ANANDRATHI

India I Equities

Real Estate

Company Update

Change in Estimates ☐ Target ☐ Reco ☐

17 November 2018

Sunteck Realty

Rating: **Buy**
Target Price: ₹545
Share Price: ₹348

Naigaon launch = New phase of growth; retaining a Buy

With an inspiring response to its maiden launch in affordable housing, Sunteck's Q2 value bookings were dominated by 'Sunteck West World' phase-1, Naigaon (~75% of the total). The company, indeed, has done better than what we expected, with such a high velocity (1,015 units sold of 2,476 units launched). The benefit of the Naigaon launch, the and steady pace of sales at its BKC projects and the focus now on the ODC project would lead to a better H2 FY19, we feel. We maintain our Buy for its strong balance sheet, upgraded rating, visible launch pipeline and ready inventory providing free-cashflow potential.

Revenue recognition commenced at Naigaon: Notwithstanding its recent launch, the recently adopted IndAS-115 helped commence revenue recognition at its Naigaon project in its very first quarter. It recognised ~₹60m, based on ~2% project progress. We expect the project to deliver 25-27% PAT margins.

Healthy bookings to continue in H2 FY19. Bookings to be continued in H2 from Naigaon phase-1 along with a steady rate at its BKC project. Besides, it intends to focus on activating sales at the ODC, Borivali and Airoli projects. Notwithstanding only 50 units sold in H1at ODC, management is still targeting its guidance of ~150-200 units in FY19. With a steady pace of bookings at its BKC projects, FY19 guidance seems attainable (five sold in H1, 10-12 guided).

Launch pipeline building up. Management said that after the successful launch of its Naigaon project, the H2 focus would be on the next phase (residential) launch at Sunteck City-ODC project. Also, for its commercial phase, approvals are expected in H2. Overall, it targets 2-3 launches in H2.

Inventory liquidation could aid cash flows. With ready inventory of ~₹26bn for ~0.6m sq.ft., any improved demand scenario for ready inventory could help generate accelerated cash flows.

Valuation. At the ruling price, the stock trades at 1.6x FY20e P/BV. We maintain our Buy rating, with a TP of ₹545. **Risks:** Delay in execution of the Naigaon project, any slower-than-expected traction in BKC/ODC projects.

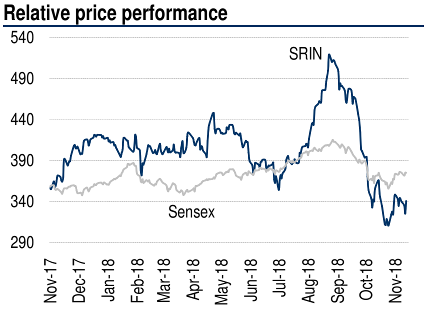
Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	2,434	9,522	8,883	10,237	14,170
Net profit (₹ m)	229	2,040	2,142	2,704	3,437
EPS (₹)	1.9	17.0	15.3	19.3	24.5
Growth (%)	-66.3	788.9	-10.2	26.2	27.1
PE (x)	59.1	11.2	27.7	18.1	14.2
EV / EBITDA (x)	104.1	9.1	17.7	11.2	8.5
PBV (x)	0.9	1.3	2.4	1.8	1.6
RoE (%)	1.5	12.0	9.7	9.8	11.3
RoCE (%)	1.4	12.5	12.6	13.4	15.7
Net debt / equity (x)	0.6	0.4	0.1	0.1	0.0

Source: Company, Anand Rathi Research

Key data	SRIN IN / SUNT.BO
52-week high / low	₹527 / 296
Sensex / Nifty	35457 / 10682
3-m average volume	$1.7m
Market cap	₹51bn / $703.4m
Shares outstanding	146m

Shareholding pattern (%)	Sept' 18	Jun' 18	Mar' 18
Promoters	66.8	66.8	66.8
- of which, Pledged	-	-	-
Free float	33.3	33.3	33.3
- Foreign institutions	24.5	24.2	22.3
- Domestic institutions	3.4	4.0	5.9
- Public	5.4	5.1	5.0

Relative price performance



Source: Bloomberg

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Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m) – consolidated

