

Rustomjee®

# Keystone Realtors

A premium developer backed by seasoned management



**Kyon ki bhaiya, sabse bada rupaiya.**

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**Not Rated**
**A premium developer backed by seasoned management**

Keystone Realtors (Rustomjee) is one of the prominent real estate developers (in terms of absorption in number of units) in the micro markets that it is present in. Rustomjee commands 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 2021.

As of June 30, 2022, it had 32 Completed Projects, 12 Ongoing Projects and 21 Forthcoming Projects across the Mumbai Metropolitan Region (“MMR”) that includes a comprehensive range of projects under the affordable, mid and mass, aspirational, premium and super premium categories, all under the Rustomjee brand. As of June 30, 2022, it has developed 20.22 mn square feet of high-value and affordable residential buildings, premium gated estates, townships, corporate parks, retail spaces, schools, iconic landmarks and various other real estate projects.

Over FY20-22, Rustomjee’s revenue/ EBITDA/PAT grew at a CAGR of 2.4%/ 14.7%/ 214.0% to INR 1,269 cr/ INR 179 cr/136 cr respectively, while, EBITDA and PAT margins improved by 290bps (to 14.1%) and 970bps (to 10.9%), respectively.

Keystone Realtors’ proposed issue size is INR 635 cr out of which INR 560 cr is a fresh issue and the remaining INR 75 cr is OFS. The proposed fresh issue will be utilized for

- Repayment/ prepayment, in full or part, of certain borrowings availed by the Company and/or certain of its subsidiaries.
- Funding acquisition of future real estate projects and general corporate purposes.

Through the OFS, the promoters are selling 13,86,322 shares, which will reduce the promoter stake from 96.71% (pre-issue) to 87.92% (post-issue).

**Key Financial Data (INR Cr, unless specified)**

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	1211	136	14	11.2	1.2	1.4	24.6	3.8	5.3	376.3	22	60.8
FY21	848	140	232	16.5	27.3	20.3	72.3	28.8	8.0	26.7	7.5	50.7
FY22	1269	179	138	14.1	10.9	12	83.9	14.6	7.8	45.3	6.4	41.7

Industry	Real Estate
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**Issue Details**

Listing	BSE & NSE
Open Date	14 <sup>th</sup> Nov 2022
Close Date	16 <sup>th</sup> Nov 2022
Price Band	INR 514-541
Face Value	INR 10
Market Lot	27 shares
Minimum Lot	1 Lot

**Issue Structure**

Offer for Sale	11.8%
Fresh Issue	88.2%
Issue Size (Amt)	INR 635 cr
Issue Size (Shares)	1,17,37,523
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	10,35,26,222
Post issue sh (nos)	11,38,77,423
Post issue M Cap	6160.8

Shareholding (%)	Pre (%)	Post (%)
Promoter	96.7	87.9
Non Promoter	3.3	12.1
<b>TOTAL</b>	<b>100</b>	<b>100</b>

## Financial Analysis

### **FY20-22 Performance: Revenue remained flat but profit margins increased**

During FY20-22, Keystone's revenue grew at a CAGR of 2.4% to INR 1169 cr and PAT grew at a CAGR of 214% to INR 136.5 Cr primarily because

- FY20 acted as a low base year as it was impacted by Covid.
- The gestation period for this company is around 4 to 4.5 years
- Healthy collections for FY22 which stood at INR 2,038 cr v/s INR 1271 Cr in FY20

Funds from the IPO will be utilized to reduce debt by INR 341 Cr

### **Q1FY23 Performance: Reported strong recovery in business performance and profitability**

In Q1FY23, Keystone's revenue grew at a YoY rate of 101.4% to INR 169 Cr, and PAT rose to INR 4.4 Cr from a loss of INR 1 Cr, which was primarily driven by

- Steep decline in the unsold inventory levels.
- EBITDA margin enhancement due to stabilization in the raw material costs

EBITDA grew at a CAGR of 228.5% to INR 4.6 cr, while EBITDA margins improved by 100bps (to 2.7%).

## Understanding the business of Keystone Realtors

Keystone Realtors (Rustomjee) is one of the prominent real estate developers (in terms of absorption in number of units) in the micro markets that it is present in. Rustomjee commands 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 2021.

