

SUNTECK REALTY

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BUY

Target Price: Rs 424

Stable quarter; collections to ramp up

Q3 pre-sales at Rs 3.1 bn (vs. Rs 4.2 bn in Q2) was mainly due to lower bookings (based on apartment registration) of 381 units in Naigaon project (1,015 units in Q2); **it has more than 600 units yet to be booked (has sold >2,000 units)**. BKC sales remained steady at ~Rs 1.1 bn. While sales at ODC[^] were muted, **management expects strong response to its activation in Q4**.

While collections were steady QoQ at Rs 1.5 bn, it is yet to catch up with sales run-rate. Management expects **collections to ramp up significantly over next 3-4 quarters** driven by strong sales in 9MFY19.

We like Sunteck due to its **brand, diversified product portfolio and strong balance sheet** (net D/E of 0.17x) – well placed to capitalize on industry consolidation. Maintain **BUY**.

CMP : Rs 338
 Potential Upside : 25%

MARKET DATA

No. of Shares : 146 mn
 Free Float : 33%
 Market Cap : Rs 50 bn
 52-week High / Low : Rs 526 / Rs 296
 Avg. Daily vol. (6mth) : 282,396 shares
 Bloomberg Code : SRIN IB Equity
 Promoters Holding : 67%
 FII / DII : 24% / 3%

Highlights

- ◆ **Strong momentum continues in BKC projects:** Sunteck Realty (SRIN) Sold 3 units for ~Rs 1.1 bn (vs. 3 units sold for Rs 1 bn in Q2). The company continues to guide for 3 to 4 year period for monetizing the remaining inventory. Outstanding inventory at 43 units worth ~Rs 16 bn.
- ◆ **Activation at ODC to revive sales in Q4:** It has done activations at ODC (pay 5% now and rest on possession i.e. after 12-18 months) and is confident of achieving sales of 150 units annually (sold 65 units in 9MFY19), thus expect to report strong sales in Q4. Further, it plans to launch next phase in Q2FY20.
- ◆ **Naigaon project:** Of 2,476 units launched in phase I (~1.6 msf), SRIN has sold over 2,000 units comprising 1 and 2 BHK apartments with average ticket size between Rs 3-4.5 mn per unit. The company plans to launch 1.5 msf every year and thus plans to launch next phase in FY20.
- ◆ Management highlighted **strong leasing demand for its commercial projects at BKC junction** and plans to pre-lease the projects at ~Rs 200 psf p.m. The strategy is to pre-lease the entire area prior to completion of construction (18-20 months).

Financial summary (Consolidated)

Y/E March	FY18	FY19E	FY20E	FY21E
Revenue (Rs mn)	8,883	7,824	9,867	12,105
Adj PAT (Rs mn)	2,142	2,084	2,663	3,090
EPS (Rs.)	17.0	16.5	21.1	24.5
Change YOY (%)	5.0	(2.7)	27.8	16.0
Net Debt (Rs mn)	4,082	5,193	6,678	8,415
Networth (Rs mn)	26,303	28,277	30,830	33,809
RoE (%)	9.7	7.6	9.0	9.6
RoCE (%)	12.6	11.7	12.6	12.9
P/E (x)	19.9	20.5	16.0	13.8
P/B (x)	1.6	1.5	1.4	1.3

Source: Company, Axis Capital

^ODC – Oshiwara District Centre

Key drivers (Rs bn)

	Q3'19	Q3'18	YoY	Q2'19	QoQ
Sales value	3.1	1.0	211%	4.2	-26%
Collections	1.5	1.0	53%	1.4	9%
Cost incurred	0.7	NA	-	0.7	1%

Price performance

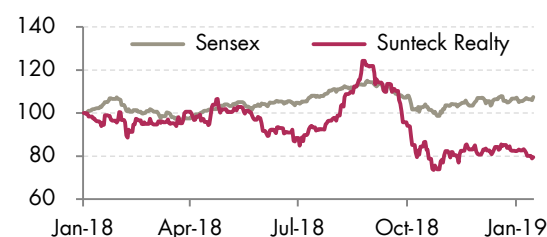


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-18	Dec-17	% Chg	Sep-18	% Chg	FY19E	FY18	% Chg
Net sales	1,947	2,015	(3)	1,803	8	7,824	8,883	(12)
EBIDTA	814	891	(9)	780	4	3,482	3,720	(6)
Other income	104	34	205	172	(40)	510	93	451
PBIDT	918	925	(1)	953	(4)	3,992	3,813	5
Depreciation	7	5	30	5	43	23	17	37
Interest	109	97	12	104	6	418	421	(1)
PBT	802	822	(2)	844	(5)	3,551	3,375	5
Tax	289	230	25	305	(5)	1,207	1,078	12
Minority Interest	51	28	-	38	-	140	41	239
Adjusted PAT	439	557	(21)	509	(14)	2,084	2,142	(3)
No. of shares (mn)	140	140	-	140	-	140	140	-
EBIDTA margin (%)	41.8	44.2	-	43.3	-	44.5	41.9	-
PBIDT margin (%)	47.1	45.9	-	52.8	-	51.0	42.9	-
EPS - annualized (Rs.)	12.5	15.9	(21)	14.5	(14)	16.5	17.0	(3)

