

**Company Overview**

Arkade Developers Limited, a prominent real estate development company, has been focusing on creating premium lifestyle residential properties in Mumbai, Maharashtra since 2017. The company operates in two main areas: the development and construction of new residential premises on acquired land, and the redevelopment of existing properties. As of June 30, 2024, Arkade Developers developed 2.20 million square feet of residential property, including areas developed through partnerships where they hold a majority stake. Currently, the company has six ongoing projects, of which three are new and three are redevelopment projects. The majority of its revenue comes from new projects since Fiscal 2023. Between 2017 and the first quarter of 2024, the company launched 1,220 residential units and sold 1,045 units across various markets in the Mumbai Metropolitan Region (MMR). From CY 2003 to March 2024, Arkade Developers has successfully completed the redevelopment of 10 projects in Mumbai's western suburbs and one project in south-central Mumbai, totaling approximately 1,000,000 square feet. This achievement positions them as one of the significant players in the redevelopment sector in Mumbai's western suburbs. Over the years, the company has developed projects across different price points. Currently, they are working on a project with unit prices ranging from Rs. 9.4 million to Rs. 62.5 million. Over the last two decades, they have completed 28 projects, generally financed through a combination of promoter equity and internal accruals. These include 11 projects completed independently, eight projects managed by their Promoter through his proprietorship, and 9 projects developed in partnership with other third parties. In total, these projects encompass more than 4.5 million square feet of development and have served approximately 4,000 customers. The company's in-house team manages all aspects of project development, from conceptualization to completion, including land acquisition, legal matters, construction, and marketing and sales. They engage empaneled professionals on a project-by-project basis, considering factors such as project scale, availability, and cost.

Objects of the issue

The company proposes to utilize the net proceeds towards the funding of the following objects:

- ⇒ Funding a part of the costs to be incurred in the development of the ongoing projects (viz. Arkade Nest, Prachi CHSL and C-Unit) (funding development expenses); and
- ⇒ Funding acquisition of yet-to-be identified land for real estate projects and general corporate purposes.

Investment Rationale**Strong in-house resources ensure all-round and timely development of projects**

Arkade Developers, a leading real estate development company in Mumbai, leverages its comprehensive in-house resources to manage projects from initiation to completion. This includes dedicated teams for legal, business development, purchases and contracts, and sales and marketing. The legal team ensures thorough due diligence for property acquisitions and skillfully negotiates redevelopment agreements, mitigating potential disputes. The sales team excels in advertising, networking with channel partners, and devising strategies to foster strong customer relationships, recognizing that satisfied customers are their best brand ambassadors. The marketing team conducts extensive market research and develops comprehensive strategies to achieve marketing objectives, identifying target markets and selecting effective channels such as digital advertising, social media, print media, and events. Their efficient use of traditional techniques and third-party resources like real estate-focused digital search platforms, ensures targeted outreach, resulting in increased property sales and sustained business growth. This strategic approach positions Arkade Developers for continued success and growth in the competitive real estate market, making it a compelling investment opportunity.

Leading market presence in lucrative and select micro markets of Mumbai

Arkade Developers is among the top 10 leading developers in select micro markets in the Mumbai region. They are highly rated primarily in the western suburbs in micro markets like Borivali West, Goregaon East, Santacruz West and Andheri East where they have a high percentage of total supply and total absorption cumulatively. Their strong market presence is highlighted by a high percentage of total supply and absorption in these areas. A major factor that contributes to their growth and

Issue Details

Offer Period	16 th Sep 2024 - 19 th Sep 2024
Price Band	Rs. 121 to Rs. 128
Bid Lot	110
Listing	BSE & NSE
Issue Size (no. of shares in mn)	32.0
Issue Size (Rs. in bn)	4.1
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Unistone Capital Pvt. Ltd.
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Registrar	Bigshare Services Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	86	71
Public	14	29
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Arkade Developers Limited

success is their capability to consistently deliver projects on or ahead of schedule. The seamless coordination among their various teams involved ensures that they start a project only after receiving the necessary approvals required for it.

