

The Issue

Type of Issue	Issue size Rs. Mn
Fresh Issue	4,000
Total	4,000
Post issue mkt cap *	15,970
Lot size	41 shares

*At Upper Price Band

Issue Break-Up

Reservation for	% of Issue
QIB	50%
NII	35%
Retail	15%
Total	100%

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	18 Dec, 2023
Bid/Offer Closing Date	20 Dec, 2023
Finalization of the Basis of Allotment	21 Dec, 2023
Credit of shares	22 Dec, 2023
Listing Date	26 Dec, 2023

Use of Proceeds	Amt (in Mn)
Repayment/Pre-payment of borrowings	2,850
Acquisition of land or land development rights	350

Manager	ITI Capital, Anand Rathi Advisors
Registrar	Link Intime India

Onkar Kelji
Research Analyst
onkark@indsec.co.in
+91 22 61146103

Saral Seth
VP—Institutional Equities
sarals@indsec.co.in
+91 22 61146139

Tapping MMR redevelopment opportunities...

Company Overview:

- ⇒ Suraj Estate Developers Ltd is engaged in the business of developing real estate across the residential and commercial sectors in South Central Mumbai region. They are now venturing into residential real estate development in Bandra sub-market.
- ⇒ Its expertise lies in the redevelopment of tenanted properties since most of the land parcels in South Central Mumbai are in the nature of redevelopment projects. They are primarily focused on value luxury, luxury segment and commercial segment.
- ⇒ Its residential projects have presence in the markets of Mahim, Dadar, Prabhadevi and Parel. Within residential portfolio, they are present across “value luxury” and “Luxury” segment across multiple price points with unit values ranging from Rs. 10-130mn.
- ⇒ In commercial space segment, the company has constructed corporate headquarters for clients like Saraswat Cooperative Bank Limited (Prabhadevi) and Clearing Corporation of India Limited (Dadar). They are now venturing into development of boutique office space to cater to the rising demand for small independent offices in its region.
- ⇒ Majority of the projects executed are on land owned by the company or through development agreements with land-owners. The company’s project construction activities are completely carried out by third party contractors.
- ⇒ Since Incorporation in 1986, they have completed 42 projects (41 redevelopment) with a developed area of ~10.5 lakh sq ft in the region. Apart from these, they have 13 ongoing projects with a saleable carpet area of ~6.1 lakh sq ft coupled with 16 upcoming projects with an estimated carpet area of 7.4 lakh sq ft in its region.
- ⇒ As of October 21, 2023, Suraj Estates have Land reserves of 10,359.77 sq mtrs in South Central Mumbai, of which land parcel admeasuring 9,631.35 sq mtrs is situated in Bandra (West) and 728.42 sq mtrs in Santacruz (East),

Valuation and Outlook: At the upper price band, the IPO is aggressively priced at a **P/B of 3.4x** on FY23 (post-issue), compared to its peers average of 2x (FY23). However, we believe, the company approach to (1) reduce high cost debts, (2) asset light model which lowers upfront investment and efficient utilization of capital towards project development, (3) higher ticket size in South Central Mumbai regions vs other cities, (4) Strong project launch pipeline aided with healthy land parcel (10,359.77 sq mtrs) in the region justifies higher valuation. Thus we assign **“Subscribe”** rating to the stock.

Suraj Estate Developers Limited

Suraj Estate Developers Limited's key financial summary

Financial summary (Rs. Mn)	FY21	FY22	FY23	Q1FY24
Revenue	2,400	2,727	3,057	1,024
EBITDA	866	1,317	1,510	467
<i>EBITDA margin (%)</i>	<i>36.1%</i>	<i>48.3%</i>	<i>49.4%</i>	<i>45.6%</i>
Adj. PAT	63	265	321	145
<i>Adj. PAT margin (%)</i>	<i>2.6%</i>	<i>9.7%</i>	<i>10.5%</i>	<i>14.2%</i>
PE (Adj for issue)	49.8			

Key Risks:

Industry: The real estate industry is cyclical, highly fragmented and competitive in nature. It requires high upfront cost in terms of purchasing land and development rights at right price and timely sale of the inventory.

Piling up of inventory: As of October 31, 2023, the company had 216 unsold units in ongoing projects. If they can't sell project inventories on time, it may affect business, results of operations and financial condition.

