



## “Sunteck Realty Limited Q4 FY21 Earnings Conference Call”

**June 30, 2021**



**MANAGEMENT: MR. KAMAL KHETAN - CHAIRMAN & MANAGING  
DIRECTOR, SUNTECK REALTY LIMITED  
MR. MANOJ AGARWAL – CHIEF FINANCIAL OFFICER,  
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**Moderator:** Ladies and gentlemen, good day and welcome to Sunteck Realty Earnings Conference Call for the Q4 and full year FY21. We have with us today Mr. Kamal Khetan – Chairman and Managing Director of the Company, Mr. Manoj Agarwal – Chief Financial Officer and Mr. Prashant Chaubey – SVP (Corporate Finance).

Please note that this call will be for 60 minutes and for the duration for this conference call, all participant lines will be in the listen only mode. The conference is being recorded and the transcript for the same, will be put up onto the website of the company. After the management discussion, there will be an opportunity for you to ask questions. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touch tone phone.

Before I hand the conference over to the management, I would like to remind you that certain statements made during the course of this call may not be based on historical information or facts, and maybe forward-looking statements, including those related to general business statements, plans, and strategy of the company, its future financial condition and growth prospects. These forward-looking statements are based on the expectations and projections and may involve a number of risks, uncertainties, and other factors that could cause actual results, opportunities, and growth potential to differ materially from those suggested by such statement.

I would now like to hand the conference over to Mr. Khetan – the Chairman and Managing Director of the company. Thank you, and over to you sir.

**Mr. Kamal Khetan:** Thank you everybody for joining Sunteck Financial year 2020-2021 full year earning call. The last year has been one of tremendous growth and learning for me, as an individual and for Sunteck as a business. The past year has given me some time to reflect on Sunteck's impressive growth journey over the last 20 years, and the path we are on for the future. We had a great run so far. But our best days lies ahead. I am excited to use this opportunity to introduce the next leg of our Sunteck Journey, what I call Sunteck 3.0, or the New Sunteck.

I will refer to a few slides to our Earning Presentation which I encourage you all to review in detail. We also published an intrinsic value presentation a few months ago, which is on our website and goes through our various projects as detailed case studies that gives you a good understanding of our business.

Our journey at Sunteck began in the year 2000. At the time we operated a few business centers in Mumbai that we leased wholesale, and sub leased retail. We owned no real estate and had under Rs. 10 crores in cash. Then in 2007, we made a research-based decision that a central business district like BKC would be a desirable place not only to work but also to live as a uber luxury lifestyle. The decision and the vision paid off. And we have since helped 100's of happy families find their own dream home in BKC and ODC in Goregaon West.

Along the journey we created enormous shareholder value. We now embark on the new Sunteck. We realize that there are more efficient ways to do business, rather than tying up capital in big

land holdings, or in finished apartments. Currently we are close to Rs. 1,800 crores of finished inventory. I am focused on reducing this by (+) 80% in the next few years. We are also focused now on not adding new finished inventory, the objective as we do our launches is to stack it high, and let it fly.

Our progress at Sunteck World in Naigaon is the exhibit of this new focus. You can see slide 32 of our earnings presentation, we have launched 4,840 apartments of which we have already sold with high velocity, 4,136 apartments. The overhead to run Sunteck engine is about 100 crores a year, or less than that. This is the amount we would spend even if we did not do any construction for a year. As you can see on slide 33, the 4 new near-term projects have an operating margin of approximately Rs. 6,200 crores. If this were delivered in the next 6-7 years, we would add pre-tax income of around Rs. 6,200 crores, this is roughly Rs. 1,000 crores per year, pre-tax, or Rs. 700 crores per year, post-tax. This Rs. 700 crores has plenty of lumpiness, we may have Rs. 1,000 crores in one year, and Rs. 500 crores maybe in another year. It also could be higher as we add more projects. The key is to expand and strengthen our senior team and execution capabilities so that we could be doing 6 or 7 or more big size projects simultaneously.

