



**INITIATING COVERAGE**

**PRESTIGE ESTATES PROJECTS LIMITED**



## 'RISE OF A FALCON'

**We are initiating coverage on Prestige Estates Ltd. (PEPL) with a BUY recommendation and a target price of Rs 2,195/share, which implies an upside of 35% from the CMP.**

Prestige Group, founded in 1986, stands as one of India's leading and most prominent real estate developers. Originating in Bangalore, where it holds a significant market share, the company has expanded its presence across several metro cities. The group has made a mark across all asset classes and with over 38 years of experience, it has completed more than 300 projects, delivering over 180 Mn sq. ft.

## Investment Thesis

### Diversified Business Model

The real estate business is highly cyclical and susceptible to various geographical risks. Prestige Group has mitigated these risks by diversifying across verticals and geographies. In its residential business, Prestige holds a dominant share in the southern markets, particularly in Bengaluru, and is recognized as a major player in the MMR and NCR regions. The company plans to upscale its presence in the Pune and Hyderabad markets soon. The company is aggressively increasing its annuity portfolio with an overall Capex of Rs ~15,000 Cr, among commercial, retail, and hospitality. This strategy aims to secure cash flow in the future when the real estate cycle might not be favourable. By diversifying its portfolio, Prestige Group has mitigated future risks and is better positioned to emerge strong during challenging times.

### Execution Supremacy

Prestige has recorded its best-ever pre-sales of ~Rs 21,000 Cr and the highest-ever collections of Rs 11,950 Cr in FY24. The company has delivered 25 Mn sq. ft in FY24 with over 300 projects completed. In FY24, it has also managed to achieve 75% of its sales in FY24 from newly launched projects at ~Rs 15,700 Cr, demonstrating its execution capability and excellence in delivering large projects. The Prestige City Hyderabad achieved sales worth Rs 3,700 Cr in 4 months of its launch. On average, the company has sold 10,068 units, which means an average of 28 units per day in FY24. The average realization for these projects was Rs 10,000 per sq.ft., reflecting a CAGR of 11% over the past 5 years. In Q1FY25, it achieved a revenue of Rs 2,924 Cr with a PAT of Rs 307 Cr

### Robust Order Book & Pipeline of Upcoming Projects

Currently, Prestige Estates Projects Ltd (PEPL) has a residential portfolio with 127 Mn sq. ft completed across 150 projects. Its ongoing portfolio consists of 66 Mn sq. ft distributed across 39 projects. These ongoing and completed projects are set to yield ~Rs 12,350 Cr in free cash flow. Upcoming projects include "The Prestige Southern Star" with an 8.50 Mn sq. ft deliverable, "TPC Indirapuram" with a 10.59 Mn sq. ft deliverable, and "Prestige Forest Hills in Mulund" with a 4.30 Mn sq. ft deliverable. The total upcoming projects have 73 Mn sq. ft deliverable, which is almost 65% of completed projects. This upcoming portfolio is set to yield Rs 27,340 Cr in free cash flow. The company's projected launch for FY25 stands at ~Rs 59,000 Cr in revenues. In Q1FY25, the company launched 2 projects in Bengaluru covering ~2 Mn sq. ft. This showcases Prestige's vision to scale and capitalize on the real estate up-cycle.

### Strengthening Annuity Stream

PEPL is on track to incur a Capex of Rs 10,000 Cr for its commercial annuity projects. These projects will start generating around Rs 3,300 Cr in cash flows by FY28. The upcoming commercial portfolio comprises 8 Mn sq. ft across 5 projects. For its retail annuity portfolio, the company plans to spend Rs 1,600 Cr in Capex, which will yield ~Rs 580 Cr in cash flows from FY28. In the hospitality segment, PEPL will reach 4,454 keys with a Capex of Rs 1,900 Cr and anticipates healthy annual revenue of Rs 2,000 Cr. This strong set of annual cash flows will make the company resistant to future risks and help lower its cost of debt. The company aims to maintain a debt-to-equity ratio of 0.9, with the current level at 0.66.

## Valuation & Recommendation

**We initiate coverage on Prestige Estates (PEPL) with a BUY recommendation. Our recommendation is supported by a) Diversified Business Model, b) Execution Supremacy, c) Robust Order book, and d) Strengthening annuity streams. Based on our DCF valuation method, we arrive at a Target Price of Rs 2,195/share, implying an upside of 35% from the current levels.**

### Key Financials (Consolidated)

(Rs Cr)	FY23	FY24	FY25E	FY26E
Net Sales	8,315	7,877	11,765	16,071
EBIDTA	2,086	2,498	2,651	3,435
Net Profit	634	1,374	713	1,205
EPS, Rs	15.8	34.3	17.8	30.1
PER, x	13.3	6.2	11.9	7.0
EV/EBIDTA, x	7.3	7.2	6.1	4.7
P/BV, x	0.8	0.7	0.7	0.6
ROE, %	6.4	12.2	5.7	8.9
Debt/Equity (%)	86.6	108.1	98.2	90.0

Source: Company, Axis Securities Research

CMP as of 05<sup>th</sup> August, 2024

CMP (Rs)	1,631
Upside /Downside (%)	35%
High/Low (Rs)	2,072/543
Market cap (Cr)	72,814
Avg. daily vol. (6m) Shrs.	11,35,557
No. of shares (Cr)	40.1

### Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter Group	65.5	65.5	65.5
FII	19.5	18.1	16.1
MF's/Banks	12.2	11.9	13.5
Others	2.8	4.5	5.0

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7,877	11,765	16,071
EBIDTA	2,498	2,651	3,435
Net Profit	1,374	713	1,205
EPS, Rs	34.3	17.8	30.1
PER, x	6.2	11.9	7.0
EV/EBIDTA, x	7.2	6.1	4.7
P/BV, x	0.7	0.7	0.6
ROE, %	12.2	5.7	8.9

### Key Drivers (%) (Growth in %)

Y/E Mar	FY25E	FY26E
Net Sales	47.9%	36.6%
EBITDA	4%	30%
Net Profit	-51%	71%

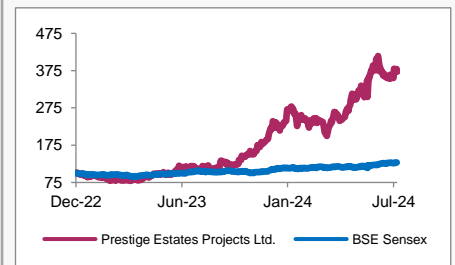
### ESG disclosure Score\*\*

Environmental Disclosure	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
<b>Total ESG Disclosure Score</b>	N/A
<b>Sector Average</b>	41.6

Source: LSEG Workspace: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, The Sector average is for NSE500 companies

### Relative performance



Source: Ace Equity, Axis Securities Research

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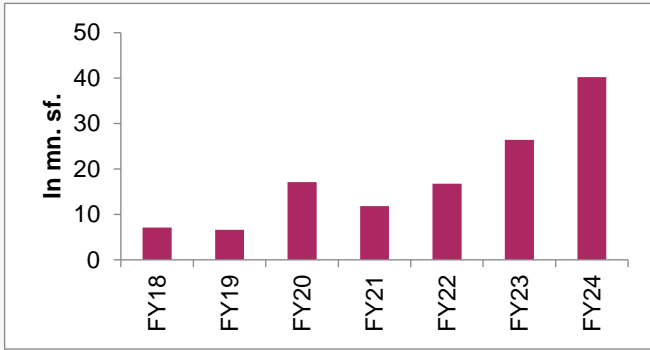
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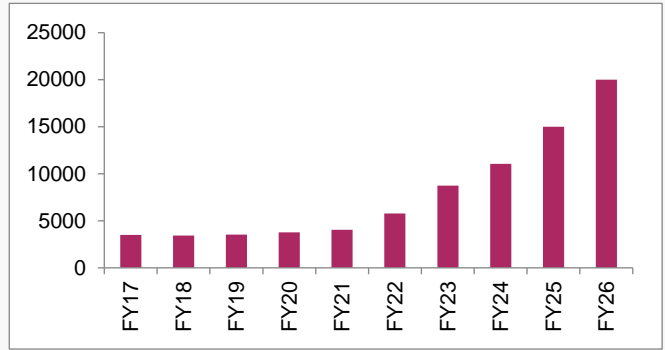
## Financial Story in Charts

