

Sunteck Realty (SUNRE)

₹ 440

Sun(teck) set to rise!!!

Sunteck Realty (SRL) is a Mumbai based real estate player with development potential of ~23 mn sq ft (msf) spread across 24 projects and four rented assets. Out of this, SRL enjoys strong cash flow visibility from its completed and ongoing projects (4.24 msf). We expect SRL to generate ₹ 3311 crore from these projects over the next few years. The completed projects in BKC along with ongoing projects in Goregaon coupled with comfortable leverage (debt-equity at 0.53x) lend us comfort on the valuation and growth prospects. We initiate coverage on SRL with a target price of ₹ 570 (0.9x FY19E NAV).

Strong cash flow visibility from completed, ongoing projects...

Currently, SRL has a land bank of 4.24 msf (SRL – 3.75 msf) among completed and ongoing projects largely in BKC and Goregaon. Given the large unsold inventory from completed projects, we believe SRL is in a sweet spot from a cash flow generation point of view. With post tax cash surplus of ₹ 3311 crore over the next few years, we see limited downside in SRL as these are ~91% of the current enterprise value (EV).

BKC project: Crown jewel of SRL...

In contrast to other developers, SRL forayed into BKC area with residential development that has paid off well. It currently has three projects in the BKC area aggregating 1.5 msf with two of them already completed & third project (Signia Pearl) has received OC till 18th floor (out of 20th). Currently, it has unsold inventory of 60 units (0.46 msf) among these projects. These flats are expected to provide post-tax net cash surplus of ₹ 1843 crore (assuming 10% discount to current prices) in the next few years. Overall, BKC contributes ~24% to our target price of ₹ 570/share.

ODC - New BKC in making for SRL!!!

SRL acquired 23 acre land for ₹ 447 crore over FY10-12 with development potential of 5.7 msf. The current land parcel is part of proposed ODC by MMRDA & is slated to be a key beneficiary of infrastructure development in region. It started development on a 7 acre plot in two phases viz.- Avenue I & II, aggregating 1.5 msf (0.6 msf sold; aggregating ~₹ 839.3 crore). It is expected to generate pos-tax net cash inflows of ~₹ 1007.8 crore. Overall, ODC accounts for ~67% in our valuation of ₹ 570/share.

Mumbai-centric play pays off; initiate coverage with BUY...

At the CMP, SRL is trading at valuation of 1.2x FY19E P/BV multiple. Considering strong cash flow visibility, better leverage (D/E: 0.53x) and quality of the land bank, SRL is currently trading at attractive valuations. We initiate coverage on SRL with a **BUY** recommendation with a target price of ₹ 570/share (0.9x FY19E NAV).

Exhibit 1: Financial Summary

(₹ Crore)	FY16	FY17	FY18E	FY19E
Net Sales	243.4	952.2	1,114.7	1,275.7
EBITDA	23.9	348.1	413.3	519.9
Net Profit	16.3	208.0	252.4	322.5
EPS (₹)- Diluted	2.7	34.7	42.1	53.8
P/E (x)	161.3	12.6	10.4	8.1
Price/book (x)	1.6	1.5	1.3	1.2
EV/EBITDA (x)	154.2	9.8	8.0	5.7
RoCE (%)	2.0	12.9	15.2	18.5
RoE (%)	1.0	11.6	12.6	14.2

Source: Company, ICICIdirect.com Research

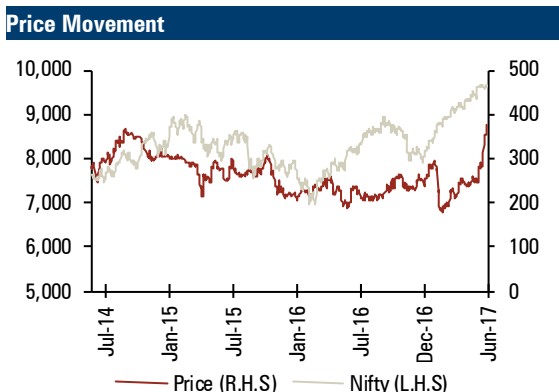
Rating matrix	
Rating	Buy
Target	₹ 570
Target Period	18-24 months
Potential Upside	30%

YoY Growth (%)				
(%)	FY16	FY17	FY18E	FY19E
Net Sales	(19.6)	291.3	17.1	14.4
EBITDA	(82.1)	1,354.5	18.7	25.8
Net Profit	(76.1)	1,177.6	21.4	27.7
EPS (₹)	(76.1)	1,177.6	21.4	27.7

Valuation summary				
(x)	FY16	FY17	FY18E	FY19E
P/E	161.3	12.6	10.4	8.1
Target P/E	209.9	16.4	13.5	10.6
EV / EBITDA	154.2	9.8	8.0	5.7
P/BV	1.6	1.5	1.3	1.2
RoNW (%)	1.0	11.6	12.6	14.2
RoCE (%)	2.0	12.9	15.2	18.5

Stock data	
Particular	Amount (₹ crore)
Market Capitalization	2,625.8
Total Debt (FY17)	944.0
Cash	98.6
EV	3,471.2
52 week H/L (₹)	533 / 174
Equity capital	12.0
Face value (₹)	2.0

Comparative Return Matrix (%)				
Return %	1M	3M	6M	12M
Sunteck Realty	4.1	35.0	105.6	104.6
Oberoi Realty	(3.8)	4.4	21.9	30.3
Sobha Ltd	(5.0)	18.8	55.2	20.2
Prestige estates	12.8	45.3	61.6	41.4
Godrej Properties	8.5	42.0	84.3	64.8



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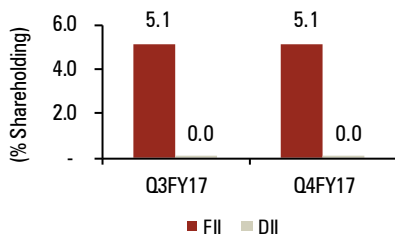
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Shareholding pattern (Q4FY17)

Shareholder	Holding (%)
Promoter	73.9
FII	5.1
DII	0.0
Others	21.0
Total	100.0

Source: BSE Filing, ICICIdirect.com Research

Shareholding pattern (Q4FY17)



Source: BSE Filing, ICICIdirect.com Research

Company background

Sunteck Realty (SRL) is a Mumbai-based real estate development company largely catering to the ultra-luxury and luxury residential segment. Their developmental activities cover the major metros and mini metros of India including Mumbai, Nagpur and Goa. SRL essentially started its real estate development business with three Bandra Kurla Complex (BKC) projects. Post establishing itself in BKC, it acquired 23 acres land parcel in ODC - Goregaon (W) to launch "Sunteck City". Furthermore, the company has carved out a niche for itself in the luxury and ultra luxury segment by differentiating itself in each micro-market. The company achieved this through product positioning, brand partnerships and reputed channel partners for each product to attract corporate, HNI and retail customers.

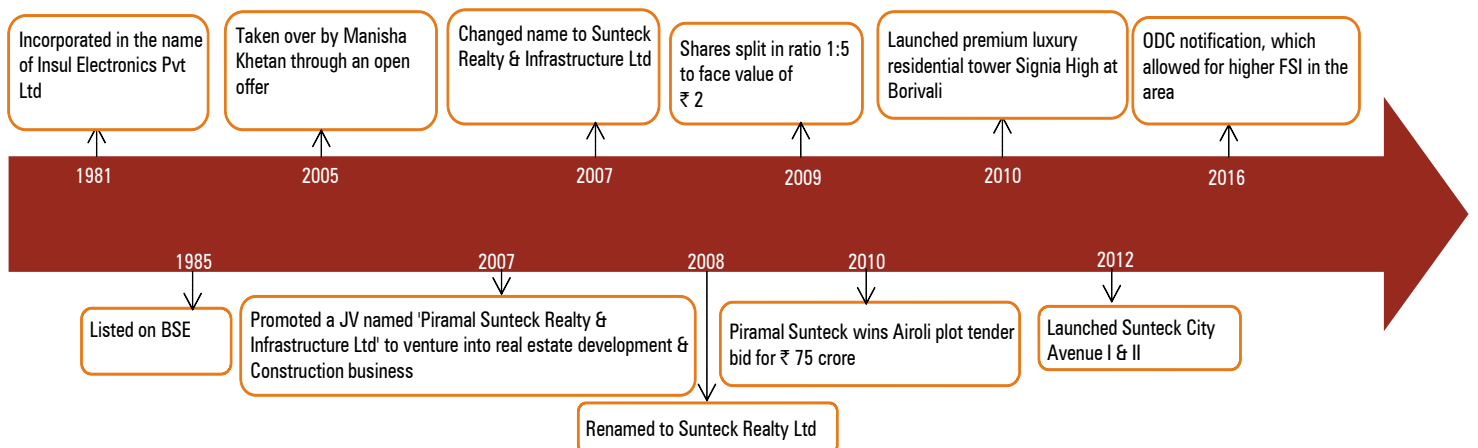
Overall, SRL has a development portfolio of ~23 msf spread across 25 projects at various stages of development & four rented assets. Till date, it has completed four residential and three commercial projects with total saleable area of 1.5 msf (~70% sold). It is ramping up its project execution skills through its in-house project management team and strategic tie-ups and associations with domestic/international contractors, architects and brand partners. SRL has been able to create a premium positioning of brand "Sunteck" across projects since it intends to fill the gap of luxury products in every micro market of Mumbai. Consequently, SRL has divided its projects under four brands as shown below:-

Exhibit 2: Sunteck brand positioning...

Signature	Signia	SunteckCity	Sunteck
Ultra luxury residences aimed at high-net worth individuals	Premium & mid-level residences in select suburban micro markets	Large formats and mixed used developments	Commercial developments

Source: Company, ICICIdirect.com Research

Exhibit 3: Sunteck Realty Timeline...



Source: Company, ICICIdirect.com Research

Exhibit 4: SRL's Mumbai presence...

MUMBAI PRESENCE



● COMPLETED PROJECTS
 ● UNDER CONSTRUCTION PROJECTS
 ● UPCOMING PROJECTS

Source: Company, ICICIdirect.com Research

Investment Rationale

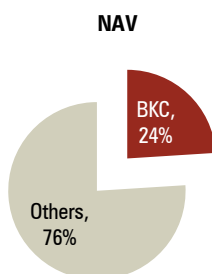
Strong cash flow visibility from completed & ongoing projects...

Currently, SRL has a land bank of 4.24 msf (SRL stake – 3.75 msf) among the completed and ongoing projects largely in the BKC & Goregaon area. Given the large unsold inventory from completed projects, we believe SRL is in a sweet spot from a cash flow generation point of view. As per our calculation, we anticipate SRL will generate post tax cash surplus of ₹ 3311.0 crore over the next few years. These cash flows are ~91% of the current EV lending us comfort there is limited downside from the current level of the stock.

Exhibit 5: Post tax cash flows...

