

Prestige Estates Projects

Estimate change



TP change



Rating change



Bloomberg	PEPL IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	193.8 / 2.3
52-Week Range (INR)	520 / 375
1, 6, 12 Rel. Per (%)	-4/3/1
12M Avg Val (INR M)	217

Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	83.2	81.9	87.7
EBITDA	20.9	21.6	24.0
EBITDA (%)	25.1	26.4	27.4
Adj. PAT	7.2	4.9	5.0
EPS (INR)	19.2	13.2	13.4
EPS Gr. (%)	69.9	29.2	-3.8
BV/Sh. (INR)	266.0	279.2	292.6

Ratios

Net D/E	0.6	0.7	0.7
RoE (%)	7.6	4.8	4.7
RoCE (%)	8.5	6.8	6.7
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	25.1	36.7	36.0
P/BV (x)	1.8	1.7	1.7
EV/EBITDA (x)	12.3	12.9	11.7
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	65.5	65.5	65.5
DII	10.5	9.4	6.8
FII	21.2	22.2	24.3
Others	2.8	2.9	3.4

CMP: INR484

TP: INR675 (+40%)

Buy

Strong operational performance aided by Mumbai foray

Delivers better than FY23 guidance; expects 20% growth in FY24

- Prestige Estates Projects (PEPL) reported yet another strong quarter with pre-sales of INR39b, up 19% YoY and 31% above our estimate. The growth was driven by increased contribution from Mumbai and Hyderabad, each accounting for INR10b of pre-sales in 4QFY23, driven by launches.
- PEPL launched 5.2msf of projects (of which, 3.3msf in Hyderabad) and released two more towers at The Prestige City, Mumbai. Sales volume declined 18% YoY to 4msf; however, blended realizations were up 45% YoY, due to higher MMR mix.
- For FY23, PEPL clocked bookings of INR129b (up 25% YoY), surpassing the company's guidance of INR120b. Sales volumes were flat YoY at 15msf, while realization improved 25% YoY. Bengaluru contributed ~60% of sales, followed by Mumbai (21%) and Hyderabad (14%).
- The company launched 16.5msf of residential projects in FY23 and intends to launch at least the first phase of all the projects in the 76msf pipeline with a saleable area of 21msf and has guided for INR150b of pre-sales in FY24, up 21% YoY.
- **P&L performance:** Revenue increased 10% YoY to INR26b and was 50% above our estimate as the company recognized revenue from 10msf of residential projects delivered in 2HFY23. EBITDA was up 37% YoY to INR6.8b, due to 500bp improvement in margin to 26%. The company recognized a fair value gain of INR2.6b in 'other income' due to revaluation of its stake in Nexus REIT post listing. Thus, Adj. PAT doubled YoY to INR4.6b

Sharp increase in net debt, led by higher investments

- PEPL reported the highest ever residential collections of INR27.6b, up 12% YoY, leading to total collections of INR31b. Post the construction expenses and overheads, it generated a pre-interest operating surplus of INR15b.
- The company allocated a total of INR19b toward capex (INR6b) and land investments (INR13b), leading to a cash shortfall of INR4b. However, net debt increased INR14b QoQ to INR56b, due to partner payout of INR5b, resulting in a D/E of 0.56x.
- In FY23, PEPL collected INR110b and generated an OCF of INR40b. It allocated INR57b toward capex (INR19b) and land investments (INR38b), leading to a short fall of INR17b. Net debt for full year increased by INR22b.
- Over the next five years, the company plans to invest INR156b in ongoing and upcoming office, retail, and hospitality projects. Additionally, the company anticipates the need for investments in land to sustain its residential growth trajectory. Thus, we expect the company to register a cash flow deficit over the next two years and expect its net debt to reach a peak of INR70b.

Rental scale-up on track

- Rental revenue increased 70% YoY to INR1.0b. Exit rentals have increased to INR4b and is expected to reflect in FY24 once Falcon city mall stabilizes.
- Currently, PEPL has 23msf of commercial office projects and 2msf of retail malls under construction. These projects are expected to be delivered in phases by FY26. These assets once delivered are expected to generate a rental income of INR13b.
- Additionally, PEPL has 14msf and 5.5msf of upcoming project pipeline in office and retail segments, respectively, which it aims to fully develop by FY27. Following the buyout of the remaining stake in BKC 101 X and Prestige Liberty towers, Mahalaxmi, the rental run-rate of the company is expected to increase to INR40b by FY27.

