

Sunteck Realty (SRIN)

Real Estate

BUY

CMP(₹): 436

Fair Value(₹): 520

Sector View: **Attractive**

NIFTY-50: 19,282

October 25, 2023

Modest pre-sales; new launches to aid future growth

Sunteck reported 2QFY24 pre-sales of Rs3.95 bn (up 17% yoy and 2% qoq), with 1HFY24 pre-sales at Rs7.8 bn (up 17% yoy)—tracking a tad behind its annual guidance of 20-30% yoy growth, although the upcoming launch of the Kalyan project (Phase 1, Rs12-14 bn GDV) should help improve the momentum. Weak revenue recognition led to an EBITDA and PAT loss in 2QFY24. Upcoming launches (Kalyan and Nepean Sea Road), as well as inventory at existing projects, should support FY2024/25E pre-sales. The partnership with IFC for mid-income housing bodes well for future growth (Rs80-100 bn potential GDV from Rs7.5 bn equity investment)—we would watch out for execution here. Maintain BUY with a revised FV of Rs520/share (Rs455/share earlier).

Modest sales performance; weak revenue recognition

Sunteck posted 2QFY24 revenue of Rs249 mn (down 69% yoy and 65% qoq), EBITDA loss of Rs141 mn (EBITDA of Rs100 mn in 2QFY23, EBITDA loss of Rs75 mn in 1QFY24) and PAT loss (incl. profit from associates) of Rs139 mn (profit of Rs23 mn in 2QFY23, loss of Rs67 mn in 1QFY24). Management highlighted that it expects to recognize revenue of Rs7.5-8.5 bn in FY2024E/Rs9.5-10.5 bn in FY2025E from the delivery of its projects in Naigaon/Oshiwara.

Sunteck reported 2QFY24 pre-sales of Rs3.95 bn (up 17% yoy and 2% qoq), with 1HFY24 pre-sales at Rs7.8 bn (up 17% yoy). The operational performance lacked excitement and is tracking a tad behind management's guidance of 20-30% yoy growth in FY2024E. We highlight that Sunteck generally sees a steady sequential improvement through the course of the year; it expects to launch Phase 1 at Kalyan (Rs12-14 bn GDV) in 2HFY24. The 2QFY24 sales of Rs3.95 bn for 0.38 mn sq. ft of area were led by the upper mid-income segment (Rs1.9 bn from Sunteck City, Beach Residences & Sky Park), while the lower mid-income segment (Sunteck World) contributed Rs1 bn of sales. Collections for the quarter stood at Rs2.1 bn (down 35% yoy and 26% qoq), with 1HFY24 pre-sales of Rs5 bn (down 18% yoy). Sunteck had earlier during the quarter entered into a partnership with IFC to set up a joint investment platform for developing mid-income houses in MMR—this would entail an equity investment of Rs7.5 bn (Rs4.2 bn contribution by Sunteck), with potential GDV of Rs80-100 bn. Net debt as of September 2023 reduced a tad to Rs2.6 bn, with net debt/equity at 0.09X.

Extant inventory and new launches to support growth; maintain BUY

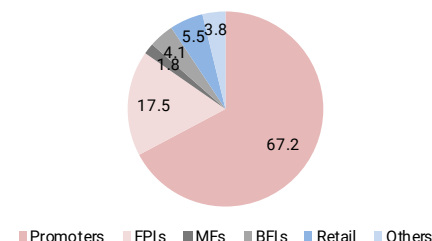
Sunteck has lagged peers in terms of sales performance due to delayed launches as well as slower sustenance sales. Management highlighted that it has Rs301 bn of GDV and Rs160 bn of net surplus (including receivables from booked sales, less pending costs) from unsold projects and upcoming launches; the IFC platform could offer an upside. The launch of the Kalyan project (Rs90 bn total GDV) and Nepean Sea Road (Rs25 bn GDV) should aid pre-sales of Rs17 bn/Rs23 bn in FY2024/25E. We maintain BUY with a revised FV of Rs520/share (from Rs455/share), owing to the inclusion of new projects undertaken by the company as well as the fine-tuning of estimates.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	436/520/BUY
52-week range (Rs) (high-low)	488-271
Mcap (bn) (Rs/US\$)	64/0.8
ADTV-3M (mn) (Rs/US\$)	256/3.1

