

### Company Overview

Keystone Realtors Ltd. was established in 1995 to develop itself as a trusted brand in delivering multiple high-end award-winning buildings, gated communities, and townships. The company has become one of the prominent real estate developers (in terms of absorption in the number of units) in the micro markets where they are present. It has a diversified suite of projects across a wide range of price points, and a presence in several micro markets. Keystone has its major focus on “**Mumbai Metropolitan Region**” (MMR) where it offers a comprehensive range of projects under the affordable, mid and mass, aspirational, premium, and super premium categories, all under the “**Rustomjee**” brand. The company command’s a market share of 28% in Khar, 23% market in Juhu, 11% in Bandra East, 14% in Virar, 3% in Thane, and 5% in Bhandup in terms of absorption (in units) from 2017 to 2021 (Source: Anarock Report). As of June 30, 2022, Keystone has developed 20.22 million square feet of high-value and affordable residential buildings, premium gated estates, townships, corporate parks, retail spaces, schools, iconic landmarks, and various other real estate projects. The company’s business model is entering into joint development agreements, redevelopment agreements with landowners or developers, or societies, and slum rehabilitation projects, which require lower upfront capital investment compared to the direct acquisition of land parcels. This approach allows the company to minimize the upfront capital expenditure compared to the direct acquisition of land parcels, which ensures that their capital allocation is balanced and calibrated, allowing them to generate revenue with lower initial investments.

### Objects of the issue

The IPO proceeds of the fresh issue will be used towards the following purposes:

- ⇒ Repayment/ prepayment, in full or part, of certain borrowings availed by our Company and/or certain of our Subsidiaries; and
- ⇒ Funding acquisition of future real estate projects and general corporate purposes.

### Investment Rationale

#### Well-established customer-centric brand in the Mumbai Metropolitan Region

Keystone Realtors Ltd. is one of the prominent real estate developers (in terms of absorption in the number of units) in the micro markets that we are present in, namely Juhu, Bandra East, Khar, Bhandup, Virar, and Thane (Source: Anarock Report), and it has been able to garner premium pricing in the MMR micro-markets where most of their projects are located. As of June 30, 2022, they had 32 Completed Projects, 12 Ongoing Projects, and 21 Forthcoming Projects across the MMR, including a comprehensive range of projects under the affordable, mid and mass, aspirational, premium, and super premium categories, all under Rustomjee brand. The Company has undertaken several landmark projects in the MMR, which include Rustomjee Elements, a large gated community in Upper Juhu, Mumbai; Rustomjee Paramount, a signature complex in Khar, Mumbai; Rustomjee Seasons, 3.82 acres gated community in Bandra Annexe, Mumbai; Rustomjee Crown, a 5.75 acres land parcel for high-end development at Prabhadevi, South Mumbai, consisting of three high-rise towers. Keystone has developed a strong brand that has encouraged stakeholders in the real estate development industry to prefer partnering with the company, in particular for re-development and stalled projects. The company’s customer-centric approach has led to them providing offerings post-handover and post-development services such as providing furnishing, interior designing and execution services, addressing miscellaneous customer needs such as leasing out apartments and managing lease renewals and maintenance, as well as facility management services.

#### Asset-light and scalable model resulting in profitability and stable financial performance

The hospitals that the company has built are on a large-scale basis. Its flagship hospital in Gurugram has a built-up structure of more than 2 million. The company’s hospitals are built to install additional beds without any significant investment. The hospital has an installed bed capacity of 473 beds as of June 30, 2022, with a further capacity to accommodate over 900 beds. The hospitals also have an international-grade infrastructure. Across all the hospitals 30% are dedicated to critical care and the chain has a total of 70 OPDs. The company is also focusing on diversification into new services like digital health. The company has scaled up its telemedicine and remote delivery of healthcare services.

