

30 July 2020

Sunteck Realty

Well placed to deal with Covid-19; upgrading to a Buy

Sunteck's last two quarters' bookings were strong (Q4 FY20, Naigaon new-phase launch) to comforting (Q1 FY21, the digital sales platform launch during the lockdown). Collections, though, left us desiring better. Here, greater traction at ready/near-complete inventory; recommenced construction would help. Ahead, the immediate future is expected to be challenging as Covid persists, but a well-set balance sheet and access to ready/near-complete inventory set the stage for Sunteck to be a beneficiary of market consolidation. Success with planned new key launches should also help. We raise our rating to a Buy on the recent correction, but lower the TP to ₹381 (₹465 earlier) to factor in the Covid-led challenges.

Vasai, eyed as fourth growth engine. Management sees its fiscally prudent addition in Vasai (revenue-share, with limited upfront payout) to add to BKC, ODC and Naigaon success stories. We believe this ~4.5m sq.ft revenue-share arrangement (Sunteck's share ~3.3m sq.ft) holds potential, but the estimated over ₹10,000/sq.ft average realisation (over the 5/7-year project life-cycle) looks ambitious. The planned product mix keeps management hopeful.

ODC, development mix likely to change. Management is revisiting its development plans for the ~3m sq.ft commercial portion of the ODC in light of Covid-19 and the recent rise of the "work-from-home" concept. It hopes to be better informed of the shape of things to come, and take a call in a couple of quarters. It is open to converting the project (partly/wholly) to residential if the envisaged commercial project looks no more viable.

Near-complete/ready projects, all the more preferred now. Covid-led rising preference for ready/near-complete projects and larger units is likely to benefit Sunteck for its access to such inventory. Its Q1 FY21 gained from this, and makes management optimistic of y/y growth in Q2 FY21.

Valuation. To account for the Covid-impelled disruption, we prune FY21e execution/bookings, and tweak launch timelines. Consequently, FY21e earnings are ~48% lower (and ~15% for FY22). At the CMP, the stock trades at 0.8x FY22e P/BV. **Risks:** Any prolonged impact of Covid-19.

Key financials (YE Mar)	FY18	FY19	FY20P	FY21e	FY22e
Sales (₹ m)	8,883	8,568	6,078	8,764	14,446
Net profit (₹ m)	2,142	2,275	1,003	1,181	2,544
EPS (₹)	15.3	16.2	7.1	8.4	18.1
Growth (%)	-10.2	6.2	-55.9	17.7	115.5
PE (x)	27.7	28.4	29.4	21.4	9.9
EV / EBITDA (x)	17.7	19.0	23.7	17.0	8.0
PBV (x)	2.4	2.4	1.1	0.9	0.8
RoE (%)	9.7	8.3	3.5	4.0	8.1
RoCE (%)	12.6	12.1	4.9	5.7	11.0
Net debt / equity (x)	0.1	0.1	0.3	0.3	0.2

Source: Company, Anand Rathi Research P- Provisional

Anand Rathi Share and Stock Brokers Limited (hereinafter "ARSSBL") is a full-service brokerage and equities-research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient. Disclosures and analyst certifications are present in the Appendix.

Rating: **Buy**

Target Price: ₹381

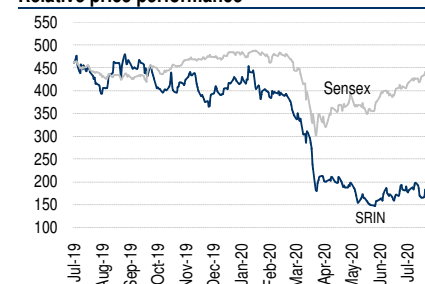
Share Price: ₹180

Key data	SRIN IN / SUNT.BO
52-week high / low	₹487 / 145
Sensex / Nifty	38071 / 11203
3-m average volume	\$2m
Market cap	₹26bn / \$353m
Shares outstanding	147m

Shareholding pattern (%)	Jun '20	Mar '20	Dec '19
Promoters	67.2	67.2	67.1
- of which, Pledged	-	-	-
Free float	32.8	32.8	32.9
- Foreign institutions	23.8	26.5	26.9
- Domestic institutions	2.9	2.7	2.7
- Public	6.1	3.6	3.3

Estimates revision (%)	FY21e	FY22e
Sales	-30.6	-4.4
EBITDA	-48.6	-16.8
EPS	-48.3	-15.3

