



IPO Report

16th Dec'23

Snapshot

Suraj Estate Developers Ltd have been involved in the real estate business since 1986 and develop real estate across the residential and commercial sectors in South Central Mumbai region. Company have a residential portfolio located in the markets of Mahim, Dadar, Prabhadevi and Parel, which are sub-markets of the South-Central Mumbai micro market where company have established its presence. Company is focused primarily on value luxury, luxury segments and commercial segment. Company is now venturing into residential real estate development in Bandra sub-market.

VALUATION

Company is bringing the issue at price band of Rs 340-360 per share at p/e multiple of 27x on post issue annualized Q1FY24 PAT basis.

Company have 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. Also, company have diversified portfolio encompassing product offerings across various price points in value luxury and luxury segments.

With expertise in tenant settlement in the redevelopment projects in residential sub-markets of Mahim, Matunga, Dadar, Prabhadevi, and Parel, company is looking decent avenue to deploy the funds in. Hence, we recommend "Subscribe" on issue.

Price Band (Rs./Share)	340-360
Opening date of the issue	18th Dec '2023
Closing Date of the issue	20th Dec '2023
No of shares pre issue	90,763,500 Eq Shares
Issue Size	Rs 400 Cr
Fresh Issue	Rs 400 Cr
No of Shares	11764705-11111111 Eq Shares
Face Value (Rs/ share)	Rs 5/share
Bid Lot	41

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 5,555,555 Eq Shares)
Non-Institutional	15% of the offer (Approx 1,666,667 Eq Shares)
Retail	35 % of the offer (Approx 3,888,889 Eq Shares)
Lead managers	ITI Capital, Anand Rathi Advisors
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

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

The Value Luxury Segment refers to company's projects with ticket sizes ranging between ₹ 10.00 million and upto ₹ 30.00 million in the South Central Mumbai region and Luxury Segment refers to company's projects with ticket sizes ranging above ₹ 30.00 million and upto ₹ 130.00 million. Company's longstanding presence in South Central Mumbai has resulted in better understanding of emerging trends, customer preferences and significant brand recall. Company's in-house expertise of redevelopment and the successful delivery of forty two (42) Completed Project has helped it in building customer trust over the last thirty six (36) years

Strong expertise in tenant settlement in the redevelopment projects

From 1986 to 2023, company completed 42 residential and commercial projects out of which 41 projects (97.62%) are redevelopment projects. Company have a dedicated in-house team focusing on various requirements and concerns of tenants. As on October 31, 2023, company have redeveloped houses for 1,011 tenants free-of-cost under regulation 33(7) of the Development Control and Promotion Regulation, 2034 ("DCP Regulations") thereby simultaneously freeing considerable areas of FSI for commercial development.

Experienced promoters and management team

Company was founded by its Promoter, Rajan Meenathakonil Thomas, who is the Chairperson and Managing Director with over thirty six (36) years of experience in various aspects of real estate business. The leadership team also consists of Rahul Rajan Jesu Thomas, Whole-time Director with over sixteen (16) years of experience in various aspects of real estate business along with other professionals, each having vast experience across different industries and are instrumental in implementing company's business strategies.



COMPANY BACKGROUND

Company's focus area of operation is the South-Central region in Mumbai mainly consisting of Mahim, Matunga, Dadar, Prabhadevi and Parel, as company's expertise lies in the redevelopment of tenanted properties under Regulation 33(7) of the Development Control and Promotion Regulations ("DCPR") in the Mumbai region. Since most of the land parcels in the South Central Mumbai market are in the nature of redevelopment projects, company's core competence lies in tenant settlement which is a key element for unlocking value on such land parcels.

Company identify cessed/ noncessed properties with existing tenants, and tie up with the landlords of such tenanted properties by entering into a development agreement or on outright purchase basis through conveyance deed. Company does not provide any construction services on its own and is 100% dependent on third party contractors for the construction services of its Projects. Since incorporation, company have completed forty-two (42) projects with a developed area of more than 1,046,543.20 square feet in the South-Central Mumbai region. In addition to the Completed Projects, company have thirteen (13) Ongoing Projects with a developable area of 20,34,434.40 square feet and saleable carpet area 6,09,928 square feet and sixteen (16) Upcoming Projects with an estimated carpet area of 7,44,149 square feet.

