

# Sunteck Realty Ltd

## An MMR-focused developer

### Company background

Sunteck Realty (Sunteck) is a Mumbai metropolitan region (MMR)-focused developer, with a project portfolio of 23msf spread over 25 projects. With its initial focus on luxury/super premium residences, the company is now moving towards a balanced mix of super premium, aspirational and affordable residences, and commercial development. Management believes the company's research-backed project acquisition strategy and healthy balance sheet (low leverage and with ~Rs25bn in unsold completed inventory) position it favourably amid continued market consolidation, and the company is looking to add distressed and affordable projects. It has already added two such opportunities for minimum capital outlays. Sunteck operates through four brands catering to different segments and it has plans to launch one more brand for aspirational and affordable residences, the newest segment it would enter with its recent Naigaon project addition.

### Industry trends

The overall Mumbai real estate market remains sluggish. However, there is healthy demand for affordable homes in the outskirts of Mumbai, according to Sunteck. Post demonetisation, with the implementation of new regulations for the real estate sector, management expects the exit of unorganised developers and significant market share gains for organised developers. The trust deficit in the sector would reduce drastically post implementation of new regulations—hence, projects by reputable developers would see greater demand, according to management. They also expect improved transparency in the sector to help drive higher foreign investments.

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**Figure 3: Basic financials and valuation**

FY Mar (Rs m)	2013	2014	2015	2016	2017
Revenue	302	9,256	3,028	7,865	9,522
PBT	107	2,728	1,284	2,547	3,033
Net income	40	1,510	682	1,628	2,040
EPS	0.34	12.59	5.69	13.57	17.01
DPS	0.09	0.50	0.50	0.50	0.75
<b>Profitability &amp; valuation</b>					
EBIT margin	13.5%	30.1%	43.6%	31.5%	36.3%
ROIC (EBIT)	0.2%	17.0%	3.6%	6.7%	11.5%
EV/EBITDA	523.7x	8.0x	18.8x	10.2x	9.0x
PE	595.9x	10.8x	21.9x	8.4x	11.2x
Net yield	0.0%	0.4%	0.4%	0.4%	0.4%

Source: Bloomberg

### Equities

India  
Real Estate  
Non Covered Stock

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**Figure 1: Trading data**

Share price (local currency)	428
Market Cap (US\$ m)	931
Av daily t/o (US\$ m)	2.2
YTD performance %	2.4
1 yr. fwd. P/E (cons) (x)	26.4
1 yr. hist. PBV (x)	2.9

Note: Above data as of 3 May 2018.  
Source: Bloomberg

**Figure 2: Key Shareholders**

Major Shareholders	% holding
Promoters	66.8
Pabrai Investment Fund	8.4
FMR & Fidelity	7.6
L&T Mutual Fund	2.1
Birla Sun Life Insurance	1.2
Birla Sun Life Mutual Fund	1.1

Source: BSE, Bloomberg

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## Recent news

- In April 2018, the credit rating for Sunteck's long-term bank facilities was upgraded from CARE A+ to CARE AA-, with a stable outlook being maintained.
- In February 2018, the company decided to buy a partial stake in a distressed property in South Mumbai.
- In January 2018, it entered into a joint development agreement for the development of an affordable housing project in Naigaon, with a potential development of 100 acres, according to management.
- In October 2017, the company raised Rs5bn from the equity market through a Qualified Institutional placement and Rs1.5bn by way of preferential allotment to promoters.

