MOTILAL OSWAL
FINANCIAL SERVICES

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Initiating Coverage | Sector: Real Estate

Sunteck Realty

Redefining the growth path

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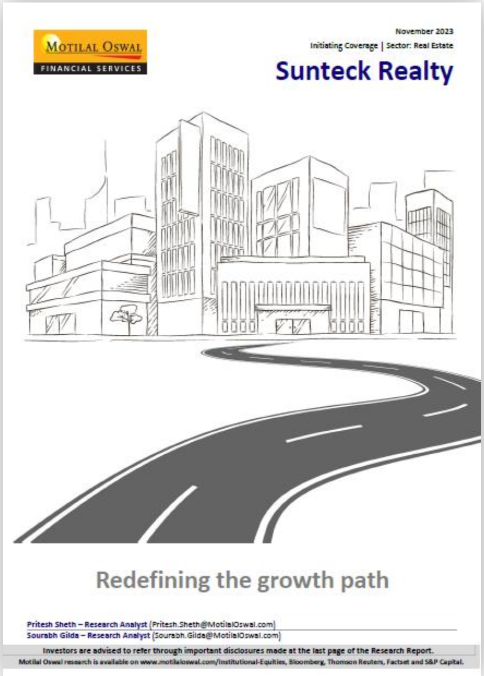


Sunteck Realty

Redefining the growth path

- Sunteck Realty Ltd. (Sunteck) is one of the leading real estate developers in the Mumbai Metropolitan Region (MMR), which is the largest micro-market in the country. MMR has reported 70% higher absorption than pre-Covid levels.
- Sunteck's multi-micro-market presence, luxury offerings across price points, and proven execution track record have made it one of the biggest beneficiaries of the strong demand. Its three new project launches (out of the eight projects it acquired) resulted in 22% pre-sales CAGR during FY18-23. The company is likely to post 25% CAGR over FY23-26 (reaching INR31b), as it is gearing up for 2-3 new project launches. Further, Sunteck's strong balance sheet (D/E of 0.1x), robust cash flows (cumulative OCF of INR16b over FY23-26E) and recent platform with IFC would enhance its future growth potential.
- We arrive at our TP of INR640 based on the SOTP approach, indicating 41% upside potential. We initiate coverage with a BUY rating.
- Key risks: 1) a delay in the launch of new projects; and 2) subdued sales velocity, which would lead to a longer monetization timeline and a lower discounted value.

Sunteck Realty

BSE Sensex	S&P CNX
65,655	19,694

CMP: INR454 **TP: INR640 (+41%)** **Buy**

Sunteck

Stock Info

Bloomberg	SRIN IN
Equity Shares (m)	146.5
M.Cap.(INRb)/(USDb)	66.5 / 0.8
52-Week Range (INR)	488 / 271
1, 6, 12 Rel. Per (%)	-4/43/7
12M Avg Val (INR m)	185
Free float (%)	32.8

Financial Snapshot (INR b)

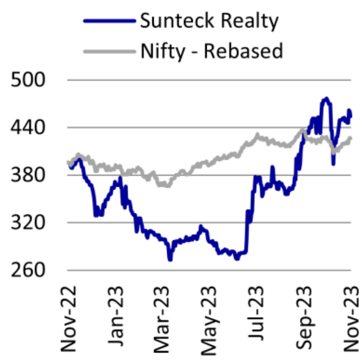
Y/E March	FY24E	FY25E	FY26E
Sales	9.2	14.1	18.3
EBITDA	2.2	3.7	5.0
EBITDA Margin (%)	23.6	25.9	27.4
Adj PAT	1.3	2.4	3.5
Cons. EPS (INR)	8.9	16.6	23.9
EPS Growth (%)	NA	86.4	43.9
BV/Share (INR)	197.7	212.8	235.2
Ratios			
Net D:E	0.1	0.1	0.0
RoE (%)	4.6	8.1	10.7
RoCE (%)	5.1	7.9	10.0
Payout (%)	16.9	9.0	6.3
Valuations			
P/E (x)	51.0	27.4	19.0
P/BV (x)	2.3	2.1	1.9
EV/EBITDA (x)	32.4	19.1	13.6
Div. Yield (%)	0.3	0.3	0.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	67.2	67.2	67.1
DII	7.0	6.0	6.3
FII	16.7	17.5	18.9
Others	9.1	9.3	7.7

FII Includes depository receipts

Stock Performance (1-year)



Redefining the growth path

Expect 25% CAGR in pre-sales over FY23-26

- **Sunteck Realty Ltd. (Sunteck) is one of the leading real estate developers in the Mumbai Metropolitan Region (MMR), which is the largest micro-market in the country. MMR has reported 70% higher absorption than pre-Covid levels.**
- **Sunteck's multi-micro-market presence, luxury offerings across price points, and proven execution track record have made it one of the biggest beneficiaries of the strong demand. Its three new project launches (out of the eight projects it acquired) resulted in 22% pre-sales CAGR during FY18-23. The company is likely to post 25% CAGR over FY23-26 (reaching INR31b), as it is gearing up for 2-3 new project launches. Further, Sunteck's strong balance sheet (D/E of 0.1x), robust cash flows (cumulative OCF of INR16b over FY23-26E) and recent platform with IFC would enhance its future growth potential.**
- **We arrive at our TP of INR640 based on the SOTP approach, indicating 41% upside potential. We initiate coverage with a BUY rating.**
- **Key risks: 1) a delay in the launch of new projects; and 2) subdued sales velocity, which would lead to a longer monetization timeline and a lower discounted value.**

Evolving locations through its luxury offerings with a low-risk approach

- Sunteck has identified untapped, high-growth potential markets in MMR through its project acquisition strategy. It has expanded into BKC, Goregaon, Naigaon, Vasai, Vasind, and Kalyan over the years.
- Sunteck has gradually developed these markets through its large-scale luxury offerings and proven execution track record. Its multi-brand approach has helped maintain its premium position across different price points, achieving a healthy price CAGR of 8-13% since the launch.
- To mitigate market risk, Sunteck has transitioned from a land-ownership model to an asset-light approach, with initial investments at 1-2% of GDV. Higher operating margins (due to premium pricing) and low capital investments have enabled the company to clock a healthy IRR of 20-25%.

Pre-sales to report 25% CAGR over FY23-26E

- Sunteck's pre-sales growth was subdued during FY14-18 (posting a 10% CAGR over the period); however, it accelerated thereafter at 22% CAGR over FY18-23, led by three new project launches.
- The company is now gearing for the next leg of growth, with two new project launches planned in Kalyan and Nepean Sea Road. Cumulatively, the company is lining up INR57b of launches from new projects (INR22b) and successive phases in existing projects (INR35b) over the next 2-3 years.
- With a ramp-up in launches across the ongoing and new projects, we expect the company to deliver a 25% CAGR in pre-sales to INR31b through FY26. In addition, the company is also looking to add projects with a GDV potential of INR150-200b with the aim of doubling pre-sales over the next 3-4 years.

Healthy balance sheet, robust cash flows & platform with IFC to fuel growth

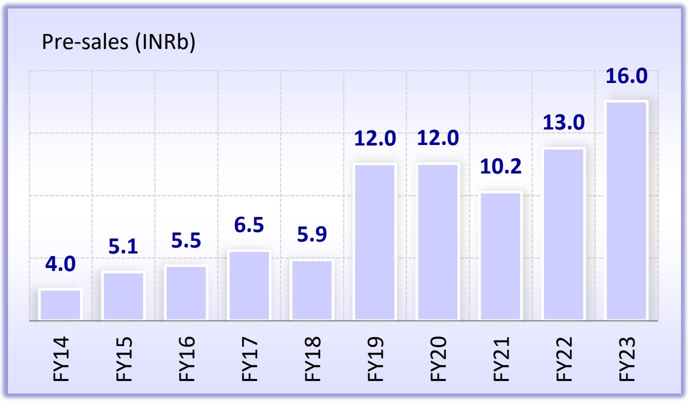
- Historically, Sunteck has maintained a disciplined balance sheet, which ensures that leverage has not exceeded 0.5x of equity. It generated an operating surplus of INR9.5b over FY21-23, which helped reduce the net debt to INR2.6b, bringing the net debt to equity down to 0.1x. This leaves a lot of headroom for growth.
- Further, Sunteck's cash flows are anticipated to remain strong, aided by the pending pre-tax net cash flows of INR40b generated from the completed and ongoing projects and INR57b from the launches. We estimate a cumulative net operating surplus of INR16b over FY24-26, which will largely be utilized for future growth.
- Additionally, Sunteck has recently formed an INR7.5b joint development partnership with IFC for developing ~12,000 affordable and mid-income homes in large-scale urban housing projects. This partnership would enhance Sunteck's capability for growth. Management aims to add at least INR150-200b of projects to amplify its active project pipeline to INR500b over the next 2-3 years.

