

# SUNTECK REALTY

## Naigaon project launch heralds new phase of growth

India Equity Research | Real Estate

Sunteck Realty's (SRL) Q2FY19 new sales soared 148% YoY to INR4.2bn. The surge is attributable to the overwhelming response to the first phase of its affordable housing project launched in Naigaon, which logged INR3.2bn of sales (~INR6bn to date). BKC projects too showed good traction, contributing INR960mn (up 45% QoQ). We believe the foray into affordable housing has potential to upshift SRL's growth trajectory. Pending greater clarity on certain aspects of the new IND-AS 115 that the company adopted w.e.f. 1 April, we retain our estimates; maintain 'BUY' with a TP of INR466.

### Sales spike during the quarter; profits miss estimates

New sales grew 148% YoY to INR4.2bn primarily driven by the INR3.2bn sales (1,015 units, ~0.69msf) achieved in the Naigaon project. Collections in Q2FY19 declined 3% YoY and 13% QoQ to INR1.4bn. Q2FY19 revenue of INR1.8bn slid 48% YoY, primarily on account of first-time revenue recognition from Sunteck City during Q2FY18. EBITDA margin came in at 43.3%, up ~1460bps YoY, also primarily because margins in Q2FY18 were deflated on account of the first-time revenue recognition.

### Foray into affordable housing strengthens growth potential

During the quarter, SRL launched the first phase of its maiden affordable housing project in Naigaon. With this foray, the company has a diversified portfolio across the spectrum of price points. Out of the 2,476 units in Phase 1 (~INR8bn), SRL has sold 2,000-plus units (~INR6bn) to date. Construction has started on all the seven towers in Phase I. SRL has also started recognising revenue from the Naigaon project (as the new IND-AS 115 does not require a minimum threshold to be achieved for revenue recognition).

### Outlook and valuation: Upshift in growth trajectory; retain 'BUY'

SRL's diversified bouquet of offerings and ongoing RERA-driven consolidation in favour of organised players in the sector render us bullish on the stock. Its robust balance sheet is likely to allow it to capture growth opportunities at a time when liquidity costs have spiked and may be not easily available. While the Naigaon project has been a hit, improvement in sales traction in other projects in the future is the key catalyst for the stock in our view. While the adoption of IND-AS 115 may impact numbers for a couple of quarters, our cash flow-based valuation remains unchanged. Maintain 'BUY/SP' with a target price of INR466.

Financials	(INR mn)							
Year to March	Q2FY19	Q2FY18	% chg	Q1FY19	% chg	FY18	FY19E	FY20E
Revenues	1,803	3,467	(48.0)	2,111	(14.6)	8,883	13,117	20,714
EBITDA	780	993	(21.4)	1,116	(30.1)	3,720	5,584	7,896
Net Profit	509	645	(21.1)	682	(25.4)	2,142	3,207	4,681
EPS (INR)	4.9	5.4	(9.5)	4.9	0.0	14.7	21.9	32.0
P/E (x)						23.3	15.5	10.6
ROE (%)						9.7	11.6	15.0

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Equal weight

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

CMP	: INR 341
Target Price	: INR 466
52-week range (INR)	: 527 / 296
Share in issue (mn)	: 146.3
M cap (INR bn/USD mn)	: 50 / 422
Avg. Daily Vol.BSE/NSE('000)	: 355.0

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	66.8	66.8	66.8
MF's, FI's & BK's	4.0	4.0	5.9
FII's	24.2	24.2	22.3
Others	5.0	5.0	5.0
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(3.1)	2.0	8.2
3 months	(17.9)	(7.4)	(16.1)
12 months	(3.8)	0.7	(26.5)

