



ODC project takes breather; to rebound in Q4

Q3 pre-sales declined QoQ to Rs 1 bn (Rs 1.7 bn in Q2) on lower traction at ODC project. Company sold 17 units for ~ Rs 340 mn in Q3, as it held on to the inventory after a strong Q2 (sold 79 units worth Rs 1.45 bn in Q2). **Management plans to release inventory on higher floors at ODC in Q4, which should help sales rebound. BKC volumes improved**, with 3 units sold in Signia Isles for ~Rs 670 mn (vs. 1 unit sold in Signia Pearl for Rs 250 mn in Q2).

With recent fund raise of Rs 6.5 bn, company is **well placed to capitalize on opportunities that will arise out of consolidation in industry** due to RERA and GST in medium term. Further, entry into affordable housing project in Naigaon will help drive presales FY19 onwards. Maintain **BUY**.

CMP : Rs 410
 Potential Upside : 15%

MARKET DATA

No. of Shares : 146 mn
 Free Float : 33%
 Market Cap : Rs 60 bn
 52-week High / Low : Rs 450 / Rs 120
 Avg. Daily vol. (6mth) : 500,368 shares
 Bloomberg Code : SRIN IB Equity
 Promoters Holding : 67%
 FII / DII : 17% / 8%

Key highlights

- ◆ **Collections declined to Rs 1 bn in Q3** (vs. Rs 1.5 bn in Q2; down 31% QoQ). **Net debt** (including QIP funds) steady at Rs 3.1 bn with net D/E at 0.1x
- ◆ **Revenue declined to Rs 2 bn** (vs. Rs 3.5 bn in Q2) on lower sales at ODC. **EBITDA margin improved QoQ to 44%** (vs. 29% in Q2) due to increased contribution from higher-margin BKC projects
- ◆ **BKC project:** Outstanding inventory of 54 units worth ~Rs 23.5 bn (based on management estimates). Company targets to monetize this project over next 3 to 4 years
- ◆ **ODC project:** Company has sold ~55% of total inventory in project. It plans to launch commercial development at the second land parcel (16 acres) in FY19 and will launch residential phases thereafter
- ◆ **Naigaon project:** Company has entered into a Joint Development Agreement (JDA) to develop 100 acres (developable area of ~10 msf), which will be launched in FY19. Approval cost of the project will be borne by the land owner (a large part of the approval cost has already been incurred)

Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Revenue (Rs mn)	9,522	9,761	12,395	14,442
Adj PAT (Rs mn)	2,040	2,373	2,651	3,046
EPS (Rs.)	16.2	18.8	21.0	24.2
Change YOY (%)	787.9	16.4	11.7	14.9
Net Debt (Rs mn)	8,453	3,087	6,279	6,288
Networth (Rs mn)	17,953	26,822	29,459	32,490
RoE (%)	12.0	10.6	9.4	9.8
RoCE (%)	12.4	11.8	11.8	12.8
P/E (x)	25.3	21.7	19.5	16.9
P/B (x)	2.9	1.9	1.8	1.6

Source: Company, Axis Capital

^ PoCM – Percentage of Completion Method

ODC – Oshiwara District Centre

Key drivers (Rs bn)

	Q3'18	Q3'17	YoY	Q2'18	QoQ
Sales value	1.0	1.3	-18%	1.7	-39%
Collections	1.0	1.4	-30%	1.5	-31%

Price performance

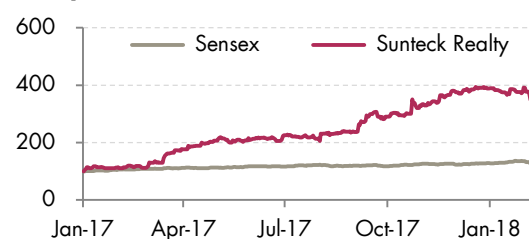


Exhibit 1: Results update

	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	FY18E	FY17	% Chg
Net sales	2,015	837	141	3,467	(42)	9,761	9,522	3
EBIDTA	891	342	160	993	(10)	3,807	3,481	9
Other income	34	63	(46)	43	(21)	142	82	74
PBIDT	925	405	128	1,036	(11)	3,949	3,562	11
Depreciation	5	6	(6)	3	56	15	23	(34)
Interest	97	42	131	122	(20)	428	455	(6)
PBT	822	357	130	910	(10)	3,506	3,084	14
Tax	230	111	107	225	2	999	872	15
Minority Interest	28	16	-	(3)	-	(27)	71	(138)
Adjusted PAT	557	206	170	645	(14)	2,373	2,040	16
No. of shares (mn)	120	60	100	120	0	146	63	132
EBIDTA margin (%)	44.2	40.9	-	28.6	-	39.0	36.6	-
PBIDT margin (%)	45.9	48.4	-	29.9	-	40.5	37.4	-
EPS - annualized (Rs.)	18.6	13.7	35	21.5	(14)	16.2	32.4	(50)