Multiple growth levers at play; Initiate coverage with a BUY rating

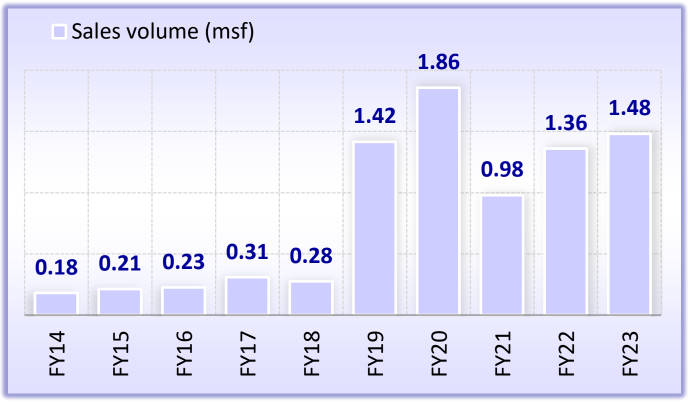
- We expect Sunteck to deliver a healthy 25% pre-sales CAGR over FY23-26, fueled by a ramp-up in launches from both new and existing projects. Further, its sound balance sheet, strong cash flow, and recent partnership with IFC would spur project additions and drive a sustainable growth trajectory.
- We anticipate Sunteck to deliver INR45-50b worth of units at its projects in Naigaon and Goregaon, driving 72% revenue CAGR over FY23-26 and multi-fold growth in PAT to INR3.5b
- We value its residential segment based on the NPV of existing pipelines and its commercial segment based on an 8% cap rate on FY25E EBITDA. We also assign INR14b of value to future project additions through the IFC platform to arrive at our TP of INR640, indicating 41% upside potential. **We initiate coverage with a BUY rating on the stock.**

OPERATING METRICS

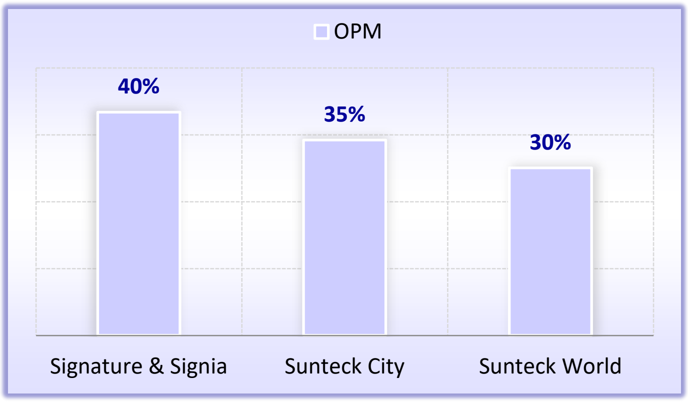
Pre-sales reported 22% CAGR over FY18-23



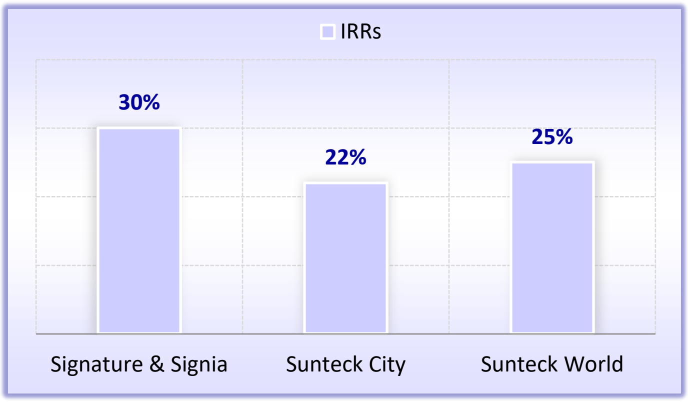
Volume rose to 1.5msf in FY23 from 0.3msf in FY18



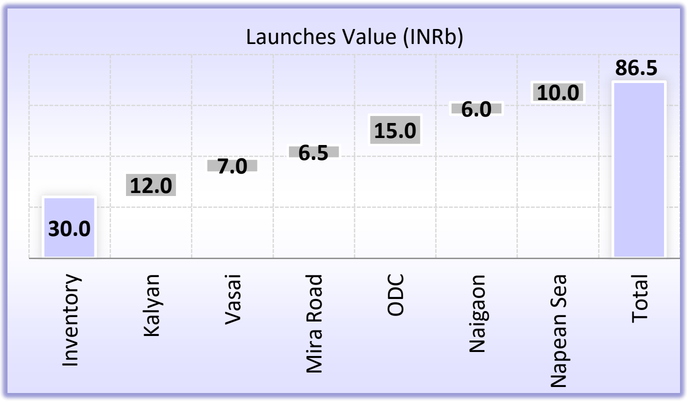
Sunteck targets 30-40% OPM…



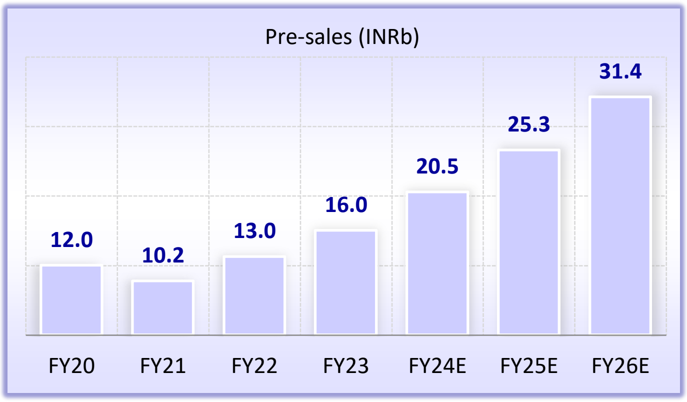
…and generates healthy IRRs



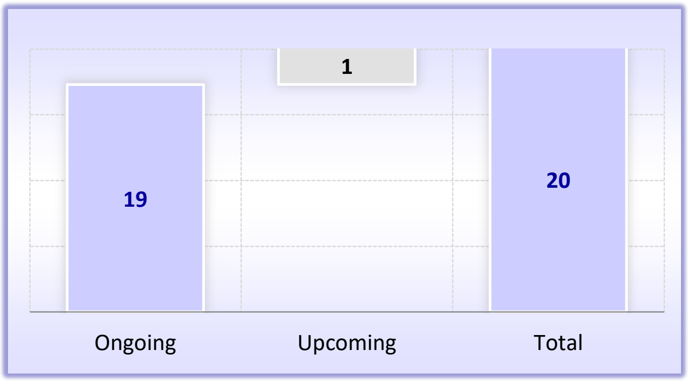
The company is gearing up for INR57b of launches…



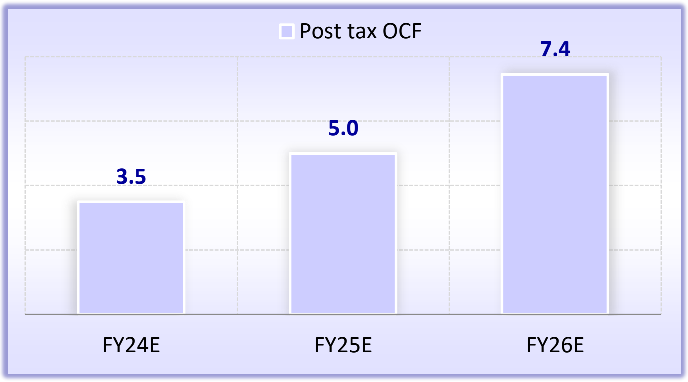
…which will enable it to report 25% CAGR in sales over FY23-FY26E



Bulk of the surplus (INR b) in near term will be generated from ongoing projects



We expect consistent scale up in OCF over FY24-26E (INRb)



Expanding presence in the largest Indian micro-market

Caters to all the pricing segments through its luxury offerings

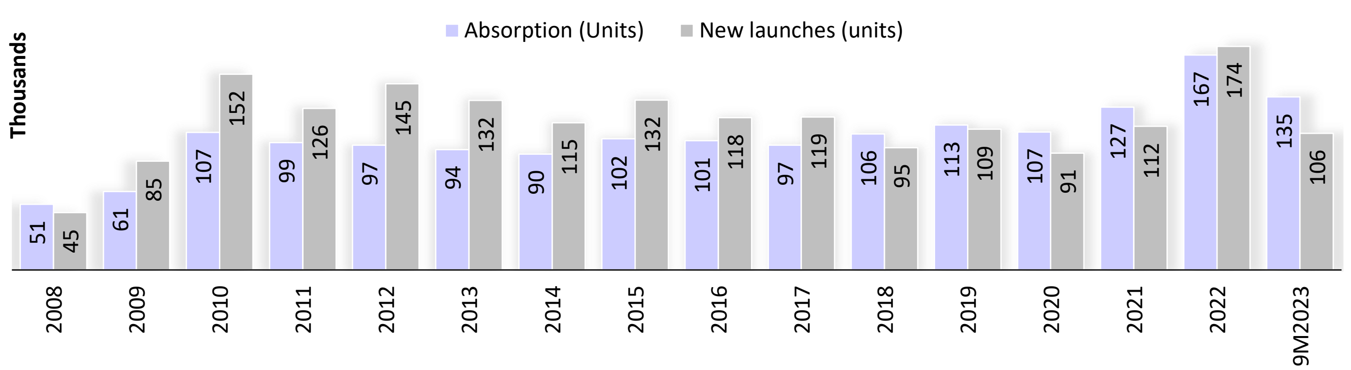
- **Sunteck commenced its operations in 2000 and delivered its first commercial project in Vile Parle, in the western suburbs of MMR. Since then, it has expanded its presence across western suburbs, extended western suburbs, central and south Mumbai, as well as extended eastern suburbs.**
- **According to PropEquity, MMR is the largest micro-market among the top-7 cities, which contributes to ~35% of overall absorption. MMR has also been the best-performing market with annual absorption being 70% higher than the pre-Covid average. With inventory overhang down to 18 months, we expect pricing growth to sustain 5-7% CAGR.**
- **Sunteck caters to various pricing categories but maintains its premium positioning through a multi-brand approach. It has the Signature and Signia brands in the high-end luxury segment, Sunteck for premium luxury, and SunteckWorld for the aspirational luxury segment in lower affordable markets.**

MMR contributes ~35% of the overall housing demand among top-7 cities

MMR accounts for more than a third of the overall sales across top-7 cities

- According to PropEquity, the top-7 cities reported absorption of 385,000 units in 9MCY23, which was >80% of CY22 absorption rate. The absorption is on track to report at least 10% YoY growth for CY23.
- MMR has been the best-performing market with an absorption of ~135,000 units in 9MCY23 and is expected to surpass the record absorption of ~167,000 units reported in CY22.
- MMR now contributes ~35% of the total absorption in top-7 cities vs. historical average of 30% (CY08-CY19).