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November 14, 2018

### Other highlights

- 1. New sales breakdown:** SRL posted Q2FY19 new sales of INR4.2bn (up 148% YoY, 133% QoQ), with a total area of ~0.72msf (up 561% YoY, 704% QoQ). The project breakdown follows:
  - West World (Naigaon) – INR3.2bn (~0.69msf)
  - BKC projects – INR955mn (~19ksf)
  - Sunteck City, Goregaon – INR66mn (~4.3ksf)
  - Signia Waterfront – INR181mn (~1.3ksf)
- 2. BKC projects:** SRL sold three units in BKC for a combined value of INR955mn, resulting in a quarter-end inventory of 46 units, which the company expects to sell over the next three–four years.
- 3. ODC:** SRL has 433 units remaining to be sold in Avenue 1/2 and continues to target 150–200 units of sales every year. It will look at launching Avenue 3 in Q3/Q4FY19. The company is also in the process of getting the approvals for launching a commercial project in ODC, and is targeting the launch in Q4FY19.
- 4. Commercial projects at BKC:** SRL has commenced construction on both the commercial projects at BKC, and is evaluating various alternatives of monetisation (leasing, strata sales, etc).
- 5. NBFC crisis:** Management indicated that most of the funding is from banks and, therefore, the ongoing NBFC crisis is unlikely to have any major impact. On the other hand, the liquidity pressure faced by smaller developers has thrown up opportunities for acquisitions, which the company is evaluating cautiously.
- 6. Debt:** Net debt to equity stood at 0.17x at the end of Q2FY19 (flat versus end-FY18), and management does not expect this to increase going ahead. The cost of incremental borrowing is 9.5%

## Financial snapshot

(INR mn)

Year to March	Q2FY19	Q2FY18	% change	Q1FY19	% change	YTD19	FY19E	FY20E
Net revenues	1,803	3,467	(48.0)	2,111	(14.6)	3,914	13,117	20,714
Direct Operating expenses	855	2,451	(65.1)	835	2.4	1,689	7,256	12,527
Staff costs	40	19	112.2	29	36.8	70	103	108
Other expenses	128	5	2,509.4	131	(2.5)	259	175	184
Total expenditure	1,023	2,475	(58.7)	995	2.8	2,018	7,533	12,818
EBITDA	780	993	(21.4)	1,116	(30.1)	1,896	5,584	7,896
Depreciation	5	3	44.6	4	34.3	9	17	19
Interest	104	122	(15.1)	103	0.5	207	403	393
Other income	172	43	297.3	139	24.1	311	97	102
Add: Exceptional items	-	-	-	-	-	-	-	1
Profit before tax	844	911	(7.3)	1,148	(26.5)	1,992	5,261	7,587
Provision for taxes	305	225	35.2	397	(23.2)	702	1,789	2,580
PAT	539	685	(21.3)	751	(28.2)	1,290	3,472	5,007
Minority interest	37	(3)	NA	58	(35.2)	95	265	326
Associate profit share	7	(42)	NA	(11)	NA	(3)	-	-
Reported net profit	509	645	(21.1)	682	(25.4)	1,192	3,207	4,681
Diluted shares (mn)	146	126		146		146	146	146
Adjusted Diluted EPS	4.9	5.4	(9.5)	4.9	0.0	9.7	21.9	32.0

## As a % of net revenues

Cost of construction	47.4	70.7		39.5		43.5	55.3	60.5
Employee cost	2.2	0.5		1.4		1.8	0.8	0.5
Other expenses	7.1	0.1		6.2		6.7	1.3	0.9
Total expenses	56.7	71.4		47.1		52.0	57.4	61.9
EBITDA	43.3	28.6		52.9		48.1	42.6	38.1
Depreciation	0.3	0.1		0.2		0.2	0.1	0.1
EBIT	43.0	28.5		52.7		47.9	42.4	38.0
Interest expenditure	5.7	3.5		4.9		5.3	3.1	1.9
Reported net profit	23.1	17.9		27.9		25.5	24.4	22.6
Tax rate	36.1	24.8		34.6		35.4	34.0	34.0

### Company Description

SRL is a Mumbai focused real estate developer engaged in construction and development of residential and commercial properties. 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	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	7.1	6.7	7.3	7.6
Inflation (Avg)	4.5	3.6	4.5	4.5
Repo rate (exit rate)	6.3	6.0	6.8	6.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
<b>Company</b>				
Selling Price increase (%)	5%	5%	5%	5%
Construction Cost Increase (%)	5%	5%	5%	5%

### Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	9,522	8,883	13,117	20,714
Direct costs	5,656	4,898	7,256	12,527
Employee costs	129	98	103	108
Other Expenses	257	167	175	184
Total operating expenses	6,041	5,163	7,533	12,818
EBITDA	3,481	3,720	5,584	7,896
Depreciation	23	17	17	19
EBIT	3,458	3,703	5,567	7,877
Less: Interest Expense	455	421	403	393
Add: Other income	82	93	97	102
Profit Before Tax	3,084	3,375	5,261	7,587
Less: Provision for Tax	872	1,078	1,789	2,580
Less: Minority Interest	122	98	265	326
Associate profit share	(51)	(57)	-	-
Reported Profit	2,040	2,142	3,207	4,681
Adjusted Profit	2,040	2,142	3,207	4,681
Shares o/s (mn)	126	146	146	146
Adjusted Basic EPS	16.2	14.7	21.9	32.0
Diluted shares o/s (mn)	126	146	146	146
Adjusted Diluted EPS	16.2	14.7	21.9	32.0
Adjusted Cash EPS	16.4	14.8	22.1	32.2
Dividend per share (DPS)	1.8	1.8	2.7	3.9
Dividend Payout Ratio(%)	11.2	12.3	12.3	12.3

### Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Staff costs	1.4	1.1	0.8	0.5
S G & A expenses	2.7	1.9	1.3	0.9
Operating expenses	63.4	58.1	57.4	61.9
Depreciation	0.2	0.2	0.1	0.1
Interest Expense	4.8	4.7	3.1	1.9
EBITDA margins	36.6	41.9	42.6	38.1
Adjusted Profit margins	21.4	24.1	24.4	22.6

### Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	291.3	(6.7)	47.7	57.9
EBITDA	1,355.1	6.9	50.1	41.4
PBT	1,258.7	9.4	55.9	44.2
Adjusted Profit	646.6	5.0	49.7	46.0
EPS	646.6	(9.5)	49.7	46.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	120	140	140	140	
Reserves & Surplus	17,833	26,163	28,976	33,083	
Shareholders' funds	17,953	26,303	29,117	33,223	
Minority Interest	706	775	775	775	
Long term borrowings	9,437	5,680	3,930	3,930	
Def. Tax Liability (net)	(234)	(164)	(164)	(164)	
<b>Sources of funds</b>	<b>27,863</b>	<b>32,595</b>	<b>33,658</b>	<b>37,764</b>	
Gross Block	182	184	204	224	
Net Block	141	128	92	101	
Total Fixed Assets	141	128	92	101	
Goodwill on consolidation	580	576	576	576	
Non current investments	2,677	1,658	1,658	1,658	
Other non current assets	460	107	107	107	
Current Investments	543	545	545	545	
Cash and Equivalents	597	1,099	6,656	5,850	
Inventories	28,017	26,927	28,029	30,113	
Trade receivables	1,620	2,906	3,006	3,656	
Loans & Advances	806	1,626	1,815	2,415	
Other Current Assets	1,111	826	900	1,100	
Total current assets	32,098	32,831	34,295	37,828	
Current liabilities	8,677	3,653	9,567	8,181	
Provisions	12	145	159	175	
Total Current Liab	8,690	3,798	9,726	8,357	
Net Curr Assets-ex cash	23,408	29,033	24,569	29,472	
<b>Uses of funds</b>	<b>27,863</b>	<b>32,595</b>	<b>33,658</b>	<b>37,764</b>	
BVPS (INR)	142.6	180.0	199.3	227.4	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	2,040	2,142	3,207	4,681	
Add: Depreciation	23	17	17	19	
Interest (Net of Tax)	327	290	266	260	
Less: Changes in WC	(835)	5,625	(4,465)	4,903	
Less: Capex	5	1	20	20	
<b>Free Cash Flow</b>	<b>3,219</b>	<b>(3,178)</b>	<b>7,934</b>	<b>36</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Sunteck Realty Limited	690	15.5	10.6	1.7	1.5	11.6	15.0
Brigade Enterprises	339	14.3	12.6	1.0	0.9	7.2	7.7
DLF	4,013	28.2	25.6	0.8	0.8	2.9	3.1
Godrej Properties	1,940	36.4	27.5	3.8	3.4	13.0	13.0
Oberoi Realty	1,986	10.4	9.1	1.7	1.4	18.8	17.0
Sobha Limited	595	17.3	13.9	1.4	1.3	8.6	9.8
Median	-	16.4	13.3	1.6	1.4	10.1	11.4
AVERAGE	-	20.4	16.6	1.7	1.6	10.4	11.0

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Operating cash flow	2,903	(3,399)	7,728	(211)	
Financing cash flow	51	6,277	(394)	(575)	
Investing cash flow	372	(1,374)	20	20	
Net cash Flow	2,582	4,251	7,314	(806)	
Capex	(5)	(1)	(20)	(20)	
Dividend paid	(227)	(263)	(394)	(575)	
Share issue/(buyback)	156	6,471	-	-	

## Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
EOP(ROE) (%)	11.4	8.1	11.0	14.1
ROAE (%)	12.0	9.7	11.6	15.0
ROACE (%)	12.8	11.7	16.9	21.2
Current Ratio	376.3	893.4	421.0	522.7
Gross Debt/EBITDA	271.1	152.7	70.4	49.8
Gross Debt/Equity	52.6	21.6	13.5	11.8
Net Debt/Equity	49.2	17.4	(9.4)	(5.8)

## Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.3	0.3	0.4	0.6
Fixed Asset Turnover	64.1	66.0	119.3	215.4
Equity Turnover	0.6	0.4	0.5	0.7

## Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	16.2	14.7	21.9	32.0
Y-o-Y growth (%)	646.6	(9.5)	49.7	46.0
Adjusted Cash EPS (INR)	16.4	14.8	22.1	32.2
Diluted P/E (x)	21.0	23.3	15.5	10.6
P/B (x)	2.4	1.9	1.7	1.5
Dividend Yield (%)	0.5	0.5	0.8	1.2

## Additional Data

### Directors Data

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

Auditors - Lodha & Co.

*\*as per latest annual report*

### Holding – Top 10

	Perc. Holding		Perc. Holding
Pabrai Investment Fund	8.50	Fiam Group	5.31
Fidelity Investments	2.49	FIL Investments	2.05
Birla Sunlife AMC	0.73	DSP Investment Managers	0.65
L&T MF	0.46	Sundaram AMC	0.37
Dimensional Fund Advisors	0.37	Vanguard Group	0.15

*\*as per latest available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
08 Aug 2018	DSP BLACKROCK MUTUAL FUND - TAX SAVER FUND	BUY	950000	415.50
19 Jan 2018	Arcadia Share & Stock Brokers Pvt Ltd	Sell	64871	408.37
19 Jan 2018	Fmrc Fidelity Emerging Markets Fund	Buy	1203732	404.99
19 Jan 2018	Fidelity Investment Trust Fidelity Emerging Markets Fund	Buy	3501308	404.96
19 Jan 2018	The Sri Gopikrishna Trust	Sell	3900000	405.81

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
29 Oct 2018	Samagra Wealthmax Private Limited	Buy	50000.00
29 Oct 2018	Matrabhav Trust	Buy	97500.00
24 Jan 2018	SUMESH MISHRA	Sell	20000.00

*\*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, Oberoi Realty, Sobha Limited, Sunteck Realty Limited

**Recent Research**

Date	Company	Title	Price (INR)	Recos
13-Nov-18	<b>Brigade Enterprises</b>	Strong quarter; growth momentum marches on; <i>Result Update</i>	178	Buy
12-Nov-18	<b>Sobha</b>	On terra firma; <i>Result Update</i>	449	Buy
02-Nov-18	<b>Godrej Properties</b>	A blip in performance; growth story stands pat; <i>Result Update</i>	606	Hold

**Distribution of Ratings / Market Cap**

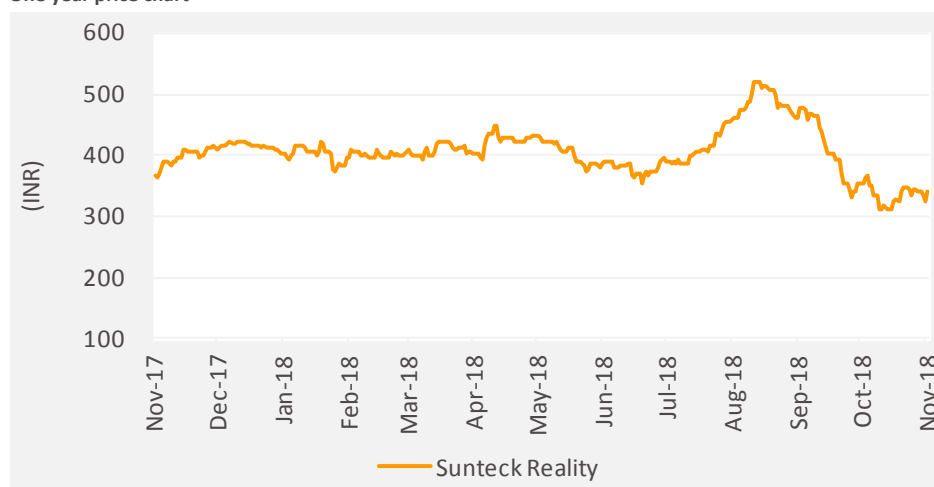
**Edelweiss Research Coverage Universe**

	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
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

**One year price chart**



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