

Retail Research	IPO Note
Sector: Real Estate	Price Band (Rs): 121 - 128
14th September 2024	Recommendation: Subscribe

Arkade Developers Limited

Company Overview:

Arkade Developers Limited (ADL) is a real estate development company concentrating on the development of premium aspirational lifestyle residential premises in Mumbai, India. The company's business can broadly be classified into two categories: (a) development/construction of residential premises on land acquired by the company (New Projects) and (b) redevelopment of existing premises (Redevelopment Projects). As of Jun'24, the company has developed 2.2 mn square feet of residential property (including partnership with entities in which the company hold the majority stake). Between 2017 and 1QFY24, the company launched 1,220 residential units and sold 1,045 residential units in different markets in MMR (Mumbai Metropolitan Region), Maharashtra. The company has a track record of completing projects on time. It has successfully redeveloped 10 projects in the Western suburbs of Mumbai and 1 project in South-Central Mumbai (through a partnership firm in which ADL holds a majority stake) with a combined constructed area of 1 mn square feet.

Key Highlights:

1. Strategically located in micro-markets of MMR, Maharashtra: The company has significant operations in the western suburbs of MMR, Maharashtra and has been among the top 10 developers in the Borivali West, Goregaon East and Santacruz West micro-markets since 2017. From 2017 to 1QFY24, the company has been one of the major players in terms of 2BHK, 3BHK & 4BHK unit supply in the combined markets of Andheri East, Borivali West, Goregaon East and Santacruz West micro markets. Out of 20,294 units sold in these micro markets from 2017 to 1QFY24, the top 10 developers contributed 38% of the total supply. The company accounted for 7% of the supply from the top 10 developers. A majority of the residential units supplied by the company in the aforementioned micro markets is in the high-end and premium budget segments.

2. Timely completion of projects: A key aspect of the company's success and growth over the years has been its ability to consistently deliver projects within, and often before, the scheduled project completion timelines. In the last 2 decades, the company has completed 28 projects, including 11 projects on a stand-alone basis (including 2 projects executed through partnership firms in which the company holds the majority stake), 8 projects executed by the promoter through his proprietorship, M/s Arkade Creations and 9 projects through joint development arrangements with other third parties aggregating more than 4.5 mn square feet of development and have catered to more than approximately 4,000 customers. The company has consistently delivered 23 out of 28 projects before the introduction of RERA and completed the remaining 5 projects within the specified timelines after the introduction of RERA.

3. Strong in-house resources: The company has an integrated business model with in-house legal, business development, purchasing and sales teams. Company's legal team conducts due diligence and negotiates agreements for redevelopment projects. Business development team focuses on acquiring land in high-potential areas. Sales team supports transactions through advertising and networking. Marketing team conducts market research and develops strategies across various channels, contributing to increased property sales and sustained business growth.

Valuation: The company is valued at FY24 P/E multiple of 19.3x at the upper price band of Rs 128 based on post-issue capital. The issue appears to be attractively priced given the excellent execution track record, healthy market share in the identified micro-markets, strong balance sheet and the growth potential of the real estate industry in the MMR. The funds raised through the IPO will be utilised for acquiring land parcels which will further boost the development pipeline. We recommend subscribing to the issue for both listing gains as well as long term investment horizon.

Issue Details	
Date of Opening	16 th September 2024
Date of Closing	19 th September 2024
Price Band (Rs)	121 - 128
Fresh Issue (Rs cr)	410
Issue Size (Rs cr)	410
No. of shares	3,38,84,298 – 3,20,31,250
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,269 – 2,376
BRLMs	Unistone Capital Private Limited
Registrar	Bigshare Services Private Limited
Bid Lot	110 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
Estimated utilization from net proceeds (Rs cr)	
Funding development expenses*	250.0
Funding acquisition of yet-to-be identified land for real estate projects and general corporate purposes*^	-
Total proceeds from fresh issue*	410.0

*To be determined upon determination of Issue Price.

^The amount utilised for acquisition of future real estate projects and general corporate purposes shall not exceed 35% of the Gross Proceeds. The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	13,14,79,848	85.6
Public & Others	2,21,46,168	14.4
Total	15,36,26,016	100.0

Post Issue @Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	13,14,79,848	70.1
Public & Others	5,60,30,466	29.9
Total	18,75,10,314	100.0

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	13,14,79,848	70.8
Public & Others	5,41,77,418	29.2
Total	18,56,57,266	100.0

Source: RHP, SSL Research

Key Financials

Key Metrics	FY22	FY23	FY24
Revenue from operation (Rs cr)	229	220	635
EBITDA (Rs cr)	54	60	167
PAT (Rs cr)	50	51	123
EBITDA Margin (%)	23.8	27.4	26.4
PAT Margin (%)	22.0	23.1	19.4
ROE (%)	33.8	25.4	38.0
ROCE (%)	29.3	18.3	42.6
PE (x)	38.5	38.3	15.8
Pre-Sales (Rs cr)*	87	258	257
Pre-Sales (mn square feet)^	0.06	0.19	0.20
Completed Developable Area (mn square feet)*^	0.3	0.26	-
Collection (Rs cr)**	170	258	570

* Sales in terms of units booked is calculated by counting the total number of units that customers have committed to purchasing or renting within a specific time frame.