Redevelopment projects have long gestation periods and any delays and cost overruns in relation to Ongoing Projects and Upcoming Projects could adversely affect the prospects, business, and results of operations.

As on October 31, 2023, three ongoing projects, seven upcoming projects were operated by its subsidiaries and six land reserves were held by its subsidiaries. For this, it **has pledged 100%** of total issued and paid-up share capital of one of its subsidiaries, Skyline Realty Private Limited to secure financing.

Pre-issue and post-issue holding structure

Shareholding pattern	Pre-issue	Post-issue*
	Holding (%)	Holding (%)
Promoter & Promoter Group	100.0%	75.0%
Public	0.0%	25.0%
Total	100.0%	100.0%

* At upper price band

Land Reserves

Owned/Development Rights	Plot Size (Sq Mtrs)
Owned (1)	364.21
Leasehold Rights (1)	1,173.57
Development Rights (5)	8,821.99
Total	10,359.77

Suraj Estate Developers Limited

Competitive Strengths:

- Established brand with a long standing presence in Value Luxury Segment and Luxury Segment in the residential real estate market of South Central Mumbai region.
- Diversified portfolio encompassing product offerings across various price points in value luxury and luxury segments
- Strong expertise in tenant settlement in the redevelopment projects.

Business Strategies:

Expanding market position South Central Mumbai region: As on October 31, 2023, They have upcoming Projects with an aggregate estimated carpet area for sale of about 7.4 lakh sq ft and Land Reserves of 10,359.77 sq mtrs in South central Mumbai region. The company intends to continue to focus on residential projects in South Central Mumbai on account of improved connectivity, higher affordability and development of alternative commercial centres.

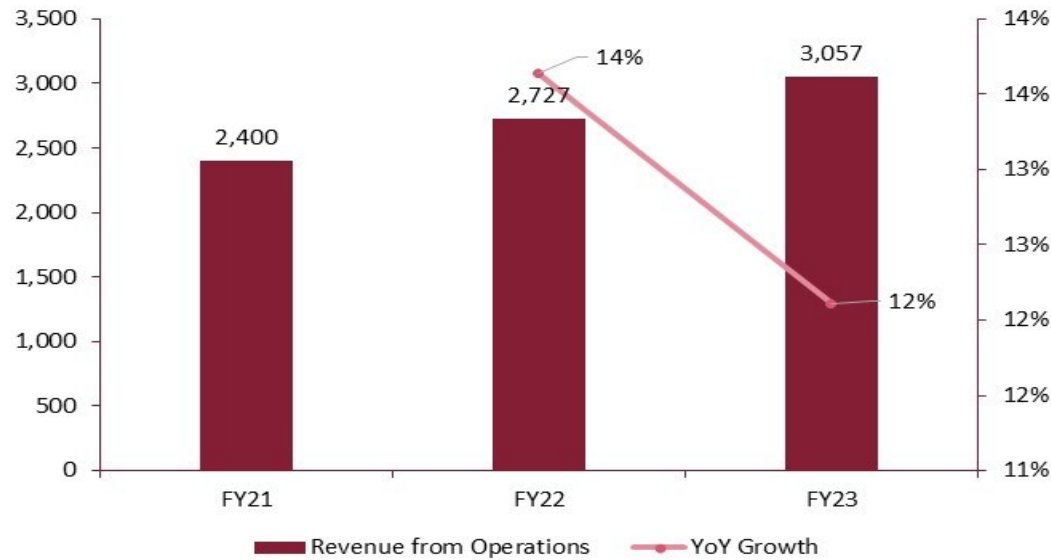
Continuing to focus on redevelopment projects through asset light model: Of the 16 Upcoming projects, 3 of them are based on asset light model which aggregating upto 10.34% of company's project. The company continues to aim to strengthen its redevelopment project through asset-light model by entering into development agreement with housing societies and landlords. This is expected to reduce upfront land acquisition cost and ultimately utilize capital towards quick and efficient development of properties. This will also save on interest cost and contribute to more profitability.

Continue to pursue differentiated product offerings in value luxury segment: The demand for 1 BHK flats and compact 2 BHK flats continuous to rise owing to improved affordability and desire to own an house in the region. The sale of these apartments also leads to improvement in sales volume and velocity. The company therefore intends to further strengthen presence in delivering value luxury 1 BHK flats and compact 2BHK flats in South Central Mumbai region. The focus would be on delivering 1 BHK flats (300-500 sq ft) with ticket sizes ranging from Rs 10-20mn and 2BHK flats (500-800 sq ft) with ticket sizes ranging from Rs 20-30mn.