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

Rachit R Kamath
Research Associate

Quick Glance – Financials and Valuations (consolidated)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Volume bookings	0.3	1.4	1.9	0.9	1.8
Value bookings	5,876	12,023	12,208	8,060	14,643
Net revenues	8,883	8,568	6,078	8,764	14,446
Growth (%)	-6.7	-3.5	-29.1	44.2	64.8
Direct costs	4,943	4,312	3,547	6,051	9,194
SG&A	218	476	913	684	993
EBITDA	3,722	3,780	1,618	2,029	4,260
EBITDA margins (%)	41.9	44.1	26.6	23.1	29.5
Depreciation	17	22	36	36	36
Other income	91	343	237	249	261
Interest expenses	421	408	435	513	761
PBT	3,375	3,693	1,385	1,729	3,724
Effective tax rate (%)	32.0	34.8	27.3	32.0	32.0
+ Associates / (Minorities)	41	138	13	5	11
Net income	2,297	2,409	1,007	1,175	2,533
Adjusted income	2,142	2,275	1,003	1,181	2,544
WANS	140	140	140	140	140
FDEPS (₹ / sh)	15.3	16.2	7.1	8.4	18.1

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT + Net interest expense	3,705	3,758	1,583	1,993	4,224
+ Non-cash items	17	22	36	36	36
Oper. prof. before WC	3,722	3,780	1,618	2,029	4,260
- Incr. / (decr.) in WC	5,614	2,049	2,408	1,701	1,768
Others incl. taxes	1,078	1,284	378	553	1,192
Operating cash-flow	-2,971	446	-1,167	-226	1,300
- Capex (tang. + intang.)	1	42	181	5	5
Free cash-flow	-2,971	405	-1,349	-231	1,295
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	218	256	256	168	256
+ Equity raised	20	0	-	-	-
+ Debt raised	-3,680	674	2,900	457	-272
- Fin investments	-1,017	403	154	5	11
- Net interest expense + Misc.	(5,991)	49	995	259	489
Net cash-flow	158	371	146	-206	267

Source: Company, Anand Rathi Research P- Provisional

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

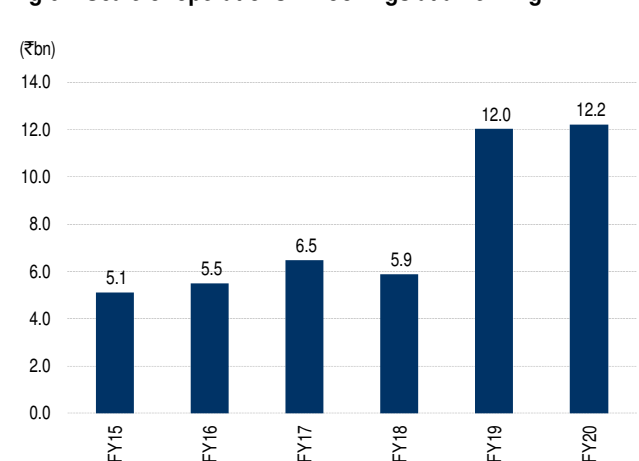
Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	140	140	140	140	140
Net worth	26,303	28,337	29,201	30,214	32,501
Debt	5,680	6,346	9,217	9,674	9,402
Minority interest	775	910	-	-	-
DTL / (Assets)	-157	-148	-119	-119	-119
Capital employed	32,602	35,446	38,299	39,768	41,784
Net tangible assets	385	405	551	521	490
Net intangible assets	1	1	1	1	1
Goodwill	318	318	318	318	318
CWIP (tang. & intang.)	-	-	-	-	-
Investments (strategic)	1,658	2,060	2,760	2,765	2,776
Investments (financial)	545	546	-	-	-
Current assets (ex cash)	32,348	34,221	36,562	37,671	39,550
Cash	1,144	1,516	1,662	1,456	1,723
Current liabilities	3,798	3,622	3,556	2,963	3,075
Working capital	28,550	30,599	33,007	34,708	36,476
Capital deployed	32,602	35,446	38,299	39,768	41,784
Contingent liabilities	29	27	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	27.7	28.4	29.4	21.4	9.9
EV / EBITDA (x)	17.7	19.0	23.7	17.0	8.0
EV / Sales (x)	7.4	8.4	6.3	3.9	2.4
P/B (x)	2.4	2.4	1.1	0.9	0.8
RoE (%)	9.7	8.3	3.5	4.0	8.1
RoCE (%)	12.6	12.1	4.9	5.7	11.0
RoIC (%)	8.9	8.2	3.7	4.1	7.8
DPS (₹ / sh)	1.3	1.5	1.5	1.0	1.5
Dividend yield (%)	0.3	0.3	0.7	0.6	0.8
Dividend payout (%) - incl. DDT	10.2	11.2	25.5	14.3	10.1
Net debt / equity (x)	0.1	0.1	0.3	0.3	0.2
Receivables (days)	119	134	215	121	119
Inventory (days)	1,106	1,121	1,634	1,153	667
Payables (days)	44	64	99	47	32
CFO : PAT %	-138.7	19.6	-116.4	-19.1	51.1