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Bookings (₹ bn)	5.5	6.5	5.9	9.3	11.2
Net revenues (₹ m)	**2,434**	**9,522**	**8,883**	**10,237**	**14,170**
Growth (%)	-19.6	291.3	-6.7	15.2	38.4
Direct costs	1,982	5,708	4,943	5,459	8,069
SG&A	212	333	219	301	331
EBITDA	**239**	**3,481**	**3,720**	**4,477**	**5,771**
EBITDA margins (%)	9.8	36.6	41.9	43.7	40.7
Depreciation	22	23	17	17	17
Other income	179	82	93	100	108
Interest expenses	169	455	421	436	686
PBT	227	3,084	3,375	4,125	5,177
Effective tax rate (%)	-27.7	28.3	32.0	30.0	30.0
+ Associates / (Minorities)	27	71	41	228	250
Net income	229	2,040	2,142	2,704	3,437
Adjusted income	229	2,040	2,142	2,704	3,437
WANS	120	120	140	140	140
FDEPS (₹ / sh)	1.9	17.0	15.3	19.3	24.5
Growth (%)	-66.3	788.9	-10.2	26.2	27.1

Fig 2 – Balance sheet (₹ m) - consolidated

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	120	120	140	140	140
Net worth	15,985	17,953	26,303	28,744	31,917
Debt	12,340	9,437	5,680	5,741	6,512
Minority interest	584	706	775	980	1,199
DTL / (Aassets)	-242	-234	-157	-157	-157
Capital employed	**28,667**	**27,863**	**32,602**	**35,308**	**39,472**
Net tangible assets	419	401	385	373	360
Net intangible assets	321	320	320	319	319
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	-	-	432	2,087
Investments (strategic)	2,674	2,677	1,658	1,681	1,713
Investments (financial)	752	543	545	545	545
Current assets (ex cash)	36,403	31,625	32,348	36,852	40,664
Cash	917	986	1,144	2,589	4,626
Current liabilities	12,819	8,690	3,798	7,482	10,841
Working capital	23,584	22,936	28,550	29,370	29,823
Capital deployed	**28,667**	**27,863**	**32,602**	**35,308**	**39,472**
Contingent liabilities	250	245	29	-	-

Fig 3 – Cash-flow statement (₹ m) - consolidated

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT + Net interest expense	217	3,458	3,703	4,460	5,754
+ Non-cash items	22	23	17	17	17
Oper. prof. before WC	239	3,481	3,720	4,477	5,771
- Incr. / (decr.) in WC	-334	-648	5,614	820	453
Others incl. taxes	-63	872	1,078	1,237	1,553
Operating cash-flow	636	3,257	-2,972	2,420	3,765
- Capex (tang. + intang.)	32	4	0	436	1,659
Free cash-flow	603	3,253	-2,973	1,984	2,106
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	20	139	218	263	263
+ Equity raised	-	-	20	-	-
+ Debt raised	1,390	-2,894	-3,680	60	771
- Fin investments	3,126	-206	-1,017	23	32
- Net interest expense + Misc.	(978)	357	(5,992)	313	546
Net cash-flow	-175	70	158	1,445	2,036

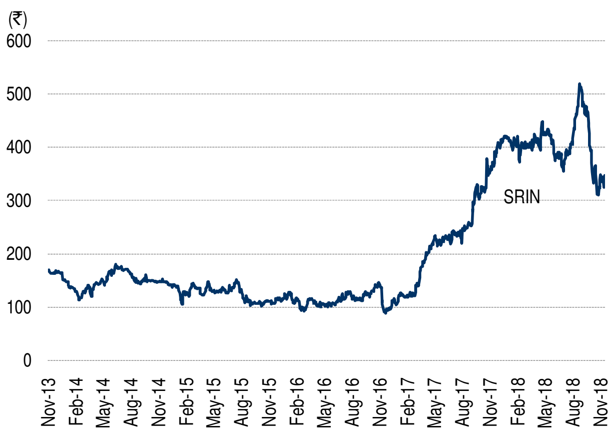
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	59.1	11.2	27.7	18.1	14.2
EV / EBITDA (x)	104.1	9.1	17.7	11.2	8.5
EV / sales (x)	10.2	3.3	7.4	4.9	3.4
P/B (x)	0.9	1.3	2.4	1.8	1.6
RoE (%)	1.5	12.0	9.7	9.8	11.3
RoCE (%)	1.4	12.5	12.6	13.4	15.7
RoIC (%)	1.9	9.3	8.9	10.7	13.0
DPS (₹ / sh)	0.1	1.1	1.3	1.6	1.6
Dividend yield (%)	0.1	0.6	0.3	0.4	0.4
Dividend payout (%) - incl. DDT	8.8	6.8	10.2	9.7	7.7
Net debt / equity (x)	0.6	0.4	0.1	0.1	0.0
Receivables (days)	238	62	119	116	99
Inventory (days)	4,694	1,074	1,106	995	746
Payables (days)	190	53	44	61	87
CFO : PAT %	277.1	159.7	-138.8	89.5	109.6