## Management meeting

- Sunteck is an MMR-focused developer, with a project portfolio of 23msf spread across 25 projects. The company has low leverage (0.47x debt-to-equity as of end-December 2017) and unsold completed inventory worth ~Rs25bn, which management believes provides enough room to grow the business. With its initial focus on luxury/super premium development, Sunteck is now moving towards a balanced mix of super premium, aspirational and affordable development.
- Sunteck operates through four brands—Signature (luxury residences), Signia (super premium residences), Sunteck City (phased and mixed-use developments) and Sunteck (commercial developments). It has plans to launch one more brand for aspirational and affordable residences.
- According to management, the company has a focused project acquisition strategy and an ability to predict growth ahead of the curve, as witnessed in the Bandra Kurla Complex [BKC] projects acquisition, which was ahead of its time.
- In the BKC, Sunteck has three luxury/super premium residential projects with a total area of 1.4msf. As of 31 December 2017, it had unsold inventory totalling ~0.4msf saleable area or 58 units across the three projects. According to management, the company has around Rs25bn in net cash realisation from unsold inventory (valued at recent transaction rates) and receivables from units already sold.
- Additionally in the BKC, the company is also developing two office projects with a saleable area of ~0.1msf. According to management, it will generate net cash flows of Rs1.4bn from these two projects once they are completed and fully sold.
- Sunteck acquired 23 acres of land in Goregaon West (at a cost of ~Rs1,000/sqft) within the Oshiwara District Centre, which is being developed by the Mumbai Metropolitan Region Development Authority (MMRDA), the same planning authority behind the BKC development.
- Sunteck has already launched two residential projects in this land parcel (with saleable area of 1.4msf) and has already sold almost 42%. According to management, net cash flow expected from these two projects is ~Rs10bn. They

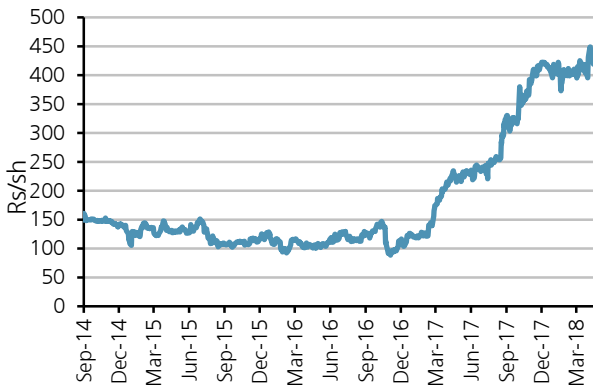
have plans to launch two more residential projects in the same land parcel, which they estimate could generate ~Rs14.5bn of net cash.

- Additionally Sunteck has plans to develop two commercial projects with a total leasable area of 2.6msf, which management estimates could generate rents of Rs4.4-4.8bn on an investment of Rs15bn.
- In order to capture growth in affordable housing, significant migration and the urbanisation opportunity towards the outskirts of the MMR, and to take advantage of recent tax incentives and favourable government policies, Sunteck entered into a joint development project in Naigaon with 74% area share to the company. Naigaon is presently connected by the western local train line and NH 48. Future infrastructure projects such as a 5km sea link on the Vasai creek would increase the connectivity to Naigaon, driving demand further.
- This project has a total revenue potential of more than Rs55bn, with Rs15bn to be realised over next two years. The company will launch the project in the near term under a new brand for aspirational homes in a completely new division.
- Apart from the projects discussed above, Sunteck has more projects (e.g. Signia High, Signia Pride, Signia Waterfront.), which have a combined potential to generate incremental cash flows of ~Rs5bn, according to management.
- The company also has future projects totalling ~14msf size, most of which will operate under the joint development model, giving Sunteck a net share of ~4msf. These future projects will not include the distressed project and the Naigaon joint development project, both of which were added in 2018.
- Sunteck has projects worth Rs29bn to be targeted for delivery in the next 2-3 years.

