

**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

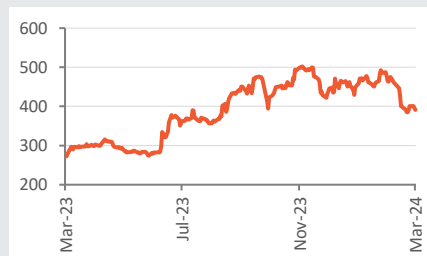
	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Company details

Market cap:	Rs. 5,700 cr
52-week high/low:	Rs. 512 / 271
NSE volume: (No of shares)	2.12 lakh
BSE code:	512179
NSE code:	SUNTECK
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters	63.3
FII	20.3
DII	7.2
Others	9.2

Price chart**Price performance**

(%)	1m	3m	6m	12m
Absolute	-16.1	-10.8	-13.2	41.1
Relative to Sensex	-17.9	-12.5	-25.7	13.3

Sharekhan Research, Bloomberg

Sunteck Realty Ltd**Near-term sluggishness unduly factored-in; Maintain Positive stance**

Real Estate	Sharekhan code: SUNTECK		
Reco/View: Positive	↔	CMP: Rs. 389	Upside potential: 45%
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We stay Positive on Sunteck Realty with an upside potential of 45%, owing to its strong growth outlook over the medium to long term. A recent correction of over 20% offers a buying opportunity.
- It remains on track to achieve its pre-sales growth guidance of 20-25% y-o-y for FY2025, while there is a deferment of launches in couple of projects to H1FY2025.
- Business Developments will remain in focus with the recent acquisition of the Bandstand project, the expected acquisition of the Napean Sea Road, the addition of the Borivali project, and the IFC platform deals.
- It remains on track to increase its average rental income per annum to Rs. 320 crore in FY2028 from Rs. 35 crore in FY2024, at an overall capex of Rs. 950 crores.

We recently interacted with the management of Sunteck Realty (Sunteck) which highlighted its preparedness to achieve 20-25% y-o-y growth in pre-sales for FY2025 while there is a deferment of launches in couple of projects to H1FY2025. It is witnessing healthy traction in its BKC project sales and eyes Rs. 1300-1400 crore inventory to get cleared over the next 4 years. The company continues to look at new BD deals with the recent inclusion of the Bandstand redevelopment project, the expected acquisition of adjoining land on Napean Sea road, the expected addition of the Borivali (W) project and the breaking ground on BD acquisition via the IFC platform. It remains on track to scale up its annuity income from Rs. 35 crore per annum in FY2024 to Rs. 320 crore in FY2028 at an overall capex spend of Rs. 950 crore. The company's stock has corrected by over 20% in a little over trailing one month, which we believe unduly factors in the near-term sluggishness. The same provides an opportunity to Buy. Hence, we re-iterate our Positive view on the stock with 45% upside potential.

- Stays on track to achieve FY2025 guidance of 20-25% y-o-y growth:** Sunteck has deferred launches of its two key projects viz. Mira road (expected launch in near term) and Naigaon (expected launch in H1FY2025). However, it has a strong launch pipeline of Rs. 7000 crore (including Rs. 2500 crore for the Napean Sea road project, which is slated for launch in H2FY2025), which we believe would help it achieve its pre-sales growth guidance of 20-25% y-o-y in FY2025. It also targets sales of 6-8 units per annum in its BKC projects per annum which is likely to generate Rs. 150-200 crores of free cashflows per annum. It targets to sell balance units of BKC projects having Rs. 1300-1400 crore revenue potential over a 4 year period.
- New Business Developments to provide growth:** The company recently acquired society redevelopment project in Bandstand with 1 lakh sq ft developable area (50,000 company's share of saleable area) with a revenue potential of Rs. 500 crore and free cash flow potential of Rs. 150 crore. Further, an acquiring adjoining land parcel at Napean Sea road is under negotiation, which may double its project size. Its Borivali (West) JDA project having GDV of Rs. 3500 crore is expected to be added in its overall GDV in FY2026. It would also initiate new business development via IFC platform in FY2025 eyeing beyond Borivali area in MMR.
- Average rental income targeted to grow by 9x in FY2028 from FY2024:** The company is likely to pre-lease Sunteck Icon, BKC project at an average rental income of Rs. 35 crore per annum while its BKC 51 project is currently generating Rs. 35 crore per annum average rental income. Consequently, we expect its BKC projects to generate Rs. 70 crore average rental income per annum in FY2026. We note that its commercial projects has a ROIC of 30% plus. Further, it expects to lease out 1 msf at 5th Avenue, Sunteck City, ODC project in FY2027, which would help generate Rs. 250 crore average rental income per annum from FY2028 with a capex of Rs. 700 crore. Consequently, it targets to generate an average rental income of Rs. 320 crores from FY2028 with a capex spend of Rs. 950 crores.

