

Prestige Estates Projects

26 June 2020

Reuters: PREG.NS; Bloomberg: PEPL IN

Consistent growth in annuity portfolio

Prestige Estates Projects' (PEPL) profit declined by 89% YoY to Rs154mn despite EBITDA growth of 2.4% YoY. Revenue remained flat on YoY basis at Rs19,823mn. Decline in profit is mainly due to rise in interest expenses by 30% YoY. Although a part of rise in interest expenses is attributable to implementation of IndAS 116, even on a pre IndAS 116 basis the profit declined by 54% YoY.

The net debt-to-equity ratio improved to 1.46x in 4QFY20 from 1.75x in 4QFY19. The improvement in the ratio is primarily attributable to issue of equity of Rs8,995mn during the quarter through QIP and private placements. Net debt rose from Rs75,817mn in 4QFY19 to Rs81,743mn in 4QFY20.

We have maintained Buy rating on the stock with a revised target price (TP) of Rs254 (earlier Rs259), which is at a discount of 30% to NAV (earlier 40%). We are of the opinion that the commercial segment in India has seen its peak and hence we have increased the capitalization rate from 8% earlier to 9%. The rationale for reducing the discount to 30% (earlier 40%) is that part of our concerns has been addressed by the increase in capitalization rates.

Revenue remain flat but EBITDA margin rises: Revenue for the quarter stood at Rs19,823mn, flat on YoY basis. In 4QFY20, EBITDA at Rs4,996mn increased by 2.4% YoY. EBITDA margin expanded by 55bps YoY to 25.2%. The rise in EBITDA margin on YoY basis is attributable to lower cost of goods sold (down by 7% YoY), which is due to the following factors: (a) The land cost declined by 81% YoY from Rs2,970mn in 4QFY19 to Rs555mn in 4QFY20 (b) Contractor cost declined by 22% YoY.

Sales realizations improve YoY despite decline in pre sales volume and value: In 4QFY20, sales volume and sales value declined by 16% YoY and 12% YoY, respectively to 2.05mn sqft and Rs12,085mn, respectively. But, average sales realization rose to Rs5,895/sqft, up 4% YoY in 4QFY20 from Rs5,649/sqft in 4QFY19.

Net debt-to-equity ratio remains high despite decline: Net debt-to-equity ratio improved to 1.46x in 4QFY20 from 1.75x in 4QFY19. The improvement in the ratio is primarily attributable to issue of equity of Rs8,995mn during the quarter through QIP and private placements. Net debt rose from Rs75,817mn in 4QFY19 to Rs81,743mn in 4QFY20.

Qualified audit opinion in respect of measurement of equity component of preference shares issued by jointly controlled instrument: Auditors S. R. Batliboi & Associates LLP have issued a qualified opinion regarding measurement of Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) and Compulsory Convertible Preference Shares (CCPS) issued by one of the jointly controlled entities included as equity. They are measured at issued price instead of measurement of the same at fair value as financial liability in accordance with IndAS 32 "Financial Instrument: Presentation" and IndAS 109 "Financial Instruments".

Explanation by the management:

- The latest date of redemption/conversion (as applicable) of the ROCCPS and CCPS was 26th March, 2012 and 30th January, 2012, respectively. These shares are financial liabilities of the company as the tenure of these shares has expired.
- In case of ROCCPS, the company does not have any right to avoid the obligation for redemption and there is no fixed ratio for conversion of ROCCPS to equity shares. In case of CCPS, there is no fixed ratio for conversion to equity shares.
- Redemption/conversion (as applicable) in relation to the said shares has not been made pending settlement in the matter with the respective shareholders.
- Based on the above, the said shares are financial liability of the jointly controlled entity. However, the jointly controlled entity has not considered these shares as financial liability, considering the following aspect:
- There is a pending dispute in NCLT between the shareholder and also certain other disputes among the shareholders and the jointly controlled entity.
- Considering this, the jointly controlled entity is not able to ascertain the liability against these shares and will continue to disclose the same as equity.
- In view of the above, the accounting implications arising due to conversion/redemption (as applicable) would be carried out in the year of settlement between the respective shareholders in relation to the amounts reported under the heads Paid up Share Capital and Securities Premium.