As of June 30, 2022, it had 32 Completed Projects, 12 Ongoing Projects and 21 Forthcoming Projects across the Mumbai Metropolitan Region (“MMR”) that includes a comprehensive range of projects under the affordable, mid and mass, aspirational, premium and super premium categories, all under Rustomjee brand. As of June 30, 2022, it has developed 20.22 mn square feet of high-value and affordable residential buildings, premium gated estates, townships, corporate parks, retail spaces, schools, iconic landmarks and various other real estate projects.

Key Operational Parameters			
Particulars	2020	2021	2022
Pre-Sales (INR Cr)	1,009	1,517	2,639
Pre- Sales (Units)	607	823	1,241
Pre- Sales (Mn. Sq. Ft)	0.71	0.98	1.49
Completed Developable area (Mn. Sq. Ft)	1.03	0.87	0.31
Collections (INR Cr)	1,271	1,239	2,038

Source: Company RHP

### Business Model

As part of Rustomjee’s business model, it focuses 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. The business model allows the company to minimise the upfront capital expenditure compared to direct acquisition of land parcels, which ensures that the capital allocation is balanced and calibrated, allowing the company to generate revenue with lower initial investments.

With its experience, Rustomjee has been able to institutionalize the development process, which includes managing relationships with all stakeholders in the project. It has adopted an integrated real estate development model, with capabilities and in-house resources to execute projects from its initiation to completion. It has 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, the company had 1,542 channel partners who present the Rustomjee portfolio to their customers and drive customers’ traffic to its projects. In addition to in-

house competencies, it also leverages the expertise of external specialists to match a wide range of operations, such as architects, interior designers landscaping experts, engineers and building services consultants for the development and management of its projects.

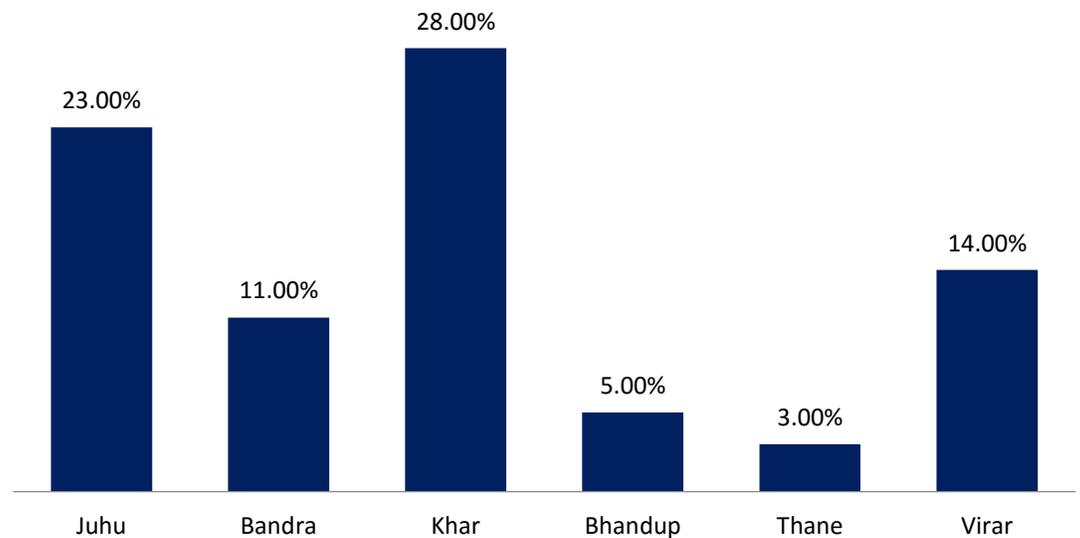
**Strengths**

**Well established customer-centric brand in the Mumbai Metropolitan Region**

Rustomjee is one of the prominent real estate developers (in terms of absorption in number of units) in the micro markets that it is present in, namely Juhu, Bandra East, Khar, Bhandup, Virar and Thane), and is able to garner premium pricing in the MMR micro-markets where its projects are located. As of June 30, 2022, it had 32 Completed Projects, 12 Ongoing Projects and 21 Forthcoming Projects across the MMR that includes a comprehensive range of projects under the affordable, mid and mass, aspirational, premium, and super premium categories, all under the Rustomjee brand. Its presence in the MMR market for two and half decades, together with construction quality, execution and delivery capabilities, has enabled it to establish the Rustomjee brand in the MMR.

