

28th June 2024



Suraj Estate Developers Limited

CMP Rs 519 52 wk hi/low 520/256 Mkt Cap Rs 2300 crs TP Rs 636 (in 12 to 15 months)

Visit Note Post the Q4FY24 & FY24 Results –

Business Background –

Suraj Estate Developers Ltd. is involved in the real estate business since 1986 and develop real estate across the residential and commercial sectors in South Central Mumbai region. It is focused primarily on value luxury, luxury segments and commercial segment.

They are now venturing into residential real estate development in Bandra sub-market. Their expertise lies in the redevelopment of tenanted properties. They identify cessed/ non cessed properties with existing tenants, and tie up with the landlords of such tenanted properties by entering into a development agreement or on outright purchase basis through conveyance deed

Since incorporation, they have completed 42 projects with a developed area of more than 1,046,543.20 square feet in the South- Central Mumbai region.

In addition, they have 13 Ongoing Projects with a developable area of 20,34,434.40 square feet and saleable carpet area 6,09,928 square feet and 16 Upcoming Projects with an estimated carpet area of 7,44,149 square feet. In their residential portfolio, they are present across the “value luxury” and “luxury” segments across multiple price points with unit values ranging from Rs 1 crs to Rs 13 crs

Notable commercial ventures include built-to-suit corporate headquarters for institutional clients. Adapting to evolving commercial dynamics, plans for boutique office spaces on Tulsi Pipe Road, Mahim, meet rising demand for smaller, independent offices

The Company attributes success to a customer-centric model refined over three decades, resulting in high customer satisfaction and substantial sales referrals, reflecting strong brand recall in South Central Mumbai. Led by founder Rajan Meenathakonil Thomas and Whole-time Director Rahul Rajan Jesu Thomas, the leadership's five-decade experience showcases strategic vision

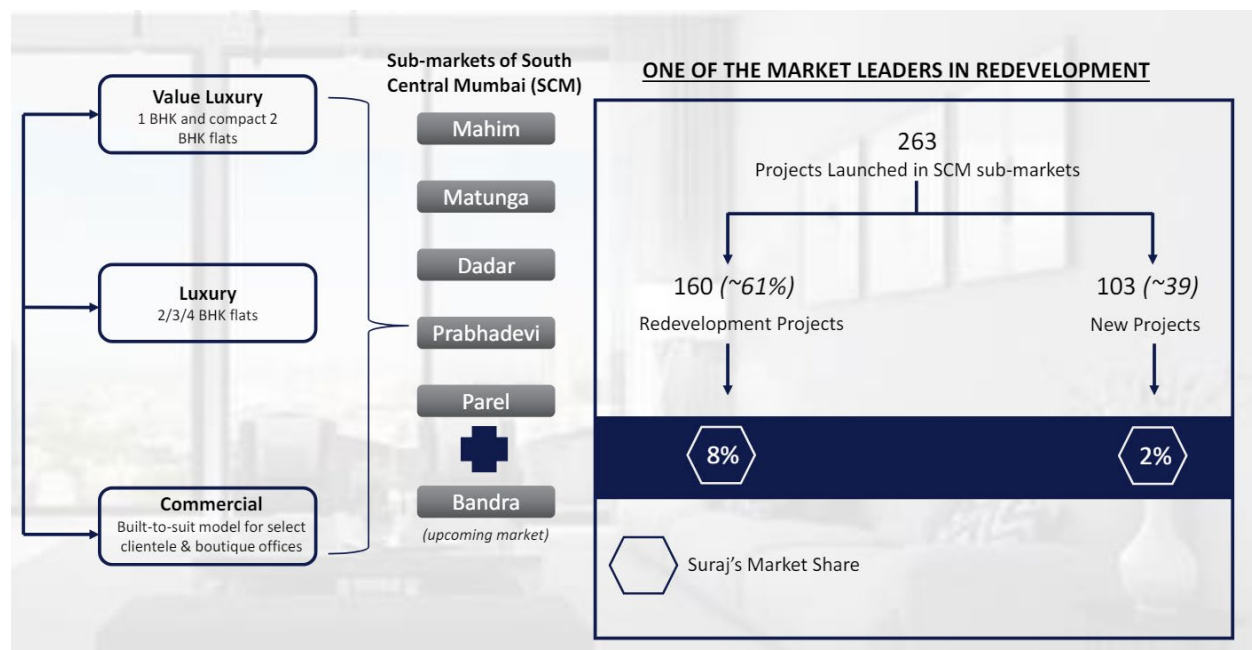
Suraj is a market leader in the SCM Market –