Source: Company, Anand Rathi Research P- Provisional

Fig 6 – Scale of operations – Bookings at a new high



Source: Company

Results / Concall highlights

Revenue from operations were constrained by Covid-impacted project execution (true for Q4 FY20 & Q1 FY21)

Greater share of bookings from projects with limited progress (true for Q4 FY20) and limited fresh bookings (true of Q1 FY21)

EBITDA margins, mostly a function of the project mix

Transfer of loss to minority owners supported Q4 FY20; Q1 FY21 supported by other income

Naigaon new phase contributed ~₹6.5bn to the Q4 FY20 total of ~₹6.1bn; BKC saw a cancellation for a unit with sale value of ~₹0.8bn

Launch of digital sales platform during the lockdown supported Q1 FY21 bookings; Avenue-I and the earlier phase of Naigaon, key contributors

Ready / near-complete inventory, the flavour of the time

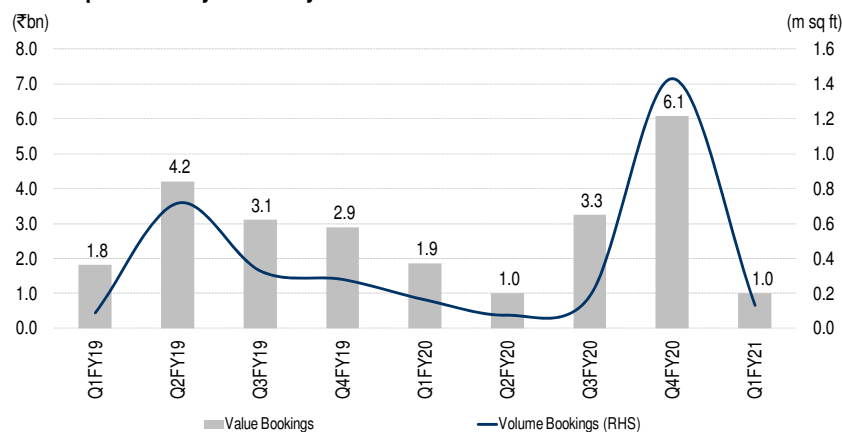
Notwithstanding continuing Covid, management hopeful of y/y growth in Q2 FY21; basis Jul'20

Fig 7 – Financial highlights for Q4 FY20 and Q1 FY21

₹ m	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Revenue from oper.	2,111	1,803	1,951	2,697	1,782	1,347	1,981	916	607
EBITDA	1,116	780	852	888	609	414	502	92	101
EBITDA margins (%)	52.9	43.3	43.7	32.9	34.1	30.7	25.3	10.1	16.6
Interest	103	104	109	92	91	114	110	117	106
Depreciation	4	5	7	6	7	8	9	12	12
Other income	139	172	66	110	46	62	54	75	82
PBT	1,148	844	802	900	556	354	436	39	64
Tax	397	305	289	294	202	55	98	24	35
PAT	751	539	513	605	354	299	339	15	29
Cons. PAT	683	509	439	645	332	291	330	50	31
Adj. EPS	4.9	3.6	3.1	4.6	2.4	2.1	2.4	0.4	0.2

Source: Company

Fig 8 – Q4 FY20 bookings supported by Naigaon new phase; Q1 FY21 mostly from near-complete / ready inventory