Shareholding pattern (%)



Price performance (%)

	1M	3M	12M
Absolute	1	16	18
Rel. to Nifty	3	18	8
Rel. to MSCI India	1	15	10

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	20.0	23.0	58.4
EPS growth (%)	19,784.8	15.2	154.1
P/E (X)	21.8	19.0	7.5
P/B (X)	2.0	1.8	1.5
EV/EBITDA (X)	17.5	14.8	5.9
RoE (%)	9.6	10.1	21.8
Div. yield (%)	0.2	0.2	0.2
Sales (Rs bn)	12	15	28
EBITDA (Rs bn)	4	5	12
Net profits (Rs bn)	3	3	8

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of October 23, 2023

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Slow revenue recognition led to loss at EBITDA and PAT level

Exhibit 1: Quarterly results for Sunteck Realty, March fiscal year-ends, 2023–2025E (Rs mn)

	Change (%)													
	2QFY24	2QFY24E	2QFY23	1QFY24	KIE	2QFY23	1QFY24	1HFY24	1HFY23	% chg	2024E	2023	% chg	2025E
Net sales	249	1,186	807	706	(79)	(69)	(65)	955	2,242	(57)	11,878	3,624	228	15,145
Operating costs	(391)	(1,017)	(707)	(780)	(62)	(45)	(50)	(1,171)	(1,690)	(31)	(7,831)	(2,983)	163	(10,504)
EBITDA	(141)	169	100	(75)	(184)	(241)	90	(216)	552	NM	4,046	642	531	4,640
Other income	113	181	70	178	(38)	60	(37)	291	123	138	327	284	15	266
Interest costs	(158)	(171)	(176)	(173)	(7)	(10)	(9)	(331)	(374)	(12)	(588)	(859)	(32)	(614)
Depreciation	(22)	(20)	(23)	(18)	14	(4)	25	(40)	(45)	(10)	(97)	(92)	5	(101)
PBT	(209)	160	(29)	(87)	(231)	630	140	(296)	256	NM	3,688	(25)	na	4,192
Taxes	64	(40)	10	27	(259)	513	135	91	(52)	NM	(1,031)	(31)	3,255	(1,183)
PAT	(145)	120	(18)	(60)	(221)	696	141	(205)	204	NM	2,657	(56)	na	3,009
PAT (incl. profit from associates)	(139)	144	23	(67)	(197)	(697)	107	(207)	(273)	NM	2,802	14	19,785	3,226
Net comprehensive income	(92)	144	99	(79)	(164)	(194)	16	(172)	348	NM	2,802	14		3,226
EPS (Rs/share)	(1.0)	–	0.2	(0.5)				(1.5)	1.9		19.9	0.1		23.0
Key ratios														
EBITDA margin (%)	(57)	14	12	(11)				(23)	25		34	18		31
PAT margin (%)	(58)	10	(2)	(9)				(21)	9		22	(2)		20
Effective tax rate (%)	30	25	36	31				31	20		28	(122)		28

Source: Company, Kotak Institutional Equities estimates

Operational performance across projects

Ongoing projects continue to provide cash inflows

- ▶ **BKC.** Sunteck sold Rs450 mn of inventory across 2 units at Signia Isles and Signia Pearl in BKC. This follows Rs760 mn of sales in FY2023 and nil sales in 1QFY24 at BKC. The company has ~Rs15 bn of unsold inventory at BKC.
- ▶ **Sunteck Beach Residences, Vasai.** Sunteck saw sales of Rs550 mn in 2QFY24 at the Sunteck Beach Residences project (Rs590 mn in 1HFY24 and Rs4.3 bn in FY2023).
- ▶ **Naigaon.** Sunteck World (One World and Maxx World) saw sales of Rs960 mn in 2QFY24 (Rs1.5 bn in 1HFY24 and Rs2.2 bn in FY2023).
- ▶ **Sunteck City, Goregaon.** Sunteck City (Avenue 1, 2 & 4) contributed to Rs350 mn of sales in 2QFY24 (Rs0.9 bn in 1HFY24 and Rs5 bn in FY2023).
- ▶ **Sunteck Sky Park, Mira Road.** The Sky Park project at Mira Road (launched in March 2023) contributed to Rs1 bn of sales in 2QFY24 (Rs3.4 bn in 1HFY24 and Rs2.9 bn in FY2023)

Launches. Sunteck expects to launch Phase 1 (4 towers) of the Kalyan project in 2HFY24 with GDV of Rs12-14 bn. It expects to launch 2 towers (Rs6 bn GDV) in 3QFY23, with the balance being launched in 4QFY24.

