

**Rating: Subscribe for Long Term**

**Issue Offer**

**Offer for Sale of up to 11,111,111 Equity Shares**

**Issue Summary**

Price Band (INR)	340-360
Face Value (INR)	5
Implied Market Cap (INR Mn)	15,970
Market Lot	41
Issue Opens on	18 <sup>th</sup> Dec,2023
Issue Close on	20 <sup>th</sup> Dec,2023
No. of share pre-issue	33,250,000
No. of share post issue	44,361,111
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	≤50
NIB Portion	≥15
Retail Portion	≥35

**Book Running Lead Managers**

ITI Capital

Anand Rathi Securities Ltd

**Registrar**

Link Intime India Private Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	100%	74.95%
Public & Others	-	25.05%

**Objects of the Issue**

Repayment/Prepayment of the aggregate outstanding borrowings

Acquisition of land or land development rights.

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**Suraj Estates** is engaged in developing residential and commercial projects in the South Central Mumbai region. Suraj estate was incorporated in 1986, since then the company has completed 42 projects in the South-Central Mumbai region. The company has presence in Dadar-Prabhadevi-Mahim Micro-Markets.

**Key Rationale**

**Value luxury segment focussed:** The company is focussing more on value luxury segment comprising high-quality 1BHK and 2BHK units with 'affordable' ticket sizes ranging from INR 1 cr to INR 3 cr for aspirational buyers. Margins in value luxury projects are better, the share of value-luxury is increasing from 36% in ongoing projects to 60% in upcoming projects while the remaining are in luxury and commercial segments. The majority of its buyers are end users / salaried professionals who avail of housing loans for purchase. Overall, this positioning leads to higher sales offtake and sales velocity.

**Redevelopment an attractive segment:** In SCM region there are many projects coming up for redevelopment, Suraj has 8% market share in redevelopment project launches in SCM. The redevelopment market is huge with 19,642 cessed buildings - buildings over 50 years old that need redevelopment in SCM.

**Diversified portfolio:** The company has diversified portfolio across price points, unit sizes and sub-markets in south central Mumbai region (SCM). 11 ongoing projects which includes Louisandra, Emmanuel, CCIL Bhavan (Phase II-additional 2 floors), Parkview 2 Saraswat Bank Bhavan (additional 2 floors) to name a few. Ongoing developable area is 1,714,962 sqft and a carpet area of 497,774 sqft. The total units available for sale is ~635 and units sold is 471+ as per FY23 data. The company has 16 projects upcoming which includes residential flats at the prime Mount Mary in Bandra. Upcoming projects will help the company to consolidate its positioning in SCM and expand into Bandra sub-market. The company recently received many awards which will help strengthening its brand value. The company has experienced team that has strong capabilities in various aspects of project execution, as well as in-depth knowledge of the localities in which the Company is developing projects.

**Asset light model:** The company has many redevelopment projects in its portfolio which aggregates to 10.38% of total projects. This model is asset light in nature, the acquisition cost burden gets reduced and is capital efficient.

**SCM concentrated:** The company commands more than 16% market share in terms of supply in South Central Mumbai (SCM) in residential real estate space and is a preferred redevelopment partner.

**Outlook:** **Suraj Estate** has 3 decade+ long experience and expertise in real estate business with a well-diversified portfolio across price points, unit sizes and sub-markets in the SCM. The company's revenue is distributed evenly between luxury and value projects. Suraj Estate has EBITDA margins of ~49%+ and has reported superior ROE of 50%+. Going forward, the company has robust pipeline of upcoming projects with carpet area of 843,192 sqft. The company plans to launch 3 projects out of upcoming 16 projects with a topline of ~INR 10bn before March 2024 and is confident of maintaining current margins and return ratios. We believe, the company is comfortable maintaining its margins and return ratios but should work more aggressively on increasing its topline growth as they have all the expertise and capabilities relating to real estate business. Looking at the superior margins, robust pipeline with land bank in the prime areas of SCM. We recommend "subscribe for long term" for the Issue.