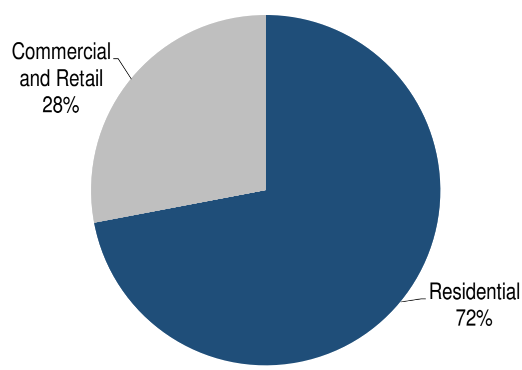
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Residential properties dominate the product mix



Source: Company

Results / Concall highlights

Q2 FY19 financial highlights

- Q2 FY19 revenue was down ~48% y/y to ~₹1.8bn, due to the higher base (in Q2 FY18 a first-time revenue recognition from Sunteck City - OCD, the Goregaon project). Sequentially, revenue was down ~15% largely due to subdued bookings in the ODC project and no show in Q2 FY19 in the Borivali and Airoli projects.
  - In Q2, the BKC projects brought ~₹1.2bn (~65%) to the top-line and ODC brought ~₹0.55bn (~31%).
  - Also revenue recognition started for its phase-1 Sunteck West World – Naigaon project, whereby the company recognised revenue of ~2% of its bookings (based on project progress) which would increase in H2 FY19 as the pace of construction improves.
  - Also, management said that since the focus now is back on selling the ODC project, H2 will see better bookings / revenues than H1.
- EBITDA was ~₹0.8bn, down ~21% y/y, ~30% q/q, due to the lower top-line and higher employee cost.
  - However, EBITDA margins expanded y/y following the change in the revenue mix; Q2 FY18 had lumpy first-time revenue recognition for initial sales made at ODC.
- The lower EBITDA and the higher effective tax rate translated to lower earnings.

Fig 7 – Financial highlights

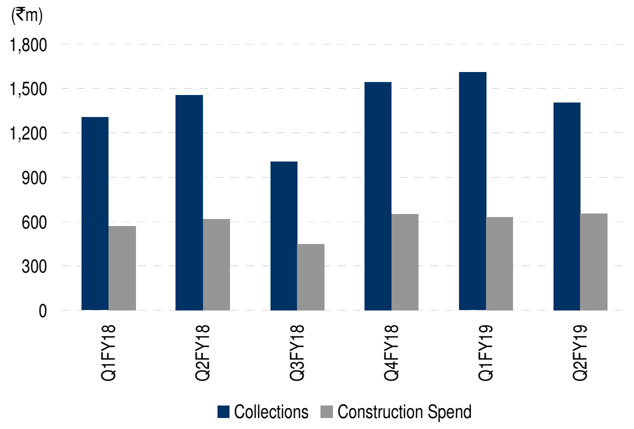
YE: Mar	Q2 FY18	Q2 FY19	% Y/Y	Q1 FY19	% Q/Q	H1 FY18	H1 FY19	% Y/Y
Sales	3,467	1,803	-48.0	2,111	-14.6	4,801	3,914	-18.5
EBITDA	993	780	-21.4	1,116	-30.1	1,700	1,896	11.5
EBITDA margins (%)	*28.6*	*43.3*	*1464bps*	*52.9*	*-959bps*	*35.4*	*48.4*	*1303bps*
Interest	122	104	-15.2	103	0.5	225	207	-8.1
Depreciation	3	5	42.9	4	34.3	7	9	21.0
Other income	43	172	297.3	139	24.1	64	311	385.2
PBT	910	844	-7.3	1,148	-26.5	1,532	1,992	30.0
Tax	225	305	35.2	397	-23.2	449	702	56.3
PAT	685	539	-21.3	751	-28.2	1,083	1,290	19.1
Cons. PAT	645	509	-21.1	683	-25.4	995	1,192	19.8