Y/E March (Rsmn)	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY(%)	4QFY20E	Var(%)
Net sales	19,823	26,809	(26.1)	19,793	0.2	21,992	(9.9)
Cost of goods	(10,063)	(16,664)	(39.6)	(10,778)	(6.6)	(13,195)	(23.7)
Employee benefits expenses	(1,252)	(1,239)	1.0	(1,068)	17.2	(1,264)	(0.9)
Other expenses	(3,512)	(1,718)	104.4	(3,068)	14.5	(3,221)	9.0
EBITDA	4,996	7,188	(30.5)	4,879	2.4	4,312	15.9
EBITDAM (%)	25.2%	26.8%	-	24.7%	-	19.6%	-
Depreciation and amortisation	(1,771)	(1,655)	7.0	(1,018)	74.0	(1,672)	5.9
EBIT	3,225	5,533	(41.7)	3,861	(16.5)	2,640	22.2
EBITM (%)	16.3%	20.6%	-	19.5%	-	12.0%	-
Other income	346	154	124.7	150	130.7	154	124.7
Interest expenses	(2,584)	(2,602)	(0.7)	(1,983)	30.3	(2,628)	(1.7)
Profit before tax	987	3,085	(68.0)	2,028	(51.3)	166	494.4
Tax expense	(392)	(952)	(58.8)	(684)	(42.7)	(50)	688.8
Effective tax rate (%)	40%	31%	-	34%	-	30%	-
PAT	595	2,133	(72.1)	1,344	(55.7)	116	411.4
Minority interest	(357)	(546)	(34.6)	(28)	(1,375.0)	-	-
Share of profit from associates	(84)	31	(371.0)	75	(212.0)	31	(367.6)
Adjusted net profit	154	1,618	(90.5)	1,391	(88.9)	148	4.2
NPM (%)	3.0%	8.0%	-	7.0%	-	0.7%	-

Source: Company, Nirmal Bang Institutional Equities Research

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BUY

Sector: Real Estate

CMP: Rs221

Target Price: Rs254

Upside: 15%

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Key Data

Current Shares O/S (mn)	400.9
Mkt Cap (Rsbn/US\$bn)	88.6/1.2
52 Wk H / L (Rs)	426/134
Daily Vol. (3M NSE Avg.)	839,298

Price Performance (%)

	1 M	6 M	1 Yr
Prestige Estates	58.5	(36.3)	(16.9)
Nifty Index	13.8	(15.8)	(12.8)

Source: Bloomberg

Impact of COVID-19: The management on the conference call gave a brief view about the impact of COVID-19 on different business verticals of the company. The summary of the same is as follows:

Commercial Segment: As per the management, the existing business of the commercial segment was not affected to a great extent and the company was able to realize 98% of the collections. However, in case of new leases where the tenant has not occupied the space yet, request was received by the company in certain cases to push back the rental start dates. The company was able to lease 50% of the newly delivered project Prestige Star Tech, Bengaluru (1.79mn sq. ft.) to Accenture at ~Rs90/sq. ft.

Retail Segment: The management mentioned that this segment was the worst hit along with the hospitality segment. The company has granted waiver of rentals to the tenants for the period from the beginning of lockdown till the time lockdown was lifted in various states. Revenue for that period has been lost.

Currently, the retail assets are operating at 30%-40% levels of footfalls and trading density compared to the same period last year. Except cinema halls and gaming zones rest of the tenants have begun operations at the retail assets.

Hospitality Segment: The company was able to reduce the hospitality fixed costs to 20% levels during the lockdown by reducing expenses on account of the contractual employees. Revenue for the period of lockdown has been lost. But, the company has not laid off any employees on payroll.

