

| Current | Previous |
|-----------------------|--------------------|
| CMP : Rs.228 | |
| Rating : BUY | Rating : NR |
| Target :Rs.358 | Target : NR |

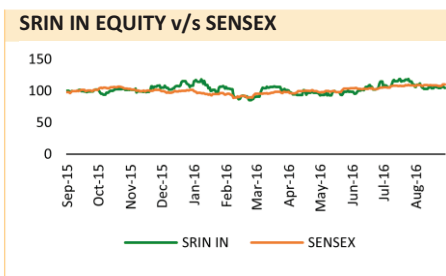
(NR-Not Rated)

| STOCK INFO | |
|-------------------------|----------------|
| INDEX | |
| BSE | 512179 |
| NSE | SUNTECK |
| Bloomberg | SRIN IN EQUITY |
| Reuters | SUNT.BO |
| Sector | Real Estate |
| Face Value (Rs) | 2 |
| Equity Capital (Rsmn) | 126 |
| Mkt Cap (Rsmn) | 14,356 |
| 52w H/L (Rs) | 274 / 172 |
| Avg Daily Vol (BSE+NSE) | 2,35,860 |

| SHAREHOLDING PATTERN | % |
|----------------------|------|
| (as on Mar,2016) | |
| Promoters | 73.5 |
| FII's | 4.7 |
| DII's | - |
| Public & Others | 21.8 |

| STOCK PERFORMANCE(%) | 3m | 6m | 12m |
|----------------------|-----|------|------|
| SRIN IN EQUITY | 4.7 | 13.2 | 8.8 |
| SENSEX | 6.3 | 17.7 | 12.1 |

Source: Bloomberg, IndiaNivesh Research



Source: Bloomberg, IndiaNivesh Research

Daljeet S. Kohli

Head of Research

Tel:+91 22 66188826

daljeet.kohli@indianivesh.in

Monami Manna

Research Analyst

Tel: +91 22 66188848

monami.manna@indianivesh.in

We recently met the management of Sunteck Realty Ltd (SRL) to understand its business and the way forward for the Company. SRL is a Mumbai focused developer having quality land banks with clean and clear titles, and premium positioning of its projects in every micro market that it caters. SRL has a project portfolio of ~23 msf spread across 25 projects, with ~7 msf BUA under execution by end FY17. With marquee portfolio positioned at the top end of each micro market, SRL has a strong visibility of future cash flows. With low debt and robust execution, SRL can achieve substantial value creation in the medium term. We remain positive on SRL's future prospects and initiate coverage on SRL with a 'Buy' rating and a FY18E TP of Rs 358.

■ Strong visibility of future cash flows

SRL has strong visibility on future cash flows from its ongoing and already completed projects. From SRL's 6 completed projects with BUA of ~2.5 msf and 8 ongoing projects with BUA of ~3.4 msf, the company is expected to generate Rs 11bn of cash flows. Cumulatively from all the above projects SRL is expected to generate free cash flows of Rs 21bn and Rs 23bn respectively for FY17 and FY18.

■ Consolidated revenue to grow at a CAGR of 26.1% over FY16-18E

At the end of Q4FY16, SRL's unrecognised pre-sales stood at ~Rs 17bn which is 2.2x its FY16 sales giving strong revenue visibility for FY17-18E. We expect SRL to recognise its Signia Pearl revenues in FY17, while Sunteck City – 1st Avenue and Signia High should come for revenue recognition in FY18. In our model we have forecasted revenue CAGR of 26.1% for SRL's consolidated revenue over FY16-18E period.

■ PAT CAGR of 34.4% over FY16-18E with 420bps expansion in margin

We believe, going forward, new sales momentum coupled with execution of its ongoing projects would help the company to ramp up its earnings over the next few years. We expect SRL to report 34.4% CAGR in its earnings over FY16-18E with nearly 420bps expansion in its EBITDA margin.

Valuation

We have valued SRL using DCF method, wherein we have calculated value of its real estate business comprising ongoing and forthcoming projects, planned projects, pending value from completed development projects and completed annuity projects. Our DCF method yields a NAV of Rs 398/share for SRL. Applying a 10% discount to our NAV, we arrive at a target price of Rs 358/share for SRL. At the CMP of Rs 228, SRL is currently available at a steep discount of 42.7% to its NAV of Rs 398, which is quite attractive given the company's future growth potential. We initiate coverage on SRL with a BUY rating and a target price of Rs 358, which gives an upside potential of 57%.