Buyout of DB's stake will lead to higher debt, but create long-term value

- PEPL executed an agreement with DB Realty to acquire the remaining 50% stake at BKC 101 X and Prestige Liberty towers, Mahalaxmi, for INR12b. The company has valued the transaction based on rentals of INR300/sqft and a cap rate of 9.5%. The company expects to generate rentals of INR350/sqft.
- The company will now own 100% stake in both these assets and will lead to INR10b of additional rental income (existing arrangement at BKC 101 Y remains intact).
- PEPL is set to bear the total cost of INR70b (INR42b of construction, INR18b of premium, INR3.5b of rehab and INR3b of NOC), of which, INR30b is already paid out. With the majority of the consideration already paid out, we do not expect any significant increase in net debt, as a result of this transaction, in 1QFY24.

Valuation and view

- PEPL has scaled up its residential business remarkably to INR129b in FY23 from INR55b sales in FY21 and the management remains confident of achieving 25% YoY growth in bookings in FY24. Accordingly, we raise our FY24/FY25 pre-sales estimates by 23%/37%.
- While the recent stake increase in key office assets in Mumbai has resulted in an increase in net debt, we believe the enhanced cash flows will support the company in meeting its business development spending and commercial capex requirements without putting strain on the balance sheet.
- Once the commercial portfolio reaches full stabilization over the next five to six years, it is expected to generate a rental income of INR40b. However, this potential income is not fully reflected in the current valuation.
- **We reiterate our BUY rating on the stock with an unchanged TP of INR675, implying an upside potential of 40%.**

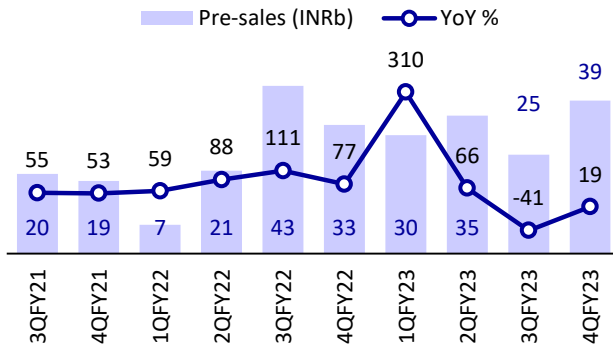
Quarterly Performance (INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23E	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%/bp)
Net Sales	13,620	12,997	13,275	24,003	19,385	14,277	23,170	26,318	63,895	83,150	17,585	50
YoY Change (%)	6.9	-30.7	-28.2	5.8	42.3	9.8	74.5	9.6	-12.0	30.1	-26.7	
Total Expenditure	10,595	9,328	9,629	19,008	14,768	10,591	17,428	19,500	48,560	62,287	13,481	
EBITDA	3,025	3,669	3,646	4,995	4,617	3,686	5,742	6,818	15,335	20,863	4,104	66
Margins (%)	22.2	28.2	27.5	20.8	23.8	25.8	24.8	25.9	24.0	25.1	23.3	
Depreciation	1,130	1,145	1,130	1,305	1,468	1,626	1,698	1,679	4,710	6,471	1,577	
Interest	1,028	1,495	1,291	1,739	1,847	1,863	2,009	2,347	5,553	8,066	1,802	
Other Income	560	455	199	893	733	470	305	3,062	2,107	4,570	352	
PBT before EO expense	1,427	1,484	1,424	2,844	2,035	667	2,340	5,854	7,179	10,896	1,077	443
Extra-Ord expense	0	0	0	8,079	1,497	1,463	0	119	8,079	3,079	0	
PBT	1,427	1,484	1,424	10,923	3,532	2,130	2,340	5,973	15,258	13,975	1,077	454
Tax	466	494	458	1,527	996	625	704	1,150	2,945	3,475	263	
Rate (%)	32.7	33.3	32.2	14.0	28.2	29.3	30.1	19.3	19.3	24.9	24.4	
Minority Interest & Profit/Loss of Asso. Cos.	503	207	100	1	487	98	358	139	813	1,250	191	
Reported PAT	458	783	866	9,395	2,049	1,407	1,278	4,684	11,500	9,250	624	
Adj PAT	458	783	866	2,445	974	373	1,278	4,588	4,552	7,213	624	
YoY Change (%)	2,762.5	31.4	47.5	28.6	112.7	-52.3	47.6	87.6	29.8	58.5	-74.5	
Margins (%)	3.4	6.0	6.5	10.2	5.0	2.6	5.5	17.4	7.1	8.7	3.5	
Key metrics												
Sale Volume (msf)	1.1	3.6	5.6	4.9	3.6	4.6	2.9	4.0	15.1	15.1	3	26
Sale Value (INRb)	7	21	43	33	30.1	35.1	25.2	38.9	103.8	129.3	30	31
Realization (INR/sft)	6,672	5,932	7,648	6,740	8,298	7,716	9,371	9,722	6,880	8,569	9,355	4

