

Mixed results from Sunteck, slowdown in realty sector dampened Q1FY20 numbers; lowest D/E in the sector and future cash flow visibility augur well; recommend Hold

Current	Previous
CMP: Rs 462	
Rating: Hold	Rating: Buy
Target: Rs 510	Target: Rs 569

(NR-Not Rated)

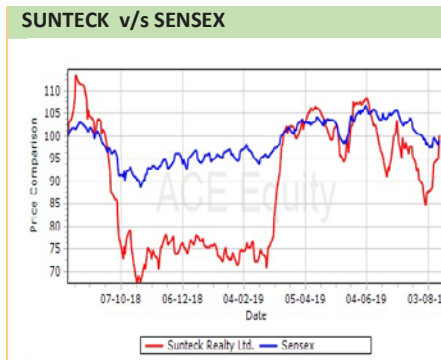
Stock Info	
INDEX	
BSE	512179
NSE	SUNTECK
Bloomberg	SRIN IN
Reuters	SUNT.BO
Sector	Real Estate
Face Value (Rs)	1
Shares Outstanding (Mn)	146.3
Market Cap (Rs Mn)	67,597
52w H/L (Rs)	532 / 296
Avg Weekly Vol (BSE+NSE)	761,370

Shareholding Pattern	%
(As on June, 2019)	
Promoters	67.2
Public & Others	32.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
SUNTECK	5.4	35.6	-0.2
SENSEX	-0.0	4.0	-1.4

Source: ACE Equity, Arihant Research



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Monami Manna

Sr. Research Analyst

Tel: +91 22 42254817

monami.manna@arihantcapital.com

Sunteck Realty Ltd (SRL) reported mixed set of numbers. Owing to overall slowdown in real estate sector SRL's new booking suffered a jolt. Sales at its BKC and ODC projects were weak, while its affordable project at Naigaon maintained its traction despite slowdown. Consolidated revenue for the quarter declined 17.3% YoY and 35.3% QoQ to Rs 1746 mn mainly on account of lower sales in its ODC project. EBITDA suffered a decline of 45.5% YoY/31.5% QoQ to Rs 609 mn. EBITDA margin expanded 191 bps QoQ to 34.9%, though on YoY basis margin fell 1800 bps (not comparable due to higher base and absence of Naigaon numbers last year which carry lower margin). PAT stood at Rs 332 mn; decline of 51.3% YoY/48.5% QoQ. We recommend Hold rating on SRL with a revised target price of Rs 510.

Q1FY20 Operational Highlights

- During Q1FY20, SRL has done pre-sales (new bookings) of Rs 1858 mn (+2% YoY) and collections of Rs 1892 mn (+18% YoY). The muted growth in the pre-sales number was mainly on account of weak sales witnessed in its ODC Project.
- SRL has sold 1 unit in BKC, 18 units in ODC, 176 units in Naigaon, 2 units in its Signia Waterfront project and 1 unit in its other projects.
- In Q1FY20, BKC contributed 44% to its pre-sales while ODC and Naigaon contributed 20% and 34% respectively. As far as collections are concerned, 49% collections came from Naigaon during the quarter, while ODC and BKC contributed 32% and 12% respectively.

Future Outlook

SRL has a ready inventory of 0.53 msf (~Rs 20 bn), which improves its revenue visibility as any sale from this ready inventory will aid its revenue in coming quarters. Also collections from its already sold units in FY19, will aid its future cash flows in subsequent quarters. The company is planning to launch its next residential phase in ODC and Naigaon in Q2FY20/Q3FY20, which would impart the necessary impetus to its sales momentum.

Valuations

Our DCF method yields a NAV of Rs 850/share for SRL. At CMP of Rs 462, SRL is trading at a P/E of 22.1x and 16.4x of its FY20E and FY21E earnings respectively. After factoring in Q1FY20 results we kept our FY20E/FY21E estimates intact, however increased our discount to NAV from 30% to 40%, which yields a target price of Rs 510/share for SRL. **We recommend Hold.**

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	30.3
FY19	8,568	3,780	2,275	16.2	44.1	8.0	28.5
FY20E	11,889	4,756	2,936	20.9	40.0	8.5	22.1
FY21E	15,693	6,434	3,952	28.2	41.0	8.6	16.4