Revision in Estimates: We have materially trimmed down our earnings estimates for FY2024E-FY2026E factoring in spillover of revenue recognition in key projects.

Our Call

Valuation – Retain positive view with 45% upside potential: Sunteck Realty has a robust and sustainable growth potential in the near to long term, with solid foundations built across key regions and income groups in the lucrative MMR market. It remains committed to expediting sales at the ready assets at Bandra-Kurla Complex. The company has two major project launches during FY2025, which along with healthy sustenance sales from existing projects should aid in driving sales booking growth. Its tie up with IFC would provide further scale to sustain future growth. The stock has seen correction of over 20% in little over trailing one month which we believe unduly factors in the near term sluggishness in pre-sales. The stock is currently trading at a P/B multiple of 1.8x/1.7x on FY2025E/FY2026E and offers a buying opportunity. Hence, we retain our Positive view on the stock with an upside potential of 45% owing to its strong growth outlook over medium to long term.

Key Risks

Slowdown in realty demand in MMR region, inability to expedite sales in BKC projects, delay in sales and/or execution in existing and upcoming projects.

Valuation (Consolidated)

Particulars	Rs cr			
	FY23	FY24E	FY25E	FY26E
Revenue	362.4	694.9	1384.6	1621.5
OPM (%)	17.7	26.8	27.7	28.3
Adjusted PAT	1.4	113.7	250.5	302.5
% YoY growth	-94.4	-	120.2	20.7
Adjusted EPS (Rs.)	0.1	7.8	17.1	20.6
P/E (x)	-	50.1	22.8	18.8
P/B (x)	2.0	2.0	1.8	1.7
EV/EBITDA (x)	97.0	32.8	16.1	13.5
RoNW (%)	0.1	4.0	8.3	9.2
RoCE (%)	2.4	6.7	11.7	12.7

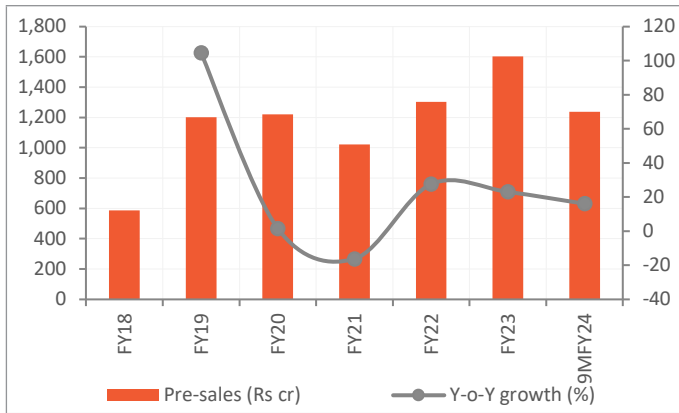
Source: Company; Sharekhan estimates

Key Management Interaction Takeaways:

- ◆ **Outlook:** The company has a strong launch pipeline of Rs. 7000 crore for FY2025, of which Napean Sea Road comprises ~Rs. 2500 crore. The company targets to grow its pre-sales by 20-25% y-o-y in FY2025.
- ◆ **BKC projects:** The company sold two units each in Q2 and Q3 of FY2024 and we expect similar run-rate in Q4FY2024. For FY2024, it targets to achieve Rs. 200 crore sales from BKC units. It targets to sell balance units in BKC worth Rs. 1300-1400 crore over a four year period. It expects to make 45% plus EBITDA margins on BKC projects.
- ◆ **Launches:** The third tower of the Mira road project is expected to be launched in the near term, while the new phase in Naigaon will be launched in H1FY2025. It targets to launch the Napean Sea Road project in H2FY2025.
- ◆ **BD development:** It is yet to acquire additional land near Napean Sea Road, which may double the project size. It acquired a society redevelopment project in Bullock Road, Bandstand in Bandra (W), which would have a 1 lakh square feet development potential, of which 50,000 square feet would be available to the company for sale. The GDV of Bandstand project is estimated at Rs. 500 crore and would generate Rs. 150 crore of free cash flows. The company targets to launch the project in H1FY2026.
- ◆ **Annuity income:** The company is likely to pre-lease Sunteck Icon, BKC project at an average rental income of Rs. 35 crore per annum while its BKC 51 project is currently generating Rs. 35 crore per annum average rental income. Hence, we expect the company to generate Rs. 70 crore average rental income in FY2026. Further, it expects to lease out 1 msf at 5th Avenue, Sunteck City, ODC project in FY2027 which would help generate Rs. 250 crore average rental income per annum from FY2028 with a capex of Rs. 700 crore. Consequently, it targets to generate average rental income of Rs. 320 crore from FY2028 while its capex spend would be Rs. 950 crores.
- ◆ **Borivali project:** The company's 7 acre JDA project in Borivali (West) with an estimated GDV of Rs. 3500 crore is expected to be added in its overall GDV in FY2026.
- ◆ **IFC deal:** It expects to initiate transaction in IFC platform in FY2025 through new business development beyond Borivali in MMR.