Rs301 bn of unsold inventory across existing projects and new launches. Management highlighted that it has Rs301 bn of unsold inventory across its existing projects (BKC, Naigaon, Vasai, Goregaon and Mira Road) and yet to be launched projects (Kalyan and Nepean Sea Road). It also has Rs2.2 bn of pending receivables from booked sales, while pending costs amount to Rs164 bn, implying a net surplus of Rs160 bn to be realized over the coming years.

Partnership with IFC to support future growth. Sunteck entered into a partnership with IFC in 2QFY24 to set up a joint investment platform for developing affordable and mid-income houses in MMR (ticket size up to Rs15 mn)—this would entail equity investment of Rs7.5 bn, of which Rs4.2 bn would be the contribution by Sunteck, and would offer a potential GDV of Rs80-100 bn.

Sunteck's 2QFY24 pre-sales at Rs3.95 bn saw slight sequential improvement

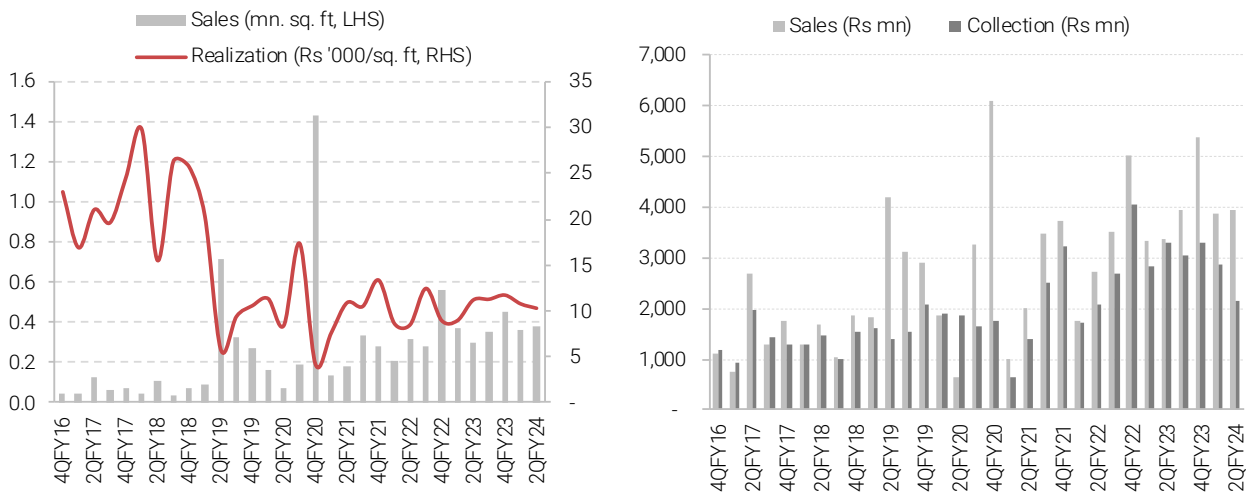
Exhibit 2: Sunteck's operational performance, March fiscal year-ends, 2023-2025E (sq. ft, Rs mn, Rs)

	Growth (%)						1HFY23	Growth (%)	2024E	2023	Growth (%)	2025E
	2QFY24	2QFY23	1QFY24	2QFY23	1QFY24	1HFY24						
Sales (sq. ft)	382,367	300,000	358,104	27	7	740,471	670,000	11	1,890,639	1,476,601	28	2,453,494
Sales (Rs mn)	3,950	3,370	3,870	17	2	7,820	6,700	17	17,480	16,020	9	23,367
Realization (Rs/sq. ft)	10,330	11,233	10,807	(8)	(4)	10,561	10,000	6	9,246	10,849	(15)	9,524
Collection (Rs mn)	2,143	3,310	2,880	(35)	(26)	5,023	6,150	(18)	17,030	12,490	36	16,748

