

Robust growth

- SRL posted robust 141% YoY revenue growth to ₹ 2015 Mn due to the improvement in market sentiments with a traction in BKC projects.
- EBIDTA margins expanded 330 bps YoY to 44.2%. This is mainly due to healthy revenue growth.
- PAT up 238% YoY to ₹ 602 Mn. The strong revenue growth and surged in EBIDTA margin led to healthy bottom line.
- SRL sold 3 units in BKC in Q3 FY18 and clocked ₹ 670 Mn sales from it. The latest quarter was the robust so far for FY18 as the company could sold only one unit in Q2 FY18 in BKC. In Q1 FY18 the company sold one unit each at 'Signature Island' and 'Signia Pearl'. The improvement in market sentiments with a traction for BKC projects has led not only to strong growth but also significant improvement in margins.
- BKC has total 3 projects namely 'Signature Island', 'Signia Isle' and 'Signia Pearl', having total 220 apartments, out of which 166 apartments sold and balance 54 apartments remains unsold, which it plans to sell over the next 3-4 years. The outstanding value of inventory stands at ₹ 23.5 Bn.
- SRL sold only 17 units in Oshiwara District Centre (ODC), 'Sunteck City' in the reported quarter and clocked ₹ 320 Mn from the units sold. The quarter was tepid for SRL in ODC project as in Q2 FY18 SRL sold ~79 units, but the management indicated that returning of traction in next quarter. The ODC project continues to see significant improvement in infrastructure and this zone is poised to create huge value going forward.
- The stock trades at 24x FY20 EPS. We recommend Accumulate the stock due to commencement of Naigaon project in affordable housing space and launch of ODC commercial project by Q2FY19. We marginally upgrade the TP to ₹ 482.

Q3FY18 Result (₹ Mn)

Particulars	Q3FY18	Q2FY18	QoQ (%)	Q3FY17	YoY (%)
Total Revenue	2,015	3,467	(41.9)	837	140.8
Total Expenses	1,124	2,475	(54.6)	495	127.3
EBDITA	891	993	(10.3)	342	160.2
Depreciation and	5	3	56.3	6	(6.3)
EBIT	885	989	(10.5)	337	163.1
Interest and Finance	97	122	(20.3)	42	131.1
Other Income	34	43	(21.4)	63	(46.0)
JV Profit/Loss	(7)	(42)	(83.4)	(24)	(70.3)
PBT	815	868	(6.1)	334	144.1
Tax (Current+Deferred)	230	225	2.1	111	107.1
Rev of Gain/Loss	46	(24)	(290)	(28)	(262)
PAT before Minority	631	619	1.9	195	224.0
Minority Interest	28	(3)	(1,144)	16	72.2
PAT after Minority	602	621	(3.0)	178	237.9
			bps		bps
EBIDTA Margin (Ex Ol)	44.2	28.6	1,558	40.9	330
EBIDTA Margin (Incl Ol)	43.5	28.3	1,519	38.0	544
PAT Margin	29.9	17.9	1,198	21.3	859

CMP	₹ 409
Target / Upside	₹ 482/18%
BSE Sensex	34,297
NSE Nifty	10,545

Script Details

Equity / FV	₹ 146mn/₹ 1/-
Market Cap	₹ 60bn
	USD 920mn
52-week High/Low	₹ 449/120
Avg. Volume (no)	1197820
NSE Symbol	SUNTECK
Bloomberg Code	SRIN IN

Shareholding Pattern Dec'17(%)

Promoters	66.8
MF/Banks/FIs	7.8
FIIs	11.6
Public / Others	13.8

Valuation (x)

	FY18E	FY19E	FY20E
P/E	28.1	26.3	24.0
EV/EBITDA	18.6	17.8	16.8
ROE	11.1	10.6	10.5
ROCE	12.8	12.6	12.5

Estimates (₹ mn)

	FY18E	FY19E	FY20E
Net Sales	10,161	10,831	11,479
EBITDA	3,616	3,646	3,729
PAT	2,132	2,278	2,499
EPS (₹)	14.6	15.6	17.1

