

June 20, 2023

Company Update | Sector: Real Estate

Sunteck Realty

Tactical buy at compelling valuation

Our view

Sunteck Realty (SRIN), at this juncture has a very lucrative valuation with strong visibility of presales from the completed/ongoing project itself. SRIN is expected to focus on monetizing the completed inventory of Rs18.5bn in the BKC at a good pace to achieve its guidance. Company plans to do new sales activation in its ongoing projects. Additionally, SRIN plans to launch the first phase of Kalyan with the potential saleable area of ~1.6msf which translates in the potential sales value of Rs12.8bn. We believe with the current project visibility SRIN should comfortably surpass its presales guidance of Rs20bn for FY24E.

In Q4FY23, SRIN pre-leased Sunteck-BKC51 (~Rs300/sft/month) fully and expected to handover for fit-outs in Aug-23. SRIN plans to pre-lease and deliver Sunteck Icon as well by Q2FY24E. Two office assets are expected to generate annuity of ~Rs777mn from FY25E (considering full year operations). Company has gross debt of Rs5.9bn while net debt of Rs2.8bn and adj. net D/E came down to 0.13x as of FY23. SRIN in the last few years displayed the impeccable track record of acquiring projects and ramped up the execution capabilities post addition of Naigaon project along with efficiently managing lean B/S. We believe SRIN is at a very lucrative valuation with residential valued on NPV-based NAV approach, capturing all projects - completed (Rs9.7bn), under-construction (RS.12.7bn) and planned (RS.57bn). We reiterate our 'BUY' rating with a target of Rs500/share and an upside of 76%.

Completed+ Ongoing+ Subsequent phases of project enough to achieve presales guidance: SRIN management guided for Rs20bn of pre-sales for FY24E which we believe can be achieved as the company has sales potential of 3.3msf in the completed and ongoing projects which essentially translates to Rs42bn. Completed inventory is valued at Rs20.1bn (91% in BKC). We believe SRIN's management will maintain the run rate of Q4FY23 (2 units in a qtr) in BKC and should end the year with a contribution of ~Rs3bn from BKC projects. With the inventory in remaining projects the SRIN should achieve presales of Rs4.7bn from the completed projects.

SRIN plans to do new activation in One World- Naigaon, Sky Park- Mira Road, Beach Residency-Vasai in FY24, cumulatively has potential of Rs17bn. Total ongoing projects have potential of Rs22bn including the new sales activation in the above projects. Assuming SRIN is only able to monetize 65% of inventory in the ongoing projects, it should be able to achieve presales of Rs14.2bn. So, from completed and ongoing projects only SRIN has visibility of Rs18.8bn in FY24E.

Kalyan launch slated for Q3FY24E: SRIN management plans to launch the Kalyan project in Q3FY24E as management has clear visibility of all approvals. Total potential of projects is ~10msf wherein SRIN has ~78% economic interest. In a first phase, the company plans to launch ~1.6msf in Q3FY24E, which translates in Rs12.8bn with the average price realization of Rs8000/sft. Assuming 35%-40% of monetization of projects in 2 quarters, we believe SRIN will achieve presales of Rs4.5-5.1bn from the project in FY24E. (Presales: Completed+ ongoing+ Kalyan= Rs24bn)

Strong gross cashflow is expected in FY24E: SRIN has strong cashflow visibility with pending receivables of Rs23.8bn. Additionally we believe with the incremental sales and construction progress, SRIN is expected to achieve a collection of Rs28.6bn (assumed 50% of total sales+ receivable from ongoing) in FY24E. SRIN is expected to spend Rs6.3bn (construction+ approval cost) on the ongoing projects in FY24E. SRIN is expected to generate robust gross cashflow of Rs22.3bn for the year.

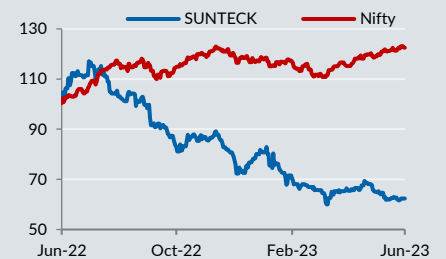
Annuity to Start from the FY24E: In Q4FY23, SRIN pre-leased Sunteck-BKC51 (~Rs300/sft/month) fully and will handover for fit-outs in Aug-23 (SRIN Share 56.5%) SRIN plans to pre-lease and deliver Sunteck Icon (SRIN Share 55%) as well by Q2FY24. Both assets cumulatively can generate rental income of ~Rs1.4bn and SRIN's share should be around ~Rs777mn.

