

Equity Research

January 25, 2019
BSE Sensex: 36026

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Q3FY19 results review
and TP revision

Real Estate

Target price Rs513

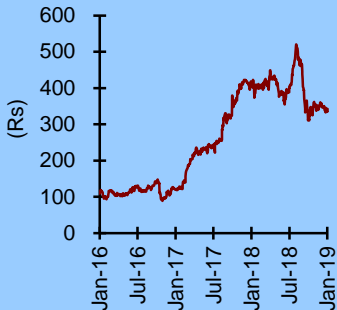
Target price revision
Rs513 from Rs541

Shareholding pattern

	Jun '18	Sep '18	Dec '18
Promoters	66.8	66.8	67.0
Institutional investors	28.0	27.9	27.7
MFs and UTI	3.1	2.4	1.7
FIs/Banks	0.1	0.2	0.1
Insurance	0.8	0.9	0.9
FII	25.0	25.4	25.9
Others	5.2	5.4	5.4

Source: NSE

Price chart



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INDIA



Sunteck Realty

BUY

Maintained

Rs335

On a strong footing

Sunteck Realty (SRIN)'s Q3FY19 operating performance was boosted by the launch of the Westworld affordable housing project at Naigaon in Mumbai's extended western suburbs in the previous quarter. Post its fund raise in H2FY18 through QIP route and promoter fund infusion, SRIN has a low net D/E of 0.2x and has also rejigged its strategy by advancing monetisation of its Goregaon ODC land parcel by building annuity assets. Hence, SRIN offers a mix of exposure to luxury housing (BKC), premium housing (Goregaon ODC), annuity assets (Goregaon ODC) and affordable housing (Naigaon JDA land parcel). We retain our BUY rating on SRIN with a revised target price of Rs513/share (earlier Rs541), factoring in project level sales cycle and cash flow/balance sheet adjustments.

- Naigaon project drives sales bookings:** SRIN reported Q3FY19 sales bookings of Rs3.1bn (up 2x YoY) and collections of Rs1.5bn (up 52% YoY) which were driven by sales bookings at its Naigaon affordable housing project where SRIN clocked bookings worth Rs1.3bn with balance coming mainly from BKC projects (Rs1.1bn) and Rs0.4bn from activations at its Borivali and Airoli projects. Overall, SRIN has continued the strong sales momentum in Naigaon post September 2018 with another 1,000 units of sales and has cumulatively sold ~2,100 of the 2,475 units launched for sale in the project for over Rs7bn.
- Sales momentum to improve in Q4FY19:** We expect sales momentum to improve further in Q4FY19 on the back of renewed activations in ODC Goregaon (activation scheme launched in January 2019) and management has maintained guidance for sales volumes of 150-200 units in FY19E from its ongoing Avenue 1 and 2 projects at ODC (65 units sold in 9MFY19) and is also planning to launch Avenue 3 and 4 residential project at ODC, Goregaon in Q2FY20. Approvals for the commercial towers at ODC, Goregaon are expected to come in H1FY20 post which the company will commence construction activity at the site. As per SRIN's management, the company is not facing any funding related issues at company level and home buyers are not facing any issues with respect to disbursements of loans.
- Naigaon project to be key volume driver going ahead:** After a successful launch of the Naigaon project in Q2FY19, SRIN intends to focus on selling 1-1.5msf of volumes annually from this project which can contribute Rs5-7bn of annual sales value. SRIN has ~73% revenue share will be launched over several phases having a total saleable area of ~10msf. We expect the project to deliver ~25% EBITDA margin over its life with a PAT margin of 18-20%.

