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Real Estate

Target price Rs541

Target price revision

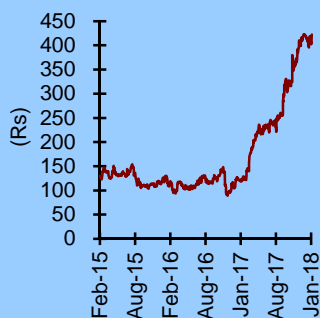
Rs541 from Rs481

Shareholding pattern

	Jun '17	Sep '17	Dec '17
Promoters	73.8	65.7	65.8
Institutional investors	11.2	25.6	25.0
MFs and UTI	4.4	5.6	5.4
FIs/Banks	0.1	0.1	0.0
Insurance	0.0	1.6	1.6
FIIIs	6.7	18.3	17.3
Others	15.0	8.7	8.2

Source: NSE

Price chart



INDIA

Sunteck Realty

BUY

Maintained

Rs420

Affordable housing foray to boost growth

Reason for report: Company update and TP change

Sunteck Realty (SRIN) has announced its foray into the affordable housing segment in the Mumbai Metropolitan Region (MMR) by entering a Joint Development Agreement (JDA) on revenue share basis with a land owner on a 100 acre land parcel in Naigaon, in Mumbai's extended Western suburbs. The land parcel is contiguous and has a saleable area potential of ~10msf with an average realisation of Rs5,000-6,000/psf in that micro-market. We value SRIN's affordable housing foray at Rs8.8bn or Rs62/share. Accordingly, we retain our BUY rating on SRIN with a revised target price of Rs541 (earlier Rs481), valuing the company on 1x FY19E NAV of Rs541/share including the value of the affordable housing land parcel.

- ▶ **Asset light land acquisition:** As per management, SRIN has made a payment of just Rs0.5bn to the land owner (land held by DDPL Global Infrastructure Pvt. Ltd. and Unicorn Infraprojects and Estates Pvt. Ltd.) for the 100 acre land parcel. SRIN will have ~73% revenue share in the project and plans to launch the project over 3 phases having a total saleable area of ~10msf.
- ▶ **Sales and construction cycle of 7-8 years:** We estimate a base launch sale price of Rs5,000/psf (in-line with nearby micro-markets such as Virar) and construction cost of Rs2,200/psf with a 5% escalation in sale price and construction cost over the life of the project. As per SRIN management, the company can launch the project in FY19 with all approvals in place. We build in a launch in H2FY19 with the project expected to be completed by FY25-26E with 2 phases of ~3msf each and third phase of ~4msf. While the pace of sales cycle will be a key determinant in the project valuation, SRIN's strategy of committing limited upfront capital will not strain the company's balance sheet. Since the project will be under the affordable housing category, we build in a 20% MAT rate (tax exemption status under affordable housing) in our valuations.
- ▶ **Valuation of Rs8.8bn or Rs62/share for affordable housing project:** Based on the assumptions mentioned above and a WACC of 12%, we arrive at a DCF-based NAV of Rs8.8bn or Rs62/share for the land parcel. We expect the project to deliver ~25% EBITDA margin over its life with a PAT margin of 18-20%.
- ▶ **SRIN now offers a play on various segments in Mumbai:** Post its recent fund raise through QIP route and promoter fund infusion, SRIN has a low net D/E of 0.1x 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).

Market Cap	Rs61.4bn/US\$965mn	Year to Mar	FY17	FY18E	FY19E	FY20E
Reuters/Bloomberg	SUNT.BO/SRIN IN	Revenue (Rs bn)	9.5	9.9	13.9	25.0
Shares Outstanding (mn)	146.3	Rec. Net Income (Rs bn)	2.2	2.5	3.0	5.6
52-week Range (Rs)	423/89	EPS (Rs)	17.3	17.6	21.5	40.3
Free Float (%)	26.2	% Chg YoY	1,178.9	1.2	22.7	87.0
FII (%)	17.3	P/E (x)	24.1	23.8	19.4	10.4
Daily Volume (US\$/'000)	2,959	P/B (x)	2.8	2.2	2.0	1.7
Absolute Return 3m (%)	17.9	EV/E (x)	16.9	14.4	12.6	6.9
Absolute Return 12m (%)	247.7	Dividend yield (%)	0.4	0.5	0.7	1.0
Sensex Return 3m (%)	6.9	RoCE (%)	14.1	15.7	17.1	27.7
Sensex Return 12m (%)	29.3	RoE (%)	12.6	11.0	10.8	17.9

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Valuations & views

- We like SRIN because it: (1) enjoys strong brand recall in Mumbai, (2) has strong balance sheet with net debt of 0.1x, 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 assuming a cap rate of 8% for the rental assets.
- 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 Rs541 (earlier Rs481,) valuing the company on 1x FY19E NAV of Rs541/share.