The core objective for townships and gated communities is to provide a secure, vibrant neighbourhood where families are encouraged to spend time together in such spaces and cultivate a sense of bonding with the community. The company also implement future-ready designs where the apartment is designed for all age groups and incorporate senior-friendly additions such as grab bars, anti-slip tiles and wheelchair-size doors in at least one bedroom and one bathroom.

**Market Leader in key Micro-market (Absorption CY 2017-2021)**



Source: Company Data

### Asset-light and scalable model resulting in profitability and stable financial performance

The company's 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. It identifies 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 inception, the management has learned and honed the process of re-development and to balance the diverse needs of existing members in each project. With experience, it has 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, the company's experience in partnerships has helped it hone and institutionalize the processes of collaborating with landowners under a joint development model

### Split between joint developments projects and projects done on acquired land

Particulars	Completed Projects		Ongoing Projects		Forthcoming Projects	
	Area(Mn.sq.ft)	% of total Area	Area(Mn.sq.ft)	% of total Area	Area(Mn.sq.ft)	% of total Area
JD/JV/Redevelopment	19.32	95.55	8.60	92.84	20.49	77.73
Land Ownership	0.90	4.45	0.66	7.16	5.87	22.27
<b>Total</b>	<b>20.22</b>	<b>100.00</b>	<b>9.26</b>	<b>100.00</b>	<b>26.37</b>	<b>100.00</b>

Source: Company RHP

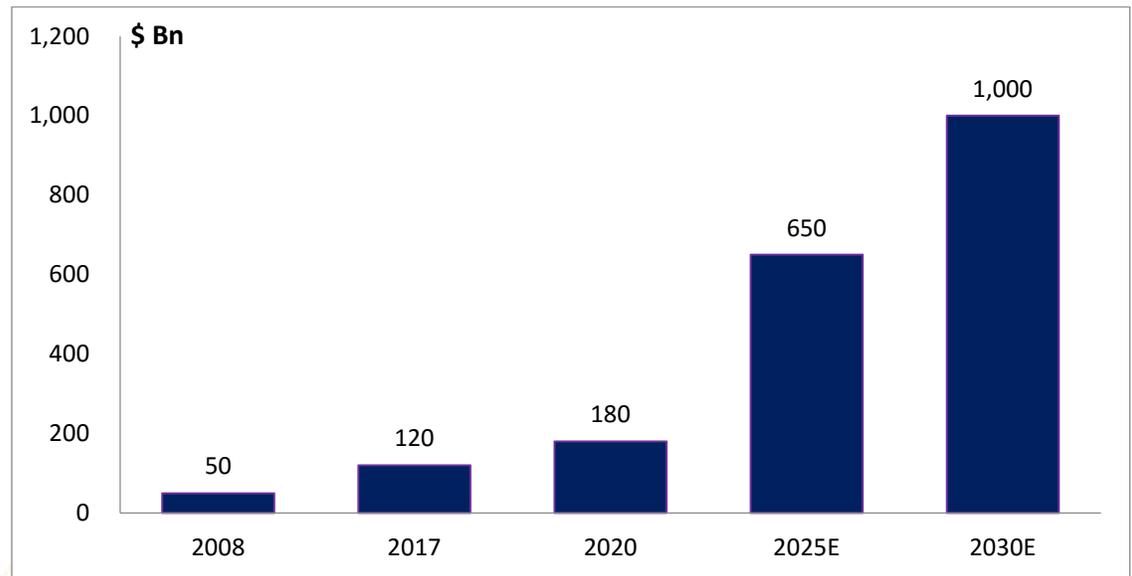
### Technology focused operations resulting in operational efficiency and enhancing customer experiences

The company has leveraged technology as an enabler in various aspects of its operations, including project planning and execution, and customer relationship management. It focuses on implementing digitisation measures to reduce delivery timelines, provide real-time financial accounting, increase efficiency in vendor management and reduce wastage and reworks. It uses 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 the 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.