Exhibit 1: MMR witnessed an absorption of ~135k units in 9MCY23



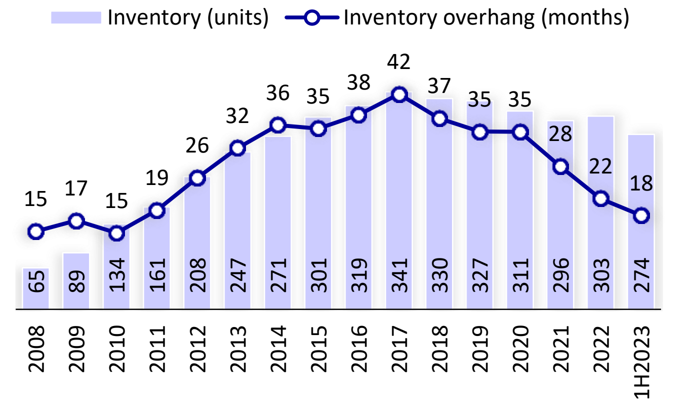
Source: Company, MOFSL

Inventory overhang down to 18 months; steady pricing growth to continue

Despite being the most expensive market, MMR witnessed 7% CAGR in realization post-Covid

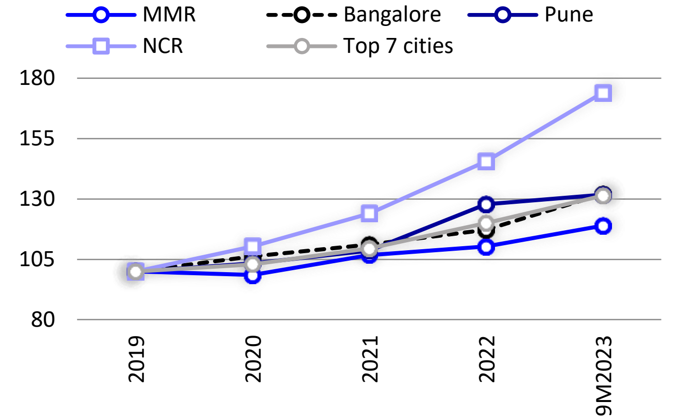
- In CY22, launches (174,000) surpassed absorption for the first time since CY17 but have been lower than the demand in 9MCY23.
- Overall inventory is down to ~274,000 units as of Sep'23 vs. its peak of ~345,000 units as of Sep'17, resulting in an inventory overhang of just 18 months as against the peak of 45 months.
- Post-Covid, MMR has reported steady pricing growth at 7% CAGR over CY20-Sep'23. While the average realization growth was lower than the 9% CAGR reported by top-7 cities, it was healthy despite MMR being the least-affordable market compared to the other six cities.

Exhibit 2: Inventory overhang has been trending down since CY17 ('000)



Source: Company, MOSL

Exhibit 3: MMR's realization posted 7% CAGR post-Covid



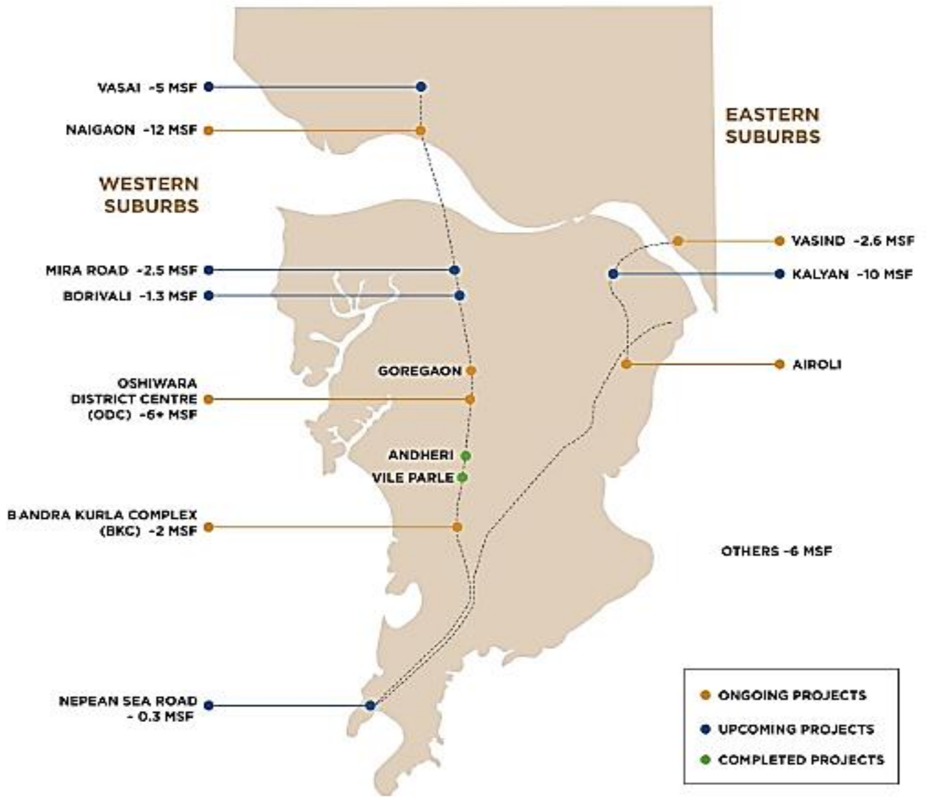
Source: Company, MOSL

Sunteck has gradually expanded into various micro-markets and has positioned itself as premium brand across price points with multi brand approach

Sunteck has presence across the markets in MMR

- Sunteck delivered its first commercial project in 2005 in the western suburb of MMR and then expanded into central Mumbai after it acquired land in BKC for an uber-luxury project.
- Since then, it has expanded into various micro-markets across western and extended western suburbs such as Goregaon, Nepean Sea Road, Borivali, Mira Road, Naigaon, and Vasai Road, and has also acquired three projects in the extended eastern suburbs in Kalyan, Vasind and Airoli.
- To date, it has delivered five commercial/retail projects in Andheri, Vileparle and Goa and eight residential projects across Borivali, Goregaon, Andheri, BKC, Airoli, and Nagpur.

Exhibit 4: Sunteck has gradually expanded its presence across various micro-markets



Source: Company, MOFSL

Snapshot of Sunteck's marquee projects

Exhibit 5: Actual photo of Signature Island, BKC

Source: Company, MOFSL

Exhibit 6: Actual photo of Signature Pearl, BKC

Source: Company, MOFSL

Exhibit 7: Sunteck Avenue 1 & 2, ODC - Goregaon

Source: Company, MOFSL

Exhibit 8: Sunteck 4th Avenue, ODC - Goregaon

Source: Company, MOFSL

Exhibit 9: Sunteck WestWorld, Naigaon (Club House view)

Source: Company, MOFSL

Exhibit 10: Sunteck MaxxWorld, Naigaon (delivery in FY24E)

Source: Company, MOFSL

Exhibit 11: Excavation in progress at SBR Vasai

Source: Company, MOFSL

Exhibit 12: Sunteck Sky Park (Mira Road) – land parcel

Source: Company, MOFSL

Multi-brand approach for premium positioning across price segments

- Despite its offerings across income categories, Sunteck has maintained its premium positioning through a multi-brand approach.
- Sunteck offers high-end luxury projects through its brands ‘Signature’ and ‘Signia’ and delivered projects in BKC, Borivali, Airoli, and Nagpur. It subsequently ventured into premium luxury projects in Goregaon, Andheri and Mira Road through the ‘Sunteck’ brand.
- In low-affordability markets such as Naigaon, Vasind, and Kalyan, it offers aspirational luxury products through the ‘SunteckWorld’ brand. It has recently branded its beach-facing project in Vasai with a marquee luxury brand ‘Sunteck Beach Residences’.

Exhibit 13: A multi-brand approach with presence across different price segments

Uber Luxury
(UHNI & HNI)
Signature
Signia

Premium Luxury
(Upper Mid-Income)
SunteckCity
Sunteck SkyPark

Aspirational Luxury
(Lower Mid-Income)
SunteckWorld

Marquee Luxury
(Beach Residences)
SBR
Sunteck Beach Residences

Source: Company, MOFSL

Evolving locations through its luxury offerings…

…leading to high operating margins and return ratios

- **Sunteck's research-driven project acquisition approach has enabled the company to identify high-growth markets in MMR that are primarily unexplored by other grade-A developers. The company's project additions in BKC, Goregaon, Naigaon, Vasai, Mira-road and Kalyan are in line with the strategy.**
- **Longer gestation periods, resulting from the large size of projects, have also enabled the company to achieve consistent pricing growth of 8-13%, leading to healthy operating margins and IRR.**
- **Sunteck also adopted a low-risk, asset-light strategy to penetrate the extended suburban markets of Naigaon, Vasai, Mira Road, Kalyan, and Vasind, which allowed the company to add multiple projects in a volatile industry environment during FY18-FY22.**

Research-based approach in predicting high-growth markets

Sunteck has consistently identified unexplored markets that present high-growth opportunities as these markets have evolved as preferred locations over time

- Management has adopted a research-driven strategy to identify high-growth markets through their upcoming infrastructure connectivity. It focuses on large-scale developments, which can evolve the market through its luxury offerings.
- It acquired a 23-acre land parcel in an emerging location in Oshiwara, Goregaon to tap the high catchment backed by the planned suburban railway station and the large commercial developments in Goregaon East.
- Similarly, the ~150-acre development in Naigaon allows the company to offer a luxury lifestyle to the aspiring population and the large residential catchments in the nearby suburban markets of Bhayandar and Vasai.