Suraj Estates operates in the SCM which consists of Mahim, Matunga, Dadar, Prabhadevi, and Parel micro-markets. In these micro-markets, it enjoys a 8% share in the redevelopment market.

SCM is one of the stronger markets in MMR on the back of: i) presence of high-income and an affluent customer base; ii) premium and super-premium positioning; iii) nuclearisation of families; and iv) target micro-market for families looking to upgrade. While absorption is consistent, supply is lumpy given the presence of numerous unorganised players.

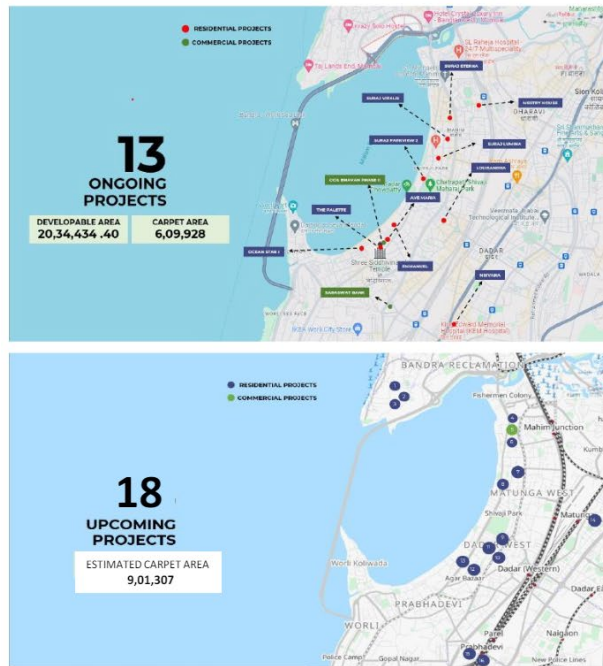
Suraj Estates is one of the key organised players and one of the leaders in this market. Despite the oversupply in the SCM market in the recent past, Suraj Estates has been able to sell its inventory due to its presence across the budget spectrum and its ability to identify the right product market fit. It offers products in two segments: i) value luxury — one BHK and compact two BHK flats, ticket size of Rs 1–3cr, and unit size of 300–800 sq. ft. (carpet area), and ii) luxury — two/three/four BHK, ticket size of Rs 3–13cr, and unit size of 800–2,200 sq. ft.

Company's focus remains steadfast on developing commercial spaces to enhance value through complementary asset classes. Notably, they've constructed and sold build-to-suit offices to institutional clients like Saraswat Co-operative Bank Limited (Prabhadevi) and Clearing Corporation of India Limited (Dadar). Addressing the rising demand for independent office buildings in the commercial segment



Source – Co

SCM : A Lucrative Micro Market In Mumbai –



Dynamics of SCM Market



Large pool of old/dilapidated buildings



Close proximity to key locations such as BKC, Worli sea link, Lower Parel, etc



One of the few locations which allows residential + commercial projects to be constructed



