

SUNTECK REALTY

Growth horizons expanding

India Equity Research | Real Estate

Sunteck Realty's (SRL) Q3FY18 profit was in line with estimate (surged 239% YoY, down 3% QoQ). New sales at INR1bn were however muted (fell 18% YoY, 39% QoQ) with *Signia Isles* and *Avenue 1/2* projects contributing to bulk of the bookings. The company has ventured into the affordable housing segment via the JDA route for a project in Naigaon (10msf saleable area), in the extended Western suburbs in MMR; we believe this will broaden its growth horizon. We incorporate this project (INR60/share) in our valuation and maintain 'BUY' with TP of INR508 (INR423 earlier) as we roll over to FY20E.

Revenue below estimate; new sales weaken

SRL reported revenue of INR2bn (up 141% YoY, down 42% QoQ) as against our estimate of INR3.1bn, driven by revenue recognition from *Signia Isles*, *Signia Pearl* and *Sunteck City Avenue 1/2* (ODC) project. EBITDA margin improved 330bps YoY and 1560bps QoQ to 44% due to higher contribution from the BKC project. This meant that PAT was in line despite weak revenues. **Operations:** Q3FY18 new sales declined to INR1bn (down 39% QoQ) due to lower sales in ODC project (INR322mn). Management attributed this to lack of marketing activations during the quarter. Collections in Q3FY18 declined 31%, both YoY and QoQ to INR1bn.

Foray into affordable housing burnishes prospects

SRL has entered into a JDA to develop a 100acre land parcel in Naigaon for affordable housing purpose. The company has made an upfront payment of INR500mn to the land owner and will have 73% revenue share. The project will have saleable area of ~10msf and will be developed over three phases; SRL expects to launch Phase 1 over the next six months. Assuming launch price of INR5,000/sq ft (in-line with nearby micro-markets, such as, Vasai/Virar), construction cost of ~INR2,000/sq ft and MAT tax benefits (with the project eligible for tax exemptions under the affordable category), the project will contribute NAV of INR8.7bn or INR60/share to our valuation.

Outlook and valuations: Attractive; maintain 'BUY'

We expect SRL to perform well driven by: (a) launch of Goregaon future phases; (b) sales pick up in Goregaon & BKC projects; and (c) entry into affordable housing segment. A strong balance sheet (post QIP) and preference for organised players post RERA are other key positives. We incorporate the Naigaon project in our valuation, roll over to FY20E and maintain 'BUY/SP' with a SoTP-based target price of INR508.

Financials

Year to March	Q3FY18	Q3FY17	% chg	Q2FY18	% chg	FY17	FY18E	FY19E
Revenues	2,015	837	140.8	3,467	(41.9)	9,522	9,571	13,117
EBITDA	891	342	160.4	993	(10.3)	3,481	3,777	5,477
Net Profit	602	178	238.7	621	(3.1)	2,161	2,192	3,182
EPS (INR)	4.2	1.7	145.9	5.4	(21.2)	17.2	15.0	21.8
P/E (x)						23.4	26.7	18.4
ROE (%)						12.7	9.9	11.4

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Perform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equal weight

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

CMP	: INR 401
Target Price	: INR 508
52-week range (INR)	: 450 / 120
Share in issue (mn)	: 146.3
M cap (INR bn/USD mn)	: 59 / 905
Avg. Daily Vol.BSE/NSE('000)	: 530.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	66.8	73.8	75.0
MF's, FI's & BK's	7.8	4.1	2.7
FII's	17.3	10.0	14.7
Others	8.2	12.1	7.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(4.8)	(4.9)	(8.9)
3 months	9.3	0.6	9.1
12 months	22.7	16.7	67.9

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Management call highlights

1. **Margin:** Margin improved in Q3FY18 as ~64% of the revenue came from the high-margin BKC project.
2. **BKC projects:** Of the total 220 apartments at the BKC project, ~74% have been sold, resulting in inventory of 54 units valued at ~INR23.5bn which the company expects to sell over next three-four years.
3. SRL has commenced construction of two projects – *Sunteck Icon* at BKC junction (commercial) and *Gilbert Hill* at Andheri (W). It has yet to decide whether the BKC project will be on lease model or outright sale.
4. **Borivali:** In the *Signia High* project, SRL expects to receive OC soon post which sales will be restarted.
5. The company expects revenue recognition for the *Signia Waterfront* and *Signia Pride* projects to commence in Q1FY19.

