



# JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

## RESEARCH REPORT

26<sup>th</sup> Feb 2018

### SUNTECK REALTY LTD

**BSE : SUNTECK**

**Sector: REAL ESTATE**

**BSE: 512179**

#### View - BUY

CMP : Rs. 400

Target Price: Rs 550 (In next 12 to 18 mths)

#### BUSINESS BACKGROUND

Sunteck Realty Limited (SRL) is a Mumbai-based real estate development company, catering to the ultra-luxury and luxury residential segment. SRL boasts of a city centric development portfolio of about 23 million square feet spread across 25 projects at various stages of development. SRL is renowned for its strong project execution skills through an in-house project management team and strategic tie-ups / associations with domestic / International contractors, architects, engineers and brand partners. Flagship project includes 1.5 million sq ft. at CBD of Mumbai, Bandra Kurla Complex comprises of three residential projects: Signature Island, Signia Isles and Signia Pearl which are home to some of the head honchos of top global conglomerates. Other key projects include 23 acres of mixed-use development in Goregaon (W) in the form of Sunteck City, Sion, Borivali, Airoli amongst other locations in Mumbai, Navi Mumbai, 81 acres in Jaipur, Nagpur and Goa in India. and a recently acquired affordable project at Naigaon (extended western suburbs of Mumbai)

#### INVESTMENT HIGHLIGHTS

##### Steady Financials for Sunteck as on Dec 2017 of FY18 –

In the first 9 months ending Dec 2017 of FY18 SRL has recorded a Topline of Rs 681.60 crs, a EBIDTA of Rs 261 crs and a PAT of Rs 164.77 crs on an equity base of Rs 14 crs after the QIP issue. Q3FY18 saw strong Topline growth of 141% totaling Rs 201.49 crs with EBIDTA up by 160% at Rs 89.05 crs followed by a 232% higher PAT of Rs 63.05 crs from Rs 19.41 crs in Q3 last year.

For FY17 FY17, SRL has posted a Topline of close to Rs 952 crs, EBIDTA margins of 36.55% and a PBT of Rs 303.34 crs followed by a PAT of Rs 220.2 crs.

##### SRL enjoys a strong project portfolio pipeline in MMR –

Sunteck Realty (SRL) is a Mumbai-based real estate player largely catering to the ultra-luxury and luxury residential segment. SRL currently has 23msf of land bank spread across 25 projects with majority of land at its Oshiwara District Centre (ODC) project at Goregaon (West) in Mumbai's western suburbs. SRL has benefited from a smart land banking strategy wherein it acquired land at prime locations in Mumbai (Bandra Kurla Complex and Oshiwara, Goregaon).

Though SRL aims to sustain focus on the MMR market and is not eyeing geographical diversification, it is not averse to lucrative opportunities offered to it outside the region. SRL wants to expand its land bank opportunistically to create significant value & is hence also looking beyond Mumbai and has taken up projects in Nagpur, Jaipur & Goa. Additionally SRL has carved out a niche for itself in the luxury and ultra luxury segment by differentiating itself in each micro-market.

SRL has achieved this through proper product positioning, brand partnerships and reputed channel partners for each product to attract corporate, HNI and retail customers

#### KEY DATA

FACE VALUE	Rs	1.00
DIVID YIELD %		0.36
52 WK HI/LOW		449/118
NSE CODE		SUNTECK
BSE CODE		512179
MARKET CAP		RS 5885 CRS

#### SHAREHOLDING PATTERN

PROMOTERS	-	67%
BANKS, MFs & DIs	-	4%
FIs	-	14%
PUBLIC	-	15%

#### KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	-2	49	73
EBIDTA Gr%	3	47	68
PAT Gr%	2	52	49
EPS Gr%	2	52	49
EPS (Rs)	16.07	24.42	36.43
ROE %	10	13	16
ROCE %	12	16	24
P/E(x)		17	11





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## BKC project has become a crown jewel for SRL –