Exhibit 14: Post-Sunteck's foray, the micro-markets have evolved as preferred locations due to multiple geographical significance

Project	Location	Size (msf)	Geographical Importance
Signature & Signia	BKC	2	❖ Amidst the largest commercial hub in Mumbai
Sunteck City	ODC	6	❖ Close proximity to commercial and residential hub of Goregaon
Sunteck World	Naigaon	12	❖ It allows company to cater to large residential catchment of Bhayandar and Vasai with an aspirational luxury offering

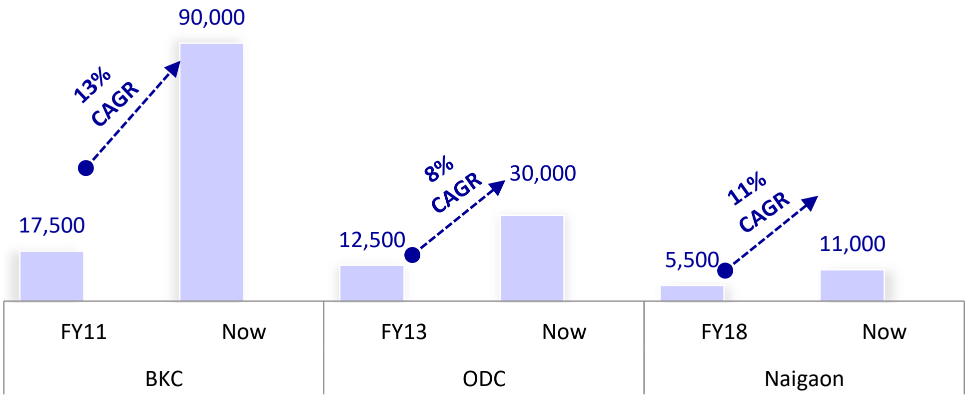
Source: Company, MOFSL

Developing locations and benefiting from pricing growth

- Sunteck is able to evolve the market and benefit from pricing growth due to its large-scale developments and unique luxury offerings in markets that are primarily unexplored by large grade-A developers.
- Sunteck's BKC projects were initially (FY11) priced at INR17,500/sqft. They are now quoting at INR80,000-90,000/sqft, implying 13% CAGR over FY10-FY24.
- Similarly, realizations for SunteckCity, Oshiwara District Center (ODC), Goregaon, and Naigaon have improved at 8% CAGR over FY13-24 and at 11% CAGR over FY18-24.

The company targets 30-40% OPM and 20-30% IRR

Exhibit 15: All projects have witnessed healthy price increases over the years

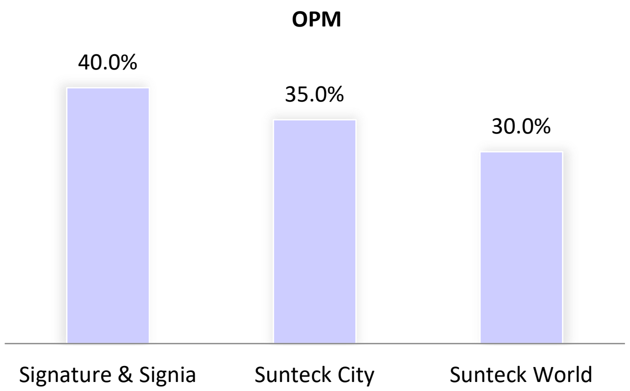


Source: Company, MOFSL

Asset-light approach enabling high IRR

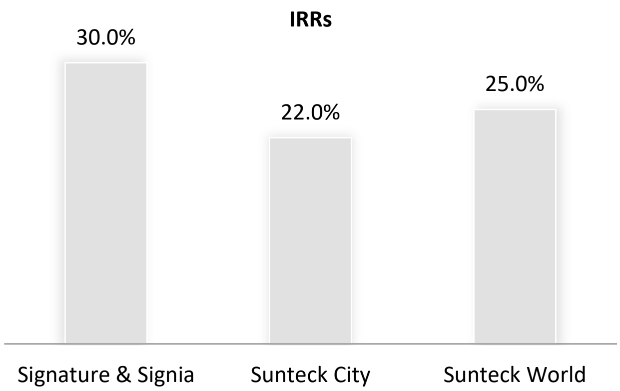
- Initial land acquisitions by Sunteck at BKC and ODC, Goregaon were outright purchases but jointly acquired with equity partners. Piramal Enterprise was a 50% partner for the BKC project, while Kotak Realty Fund invested INR1.5b out of the INR3b paid for the land in ODC, Goregaon in 2012.
- Post-2018, Sunteck adopted an asset-light approach when it entered into a joint development agreement for a 100-acre land parcel at Naigaon with an initial deposit as low as INR0.5b. Similarly, initial deposits for Vasai, Borivali, and Mira Road projects stood at 1-2% of GDV potential.
- Further, due to the large size of the projects, the company also unlocks higher development potential over the period. Sunteck's proven ability to increase prices over a period enables the company to generate high operating margins and a healthy IRR.
- For outright projects at BKC and ODC, the company expects operating margins to be 35% and above with the IRR ranging around 20-30%. However, for the JDA projects, Sunteck expects to clock an EBITDA margin of 25-30%.

Exhibit 16: Sunteck targets 30-40% OPM…



Source: Company, MOFSL

Exhibit 17: …and generates healthy IRRs



Source: Company, MOFSL

Pre-sales to report 25% CAGR over FY23-26E…

…driven by INR57b of launches in existing and new projects

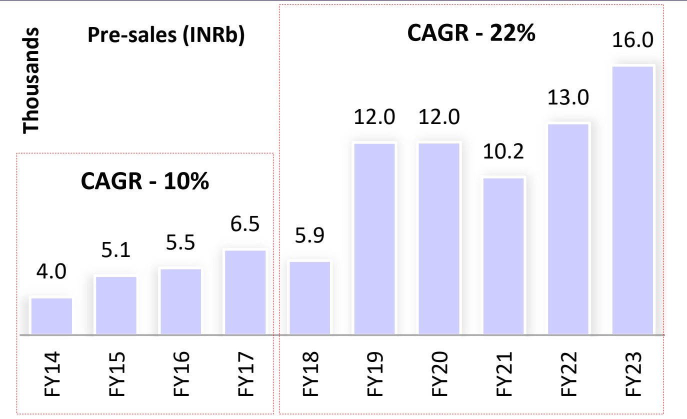
- **During FY18-23, Sunteck reported a 22% pre-sales CAGR driven by three new project launches – Sunteck World, Naigaon; Sunteck Beach Residences (SBR), Vasai; and Sunteck SkyPark, Mira Road – thereby taking its ongoing project count to five.**
- **The company is aiming to add two more growth engines with the launch of a new project in Kalyan in FY24E and one in Nepean Sea Road in FY25. Overall, we expect the company to launch ~INR57b worth of projects during the next 2-3 years (including the new phases in existing projects).**
- **With a ramp-up in launches across the ongoing and new projects, we expect the company to deliver a 25% CAGR in pre-sales to INR31b through FY26. In addition to the launches from the projects already signed up, the company is looking to add projects with a GDV potential of INR150-200b. New project additions from the recently signed platform with IFC will further contribute to pre-sales growth.**

Clocked 22% pre-sales CAGR over FY18-23

With the launch of the Naigaon project, Sunteck reported 22% CAGR in sales over FY18-23

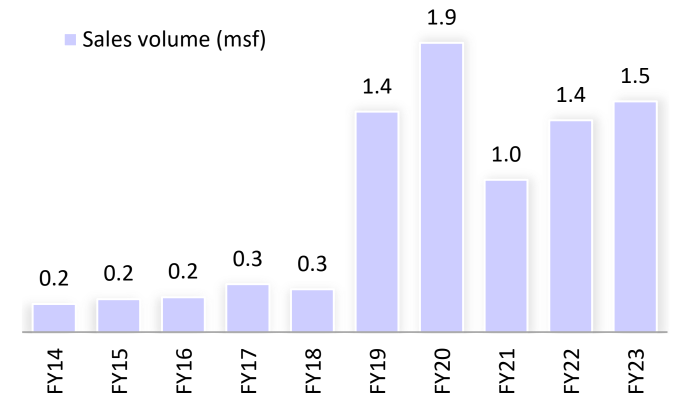
- Sunteck's pre-sales growth was subdued during FY14-18 (posting a 10% CAGR over the period to INR6b), with projects in BKC and Goregaon being the key contributors in this period.
- With successful launches of two phases in Naigaon (FY19-20) and the first phase in Vasai (FY23) and Mira Road (FY23), its pre-sales reported a 22% CAGR over FY18-23 to reach INR16b.
- Thus, the company has a track record of driving pre-sales growth with new project launches.