**Exhibit 1: Improving launch trends**

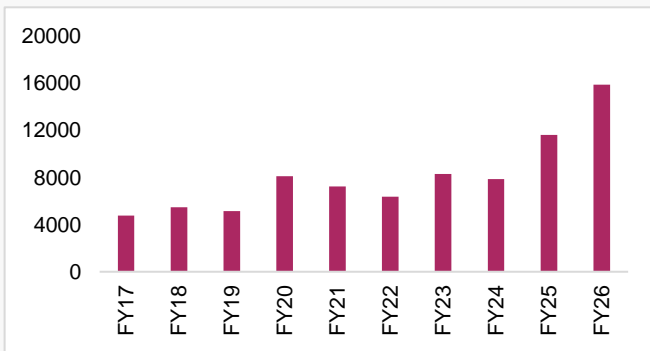


Source: Company, Axis Securities Research

**Exhibit 2: Improving collections summary (Rs Cr)**

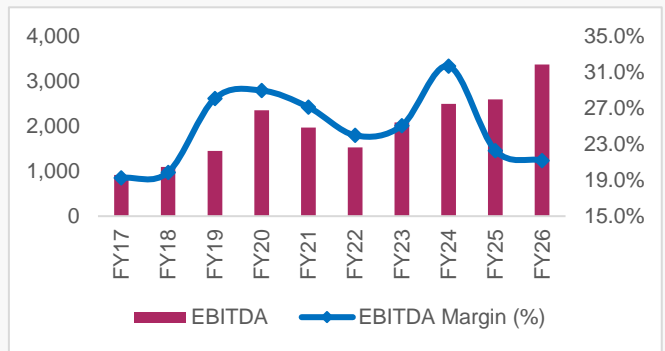


**Exhibit 3: Robust order book leading to better sales performance**

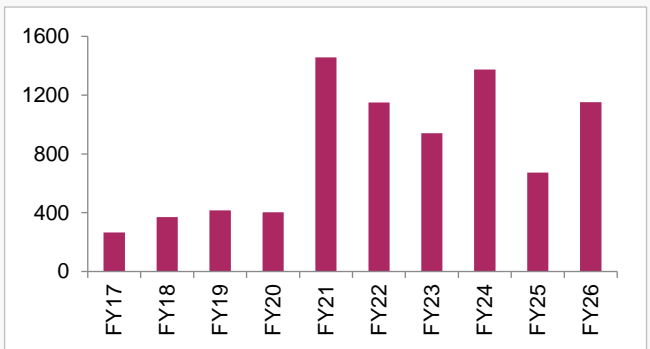


Source: Company, Axis Securities Research

**Exhibit 4: EBITDA margins to remain fairly stable**

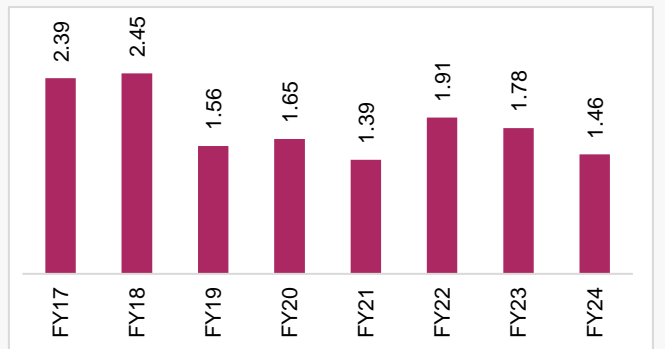


**Exhibit 5: Robust order book driving healthy Net Profit (Rs Cr)**

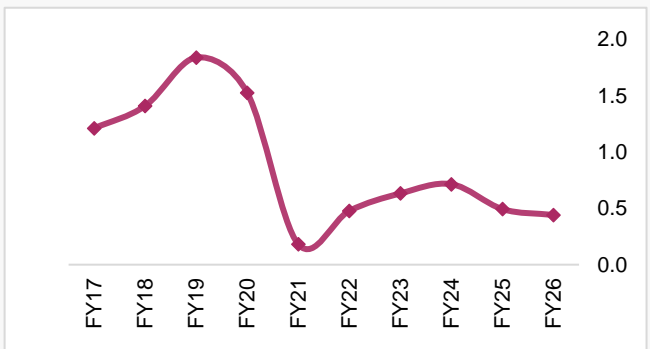


Source: Company, Axis Securities research

**Exhibit 6: Healthy collections leading to steady Interest Coverage**

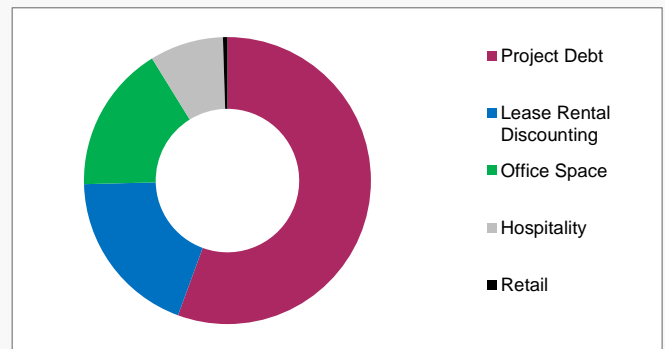


**Exhibit 7: Focus on maintain a low Debt to Equity ratio (X)**



Source: Company, Axis Securities Research

**Exhibit 8: Debt Profile as on 30<sup>th</sup> June,24**



## Company Overview

Prestige Estates (PEPL) is a leading developer based in Bengaluru. Established in 1986, the group has pioneered many landmark developments. PEPL boasts a diversified portfolio that includes residential projects (villas, apartments, townships, plotted developments), commercial projects (corporate offices, IT parks, SEZs), retail businesses (shopping malls, multiplexes, luxury retail), and hospitality ventures (hotels, service apartments, and resorts).

*PEPL has completed 300 projects in FY24.*





*TPC Hyderabad achieved overall sales of Rs 3,797 Cr in a span of 4 months.*

## Company Structure

PEPL has established its leading position in the southern Indian markets over the years. It is now exploring other regions across the country, targeting cities like Delhi, Mumbai, Goa, and Chennai. This expansion will enable the company to reduce its concentration risk. Additionally, PEPL is building its annuity stream of income in the commercial, retail, and hospitality segments, further reducing risk and shielding the company from the inherent cyclicity of the real estate sector.

For further value creation, Prestige has sold entire or partial stakes in various projects to Blackstone in FY21/22, leading to declining debt levels and freeing up capital for future projects. This transaction, worth Rs 9,100Cr, including Phase 1 assets worth Rs 7,467Cr.

### Exhibit 9: PEPL's Scope of Operations

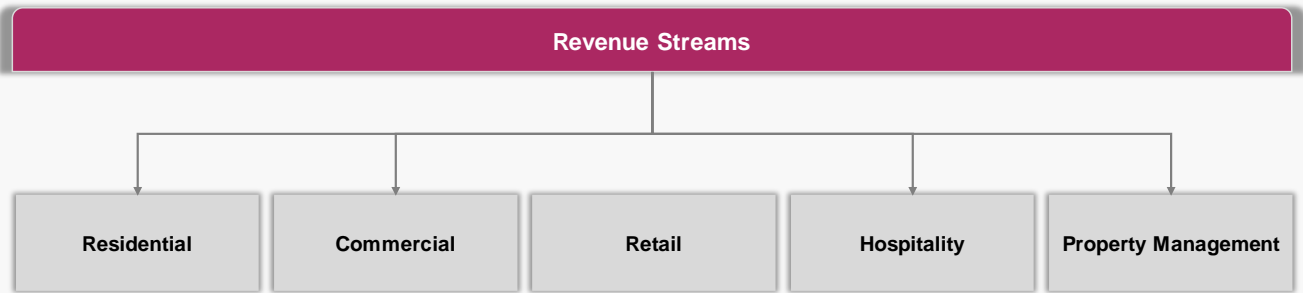
		Ongoing	Upcoming
		TOTAL: 53 Projects, 92 mn sf	TOTAL: 48 Projects, 91 mn sf
	<b>RESIDENTIAL</b>	39 Projects 66 mn sf	28 Projects 73 mn sf
	<b>COMMERCIAL</b>	12 Projects 23 mn sf	5 Projects 8 mn sf
	<b>RETAIL</b>	1 Projects 1 mn sf	10 Projects 11 mn sf
	<b>HOSPITALITY</b>	3 Projects 955 Keys	10 Projects 2034 Keys

Source: Company, Axis Securities Research

## Competitive Strengths

### Diversified Business Model

Exhibit 10: PEPL's Business Segments



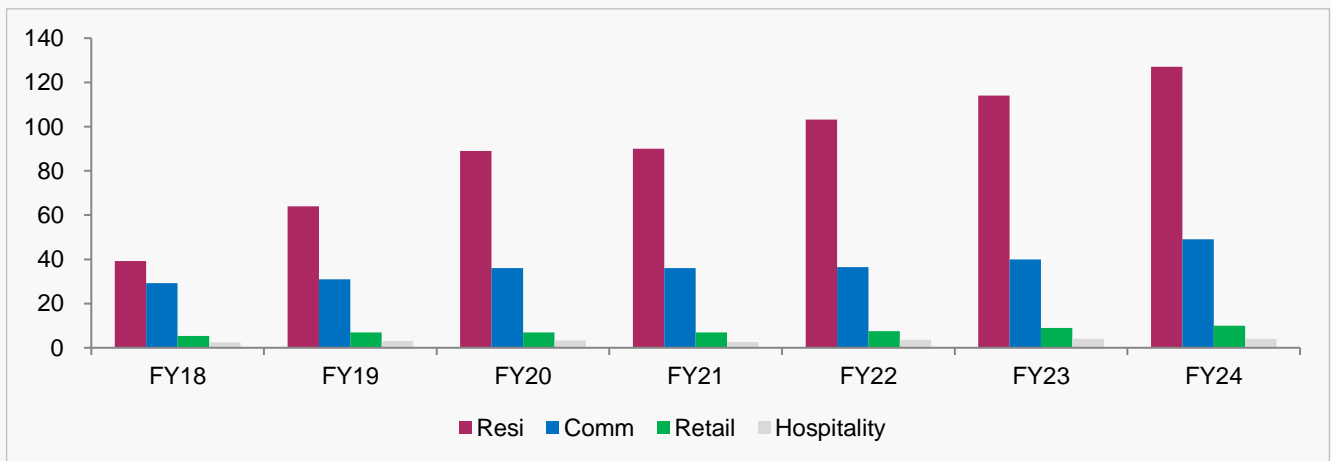
Source: Company, Axis Securities Research

## Diversification: Segmental and Regional

### Segmental Offering:

Prestige Estates initially focused on commercial projects before expanding into the residential sector. Over time, it diversified into additional verticals, including property management, hospitality, and retail projects. This strategic diversification across various income streams enhances resilience against risks and future-proofs its operations. It facilitates risk mitigation and ensures robust cash flow to support future residential projects and lower debt costs. Following the Blackstone deal, the company has heightened its emphasis on expanding its recurring income streams.