	Units	Completed		Ongoing		Total	
		Overall	SRL	Overall	SRL	Overall	SRL
Saleable Area	Mn sq ft	1.53	1.21	2.71	2.54	4.24	3.75
Area sold	Mn sq ft	1.09	0.35	1.10	1.04	2.20	1.39
Sales Value	₹ crore	2566.8	2236.7	2062.0	1942.7	4628.8	4179.5
Advance Received	₹ crore	2223.3	1928.0	1174.3	1110.8	3397.6	3038.7
Receivables	₹ crore	343.5	308.8	887.8	832.0	1231.3	1140.7
Unsold Area	Mn sq ft	0.44	0.87	1.61	1.50	2.04	2.37
Sales Value @ current prices	₹ crore	1688.6	1470.8	3188.7	3023.2	4877.3	4494.0
Gross cash inflows	₹ crore	2032.1	1779.6	4076.5	3855.2	6108.6	5634.8
Total project cost	₹ crore	2074.4	1770.0	2246.8	2112.4	4321.2	3882.4
Cost Incurred	₹ crore	2067.6	1765.4	1538.2	1424.1	3605.8	3189.4
Cost to be incurred	₹ crore	6.8	4.6	708.6	688.3	715.4	692.9
Pre-tax cash flows	₹ crore	2025.3	1775.0	3367.8	3166.8	5393.2	4941.8
Taxes @ 33%	₹ crore	668.4	585.7	1111.4	1045.1	1779.7	1630.8
Post Tax cash flows	₹ crore	1357.0	1189.2	2256.5	2121.8	3613.4	3311.0

Source: Company, ICICIdirect.com Research



BKC project: Crown jewel for SRL...

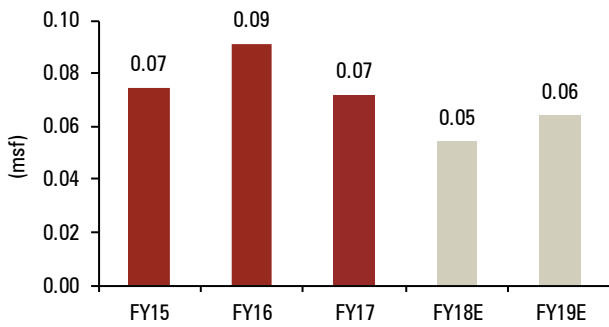
SRL forayed into residential development with its iconic project "Signature Island" in BKC. The company chose BKC to start its residential foray at a time when its peers looked to make commercial footprints in the area. Over the last decade and a half, BKC has emerged as the new financial hub of the city. It houses some of the biggest corporates, financial institutions, bourses and multi specialty hospitals. Post the successful launch of Signature Island, the company launched two more projects viz. "Signia Isles" & "Signia Pearl" in BKC. Overall, the BKC residential projects have a development potential of 1.45 msf (0.99 msf sold till March, 2017). Furthermore, all above three projects have received occupational certificate. Currently, SRL has an unsold inventory of 60 flats (0.46 mn sq ft) in these projects and expects to sell them in the next three to four years. The unsold inventory of these flats is worth ₹ 2202.3 crore (we have considered 10% discount to current prices for inventory). Overall, BKC's projects are expected to generate post-tax cash surplus of ₹ 1842.8 crore over the next three to four years mainly on account of monetisation of unsold inventory and balance receivables on sold area. In Signia Pearl, SRL has not been able to utilise the full global FSI of 4 due to height restrictions. Going forward, it can build additional ~50000-55000 sq ft area if it gets the necessary approvals for which it will only have to incur construction costs.

Exhibit 6: Sunteck's BKC project map...



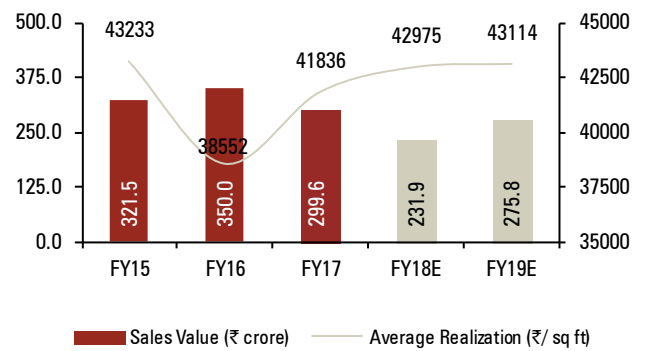
Source: Company, ICICIdirect.com Research

Exhibit 7: BKC sales volume trend...



Source: Company, ICICIdirect.com Research

Exhibit 8: BKC sales value and average realisation trend...



Source: Company, ICICIdirect.com Research

Exhibit 9: BKC residential project details...

Project name	Saleable Area (msf)	Area Sold till Mar'17 (msf)	Area Unsold till Mar'17 (msf)	Sale Value achieved till Mar'17 (₹ crore)	Advances Received till Mar'17 (₹ crore)	Balance Receivables as of Mar'17 (₹ crore)	Estimated inventory value (₹ crore)	Total Anticipated Cash flows (₹ crore)	Costs yet to be incurred (₹ crore)	Pre-tax Net surplus (₹ crore)	Post-tax Net surplus (₹ crore)
Signature Island*	0.64	0.37	0.27	1209.8	1114.4	95.4	1336.9	1432.2	1.0	1431.2	958.9
Signia Isles*	0.40	0.33	0.07	1046.3	858.5	187.8	287.9	475.7	1.9	473.8	317.4
Signia Pearl ^	0.41	0.29	0.12	973.8	705.9	267.9	577.5	845.4	0.0	845.4	566.4
Total	1.45	0.99	0.46	3229.9	2678.8	551.0	2202.3	2753.3	2.9	2750.4	1842.8

Source: Company, ICICIdirect.com Research

*: Completed Projects

^: Partially completed projects

Oshiwara District Centre – New BKC in making for SRL!!!

SRL acquired 23 acres in Goregaon for ~₹ 450 crore during 2010-12. The company is looking at overall development of 5.7 msf, which would consist of both, residential and commercial development. This land parcel is likely to be a part of Oshiwara District Centre (ODC) proposed by MMRDA after BKC. Spread across 160 acres, ODC is located between Andheri (Lokhandwala) and Goregaon. It is being contemplated as the next BKC for western suburbs in Mumbai. It has been identified as the next commercial business district (CBD) of the city by MMRDA (after BKC). It is well located and supported by good infrastructure facilities like development of two flyovers, Ram Mandir station for ODC, six internal 90 feet roads, which would result in better connectivity. It is also expected to have better connectivity through upcoming metro projects. The residential potential of the given location is also well supported with already huge operational office space in vicinity such as Nirlon knowledge Park, Nesco and Mind Space having prominent corporates, several back offices of well-known banks and many IT companies. Creation of ODC would result in a major facelift for the entire zone. Hence, we believe SRL will be a key beneficiary of the proposed ODC, going ahead.

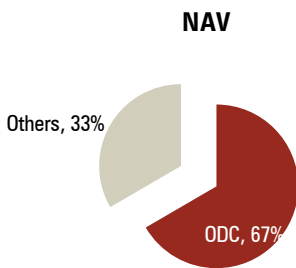
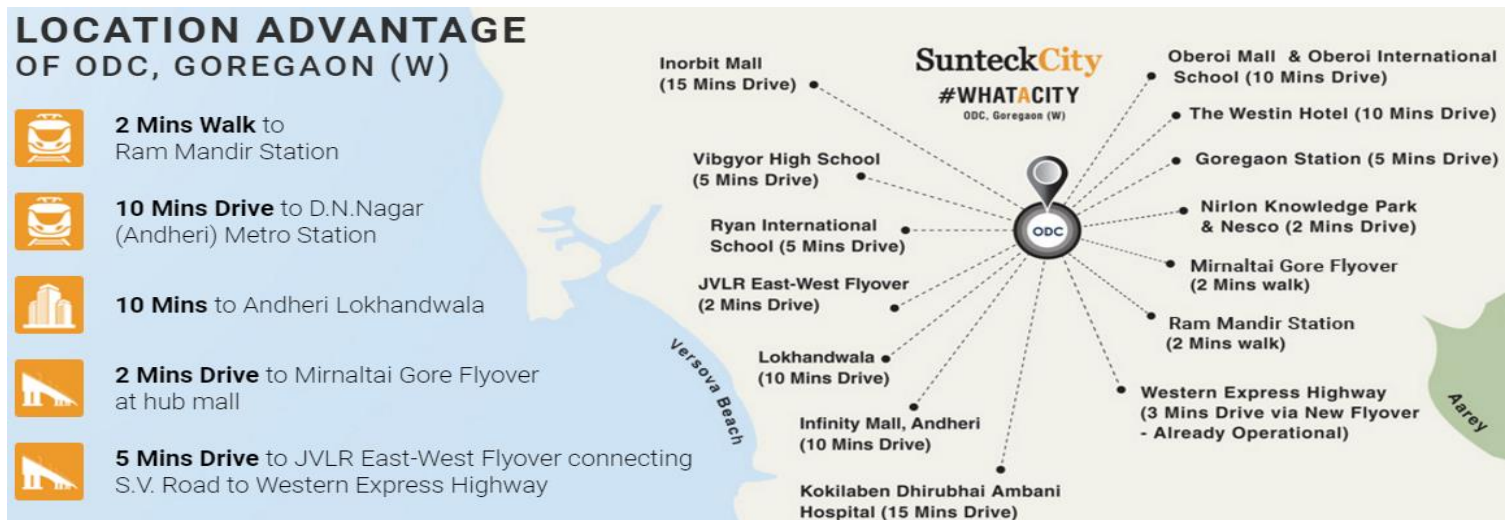


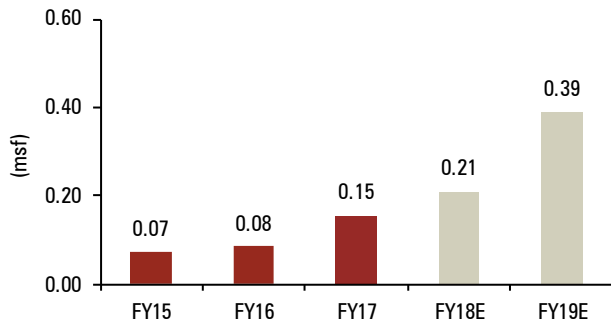
Exhibit 10: Location advantages of ODC...



Source: Company, ICICIdirect.com Research

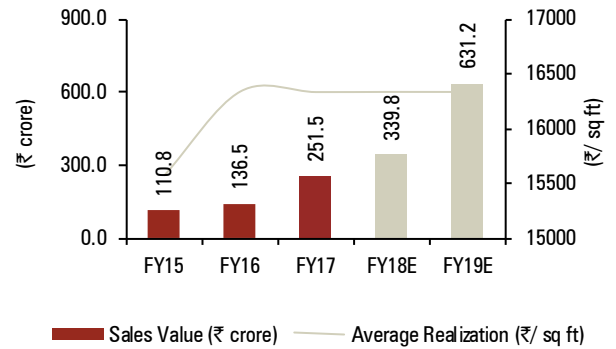
With regard to SRL, it launched the Sunteck City project called Avenue in 2012. So far, the company has launched Avenue I & II with a saleable area of 1.6 msf. Out of this, SRL has already sold 0.6 msf aggregating ₹ 839.3 crore (as on March 31, 2017). The company is planning to complete these phases over the next 24-36 months. In our view, the ongoing projects of Avenue I & II should generate post-tax cash surplus worth ₹ 1007.8 crore over the next two or three years. Besides this, Avenue III & IV are expected to have residential development potential of ~1.5 msf each. This is expected to be launched in 2018-19 and 2020-21, respectively. Overall, we believe the residential development in Sunteck City will generate surplus post-tax cash flow of ₹ 3507.1 crore (based on current realisation of ~₹ 16000 per sq ft) over the next five to ten years for SRL.

Exhibit 11: ODC residential sales volume trend...



Source: Company, ICICIdirect.com Research

Exhibit 12: ODC residential sales value and average realisation trend...



