

Sunteck Realty

Better days ahead

OUTPERFORMER

17 November 2014

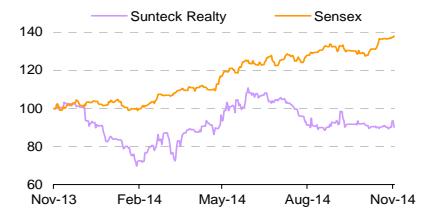
BSE Sensex: 28178

Sector: Real Estate

Stock data

CMP (Rs)	299
Mkt Cap (Rsbn/USDm)	18.9 / 306
Target Price (Rs)	519
Change in TP (%)	+10
Potential from CMP (%)	+73
Earnings change (%)	
FY15E	-12.8
FY16E	-4.0
Bloomberg code	SRIN IN
1-yr high/low (Rs)	393/221
6-mth avg. daily volumes (m)	0.08
6-mth avg. daily traded value (Rsm/US\$m)	26.3 / 0.43
Shares outstanding (m)	63.0
Free float (%)	26.5
Promoter holding (%)	73.5

Price performance – relative and absolute



(%)	3-mth	6-mth	1-yr
Sunteck Realty	(1.2)	(6.0)	(9.8)
BSE Sensex	7.9	16.8	38.1

Q2FY15 result highlights

- Revenues of Rs795m were ahead of our estimates, aided by revenue booking of Rs720m at Signature Island. Given Sunteck follows project completion method of revenue booking, FY15 revenues should be driven by incremental sales at Signature Island.
- Sales volumes were down 10% qoq to ~38K sqft, but value-wise sales were flat qoq to ~Rs1bn. BKC projects contributed Rs780m to total pre-sales in Q2FY15.
- PAT came in at Rs149m vs our estimate of Rs107m, aided by higher revenue recognition from Signature Island.
- Operational cash flows were positive with ~Rs1.1bn in customer advances (down 14% qoq) and spend of Rs520m for construction across projects.

Key positives: Positive cash flows.

Key negatives: Weak pre-sales

Impact on financials: We have reduced our FY15/ 16E earnings estimates by 13%/4% to factor in lower pre-sales.

Valuations & view

Sunteck is among a few Mumbai-focused players with a strong balance sheet, low debt and diversified project portfolio (~28msf). While the current slowdown in the Mumbai realty market is a challenge, Sunteck is at an inflection point in its growth trajectory as it is nearing completion of its first large project, Signature Island. Further, visibility on execution will improve as Isle & Pearl (BKC projects) and phase I of Goregaon projects is handed over FY16/ 17. These should lead to improvement in pre-sales. Reiterate Outperformer with a TP of Rs519. Pick-up in pre-sales momentum in BKC and Goregaon will be a key monitorable.

Key financials (quarterly)

(Rs m)	Q2FY14	Q1FY15	Q2FY15	% ch qoq	% ch yoy	% var from est
Net sales	36	185	795	330.3	2,089.6	98.8
EBITDA	(8)	(4)	371	na	NA	NA
OPM (%)	(21.4)	(2.1)	46.6	NA	NA	NA
Other inc.	27	83	32	(62.0)	4.6	1.7
Interest	23	30	68	127.7	190.4	170.6
Dep. & Amort.	4	4	4	(0.5)	3.9	(0.5)
PBT	(8)	45	329	629.5	NA	66.7
PAT	(6)	8	149	1,671.8	NA	39.2
Reported PAT	(6)	8	149	1,671.8	NA	39.2
EPS (Rs)	(0.1)	0.1	2.4	1,671.8	NA	39.2

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Consolidated quarterly results: Detailed