Source: Company, Arihant Research

Q1FY20 Financial Performance

Rs Mn (Consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q %	Y-o-Y %
Net Revenue	1,746	2,697	2,111	-35.3%	-17.3%
Total Op. Expenses	1,138	1,809	995	-37.1%	14.3%
Operating Expenses	893	1,598	835	-44.1%	6.9%
Employee Cost	55	27	29	106.2%	87.1%
Other expenditure	190	184	131	3.2%	44.8%
EBITDA	609	888	1,116	-31.5%	-45.5%
Depreciation	7	6	4	14.2%	95.5%
EBIT	601	882	1,112	-31.8%	-45.9%
Other Income	46	110	139	-58.3%	-67.0%
Finance costs	91	92	103	-1.0%	-11.3%
Exceptional items	-	-	-	NA	NA
Profit before tax	556	900	1,148	-38.2%	-51.6%
Tax expense	202	294	397	-31%	-49.1%
Profit after tax	354	605	751	-41.5%	-52.9%
Minority/Associate	-22	40	-69	-155.1%	-68.1%
Net Profit	332	645	683	-48.5%	-51.3%
Reported EPS (Rs)	2.37	4.60	4.86	-48.5%	-51.4%
	Margin %	Margin %	Margin %	Basis Points (BPS)	
EBITDA %	34.9	32.9	52.9	191	-1800
EBIT %	34.4	32.7	52.7	174	-1824
PBT %	31.8	33.4	54.4	-152	-2255
PAT %	19.0	23.9	32.3	-490	-1332

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Sunteck sold 1 unit in BKC during Q1FY20, with Rs 810 mn of sales and collection of Rs 220 mn. In ODC project it sold 18 units during the quarter with Rs 363 mn of sales and collection of Rs 599 mn.
- In its Naigaon project the company sold 176 units during the quarter with sales of Rs 635 mn and collection of Rs 933 mn.
- In Signia Waterfront the company sold 2 units during the quarter with sales of Rs 32 mn and collection of Rs 128 mn.
- SRL management is evaluating several business development opportunities, in line with its asset light strategy. The company is already in advanced stage of closing few transactions in the current quarter itself, and will share the details when it materialises.
- The company is on track to scale up its business over next 4-5 years with a capex of Rs 50 bn as shared in last quarter concall. The funding of this will come from its existing projects. Over next four years BKC will throw surplus cashflow of Rs 20 bn, while in Naigaon, SRL will develop some retail properties in phased manner and will launch the second phase of Westworld, so some cashflows will come from this retail launch.
- The above cashflows will help to build the 5-6 msf commercial and retail portfolio for SRL over next 5 years without resorting to external debt, and company will maintain its D/E ratio of less than 0.2x going forward.

Consolidated Financials

Income Statement (Consolidated)

Y/E March (Rs Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenues	7,865	9,522	8,883	8,568	11,889	15,693
<i>Change (%)</i>	159.7%	21.1%	-6.7%	-3.5%	38.8%	32.0%
Operating costs	4,952	5,656	4,898	4,214	6,420	8,474
Employee costs	76	129	98	123	178	235
Other expenses	337	257	167	451	535	549
Total Expenses	5,365	6,041	5,163	4,788	7,134	9,259
EBITDA	2,500	3,481	3,720	3,780	4,756	6,434
<i>EBITDA Margin (%)</i>	31.8%	36.6%	41.9%	44.1%	40.0%	41.0%
Other Income	76	82	93	343	476	471
Depreciation	21	23	17	22	32	47
Interest	143	455	421	408	458	538
PBT	2,412	3,084	3,375	3,693	4,741	6,320
Extra-ordinary	0	0	0	0	0	0
PBT after ext-ord.	2,412	3,084	3,375	3,693	4,741	6,320
Tax	819	872	1,078	1,284	1,659	2,212
<i>Rate (%)</i>	34.0%	28.3%	32.0%	34.8%	35.0%	35.0%
PAT	1,593	2,212	2,297	2,409	3,082	4,108
MI & Associates	34	-173	-155	-133	-146	-156
PAT after MI/Associates	1,628	2,040	2,142	2,275	2,936	3,952
<i>Change (%)</i>	138.8%	25.3%	5.0%	6.2%	29.0%	34.6%

Source: Company, Arian Research

Balance Sheet (Consolidated)