Source: Company, Kotak Institutional Equities

Sunteck's sales pick-up sequentially during the course of the year

Exhibit 3: Sunteck's operational performance, March fiscal year-ends, 4QFY16-2QFY24 (mn sq. ft, Rs '000/ sq. ft, Rs mn)



Source: Company, Kotak Institutional Equities

Sunteck has Rs301 bn of unsold inventory across existing/new projects

Exhibit 4: Unsold inventory, pending receivable and costs and net surplus for Sunteck Realty (Rs bn)

	Unsold inventory (A)	Receivables from sales booked (B)	Pending costs (C)	Net surplus (A+B-C)
Value (Rs bn)	301	23	164	160
% mix				
OC/ near completion	6	20	—	13
Ongoing projects	4	80	9	11
New launches	13	—	8	17
Upcoming projects	77	—	83	59

Source: Company, Kotak Institutional Equities estimates

We expect Sunteck to report Rs20 bn of pre-sales in FY2024E

Exhibit 5: Key assumptions driving our financial model, March fiscal year-ends, 2020-26E (Rs mn)

	2020	2021	2022	2023	2024E	2025E	2026E
Development							
Sales (Rs mn)	12,210	10,217	13,027	16,020	17,480	23,367	37,486
Sales (mn sq. ft)	1.86	0.92	1.36	1.48	1.89	2.45	3.81
Sales (Rs/sq. ft)	6,576	11,056	9,558	10,849	9,246	9,524	9,844
Collections (Rs mn)	7,137	7,800	10,530	12,490	17,030	16,748	28,471
Construction (Rs mn)	4,926	3,789	1,017	5,143	7,657	8,729	16,543
GCF (Rs mn)	2,211	4,011	9,513	7,346	9,374	8,019	11,928
GCF (Outstanding)	225,871	222,148	214,777	213,795	206,892	202,289	195,884
Revenue (Rs mn)	6,078	6,141	5,131	3,624	11,878	15,145	28,382
EBITDA (Rs mn)	1,619	1,331	953	642	4,046	4,640	11,843
EBITDA (%)	27	22	19	18	34	31	42

Source: Company, Kotak Institutional Equities estimates

Upcoming projects account for 51% of the GAV of Sunteck Realty

Exhibit 6: SoTP value of Sunteck Realty based on March 2025E (Rs mn)

Project	Location	Ownership (%)	Value			Inventory / Area			Receivables (Rs mn)	Cost (Rs mn)	GCF (Rs mn)
			(Rs mn)	(Rs/share)	(%)	(mn sq. ft.)	(Rs/sq. ft)	(Rs mn)			
Residential											
Ongoing											
Signature Island	BKC	100	3,467	25	4	0.20	59,160	11,631	2,222	0	13,853
Signia Isles	BKC	100	701	5	1	0.03	57,089	1,599	2,516	110	4,004
Signia Pearl	BKC	100	2,432	17	3	0.10	57,952	5,889	1,797	(20)	7,706
Sunteck City	Oshiwara	100	1,949	14	3	0.60	16,744	10,122	3,831	4,345	9,608
Sunteck World	Naigaon	JDA (74%)	–	–	–	0.43	6,447	2,777	6,407	3,419	3,378
Vasai	Vasai	JDA (75%)	6,284	45	8	4.50	9,683	43,575	–	13,500	19,181
Glibert Hill		JDA (65%)	–	–	–	0.05	29,326	1,569	217	160	1,001
Signia Waterfront		50	–	–	–	0.05	17,415	906	679	(47)	1,632
Sunteck Icon		57	239	2	0	0.08	28,269	2,290	–	932	1,358
Gateway 51		55	–	–	–	0.11	28,930	3,182	–	1,063	2,119
Ongoing			15,974	114	21	6	13,627	85,822	24,995	24,329	72,581
Upcoming											
Sunteck World	Naigaon	JDA (74%)	15,839	113	20	7.00	12,691	88,836	–	18,000	47,739
Sunteck City	Oshiwara	100	13,579	97	17	3.37	20,683	69,715	–	19,408	50,308
Vasind	Vasind	JDA (80%)	1,877	13	2	2.50	5,024	12,559	–	5,500	4,547
Borivali	Borivali	JDA (72%)	1,738	12	2	1.00	14,503	14,503	–	5,100	5,342
Kalyan	Kalyan	JDA (78%)	9,391	67	12	10.00	8,582	85,824	–	35,000	31,943
Mira Road	Mira Road	JDA (78%)	4,499	32	6	2.50	11,236	28,089	–	12,000	9,910
Upcoming			46,923	334	60	26	11,358	299,528	–	95,008	149,789
Future			14,781	105	19						
Total			77,678	554	##						
Net debt			(4,762)	(34)	(6)						
Equity Value			72,916	520	94						

