



LONG TERM SUBSCRIBE

IPO Report

12th Nov²²

Snapshot

Keystone Realtors Ltd is one of the prominent real estate developers in the micro markets that company is present in. Company command 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 202

VALUATION

Company is bringing the issue at price band of Rs 514-541 per share at p/e multiple of 45x on FY22 basis. Company being well established customer-centric brand in the Mumbai Metropolitan Region is among the leading residential real estate development companies in MMR with a well-diversified portfolio and strong pipeline. Company's asset-light and scalable model resulting in profitability and stable financial performance along with demonstrated project execution capabilities with in-house functional expertise has robust stakeholder management capabilities across the spectrum of project development; Hence, looking after all above, we recommend "Long Term Subscribe" on issue.

Price Band (Rs./Share)	514-541
Opening date of the issue	14th Nov 2022
Closing Date of the issue	16th Nov'2022
No of shares pre issue	103,526,222 Eq Shares
Issue Size	Rs 635 Cr
Fresh Issue	Rs 560 Cr
Offer For Sale	Rs 75 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	27

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 5868759 Eq Shares)
Non-Institutional	15% of the offer (Approx 1760629 Eq Shares)
Retail	35 % of the offer (Approx 4108133 Eq Shares)
Lead managers	Axis Capital, Credit Suisse Securities
Registrar to the issue	Link Intime India Pvt Ltd.

WHAT WE LIKE

Well established customer-centric brand in the Mumbai Metropolitan Region

Company's presence in the MMR market for two and half decades, together with its construction quality, execution and delivery capabilities, has enabled company to establish the Rustomjee brand in the MMR. Company's well-established brand, construction quality, distinctive projects, and customer goodwill enable it to garner significant interest and bookings from customers like company's Rustomjee Uptown Urbania project, a township launched in December 2021, sold 100 units within 25 days of its launch.

Technology focused operations resulting in operational efficiency and enhancing customer experiences

Company use 3-dimensional BIM software for model-based construction to maximise productivity and cost estimation across all its projects. BIM visualises projects in pre-construction and allows for better coordination among company's in-house teams, contractors and external consultants because of clash detection abilities, where one can detect design flaws earlier and improve the scheduling of construction material. Company have also implemented SAP enterprise resource management ("ERP") to assist with data management, analysis and forecasting resulting in performance efficiency. Company's combined implementation of ERP and BIM systems allow vendors and contractors to receive real time status updates of their order, including an automated and digitized invoice settlement process that details the status monitoring system which tracks balance receivables, material delivery and work done

Experienced Promoters, qualified senior management, good corporate governance and committed employee base

Company is led by experienced Promoters and a professional senior management team, who provide the direction for its growth. Boman Rustom Irani, Chairman and Managing Director, is a first generation real estate developer and an entrepreneur with over 26 years of experience in the real estate industry. Chandresh Dinesh Mehta, Director, is in charge of company's re-development initiatives and has significant experience in the fields of engineering, construction and technology. Percy Sorabji Chowdhry, Director, heads company's sales, marketing and human resource functions



COMPANY BACKGROUND

Some of company's notable projects include Rustomjee Elements, a large gated community in Upper Juhu, Mumbai; Rustomjee Paramount, a signature complex in Khar, Mumbai; Rustomjee Seasons, a 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. Company's projects include features for entertainment for the family, such as an approximately 150,000 square feet clubhouse at its Virar Global City project, a 6.22 acres podium at its Thane project, a 11.72 acres amusement park at its Virar Global City project, Leon's World which is an interactive play space for children and adults at company's Rustomjee Urbania project.

As part of business model, company focus on entering into joint development agreements, redevelopment agreements with landowners or developers or societies, and slum rehabilitation projects, which requires lower upfront capital investment compared to direct acquisition of land parcels. Company's business model allows to minimise the upfront capital expenditure compared to direct acquisition of land parcels, which ensures that company's capital allocation is balanced and calibrated, allowing it to generate revenue with lower initial investments.

Company have adopted an integrated real estate development model, with capabilities and in-house resources to execute projects from its initiation to completion. Company have developed in-house competencies for every stage of the property development life cycle, commencing from business development, which involves identification of land parcels and the conceptualization of the development, to execution, comprising planning, designing and overseeing the construction activities, marketing and sales. As of June 30, 2022, company had 1,542 channel partners who present the Rustomjee portfolio to their customers and drive customers traffic to its projects. In addition to its in-house competencies, company also leverage the expertise of external specialists to match its wide range of operations, such as architects, interior designers, landscaping experts, engineers and building services consultants for the development and management of company's projects.