Valuation

Arkade Developers is a rapidly expanding real estate developer in the Mumbai region, specializing in both new projects and the redevelopment of existing properties. As one of the leading developers in Mumbai's micro markets, the company presents a compelling investment opportunity. This success is attributed to its strong in-house team and commitment to the timely completion of projects. Mumbai, known for its expansive and high-value real estate market, saw significant growth in housing supply and absorption rates in the past, creating ample development opportunities. Arkade Developers has demonstrated substantial financial growth, with a revenue CAGR of 66.5% from FY22 to FY24. The company's Profit After Tax (PAT) increased impressively from Rs. 508.4 million in FY23 to Rs. 1,228.1 million in FY24. Its Return on Capital Employed (ROCE) also rose significantly from 24.3% in FY23 to 47.3% in FY24, highlighting the company's efficient capital utilization to drive growth and enhance profitability. Furthermore, Arkade Developers is working towards becoming debt-free, which enhances its attractiveness to investors by ensuring that funds are not diverted towards debt repayment. Looking ahead, the company plans to expand into the eastern region of the Mumbai Metropolitan Region (MMR), Maharashtra, with a mix of commercial and residential developments. **The current issue is priced at a P/E ratio of 15.8x on the upper price band based on FY24 earnings, which is relatively lower compared to its peers. Therefore, we recommend a SUBSCRIBE rating for this issue with a medium to long-term investment perspective.**

Key Risks

- ⇒ The company's inability to identify suitable redevelopment projects or acquire appropriate land for their new projects may adversely affect their business and growth.
- ⇒ The company plans to allocate a portion of the net proceeds for land acquisition, though there is no guarantee of the land's viability or the project's profitability.
- ⇒ Arkade Developers business is entirely focused on the Mumbai Metropolitan Region which means that any negative impact on the local real estate market could severely affect their business performance, operational results, and financial health.

Arkade Developers Limited

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Revenue			
Revenue from Operations	2,289	2,202	6,347
Total Revenue	2,289	2,202	6,347
Expenses			
Cost of construction	2,549	3,344	4,164
Changes in inventories of finished goods and work in progress	(949)	(2,015)	126
Employee benefit expenses	79	171	167
Other expenses	66	99	216
Total Operating Expenses	1,745	1,599	4,673
EBITDA	544	603	1,674
Depreciation and Amortization expenses	1	3	11
Other income	82	39	10
EBIT	626	639	1,673
Finance costs	43	13	31
Share of Profit (Loss) of associate	73	42	10
PBT	656	668	1,651
Current Tax	148	161	425
Deferred tax	(0)	(1)	(2)
Total tax	147	160	423
Net Profit	508	508	1,228
Diluted EPS	3.3	3.3	8.1

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Cash Flow from operating activities	(1,232)	(987)	1,015
Cash flow from investing activities	760	292	(122)
Cash flow from financing activities	449	836	(829)
Net increase/(decrease) in cash and cash equivalents	(23)	141	64
Cash and cash equivalents at the beginning of the period	49	25	166
Cash and cash equivalents at the end of the period	25	166	233

Source: RHP, BP Equities Research

Arkade Developers Limited

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24
ASSETS			
Non-current assets			
Property, plant and equipment	18	19	118
Right to use assets	-	-	18
Deferred tax assets (net)	3	4	5
Other Intangible assets	-	2	3
Non-current tax assets (net)	1	15	22
Investments	164	170	181
Other financial assets	11	64	24
Other non-current assets	-	1	0
Total Non-Current Asset	196	274	372
Current assets			
Inventories	2,990	5,005	4,879
Financial Assets			
Investments	232	-	-
Trade receivables	53	37	81
Cash and cash equivalents	25	166	233
Other bank balances	70	10	16
Loans	0	1	1
Other financial assets	2	27	30
Other current assets	132	34	139
Total Current Asset	3,503	5,280	5,378
Total Assets	3,700	5,554	5,750
EQUITY AND LIABILITIES			
Equity			
Equity share capital	20	20	1,520
Instruments entirely equity in nature	-	-	-
Other equity	1,475	1,983	1,714
Equity attributable to owners of the Company	1,495	2,003	3,234
Non-controlling interest	-2	1	2
Total Equity	1,493	2,004	3,236
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	12	788	290
Lease liabilities	-	-	14
Provisions	9	11	12
Total Non -Current Liabilities	21	798	317
Current Liabilities			
Financial liabilities			
Borrowings	632	702	404
Lease liabilities	-	-	4
Trade payable	137	235	383
Other financial liabilities	77	137	46
Provisions	31	29	53
Current tax liabilities (net)	-	-	18
Other current liabilities	1,308	1,648	1,289
Total Current Liabilities	2,186	2,752	2,196
Total Equity and Liabilities	3,700	5,554	5,750

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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