Source: Company, Axis Capital Note: Above financials are as per Ind AS

Other highlights

- ◆ **Revenue declined to Rs 1.8 bn** (vs. Rs 3.5 bn in Q2FY18) on a high base due to ODC project achieving revenue recognition in Q2FY18. **EBITDA margin improved to 43%** (vs. 29% in Q2FY18) due to contribution from BKC projects (higher margin vs. ODC) during the quarter.
- ◆ **Q3 pre-sales break up: Sunteck West World Naigaon** (Rs 1.3 bn), **BKC project** (Rs 1.1 bn), **ODC project** (Rs 266 mn), Signia High (Rs 215 mn) and Signia Waterfront (Rs 210 mn).
- ◆ **ODC commercial projects** (2.6 msf): Awaiting approvals; expects to launch in Q1/Q2FY20. Capex commitment for ODC commercial will be Rs 15 bn.
- ◆ **Construction spend remained steady at Rs 660 mn in Q3** (vs. Rs 650 mn in Q2), as construction across recently-commenced projects in Naigaon as well as annuity capex (Gilbird Hill and Sunteck Icon) continue in full swing.

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY18	FY19E	FY20E	FY21E
Net sales	8,883	7,824	9,867	12,105
Other operating income	-	-	-	-
Total operating income	8,883	7,824	9,867	12,105
Cost of goods sold	(5,163)	(4,342)	(5,624)	(7,142)
Gross profit	3,720	3,482	4,243	4,963
<i>Gross margin (%)</i>	<i>41.9</i>	<i>44.5</i>	<i>43.0</i>	<i>41.0</i>
Total operating expenses	-	-	-	-
EBITDA	3,720	3,482	4,243	4,963
<i>EBITDA margin (%)</i>	<i>41.9</i>	<i>44.5</i>	<i>43.0</i>	<i>41.0</i>
Depreciation	(17)	(23)	(23)	(23)
EBIT	3,703	3,459	4,220	4,940
Net interest	(421)	(418)	(291)	(365)
Other income	93	510	500	500
Profit before tax	3,375	3,551	4,429	5,076
Total taxation	(1,078)	(1,207)	(1,506)	(1,726)
<i>Tax rate (%)</i>	<i>32.0</i>	<i>34.0</i>	<i>34.0</i>	<i>34.0</i>
Profit after tax	2,297	2,344	2,923	3,350
Minorities	(98)	(200)	(200)	(200)
Profit/ Loss associate co(s)	(57)	(60)	(60)	(60)
Adjusted net profit	2,142	2,084	2,663	3,090
<i>Adj. PAT margin (%)</i>	<i>24.1</i>	<i>26.6</i>	<i>27.0</i>	<i>25.5</i>
Net non-recurring items	-	-	-	-
Reported net profit	2,142	2,084	2,663	3,090

Balance sheet (Rs mn)

Y/E March	FY18	FY19E	FY20E	FY21E
Paid-up capital	140	140	140	140
Reserves & surplus	26,163	28,137	30,689	33,669
Net worth	26,303	28,277	30,830	33,809
Borrowing	5,181	6,181	7,681	9,681
Other non-current liabilities	7	7	7	7
Total liabilities	32,266	35,440	39,692	44,872
Gross fixed assets	599	599	599	599
Less: Depreciation	(213)	(236)	(259)	(282)
Net fixed assets	386	363	340	317
Add: Capital WIP	-	3,000	4,500	7,000
Total fixed assets	386	3,363	4,840	7,317
Total Investment	2,521	2,521	2,521	2,521
Inventory	26,927	27,197	29,916	32,310
Debtors	2,906	3,197	3,517	3,868
Cash & bank	1,099	988	1,002	1,266
Loans & advances	1,626	1,788	1,967	2,164
Current liabilities	4,297	4,712	5,169	5,672
Net current assets	29,090	29,286	32,062	34,765
Other non-current assets	269	269	269	269
Total assets	32,266	35,440	39,692	44,872

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY18	FY19E	FY20E	FY21E
Profit before tax	3,375	3,551	4,429	5,076
Depreciation & Amortisation	17	23	23	23
<i>Chg in working capital</i>	<i>(5,102)</i>	<i>(307)</i>	<i>(2,761)</i>	<i>(2,439)</i>
Cash flow from operations	(2,518)	1,907	(84)	738
<i>Capital expenditure</i>	<i>-</i>	<i>(3,000)</i>	<i>(1,500)</i>	<i>(2,500)</i>
Cash flow from investing	1,106	(2,490)	(1,000)	(2,000)
<i>Equity raised/ (repaid)</i>	<i>6,504</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(4,259)</i>	<i>1,000</i>	<i>1,500</i>	<i>2,000</i>
<i>Dividend paid</i>	<i>(110)</i>	<i>(110)</i>	<i>(110)</i>	<i>(110)</i>
Cash flow from financing	1,715	472	1,099	1,525
Net chg in cash	303	(111)	14	263

