

Sunteck Realty

Refer to important disclosures at the end of this report

Robust growth in the offing

CMP	Target Price
Rs 324 as of (November 13, 2018)	Rs 702 (■) 12 months
Rating	Upside
BUY (■)	116.6 %

Naigaon launch exceeds expectations

- Maintain conviction BUY and NAV-based TP of Rs702. Success of Naigaon launch enhances earnings visibility for FY19-20E.
- SRIN presold 2,000 units within one month of Naigaon launch with presales of Rs6bn, achieving 50% of our FY19 presales forecast.
- 2Q presales of Rs4.2bn (+148% YoY) were highest ever. 2H EPS will rise 49% YoY backed by project deliveries. We forecast EPS CAGR of 33% over FY18-21E.
- 1H Net debt of Rs4.6bn remain unchanged despite increase in construction spends. This suggests that project deliveries are on track with rising customer advances.
- SRIN stock has suffered in line with other property stocks due to recent liquidity crunch in Non-Banking Finance (NBFC) sector. Stock is available at 54% discount to its NAV valuation which is unjustified given superior credit rating and lowest D/E of 0.1x.

15% of Naigaon project soldout

The company said sales momentum at the Naigaon project is high and should remain so until Dec'18. The company increased selling price by 5%. With 15% of presales achieved immediately, customer advances are sufficient to meet construction costs. Therefore, we do not expect delays in project deliveries. The record sales have enhanced earnings visibility for FY19-20E significantly. Project will be completed in next 4-5 years.

Strong backlog for 2H, EPS CAGR of 33% FY18-21E

2Q profit of Rs509m was broadly on expected lines. The reported profit is not comparable YoY as the company started recognition of Goregaon project in 2QFY18. 1H forms 41% of our full-year EPS forecast. However, we do not see risks to our forecast as revenue growth would accelerate in 2H since SRIN would start recognizing revenue from Naigaon project. This will support EPS growth of 35% in FY19E and 31% in FY20E.

Good opportunity to buy shares

The stock has suffered 30% in last 3 months due to ongoing liquidity crunch in NBFC sector. We believe this is unjustified as SRIN does not need to borrow from NBFCs. The company has AA- credit rating with D/E of 0.1x which allows it to borrow from large banks at lower interest rate. In the next three months, we see multiple catalysts: 1) acceleration of presales at Borivali and Airoli projects and, 2) strong 2H results.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	9,522	8,883	9,188	14,689	21,436
EBITDA	3,481	3,720	5,008	6,662	8,507
EBITDA Margin (%)	36.6	41.9	54.5	45.4	39.7
APAT	2,040	2,142	2,896	3,796	5,039
EPS (Rs)	17.0	15.3	20.6	27.1	35.9
EPS (% chg)	788.0	(10.2)	35.2	31.0	32.8
ROE (%)	12.0	9.7	10.5	12.3	14.4
P/E (x)	19.1	21.2	15.7	12.0	9.0
EV/EBITDA (x)	13.7	13.5	9.5	6.9	5.4
P/BV (x)	2.2	1.7	1.6	1.4	1.2

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY19E/FY20E (%)	6.9/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	20.6	27.1
Consensus	18.8	24.3
Mean Consensus TP (12M)	Rs 526	

Stock Details

Bloomberg Code	SRIN IN
Face Value (Rs)	1
Shares outstanding (mn)	146
52 Week H/L	527 / 296
M Cap (Rs bn/USD bn)	47 / 0.65
Daily Avg Volume (nos.)	296,180
Daily Avg Turnover (US\$ mn)	1.7

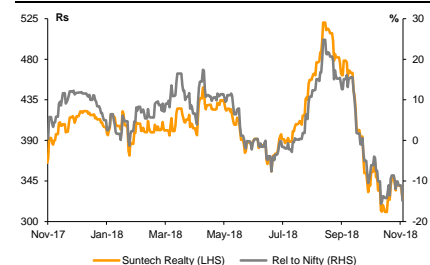
Shareholding Pattern Sep '18

Promoters	66.8%
FIIIs	24.5%
DIIIs	3.4%
Public and Others	5.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(30)	(25)	(13)
Rel. to Nifty	(10)	(24)	(24)	(16)

Relative price chart



Source: Bloomberg

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2QFY19 result highlights

Revenue

- Pre sales increased 148% YoY to Rs4.2bn on the back of Rs3.2bn pre sales from Sunteck West World (Naigaon)
- Pre sales breakup - Naigaon - Rs3,170m, BKC- Rs950m and Others- Rs90m
- Overall revenue decreased 48%YoY to Rs1.8bn due to higher revenue booking in 2QFY18 on the back of revenue recognition from Goregaon project (ODC) for the first time
- Bandra Kurla Complex (BKC) project contributed 50% of 2Q revenue
- Revenue recognition from Naigaon started in 2Q with further acceleration expected in 2H