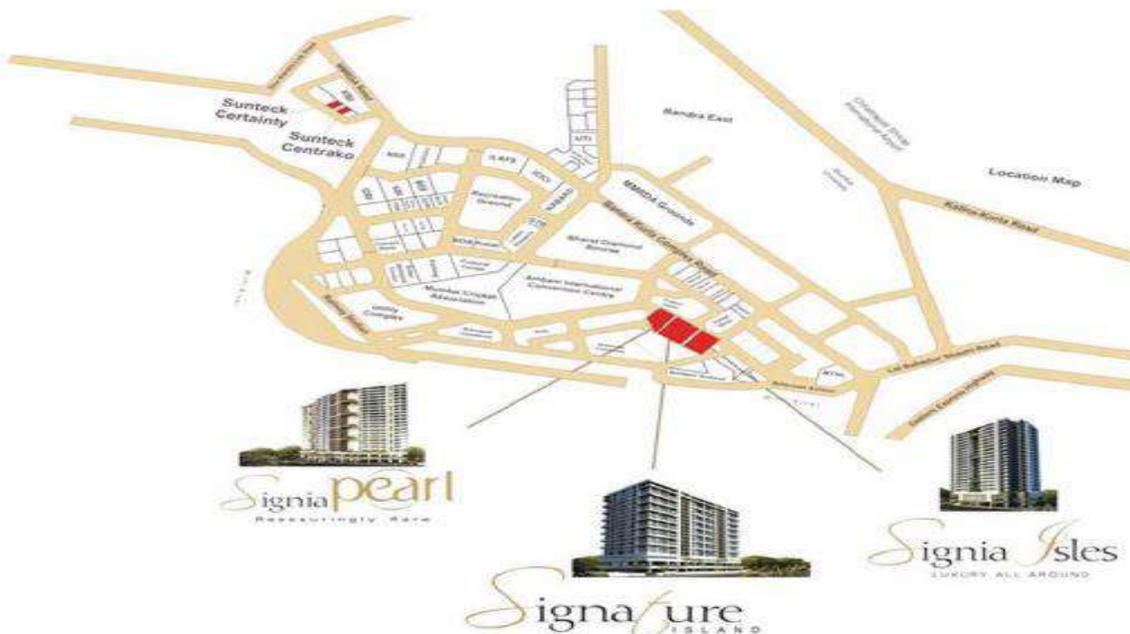
SRL forayed into residential development with its iconic project “Signature Island” in BKC. As mentioned earlier SRL chose BKC to start its residential foray at a time when its peers looked to make commercial footprints in this area. Over the last decade and a half, BKC has emerged as the new financial hub of the city.

It houses some of the biggest corporates, financial institutions, bourses and multi specialty hospitals. Post the successful launch of Signature Island, SRL has launched two more projects viz. “Signia Isles” & “Signia Pearl” in BKC. A major reason for for SRL’s success in BKC has been its strong Land Acquisition and Project Accretion Record of betting right on the right location and having a strong execution track record.



Source- Company

## Sunteck’s BKC Project Map –



Source-Company



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SRL has 3 completed residential projects: Signature Island (64 units), Signia Isles (76 units) and Signia Pearl (80 units). SRL has already sold 74% of the available units and has another 57 units to sell which can generate cash surplus of Rs25 bn at current market prices over FY18- 21E.

## BKC projects snapshot –

Details	Signature Island	Signia Isles	Signia Pearl
Saleable Area (msf)	0.60	0.40	0.40
No. of Units	64	76	80
Units Sold	42	64	57
Balance Units to be Sold	22	12	23
Ticket Size (Rs Crs)	50-70	25-30	25-30
Estimated Surplus (Rs Crs)	1375	412	625

Source- Company

## Oshiwara District Centre – New BKC in making for SRL

In FY10, SRL had purchased 7 acres of land located in Oshiwara, Goregaon West on an outright purchase basis for Rs1.3bn. Subsequently, it purchased an additional 16 acres in FY12 for Rs3.2bn in the same vicinity. As a result, it was able to purchase 6msf of land at a cumulative cost Rs4.5bn

This land parcel is a part of Oshiwara District Centre (ODC) proposed by MMRDA after BKC. Spread across 160 acres, ODC is located between Andheri (Lokhandwala) and Goregaon. It is being contemplated as the next BKC for western suburbs in Mumbai. It has been identified as the next commercial business district (CBD) of the city by MMRDA (after BKC).

It is well located and supported by good infrastructure facilities like development of two flyovers, Ram Mandir station for ODC, six internal 90 feet roads, which would result in better connectivity. It is also expected to have better connectivity through upcoming metro projects.

The residential potential of the given location is also well supported with already huge operational office space in vicinity such as Nirlon knowledge Park, Nesco and Mind Space having prominent corporates, several back offices of well-known banks and many IT companies. Creation of ODC would result in a major facelift for the entire zone. Hence, we believe SRL will be a key beneficiary of the proposed ODC, going ahead.