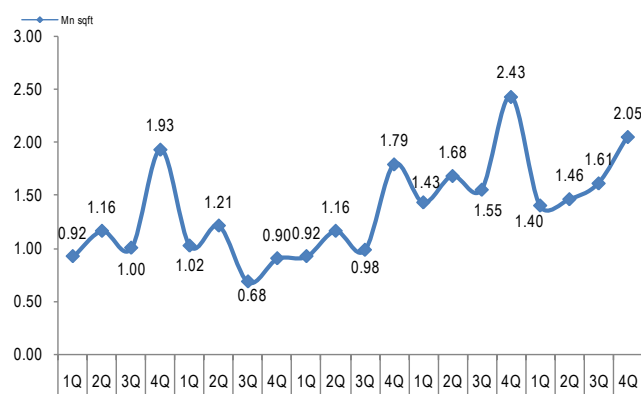
Changes in estimates: We have changed our estimates for FY21 and FY22. For the commercial segment, we have assumed the current exit rentals for FY21 and 0% growth rate in rentals for FY22. For the retail segment, we have assumed 75% of the exit rentals in FY21 and 100% of exit rentals in FY22. Post FY22, we expect normalcy to continue and hence we have assumed a growth rate of 5% YoY in rentals of commercial and retail segments post FY22.

We are of the opinion that the commercial segment in India has seen its peak and hence we have increased the capitalization rate from 8% earlier to 9%.

We have also reduced the discount to NAV for PEPL from 40% earlier to 30% because part of our concern has been addressed by the increase in capitalization rates. (Refer Exhibit 5).

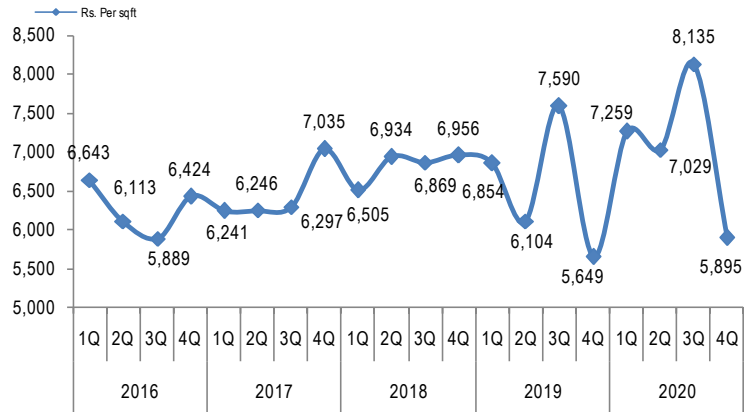
Maintain Buy rating with revised TP of Rs254 (earlier Rs259): We have valued PEPL at a 30% discount (earlier 40%) to Sep FY22E NAV. The rationale behind our optimism for reducing the discount to 30% is that part of our concern has been addressed by the increase in capitalization rates. Also, owing to the signs of peak in the commercial real estate segment, we have increased the capitalization rate to 9% (earlier 8%). We remain optimistic on PEPL considering its attractive valuation, which is supported by a strong portfolio of operational rental assets, thereby reducing the risks associated with residential segment, and a planned increase in commercial and retail properties over the next five to seven years.

Exhibit 1: New sales volume



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Average realisation per sqft



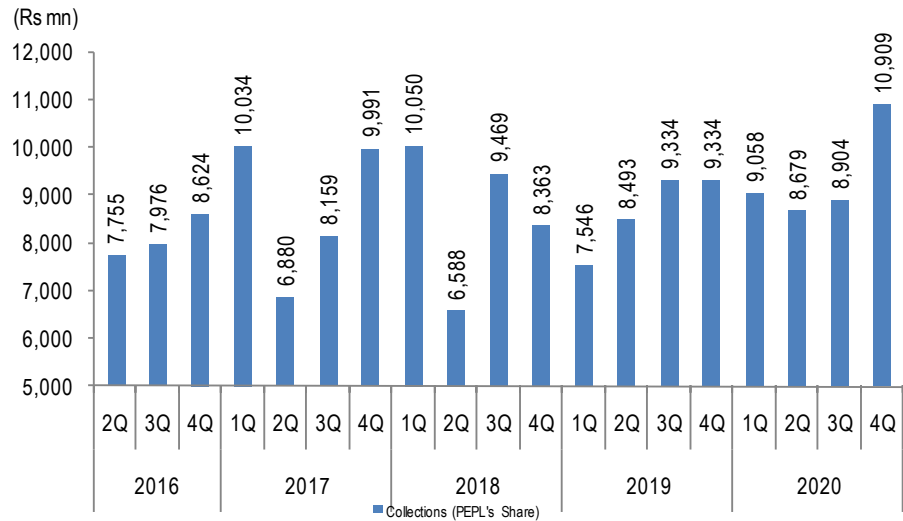
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Net Debt to Equity