Financial snapshot

(INR mn)

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	YTD FY18	FY18E	FY19E
Net revenues	2,015	837	140.8	3,467	(41.9)	6,816	9,571	13,117
Direct expenses	992	444	123.6	2,451	(59.5)	4,014	5,427	7,256
Staff costs	23	29	(21.4)	19	19.1	65	96	101
Other expenses	110	22	390.9	5	2,136.7	146	270	283
Total expenditure	1,124	495	127.2	2,475	(54.6)	4,225	5,793	7,640
EBITDA	891	342	160.4	993	(10.3)	2,591	3,777	5,477
Depreciation	5	6	(6.3)	3	58.4	12	18	20
Other income	34	63	(46.1)	43	(21.4)	98	131	137
Interest	97	42	131.1	122	(20.3)	322	425	370
Add: Exceptional items								
Profit before tax	822	357	130.0	911	(9.7)	2,354	3,464	5,224
Provision for taxes	230	111	107.1	225	2.1	679	1,074	1,776
PAT	592	246	140.4	685	(13.6)	1,675	2,390	3,448
Minority interest	74	16	349.8	(3)	(2,834.6)	72	198	265
Associate profit share	(7)	(24)	NA	(42)	NA	(51)		
Reported profit	602	178	238.7	621	(3.1)	1,575	2,192	3,182
Diluted shares (mn)	146	126		126		146	146	146
Diluted EPS (INR)	4.2	1.7	145.9	5.4	(21.2)	10.8	15.0	21.8
Adjusted Diluted EPS	4.2	1.7	145.9	5.4	(21.2)	10.8	15.0	21.8
as a % of net revenues								
Cost of construction	49.2	53.0		70.7		58.9	56.7	55.3
Employee cost	1.1	3.4		0.5		1.0	1.0	0.8
Other expenses	5.4	2.7		0.1		2.1	2.8	2.2
Total expenses	55.8	59.1		71.4		62.0	60.5	58.2
EBITDA	44.2	40.9		28.6		38.0	39.5	41.8
Depreciation	0.3	0.7		0.1		0.2	0.2	0.2
EBIT	43.9	40.2		28.5		37.8	39.3	41.6
Interest expenditure	4.8	5.0		3.5		4.7	4.4	2.8
Reported profit	29.9	21.2		17.9		23.1	22.9	24.3
Tax rate	28.0	31.1		24.8		28.8	31.0	34.0

Company Description

Sunteck Realty Limited is a Mumbai focused real estate developer engaged in construction and development of residential and commercial properties. As of F16 it has 24msf of land bank, 63% of which is located in Mumbai and 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. Attractive Valuations.
5. Potential upside from surplus land.

Key Risks

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

Financial Statements

Key Assumptions

Year to March	FY17	FY18E	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
Area Sold (msf)	0.3	0.3	0.7	1.0
Average Rate (INR / sf)	21,614	23,497	21,950	21,613
New Sales (Rs.bn.) - Development Properties	5.6	6.7	16.4	22.7
Selling Price increase (%)	5.0	5.0	5.0	5.0
Construction Cost Increase (%)	5.0	5.0	5.0	5.0
Effective tax rate (%)	28	31	34	34

Income statement

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Income from operations	9,522	9,571	13,117	20,714
Direct costs	5,656	5,427	7,256	12,527
Employee costs	129	96	101	106
Other Expenses	257	270	283	297
Total operating expenses	6,041	5,793	7,640	12,931
EBITDA	3,481	3,777	5,477	7,784
Depreciation	23	18	20	22
EBIT	3,458	3,759	5,457	7,762
Add: Other income	82	131	137	144
Less: Interest Expense	455	425	370	363
Add: Prior period items	-	-	-	-
Add: Exceptional items	-	-	-	-
Profit Before Tax	3,084	3,464	5,224	7,544
Less: Provision for Tax	872	1,074	1,776	2,565
Less: Minority Interest	51	198	265	326
Associate profit share	-	-	-	-
Reported Profit	2,161	2,192	3,182	4,653
Adjusted Profit	2,161	2,192	3,182	4,653
Shares o /s (mn)	126	146	146	146
Adjusted Basic EPS	17.2	15.0	21.8	31.8
Diluted shares o/s (mn)	126	146	146	146
Adjusted Diluted EPS	17.2	15.0	21.8	31.8
Adjusted Cash EPS	17.3	15.1	21.9	32.0
Dividend per share (DPS)	1.8	1.6	2.3	3.3
Dividend Payout Ratio (%)	10.5	10.5	10.5	10.5

