

SUNTECK REALTY

Vasai project addition adds cheer

India Equity Research | Real Estate

Sunteck Realty (SRL) has acquired a prime project in Vasai (West), Mumbai, of 4.5msf saleable area. The project has been acquired under the company's asset-light JDA model with SRL's revenue share at ~74%. We believe the acquisition is value accretive with NAV addition of ~INR36/share. The company's robust balance sheet enables further NAV growth through new project acquisition. However, in our view, the pandemic will lead to delay in build-up of annuity portfolio. We factor in the new project as well as the delayed annuity revenue stream; maintain our target price of INR268 and 'BUY'.

New project addition boosts project portfolio

SRL has acquired a prime 50 acres project in Vasai (West) near the Suruchi beach with ~4.5msf saleable area. The company is planning to develop sea-facing apartments as well as row houses/bungalows in the project over the next five-seven years. The extended Western suburbs in MMR (Mira Road and beyond) typically have ASPs in the INR4,500-5,000/sft range. However, considering the: (a) SRL brand; (b) sea-view property; and (c) the company's stupendous success with the Naigaon project, which is commanding realisations well in excess of INR5000/sft, SRL believes this project will command a premium. It will have ~74% revenue share in the project.

Viable project economics

The company will construct and market the project; there is minimal refundable upfront payment to be made to the land owner. Taking a conservative view, we believe the project can generate revenue of ~INR35bn, assuming ASP of ~INR7,000/sft. Factoring in project cost (ex-land) of INR3,000/sft, 5% YoY inflation and seven years of development period, we estimate project NAV of INR5bn (INR36/share).

Outlook and valuation: Attractive; maintain 'BUY'

SRL's low gearing provides room to leverage its balance sheet and capitalise on attractive land purchase opportunities to grow its NAV. We add this project, but at the same time factor in the likely delay in the roll out of the annuity portfolio due to the pandemic. Hence, the new project addition does not lead to a change in our NAV. We remain positive on SRL's long-term prospects (courtesy industry consolidation, a diversified product portfolio and lean balance sheet). We continue to follow the old accounting standards and maintain 'BUY/SP' with TP of INR268 (25% discount to NAV of INR357).

Financials	(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E
Revenues	8,568	15,188	11,448	7,187
EBITDA	3,780	6,940	5,985	3,608
Net profit	2,275	4,219	3,572	1,862
EPS (INR)	15.6	28.9	24.4	12.7
P/E (x)	11.3	6.1	7.2	13.8
ROE (%)	8.0	13.1	10.0	5.0

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: SUNT.BO, B: SRIN IN)

CMP	: INR 176
Target Price	: INR 268
52-week range (INR)	: 487 / 145
Share in issue (mn)	: 146.4
M cap (INR bn/USD mn)	: 27 / 422
Avg. Daily Vol.BSE/NSE('000)	: 251.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	67.2	67.2	67.1
MF's, FI's & BK's	2.7	2.7	2.7
FII's	26.5	26.5	26.9
Others	3.6	3.6	3.3
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	8.0	8.3	13.6
3 months	3.0	20.7	18.5
12 months	(28.0)	(12.0)	(27.2)

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Chart 1: Average selling prices in extended Western suburbs are now in excess of INR5000/sft