Exhibit 18: Pre-sales reported 22% CAGR over CY18-23



Source: Company, MOFSL

Exhibit 19: Volume rose to 1.5msf in FY23 vs. 0.3msf in FY18



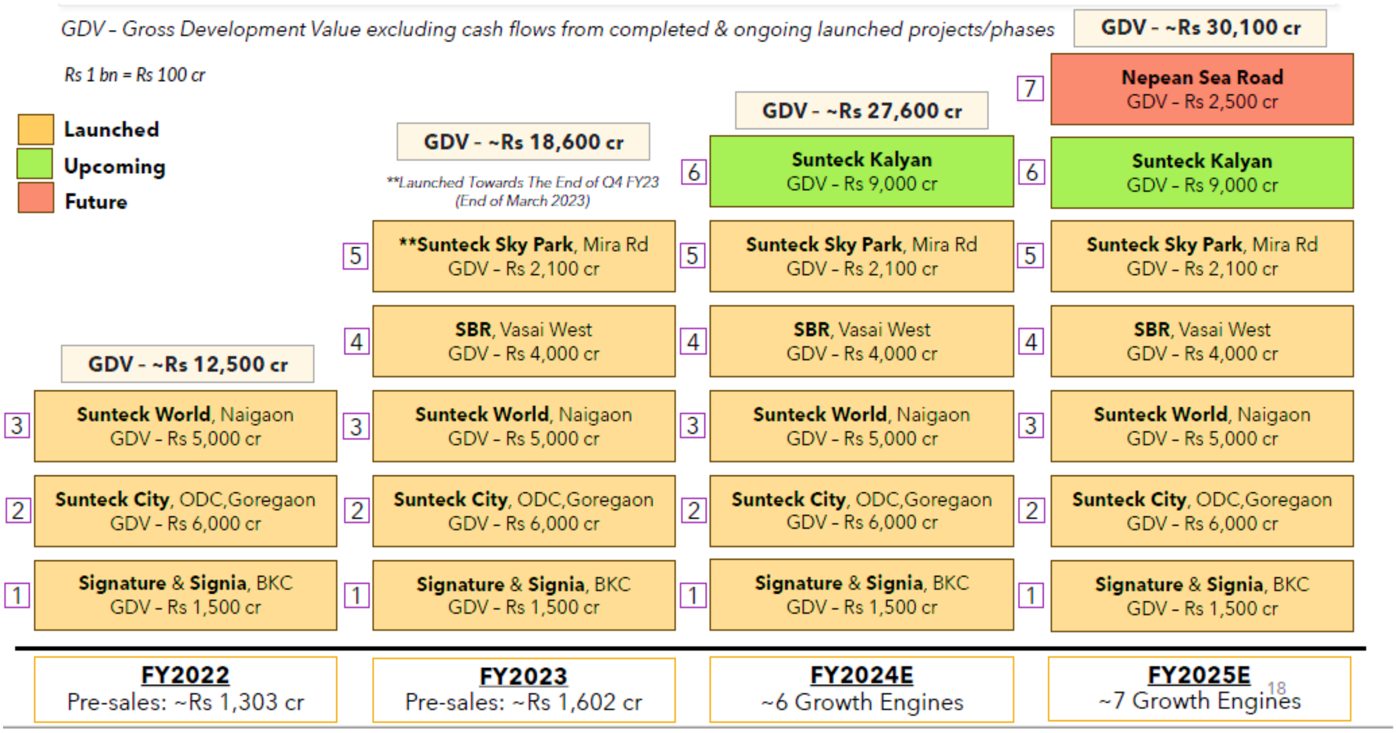
Source: Company, MOFSL

New projects in Kalyan and Nepean Sea Road to drive pre-sales growth

- Over FY18-22 Sunteck added eight new projects with a cumulative saleable area of ~39msf, of which only one project in Nepean Sea Road was an outright project and entailed an investment of INR340m. The rest were JDA projects.
- Of these eight projects, Sunteck witnessed a quick turnaround of projects in Naigaon and Mira Road and launched the first phase of these projects within 6-9 months since signing. SBR Vasai was launched in FY23 after two years of delay. It also launched the first phase in Vasind and reported some bookings but those were later cancelled and the money was returned.

- After two-to-five years of delay, Sunteck is now gearing up for the first phase launch of its Kalyan project in 3QFY24 and the Nepean Sea Road project in 1QFY25.
- The company continues to await key environmental approvals for its Borivali project, which is expected to be launched in FY25/FY26. We do not expect the projects in Khopoli and Vasind to be launched any time soon; hence, these projects are not considered in our estimates yet.

Exhibit 20: Current project pipeline at INR300b



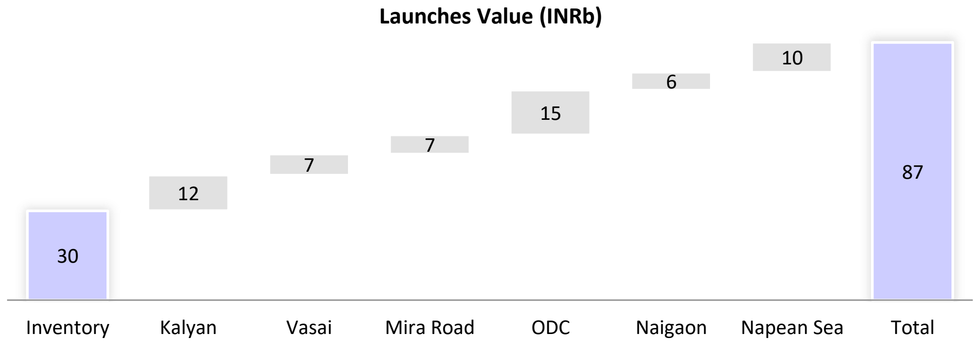
Source: Company, MOFSL

> **Sunteck will soon launch the Kalyan project and Napean Sea will commence in FY25E. Moreover, it will also launch the subsequent phases of the on-going projects**

Expects INR57b of launches from the existing and new projects

- As of Sep'23, Sunteck completed an ongoing inventory of INR32b of which INR19b was in BKC projects, which is likely to be monetized over 5-6 years.
- In ODC, Goregaon, the balance inventory amounts to INR1.8b, but with higher floor inventory likely to be released in 4th Avenue in FY24, we expect the next phase launch at ODC only in FY25. Sunteck World Naigaon has an ongoing inventory of ~INR3b and the next phase is projected to be launched in FY25.
- Depending on the absorption, the company will also launch the second phase of Sunteck Beach Residences, Vasai and Sunteck SkyPark, Mira Road in FY25 or FY26. Thus, we expect Sunteck to launch INR35b of inventory from the ongoing projects over the next two-to-three years.
- Additionally, INR22b of inventory will be released in the first phase of the launch at Sunteck Kalyan and Nepean Sea Road.

Exhibit 21: Gearing up for INR57b of launches from the ongoing and new projects over next two years



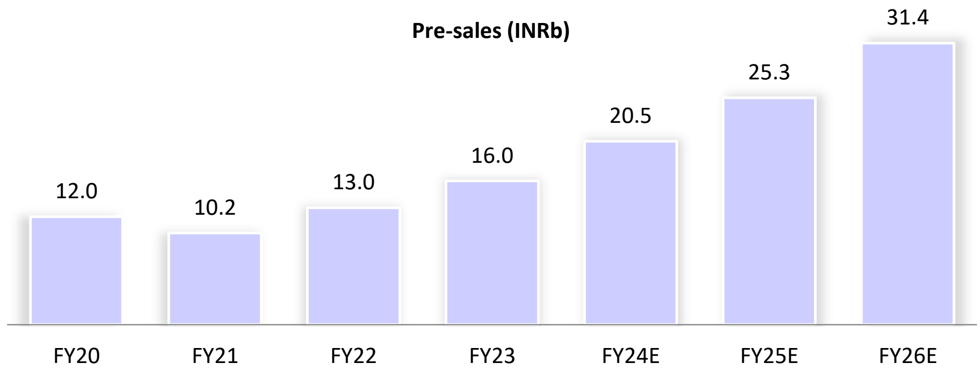
Source: Company, MOFSL

Expect 25% pre-sales CAGR over FY23-26

Given the strong near-term launches, pre-sales would report a CAGR of 25% over FY23-26E

- With an overall INR57b of launches lined up over the next 2-3 years, we expect Sunteck to report 25% CAGR in pre-sales to reach INR31b over FY23-26E. The launch of a project in Borivali will further add to this growth.
- A large part of this growth is driven by projects that have already been signed up, and Sunteck has a total GDV potential of INR300b, likely to be monetized over the next 10-12 years.
- Citing a strong balance sheet and the recently signed equity platform with IFC, management aims to add INR200b of new projects, which will drive further growth going forward.

Exhibit 22: We expect Sunteck to post 25% pre-sales CAGR over FY23-26



Source: Company, MOFSL

Healthy balance sheet and robust cash flows to fuel growth

To add 4-6 projects under the equity platform with IFC

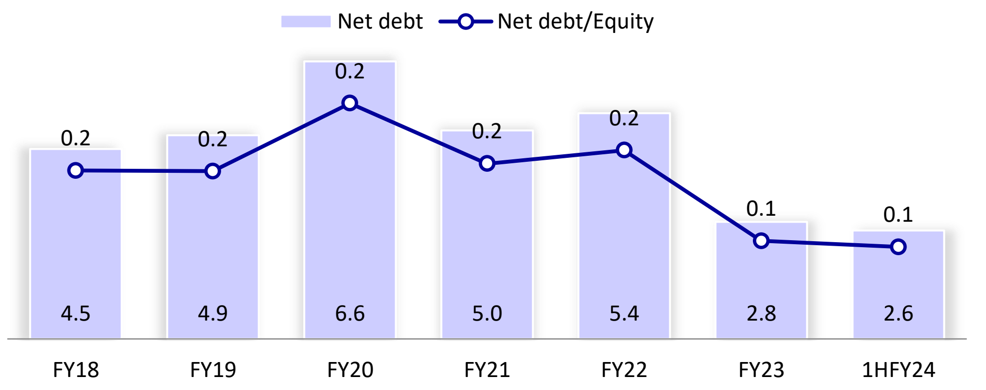
- **Historically, Sunteck has maintained a disciplined balance sheet, which ensures that leverage has not exceeded 0.5x of equity. It has generated an operating surplus of INR9.5b over FY21-23, which helped reduce the net debt to INR2.6b, bringing the net debt to equity down to 0.1x. This leaves a lot of headroom for growth.**
- **Additionally, Sunteck's completed and ongoing projects are anticipated to generate INR40b of surplus cash flows over the next 5-6 years. Further, it will also launch projects with INR57b of potential GDV, leading to additional cash flows. Overall, we expect Sunteck to generate INR16b of cumulative cash flows over FY24-26.**
- **Sunteck also entered into a joint development platform with IFC to build 12,000 affordable and mid-income homes across 4-6 projects with targeted revenue potential of INR120-180b. With a strong balance sheet, robust cash flows, and a platform with IFC, the company is aiming to amplify its project pipeline to INR500b from INR300b currently and double its pre-sales over the next 3-4 years.**

Sunteck has the strongest balance sheet among peers and management continues to remain conservative on leverage