Market Cap	Rs49bn/US\$689mn	Year to Mar	FY18	FY19E	FY20E	FY21E
Reuters/Bloomberg	SUNT.BO/SRIN IN	Revenue (Rs bn)	8.9	11.2	21.3	25.1
Shares Outstanding (mn)	146.3	Rec. Net Income (Rs bn)	2.3	2.9	5.7	6.9
52-week Range (Rs)	521/311	EPS (Rs)	15.3	20.4	40.6	48.9
Free Float (%)	33.0	% Chg YoY	(11.9)	33.4	98.9	20.6
FII (%)	25.9	P/E (x)	22.1	16.5	8.3	6.9
Daily Volume (US\$/'000)	1,563	P/B (x)	1.8	1.6	1.4	1.2
Absolute Return 3m (%)	6.2	EV/E (x)	13.1	10.5	5.8	4.8
Absolute Return 12m (%)	(17.3)	Dividend yield (%)	0.6	0.9	1.2	1.5
Sensex Return 3m (%)	7.1	RoCE (%)	14.4	16.3	27.0	27.2
Sensex Return 12m (%)	1.2	RoE (%)	10.2	10.4	18.2	18.7

Please refer to important disclosures at the end of this report

Table 1: Q3FY19 consolidated results*(Rs mn)*

	Q3FY19*	Q3FY18	Q2FY19*	YoY (%)	QoQ (%)
Total Operating income	1,947	2,015	1,803	(3.4)	8.0
Raw Materials	926	992	855	(6.6)	8.4
Personnel Cost	27	23	40	17.8	(33.9)
Other Expenses	180	110	128	64.3	40.8
Total Expenses	1,133	1,124	1,023	0.8	10.8
EBITDA	814	891	780	(8.6)	4.4
<i>EBITDA margin (%)</i>	<i>41.8</i>	<i>44.2</i>	<i>43.3</i>	(239)	(146)
Interest (Net)	109	97	104	12.5	5.7
Depreciation	7	5	5	30.4	42.9
Other Income	104	34	172	204.7	(39.7)
Profit Before Tax	802	822	844	(2.5)	(5.0)
Taxation	289	230	305	25.4	(5.3)
Profit After Tax before MI/Associate	513	592	539	(13.3)	(4.9)
MI/Associate share	(23)	(7)	7		
Reported PAT	490	585	547	(16.2)	(10.4)
<i>Net margin (%)</i>	<i>25.2</i>	<i>29.0</i>	<i>30.3</i>	(386)	(515)

Source: Company data, I-Sec research

Valuations & views

- We like SRIN because it: (1) enjoys strong brand recall in Mumbai, (2) has strong balance sheet with net debt of 0.2x, and (3) rejigged strategy of advancing monetisation of its Goregaon ODC land parcel by building annuity assets.
- We have valued SRIN on SoTP basis with a combination of DCF-based NAV on FY19E basis.
- We value SRIN's affordable housing foray at Rs8.8bn or Rs62/share. We have assumed a total saleable area of ~10msf on the 100 acre land parcel with project launches over 3 phases and sales/construction cycle from FY19-FY26E.
- We retain **BUY** rating on SRIN with a revised target price of Rs513/share (earlier Rs541), factoring in project level sales cycle and cash flow/balance sheet adjustments.

Table 2: SoTP valuation

Project	SRIN FY19E NAV Rs mn)	Rs/share	% of NAV
BKC residential	11,510	82	16.0%
BKC commercial	2,475	18	3.4%
ODC Goregaon Avenue 1 and 2	5,977	43	8.3%
Other ongoing projects	2,231	16	3.1%
ODC Goregaon Avenue 3 and 4	16,167	115	22.5%
ODC Goregaon Avenue 5 and 6 (Commercial and Retail)	19,531	139	27.2%
Land Bank	5,247	37	7.3%
Naigaon Affordable Housing	8,746	62	12.2%
Total NAV	71,884	513	100.0%

Source: I-Sec research

Summary financials (consolidated)

Table 3: Earnings Statement
(Rs mn, year ending March 31)