Source: Company, Axis Capital Note: Above financials are as per Ind AS. FY16 financials are as per Indian GAAP

Other highlights

- ◆ Company's **effective stake in the affordable housing project is ~74%**, with 25.9% of revenue share to JDA partner after 5% branding fee paid to them. As a result of 80-IB benefits (no tax) and with cost of construction at Rs 2,000 psf, PBT margin will be at levels similar to that in other projects (~25% to 27%). Land is at advanced stage of approvals, and company **expects to launch the project by Q1/Q2FY19**
- ◆ Company is focusing on launching **commercial phase at ODC** before launching further phases of residential offerings (Avenue 3 and 4). Management expects commercial and retail assets (2.6 msf leasable area) to yield ~Rs 4.5-4.75 bn in annuity income (based on prevailing lease rentals market)
- ◆ Construction has commenced at **Sunteck Icon** (commercial project at BKC junction) and **Gilbert Hill** (residential project at Andheri) during Q3. Company is still deliberating whether to sell the commercial space at Sunteck Icon or add it to its growing annuity portfolio
- ◆ Company does not yet have a concrete timeline for **launch of its Dubai project**, which is expected only after Q1/Q2FY19

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	9,522	9,591	12,208	14,236
Other operating income	-	170	187	206
Total operating income	9,522	9,761	12,395	14,442
Cost of goods sold	(6,041)	(5,954)	(7,809)	(9,098)
Gross profit	3,481	3,807	4,586	5,343
<i>Gross margin (%)</i>	<i>36.6</i>	<i>39.7</i>	<i>37.6</i>	<i>37.5</i>
Total operating expenses	-	-	-	-
EBITDA	3,481	3,807	4,586	5,343
<i>EBITDA margin (%)</i>	<i>36.6</i>	<i>39.7</i>	<i>37.6</i>	<i>37.5</i>
Depreciation	(23)	(15)	(15)	(15)
EBIT	3,458	3,792	4,571	5,328
Net interest	(455)	(428)	(459)	(459)
Other income	82	142	150	150
Profit before tax	3,084	3,506	4,262	5,019
Total taxation	(872)	(999)	(1,449)	(1,706)
<i>Tax rate (%)</i>	<i>28.3</i>	<i>28.5</i>	<i>34.0</i>	<i>34.0</i>
Profit after tax	2,212	2,507	2,813	3,312
Minorities	(122)	(53)	(81)	(186)
Profit/ Loss associate co(s)	(51)	(80)	(80)	(80)
Adjusted net profit	2,040	2,373	2,651	3,046
<i>Adj. PAT margin (%)</i>	<i>21.4</i>	<i>24.7</i>	<i>21.7</i>	<i>21.4</i>
Net non-recurring items	-	-	-	-
Reported net profit	2,040	2,373	2,651	3,046

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	126	146	146	146
Reserves & surplus	17,827	26,676	29,313	32,344
Net worth	17,953	26,822	29,459	32,490
Borrowing	9,440	10,940	10,940	10,940
Other non-current liabilities	16	16	16	16
Total liabilities	28,115	38,537	41,255	44,473
Gross fixed assets	599	609	609	609
Less: Depreciation	(196)	(211)	(226)	(241)
Net fixed assets	403	398	383	368
Add: Capital WIP	-	-	3,000	3,000
Total fixed assets	403	398	3,383	3,368
Total Investment	3,535	3,535	3,535	3,535
Inventory	28,017	29,418	32,360	35,596
Debtors	1,609	1,851	2,036	2,239
Cash & bank	986	7,852	4,660	4,651
Loans & advances	815	937	1,077	1,239
Current liabilities	8,656	6,859	7,202	7,561
Net current assets	23,875	34,302	34,035	37,267
Other non-current assets	302	302	302	302
Total assets	28,115	38,537	41,255	44,473

Source: Company, Axis Capital

Note: FY17E and FY18E financials are as per Ind AS. FY15 and FY16 financials are as per Indian GAAP

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	3,084	3,506	4,262	5,019
Depreciation & Amortisation	23	15	15	15
<i>Chg in working capital</i>	<i>(499)</i>	<i>(3,561)</i>	<i>(2,925)</i>	<i>(3,242)</i>
Cash flow from operations	2,366	(833)	132	315
<i>Capital expenditure</i>	<i>(5)</i>	<i>(10)</i>	<i>(3,000)</i>	-
Cash flow from investing	882	132	(2,850)	150
<i>Equity raised/ (repaid)</i>	-	6,510	-	-
<i>Debt raised/ (repaid)</i>	<i>(2,899)</i>	1,500	-	-
<i>Dividend paid</i>	<i>(15)</i>	<i>(15)</i>	<i>(15)</i>	<i>(15)</i>
Cash flow from financing	(3,247)	7,567	(474)	(474)
Net chg in cash	2	6,866	(3,192)	(9)