Y/E March (Rs Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds						
Share Capital	120	120	140	140	140	140
Reserves & Surplus	16,223	17,833	26,163	28,197	34,402	45,815
Net Worth	16,343	17,953	26,303	28,337	34,542	45,955
Loan Funds						
Minority Interest	555	706	775	910	910	910
Deferred Tax & other liabilities	39	481	112	14	15	15
Capital Employed	29,373	28,578	32,371	33,985	41,191	53,604
Application of Funds						
Gross Block	292	403	386	642	942	1,242
Less: Depreciation	169	192	209	231	263	310
Net Block	123	211	178	412	680	932
Goodwill	611	319	322	598	598	598
Deferred tax assets	7	297	216	160	160	160
Net Fixed Assets	741	828	716	1,170	1,438	1,691
Investments						
Debtors	1,596	1,620	2,906	3,135	3,257	4,299
Inventories	37,681	28,017	26,927	26,321	26,385	34,826
Cash & bank balance	931	1,704	1,589	1,479	10,171	14,932
Loans & advances & other CA	3,116	1,205	2,014	4,523	7,170	8,213
Total Current Assets	43,323	32,547	33,436	35,457	46,983	62,270
Current liabilities	14,013	8,196	4,048	5,183	9,772	12,898
Provisions	1,184	12	145	36	36	36
Net Current Assets	28,125	24,338	29,244	30,238	37,175	49,336
Total Assets	29,373	28,578	32,371	33,985	41,191	53,604

Source: Company, Arian Research

Cash Flow Statement (Consolidated)

Y/E March (Rs Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2,412	3,084	3,375	3,693	4,741	6,320
Depreciation	21	23	17	22	32	47
Interest & others	135	201	173	-68	-163	-89
Cash flow before WC changes	2,568	3,308	3,565	3,647	4,610	6,278
(Inc)/dec in working capital	-4,856	2,997	-5,011	-712	-928	-11,098
Operating CF after WC changes	-2,288	6,305	-1,446	2,934	3,682	-4,819
Less: Taxes	-819	-872	-1,078	-1,284	-1,659	-2,212
Operating Cash Flow	-3,107	5,433	-2,525	1,650	2,022	-7,031
(Inc)/dec in fixed assets + CWIP	0	-109	95	-476	-300	-300
(Pur)/sale of investment	-208	-2,905	1,000	-165	0	0
Investing Cash Flow	-207	-3,014	1,095	-642	-300	-300
Free cash flow (FCF)	-3,117	5,322	-2,508	1,394	1,722	-7,331
Loan raised/(repaid)	2,904	-3,000	-4,257	-458	1,000	1,000
Equity raised	1,142	0	20	0	0	0
Interest & others	-808	1,373	5,568	-407	6,223	11,346
Dividend	-61	-18	-18	-253	-253	-253
Financing Cash Flow	3,177	-1,645	1,314	-1,118	6,969	12,093
Net inc /(dec) in cash	-137	774	-115	-110	8,691	4,762
Opening balance of cash	1,068	931	1,704	1,589	1,479	10,171
Closing balance of cash	931	1,704	1,589	1,479	10,171	14,932

Source: Company, Arianth Research

Key Ratios (Consolidated)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)						
EPS	13.6	17.0	15.3	16.2	20.9	28.2
CEPS	13.7	17.2	15.4	16.4	21.1	28.5
BVPS	136.3	149.7	187.5	201.9	246.1	327.4
DPS	0.2	0.2	0.1	1.8	1.8	1.8
Payout (%)	1.2%	0.9%	0.8%	11.1%	8.6%	6.4%
Valuation (x)						
P/E	34.0	27.2	30.3	28.5	22.1	16.4
P/CEPS	33.6	26.9	30.0	28.2	21.8	16.2
P/BV	3.4	3.1	2.5	2.3	1.9	1.4
EV/EBITDA	26.8	18.1	18.4	18.0	12.7	8.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%
Return Ratios (%)						
EBIDTA Margin	31.8%	36.6%	41.9%	44.1%	40.0%	41.0%
PAT Margin	20.7%	21.4%	24.1%	26.6%	24.7%	25.2%
ROE	10.0%	11.4%	8.1%	8.0%	8.5%	8.6%
ROCE	8.4%	12.1%	11.4%	11.1%	11.5%	11.9%
Leverage Ratio (%)						
Total D/E	0.8	0.5	0.2	0.2	0.2	0.1
Net D/E	0.7	0.4	0.1	0.1	-0.1	-0.2
Turnover Ratios						
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3	0.3

Source: Company, Arianth Research

Inventory Days	2777	1808	2006	2280	1500	1500
Receivable Days	74	62	119	134	100	100
Payable days	705	315	172	222	300	300

Source: Company, Arianth Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

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

Registered Office

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

Stock Rating Scale**Absolute Return**

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

Research**Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

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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