	(6,094)	11,828	16,986
Equity raised					
Investments	(17,750)	(11,059)	(6,415)	0	0
Debt financing/disposal	22,249	16,105	32,710	2,023	2,500
Interest Paid	(5,341)	(7,412)	(12,161)	(12,406)	(12,672)
Dividends paid	(601)	(601)	(601)	(966)	(966)
Other items	0	0	0	0	0
Net Δ in cash	(3,071)	(6,711)	7,183	478	5,848

Source: Company, YES Sec

Exhibit 6: Income statement (Console)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Revenue	63,895	83,150	78,771	111,552	130,933
Operating profit	15,335	20,863	24,984	30,814	39,344
Depreciation	4,710	6,471	7,165	7,049	10,124
Interest expense	5,553	8,066	12,191	12,406	12,672
Other income	2,107	4,570	15,482	3,500	4,000
Profit before tax	15,258	13,975	21,110	14,859	20,549
Taxes	2,945	3,475	4,936	2,483	3,806
Adj. PAT	11,500	9,418	13,741	11,037	14,899
Net profit	12,313	10,500	16,174	12,377	16,742

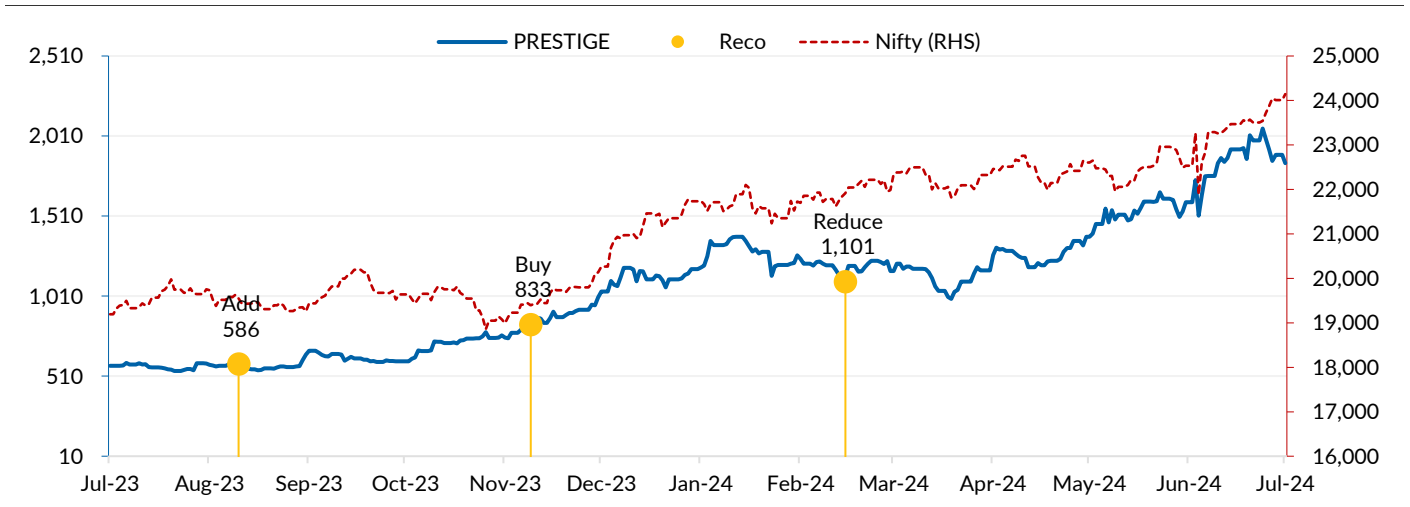
Source: Company, YES Sec

Exhibit 7: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	(11.8)	30.1	(5.3)	41.6	17.4
Op profit growth	(21.7)	36.0	19.8	23.3	27.7
EBIT growth	(22.2)	35.5	23.8	33.4	23.0
Net profit growth	(57.6)	(14.7)	54.0	(23.5)	35.3
Profitability ratios (%)					
OPM	24.0	25.1	31.7	27.6	30.0
EBIT margin	16.6	17.3	22.6	21.3	22.3
Net profit margin	19.3	12.6	20.5	11.1	12.8
RoCE	6.8	8.0	7.8	9.9	11.4
RoNW	12.6	9.4	12.2	9.0	10.9
RoA	15.3	10.3	12.8	5.8	6.8
Per share ratios					
EPS	28.7	23.5	34.3	27.5	37.2
Dividend per share	1.5	2.0	2.0	2.0	2.0
Cash EPS	40.4	39.6	52.1	45.1	62.4
Book value per share	226.9	248.8	281.6	306.7	341.5
Payout (%)					
Dividend payout	5	9	6	7	5
Tax payout	18	19	15	17	19
Liquidity ratios					
Debtor days	81	58	57	35	30
Inventory days	661	631	1119	569	439
Creditor days	56	64	77	58	50

Source: Company, YES Sec

Recommendation Tracker



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ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

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