Common size metrics

Year to March	FY17	FY18E	FY19E	FY20E
Operating expenses	63.4	60.5	58.2	62.4
Staff costs	1.4	1.0	0.8	0.5
S G & A expenses	2.7	2.8	2.2	1.4
Depreciation	0.2	0.2	0.2	0.1
Interest Expense	4.8	4.4	2.8	1.8
EBITDA margins	36.6	39.5	41.8	37.6
Net Profit margins	22.7	22.9	24.3	22.5

Growth ratios (%)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	291.3	0.5	37.1	57.9
EBITDA	1,355.1	8.5	45.0	42.1
PBT	1,258.8	12.3	50.8	44.4
Adjusted Profit	691.2	1.4	45.2	46.2
EPS	691.2	(12.6)	45.2	46.2

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18E	FY19E	FY20E	
Share capital	120	140	140	140	
Reserves & Surplus	17,833	26,286	29,134	33,299	
Shareholders' funds	17,953	26,426	29,274	33,439	
Minority Interest	706	706	706	706	
Long term borrowings	9,439	2,439	1,189	1,189	
Def. Tax Liability (net)	(234)	(234)	(234)	(234)	
Sources of funds	27,865	29,337	30,936	35,100	
Gross Block	182	202	222	242	
Net Block	141	91	100	109	
Total Fixed Assets	141	91	100	109	
Goodwill on consolidation	580	580	580	580	
Non current investments	2,674	2,674	2,674	2,674	
Other non current assets	71	71	71	71	
Current Investments	543	543	543	543	
Cash and Equivalents	986	1,000	2,003	1,713	
Inventories	28,017	27,822	28,073	29,885	
Trade receivables	1,609	1,809	2,459	3,109	
Loans & Advances	815	1,415	2,015	2,615	
Other Current Assets	1,101	1,000	1,100	1,100	
Total current assets	32,085	32,589	34,190	37,252	
Current liabilities	8,660	7,653	8,667	7,282	
Provisions	12	13	15	16	
Total Current Liab	8,672	7,667	8,682	7,298	
Net Curr Assets-ex cash	23,413	24,922	25,508	29,954	
Uses of funds	27,865	29,337	30,936	35,100	
BVPS (INR)	142.6	180.8	200.3	228.8	

Free cash flow		(INR mn)			
Year to March	FY17	FY18E	FY19E	FY20E	
Reported Profit	2,161	2,192	3,182	4,653	
Add: Depreciation	23	18	20	22	
Interest (Net of Tax)	327	293	244	240	
Less: Changes in WC	(830)	1,509	586	4,446	
Operating cash flow	3,020	753	2,608	217	
Less: Capex	5	20	20	20	
Free Cash Flow	3,335	975	2,841	448	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Sunteck Realty Limited	905	26.7	18.4	2.2	2.0	9.9	11.4
Brigade Enterprises	594	22.6	19.1	1.6	1.5	8.4	8.3
DLF	6,198	132.6	52.6	1.6	1.6	1.2	3.1
Godrej Properties	2,554	71.3	40.5	7.7	6.7	11.2	17.7
Oberoi Realty	2,475	36.8	13.1	2.6	2.2	7.4	18.4
Sobha Limited	806	24.7	21.7	1.9	1.7	7.7	8.2
Median	-	31.8	20.4	2.0	1.9	8.1	9.9
AVERAGE	-	52.4	27.6	2.9	2.6	7.6	11.2

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18E	FY19E	FY20E	
Investing cash flow	(20)	20	20	20	
Financing cash flow	(71)	6,280	(334)	(488)	
Net cash Flow	2,969	7,013	2,254	(291)	
Capex	5	20	20	20	
Dividend paid	227	230	334	488	
Share issue/(buyback)	35	6,510	-	-	

Profitability and efficiency ratios

Year to March	FY17	FY18E	FY19E	FY20E
EOP(ROE) (%)	12.0	8.3	10.9	13.9
ROAE (%)	12.7	9.9	11.4	14.8
ROACE (%)	12.8	13.3	18.1	22.6
Current Ratio	381.4	438.1	416.9	533.9
Gross Debt/EBITDA	271.2	64.6	21.7	15.3
Gross Debt/Equity	52.6	9.2	4.1	3.6
Net Debt/Equity	47.1	5.4	(2.8)	(1.6)