Exhibit 11: Launches across segments chart: % share



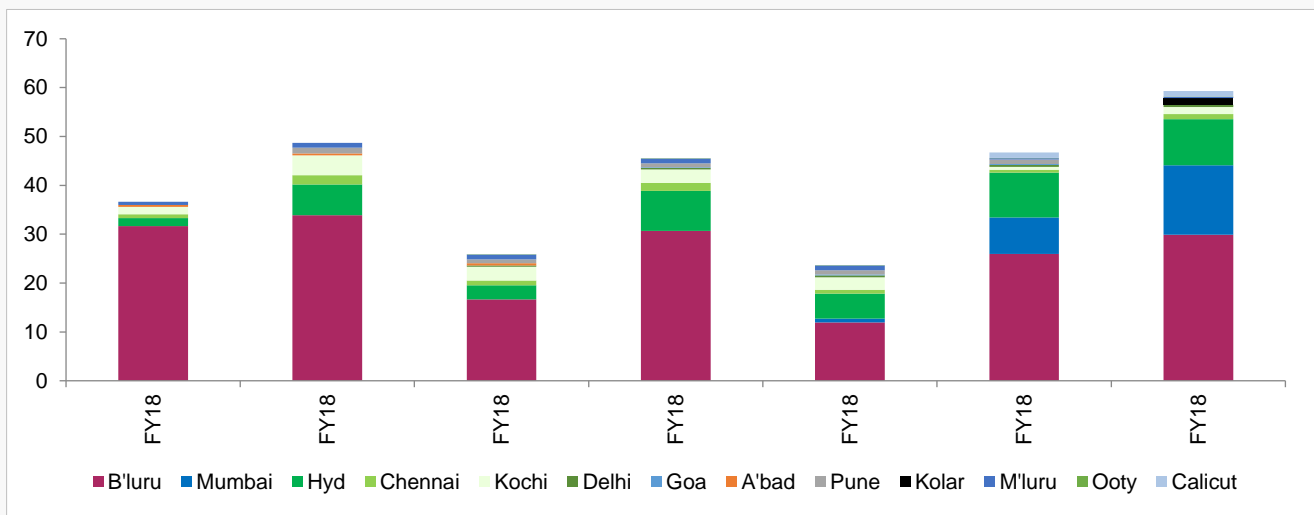
Source: Company, Axis Securities Research

**Regional Offering:**

Prestige Estates has a well-established leadership position in the Bangalore and South Indian markets. Gradually, the company has entered the northern and western regions with its new and ongoing projects. It is developing significant and lavish projects under the name “The Prestige City” in Mumbai, Delhi, and Hyderabad. The company has also commenced operations in cities like Goa. With an upcoming residential project of 73 Mn sq. ft., it is expanding its presence across various geographies. This diversification will further reduce its risk from having operated primarily in tech-dominated cities to now including other metro cities.

Its current portfolio in the MMR region is 12.2 Mn sq. ft., and in the Delhi/NCR region, the developable area is up to 14.05 Mn sq. ft. For its residential business going forward, Prestige Estates is looking to adopt a mix of self-owned and JV projects in a 50:50 ratio. On average, its JV share would be in the range of ~40% for upcoming launches.

**Exhibit 12: Upcoming and Ongoing Region-wise**



Source: Company, Axis Securities Research

- As we can see, PEPL has had a dominant position in the Bengaluru and south Indian markets.
- The company is now looking to expand further in the Mumbai market in both residential as well as commercial space.
- We can see a significant change in the overall diversification mix from FY20 to FY24.

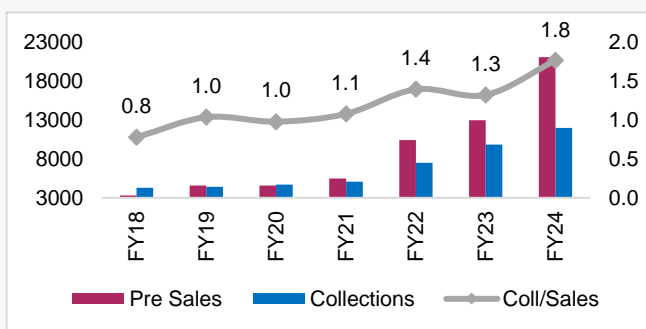
## Execution Supremacy

Prestige Estates has consistently delivered projects with excellent execution skills. In FY24, the company achieved record pre-sales numbers at Rs 21,000 Cr and successfully managed operations across different geographies. In FY24, Prestige Estates launched 40.19 Mn sq. ft. of projects, of which 31.67 Mn sq. ft. were residential. With an upcoming portfolio standing at 73 Mn sq. ft., the company is planning to deliver 28 projects by FY25-26.

In FY24, PEPL completed 25.55 Mn sq. ft., with a residential portion totalling 15.43 Mn sq. ft. For FY25, its expected residential projects' Gross Development Value (GDV) stands at 60 Mn sq. ft., worth Rs 59,000 Cr. Given its strong execution skills and sales record, PEPL is poised for growth with robust projects in its pipeline. The company has demonstrated a CAGR growth of 21% for completions and 26% for collections, underscoring its strong performance trajectory.

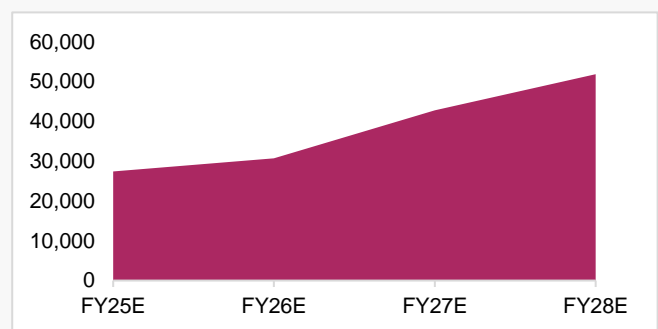
*PEPL has signed a deal with ADIA Kotak AIF for Rs 2,001 Cr. This is quasi debt deal with interest of 16%.*

**Exhibit 13: Improving Cash Collections to Pre Sales**



Source: Company, Axis Securities Research

**Exhibit 14: Cash Collections projections: Expect a CAGR of 17%**



## GDV of New Launches

Sr No	Project Name	Location	* TDA ( Mnsft)	GDV Rs Cr
1	Prestige Southern Star	Bengaluru	8.5	6,107
2	Prestige Raintree Park	Bengaluru	4.58	4,659
3	Prestige Pine Forest	Bengaluru	1.22	1,122
4	Prestige Falcon City Luxe	Bengaluru	4.21	4,357
5	Prestige Greenmoor	Bengaluru	0.67	1,033
6	Prestige Camden Gardens	Bengaluru	0.34	244
7	Eaton Park @ TPC	Bengaluru	0.31	265
8	Prestige Suncrest	Bengaluru	0.83	470
9	Evergreen @ Prestige Raintree Park	Bengaluru	3.74	4,312
10	Prestige Marigold Ph II	Bengaluru	1.47	543
11	Prestige King's County	Bengaluru	1.51	1,135
12	Prestige Sunset Park	Bengaluru	0.76	382
13	Prestige Gardenia Estates	Bengaluru	1.44	719
14	Prestige Pallava Gardens	Chennai	4.24	2,640
15	Prestige Biosphere	Goa	1.16	1,569
16	Veranda Bay & Shimmering Shores @ Prestige Sea Scapes	Goa	0.66	870
17	Beach Gardens @ Prestige Sea Scapes	Goa	1.63	813
18	Prestige Rock Cliff	Hyderabad	0.68	937
19	Prestige Nautilus	Mumbai	2.92	7,126
20	Prestige Forest Hills Mulund	Mumbai	4.3	5,904
21	Prestige Bougainvillea Gardens	Noida	3.1	2,116
22	9 KG Marg	Delhi	0.18	1,051
23	TPC Indirapuram	NCR	10.78	8,290

Source: Company, Axis Securities Research

## Robust Pipeline of Projects

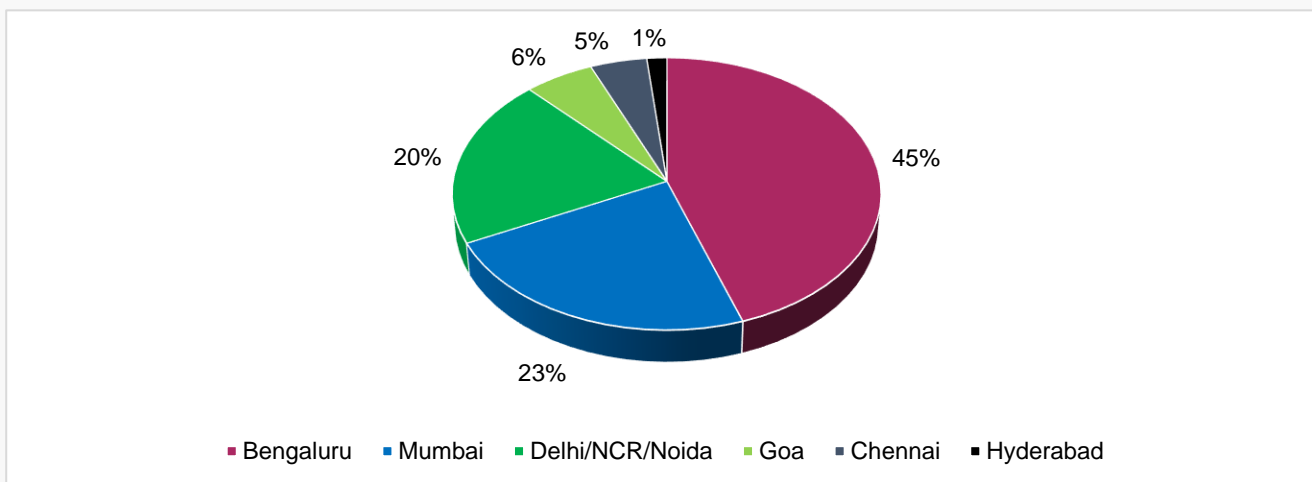
Here is the edited strategic research note:

- PEPL has completed over 150 projects covering about 127 Mn.sq.ft. The current ongoing projects encompass 66 Mn.sq.ft. spread across 39 projects.
- It has ave ~28 upcoming projects covering 73 Mn.sq.ft., representing about 60% of its total past projects, demonstrating the company's growth momentum.
- The company has an estimated GDV of Rs 59,000 Cr for its upcoming launches in FY25, equivalent to around 59 Mn.sq.ft.
- Out of these upcoming launches, ~50% will be self-owned projects, with the remainder being joint ventures, potentially enhancing overall project ROE.
- The company anticipates spending Rs 30,000-35,000 Cr to achieve a revenue target of Rs 59,000 Cr, leveraging a blend of owned and joint venture projects.
- For upcoming projects, PEPL is expanding beyond South Indian markets to include North and Eastern regions.
- Expected cash flows from residential projects total ~Rs 40,000 Cr, assuming no additional land acquisitions.
- PEPL is diversifying its geographic footprint from an IT-centered city approach to include cities such as MMR, Delhi/NCR, Chennai, Goa, Hyderabad, and Pune, showcasing adaptability to real estate sector dynamics.
- The company's primary focus remains on mid-segment and premium housing construction, with average realizations of around Rs 10,500 per sq. ft.
- Inventory levels are declining from previous highs, necessitating a steady launch trajectory to sustain revenue and PAT growth.
- Management is keen to capitalize on opportunities while selectively choosing projects to maintain focus and efficiency.

PEPL has an upcoming pipeline of 73 mn.sq. ft. while it's total completed projects sum up to 127 mn.sq.ft.

The current inventory (ongoing and completed) stands at 10.7 mn.sq.ft. which equals Rs 12,936 Cr

**Exhibit 15: Geographical bifurcation for Upcoming projects**



Source: Company, Axis Securities Research

## Strengthening Annuity Streams

PEPL possesses diverse annuity streams encompassing offices, malls, and hotels. With extensive expertise in establishing such profiles, it initially embarked on its journey through the development of commercial projects. Over time, it has expanded into the retail and hospitality sectors. Notably, it has strategically targeted Bengaluru, known as the tech capital of the country, for its office segment development. Following its stake sale to Blackstone, which included multiple office projects and malls, the company aims to strengthen its position in this sector by introducing new products and expanding into broader geographical areas.

### Commercial Annuity

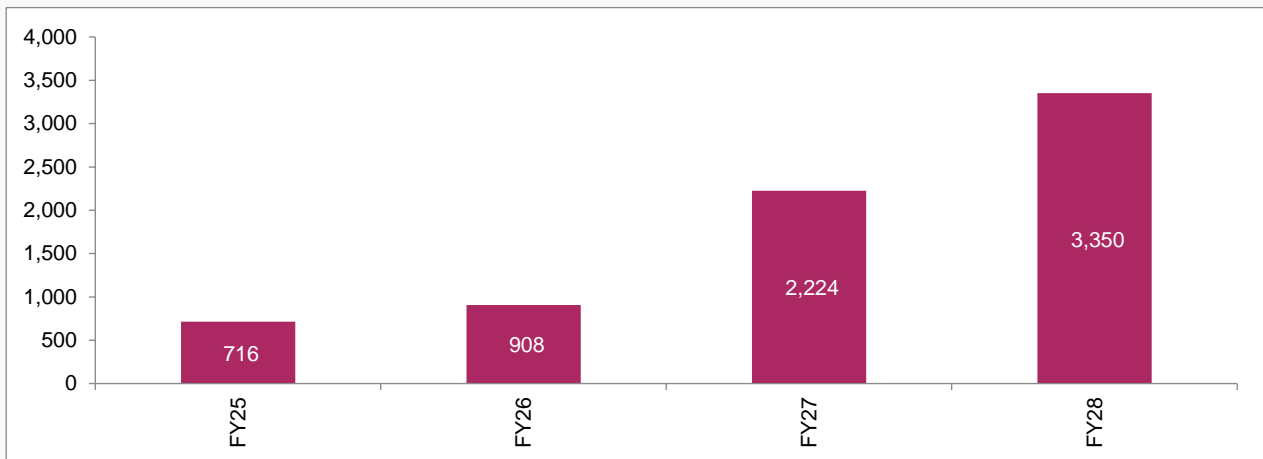
PEPL boasts a robust portfolio of projects within the commercial space, marking the genesis of its journey and drawing from extensive industry experience. Presently, the company has completed 125 projects spanning 49 Mn.sq.ft. The exit rental for FY 24 stands at Rs 518 Cr, with ongoing projects covering 23 Mn.sq.ft. across 12 sites. An estimated 8 Mn.sq.ft. is slated for upcoming development across 5 projects.

Two significant projects in Mumbai include The Prestige 101 (X&Y) in BKC and The Prestige Liberty Towers in Mahalakshmi, contributing to a combined sales value of ~Rs ~32,000Cr, where PEPL's share amounts to around Rs 26,300Cr. Anticipating a decline in vacancy levels by FY 28 in BKC, the company forecasts potential rentals of Rs 2,200Cr upon achieving full leasing, driven by increasing traction from large clients migrating from Southern Mumbai, along with existing clientele from Bangalore and Hyderabad.

To mitigate business cyclicalities, PEPL is aggressively expanding its annuity income streams, aiming to also reduce its cost of debt. The projected total Capex amounts to Rs 10,300Cr, with ongoing commercial Capex at Rs 8,300 Cr (PEPL's share) and an anticipated upcoming Capex of Rs 2,025 Cr. This strategic investment is expected to yield an incremental annuity income rising to ~Rs 700 Cr by FY25 and reaching Rs 3,300 Cr by FY28 under full occupancy scenarios.

*PEPL has embarked on a expansion journey towards its annuity portfolio with a capital expenditure of Rs ~11,600Cr for exit rentals worth Rs ~3,800Cr by FY28.*

**Exhibit 16: Annuity Chart**



Source: Company, Axis Securities Research

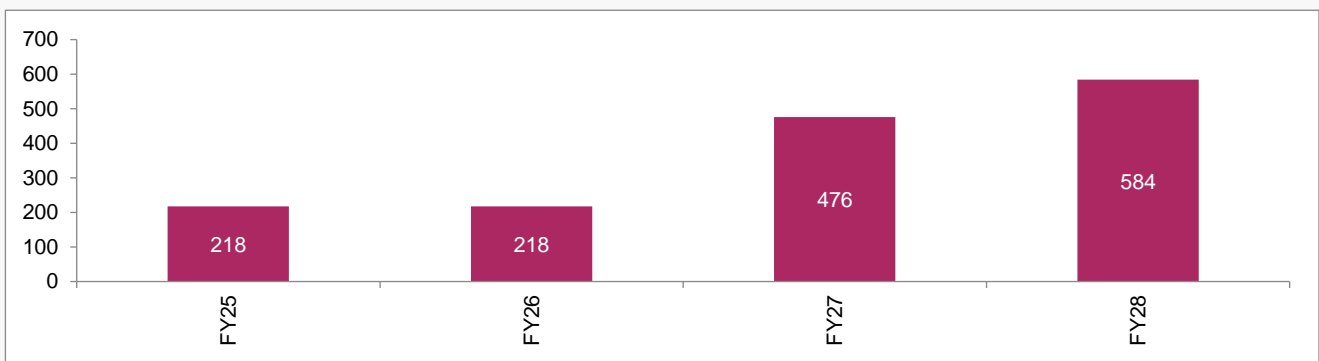
### Retail Annuity

PEPL's retail segment encompasses shopping malls, multiplexes, high streets, and centers for performing arts. With 13 completed projects covering 10 mn.sq.ft., and one ongoing project - Forum 13<sup>o</sup> North in Bengaluru, the company is actively expanding.

The upcoming potential includes 11 mn.sq.ft. from 10 projects across Bengaluru, Hyderabad, Chennai, and Kochi, branded under the "Forum" banner. PEPL's share in this upcoming development totals 3.92 mn.sq.ft. The total Capex allocated is Rs 2,420 Cr, with PEPL's share amounting to Rs 1,639 Cr. Currently, Rs 260 Cr has been expended, leaving Rs 1,378 Cr for upcoming expenditures.

The current exit rental stands at Rs 215 Cr. Projected retail annuity income is expected to remain stable in FY25 and rise to Rs 580 Cr by FY28 (PEPL's share, assuming full occupancy).