Source: Company

Fig 9 – Operations, project-wise

Project name	Q4 FY20				Q1 FY21			
	Bookings (₹ m)	Collections (₹ m)	Volumes (m sq.ft.)	No. of units sold	Bookings (₹ m)	Collections (₹ m)	Volumes (m sq ft)	No. of units sold
Signature Island	-810	-	-0.01	-1	-	-	-	-
Signia Isles	-	106	-	-	-	-	-	-
Signia Pearl	-	197	-	-	-	-	-	-
Sunteck City, Avenue 1	61	193	0.00	3	279	92	0.02	13
Sunteck City, Avenue 2	-	210	-	-	54	132	0.00	3
Sunteck City, 4th Avenue	-	152	-	-	76	66	0.01	5
Sunteck West World	306	520	0.06	86	143	242	0.03	91
Sunteck Maxx World	6,491	225	1.38	1,686	340	109	0.07	32
Signia Waterfront	32	86	0.00	1	120	7	0.01	7
Signia High	-	31	-	-	-	-	-	-
Gilbird Hill	-	27	-	-	-	3	-	-
Total	6,080	1,747	1.43	1,775	1,012	651	0.13	151

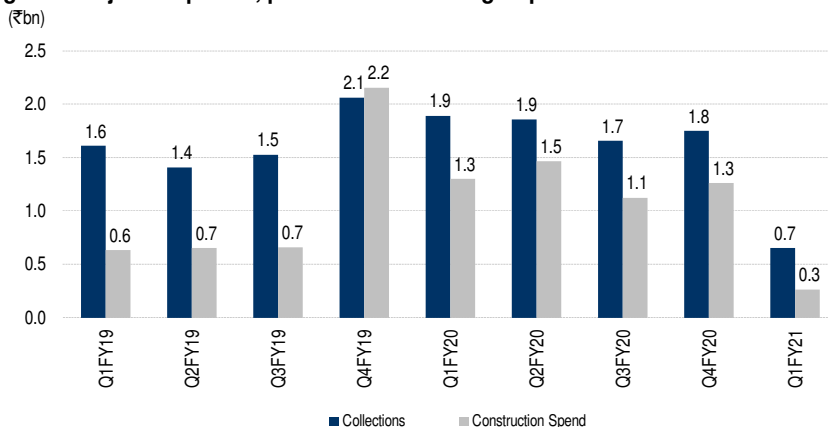
Source: Company

Naigaon brought in ~43% of Q4 FY20, and ~54% of Q1 FY21, collections

On Covid-led restrictions, constrained construction spend; sites mobilised now, execution run-rate expected to return to normal by end-Aug'20

FY20 collections of ~₹7.2bn, and construction spend at ~₹5.1bn; project surplus of ~₹2bn

Fig 10 – Project surpluses, positive for five straight quarters now



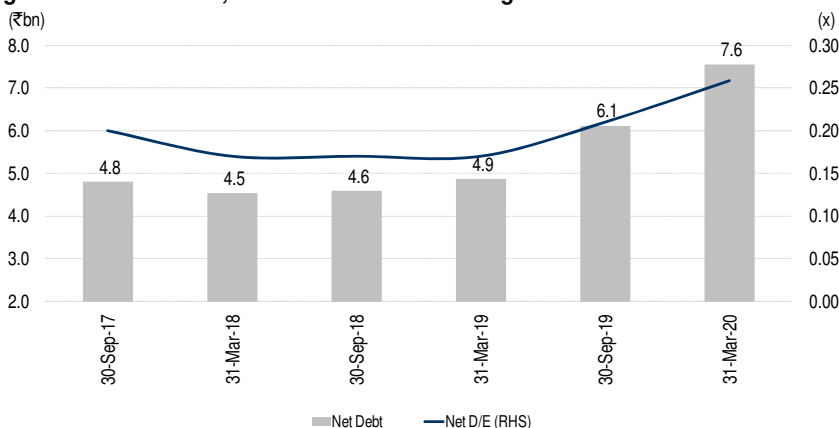
Source: Company

Notwithstanding ~₹2bn of project surplus in FY20, net debt rose ~₹2.6bn

- Key FY20 outlays:*
- net finance: ~₹0.7bn
 - dividend payment: ~₹0.3bn
 - income tax: ~₹0.4bn
 - operating expenses: ~₹1bn

End-Mar'20 net D/E still comforting at ~0.26x, though moved up from ~0.17 on 31st Mar'19 and ~0.21x on 30th Sep'20

Fig 11 – Net debt rises, but net D/E still comforting



Source: Company

Earnings revision and Valuation

Owing to the Covid-19-sprung challenges, we alter our earlier expected execution timelines and estimates for bookings velocity. Besides, we factor in likely delays in project launches. As a result, FY21e earnings are anticipated to come ~48% lower than earlier expected; for FY22, they would be ~15% lower.