Source: Company, MOFSL

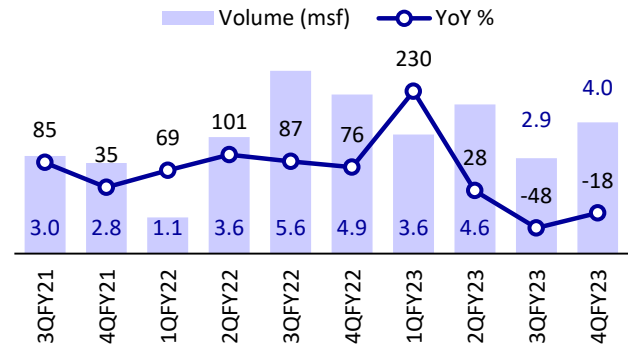
Key exhibits

Exhibit 1: PEPL reported sales of INR39b, up 19% YoY...



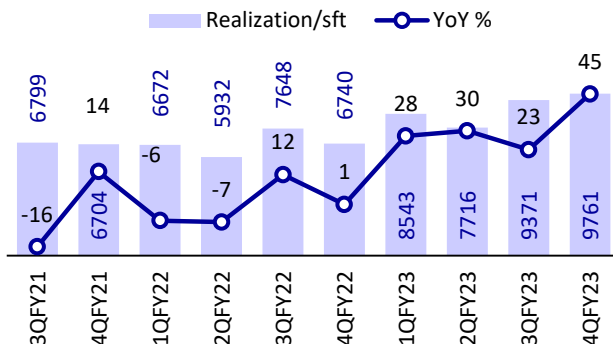
Source: Company, MOFSL

Exhibit 2: ...and volumes fell 18% YoY in the same period



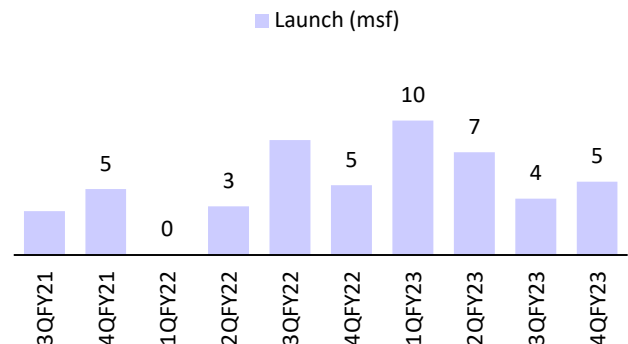
Source: Company, MOFSL

Exhibit 3: Realizations improved 45% YoY, driven by higher sales from Mumbai projects