Expand Land Reserves and opportunistically build position in sub markets of MMR: Regulatory changes such as implementation of RERA has enticed consolidation in the real estate construction industry. Leveraging its brand position and expertise, they intend to continue to evaluate various land acquisitions models, such as outright purchase, joint ventures, joint development and development management to increase their market penetration across the various market segments in which they operate.

Suraj Estate Developers Limited

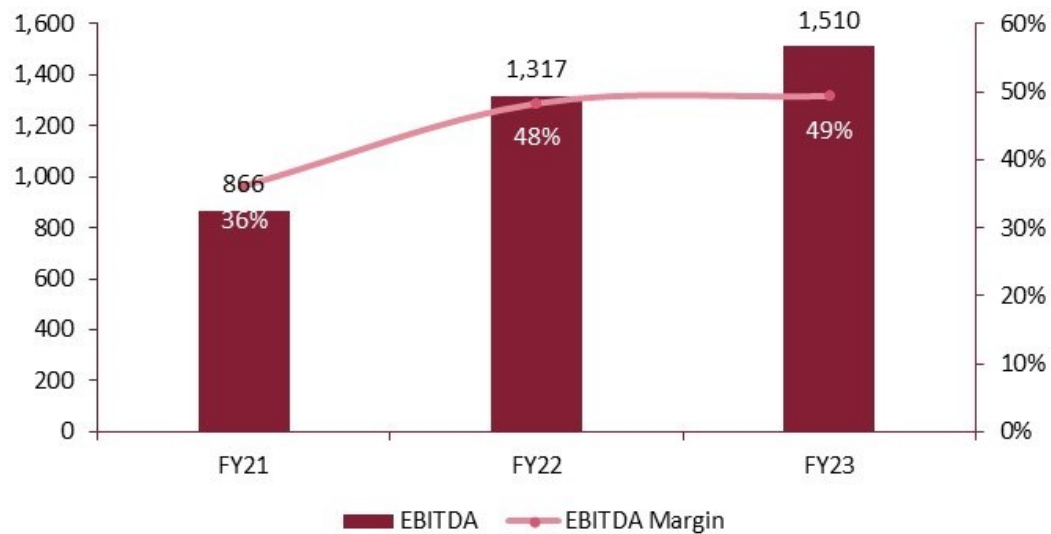
Revenue from operations (Rs. Mn)



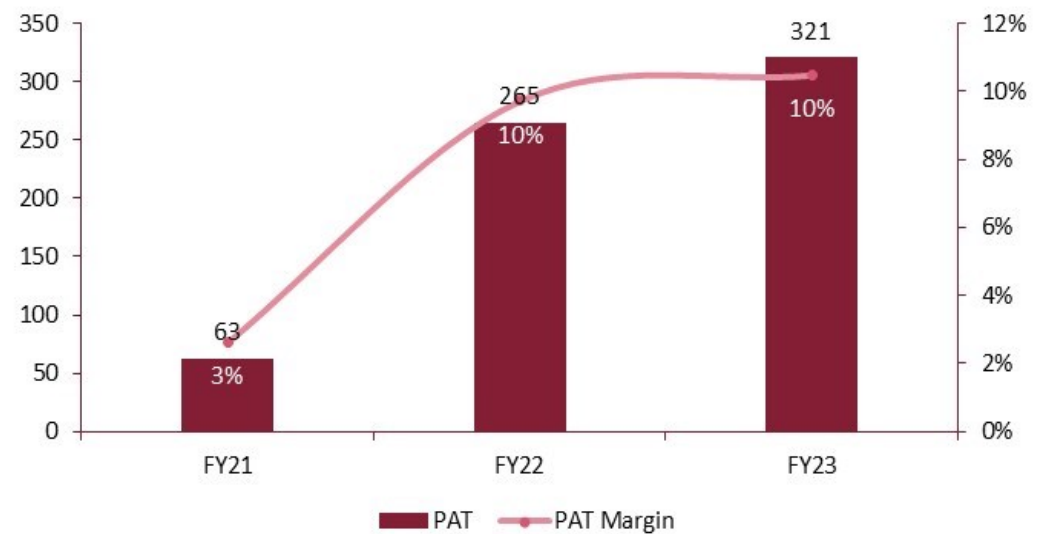
Gross Margin



EBITDA (Rs. Mn) and OPM (%)