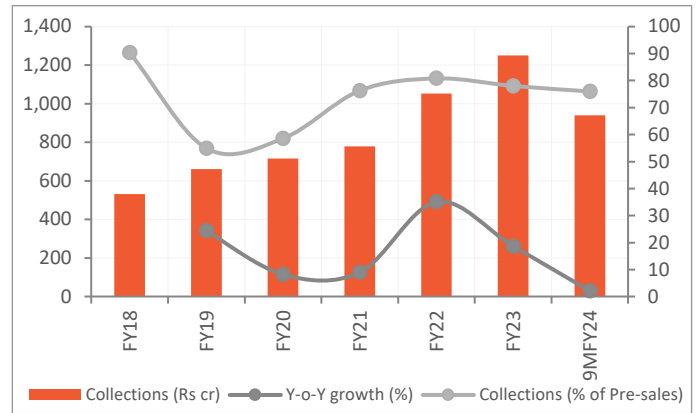
Financials in charts

Pre-sales booking Trend



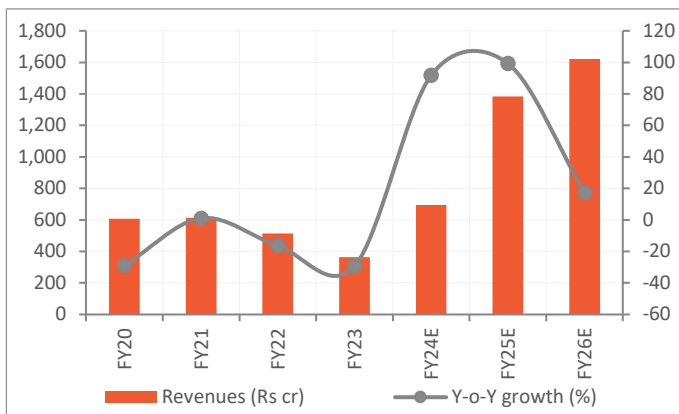
Source: Company, Sharekhan Research

Collections Trend



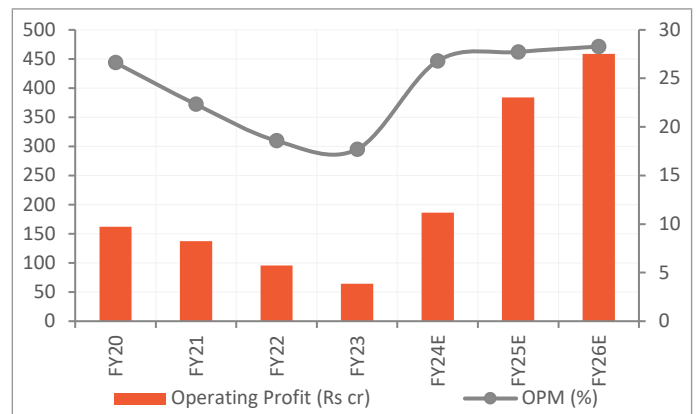
Source: Company, Sharekhan Research

Revenue Trend



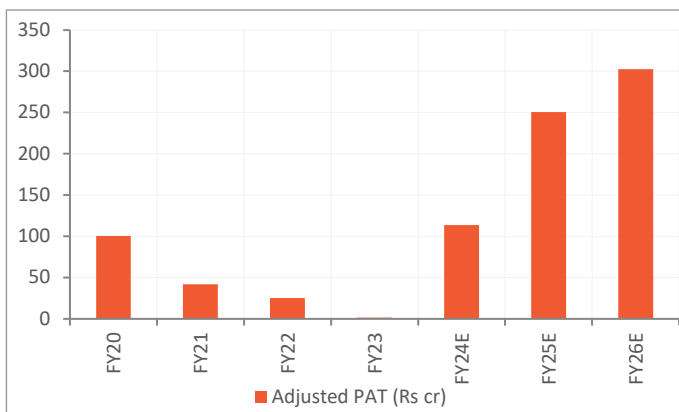
Source: Company, Sharekhan Research

Operating Profit Trend



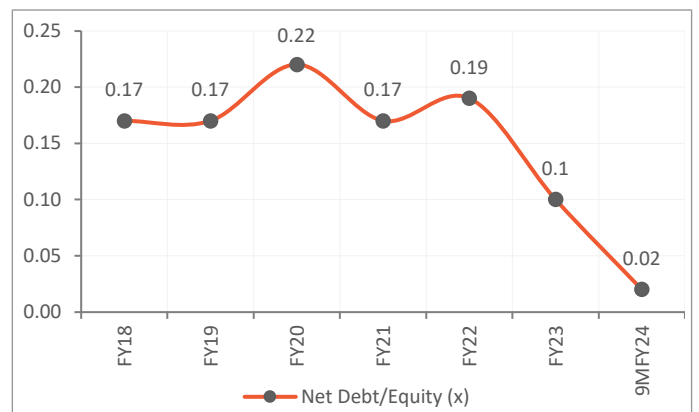
Source: Company, Sharekhan Research

Net Profit Trend



Source: Company, Sharekhan Research

Net Debt/Equity Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Residential market on a growth trajectory

The real estate sector, especially the residential realty market, is expected to be in the limelight, as it benefits from central and state governments' favourable policies about the affordable housing segment. Rising income and affordability levels are expected to drive sales for quality and organised developers. Further, organised players are expected to benefit from ample inorganic opportunities in the sector, aiding consolidation in the sector. The sector is also likely to benefit from low-interest rates, which provide the twin benefits of driving demand and lowering funding costs. Overall, we are positive about the residential segment of the real estate market for the reasons mentioned above.