Improving infrastructure via multiple government projects

Key Ongoing Projects –

The Palette	Ocean Star-I	Vitalis	Emmanuel	Suraj Eterna
<ul style="list-style-type: none"> Luxurious two and three BHK sea-facing apartments Includes amenities such as a swimming pool, gym, and a club 	<ul style="list-style-type: none"> Luxurious three BHK sea-facing apartments close to Dadar beach 	<ul style="list-style-type: none"> Value luxury one and two BHK sea-facing apartments (38 storeys) Close to Shivaji Park with gym, jogging track, banquet, etc. 	<ul style="list-style-type: none"> Value luxury one and two BHK sea-facing apartments (over 20 storeys) Near the business hubs of Lower Parel and Worli 	<ul style="list-style-type: none"> Value luxury one and two BHK sea-facing apartments (over 20 storeys) Near Tulsi Pipe Road in Mahim
Nirvana	Louisandra	Ave Maria	Park View	Suraj Lumina
<ul style="list-style-type: none"> Value luxury and luxury flats in a JV with Runwal Group A 54-storey tower with top-of-the-line amenities, located in Parel 	<ul style="list-style-type: none"> Value luxury one and two BHK apartments near Siddhivinayak Temple, Dadar A 22-storey standalone tower 	<ul style="list-style-type: none"> Value luxury apartments in Dadar West (24 storeys) 	<ul style="list-style-type: none"> Value luxury apartments near Shivaji Park, Dadar 	<ul style="list-style-type: none"> Luxurious two and three BHK apartments near Hinduja Hospital

Financials for Q4FY24 and FY24 –

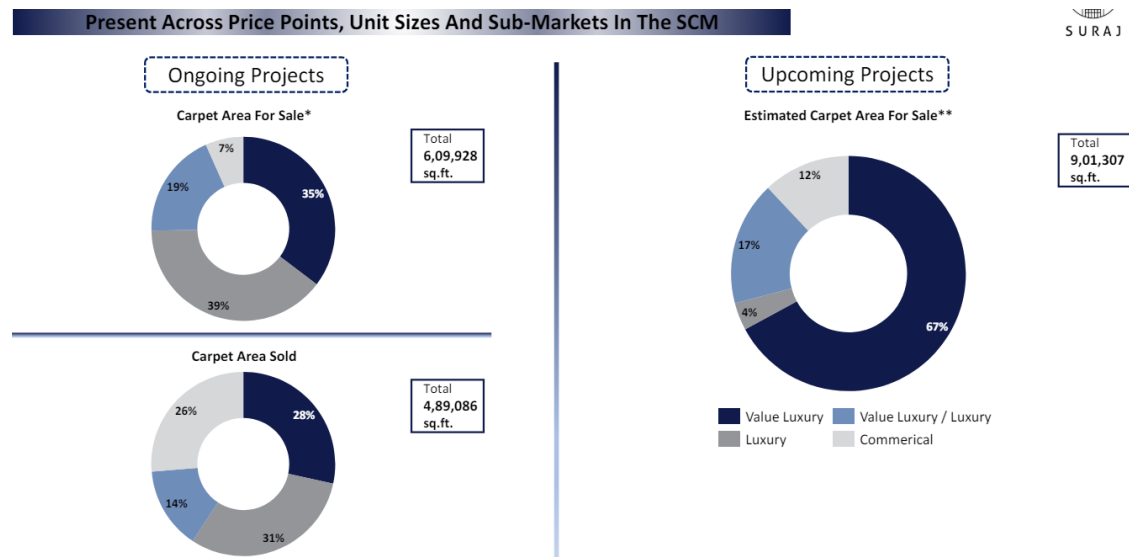
For the Period Ended Rs Crs	Q4FY24	Q3FY24	QoQ%	FY24	FY23	YoY%
Sales	100.4	106	-5.28	412.2	305.7	34.84
EBIDTA	56.2	69.7	-19.37	236.4	153.2	54.31
EBIDTA %	55.98	65.75		57.35	50.11	14.44
Finance Cost	25	47	-46.81	138.9	107.4	29.33
Depreciation	1.7	0.6	183.33	3.7	2.6	42.31
Other Income	2.7	0.2	1250.00	3.5	2.1	66.67
PBT	29.50	22.10	33.48	93.90	43.20	117.36
Tax	10.1	5.5	83.64	26.4	11.2	135.71
PAT	19.5	16.6	17.47	67.5	32	110.94
Equity Cap	21.4	21.4		21.4	15.9	
EPS	4.56	3.88	43.86	15.77	10.06	56.72