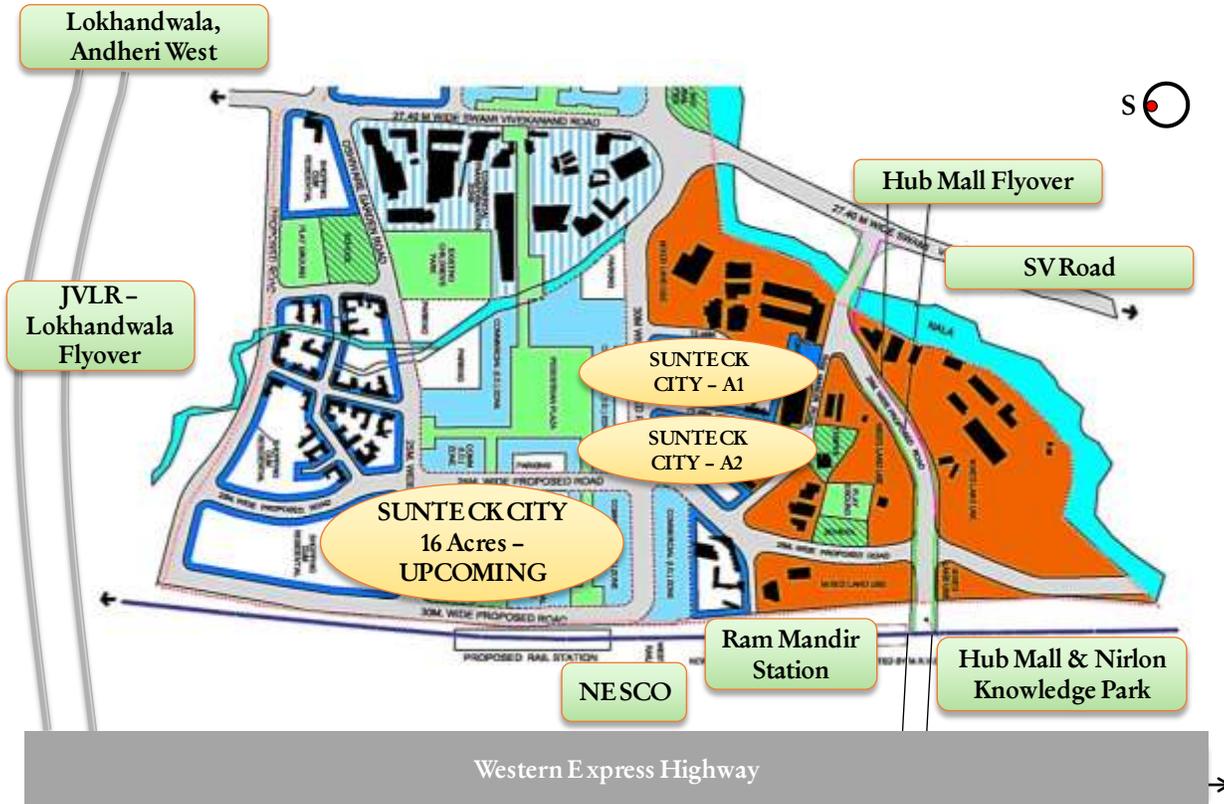


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## SRL's ODC Goregaon project layout –



Source- Company using ODC zoning map available on MMRDA website

## SRL will be a big beneficiary of the recent ODC notification –

In the recent notification, the Maharashtra government has hiked the permissible construction area in the proposed Oshiwara District Commercial Centre (ODC) for residential as well as commercial development with the aim of shaping it on the lines of Bandra Kurla Complex (BKC).

For residential development, FSI has been hiked from 1.5x to 3x while for commercial, it has been hiked from 1.5x to 4x. To avail this additional FSI, payment of premium at 60% of the ready reckoner rate will have to be paid. SRL has been a major beneficiary of this notification as it had already bought 23 acres of land in the ODC area over 2010-12.