Source: Company

- **Positive project surplus in Q2.** Project surplus stood positive at ~₹0.75bn, with collections at ~₹1.4bn and construction expenditure for the quarter at ~₹0.65bn.
  - We expect operating cash-flows (excl. land payments) to turn positive in FY19 (from negative in FY18) as the Naigaon project launch and steady pace of sales at the BKC projects would generate higher cashflows in the next few quarters. Besides, receipts of pending collections of ~`9.8bn from inventory already committed would aid cashflows.
- **Debt level comfortable:** With no significant change in debt levels, the company is lowly geared, with a D/E of 0.17x and absolute debt of ~₹4.6bn on 30th Sep'18. The company's average cost of borrowing on 30th Sep'18 was ~9.5%

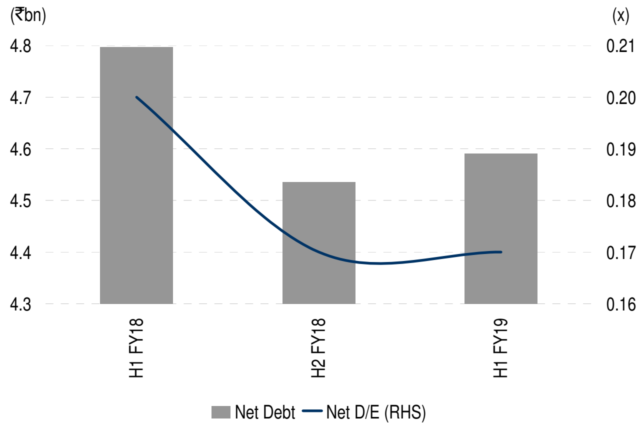
- Management intends to focus on the RoE and project-wise IRR (upward of 25-30%) and is comfortable even if it has to raise a little debt if opportunity knocks.

Fig 8 – Project surplus in Q2 stood at ~ ~₹0.75bn



Source: Company

Fig 9 – Net Debt at ~₹4.6bn; Net D/E at a comfortable 0.17x

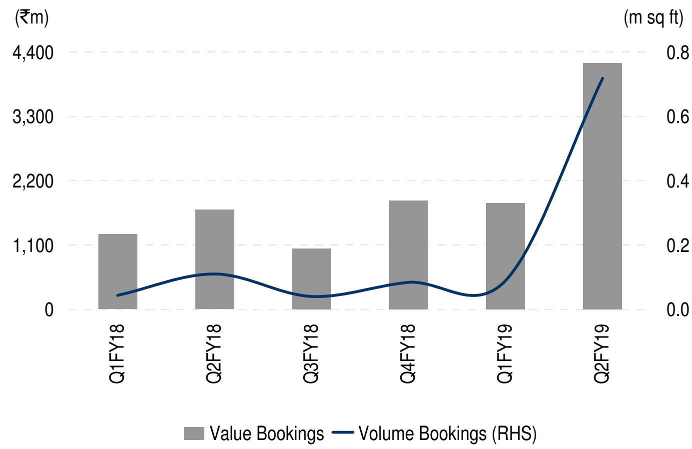


Source: Company

Q2 FY19 operation highlights

- **Strong fresh bookings.** In Q2 FY19, volumes came at ~0.7m sq.ft, selling 1,023 units for ~₹4.2bn; up ~148% y/y, down ~132% q/q.

Fig 10 – In Q2 FY19, Value bookings ~ ₹4.2bn, Volumes ~0.7m sq.ft.



Source: Company

- The Naigaon project being the major contributor, brought ~`3.2bn, comprising ~75% of the total bookings by selling 1,015 units, followed by sales of three large ticket-size BKC units for ~`0.96bn (one in Signature Island, two in Signia Isles), comprising ~23% of the total bookings. The balance came from the ODC project (four units from Avenue-2) and a single unit sold at Signia Waterfront, the Airoli project.
- Overall Phase-1 Naigaon has had an overwhelming response; BKC bookings were largely steady, matching full-year guidance of selling 10-12 units (sold five in H1). Sales in the ODC project struggled in H1 with only 50 units sold; management, however, is confident of maintaining its FY19 target of selling ~150-200 units.
- Also, with the introduction of the new subvention scheme (25:0:0:75) and with OC in place at Signia High, Borivali, we expect sales to improve with ~46 units (out of 81) yet to be sold.