Source – Co

Suraj Estate Developers reported a solid set of numbers for FY24 with total income up by 35% YoY, EBIDTA on a annual basis up by 54% YoY , PBT up by 117% YoY and PAT up by a solid 110% YoY.

Operationally during the year, the company sold 1,07,136 sq ft translating to sales of Rs 483 crores. Collections for the year stood at Rs 316 crs. Focus during the year was on selling luxury projects which reflected in improved realisations of Rs 45,074 per sq ft in FY24 vs Rs 42,420 per sq ft in FY23

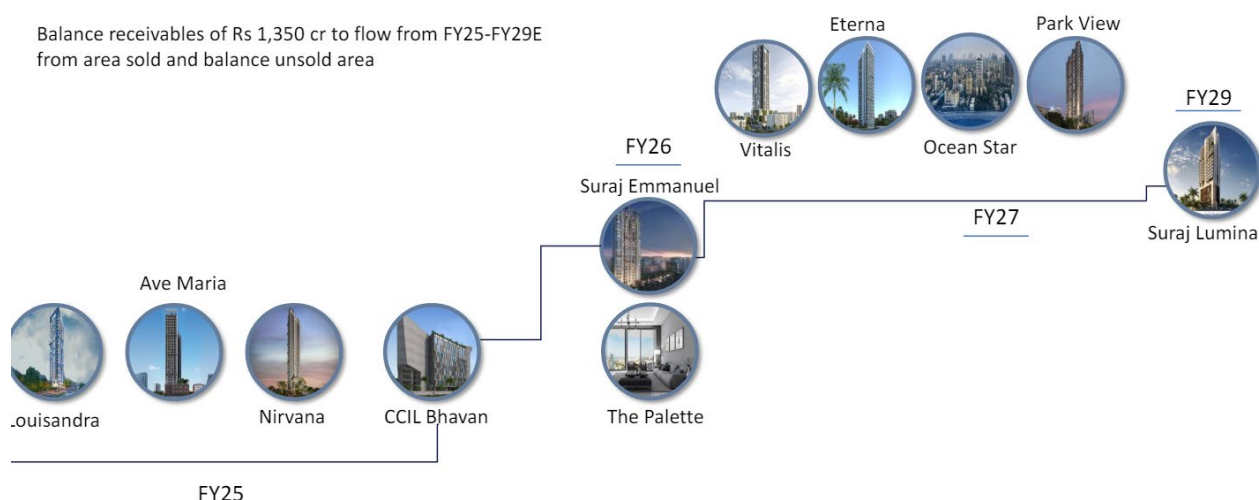
Diversified Portfolio Across Value Luxury And Luxury Segments –



Completion Targets For Ongoing Projects –

GDV of Rs 631 cr from unsold area of ongoing projects

Balance receivables of Rs 1,350 cr to flow from FY25-FY29E from area sold and balance unsold area



Key Business Developments –

In addition to ongoing projects, Suraj Estate Developers plans to launch 15 residential projects by FY25-end. It expects to launch one commercial project in FY25. Of the 16 projects, 13 are planned under the redevelopment model while the rest is on its own land parcels.

The 15 residential projects will have a saleable carpet area of 6.39lk sq. ft., with an estimated GDV of Rs 2,957crs. Its commercial project has a saleable area of 1.06lk sq. ft., with an expected GDV of Rs 580 crs

There are more than 19,000 such properties in the island city of Mumbai, which are 50 years old and above, and out of which 16,000 of these buildings are in urgent need of redevelopment, indicating a huge untapped potential. Further, there is a huge scope of society redevelopment under DCR 33(7)B, which also falls under the company's expertise.

