

Conservative but Solid!

CMP: INR 473

Rating: BUY

Target Price: INR 900

Stock Info

BSE	512179
NSE	INE805D01034
Bloomberg	SRIN:IN
Reuters	SUNT.NS
Sector	Real estate
Face Value (INR)	1.00
Equity Capital (INR mn)	140
Mkt Cap (INR bn)	64.73
52w H/L (INR)	511/271

Shareholding Pattern %

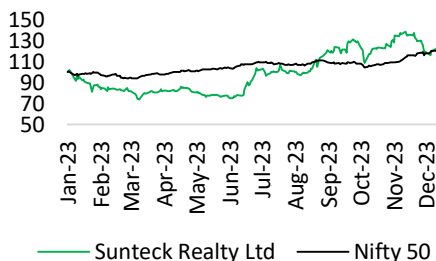
(As on Sep, 2023)

Promoters	67.2
DII and FIIs	23.66
Public & Others	9.12

Stock Performance (%)

	1m	3m	12m
Sunteck	5.81	10.27	39.07
Nifty 50	-0.42	11.2	17.8

Sunteck Vs Nifty



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We raise our Target Price for Sunteck Realty Ltd from INR 592 to INR 900 as we relook at the way we analyze the business prospects, valuation assumptions/methodology. We continue to have a BUY rating on the stock.

We evaluated Sunteck’s larger listed real estate sector peers (DLF, Godrej Properties, Oberoi, Prestige, Sobha, Lodha), their businesses – current and prospects vs. that of Sunteck. We believe the last 1 year u/p of Sunteck share price vs the NIFTY Realty Index and its larger listed peers is due to transitory reasons (overhangs). After carefully analyzing the plethora of industry dynamics, sector drivers etc, we identified the following 5 key overhangs which explain Sunteck’s share price under-performance vs the sector:

1) Slower pre-sales growth vs the larger peers, 2) Slower growth in residential housing prices per sq. ft in the MMR region vs the rest of core housing markets like NCR, Hyderabad, Bangalore etc., 3) Overhang of discontinuation of the affordable housing interest subsidy scheme, 4) Out of sync IND AS revenue recognition vs. on the ground business momentum, 5) concentrated GDV mix – which limits no. of projects/launches under execution, and hurts near term sales momentum making GDV monetization more back-ended. We outline in the body of the note below, on why we believe the 5 key overhangs are transitory and could aid Sunteck’s share price outperformance vs. the sector in the quarters to come.

We continue to believe in Sunteck’s strong brand recall in the market, its organizational capabilities as a whole to continue to add profitable, easy on balance sheet assets to its future portfolio and last but not the least, good corporate governance standards. IFC’s partnership with Sunteck for a platform to build green housing projects in India is a further re-assurance in our confidence regarding Sunteck’s solid governance standards.

Near term outlook: We are in a seasonally strong quarter for real estate sector and on the back of recent launch at Kalyan, upcoming launches at Naigaon and Mira Road and the already firing other engines, pre-sales momentum for Sunteck is expected to be strong in Q4. Additionally, there is a high probability of Sunteck recognizing revenue for the Sunteck Maxx World & Sunteck City 4th Avenue projects in FY24/FY25.

Longer term outlook: MMR is an attractive housing market with ever improving infrastructure landscape which opens up more and more opportunities for developers and at the same time MMR affordability continues to be good. Sunteck with its strong balance sheet, solid experience has all ingredients needed to pull off a success story in such a scenario.

Valuation: We value Sunteck on SoTP of NAV based valuation of residential and commercial asset portfolio. We now use a discount rate of 12% to discount the cashflows vs. 13% earlier, as we are now probably at the peak of rate cycle in India and globally. Once revenue recognition starts and IND AS reported pnl looks more robust, there is a strong case for the NAV multiple to rerate beyond 1.25x, in our view, which we don’t factor into our numbers. As the transitory overhangs fade away over time, Sunteck’s share price performance is expected to trigger o/p vs. the larger listed peers. We revise our NPV multiple of 1.25x (sector trading at 1.5x in our view) to arrive at a TP of INR900/sh (Earlier TP: 592) implying ~90% upside from the CMP and we maintain our Buy rating on the stock.

