

05th JULY 2024

Sunteck Realty – BUY

CMP : Rs.545.0
Target Price : Rs.730.0
Upside : 30%+
Stop Loss : Rs.470.0 (Closing basis)

Investment Thesis

- Sunteck Realty Ltd. (Sunteck) is demonstrating robust sales momentum, particularly in its BKC projects. The company sold Rs. 245 crores worth of stock in FY24 in the BKC area alone, which is more than the combined sales of Rs. 203 crores from the previous three years. This acceleration in sales indicates growing demand for Sunteck's properties. Furthermore, the company is targeting an ambitious 30%-35% growth in presales for FY25.
- Sunteck's inventory management appears to be highly efficient. The company reports that inventory months of under-construction projects stand at approximately eight months, which they believe is among the lowest in the industry. This low inventory level is significant as it indicates strong sales performance and efficient project management. It suggests that Sunteck is able to sell its properties quickly, reducing carrying costs and potentially improving cash flow.
- Sunteck has a well-planned project pipeline that targets key growth areas in Mumbai. Sunteck is preparing to release more area for sale in large-scale projects across Goregaon West, Mira Road, Naigaon, and Vasai. These areas are known for their growth potential and increasing demand for quality housing. Additionally, Sunteck is planning new launches in prime South Mumbai locations like Nepean Sea Road and Bandstand in Bandra West. These high-end locations could potentially yield higher margins.
- Sunteck has set an ambitious target to double its Gross Development Value (GDV) from Rs. 30,000 crores to Rs. 60,000 crores in the coming years.

Financials

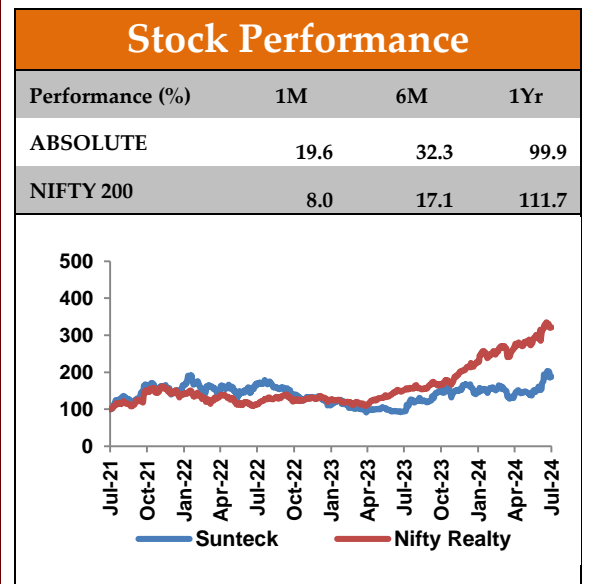
- Sunteck's revenue has shown a consistent growth trajectory, increasing from Rs. 513 crore in FY22 to Rs. 565 crore in FY24 and further estimating it at Rs. 814 crore in FY26E. It saw a dip in its revenue in FY23 due to low sales and demand impacted by covid-19. This indicates a strong demand for the company's ability to capture market share and expand further.

Consl. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	513	362	565	678	814
EBITDA	95	64	117	146	190
EBITDA Margin (%)	19%	18%	21%	22%	23%
PAT	25	1	71	82	98
EPS (Rs.)	1.71	0.1	4.84	6.10	7.20
P/E (x)	327	5590	115	105	101.4
RoE (%)	0.90%	0.04%	2.27%	3.10%	3.50%

Stock Data	
Market Cap (Rs. Mn)	81,100
Market Cap (\$ Mn)	971.25
Shares O/S (in Cr)	14.6
Avg. Volume (3 month)	31,06,342
52-Week Range (Rs.)	620 / 300

Shareholding Pattern	
Promoters	63.24%
FII's	18.34%
Institutions	9.10%
Others (incl. body corporate)	9.30%

Key Ratios	
Div Yield	0.27%
TTM PE	115x
ROE	2.27%
TTM EPS (Rs.)	4.84/-



- The EBITDA has also been growing steadily, from Rs. 95 crore in FY22 to Rs.117 crore in FY24 and further estimating it at Rs. 190 crore in FY26E. This suggests that the company has been able to effectively manage its operating costs and maintain profitability.
- The EBITDA margin, has shown a consistent improvement, increasing from 19% in FY22 to 21% in FY24 and further estimating at 23% in FY26E as it expects higher margins in the Sunteck City 4th Avenue project due to better realizations. This indicates that it has been able to generate higher profits from its revenue, likely due to its operational efficiencies.
- The PAT, which represents the company's net income, has also been growing steadily, from Rs. 25 crore in FY22 to Rs. 71 crore in FY24 and further estimated at Rs. 98 crore in FY26E. This reflects the company's ability to generate substantial profits for its shareholders.
- The P/E ratio, has been declining from 327x in FY22 to 115x in FY24 and further estimated 83x in FY26E. This could suggest that the company's shares may be undervalued compared to its earnings growth potential.