Historically our project level margins have been closer to 25% which was good. Future margins are trending higher towards an average 35% per project. You can see this in the economics of our Vasai and Vasind projects on slide 33. There are several reasons for our margin expansion. First, our size and the breadth of our experience that has allowed us to realize more and more economies of scale and savings. In addition, COVID brought in a period of tighter expense control and a good portion of those cost control measures should stay in place even after COVID is long gone.

Finally, our price realizations are trending higher because of the strength of our brand and offerings. We have a big opportunity in 2021. Typically, we have to pay Maharashtra lot of fees and premiums for each development, which includes fees to maximize the space we can get at the site. These fees can be significant and amount to 30% of the price we realize. The state cut these fees by half for all of calendar year 2021. This represents such good savings for Sunteck, and Sunteck can take full advantage of this in 2021, and even pass on some benefits to its customer.

We plan to prepay approximately Rs. 250 crores of these fees and premiums in 2021, thus 50% savings means that we will also be saving Rs. 250 crores which is wonderful. This should further improve our project level IRR and leave us with more capital for growth, the benefit for this will come over the next 2-3 years.

With demonetization, GST, RERA, NBFC crisis, and now COVID, there has been a major consolidation. As you know, we have done maximum acquisition in MMR during this pandemic. Now we are seeing many more interesting deals being presented to us with minimal Sunteck capital required. Of course, we are very selective, and significant shareholder value will be created if we are prudent on the deals and keep our error rate low. Our HR team is also working on employees' welfare and expansion plans to support the growth trajectory of Sunteck. I am

excited about the road ahead for the new Sunteck and for sharing the journey with all of our stakeholders. Thank you. I will now hand over the call to our CFO, Mr. Manoj Agarwal, for his comments. Thereafter I will be happy to answer your questions, if any.

**Manoj Agarwal:**

Good evening everyone, and thank you once again for joining us today, hope all of you are safe and well. The financial and operational numbers has been already uploaded to exchange. I would like to run you through the key financials and business performance numbers. Presales Q4 FY21 stood at Rs. 371 crores against Rs. 349 crores in Q3 FY21 that is an increase of 6% on quarter-on-quarter basis

I would like to highlight that we have achieved Rs. 1,022 crores of pre-sales for full year FY-21 against Rs. 1,221 crores of last financial year same period. In spite effect of the ongoing pandemic. On collections front, we have achieved our highest ever collections in this quarter, is a function of pre-sales of recent past and increase in home loan disbursements. Recorded collections of Rs. 321 crores in Q4 FY21 as against Rs. 175 crores in same quarter last year. Rs. 252 crores in Q3 FY21 that is an increase of 83% year-on-year basis and 26% on quarter-on-quarter basis.

In terms of financial highlights, we recorded consolidated revenue of Rs. 191 crores in Q4 FY21, against Rs. 87 crores in same quarter last year, and Rs. 217 crores in Q3 FY21. EBITDA for full year FY-21 stood at Rs. 640 crores as against Rs. 560 crores in FY20, which is a 10% increase, despite of COVID effect in Q1 during FY21. The consolidated EBITDA for Q4 FY21 has increased Rs. 39 crores as against Rs. 4 crores in Q4 FY20, and Rs. 49 crores in Q3 FY21. EBITDA for full year FY21 was Rs. 137 crores as against Rs. 168 crores for full year of previous financial year.

With respect to sales, we recorded Rs. 10 crores in Q4 of this financial year as against Rs. 23 crores in Q3 of FY21 and Rs. 42 crores in full year FY21, this compared to Rs. 75 crores in full year FY20. As always we continue to focus on our cash flow management and our financial discipline which is a must in this environment and that continues to reflect in our low net debt that is excluding quasi equity reduced to 0.18 due to our strong operating cash flow which was positive by 286 crore during FY21 and help us reduced our debt 233 crores.

We can now open the forum for questions from participants.

**Moderator:**

Thank you. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities.