## Other Highlights

- **Experienced Management Team:** The company is led by Mr. Rajan Meenathakonil Thomas the Chairperson and Managing Director on Board having 36 years of experience in real estate business. Mr. Rahul Rajan Jesu Thomas, Whole-time Director with over 16 years of experience in real estate business and holds a bachelor's degree in Commerce from the University of Mumbai and corporate finance certificate from Harvard University.
- **Margins and return ratios** Suraj estate has maintained its margins between 48-50% as per FY22 and FY23 financials, the return ratios are also impressive, ROE in FY22 was 77.2% and FY23 was 58.2%.
- **Units economics** The company buys land at INR 5000-6000/sqft, approval cost of INR 5000/sqft, construction cost of ~INR 6000/sqft plus rent cos. So the total cost come to ~INR 22000/sqft, minimum SP is ~INR 40,000/sqft and the ready reckoner rate in Mumbai is ~INR 38000/sqft.
- In FY23, the company had achieved booking of INR 634cr with ~1,42,000 sqft of area sold and collections of INR 345cr.
- The company plans to launch 3 projects out of upcoming 16 projects with a topline of INR 1000cr before March 2024 and ongoing projects will take 3 years to get completed.
- **Risks:** There are several risks and challenges which the business and sector is exposed to like 1. Delays in project approvals 2. Unexpected regulatory changes 3. Increased cost of Raw material and manpower 4. Increase in interest rates.
- **Growth drivers** There is rapid urbanization boosting urban population which will increase the demand for real estate further in urban areas. The families are getting nuclear day by day leading to increased need for housing. Other opportunities in Mumbai is Demolition and reconstruction of small houses into skyscrapers and Development of slums into residential-cum-commercial properties.
- **Object of IPO** The main objects of IPO proceeds is to 1. Repayment/Prepayment of the aggregate outstanding borrowings of the company and its subsidiaries, Accord Estates Private Limited and Iconic Property Developers Private Limited. 2 Land acquisitions and business development 3. For general purposes.
- **Debt Profile** As on 31<sup>st</sup> March 2023, the company had total debt of INR 5,931mn vs INR 6382mn as on 31<sup>st</sup> March 2022. The debt has been reduced and the company plans to pay off debt as and when the funds are available.

## Robust pipe line

	Completed projects	Ongoing projects	Upcoming projects
Time period	2012-2022	2023-2026	2024 onwards
Number of projects	8	13	16
Development area, sq ft	2,40,412	~2.0 mn	
Carpet area, sq ft	na	~0.61 mn	~0.74 mn

**Balance sheet**

Particulars (INR mn)	FY23	FY22	FY21
Total debt	5,931	6,382	6,005
Total equity	714	392	291
Total assets	9,426	8,640	7,920
Cash	280	236	209
Inventories	6,523	6,210	5,653
Trade receivables	1,130	932	807

Source: Company, Arianth Capital Research

**P&L Statement**

Particulars (INR mn)	FY23	FY22	FY21
Revenue from operations	3,057	2,727	2,400
EBITDA	1,510	1,317	866
<b>EBITDA margin (%)</b>	<b>49.4%</b>	<b>48.3%</b>	<b>36.1%</b>
PAT	321	265	63
<b>PAT margin (%)</b>	<b>10.5%</b>	<b>9.7%</b>	<b>2.6%</b>

Source: Company, Arianth Capital Research

Particulars (INR mn)	FY23	FY22	FY21
PAT	321	265	63
Average equity	553	343	266
<b>Return on equity</b>	<b>58.2%</b>	<b>77.2%</b>	<b>23.6%</b>
EBIT	1,484	1,281	842
Average capital employed	6,769	6,594	5,806
<b>Return on capital employed</b>	<b>21.9%</b>	<b>19.4%</b>	<b>14.5%</b>

Source: Company, Arianth Capital Research

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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