Key Business Highlights

- Sunteck has established a strong presence in the Mumbai Metropolitan Region (MMR), which is recognized as the largest and fastest-growing real estate market in India. This strategic focus on MMR positions the company to capitalize on the region's robust demand for housing and commercial properties, potentially leading to sustained growth and market leadership.
- The luxury segment is showing faster sales growth compared to mid-segment or affordable segment properties. It is also observing strong demand in the Uber Luxury segment, particularly in its BKC projects. This focus on luxury properties could lead to higher margins and improved profitability, as luxury real estate typically commands premium pricing and attracts high-net-worth buyers who are less sensitive to economic fluctuations.
- Sunteck boasts a robust financial position with a net debt-to-equity ratio of zero, indicating a strong balance sheet with minimal leverage. Additionally, the company has achieved a strong operational CAGR of over 20%, demonstrating consistent growth and operational efficiency.
- Sunteck has established successful partnerships with reputable entities such as the Kotak Fund, Ajay Piramal Group, and now the IFC-World Bank Group. These partnerships not only provide additional capital for growth but also lend credibility to Sunteck's business model and future prospects.

Valuation

While the stock is trading at TTM P/E of 115x with an EPS of Rs.4.84 which is considered to be valued reasonably. Revenue is expected to grow by 30-35% led by its target to double its GDV to Rs. 60,000 crore and robust pipeline of its new launches.

We expect it to trade around 101.4x P/E with an FY26 EPS of Rs.7.20.

We are assigning a BUY rating for with a Target Price of Rs. 730.0, translating into an upside of 30%.

Risk & Concern

- The real estate sector in India is subject to various regulations and policies at both the central and state levels. Any adverse changes in these regulations, such as changes in floor space index (FSI) rules, environmental clearances, or tax policies, could impact Sunteck's operations and profitability.
- While Sunteck has established a strong position in the luxury real estate market in Mumbai, it faces competition from other established and emerging players.
- The real estate industry is known for its cyclical nature, with periods of boom and bust. Sunteck, like all real estate companies, is subject to these market cycles. During downturns, the company may face challenges such as decreased demand, lower property valuations, and potential inventory build-up.

Graphs & Charts

Figure 1: Net Sales Trend

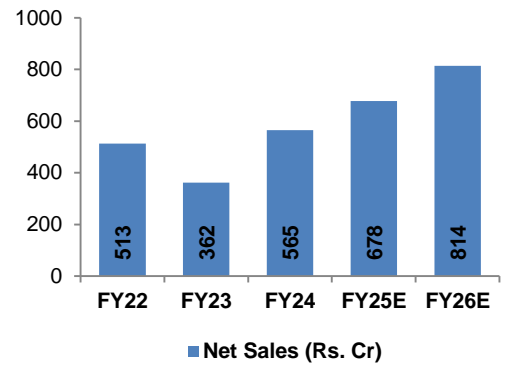


Figure 2: EBITDA & EBITDA Margin Trend

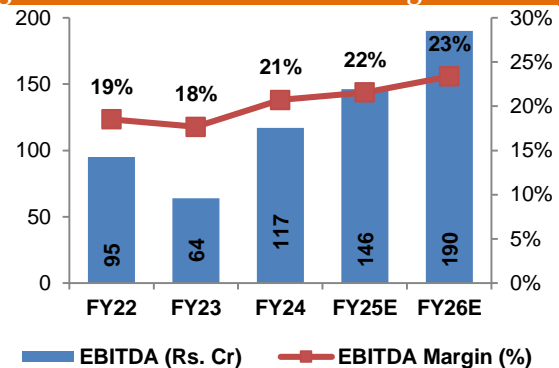


Figure 3: PAT Trend

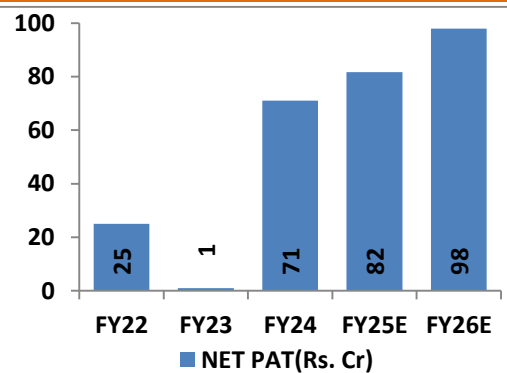
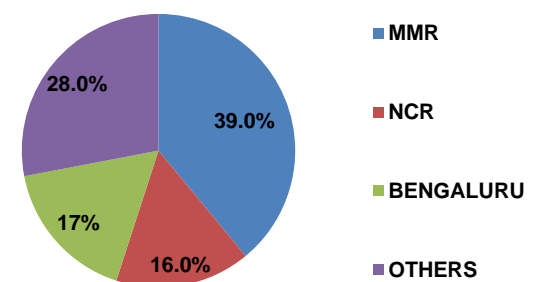


Figure 4: Region wise Market share (FY24)



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