Overhangs to be transitory, will fade out with time and trigger stock o/p

Sunteck underperformed NIFTY Realty Index and its larger listed peers over the last year due to reasons which are transitory in nature, in our view. After carefully analyzing the plethora of industry dynamics, sector drivers etc, we identified the following 5 reasons (overhangs) for Sunteck's u/p vs the sector. We also reason out below why we believe these are transitory or are redundant with time:

1) Slower pre-sales growth vs the sector: Over the last 3 years, larger sector peers reported pre-sales growth of ~40% vs only ~25% for Sunteck. However, it is important to note that Sunteck operates at project level EBITDA margins in excess of 30-35%, which is higher than the sector average as a whole, which will translate to higher reported earnings vs the sector, once revenue from these projects starts getting recognized post completion of projects.

2) Slower growth in housing prices per sq. ft in the MMR region vs the rest of core housing markets like NCR, Hyderabad, Bangalore etc : Sunteck has ~100% concentration in the MMR market where residential housing price growth over the last few years has lagged other markets due to legacy reasons. MMR's affordability is still quite strong, which could most likely trigger latent demand and drive pricing growth to catch up with that of other core markets/cities.

3) Overhang of discontinuation of the affordable housing interest subsidy scheme: Interest subsidy provided by the central government for affordable housing under the housing for all scheme has been discontinued since Mar'22. However, reading between the lines of the intent of the central government, we believe there is a reasonable likelihood of the same being re-introduced. Such a scheme would be a win-win situation for the sector, urban dwellers and the economic growth of the country as a whole. Re-introduction of the scheme would significantly accelerate sales growth of companies like Sunteck, in our view, although we don't build that into our numbers.

4) Out of sync IND AS revenue recognition vs on the ground pre-sales momentum: Sunteck follows the project completion method of revenue recognition, which means its IND AS Pnl is completely out of sync with the actual business performance on the ground as measured by pre-sales, collections and execution. Due to this technical reason, reported pnl numbers appear to be poor and EV/EBITDA, PE multiples look elevated. As more projects near completion- Sunteck Maxx World, Sunteck City 4th Avenue, there would be acceleration in revenue recognized and multi-fold increase in EBITDA in FY25 and FY26 as compared to FY23/24, which will make the multiples look much more reasonable. This will make the stock more palatable to wider range of investor segments.

5) Concentrated GDV mix - limits no. projects under execution at any given time and hurts near term pre-sales momentum and makes GDV monetization more back-ended: Sunteck currently has 7 firing cylinders (projects) which account for a cumulative GDV of INR 300bn. Management is confident of doubling the GDV from INR 300bn to INR 600bn prospectively over the next 3 years by adding multiple modular projects and we believe there is scope for the same given the opportunities in the MMR region and Sunteck's capabilities. This will increase the Co.'s ability to launch and execute more projects at any given point of time and thereby accelerate sales growth and front load monetization of GDV.

Valuation

We value Sunteck on SOTP of NAV based valuation of residential and commercial portfolio. We expect that Sunteck would be able to monetize ~INR600bn GDV (current GDV of INR 300bn and next 3 year additions of INR300bn) over the period of next 12 years. Although there is good business scope and balance sheet capability to continue to add GDV beyond INR 600bn, we don't factor it into our numbers.

We lower our discount rate to 12% from 13% earlier as we believe we are at the peak of interest cycle.

Large listed real estate peers of Sunteck in India trade at a median NAV multiple of ~1.5x, while Sunteck trades at a significant discount, probably due to the 5 overhangs we listed above. We assign a price to NAV multiple of 1.25x in our valuation as we expect the transitory overhangs to unwind.

We arrive at a TP of INR 900 per share, which implies an upside of 90%.