Source: Company, ICICIdirect.com Research

Exhibit 13: ODC project details...

Sunteck City Projects	Saleable Area (msf)	Area Sold till Mar'17 (msf)	Area Unsold till Mar'17 (msf)	Sale Value achieved till Mar'17 (₹ crore)	Advances Received till Mar'17 (₹ crore)	Balance Receivables as of Mar'17 (₹ crore)	Estimated inventory value (₹ crore)	Total Anticipated Cash flows (₹ crore)	Costs yet to be incurred (₹ crore)	Pre-tax Net surplus (₹ crore)	Post-tax Net surplus (₹ crore)
1st & 2nd Avenue*	1.55	0.61	0.94	839.3	344.9	494.4	1567.3	2061.7	557.5	1504.2	1007.8
3rd Avenue ^	1.46	0.0	1.46	0.0	0.0	0.0	2706.6	2706.6	841.4	1865.1	1249.6
4th Avenue ^	1.46	0.0	1.46	0.0	0.0	0.0	2706.6	2706.6	841.4	1865.1	1249.6
Total	4.5	0.6	3.9	839.3	344.9	494.4	6980.4	7474.8	2240.3	5234.5	3507.1

Source: Company, ICICIdirect.com Research

*: Ongoing projects ^: Upcoming projects

Exhibit 14: ODC projects construction progress update...

ODC Projects	Apartment size (sq ft)	Ticket size (₹ crore)	Construction progress	Launch date
Sunteck City Avenue I	1300-1700	2.2 - 2.9	Tower I: 35th storey completed Tower II: 35th storey completed Tower III: At podium level	Q3FY12
Sunteck City Avenue II	900-1300	1.5 - 2.2	Tower I: At podium level Tower II: At excavation stage	Q3FY12
Sunteck City Avenue III	1300-1700	2.4 - 3.1	Yet to begin	Q3FY18*
Sunteck City Avenue IV	900-1300	1.7 - 2.4	Yet to begin	H1FY20*
Sunteck City Avenue V	Commercial	NA	Yet to begin	H2FY18*

Source: Company, ICICIdirect.com Research

*Expected launched date

What's more? Huge beneficiary of recent ODC notification...

In the recent notification, the Maharashtra government has hiked the permissible construction area in the proposed Oshiwara District Commercial Centre (ODC) for residential as well as commercial development with the aim of shaping it on the lines of Bandra Kurla Complex (BKC). For residential development, FSI has been hiked from 1.5x to 3x while for commercial, it has been hiked from 1.5x to 4x. To avail this additional FSI, payment of premium at 60% of the ready reckoner rate will have to be paid. SRL has been a major beneficiary of this notification as it had already bought 23 acres of land in the ODC area over 2010-12. Prior to this notification, SRL was able to build ~4.0 msf at Goregaon, which has now increased by 42.5% to 5.7 msf. We have already considered 5.7 msf and consequent premium charges in our valuation.

SRL was among very few players that bought 2 acre plot in BKC for ~₹ 144 crore from MMRDA for residential development in 2006.

Good at identifying land parcels and funded with credible players...

So far, SRL has had a strong track record in terms of identifying land parcels for future growth with clean & clear land title and getting it funded through credible partners such as India REIT Fund backed by Ajay Piramal Group (APG) and Kotak Realty fund. For instance, SRL was among very few players that bought 2 acre plot in BKC for ~₹ 144 crore from MMRDA for residential development in 2006. This was in stark contrast to other players who were buying plots in the region for commercial development. Currently, SRL has emerged as one of the uber luxury/premium private residential developer in BKC where realisation has seen a sharp rise from ₹ 10000-12000 per sq ft to ~₹ 40000-50000 per sq ft in a decade or so. In terms of funding this deal, SRL roped in India REIT as bridge financier while SRL invested only ₹ 7 crore, India REIT invested ~₹ 63 crore (hurdle rate: 14%) while the balance ₹ 70 crore was funded through debt.

In the deal, SRL got equity ownership of 60% (sweat equity – 50% & equity contribution – 10%) while India REIT got 40% ownership. Subsequently, SRL's ownership increased to 87.5% through sponsor promoter structure (additional stake of 25% to SRL return in for excess of hurdle rate) and buyback. In 2010-12, SRL again demonstrated its skills in terms of identifying land parcels at better rates when it acquired 23 acres for ~₹ 447 crore (₹ 19.5 per acre) where it aggregated contiguous land parcels from different land owners. In terms of funding for later 16 acre land parcel worth ₹ 300 crore, it again roped in Kotak Real Estate Fund where the fund invested ₹ 150 crore while the balance has been funded through internal accruals and sales collection. These transactions demonstrate SRL's capability to identify attractive land parcels for future growth and get it funded through credible partners thereby ensuring growth with an asset light model.

Exhibit 15: Premium land deals at lower costs...

Period	Location	Area acquired (in Cost acres)	(₹ crore)	Developable area (msf)	Cost (₹/sq ft)
2006	Signature Island (BKC)	2.0	144	0.7	2054
2009	Signia Isles	1.0	260	0.4	6500
2009	Signia Pearl	1.0	260	0.4	6373
2010	Palm beach road, Airoli	2.0	82	0.2	4824
2010	Goregaon (avenue 1,2)	7.0	147	1.6	948
2012	Goregaon (avenue 3,4,5)	16.0	300	4.2	721

Source: Company, ICICIdirect.com Research

Exhibit 16: PE deals for land buying...

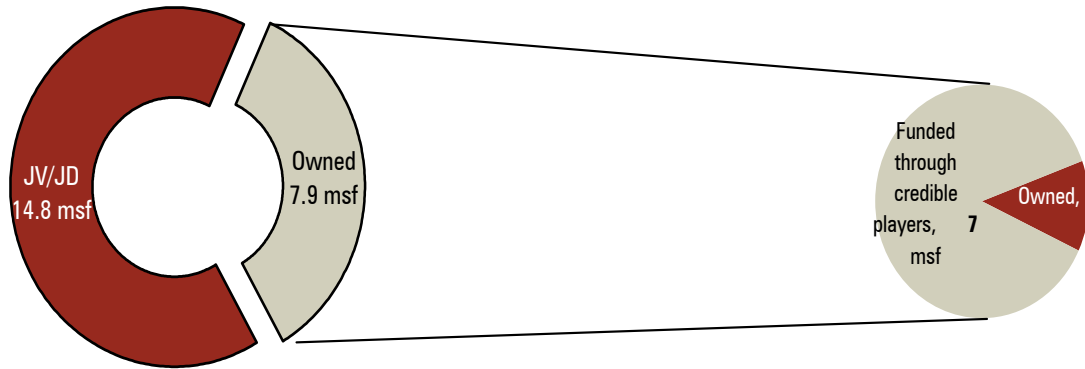
Entry year	Project name	Fund Name	Area acquired (in acres)	Amount invested	Exit year
2006	Signature Island	India REIT	1.7	62.8	2008
2009	Signia Isles	Kotak Realty Fund	0.2	103.7	2011
2011	Sunteck City, ODC	Kotak Realty Fund	16	150.0	2013/15/16*

Source: Company, ICICIdirect.com Research

*exited in three tranches over 2013-2016

Besides this, SRL currently has a land bank of 14.8 msf under the joint venture/joint development JV/JD model (largely through Sunteck Piramal JV). In a nutshell, 65% of 22.8 msf land bank is on the JV/JD model. Even on the remaining 35% of ownership land bank, 88% was initially funded through credible partners such as KREF and India REIT. This demonstrates management's focus on asset light model and refraining from investing and blocking capital in land.

Exhibit 17: Land bank ownership structure...



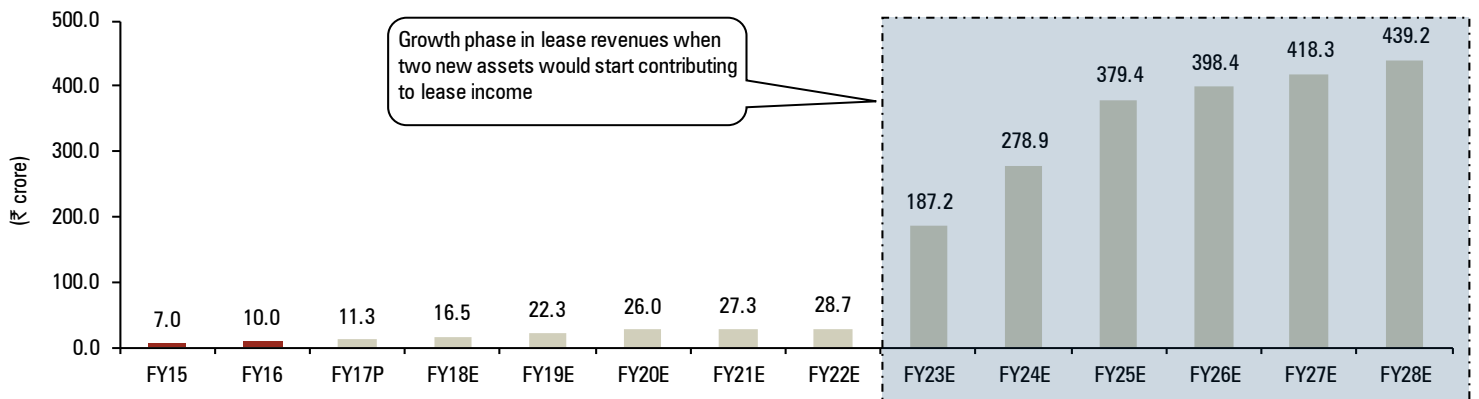
Source: Company, ICICIdirect.com Research

The stable lease income is expected to offset cashflow volatility in the residential portfolio in long run.

Lease rental portfolio – value unlocking through REITS in medium term...

Currently, SRL has one operational rental asset viz. Sunteck Centre in Vile Parle with leasable area of 0.15 msf from where it generated lease revenues of ₹ 10 crore in FY16. Going ahead, SRL is planning to construct Sunteck City - 5th Avenue aggregating leasable area of 1.2 msf from October, 2017. This along with Sunteck Gateway 51 (0.1 msf) is expected to increase its lease portfolio significantly from ₹ 10 crore in FY16 to ₹ 379.4 crore in FY25E. The stable lease income is expected to offset cashflow volatility in the residential portfolio in long run. Besides this, the lease rental portfolio has huge potential to unlock value from REIT listing in the long run. Currently, we have valued these assets at ₹ 145/share (~0.8x of its FY19E NAV) in our valuation. We have considered lease rental of ₹ 125 per sq ft per month for Sunteck Centre, ₹ 140 per sq ft per month for Avenue V while ₹ 225 per sq ft per month for Sunteck Gateway 51 with 5% escalation and cap rate of 9%. With the sharp decline in interest rate supporting lower cap rate and potential REIT listing narrowing down the discount to NAV, SRL's portfolio could see more upside in the long run.

Exhibit 18: Lease revenue trend...

