Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Sunteck Realty

Mixed bag Q2; Stay Positive

Viewpoint | Result Update

Real Estate	Sharekhan code: SUNTECK
Reco/View: Positive ↔	CMP: Rs. 435
	Upside potential: 17% ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 18.01

Updated Aug 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

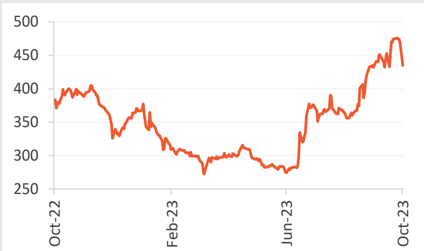
Company details

Market cap:	Rs. 6,372 cr
52-week high/low:	Rs. 486/271
NSE volume: (No of shares)	2.12 lakh
BSE code:	512179
NSE code:	SUNTECK
Free float: (No of shares)	4.8 cr

Shareholding (%)

Promoters	67.2
FII	16.7
DII	7.0
Others	9.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.3	17.9	44.3	13.5
Relative to Sensex	0.9	20.6	36.7	5.6

Sharekhan Research, Bloomberg

Summary

- We retain a Positive view on Sunteck Realty with an upside potential of 17%, owing to strong growth levers in both the medium and long term.
- The company reported healthy pre-sales growth y-o-y led by traction in BKC project sales and the Mira Road project launched during Q4FY2023 end. Collections were weak. Lower revenue recognition disappointed on earnings.
- Management to launch part of Kalyan Phase I project having GDV of Rs. 600 crores before Diwali. Napean Sea Road project likely to be launched in FY2025-end.
- The company partners with IFC for creating MMR-focused joint investment platform with a total equity investment of Rs. 750 crore. GDV accretion estimated at Rs. 8,000-10,000 crore over 2-3 years.

Sunteck Realty (Sunteck) reported healthy pre-sales growth of 17% y-o-y at Rs. 395 crore (led by BKC project sales and contribution from Sky Park, Mira Road project launched during Q4FY2023-end). However, collections at Rs. 214 crore (down 35% y-o-y) were affected by lower execution. Consolidated net revenues at Rs. 24.9 crore (down 69% y-o-y) and operating loss of Rs. 14.1 crore lagged our estimate because of lower revenue recognition as per IND AS. However, core EBITDA margin (excluding indirect costs about expenses from which revenue recognition has not started) stood healthy at 43.2% against 51.6%/42.9% in Q2FY2023/Q1FY2024. Lower execution and operating losses led to consolidated net loss of Rs. 13.9 crore. The management remains confident of launching two towers (GDV of Rs. 600 crore) of Kalyan phase I project (Rs. 1,200-1,400 crore GDV) before Diwali while its uber luxury Napean Sea Road project (Rs. 2500 crore GDV) is expected during FY2025-end. The company has partnered with IFC for creating MMR focused joint investment platform with a total equity investment of Rs. 750 crore (GDV accretion of Rs. 8,000-10,000 crore over 2-3 years) which would cater to mid-income group.

Key positives

- Sales booking growth of 17% y-o-y at Rs. 395 crore, led by traction in BKC project sales (nil sales in Q2FY2023/Q1FY2024) and contribution from Sky Park, Mira Road project (launched in Q4FY2023 end).
- Adjusted EBITDA margins stayed healthy at 43.2% against 42.9% in Q1FY2024. Adjusted net debt marginally reduced to Rs. 348 crore (0.13x Adjusted net debt/Equity).

Key negatives

- Lower revenue recognition led to a miss on consolidated revenues and operating loss during the quarter.
- Collections declined by 35% y-o-y and 26% q-o-q to Rs. 214 crore due to lower execution.

Management Commentary

- The company is looking at growing its project portfolio from current Rs. 30,000 crore GDV value to Rs. 50,000 crore over the next 2-3 years. From existing projects, it is looking at a 15-20% p.a. growth in sales along with additional sales from new projects. Overall, it expects to double sales over a three year period.
- Its project Sunteck Maxx World will be completing in FY2024 which will lead to Rs. 750-850 crore revenue booking in FY2024 while Sunteck City Fourth Avenue in ODC Goregaon West is expected to complete by end FY2025 which will lead to revenue recognition of Rs. 950-1050 crore in FY2025.
- It has tied up with International Finance Corporation (IFC) to create a joint platform with total equity investment of Rs. 750 crore. The platform is expected to generate GDV of Rs. 8000-10000 crore over the next 2-3 years.

Revision in estimates – We have retained our net earnings estimates for FY2024-FY2025.

Our Call

Valuation – Retain positive view with 17% upside potential: Sunteck Realty has a strong, sustainable growth potential in the near to long term with strong foundations built across key regions and income groups in the lucrative MMR market. It remains committed to expediting sales at ready BKC assets. The company has two major project launches during FY2024-FY2025, which along with healthy sustenance sales from existing projects should aid in driving sales booking growth. Its tie up with IFC would provide further scale to sustain future growth. We have introduced our FY2026E earnings in this note. The stock has appreciated by almost 60% since our initiating viewpoint coverage report dated June 23, 2023. We believe there is still further room for an upside, considering strong growth levers in both the medium to long term. Hence, we retain our Positive view on the stock with an upside potential of 17%.

