

Company Update

Sunteck Realty Ltd

Bloomberg Code: SRIN IN

India Research - Stock Broking

HOLD

Poised for Growth

Affordable Housing Project Driving Sales: SRL recorded a 55% YoY increase in pre-sales to Rs. 2.9 Bn and collections surged 34% YoY to Rs. 2.06 Bn. Pre-sales were primarily driven by the company's affordable housing project at Naigaon which was launched in Q2FY19. SRL sold 223 units in the project amounting to Rs. 0.73 Bn. At BKC projects, the company sold 2 units amounting to Rs. 0.48 Bn. Till 9MFY19, Sales at ODC were tepid as the company managed to sell only 65 units. However, in Q4FY19, the company sold 88 units and achieved its full year sales run rate target of 150+ units.

On full year basis, the company achieved a pre-sales of Rs. 12 Bn which is an increase of over 105% as compared to last year. It achieved a pre-sales volume of 1.4 msf (430% increase YoY). 78% of pre-sales volume was contributed by Naigaon project. The company sold 1.99 Lakh sft at ODC (vs. 1.75 Lakh sft in FY18) which is 14% higher than FY18. However, realization remained flat at Rs. 14251/sft (vs Rs. 14373/sft in FY19). Against the pre-sales of Rs. 12 Bn, the company recognized revenues of Rs. 8.6 Bn in FY19.

Strong pre-sales momentum provides cash flow visibility: In FY19, the company achieved sales of Rs. 12 Bn and collected Rs. 6.6 Bn. Against this, the amount spent on construction was Rs. 4.1 Bn resulting in a positive net cash flow of Rs 2.5 Bn. Construction spent in FY19 was 80% higher than the amount spent in FY18. This was primarily driven by increased pace of construction at Naigaon and Oshiwara. This amount is expected to reach Rs. 8 Bn as the company plans to further increase the pace of construction and launch of commercial projects at ODC. As amount spent on construction increases, the collections are also likely to pickup resulting in sustainable positive cash flows over next two years.

Outlook & Valuation

With launch of affordable housing project at Naigaon, the company has presence across entire product spectrum in the residential space. Also, the expanding annuity portfolio will provide stable cash flows. Given the company's strong balance sheet, we believe the company will be a key beneficiary of current environment wherein organized players are expected to gain market share. Improved sales and launch of subsequent phases at ODC and Naigaon will be a key trigger for the company over next 12 months. We assign a target price of Rs. 501/share based on NAV model and we remain positive on long term growth prospects of SRL. However, we have assigned "HOLD" rating due to recent appreciation in the share price.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9522	8883	8568	14262	15206
EBITDA	3481	3720	3780	5951	6649
EBITDA Margin (%)	36.6	41.9	44.1	41.7	43.7
Net Profit	2202	2233	2402	4131	4665
EPS (Rs.)	15.0	15.3	16.4	28.2	31.9
RoE (%)	12.3	8.5	8.5	12.8	12.7
PE (x)	31.4	30.9	28.8	16.7	14.8

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

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Recommendation (Rs.)

CMP (as on May 06, 2019)	472
Target Price	501
Previous Target Price	488
Upside (%)	6

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	69514 / 1002
52-wk High/Low (Rs.)	527 / 296
3M Avg. daily value (Rs. mn)	169.4
Beta (x)	1.2
Sensex/Nifty	38600 / 11598
O/S Shares(mn)	146.3
Face Value (Rs.)	1.0

Shareholding Pattern (%)

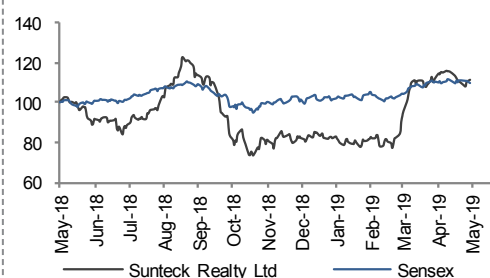
Promoters	67.2
FIIs	27.1
DIIIs	1.2
Others	4.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(2)	34	36	10
Relative to Sensex	(0)	29	25	1