Source: Company, Kotak Institutional Equities estimates

We modify Sunteck's revenue and profitability estimates for FY2024E and FY2025E

Exhibit 7: Sunteck Realty, changes in estimates, March fiscal year-ends, 2024-2026E (Rs mn)

	New estimates			Old estimates			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	11,878	15,145	28,382	10,261	20,203	21,802	16	(25)	30
EBITDA	4,046	4,640	11,843	3,272	6,987	8,971	24	(34)	32
PAT	2,802	3,226	8,196	2,493	4,961	6,159	12	(35)	33

Source: Company, Kotak Institutional Equities estimates

Revenue recognition should pick up from FY2024E after a slow performance in FY2023
Exhibit 8: Sunteck: Profit model, balance sheet, cash flow model, March fiscal year-ends, 2020-26E (Rs mn)

	2020	2021	2022	2023	2024E	2025E	2026E
Profit model							
Net sales	6,078	6,141	5,131	3,624	11,878	15,145	28,382
EBITDA	1,619	1,331	953	642	4,046	4,640	11,843
Other income	237	168	209	284	327	266	278
Interest	(435)	(848)	(776)	(859)	(588)	(614)	(586)
Depreciation	(36)	(52)	(73)	(92)	(97)	(101)	(104)
Pre-tax profits	1,385	598	314	(25)	3,688	4,192	11,431
Tax	(378)	(164)	(29)	(82)	(1,031)	(1,183)	(3,354)
Deferred taxation	–	–	(46)	51	–	–	–
Net income	1,007	434	239	(56)	2,657	3,009	8,077
Adjusted net income	1,003	497	251	14	2,802	3,226	8,196
Earnings per share (Rs)	7	4	2	0	20	23	58
Balance sheet							
Total equity	29,201	27,723	27,904	27,879	30,540	33,625	41,681
Gross debt	7,678	6,544	7,869	6,854	7,854	7,490	7,161
Non-current liabilities	74	50	169	150	149	150	149
Current liabilities	5,021	6,256	18,973	37,703	6,190	6,021	(1,201)
Total liabilities and equity	41,974	40,573	54,915	72,586	44,733	47,285	47,791
Fixed assets	870	625	1,225	2,515	1,073	993	912
Non-current financial assets	2,964	2,817	3,225	3,524	2,918	2,536	2,385
Other non-current assets	248	461	520	617	617	617	617
Current assets	37,892	36,670	49,945	65,930	40,125	43,139	43,876
Total assets	41,974	40,573	54,915	72,586	44,733	47,285	47,791
Free cash flow							
Operating cash flow, excl. working capital	1,174	278	436	212	2,899	3,327	8,300
Working capital changes	(2,376)	2,040	(2,483)	5,777	(6,052)	(1,206)	(9,835)
Capital expenditure	(182)	194	(673)	(1,382)	1,345	(21)	(23)
Free cash flow	(1,384)	2,512	(2,720)	4,607	(1,808)	2,099	(1,558)
Ratios (%)							
Debt/equity	31.6	29.2	28.2	24.6	25.7	22.3	17.2
Net debt/equity	25.9	25.6	24.7	18.9	23.6	14.2	15.0
RoE (%)	3.5	1.7	0.9	0.1	9.6	10.1	21.8
RoCE (%)	3.5	2.9	2.3	5.3	8.3	8.7	18.9
Book value per share (Rs/share)	208	198	199	199	218	240	297

Source: Company, Kotak Institutional Equities estimates