What makes Puravankara one of the most profitable listed real estate development company in India?

Puravankara Projects Limited | Annual report 2011-12

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Year 2011-12 was a challenging year for most real estate companies in India.

Indian economy slowed. Incomes declined. Fewer buyers bought into new properties. The cost of material inputs rose. Interest rates increased.

And yet, Puravankara reported an 14.28% return on employed capital, an EBIDTA margin of 48.13%, profit after tax of ₹135.73 cr and earnings per share of ₹6.36.

Emphasising its position as one of India's most profitable real estate development company.

Experience
Over three-and-a-half decades of rich experience in property development, real estate and construction

Spread
Operations across major cities in South India (Hyderabad, Bengaluru, Mangalore, Mysore, Chennai, Kochi Coimbatore), Colombo and in the United Arab Emirates

Comprehensive
Extensively engaged across the entire real estate spectrum through Provident Housing Limited, a 100% subsidiary, which is engaged in premium affordable projects

Name

Unique
Robust execution capability derived from managing quality, brand and premium realisations

Track record
Successful completion of 34 residential projects and two commercial projects spanning over 7.80 mn sq. ft

Puravankara is one of South India's largest and most respected realty brands

2011-12 in brief

- Developed and handed over a cumulative 7.80 mn sq. ft
- Average realisations increased 31% from ₹2,734 per sq. ft to ₹3,586 per sq. ft
- Despite a sluggish year, strong focus on execution and sales led to a 36% increase in turnover to ₹815.46 cr and 15% surge in post-tax profit to ₹135.73 cr

Projects

Some of the landmark projects comprise Atria, Venezia, Highland, Grandbay, Eternity, Swanlake, Moonreach, Riviera, Vantage, Belmont, Sunshine, Grande and Fountainsquare

Dividend

Proposed a dividend of ₹1 per equity share (FV of ₹5) for 2011-12

plate

Market capitalisation and listing

Market capitalisation stood at ₹1,453 cr as on 31 March 2012 and is listed on the BSE and NSE

Promoter holding

Promoter holding of 89.96% (as on 31 March 2012); promoter shares are unencumbered

Have developed 7.80 mn sq. ft

A business built around stakeholder trust

From the Chairman's desk

Eyepiece

The key to our sustained robust performance was a relatively different approach of doing business in India's real estate development sector

THE financial year under review was a challenging one for India's real estate industry. In response to growing inflation, the RBI announced interest rate increases, which did two things for our business: one, it increased the overall cost for real estate buyers especially for the large segment of buyers that engage in mortgaged purchase, which in turn resulted in a number of them preferring to postpone purchases; two, it increased the interest cost for all real estate development companies. The combined effect of a slower sales accretion and a higher cost translated into a lower industry growth of 12% in 2011-12 and generally lower bottomlines across the country's real estate development players.

Puravankara was no exception to this national trend. However, the decline in performance at Puravankara was lower than the national average. Your Company reported revenues of ₹815.46 cr in 2011-12 (₹599.93 cr in 2010-11) and a profit after tax of ₹135.73 cr (₹117.91 cr in 2010-11).

At Puravankara, we recognise the challenges at succeeding in this business with a pan-India business model.

The decline notwithstanding, we continued to protect the integrity of our business during the slowdown. We continued to invest in Puravankara and Provident brands, we did not slash rates to sustain our cash flow and we did not enhance our indebtedness to stay liquid. The result is that we reported a 31% increase in our average per sq. ft realisation during a period of slowdown, our EBIDTA margin of 48.13% for 2011-12 was higher than the industry average and our debt-equity ratio continued to be comfortable at 0.74.

At Puravankara, we believe that in a country where the demand for realty space will be in excess of supply for a number of years, realty companies will need to respond with a specific business model that makes it possible to grow on a sustainable basis -- resist declines better than the broad industry and report a quicker rebound during industry recoveries.