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

Rustomjee 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 the re-development initiatives and has significant experience in the fields of engineering, construction and technology

**Indian real estate market forecast**



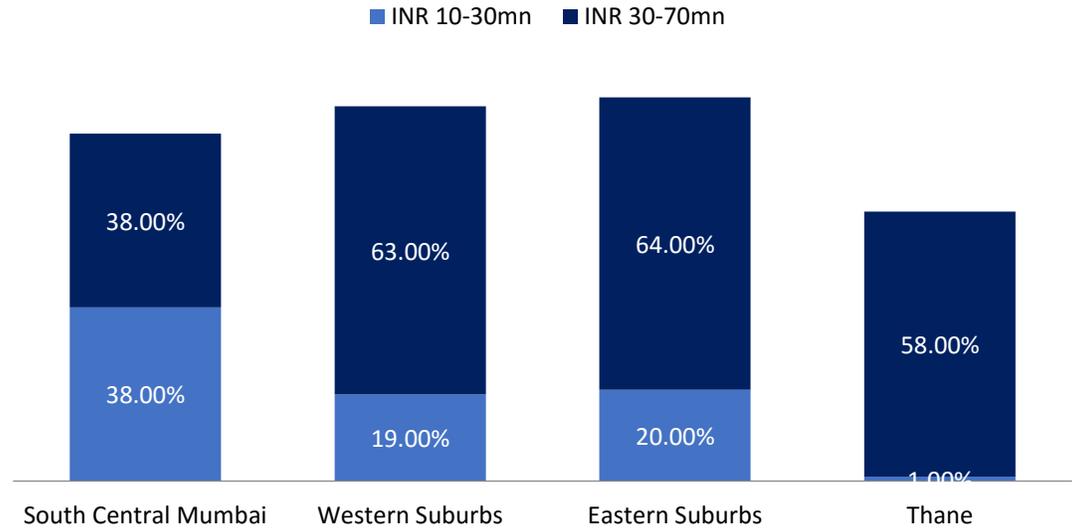
Source: Company Data, Anarock Report

**Business Strategies**

**Leverage the ‘Rustomjee’ brand to grow asset-light operations**

The company intends to leverage strength and experience in redevelopment, focus on such opportunities in Mumbai’s city centre locations and major suburbs, and continue to expand its business by following a disciplined approach with an asset-light model. Undertaking projects through joint ventures will provide the company with the ability to source premium land at strategic locations with minimal initial investment, help it continue to focus on and execute projects with land-owners with existing relationships. To leverage the opportunity associated with redevelopment in Mumbai, it intends to continue to identify projects and collaborate with private societies, MHADA colonies and the Slum Rehabilitation Authority to help the government beautify the city and provide better living standards to all strata of society. This approach helps the company reduce project risks associated with land development.

**Predominance of Mid and Mass and Aspirational Categories (CY 2017-2021)**



Source: Company Data

**Improve operational efficiency with technological innovation, trusted vendors and stakeholder management**

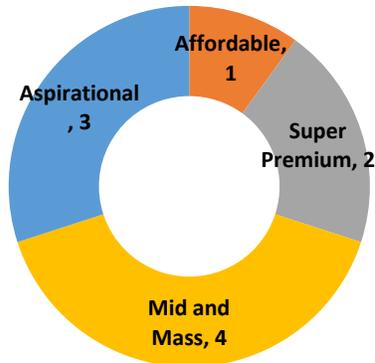
The company will continue to focus on developing mechanized and technological construction capabilities to increase the efficiency and quality of projects. It intends to monitor the projects using software and online tools, which will enable to reduce project timelines, ensure quality, reduce maintenance expenses and allocate resources in a timely manner. It also proposes to undertake data analytics to identify trends and evaluate customer preferences and demand for particular types of projects and amenities within such projects.