^ Sales in terms of area booked is calculated by measuring the total area of properties or spaces that customers have committed to.

*^ Completed Developable area is the area of the projects delivered (Occupancy Certificate received during the year) by the Company in a particular period. There were no Occupancy Certificates received during FY24 for any ongoing projects.

** Collection refers to the amount of money received from customers in a particular time frame.

Note: Pre-issue PE based on upper price band

Source: RHP, SSL Research

Risk Factors

- **Inability to identify development opportunity:** The company may not be able to successfully identify redevelopment projects or identify and acquire suitable land for the proposed new projects which may have an adverse impact on the business and the growth of the company.
- **Delay in project execution:** Inability to complete the projects by the expected completion dates could have an adverse effect on the business and financial condition of the company.
- **Penalty clause:** The company is subject to penalty clauses under the agreements entered into with the customers for any delay in the completion of the projects.
- **No long-term agreement for supply of raw materials:** The company does not have long-term agreements for labor and key construction materials. Increase in prices or shortage/delay in supply of raw material may impact the operations of the company.
- **Heavy regional concentration:** The company focuses on the MMR region and hence negative impact on its real estate market will affect the business, finances and operations.

Growth Strategies

- Continue to expand in the eastern region of MMR, Maharashtra.
- Moving up the value chain to premium / luxury residential premises.
- Continue to focus on blended business model.

Ongoing Projects

Ongoing Projects comprise 6 projects located in prime locations in the western and eastern suburbs of Mumbai, Maharashtra which are at various stages of development. As of Jun'24, out of the 6 projects that are currently under-development, 3 are New Projects and 3 are Redevelopment Projects constituting 50% each of the under-development projects.

Particulars [#]	Nature of the project	Expected completion date*	Total number of units available for sale *	Number of units sold (in %)
Arkade Aura, Santacruz, MMR, Maharashtra	Residential	December 31, 2025	43	55.81
Arkade Prime, Andheri East, MMR, Maharashtra	Residential / Commercial	December 31, 2025	116	92.24
Arkade Aspire, Goregaon East, MMR, Maharashtra	Residential / Commercial	December 31, 2025	228	89.04
Arkade Nest, Mulund West, MMR, Maharashtra	Residential	June 30, 2027	87	63.22
Arkade Pearl, Vile Parle, MMR, Maharashtra	Residential	December 31, 2026	38	34.21
Arkade Eden, Malad, MMR, Maharashtra	Residential	December 31, 2026	55	41.82
Total			567	74.96

Information provided in respect of the Ongoing Projects is based on current management plans and is subject to change.