Company currently have partnerships with strategic investors such as HDFC Capital Affordable Real Estate Fund – 3 (managed by HDFC Capital Advisors Limited as its investment manager). Company also have strategic investors such as Lipalton Pte. Ltd. (a wholly-owned subsidiary of Keppel Land Limited) for Rustomjee Urbania, an integrated township located in Thane. In the past, company received equity investments from Giza (an entity advised by Xander Investment Management Pte. Ltd.) and HDFC Capital Affordable Real Estate Fund – 1 (managed by HDFC Capital Advisors Limited as its investment manager) for Rustomjee Urbania, an integrated township located in Thane and for company's township in Virar, respectively. In addition, company have funding arrangements with leading financial institutions such as with L&T Finance Limited, ICICI Bank Limited, Standard Chartered Bank and Indian Bank.

The following table sets forth key operational indicators:

Particulars	As of and for the year ended March31,			As of and for the three months period ended June 30, 2021	As of and for the three months period ended June 30, 2022
	2020	2021	2022		
Pre Sales	10091.42	15165.92	26392.59	1770.80	2436.72
Pre Sales(Number of Units)	607	823	1241	134	225
Pre-Sales (Saleable Area(10)) (million square feet)	0.71	0.98	1.49	0.13	0.20
Completed Developable Area(11) (million square feet)	1.03	0.87	0.31	--0.17	
Collections	12708.57	12386.73	20384.25	2699.43	4035.19



INVESTMENT RATIONALE

<p><i>Amongst the leading residential real estate development companies in MMR with a well-diversified portfolio and strong pipeline</i></p>	<p>Company have experience in developing lifestyle projects, high value standalone buildings, gated communities and fully integrated townships, re-developments and stalled projects. Company is active in the sub-markets such as Juhu, Bandra East, Bandra West and Khar with reference to redevelopment projects. Company is one of the prominent real estate developers in the redevelopment segment in terms of supply (in terms of number of units) in the micro markets that company is present in, wherein company command a market share of 39% in Khar, 14% in Bandra East and 14% in Juhu from the overall redevelopment supply between 2017 and 2021. Company’s diversified portfolio has allowed to hedge its revenue pipelines and shield against business fluctuations across categories</p>
<p><i>Asset-light and scalable model resulting in profitability and stable financial performance</i></p>	<p>As part of company’s business model, company focus on entering into joint development agreements and re-development agreements with landowners or developers or societies, which requires lower upfront capital expenditure compared to direct acquisition of land parcels. Company identify land for development or re-development based on a detailed feasibility study for the relevant project, including factors such as location, price, purpose and design impediments. Since its inception, company have learned and honed the process of re-development and to balance the diverse needs of existing members in each project. With company’s experience, company have been able to institutionalize and streamline the process of re-development, which includes managing relationships with existing members and addressing their concerns, vacation of site, regulatory approvals, and harmonious integration of existing members and new sale customers. Similarly, company’s experience in partnerships has helped it hone and institutionalize the processes of collaborating with landowners under a joint development model.</p>
<p><i>Demonstrated project execution capabilities with in-house functional expertise</i></p>	<p>Company have adopted an integrated real estate development model, with capabilities and in-house resources to execute projects from its initiation to completion. Company have developed in-house competencies for every stage of the property development life cycle, commencing from business development, which involves identification of land parcels and the conceptualization of the development, land acquisition, approvals, to execution, comprising planning, designing and overseeing the construction activities, marketing and sales culminating in property delivery. Company rely on the domain knowledge, experience and functional expertise of its in-house experts to deliver quality projects in compliance with regulations.</p>
<p><i>Robust stakeholder management capabilities across the spectrum of project development</i></p>	<p>Mumbai, especially in specific pockets of the island city and suburbs, has witnessed limited supply of sizeable land for any greenfield development which offers host of redevelopment opportunities to private developers in these pockets of the city . With company’s track record of project execution across categories and stakeholder management capabilities, company strive to be a preferred partner for landowners, societies, financial institutions for various formats of residential real estate development. Compay have grown its relationships based on a philosophy of long-term partnerships built on a foundation of trust and synergy. Company’s ability to nurture relationships with a consortium of land owners at one end and multinational codevelopers at the other in joint developments provides it with a unique advantage to attract and execute large partnerships successfully. Company entered into a joint venture with Lipalton Pte. Ltd. (a wholly-owned subsidiary of Keppel Land Limited) to co-develop Urbania Township, an integrated township located in Thane.</p>



OBJECTS OF OFFER

The Offer comprises a Fresh Issue by company and an Offer for Sale by the Selling Shareholders.