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	16.2	18.8	21.0	24.2
CEPS (Rs)	16.4	19.0	21.2	24.3
DPS (Rs)	0.1	0.1	0.1	0.1
Dividend payout ratio (%)	0.6	0.5	0.5	0.4
GROWTH				
Net sales (%)	291.3	0.7	27.3	16.6
EBITDA (%)	1,355.2	9.4	20.5	16.5
Adj net profit (%)	787.9	16.4	11.7	14.9
FDEPS (%)	787.9	16.4	11.7	14.9
PERFORMANCE				
RoE (%)	12.0	10.6	9.4	9.8
RoCE (%)	12.4	11.8	11.8	12.8
EFFICIENCY				
Asset turnover (x)	0.3	0.3	0.4	0.4
Sales/ total assets (x)	0.2	0.2	0.3	0.3
Working capital/ sales (x)	2.4	2.6	2.3	2.2
FINANCIAL STABILITY				
Total debt/ equity (x)	0.5	0.5	0.4	0.3
Net debt/ equity (x)	0.5	0.1	0.2	0.2
Current ratio (x)	3.8	6.0	5.7	5.9
Interest cover (x)	7.6	8.9	9.9	11.6
VALUATION				
PE (x)	25.3	21.7	19.5	16.9
EV/ EBITDA (x)	17.3	14.4	12.6	10.8
EV/ Net sales (x)	6.3	5.7	4.7	4.1
PB (x)	2.9	1.9	1.8	1.6
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	4.8	(1.6)	(5.6)	0.6

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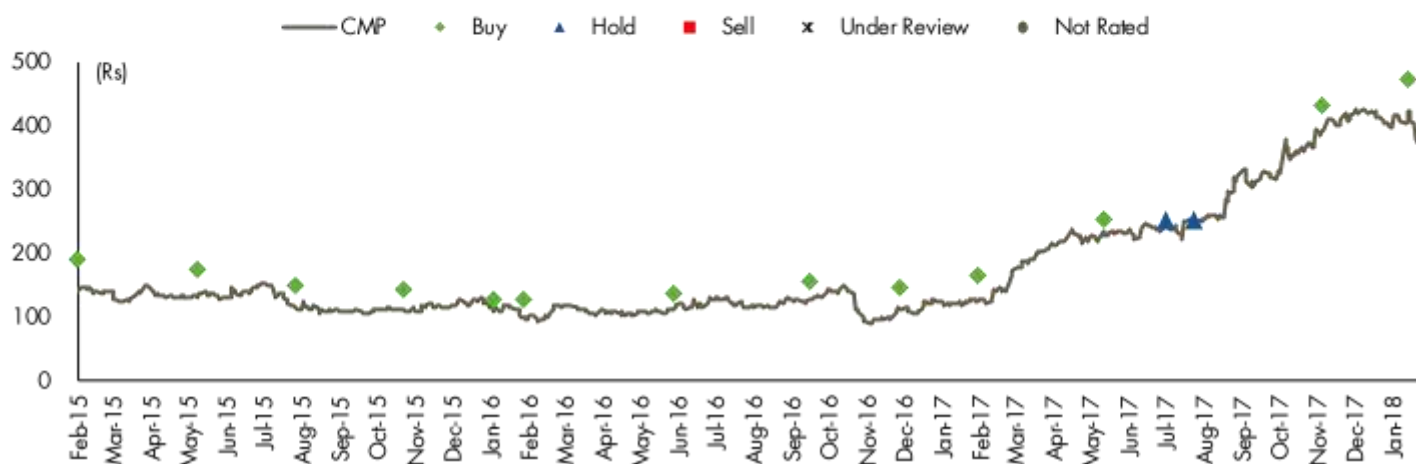
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HOLD	Between 10% and -10%
SELL	Less than -10%

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Sunteck Realty (SUNT.BO, SRIN IN) Price and Recommendation History



Date	Target Price	Reco	Date	Target Price	Reco
18-Feb-15	189	Buy	19-Jul-17	252	Hold
27-May-15	174	Buy	11-Aug-17	252	Hold
14-Aug-15	148	Buy	22-Nov-17	430	Buy
10-Nov-15	141	Buy	31-Jan-18	472	Buy
21-Jan-16	127	Buy			
15-Feb-16	127	Buy			
16-Jun-16	137	Buy			
4-Oct-16	154	Buy			
16-Dec-16	143	Buy			
17-Feb-17	165	Buy			
30-May-17	252	Buy			

Source: Axis Capital