Key Risks

Slowdown in realty demand in MMR region, inability to expedite sales in BKC projects, delay in sales and/or execution in existing and upcoming projects.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	362.4	1029.5	1682.6	1821.8
OPM (%)	17.7	30.3	32.1	32.3
Adjusted PAT	1.4	192.6	362.5	398.0
% YoY growth	-94.4	-	88.2	9.8
Adjusted EPS (Rs.)	0.1	13.2	24.7	27.2
P/E (x)	-	33.1	17.6	16.0
P/B (x)	2.3	2.1	1.9	1.7
EV/EBITDA (x)	107.5	21.9	12.3	11.3
RoNW (%)	0.1%	6.7%	11.5%	11.3%
RoCE (%)	2.4%	9.3%	14.6%	14.4%

Source: Company; Sharekhan estimates

Miss on earnings; Adjusted margins healthy

Consolidated net revenues stood at Rs. 24.9 crore, down 69.1% y-o-y (down 64.7% q-o-q) for Q2FY2024, which was much lower than our estimate on account of lower revenue recognition as per IND-AS. It had already announced sales booking (up 17% y-o-y at Rs. 395 crore) and collections (down 35% y-o-y). It reported operating loss of Rs. 14.1 crore as against operating profit of Rs. 10 crore in Q2FY2023 and operating loss of Rs. 7.5 crore in Q1FY2024. However, core EBITDA margin (excluding indirect costs pertaining to expenses from which revenue recognition has not started in P&L) stood healthy at 43.2% as against 51.6%/42.9% in Q2FY2023/Q1FY2024. Lower revenue recognition and operating loss led to consolidated net loss of Rs. 13.9 crore as against consolidated net profit of Rs. 2.3 crore in Q2FY2023 and a net loss of Rs. 6.7 crore in Q1FY2024.

Key Conference Call Takeaways -

- **Outlook:** The company is looking at growing its project portfolio from current Rs. 30,000 crore in GDV to Rs. 50,000 crore over the next 2-3 years. From existing projects, it is looking at 15-20% p.a. growth in sales along with additional sales from new projects. Overall, it expects to double sales over a three year period. The margins are expected to be higher going forward like for Sunteck World project (30% OPM) and ODC (35% OPM although 4th Avenue is operating at close to 40% OPM).
- **Q2FY2024 performance:** Pre-sales for Q2FY2024 was up 17% y-o-y at Rs. 395 crore while collections were down 35% y-o-y to Rs. 214 crore. The net debt stands at Rs. 259 crore, translating to just 0.09x. The company reported revenues of Rs. 95 crores in H1FY2024 with core EBITDA margin of 43%.
- **Revenue recognition for FY2024 & FY2025:** Its project Sunteck Maxx World will be completing in FY2024 which will lead to Rs. 750-850 crore revenue booking in FY2024 while Sunteck City fourth Avenue in ODC Goregaon West is expected to complete by end FY2025 which will lead to revenue recognition of Rs. 950-1050 crores in FY2025.
- **IFC deal:** It has tied up with International Finance Corporation (IFC) to create a joint platform with total equity investment of Rs. 750 crore. IFC can invest maximum up to 50% while after generating certain IRR, maximum profit will come to Sunteck and then only nominal profit goes to IFC. The platform is expected to generate GDV of Rs. 8000-10000 crore over the next 2-3 years. The platform will focus on close to Rs. 1.5 crore ticket size catering to mid-income group.
- **Launches:** It would be launching Kalyan phase I before Diwali while Napean Sea Road project is expected to be launched in FY2025 end. It would launching two towers with an estimated GDV of Rs. 600 crore of the total four towers of Kalyan phase I project having estimated GDV of Rs. 1200-1400 crore.
- **Commercial assets:** It completed BKC 51 and has leased it out for 29 years. The second commercial project Sunteck Icon at BKC junction will be completed in FY2024. These two assets are likely to generate 30% average return on invested capital.
- **Price hike:** The company has been able to take some price rise in Sky Park and ODC projects during Q2FY2024.
- **Business development:** It has invested Rs. 64 crores on business development out of which Rs. 10-15 crores is towards new projects which has not been announced yet.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	y-o-y %	Q1FY24	q-o-q %
Net sales	**24.9**	**80.7**	**-69.1%**	**70.6**	**-64.7%**
Other income	11.3	7.0	60.1%	17.8	-36.8%
Total income	**36.2**	**87.8**	**-58.7%**	**88.4**	**-59.0%**
Total expenses	39.1	70.7	-44.7%	78.0	-49.9%
Operating profit	**-14.1**	**10.0**	**-**	**-7.5**	**-**
Depreciation	2.2	2.3	-4.4%	1.8	25.4%
Interest	15.8	17.6	-10.3%	17.3	-8.9%
Profit Before Tax	**-20.9**	**-2.9**	**-**	**-8.7**	**-**
Taxes	-6.4	-1.0	-	-2.7	-
PAT	-14.5	-1.8	-	-6.0	-
Adj PAT after JV/MI	**-13.9**	**2.3**	**-**	**-6.7**	**-**
EPS	-1.0	0.2	-	-0.5	-
			BPS		BPS
OPM(%)	-	12.4%	-	-	-
NPM(%)	-	2.9%	-	-	-
Tax rate (%)	-	-	-	-	-