(Rs m)	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	FY14E	FY15E	Comments
Net Sales	36	157	8,907	185	795	9,256	3,288	Above estimates; aided by Signature Island
Expenses								
Cost of sales	8	50	6,039	156	318	6,146	1,410	In-line.
SG&A expenses	36	37	224	33	106	325	345	
Total Expenses	44	87	6,263	189	424	6,471	1,755	
EBITDA	(8)	70	2,644	(4)	371	2,785	1,533	Above est
<i>OPM (%)</i>	<i>(21.4)</i>	<i>44.6</i>	<i>29.7</i>	<i>(2.1)</i>	<i>46.6</i>	<i>30.1</i>	<i>46.6</i>	
Other Income	27	21	37	83	32	127	150	In-line
Interest	23	32	87	30	68	170	196	
Depreciation	4	4	3	5	6	14	14	
PBT	(8)	55	2,591	45	329	2,728	1,473	
Current Tax	(1)	30	837	28	131	900	501	
Deferred tax						-	-	
<i>Tax Rate (%)</i>	<i>18.6</i>	<i>54.1</i>	<i>32.3</i>	<i>62.0</i>	<i>39.8</i>	<i>33.0</i>	<i>34.0</i>	
Minority interest	0	(0)	317	9	49	318	102	
PAT	(6)	25	1,437	8	149	1,510	870	Above est
Extraordinary expenses	-	-	-	-	-	-	-	
Extraordinary Income								
Reported PAT	(6)	25	1,437	8	149	1,510	870	
% chg yoy								
Sales	(26.1)	275.8	5,045.9	18.5	2,089.6	2,963.6	(64.5)	
EBITDA	(170.1)	9,731.1	7,239.2	(105.0)	NM	5,034.8	(45.0)	
Other Income	(12.2)	(33.3)	(65.0)	101.0	17.1	418.8	276.9	
Interest	(5.3)	11.5	152.4	8.5	190.4	54.4	15.2	
Depreciation	(1.9)	(0.9)	8.9	35.9	64.9	(0.1)	-	
PBT	(155.0)	(24,553.8)	2,371.0	(49.8)	NM	2,005.0	(46.0)	
PAT	(30.7)	(235.9)	1,352.4	(84.4)	NM	2,314.0	(42.4)	
Reported PAT	(30.7)	(235.9)	1,775.3	(84.4)	NM	3,652.4	(42.4)	
EPS								
Equity	63.0	63.0	63.0	63.0	63.0	63.0	63.0	
EPS	(0.1)	0.4	22.8	0.1	2.4	24.0	13.8	

Source: Company, IDFC Securities Research

Other key highlights

- SRL sold ~38K sq. ft of area worth ~Rs1.01bn during the quarter (42k sq. ft sold in Q1FY15 with sales value of Rs1.03bn). This included Rs0.2bn from Pearl (BKC), Rs0.39bn sales from Signature Island (BKC), Rs0.19bn sales from Isles (BKC) and 0.16bn from its Goregaon parcel (Avenue I & Avenue II). For H1FY15, company sold 0.08msf with sales value of Rs2bn (up 11% yoy).
- The company had launched only one project in FY14 as against its initial guidance of four projects. The management intends to launch projects such as Signia High (0.22msf, Borivali), Signia Orion (0.3msf, Airoli) and Signia Pride (50000sq ft, Andheri) in FY15. So far it has received necessary approvals for Signia High and construction has been started. Further recent environmental clearance (EC) by Supreme Court for projects in Mulund vicinity (Mumbai) is positive for SRL having saleable area of ~2msf. Sunteck is still finalizing project plans and is likely to launch project in CY15.
 - On Nov 15, 2013, Sunteck launch Avenue phase II (Goregaon) project at base selling price of Rs12,750psf. So far it has managed to sell ~84k at an average selling price of Rs14,522psf. In interim management expects to scale up execution in its Avenue phase I project which will see uptick in pre-sales from this project in coming quarters.
- During the quarter, company has booked revenue of Rs720bm from its flagship project Signature Island which had crossed its threshold limit (company follows project completion method) in Q4FY14. Profitability from this project was in line with our estimate at ~ +45%
 - The three projects (Signature Island, Isle and Pearl) at its BKC land parcel are located on contiguous land parcel. However land+FSI cost for each project is different with Signature Island was acquired at low cost but it possesses higher saleable area.
 - As per auditors, accounting treatment for land+FSI cost will be proportionate to total area occupied and not on actual land cost paid for each project. This has impacted profitability of Signature Island project however Isle & pearl will see better margins than earlier anticipated.
 - The total cost/sq ft for BKC projects works out to be ~Rs18-20k/sq ft.
- With Signature Island under finishing stage and construction in full pace in Isles and Pearl, traction in these projects should picked-up sharply in the ensuing quarters.
 - In FY14, SRL has achieved sales of Rs2.4bn vs Rs4.3bn in FY13 across the three projects. The management expects run-rate to pick up in FY15. Given the unique offering and gaining importance of BKC as the commercial destination, we expect sales across these projects to remain strong going forward.
 - So far Sunteck has achieved sales of Rs10bn from Signature Island project, however recognition has remain lower at Rs9.3bn due to pending agreements for few apartments. This will get recognized in FY15.
 - Based on its learnings from Signature Island, the management has strengthened project management processes for these projects and also beefed up its monitoring team. Over the last few quarters, Sunteck has hired multiple senior resources from various leading real estate firms. These efforts have driven significant efficiencies in project execution and accelerated the pace of construction.