Financial Performance

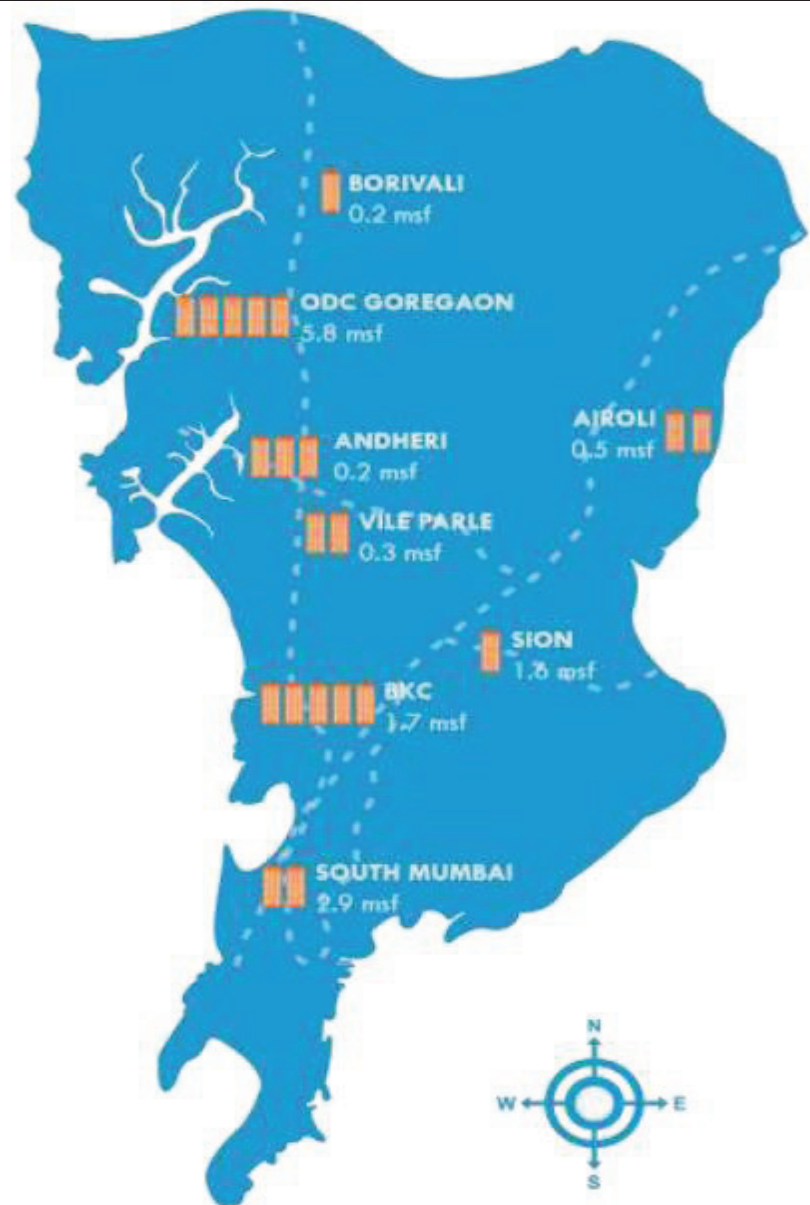
| YE March (Rs Mn) | Net Sales | EBITDA | Adj.PAT | Adj.EPS (Rs) | EBITDA Margin | RoE(%) | Adj.P/E(x) | EV / EBITDA (x) |
|---------------------|-----------|--------|---------|--------------|------------------|--------|------------|-----------------|
| FY14 | 9,256 | 2,785 | 1,510 | 25.2 | 30.1 | 23.7 | 9.2 | 7.1 |
| FY15 | 3,028 | 1,339 | 682 | 11.4 | 44.2 | 6.5 | 20.5 | 17.6 |
| FY16 | 7,865 | 2,500 | 1,628 | 27.1 | 31.8 | 10.5 | 8.6 | 10.2 |
| FY17E | 10,001 | 3,300 | 2,124 | 35.4 | 33.0 | 12.3 | 6.6 | 7.5 |
| FY18E | 12,496 | 4,499 | 2,939 | 49.0 | 36.0 | 15.0 | 4.7 | 5.0 |

Source: Company, IndiaNivesh Research

Company Background

SRL is one of the country's leading real estate development companies with city-centric operations well spread out across the Mumbai region. The company's business focuses on designing, developing and managing high-end and premium residential and commercial properties. SRL has carved out a niche for itself in the luxury and ultra luxury segment by differentiating itself in each micro-market through premium product positioning, brand partnerships and having different reputed channel partners for each product to attract corporate, HNI and retail customers. Moreover, SRL intends to keep servicing the segment 'A' customers in each micro-market to meet their growing needs and complementing their earnings.

SRL's presence across Mumbai



Source: Company Presentation, IndiaNivesh Research

Business Overview

SRL's strength lies in niche positioning of its products to each micro-market that the company caters to. Thus in order to differentiate its projects from its peers in the market, SRL has developed four brands that resonate well with its product offerings across its residential and commercial developments.

1. **'Signature' brand** – This brand is used for ultra luxury residences aimed at high net worth individuals. The property is located in prime city locations and has apartment size of over 7,000-11,000 sq ft. The company's flagship development 'Signature Island' in Bandra-Kurla Complex (BKC) Mumbai, is marketed under this brand.
2. **'Signia' brand** – This brand is used for premium and mid-level residences in select suburban micro-markets. Apartments under this brand are generally between ~1,200 and ~5,000 sq ft in size.
3. **'Sunteck' brand**–This brand is used for commercial developments.
4. **'Sunteck City' brand** – This brand is used for larger formats and mixed used developments.

SRL's various projects located in BKC



Source: Company Presentation, IndiaNivesh Research

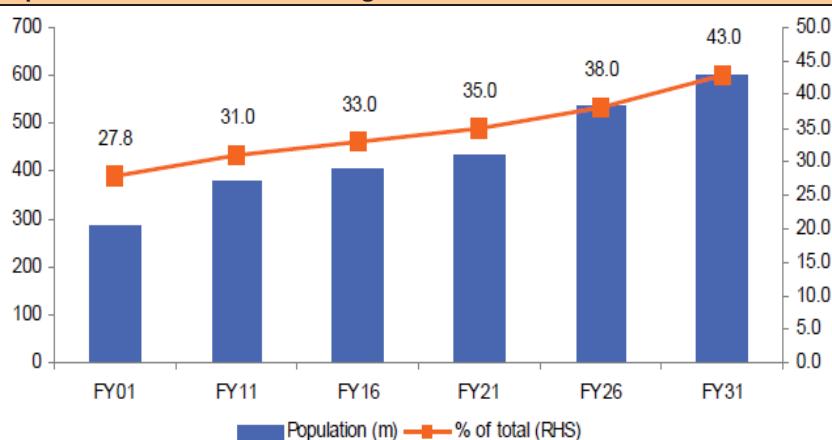
Investment Rationale

The real estate sector which usually has debt heavy companies, SRL is a marked exception on that front. The company has a low net debt/equity ratio of 0.68 at the end of FY16, which is further expected to come down to 0.40 by the end of FY18. SRL has recognised Rs 20bn revenues in P&L over the last 3 years, whereas its unrecognised revenue stands at Rs 17bn. The company has delivered ~2.5 msf (worth Rs 40bn) in last 6 years and another ~2.2 msf (worth Rs 34bn) is expected to be delivered in next 2 years. Nearly 7 msf BUA to be under execution by end FY17 and is expected to be completed in next 4 years. A combination of completed and ongoing projects will boost SRL's earnings over the next two years.