Operating ratios

Year to March	FY17	FY18E	FY19E	FY20E
Total Asset Turnover	0.3	0.3	0.4	0.6
Fixed Asset Turnover	64.1	82.5	137.3	198.1
Equity Turnover	0.6	0.4	0.5	0.7

Valuation parameters

Year to March	FY17	FY18E	FY19E	FY20E
Adj. Diluted EPS (INR)	17.2	15.0	21.8	31.8
Y-o-Y growth (%)	691.2	(12.6)	45.2	46.2
Adjusted Cash EPS (INR)	17.3	15.1	21.9	32.0
Diluted P/E (x)	23.4	26.7	18.4	12.6
P/B (x)	2.8	2.2	2.0	1.8
Dividend Yield (%)	0.5	0.4	0.6	0.8

Additional Data

Directors Data

Mr. Kamal Khetan	Chairman & Managing Director	Mr. Atul Poopal	Executive Director
Mr. Kishore Vussonji	Independent Director	Mrs. Rachana Hingarajia	Woman Director
Mr. Ramakant Nayak	Independent Director	Mr. Mahadevan Kalahasthi	Independent Director

Auditors - Lodha & Co.

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Pabrai Investment Fund IV LP	3.73	L&T Investment Management	3.55
Pabrai Investment Fund 3, Ltd	2.31	The Pabrai Investment Fund II LP	2.29
FIL Investment Mauritius Limited	2.21	Fiam Group Trust	1.85
Birla Sunlife Trustee Company	1.32	Birla Sunlife Insurance	1.27
Oxbow Master Fund Limited	1.14	Max Life Insurance Co.	1.06

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
29 Mar 2017	Astha Trust	Buy	2700000	377.85
29 Mar 2017	Matrabhav Trust	Sell	2700000	377.85
14 Mar 2017	College Retirement Equities Fund Stock Account	Sell	334235	300.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
31 Mar 2017	Astha Trust	Buy	2700000.00
31 Mar 2017	MATRABHAV TRUST	Sell	2700000.00

**in last one year*

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

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, Jaypee Infratech, Kolte Patil Developers, Mahindra Lifespace Developers, Oberoi Realty, Sobha Limited, Sunteck Realty Limited

Recent Research

Date	Company	Title	Price (INR)	Recos
12-Feb-18	Sobha	Maintains strong growth trajectory; <i>Result Update</i>	562	Buy
12-Feb-18	Brigade Enterprises	On steady growth path; <i>Result Update</i>	295	Buy
05-Feb-18	Godrej Properties	On terra firma: New sales skyrocket; <i>Result Update</i>	781	Hold

Distribution of Ratings / Market Cap

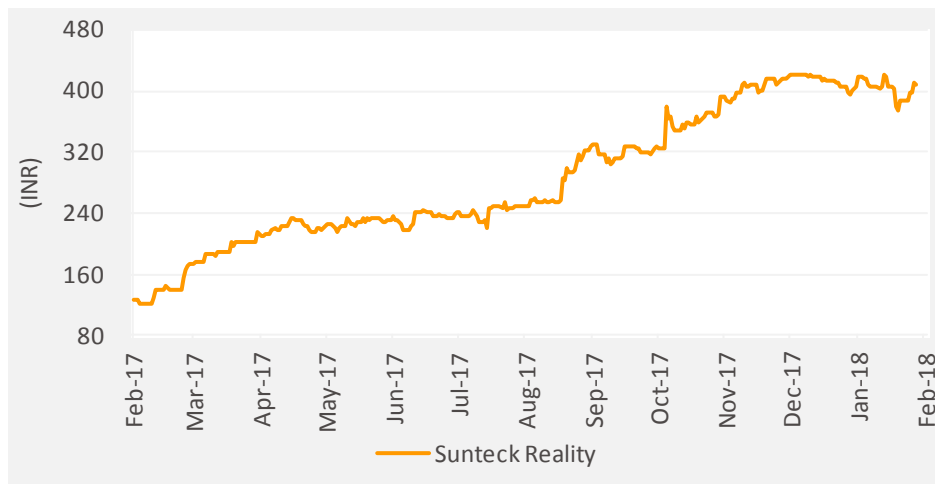
Edelweiss Research Coverage Universe

	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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