At Puravankara, our business is structured around such a model marked by strategic distinctiveness:

- At Puravankara, we believe that sustainable growth in the large end of the real estate industry can only be derived through a stringently corporatised culture with a respect for the professional application of systems, processes and compliances
- At Puravankara, we believe that sustainable growth can be achieved through predictable revenue/profit growth marked by low debt and business returns (as defined by return of employed capital and return on equity), higher than the industry average.
- At Puravankara, we believe that these superior returns can be consistently derived through a relatively asset-light business model (without excessive investments in land banks).
- At Puravankara, we recognise that true competitiveness in the realty industry can be derived from efficient project execution, which reconciles knowledge, capability, equipment, processes, standard operating procedures and information technology to deliver projects quicker than the industry average.
- At Puravankara, we selected to grow our presence in that segment of the value pyramid that extends from the premium affordable to the premium exclusive, which is not only growing, under-served but also attractively remunerative.
- At Puravankara, we recognise the challenges at succeeding in this business with a pan-India business model. The Company selected to grow its presence intensively across a relatively select geography with corresponding benefits arising out of the economies of scale, brand, employees and demographics
- At Puravankara, we maintain a balance between projects that we were engaged in completing on the one hand and the pipeline of new launches. This balance makes it possible for us to engage in a reasonable number of realty projects without stretching our managerial bandwidth on the one hand

At Puravankara, we developed exclusive brands for different products and consumers

and report an attractive cash flow from new launches on the other

- At Puravankara, we developed exclusive brands for different products and consumers; while our flagship brand addresses the premium exclusive client, our Provident brand addresses the premium affordable segment

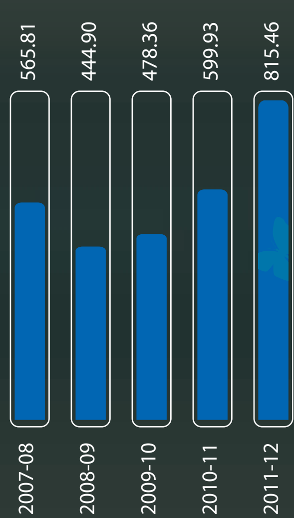
- At Puravankara, we distinguish our properties (thematically and through amenities) from what is available within a specific location and from what we marketed in the past. The result is a 'If it is Puravankara, it must have a different recall'

- At Puravankara, we do not completely market properties at launch. We maintain an inventory of saleable area until the project is completed and ready for handover. We believe that the largest sale transpires when a property is completed, accompanied by an incremental realisation that far exceeds similar in-progress properties as well as the cost of funds incurred to complete them. Besides, through this sales approach, the cost of delay is borne by the Company and not the customer, which protects the Puravankara brand

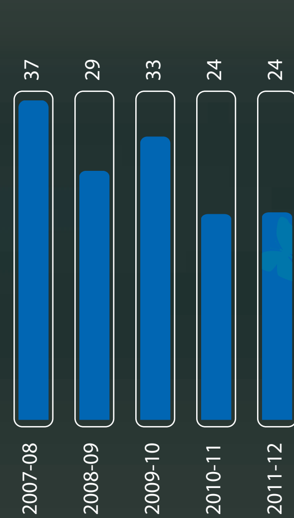
- At Puravankara, we price our properties in line with a desired IRR with periodic increases to achieve this target. We re-price our properties transparently on the basis of the volumes we sell while protecting the interests of those who bought first and creating clarity regarding how our prices will move based on our sales offtake

- At Puravankara, we prefer to work at the lower end of the gearing spectrum

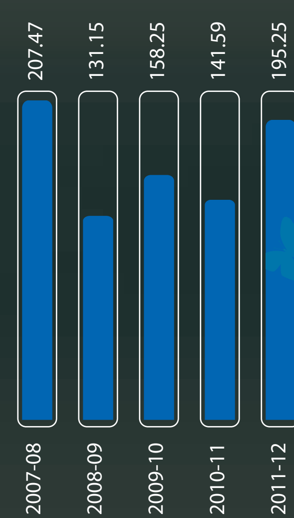
Our story in numbers



Turnover (₹ cr)



