

Current	Previous
CMP: Rs 488	
Rating: Buy	Rating: Buy
Target: Rs 608	Target: Rs 434

(NR-Not Rated)

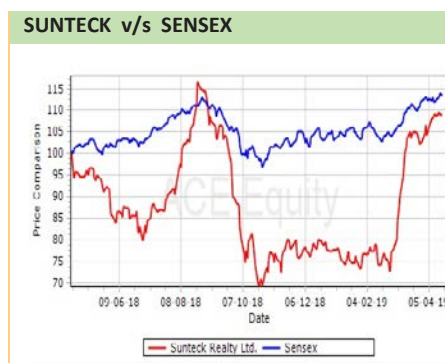
Stock Info	
INDEX	
BSE	512179
NSE	SUNTECK
Bloomberg	SRIN IN
Reuters	SUNT.BO
Sector	Real Estate
Face Value (Rs)	1
Shares Outstanding (Mn)	146.3
Market Cap (Rs Mn)	71,394
52w H/L (Rs)	527 / 296
Avg Weekly Vol (BSE+NSE)	586,500

Shareholding Pattern	%
<b>(As on December, 2018)</b>	
Promoters	67.0
Public & Others	33.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
SUNTECK	44.1	39.9	17.6
SENSEX	7.6	12.5	14.0

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

We recently met the management of Sunteck Realty Ltd. (SRL) to understand the current demand environment prevailing in the real estate market in the wake of election related uncertainty and also to get some grip on the future strategy and growth plans of the company. We have also visited the Naigaon Site of the company to get some on ground information on the current execution pace and schedule of the Sunteck West World Project of the company. Post our management meeting and site visit we reiterate our positive stance on the company and revise our target price upwards by reducing our discount to NAV from 50% to 30% to factor in our bullish stance on the stock. Our revised target price for Sunteck stands at Rs 608/share. Post our Q3FY19 result update report (dated 28<sup>th</sup> Jan, 2019) the stock has already rallied 48% surpassing our earlier target of Rs 434. Despite the recent rally in the stock, we keep our bullish view intact and maintain our Buy rating on the stock.

#### Management Meet Highlights

- SRL management expects organized players to benefit from the ongoing liquidity crunch in the system and is on active look out for acquisitions from cash trapped developers to fuel inorganic growth.
- No margin impact from new GST rate, as being organized player it has pricing power and will retain margin for its under-construction projects.
- Pre-sales and collection both are strong in its ODC and Naigaon project, hence Q4FY19 is expected to be strong for the company.
- In the luxury segment (from industry perspective) SRL does not see any fresh positive trigger to improve the current stagnation in at least next two years as the investing community is missing from the system and only end-users are present, so affordable is the new mantra.

#### Future Outlook

Over the past few quarters SRL has shown increasing traction in its collection as well as pre-sales volume in its key projects. We believe going forward, SRL's robust sales momentum coupled with strong execution of its ongoing projects would help the company to register 28.6% revenue CAGR and 27.6% PAT CAGR over FY19-21E period.

#### Valuations

Our DCF method yields a NAV of Rs 869/share for SRL. At CMP of Rs 488, SRL is available at a significant discount of 43.8% to its NAV. To factor in our bullish stance on SRL we reduce our discount to NAV from 50% to 30% to arrive at a revised target price of Rs 608/share for SRL. **Maintain Buy.**

#### Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	8,883	3,720	2,142	15.3	41.9	8.1	32.0
FY19E	9,483	3,983	2,455	17.5	42.0	9.2	27.9
FY20E	11,889	4,756	2,950	21.0	40.0	10.5	23.2
FY21E	15,693	6,434	3,999	28.5	41.0	13.5	17.1

Source: Company, Arihant Research

### Naigaon Site Visit Update

- SRL's affordable housing project at Naigaon '**Sunteck West World**' is seeing strong demand since its launch in September 2018. The company sold record 1015 units in the first phase of launch in Q2FY19 and subsequently 381 units in Q3FY19. Till March 2019, the company already achieved pre-sales of 2000 units in its Naigaon Project – Phase I, which is almost 80% of total units of Phase I.
- Our site visit corroborates SRL's strong execution skills as the Naigaon Phase I project is almost 3-4 months ahead of schedule. Among the 7 towers in Phase I, in 4 towers construction till 8<sup>th</sup> Floor has been completed (from Nov'18 – March'19). In the 5<sup>th</sup> tower, till 4<sup>th</sup> Floor the construction work is done and in remaining 2 towers construction is completed till plinth level.
- SRL adopted '**Mivan Technology**' in its Naigaon construction, which uses pre-casted Aluminium structures unlike wooden structure for RCC. Though this technology is a bit expensive, it is suitable for mass and speedy construction as it takes 8-9 days to construct one slab under Mivan technology compared to 25-30 days in conventional wooden frame structures.
- The company is having its own RMC plant in the Naigaon construction site, which helps in speedy execution. Also all approvals are in place for all the 7 towers of Phase I. With increasing traction seen in the demand for its Sunteck World project, SRL is planning to launch Phase II of the project soon at a premium pricing to its Phase I project.