Reco	: BUY
CMP	: Rs 284
Target Price	: Rs 500
Potential Return	: +76%

Stock data (as on Jun 19, 2023)

Nifty	18,726
52 Week h/l (Rs)	539 / 271
Market cap (Rs/USD mn)	41534 / 503
Outstanding Shares (mn)	146
6m Avg t/o (Rs mn):	74
Div yield (%):	0.5
Bloomberg code:	SRIN IN
NSE code:	SUNTECK

Stock performance



	1M	3M	1Y
Absolute return	-4.1%	-5.3%	-37.6%

Shareholding pattern (As of Mar'23 end)

Promoter	67.2%
FII+DII	25.6%
Others	7.2%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	3624	8798	9489
YoY growth	(29.4)	142.7	7.9
EBITDA	642	3511	3732
YoY growth	(37.6)	520.8	6.2
PAT	14	2022	2272
YoY growth	(94.4)	N/A	12.3
EPS	0.1	13.8	15.5
P/E	N/A	20.5	18.3
P/BV	1.5	1.4	1.3
D/E	0.2	0.3	0.2
EV/EBITDA	66.4	12.0	11.0
RoE (%)	0.1	6.8	7.1
RoCE (%)	1.6	9.1	9.4

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Exhibit 1: Presales potential from Completed + Ongoing + Kalyan project

Projects	Sales achieved (Rs mn)	Area unsold (msf)	Future Potential (Rs mn)
Completed Projects			
Signature Island	16,400	0.18	11,450
Signia Isles	11,021	0.04	1,776
Signia Pearl	9,923	0.10	5,230
Sunteck City, 1st Av.	7,593	0.06	953
Sunteck City, 2nd Av.	6,341	0.02	248
Sunteck West World	8,280	0.07	448
Total	59,558	0.47	20,105
Ongoing Projects			
Sunteck City, 4th Av.	12,985	0.07	1,085
Sunteck One World	3,919	0.51	3,081
Sunteck MaxxWorld - Phase I	9,291	0.09	549
Sunteck Forest World Phase 1	188	0.66	3,290
Sunteck SkyPark	2,880	0.66	6,564
Sunteck Beach Residency	4,329	0.85	7,239
Total	33,591	2.84	21,808
Completed + Ongoing	93,149	3.30	41,913
	Tentative	Area	Sales Potential
Forthcoming (FY24)	Launch	(msf)	(Rs mn)
Kalyan	Q3FY24	1.6	12800
Total		4.90	54,713

Source: Company, YES Sec

Exhibit 2: SoTP at WACC 12%

Valuation Breakup	Rs. Mn	Rs./share	(%)	Comments
G. NAV Resi. - Completed	9693	66	13%	1yr forward NAV
G. NAV Resi. - Under-Construction	12754	87	17%	1yr forward NAV
Planned Projects	56698	387	77%	PV of 30% Profit Margin and 25%Discount
Less: Net Debt	5966	41	(8%)	Net Debt at end of FY23
NAV	73,179	500		
CMP		284		
Upside		76%		

Source: Company, YES Sec

Exhibit 3: Cashflow potential from Completed + Ongoing + Kalyan project

Cashflow (Rs mn)	Future Sales	Receivables	Construction Cost	Gross Cashflow
Completed Projects				
Signature Island	11,450	899	0	12,349
Signia Isles	1,776	95	0	1,871
Signia Pearl	5,230	161	26	5,365
Sunteck City, 1st Av.	953	687	28	1,612
Sunteck City, 2nd Av.	248	150	36	363
Sunteck West World	448	79	29	498
Total	20,105	2,070	118	22,058
Ongoing Projects				
Sunteck City, 4th Av.	1,085	8,017	950	8,153
Sunteck One World	3,081	3,079	2,151	4,009
Sunteck MaxxWorld - Phase I	549	3,562	603	3,507
Sunteck Forest World Phase 1	3,290	179	1,206	2,263
Sunteck SkyPark	6,564	2,860	3,202	6,222
Sunteck Beach Residency	7,239	4,053	4,194	7,098
Total	21,808	21,750	12,305	31,253
Forthcoming (FY24)				
Kalyan	12800	12800	4800	8000
Total	54713	36621	17224	61310

Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	140	140	140	140	140
Reserves	27,347	27,582	27,764	27,738	29,618
Net worth	27,487	27,723	27,904	27,879	29,759
Debt	6,512	6,879	7,882	6,854	7,854
Deferred tax liab (net)	390	328	281	334	334
Other non-current liabilities	46	50	42	142	142
Total liabilities	34,436	34,979	36,109	35,209	38,089
Fixed Asset	552	625	1,298	2,515	2,565
Investments	2,714	2,581	2,346	2,407	2,407
Other Non-current Assets	129	130	233	274	274
Net Working Capital	30,208	31,128	31,734	29,124	30,420
Inventories	27,438	26,145	40,419	57,251	58,224
Sundry debtors	3,731	3,338	2,703	1,496	2,427
Loans and Advances	3,127	3,050	3,178	4,885	4,885
Sundry creditors	2,122	1,827	1,936	2,114	2,721
Other current liabilities	5,561	3,998	17,218	35,589	35,589
Cash & equivalents	832	516	497	888	2,423
Total Assets	34,436	34,979	36,109	35,209	38,089