Company has completed 4 projects in preceding three Financial Years. The completion timelines for each of the projects varies according to scope of work, project size, construction and approval complexities, conditions related to the project site and external factors which are beyond control of the Company. The Company has completed 42 projects in the last 37 years of its existence delivering on an average 3 to 4 projects in 3 years. Although, the completion of 4 projects in last 3 years is in line with Company's historical average delivery rate, there was some delay caused during the Covid-19 pandemic during such period.

From 1986 to 2023, company have completed 42 residential and commercial projects out of which 41 projects (97.62%) are redevelopment projects. Majority of company's projects executed by it are on land owned by company or through development agreements with land-owners. Since most of the land parcels in the South Central Mumbai market are in the nature of redevelopment projects, company's core competence lies in tenant settlement which is a key element for unlocking value on such land parcels. Company identify cessed/ non-cessed properties with existing tenants, and tie up with the landlords of such tenanted properties by entering into a development agreement or on outright purchase basis through conveyance deed. Company have over the years provided good quality housing free-of-cost to the existing tenants/ occupants of redevelopment properties. As on October 31, 2023, company have redeveloped houses for more than 1,011 tenants free-of-cost under regulation 33(7) of the Development Control and Promotion Regulation, 2034 ("DCP Regulations"). Compliance of Regulation 33(7) of the DCP Regulations enables sanction of more than FSI - 3.00 for development by the regulatory authorities.

As on the date, there are 19,642 number of cessed properties in the island city of Mumbai which are yet to be redeveloped. To bring to life company's vision of creating contemporary, sustainable and quality construction, company work with a host of leading architects, namely Sanjay Puri Architects and Vivek Bhole Architects Private Limited for company's projects. Almost all aspects of company's real estate development business are conducted through in-house capabilities, including acquisition of suitable land and delivering a project from conceptualization to completion.

Company have also set up an integrated in-house project management team to focus on procurement efficiencies, vendor selection and construction activities. Company's in-house sales team is supported by a distribution network of multiple non-exclusive and select channel partners across India which cater to key high network individuals and non-resident Indians. Company also have a full-fledged in-house customer relationship team and after-sales team which supports customers from the property booking stage till the final delivery of the property.

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Company is amongst the prominent real estate developers, focused primarily on value luxury and luxury segments and commercial segment through:

- construction and development of high quality 1 BHK flats and compact 2 BHK flats, catering to aspirational buyers and provide value for money residential projects, in premium locations ("Value Luxury Segment");
- construction and development of high quality 2 BHK flats, 3 BHK flats and 4 BHK flats, catering to ultra-high net worth and high net worth individual buyers in the South Central Mumbai region ("Luxury Segment"); and
- construction and development of commercial offices on a built-to-suit model for select clientele and boutique offices ("Commercial Segment").