■ With higher urbanisation, real estate demand set to increase

The real estate sector with forward and backward linkages to 250 ancillary industries has one of the highest multiplier effects in terms of contribution to GDP as per CREDAI. It contributed ~6.3% to the GDP in FY13 and this is likely to increase to 13% in FY25. As per the report, urbanization in India has been increasing at a rapid pace with over 71mn people added to the urban population between 2001 and 2011. At this rate, ~534mn people will live in cities by 2026. With higher urbanization, real estate demand is set to increase, as a result, opportunities for the real estate sector look encouraging.

Rapid urbanisation will lead to higher real estate demand



Source: CREDAI, IndiaNivesh Research

As per Ministry of Statistics and Programme Implementation (MoSPI), 18.8mn people grapple with housing shortage in urban India. Even at the current levels, there remains a huge pent up demand for real estate development. With the announcement of "Housing for all by 2022" there has been a renewed impetus on low cost housing by the government. Apart from these, various new smart cities are being planned which would add further to the real estate demand.

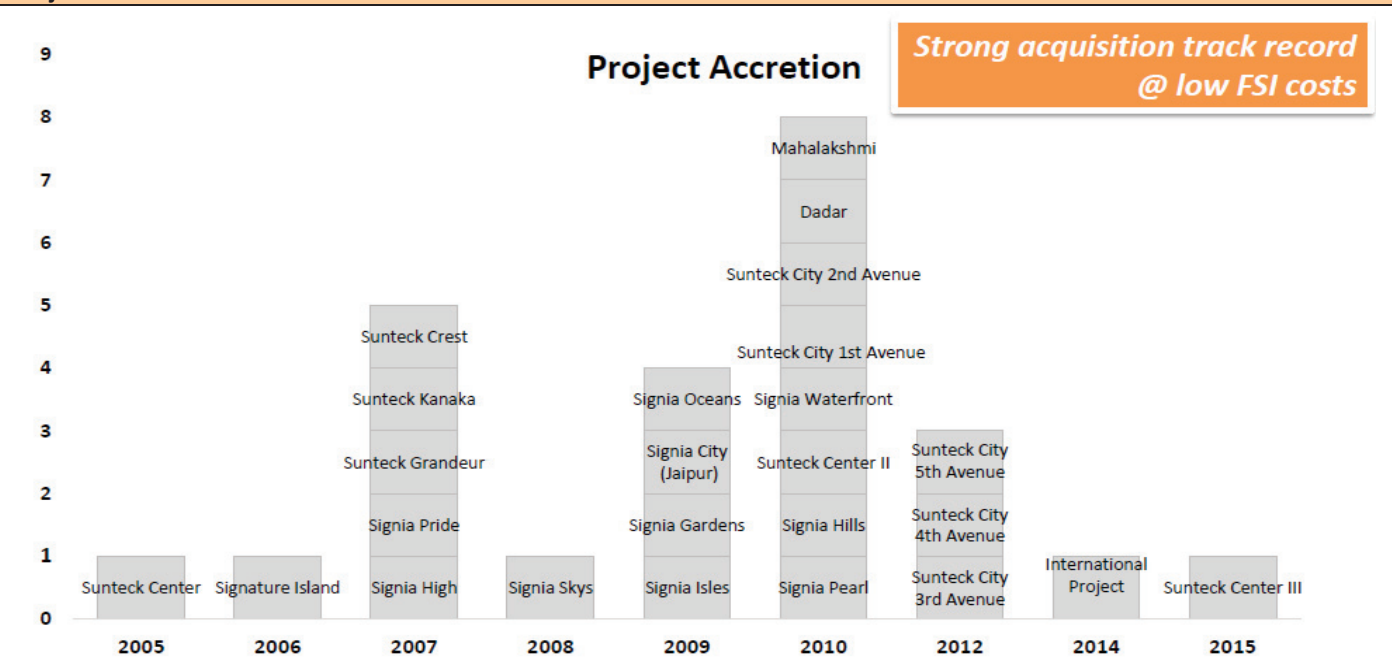
■ Macro environment turning positive for credible projects

Several measures have been taken by government and different authorities like RBI to facilitate 'Housing for all by 2022'. In six metropolitan cities loans up to Rs 5mn and in other cities upto Rs 4mn will be eligible for priority sector lending. RBI has also exempted long term bonds raised for funding affordable housing from mandatory regulatory norms such as CRR and SLR. These measures would result in lower interest rates, reduced cost of funds and better liquidity. Also lower inflation and interest rate reductions will improve affordability for home buyers. The Real Estate Regulation Act (RERA) will improve transparency and bring back home buyers' confidence. Ease of doing business will improve by bringing down number of approvals. Removal of Dividend Distribution Tax (DDT) on REITs will help boost demand. Also pay increase for PSU employees / civil servants as per 7th pay commission would facilitate housing demand. Apart from these, some other measures have also been taken to boost housing demand, like External commercial borrowing (ECB) has been allowed for low cost affordable housing and 1% subsidy is being provided on loans up to Rs 1.5mn for purchase of houses costing less than Rs 2.5mn, also investment linked deduction of capital expenditure in affordable housing has been increased to 150%.

■ Consistently built pipeline proves SRL's acquisition strength

SRL has a unique strategy of focusing on development of urban land plots through JDA/JV with historical property owner or by partnership with local authorities. This strategy of SRL has lent significant visibility to its project execution and accretion pipelines.

Project accretion chart



Source: Company Presentation, IndiaNivesh Research

■ **Multiple engines to chart the next level of growth for SRL**

SRL is well poised for the next level of growth fuelled by the following four growth engines in its portfolio.