PAT (Rs. Mn) and PAT Margin (%)

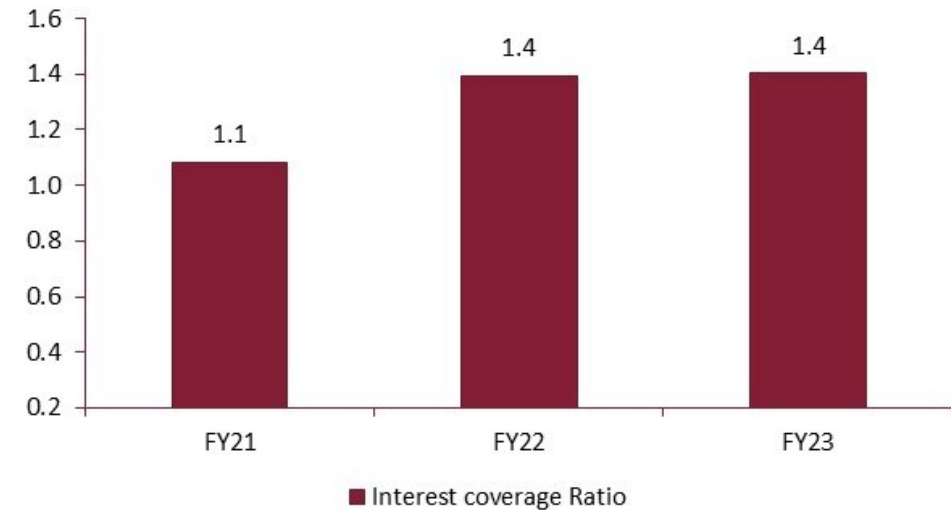


Suraj Estate Developers Limited

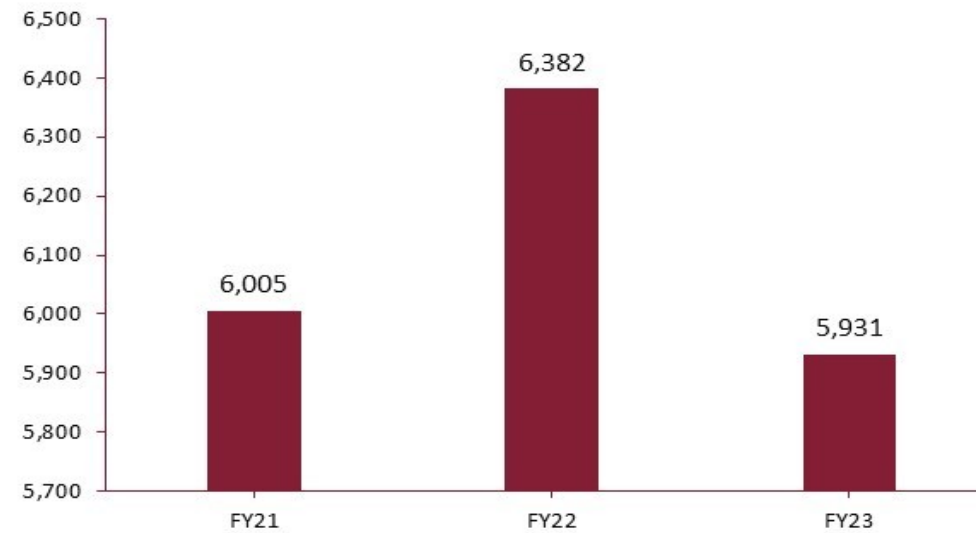
Return Ratios



Interest Coverage Ratio (x)