### Valuation and Outlook

Keystone Realtors Limited (Keystone), the brand known as Rustomjee, is a significant player in the real estate industry. They have experience in developing lifestyle projects, high-value standalone buildings, gated communities, fully integrated townships, re-developments, and stalled projects. As of June 30, 2022, they had 1,542 channel partners who present the Rustomjee portfolio to their customers and drive customer traffic to our projects. In addition to its in-house competencies, the company also leverages the expertise of external specialists to match its wide range of product offerings. The residential real estate sector in India has witnessed several changes in market conditions because of demonetization, the NBFC liquidity crisis of 2018, and the implementation of RERA and GST in this period. The overall effect is that the sector has moved towards more transparency and being more organized than in years earlier when these reforms were taking place. The company has been aggressively reducing debt and has successfully brought down its net debt-to-equity ratio from 7.7x in FY20 to 1.1x as of June 30, 2022. The company is expected to partially utilize the IPO fund to reduce the debt on the books further while balancing its new projects in the pipeline. However, a rise in interest rates, an economic slowdown in India due to macro factors such as Inflation, and too much dependency of the company on a particular region remains the risk concern. On the upper end of the price band, the issue is valued at a P/E of 38.8x based on FY22 earnings which we feel is fairly priced as it has RONW of 15% as on FY22 which is the highest amongst peers as per RHP and we, therefore, recommend to “**SUBSCRIBE**” to the IPO.

### Issue Details

Offer Period	14 <sup>th</sup> Nov– 16 <sup>th</sup> Nov, 2022
Price Band	INR.514 to INR.541
Bid Lot	27
Listing	BSE&NSE
Issue Size (no. of shares in mn)	11.74/12.35
Issue Size (INR. in bn)	6.35
Face Value	10

### Issue Structure

QIB	50%
NIB	15%
Retail	35%

	Axis Capital Limited
BRLM	Credit Suisse Securities (India) Private Limited
Registrar	Link Intime India Private Limited

### Particulars Pre Issue % Post Issue %

Promoter and Promoter	96.7%	87.9%
Public	3.3%	12.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

**Research Team - 022-61596407**



# Keystone Realtors Ltd.

## Income Statement (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
<b>Revenue</b>				
Revenue from Operations	1,686	12,694	8,487	12,115
Gain on loss of control of subsidiary	-	1	2,810	-
<b>Total Revenue</b>	<b>1,686</b>	<b>12,694</b>	<b>11,298</b>	<b>12,115</b>
<b>Expenses</b>				
Construction Costs	1,397	10,562	4,961	7,879
Purchases of Stock in Trade	-	-	-	-
Change in inventory of Stock-in-Trade	(62)	(675)	1,167	1,130
Employee benefit expenses	112	284	271	416
Impairment losses on financial assets	0	2	262	1
Other expenses	192	727	690	1,328
<b>Total Operating Expenses</b>	<b>1,640</b>	<b>10,900</b>	<b>7,351</b>	<b>10,754</b>
<b>EBITDA</b>	<b>45</b>	<b>1,794</b>	<b>3,947</b>	<b>1,360</b>
Depreciation and amortisation expense	8	35	15	22
Other income	74	335	475	571
<b>EBIT</b>	<b>111</b>	<b>2,095</b>	<b>4,407</b>	<b>1,910</b>
Finance costs	33	230	1,394	1,280
Exceptional Item	-	-	-	-
Share of Profit/(loss) of associates and JV accounted for using the equity method (net of taxes)	(4)	(22)	(117)	3
<b>PBT</b>	<b>75</b>	<b>1,844</b>	<b>2,895</b>	<b>633</b>
Current tax	27	484	82	312
Current tax - for earlier periods	-	-	-	-
Deferred Tax charge	6	2	496	175
MAT Credit reversed/(availed)	-	-	-	-
<b>Total tax</b>	<b>32</b>	<b>486</b>	<b>577</b>	<b>488</b>
<b>PAT</b>	<b>42</b>	<b>1,358</b>	<b>2,318</b>	<b>145</b>
<b>Diluted EPS</b>	<b>0</b>	<b>14</b>	<b>31</b>	<b>2</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (Rs in million)