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: PEPL's Share of Collections



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Changes in assumptions

Particulars	Earlier estimate	Revised estimate
Capitalization Rate	8.0%	9.0%
Discount to NAV	40.0%	30.0%
Average rental rates (Rs/sq. ft./ month)	FY21E	FY22E
Commercial		
Revised	63	63
Existing	63	66
Retail		
Revised	72	95
Existing	95	111

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Issue of equity during the quarter:

Issue type	Number of shares (in mn)	Issue price (Rs)	Issue size (Rs mn)
Preferential allotment	13.4	325.00	4,369
QIP	12.4	372.50	4,626
Total	25.9		8,995

Source: Company

Consolidated financials

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	54,986	51,719	81,248	86,066	90,412
Growth YoY (%)	15.2%	-5.9%	57.1%	5.9%	5.0%
COGS	38,582	21,873	41,727	43,382	44,373
Operating costs	5,464	15,308	15,961	16,908	17,761
EBITDA	10,940	14,538	23,560	25,777	28,277
EBITDA growth (%)	18.9%	32.9%	62.1%	9.4%	9.7%
EBITDA margin (%)	19.9%	28.1%	29.0%	29.9%	31.3%
Depreciation	1,547	3,229	6,667	6,216	6,358
EBIT	9,529	11,616	16,937	19,608	21,972
EBIT (%)	17.3%	22.5%	20.8%	22.8%	24.3%
Net interest expenses	3,321	6,496	10,233	12,909	13,261
Other income	173	390	1,185	512	512
Exceptional Items	-	894	380	-	-
Earnings before tax	6,381	6,404	8,269	7,211	9,223
Tax- total	2,135	1,985	2,783	1,815	2,321
Rate of tax (%)	33.5%	31.0%	33.7%	25.2%	25.2%
Net profit	4,246	4,419	5,486	5,396	6,902
Less: Minority interest	(533)	(273)	(1,455)	(1,455)	(1,455)
Adjusted net profit	3,713	4,146	4,031	3,941	5,447
EPS Fully Diluted	9.9	11.1	10.1	9.8	13.6
EPS Growth (%)	40%	12%	-9%	-2%	38%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	3,750	3,750	4,009	4,009	4,009
Reserves and surplus	43,577	38,516	49,593	52,976	58,422
Net worth	47,327	42,266	53,602	56,984	62,431
Loans	75,857	86,382	96,094	121,225	124,528
Minority interest	2,300	1,120	2,284	2,284	2,284
Provisions	161	231	337	354	372
Deferred tax liability	2,434	2,651	2,955	3,103	3,258
Total capital employed	128,079	132,650	155,272	183,950	192,873
Net fixed assets	73,257	80,589	106,120	113,186	122,307
Investments	4,235	7,779	7,888	8,677	9,544
Loans and advances	9,104	9,043	12,051	12,654	13,286
Other non-current assets	8,930	9,068	10,174	10,683	11,217
Goodwill	3,069	3,069	5,167	5,167	5,167
Total non-current assets	98,595	109,548	141,400	150,366	161,522
Trade payables	13,542	12,530	12,249	21,153	21,636
Other liabilities	46,738	139,334	125,440	131,712	138,298
Provisions (current)	1,357	2,468	4,755	4,993	5,242
Total current liabilities	61,637	154,332	142,444	157,858	165,176
Inventories	57,127	131,501	113,750	148,570	151,963
Loans and advances	7,067	7,239	5,170	5,466	6,007
Trade receivables	9,645	16,544	14,765	18,864	19,816
Cash and bank balance	7,385	7,123	9,508	2,574	2,251
Others	9,206	8,653	7,483	10,328	10,849
Deferred & current tax assets (net)	691	6,374	5,640	5,640	5,640
Total current assets	91,121	177,434	156,316	191,442	196,527
Net current assets	29,484	23,102	13,872	33,584	31,351
Total capital employed	128,079	132,650	155,272	183,950	192,873