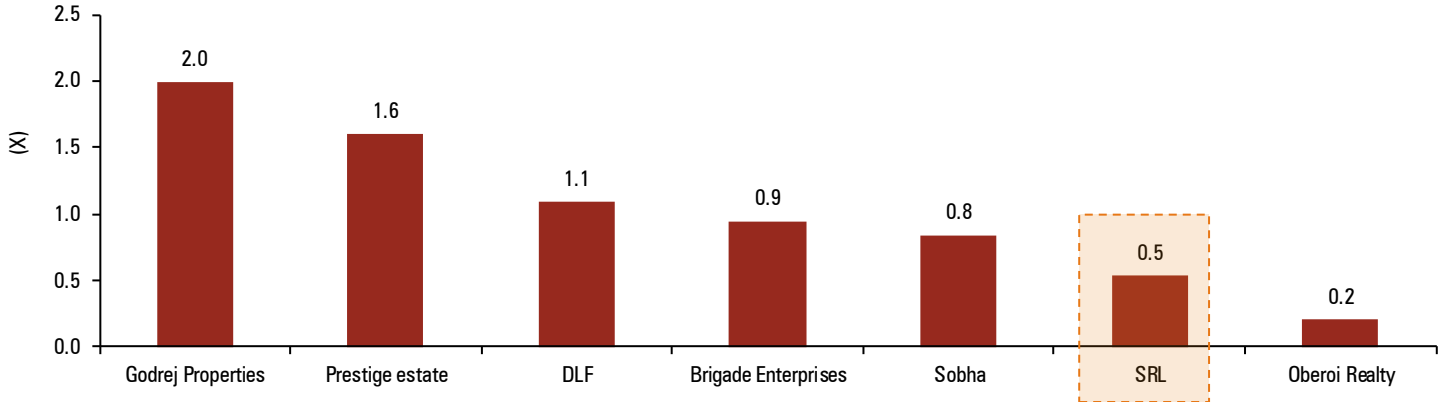


Source: Company, ICICIdirect.com Research

Lower leverage than its peers ...

Currently, SRL has a low debt/equity ratio of 0.53x as of FY17, which is relatively lower than its peers. Secondly, with the sale of completed projects such as BKC, SRL is in a sweet spot and would enjoy comfortable leverage over the next few years.

Exhibit 19: Debt to equity comparison with peers...



Source: Company, ICICIdirect.com Research

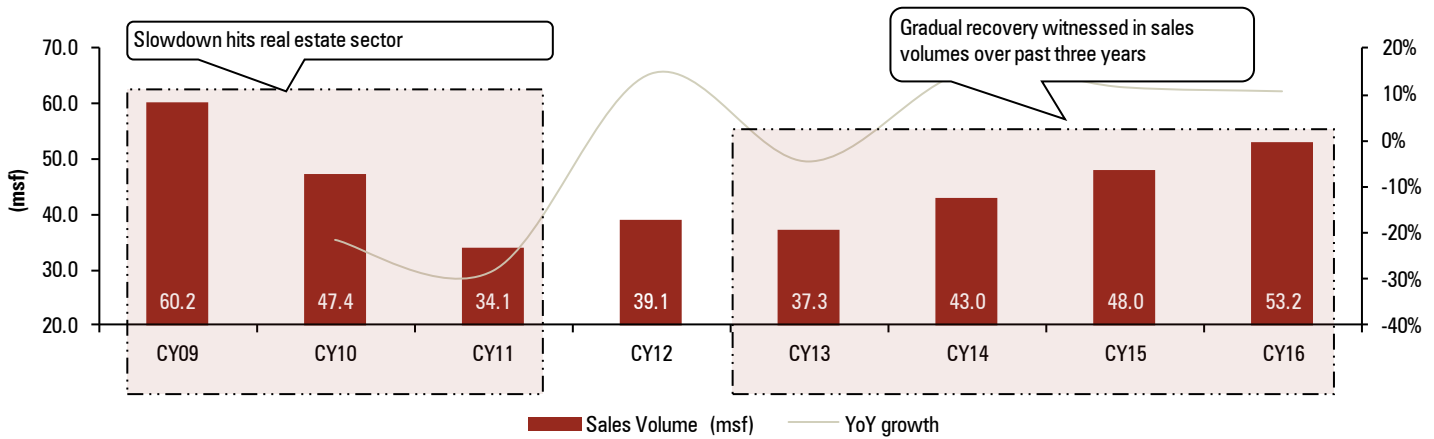
Looking to foray into affordable housing...

In Union Budget 2017-18, accordance of infrastructure status to affordable housing would give real estate developers access to low cost debt. Also, tax exemption for affordable housing projects has been revisited. The size of houses under the scheme has been increased from 30, 60 sq mt built-up area to 30, 60 sq mt carpet area. Furthermore, the project completion period has been increased from three to five years. We believe all these moves will make affordable housing projects more attractive to developers and help the government achieve its Housing for All target by 2022. Consequently, SRL is also looking to foray into affordable housing and is planning to invest ~₹ 1000 crore on the same. The new vertical will focus on developing projects that will qualify for tax benefits and other incentives offered under the Union Budget in locations including Thane, Kalyan and Navi Mumbai. Furthermore, the management has clarified that their main focus would be on developing premium projects in Mumbai. It also mentioned that ₹ 1000 crore would probably not be invested in buying land as it would look to enter into a JD/JV model. Even if the company invests in land purchase, it would be with the help of a private equity player.

**Mumbai market: Stability to return following RERA & lower interest rates
 Steady recovery witnessed in last three years...**

Post 2008, the real estate sector was impacted pretty badly. The Mumbai market was no exception to that. Sales volumes fell drastically from 60.2 msf in CY09 to 34.1 msf in CY11. Post this period, a gradual recovery has been seen over the past three or four years. The Mumbai market posted a better sales volumes growth of 11.7% & 10.8% in CY15 & CY16, respectively, over a strong base.

Exhibit 20: Yearly sales volume trend in Mumbai market...

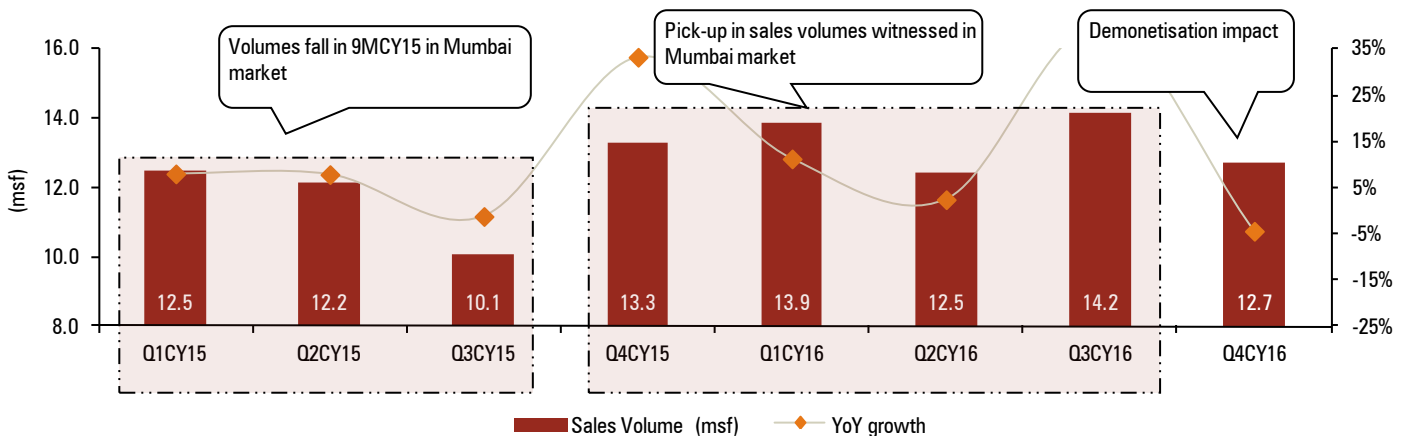


Source: Liases Foras, ICICIdirect.com Research

Steady recovery in volumes impacted by demonetisation...

The period between Q4CY15 and Q3CY16 saw a healthy recovery with the Mumbai market witnessing a steady revival by clocking average sales volumes of ~13.4 msf during the period. However, volumes again fell in Q4CY16 post demonetisation.

Exhibit 21: Quarterly sales volumes trend in Mumbai market...



Source: Liases Foras, ICICIdirect.com Research

RERA to bring in more stability and consolidation in sector...

The real estate sector got its first regulator RERA on May 1, 2017. The act was passed by parliament last year and the Union Ministry of Housing and Urban Poverty Alleviation (MHUPA) had given various states and union territories time till May 1, 2017, to formulate and notify rules for the functioning of the regulator. Till date, nine states and six union territories have notified the RERA rules. Over the years, the real estate sector in India has faced many issues such as project execution delays, poor corporate governance, diversion of project funds leading to cash-flow mismatches, high indebtedness of developers, etc. To address these issues, RERA seeks to bring in more clarity and fairer practices in the sector that would protect the interests of buyers and also impose penalties on errant builders. It also seeks to bring in the much needed transparency in the real estate sector and also the consumer's confidence back into the sector. The real estate sector is a highly fragmented one. Post RERA, consolidation in the sector is on the cards as several small unorganised developers may not be able to cope with the strict compliances enlisted by RERA. So, over the long term, an organised player like Sunteck Realty is set to benefit from RERA.

RERA is a state affair where all states have to notify their individual rules more or less in sync the ones notified by the Centre earlier. Maharashtra, where the company currently operates in has notified its real estate rules called the Maharashtra Real Estate (Regulation & Development) Rules, 2017. The final notification of Maharashtra RERA is quite in line with the central Act. The state had modified some of the draft clauses based on several suggestions and objections received over the past few months. It launched the RERA website in April, 2017.

Exhibit 22: Key features of RERA bill...

	Features
Timely Execution	*Builders will have to set aside 70% of money collected from buyers in a separate escrow account that can be used towards cost of land and construction of project. This would ensure that builders are unable to divert funds towards other projects
Accountability	*In case of delays in project completion, builders will have to pay the same interest to home buyers as what they charge them on payment delays
Transparency	*All project details, such as the schedule of implementation, layout plans, status of approvals, will have to be disclosed during registration. Project plans cannot be changed without the consent of two-thirds of home buyers for the project. *Transactions will have to be based on carpet area rather than super-built up area
Regulation	*The Bill proposes setting up state-level real-estate regulatory authorities, where builders will be mandated to register all projects above 500 sq mts. This would apply to both residential and commercial real estate projects, including those that are currently under construction. *State-level appellate tribunals will be set up for addressing complaints. A timeline of a maximum 60 days has been set for resolution of disputes. *Failure to register a project could result in imprisonment of up to three years for developers or 10% of project cost or both. Home buyers and real-estate agents may also face up to a year of imprisonment, if found in any violation of tribunals or regulatory authority

Source: Company, ICICIdirect.com Research

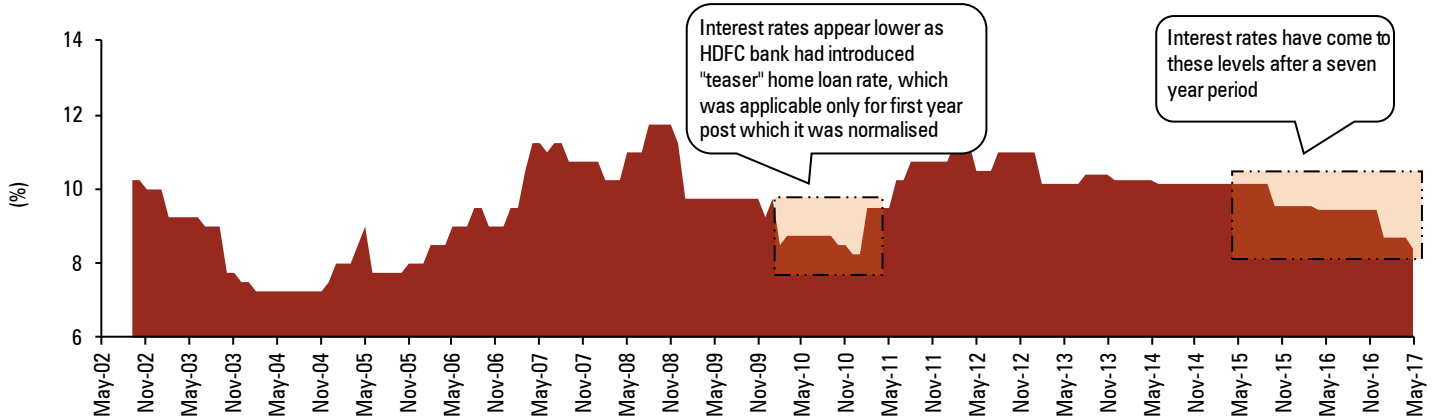
RERA Impact on Sunteck...