### ODC Project Update

- SRL has already completed structural work for Phase I of its ODC project. The RCC work for the project is in advanced stage of completion.
- Till date SRL has sold approx. 690-700 units in the Phase I of its ODC project. The last month saw increasing momentum with SRL selling nearly 75 units in the ODC project. If the current momentum continues then SRL management expects the remaining units in its Phase I ODC project to get sold in next 18-20 months time.

### Naigaon Site Construction Work (Actual Site Pics)



Source: Company, Aриhant Research



Source: Company, Aриhant Research



Source: Company, Aриhant Research



Source: Company, Aриhant Research

## Consolidated Financials

## Income Statement (Consolidated)

Y/E March (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	7,865	9,522	8,883	9,483	11,889	15,693
Change (%)	159.7%	21.1%	-6.7%	6.8%	25.4%	32.0%
Operating costs	4,952	5,656	4,898	4,742	6,420	8,474
Employee costs	76	129	98	152	178	235
Other expenses	337	257	167	607	535	549
<b>Total Expenses</b>	<b>5,365</b>	<b>6,041</b>	<b>5,163</b>	<b>5,500</b>	<b>7,134</b>	<b>9,259</b>
<b>EBITDA</b>	<b>2,500</b>	<b>3,481</b>	<b>3,720</b>	<b>3,983</b>	<b>4,756</b>	<b>6,434</b>
EBITDA Margin (%)	31.8%	36.6%	41.9%	42.0%	40.0%	41.0%
Other Income	76	82	93	427	476	471
Depreciation	21	23	17	19	24	29
Interest	143	455	421	454	494	534
<b>PBT</b>	<b>2,412</b>	<b>3,084</b>	<b>3,375</b>	<b>3,936</b>	<b>4,713</b>	<b>6,341</b>
Extra-ordinary	0	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>2,412</b>	<b>3,084</b>	<b>3,375</b>	<b>3,936</b>	<b>4,713</b>	<b>6,341</b>
Tax	819	872	1,078	1,378	1,649	2,219
Rate (%)	34.0%	28.3%	32.0%	35.0%	35.0%	35.0%
<b>PAT</b>	<b>1,593</b>	<b>2,212</b>	<b>2,297</b>	<b>2,558</b>	<b>3,063</b>	<b>4,122</b>
<b>MI &amp; Associates</b>	<b>34</b>	<b>-173</b>	<b>-155</b>	<b>-103</b>	<b>-113</b>	<b>-123</b>
<b>PAT after MI/Associates</b>	<b>1,628</b>	<b>2,040</b>	<b>2,142</b>	<b>2,455</b>	<b>2,950</b>	<b>3,999</b>
Change (%)	138.8%	25.3%	5.0%	14.6%	20.2%	35.5%

Source: Company, Arianth Research

## Balance Sheet (Consolidated)

Y/E March (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Sources of Funds</b>						
Share Capital	120	120	140	140	140	140
Reserves & Surplus	16,223	17,833	26,163	26,548	27,956	29,480
<b>Net Worth</b>	<b>16,343</b>	<b>17,953</b>	<b>26,303</b>	<b>26,688</b>	<b>28,097</b>	<b>29,620</b>
<b>Loan Funds</b>	<b>12,437</b>	<b>9,437</b>	<b>5,181</b>	<b>5,681</b>	<b>6,181</b>	<b>6,681</b>
Minority Interest	555	706	775	870	870	870
Deferred Tax & other liabilities	39	481	112	112	113	113
<b>Capital Employed</b>	<b>29,373</b>	<b>28,578</b>	<b>32,371</b>	<b>33,351</b>	<b>35,260</b>	<b>37,284</b>
<b>Application of Funds</b>						
Gross Block	292	403	386	486	586	686
Less: Depreciation	169	192	209	228	252	282
Net Block	123	211	178	258	334	405
Goodwill	611	319	322	322	322	322
Deferred tax assets	7	297	216	216	216	216
<b>Net Fixed Assets</b>	<b>741</b>	<b>828</b>	<b>716</b>	<b>796</b>	<b>872</b>	<b>943</b>
<b>Investments</b>	<b>507</b>	<b>3,412</b>	<b>2,412</b>	<b>2,412</b>	<b>2,412</b>	<b>2,412</b>
Debtors	1,596	1,620	2,906	3,118	3,909	5,159
Inventories	37,681	28,017	26,927	27,280	31,662	37,147
Cash & bank balance	931	1,704	1,589	2,100	1,700	1,268
Loans & advances & other CA	3,116	1,205	2,014	2,466	2,994	3,397
<b>Total Current Assets</b>	<b>43,323</b>	<b>32,547</b>	<b>33,436</b>	<b>34,965</b>	<b>40,264</b>	<b>46,972</b>
Current liabilities	14,013	8,196	4,048	4,677	8,143	12,898
Provisions	1,184	12	145	145	145	145
<b>Net Current Assets</b>	<b>28,125</b>	<b>24,338</b>	<b>29,244</b>	<b>30,143</b>	<b>31,976</b>	<b>33,929</b>
<b>Total Assets</b>	<b>29,373</b>	<b>28,578</b>	<b>32,371</b>	<b>33,351</b>	<b>35,260</b>	<b>37,284</b>