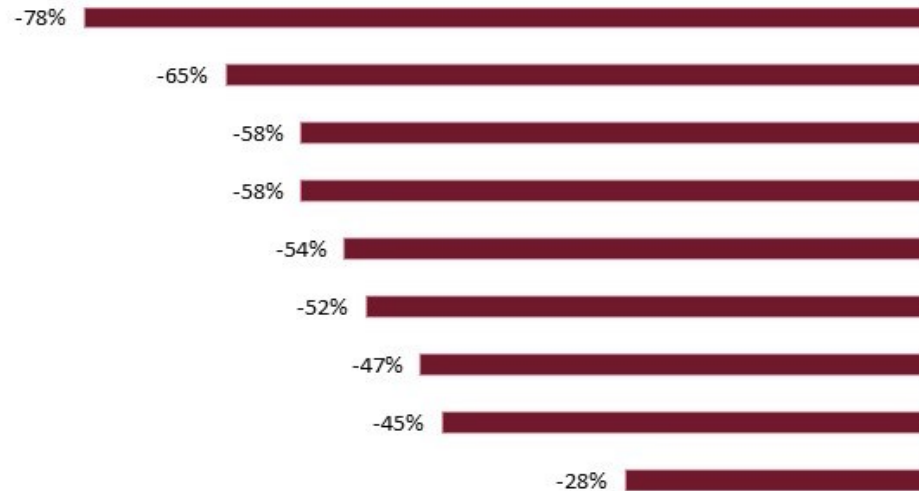


Total Debt (Rs in Mn)

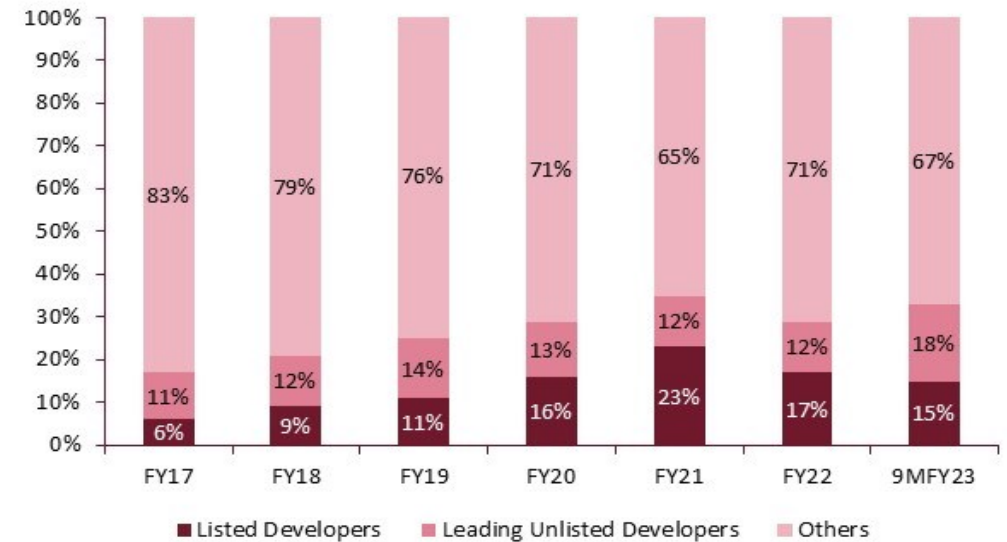


Industry Outlook

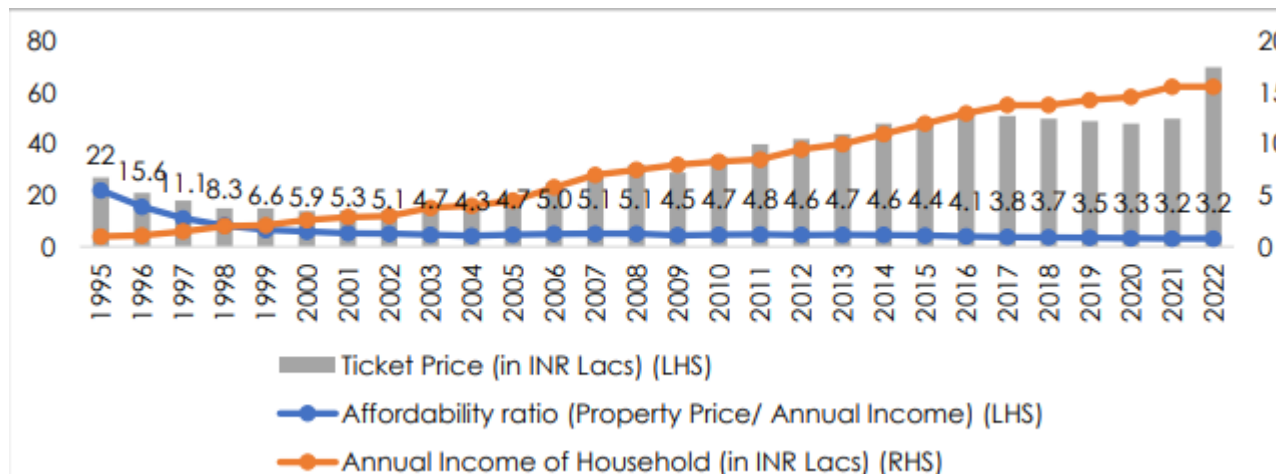
Decline in Developers in select Indian Cities (2012-2019)