**Exhibit 17: Annuity Chart**

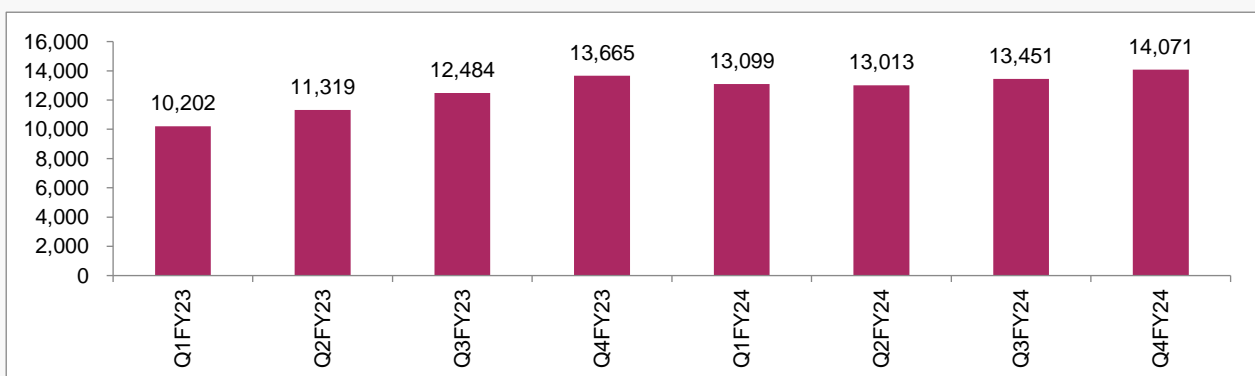


Source: Company, Axis Securities Research

### Hospitality

PEPL's hospitality division encompasses resorts, business hotels, service apartments, and convention centers, featuring partnerships with renowned brands such as the Marriott group. Currently, they operate 9 hotels with a total of 1,465 keys and have ongoing projects for 3 hotels with 955 keys. Looking ahead, PEPL anticipates adding 10 new hotels with 2,034 keys, bringing its total to 4,454 keys across all properties. The ongoing hotel developments are predominantly located in Aerocity, New Delhi, with upcoming hotels planned for Mumbai, Chennai, Bangalore, and Goa regions. A majority of its completed projects were based out of Bangalore, but the company has now expanded its operations to different locations such as MMR, NCR, and Goa to name a few. The hotels had an ARR of Rs 14,000 in Q4FY24. This was up by 1.5% from Q4FY23 standing at Rs 13,800. The revPAR stood at Rs 9,428 for Q4FY24 vs Rs 8,541 for Q4FY23. For the total of 4,454 keys, the company expects a revenue of Rs 2,570 Cr. PEPL's share would add up to Rs 2,033 Cr.

**Exhibit 18: ARR chart**

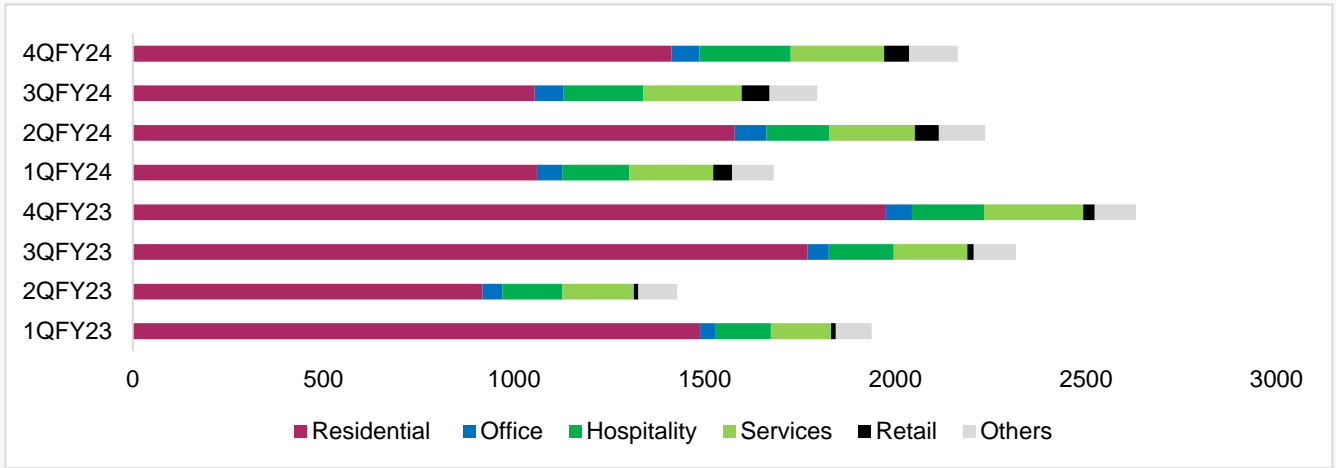


Source: Company, Axis Securities Research

### Property Management

PEPL's current property management segment includes services such as housekeeping, security, training, landscaping and property upkeep among others. It currently has 185 projects under maintenance and more than 95 projects in its pipeline. For FY 24 the gross revenue summed up to Rs 706 Cr and has a future potential of upto 1,000 Cr.

**Exhibit 19: Segment Wise quarterly revenue**



Source: Company, Axis Securities Research

## Management Meeting Takeaways

- PEPL is strategically focused on expanding its product portfolio across diverse segments and geographies. With a potential Gross Development Value (GDV) launch of Rs 59,000 Cr, the company is capitalizing on sectoral growth cycles while prioritizing cash flow management through robust annuity streams.
- Having maintained positive cash flow over the past five years, PEPL currently holds a net debt of Rs 8,000 Cr. Recently, the company raised Rs 5,000 Cr through a Qualified Institutional Placement (QIP). This capital will support substantial capital expenditures aimed at expanding its annuity-driven businesses, leveraging residential cash flows to sustain its growth trajectory.
- Management is seizing opportunities in the premium and mid-range segment housing markets, which remain core areas of focus. PEPL's future residential projects will include a mix of self-owned developments and Joint Venture (JV) models, expecting a 40% stake in JV projects, potentially enhancing overall Return on Equity (ROE) metrics.
- Approximately half of PEPL's upcoming projects are expected to adopt a JV business model, diversifying risk and potentially enhancing Profit After Tax (PAT) margins. The company anticipates a reduction in its cost of debt as annuity cash flows become substantial.
- Looking forward, PEPL anticipates a continued strong launch trajectory, with GDV launches expected to range between Rs 40,000 Cr to Rs 60,000 Cr YoY.

*PEPL had an impressive EBITDA margin of 31.7% and achieved a notable PAT margin of 17% in FY24.*

### **Domestic market**

- The Indian residential market continues to show resilience and growth, despite global uncertainties. This sustained momentum can be attributed in part to the Reserve Bank of India's decision to pause the repo rate. Anticipated rate cuts in FY24-25, particularly in the first and second quarters, are expected to further stimulate demand for residential properties across India.
- There is a noticeable shift in consumer behaviour, particularly among millennials, who increasingly prefer homeownership over renting. Rental prices, especially in cities like Bengaluru, have seen significant increases.
- The market share of large players is expanding relative to local developers, indicating a trend towards consolidation in the sector. Lower inventory levels suggest more property launches, which are contributing to improved cash flows and market dynamics.

## Key Growth Drivers

### Diversified Realty Player

The real estate sector's inherent cyclical nature poses challenges, but PEPL's strategic focus on expanding revenue segments and securing steady cash flows through annuities mitigates these risks effectively. With a significant Capex of ~Rs 11,800 Cr earmarked to generate exit rentals of around Rs 3,880 Cr, PEPL is bolstering its annuity income base. Geographically, the company has diversified beyond its dominant Bangalore market into regions such as MMR, NCR, Goa, Pune, and Chennai. This geographical diversification reduces concentration risks and enhances resilience against market fluctuations. PEPL is also diversifying its project portfolio by adopting a combination of self-owned developments and Joint Venture (JV) projects for future residential ventures. This diversified approach across geographies and segments, coupled with a prudent business model, provides a safeguard against the volatility inherent in real estate cycles.

### Strong Track Record

PEPL has established a robust track record of successful project launches, evidenced by a 22% increase in collections for FY24 and a significant 63% rise in annual sales to Rs 21,040Cr. The company saw a 52% increase in launches and a 63% increase in completions YoY, totalling 25.55 Mn.sq.ft. Its five-year collection CAGR stands at a commendable 26%. Benefiting from its strong brand name and goodwill, PEPL continues to maintain a robust sales and execution pace for its launches. The company's upcoming annuity projects in Mumbai are expected to attract a steady client base, supported by promising rental prospects as Mumbai's office cluster shifts towards northern Mumbai. In addition, PEPL's hospitality division has a promising pipeline that could potentially generate revenues of up to Rs 2,000 Cr annually, further contributing to the company's diversified revenue streams and growth prospects.

### Strong Pre-Sales Guidance; Healthy Pipeline

PEPL's management has set ambitious targets, projecting a 25%-30% growth in pre-sales figures for FY25, building on a substantial base of Rs 21,000 Cr achieved in FY24, marking a 63% YoY increase. The company boasts a robust potential launch pipeline valued at Rs 59,000 Cr Gross Development Value (GDV). These projects span geographically diverse regions, with significant contributions from the Mumbai Metropolitan Region (MMR) and Delhi/NCR, accounting for 21.28 mn.sq.ft. out of the total 59.22 mn.sq.ft.

Maintaining a strong market share in Bangalore, PEPL leverages its established position in its home ground year after year. The company aims to replicate the success of projects like "Prestige City" in Pune, where it has acquired a sizable township. With a proven ability to secure land and execute projects swiftly, PEPL maintains an industry-leading pace in both sales and execution.

### Financial Discipline

In the real estate sector, financial discipline and cash flow management are crucial for a company's resilience during challenging times. PEPL demonstrates strong financial stewardship, with a net debt of Rs 8,000Cr and a net debt-to-equity ratio of 0.66x, well within the guided range of less than 0.9x. For FY24, the company reported annual collections of Rs 11,954Cr, marking a 22% YoY increase.

PEPL's recent Rs 5,000Cr QIP has bolstered its net cash balance to Rs 45,000Cr, with pre-sales standing at Rs 21,000Cr. This financial strength provides the company with the confidence to undertake a Capex of ~Rs 13,700Cr to enhance its annuity portfolio.

Furthermore, PEPL plans to allocate around Rs 30,000-35,000Cr for its residential portfolio, which is expected to yield revenues of Rs 59,000Cr and generate cash flows of ~Rs 40,000Cr, assuming no further land acquisitions. The company is also considering an IPO for its hospitality segment, which will provide additional funding and unlock further value.

### Hospitality IPO plans:

Currently, PEPL operates 1,489 keys, generating a revenue of Rs 9,826Cr—PEPL's share. The company is constructing an additional 955 keys and has a potential for 2,034 more keys. The projected Capex for its hospitality segment is ~Rs 1,912Cr (PEPL's share). A potential upcoming IPO is expected to support the expansion of the business and unlock overall value through a demerger. The anticipated timeline for this IPO is in H2FY25.

