

SUNTECK REALTY

Affordable housing booster

India Equity Research | Real Estate

Sunteck Realty's (SRL) Q3FY19 new sales surged 199% YoY to INR3.1bn. This was led by INR1.3bn sales (~INR4.5bn till Q3FY19 end) in the Naigaon affordable housing project launched in Q2FY19. Sales in BKC projects (~INR1.1bn, up 66% YoY) also contributed to the ramp up. Pick-up in sales in BKC and ODC projects are key drivers of the stock, in our view. Pending greater clarity regarding certain aspects of the new accounting standard IND-AS 115 adopted w.e.f. April 1, 2018, we continue to follow the old AS while rolling out FY21 estimates. Maintain 'BUY' with revised target price of INR452 (INR466 earlier).

BKC and Naigaon projects lend impetus to sales growth

New sales came in at INR3.1bn (up 199% YoY, down 26% QoQ), aided by Naigaon and BKC projects. ODC sales remained muted at INR270mn; 65 units have been sold in ODC in 9mFY19 versus management's annual target of 150 plus units. Led by the recently launched subvention scheme, management is confident of achieving its annual sales target in ODC. Collections were INR1.5bn (up 52% YoY, 9% QoQ). For 9mFY19, SRL's new sales surged 127% YoY to INR9.1bn aided by launch of Naigaon project. Q3FY19 revenue of INR1.9bn was down 3% YoY and EBITDA margin declined ~240bps; as a result, PAT fell 12% YoY to INR490mn.

Entry in affordable housing continues to yield dividends

SRL's maiden affordable housing project in Naigaon delivered yet another quarter of strong performance; the company sold 381 units worth ~INR1.3bn during the quarter (~INR4.5bn till Q3FY19 end). Sustained momentum in this segment over the medium term, from the first phase as well as from launch of future phases, will be a key driver for the company's growth, in our view.

Outlook and valuations: Poised for growth; retain 'BUY'

SRL's diversified product portfolio and benefits derived from consolidation arising from RERA implementation and the ongoing NBFC crisis are key positives for the company. While the Naigaon project has delivered strong results so far, improvement in sales traction in other projects is required to strengthen growth trajectory. We continue to follow the old AS while introducing FY21 numbers; our cash flow-based valuation remains unchanged. We maintain 'BUY/SP' with a revised TP of INR452 (10% discount to our NAV of INR502/share).

Financials

(INR mn)

Year to March	Q3FY19	Q3FY18	% chg	Q2FY19	% chg	FY18	FY19E	FY20E
Revenues	1,947	2,015	(3.4)	1,803	8.0	8,883	12,947	19,510
EBITDA	814	891	(8.6)	780	4.4	3,720	5,498	7,218
Net Profit	490	557	(12.0)	509	(3.8)	2,142	3,150	4,234
EPS (INR)	3.1	4.2	(26.0)	4.9	(35.6)	14.7	21.6	29.0
P/E (x)						23.1	15.7	11.7
ROE (%)						9.7	11.4	13.7

EDELWEISS 4D RATINGS

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

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

CMP	: INR 339
Target Price	: INR 452
52-week range (INR)	: 527 / 296
Share in issue (mn)	: 146.3
M cap (INR bn/USD mn)	: 50 / 697
Avg. Daily Vol.BSE/NSE('000)	: 285.2

SHARE HOLDING PATTERN (%)

	Current	Q2FY19	Q1FY19
Promoters *	67.0	66.8	66.8
MF's, FI's & BK's	2.7	3.4	4.0
FII's	24.9	24.5	24.2
Others	5.4	5.4	5.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(1.0)	0.2	2.1
3 months	(1.0)	4.3	17.5
12 months	(13.8)	1.1	(30.7)