Particulars	Q1FY23	FY22	FY21	FY20
Cash Flow from operating activities	537	(1,096)	6,425	3,511
Cash flow from investing activities	324	(1,377)	(2,351)	(1,998)
Cash flow from financing activities	(75)	1,540	(6,093)	1,712
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>786</b>	<b>(933)</b>	<b>(2,019)</b>	<b>3,225</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>597</b>	<b>1,530</b>	<b>3,549</b>	<b>324</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1,383</b>	<b>597</b>	<b>1,530</b>	<b>3,549</b>

Source: RHP, BP Equities Research



## Keystone Realtors Ltd.

## Balance Sheet (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
<b>Equity and Liabilities</b>				
Share Capital	1,035	1,000	1,000	1,000
Other Equity	9,609	8,326	7,009	3,273
Non Controlling Interests	203	305	229	-1,472
<b>Net worth</b>	<b>10,848</b>	<b>9,631</b>	<b>8,238</b>	<b>2,801</b>
Financial Liabilities				
Borrowings	1,158	1,424	1,918	2,906
Lease liabilities	19	25	0	0
Other Financial Liabilities	1,663	1,933	2,179	1,088
Provisions	30	27	25	26
Other non-current liabilities	42	30	21	26
<b>Total Non Current Liabilities</b>	<b>2,912</b>	<b>3,439</b>	<b>4,143</b>	<b>4,046</b>
<b>Current Liabilities</b>				
Borrowings	13,531	14,155	10,285	22,233
Lease liabilities	22	21	0	0
Trade Payables				
(a) total outstanding dues of micro enterprises and small enterprises	11	16	23	24
(b) total outstanding dues of creditors other than micro enterprises and small enterprises	2,676	3,036	2,322	2,745
Other Financial Liabilities	687	728	801	1,614
Short Term Provisions	229	250	394	453
Other current liabilities	7,919	7,250	10,335	10,187
Current tax liabilities	267	242	1	49
<b>Total Current Liabilities</b>	<b>25,342</b>	<b>25,698</b>	<b>24,160</b>	<b>37,306</b>
<b>Total liabilities</b>	<b>28,254</b>	<b>29,137</b>	<b>28,303</b>	<b>41,352</b>
<b>Total Equity and Liabilities</b>	<b>39,102</b>	<b>38,768</b>	<b>36,541</b>	<b>44,153</b>
<b>Assets</b>				
Property, plant and equipment	34	33	33	56
Right-of-Use assets	38	44	0	0
Capital work in Progress	0	0	4	0
Goodwill on Consolidation	158	158	158	1,546
Investments in Properties	95	96	100	346
Other Intangible assets	1	2	3	7
Investments	3	3	3	3
Investments accounted for using the equity method	5,583	5,641	5,904	8
Other Financial Assets	233	256	161	775
Deferred tax assets	381	386	388	876
Income tax assets	657	643	591	1,117
Other non-current assets	101	101	73	63
<b>Total Non current assets</b>	<b>7,284</b>	<b>7,362</b>	<b>7,419</b>	<b>4,796</b>
Inventories	22,639	22,543	21,926	27,652
Investments	116	107	42	41
Trade Receivables	598	1,136	367	639
Cash and cash equivalents	1,382	597	1,530	3,549
Other Bank Balances	1,420	1,741	1,300	372
Loans and Advances	2,634	2,620	1,589	3,408
Other Financial Assets	899	853	1,080	2,031
Other current assets	2,130	1,809	1,288	1,664
<b>Total Current Asset</b>	<b>31,817</b>	<b>31,406</b>	<b>29,122</b>	<b>39,357</b>
<b>Total Assets</b>	<b>39,102</b>	<b>38,768</b>	<b>36,541</b>	<b>44,153</b>

Source: RHP, BP Equities Research

**Key Risks**

- ⇒ An inability to complete Keystone's Ongoing Projects and Forthcoming Projects by their respective expected completion dates or at all could have a material adverse effect on their business, results of operations, and financial condition.
- ⇒ Significant increases in prices, including that relating to increases in taxes and levies, or shortage of or delay or disruption in the supply of construction materials could adversely affect their estimated construction cost and timelines and result in cost overruns.
- ⇒ Shortage of land for development in the MMR or a significant increase in the cost of such land or transferable development rights available for development in the MMR may adversely impact the business prospects and financial performance.

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

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