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY19E	FY20E
Sales (%)	↓ (3.7)	↓ (10.9)
EBITDA (%)	↓ (2.5)	↑ 0.7
PAT (%)	↑ 2.7	↑ 6.5

Source: Karvy Research

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Exhibit 2: Q4FY19 Financials

(Rs. Mn)	Q4FY19	Q3FY19	QoQ %	Q4FY18	YoY %
Revenue	2697	1951	38.2	2067	30.5
Other Income	110	66	67.1	50	120.0
Expenditure	1907	1215	57.0	1096	74.1
EBITDA	888	852	4.2	1074	(17.3)
Depreciation	6	7	(11.4)	4	44.2
Interest	92	109	(15.6)	98	(6.2)
PBT <i>(Includes Other Income)</i>	928	779	19.2	1016	(8.6)
Tax	294	289	1.8	400	(26.4)
PAT	634	490	29.4	616	3.0
EBITDA Margin (%)	33	44	(1100) bps	52	(1900) bps
EBIT Margin (%)	31	42	(1100) bps	51	(2000) bps
Net Profit Margin (%)	23	24	(100) bps	29	(600) bps

Source: Company, Karvy Research

Exhibit 3: 12MFY19 Performance

Sl. No.	Project Name	Sales (Rs. Mn)	Advances Received (Rs. Mn)	Cost Incurred (Rs. Mn)	Area Sold Lakh Sq.Ft.
1	Signature Island	1,813	1,435	-	0.31
2	Signia Isles	705	1,071	-	0.17
3	Signia Pearl	698	159	-	0.17
4	Sunteck City, Avenue 1	1,046	658	947	0.75
5	Sunteck City, Avenue 2	1,790	1,617	1,132	1.24
6	Sunteck City, Avenue 3	-	-	32	-
7	Signia Waterfront	352	367	387	0.26
8	Signia High	306	305	2	0.18
9	Signia Pride	-	-	85	-
10	Signia Hill	109	17	89	0.06
11	Sunteck Icon	-	-	91	-
12	Sunteck West World, Phase 1	5,205	979	1,044	11.01
13	Others	-	2	292	-
Total		12,023	6,609	4,101	14.16

Source: Company, Karvy Research

Key takeaways from quarterly earnings

- **BKC Projects:** The company has sold 2 units at BKC for Rs. 488 Mn (Rs. 40666/sft). In FY19, SRL has sold 10 units and now has an unsold inventory of 41 units which the company plans to sell in next 3-4 years.
- **Sunteck City, ODC:** Avenue 1 is expected to be completed in 12 months while Avenue 2 will take 12-18 months to complete. SRL has sold 88 units in Q4FY19 for Rs. 1582 Mn. In FY19, the company has sold 152 units and has achieved its target of selling 150 units per year. Sunteck City now has an unsold inventory of 330 units in Avenue 1 and 2.
- Avenue 3 & 4 will be launched in H1FY20. Avenue 5 & 6 are awaiting approvals and are also expected to be launched in H1FY19.
- **Sunteck West World, Naigaon:** During the quarter, the company has sold 223 units with sales of Rs. 732 Mn and has collected Rs. 598 Mn.
- Since launch, the company has sold 1619 units (67% of inventory) spread over 1.1 Mn sft in Phase 1 of the project. The company plans to launch Phase 2 of the project in next 6 months.
- **Commercial projects at BKC:** SRL has started constructing 2 commercial buildings at BKC namely, Sunteck Icon & Gateway 51. Both the buildings are expected to be completed in 12-15 months. Management expects the rentals to be in the range of Rs. 250-300/sft and is in talks with various parties to pre-lease the building.
- Post the NBFC crisis, management expects a lot of distressed properties to hit the market and it continues to evaluate the same.