Fig 12 – Change in estimates

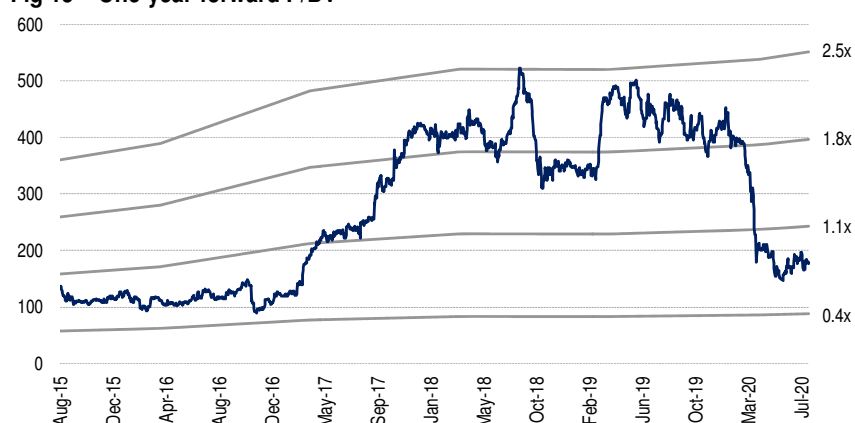
₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	12,628	15,111	8,764	14,446	-30.6	-4.4
EBITDA	3,945	5,122	2,029	4,260	-48.6	-16.8
EPS (₹)	16.3	21.4	8.4	18.1	-48.3	-15.3

Source: Anand Rathi Research

We have valued the company on a sum-of-parts approach. On the DCF method, the portion of residential, commercial and affordable-housing projects has been valued at ₹354 a share, and investment in land at ₹27. Consequently, our sum-of-parts target price works out to ₹381, down from ₹465 earlier.

At the CMP of ₹180, the stock trades at a P/BV of 0.8x FY22e, against the last five-year median of 1.4x. Our sum-of-parts based TP implies exit P/BV multiple of 1.6x FY22e.

Fig 13 – One-year-forward P/BV



Source: Bloomberg, Anand Rathi Research

Risks

- Any prolonged Covid-19 impact.
- Slower-than-expected bookings velocity at the BKC and ODC projects.
- Prolonged delays in receiving collections, especially from completed projects.

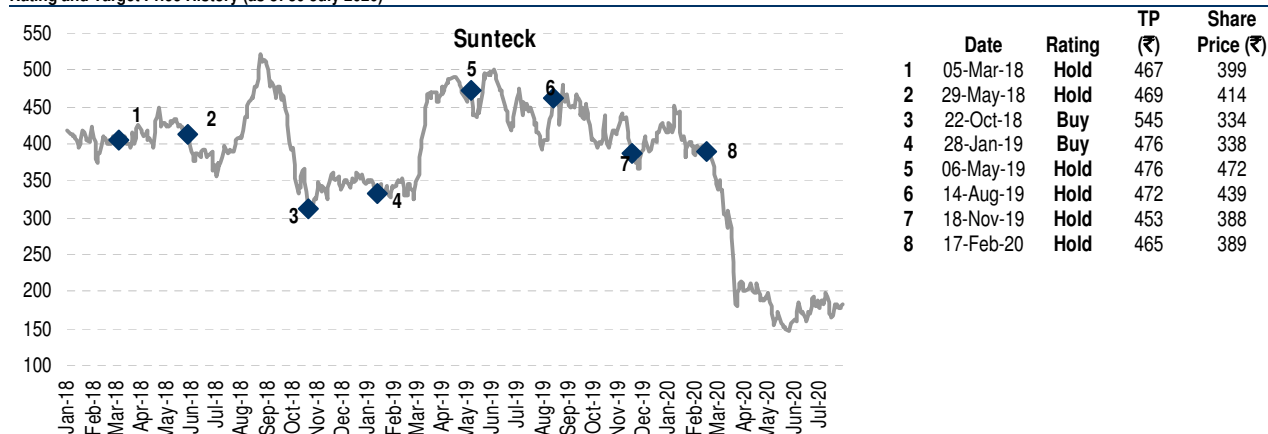
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 30 July 2020)



Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment/trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

This research report is a product of ARSSBL, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by ARSSBL only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

© 2019. This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.