During the quarter, under review, the company has successfully reached an amicable resolution in a pending litigation with OLV and OLPS Society, which represents a significant positive outcome for us.

As per the agreed terms, the company has committed to a payment of approximately Rs 47 crs to the landowner, along with the provision of additional flats measuring 35,500 square feet to the OLV and OLPS Society.

This settlement leaves the company with a built-up area of more than 10,800 meters, including fungible FSI for sale, equating to a GDV of Rs 350 crs.

Additionally, it has secured development rights of a land component spanning over 4,790 meters, including five existing buildings, which comprises of rehousing of 108 tenants/occupants. The estimated FSI required for rehousing these occupants is 6,680 meters, leaving the company with a balanced built-up area for sale of at least 6,460 meters and providing it with a sales potential of Rs 350 crs

The company has also acquired a freehold land at measuring 1,073 square meters of LJ Road, Mahim, West Mumbai the estimated balanced carpet area is approximately 30,000 square feet with a GDV of Rs 120 crs

During the year, under review, the company has successfully launched a new value-luxury/luxury project called Suraj Lumina at Veer Savarkar Road, Mahim West. The said project lies under Regulation 33(7) of the DCPR. The project complies of 35 units, including both 2BHK with a carpet area ranging from 575 to 622 and 3BHKs with a carpet area of 882 square feet with a total carpet area of 22,376.

The GDV estimated from this project is close to Rs 100 crs. The project is expected to be completed by December 2028

Out of the company's ongoing projects, out of the 6 lakh square feet, it has already sold 4.89 lakh square feet and have collected Rs 1,171 crs with a balanced receivable of Rs 719 crs to be collected. The unsold inventory of 1.21 lakh square feet from the ongoing projects have an estimated GDV of approximately Rs 631 crs.

The sold and unsold receivables totaling to Rs 1,350 crs from the ongoing is expected to flow from FY'25 to FY'29

Currently the company has 18 upcoming projects with an estimated carpet area of more than 9 lakh square feet. 67% of this comprises of value-luxury projects, 21% belongs to the value-luxury and luxury projects and the balanced 12% is the commercial segment for sale.

The estimated carpet area for sale from these upcoming projects is estimated at 9 lakh square feet. The company estimates a price of Rs 50,000 to 55,000 per square feet on this portfolio.

The company plans to launch seven new projects with a carpet area of 2.68 lakh square feet with a total GDV of Rs 1,150 crores for the financial year 24-25.

Also during the year the company has repaid high-cost debt to the tune of Rs 285 crs from the IPO proceeds in the month of December 2023. Further additional Rs 23.5 crs of unsecured loans was repaid from the gross collection proceeds. The net debt as on March 24 stands at Rs 315 crs versus Rs 565 crs last year

Overall industry view of the MMR SCM Market as on date –

After Hyderabad, MMR is India's second largest real estate market. It is a balanced market with all-round healthy growth in terms of absorption, supply, and pricing, aided by inventory levels of 13 months.

Over 2018–23, absorption in MMR clocked 14% CAGR driven by: i) an increase in disposable incomes and household savings, ii) greater preference for upgrading quality and house size, iii) reverse migration due to the 'return-to-office' mandate after the lifting of COVID-related restrictions, and iv) urbanisation.