1. BKC – The financial hub of India
2. ODC – The next BKC of Mumbai
3. Downtown Dubai – SRL's international foray
4. Premium projects across different micro-markets

1. **BKC – SRL's growth engine no. 1**

BKC is the true CBD (Central Business District) of India like Manhattan (USA), Singapore or downtown Dubai (UAE). BKC is home to most of the biggest corporate, financial institutions and stock exchange bourses. It has the best infrastructure which provides the only 'slum free' and a 'hawker free' zone in India. SRL has 5 projects totalling ~2.5 msf in BKC worth Rs 61bn.

SRL's project portfolio in BKC

| Sr. No. | Project Name | Location | Completion Timeline | Project Size | Pre-sales | Cash already recd | Receivables | Estimated Inventory Value | Costs yet to be incurred | In Rs Bn | |
|--------------|------------------|----------|---------------------|--------------|--------------|-------------------|-------------|---------------------------|--------------------------|--------------|--|
| | | | | | | | | | | Net Surplus | |
| 1 | Signature Island | BKC | 2014 | 27.16 | 11.27 | 10.10 | 1.17 | 15.88 | .02 | 17.04 | |
| 2 | Signia Isles | BKC | 2016 | 13.92 | 9.01 | 6.57 | 2.44 | 4.91 | .026 | 7.09 | |
| 3 | Signia Pearl | BKC | 2017 | 14.65 | 9.02 | 6.42 | 2.60 | 5.62 | 0.36 | 7.86 | |
| Total | | | | 55.72 | 29.30 | 23.09 | 6.21 | 26.41 | 0.64 | 31.99 | |

| Sr. No. | Project Name | Location | Completion Timeline | Project Size | Costs yet to be incurred | Net Surplus |
|--------------|--------------------|--------------|---------------------|--------------|--------------------------|-------------|
| 1 | Sunteck Centre II | Kalina, BKC | 2019 | 2.46 | 0.4 | 2.05 |
| 2 | Sunteck Centre III | BKC Junction | 2019 | 2.70 | 0.41 | 2.29 |
| Total | | | | 5.16 | 0.81 | 4.35 |

Sunteck Centrako, Sunteck Certainty not included in above calculation

Data represents full value; SRL share: Signature Island 87.5%, Signia Isles 93.5%, Signia Pearl 93.5%, Sunteck Centre II 56.5%, Sunteck Centre III 55%

Source: Company Presentation, IndiaNivesh Research

2. ODC (Goregaon) – SRL's growth engine no. 2

ODC (Oshiwara District Centre c. 160 acres) is the third CBD of Mumbai and is located between Goregaon east and Lokhandwala, Andheri west. In ODC, ~10 msf office space is already operational like Nirlon Knowledge Park, Nesco, Mind Space, Industrial and SME's areas. Several back offices of banks like Citi, J.P. Morgan, Barclays, Kotak, Deutsche Bank and also many IT companies are present in this area. This area is being planned with a target of additional 0.25mn jobs. The area has a stable residential market of western suburbs with a potential saleability of about 4,500 plus units annually. SRL has 5 projects totalling ~7msf in ODC worth Rs 100bn.

SRL's project portfolio in ODC

| | | | | | | | | | | In Rs Bn |
|--------------|--------------------------------------|----------------|--------------------------|---------------|-------------|-------------------|-------------|---------------------------|--------------------------|--------------|
| Sr. No. | Project Name | Location | Completion Status | Project Size | Pre-sales | Cash already recd | Receivables | Estimated Inventory Value | Costs yet to be incurred | Net Surplus |
| 1 | Sunteck City, 1 st Avenue | ODC – Goregaon | To be completed in FY18 | 11.42 | 3.41 | 1.87 | 1.54 | 8.02 | 1.64 | 7.91 |
| 2 | Sunteck City, 2 nd Avenue | ODC – Goregaon | To be completed in FY19 | 12.92 | 2.47 | 0.50 | 1.97 | 10.44 | 3.59 | 8.83 |
| 3 | Sunteck City, 3 rd Avenue | ODC – Goregaon | To be launched in H1FY18 | 27.07 | - | - | - | 27.07 | 8.41 | 18.65 |
| 4 | Sunteck City, 4 th Avenue | ODC – Goregaon | To be launched in FY18 | 27.07 | - | - | - | 27.07 | 8.41 | 18.65 |
| 5 | Sunteck City, 5 th Avenue | ODC – Goregaon | To be launched in FY18 | 23.45 | - | - | - | 23.45 | 6.61 | 16.84 |
| Total | | | | 101.92 | 5.88 | 2.37 | 3.51 | 96.04 | 28.66 | 70.88 |

SRL share: 100 % in all Sunteck City projects

Source: Company Presentation, IndiaNivesh Research

3. Downtown Dubai, international foray – SRL's growth engine no. 3

SRL entered into a 50:50 JV to acquire a prime land parcel in downtown Dubai. The area is regarded as one of the most desired address of Dubai with BurjKhalifa and Dubai Mall in the neighbourhood. SRL plans to construct branded residences on the said land parcel. Total investment of SRL towards the land parcel is Rs. 1.6bn and net revenue opportunity for SRL is around Rs 38bn.

SRL's project portfolio in downtown Dubai

| | | | | In Rs Bn |
|---------------|-------------------------------------|--------------|--------------------------|-------------|
| Project Name | Completion Status | Project Size | Costs yet to be incurred | Net Surplus |
| Sunteck Dubai | Sales to be launched by April 2017* | 18.90 | 8.55 | 10.35 |

* project targeted to be completed by 2019 (3 years)

SRL share: Information represents

Source: Company Presentation, IndiaNivesh Research

4. Premium projects across micro-markets – SRL's growth engine no. 4

SRL is undertaking premium projects across different micro-markets like Airoli (Signia Waterfront), Andheri (Signia Pride) and Borivali (Signia High). These three projects of SRL has total area of ~1 msf, which will be completed in next two years. According to the company, potential revenue that can be generated from these three projects is to the tune of Rs 8bn.