** Per RERA filings.*

Source: RHP, SSL Research

Upcoming Projects

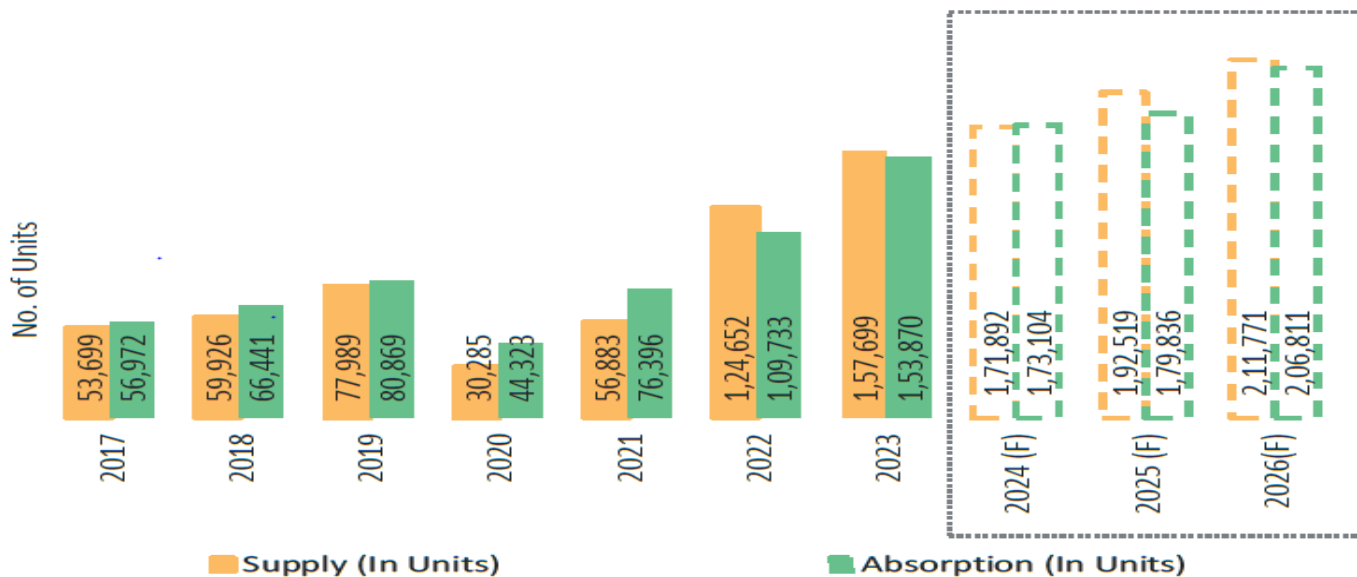
Particulars	Total number of projects	Developable area (in square feet)	Saleable RERA carpet area (in square feet)	RERA carpet area sold (in square feet)
Ongoing Projects	6	18,72,188	6,61,616	3,45,402
Upcoming Projects	6	18,24,256	5,92,923	Nil
Total	12	36,96,444	12,54,539	3,45,402

Source: RHP, SSL Research

In addition to the Upcoming Projects, as of Jun'24, the company has received letter of intent for 2 redevelopment projects for which it is yet to execute a contract.

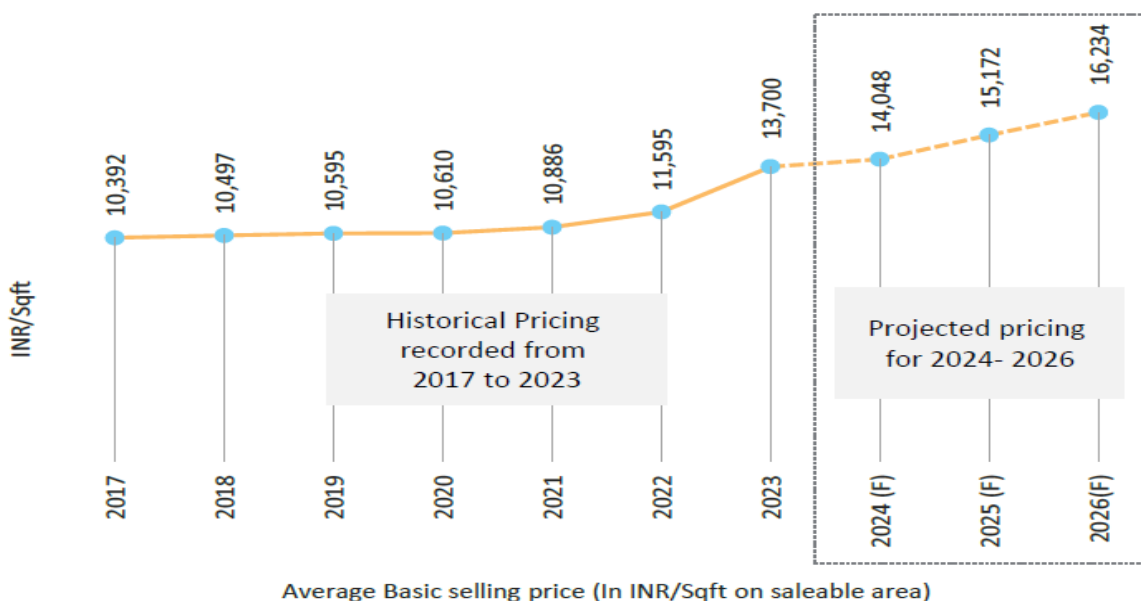
Industry Overview

Supply, absorption and pricing outlook for MMR (2024-2026): Looking forward, a consistent annual rise in both new residential supply and absorption rates is forecasted until 2026. It is anticipated that new launches will outpace housing sales in 2025 and 2026, indicating a significant increase in housing units entering the market. Below is the graph showcasing the supply and absorption outlook (in units) of MMR housing market from 2017 to 2026.