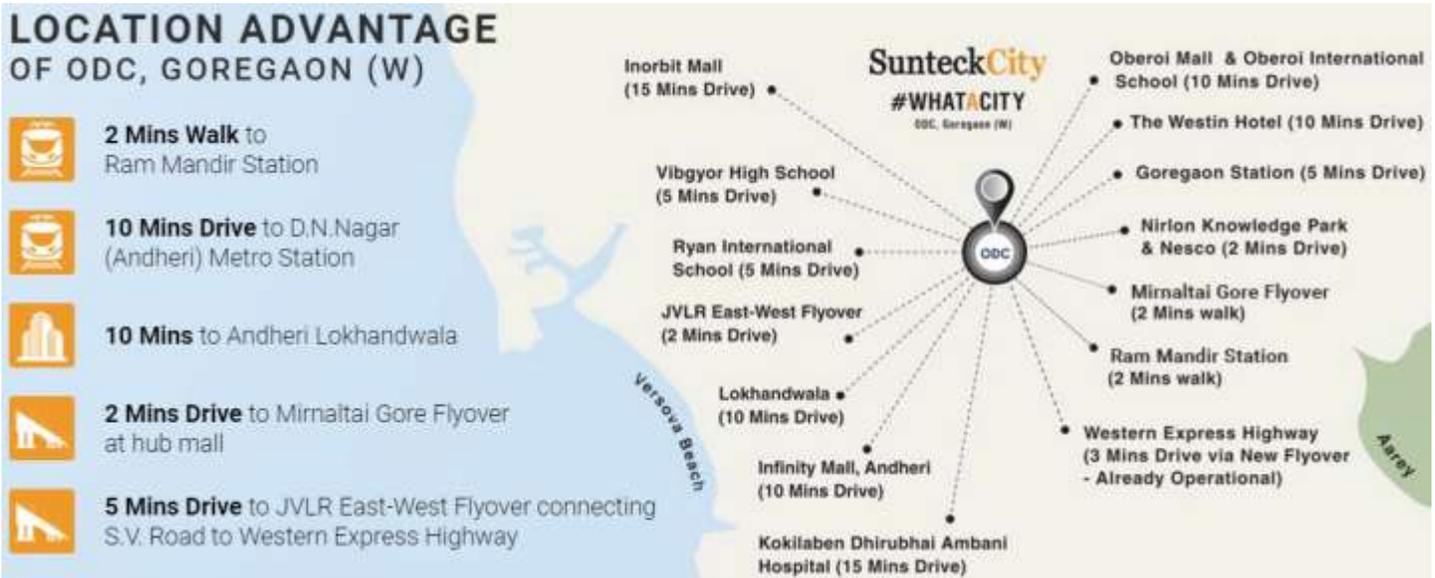


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## Key Locational Advantages of the ODC Project include –



Source – Company

SRL has launched 1.35msf of projects in the first land parcel of 7 acres across 2 phases, known as Avenue 1 and Avenue 2, and has sold 48% of the inventory till date. It has launched smaller sized units in Avenue 2 as compared to Avenue 1 to bring down the ticket size of units to Rs1.50 crs which has led to improved sales traction in the project having sold 80 units in Q2FY18.

However, while the Phase 1 (7 acres) is likely to be fully monetised over the next 3-4 years, the company is still left with balance 16 acres in Phase 2.

Considering the higher prices in Mumbai, monetization of the same as a pure residential project would have led to an elongated sales cycle of 8-10 years. As a result, SRL has decided to go in for a mixed use project in Phase 2 comprising 1.7msf of residential area and 2.6msf of annuity asset build-out.

The residential portion in Phase 2 will consist of smaller ticket sized units costing Rs1 crs vs. Rs1.50 crs in Avenue 2 which will be spread across Avenue 3 and Avenue 4. The annuity asset portfolio consists of around 2msf of office, and 0.6msf of high street retail space spread across Avenue 5 and Avenue 6 which will involve a capex of Rs1500 crs

## ODC Projects Update –

ODC	Size (sq ft)	Ticket size ( Rs crs)	Construction Prog	Launch date
Sunteck City Avenue I	1300-1700	2.20-2.90 crs	Tower 1 35 Storey completed	Started
			Tower 2 35 Storey completed	from Q3
			Tower 3 6 Slab completed	FY12
Sunteck City Avenue II	900-1300	1.50-2.20 crs	Tower 1 10 Slab Completed	Started
			Tower 2 4 slab completed	from Q3FY12
Sunteck City Avenue III	1300-1700	1.00-2.00 crs	Yet to Start	NA
Sunteck City Avenue IV	900-1300	-	Yet to Start	NA
Sunteck City Avenue V	Commercial		Yet to Start	NA

Source-Company

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**Status of on-going projects for SRL –**

	Unsold Salable	Estimated Future	Bal Receivables	Bal Costs to	Est Cash Surplus
	Area (msf)	Sales Value (Rs Crs)	from Sold Inventory (Rs Crs)	be incurred (Rs Crs)	(Rs Crs)
Project Name					
Sunteck City Avenue 1	0.37	535	148	116	567
Sunteck City Avenue 2	0.34	491	267	350	408
Signia High	0.15	199	27	3	222
Signia Pride	0.05	96	0	16	80
Signia Waterfront	0.08	105	28	22	112
Sunteck Icon	0.05	103	0	38	65

Source – Company

**Sunteck’s Brand Positioning Strategy –**

Ultra luxury residences aimed at high-net worth individuals	Premium & mid-level residences in select suburban micro markets	Large formats and mixed used developments	Commercial developments

Source – Company

SRL has positioned its offerings in the ultra-luxury and luxury segments and have developed four brands that target different market segments across various types of residential and commercial projects.