Quarterly highlights

	Area sold (sq. ft)	Sales value (Rs m)	Avg. realization (Rs psf)	Advances recd (Rs m)	Cost incurred (Rs m)
Signature Island	7,264	390	53,378	660	220
Signia Isles	5,170	(100)	36,994	100	100
Signia Pearls	5,357	200	36,868	210	10
Signia High				(110)	40
Signia Oceans*	4,052	30	8,386	38	
Sunteck City-phase I				153	120
Sunteck City-phase II	8,456	127	15,043	87	
Sunteck Grandeur					
Sunteck Kanaka*	3,193	30	10,288	24	9
Signia Skys	3,702	20	6,280	12	10
Total	38,356	1,010	26,353	1,100	520

Source: Company

NAV Valuation Summary

(Rs m)	FY15E		
	Rs m	% of total	
Residential	36,091	87%	573
Commercial	5,580	13%	89
Gross NAV	41,670	100%	662
Add: Cash	1,108		18
Less: Gross Debt	(5,000)		(79)
Less: NPV of Admin exp.	(1,501)		(24)
Net NAV	36,277		576
Outstanding shares (m)	63.0		
NAV per share	576		
Less: Discount @10%	58		
Target price	519		

Source: IDFC Securities Research

Income statement

Year to 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	302	9,256	3,288	12,202	16,752
% growth	77.7	2,963.6	(64.5)	271.1	37.3
Operating expenses	248	6,471	1,755	6,209	8,036
EBITDA	54	2,785	1,533	5,992	8,716
% change	29.0	5,034.8	(45.0)	290.9	45.5
Other income	200	127	150	160	161
Net interest	(110)	(170)	(196)	(121)	(88)
Depreciation	14	14	14	14	14
Pre-tax profit	130	2,728	1,473	6,017	8,776
Current tax	62	900	501	2,046	2,984
Profit after tax	68	1,828	972	3,971	5,792
Minorities	(5)	(318)	(102)	(239)	(347)
Non-recurring items	(22)	-	-	-	-
Net profit after non-recurring items	40	1,510	870	3,732	5,445
% change	29.8	3,652.4	(42.4)	329.1	45.9

Key ratios

Year to 31 Mar	FY13	FY14	FY15E	FY16E	FY17E
EBITDA margin (%)	18.0	30.1	46.6	49.1	52.0
EBIT margin (%)	13.3	29.9	46.2	49.0	51.9
PAT margin (%)	20.7	16.3	26.5	30.6	32.5
RoE (%)	1.1	26.0	12.5	40.9	39.7
RoCE (%)	0.4	24.4	13.2	50.0	55.1
Gearing (x)	1.0	0.9	0.3	0.1	0.0