	FY18	FY19E	FY20E	FY21E
Net Sales	8,883	11,227	21,273	25,054
Operating Expenses	5,163	6,417	11,939	13,919
EBITDA	3,720	4,811	9,334	11,134
<i>% margins</i>	42%	43%	44%	44%
Depreciation & Amortisation	24	25	26	28
Interest expenses	421	400	490	550
Other Income	93	102	112	123
Exceptional items	(57)	-	-	-
PBT	3,425	4,487	8,930	10,680
Less: Taxes	1,078	1,481	2,947	3,524
PAT before				
Minority/Associate	2,347	3,007	5,983	7,156
Minority/Associate share	(92)	(150)	(300)	(300)
Net Income (Reported)	2,255	2,857	5,683	6,856

Source: Company data I-Sec research

Table 4: Balance Sheet
(Rs mn, year ending March 31)

	FY18	FY19E	FY20E	FY21E
Assets				
Total Current Assets	36,691	37,480	36,336	39,279
<i>of which cash & cash eqv.</i>	4,320	4,261	1,948	3,075
Total Current Liabilities & Provisions	9,292	10,221	11,242	12,366
Net Current Assets	27,399	27,259	25,094	26,913
Goodwill/Investments	4,799	5,299	5,799	6,299
Net Fixed Assets	115	90	64	36
Capital WIP	128	4,307	12,326	17,370
Total Assets	32,441	36,956	43,283	50,618
Liabilities				
Borrowings	5,663	7,663	8,663	9,663
Equity Share Capital	140	140	140	140
Reserves & Surplus*	26,136	28,501	33,528	39,564
Net Worth	26,277	28,641	33,668	39,704
Minority Interest	798	948	1,248	1,548
Deferred Taxes	(297)	(297)	(297)	(297)
Total Liabilities	32,441	36,956	43,283	50,618

Source: Company data I-Sec research

Table 5: Cashflow Statement
(Rs mn, year ending March 31)

	FY18	FY19E	FY20E	FY21E
PBT	3,425	4,487	8,930	10,680
Depreciation	24	25	26	28
Non-Cash Adjustments	-	-	-	-
Working Capital Changes	23	80	(148)	(692)
Taxes Paid	(1,078)	(1,481)	(2,947)	(3,524)
Operating Cashflow	2,393	3,112	5,861	6,491
Capital Commitments	(128)	(4,179)	(8,019)	(5,044)
Free Cashflow	2,265	(1,068)	(2,157)	1,447
Other investing cashflow	(1,000)	(500)	(500)	(500)
Cashflow from Investing Activities	(1,128)	(4,679)	(8,519)	(5,544)
Issue of Share Capital	6,510	-	-	-
Inc (Dec) in Borrowings	(4,000)	2,000	1,000	1,000
Dividend paid	(328)	(492)	(656)	(820)
Cashflow from Financing activities	2,182	1,508	344	180
Chg. in Cash & Bank balances	3,447	(59)	(2,313)	1,128

Source: Company data I-Sec research

Table 6: Key Ratios
(Year ending March 31)

	FY18	FY19E	FY20E	FY21E
Per Share Data (Rs)				
EPS	15.3	20.4	40.6	48.9
Cash EPS	16.3	20.6	40.7	49.1
Dividend per share (DPS)	2.0	3.0	4.0	5.0
Book Value per share (BV)	187.5	204.4	240.2	283.3
Growth (%)				
Net Sales	(6.7)	26.4	89.5	17.8
EBITDA	6.9	29.3	94.0	19.3
PAT	3.3	26.7	98.9	20.6
Valuation Ratios (x)				
P/E	22.1	16.5	8.3	6.9
P/BV	1.8	1.6	1.4	1.2
EV / EBITDA	13.1	10.5	5.8	4.8
Dividend Yield	0.6	0.9	1.2	1.5
Operating Ratios				
Debt/EBITDA (x)	1.5	1.6	0.9	0.9
Net D/E	0.1	0.1	0.2	0.2
Profitability/Return Ratios (%)				
RoE	10.2	10.4	18.2	18.7
RoCE	14.4	16.3	27.0	27.2
EBITDA Margins	41.9	42.8	43.9	44.4
Net Income Margins	25.4	25.4	26.7	27.4

Source: Company data I-Sec research

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