**Adhidev Chattopadhyay:**

First question is, as you have said you wanted to monetize lot of your existing inventory, largely in BKC, and going forward from FY22, how are you looking at your annual sales figure considered, and just over a 1,000 crores this year, how much would be from the unsold inventory and how much would come from the new launches? What is the broad target you are working with? Could you give us any guidance?

**Kamal Khetan:** Your first question monetizing from the inventory of BKC, we have always been maintaining that those are very high-end luxury apartments, and it is definitely not a fast-moving product, so that will take some time. But our sales route, whatever sales we are doing right now, and you can see the sales from the other segment, mid-income segment and the affordable segment that is very robust. You can see in our presentation which has been uploaded also. Also, not only the sales momentum is good, also the collection, if you can see from across all the segments. Sales momentum from the mid-income and affordable will continue to be very robust, and looking at the current sales position of April, May, June, it is much better than the last corresponding quarter of the last year, this corresponding first quarter and especially in June we are seeing the momentum picking up. That gives a clear indication, since the lockdown is starting to open up, we are seeing that the Q2 will be much more robust. That is what I can tell you about sales momentum.

**Adhidev Chattopadhyay:** Any longer-term targets? Where do you want to scale up the annual sales or something you are working on?

**Kamal Khetan:** If you see right now, we have two or three engines from where we are doing maximum sales. You can say 2, 3 projects from ODC Avenue 1, Avenue 2 and 4<sup>th</sup> Avenue, and Naigaon Phase 1 and Phase 2, which is West World and Maxx World. Going forward obviously there will be more new launches, whatever we have taken in Vasai, Vasind and the Borivali one. Also, you will see new phases getting launched from ODC and also a new phase from Naigaon. There are a lot of new launches which we are expecting. I would not like to give any numbers, but definitely I can see the growth will be very exponential in next 2-3 years, very high exponential.

**Adhidev Chattopadhyay:** There was a media article yesterday about this deal you have done with D-Mart in Avenue 2 in Goregaon, could you confirm anything on this deal and what are the exact contours and timelines for it, if you would like to comment.

**Kamal Khetan:** The deal obviously was there in the public domain, because it has been registered. We have sold almost 40,000 square feet of the showroom area to them in three levels, that's at Rs. 25,000 per square feet. We are looking to give them possession in the next 12 months.

**Moderator:** Thank you. The next question is from the line of Puneet from HSBC. Please go ahead.

**Puneet:** My question relates to your future capital allocation. How do you think you intend to allocate your capital, is it more towards purchase of land, more towards joint investment or are you looking at redevelopment of societies also?

**Manoj Agarwal:** If you see, our collections are very robust and it is going to only get more robust from here, as we deliver more and more projects because the receivables are very high, also our presales are exponentially increasing, as I said in the last question. If you see, our debt equity ratio has come down drastically from the negligible debt equity ratio 0.24 it has come down to 0.18. We may end up with a very negligible debt or maybe, God-willing cash positive. We are definitely looking at all kinds of acquisitions in this distress period and a lot of opportunities are in the

market. We will evaluate, we are not averse to not buying the land parcels, but it should be at a good price, and it should add good value to our shareholder, and good value to the company. Otherwise, there are so many options of joint development, JV, also, definitely if there is no complications and if there is a society re-development, but it has to be a very sizable development. It cannot be a small society or a standalone development, if there are large size projects and if it makes economic sense, we will definitely look at it.

**Puneet:** From sizing perspective what kind of capital are you looking to deploy? Is it more like small tickets or is its large tickets?

**Kamal Khetan:** If you see that in our last four acquisitions, we have done Naigaon and then Vasai, and then Vasind, and Eskay - they are all very large size. They have a topline of 1,000-2,000 crores, and we are looking at bottom line in all of these projects more than 500-600 crores, so we are looking at a large size project and without putting much capital, if we are getting such kind of parcel why should we put in the capital? First, we would like to explore this opportunity, and only then if we feel that there is a lot of distress available and there, we can make a good multiple IRR and that kind of projects we will definitely look at those as well.

**Puneet:** And have you seen distress go up, post COVID or is it the same? Because there was some improvement in the entire environment in the post of 1<sup>st</sup> COVID wave, before the 2<sup>nd</sup> one.