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Consolidated (₹ Mn)	Q3FY18	Q2FY18	QoQ (%)	Q3FY17	YoY (%)	9MFY18	9MFY17
Total Revenue	2,015	3,467	(41.9)	837	140.8	6,816	8,143
Less Expenses:							
Operating Costs	992	2,451	(59.5)	443	123.7	4,014	5,131
Employee Benefit Exp	23	19	19.0	29	(21.4)	65	106
Other Expenses	110	5	2,123.7	22	391.0	127	149
Total Expenses	1,124	2,475	(54.6)	495	127.3	4,206	5,387
EBDITA	891	993	(10.3)	342	160.2	2,610	2,756
Depreciation and Amortisation	5	3	56.3	6	(6.3)	12	17
EBIT	885	989	(10.5)	337	163.1	2,598	2,739
Interest and Finance Charges	97	122	(20.3)	42	131.1	322	302
Other Income	34	43	(21.4)	63	(46.0)	79	157
JV Profit/Loss	(7)	(42)	(83.4)	(24)	(70.3)	(51)	(79)
PBT	815	868	(6.1)	334	144.1	2,303	2,516
Tax (Current+Deferred)	230	225	2.1	111	107.1	679	644
Remeasurement of Gain/Loss	46	(24)	(290)	(28)	(262.8)	23	(39)
PAT before Minority Interest	631	619	1.9	195	224.0	1,647	1,833
Minority Interest	28	(3)	(1,144)	16	72.2	72	91
PAT after Minority Interest	602	621	(3.0)	178	237.9	1,575	1,742
			bps		bps		
EBIDTA Margin (Ex OI)	44.2	28.6	1,557.6	40.9	330.2	38.3	33.8
EBIDTA Margin (Incl OI)	43.5	28.3	1,519.4	38.0	543.8	37.9	33.2
PAT Margin	29.9	17.9	1,197.9	21.3	859.2	23.1	21.4

Source: Company, DART

SRL Ventured into Affordable space

SRL broke from its conventional path of uber luxury and luxury projects to forayed into affordable housing segment under its new brand "Aspirational Mid-Income Value Homes", under completely a new division. Through this project SRL has now diversified its business across the pricing spectrum. We believe it will strengthen the cash flow visibility & stability of the company going forward. Also, SRL's strong balance sheet strength gives it an edge to capitalized on a lot of distressed opportunities in the market.

- SRL acquired 100 acres of land parcel located in Western suburb at Naigaon East from DDPL Global Infrastructure Private Limited and Unicorn Infraprojects and Estates Private Limited. The project was acquired under asset light JDA model.
- Naigaon is poised to be next emerging suburbs in that region after Vasai-Virar belt.
- The land parcel is located at around 2 kms from Naigaon railway station and is around 1 km from Juchandra railway station on Vasai-Diva railway belt.
- SRL paid ₹ 500 Mn upfront deposit which is refundable from the sales proceeds of the project.
- SRL to spend ₹ 10 Bn over the next 3 to 4 years to develop the project in phase manner.
- Total development potential of the project is 10 msft out of which SRL's share 74% and DDPL Ltd having 26% share. The project will have 10% retail and remaining residential space to be developed in a phased manner.

- SRL to get FSI of 2 as prevailing norms to develop the project. Due to certain deduction taken for the land for which no TDR required to purchase.
- Major advantage for the SRL is that the DDPL Ltd had already done major work for the approvals from the authorities to commence the construction work.
- SRL sees the huge infrastructural development potential in the area after construction of 5 km cable stayed Bhayander-Naigaon Sea Link over the Vasai creek by Mumbai Metropolitan Region Development Authority (MMRDA). The 5 km-long Sea Link with 3+3 lanes on both sides will run parallel to the Western Railway bridge between Bhayandar and Naigaon and will eventually connect with the Mumbai-Ahmedabad National Highway 8. After the new Sea Link is constructed, the travel distance will become shorter and the travelling experience for motorists will also improve. Media report suggests that Maharashtra Chief Minister who also heads the MMRDA, has instructed the officials to fast track construction of the Sea Link. As per the report, the project expected to get all the clearances from the authorities by May 2018 and tenders to be floated by July 2018 and will take around 3 years to complete.
- With Vasai and Virar are developing very fast, the new Sea Link will help connect Naigaon faster with the mainland. It will save approximately 10 to 15 km to travel from Naigaon-Bhayandar to Vasai-Virar.