Valuations		Total NAV (INRm)	Per share
Residential projects*	DF-12%	78,132	534
Commercial and lease	DF-12%	28,723	196
Total GAV (Rs mn)		106,855	730
Less: Net Debt		1,400	10
NAV		105,455	720
Multiple to NAV			1.25
TP (Rs/sh)			900
Upside			90%
CMP			473

Residential - NAV Workings (INR mn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
GDV Additions	1,00,000	1,00,000		1,00,000								
GDV Pool	3,01,000	3,93,526	4,85,945	4,76,905	5,58,313	5,33,895	4,94,454	4,45,175	3,84,698	3,11,507	2,23,907	1,20,005
Remaining GDV Pool	2,76,000	3,62,901	4,48,430	4,30,948	5,02,017	4,64,931	4,18,594	3,61,729	2,92,908	2,10,538	1,12,840	-
Presales	25,000	30,625	37,516	45,957	56,297	68,964	75,860	83,446	91,791	1,00,970	1,11,067	1,20,005
EBITDA (core) @ 30%	7,560	9,261	11,345	13,897	17,024	20,855	22,940	25,234	27,757	30,533	33,587	36,290
Corporate expenses	1,750	1,991	2,251	2,528	2,815	3,103	3,034	3,338	3,672	4,039	4,443	4,800
Taxes	1,464	1,832	2,292	2,865	3,581	4,473	5,016	5,518	6,070	6,677	7,344	7,935
Net Cash flows	4,346	5,438	6,802	8,505	10,629	13,278	14,889	16,378	18,016	19,818	21,800	23,554
Discounted cashflows	4,346	4,856	5,423	6,053	6,755	7,534	7,543	7,409	7,276	7,147	7,019	6,771
Factor	0	1	2	3	4	5	6	7	8	9	10	11
Discount rate	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Yearly Inflationary Escalation in pricing	6%	NAV 78,132										

Financials (INR mn)

Profit and Loss Account

Y/e 31st March in mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	5,597	6,141	5,131	3,624	6,085	15,708	21,506
Op. Expenses	3,915	4,769	4,177	2,983	3,947	11,075	15,327
EBITDA	1,682	1,371	953	642	2,138	4,633	6,179
Depreciation	37	52	73	92	112	113	226
EBIT	1,645	1,319	880	550	2,026	4,520	5,953
Other income	205	168	209	284	284	284	284
Interest Exp.	813	846	776	859	342	29	(23)
Extra Ordinary Items	(15)	3	12	70	-	-	-
Reported PBT	1,021	644	325	45	1,968	4,775	6,261
Tax	378	164	75	31	496	1,203	1,578
PAT	643	480	251	14	1,472	3,572	4,683
Net Profit	643	480	251	14	1,472	3,572	4,683
Adjusted PAT	658	476	239	(56)	1,472	3,572	4,683
Adjusted EPS (INR)	4.7	3.4	1.7	(0.4)	10.5	25.4	33.3

Source: Company Filing, Arianth Capital Research

Balance Sheet

Y/e 31st March in mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	140	140	140	140	140	140	140
Reserves & Surplus	27,347	27,582	27,764	27,738	28,957	32,276	36,706
Networth	27,487	27,723	27,904	27,878	29,097	32,416	36,847
Debt	9,354	7,003	8,155	6,885	385	285	(715)
Net deferred Tax liabilities	-	3	7	9	9	9	9
Capital Employed	36,843	34,732	36,068	34,862	29,580	32,680	36,111
Goodwill	1	4	7	14	14	14	14
Property, Plant and Equipment	545	438	1,224	1,490	1,497	2,997	4,497
Capital work in progress	-	93	67	1,012	1,012	1,012	1,012
Other Non-Current Assets	3,373	3,360	3,728	3,820	3,820	3,820	3,820
Net Fixed Assets	3,918	3,891	5,020	6,321	6,328	7,828	9,328
Investments	319	324	17	99	99	99	99
Current Assets, Loans & Advances	37,490	36,354	49,945	66,152	64,221	67,174	70,378
Inventory	27,438	26,145	40,419	57,251	55,414	51,973	49,028
Debtors	3,698	3,352	2,705	1,496	2,548	6,397	10,459
Cash & Bank balance	832	516	645	888	99	720	1,647
Bank balance	830	475	323	694	694	694	694
Loans & advances and others	4,692	5,868	5,853	5,823	5,466	7,390	8,550
Current Liabilities & Provisions	4,885	5,841	18,921	37,724	41,084	42,433	43,708
Liabilities	3,210	5,805	18,875	37,672	41,032	42,381	43,656
Provisions	1,675	35	46	52	52	52	52
Net Current Assets	32,605	30,514	31,025	28,428	23,138	24,741	26,669
Application of Funds	36,843	34,732	36,068	34,862	29,579	32,680	36,111