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profit after tax	3,713	4,146	4,031	3,941	5,447
Depreciation	1,547	3,229	6,667	6,216	6,358
Finance costs	3,321	6,496	10,233	12,909	13,261
Other income	(173)	(390)	(1,185)	(512)	(512)
Working capital changes	2,783	11,726	6,767	(27,757)	744
Operating cash flow	11,179	24,475	26,513	(5,202)	25,298
Capital expenditure	(23,698)	(10,561)	(32,198)	(17,063)	(15,480)
Net cash after capex	(12,519)	13,914	(5,685)	(22,265)	9,817
Others	(281)	(2,812)	(2,207)	(789)	(868)
Proceeds/repayment of borrowings	18,463	10,525	9,712	25,131	3,304
Finance costs	(3,827)	(6,496)	(10,233)	(12,909)	(13,261)
Dividend & dividend distribution tax	(542)	(541)	(543)	(559)	(550)
Changes in equity	-	-	8,995	-	-
Cash flow from financing	16,321	(11,364)	10,277	16,120	(9,273)
Total cash generation	3,521	(262)	2,385	(6,934)	(323)
Opening cash balance	3,864	7,385	7,123	9,508	2,574
Closing cash & bank balance	7,385	7,123	9,508	2,574	2,251

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

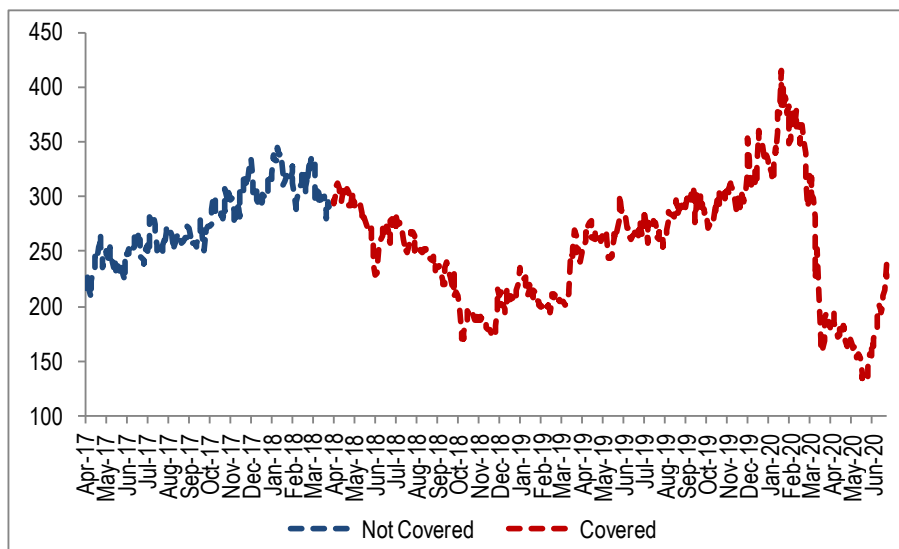
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profitability and return ratios					
EBITDA margin (%)	19.9	28.1	29.0	29.9	31.3
EBIT margin (%)	17.3	22.5	20.8	22.8	24.3
Net profit margin (%)	6.8	8.0	5.0	4.6	6.0
RoE (%)	9.0	10.5	10.2	9.5	11.1
RoCE (%)	8.2	9.6	12.1	11.2	11.9
Working capital & liquidity ratios					
Receivables (days)	64	117	66	80	80
Inventory (days)	540	2,194	995	1,250	1,250
Payables (days)	128	124	178	178	178
Current ratio (x)	1.5	1.1	1.1	1.21	1.19
Valuation ratios					
EV/sales (x)	2.8	3.1	2.2	2.4	2.3
EV/EBITDA (x)	13.8	11.2	7.4	8.0	7.5
P/E (x)	22.3	20.0	22.0	22.5	16.3
P/BV (x)	1.8	2.0	1.7	1.6	1.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
28 March 2018	Buy	290	363
30 May 2018	Buy	264	363
31 July 2018	Buy	264	363
31 October 2018	Buy	194	256
14 February 2019	Buy	198	256
29 May 2019	Buy	285	341
5 August 2019	Buy	260	341
14 November 2019	Buy	300	399
28 January 2020	Buy	389	445
27 March 2020	Buy	196	259
26 June 2020	Buy	221	254

Rating track graph



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