Fig 11 – Q2 FY19 operational highlights

Project Name	Bookings (₹ m)	Advance received (₹ m)	Cost incurred (₹ m)	Area sold (m sq.ft.)	Average realisation (₹/ sq.ft.)
Signature Island	500	133	-	0.01	63,291
Signia Isles	455	175	-	0.01	41,364
Signia Pearl	-	67	-	-	
Sunteck City, Avenue 1	-	194	119	-	
Sunteck City, Avenue 2	66	538	251	0.00	15,251
Signia Waterfront	18	104	72	0.00	14,230
Signia High	-	35	0	-	
Signia High	-	35	0	-	
Signia Pride	-	-	22	-	
Signia Hill	-	7	22	-	
Sunteck Icon	-	-	70	-	
Sunteck West World, Phase 1	3,172	152	77	0.69	4,576
Others	-	-	21	-	
Total	**4,211**	**1,405**	**654**	**0.72**	

Source: Company

- **Lower collections.** Collections in Q2 FY19 were ₹1.4bn, down ~3% y/y, ~13% q/q. Inflows seems to have struggled due to lower sales from the ODC project and staggered inflows from the BKC project.
    - We expect a pick-up in collections as construction-linked milestone receipts start flowing in for the Naigaon project and other ongoing projects, along with part payments coming in regularly from the sales made with staggered payment plans.
    - In Q2 FY19, pending collections from sold units were ~`9.8bn. Currently, unsold units from the completed inventory are estimated at ~`26bn.

Update on project execution and launch pipeline

- The company is seeing robust operational performance, strong momentum picking up and has excellent revenue assurance on both completed projects and projects being executed.
- **Project execution.** Construction work is on in full swing at its ongoing/under-construction projects: (Sunteck City Avenue 1 and 2, Signia Waterfront, Signia Pride, Gilbert Hill, Sunteck Icon) and Sunteck West World, with a net surplus of ~₹22bn (pre-tax) expected.

Fig 12 – Under-construction project status

ODC Projects	Construction progress as on Q1 FY19	Construction progress as on Q2 FY19
Sunteck City Avenue 1	Tower I: 36th slab in progress	Tower I: 36th slab in progress
	Tower II: 39th slab in progress	Tower II: 39th slab in progress
	Tower III: 19th slab in progress	Tower III: 25th slab in progress
Sunteck City Avenue 2	Tower I: 23rd slab in progress	Tower I: 31st slab in progress
	Tower II: 12th slab in progress	Tower II: 20th slab in progress
Signia Waterfront	17th slab in progress	24th slab in progress
Signia Pride	10th slab in progress	13th (terrace) slab in progress
Gilbert Hill	Podium work in progress	3rd slab in progress
Sunteck Icon	Excavation work in progress	Excavation work in progress
Sunteck Gateway 51	Ground preparation in progress	Shore piling work in progress

Source: Company

- **Construction spend.** In Q2 FY19 the company spent ~₹0.65bn, slightly up (~6% y/y, ~4% q/q) on construction at its various ongoing projects.

- **Launch pipeline.** Management said that after a successful launch of the Naigaon project the focus will shift to the next phase launch at Sunteck City-ODC project. It guided to 2-3 new launches in H2 FY19.

Updates on some key micro-markets / projects

Sunteck West World, Naigaon project.

The Naigaon project is an asset-light 74:26 revenue share JDA model.

- Phase-1 launched is on 10 acres with saleable area of ~1.7m sq.ft. (Sunteck's share ~1.3m sq.ft.) In all, it will have seven residential towers comprising ~2,476 apartments (a mix of 1- and 2-BHK), besides a small portion of ~19 rental shops.
- On the RERA website the expected completion date for Phase-1 is 31st Dec'22, though management expects it to be completed earlier (in ~3.5 years).