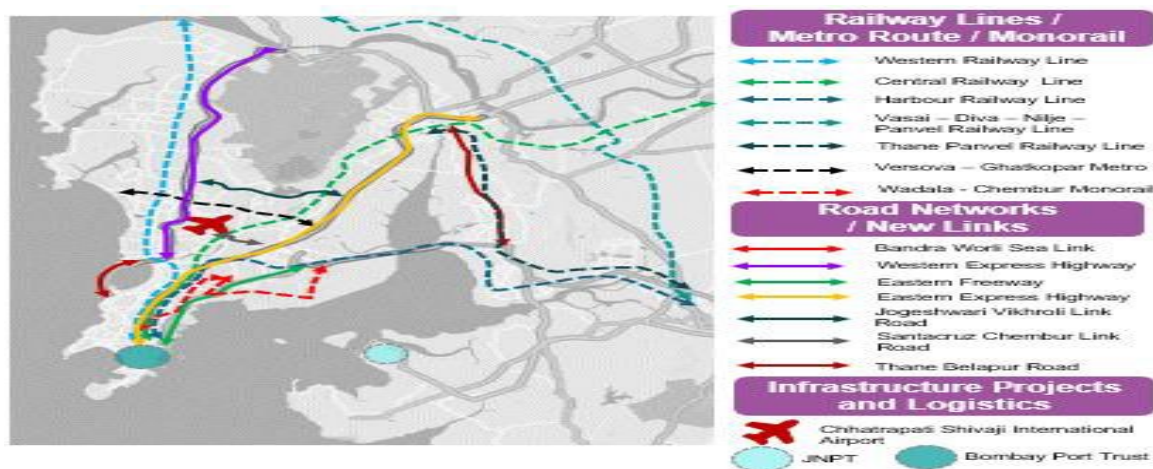
With greater absorption, supply grew a healthy 15.2% over 2018–23. Inventory fell to 13 months (record low in MMR is 12 months in Q12008) as of December 2023 from 30 months as of December 2018 on healthy absorption in recent quarters

Demand Drivers for housing in MMR –

Mumbai has a diverse base of industries and small and medium businesses. Mumbai creates employment opportunities across the value chain for both front and back offices. On a qualitative basis, the announcement of addition of office space (employment generation) in the city-centric and the suburban areas affect the select residential pockets of suburban areas (e.g., Ghodbunder Road) with a lag of 2 – 3 years

MMR is an employment engine for the country, both in the organized and unorganized industries. Employment from the existing grade-A office spaces in Mumbai has a direct impact on demand for housing in MMR and it is largely contributed to the organized sector. Employment generated from unorganized sectors does have an impact on the housing demand, especially in the suburban areas

Existing Infrastructure –



Several infrastructure projects are underway in Greater Mumbai and MMR so as to achieve long-term sustainability and increase the carrying capacity of the city's transportation networks and thus improve traffic and transportation capacity in Mumbai Metropolitan Region both capacity wise and quality wise

Excellent Social Infrastructure

Locations in Mumbai and surrounding areas provide one of the best healthcare in the country, best education opportunity, retail, recreational infrastructure. These aspects increase the quality of life & contribute to Housing demand

Some of the prominent social infrastructures in Mumbai include

Healthcare: Breach Candy Hospital (South Central Mumbai), Dr. L. H Hiranandani Hospital (Eastern Suburbs), Jaslok Hospital (South Central Mumbai), Asian Heart Institute (Western Suburbs), Kokilaben Dhirubhai Ambani Hospital (Western Suburbs), Nanavati Hospital (Western Suburbs), Jupiter Hospital (Thane), Apollo Hospital (Navi Mumbai), Reliance Hospital (Navi Mumbai) etc.

Education: IIT Bombay (Eastern Suburbs), J. J. College of Architecture (South Central Mumbai), Mumbai University (Western Suburbs), NITIE (Powai), Mithibai College (Western Suburbs), etc.

Grade-A Malls: High Street Phoenix (South Central Mumbai), R – City Ghatkopar (Eastern Suburbs), Inorbit Mall, Malad (Western Suburbs), Infiniti Mall, Malad (Western Suburbs), Phoenix Market City, Kurla (Eastern Suburbs), Oberoi Mall, Goregaon (Western Suburbs), Inorbit, Vashi (Navi Mumbai), Viviana Mall (Thane), Lodha Experia, Dombivali (Extended Eastern Suburbs), etc.