Exhibit 4: Change in Earnings Estimates

YE Mar (Rs. Mn)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net sales	14811	14262	(3.7)	17074	15206	(10.9)
EBITDA	6103	5951	(2.5)	6602	6649	0.7
EBITDA Margin (%)	41.2	41.7	52 bps	38.7	43.7	506 bps
Adj PAT	4024	4131	2.7	4379	4665	6.5
EPS (Rs.)	16.7	16.4	(1.7)	29.9	31.9	6.6

Source: Karvy Research

Financials

Exhibit 5: Income Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	9522	8883	8568	14262	15206
Growth (%)	291.3	(6.7)	(3.5)	66.5	6.6
Operating Expenses	6519	5600	5218	8738	8938
EBITDA	3481	3720	3780	5951	6649
Growth (%)	1355.2	6.9	1.6	57.4	11.7
Depreciation & Amortization	23	17	22	21	23
EBIT	3489	3739	4104	6307	7022
Other income	82	93	343	378	396
Interest Expenses	455	421	408	405	358
PBT	3033	3318	3696	5902	6665
Tax	872	1078	1284	1770	1999
Adjusted PAT	2202	2233	2402	4131	4665
Growth (%)	968.0	1.4	7.6	72.0	12.9

Source: Company, Karvy Research

Exhibit 6: Balance Sheet

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & Cash Equivalents	595	491	911	775	710
Trade receivables	1620	2906	3135	3215	3497
Inventory	28017	26927	26321	27964	30690
Loans & Advances	806	1626	610	732	1079
Investments	3220	2203	2606	4105	4605
Net Block	401	385	405	360	351
Other current assets	2127	2025	5241	3964	4302
Total Assets	36786	36563	39228	41116	45235
Current Liabilities	8665	4275	5195	3478	3650
Debt	9437	5181	4723	4266	3766
Other Liabilities	24	29	62	62	62
Total Liabilities	18127	9485	9981	7806	7478
Shareholders Equity	120	140	140	140	140
Reserves & Surplus	17833	26163	28197	32259	36706
Total Networth	17953	26303	28337	32400	36846
Non Controlling Interest	706	775	910	910	910
Total Networth & Liabilities	36786	36563	39228	41116	45235

Source: Company, Karvy Research

Exhibit 7: Cash Flow Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	3084	3375	3693	5902	6665
Depreciation	23	17	22	21	23
Finance Cost	455	421	408	405	358
Tax Paid	(647)	(1365)	(1284)	(1770)	(1999)
Inc/dec in Net WC	(499)	(4607)	(712)	(1656)	(2564)
Others	12	(78)	(343)	(378)	(396)
Cash flow from operating activities	2427	(2237)	1784	2524	2086
Inc/dec in capital expenditure	204	2	(279)	(736)	(1074)
Inc/dec in investments	(33)	0	0	0	0
Others	679	177	0	(800)	0
Cash flow from investing activities	849	180	(279)	(1536)	(1074)
Inc/dec in borrowings	(2899)	(3757)	(458)	(500)	(500)
Dividend paid	(139)	(218)	(218)	(218)	(218)
Interest paid	(341)	(496)	(408)	(405)	(358)
Cash flow from financing activities	(3379)	(4471)	(1084)	(1124)	(1076)
Net change in cash	(102)	(6529)	420	(136)	(65)

Source: Company, Karvy Research

Exhibit 8: Key Ratios

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin (%)	36.6	41.9	44.1	41.7	43.7
EBIT Margin (%)	36.6	42.1	47.9	44.2	46.2
Net Profit Margin (%)	22.9	24.9	27.0	28.2	29.9
Dividend Payout Ratio (%)	4.4	9.4	8.9	5.7	5.7
Net Debt/Equity (x)	0.5	0.2	0.1	0.1	0.1
RoE (%)	12.3	8.5	8.5	12.8	12.7
RoCE (%)	12.4	11.6	12.1	16.8	16.9

Source: Company, Karvy Research

Exhibit 9: Valuation Parameters

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs.)	15.0	15.3	16.4	28.2	31.9
DPS (Rs.)	0.8	1.5	1.5	1.5	1.5
BVPS (Rs.)	149.7	187.5	193.7	221.4	251.8
PE (x)	31.4	30.9	28.8	16.7	14.8
P/BV (x)	1.3	2.3	2.4	2.1	1.9
EV/EBITDA (x)	9.3	17.9	19.3	12.2	10.9
EV/Sales (x)	3.5	7.5	8.5	5.1	4.7

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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