Net debt to equity of 0.1x provides further headroom for growth

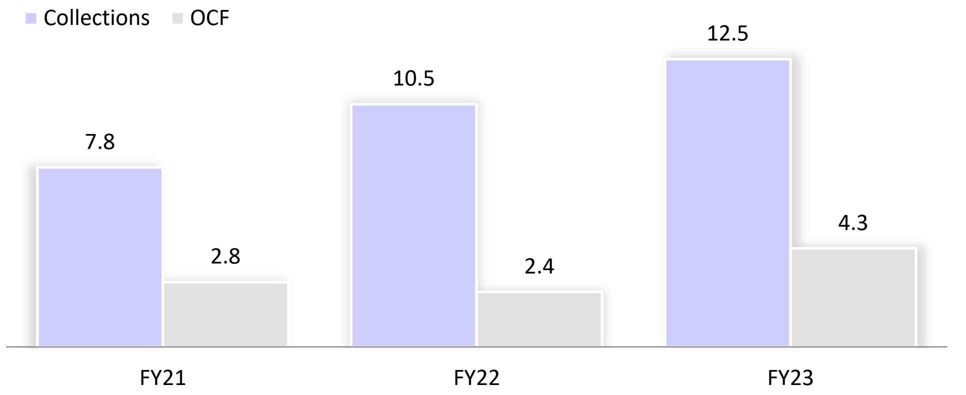
- As of Sep'23, Sunteck reported an outstanding net debt of INR2.6b, which was down by ~INR6b from its peak in FY17 driven by strong cash flows. It generated INR9.5b of operating cash surplus, which was utilized for an upfront premium payment, business development, and the balance for debt reduction.
- The company also raised INR8b through QIP and preferential allotment, leading to a rise in equity to INR26b. A decline in net debt and a rise in equity resulted in a net debt to equity of 0.1x in Sep'23, which has been the best in the industry.
- Although management remains conservative on debt, it should remain comfortable as long as leverage hovers around 0.5x of equity. Thus, the current leverage of 0.1x provides a lot of headroom for growth.

Exhibit 23: Net D/E ratio the best among peers



Source: Company, MOFSL

Exhibit 24: Collections and OCF (INRb) on a rising trend since FY21



Source: Company, MOFSL

Cash flows likely to remain healthy in the medium term

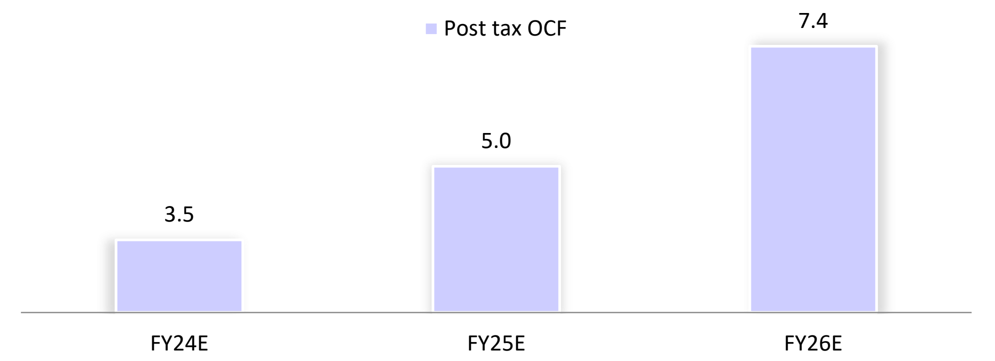
- Sunteck has an outstanding receivable of INR21b from the completed and ongoing projects, which is expected to be recovered in 5-6 years, after incurring costs of INR10b.
- It further has a balance inventory of INR32b. Excluding corporate overheads, these projects are likely to generate INR40b in surplus cash flows over the next 5-6 years.
- Additionally, as discussed in the previous section, the company is anticipated to launch new phases or projects with an inventory value of INR57b over the next two-to-three years, which will drive additional cash flow growth.
- Overall, we expect the company to generate a cumulative operating cash surplus of INR16b over FY24-26, which will largely be utilized for new project additions.

Sunteck has partnered with IFC to develop green housing projects, and this provides another lever of growth in addition to the projects slated for near-term launch.

Exhibit 25: Bulk of the near-term OCF (INRb) will be generated from ongoing projects

Source: Company, MOFSL

Exhibit 26: We expect consistent scale up in OCF (INRb) over FY24-26E



Source: Company, MOFSL

A joint platform with IFC to enhance Sunteck's growth capability

- In Sep'23, Sunteck formed an INR7.5b joint development partnership with IFC for developing ~12,000 affordable and mid-income homes in 4-6 large-scale green urban housing projects in the extended suburban markets.
- IFC will infuse INR3.3b and the balance will be contributed by Sunteck. IFC can have 25-50% stake in the projects. The amount will be invested in new projects, as the existing projects do not require any additional investments.
- The ticket size per unit will be capped at INR15m; hence, Sunteck expects to add projects with a GDV potential of INR120-180b over the next 2-3 years.
- Management aims to increase its project pipeline to INR500b in the near term from INR300b, with an aim to double the pre-sales in 3-4 years. This investment not only enhances Sunteck's growth capability but also renders confidence on its execution capabilities and corporate governance standards.

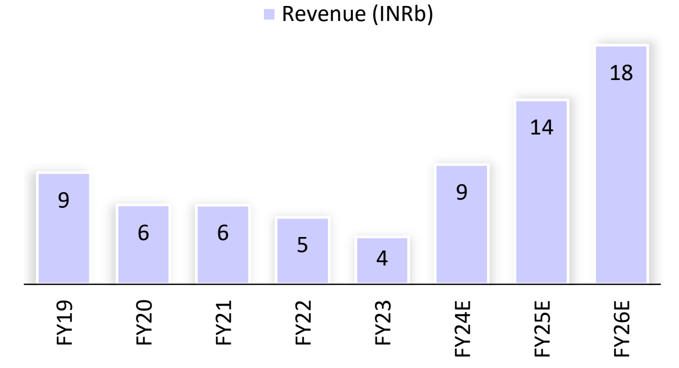
Expect 72% CAGR in revenue and multi-fold surge in PAT…

…led by 2.5-3.0 msf of completions over FY23-26

Driven by 3msf of completions, we expect its revenue to clock 72% CAGR over FY23-26. EBITDA margin is set to recover to over 20% from FY24E, driving 98% CAGR in EBITDA.

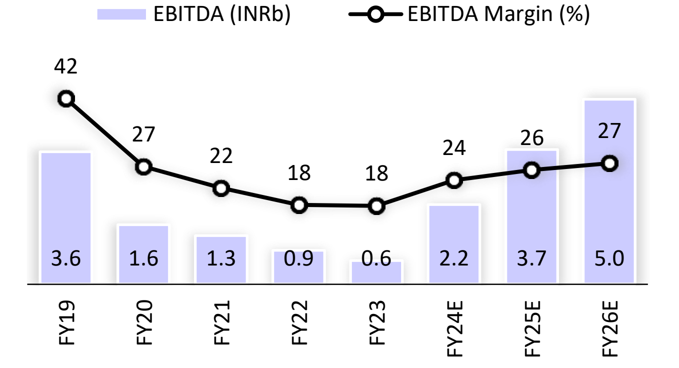
- During FY18-23, Sunteck's revenue recognition remained weak as all the key projects were under execution.
- These projects are now slated for phase-wise completion, and hence, we expect Sunteck to deliver 2.5-3.0 msf of projects over FY24-26. We forecast the company to register 72% CAGR in revenue over FY23-26.
- EBITDA margin has gradually contracted since FY18, owing to higher overheads being apportioned against lower revenue.
- We project EBITDA margin to gradually improve to 24-27% by FY26. Consequently, we expect 85% CAGR in EBITDA over FY23-26.

Exhibit 27: Expect 72% CAGR over FY23-26E



Source: Company, MOSL

Exhibit 28: EBITDA margins to recover to >20% from FY24

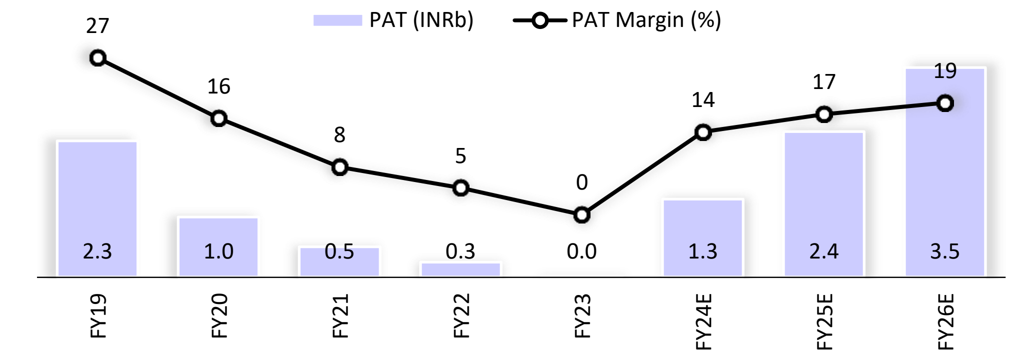


Source: Company, MOSL

PAT likely to improve multi-fold over the next three years

- We expect the PAT to increase multi-fold to INR3.5b by FY26 on the back of improvement in PAT margin to 18%.