Key ratios

Y/E March	FY18	FY19E	FY20E	FY21E
OPERATIONAL				
FDEPS (Rs)	17.0	16.5	21.1	24.5
CEPS (Rs)	17.1	16.7	21.3	24.7
DPS (Rs)	0.8	0.8	0.8	0.8
Dividend payout ratio (%)	4.4	4.5	3.5	3.1
GROWTH				
Net sales (%)	(6.7)	(11.9)	26.1	22.7
EBITDA (%)	6.9	(6.4)	21.9	17.0
Adj net profit (%)	5.0	(2.7)	27.8	16.0
FDEPS (%)	5.0	(2.7)	27.8	16.0
PERFORMANCE				
RoE (%)	9.7	7.6	9.0	9.6
RoCE (%)	12.6	11.7	12.6	12.9
EFFICIENCY				
Asset turnover (x)	0.3	0.2	0.3	0.3
Sales/ total assets (x)	0.2	0.2	0.2	0.3
Working capital/ sales (x)	2.9	3.6	3.0	2.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.2	0.2	0.3	0.3
Net debt/ equity (x)	0.2	0.2	0.2	0.3
Current ratio (x)	7.8	7.2	7.2	7.1
Interest cover (x)	8.8	8.3	14.5	13.5
VALUATION				
PE (x)	19.9	20.5	16.0	13.8
EV/ EBITDA (x)	14.6	16.0	13.5	11.9
EV/ Net sales (x)	6.1	7.1	5.8	4.9
PB (x)	1.6	1.5	1.4	1.3
Dividend yield (%)	0.2	0.2	0.2	0.2
Free cash flow yield (%)	(5.1)	(2.2)	(3.2)	(3.6)

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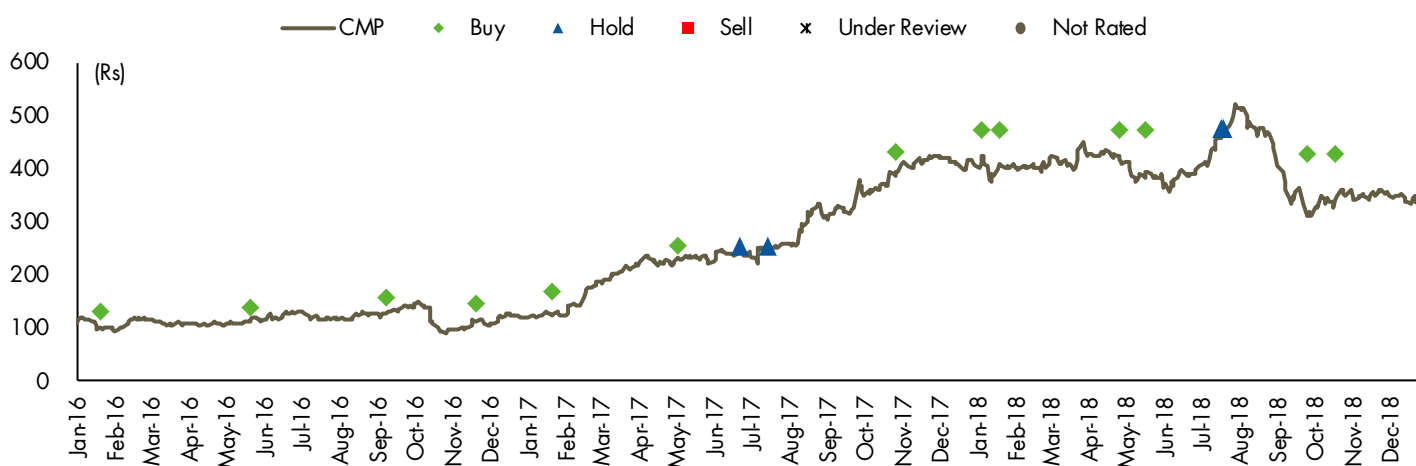
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Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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



Date	Target Price	Reco	Date	Target Price	Reco
15-Feb-16	127	Buy	24-May-18	470	Buy
16-Jun-16	137	Buy	13-Jun-18	470	Buy
4-Oct-16	154	Buy	14-Aug-18	474	Hold
16-Dec-16	143	Buy	16-Aug-18	474	Hold
17-Feb-17	165	Buy	23-Oct-18	426	Buy
30-May-17	252	Buy	15-Nov-18	426	Buy
19-Jul-17	252	Hold			
11-Aug-17	252	Hold			
22-Nov-17	430	Buy			
31-Jan-18	472	Buy			
15-Feb-18	470	Buy			

Source: Axis Capital