Developers Market Share



Property Affordability Index



Industry Outlook

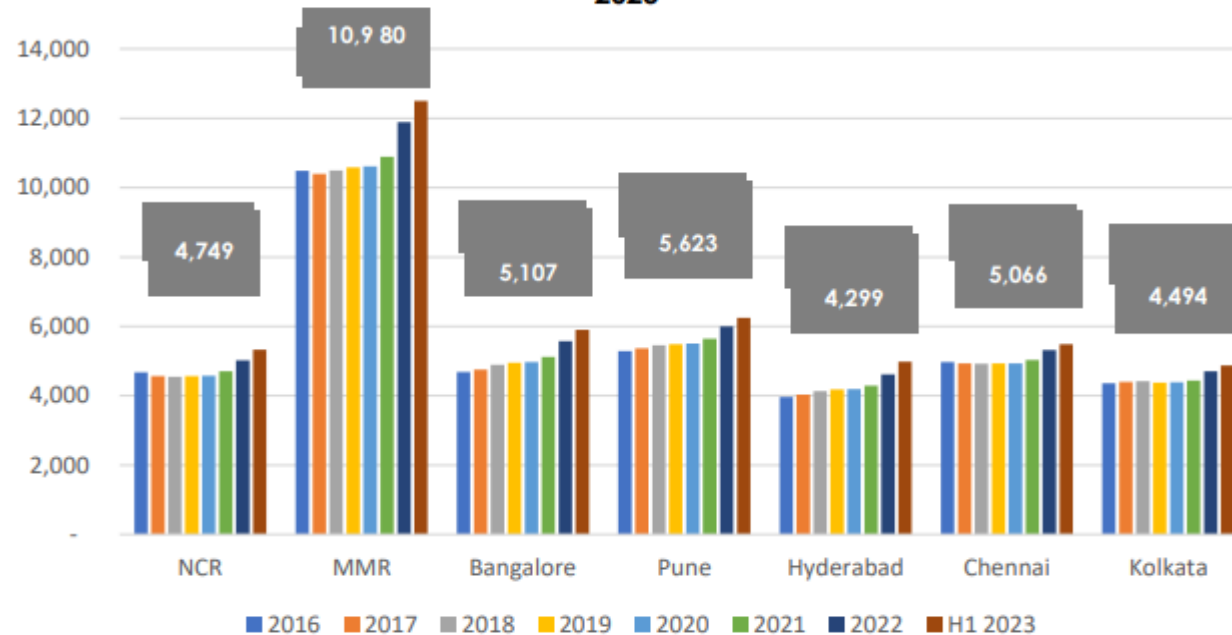
Share of launches among top 7 cities

Year	MMR	NCR	Bangalore	Pune	Hyderabad	Chennai	Kolkata
2016	29%	16%	18%	17%	7%	6%	7%
2017	37%	15%	12%	13%	8%	5%	9%
2018	31%	13%	18%	13%	9%	8%	9%
2019	33%	15%	17%	19%	6%	5%	4%
2020	24%	14%	17%	19%	16%	7%	3%
2021	24%	13%	13%	17%	22%	5%	6%
2022	35%	7%	14%	18%	19%	3%	4%
H1 2023	23%	10%	23%	16%	14%	9%	4%

Share of absorption amongst top 7 cities

Year	MMR	NCR	Bangalore	Pune	Hyderabad	Chennai	Kolkata
2016	29%	20%	18%	13%	5%	7%	7%
2017	27%	18%	20%	15%	8%	6%	6%
2018	27%	18%	23%	14%	8%	5%	6%
2019	31%	18%	19%	16%	6%	5%	5%
2020	32%	17%	18%	17%	6%	5%	5%
2021	32%	17%	14%	15%	11%	5%	6%
2022	30%	17%	14%	16%	13%	4%	6%
H1 2023	19%	15%	22%	16%	15%	9%	5%