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Residential market on a growth trajectory

The real estate sector, especially the residential realty market, is expected to be in the limelight, as it benefits from central and state governments' favourable policies about the affordable housing segment. Rising income and affordability levels are expected to drive sales for quality and organised developers. Further, organised players are expected to benefit from ample inorganic opportunities in the sector, aiding consolidation in the sector. The sector is also likely to benefit from low-interest rates, which provide the twin benefits of driving demand and lowering funding costs. Overall, we are positive about the residential segment of the real estate market for the reasons mentioned above.

Company outlook - Strong growth visibility over near to longer-term

Sunteck Realty (Sunteck) has a 52 msf project portfolio (Sunteck's share ~36msf) focused primarily towards the residential market of MMR and has built strong foundations across key MMR regions diversifying across all income group since 2018. It has amassed ~33 msf projects mastering Joint Development routes with a mere upfront payout and adding almost Rs. 23,000 crore GDV projects which are expected to drive and maintain sales and collections momentum over the next 7-8 years. Its completed and ongoing portfolio offers net operating surplus of ~Rs. 4500 crore, which would be realized over the next 5-7 years. The company's negligible leverage and annuity income potential provide further comfort.

Valuation - Retain Positive view; expect an upside of 17%

Sunteck Realty has a strong, sustainable growth potential in the near to long term with strong foundations built across key regions and income groups in the lucrative MMR market. It remains committed to expediting sales at ready BKC assets. The company has two major project launches during FY2024-FY2025, which along with healthy sustenance sales from existing projects should aid in driving sales booking growth. Its tie up with IFC would provide further scale to sustain future growth. We have introduced our FY2026E earnings in this note. The stock has appreciated by almost 60% since our initiating viewpoint coverage report dated June 23, 2023. We believe there is still further room for an upside, considering strong growth levers in both the medium to long term. Hence, we retain our Positive view on the stock with an upside potential of 17%.

NAV Mix

Particulars	Value per share (Rs.)
Development Portfolio	
Completed	62
Ongoing	81
Forthcoming	267
Annuity Portfolio	60
Net Debt (less)	24
NAV Premium	63
Price Target	**508**

Source: Company; Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sunteck Realty	33.1	17.6	21.9	12.3	2.1	1.9	6.7	11.5
Macrotech Developers	50.9	39.6	21.1	16.4	4.9	4.4	10.9	12.4
Oberoi Realty	24.2	20.1	18.3	14.9	2.8	2.5	12.6	13.4
DLF	58.4	52.8	59.8	52.7	3.3	3.1	5.9	6.2

Source: Company; Sharekhan Research

About company

Sunteck Realty Limited is one of the fastest-growing Mumbai-based luxury real estate development companies, founded in 2000 by Mr. Kamal Khetan. Sunteck has a strong project portfolio of 52msf (Sunteck's share of ~36msf) spread across 20 projects, of which almost 20% comprise completed and ongoing projects. It has differentiated its projects under six brands - Signature, Signia, Sunteck City, Sunteck Beach Residences, Sunteck World and Sunteck. The company has been creating iconic destinations such as the flagship project, Signature Island at Bandra Kurla Complex (BKC), Sunteck City in Oshiwara District Centre (ODC), Goregaon and SunteckWorld at Naigaon – the largest township of MMR's Western Suburbs.

Investment theme

Sunteck Realty has a strong, sustainable growth potential over the near to long term with strong foundations built across key regions and income groups in the lucrative MMR market. Its completed and ongoing project portfolio offer near to medium net operating surplus generation at minimal expenditure. The company has underperformed its sector peers, with the slow monetization of ready BKC assets being a key hangover. However, it remains committed in expediting sales at BKC. We believe traction in BKC sales and high sales growth in newly built key regions in MMR provide a strong re-rating trigger for the company.

Key Risks

- Slowdown in realty demand in MMR region
- Inability to expedite sales in BKC projects, delay in sales and/or execution in existing and upcoming projects.

Additional Data

Key management personnel

Mr. Kamal Khaitan	Chairman and Managing Director
Mr. Atul Poopal	Executive Director
Mr. Prashant Chaubey	CFO

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MATRABHAV TRUST	31.9
2	PARIPURNA TRUST	11.62
3	ASTHA TRUST	10.53
4	PABRAI INVESTMENT FUND	6.68
5	Pabrai Investment Fund IV LP/The	4.52
6	Life Insurance Corp of India	4.02
7	SAMAGRA WEALTHMAX PVT LTD	2.62
8	BNP Paribas SA	2.43
9	Pabrai Investment Fund II LP/The	2.16
10	SATGURU INFOCOM SERVICES	2.05

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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