Exhibit 29: PAT to increase to INR3.5b with a margin of 18%



Source: Company, MOFSL

Multiple growth levers at play; Initiate coverage with a BUY

Valuation looks favorable considering the near-term growth potential

Our NPV-based valuation indicates fair value of INR640/share, leading to 41% upside potential

- **Over the last few years, the company's dependence on only three projects coupled with relatively low traction at BKC has led to moderate pre-sales growth. However, Sunteck has subsequently diversified its presence at Vasai and Mira Road.**
- **The new projects at Kalyan and Napean Sea Road are also expected to be launched in FY24 and FY25, respectively. The launch of new projects and healthy traction at existing ones would enable the company deliver 25% CAGR in pre-sales over FY23-26.**
- **While the sustainability of growth beyond that depends on the company's ability to close new project additions, the strong balance sheet should enable Sunteck to be aggressive on project acquisitions.**
- **We value its residential segment based on the NPV of existing pipeline and commercial segment based on 8% cap rate on FY25E EBITDA. We also assign INR14b of value to the INR150b worth of future project additions to arrive at our TP of INR640, indicating 41% upside potential. We initiate coverage with a BUY rating on the stock.**

We value Sunteck based on a net present value of:

- **Completed portfolio,** having a net cash flow potential of INR16b, which includes pending inventory of INR16b, pending receivables of INR1.5b and INR0.7b of balance, discounted over 3-4 years;
- **Ongoing portfolio,** having inventory of 1.3msf valued at INR11b. Netting off the receivables of INR20b and INR9b of pending cost**,** the portfolio has a potential to generate a net cash flow of INR22b;
- **Future pipeline,** including subsequent phases of ODC, Naigaon, Vasai and Mira road projects along with Kalyan and Napean Sea road projects. The total area stands at 12msf with GDV of INR130b and expected net cash flow of INR75b discounted over 8-10 years;
- **Future project additions:** Management aims to add INR150-200b worth of projects in the near term. On a conservative basis, INR150b worth of project additions will lead to INR36b of surplus cash flows. We assign a value of INR14b to these projects, assuming 15 years of monetization.
- **Commercial assets,** which are valued at 8% cap rate of FY25E EBITDA

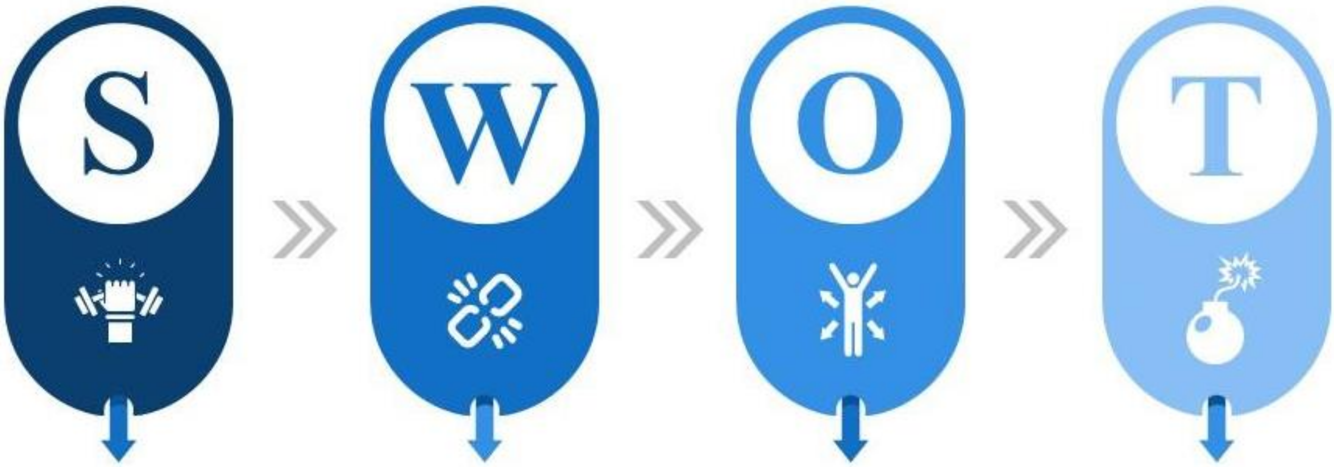
Based on the above approach, we arrive at a gross asset value of INR96b. Netting of FY24E net debt of INR2.7b, we derive an NAV of INR94b or INR640/share, indicating an upside potential of 41%.

Exhibit 30: Our SoTP-based TP of INR640 indicates an upside potential of 41%

NAV Summary		INR b	Per Share	as % of NAV
Completed Projects	INR16b of net cash surplus, excluding overheads discounted at a WACC of 13% over the next four years	13	90	14
Ongoing Projects	INR22b of net cash surplus, excluding overheads discounted at a WACC of 13% over the next four years	20	139	22
Upcoming projects	Around 12msf of pipeline with GDV of INR200b discounted at a WACC of 13%	43	295	46
Commercial	Operational assets valued at a cap rate of 8% and ongoing projects through DCF	5	37	6%
Value of Existing Pipeline		**82**	**561**	**88**
New project additions	Value of expected new project additions of INR150b with cash flow potential of INR40b	14	98	15
Gross Asset value		**96**	**659**	**103**
Net debt	FY24E net debt	(2.7)	-18	-3
Net Asset value		**94**	**641**	**100**
No. of share		146		
NAV per share		**640**		
CMP		454		
Upside Potential		**41%**		

Source: MOFSL

SWOT Analysis



STRENGTHS

Strong presence in MMR with a legacy of delivering a few marquee projects in the city

Strong brand recall and focus on execution have led to minimally completed inventory in its mid-income/affordable projects

WEAKNESSES

Dependency on a handful of projects and delay in the launch of new projects acquired have hurt growth in recent years

OPPORTUNITIES

It has the strongest balance sheet among peers, which could enable it to make multiple new acquisitions and increase its market share

THREATS

A slowdown in luxury housing demand would further delay the monetization of completed inventory in BKC, thus hurting overall cash generation ability of the company

Inability to sign off deals will hit growth beyond FY26

Bull and Bear case

Bull case

- ☑ We bake in 32% CAGR for pre-sales over FY23-26E on account of better-than-expected response to new launches vs. 25% CAGR assumed in our Base case.
- ☑ We also assume higher realization growth of 7% for our forecasted period (in-line with price growth in MMR post pandemic) v/s 5% in our Base case.
- ☑ As a result, collections would report 30% CAGR over FY23-26E vs. 24% in our Base case, which enhances our DCF-based TP to INR728, a 61% potential upside.

Bear case

- ☑ We expect pre-sales to post 18% CAGR over FY23-26 as we assume further delay in the launch of the Borivali project. We also do not incorporate any contribution from the IFC platform.
- ☑ We assume construction costs to increase 3% YoY over the forecasted period, and moderate price growth at 3% CAGR vs. 5% CAGR in base case.
- ☑ Thus, collections would register 18% CAGR over FY23-26E
- ☑ Our DCF-based TP declines to INR391, a potential downside of 15%.

Exhibit 31: Scenario analysis – Bull case

	FY23	FY24E	FY25E	FY26E
Sales value (INR b)	16	22	30	36
Growth (%)	23%	36%	39%	20%
Collections (INR b)	12	14	19	27
OCF (INR b)		3	5	6
GAV (INR b)				109
Net debt (INR b)				-2.67
NAV (INR b)				106
Target Price (INR)				728
Upside/ (downside) (%)				61%

Source: MOFSL

Exhibit 32: Scenario analysis – Bear case

	FY23	FY24E	FY25E	FY26E
Sales value (INR b)	16	19	25	26
Growth (%)	23%	20%	30%	5%
Collections (INR b)	12	12	16	20
OCF (INR b)		3	4	4
GAV (INR b)				60
Net debt (INR b)				-2.67
NAV (INR b)				57
Target Price (INR)				391
Upside/(downside)				-15%

Source: MOFSL

Management overview

Mr. Kamal Khetan, Chairman and MD

Mr. Khetan has graduated in Engineering Electronics & Communication from Mangalore University and is also an Honorary Consul of the Hashemite Kingdom of Jordan in Mumbai. He is a first-generation entrepreneur and has scaled up the company through a strong strategic growth plan, widening the repertoire of its product portfolio and building a solid execution team.

Mr. Atul Poopal, Executive Director

Mr. Atul Poopal is a Civil Engineer by profession and has around 30 years of rich experience in the fields of civil engineering and regulatory affairs (has devised systems & procedures for obtaining approvals from all the Authorities), with a wide exposure to the different types of developments in Mumbai.

Mr. Prashant Chaubey, CFO

He has over 18 years of real estate experience in the fields of corporate finance, investments and research. Prior to Sunteck, Prashant has worked with marquee institutions like SBI Capital Markets and Kotak Realty Fund. He has been an integral part of the company and has assumed various leadership responsibilities from time to time. By qualification, he is an MBA (Finance) and has also completed FCMA CGMA from CIMA, UK

Santhana Kumar - Chief Technical Officer

Over 25+ years of experience in Project Management ensuring successful completion of multiple projects; milestones within time, Cost, Quality and scope constraints in the construction industry. He holds a Bachelor's degree in Science from University of Science, Malaysia and also obtained training and assessment accreditation from TAFE Western Australia.

Anupama Khetan, Head – Marketing

Ms Khetan heads the strategy, branding and segmentation at Sunteck. She is responsible for brand development and sustenance. She has a bachelor's degree from Warwick Business School, UK, and has been associated with the company for the past five years.

ESG initiatives

Environment and Sustainability initiatives

- Sunteck implements energy-efficient and low-carbon technologies, regularly monitors and reports on emissions, and strives to develop strategies to offset emissions over time.
- More than 90% of the properties are Green building pre-certified (EDGE IFC)
- It uses water-efficient technologies like STP's and strives to implement water recycling programs going forward at the majority of the sites. It also monitors and reports on water usage to identify opportunities for improvement.

Governance

- Sunteck has a multi-tiered governance structure with well-defined roles and responsibilities. Of the total seven Board members, four are independent directors, and one is a woman director.
- As per the auditor's report, Sunteck has complied with all the statutory and regulatory compliance requirements.

CSR initiatives

- Under the Sunteck Saathi program, with a vision to promote accessible and affordable healthcare services in India, Sunteck has organized a health screening camp for children at the Naigaon Shelter Home.
- It has partnered with local CSR agencies like Samhita to support various causes such as education, healthcare, volunteering, and environmental sustainability.
- In FY22, the company spent INR25k on CSR activities and transferred INR90m to the unspent CSR account.