Margins

- EBITDA declined 21% YoY to Rs780m due to decline in revenue (not comparable YoY)
- EBITDA margins improved on the back of revenue mix in favor of high margin BKC project

Profitability

- Interest cost declined 15% YoY to Rs104m due to debt repayment/solid FCF generation
- Net profit decreased 21% YoY/25% QoQ to Rs509mn due to lower revenue

Balance sheet

- Inventory remained flat YoY at Rs26.4bn
- Net Debt remained flat in 1HFY19 at Rs4.6bn

Exhibit 1: Actual v/s Estimates for 2QFY19

(Rsmn)	Actual	Emkay Estimate	Consensus Estimate	% variation	
				Emkay	Consensus
Sales	1,803	1,910	NA	-6%	NA
EBITDA	820	1,009	NA	-19%	NA
EBITDA Margin	45.5%	52.8%	NA	-733 bps	NA
PAT	509	552	NA	-8%	NA

Source: Company, Emkay Research

Exhibit 2: Changes in earnings estimates

All fig in Rs mn (except % and EPS)	FY19E			FY20E		
	Old	New	% Change	Old	New	% Change
Revenues	9,188	9,188	0%	14,689	14,689	0%
EBITDA	5,008	5,008	0%	6,662	6,662	0%
EBITDA margins, %	54.5%	54.5%	0 bps	45.4%	45.4%	0 bps
Net profits	2,704	2,896	7%	3,796	3,796	0%
EPS	19.3	20.6	7%	27.1	27.1	0%

Source: Company, Emkay Research

Exhibit 3: Summary of quarterly results

	Q2FY18	Q1FY19	Q2FY19	QoQ%	YoY%	1HFY19	1HFY18	YoY%
Revenue (in US\$ mn)	47	29	25	-15%	-48%	54	66	-18%
Revenue	3,467	2,111	1,803	-15%	-48%	3,914	4,801	-18%
Cost of revenue	2,470	864	895	4%	-64%	1,759	3,098	-43%
as % of sales	71%	41%	50%	21%	-30%	45%	65%	-30%
Other expenses	5	131	128	-2%	2493%	259	5	5153%
as % of sales	0%	6%	7%	14%	4887%	7%	0%	6344%
EBITDA	993	1,116	780	-30%	-21%	1,896	1,698	12%
Depreciation	3	4	5	34%	43%	9	7	22%
EBIT	989	1,112	775	-30%	-22%	1,887	1,691	12%
Other Income	43	139	172	24%	297%	311	64	385%
Interest cost	122	103	104	0%	-15%	207	225	-8%
PBT	910	1,148	844	-26%	-7%	1,992	1,530	30%
Total Tax	225	397	305	-23%	35%	702	449	56%
Adjusted PAT	685	751	539	-28%	-21%	1,290	1,082	19%
(Profit)/loss from JV's/Ass/MI	40	69	30	-56%	-24%	99	87	14%
APAT after MI	645	682	509	-25%	-21%	1,192	995	20%
Extra ordinary items	-	-	-	NA	NA	-	-	NA
Reported PAT	645	682	509	-25%	-21%	1,192	995	20%
Other comprehensive income / (loss)	(24)	(93)	78	NM	NM	(15)	(24)	NM
Net Profit after OCI/L	621	589	588	0%	-5%	1,177	971	21%
Reported EPS	5.4	4.9	3.6	-25%	-33%	8.5	8.3	2%
Margins (%)				bps	bps			bps
EBIDTA	29%	53%	43%	(959)	1,464	48%	35%	1,307
EBIT	29%	53%	43%	(969)	1,447	48%	35%	1,300
PBT	26%	54%	47%	(757)	2,055	51%	32%	1,902
PAT	20%	36%	30%	(567)	1,015	33%	23%	1,044
Effective Tax rate	25%	35%	36%	155	1,135	35%	29%	590

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	9,522	8,883	9,188	14,689	21,436
Expenditure	6,041	5,163	4,181	8,027	12,929
EBITDA	3,481	3,720	5,008	6,662	8,507
Depreciation	23	17	9	17	44
EBIT	3,458	3,703	4,998	6,644	8,463
Other Income	82	93	400	94	41
Interest expenses	455	421	738	632	398
PBT	3,084	3,375	4,660	6,107	8,107
Tax	872	1,078	1,631	2,137	2,837
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	71	41	133	174	231
Reported Net Income	2,040	2,142	2,896	3,796	5,039
Adjusted PAT	2,040	2,142	2,896	3,796	5,039