**Kamal Khetan:** There is an improvement in the environment but what we are seeing, is that the sales are swinging maximum towards only organized developer. We are all seeing that the market share of the organized developers are increasing more and more, and this will help only to grow more of the organized player and who are corporatized, or listed ones, I don't see the growth happening very soon with the others. Most of the developers are today struggling for the survival, I think 10% of the developers are growing and they will continue to grow. That is why there will be a lot of consolidation.

**Moderator:** Thank you. The next question is from the of Amit Khetan, Laburnam Capital. Please go ahead.

**Amit Khetan:** You have mentioned in your slides that you have some Rs. 1,700 crores of inventory at the BKC complexes, and you plan to sell them off in the next 3-4 years. Now if I look at your previous sales run rate, you did about 100 crores in the last couple of years, and before that you were doing Rs. 300 crores. Where is this coming from, are you planning to cut prices or are you seeing a lot of interest?

**Kamal Khetan:** I do not think there is a necessity to cut any prices, definitely the velocity has to increase, there is only a drop of sales in the last year. Otherwise, we have been doing close to Rs. 200-300 crores of sale year-on-year, from last 8-9 years. Last year definitely sales was only 100 crores but looking at the current situation and the current enquiries, we are quite optimistic and positive that we will have a good run rate even in sales in BKC projects also. What we are considering is to absorb this inventory in not less than 4 years, this is not stopping the growth of the company anyhow. Because giving a discount will be only spoiling the brand image, and the company is

not at a distress position that you need to cut down the prices and sell desperately. We will definitely see the way the values or options, and we would definitely like to exhaust the inventory ideally even in less than 3 years but looking at the product and the kind of demand, we definitely see that it will take at least more than 3-4 years.

**Amit Khetan:** Currently are we getting any kind of leasing income from these units and how much would that be?

**Kamal Khetan:** It is only 2% or 3% of the capital value. It does not make sense to, maybe 2 or 3 apartments, but we do not want to lease it more. We have leased out those apartments only because there are a lot of inquiries and we have sold those kinds of apartments. People who want to do just the investment because they see a lot of opportunity, BKC ones, there are a lot of things which are happening, actions that are happening in BKC, more of connectivity which is coming to BKC. There is a convention center which will be operational. Unfortunately, all these things got delayed due to COVID, hopefully we don't have a third wave and thereafter you will see a lot of traction in BKC. We get a lot of enquiries that people just want to invest and if there is a leased apartment to Consulates, multi-nationals, which we have in our portfolio - they like to buy those apartments. Only from that angle we have leased out few apartments, but the idea is not to keep them leased, the idea is to exhaust them, sell them and exhaust them.

**Moderator:** Thank you. The next question is from the of Pritesh Sheth, Edelweiss Wealth. Please go ahead.

**Pritesh Sheth:** I was asking about your launch pipeline for this year that you have indicated in the presentation. What is the exact size of the launches that we are targeting this year on your new acquisition that is Vasai, Vasind and Borivali?

**Kamal Khetan:** In the first launch of Vasai if you look at the total size, it is close to 500-600 crores. If you look at our first phase of Vasind this will be 300-400 crores. Borivali Eskay Resorts we can look at a similar 500-600 crores from Vasai in the 1<sup>st</sup> week. The approximate size would be 500 crores for each launch.

**Pritesh Sheth:** Your next phase of Naigaon is not reflected there, is it stuck for any approvals, or you are altogether planning for launching in post FY23?

**Kamal Khetan:** No, it is there. If you see on page 32, go to the residential side, the additional operating margin expected at Sunteck World Naigaon, Additional Expected project operating margins it shows Rs. 1,275 crores and total Rs. 1,675 crores project operating margins.

**Prashant Chaubey:** The numbers are reflected on slide 32 and in slide 32 if you see Sunteck World Naigaon has been given and that Sunteck World Naigaon includes West World, Maxx World and the future phases, there if you see the additional project operating margins it is close to Rs. 1,275 crores and the total is Rs. 1,675 crores.