Operating costs as percentage of revenue (%)



Operating profit (₹ cr)

> At Puravankara, we are transparent. For instance, the total land area that we possess is always expressed in saleable area

with a conservative approach towards growing our debt book. The result is that even though 2011-12 was one of the most challenging that the industry encountered in years, Puravankara reported a net debt addition of only ₹166.60 cr; the Company's debt-equity ratio increased marginally from 0.67 to 0.74

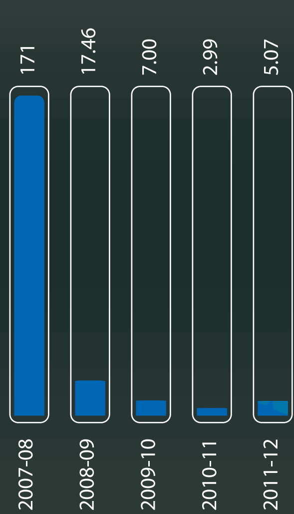
- At Puravankara, we are transparent. For instance, the total land area that we possess is always expressed in saleable area for the benefit of our shareholders and the analyst community

- At Puravankara, we engage with our shareholders and analysts through a periodic dialogue when we explain our audited quarterly results and the broad industry direction, helping manage their expectations

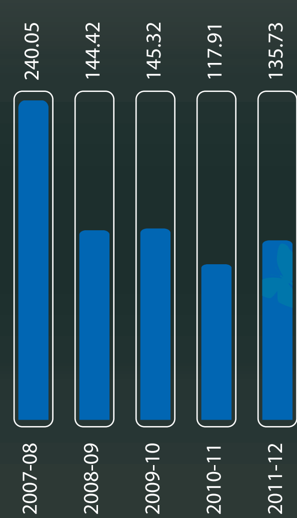
Going ahead, we foresee a churn within our residential portfolio: faster growth coming out of our Provident brand, increasing from 31% of our overall revenues today to an estimated 50% by 2013-14. We intend to grow our presence in the mid-segment of India's growing commercial space market (Class A) and we intend to grow our presence in the middle and upper segments of India's retail segment.

We expect that our priorities and initiatives should translate into Puravankara achieving annual revenues of ₹1000 cr going forward.

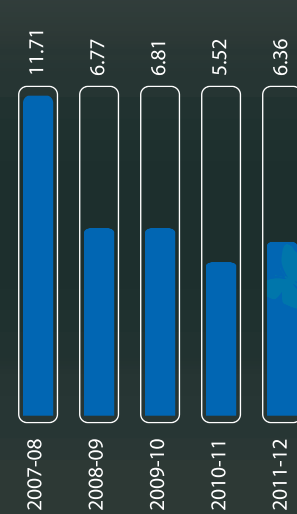
Ravi Puravankara
Chairman



Interest cover



Post-tax profit (₹ cr)



EPS (₹)

Next level

Despite a challenging macro-economic environment in 2011-12, Puravankara strengthened realisations 31%

- Puravankara focused on three things: customer service, customer service and customer service. We created a dedicated 24x7 marketing helpdesk through a single-source all-India number. This single-stop number addressed various customer needs (information, issues, clarifications, project updates, site visits).
- Puravankara manages sale of most of its apartments until fully completed. The completed apartments fetch a higher realisation than if they had been sold while they were still being constructed
- Puravankara halved the sales agreement cycle to 15 days by addressing all customer queries and aggressive follow-ups, resulting in upfront advance mobilisation to the extent of 15% of the total apartment cost. This mobilisation was then used in onward project execution, lowering average project expense, optimising apartment sticker price and attracting more buyers – a virtuous growth cycle
- Puravankara focused on constructing premium lifestyle properties relatively better insulated from industry cyclicality
- Puravankara instituted an innovative ‘Evening with Puravankara’ programme in which we updated buyers (existing and prospective) on project schedules and provided networking opportunities to create a bonded community

RESULT: PURAVANKARA REPORTED AN EBIDTA MARGIN OF 48.13% IN 2011-12