*PEPL has maintained a historically strong track record of completing projects across geographies. We expect robust sales performance alongside prudent financial management.*

## Outlook & Valuation

We are Initiating Coverage on Prestige Estates Ltd. (PEPL) with a BUY recommendation and a target price of Rs 2,195/share, which implies an upside of 35% from the CMP.

Our recommendation is supported by:

- **Diversified Business Model:** The real estate business is highly cyclical and susceptible to various geographical risks. Prestige has mitigated these risks through diversification across verticals and geographies
- **Execution Supremacy:** Prestige recorded its best-ever pre-sales of ~Rs 21,000Cr and the highest-ever collections of Rs 11,950Cr in FY24. The company delivered 25 Mn.sq.ft in FY24, completing over 300 projects. Notably, 75% of its sales, amounting to ~Rs 15,700Cr, came from newly launched projects, demonstrating its strong execution capabilities and excellence in delivering large-scale projects.
- **Robust Order Book & Pipeline of Upcoming Projects:** Currently, PEPL has a residential portfolio comprising 127 mn.sq.ft across 150 completed projects. The ongoing portfolio includes 66 mn.sq.ft spread across 39 projects. Together, these ongoing and completed projects are expected to yield ~Rs 12,000Cr in free cash flow. This strategic approach underscores Prestige's commitment to growth and its ability to leverage market opportunities effectively.
- **Strengthening Annuity Stream:** PEPL has embarked on an expansion journey towards its annuity portfolio with a capital expenditure of Rs ~11,600Cr for exit rentals worth Rs ~3,800Cr by FY28.

We have used a DCF approach to value the real estate developer, taking into account a going-concern assumption. We believe an earnings-based valuation would not reflect the correct picture as the income statement lags the actual cash flows.

### Key Assumptions:

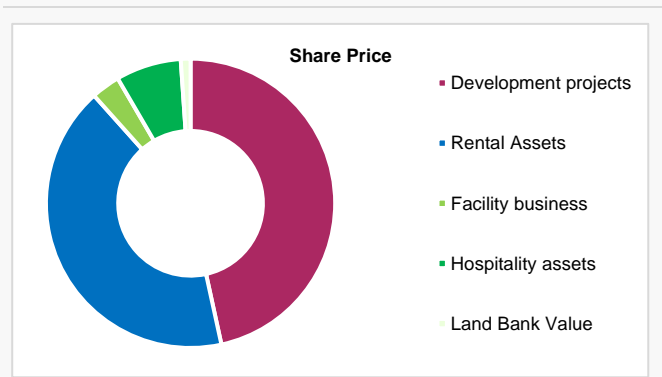
- We have used a WACC of 11% to discount the cash flows.
- We have built-in overall lease business, price and cost escalation of roughly 5%.
- We assume a Cap rate of 9.5% and have given the Facility management business a multiple of 10X.
- We have assumed an EV/EBITDA multiple for the hospitality business of 15X

Exhibit 20: Valuation

	Rs Cr	Per Share
Development projects	42,512	1,061
Rental Assets	37,166	927
Facility business	3,144	78
Hospitality assets	8,089	202
Land Bank Value	2,860	71
<b>Total EV</b>	<b>93,771</b>	<b>2,340</b>
Net Debt	5,797	145
<b>Implied Equity Value</b>	<b>87,974</b>	<b>2,195</b>
No of shares (Cr)		40.1
<b>Target Price (Rs)</b>		<b>2,195</b>

Source: Company, Axis Securities Research

Exhibit 21: Debt Profile as on 30<sup>th</sup> June,24



## Key Risks & Challenges

- **Debt Buildup:** Due to PEPL's ambitious expansion plans for its annuity portfolio, the company may incur a substantial debt load. Any adverse impacts on residential cash flows could affect the financing of annuity assets, as a significant portion of the annuity expansion is funded through collections from the residential sector. This interdependence underscores the importance of maintaining robust residential sales to ensure the financial stability and growth of the annuity portfolio.
- **Consistent Business Development:** PEPL has achieved substantial pre-sales figures, supported by a GDV launch of Rs 59,000 Cr, and anticipates maintaining a similar range of Rs 50,000-60,000 Cr moving forward. To sustain this growth trajectory, the company must consistently focus on business development and new project launches. Any lapse in this strategic focus could adversely affect its growth momentum.
- **Adverse Changes in the Interest Rate:** An additional increase in interest rates could potentially dampen the demand for housing, thereby affecting PEPL's margins. This situation underscores the importance of closely monitoring macroeconomic indicators and adapting strategic approaches to mitigate potential impacts on the company's business operations. Proactive management and strategic flexibility are crucial to navigating such economic challenges and sustaining growth.
- **Unknown territories:** PEPL is expanding its horizons to regions such as MMR, Delhi NCR, Pune, and Goa. These are areas where the consumer profile and preferences may differ, and the company might encounter challenges in obtaining approvals.
- **Annuity Trajectory:** Any deviations in its office portfolio could pose a risk to PEPL's overall cash flow and sales growth. It needs to maintain a stable leasing and occupancy rate, as any slowdown in office demand could entail risks.
- **Labor Intensive Business:** Any hindrance caused by labour shortages or labour-related issues has the potential to disrupt project timelines and increase overall project costs for PEPL. Given the company's reliance on maintaining an adequate and cost-effective labour force, addressing labour-related challenges effectively is crucial to ensure the smooth execution of projects and to sustain profitability.

## Management Profile

Key Management Personnel	Experience
<b>Mr. Irfan Razack</b> <i>Chairman and MD</i>	<ul style="list-style-type: none"> <li>Mr. Irfan Razack is a bachelor of commerce from St. Joseph's College, Bengaluru.</li> <li>He has more than 50 years of experience in the real estate industry and established PEPL in 1986. He is responsible for the overall management of the company.</li> </ul>
<b>Mr. Rezwan Razack</b> <i>Joint Managing Director</i>	<ul style="list-style-type: none"> <li>Mr. Rezwan Razack, the Joint Managing Director of PEPL, is a distinguished leader in the retail and real estate industries with over 45 years of experience. A Bachelor of Commerce graduate from St. Joseph's College, Bengaluru, he established PEPL in 1986. Mr. Razack has held the position of Joint Managing Director, leveraging his extensive industry knowledge and expertise to drive the company's strategic initiatives and operational excellence.</li> </ul>
<b>Mr. Noaman Razack</b> <i>Whole Time Director</i>	<ul style="list-style-type: none"> <li>Mr. Noaman Razack, a founding member of the Prestige Group, has been serving as a Whole Time Director since 2011. With over 40 years of experience in business development, he has played a crucial role in the company's expansion and success.</li> </ul>
<b>Ms. Uzma Irfan</b> <i>Director</i>	<ul style="list-style-type: none"> <li>Ms. Uzma Irfan, Director at PEPL, holds a Bachelor's degree in Business Administration from the American InterContinental University, London, and a Bachelor's degree in Arts from Open University. She joined PEPL on January 1, 2007, in the corporate communications department, bringing her expertise and dedication to the company.</li> </ul>
<b>Dr. Pangal Ranganath Nayak</b> <i>Independent Director</i>	<ul style="list-style-type: none"> <li>Dr. Pangal Ranganath Nayak, Independent Director, holds a Bachelor of Medicine and Surgery from St. John's Medical College and Hospital, Bengaluru University, and a Doctorate in Medicine from Command Hospital, Bengaluru University. His extensive medical background brings a wealth of knowledge and expertise to the board.</li> </ul>
<b>Mr. Jagdeesh K. Reddy</b> <i>Independent Director</i>	<ul style="list-style-type: none"> <li>Mr. Jagdeesh K. Reddy, Independent Director, holds a Bachelor of Engineering from Mangalore University and an MBA from the Joseph M. Katz School of Business, University of Pittsburgh. He possesses extensive expertise in finance, with specialized skills in private equity, mergers, and acquisitions. His financial acumen and strategic insights significantly contribute to the board's effectiveness.</li> </ul>
<b>Mr. S.N. Nagendra</b> <i>Independent Director</i>	<ul style="list-style-type: none"> <li>Mr. S.N. Nagendra, Independent Director, is a seasoned professional with over three decades of experience associated with HDFC Ltd. and its group. He was appointed as an additional Independent Director on the board on August 8, 2023, with a term set for five years. His extensive tenure and deep-rooted expertise in financial services enrich the board's governance and strategic oversight.</li> </ul>
<b>Ms. Neelam Chibber</b> <i>Independent Director</i>	<ul style="list-style-type: none"> <li>Ms. Neelam Chibber, Independent Director, holds a diploma in Industrial Design with a specialization in Product Design from the National Institute of Design, Ahmedabad. She is a recipient of the L'oreal Femina Women Award 2017 for social impact and the Inspire Award 2017 by Parivartan, recognizing her significant contributions in these fields.</li> </ul>
<b>Dr. Ravindra M Mehta</b> <i>Independent Director</i>	<ul style="list-style-type: none"> <li>Dr. Ravindra M. Mehta, MD, FCCP, is a distinguished American board-certified medical professional with extensive expertise across various specialties of Medicine. He was appointed as an Additional Independent Director on the Board of the Company on September 21, 2023, for a term of five years. Dr. Mehta's impressive medical background and broad clinical experience greatly enhance the board's capacity for strategic oversight and governance.</li> </ul>

Source: Company

## Industry Overview

### Indian Market

- Evolving Landscape: Real Estate Sector in India:** In the past three to four years, the Indian real estate sector has undergone significant transformations due to demonetization, liquidity crises, and the enforcement of RERA and GST regulations.
- The Bull Run:** The bull run in the housing market of India continued in FY2024 despite the global tension and rising prices. This is likely due to the expected repo rate decline, Indian sentiment for homeownership and controlled inflation.
- Surging Housing Units: Q1FY24 Overview:** In the first quarter of 2024, the top 7 cities experienced a substantial surge in newly launched housing units, reaching ~1,30,170 units. This signifies an impressive annual growth rate of 14%, creating new peaks.
- Regional Dynamics: Contributors to New Property Launches:** The top 7 cities continued their growth trajectory for new launches and witnessed a nearly 1% rise in the number of units. There has been a noticeable increase in the new supply by branded and trusted players who have reported robust numbers. We expect the trend is likely to continue. MMR, Hyderabad saw the maximum new supply in Q1FY24, accounting for 51% of new total launches across the top 7 cities, meanwhile, MMR saw its supply decline by 9%. Despite robust sales numbers in NCR, Kolkata, Pune and MMR, they saw a dip in its supply this quarter. NCR saw its new supply dip by 42% YoY, with 7,270 launches in Q1FY24 vs 12,450 units in Q1FY23.