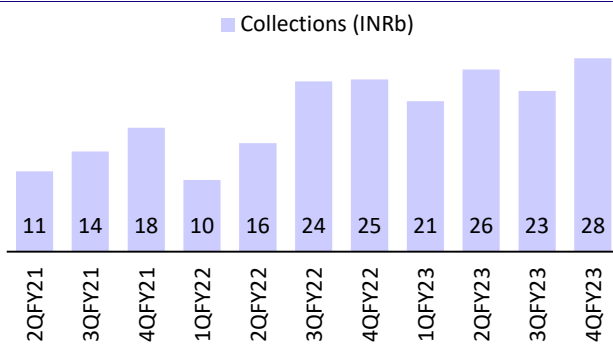
Source: MOFSL, Company

Exhibit 4: Company launched four new projects in 4QFY23



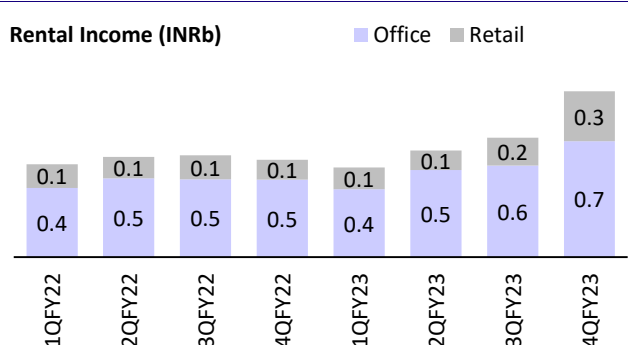
Source: MOFSL, Company

Exhibit 5: Collections declined 12% YoY to INR23b



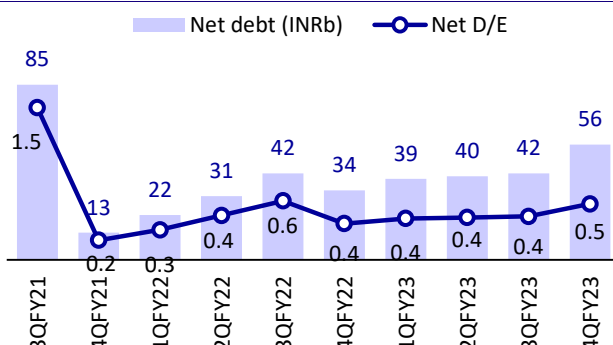
Source: Company, MOFSL

Exhibit 6: Rental income from annuity assets improved 70% YoY to INR1b



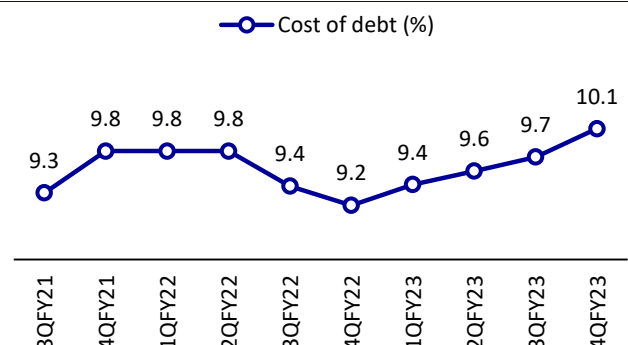
Source: Company, MOFSL

Exhibit 7: Net debt increased to INR56b



Source: MOFSL, Company

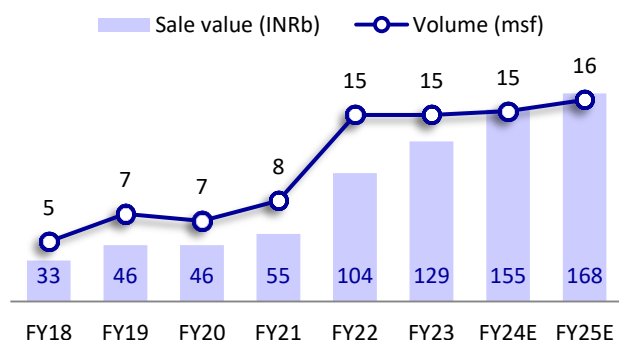
Exhibit 8: Cost of debt stood at 10%



Source: MOFSL, Company

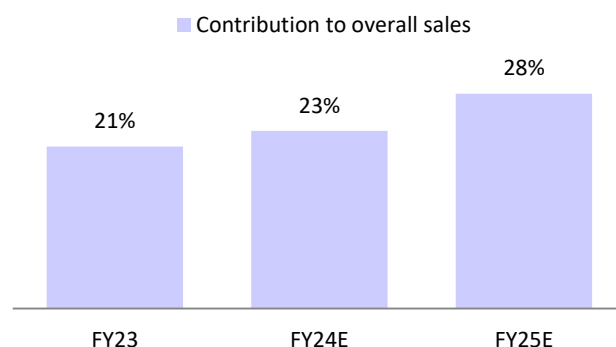
Story in charts