Source: Company, Arianth Research



**Cash Flow Statement (Consolidated)**

Y/E March (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>PBT</b>	<b>2,412</b>	<b>3,084</b>	<b>3,375</b>	<b>3,936</b>	<b>4,713</b>	<b>6,341</b>
Depreciation	21	23	17	19	24	29
Interest & others	135	201	173	-75	-94	-59
Cash flow before WC changes	2,568	3,308	3,565	3,880	4,643	6,311
<b>(Inc)/dec in working capital</b>	<b>-4,856</b>	<b>2,997</b>	<b>-5,011</b>	<b>-2,825</b>	<b>-5,165</b>	<b>-6,366</b>
Operating CF after WC changes	-2,288	6,305	-1,446	1,055	-522	-55
Less: Taxes	-819	-872	-1,078	-1,378	-1,649	-2,219
<b>Operating Cash Flow</b>	<b>-3,107</b>	<b>5,433</b>	<b>-2,525</b>	<b>-323</b>	<b>-2,172</b>	<b>-2,274</b>
(Inc)/dec in fixed assets + CWIP	0	-109	95	-100	-100	-100
(Pur)/sale of investment	-208	-2,905	1,000	0	0	0
<b>Investing Cash Flow</b>	<b>-207</b>	<b>-3,014</b>	<b>1,095</b>	<b>-100</b>	<b>-100</b>	<b>-100</b>
<b>Free cash flow (FCF)</b>	<b>-3,117</b>	<b>5,322</b>	<b>-2,508</b>	<b>-423</b>	<b>-2,272</b>	<b>-2,374</b>
Loan raised/(repaid)	2,904	-3,000	-4,257	500	500	500
Equity raised	1,142	0	20	0	0	0
Interest & others	-808	1,373	5,568	452	1,389	1,460
Dividend	-61	-18	-18	-18	-18	-18
<b>Financing Cash Flow</b>	<b>3,177</b>	<b>-1,645</b>	<b>1,314</b>	<b>934</b>	<b>1,871</b>	<b>1,942</b>
<b>Net inc / (dec) in cash</b>	<b>-137</b>	<b>774</b>	<b>-115</b>	<b>511</b>	<b>-400</b>	<b>-432</b>
Opening balance of cash	1,068	931	1,704	1,589	2,100	1,700
Closing balance of cash	931	1,704	1,589	2,100	1,700	1,268

Source: Company, Arianth Research

**Key Ratios (Consolidated)**

Y/E March	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>						
EPS	13.6	17.0	15.3	17.5	21.0	28.5
CEPS	13.7	17.2	15.4	17.6	21.2	28.7
BVPS	136.3	149.7	187.5	190.2	200.2	211.1
DPS	0.2	0.2	0.1	0.1	0.1	0.1
Payout (%)	1.2%	0.9%	0.8%	0.7%	0.6%	0.5%
<b>Valuation (x)</b>						
P/E	36.0	28.7	32.0	27.9	23.2	17.1
P/CEPS	35.5	28.4	31.7	27.7	23.0	17.0
P/BV	3.6	3.3	2.6	2.6	2.4	2.3
EV/EBITDA	28.0	19.0	19.4	18.1	15.3	11.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Return Ratios (%)</b>						
EBIDTA Margin	31.8%	36.6%	41.9%	42.0%	40.0%	41.0%
PAT Margin	20.7%	21.4%	24.1%	25.9%	24.8%	25.5%
ROE	10.0%	11.4%	8.1%	9.2%	10.5%	13.5%
ROCE	8.4%	12.1%	11.4%	11.9%	13.4%	17.2%
<b>Leverage Ratio (%)</b>						
Total D/E	0.8	0.5	0.2	0.2	0.2	0.2
Net D/E	0.7	0.4	0.1	0.1	0.2	0.2
<b>Turnover Ratios</b>						
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3	0.4

Source: Company, Arianth Research

**Arihant Research Desk**

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)  
 Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park ,  
 Building No. 10, 1<sup>st</sup> Floor,  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E).  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

<b>Research Analyst Registration No.</b>	<b>Contact</b>	<b>Website</b>	<b>Email Id</b>
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

**Arihant Capital Markets Ltd.**  
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880