*Residential demand continues to remain strong. Consumer sentiments are high with timely project completions, mostly by branded developers. Positive sentiment may continue in the upcoming quarters as well.*

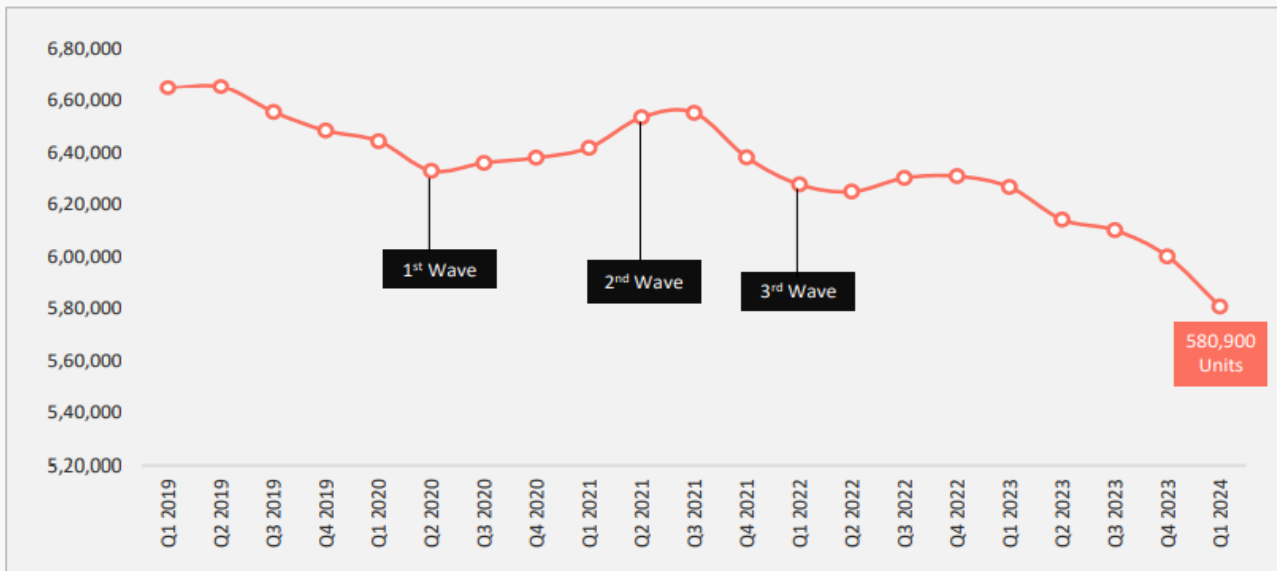
### Top 7 Cities

City	New Launches	Sold Units	Available Inventory	Avg. Price (INR/Sf.)
NCR	7,300	15,650	86,400	6,200
MMR	33,800	42,900	192,700	14,600
Bengaluru	16,500	17,800	45,800	7,200
Pune	18,800	23,000	97,000	7,100
Hyderabad	23,000	19,700	1,01,300	6,350
Chennai	7,300	5,500	29,300	5,300
Kolkata	4,300	5,600	29,300	5,300

Source: Anarock, Company, Axis Securities Research

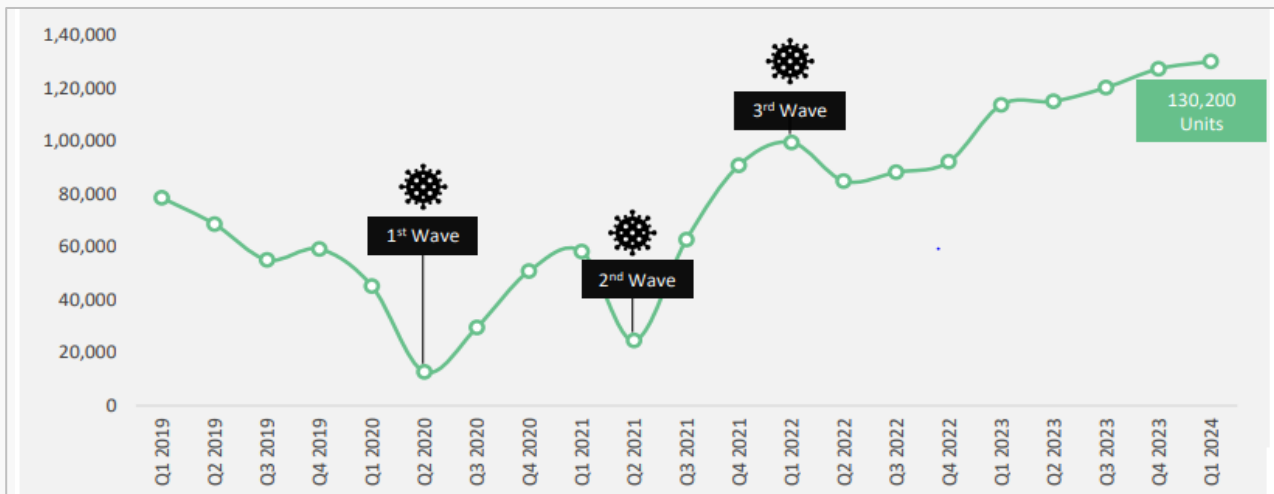
- Market Segment Insights: New Supply Distribution:** Mid-segment homes priced between Rs 40-80 Lc continued to dominate the new supply share with 33%, followed by luxury (>1.5 Cr) with 25% share and premium segments (Rs 80 Lc - 1.5 Cr) accounting for 24% share. The affordable segment (<40 Lc) witnessed a continued decline in its supply share, standing at 18% in the quarter.
- Inventory Dynamics: Availability Trends:** Despite an increase in supply, available inventory across the top 7 cities experienced a 7% annual drop yearly, totalling over 5.81 Lc units by the quarter's end. Notably, the National Capital Region (NCR) witnessed the highest yearly drop of 27%.
- Price Escalations:** Q1FY24 witnessed a significant rise in property values across the top 7 cities. On a QoQ basis, the prices rose by 3% to 10%. This trend is even more pronounced on a yearly basis with a significant jump from 10% to 32%. This is mainly attributable to rising raw material costs and a continued increase in housing demand.
- Consumer Sentiments:** Residential demand continues to grow stronger due to the determined need for homeownership. Furthermore, due to high launches by trusted and branded players, the demand is further higher as they are now tilting towards these products. Moreover, consumer sentiments are tied to the timely completion of projects by these listed players, further enhancing the demand and positive outlook.

**Exhibit 22: Available Inventory Trend - Quarterly**



Source: Anarock, Industry, Company, Axis Securities research

- A modest decrease of 3% was observed in inventory levels when compared to the prior quarter. Furthermore, a decline of 7% YoY was registered. This is a positive trend for the Indian real estate market, indicating a potential rise in demand and a healthier absorption of existing stock.
- Inventory levels of residential properties in India's 7 major cities declined to 5.80 Lc units in the current quarter. This signifies a downward trend compared to 6 Lc units recorded in Q4FY23 and 6.26 Lc units in Q1FY23.

**Exhibit 23: Housing Sales Trend – Quarterly**


Source: Anarock, Industry, Company, Axis Securities research

This robust performance is a confluence of several factors. Developers have adopted a buyer-centric approach, meticulously crafting residential units that resonate with current consumer preferences. This, coupled with a healthy supply of new residential units, has created a sweet spot for homebuyers. The pandemic's influence on homeownership aspirations cannot be understated. Additionally, the government's continued focus on infrastructure development across the top 7 cities is further fueling market sentiment.

**Future Direction:**

- Among the major factors favouring a new peak in 2024 is the presence of comprehensive real estate regulatory reforms in the Indian market, with the worst of the shake-up believed to be behind us.
- Additionally, inflation is currently well under control, bolstering financial optimism and confidence among homebuyers.
- Based on growing homebuyer demand, developers have closed substantial land deals in the last fiscal year, and most of their financial statements are clean.
- Large developers with strong track records and solid balance sheets are also expanding into new geographies to enhance their market presence.
- There is a positive buyer sentiment, as these large and listed players provide a sense of security and confidence to homebuyers.
- We anticipate residential demand to remain steady, primarily driven by end-users. Grade A developers are expected to continue dominating the residential market and gain further market share in the future.