**SRL’s brands include –**

- ‘Signature’, which targets ultra-luxury residences aimed at high-net worth individuals in India and overseas where the ticket size ranges between Rs 30 to Rs 60 crs.
- ‘Signia’, which targets premium residences in select suburban micro markets with the ticket size ranging between Rs 5 crs to Rs 20 crs
- ‘Sunteck City’, which targets mixed-use developments including luxury townships comprising of residential apartments, retail, commercial projects, entertainment zones and fine dining costing between Rs 1.50 crs to Rs 3 crs
- ‘Sunteck’ which markets commercial fitments.

SRL has ensured that its ‘Signature’ and ‘Signia’ brands enjoy premium positioning in the market and its wide array of product offerings target different income segment customers, which has enabled it to monetize its projects in an efficient and profitable manner.

Also SRL’s differentiated branding strategy has helped it to attract the right target audience for its projects across various price points and has helped it to monetise its brand premium effectively from its end customers



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## Strong cash flow visibility from completed & ongoing projects –

Currently SRL has around 23msf of land bank spread across 25 projects currently. Majority of the land is located at its Oshiwara District Centre (ODC) project in Goregaon (West) in Mumbai's western suburbs. Given the large unsold inventory from completed projects, we believe SRL is in a sweet spot from a cash flow generation point of view.

## SRL has an additional land bank of 14msf through the JDA/JVs –

Apart from its completed and ongoing projects, SRIN has 14.1msf of land bank across India located mainly in the city of Jaipur in North India. These land parcels have been tied up through the JDA/JV route rather than on an outright basis.

Project Name	Location	Type of Fitment	Structure	Area Potential (msf)
Signia City	Jaipur	Residential	JV/JDA	4.30
Signia City	Jaipur	Commercial	JV/JDA	2.10
Signia City	Jaipur	Retail	JV/JDA	2.10
Sunteck Crest – Phase 1	Sion Mumbai	Commercial	JV/JDA	0.80
Sunteck Crest – Phase 2	Sion Mumbai	Commercial	JV/JDA	0.80
South Mumbai 1	Mumbai	Residential	JV/JDA	1.80
South Mumbai 2	Mumbai	Residential	JV/JDA	1.10
Signia Gardens	Vile Parle E Mumbai	Residential	JV/JDA	0.20
Gilbert Hill	Andheri W Mumbai	Residential	Redevelopment	0.10
Sunteck Dubai	Dubai	Residential/Commercial	JV	0.80

Source- Company

## ODC annuity portfolio can generate Rs4bn-Rs4.5bn of rental income by FY22E –

We believe with average rentals hovering around Rs125-135 psf/month in the area and other comparable players here include Nirlon, Oberoi and Nesco here rental income could be a steady source of cash flow and is unlikely to soften as there is limited supply here within this location as on date.

SRL plans to construct annuity assets that can generate Rs4bn-Rs4.5 bn of rental income by FY22-23 with a potential for a subsequent REIT listing is a prudent strategy. SRL's recent fund raising of Rs6.5bn (Rs5bn through QIP and Rs1.5bn from promoter) will help it comfortably fund its initial capex for Avenue 5 (Phase 1 of commercial) with balance capex to be funded through internal accruals from the residential portion of ODC and debt.

## SRL enjoys very low leverage in the sector which is also a big positive –

Rs Crs	H1FY18 (after QIP)	H1FY18	FY17
Secured Debt	854.50	854.50	777.00
Cash & Bank Bal*	573.10	73.10	98.60
Net Secured Debt	281.40	781.40	678.40
Unsecured Debt	198.30	198.30	166.90
Net Debt	479.70	979.70	845.30
Net Worth*	2357.50	1857.50	1795.30
Net Debt / Equity	0.20	0.53	0.47

\* includes Rs5bn of QIP proceeds



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Additionally SRL's Promoters shareholding stands high at 67% despite the dilution after the recent QIP with no promoter shares pledged and no corporate Guarantees given.

SRL enjoys a Credit Rating of A+ from FITCH & CARE with its Average cost of secured debt being just 10.4% which is amongst the lowest in the sector with incremental debt funding placed @ 9.25% - 9.75%

### **Going ahead SRL has announced its foray into affordable housing –**

In Union Budget 2017-18, accordance of infrastructure status to affordable housing would give real estate developers access to low cost debt. Also, tax exemption for affordable housing projects has been revisited. The size of houses under the scheme has been increased from 30, 60 sq mt built-up area to 30, 60 sq mt carpet area.

Furthermore, the project completion period has been increased from three to five years. We believe all these moves will make affordable housing projects more attractive to developers and help the government achieve its Housing for All target by 2022.

Consequently, SRL has recently announced its intention to enter the affordable housing segment finally after months of waiting and deliberation by the top management on this business segment, To start with SRL will enter the Affordable Housing segment by offering a luxury feel to aspirational buyers here. To start with SRL has decided to develop around 100 acres of land at Naigaon, the extended western suburb which is south of Vasai and Virar phased over the next 5 years.