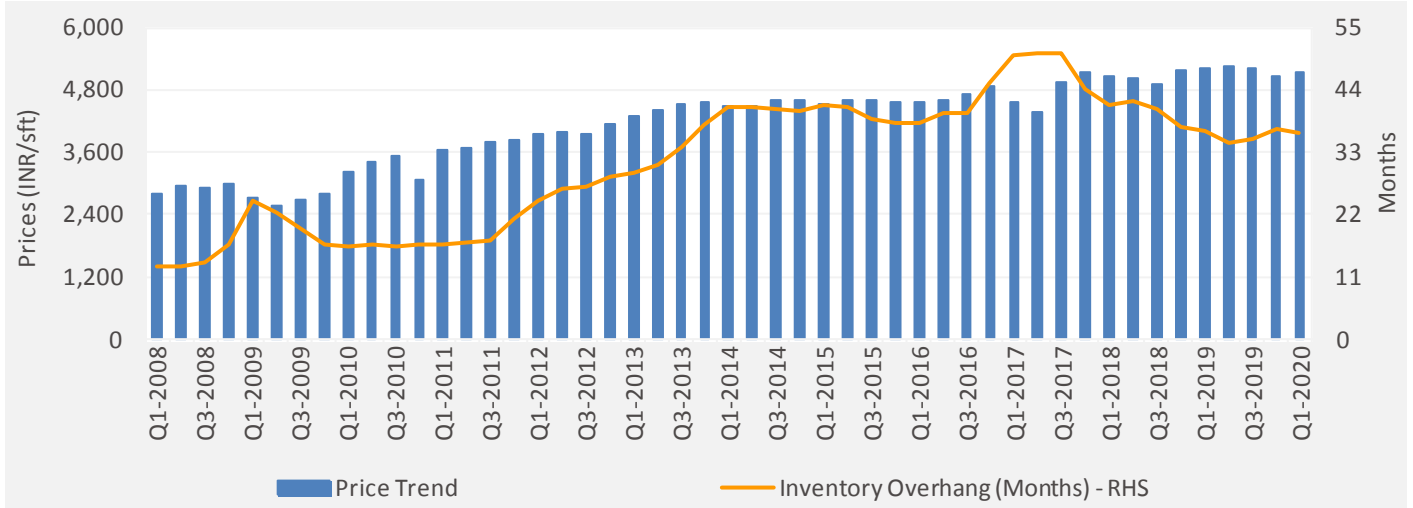
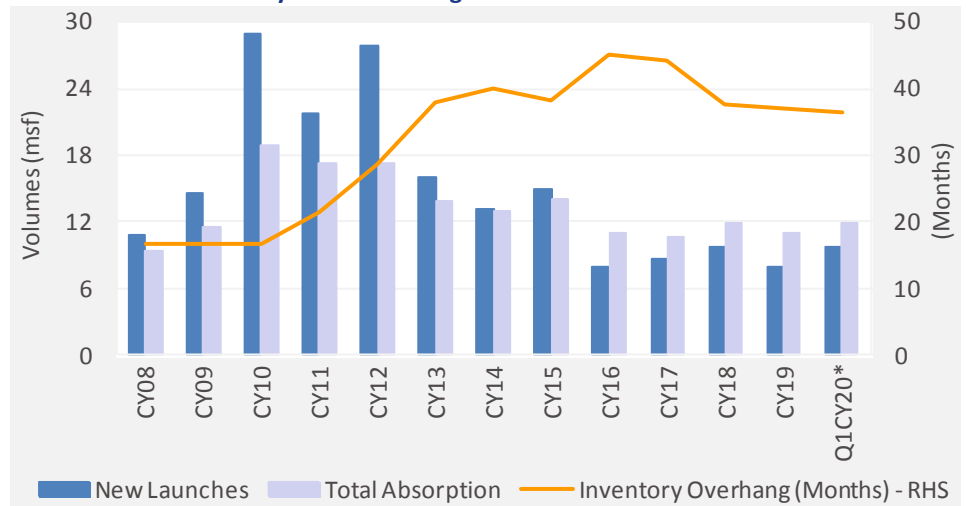


