Equity Research

September 4, 2021

BSE Sensex: 58130

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Company update and TP change

Real Estate

Target price Rs475

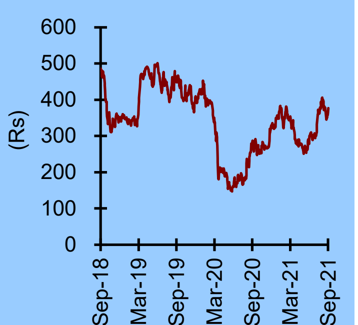
Target price revision
Rs475 from Rs457

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	67.2	67.2	67.2
Institutional investors	27.2	27.2	25.3
MFs and others	3.4	3.5	3.8
FIs/Banks	0.0	0.0	0.0
Insurance	0.2	0.2	0.2
FIIs	23.6	23.5	21.3
Others	5.6	5.6	7.6

Source: NSE

Price chart



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INDIA

Sunteck Realty

BUY
Maintained

All eyes on Vasind launch

Rs378

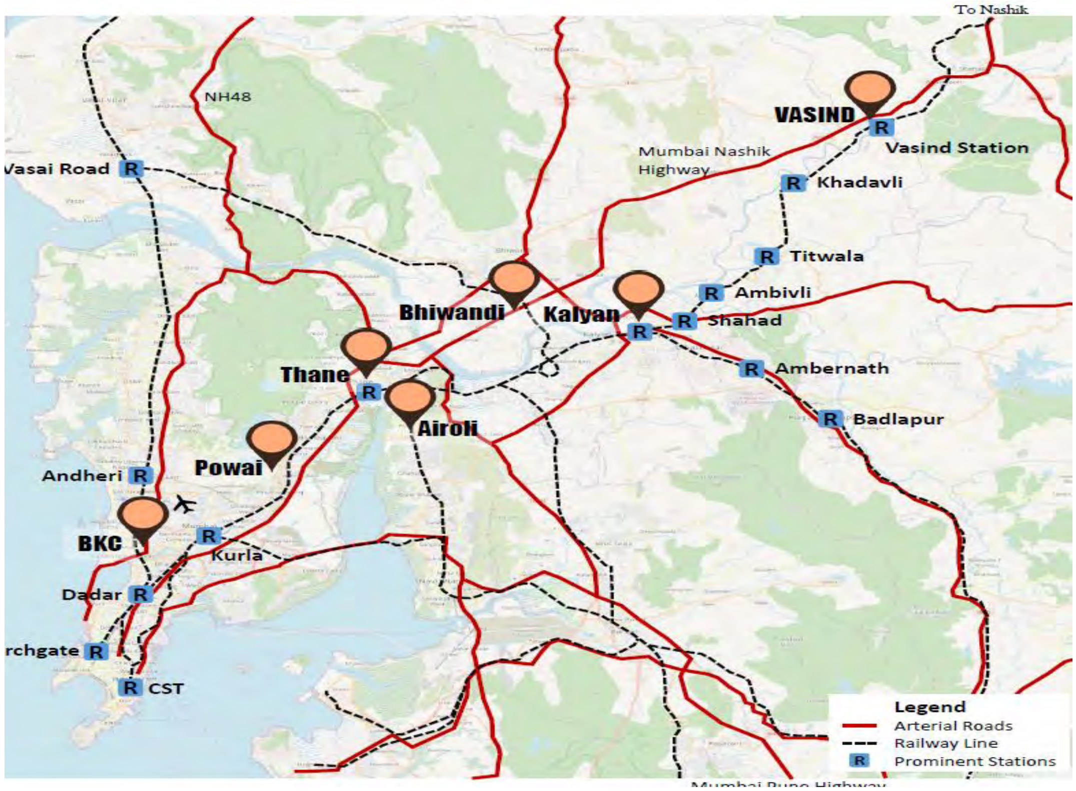
Sunteck Realty's (SRIN) has launched Phase 1 of its affordable housing project in Vasind, located in Mumbai Metropolitan Region's (MMR) extended eastern suburbs. The project which was acquired under the asset light JDA model in FY21 has a total saleable area of 2.6msf in which SRIN has 80% revenue share. We estimate revenue of Rs2.7bn for Phase 1 of the project (1,000 units launched) and the overall project to have revenue potential of Rs12-13bn with pre-tax operating surplus of over Rs5.0bn and NAV accretion of Rs2.8bn (Rs20/share). We maintain our BUY rating on SRIN with a revised target price of Rs475/share (earlier Rs457) based on 1x NAV adjusting for project level adjustments. Key risks to our call are slowdown in the Mumbai property market volumes and fall in residential / commercial prices.