Fig 13 – Sunteck West World, Naigaon - Phase-I at a glance

Particulars	1 BHK	2 BHK	Total
Carpet area (sq.ft. / per unit)	284.8	449.5	734.3
Total units	1,620	856	2,476
Share in % terms	65	35	100
Total saleable area (m sq.ft.)	0.74	0.61	1.35
Average unit price (₹ m)	2.9	4.2	3.3

Source: Company

- These seven towers, consist of 1,620 1-BHK apartments (~65%), the balance 35% of 2-BHK (856 apartments).

Fig 14 – Project scope, in detail

Particulars	Tower 1	Tower 2	Tower 3	Tower 4	Tower 5	Tower 6	Tower 7	Total
Floors	**22**	**22**	**22**	**22**	**22**	**22**	**22**	
Residential								
- 1-BHK	246	246	246	246	164	238	234	1,620
- 2-BHK	132	132	132	132	88	122	118	856
Retail								
- Shops	0	0	0	0	0	7	12	19
Total	**378**	**378**	**378**	**378**	**252**	**367**	**364**	**2495**
- Parking	16	17	16	17	11	0	0	77
Proposed date of completion	**31/12/21**	**30/9/22**	**31/12/21**	**30/9/22**	**30/9/22**	**30/9/22**	**31/12/22**	**31/12/22**

Source: MAHARERA

- In spite of the launch happening at the fag end of the quarter (in Sep'18), the company delivered 1,015 units (~41% of the total launched inventory, ~0.7m sq.ft.) for a value booking of ~₹3.2bn. According to management, most of these sales came from end-users in the area, largely between Virar and Borivali. The launch was so overwhelming that management could increase the prices twice, post-launch.
- As on date, of these 2,476 apartments, ~2,000+ units have already been sold (~80% of the launched inventory). Inventory left is largely from 1-BHK; 2-BHK are almost fully sold out.
- With phase-1 being a huge ~1.7m sq.ft, execution (construction) is critical; therefore, management is not looking to launch phase-2 any time soon. However, planning is underway for the launch.

- **Recognition of revenues commences.** Management will continue to record revenues net of the partners' share and 100% of cost, which is as good as their land cost in this project. The revenue recognition from this project has already started in Q2. According to the new accounting standards, revenue recognition is no longer subject to the 25% completion threshold and the company has started booking revenues from day one as soon as construction and booking begin.
  - Management said as far as collection is concerned, that the company has already collected as first installment ~5% of the sale value and has already started receiving the next installments as per the payment schedules. (Actual collection from the project is higher than the revenue recognized from the project this quarter.)
  - For this project, management intends to focus on volumes. It sees the PAT margin (targeting 25-27%) as more relevant than the EBITDA margin for this project (due to tax incentives in affordable housing).

Sunteck City, ODC project.

- **Residential phases - Avenues 1, 2 and 3.** In Q2 FY19, only four units were sold, all from Avenue 2 with average realisation at ~₹15,251. Although volumes have been a bit tepid in Q2 we expect H2 FY19 to be stronger than H1 FY19, as management maintains its FY19 guidance of selling 150-200 units from Avenue 1 and 2. Management expects prices to be steady at current levels and will focus more on volume generation. Current inventory in these two avenues is 433 units (~43% of the project unsold). Management said that the launch of Avenue 3 is not dependent on sales of Avenue 1 and 2 and a launch is expected in H2 FY19 or H1 FY20.
- **Commercial phase.** The 2.6m sq.ft. of commercial development is expected to be launched in a couple of phases. Management is awaiting some approvals to come in and hopes to receiving them by the next quarter and the project to start by Q4 FY19 or H1 FY20.
  - Initially, ~`1.5bn-2bn will be required to start developing this property (total outlay expected ~`15bn). As sales of residential property take off, cashflows would take care of the expenses to develop it. Management said that ~`4.5bn-4.8bn of annual rental income would be generated once fully occupied.

The ultra-luxurious BKC residential projects.

- In Q2, Sunteck sold two units from Signia Isles at an average of ₹41,364 a sq.ft. and a single unit in Signature Island at ₹63,291 a sq.ft. These sales imply continuous growth and margin improvement with steady inquiries. Of 220 apartments in its BKC projects, ~79% have been sold, leaving unsold 46 units valued at ~₹23bn. Overall, its BKC projects have seen good traction and guidance is on track to sell on average ~10-12 units annually and liquidate the full inventory in the next 4-5 years.

The Dubai project.