From a residential real estate perspective, MMR can be broadly divided into seven different micro-markets based on geography, profile of population and type of real estate development

S. No.	Residential micro-markets in the MMR	Key locations	Residential category served ⁽¹⁾
1.	South Central Mumbai	Cuffe Parade, Colaba, Lower Parel, Prabhadevi, Dadar , Worli, Parel, Mahim, Matunga , Mahalaxmi, Byculla, Sewri and Wadala	Luxury and ultra-luxury
2.	Western Suburbs	Bandra, Khar, Andheri, Jogeshwari, Vile Parle, Goregaon, Malad, Kandivali and Borivali	High-end, luxury and ultra-luxury
3.	Eastern Suburbs	Kurla, Powai, LBS Marg, Ghatkopar, Vikhroli, Mulund, Sion and Bhandup	Mid-end, high-end and luxury
4.	Thane	Thane, Ghodbunder Road and Wagle Estate	Mid-end, high-end and luxury
5.	Navi Mumbai	Vashi, Airoli, Panvel, Belapur, Rabale, Mahape, Turbhe, Ghansoli, Sanpada and Kharghar	Mid-end, high-end and luxury
6.	Extended Eastern Suburbs	Shil Phata, Palava City, Dombivali, Kalyan, Asangaon, Badlapur, Titwala and Karjat	Affordable and mid-end
7.	Extended Western Suburbs	Vasai, Virar, Mira Road, Bhayander and Naigaon	Affordable and mid-end

Suraj Estate Developers Limited has its major residential portfolio located in the markets of Mahim, Dadar, Prabhadevi and Parel, which are sub-markets of the South Central Mumbai micro market where it has established its presence and is one of the market leaders in these locations

Key Competitive Moats & growth drivers ahead for Suraj Estate Developers –

Suraj Estate Developers Limited enjoys a premier position in the SCM markets segment where it has built a niche & loyal customer segment. Despite the oversupply in the SCM market in the recent past, Suraj Estate Developers has been able to sell its inventory due to its presence across the budget spectrum and its ability to identify the right product market fit. Suraj Estate Developers enjoys a presence of more than 3 decades & reflects a strong brand recall in South Central Mumbai led by founder Rajan Meenathakonil Thomas and Whole-time Director Rahul Rajan Jesu Thomas, the leadership's five-decade experience

Also, the entry barriers are very high in this industry as understanding the SCM markets assessing the customer risk, maintaining collection efficiency and still recording growth is not an easy task for any new player where a lot of time has to be spent & invested which gives a strong market positioning for a well established player like Suraj Estate Developers in such niche markets

Tailwinds in the SCM markets look strong – Suraj Estate Developers Limited has its major residential portfolio located in the markets of Mahim, Dadar, Prabhadevi and Parel, which are sub-markets of the South Central Mumbai micro market where it has established its presence and is one of the market leaders in these locations

Suraj Estate Developers is one of SCM's most experienced players focussed on redevelopment. With a history of more than three decades, it has developed effective SOPs to identify redevelopment opportunities and turn around the development at a quick pace. A large part of its focus has been on identifying properties with 25–30 tenants under the *pagdi* system, which fall under Rule 33(7) of DCPR. Redevelopment of properties under Rule 33(7) offers multiple benefits, such as: i) FSI of three without any TDR or additional cost, ii) relatively lower approval cost, and iii) typical discount of 30% of land cost.