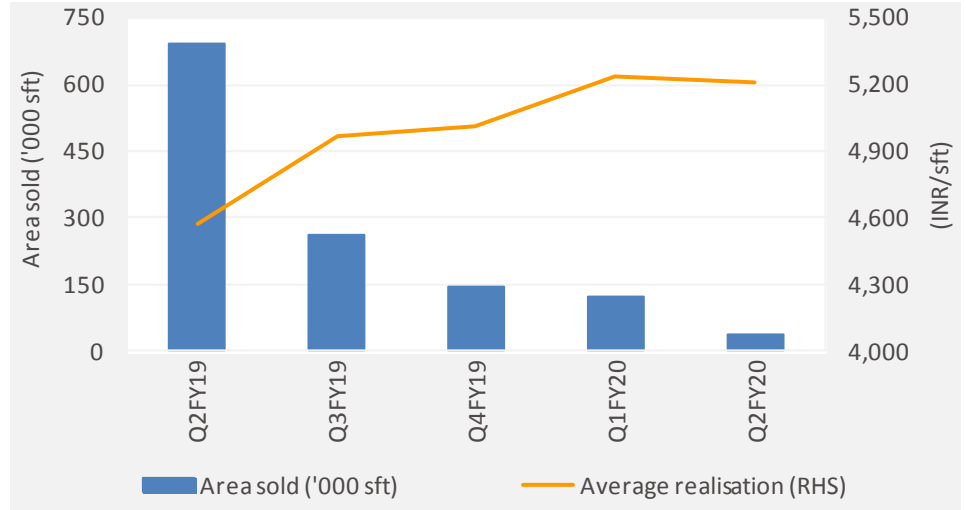
Chart 2: Unsold inventory levels declining in the extended Western suburbs



Source: PropEquity, Edelweiss research

Note: * Q1CY20 data is for trailing twelve months

Chart 3: SRL has achieved significant uptick in prices in the Naigaon project



Source: Company, Edelweiss research

Company Description

SRL is a Mumbai focused real estate developer engaged in construction and development of residential and commercial properties. Majority of its land bank is located in Mumbai with the balance across Nagpur, Goa and Jaipur. Its land bank has been acquired through outright purchase as well as JDA/JV with landowners. Its residential development caters to buyers across segments.

Investment Theme

1. Focused and monetisable land bank in lucrative Mumbai market.
2. Ability to source value accretive land buying opportunities.
3. Expected operational scale-up leading to healthy surplus cash.
4. Rising exposure to annuity assets

Key Risks

1. Prolonged slowdown in Mumbai residential market
2. Regulatory risks
3. Partnership risks in JDA/JV projects
4. Macro risks

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Income from operations	8,568	15,188	11,448	7,187
Direct costs	4,214	7,617	4,769	2,815
Employee costs	123	135	149	164
Other Expenses	451	496	546	600
Total operating expenses	4,788	8,248	5,464	3,579
EBITDA	3,780	6,940	5,985	3,608
Depreciation	22	22	23	114
EBIT	3,758	6,918	5,962	3,495
Less: Interest Expense	408	525	586	603
Add: Other income	343	360	378	397
Profit Before Tax	3,693	6,753	5,754	3,289
Less: Provision for Tax	1,284	2,296	1,956	1,118
Less: Minority Interest	136	238	226	308
Associate profit share	3	-	-	-
Reported Profit	2,275	4,219	3,572	1,862
Adjusted Profit	2,275	4,219	3,572	1,862
Shares o/s (mn)	146	146	146	146
Adjusted Basic EPS	15.6	28.9	24.4	12.7
Diluted shares o/s (mn)	146	146	146	146
Adjusted Diluted EPS	15.6	28.9	24.4	12.7
Adjusted Cash EPS	15.7	29.0	24.6	13.5
Dividend per share (DPS)	1.5	1.5	1.5	1.5
Dividend Payout Ratio (%)	11.6	6.3	7.4	-

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Staff costs	1.4	0.9	1.3	2.3
S G & A expenses	5.3	3.3	4.8	8.4
Operating expenses	55.9	54.3	47.7	49.8
Depreciation	0.3	0.1	0.2	1.6
Interest Expense	4.8	3.5	5.1	8.4
EBITDA margins	44.1	45.7	52.3	50.2
Reported profit margins	26.6	27.8	31.2	25.9