Under RERA, a developer has to register its new and ongoing projects with the authority for which it has not received occupational certificate (OC) by July 31, 2017. Without registration, the developer is not allowed to advertise, market, book or sell any plot, apartment or building. Currently, out of the launched projects, the company does not have OC for Avenue I & II, Signia Waterfront and Signia High. While it expects to receive OC for Signia High over the next couple of months, it will necessarily have to register the remaining three projects under RERA. Furthermore, it has received partial OC for Signia High. While for the remaining two BKC projects, it has already received complete OC and is RERA compliant.

Lower housing interest rates – another trigger for returning stability ...

We also believe the Mumbai real estate market will remain stable on account of lowest interest rate for housing loans in the last seven years. As visible in HDFC's floating interest rate on home loan, interest rates are back to the low interest rate regime of 2009-10. The current rate of 8.4% is for a loan up to ₹ 30 lakh and for loans above ₹ 30 lakh, it is 8.7% which is seen after a period of 7 years.

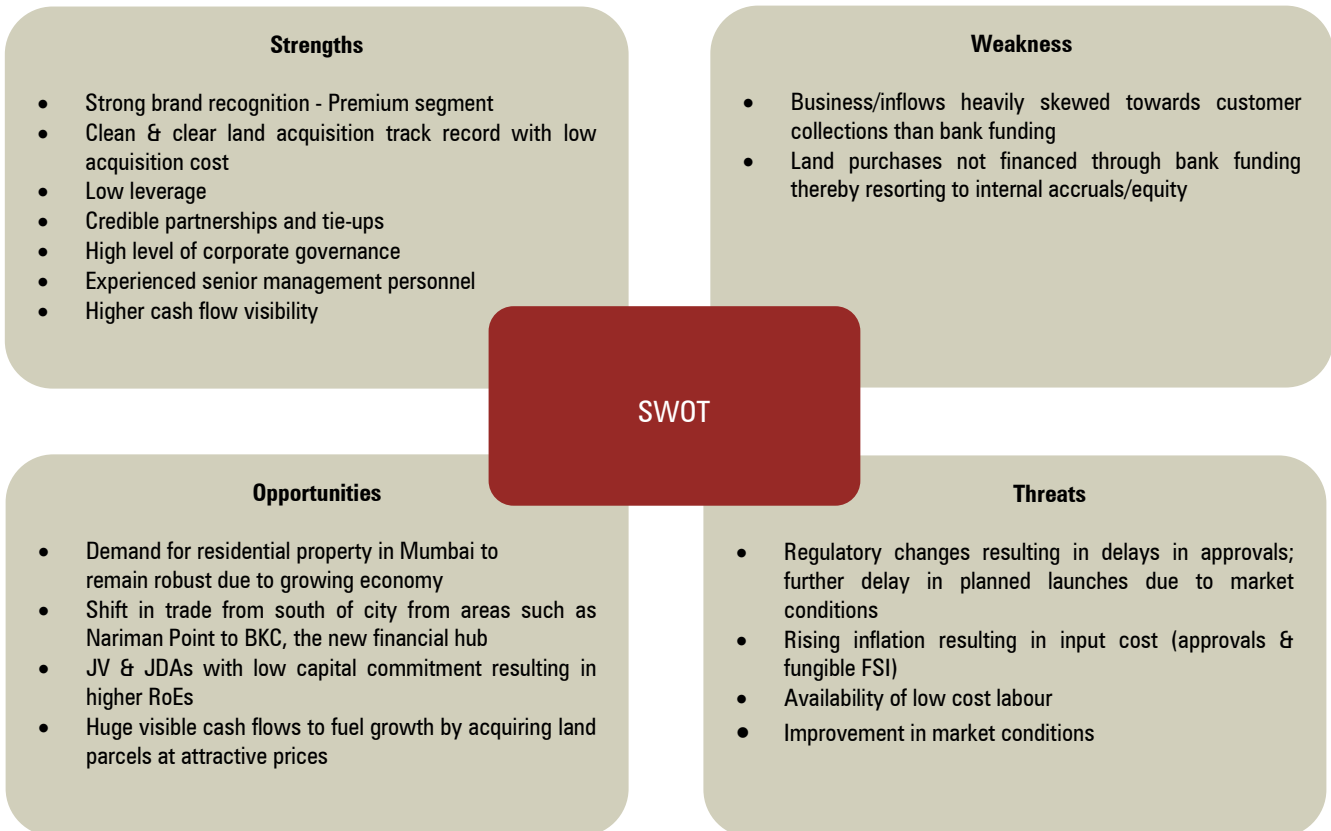
Exhibit 23: HDFC Home loan interest rate trend...



Source: Bloomberg, ICICIdirect.com Research

SWOT Analysis...

Exhibit 24: SWOT Analysis



Source: Company, ICICIdirect.com Research

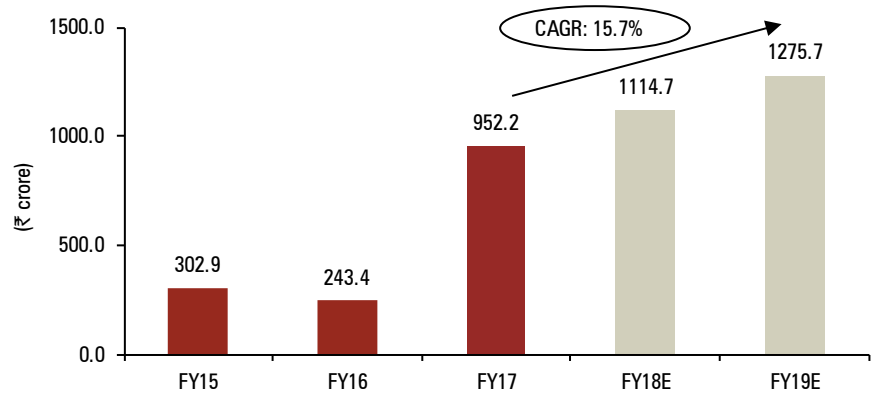
Financials

We expect SRL's revenues to grow at a CAGR of 15.7% to ₹ 1275.7 crore in FY17-19E

Revenues to grow at 15.7% CAGR in FY17-19E...

SRL's revenues grew exponentially in FY13-17 at 136.9% CAGR to ₹ 952.2 crore as its flagship residential project "Signature Island" hit the revenue recognition threshold during the period. Revenues from two other BKC projects also provide strong revenue visibility, going forward. Furthermore, SRL's second mega project i.e. Sunteck City would also provide strong revenue visibility. Sunteck city Avenue I & II are expected to hit revenue recognition threshold in FY18E. Consequently, with strong revenue visibility from BKC and ODC projects, we expect SRL's topline to grow robustly at 15.7% CAGR to ₹ 1275.7 crore.

Exhibit 25: Revenue trend...



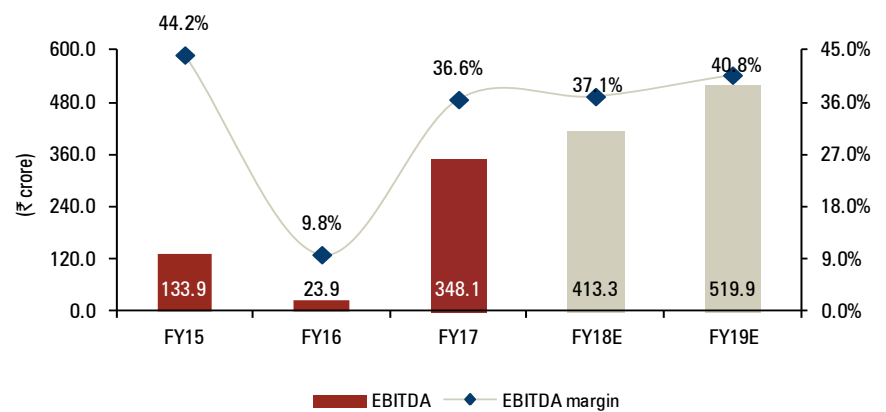
Source: Company, ICICIdirect.com Research

We expect a 420 bps expansion in margin to 40.8% in FY19E from 36.6% in FY17

EBITDA margin to expand 420 bps in FY17-19E...

SRL's EBITDA is expected to grow at 22.2% CAGR to ₹ 522.4 crore over FY17-19E on the back of anticipated robust topline growth and sharp improvement in EBITDA margins. EBITDA margins are expected to improve from 36.6% in FY17 to 40.8% in FY19E on the back of revenue contribution from its high margin Sunteck City Avenue I & II and Signia Waterfront.

Exhibit 26: EBITDA & EBITDA margin trend...



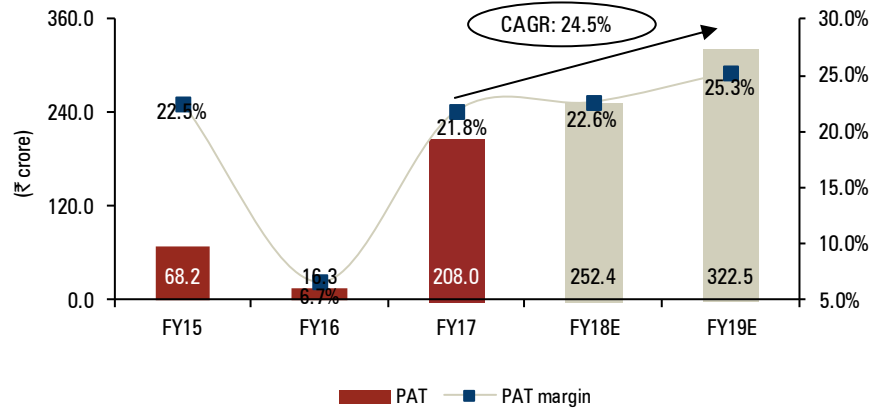
Source: Company, ICICIdirect.com Research

We expect the bottomline to grow at 24.5% CAGR in FY17-19E on the back of robust topline growth and sharp expansion in EBITDA margins

PAT to grow at 24.5% CAGR in FY17-19E...

Historically, SRL's bottomline grew at 124.7% CAGR to ₹ 216.1 crore over FY13-17 boosted by revenue recognition of high margin Signature Island project. Going forward, we expect the bottomline to grow at 24.5% CAGR to ₹ 322.5 crore in FY17-19E on the back of robust topline growth and sharp expansion in EBITDA margins.

Exhibit 27: PAT growth trend...