Experienced Management, Skilled Employee Base and the Promoters of Suraj Estate Developers have approximately an average 30 years experience in the SCM Real estate market redevelopment market segment. The majority of the company's Key Management Personnel have been employed with the company for over ten years and have contributed towards the growth of the company through their commitment and experience

The promoters of the company which is the Thomas family consisting of Mr Rajan Meenathakonil Thomas and Whole-time Director Mr Rahul Rajan Jesu Thomas have vast experience in the middle & Luxury segments of the SCM market segment having built a strong network of relationships with banks, institutions and building a strong loyal customer base which is evident from the satisfactory operations of the entire company through various economic cycles and also the promoters have infused need based funds to support the operations of the company during economic downturns

More importantly the SCM market is a huge growth opportunity and going ahead in terms of potential market size, the growth is expected to be strong for the next 3-5 years, where as per the company it has huge potential to scale up ahead which essentially puts Suraj Estate Developers in a sweet spot, in this industry segment

Key Weakness –

There are no ongoing projects outside of South-Central Mumbai (SCM), which significantly anchors the business, financial condition, and operational outcomes to the performance and prevailing conditions of the real estate markets in this specific region

Future Prospects ahead –

Suraj Estate Developers Limited enjoys strong revenue visibility due to its niche market strategy of tapping the growing SCM market segment which has seen strong growth and is poised to grow even faster in the coming years ahead

Currently the company has 18 upcoming projects with an estimated carpet area of more than 9 lakh square feet. 67% of this comprises of value-luxury projects, 21% belongs to the value-luxury and luxury projects and the balanced 12% is the commercial segment for sale.

Out of the company's ongoing projects, out of the 6 lakh square feet, it has already sold 4.89 lakh square feet and have collected Rs 1,171 crs with a balanced receivable of Rs 719 crs to be collected. The unsold inventory of 1.21 lakh square feet from the ongoing projects have an estimated GDV of approximately Rs 631 crs

The company estimates a price of Rs 50,000 to 55,000 per square feet on this portfolio. It plans to launch seven new projects with a carpet area of 2.68 lakh square feet with a total GDV of Rs 1,150 crores for the financial year 24-25

With the SCM market within the MMR region showing strong growth for both value and luxury projects with good pricing power and limited inventory supply risk we believe that Suraj Estate Developers Limited is poised well to grow over the next 3-5 years ahead

Additionally the company has reduced its debt significantly out of the IPO proceeds made in Dec 2023 and going ahead we expect a reduction in leverage levels using the net surplus cash flow of ongoing and upcoming projects

Financials –

For the Period Ended	FY21	FY22	FY23	FY24	FY25	FY26
Sales	240.00	273.00	305.70	412.20	700.00	925.00
EBIDTA	87.00	132.00	153.20	236.40	402.50	531.88
EBIDTA %	36.25	48.35	50.11	57.35	57.50	57.50
Interest	79.00	93.00	107.40	138.90	100.00	89.00
Depreciation	2.00	4.00	2.60	3.70	3.90	4.00
Non OP Other Income	4.00	1.00	2.10	3.50	3.50	3.50
PBT	9.00	36.00	43.20	93.90	302.10	442.38
Core PAT	6.00	26.00	32.00	67.50	225.00	330.00
Diluted EPS (Rs) FY Rs 5)	5.00	8.13	10.00	15.77	52.57	77.10
Equity Cap	6.00	16.00	16.00	21.40	21.40	21.40
Reserves	23.00	33.00	56.00	123.50	327.10	635.70
Borrowings	601.00	648.00	593.00	315.00	350.00	300.00
Gross Block	28.00	28.00	29.00	30.00	30.00	31.00
Inventories	565.00	621.00	652.00	725.00	800.00	700.00

Source Co Our Est

Business Outlook & Stock Valuation –

On a rough cut basis, in FY25E & FY26E Total Income is expected to touch Rs 700 crs, followed by Rs 925 crs in FY26E. On the bottomline level we expect the company to record a PAT of Rs 225 crs in FY25E & which is expected to bounce back to Rs 330 crs in FY26

The company management is confident of improving its profit margins in going ahead via operational efficiency, higher business from new projects and better pricing due to operating leverage benefits ahead

Looking at Suraj Estate Developers steady financial track record, strong business domain and dominant market share and strong promoters we expect the stock to get re rated in future. Hence we believe that the Suraj Estate Developers stock should be purchased at the current price for a price target of around Rs 636 over the next 12 to 15 months

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