SRL's project portfolio across different micro-markets

| Sr. No. | Project Name | Location | Completion Timeline | Project Size | Pre-sales | Cash already recd | Receivables | Estimated Inventory Value | Costs yet to be incurred | In Rs Bn |
|--------------|-------------------|----------|-------------------------|--------------|-------------|-------------------|-------------|---------------------------|--------------------------|-------------|
| | | | | | | | | | | Net Surplus |
| 1 | Signia High | Borivali | To be completed in FY18 | 3.18 | 1.26 | 0.58 | 0.68 | 1.92 | 0.29 | 2.32 |
| 2 | Signia Pride | Andheri | To be completed in FY18 | 1.07 | 0.11 | 0.02 | 0.09 | 0.96 | 0.20 | 0.85 |
| 3 | Signia Waterfront | Airoli | To be completed in FY19 | 3.67 | 0.52 | 0.14 | 0.39 | 3.15 | 0.76 | 2.78 |
| 3 | Gilbert Hill | Andheri | To be completed in FY18 | 1.82 | - | - | - | 1.82 | 0.45 | 1.37 |
| Total | | | | 9.74 | 1.89 | 0.73 | 1.16 | 7.84 | 1.69 | 7.32 |

Information represents full value; SRL share: Signia Waterfront 50%, Gilbert Hill ~65%

Source: Company Presentation, IndiaNivesh Research

■ Execution pick-up to drive revenue recognition

Out of SRL's ongoing projects, several projects are lined up for revenue recognition in the next two years FY17-FY18. During FY17, SRL is likely to recognise revenue from its Signia Pearl project in BKC, with a net surplus of Rs 7.3bn. The company is also expected to recognise revenues from its completed projects inventory to the tune of Rs 19bn in FY17. Other than these two projects, SRL is also planning pre-launch of its upcoming project Sunteck City 3rd Avenue at ODC Goregaon, during H1FY18. Among the projects that are lined up for revenue recognition in FY18 are, Sunteck City 1st Avenue, Signia High and Signia Pride. SRL is also expected to pre-launch its Sunteck City 4th Avenue during FY18.

■ Strong visibility on future cash flows

SRL has strong visibility on future cash flows from its ongoing and already completed projects. From SRL's 6 completed projects with BUA of ~2.5 msf and 8 ongoing projects with BUA of ~3.4 msf, the company is expected to generate Rs 11bn of cash flows. Cumulatively from all the above projects SRL is expected to generate net cash flows of Rs 15.9bn and Rs 21.5bn respectively for FY17 and FY18.

- Completed projects inventory ~Rs 22bn (SRL share ~Rs 19bn)
- Ongoing projects inventory ~Rs 35bn (SRL share ~Rs 31bn)
- Gross value of upcoming projects ~Rs 117bn (SRL share is ~Rs 97bn)
- Future projects has a development potential of ~13 msf

Future cash flow potential from SRL's various projects

| In Rs Bn | | | | | | | | | | |
|------------------|--------------------------------------|----------------|---------------------|---------------|--------------|-------------------|--------------|---------------------------|--------------------------|---------------|
| Sr. No. | Project Name | Location | Completion Timeline | Project Size | Pre-sales | Cash already recd | Receivables | Estimated Inventory Value | Costs yet to be incurred | Net Surplus |
| Completed | | | | 39.25 | 19.95 | 16.38 | 3.57 | 19.30 | 2.7 | 22.60 |
| 1 | Signature Island | BKC | 2014 | 23.76 | 9.86 | 8.84 | 1.02 | 13.90 | 0.01 | 14.91 |
| 2 | Signia Oceans* | Airoli | 2014 | 0.66 | 0.64 | 0.57 | 0.07 | 0.03 | 0 | 0.09 |
| 3 | Sunteck Grandeur | Andheri | 2013 | 1.01 | 0.58 | 0.44 | 0.13 | 0.43 | 0 | 0.57 |
| 4 | Sunteck Kanaka* | Panjim, Goa | 2015 | 0.46 | 0.26 | 0.24 | 0.02 | 0.20 | 0.01 | 0.22 |
| 5 | Signia Skys* | Nagpur | 2015 | 0.34 | 0.19 | 0.15 | 0.04 | 0.15 | 0.01 | 0.18 |
| 6 | Signia Isles | BKC | 2016 | 13.01 | 8.42 | 6.14 | 2.28 | 4.59 | 0.24 | 6.63 |
| 7 | Sunteck Centre*# | Vile Parle | 2009 | | | | | | | |
| Ongoing | | | | 46.99 | 15.95 | 9.04 | 6.90 | 31.04 | 7.24 | 30.71 |
| 1 | Signia Pearl | BKC | 2017 | 13.69 | 8.44 | 6.00 | 2.43 | 5.26 | 0.34 | 7.35 |
| 2 | Sunteck City, 1 st Avenue | ODC – Goregaon | 2018 | 11.42 | 3.41 | 1.87 | 1.54 | 8.02 | 1.64 | 7.91 |
| 3 | Sunteck City, 2 nd Avenue | ODC – Goregaon | 2019 | 12.92 | 2.47 | 0.50 | 1.97 | 10.44 | 3.59 | 8.83 |
| 4 | Signia High | Borivali | 2018 | 3.18 | 1.26 | 0.58 | 0.68 | 1.92 | 0.29 | 2.32 |
| 5 | Signia Pride | Andheri | 2018 | 1.07 | 0.11 | 0.02 | 0.09 | 0.96 | 0.20 | 0.85 |
| 6 | Signia Waterfront* | Airoli | 2019 | 1.84 | 0.26 | 0.07 | 0.19 | 1.57 | 0.38 | 1.39 |
| 7 | Sunteck Centre II | Kalina, BKC | 2019 | 1.39 | - | - | - | 1.39 | 0.40 | 0.98 |
| 8 | Sunteck Centre III | BKC Junction | 2019 | 1.49 | - | - | - | 1.49 | 0.41 | 1.08 |
| Upcoming | | | | 97.66 | 0 | 0 | 0 | 97.66 | 32.43 | 65.23 |
| 1 | Sunteck City, 3 rd Avenue | ODC – Goregaon | 2019 onwards | 27.07 | - | - | - | 27.07 | 8.41 | 18.65 |
| 2 | Sunteck City, 4 th Avenue | ODC – Goregaon | 2019 onwards | 27.07 | - | - | - | 27.07 | 8.41 | 18.65 |
| 3 | Sunteck City, 5 th Avenue | ODC – Goregaon | 2019 onwards | 23.45 | - | - | - | 23.45 | 6.61 | 16.84 |
| 4 | Gilbert Hill | Andheri | 2019 onwards | 1.18 | - | - | - | 1.18 | 0.45 | 0.74 |
| 5 | Sunteck Dubai* | Dubai, UAE | 2019 onwards | 18.90 | - | - | - | 18.90 | 8.55 | 10.35 |
| Total | | | | 183.90 | 35.89 | 25.42 | 10.47 | 148.00 | 39.94 | 118.54 |