Source: Company Filing, Arianth Capital Research

Cash Flow Statement

Y/e 31st March in mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,693	1,029	584	325	45	2,901	3,126
Depreciation & amortisation	22	37	52	73	92	114	228
Interest expense	408	813	846	776	859	580	437
(Inc)/Dec in working capital	(2,862)	(2,291)	2,662	(1,136)	2,020	1,200	2,243
Tax paid	(1,203)	(420)	(231)	(152)	(70)	(870)	(938)
Less: Interest/Dividend Income Received	(104)	(127)	(166)	(208)	(267)	(284)	(284)
Other operating Cash Flow	(33)	178	(885)	14	(60)	494	(228)
Cash flow from operating activities	(79)	(780)	2,861	(307)	2,620	4,134	4,584
Capital expenditure	(43)	(158)	(162)	(183)	(181)	(8)	(1,500)
Inc/(Dec) in investments	(360)	-	-	-	8	(0)	(0)
Others	1,125	(20)	307	364	13	(297)	198
Cash flow from investing activities	723	(178)	145	181	(160)	(305)	(1,302)
Inc/(Dec) in share capital	7	11	7	13	13	-	-
Inc/(Dec) in debt	666	1,942	(2,328)	1,332	(1,650)	(1,500)	(1,500)
Dividend Paid	(256)	(1,074)	(142)	(142)	(215)	(253)	(253)
Others	(640)	-	(860)	(743)	(763)	(580)	(437)
Cash flow from financing activities	(224)	879	(3,323)	459	(2,615)	(2,333)	(2,190)
Net cash flow	420	(79)	(316)	333	(155)	1,497	1,092
Opening balance	491	911	832	103	436	280	1,778
Closing balance	911	832	516	436	280	1,778	2,869

Per share data

Net Revenue	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
No. of shares (m)	140	140	140	140	140	140	140
Diluted no. of shares (m)	140	140	140	140	140	140	140
BVPS (INR)	196	197	199	198	207	231	262
CEPS (INR)	4.8	3.8	2.3	0.8	11.3	26.2	35.0
DPS (INR)	1.5	1.5	1.5	1.5	1.5	1.5	1.5

Margins (%)

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin(%)	30.0	22.3	18.6	17.7	35.1	29.5	28.7
EBIT Margin(%)	29.4	21.5	17.2	15.2	33.3	28.8	27.7
PAT Margin(%)	11.3	7.6	4.5	-1.4	23.1	22.3	21.5

Growth Indicators (%)

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue(%)	-34.6	9.7	-16.4	-29.4	67.9	158.1	36.9
EBITDA(%)	-55.3	-18.5	-30.5	-32.7	233.1	116.7	33.4
Adj PAT(%)	-72.7	-27.6	-49.8	-123.3	-2737.5	142.7	31.1
Adj EPS(%)	-72.7	-27.7	-49.8	-123.3	-2737.5	142.7	31.1

Valuation (x)

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	100.5	139.0	276.8	-1186.8	45.0	18.5	14.1
P/BV (x)	2.4	2.4	2.4	2.4	2.3	2.0	1.8
EV/EBITDA (x)	46.1	54.8	80.3	116.9	32.4	14.8	10.8
EV/Sales (x)	13.9	12.2	14.9	20.7	11.4	4.4	3.1

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
RoE (%)	2.4	1.7	0.9	-0.2	5.2	11.6	13.5
RoCE (%)	5.1	4.2	3.1	2.4	7.2	15.4	18.1
Asset/T.O (x)	0.2	0.2	0.1	0.1	0.2	0.5	0.6
Net Debt/Equity (x)	0.1	0.2	0.2	0.1	0.0	0.0	-0.1
EBIT/Interest (x)	2.0	1.6	1.1	0.6	5.9	156.5	-254.8

Source: Company Filing, Arianth Capital Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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