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	(3.5)	77.3	(24.6)	(37.2)
EBITDA	1.6	83.6	(13.8)	(39.7)
PBT	9.4	82.9	(14.8)	(42.8)
Adjusted Profit	6.2	85.4	(15.3)	(47.9)
EPS	6.2	85.4	(15.3)	(47.9)

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	140	140	140	140	
Reserves & Surplus	28,197	32,152	35,459	37,057	
Shareholders' funds	28,337	32,292	35,600	37,198	
Minority Interest	910	910	910	910	
Long term borrowings	6,346	7,346	8,346	10,346	
Def. Tax Liability (net)	(148)	(148)	(148)	(148)	
Sources of funds	35,446	40,401	44,708	48,306	
Gross Block	471	491	2,450	2,470	
Net Block	406	221	1,103	1,112	
Capital work in progress	-	2,040	4,356	9,418	
Total Fixed Assets	406	2,261	5,458	10,529	
Goodwill on consolidation	318	318	318	318	
Non current investments	2,577	2,577	2,577	2,577	
Other non current assets	280	280	280	280	
Current Investments	29	29	29	29	
Cash and Equivalents	1,479	3,803	2,159	1,421	
Inventories	26,321	26,695	28,832	34,334	
Trade receivables	3,135	3,485	3,835	4,185	
Loans & Advances	610	810	1,210	1,610	
Other Current Assets	3,913	3,952	3,992	4,032	
Total current assets	33,978	34,941	37,869	44,160	
Current liabilities	3,587	3,770	3,939	10,962	
Provisions	36	39	43	47	
Total Current Liab	3,622	3,809	3,982	11,009	
Net Curr Assets-ex cash	30,356	31,132	33,886	33,151	
Uses of funds	35,446	40,401	44,708	48,306	
BVPS (INR)	193.9	221.0	243.6	254.6	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	2,275	4,219	3,572	1,862	
Add: Depreciation	22	22	23	114	
Interest (Net of Tax)	266	347	387	398	
Less: Changes in WC	2,032	777	2,754	(735)	
Less: Capex	19	2,060	4,275	5,082	
Free Cash Flow	513	1,751	(3,048)	(1,973)	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sunteck Realty Limited	330	7.2	13.8	0.7	0.7	10.5	5.1
Brigade Enterprises	374	158.0	17.2	1.3	1.3	0.8	7.5
DLF	4,518	10.4	17.6	1.0	1.0	10.2	5.8
Godrej Properties	2,869	22.1	18.4	3.8	3.2	18.9	18.8
Oberoi Realty	1,795	11.8	24.0	1.4	1.3	12.5	5.7
Sobha Limited	291	6.1	4.3	0.8	0.7	13.8	17.2
Median	-	11.1	17.4	1.2	1.1	11.5	6.7
AVERAGE	-	36.0	16.0	1.5	1.4	11.1	10.0

Source: Edelweiss research

Cash flow metrics					
Year to March	FY19	FY20	FY21E	FY22E	
Operating cash flow	243	3,648	1,896	2,608	
Financing cash flow	560	736	736	1,736	
Investing cash flow	(423)	(2,060)	(4,275)	(5,082)	
Net cash Flow	380	2,324	(1,644)	(738)	
Capex	(19)	(2,060)	(4,275)	(5,082)	
Dividend paid	(265)	(264)	(264)	(264)	
Share issue/(buyback)	23	-	-	-	

Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
EOP (ROE) (%)	8.0	13.1	10.0	5.0
ROAE (%)	8.3	13.9	10.5	5.1
ROACE (%)	11.6	18.1	14.2	8.3
Current Ratio	9.8	10.2	10.1	4.1
Gross Debt/EBITDA	1.7	1.1	1.4	2.9
Gross Debt/Equity	0.2	0.2	0.2	0.3
Net Debt/Equity	0.2	0.1	0.2	0.2