Table 1: SoTP valuation

Project	SRIN FY19E NAV Rs mn)	Rs/share	% of NAV
BKC residential	15,380	110	20.3
BKC commercial	2,026	14	2.7
ODC Goregaon Avenue 1 and 2	4,988	36	6.6
Other ongoing projects	2,989	21	3.9
ODC Goregaon Avenue 3 and 4	13,237	94	17.4
ODC Goregaon Avenue 5 and 6 (Commercial and Retail)	23,269	166	30.7
Naigaon Affordable Housing	8,746	62	11.5
Land Bank	5,247	37	6.9
Total NAV	75,881	541	100.0

Source: I-Sec research

Summary financials (consolidated)

Table 2: Earnings Statement
(Rs mn, year ending March 31)

	FY17	FY18E	FY19E	FY20E
Net Sales	9,522	9,851	13,860	25,038
Operating Expenses	6,041	5,687	8,834	15,877
EBITDA	3,481	4,164	5,026	9,160
<i>% margins</i>	37%	42%	36%	37%
Depreciation & Amortisation	23	24	25	26
Interest expenses	455	408	370	370
Other Income	82	90	99	109
Exceptional items	(51)	-	-	-
PBT	3,135	3,822	4,730	8,873
Less: Taxes	872	1,261	1,561	2,928
PAT before				
Minority/Associate	2,263	2,561	3,169	5,945
Minority/Associate share	(81)	(100)	(150)	(300)
Net Income (Reported)	2,182	2,461	3,019	5,645

Source: Company data I-Sec research

Table 3: Balance Sheet
(Rs mn, year ending March 31)

	FY17	FY18E	FY19E	FY20E
Assets				
Total Current Assets	32,535	37,504	34,038	32,768
<i>of which cash & cash eqv.</i>	986	5,133	819	2,169
Total Current Liabilities & Provisions	8,448	9,292	10,221	11,242
Net Current Assets	24,087	28,212	23,818	21,526
Goodwill/Investments	4,119	4,799	5,299	5,799
Net Fixed Assets	139	115	90	64
Capital WIP	-	642	6,239	14,346
Total Assets	28,346	33,768	35,445	41,734
Liabilities				
Borrowings	9,663	6,663	5,663	6,663
Equity Share Capital	120	140	140	140
Reserves & Surplus*	17,834	26,456	28,983	33,972
Net Worth	17,954	26,596	29,123	34,112
Minority Interest	706	806	956	1,256
Deferred Taxes	(297)	(297)	(297)	(297)
Total Liabilities	28,026	33,768	35,445	41,734

Source: Company data I-Sec research

Table 4: Cashflow Statement
(Rs mn, year ending March 31)

	FY17	FY18E	FY19E	FY20E
PBT	3,135	3,822	4,730	8,873
Depreciation	23	24	25	26
Non-Cash Adjustments	-	-	-	-
Working Capital Changes	(499)	23	80	3,642
Taxes Paid	(872)	(1,261)	(1,561)	(2,928)
Operating Cashflow	1,787	2,607	3,274	9,613
Capital Commitments	(5)	(642)	(5,596)	(8,108)
Free Cashflow	1,782	1,965	(2,322)	1,505
Other investing cashflow	840	(1,000)	(500)	(500)
Cashflow from Investing Activities	835	(1,642)	(6,096)	(8,608)
Issue of Share Capital	8	6,510	-	-
Inc (Dec) in Borrowings	(2,899)	(3,000)	(1,000)	1,000
Dividend paid	(139)	(328)	(492)	(656)
Cashflow from Financing activities	(3,030)	3,182	(1,492)	344
Chg. in Cash & Bank balances	(408)	4,147	(4,314)	1,349

Source: Company data I-Sec research

Table 5: Key Ratios
(Year ending March 31)

	FY17	FY18E	FY19E	FY20E
Per Share Data (Rs)				
EPS	17.3	17.6	21.5	40.3
Cash EPS	18.4	17.7	21.7	40.5
Dividend per share (DPS)	1.5	2.0	3.0	4.0
Book Value per share (BV)	149.7	189.8	207.8	243.4
Growth (%)				
Net Sales	291.3	3.5	40.7	80.6
EBITDA	1,355.2	19.6	20.7	82.3
PAT	1,010.4	12.8	22.7	87.0
Valuation Ratios (x)				
P/E	24.1	23.8	19.4	10.4
P/BV	2.8	2.2	2.0	1.7
EV / EBITDA	16.9	14.4	12.6	6.9
Dividend Yield	0.4	0.5	0.7	1.0
Operating Ratios				
Debt/EBITDA (x)	2.8	1.6	1.1	0.7
Net D/E	0.5	0.1	0.2	0.1
Profitability/Return Ratios (%)				
RoE	12.6	11.0	10.8	17.9
RoCE	14.1	15.7	17.1	27.7
EBITDA Margins	36.6	42.3	36.3	36.6
Net Income Margins	22.9	25.0	21.8	22.5

Source: Company data I-Sec research

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