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



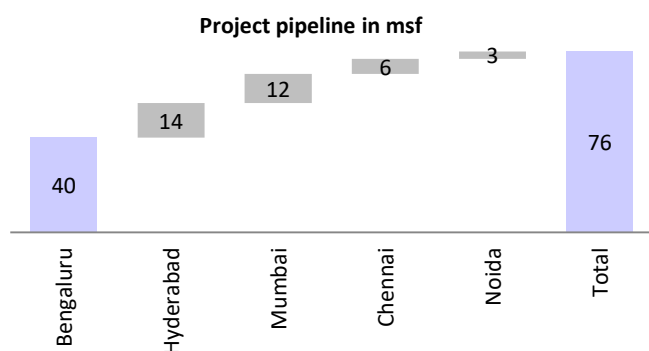
Source: Company, MOFSL

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



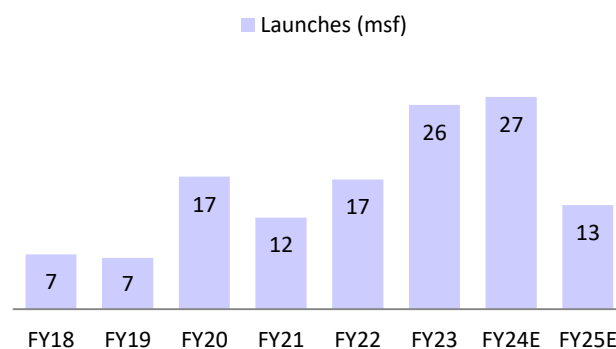
Source: Company, MOFSL

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



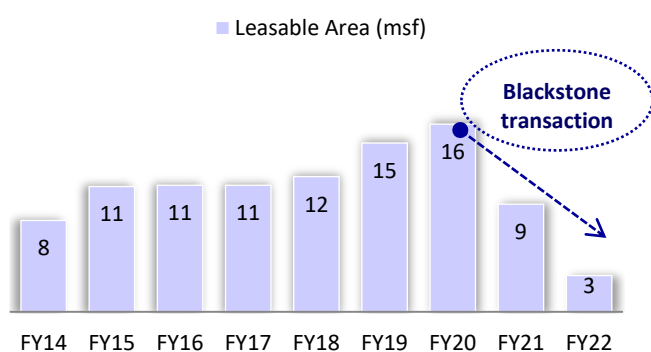
Source: MOFSL, Company

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



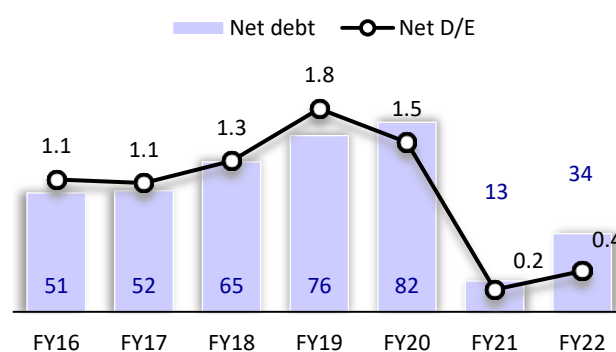
Source: MOFSL, Company

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

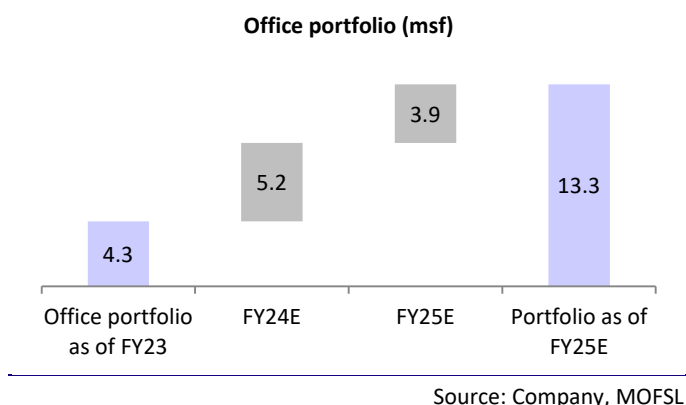
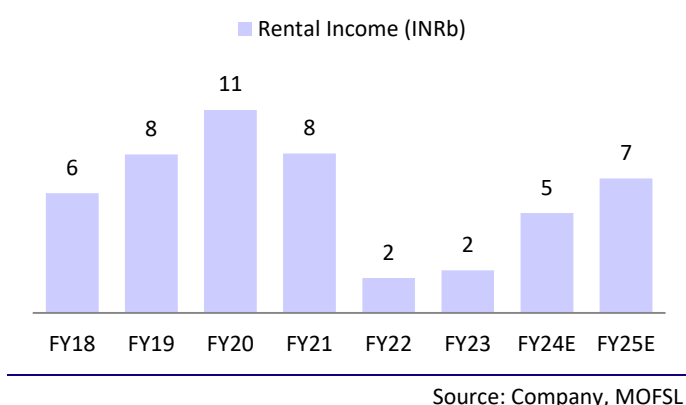
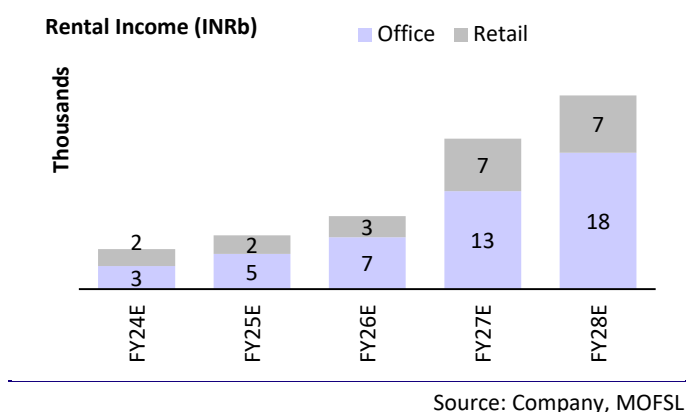
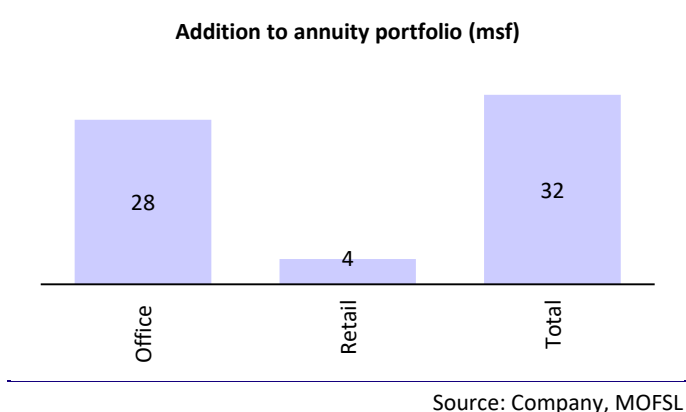


Source: Company, MOFSL

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	82	88	82	88	0%	0%
EBITDA	22	24	22	24	-2%	0%
Adj. PAT	5	6	5	5	-1%	-16%
Pre-sales	126	123	155	168	23%	37%
Collections (PEPL share)	90	100	99	118	10%	18%

Source:

Valuation and view

■ We value PEPL using the DCF approach where:

- Its Residential business is valued using DCF at a WACC of 12.5% and assuming a nil terminal growth rate
- Its operational Commercial assets are valued at a cap rate of 8.75% on FY23E 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 INR345b. Netting-off FY25E net debt of INR74b, we derive a NAV of INR271b, or INR675/share, indicating an upside of 40%.