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	0.3	0.4	0.3	0.2
Fixed Asset Turnover	21.6	48.4	17.3	6.5
Equity Turnover	0.3	0.5	0.3	0.2

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	15.6	28.9	24.4	12.7
Y-o-Y growth (%)	6.2	85.4	(15.3)	(47.9)
Adjusted Cash EPS (INR)	15.7	29.0	24.6	13.5
Diluted P/E (x)	11.3	6.1	7.2	13.8
P/B (x)	0.9	0.8	0.7	0.7
Dividend Yield (%)	0.9	0.9	0.9	0.9

Additional Data

Directors Data

Mr. Kishore Vussonji	Independent Director	Mr. Ramakant Nayak	Independent Director
Mrs. Sandhya Malhotra	Independent Director	Mr. Kamal Khetan	Chairman & Managing Director
Mr. Atul Poopal	Executive Director	Mrs. Rachana Hingarajia	Director & Company Secretary

Auditors - Lodha & Co.

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Pabrai Investment Funds	8.5	Fmr Llc	5.8
Bnp Paribas Sa	2.6	Fil Ltd	2.2
Fid Funds Mauritius Ltd	2.0	L&T Mutual Fund Trustee Ltd/India	1.7
Dimensional Fund Advisors Lp	0.8	Blackrock Inc	0.5
Dsp Investment Managers Pvt Ltd	0.5	Vanguard Group Inc/The	0.1

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Brigade Enterprises	BUY	SP	H	DLF	BUY	SO	M
Godrej Properties	BUY	SO	L	Oberoi Realty	HOLD	SU	L
Sobha Limited	BUY	SP	H	Sunteck Realty Limited	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Real Estate

Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Sobha Limited, Sunteck Realty Limited

Recent Research

Date	Company	Title	Price (INR)	Recos
20-Jul-20	Godrej Properties	Annual Report Insights: Strong foundation, eying market share; <i>Company Update</i>	878	Buy
15-Jul-20	Oberoi Realty	Pandemic causes large-scale dislocation ; <i>Result Update</i>	372	Hold
06-Jul-20	Sobha	Q1FY21: Reasonable performance despite pandemic; <i>Company Update</i>	223	Buy

Distribution of Ratings / Market Cap

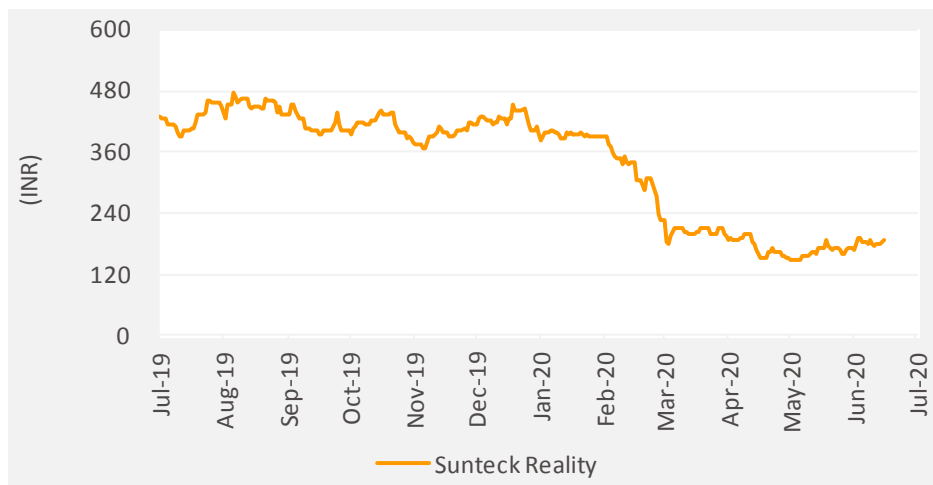
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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