This project, with a saleable area of 10msf, is on a revenue share basis (SRL's share at 73%). For this project, getting all the requisite approvals will be the responsibility of the land owner, while SRL will undertake development and marketing exercise. The project will be developed in three phases with phase 1 expected to start in six months.

SRL has acquired land under a asset light JDA model wherein it expects a revenue of around Rs 1500 crs over the next 2 years out of a total business opportunity size of around Rs 5500 crs.

SRL expects key infrastructure developments like the 5 kms sea link on the Vasai creek to enhance the connectivity to Naigaon going up in future which will drive significant demand shift happening here over the medium to long term.

SRL is all set to launch this project under a new brand of aspirational homes in a completely new division.

### **RERA to bring in more stability and consolidation in real estate sector –**

The real estate sector got its first regulator RERA on May 1, 2017. The act was passed by parliament last year and the Union Ministry of Housing and Urban Poverty Alleviation (MHUPA) had given various states and union territories time till May 1, 2017, to formulate and notify rules for the functioning of the regulator.

Over the years, the real estate sector in India has faced many issues such as project execution delays, poor corporate governance, diversion of project funds leading to cash-flow mismatches, high indebtedness of developers, etc.

To address these issues, RERA seeks to bring in more clarity and fairer practices in the sector that would protect the interests of buyers and also impose penalties on errant builders. It also seeks to bring in the much needed transparency in the real estate sector and also the consumer's confidence back into the sector.

Post RERA, consolidation in the real estate sector is on the cards as several small unorganised developers may not be able to cope with the strict compliances enlisted by RERA. So, over the long term, an organised player like Sunteck Realty is set to benefit from RERA.



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RERA is a state affair where all states have to notify their individual rules more or less in sync the ones notified by the Centre earlier. Maharashtra, where the company currently operates in has notified its real estate rules called the Maharashtra Real Estate (Regulation & Development) Rules, 2017. The final notification of Maharashtra RERA is quite in line with the central Act. The state had modified some of the draft clauses based on several suggestions and objections received over the past few months. It launched the RERA website in April, 2017.

#### **Key features of RERA bill –**

**Features** - Timely Execution Builders will have to set aside 70% of money collected from buyers in a separate escrow account that can be used towards cost of land and construction of project. This would ensure that builders are unable to divert funds towards other projects

**Accountability** - In case of delays in project completion , builders will have to pay the same interest to home buyers as what they charge them on payment delays

**Transparency** - All project details, such as the schedule of implementation, layout plans, status of approvals, will have to be disclosed during registration.

**Project plans** cannot be changed without the consent of two-thirds of home buyers for the project. Transactions will have to be based on carpet area rather than super-built up area

**Regulation** – The Bill proposes setting up state-level real-estate regulatory authorities, where builders will be mandated to register all projects above 500 sq mts. This would apply to both residential and commercial real estate projects, including those that are currently under construction.

State-level appellate tribunals will be set up for addressing complaints. A timeline of a maximum 60 days has been set for resolution of disputes.

Failure to register a project could result in imprisonment of up to three years for developers or 10% of project cost or both. Home buyers and real-estate agents may also face upto a year of imprisonment, if found in any violation of tribunals or regulatory authority

#### **RERA Impact on Sunteck likely to be positive in the long term –**

Under RERA, a developer has to register its new and ongoing projects with the authority for which it has not received occupational certificate (OC) by July 31, 2017. Without registration, the developer is not allowed to advertise, market, book or sell any plot, apartment or building.

Currently, SRL is fully compliant with all RERA regulations and as such we expect that longer term it will benefit significantly from this policy initiative as in the long term large real estate players with strong balance sheets only will survive as smaller builders will have to close shop thus making large players like SRL benefit more both from a market expansion point of view and consolidation in this sector going ahead.

Post RERA SRL is also actively looking at several attractive proposals from weaker players who want to exit due to funding constraints especially from small ticket size developers. While no concrete proposal has been finalized yet as of now, SRL is keeping options open here and depending upon the locational benefits and deal prices it will be taking a final call here. Overall hence RERA will benefit big real estate cash rich players like SRL to cash in times of a severe financial crunch faced by the real estate industry especially from the smaller players.



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### **What is SRL's key USP and competitive edge –**

What makes Sunteck different & why we like the SRL stock as a strong proxy play in the domestic real estate sector?

### **Land as an inventory –**

Many real estate companies purchase and maintain large land banks for future development. In the meantime they show the land as an asset on the balance sheet. When a company does that, their capital in the form of land does not earn any returns which depresses the return on capital.

Sunteck on the other hand does not treat the land as an asset but as an inventory. All the land owned by Sunteck is under development and in this way they are able to churn their assets quickly and earn better return on their capital. Which brings us to the next thing - financing.

