

Suraj Estate Developers: Invest for medium to long-term gains

The inventory of 216 flats is a silver lining as this would on sale happening, translate straight to the bottom line as EBITDA margins for the company are just short of 50%

Work In Progress

- Issue open on Dec18-20
- Price band is Rs340-360
- The company completed 42 projects
- And it has 13 ongoing units, 16 upcoming projects

SURAJ Estate Developers Ltd is tapping the capital markets with its fresh issue for Rs400 crore, which opens on Monday (December 18) and closes on Wednesday (December 20). The price band is Rs340-360.

The EPS for FY23 was Rs10.10 and for June qtr was Rs4.58. The PE multiple based on FY23 earnings is 33.66-35.64

Suraj Estate Developers Ltd is a real estate developer with over 36 years' experience and having constructed over 1 million square feet in South Central Mumbai. The company has completed 42 projects, has 13 ongoing projects as of now and has 16 upcoming projects. It has built full buildings for clients as well and has also made a foray in a limited manner in the commercial space. It has consistently delivered projects over the last three-and-a-half decades.

The company is a market

leader in the redevelopment projects space in South Central Mumbai. Readers would be curious as to why Suraj chose such a specific area for redevelopment. This is the place where in the good old times, bungalows existed and there had open spaces as well. Redevelopment is possible where land is available and there are tenants as well who have come with the passage of time. This is the best that a developer can hope for. This has also become the new residential area for Mumbai-rs.

Going forward the company would be developing over two million square feet with a saleable component of over 6 lakh square feet. All these projects are cleared for construction and one could expect that some of these projects would get completed every year. The company has three segments under which it markets its products. These are Value Luxury which consist of 1 BHK flats and compact 2BHK flats catering to the aspirational buyers and provide value for money residential projects. The second is the Luxury segment where high quality differen-



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tiated products and strategic positioning, coupled with limited land availability in the South-Central Mumbai micro-market forms the key for the success of Suraj Estate developers.

The company has made some mixed-use development around the core area as well with some dedicated buildings which were sold to the client like a bank.

The biggest advantage in redevelopment is the fact that no expensive land is bought. Hence, exorbitant working capital in buying land and land banks is avoided. Here the raw material is effectively on an asset light model and reduces working capital substantially. This model is executed under various heads like joint development amongst others.

In the designing of the residential towers, renowned architects are used and the civil work is also done by well known contractors. The work is carried out under the supervision of the company through third party contractors so that the work can be expedited and comfort given to buyers about the people behind a project.

The particular micro-market where Suraj is present is one of the best performing real estate markets in the country. The demand for flats has been ever increasing and land being a natural resource always has limited supply. Fair to say that the demand supply scenario is adequately matched and the number of unsold flats inventory is constantly reducing.

Suraj as of June 30 has 216 unsold flats in inventory which has substantial value. This has caused a large sum of working capital getting blocked in inventory. The sales from these inventories have been consistently happening and once completed would release large chunks of money for working capital purposes and result in a spurt in sales and hence profits as well.

Coming to the financials, the company reported revenues of Rs307.89 crore for the year ended March 23. The same was Rs102.81 crore for the 3 months ended June 23. The profit after tax (PAT) for the year ended March was Rs32.06 crore and for the 3 months Rs14.52 crore. The EPS for the year ended March 23 was Rs10.10 and for the three months ended June Rs4.58. The PE multiple based on the year ended March earnings is 33.66-35.64. The NAV is Rs27.12 as at June 30 and would im-

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prove to Rs109.58 post the completion of the offer.

The present IPO market is crowded and we have more than one IPO opening every day. The grey markets are also very active and we have hardly had a poor listing over the last fortnight. There have been a few exceptions, but there have been more cases where prices have fallen a few days after listing. The issue merits attention where there is money on the table on listing. For investors with a medium to longer-term outlook, considering Mumbai Island, the fact that it is land locked and availability of land non-existent, this offers a great opportunity. The inventory of 216 flats is a silver lining or the icing on the cake as this would on sale happening, translate straight to the bottom line as EBITDA margins for the company are just short of 50 per cent.

Invest for medium to long-term gains with added comfort of a listing pop as well.

(The author is the founder of Kejriwal Research and Investment Services, an advisory firm)