Information represents SRL's share; *SRL share 50%

Sunteck Centre II 56.5%, Gilbert Hill 65%, Sunteck Centre III 55%, Signature Island 87.5%, Signia Isles 93.5%, Signia Pearl 93.5%, # Rental Asset > Other planned projects at South Mumbai, Sion, Vile Parle, Jaipur – Total ~13 msf not included in the above table

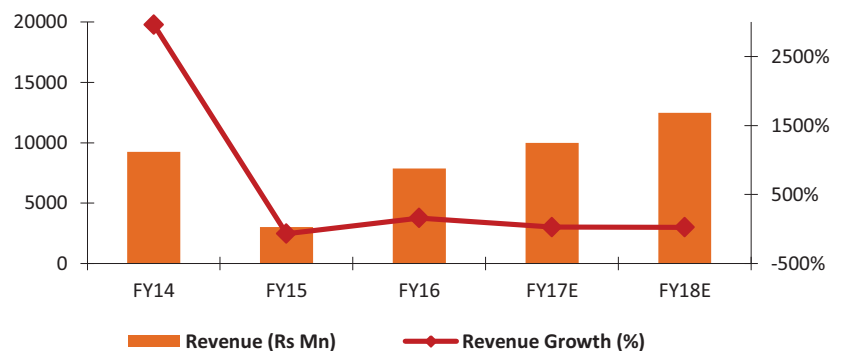
Source: Company Presentation, IndiaNivesh Research

Financials

■ Consolidated revenue to grow at a CAGR of 26.1% over FY16-18E

SRL has strong revenue visibility from its ongoing and already completed projects. SRL follows project completion method for revenue recognition unlike percentage completion method of other developers. As a result SRL's sales are lumpy in nature. Sales in Signature Island came for revenue recognition in FY14 and revenue from Signia Isles was recognised in Q4FY16. We expect SRL to recognise its Signia Pearl revenues in FY17, while Sunteck City – 1st Avenue and Signia High should come for revenue recognition in FY18.

Consolidated revenue growth trend of SRL



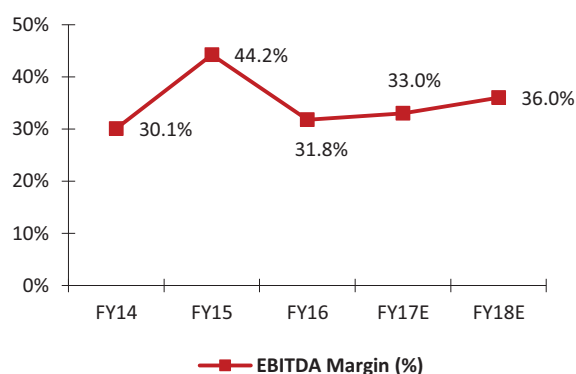
Source: Company, IndiaNivesh Research

At the end of Q4FY16, SRL's unrecognised pre-sales stood at ~Rs 17bn which is 2.2x its FY16 sales giving strong revenue visibility for FY17-18E. With the upcoming launch of its new phase in ODC Goregaon (Sunteck City 3rd Avenue) in H1FY18, we expect SRL's revenue backlog to further rise from the current 2.2x FY16 sales. Once SRL's 3rd Avenue in ODC Goregaon gets launched (residential development; 1.5msf), it would contribute significantly to the company's new sales and further increase its momentum from current 5.5msf to around 11.0msf. In our model we have forecasted revenue CAGR of 26.1% for SRL's consolidated revenue over FY16-18E period.

■ **PAT to witness 34.4% CAGR over FY16-18E with 420bps expansion in EBITDA margin**

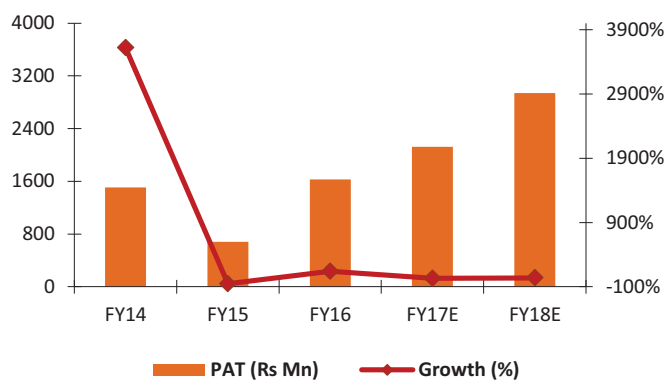
SRL has visible strong cash flows from its six completed projects with BUA of ~2.5msf and eight ongoing projects with BUA of ~3.4msf. We believe, going forward, new sales momentum coupled with execution of its ongoing projects would help the company to ramp up its earnings over the next few years. We expect SRL to report 34.4% CAGR in its earnings over FY16-18E with nearly 420bps expansion in its EBITDA margin.