**Financials (Consolidated)**
**Profit & Loss**
**(Rs Cr)**

Y/E Mar	FY23	FY24	FY25E	FY26E
Net sales	8,315	7,877	11,764	16,070
Growth, %	3.0	(0.5)	4.9	3.7
Other operating income	-	-	-	-
Total income	8,315	7,877	11,764	16,070
Raw material expenses	(4,078)	(2,692)	(5,937)	(8,296)
Employee expenses	(603)	(746)	(823)	(1,125)
Other Operating expenses	(1,547)	(1,939)	(2,353)	(3,214)
<b>EBITDA (Core)</b>	<b>2,086</b>	<b>2,498</b>	<b>2,650</b>	<b>3,435</b>
Growth, %	3.6	2.0	0.6	3.0
Margin, %	2.5	3.2	2.3	2.1
Depreciation	(647)	(716)	(822)	(1,024)
<b>EBIT</b>	<b>1,439</b>	<b>1,781</b>	<b>1,828</b>	<b>2,410</b>
Growth, %	3.5	2.4	0.3	3.2
Margin, %	1.7	2.3	1.6	1.5
Interest paid	(806)	(1,219)	(1,031)	(1,031)
Other Income	457	1,548	313	376
Share of profits from associates	16.8	11.3	16.9	23.1
<b>Pre-tax profit</b>	<b>1,106</b>	<b>2,122</b>	<b>1,127</b>	<b>1,778</b>
Tax provided	(347)	(493)	(259)	(410)
<b>Profit after tax</b>	<b>758</b>	<b>1,628</b>	<b>867</b>	<b>1,368</b>
Growth, %	(125)	(254)	(155)	(163)
<b>Net Profit (adjusted)</b>	<b>633</b>	<b>1,374</b>	<b>712</b>	<b>1,205</b>
Growth%	<b>8.5</b>	<b>11.7</b>	<b>(4.8)</b>	<b>6.9</b>

Source: company, Axis Securities

**Balance Sheet**
**(Rs Cr)**

Y/E Mar	FY23	FY24	FY25E	FY26E
Cash & bank	1,815	2,558	4,643	4,825
Loans & advances	3,667	2,363	2,613	2,863
Other current assets	5,587	6,258	6,158	6,058
Investments	1,023	1,279	1,279	1,279
Gross fixed assets	9,340	11,945	15,697	19,165
Additions:	1,570	2,605	3,752	3,469
Less: Depreciation	2,613	3,329	4,158	5,204
Net fixed assets	6,727	8,616	11,539	13,961
Other Current Assets	5,587	6,258	6,158	6,058
<b>Total assets</b>	<b>18,691</b>	<b>23,808</b>	<b>25,063</b>	<b>26,304</b>
	-	-	-	-
Current liabilities	9,262	15,855	15,855	15,855
Provisions	513	739	739	739
Loan Funds	8,121	11,462	11,462	11,462
Paid-up capital	401	401	401	401
Reserves & surplus	9,574	10,888	11,989	13,069
Non Controlling Interest	283	512	666	828
<b>Total equity &amp; liabilities</b>	<b>18,691</b>	<b>23,808</b>	<b>25,063</b>	<b>26,304</b>

Source: company, Axis Securities

**Cash Flow**
**(Rs Cr)**

Y/E Mar	FY23	FY24	FY25E	FY26E
Pre-tax profit	1,414	2,122	1,057	1,685
Depreciation	647	717	829	1,046
<b>Changes in working capital</b>	<b>-242</b>	<b>-838</b>	<b>3,753</b>	<b>1,363</b>
Total tax paid	-329	-416	-247	-394
<b>Cash flow from operating activities</b>	<b>1,540</b>	<b>1,297</b>	<b>6,106</b>	<b>4,345</b>
Change in Fixed Assets	-1,650	-1,907	-3,752	-3,469
Interest/Dividend Received	122	275	318	386
Other investing activities	-	-	17	23
<b>Cash flow from investing activities</b>	<b>-2,756</b>	<b>-2,548</b>	<b>-3,417</b>	<b>-3,060</b>
Equity raised/(repaid)	-	-	500	-
Proceeds from Borrowings	1,611	3,271	-	-
Dividend (incl. tax)	-60	-60	-72	-72
Other financing activities	-264	-26	-	-
<b>Cash flow from financing activities</b>	<b>546</b>	<b>1,969</b>	<b>-604</b>	<b>-1,104</b>
Net cash	-671	718	2,085	181
<b>Closing cash balance</b>	<b>1,815</b>	<b>2,558</b>	<b>3,809</b>	<b>3,991</b>

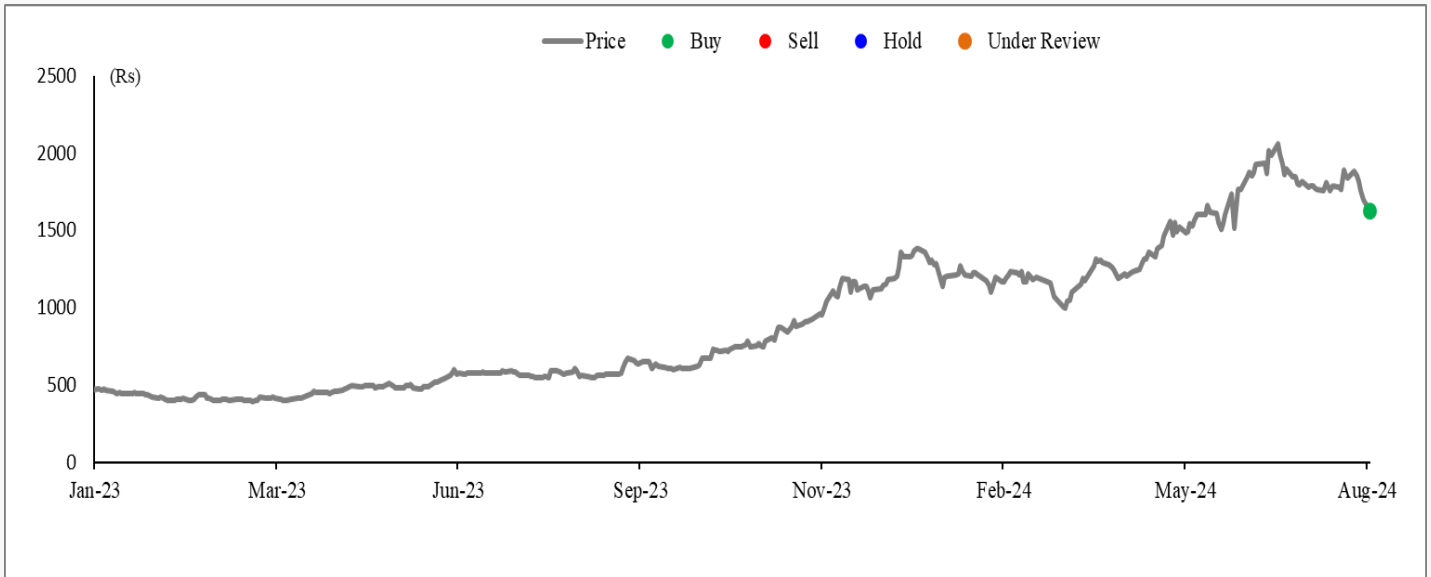
Source: company, Axis Securities

**Ratio Analysis**
**(x) / (%)**

Y/E Mar	FY23	FY24	FY25E	FY26E
EPS (INR)	15.8	34.3	16.8	28.7
Growth, %	85.2	116.8	(51.0)	71.2
Book NAV/share (INR)	248.8	281.6	309.0	336.0
FDEPS (INR)	15.8	34.3	16.8	28.7
CEPS (INR)	32.0	52.1	37.5	54.8
CFPS (INR)	10.0	(42.3)	126.6	82.6
DPS (INR)	(1.5)	(1.5)	(1.5)	(1.5)
<b>Return ratios</b>				
Return on assets (%)	4.7	6.7	3.2	3.1
Return on equity (%)	6.4	12.2	5.4	8.6
Return on capital employed (%)	8.9	13.4	7.6	9.1
<b>Turnover ratios</b>				
Asset turnover (x)	0.6	0.5	0.6	0.8
Sales/Total assets (x)	0.2	0.2	0.2	0.2
Sales/Net FA (x)	1.0	0.8	1.0	1.1
Working capital/Sales (x)	0.7	1.0	0.4	0.2
Receivable days	-	-	-	-
Inventory days	630.7	1,119.3	1,161.0	1,199.2
Payable days	542.7	1,075.9	639.3	461.4
Working capital days	251.5	373.8	135.1	67.7
<b>Liquidity ratios</b>				
Current ratio (x)	1.4	1.4	1.2	1.1
Quick ratio (x)	0.6	0.5	0.3	0.2
Interest cover (x)	1.8	1.5	1.7	2.3
Net debt/Equity (%)	68.4	85.4	61.0	54.8
<b>Valuation</b>				
PER (x)	13.3	6.2	12.6	7.3
PEG (x) - y-o-y growth	0.2	0.1	(0.2)	0.1
Price/Book (x)	0.8	0.7	0.7	0.6
EV/Net sales (x)	1.8	2.3	1.4	1.0
EV/EBITDA (x)	7.3	7.2	6.2	4.7
EV/EBIT (x)	10.6	10.2	9.0	6.8

Source: company, Axis Securities

## Prestige Estates Projects Price Chart and Recommendation History



Date	Reco	TP	Research
06-Aug-24	BUY	2,195	Result Update

Source: Axis Securities Research

## Disclosures:

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, and Stock Broking, the details in respect of which are available on [www.axisbank.com](http://www.axisbank.com).

Axis Securities Limited, is registered as a

- Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
- Corporate Agent with Insurance Regulatory and Development Authority of India
- Point of Presence with Pension Fund Regulatory and Development Authority
- Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE, MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP00000654 | Investment Advisor Reg No. INA00000615 | SEBI-Research Analyst Reg. No. INH00000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073 | PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Jatin Sanghani, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in).; Registered Office Address – Axis House, 8th Floor, Wadia International Centre, P.B. Marg, Worli, Mumbai-400025.

Corporate Office Address – Axis Securities Limited, Unit No.002 A, Ground Floor, Agastya Corporate Park- Piramal Realty, Near Phoenix Market City Mall, Kurla (W), Mumbai – 400070.

Administrative office address: Aaurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us [helpdesk@axisdirect.in](mailto:helpdesk@axisdirect.in).

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HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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