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	120	140	140	140	140
Reserves & surplus	17,833	26,163	28,889	32,514	37,383
Net worth	17,953	26,303	29,029	32,655	37,523
Minority Interest	706	775	775	775	775
Loan Funds	9,437	5,680	5,680	3,680	2,000
Net deferred tax liability	(234)	(157)	(157)	(157)	(157)
Total Liabilities	27,863	32,602	35,328	36,953	40,141
Net block	459	447	194	408	1,085
Investment	3,482	2,461	2,461	2,461	2,461
Current Assets	32,612	33,492	35,221	37,324	45,021
Cash & bank balance	597	1,099	3,394	2,897	1,618
Other Current Assets	1,571	933	964	1,508	2,175
Current liabilities & Provision	8,690	3,798	4,364	7,640	16,029
Net current assets	23,922	29,694	30,857	29,684	28,992
Misc. exp	0	0	0	0	0
Total Assets	27,863	32,602	35,328	36,953	40,141

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	3,003	3,283	4,260	6,013	8,066
Other Non-Cash items	0	0	0	0	0
Chg in working cap	268	(5,194)	1,133	676	(588)
Operating Cashflow	2,876	(2,552)	4,509	5,200	5,082
Capital expenditure	(7)	(4)	(1,572)	(2,816)	(3,923)
Free Cash Flow	2,870	(2,556)	2,937	2,385	1,158
Investments	209	1,021	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	284	1,109	(1,172)	(2,722)	(3,882)
Equity Capital Raised	0	6,443	0	0	0
Loans Taken / (Repaid)	(2,902)	(3,757)	0	(2,000)	(1,680)
Dividend paid (incl tax)	(152)	(218)	(170)	(170)	(170)
Other Financing Cash Flow	55	89	(124)	(174)	(232)
Financing Cashflow	(3,454)	2,136	(1,033)	(2,976)	(2,480)
Net chg in cash	(294)	693	2,304	(497)	(1,280)
Opening cash position	917	597	1,099	3,394	2,897
Closing cash position	623	1,290	3,403	2,897	1,617

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	36.6	41.9	54.5	45.4	39.7
EBIT Margin	36.3	41.7	54.4	45.2	39.5
Effective Tax Rate	28.3	32.0	35.0	35.0	35.0
Net Margin	23.2	25.9	33.0	27.0	24.6
ROCE	12.5	12.6	15.9	18.6	22.1
ROE	12.0	9.7	10.5	12.3	14.4
RoIC	14.5	14.0	17.6	24.2	30.4

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	17.0	15.3	20.6	27.1	35.9
CEPS	17.2	15.4	20.7	27.2	36.2
BVPS	149.7	187.5	206.9	232.7	267.4
DPS	1.1	1.3	1.0	1.0	1.0

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	19.1	21.2	15.7	12.0	9.0
P/CEPS	18.8	21.1	15.7	11.9	8.9
P/BV	2.2	1.7	1.6	1.4	1.2
EV / Sales	5.0	5.6	5.2	3.1	2.1
EV / EBITDA	13.7	13.5	9.5	6.9	5.4
Dividend Yield (%)	0.3	0.4	0.3	0.3	0.3

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	0.5	0.2	0.1	0.0	0.0
Net Debt/EBIDTA	2.5	1.2	0.5	0.1	0.0
Working Cap Cycle (days)	894.1	1,175.0	1,090.9	665.6	466.1

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	291.3	(6.7)	3.4	59.9	45.9
EBITDA	1,355.2	6.9	34.6	33.0	27.7
EBIT	1,494.3	7.1	35.0	32.9	27.4
PAT	788.0	5.0	35.2	31.0	32.8

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Revenue	3,467	2,015	2,067	2,111	1,803
EBITDA	1,012	884	1,068	1,145	820
EBITDA Margin (%)	29.2	43.9	51.7	54.2	45.5
PAT	640	557	590	619	628
EPS (Rs)	5.3	4.0	4.2	4.4	4.5

Source: Company, Emkay Research

Shareholding Pattern (%)	Oct-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	65.7	66.8	66.8	66.8	66.8
FIs	18.3	17.3	22.3	24.2	24.5
DIs	7.3	7.8	5.9	4.0	3.4
Public and Others	8.7	8.2	5.0	5.1	5.4

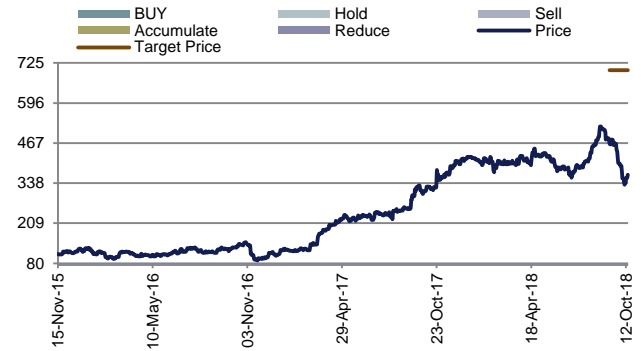
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Sep-18	465	702	12m	Buy	Anubhav Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 14 Nov 2018 02:03:07 (SGT)
Dissemination Date: 14 Nov 2018 02:04:07 (SGT)

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