SRL's consolidated EBITDA margin over the years



Source: Company, IndiaNivesh Research

SRL's consolidated PAT trend over the years



Source: Company, IndiaNivesh Research

Valuations

We have valued SRL using DCF method, wherein we have calculated value of its real estate business comprising ongoing and forthcoming projects, planned projects, pending value from completed development projects and completed annuity projects. We have assumed a risk free rate of 7.8%, equity risk premium of 10%, beta of 0.9, tax rate of 35%, terminal growth rate of 2.5% and 12.5% cost of debt to arrive at our WACC of 15.09%. Our DCF method yields a NAV of Rs 398/share for SRL. Applying a 10% discount to our NAV, we arrive at a target price of Rs 358/share for SRL.

At the CMP of Rs 228, SRL is currently available at a steep discount of 42.7% to its NAV of Rs 398, which is quite attractive given the company's future growth potential. We initiate coverage on SRL with a BUY rating and a target price of Rs 358, which gives an upside potential of 57%.

DCF Valuation of SRL

| Rs Mn | FY17E | FY18E | FY19E | FY20E | FY21E | FY22E |
|------------------------|-------|-------|-------|-------|-------|-------|
| Revenue | 10001 | 12496 | 11143 | 18651 | 35492 | 15998 |
| EBITDA | 3300 | 4499 | 3900 | 6528 | 12422 | 5599 |
| PBT | 3101 | 4312 | 3740 | 6410 | 12363 | 5567 |
| Tax | 1120 | 1553 | 1309 | 2244 | 4327 | 1948 |
| PAT | 2080 | 2884 | 2431 | 4167 | 8036 | 3618 |
| Operating Cash Flow | 3121 | 4335 | 3766 | 6439 | 12393 | 5599 |
| Free Cash Flow | 2096 | 2305 | 736 | 2409 | 10426 | 5569 |
| Sum of PV of FCF | 12230 | | | | | |
| Terminal Value | 45327 | | | | | |
| NPV of Terminal Value | 22443 | | | | | |
| Enterprise Value (EV) | 34673 | | | | | |
| Less: Net Debt | 10793 | | | | | |
| Net Asset Value (NAV) | 23881 | | | | | |
| No. of SRL Shares (Mn) | 60 | | | | | |
| NAV per Share (Rs) | 398 | | | | | |
| Discount to NAV (%) | 10% | | | | | |
| Value per Share (Rs) | 358 | | | | | |

WACC Calculation

| | |
|---------------------|--------|
| Beta | 0.9 |
| Risk Free Rate | 7.8% |
| Equity Risk Premium | 10% |
| Cost of Equity | 16.8% |
| Cost of Debt | 12.5% |
| WACC | 15.09% |

Income Statement (Consolidated)

| Y E March (Rs m) | FY14 | FY15 | FY16 | FY17E | FY18E |
|---------------------------------------|--------------|--------------|--------------|---------------|---------------|
| Net sales | 9,256 | 3,028 | 7,865 | 10,001 | 12,496 |
| Growth (%) | 0 | (67) | 160 | 27 | 25 |
| Operating expenses | (6,471) | (1,689) | (5,365) | (6,700) | (7,998) |
| Operating profit | 2,785 | 1,339 | 2,500 | 3,300 | 4,499 |
| Other operating income | 0 | 0 | 0 | 0 | 0 |
| EBITDA | 2,785 | 1,339 | 2,500 | 3,300 | 4,499 |
| Growth (%) | 0.0 | (51.9) | 86.7 | 32.0 | 36.3 |
| Depreciation | (14) | (20) | (21) | (20) | (22) |
| Other income | 127 | 140 | 76 | 100 | 125 |
| EBIT | 2,898 | 1,460 | 2,555 | 3,380 | 4,601 |
| Finance cost | (170) | (176) | (143) | (179) | (164) |
| Exceptional item | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | 2,728 | 1,284 | 2,412 | 3,201 | 4,437 |
| Tax (current + deferred) | (900) | (470) | (819) | (1,120) | (1,553) |
| Profit / (Loss) for the period | 1,828 | 814 | 1,593 | 2,080 | 2,884 |
| Associates, Min Int | (318) | (132) | 34 | 44 | 55 |
| Reported net profit | 1,510 | 682 | 1,628 | 2,124 | 2,939 |
| Extraordinary item | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 1,510 | 682 | 1,628 | 2,124 | 2,939 |
| Growth (%) | 0 | (55) | 139 | 31 | 38 |

Source: Company, IndiaNivesh Research

Balance Sheet (Consolidated)