Source: Company, YES Sec

Exhibit 5: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
PBIT	584	326	45	2,702	3,036
Depreciation	52	73	92	100	108
Tax paid	231	152	68	680	764
Working capital Δ	1,301	(1,129)	2,022	(1,296)	(909)
Other operating items	(46)	(198)	(329)	0	0
Operating cashflow	2,508	(305)	2,620	1,810	2,330
Capital expenditure	(162)	(183)	(181)	(150)	(150)
Free cash flow	2,346	(487)	2,439	1,660	2,180
Equity raised					
Investments	512	5	(219)	0	0
Debt financing/disposal	(1,973)	1,331	(1,647)	1,000	(1,000)
Interest Paid	(860)	(743)	(762)	(984)	(859)
Dividends paid	(142)	(142)	(211)	(142)	(142)
Other items	5	13	7	0	0
Net Δ in cash	38	335	(156)	1,535	179

Source: Company, YES Sec

Exhibit 6: Income statement (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Revenue	6,139	5,131	3,624	8,798	9,489
Operating profit	1,369	953	642	3,511	3,732
Depreciation	52	73	92	100	108
Interest expense	846	776	859	984	859
Other income	170	209	284	275	270
Profit before tax	584	325	45	2,702	3,036
Taxes	164	75	31	680	764
Adj. PAT	419	251	14	2,022	2,272
Net profit	419	251	14	2,022	2,272

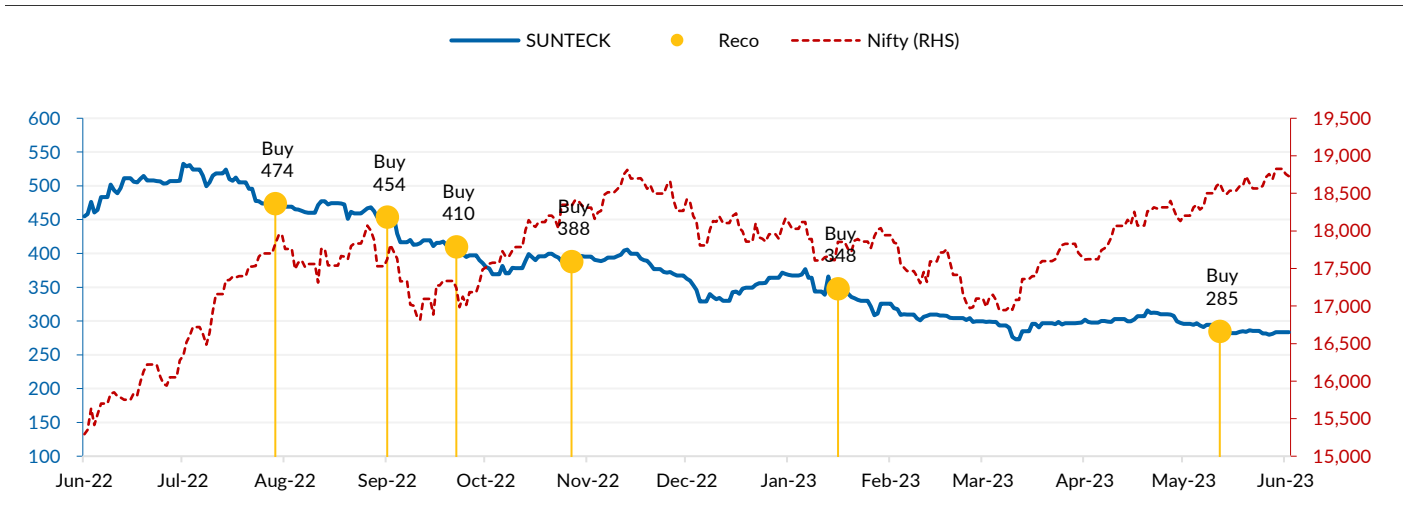
Source: Company, YES Sec

Exhibit 7: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	9.7	(16.4)	(29.4)	142.7	7.9
Op profit growth	(18.6)	(30.4)	(32.7)	447.2	6.3
EBIT growth	(19.9)	(33.2)	(37.6)	520.8	6.2
Net profit growth	(43.3)	(40.2)	(94.4)	N/A	12.3
Profitability ratios (%)					
OPM	22.3	18.6	17.7	39.9	39.3
EBIT margin	21.5	17.2	15.2	38.8	38.2
Net profit margin	6.8	4.9	0.4	23.0	23.9
RoCE	3.8	2.5	1.6	9.1	9.4
RoNW	1.5	0.9	0.1	6.8	7.1
RoA	67.1	19.3	0.6	78.8	87.1
Per share ratios					
EPS	2.9	1.7	0.1	13.8	15.5
Dividend per share	1.0	1.5	1.0	1.0	1.0
Cash EPS	3.2	2.2	0.7	14.5	16.3
Book value per share	189.4	190.6	190.4	203.3	217.8
Payout (%)					
Dividend payout	33.8	87.5	1,005.2	7.0	6.2
Tax payout	28.1	25.2	25.2	25.2	25.2
Liquidity ratios					
Debtor days	198	192	151	101	101
Inventory days	1,555	2,875	5,765	2,415	2,255
Creditor days	109	138	213	113	93

Source: Company, YES Sec

Recommendation Tracker



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