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	**8,558**	**6,078**	**6,046**	**5,132**	**3,624**	**9,173**	**14,138**	**18,334**
Change (%)	-3.7	-29.0	-0.5	-15.1	-29.4	153.1	54.1	29.7
Total Expenditure	**4,960**	**4,460**	**4,730**	**4,211**	**2,982**	**7,012**	**10,480**	**13,310**
% of Sales	58.0	73.4	78.2	82.1	82.3	76.4	74.1	72.6
EBITDA	**3,598**	**1,618**	**1,316**	**921**	**642**	**2,161**	**3,657**	**5,024**
Margin (%)	42.0	26.6	21.8	17.9	17.7	23.6	25.9	27.4
Depreciation	22	36	51	73	92	72	94	98
EBIT	**3,576**	**1,583**	**1,265**	**848**	**550**	**2,090**	**3,564**	**4,925**
Int. and Finance Charges	408	435	802	778	859	754	737	720
Other Income	525	237	211	244	284	309	320	364
PBT bef. EO Exp.	**3,693**	**1,385**	**674**	**314**	**-24**	**1,645**	**3,147**	**4,569**
PBT after EO Exp.	**3,693**	**1,385**	**674**	**314**	**-24**	**1,645**	**3,147**	**4,569**
Total Tax	1,284	378	173	75	31	411	787	1,142
Tax Rate (%)	34.8	27.3	25.6	23.8	-125.6	25.0	25.0	25.0
Minority Interest	133	4	-3	-12	-70	-70	-70	-70
Reported PAT	**2,275**	**1,003**	**505**	**251**	**15**	**1,304**	**2,430**	**3,497**
Adjusted PAT	**2,275**	**1,003**	**505**	**251**	**15**	**1,304**	**2,430**	**3,497**
Change (%)	6.2	-55.9	-49.6	-50.3	-94.1	NA	86.4	43.9
Margin (%)	26.6	16.5	8.4	4.9	0.4	14.2	17.2	19.1

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	140	140	140	140	140	140	140	140
Total Reserves	28,197	29,061	27,347	27,764	27,738	28,822	31,032	34,309
Net Worth	**28,337**	**29,201**	**27,487**	**27,904**	**27,878**	**28,962**	**31,172**	**34,450**
Total Loans	6,346	9,217	6,512	7,882	6,854	6,854	6,854	6,854
Deferred Tax Liabilities	12	0	0	7	9	9	9	9
Capital Employed	**35,606**	**38,418**	**34,000**	**35,793**	**34,741**	**35,825**	**38,035**	**41,313**
Gross Block	200	442	460	660	787	858	952	1,050
Less: Accum. Deprn.	49	77	125	186	264	336	429	528
Net Fixed Assets	**150**	**365**	**334**	**474**	**522**	**522**	**522**	**522**
Investment Property	**254**	**221**	**186**	**750**	**967**	**967**	**967**	**967**
Capital WIP	0	0	0	67	1,012	1,012	1,012	1,012
Total Investments	**287**	**319**	**319**	**17**	**99**	**170**	**240**	**310**
Curr. Assets, Loans&Adv.	**38,230**	**40,786**	**40,852**	**53,681**	**69,985**	**75,175**	**76,791**	**82,255**
Inventory	26,321	27,203	27,438	40,419	57,251	60,314	61,973	65,300
Account Receivables	4,101	3,587	3,698	2,703	1,496	1,508	1,743	1,758
Cash and Bank Balance	1,479	1,662	1,662	970	1,582	3,301	3,392	5,151
Loans and Advances	6,329	8,334	8,054	9,589	9,656	10,052	9,683	10,046
Curr. Liability & Prov.	**3,664**	**3,556**	**7,722**	**19,196**	**37,845**	**42,021**	**41,496**	**43,753**
Account Payables	1,492	1,654	2,122	1,936	2,114	1,759	2,711	3,516
Other Current Liabilities	2,136	1,857	5,571	17,214	35,679	40,209	38,733	40,185
Provisions	36	45	30	46	52	52	52	52
Net Current Assets	**34,595**	**37,195**	**33,160**	**34,485**	**32,141**	**33,154**	**35,295**	**38,502**
Appl. of Funds	**35,606**	**38,418**	**34,000**	**35,793**	**34,741**	**35,825**	**38,035**	**41,313**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	**15.5**	**6.8**	**3.4**	**1.7**	**0.1**	**8.9**	**16.6**	**23.9**
Cash EPS	15.7	7.1	3.8	2.2	0.7	9.4	17.2	24.5
BV/Share	193.5	199.4	187.7	190.5	190.3	197.7	212.8	235.2
DPS	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Payout (%)	9.7	21.9	43.5	87.6	NA	16.9	9.0	6.3
Valuation (x)								
P/E	29.2	66.3	131.7	NA	NA	51.0	27.4	19.0
Cash P/E	28.9	64.0	119.6	NA	NA	48.4	26.4	18.5
P/BV	2.3	2.3	2.4	2.4	2.4	2.3	2.1	1.9
EV/Sales	8.3	12.2	11.8	14.3	19.8	7.6	4.9	3.7
EV/EBITDA	19.8	45.8	54.2	79.7	111.7	32.4	19.1	13.6
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
FCF per share	-0.8	-3.7	18.4	-3.3	16.7	16.3	4.6	15.7
Return Ratios (%)								
RoE	8.3	3.5	1.8	0.9	0.1	4.6	8.1	10.7
RoCE	8.0	3.6	3.0	2.4	1.8	5.1	7.9	10.0
RoIC	7.1	3.3	2.7	1.9	3.7	4.9	8.3	10.8
Leverage Ratio (x)								
Current Ratio	10.4	11.5	5.3	2.8	1.8	1.8	1.9	1.9
Interest Cover Ratio	8.8	3.6	1.6	1.1	0.6	2.8	4.8	6.8
Net Debt/Equity	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	3,693	1,385	584	326	-24	1,645	3,147	4,569
Depreciation	22	36	52	73	92	72	94	98
Interest & Finance Charges	408	435	846	776	859	754	685	685
Direct Taxes Paid	-1,203	-420	-231	-152	-68	-411	-787	-1,142
(Inc)/Dec in WC	-2,862	-1,834	1,699	-1,129	2,022	705	-2,049	-1,449
CF from Operations	**59**	**-398**	**2,950**	**-106**	**2,880**	**2,764**	**1,090**	**2,762**
Others	-138	43	-88	-198	-260	-309	-320	-364
CF from Operating incl EO	**-79**	**-355**	**2,861**	**-305**	**2,620**	**2,455**	**770**	**2,398**
(Inc)/Dec in FA	-43	-192	-164	-183	-181	-72	-94	-98
Free Cash Flow	**-122**	**-548**	**2,697**	**-487**	**2,439**	**2,383**	**677**	**2,300**
(Pur)/Sale of Investments	-360	-121	139	248	7	0	0	0
Others	1,125	-311	170	115	12	309	320	364
CF from Investments	**723**	**-624**	**145**	**181**	**-162**	**238**	**226**	**265**
Issue of Shares	7	11	7	13	7	0	0	0
Inc/(Dec) in Debt	666	1,952	-2,328	1,331	-1,647	0	0	0
Interest Paid	-640	-807	-860	-743	-762	-754	-685	-685
Dividend Paid	-256	-256	-142	-142	-211	-220	-220	-220
Others	-423	864	-413	0	0	0	0	0
CF from Fin. Activity	**-647**	**1,765**	**-3,736**	**459**	**-2,614**	**-974**	**-905**	**-905**
Inc/Dec of Cash	**-3**	**785**	**-729**	**335**	**-156**	**1,719**	**91**	**1,759**
Opening Balance	49	47	832	103	438	282	2,001	2,092
Closing Balance	**47**	**832**	**103**	**438**	**282**	**2,001**	**2,092**	**3,851**

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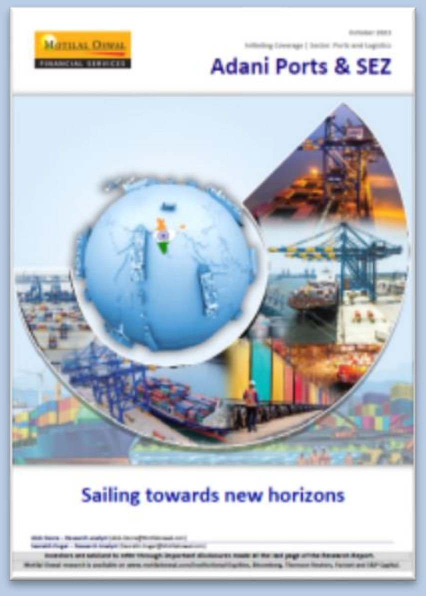

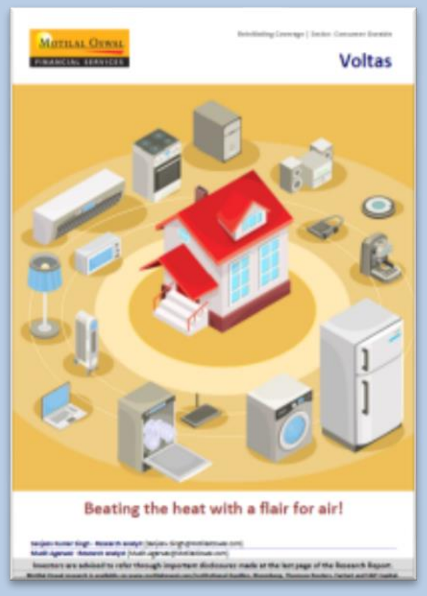

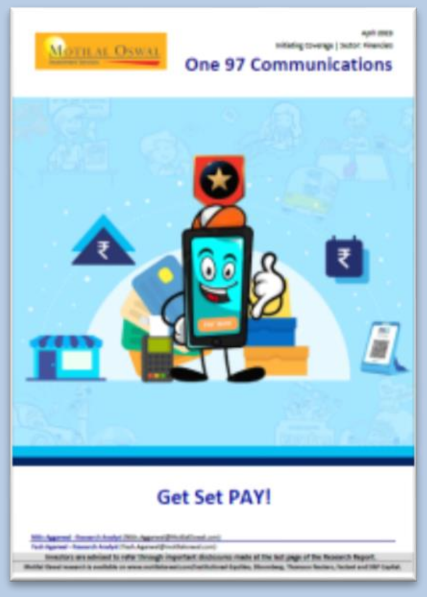

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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