■ Company Outlook – Strong growth visibility over near to longer-term

Sunteck Realty (Sunteck) has a 52 million square feet (msf) project portfolio (Sunteck's share ~36 msf) focused primarily towards the residential market of MMR and has built strong foundations across key MMR regions diversifying across all income groups since 2018. It has amassed ~33 msf projects mastering Joint Development routes with a mere upfront payout and adding almost Rs. 23,000 crore of GDV in projects which are expected to drive and maintain sales and collections momentum over the next 7-8 years. Its completed and ongoing portfolio offers net operating surplus of ~Rs. 4500 crore, which would be realized over the next 5-7 years. The company's negligible leverage and annuity income potential provide further comfort.

■ Valuation – Retain Positive view; expect an upside of 45%

Sunteck Realty has a robust and sustainable growth potential in the near to long term, with solid foundations built across key regions and income groups in the lucrative MMR market. It remains committed to expediting sales at the ready assets at Bandra-Kurla Complex. The company has two major project launches during FY2025, which along with healthy sustenance sales from existing projects should aid in driving sales booking growth. Its tie up with IFC would provide further scale to sustain future growth. The stock has seen correction of over 20% in little over trailing one month which we believe unduly factors in the near term sluggishness in pre-sales. The stock is currently trading at a P/B multiple of 1.8x/1.7x on FY2025E/FY2026E and offers a buying opportunity. Hence, we retain our Positive view on the stock with an upside potential of 45% owing to its strong growth outlook over medium to long term.

NAV Mix

Particulars	Value per share (Rs.)
Development Portfolio	
Completed	62
Ongoing	81
Forthcoming	267
Annuity Portfolio	60
Net Debt (less)	10
NAV Premium	107
Price Target	566

Source: Company Website

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sunteck Realty	22.8	18.8	16.1	13.5	1.8	1.7	8.3	9.2
Macrotech Developers	51.9	41.4	19.4	15.8	5.5	4.9	11.8	13.2
Oberoi Realty	22.4	18.7	16.4	13.8	3.2	2.8	15.9	16.3
DLF	82.5	75.0	98.2	87.8	5.3	5.0	6.6	6.9

Source: Sharekhan Research

About company

Sunteck Realty Limited is one of the fastest-growing Mumbai-based luxury real estate development companies, founded in 2000 by Mr. Kamal Khetan. Sunteck has a strong project portfolio of 52msf (Sunteck's share of ~36msf) spread across 20 projects, of which almost 20% comprise completed and ongoing projects. It has differentiated its projects under six brands - Signature, Signia, Sunteck City, Sunteck Beach Residences, Sunteck World and Sunteck. The company has been creating iconic destinations such as the flagship project, Signature Island at Bandra Kurla Complex (BKC), Sunteck City in Oshiwara District Centre (ODC), Goregaon and SunteckWorld at Naigaon – the largest township of MMR's Western Suburbs.

Investment theme

Sunteck Realty has a strong, sustainable growth potential over the near to long term with strong foundations built across key regions and income groups in the lucrative MMR market. Its completed and ongoing project portfolio offer near to medium net operating surplus generation at minimal expenditure. The company has underperformed its sector peers, with the slow monetization of ready BKC assets being a key hangover. However, it remains committed in expediting sales at BKC. We believe traction in BKC sales and high sales growth in newly built key regions in MMR provide a strong re-rating trigger for the company.

Key Risks

- ◆ Slowdown in realty demand in MMR region
- ◆ Inability to expedite sales in BKC projects, delay in sales and/or execution in existing and upcoming projects.

Additional Data

Key management personnel

Mr. Kamal Khaitan	Chairman and Managing Director
Mr. Atul Poopal	Executive Director
Mr. Prashant Chaubey	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MATRABHAV TRUST	31.90
2	PARIPURNA TRUST	11.62
3	ASTHA TRUST	10.53
4	BW South Asia Ltd	4.62
5	Pabrai Investment Fund IV LP/The	4.52
6	Pabrai Investment Fund II LP/The	4.36
7	Life Insurance Corp of India	4.02
8	SAMAGRA WEALTHMAX PVT LTD	2.62
9	SCHRODER INTERNA	2.27
10	Aditya Birla Sun Life Asset Manage	1.75

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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