### **Financing has always been a strong point for SRL –**

In an effort to maintain huge land banks, lot of real estate companies have over-leveraged themselves. However, it is never a good idea to have too much debt and it is outright criminal to do so in a cyclical industry.

Because when the downturn comes, which it inevitably will and the demand suddenly goes out, the overleveraged ones are caught badly. In such cases, they are forced to sell their assets to bring down the debt to manageable levels, again at exactly the wrong time since they are likely to get depressed prices for their assets (land) due to the recessionary demand.

Here again Sunteck has used minimal leverage historically due to conservative nature of the promoters. First of all their land as an inventory policy has helped them and they do not need as much capital. Secondly, they have used a good mix of equity (very little), debt and customer advances to fund themselves.

### **Timing Land Acquisition has been a big strength of SRL –**

Like in all cyclical industries, timing is of great importance in real estate as well. Generally like in other commodity industries, in real estate as well companies follow herd mentality and they all rush in to add capacity at the same time which sows the seeds for the next downturn.

In terms of timing, what usually happens is most of the capacity addition takes place at the top of the cycle when the prices are at their highest. Sunteck on the other hand has had a contrarian approach and have been buying land at distressed levels in the current downturn from other real estate companies who are forced to sell to bring down their debt.

### **Promoters have a very strong understanding of the business –**

SRL is led by Shri Kamal Khetan who is a first generation entrepreneur who founded Sunteck in 2000. The promoters have consistently increased their shareholding by buying shares in the open market from 65% in 2010 to more than 73% in 2016.

Piramal Group has also reposed their faith in Sunteck - they have an existing JV with Sunteck called Sunteck Piramal Realty. In addition, Shri Ajay Piramal has invested personally in Sunteck by picking up a 3.5% stake in the company in March 2014 and later increased the stake to 4.63% by March 2015.



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However, what really sets the promoters at Sunteck apart is that they voluntarily decided not to take any dividend during FY2014 and FY2015. During these years the dividend was distributed only to non-promoter shareholders and the promoters voluntarily waived their right to get the dividend.

They did not take any dividend which would have amounted to Rs 4.65 cr in FY 2014 and a similar amount in FY2015. We can think of very few promoters (unthinkable in real estate) who would do such a thing and shows the credibility of the promoters.

Finally we believe that the demand for residential property in the MMR will remain strong on account of factors such as limited availability of quality land, the continued growth of the economy in Mumbai and the rising number of population residing in Mumbai.

Our belief is that SRL's projects in the MMR are well-located to gain the first mover advantage post the shift in the central business district from the south of Mumbai, primarily Nariman Point as well as BKC, to the secondary business districts such as ODC, Goregaon (West).

Apart from these projects, SRL remains focused on other micro-markets like Borivali, Andheri, Airoli, Vile Parle, and Sion and where the company management expects to take advantage of its knowledge, experience and deep understanding of the customer mindset and economics of the real estate projects in the MMR.

Also as a forward looking strategy to de risk its business further, SRL is actively exploring existing opportunities to enhance its rental portfolio. SRL already has a commercial property (Sunteck Centre) on a lease model, strategically located in an area where there is a good demand for commercial space.

With its upcoming commercial projects at Bandra-Kurla Complex and ODC Goregaon (West), SRL's plans to focus on developing a sizable rental portfolio which will help it generate steady cash flows from rental income.

**SRL enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –**

In terms of financial performance for FY17, SRL has posted a Topline of close to Rs 952 crs, EBIDTA margins of 36.55% and a PBT of Rs 303.34 crs followed by a PAT of Rs 220.2 crs.

SRL has shown consistent growth since last 5 years starting from FY13 onwards when its Topline was Rs 50.16 crs which has now touched Rs 952 crs as on FY17 while PBT has improved from 10.73 crs to Rs 303 crs in the same period with net margins progressively up to around 23%. In H1 of FY18 SRL has already recorded a Topline of Rs 480.10 crs, a EBIDTA of Rs 170.98 crs and a PAT of Rs 101.72 crs on a equity base of Rs 14 crs after the QIP issue.

Last 5 years SRL has seen its PAT multiplying from Rs 4.54 crs in FY13 to Rs .220 crs as on date while Total Net Debt on the BS as on Sept 2017 has remained at 480 crs. The net D:E currently as on Sept 2017 stands at 0.20 :1. SRL has also recently taken a Rs 50 crs CP in Feb 2018 which will further reduce its overall interest costs in the coming financial year.