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Other highlights

1. **New sales breakdown:** SRL posted Q3FY19 new sales of INR3.1bn (up 199% YoY, down 26% QoQ), with total area of ~0.33msf (up 735% YoY, down 54% QoQ). The project breakdown is as follows:
 - West World (Naigaon) – INR1.3bn (~0.26msf)
 - BKC projects – INR1.1bn (~21ksf)
 - Sunteck City, Goregaon – INR266mn (~19ksf)
 - Signia Waterfront, Airoli – INR210mn (~15ksf)
 - Signia High, Borivali – INR215mn (~12ksf)
2. **BKC projects:** SRL sold three units in BKC for a combined value of INR1.1bn, resulting in a quarter-end inventory of 43 units, which the company expects to sell over the next three–four years.
3. **Commercial projects at BKC:** SRL has commenced construction on both the commercial projects at BKC (*Icon and Gateway 51*), and expects to complete construction in 12-15 months. Management is in talks with various parties for pre-leasing these properties and expects an exit rental of ~INR250-300/month/sft.
4. **ODC:** SRL has 418 units remaining to be sold in Avenue 1/2 and continues to target 150 plus units of sales every year. While the company has sold only 65 units in 9mFY18, management is confident of reaching the target of 150 plus units in FY19, aided by marketing activations currently underway; this in our view is a key monitorable.

While Avenue 1 is expected to be completed in around 12 months, Avenue 2 is likely to take 12-18 months. Avenue 3 is expected to be launched in Q2FY20. Commercial projects in ODC are currently awaiting approvals and are also likely to be launched in Q2FY20.
5. **NBFC crisis:** Management indicated that as a result of the NBFC crisis, there are a lot of acquisition opportunities in the market, especially in the distressed space. The company continues to evaluate such opportunities in a cautious manner.
6. **Debt:** As on date, leverage is broadly at similar levels as H1FY19 end (net debt of INR4.5bn and net debt to equity of 0.17x). The cost of incremental borrowing is 9.25-9.5%

Financial snapshot

(INR mn)

Year to March	Q3FY19	Q3FY18	% change	Q2FY19	% change	YTD FY19	FY19E	FY20E
Net revenues	1,947	2,015	(3.4)	1,803	8.0	3,750	12,947	19,510
Direct Operating expenses	926	992	(6.6)	855	8.4	1,781	7,172	12,001
Staff costs	27	23	17.8	40	(33.9)	67	103	108
Other expenses	180	110	64.3	128	40.8	308	175	184
Total expenditure	1,133	1,124	0.8	1,023	10.8	2,156	7,449	12,292
EBITDA	814	891	(8.6)	780	4.4	1,594	5,498	7,218
Depreciation	7	5	30.4	5	42.9	12	17	19
Interest	109	97	12.5	104	5.7	213	403	393
Other income	104	34	204.7	172	(39.7)	276	97	102
Add: Exceptional items	-	-	-	-	-	-	-	1
Profit before tax	802	822	(2.5)	844	(5.0)	1,646	5,175	6,909
Provision for taxes	289	230	25.4	305	(5.3)	593	1,760	2,349
PAT	513	592	(13.3)	539	(4.9)	1,052	3,416	4,560
Minority interest	-	28	(100.0)	37	(100.0)	37	265	326
Associate profit share	(23)	(7)	NA	7	NA	(16)	-	-
Reported net profit	490	557	(12.0)	509	(3.8)	999	3,150	4,234
Diluted shares (mn)	146	146		146		146	146	146
Adjusted Diluted EPS	3.1	4.2	(26.0)	4.9	(35.6)	8.0	21.6	29.0

As a % of net revenues

Cost of construction	47.6	49.2		47.4		95.0	55.4	61.5
Employee cost	1.4	1.1		2.2		3.6	0.8	0.6
Other expenses	9.2	5.4		7.1		16.3	1.4	0.9
Total expenses	58.2	55.8		56.7		114.9	57.5	63.0
EBITDA	41.8	44.2		43.3		85.1	42.5	37.0
Depreciation	0.4	0.3		0.3		0.6	0.1	0.1
EBIT	41.4	43.9		43.0		84.4	42.3	36.9
Interest expenditure	5.6	4.8		5.7		11.4	3.1	2.0
Reported net profit	26.3	29.9		23.1		49.4	24.3	21.7
Tax rate	36.0	28.0		36.1		72.1	34.0	34.0

Company Description

Sunteck Realty Limited is a Mumbai focused real estate developer engaged in construction and development of residential and commercial properties. The company's 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	FY18	FY19E	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Selling Price increase (%)	5%	5%	5%	5%
Construction Cost Increase (%)	5%	5%	5%	5%