INVESTMENT RATIONALE

<p><i>Diversified portfolio encompassing product offerings across various price points in value luxury and luxury segments</i></p>	<p>Company have a diversified portfolio of residential developments, spread across price points, unit sizes and micromarkets in the South Central Mumbai, catering to a wide spectrum of economic and demographic segments, from value luxury to luxury residences. Company's ability to cater to the needs of customer across income brackets through a range of differentiated products offerings, supported by its technical and execution capabilities has enabled company to successfully grow its business. Company have developed a diversified portfolio of projects that includes redevelopment projects as well as open plot projects, in the Value Luxury Segment and Luxury Segment from 1 BHK flats to 4 BHK flats. Company's residential projects include units with prices ranging from ₹10.00 million to ₹130.00 million in the South Central Mumbai region for Value Luxury and Luxury Segments. Further, company's projects are strategically located within South Central Mumbai region. Company's residential projects benefit from sea view and variety of amenities such as clubhouse and landscaped garden, amongst others which appeal to company's clients in Value Luxury and Luxury Segments. Company's residential projects are located in areas that are attractive and near to the commercial areas, railway stations, bus stops, upcoming metro stations etc. In addition, higher growth in residential demand is expected in the South Central Mumbai region, due to improved connectivity, higher affordability and development of alternative commercial centres. The diversity in company's portfolio of projects, created by company's range of offerings and price help it to cater different segments of the market and diversify company's risk of dependence on a particular segment.</p>
<p><i>Marketing and sales strategies</i></p>	<p>Company's experienced marketing and sales team track market trends which enables it to position company's projects appropriately in terms of location and price points, and creates a cohesive marketing strategy designed to secure and build brand value and awareness. Some of these strategies include exclusive code names for each project, large public launches with a book-building approach, and the implementation of the concept of self-sustained communities. The primary focus of company's marketing team is to collectively work towards identifying the target market groups and leveraging promotional tools to attract the target group. Over the time, such initiatives have enabled it in creating differentiated products and market company's projects to its target customers for each project. Company use differentiated sales strategies and multiple approaches to sell its products. Company have dedicated in-house sales teams focusing on interaction with channel partners to drive walk-in at company's sites (sourcing function) and the other focusing on deal closures (closing function). Company have an experienced customer care team who regularly interact with its customers and are responsible for assisting them throughout the entire period from initial booking to handover of their homes. This provides company's customers with a one-point interface for any specific requirement or grievance they may have.</p>
<p><i>Experienced promoters and management team</i></p>	<p>Company was founded by its Promoter, Rajan Meenathakonil Thomas, who is the Chairperson and Managing Director with over thirty six (36) years of experience in various aspects of real estate business. The leadership team also consists of Rahul Rajan Jesu Thomas, Whole-time Director with over sixteen (16) years of experience in various aspects of real estate business along with other professionals, each having vast experience across different industries and are instrumental in implementing company's business strategies. Company's board also includes Non Executive Director, Sujatha R. Thomas and Independent Directors namely, Mrutyunjay Mahapatra, Sunil Pant and Dr. Satyendra Shridhar Nayak, all of whom are qualified and experienced professionals and lead distinct business aspects.</p>



OBJECTS OF OFFER

The net proceeds of the Issue, i.e. gross proceeds of the Issue less the issue expenses to the extent applicable to the Issue (“Net Proceeds”) are proposed to be utilised for the following objects:

1. , Iconic Property Developers Private Limited and Skyline Realty Private Limited;
2. Acquisition of land or land development rights; and
3. General corporate purposes.

RISKS

Company’s business is dependent on the performance of, and the conditions affecting, the real estate sub markets in the South-Central Mumbai region. As of October 31, 2023, company did not have any ongoing projects in any other areas apart from South Central Mumbai. Consequently, company is exposed to risks from economic, regulatory and other changes as well as natural disasters in the South Central Mumbai region, which in turn may have an adverse effect on company’s business, results of operations, cash flows and financial condition.

Source:RHP

INDUSTRY OVERVIEW

TRENDS IN COMMERCIAL REAL ESTATE IN MUMBAI

OVERVIEW

Mumbai is one of India’s largest metropolitan cities and one of the world’s most densely populated cities. With its robust contribution to India’s GDP, the tax revenues it generates for the country, it is indeed the city is the financial capital of India. The city houses a diverse base of industries such as BFSI, manufacturing, IT/ITeS, Media & entertainment, etc. The commercial real estate sector has played a significant role in facilitating the required office infrastructure. As of Q1 CY 2023 , the MMR office market has a stock of 136.88 mn. square feet of Grade-A office space, which is amongst the largest in India, and an overall vacancy rate of 15.5%. In addition to Grade- A office parks, the city has substantial office space stock in form of ‘non Grade- A’ office buildings, mix use buildings, and are recently in form of Grade- A strata office buildings. Market cycles impact office markets as they do other asset classes Covid 19 pandemic impacted Mumbai’s office market, which is evident in form of churn of tenants, consolidation of office space by occupiers, renewals of leases at re-rated lower leases, increase in vacancy and deferred completion of new office parks, however, at the same time, Mumbai’s office market has also witnessed de-centralization of office neighbourhoods and emergence of office buildings on ‘strata sale’ (wherein buildings are sold to end users or investors in floor wise manner, either in part or in full) model.