## Key industry issues

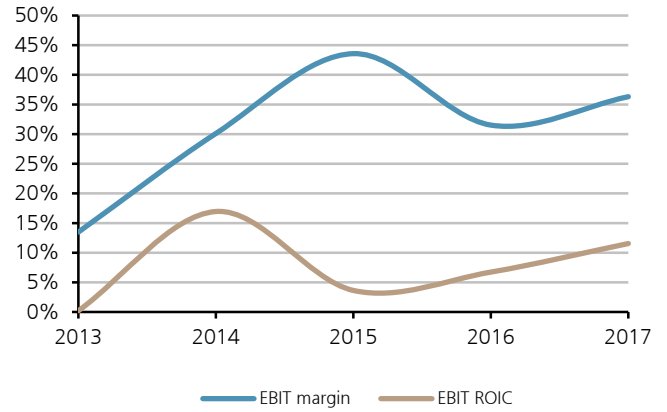
- The overall Mumbai real estate market remains sluggish, but according to the company, there is healthy demand for affordable homes in the outskirts of Mumbai.
- Post demonetisation, with the implementation of new regulations for the real estate sector, Sunteck expects the exit of unorganised developers and consolidation in the market. Management expects many attractive opportunities to open up with regard to distressed and affordable projects for developers with strong balance sheets and operational capabilities.
- The company also expects the trust deficit in the sector to shrink drastically following the implementation of new regulations, and hence, projects by reputable developers could see greater demand. Improved transparency in the sector would also help drive higher foreign investments.