**Pritesh Sheth:** You will be launching the next phase in FY22.

- Prashanth Chaubey:** Yes, we will be launching.
- Moderator:** Thank you. The next question is from the of Aditya Mehta from GK Capital. Please go ahead.
- Aditya Mehta:** What are the plans regarding rental and commercial portfolio, which we were targeting around Rs. 500 crores of annual revenue?
- Kamal Khetan:** I would say we got lucky. We were supposed to just start our project, 5<sup>th</sup> Avenue in ODC commercial portfolio before COVID-19 hit. It was fortunate that our approvals got delayed and we could not launch. I think we all know the situation of Commercial post COVID. The demands are continuously going down for commercial. We know that there is a lot of uncertainty for commercial and retail, at least I believe that commercial will not get revived till end of 2023. We would look at the market if the commercial market revises, we have the land, and we have everything, why should we not start it? So, we will be looking to start as soon as we see the market getting better and we will definitely launch that as well.
- Aditya Mehta:** My second question is regarding that, which are the projects that we will be delivering in this financial year and what is the amount of revenue that has yet to be recognized from them?
- Prashant Chaubey:** In the current financial year you will have projects like Sunteck City Avenue 2, which will be ready for delivery. You will also have Signia Waterfront, which is our project in Airoli, which will be ready for delivery. So, as and when these projects come through the pending revenues which are to be recognized, those will be recognized. In order to get the detail of the revenue, I can provide to you that offline Sir.
- Aditya Mehta:** Naigaon also we will be delivering this financial year?
- Prashant Chaubey:** Also, Sunteck West World, the first phase of Naigaon we will be delivering in FY22.
- Moderator:** Thank you. The next question is from the of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.
- Adhidev Chattopadhyay:** Referring to slide 38 of the presentation when you have talked about the Rs. 250 crores FSI premiums you will be paying off, could you just help us understand for which projects will be these, is the saving Rs. 250 crores in this, instead of 500 crores?
- Kamal Khetan:** If this premium reduction would have not come obviously we would have paid 500 crores that is the approximate. The reduction is 50%, if we prepay this, we have calculated approximately we will have to pay Rs. 250 crores, maybe +/- 10%, there are maximum projects under execution. You can see 4<sup>th</sup> Avenue - there we will be having a lot of saving, we will have some savings in 2<sup>nd</sup> Avenue as well in Sunteck City, then we will have savings in Andheri East project, which is Sunteck Crest, then we will have 2 commercial projects in the junction of BKC- there we will have savings. We will have savings from couple of these projects, and this will all tune up to approximately saving of close to Rs. 250 crores.



- Adhidev Chattopadhyay:** Just another follow-up question on the approvals for Vasai, Vasind, Borivali. So are these fairly certain to be launched in 2<sup>nd</sup> half this year or is it contingent to certain key approvals like environmental clearance or other clearance.
- Kamal Khetan:** Looking at the way we are getting approvals we are quite confident at least 2 out of the 3 projects we should be able to launch in FY22.
- Moderator:** Thank you. The next question is from the of Parvez Akhtar Qazi from Edelweiss Securities. Please go ahead.
- Parvez Akhtar Qazi:** A couple of questions from my side. First if you could update us about the two commercial projects in BKC, and second in terms of value what is the inventory that is in ODC and Naigaon?
- Prashant Chaubey:** Both the BKC junction commercial projects are moving in full swing, and hopefully in the 12-18 months we will be able to complete both these projects and also derive the sales out of it. That is the status on Sunteck BKC 51 and Sunteck Icon. As far as the launch projects we have done in ODC and Naigaon, as Sir has pointed out, in Naigaon out of 4,800 units we have already sold 4,100 units, so 85% of the units have already been sold and now the collection is on as the construction is moving forward. In fact, Sunteck West World as we receive OC there is will be significant collection which will be coming into the company from the sales already done. Secondly for ODC, Sunteck City Avenue 1, Avenue 2 and 4<sup>th</sup> Avenue projects have been launched, where the total number of units is close to 1,675 units, and out of that 1,000 + units have been sold. Balance 500-600 units can give me another close to Rs. 1,000 crores in the coming years as and when the sales is done. That is the update I can provide you right now. I want to highlight construction in all the 2 projects basically, 2<sup>nd</sup> Avenue and 4<sup>th</sup> Avenue is moving in full swing.
- Adhidev Chattopadhyay:** When will we be completing Avenue 2?
- Kamal Khetan:** Avenue 2 we are looking to deliver in next 3-4 months.
- Adhidev Chattopadhyay:** When can we expect any further launch in ODC?
- Kamal Khetan:** We will be definitely looking at some launch, because we want to do a big scene once again in this year. We can see that happening very soon, anytime.
- Moderator:** Thank you. The next question is from the of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** It possible for you to talk a bit about the new project acquisition? Great job done with Vasai, Vasind, etc., but what is the visibility going forward, are you in discussions with quite a few, these are city center or more suburban, just some color will be very useful.