| Y E March (Rs m) | FY14 | FY15 | FY16 | FY17E | FY18E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital | 120 | 120 | 120 | 120 | 120 |
| Reserves & surplus | 6,252 | 14,583 | 16,223 | 18,036 | 20,874 |
| Net Worth | 6,372 | 14,703 | 16,343 | 18,156 | 20,994 |
| Minority Interest | 322 | 628 | 555 | 555 | 555 |
| Total Liabilities | 21,840 | 27,306 | 27,673 | 31,155 | 34,941 |
| Non-current liabilities | 788 | 329 | 1,573 | 389 | 389 |
| Long-term borrowings | 2 | 1 | 350 | 350 | 350 |
| Deferred tax liabilities | 6 | 6 | 7 | 7 | 7 |
| Other Long term liabilities | 66 | 30 | 31 | 31 | 31 |
| Long term provisions | 715 | 293 | 1,184 | 0 | 0 |
| Current Liabilities | 21,052 | 26,977 | 26,100 | 30,766 | 34,553 |
| Short term borrowings | 5,919 | 10,705 | 12,087 | 11,587 | 10,587 |
| Trade payables | 15,133 | 16,272 | 14,013 | 19,179 | 23,966 |
| Other current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Short term provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities and Equity | 28,534 | 42,638 | 44,571 | 49,866 | 56,490 |
| Non Current Assets | 1,038 | 1,060 | 1,248 | 1,253 | 1,260 |
| Net Block | 281 | 264 | 246 | 255 | 271 |
| Goodwill | 598 | 598 | 599 | 599 | 599 |
| Non-current Investments | 296 | 300 | 507 | 507 | 507 |
| Long-term loans and advances | 0 | 0 | 0 | 0 | 0 |
| Deferred tax Assets | 3 | 5 | 7 | 7 | 7 |
| Other non current Assets | 0 | 25 | 12 | 12 | 12 |
| Current Assets | 27,497 | 41,579 | 43,323 | 48,613 | 55,229 |
| Inventories | 18,862 | 34,596 | 37,681 | 40,441 | 44,439 |
| Sundry Debtors | 1,114 | 2,098 | 1,596 | 2,055 | 2,568 |
| Cash & Bank Balances | 223 | 1,068 | 931 | 1,144 | 2,223 |
| Other current Assets | 1,615 | 399 | 863 | 863 | 863 |
| Loans & Advances | 5,683 | 3,419 | 2,252 | 4,110 | 5,136 |
| Current Investments | 0 | 0 | 0 | 0 | 0 |
| Total (Assets) | 28,534 | 42,638 | 44,571 | 49,866 | 56,490 |

Source: Company, IndiaNivesh Research

Cash Flow Statement (Consolidated)

| Y E March (Rs m) | FY14 | FY15 | FY16 | FY17E | FY18E |
|--------------------------------------|----------------|-----------------|----------------|--------------|----------------|
| Profit before tax | 2,728 | 1,284 | 2,412 | 3,201 | 4,437 |
| Depreciation | 14 | 20 | 21 | 20 | 22 |
| Change in working capital | (11,426) | (12,520) | (3,248) | (1,095) | (750) |
| Total tax paid | (897) | (471) | (821) | (1,120) | (1,553) |
| Others | 170 | 176 | 143 | 179 | 164 |
| Cash flow from operations (a) | (9,411) | (11,512) | (1,493) | 1,185 | 2,320 |
| Capital expenditure | (155) | (11) | (12) | (25) | (30) |
| Change in investments | (296) | (3) | (208) | 0 | 0 |
| Others | 0 | (25) | 13 | 0 | 0 |
| Cash flow from investing (b) | (451) | (40) | (206) | (25) | (30) |
| Free cash flow (a+capex) | (9,566) | (11,523) | (1,505) | 1,160 | 2,290 |
| Equity raised/(repaid) | 120 | (1) | 1 | 0 | 0 |
| Debt raised/(repaid) | 5,920 | 4,785 | 1,732 | (500) | (1,000) |
| Dividend (incl. tax) | 20 | 21 | 19 | 19 | 19 |
| Others | 4,557 | 7,628 | (190) | (465) | (230) |
| Cash flow from financing (c) | 10,683 | 12,397 | 1,563 | (946) | (1,211) |
| Net change in cash (a+b+c) | 821 | 845 | (136) | 214 | 1,079 |
| Reconciliation of Other balances | 1 | 1 | 0 | 0 | 0 |
| Cash as per Balance Sheet | 223 | 1,068 | 931 | 1,144 | 2,223 |

Source: Company, IndiaNivesh Research

Key Ratios (Consolidated)

| Y E March | FY14 | FY15 | FY16 | FY17E | FY18E |
|-------------------------------|------|--------|-------|-------|-------|
| Adjusted EPS (Rs) | 25.2 | 11.4 | 27.1 | 35.4 | 49.0 |
| Growth | 0.0 | (54.9) | 138.8 | 30.5 | 38.4 |
| Dividend/share (Rs) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Dividend payout ratio | 1.1 | 2.4 | 0.9 | 0.7 | 0.5 |
| EBITDA margin | 30.1 | 44.2 | 31.8 | 33.0 | 36.0 |
| EBIT margin | 31.3 | 48.2 | 32.5 | 33.8 | 36.8 |
| Net Margin | 16.3 | 22.5 | 20.7 | 21.2 | 23.5 |
| Tax rate (%) | 33.0 | 36.6 | 34.0 | 35.0 | 35.0 |
| Debt/Equity(x) | 0.9 | 0.7 | 0.7 | 0.6 | 0.5 |
| Inventory Days | 744 | 4,170 | 1,749 | 1,476 | 1,298 |
| Sundry Debtor Days | 44 | 253 | 74 | 75 | 75 |
| Trade Payable Days | 597 | 1,961 | 650 | 700 | 700 |
| Du Pont Analysis - ROE | | | | | |
| Net margin | 16.3 | 22.5 | 20.7 | 21.2 | 23.5 |
| Asset turnover (x) | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 |
| Leverage factor (x) | 4.5 | 3.4 | 2.8 | 2.7 | 2.7 |
| ROE(%) | 23.7 | 6.5 | 10.5 | 12.3 | 15.0 |
| RoCE (%) | 21.6 | 7.3 | 9.0 | 11.0 | 14.6 |
| Valuation (x) | | | | | |
| PER | 9.2 | 20.5 | 8.6 | 6.6 | 4.7 |
| PCE | 9.1 | 19.9 | 8.5 | 6.5 | 4.7 |
| Price/Book | 2.2 | 0.9 | 0.9 | 0.8 | 0.7 |
| EV/EBITDA | 7.1 | 17.6 | 10.2 | 7.5 | 5.0 |

Source: Company, IndiaNivesh Research

Initiating Coverage

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IndiaNivesh Securities Limited

Research Analyst SEBI Registration No. INH000000511

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in