- This has been stuck for quite some time now. Management said that the project awaits clarity regarding clearance and approvals.

The NBFC crisis

- **The current NBFC situation.** Exposure of NBFCs in total debt of company is very negligible. Most of its loans are from banks. Management doesn't see any impact on the company in terms of liquidity being an issue, although it foresees problems at the industry level and for developers who are over-leveraged.
- **Its impact on sales and customers.** The company said that it hasn't seen any slowdown in sales ever since the NBFC liquidity issue began, neither are customers facing any issue. Even as far as its ODC project is concerned, management is not facing any payment problems from customers. Collections will continue to be healthy. In Avenue 1 and 2 collections due from buyers are ~40-50%, which means there is no probability of customer backing out.

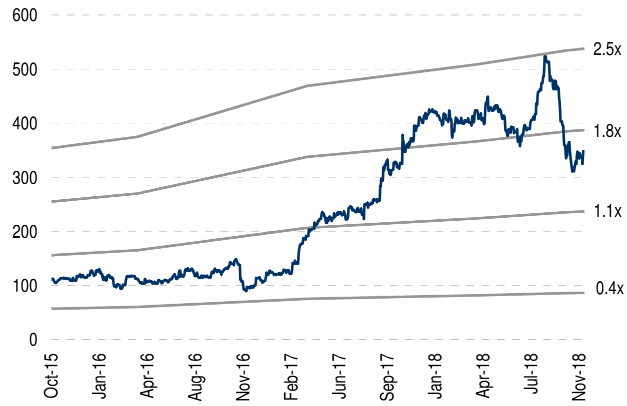
MMR outlook

- **Prices in the MMR residential market to be stable.** Management is clear on not hiking prices of residential projects in FY19 as pricing power will take some time to return. It is optimistic, however about the prospects of commercial properties, which are seeing better demand, especially in regulated markets such as BKC, Goregaon, Andheri etc., (These regions have not seen any significant new launches in the past 3-4 years and others in the vicinity are operating at ~85-90 occupancy).
- **Distressed opportunities.** With the ongoing liquidity crunch in the market, management is evaluating many distressed opportunities. However, they would be opportunistic and look for a buyout only if it offers value.

Valuation

- **Key growth factors:** (a) Sales pick-up in the BKC and ODC projects; (b) the entry into affordable housing with execution timelines not being stretched; (c) future launch of ODC commercial phases and (d) a robust balance sheet.
- We have valued the company on a sum-of-parts approach. On the DCF method, the portion of residential, commercial and the recently-acquired joint-development affordable-housing project have been valued at ~₹543 a share, and investment in land at ~₹30. Consequently, our sum-of-parts-based target price works out to ₹545. The stock trades at a P/BV of 1.6x FY20e.

Fig 15 – One-year-forward P/BV



Source: Bloomberg, Anand Rathi Research

Risks

- Delay in execution of the Naigaon project.
- Slower-than-expected traction in the BKC and ODC projects.
- Economic slowdown could increase inventory overhang.

Appendix

Analyst Certification

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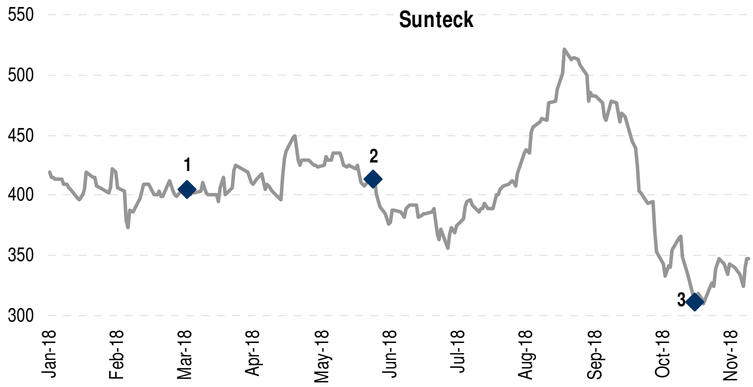
Rating and Target Price History (as of 17 November 2018)



	Date	Rating	TP (₹)	Share Price (₹)
1	05-Mar-18	**Hold**	467	399
2	29-May-18	**Hold**	469	414
3	22-Oct-18	**Buy**	545	334

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Ratings Guide (12 months)	**Buy**	**Hold**	**Sell**
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