Exhibit 20: Our SoTP-based approach denotes 40% upside potential; reiterate BUY

NAV calculation	Rationale	INR b	per share (INR)	%
Residential	❖ DCF of five year cash flow at a WACC of 12% and nil terminal growth	179	446	66%
Office – Operational	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	18	45	7%
Office – Ongoing and Upcoming	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	64	159	24%
Retail Malls	❖ Cap rate of 8.75% for operational assets and DCF for ongoing and planned assets	36	91	13%
Hospitality	❖ FY24E EBITDA at 17.5x EV/EBITDA	40	101	15%
Property Management Services	❖ FY24E EBITDA at 10x EV/EBITDA	8	20	3%
Gross Asset Value		345	861	128%
Less: Net debt	❖ FY25E	(74)	(186)	(28%)
Net Asset Value		271	675	100%
CMP			484	
Upside			40%	

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	81,919	87,728
Change (%)	15.2	-5.9	57.1	-10.6	-12.0	30.1	-1.5	7.1
Construction Cost	35,751	28,599	47,911	44,753	38,904	47,244	47,923	50,444
Employees Cost	2,958	3,986	4,206	4,206	4,510	6,034	5,782	6,192
Other Expenses	3,507	4,596	5,571	3,963	5,146	9,009	6,598	7,065
Total Expenditure	42,216	37,181	57,688	52,922	48,560	62,287	60,302	63,701
% of Sales	76.8	71.9	71.0	72.9	76.0	74.9	73.6	72.6
EBITDA	12,770	14,538	23,560	19,722	15,335	20,863	21,617	24,027
Margin (%)	23.2	28.1	29.0	27.1	24.0	25.1	26.4	27.4
Depreciation	1,547	3,229	6,667	5,926	4,710	6,471	7,221	8,947
EBIT	11,223	11,309	16,893	13,796	10,625	14,392	14,396	15,080
Int. and Finance Charges	5,657	7,228	10,233	9,899	5,553	8,066	8,771	9,421
Other Income	679	1,122	1,185	2,374	2,107	4,570	2,701	2,893
PBT bef. EO Exp.	6,245	5,203	7,845	6,271	7,179	10,896	8,326	8,552
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	8,326	8,552
Total Tax	2,135	1,985	2,783	5,198	2,945	3,475	2,082	2,138
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	4,932	5,036
Adjusted PAT	4,246	3,816	5,235	4,466	5,628	7,213	4,932	5,036
Change (%)	13.4	-10.1	37.2	-14.7	26.0	58.5	-31.6	2.1
Margin (%)	7.7	7.4	6.4	6.1	8.8	8.7	6.0	5.7

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	1,00,676	1,05,712
Net Worth	47,327	42,266	53,602	66,753	90,946	99,753	1,04,685	1,09,721
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	94,208	94,208
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	2,04,843	2,09,879
Gross Block	52,917	73,269	1,01,117	50,188	75,671	91,370	1,24,179	1,51,100
Less: Accum. Deprn.	4,638	9,014	16,428	12,918	17,628	24,099	31,320	40,266
Net Fixed Assets	48,279	64,255	84,689	37,270	58,043	67,271	92,859	1,10,833
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	18,417	15,870
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	2,45,758	2,51,340
Inventory	57,127	1,31,501	1,13,750	95,805	1,15,667	1,43,671	1,48,691	1,57,072
Account Receivables	9,645	16,544	14,765	13,740	14,196	13,286	15,494	15,623
Cash and Bank Balance	7,385	7,123	9,508	24,012	21,712	18,146	9,485	6,708
Loans and Advances	34,784	40,256	40,513	59,360	69,319	88,706	72,089	71,937
Curr. Liability & Prov.	68,577	1,58,837	1,52,606	1,57,438	1,41,111	1,78,918	1,66,098	1,82,071
Account Payables	13,542	12,530	12,249	10,820	9,800	14,514	13,217	13,962
Other Current Liabilities	53,517	1,43,608	1,35,265	1,41,805	1,23,211	1,59,270	1,47,454	1,62,297
Provisions	1,518	2,699	5,092	4,813	8,100	5,134	5,428	5,812
Net Current Assets	40,364	36,587	25,930	35,479	79,783	84,891	82,805	72,414
Appl. of Funds	1,21,139	1,28,145	1,45,110	1,09,751	1,63,330	1,86,911	2,04,843	2,09,879