Source: RHP, SSL Research

Capital value movement outlook of MMR housing market (2017-2026): The pricing in housing market is likely to gain momentum and rise steadily. This positive trend can be attributed to various factors such as improved infrastructure development, growing demand from homebuyers and favourable market conditions.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
Revenue from Operations	229	220	635
YoY growth (%)	-	-3.8	188.3
Cost Of Revenues (incl Stock Adj)	160	133	429
Gross Profit	69	87	206
Gross margins (%)	30.1	39.6	32.4
Employee Cost	8	17	17
Other Operating Expenses	7	10	22
EBITDA	54	60	167
EBITDA margins (%)	23.8	27.4	26.4
Other Income	8	4	1
Net Interest Exp.	4	1	3
Depreciation	-	-	1
PBT	58	63	164
Exceptional item/Extraordinary item	-	-	-
Tax	15	16	42
Share of profit of associates	7	4	1
PAT	50	51	123
PAT margin (%)	22.1	23.1	19.4
EPS	3.3	3.3	8.1

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
Assets			
Net Block	2	2	12
Right of use assets	-	-	2
Other Non-current Assets	18	25	23
Current Assets			
Current Investment	23	-	-
Inventories	299	501	488
Trade receivables	5	4	8
Cash and Bank Balances	10	18	25
Other Current Assets	13	6	17
Total Current Assets	350	528	538
Current Liabilities & Provisions			
Trade payables	14	24	38
Other current liabilities	139	179	135
Short-term provisions	3	3	5
Total Current Liabilities	155	205	179
Net Current Assets	195	323	359
Assets Classified as held for sale	-	-	-
Total Assets	215	350	396
Liabilities			
Share Capital	2	2	152
Reserves and Surplus	147	198	171
Total Shareholders' Funds	149	200	323
Total Debt	64	149	69
Long Term Provisions	1	1	1
Lease Liabilities	-	-	2
Total Liabilities	215	350	396

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	(123)	(99)	102
Cash flow from Investing Activities	76	29	(12)
Cash flow from Financing Activities	46	83	(83)
Free Cash Flow	(125)	(99)	89

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets (%)	13.6	9.1	21.4
Return on Capital Employed (%)	29.3	18.3	42.6
Return on Equity (%)	33.8	25.4	38.0
Margin Analysis			
Gross Margin (%)	30.1	39.6	32.4
EBITDA Margin (%)	23.8	27.4	26.4
Net Income Margin (%)	22.1	23.1	19.4
Short-Term Liquidity			
Current Ratio (x)	1.6	1.9	2.4
Quick Ratio (x)	0.2	0.1	0.2
Avg. Days Sales Outstanding	8.4	6.1	4.6
Avg. Days Inventory Outstanding	476.7	829.8	280.6
Avg. Days Payables	21.9	39.0	22.0
Fixed asset turnover (x)	125.2	115.2	53.7
Debt-service coverage (x)	0.9	0.4	2.3
Long-Term Solvency			
Total Debt / Equity (x)	0.4	0.7	0.2
Interest Coverage Ratio (x)	14.5	49.9	53.5
Valuation Ratios			
EV/EBITDA (x)	36.7	34.4	11.9
P/E (x)	38.5	38.3	15.8
P/B (x)	13.0	9.7	6.0
EV/Sales (x)	8.7	9.4	3.1

Valuation ratios are based on pre-issue capital at upper price band

Source: RHP, SSL Research

Peer Comparison – FY24

	Arkade Developers Ltd.	Suraj Estate Developers Ltd.	Keystone Realtors Ltd.	Macrotech Developers Ltd.
CMP (Rs)	128	746	713	1,230
Sales (Rs cr)	635	412	2222	10316
EBITDA (Rs cr)	167	233	110	2665
PAT (Rs cr)	123	67	111	1554
Mkt Cap. (Rs cr)	2,376	3,310	8,983	1,22,431
Enterprise Value (Rs cr)	2,011	3,630	9,718	1,27,494
EBITDA Margin (%)	26.4	56.6	5.0	25.8
PAT Margin (%)	19.4	16.3	5.0	15.1
P/E (x)	19.3	49.4	80.9	78.8
EV/EBITDA (x)	12.0	15.6	88.3	47.8
EV/Sales (x)	3.2	8.8	4.4	12.4
RoE (%)	38.0	23.0	6.4	10.7
RoCE (%)	42.6	28.9	6.6	11.1

The data is based on FY24 financials.

For Arkade Developers Ltd, the P/E, Market cap, EV/Sales and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 13th September 2024.

Source: RHP, SSL Research

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

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IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered & Corporate Office: Marathon Futorex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555**E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in****DISCLOSURES & DISCLAIMERS:**

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Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B-Tech, MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

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DVP – Fundamental Research


Sudeep Shah

DVP – Technical & Derivative Research