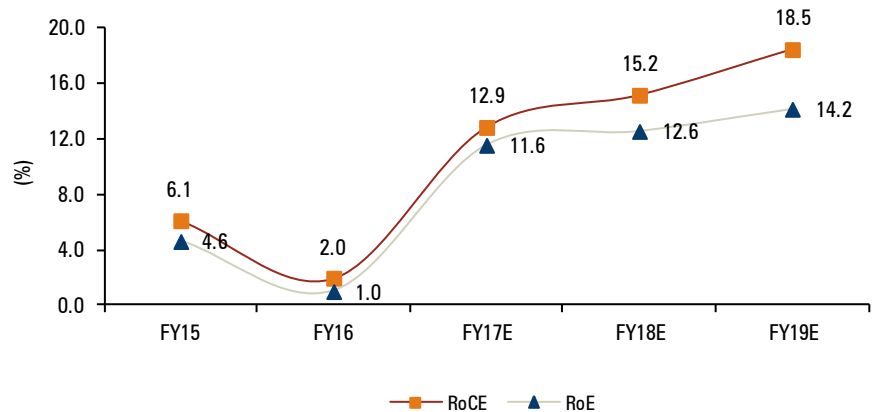


Source: Company, ICICIdirect.com Research

Return ratios to improve significantly...

Given the sharp improvement in EBITDA margins and strong bottomline show, we expect return ratios to improve significantly, going forward. We anticipate the RoE, RoCE will improve significantly from 11.6%, 12.9% to 14.2%, 18.5% in FY17-19E, respectively.

Exhibit 28: Return ratios trend...

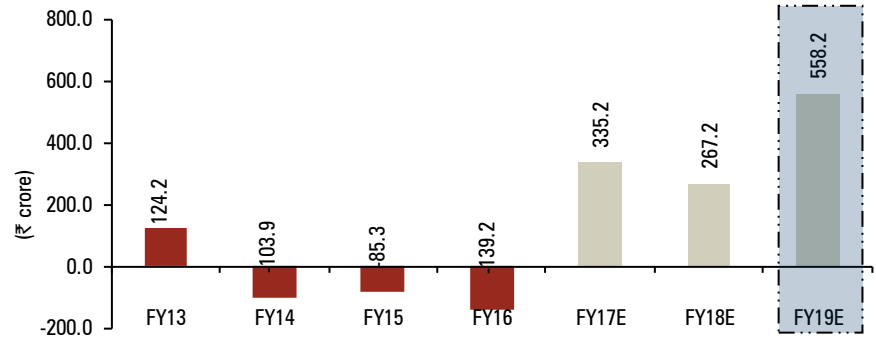


Source: Company, ICICIdirect.com Research

OCF to turn positive...

The company has witnessed negative operating cash flows (OCF) consistently over the past three years. However, with anticipated cash inflows from the completed projects of SRL, we expect the company to throw up strong operating cash flows to the tune of ₹ 267.2 crore and ₹ 558.2 crore in FY18E and FY19E, respectively.

Exhibit 29: OCF trend...

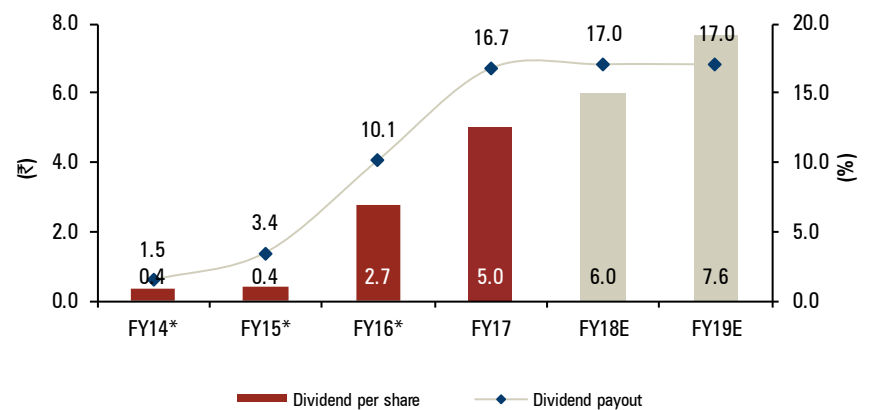


Source: Company, ICICIdirect.com Research

Dividend payout to be maintained.....

Currently, the company has a dividend payout ratio of 16.7%. However, the management is looking to maintain this payout to over the next three years on the back of huge anticipated cash flows. Hence, we have built in dividend payout ratio of 17% each in FY18E and FY19E, respectively.

Exhibit 30: Divided payout trend...



Source: Company, ICICIdirect.com Research

*: IGAAP figures

Risks & Concerns

Investment in overseas market...

SRL has a project located in Downtown Dubai, which is a prime location. While SRL sounds confident in terms of strong cashflow generation out of this JV given its location advantage, we remain cautious given the challenging environment in the Dubai real estate market. The company has invested ~₹ 160 crore in the project and plans to fund the construction through accruals from the sales of the project. However, considering no brand presence of SRL in that market and the slowdown the market is witnessing, SRL may find it difficult to sell apartments. This could negatively impact future cash-flows from the project.

Project concentration risk...

SRL is primarily a Mumbai focused real estate developer with majority of its projects spread across the Mumbai region. However, going forward, if there is a prolonged slowdown in the Mumbai market, it could significantly impact the company's operational and financial performance. Furthermore, this concentration strategy would make it difficult for the company to move to newer geographies during difficult times.

Failure to pick up execution pace...

We have considered pick up in execution especially for the ODC project in our valuation. Any delays in execution pick up due to either approval mechanism or sales slowdown would be a key risk for SRL as it has a decent size of ongoing projects and a launch pipeline. SRL has a launch pipeline of ~5.3 msf over the next 12-18 months apart from ~2.7 msf of ongoing projects.

Funding challenges post RERA implementation...

One of the major clauses of RERA includes setting aside 70% of the money collected from home buyers in a separate escrow account, which can be used towards land and construction cost of the same project only. Hence, the company could find it difficult to fund its rental assets completely out of the residential collection. It may have to raise construction finance/leasing finance to complete the construction of its lease assets. Secondly, SRL could have to again depend on external funds for any of its big ticket size land acquisition post RERA implementation.

Difficulty in selling high ticket size apartments...

Currently, SRL has unsold inventory of 60 flats in its premium and luxury BKC projects. It expects to sell this inventory over the next three to four years. However, keeping in mind the high ticket size of these apartments and the Mumbai real estate market especially post demonetisation, it could face some challenges in selling these apartments and thereby impact its financial performance & valuation.

Change in land acquisition strategy...

So far, SRL has had a strong track record in terms of identifying land parcels for future growth with clean & clear land title and getting it funded through credible partners. However, if SRL changes its strategy towards aggressive mode for land acquisition (though appears unlikely) to fuel its future growth, it could impact its balance sheet & financial performance, going ahead.

Valuation

We initiate coverage on SRL with a **BUY** recommendation and a target price of ₹ 570/share (0.9x FY19E NAV). Our target price implies 1.5x FY19E P/BV

At the CMP, SRL is trading at attractive valuation of 1.2x FY19E P/BV multiple, considering strong cash flow visibility, better leverage, quality of land bank and possible beneficiary of REITS listing. We initiate coverage on SRL with a **BUY** recommendation and a target price of ₹ 570/share (0.9x FY19E NAV). Our target price implies 1.5x FY19E P/BV.

Exhibit 31: Valuation...

Project	Type	Status	Mn sq ft/Acres	NAV					Target Valuation				
				Value	SRL(%)	Stake value	Value / share	NAV Multiple	Value	SRL(%)	Stake value	Value / share	
BKC				1004.7		865.1	144.3		963.0		827.8	138.1	
Signature Island	Residential	Completed	0.6	408.9	87.5	357.8	59.7	1.0x	408.9	87.5	357.8	59.7	
Signia Isles	Residential	Completed	0.4	169.0	93.5	158.0	26.4	1.0x	169.0	93.5	158.0	26.4	
Signia Pearl	Residential	Ongoing*	0.4	260.2	93.5	243.3	40.6	1.0x	260.2	93.5	243.3	40.6	
Sunteck Gateway 51	Lease	Ongoing	0.1	134.6	55.0	74.0	12.3	0.8x	101.0	55.0	55.5	9.3	
Sunteck Icon	Commercial Sale	Ongoing	0.1	32.0	55.0	32.0	5.3	0.8x	24.0	55.0	13.2	2.2	
ODC, Goregaon				5.7	2678.5		2678.5	446.8		2298.0		2298.0	383.3
City Avenue I	Residential	Ongoing	0.8	322.6	100.0	322.6	53.8	1.0x	322.6	100.0	322.6	53.8	
City Avenue II	Residential	Ongoing	0.8	453.2	100.0	453.2	75.6	1.0x	453.2	100.0	453.2	75.6	
City Avenue III	Residential	Upcoming	1.5	554.6	100.0	554.6	92.5	0.8x	443.7	100.0	443.7	74.0	
City Avenue IV	Residential*	Upcoming	1.5	520.4	100.0	520.4	86.8	0.8x	416.3	100.0	416.3	69.4	
City Avenue V	Commercial Lease	Upcoming	1.2	827.7	100.0	827.7	138.1	0.8x	662.2	100.0	662.2	110.5	
Airoli				0.5	143.3		71.6	11.9		143.3		71.6	11.9
Signia Oceans	Residential	Completed	0.2	7.9	50.0	4.0	0.7	1.0x	7.9	50.0	4.0	0.7	
Signia Waterfront	Residential	Ongoing	0.3	135.3	50.0	67.7	11.3	1.0x	135.3	50.0	67.7	11.3	
Vile Parle				0.0	213.1	50.0	106.6	17.8	1.0x	213.1	50.0	106.6	17.8
Sunteck Centre	Lease	Completed	0.0	213.1	50.0	106.6	17.8	1.0x	213.1	50.0	106.6	17.8	
Andheri				1.4	118.9		90.4	15.1		112.3		86.7	14.5
Signia Pride	Residential	Ongoing	1.0	35.8	100.0	35.8	6.0	1.0x	35.8	100.0	35.8	6.0	
Gilbert Hill	Residential	Upcoming	0.0	65.5	56.5	37.0	6.2	0.9x	59.0	56.5	33.3	5.6	
Sunteck Grandeur	Commercial	Completed	0.4	17.6	100.0	17.6	2.9	1.0x	17.6	100.0	17.6	2.9	
Borivali				0.1	55.5		31.4	5.2	1.0x	55.5		31.4	5.2
Signia High	Residential	Ongoing	0.1	55.5	56.5	31.4	5.2	1.0x	55.5	56.5	31.4	5.2	
Nagpur				0.3	13.9		6.9	1.2	0.9x	12.5		6.3	1.0
Signia Skys	Residential	Completed	0.3	13.9	50.0	6.9	1.2	0.9x	12.5	50.0	6.3	1.0	
Goa				0.1	6.7		3.4	0.6	1.0x	6.7		3.4	0.6
Sunteck Kanaka	Commercial	Completed	0.1	6.7	50.0	3.4	0.6	1.0x	6.7	50.0	3.4	0.6	
Others				1.0	0.0		260.0	43.4		0.0		360.0	60.1
Sunteck Dubai	Residential	Upcoming	1.0		50.0	160.0 [^]	26.7	1.0x	0.0	50.0	160.0 [^]	26.7	
Others						100.0 [^]	16.7	2.0x			200.0 [^]	33.4	
Net Debt					-363.8	100.0	-363.8	-60.7	1.0x	-363.8	100.0	-363.8	-60.7
NAV Valuation				9.1	3870.8		3750.1	625.5		3440.7		3427.9	571.8
Rounded off Target price													570.0

Source: Company, ICICIdirect.com Research

[^] Valued only at P/BV

SRL is currently available at a discount to other leading real estate development players. Considering strong cash-flow visibility from completed and ongoing projects, better leverage, quality of land bank, we believe SRL is currently available at attractive valuations.