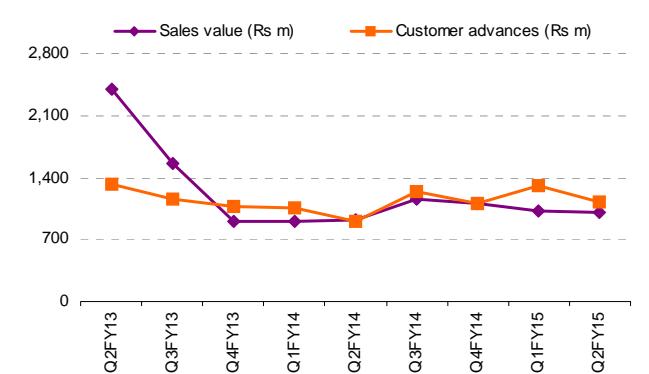
Valuations

Year to 31 Mar	FY13	FY14	FY15E	FY16E	FY17E
Reported EPS (Rs)	0.6	24.0	13.8	59.3	86.5
Adj. EPS (Rs)	1.0	24.0	13.8	59.3	86.5
PE (x)	301.0	12.5	21.6	5.0	3.5
Price/ Book (x)	3.8	2.8	2.6	1.7	1.1
EV/ Net sales (x)	77.8	2.7	6.3	1.6	1.2
EV/ EBITDA (x)	433.3	8.9	13.6	3.3	2.2
EV/ CE (x)	2.3	2.0	2.0	1.5	1.1

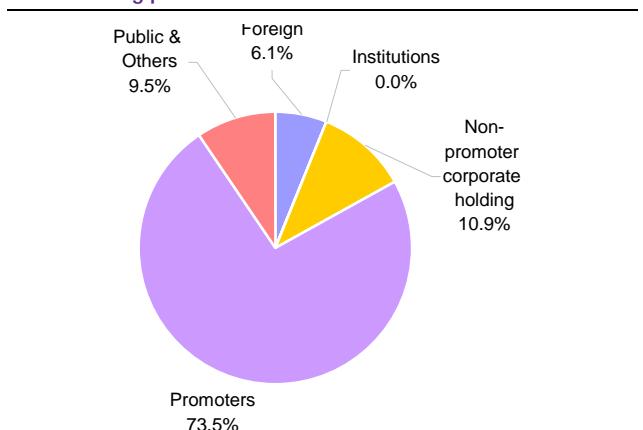
Balance sheet

As on 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E	FY17E
Paid-up capital	1,015	1,015	1,015	1,015	1,015
Reserves & surplus	3,884	5,358	6,133	9,739	15,058
Total shareholders' equity	4,902	6,694	7,254	10,997	16,424
Total current liabilities	17,126	15,842	18,535	21,122	19,059
Total debt	5,083	5,920	3,035	2,500	1,500
Deferred tax liabilities	9	6	6	6	6
Other non-current liabilities	17	69	69	69	69
Total liabilities	22,235	21,838	21,645	23,697	20,634
Total equity & liabilities	27,137	28,532	28,898	34,694	37,057
Net fixed assets	145	141	97	83	69
Investments	365	296	296	296	296
Total current assets	26,028	27,497	27,907	33,716	36,094
Other non-current assets	599	598	598	598	598
Working capital	8,902	11,654	9,372	12,594	17,035
Total assets	27,137	28,532	28,898	34,694	37,057

Sales value and Customer advances



Shareholding pattern



As of September 2014

Cash flow statement

Year to 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E	FY17E
Pre-tax profit	130	2,728	1,473	6,017	8,776
Depreciation	14	14	14	14	14
Chg in Working capital	1,247	(2,943)	3,167	(2,675)	(5,003)
Total tax paid	(62)	(900)	(501)	(2,046)	(2,984)
Ext ord. Items & others	(18)	52	-	-	-
Operating cash Inflow	1,310	(1,049)	4,153	1,310	803
Capital expenditure	32	(8)	30	-	-
Free cash flow (a+b)	1,342	(1,057)	4,183	1,310	803
Chg in investments	305	68	-	-	-
Debt raised/(repaid)	201	838	(2,885)	(535)	(1,000)
Capital raised/(repaid)	(1,655)	0	0	0	0
Dividend (incl. tax)	(13)	(63)	(94)	(126)	(126)
Misc	(41)	24	(318)	(102)	(239)
Net chg in cash	139	(190)	885	547	(562)

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3. Underperformer : Less than 5% to Index

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