- **Vasind project has total revenue potential of Rs12-13bn:** SRIN's Vasind project christened "Sunteck Forest World" is an affordable housing project located in MMR's extended eastern suburbs and was acquired in FY21 under the asset light Joint Development (JDA) revenue share model with minimal upfront payment. The project is spread over 50 acres and has a total saleable area of 2.6msf (2.48msf residential and 0.13msf retail) spread over ~4,000units consisting of 1 and 2BHKs. As per SRIN's management, it has received RERA approvals for the entire project. We estimate the project to have a total revenue potential of Rs12-13bn which implies an average realisation of Rs4,600-5,000/psf on saleable area basis over the life of the project. SRIN has a 80% revenue share in the project which implies SRIN revenue share of Rs9.5-10.0bn against which we estimate costs of Rs1,800/psf (similar to Naigaon project) or Rs4.7bn of construction cost and expect a pre-tax operating surplus of over Rs5.0bn and NAV accretion of ~Rs2.8bn or Rs20/share.
- **Phase 1 Vasind launch estimated to have revenue potential of Rs2.7bn:** As per company, out of the total 4,000 units in the project, ~1,000 units consisting of 500 1BHKs (carpet area of 380sft) and 500 2BHKs (carpet area of 500sft) have been launched with ticket sizes for 1BHKs starting from Rs2.3mn and 2BHKs starting from Rs3.1mn which implies potential sale value of over Rs2.7bn in Phase 1 of this project. SRIN's launch price of ~Rs6,000/psf on carpet area basis is at a 30% premium to the prevailing price of Rs4,500/psf in the Vasind micro-market where existing inventory is with smaller Tier II/III developers in projects with limited amenities.
- **New project additions a key monitorable:** Apart from its existing portfolio of projects, the company continues to pursue business development opportunities through an asset light JDA model. Over the long term, SRIN's affordable housing projects are expected to contribute 50% of sales bookings.

Market Cap	Rs55.1bn/US$755mn
Reuters/Bloomberg	SUNT.BO/SRIN IN
Shares Outstanding (mn)	146.4
52-week Range (Rs)	406/247
Free Float (%)	32.8
FII (%)	21.3
Daily Volume (US$/'000)	4,079
Absolute Return 3m (%)	25.4
Absolute Return 12m (%)	32.2
Sensex Return 3m (%)	11.7
Sensex Return 12m (%)	50.6

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs bn)	5.6	6.1	10.4	11.8
Rec. Net Income (Rs bn)	0.8	0.4	2.1	2.1
EPS (Rs)	5.3	3.0	14.7	15.1
% Chg YoY	(67.5)	(43.3)	391.9	2.5
P/E (x)	71.6	126.3	25.7	25.0
P/B (x)	1.9	1.9	1.8	1.7
EV/E (x)	36.0	43.0	17.5	17.1
Dividend yield (%)	0.5	0.5	0.8	0.8
RoCE (%)	5.9	4.6	10.7	10.5
RoE (%)	2.7	1.7	7.2	7.0

Chart 1: Vasind is a micro-market in MMR's extended eastern suburbs



Source: Company, I-Sec research

Chart 2: SRIN's Vasind project has adequate social infrastructure around it

Source: Company, I-Sec research

Valuations & views

- We like SRIN because it (1) enjoys strong brand recall in Mumbai (2) has strong balance sheet with net debt of 0.2x and (3) asset light model of land acquisition in the Mumbai Metropolitan Region.
- We have valued SRIN on SoTP basis with a combination of DCF-based NAV on FY22 basis.
- We value SRIN's affordable housing foray at Rs5.6bn or Rs40/share. We have assumed a total saleable area of ~10msf on the 100-acre land parcel with project launches over 3 phases and sales/construction cycle from FY19-FY27E.
- We have also assumed a business development value of Rs10bn for Vasai/Vasind acquisitions.
- We maintain our **BUY** rating on SRIN with a revised target price of Rs475/share (earlier Rs457) based on 1x NAV accounting for project level assumptions.
- Key risks to our call are slowdown in the Mumbai property market volumes and fall in residential/commercial prices.