Income statement

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Income from operations	8,883	12,947	19,510	17,727
Direct costs	4,898	7,172	12,001	9,413
Employee costs	98	103	108	113
Other Expenses	167	175	184	193
Total operating expenses	5,163	7,449	12,292	9,719
EBITDA	3,720	5,498	7,218	8,008
Depreciation	17	17	19	21
EBIT	3,703	5,481	7,200	7,988
Less: Interest Expense	421	403	393	393
Add: Other income	93	97	102	107
Profit Before Tax	3,375	5,175	6,909	7,703
Less: Provision for Tax	1,078	1,760	2,349	2,619
Less: Minority Interest	98	265	326	522
Associate profit share	(57)	-	-	-
Reported Profit	2,142	3,150	4,234	4,562
Adjusted Profit	2,142	3,150	4,234	4,562
Shares o/s (mn)	146	146	146	146
Adjusted Basic EPS	14.7	21.6	29.0	31.2
Diluted shares o/s (mn)	146	146	146	146
Adjusted Diluted EPS	14.7	21.6	29.0	31.2
Adjusted Cash EPS	14.8	21.7	29.1	31.4
Dividend per share (DPS)	1.8	2.6	3.6	3.8
Dividend Payout Ratio (%)	12.3	12.3	12.3	12.3

Common size metrics

Year to March	FY18	FY19E	FY20E	FY21E
Staff costs	1.1	0.8	0.6	0.6
S G & A expenses	1.9	1.4	0.9	1.1
Operating expenses	58.1	57.5	63.0	54.8
Depreciation	0.2	0.1	0.1	0.1
Interest Expense	4.7	3.1	2.0	2.2
EBITDA margins	41.9	42.5	37.0	45.2
Net Profit margins	24.1	24.3	21.7	25.7

Growth ratios (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	(6.7)	45.8	50.7	(9.1)
EBITDA	6.9	47.8	31.3	10.9
PBT	9.4	53.3	33.5	11.5
Adjusted Profit	5.0	47.1	34.4	7.7
EPS	(9.5)	47.1	34.4	7.7

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19E	FY20E	FY21E	
Share capital	140	140	140	140	
Reserves & Surplus	26,163	28,927	32,641	36,642	
Shareholders' funds	26,303	29,067	32,781	36,783	
Minority Interest	775	775	775	775	
Long term borrowings	5,680	3,930	3,930	3,930	
Def. Tax Liability (net)	(164)	(164)	(164)	(164)	
Sources of funds	32,595	33,608	37,322	41,324	
Gross Block	184	204	224	244	
Net Block	128	92	101	110	
Total Fixed Assets	128	92	101	110	
Goodwill on consolidation	576	576	576	576	
Non current investments	1,658	1,658	1,658	1,658	
Other non current assets	107	107	107	107	
Current Investments	545	545	545	545	
Cash and Equivalents	1,099	5,761	5,189	9,458	
Inventories	26,927	28,113	30,723	38,697	
Trade receivables	2,906	3,006	3,356	3,706	
Loans & Advances	1,626	1,815	2,215	2,615	
Other Current Assets	826	900	1,100	1,100	
Total current assets	32,831	34,379	37,939	46,663	
Current liabilities	3,653	8,805	8,073	17,055	
Provisions	145	159	175	193	
Total Current Liab	3,798	8,964	8,248	17,248	
Net Curr Assets-ex cash	29,033	25,414	29,691	29,415	
Uses of funds	32,595	33,608	37,322	41,324	
BVPS (INR)	180.0	198.9	224.3	251.7	

Free cash flow		(INR mn)			
Year to March	FY18	FY19E	FY20E	FY21E	
Reported Profit	2,142	3,150	4,234	4,562	
Add: Depreciation	17	17	19	21	
Interest (Net of Tax)	290	266	260	260	
Less: Changes in WC	5,625	(3,619)	4,276	(276)	
Less: Capex	1	20	20	20	
Free Cash Flow	(3,178)	7,032	216	5,097	

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	697	15.7	11.7	1.7	1.5	11.4	13.7
Brigade Enterprises	395	16.5	14.5	1.2	1.1	7.2	7.7
DLF	3,963	27.4	24.9	0.8	0.8	2.9	3.1
Godrej Properties	2,402	44.7	33.8	4.7	4.1	13.0	13.0
Oberoi Realty	2,337	12.0	9.9	1.9	1.6	18.8	17.9
Sobha Limited	653	18.9	15.2	1.6	1.4	8.6	9.8
Median	-	17.7	14.9	1.6	1.5	10.0	11.4
AVERAGE	-	22.5	18.3	2.0	1.8	10.3	10.9