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**Peer Comparison –**

<b>Company</b>	<b>FY18Sales</b>	<b>FY18Debt</b>	<b>PEFY17A</b>	<b>PEFY18E</b>	<b>PEFY19E</b>	<b>PEFY20E</b>
Sunteck Realty	930.00	655.00	26.00	23.00	17.00	11.00
Godrej Properties	1265.00	3978.00	84.00	62.00	42.00	35.00
Prestige Estates	4610.00	6030.00	37.00	45.00	42.00	31.00
DLF	8990.00	31034.00	57.00	77.00	56.00	44.00
Brigade Ent	2040.00	2590.00	20.00	28.00	20.00	21.00
Sobha	2730.00	2430.00	33.00	27.00	21.00	17.00
Oberoi Realty	2630.00	1350.00	44.00	13.00	14.00	10.00

Source – Consensus Estimates, Our Estimates



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### **Business Outlook & Stock Valuation –**

On a rough cut basis, in FY18, Revenue is expected to touch Rs 930 crs.

On the bottomline level we expect the company to record a PAT of Rs 225 crs in FY18E. Thus on a conservative basis, SRL should record a EPS of Rs 16 for FY18E. For FY19E and FY20E our expectation is that earnings traction for SRL will continue to remain strong wherein we expect a EPS of Rs 24 and Rs 36 respectively.

SRL has largely catered to the ultra-luxury and luxury residential segment and currently has 23msf of land bank spread across 25 projects with majority of land at its Oshiwara District Centre (ODC) project at Goregaon (West) in Mumbai's western suburbs. SRL has benefited from a smart land banking strategy wherein it acquired land at prime locations in Mumbai (Bandra Kurla Complex and Oshiwara, Goregaon).

SRL now is planning to implement its value aspirational strategy to the Affordable Housing Segment which the company has announced recently which we believe has significant potential to unleash growth ahead for SRL over the next 2-3 years.

SRL's key strengths like identifying land parcels in the right locations that too at depressed and attractive valuations and at the same time keeping its overall gearing low has added sheen to the company in a sector which is witnessing structural changes and short term pain consequent to the RERA, GST and Demon which have impacted smaller players severely. Incidentally SRL recently has acquired a part stake in a distressed property in south Mumbai via the Mumbai high court. We believe such acquisitions would further help SRL build a strong footprint in strategic locations at competitive prices helping it to derive long term value from such distressed assets.

We hence expect that SRL which is already strong will emerge even more stronger as it has a wide array of projects both in the upper, middle and now in the affordable segments which will help it broadbase its customer mix. To this effect SRL is also actively pursuing to build a strong lease portfolio over the next 3 years starting FY22 onwards which will help it mitigate the volatility in cash flows from the residential segment.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should easily increase at a CAGR of 28-30% with the ROE and ROCE is also expected to improve to 12% and 16% and 16% and 24% by FY19 and FY20.

The SRL stock trades at a P/E of 17x and 11x based on FY19E and FY20E, which looks attractive considering its strong execution capability, consistent financial track record and looking at future potential for the ODC projects and projects outside the MMR circle aided by a good mix of commercial and rental/lease income likely to come going ahead.

Also valuations on a Price to Book basis at 1.70x FY20 don't look very expensive and we believe that a quality player like SRL can enjoy a 15-20% premium and a P/BV of around 2x to 2.25x considering its strong execution ability, attractive locational project advantages and low gearing, hence we believe that the SRL stock should be purchased at the current price for a price target of around Rs 550 over the next 12 to 18 months.



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## FINANCIALS

For the Year Ended March RsCr	FY17A	FY18E	FY19E	FY20E
Net Sales	952.19	930.00	1390.2	2400.3
EBIDTA	348.07	360.00	530.00	888.11
EBIDTA %	36.55	38.71	38.12	37.00
Interest	45.52	42.00	32.00	29.00
Depreciation	2.27	2.00	2.30	2.60
Non Operational Other Income	8.16	10.00	11.00	11.00
Profit Before Tax	303.34	326.00	506.7	867.51
Profit After Tax	220.2	225.00	341.82	510.00
Diluted EPS (Rs)	15.73	16.07	24.42	36.43
Equity Capital	14.00	14.00	14.00	14.00
Reserves	1783.34	2508.34	2850.16	3360.16
Book Value (Rs)	127.38	179.17	203.58	240.01
Borrowings	944	655	505	430
GrossBlock	13.9	16.2	18.2	20.2
Inventory	2801.7	2710.5	2788.1	2790.1
Investments	54.3	54.3	54.3	54.3

Source Company our Estimates

## KEY CONCERNS

### Project concentration risk –

SRL is primarily a Mumbai focused real estate developer with majority of its projects spread across the Mumbai region. However, going forward, if there is a prolonged slowdown in the Mumbai market, it could significantly impact the company's operational and financial performance.



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