Average Base Selling Price (INR/sqft on Saleable Area) for 2016 - H1 2023



INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

DISCLOSURE

DISCLOSURE

BUSINESS ACTIVITIES:

Indsec Securities and Finance Limited (ISFL) is a corporate member of BSE (Equity, WDM segment), of NSEIL (Equity, WDM, Futures & Options and Currency Derivative segments) and has also secured membership of the MSEI Exchange (Currency Derivative Segment) vide registration No. INZ000236731. ISFL is an AMFI Registered Mutual Fund Advisor (MRMFA) vide Registration Number 9194. ISFL is also a Depository Participant of the National Securities Depository Limited (NSDL) and a SEBI registered Portfolio Manager. With this setup ISFL is in a position to offer all types of services in the securities industry.

Since inception company's focus has been on research. In view of its research capabilities ISFL focused mainly on institutional business and is today empaneled with most of the local financial institutions, insurance companies, banks and mutual funds. ISFL has grown from being a medium size broking outfit to become one of the largest capitalized Indian broking company offering the complete range of broking services.

ISFL was incorporated on 28th July 1993 and doesn't have any associates/ subsidiaries. ISFL is a registered Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993 vide registration No. INP000001892.

DISCIPLINARY HISTORY:

- No material penalties / directions have been issued by the SEBI under the securities laws, SEBI Act or Rules or Regulations made there under
- No penalties have been imposed for any economic offence by any authority.
- No material deficiencies in the systems and operations of the Company have been observed by any regulatory agency.
- There are no pending material litigations or legal proceedings, findings of inspections or investigations for which action has been taken or initiated by any regulatory authority against the Company or its Directors, principal officers or employees or any person directly or indirectly connected with the Company.

DECLARATION:

- ISFL/Research Analysts or their associates or their relatives do not have any financial interest in the subject company (ies);
- ISFL/Research Analysts or their associates or their relatives do not have actual or beneficial ownership of 1 % or more in the subject company (ies);
- Directors may have actual or beneficial ownership of 1 % or more in the subject company (ies);
- ISFL/Research Analysts or their associates or their relatives do not have any material conflict of interest in the subject company(ies) at the time of publication of this document;
- ISFL has not received any compensation from the subject company (ies) in the past twelve months;
- ISFL has not managed or co-managed public offering of securities for the subject company (ies) in the past twelve months;
- ISFL has not received any compensation for investment banking or merchant banking or brokerage services or any other service from the subject company (ies) in the past twelve months;
- ISFL has not received any compensation or other benefits from the subject company (ies) or third party in connection with this document;
- None of the research analysts have served as an officer, director or employee of the subject company (ies);
- ISFL has not been engaged in the market making activity for the subject company (ies);

DISCLOSURE

GENERAL TERMS AND CONDITION/ DISCLAIMERS:

This document has been issued by ISFL and is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of security.

This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. However, we do not guarantee its accuracy and the information may be incomplete and condensed. Note however that, we have taken meticulous care to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any other employee of our company is in any way responsible for its contents. The Company's research department has received assistance from the subject company (ies) referred to in this document including, but not limited to, discussions with management of the subject company (ies). All opinions, projections and estimates constitute the judgment of the author as of the date of this document and these, including any other information contained in this document, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. While we would endeavor to update the information herein on reasonable basis, we are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent us from doing so.

Securities recommended in this document are subject to investment risks, including the possible loss of the principal amount invested. Any decision to purchase/sale securities mentioned in this document must take into account existing public information on such security or any registered prospectus. The appropriateness of a particular investment, decision or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Each recipient of this document should make such investigations 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).

This document 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 the company to any registration or licensing requirement within such jurisdiction. Further, this document is not directed or intended for distribution to the US taxpayers covered under US Foreign Account Tax Compliance Act (FATCA) provisions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction

This is just a suggestion and the company will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of the company. No matter contained in this document may be reproduced or copied without the consent of the company. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. The information contained in this document is intended solely for the recipient and may not be further distributed by the recipient. The Company accepts no liability whatsoever for the actions of third parties.

The research analyst(s) of this document certifies that all of the views expressed in this document accurately reflect their personal views about those issuer(s) or securities. **Analyst's holding in the stocks mentioned in the Report:-NIL**