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	13.2	13.4
Cash EPS	15.4	18.8	31.7	27.7	27.6	36.5	32.4	37.3
BV/Share	126.2	112.7	142.9	178.0	242.5	266.0	279.2	292.6
DPS	0.7	0.8	0.7	2.6	0.0	0.0	0.0	0.0
Payout (%)	7.7	8.2	6.4	8.2	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	40.5	45.1	32.9	38.5	30.6	25.1	36.7	36.0
Cash P/E	29.7	24.4	14.5	16.6	16.6	13.2	14.9	13.0
P/BV	3.6	4.1	3.2	2.6	1.9	1.8	1.7	1.7
EV/Sales	4.3	4.8	3.2	2.7	3.6	3.1	3.4	3.2
EV/EBITDA	18.3	17.0	11.1	9.9	14.8	12.3	12.9	11.7
Dividend Yield (%)	0.2	0.2	0.2	0.6	0.0	0.0	0.0	0.0
FCF per share	-9.9	11.6	-2.8	27.3	-3.3	-2.8	-27.8	12.8
Return Ratios (%)								
RoE	9.3	8.5	10.9	7.4	7.1	7.6	4.8	4.7
RoCE	7.1	7.0	9.1	10.0	7.9	8.5	6.8	6.7
RoIC	8.6	8.4	11.0	13.3	10.3	8.6	7.2	6.6
Working Capital Ratios								
Fixed Asset Turnover (x)	1.0	0.7	0.8	1.4	0.8	0.9	0.7	0.6
Asset Turnover (x)	0.5	0.4	0.6	0.7	0.4	0.4	0.4	0.4
Inventory (Days)	379	928	511	481	661	631	663	654
Debtor (Days)	64	117	66	69	81	58	69	65
Creditor (Days)	90	88	55	54	56	64	59	58
Leverage Ratio (x)								
Current Ratio	1.6	1.2	1.2	1.2	1.6	1.5	1.5	1.4
Interest Cover Ratio	2.0	1.6	1.7	1.4	1.9	1.8	1.6	1.6
Net Debt/Equity	1.2	1.6	1.3	0.0	0.4	0.6	0.7	0.7

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	8,326	8,552
Depreciation	1,547	3,229	6,667	5,926	4,710	6,471	7,221	8,947
Interest & Finance Charges	4,978	6,106	9,048	9,899	5,553	8,066	6,069	6,528
Direct Taxes Paid	-2,135	-1,985	-2,783	-2,074	-2,361	-3,288	-2,082	-2,138
(Inc)/Dec in WC	8,152	3,515	13,042	545	8,141	-2,418	-3,430	7,615
CF from Operations	18,787	16,068	33,819	35,015	31,136	22,974	16,105	29,503
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	16,105	29,503
(Inc)/Dec in FA	-22,502	-11,721	-34,927	-7,591	-22,704	-16,502	-27,239	-24,374
Free Cash Flow	-3,714	4,347	-1,108	10,929	-1,305	-1,107	-11,134	5,129
(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	2,701	2,893
CF from Investments	-23,631	-14,037	-33,851	4,911	-40,454	-27,561	-24,538	-21,481
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	13,000	0
Interest Paid	-5,657	-7,228	-10,233	-9,847	-5,341	-7,412	-8,771	-9,421
Dividend Paid	-326	-365	-354	0	0	0	0	0
Others	-533	-263	-1,455	-1,415	-33	-4,160	-1,313	-1,378
CF from Fin. Activity	3,002	5,174	-7,622	-6,450	15,984	5,455	2,917	-10,799
Inc/Dec of Cash	-1,842	7,205	-7,654	16,981	-3,071	-6,711	-5,516	-2,777
Opening Balance	15,935	14,094	21,299	7,031	24,012	21,712	15,001	9,485
Closing Balance	14,094	21,299	13,646	24,012	20,941	15,001	9,485	6,708

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NOTES

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BUY	>=15%
SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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