Concall Highlights:

- Both BKC and ODC projects saw improvements, however other projects are awaiting some of the approvals from the authorities, due to which there were slight drop in sales from it.
- SRL has been actively looking for distress projects in MMR region taking into account the strong balance sheet and almost negligible debt.
- The company sold 3 units in BKC in 'Signia Isle' in the quarter with average realizations at ₹ ~66,000 per sq ft. against ₹ 54,000-54,500 a year ago.
- Average realizations increased marginally for the ODC project in Q3 FY18 is at around ₹ 14,000-14,500 per sq ft.
- ODC Avenue III to VI to be launched by Q2 FY19. This 16-acre land parcel will have about 4.5 msft of development potential, out of which SRL intend to develop phase wise 2.6 msft of commercial and high street, and some retail over the next 2-3 years. This will give annuity income of about ₹ 4,500-4,750 Mn at the current rentals which are ongoing in the micro market. Commercial
- SRL to launch the Naigaon project by Q2 FY19 as all major approvals for the project are in place. The first phase will be developed with 1.5 Msft.
- The company to launch the project at around ₹ 5,000 per sq ft. SRL sees ₹ 2,000 per sq. ft. as construction cost for the project in affordable segment. The company sees ₹ 1,500-2,000 profit per sq ft to be realized from the project over the next few years. SRL to maintain 25-27% margins from the project.
- Out of Pre-sales in Q3 FY18 of ₹ 1,040 Mn, ₹ 670 Mn comprises from BKC and ₹ 320 Mn from ODC in Avenue I and II, remaining from other projects.
- Out of Collection in Q3 FY18 of ₹ 1,010 Mn, ₹ 550 Mn comprises from BKC, ₹ 420 Mn from ODC, remaining from other projects.
- Net debt of SRL post QIP and preferential issues, stands at 0.3x and in value terms it is ₹ 3,290 Mn against Net Worth of ₹ 25 Bn.
- The company acquired a part stake in premium South Mumbai property through the High Court process. This is subject to various approvals, terms and conditions and directions of the Court, the company will come out with the details of the project at the appropriate time.
- SRL also commenced construction of two new projects – Sunteck Icon (commercial project) at BKC junction and Gilbert Hill (residential project) at Andheri (W).
- 'Signia High' project at Borivali East is expected to receive OC by next 7 to 10 days.
- Revenue recognition for 'Signia Pride' and 'Signia Waterfront' projects to be expected in FY19.

Income Statement (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Revenue	9,522	10,161	10,831	11,479
Total Expenditure	6,041	6,545	7,185	7,751
Operating Expenses	5,656	6,108	6,719	7,257
Other Income	82	64	146	242
EBIDTA (Excl. OI)	3,481	3,616	3,646	3,729
EBIDTA (Incl. OI)	3,562	3,680	3,792	3,971
Depreciation	23	24	26	27
EBIT	3,458	3,592	3,621	3,703
Interest	455	414	401	337
Profit Before Tax	3,084	3,544	3,539	3,584
Tax	872	992	991	1,003
Net Profit	2,212	2,249	2,375	2,603
Minority Interest	122	117	97	104
Adj. Net Profit	2,090	2,132	2,278	2,499