- Kamal Khetan:** Obviously Vasai, Vasind and Borivali Eskay Resorts, I think it is one of the very prime locations, and it gives almost like a Rs. 25,000 a square feet price in that micro market. This is something you will not get usually in western suburbs. Going forward we are in talks with at least 3-4, we are actively negotiating the deals, and these are all across MMR region. This is not like only suburbs or distant suburbs these are obviously in MMR regions, some towards the city, some in western suburbs and some in eastern suburbs.
- Sameer Baisiwala:** On your unsold inventory in BKC now that COVID is behind us and stock markets are doing well which just means that wealth effect is good, are you seeing a pickup in enquiries, in visits, do you have some sort of order book or equivalent to say that now you can have a quicker turnover over there?
- Kamal Khetan:** We are pretty confident, we know that we are all concerned about such a big inventory, we are all looking forward and putting our best foot forward to see that this can be exhausted as soon as possible.
- Sameer Baisiwala:** For the 2 BKC junction commercial projects, is it too premature to start the conversations on the sales models, is it strata base or is it 1 or 2 large people who you will sell it down to, and is it premature for that discussion, and you would be looking to do it later or any visibility on the demand over there?
- Kamal Khetan:** Definitely we are just waiting for COVID to stabilize or just another 3-6 months because at least the project is ahead, for at least 12-18 months to complete the projects both the projects at BKC junction. We are looking 3-4 months now, we have all the options open, we are not rigid on selling it, or we just don't want to lease it, we are open to all the options, whichever gives the best value to the company we will be opting that.
- Moderator:** The next question is from the line of Pritesh Sheth from Edelweiss Wealth. Please go ahead.
- Pritesh Sheth:** On your launch pipeline, when you plan your next phase ODC and Naigaon projects considering of how the raw materials have increased, are you planning to take any price hike across both these projects?
- Kamal Khetan:** The prices have firmed up only in the last 3-6 months. Fortunately, in Bombay we are only operating in MMR region, where our average selling price is not less than Rs. 15,000-16,000 a square foot, so the raw material prices which is steel and cement, which is negligible in terms of the entire real estate value. It is not that if you are selling a Rs. 5,000-6,000 product and whether your construction cost is itself Rs. 2,000 a square foot. That gives a real pain. In fact, I have made clear in my opening remarks that in fact our EBITDA margins what we are looking at last few years 25%, we will be looking at our EBITDA margins at 35%. We are not worried about the small rise in the price, and also the measures which has been taken during COVID to cut down the cost, strongly manage the cost, I think that will play a lot in offsetting the pricing of steel and cement price.

**Moderator:** That was the last question. I would now like to hand the conference over to Mr. Khetan, Chairman & Managing Director for closing comments.

**Kamal Khetan:** Thank you all for taking out the time from your busy schedules today. In case if any of your queries have been left unanswered, you can get in touch with me or my team. We look forward to your continued support. Thank you once again for joining us today and please be safe.

**Moderator:** On behalf of Sunteck Realty that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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(This document has been edited to improve readability)