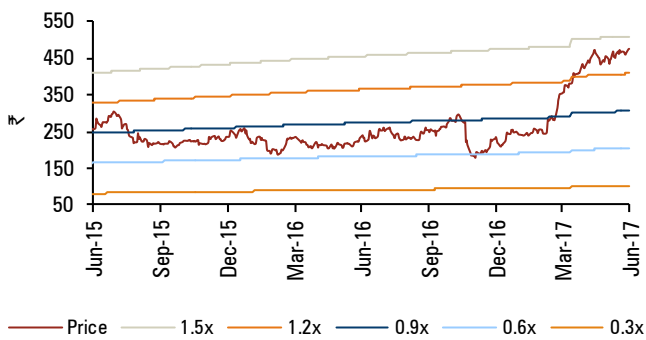
Exhibit 32: Peer valuation...

Sector / Company	CMP (₹)	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Oberoi Realty	376	12,335	11.5	25.9	27.4	34.9	15.5	14.7	23.1	9.8	8.9	2.4	2.1	1.9	6.7	12.7	12.7
Sobha	396	3,881	16.4	19.4	22.6	25.4	21.5	18.4	14.7	12.5	10.7	1.5	1.4	1.4	6.0	6.8	7.5
Sunteck Realty	440	2,640	34.7	42.1	53.8	12.6	10.4	8.1	9.8	8.0	5.7	1.5	1.3	1.2	11.6	12.6	14.2
Prestige Estates	263	9,872	7.2	9.9	11.6	36.6	26.7	22.7	15.24	13.9	12.2	2.2	2.1	2.0	6.3	8.4	9.3
Godrej Properties	546	11,833	9.6	13.9	16.8	27.4	19.0	15.7	41.76	34.3	26.5	5.9	4.6	4.1	9.9	11.9	14.3

Source: Company, ICICIdirect.com Research

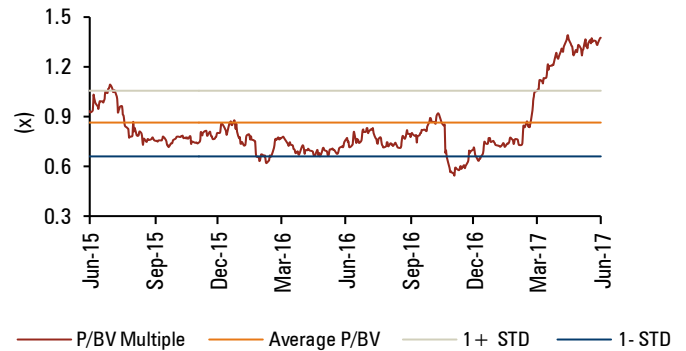
In terms of P/BV, SRL has traded at average P/BV of 0.9x in the last two years. Currently, it is trading at 1.6x P/BV, which is at 1+STD band of average P/BV multiple. We believe SRL may command better multiple given strong cashflow visibility from completed and ongoing projects.

Exhibit 33: One year forward P/BV band...



Source: Company, ICICIdirect.com Research

Exhibit 34: Average one year forward P/BV multiple...



Source: Company, ICICIdirect.com Research

Key assumption & sensitivity analysis

In order to arrive at SRL's NAV valuation of ₹ 628.0/share and target price of ₹ 570/share, we have built up the following key assumptions.

- Exhibit 36 gives the details about realisation & construction (including approval & FSI cost) per sq ft assumption across projects for FY18E

Exhibit 35: Realisation & construction cost per sq ft assumption

	Realisation psf	Construction psf*
BKC		
Signature Island	43863	NA
Signia Isles	39743	NA
Signia Pearl	44216	11793
Goregaon		
Sunteck City Avenue I	16331	6000
Sunteck City Avenue II	16324	6000
Sunteck City Avenue III	16000	6000
Sunteck City Avenue IV	16000	6000
Sunteck City Avenue V	140	6000
Airoli		
Signia Oceans	16324	3699
Signia Waterfront	14000	3552
Andheri		
Signia Pride	17000	4958
Gilbert Hill	20000	4958
Sunteck Grandeur	12581	NA
Borivali		
Signia High	14500	6654

Source: Company, ICICIdirect.com Research

* Construction cost includes approval & premium charges

- In terms of realisation, we have built in stable realisation environment till FY20E & 5% price hike per annum (pa) post FY20. Every 5% change in our FY18E realisation assumption (thereafter stable till FY20E & 5% hike thereafter) is likely to have 5-7% impact on our target price
- In terms of construction cost, we have built in cost escalation of 5% per annum from FY18E onwards. Exhibit 37 shows the sensitivity to our construction cost escalation assumption of 5% per annum. According to our analysis, every 5% change in construction cost impacts our target price by 6-7%

Exhibit 36: Construction cost escalation sensitivity analysis...

Cost escalation per annum	-5%	0%	5%	10%	15%
Target price	655	615	570	520	460

Source: Company, ICICIdirect.com Research

Exhibit 37: Realisation sensitivity analysis...

FY18E Realisation	-10%	-5%	0%	5%	10%
Target price	510	540	570	605	635

Source: Company, ICICIdirect.com Research

- For the commercial property portfolio, we have considered lease rate of ₹ 140 per month for Goregaon and ₹ 125 per month for Vile Parle each with 5% escalation per annum. Beside this, we have considered the cap rate of 8.5% (~200 bps higher than G-sec yield) for valuing its commercial portfolio. Every 1% change to cap rate assumption is likely to impact our target price by ₹ 10-20 per share

Exhibit 38: Sensitivity to cap rate

Cap rate	Vile Parle	ODC	BKC	Total
6.5%	20.3	148.2	11.8	615.0
7.5%	18.9	126.8	10.4	590.0
8.5%	17.8	110.5	9.3	570.0
9.5%	16.9	97.5	8.4	555.0
10.5%	16.2	87.1	7.7	545.0

Source: Company, ICICIdirect.com Research

- To discount future cash flows, we have considered WACC of 13%. For cost of equity, we have considered a risk free rate of 7%, equity risk premium of 9%, beta – 1.1. We have considered post-tax cost of debt of 7.7%. Every 1% change in WACC is expected to have impact of 3-4% impact on our target price

Exhibit 39: WACC calculation

WACC Calculation	Weight	(%)
Risk free rate		7.0
Equity Risk Premium		9.0
Beta		1.1
Cost of Equity	0.7	16.9
Cost of Debt (post tax)	0.3	7.7
WACC		13.0

Source: Company, ICICIdirect.com Research

Exhibit 40: Sensitivity Analysis to WACC assumption

WACC	BKC	ODC	Target Price
11.0%	140.1	425.9	620
12.0%	139.1	403.8	595
13.0%	138.1	383.3	570
14.0%	137.2	364.3	550
15.0%	136.4	346.5	530

Source: Company, ICICIdirect.com Research

Tables

Exhibit 41: Profit & loss account

(₹ Crore)	FY16	FY17	FY18E	FY19E
Net Sales	243.4	952.2	1,114.7	1,275.7
Operating expenses	195.5	565.6	666.1	714.6
Employee benefit expenses	9.9	12.9	15.1	17.2
Other Expenses	14.1	25.7	30.1	34.4
EBITDA	23.9	348.1	413.3	519.9
Interest	16.9	45.5	48.4	49.0
Depreciation	2.2	2.3	2.4	2.5
Other income	17.9	8.2	9.8	10.4
PBT	22.7	308.4	372.3	479.0
Taxes	(6.3)	87.2	122.9	158.1
Associate/ Others	(4.0)	11.2	23.7	24.1
PAT	16.3	208.0	252.4	322.5
PAT Growth rate	(76.1)	1,177.6	21.4	27.7
Adjusted EPS (Diluted)	11.4	2.7	34.7	42.1

Source: Company, ICICIdirect.com Research

Exhibit 42: Balance sheet

(₹ Crore)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	12.0	12.0	12.0	12.0
Reserve and Surplus	1,586.5	1,783.3	1,992.8	2,260.5
Total Shareholders funds	1,598.5	1,795.3	2,004.8	2,272.5
Total Debt	1,233.9	944.0	743.9	543.9
Total Liabilities	2,894.3	2,811.5	2,831.3	2,910.2
Assets				
Gross Block	32.1	32.1	35.3	37.9
Less Acc. Dep	16.7	19.0	21.5	24.2
Net Block	15.4	13.9	13.8	13.7
Net Intangibles Assets	0.2	0.2	0.2	0.2
Capital WIP	-	-	-	163.3
Investments	267.4	267.4	267.4	267.4
Inventory	3,129.6	2,801.7	2,571.7	2,311.5
Sundry Debtors	159.0	160.9	209.8	233.6
Loans & Advances	-	-	-	-
Cash & Bank Balances	91.7	98.6	81.0	180.1
Other Current Assets	62.5	44.4	52.0	59.5
Trade Payable	126.8	138.1	168.0	192.2
Other Current Liabilities	1,016.1	659.0	401.0	357.7
Provisions	76.1	1.2	1.4	1.6
Net Current Assets	2,525.5	2,447.9	2,466.9	2,382.5
Total Assets	2,894.4	2,811.5	2,831.3	2,910.2

Source: Company, ICICIdirect.com Research

Exhibit 43: Cash flow statement

(₹ Crore)	FY16	FY17E	FY18E	FY19E
Profit after Tax	16.3	208.0	252.4	322.5
Depreciation	2.1	2.3	2.4	2.5
Interest	16.9	45.5	48.4	49.0
Taxes	(6.3)	87.2	122.9	158.1
Cash Flow before wc changes	250.0	343.0	426.6	532.8
Cash generated from operations	(81.2)	422.4	390.0	716.3
Income Tax paid	(58.0)	(87.2)	(122.9)	(158.1)
Net CF from operating activities	(139.2)	335.2	267.2	558.2
Purchase of investments (net)	(0.2)	0.0	-	-
Purchase of fixed assets / CWIP (net)	(1.4)	0.4	(3.2)	(165.8)
Net CF from Investing activities	(41.6)	8.6	6.6	(155.4)
Dividend	(2.0)	(34.7)	(42.9)	(54.8)
Interest paid	(34.5)	(45.5)	(48.4)	(49.0)
Inc / (Dec) in Loans	475.5	(289.9)	(200.1)	(200.0)
Net CF from Financing activities	143.2	(370.2)	(291.3)	(303.8)
Net Cash flow	(37.5)	(26.4)	(17.6)	99.1
Opening Cash	104.0	91.7	65.3	81.0
Closing Cash/ Cash Equivalent	91.7	65.3	47.8	180.1

Source: Company, ICICIdirect.com Research

Exhibit 44: Ratio Analysis

	FY16	FY17E	FY18E	FY19E
Per Share Data (₹)				
EPS	2.7	34.7	42.1	53.8
Cash EPS	3.1	35.1	42.5	54.2
Book Value per share	266.6	299.5	334.4	379.1
Dividend per share	2.7	5.8	7.2	9.1
Operating Ratios (%)				
EBITDA / Net Sales	9.8	36.6	37.1	40.8
PAT / Net Sales	6.7	21.8	22.6	25.3
Inventory Days	4,694	1,074	842	661
Debtor Days	238	62	69	67
Creditor Days	190	53	55	55
Return Ratios (%)				
RoE	1.0	11.6	12.6	14.2
RoCE	2.0	12.9	15.2	18.5
RoIC	1.5	13.6	15.6	21.0
Valuation Ratios (x)				
EV / EBITDA	154.2	9.8	8.0	5.7
P/E (Diluted)	161.3	12.6	10.4	8.1
EV / Net Sales	15.2	3.6	2.9	2.3
Market Cap / Sales	10.8	2.8	2.4	2.1
Price to Book Value	1.6	1.5	1.3	1.2
Dividend Yield	0.6	1.3	1.6	2.1
Solvency Ratios (x)				
Net Debt / Equity	0.7	0.4	0.3	0.2
Debt / EBITDA	51.6	2.7	1.8	1.0
Current Ratio	2.8	3.7	4.7	4.6

Source: Company, ICICIdirect.com Research

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SUNTECK REALTY

REAL ESTATE

BUY

Target Price: Rs 504

Strong Q4; positive cash flow outlook

Despite demonetization, Sunteck Realty (SRL) reported **strong performance during rest of the year** with pre-sales up 17% YoY and collections up 12% YoY. The company generated **strong operating cash flow which helped in reducing debt by ~Rs 3 bn** at ~Rs 8.5 bn (net D/E of 0.47x) in FY17. Management **targets to lower debt to ~Rs 5 bn**.