Table 1: SoTP valuation

Project	SRIN NAV Rs mn)	Rs/share	% of GAV
BKC residential	9,097	65	13.7%
BKC commercial	2,774	20	4.2%
ODC Goregaon Avenue 1 and 2	5,831	42	8.8%
Other ongoing projects	2,205	16	3.3%
ODC Goregaon Avenue 3 and 4	16,348	117	24.5%
ODC Goregaon Avenue 5 and 6 (Commercial and Retail) – market value of land	14,000	100	21.0%
Land Bank	3,935	28	5.9%
Vasai/Vasind	10,000	71	15.0%
Borivali West project	2,729	19	4.1%
Naigaon Affordable Housing	5,575	40	8.4%
Gross Asset Value	**72,494**	**517**	**100.0%**
Less: Net Debt	5,888	42	
Total NAV	**66,605**	**475**	

Source: I-Sec research

Summary financials (consolidated)

Table 2: Earnings statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Sales	**5,597**	**6,139**	**10,444**	**11,797**
Operating Expenses	**3,916**	**4,769**	**7,024**	**8,255**
EBITDA	**1,682**	**1,369**	**3,420**	**3,542**
% margins	30%	22%	33%	30%
Depreciation & Amortisation	37	52	55	57
Interest expenses	813	846	473	533
Other Income	205	170	187	205
Exceptional items	(7)	60	-	-
PBT	**1,043**	**581**	**3,079**	**3,157**
Less: Taxes	281	164	1,016	1,042
PAT before Minority/Associate	**762**	**416**	**2,063**	**2,115**
Minority/Associate share	(8)	3	-	-
Net Income (Reported)	**754**	**419**	**2,063**	**2,115**

Source: Company data I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	38,074	37,036	39,926	39,813
of which cash & cash eqv.	1,662	991	2,138	1,196
Total Current Liabilities & Provisions	5,035	5,878	5,878	5,878
Net Current Assets	**33,039**	**31,158**	**34,048**	**33,935**
Goodwill/Investments	2,900	2,685	3,185	3,685
Net Fixed Assets	365	334	258	201
Capital WIP	-	96	352	1,647
Total Assets	**36,304**	**34,274**	**37,844**	**39,468**
Liabilities				
Borrowings	9,207	6,879	8,879	8,879
Equity Share Capital	140	140	140	140
Reserves & Surplus*	27,347	27,582	29,153	30,777
Net Worth	**27,487**	**27,723**	**29,293**	**30,917**
Minority Interest	-	-	-	-
Deferred Taxes	(390)	(327)	(328)	(328)
Total Liabilities	**36,304**	**34,274**	**37,844**	**39,468**

Source: Company data I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT	**1,043**	**581**	**3,079**	**3,157**
Depreciation	37	52	55	57
Non-Cash Adjustments	-	-	-	-
Working Capital Changes	(2,291)	1,699	(1,742)	(829)
Taxes Paid	(281)	(164)	(1,016)	(1,042)
Operating Cashflow	**(1,491)**	**2,168**	**375**	**1,343**
Capital Commitments	(158)	(162)	(256)	(1,295)
Free Cashflow	**(1,649)**	**2,005**	**119**	**49**
Other investing cashflow	(149)	151	(500)	(500)
Cashflow from Investing Activities	**(307)**	**(11)**	**(756)**	**(1,795)**
Issue of Share Capital	11	7	-	-
Inc (Dec) in Borrowings	1,942	(2,328)	2,000	-
Dividend paid	(256)	(142)	(492)	(492)
Cashflow from Financing activities	**1,697**	**(2,462)**	**1,508**	**(492)**
Chg. in Cash & Bank balances	**(101)**	**(306)**	**1,128**	**(943)**

Source: Company data I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS	5.3	3.0	14.7	15.1
Cash EPS	5.6	3.7	15.1	15.5
Dividend per share (DPS)	2.0	2.0	3.0	3.0
Book Value per share (BV)	196.1	197.8	209.0	220.6
Growth (%)				
Net Sales	(34.7)	9.7	70.1	13.0
EBITDA	(55.5)	(18.6)	149.8	3.6
PAT	(66.8)	(44.4)	392.0	2.5
Valuation Ratios (x)				
P/E	71.6	126.3	25.7	25.0
P/BV	1.9	1.9	1.8	1.7
EV / EBITDA	36.0	43.0	17.5	17.1
Dividend Yield	0.5	0.5	0.8	0.8
Operating Ratios				
Debt/EBITDA (x)	5.5	5.0	2.6	2.5
Net D/E	0.3	0.2	0.2	0.2
Profitability/Return Ratios (%)				
RoE	2.7	1.7	7.2	7.0
RoCE	5.9	4.6	10.7	10.5
EBITDA Margins	30.0	22.3	32.7	30.0
Net Income Margins	13.5	6.8	19.8	17.9

Source: Company data I-Sec research

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