Balance Sheet (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	120	146	146	146
Reserves	17,833	20,150	22,443	24,765
Net Worth	17,953	20,296	22,589	24,913
Minority Interest	706	0	0	0
Secured Loans	9,464	8,714	8,014	7,414
Loan Funds	9,464	8,714	8,014	7,415
Deferred Tax Liability	(234)	0	0	0
Total Capital Employed	27,890	29,010	30,603	32,329
Applications of Funds				
Gross Block	450	459	473	497
Less: Accumulated Dep.	47	71	97	124
Net Block	403	387	376	373
Goodwill on Consolidation	318	318	318	318
Investments	2,744	2,882	3,112	3,361
Current Assets, Loans & Advances				
Inventories	28,017	27,282	27,597	27,521
Sundry Debtors	1,609	1,531	1,484	1,573
Cash and Bank Balance	986	1,278	2,919	4,842
Other Current Assets	2,459	2,505	2,671	2,831
sub total	33,071	32,596	34,671	36,767
Less: Current Liabilities & Provisions				
Current Liabilities & Prov	15,914	7,173	7,874	8,493
Net Current Assets	24,424	25,423	26,797	28,273
Total Assets	27,890	29,010	30,603	32,329

E – Estimates

Cash Flow (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	3,084	3,241	3,366	3,607
Depreciation	23	24	26	27
Net Interest Exp	455	414	401	337
Direct taxes paid	(872)	(992)	(991)	(1,003)
Change in Working Capital	843	(707)	268	446
(A) CF from Operations	3,533	1,980	3,069	3,414
Capex	(5)	(8)	(14)	(24)
Free Cash Flow to Firm	3,528	1,972	3,055	3,390
Inc./ (Dec.) in Investments	22	(137)	(231)	(249)
(B) CF from Investments	17	(145)	(245)	(272)
Issue of Equity/ Preference	0	26	0	0
Inc./ (Dec.) in Debt	(2,912)	(750)	(700)	(599)
Interest exp net	(455)	(414)	(401)	(337)
Dividend Paid (Incl. Tax)	(259)	(299)	(298)	(302)
(C) CF from Financing	(3,626)	(1,437)	(1,399)	(1,236)
Net Change in Cash	70	292	1,642	1,923
Opening Cash balances	917	986	1,278	2,919
Closing Cash balances	986	1,278	2,919	4,842

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	36.6	35.6	33.7	32.5
EBIDTA Margin (incl. O.I.)	37.4	36.2	35.0	34.6
Interest/Sales	4.8	4.1	3.7	2.9
Tax/PBT	32.6	32.1	31.3	31.7
Net Profit Margin	28.3	30.6	29.4	27.8
(B) As Percentage of Net Sales				
Operating Expenses	59.4	60.1	62.0	63.2
Employee Cost	1.4	1.3	1.3	1.3
Selling & Admin Expenses	2.7	3.0	3.0	3.0
(C) Measures of Financial Status				
Debt / Equity (x)	0.5	0.4	0.4	0.3
Interest Coverage (x)	7.8	8.9	9.5	11.8
Average Cost of Debt (%)	4.2	4.6	4.8	4.4
Debtors Period (days)	61.7	55.0	50.0	50.0
Closing stock (days)	1,074	980	930	875
Working Capital (x)	0.4	0.4	0.4	0.4
Fixed Assets Turnover (x)	21.2	22.1	22.9	23.1
(D) Measures of Investment				
Diluted EPS (₹)	17.4	14.6	15.6	17.1
CEPS (₹)	17.6	14.7	15.7	17.3
DPS (₹)	4.1	5.1	5.7	6.7
Book Value (₹)	149.7	138.7	154.4	170.3
RoANW (%)	12.3	11.1	10.6	10.5
RoACE (%)	12.5	12.8	12.6	12.5
RoAIC (%)	13.6	13.4	13.6	14.3
(E) Valuation Ratios				
CMP (₹)	410	410	410	410
P/E (x)	23.5	28.1	26.3	24.0
Market Cap. (₹ Mn)	49,112	59,916	59,916	59,916
MCap/ Sales (x)	5.2	5.9	5.5	5.2
EV (₹ Mn)	57,590	67,352	65,011	62,489
EV/Sales (x)	6.0	6.6	6.0	5.4
EV/EBDITA (x)	16.5	18.6	17.8	16.8
P/BV (x)	2.7	3.0	2.7	2.4
FCFE Yield (%)	0.3	1.3	3.3	4.1
Dividend Yield (%)	1.0	1.2	1.4	1.6

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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