We expect **operational performance to improve in FY18** on (1) **improved traction at BKC projects** (all three projects are now complete), which can drive collections and (2) **launch of Avenue 3** – smaller ticket size than Avenue 2 and thus should receive strong response. We **increase our pre-sales assumptions** to factor in fading impact of demonetization. We also roll forward our valuation to arrive at our revised TP of Rs 503 (vs. Rs 329 earlier).

CMP : Rs 452
Potential Upside : 11%

MARKET DATA

No. of Shares : 63mn
Free Float : 26%
Market Cap : Rs28bn
52-week High / Low : Rs533 / Rs174
Avg. Daily vol. (6mth) : 231,239 shares
Bloomberg Code : SRIN IB Equity
Promoters Holding : 74%
FII / DII : 5% / 3%

Key highlights

- ◆ **Strong pre-sales of Rs 1.75 bn** in Q4 (vs. Rs 1.3 bn in Q3) on robust pre-sales at its BKC projects (contributed ~Rs 1 bn). Collections steady at Rs 1.1 bn
- ◆ Management believes there are **multiple drivers which can improve sales traction** in coming years at its key projects: **BKC** – upcoming commercial supply, upcoming hotels, etc. and **Goregaon** – planned wide roads and metro stations in the vicinity. It **expects to monetize the inventory at these projects over the next 2-3 years**
- ◆ The strategy is to focus on execution and selectively launch new projects. As a result, it **plans to increase its construction spend to Rs 3.5 bn in FY18** (vs. Rs 2.7 bn in FY17). Despite increase in construction spend, the company **plans to generate positive cash flow** (driven by significantly higher collections) which will be used to **reduce debt**; targets to lower debt to Rs 5 bn
- ◆ **New launches planned in FY18**: Signia High – Borivali (expect OC in next 1-2 months), Avenue 3 – Goregaon, and 1-2 smaller projects and release more area in Avenue 1 and 2

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	2,434	9,522	12,686	14,435
Adj PAT (Rs mn)	230	2,040	2,631	3,038
EPS (Rs.)	3.6	32.4	41.8	48.2
Change YOY (%)	(66.3)	787.9	29.0	15.5
Net Debt (Rs mn)	11,422	8,453	8,323	8,177
Networth (Rs mn)	15,985	17,953	20,570	23,594
RoE (%)	1.5	12.0	13.7	13.8
RoCE (%)	1.4	12.4	15.7	16.2
P/E (x)	124.1	14.0	10.8	9.4
P/B (x)	1.8	1.6	1.4	1.2

Source: Company, Axis Capital

Key drivers (Rsbn)

	Q4'17	Q4'16	YoY	Q3'17	QoQ
Sales value	1.8	1.09	61%	1.3	38%
Collections	1.1	1.2	-7%	1.4	-23%
Cost incurred	0.6	1.1	-42%	0.6	1%

Price performance

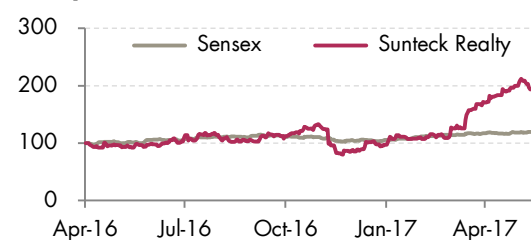


Exhibit 1: Q4FY17financials (Rsmn)

	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net sales	1,379	827	67	837	65	12,686	9,522	33
EBIDTA	725	(175)	(514)	342	112	4,440	3,481	28
Other income	(76)	(51)	49	63	(220)	220	82	169
PBIDT	649	(226)	(387)	405	60	4,660	3,562	31
Depreciation	6	5	1	6	(4)	23	23	0
Interest	154	50	204	42	265	297	455	(35)
PBT	490	(282)	(274)	357	37	4,340	3,084	41
Tax	228	(255)	(189)	111	105	1,476	872	69
Minority Interest	30	23	-	16	-	33	71	(53)
Adjusted PAT	259	14	1,774	206	26	2,631	2,040	29
No. of shares (mn)	60	60	0	60	0	63	63	0
EBIDTA margin (%)	52.5	(21.2)	-	40.9	-	35.0	36.6	-
PBIDT margin (%)	47.0	(27.3)	-	48.4	-	36.7	37.4	-
EPS - annualized (Rs.)	17.3	0.9	1,774	13.7	26	41.8	32.4	29

Source: Company, Axis Capital Note: Above financials are as per Ind AS. FY16 financials are as per Indian GAAP

Exhibit 2: Operational performance

(Rsmn)	Location	FY16			FY17		
		Sales	Collections	Cost incurred	Sales	Collections	Cost incurred
Signature Island	BKC	373	858	113	827	1,043	30
Signia Isles	BKC	1,545	1,104	810	1,455	2,015	150
Signia Pearl	BKC	1,582	1,522	730	713	637	611
Sunteck City, Avenue 1 & 2	Goregaon	1,365	628	804	2,514	1,077	1,153
Others		640	720	111	957	652	757
Total		5,505	4,832	2,568	6,468	5,423	2,701

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	2,434	9,522	12,586	14,330
Other operating income	-	-	100	105
Total operating income	2,434	9,522	12,686	14,435
Cost of goods sold	(2,194)	(6,041)	(8,246)	(9,383)
Gross profit	239	3,481	4,440	5,052
<i>Gross margin (%)</i>	<i>9.8</i>	<i>36.6</i>	<i>35.3</i>	<i>35.3</i>
Total operating expenses	-	-	-	-
EBITDA	239	3,481	4,440	5,052
<i>EBITDA margin (%)</i>	<i>9.8</i>	<i>36.6</i>	<i>35.3</i>	<i>35.3</i>
Depreciation	(22)	(23)	(23)	(23)
EBIT	217	3,458	4,418	5,030
Net interest	(169)	(455)	(297)	(297)
Other income	179	82	220	220
Profit before tax	227	3,084	4,340	4,952
Total taxation	63	(872)	(1,476)	(1,684)
<i>Tax rate (%)</i>	<i>(27.8)</i>	<i>28.3</i>	<i>34.0</i>	<i>34.0</i>
Profit after tax	290	2,212	2,865	3,268
Minorities	(44)	(122)	(133)	(130)
Profit/ Loss associate co(s)	(17)	(51)	(100)	(100)
Adjusted net profit	230	2,040	2,631	3,038
<i>Adj. PAT margin (%)</i>	<i>9.4</i>	<i>21.4</i>	<i>20.9</i>	<i>21.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	230	2,040	2,631	3,038

Balance sheet (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	120	120	120	120
Reserves & surplus	15,865	17,833	20,450	23,474
Net worth	15,985	17,953	20,570	23,594
Borrowing	12,339	9,440	9,440	9,440
Other non-current liabilities	36	16	16	16
Total liabilities	28,943	28,115	30,865	34,019
Gross fixed assets	594	599	609	619
Less: Depreciation	(173)	(196)	(219)	(241)
Net fixed assets	421	403	390	377
Add: Capital WIP	-	-	2,000	4,000
Total fixed assets	421	403	2,390	4,377
Total Investment	3,745	3,535	3,535	3,535
Inventory	31,296	28,017	28,718	29,866
Debtors	1,590	1,609	1,851	2,036
Cash & bank	917	986	1,117	1,263
Loans & advances	1,477	815	937	1,077
Current liabilities	12,791	8,656	9,088	9,542
Net current assets	24,438	23,875	24,637	25,804
Other non-current assets	339	302	302	302
Total assets	28,943	28,115	30,865	34,019

Source: Company, Axis Capital

Note: FY17E and FY18E financials are as per Ind AS. FY15 and FY16 financials are as per Indian GAAP

Cash flow (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	227	3,084	4,340	4,952
Depreciation & Amortisation	22	23	23	23
<i>Chg in working capital</i>	<i>426</i>	<i>633</i>	<i>(632)</i>	<i>(1,021)</i>
Cash flow from operations	733	3,203	2,233	2,248
<i>Capital expenditure</i>	<i>311</i>	<i>(5)</i>	<i>(2,010)</i>	<i>(2,010)</i>
Cash flow from investing	(2,357)	287	(1,790)	(1,790)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>1,633</i>	<i>(2,899)</i>	<i>-</i>	<i>-</i>
<i>Dividend paid</i>	<i>(15)</i>	<i>(15)</i>	<i>(15)</i>	<i>(15)</i>
Cash flow from financing	1,450	(3,369)	(312)	(312)
Net chg in cash	(175)	121	131	146

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	3.6	32.4	41.8	48.2
CEPS (Rs)	4.0	32.7	42.1	48.6
DPS (Rs)	0.2	0.2	0.2	0.2
Dividend payout ratio (%)	5.5	0.6	0.5	0.4
GROWTH				
Net sales (%)	(15.5)	291.3	32.2	13.9
EBITDA (%)	(82.1)	1,355.2	27.6	13.8
Adj net profit (%)	(66.3)	787.9	29.0	15.5
FDEPS (%)	(66.3)	787.9	29.0	15.5
PERFORMANCE				
RoE (%)	1.5	12.0	13.7	13.8
RoCE (%)	1.4	12.4	15.7	16.2
EFFICIENCY				
Asset turnover (x)	0.1	0.3	0.4	0.5
Sales/ total assets (x)	0.1	0.2	0.3	0.3
Working capital/ sales (x)	9.8	2.4	1.8	1.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.8	0.5	0.5	0.4
Net debt/ equity (x)	0.7	0.5	0.4	0.4
Current ratio (x)	2.9	3.8	3.7	3.7
Interest cover (x)	1.3	7.6	14.9	16.9
VALUATION				
PE (x)	124.1	14.0	10.8	9.4
EV/ EBITDA (x)	166.9	10.6	8.3	7.3
EV/ Net sales (x)	16.4	3.9	2.9	2.6
PB (x)	1.8	1.6	1.4	1.2
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	3.7	11.2	0.8	0.8

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HOLD	Between 10% and -10%
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