**Figure 4: Share price performance (Rs/share)**



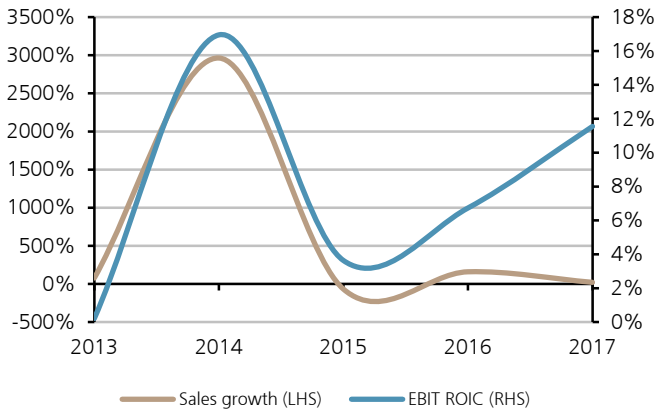
Source: Bloomberg

**Figure 5: Profitability**



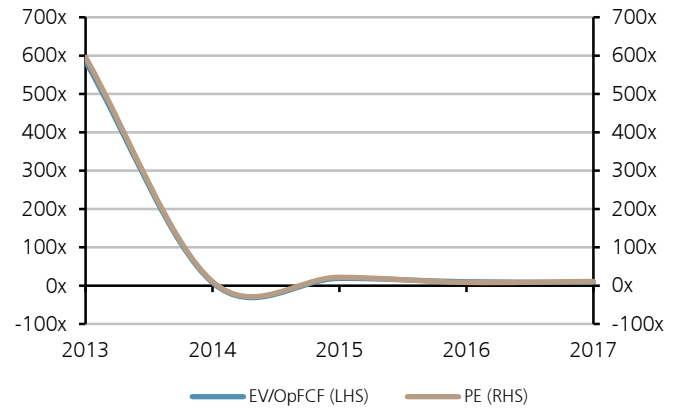
Source: Bloomberg

**Figure 6: Momentum**



Source: Bloomberg

**Figure 7: Value**



Source: Bloomberg

**Figure 8: Historical financials**

FY Mar (Rs m)	2013	2014	2015	2016	2017
<b>Per share</b>					
EPS (pre-exceptional)	0.3	12.6	5.7	13.6	17.0
CEPS	0.5	12.7	5.8	13.8	17.2
DPS	0.1	0.5	0.5	0.5	0.8
BVPS	40.8	53.1	122.6	136.3	149.7
<b>Profit &amp; loss</b>					
Sales	302	9,256	3,028	7,865	9,522
EBITDA	55	2,801	1,339	2,500	3,481
Operating income (EBIT)	41	2,787	1,320	2,479	3,458
PBT (pre-exceptional)	107	2,728	1,284	2,547	3,033
Net profit (pre-exceptional)	40	1,510	682	1,628	2,040
<b>Cash flow</b>					
Net Income	40	1,510	682	1,628	2,040
Depreciation & amortisation	14	14	20	21	23
Net change in working capital	1,273	-2,944	-1,679	-3,312	-499
Other (operating)	-76	311	340	344	911
Operating cash flow	1,250	-1,109	-638	-1,319	2,474
Tax paid	65	865	530	579	-647
Capital Expenditure	-6	-10	-18	-14	-5
Net interest	110	170	176	143	455
Dividend Paid	-8	-12	-18	-20	-139
Net (acquisitions) / disposals	1	0	3	0	NA
Other items					
(Increase) decrease in net debt	1,412	-96	-140	-773	1,683
<b>Operating free cash flow (OpFCF)</b>					
EBITDA (core)	55	2,801	1,339	2,500	3,481
Less maintenance capital expenditure	-6	-10	-18	-14	-5
Less maintenance net working capital	0	0	0	0	0
OpFCF	49	2,790	1,322	2,486	3,475
<b>Balance sheet</b>					
Net tangible fixed assets	459	396	401	367	1,374
Net intangible fixed assets	601	602	598	601	320
Net working capital	18,169	15,442	35,296	35,844	28,246
Total invested capital (IC)	19,229	16,440	36,295	36,812	29,940
Financial & other fixed assets	144	137	129	120	139
Cash and cash equivalents	336	122	1,092	931	986
Provisions					
Minority interests	4	322	628	555	706
Shareholders' funds	4,902	6,694	15,331	16,898	18,659

Source: Bloomberg

**Figure 9: Historical financials**

Profitability					
EBITDA margin	18%	30%	44%	32%	37%
EBIT margin	13%	30%	44%	32%	36%
EBIT RoIC	0%	17%	4%	7%	12%
Net RoE	1%	17%	5%	7%	8%
Interest cover (EBIT)	0.4x	16.4x	NA	NA	NA
Dividend cover (net)	3.7x	25.2x	11.4x	27.1x	22.7x
Productivity					
Labour % sales					
Depreciation % sales	4.7%	0.2%	0.6%	0.9%	0.2%
Capex % sales	4.7%	NA	NA	NA	0.2%
Invested capital turnover	63.6x	1.8x	12.0x	4.7x	3.1x
Tax rate	158.6%	31.0%	40.2%	23.4%	-18.7%
Net debt / total equity	96.5%	86.3%	62.5%	66.6%	42.4%
Momentum					
Sales growth	78%	2964%	-67%	160%	21%
EBIT growth (EBITDA growth)	-2%	5010%	-52%	87%	39%
Net earnings growth	29%	3654%	-55%	139%	25%
Dividend growth					
Value					
Market capitalisation	23,965	16,359	14,965	13,621	22,769
Plus: Core net debt / (cash)	4,731	5,776	9,586	11,246	7,910
Plus: Pension provisions	3	4	0	0	8
Plus: Buy out of minorities	4	322	628	555	706
Less: Non-core assets					
Enterprise value	28,704	22,460	25,179	25,422	31,393
EV / Sales (core)	95.01x	2.43x	8.31x	3.23x	3.30x
EV / EBITDA (core)	523.7x	8.0x	18.8x	10.2x	9.0x
EV / EBIT (core)	704.7x	8.1x	19.1x	10.3x	9.1x
EV / OpFCF	584.6x	8.0x	19.1x	10.2x	9.0x
EV / Invested capital	1.5x	1.4x	0.7x	0.7x	1.0x
P / CE	19.2x	10.7x	21.4x	8.3x	9.2x
P / E	595.9x	10.8x	21.9x	8.4x	11.2x
Dividend yield (net)	0.05%	0.37%	0.40%	0.44%	0.40%
P / BV (average)	4.9x	2.6x	1.0x	0.8x	1.3x

Source: Bloomberg

**Valuation Method and Risk Statement**

Forecasting earnings and corporate financial behaviour is difficult because it is affected by a wide range of economic, financial, accounting and regulatory trends, as well as changes in tax policy.

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Buy	FSR is > 6% above the MRA.	46%	25%
Neutral	FSR is between -6% and 6% of the MRA.	39%	23%
Sell	FSR is > 6% below the MRA.	15%	12%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2018.

1: Percentage of companies under coverage globally within the 12-month rating category.

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