During initial months of Covid- 19 pandemic, ‘work from home’ replaced ‘work from office’. Certainly, in the short term, the office demand and the rents were impacted. However, on the back of a diverse occupier category base that Mumbai office market serves, the impact was a little lower in comparison to the IT demand-driven cities in India, which largely followed work from home model. With the rapid vaccination drive by the Government of India and the continued tapering of the new cases, the partial opening of offices and other recreational areas were allowed post June 2020 after first wave of Covid-19 and then post-June 2021 after the second wave. The commencement of the mass transport modes the people’s movements gathered the pace. The re-opening of the economy reduced the unemployment scenario and has positively contributed to the rising output levels as a whole. On 5th May 2023 the WHO Director-General announced that ‘COVID-19 is no longer a public health emergency of international concern.’ India has administered 220 million Covid-19 vaccine doses as of May 2023. Despite the near-term market uncertainty, albeit the consensus is that the occupiers will follow a hybrid or blended model of ‘work from home’ and ‘work from office’, the Mumbai office market’s medium to long-term outlook remains bright on the back of the sector’s robust fundamentals and investment attractiveness. The strata sale market in Mumbai is amongst the most active office markets in India. During the last 2 to 3 years, two prominent trends have been recorded in Mumbai Office Market include: a) Increased demand for flexible office spaces near home Select large occupiers, companies from the software/technology sector, start-ups have seen renting flexible office desks nearer to the residential hubs. This will help employees to work efficiently yet reduce the commute time. The flexible office spaces are expected to provide cost-effective solutions. b) Increased demand for the strata offices on strata format While office leasing impacted by the second wave, demand for the strata sale demand is growing. During the past 2 to 3 years, various categories like professional services, consultants, financial advisors, SME manufacturers, logistics were seen taking up the small offices on a purchase basis. The typical office sizes ranging between 500 – 2,000 sq. ft. of the leasable area that can house 4 to 20 employees have gained momentum. The central theme is to work near home in an environment conducive to the business. For the investors, small office spaces are generating a rental yield potential at about 7% with the upside capital appreciation potential. The Central Business District (CBD), Secondary Business District (SBD) Central (Lower Parel - Prabhadevi), BKC, Andheri in Mumbai have an active market for the offices on strata sale model. Commercial real estate witnessed a growing demand for boutique office spaces- another term popularly used for strata sale office buildings. In upcoming quarters, more projects offering small offices on a strata sale model are expected to be launched to cater to the growing demand for this category within the commercial office asset class.


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	2399.87	2727.18	3057.44	1024.10
Total Expenditure (B)	1533.58	1409.85	1547.4	556.78
EBIDTA	866.29	1317.33	1510.04	467.32
EBIDTA Margin	36.10	48.30	49.39	45.63
Other Income	40.11	11.89	21.46	4.04
Depreciation	23.87	36.75	25.83	5.75
EBIT	882.53	1292.47	1505.67	465.61
Interest	792.07	930.96	1073.55	271.89
PBT	90.46	361.51	432.12	193.72
Extraordinary Items	0.00	0.00	0.00	0.00
PBT	90.46	361.51	432.12	193.72
Share of profit in associate	0.00	0.00	0.01	0.00
PBT	90.46	361.51	432.13	193.72
Tax	27.69	96.47	111.48	48.44
PAT	62.77	265.04	320.65	145.28
NPM	2.62	9.72	10.49	14.19
ROE %	23.62	77.22	58.18	18.68
EPS	1.98	8.35	10.10	4.58
Eq Cap	63.50	158.75	158.75	158.75
Net Worth	293.65	393.81	715.13	860.55

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Suraj Estate Developers Limited#</i>	<i>5</i>	<i>N.A</i>	<i>3057.44</i>	<i>10.10</i>	<i>22.49</i>	<i>58.18</i>
Peers						
Oberoi Realty Limited	10	25.63	41925.82	52.38	335.81	16.83
Sunteck Realty Limited	1	4536.00	3624.37	0.10	198.45	0.62
Keystone Realtors Limited	10	70.83	6856.60	7.67	146.59	6.29
Shriram Properties Limited	10	27.42	6744.03	3.88	70.58	5.63
Mahindra Lifespace Developers Limited	10	77.87	6066.10	6.56	116.75	5.64
D B Realty Limited	10	-72.09	6982.40	-2.94	60.69	-5.93
Hubtown Limited	10	16.16	3190.90	4.16	171.03	2.03

(Source: RHP)



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