Offer for Sale

The object of the Offer for Sale is to allow the Selling Shareholders to sell Equity Shares held by them

Fresh Issue

Company proposes to utilise the Net Proceeds of the Fresh Issue towards funding the following objects:

- 1.Repayment/ prepayment, in full or part, of certain borrowings availed by company and/or certain of its Subsidiaries; and
2. Funding acquisition of future real estate projects and general corporate purposes.

RISKS

Company's business and profitability is significantly dependent on the performance of the real estate market generally in India and particularly in the Mumbai Metropolitan Region ("MMR"). Varying market conditions in the MMR may affect company's ability to ensure sale of its projects and the pricing of units in such projects, which may adversely affect company's results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

MUMBAI METROPOLITAN REGION (MMR) RESIDENTIAL OVERVIEW

Mumbai is the commercial and financial capital of India and houses the two stock exchanges, which account for most of the securities trading in the country. With the busiest single-runway airport in India and two large seaports, Mumbai accounts for over half of India's foreign trade, generates 6% of India's GDP and one-third of the country's tax revenues. Home to a flourishing media and film industry, the city also serves as the entertainment capital of the country. Its economic base is well diversified with the Banking and Financial Services Industry (BFSI), engineering, services, and IT/ITeS sectors, logistic companies have their presence. MMR has been housing the headquarters of a number of financial institutions like BSE, RBI, NSE and LIC. Further, India's leading conglomerates such as Tata, Birla, Godrej and Reliance are also based in Mumbai. Mumbai is one of the biggest real estate markets in India. It has various micro-markets along with Mumbai City, suburbs, extended suburbs and neighboring areas such as Thane and Navi Mumbai. With the recent infrastructure projects completing such as Mono and Metro (Line 1), Mumbai witnessed significant physical infrastructure improvements. Upcoming projects like Coastal Raod, metro lines in various locations across MMR etc. in the medium term will improve the connectivity further. Supply and Absorption Analysis from 2017 to 2021 Supply and absorption declined in 2017 in the MMR, primarily on account of the impact of demonetization which happened in Q4 2020, RERA and GST. Post 2017, absorption of units grew steadily and outpaced supply of units. In 2020, the units launched were lower than the units sold. Until Q3 2020, only select developers were launching projects with high inventory size in the MMR and the buyers who visited sites before the lockdown were going ahead with their buying decision. Q4 2020 was better than earlier quarters, on the back of the festive season, low interest rates and an improving employment scenario. Since the announcement of reduction in the stamp duty by the Government of Maharashtra with effect from September 1, 2020, housing sales have increased continuously monthon-month. There has been a steady increase in launches as well as absorption in 2021 as compared to 2020 which shows a further improvement in the residential market dynamics of MMR.



Consolidated Financials

(Rs in Mn)

Financials	FY20	FY21	FY22	Q1FY23
Total Revenue (A)	12114.71	11297.56	12694.20	1685.57
Total Expenditure (B)	10754.27	7350.64	10900.24	1640.32
EBIDTA	1360.44	3946.92	1793.96	45.25
EBIDTA Margin	11.23	34.94	14.13	2.68
Other Income	571.28	475.10	335.49	74.40
Depreciation	21.82	15.09	34.60	8.20
EBIT	1909.90	4406.93	2094.85	111.45
Interest	1279.80	1394.49	229.56	32.67
PBT	630.10	3012.44	1865.29	78.78
Share of Profit in Associate	2.54	-117.17	-21.50	-4.26
PBT	632.64	2895.27	1843.79	74.52
Tax	487.70	577.04	485.53	32.30
PAT	144.94	2318.23	1358.26	42.22
NPM%	1.20	20.52	10.70	2.50
ROE %	5.17	28.14	14.10	0.39
EPS	1.45	23.18	13.58	0.41
Eq Cap	1,000.31	1,000.31	1,000.31	1,035.26
Net Worth	2,801.20	8,238.44	9,631.49	10,847.71

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	P/E	EPS	RONW %	NAV as at March'2022
Keystone Realtors	13029.69	--	13.96	14.97	93.24
Peer Group					
Macrotech Developers	95791.70	36.06	26.28	10.30	255.11
Godrej Properties	25856.90	99.31	12.68	4.06	312.09
Oberoi Realty	27524.21	32.16	28.80	10.05	286.47
Sunteck Realty	5340.23	220.34	1.79	0.90	198.77

(Source: RHP)



DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.