Source: Edelweiss research

Cash flow metrics		FY18	FY19E	FY20E	FY21E
Year to March					
Operating cash flow		(3,399)	6,826	(31)	4,848
Financing cash flow		6,277	(387)	(520)	(560)
Investing cash flow		(1,374)	20	20	20
Net cash Flow		4,251	6,419	(571)	4,268
Capex		(1)	(20)	(20)	(20)
Dividend paid		(263)	(387)	(520)	(560)
Share issue/(buyback)		6,471	-	-	-

Profitability and efficiency ratios

Year to March	FY18	FY19E	FY20E	FY21E
EOP(ROE) (%)	8.1	10.8	12.9	12.4
ROAE (%)	9.7	11.4	13.7	13.1
ROACE (%)	11.7	16.6	19.6	19.6
Current Ratio	893.4	447.8	522.9	325.4
Gross Debt/EBITDA	152.7	71.5	54.5	49.1
Gross Debt/Equity	21.6	13.5	12.0	10.7
Net Debt/Equity	17.4	(6.3)	(3.8)	(15.0)

Operating ratios

Year to March	FY18	FY19E	FY20E	FY21E
Total Asset Turnover	0.3	0.4	0.6	0.5
Fixed Asset Turnover	66.0	117.7	202.9	168.5
Equity Turnover	0.4	0.5	0.6	0.5

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adj. Diluted EPS (INR)	14.7	21.6	29.0	31.2
Y-o-Y growth (%)	(9.5)	47.1	34.4	7.7
Adjusted Cash EPS (INR)	14.8	21.7	29.1	31.4
Diluted P/E (x)	23.1	15.7	11.7	10.8
P/B (x)	1.9	1.7	1.5	1.3
Dividend Yield (%)	0.5	0.8	1.1	1.1

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	8.52	Fiam Group	4.56
Fidelity Investments	2.49	FIL Investments	2.05
FID Funds Mauritius	1.26	Dimensional Fund Advisors	0.78
Birla Sun Life Insurance	0.76	DSP Investment Managers	0.67
Excel Funds Management Inc	0.32	L&T Mutual Fund	0.16

**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

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Dec 2018	Samagra Wealthmax Private Limited	Buy	168000.00
29 Oct 2018	Samagra Wealthmax Private Limited	Buy	50000.00
29 Oct 2018	Matrabhav Trust	Buy	97500.00

**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
23-Jan-19	Oberoi Realty	Slow operations; revival ahead; <i>Result Update</i>	440	Buy
07-Jan-19	Sobha	Q3FY19: New sales down a tad; realisations perk up; <i>Company Update</i>	441	Buy
27-Nov-18	Brigade Enterprises	Set for solid growth; <i>Visit Note</i>	197	Buy

Distribution of Ratings / Market Cap

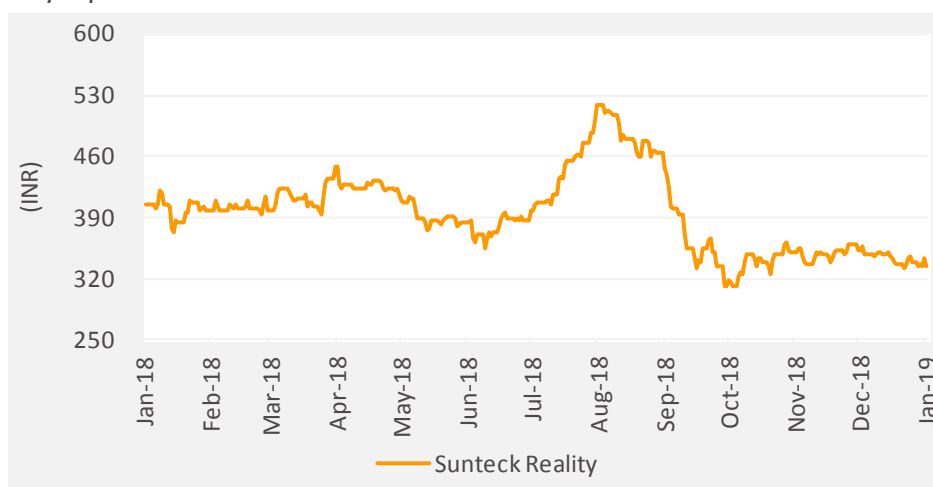
Edelweiss Research Coverage Universe

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

One year price chart



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