**Leverage leadership position in the premium category to grow presence in the mid and aspirational category**

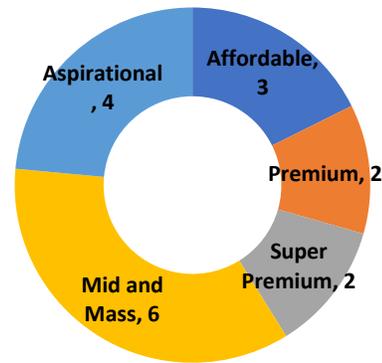
Due to the company’s established track record in premium and super premium categories, it has witnessed strong response to its recent launches in the mid income category as well. The management believes it is essential to leverage the company’s long track record and image as one of the leading real estate organizations in MMR for significant headroom for growth in the mid income category where its presence presently is comparatively limited. As the company continues to explore opportunities for new townships and gated communities in the mid and mass, and aspirational categories, it will expand its presence in commercial development projects bolstering the amenities and facilities of its residential portfolio. The plan is to leverage past experience in commercial development projects such as Natraj by Rustomjee and Central Park to develop the commercial development projects in Thane with approximately 3.99 mn square feet of saleable area. The company will be applying for approvals in the near future for its commercial development in Thane, and also intends to evaluate other commercial development opportunities in similar locations within Mumbai.

**Strong residential project pipeline**

**Ongoing Projects**



**Forthcoming Projects**



Source: Company Data

**Increased focus on key growth areas in the proximity of upcoming infrastructure projects and relaxation of Coastal Regulation Zone norms**

The most prime development areas lie along the western railway line and western part of its sea facing properties, which command a premium in the MMR. (Source: Anarock Report). Rustomjee intends to place greater emphasis on opportunities for sea-front properties due to relaxation of Coastal Regulation Zone norms in the Western Suburbs. With the company's experience in the premium and re-development categories, it intends to capitalise on these trends and changing demands to be selected as the preferred developer for such properties. These projects may allow it to command greater pricing power and realisation of profits due to an increasing preference for sea views

**Focus on sustainability**

The company endeavors to incorporate environmental-friendly elements as part of its future development projects. For instance, during the construction phase, it intends to rely on solar photovoltaic panels to generate electricity from solar energy to support project construction, and implement more energy-saving dimmable motion-sensing lights to reduce the energy expended for illumination. It aspires to obtain LEED certifications by the Indian Green Building Council for its Forthcoming projects

**Keystone Realtors Key Managerial Personnel**

Key Person	Designation	Details
Boman Rustom Irani	Chairman and Managing Director	He holds a bachelor's degree in engineering from M.H. Saboo Siddik College of Engineering. He is also the president of CREDAI-MCHI and CREDAI- National. He has over 26 years of experience in the real estate industry.
Percy Sorabji Chowdhry	Executive Director	He holds a bachelor's degree in commerce from University of Bombay. He has 23 years of experience in the real estate industry. He has been associated with the company as a Director since 1999.
Chandresh Dinesh Mehta	Executive Director	He holds a bachelors degree of technology in electrical engineering from Banaras Hindu University, Varanasi and a post-graduate diploma in management from Xavier Institute of Management, Bhubaneswar. He has over 26 years of experience in the real estate industry
Seema Mohapatra	Non-Executive Independent Director	She holds a post-graduate diploma in management from Xavier Institute of Management, Bhubaneswar. She was associated with BBC World Service Trust India as a trustee since 2014.
Sajal Gupta	CFO and Head Corporate Strategy	He holds a bachelor's degree in commerce from Maharshi Dayanand University. He is also member of the Institute of Chartered Accountants of India. He has been associated with Keystone realtors since 2015.
Venkatraman B	Nominee Director	He holds a bachelor's degree in civil engineering from University of Mumbai. He has been associated with Keystone realtors since 2014

Source: Company Reports

## Key Risks & Concerns

- The company's business and profitability is significantly dependent on the performance of the real estate market in India, in general and particularly in the Mumbai Metropolitan Region ("MMR"). Varying market conditions in the MMR may affect its ability to ensure sale of projects and the pricing of units in such projects, which may adversely affect the results of operations and financial condition.
- Significant increases in prices, including that relating to increase in taxes and levies, or shortage of or delay or disruption in the supply of construction materials could adversely affect the company's estimated construction cost and timelines and result in cost overruns.
- The company has entered into joint development agreements, joint venture arrangements and redevelopment agreements with third parties to acquire land, development rights or redevelopment rights which may entail title disputes and impose liabilities and obligations on the company. Further, such joint development agreements only transfer development rights to the company.
- Certain unsecured loans have been availed by the company which may be recalled by lenders. Any failure to service such indebtedness, or otherwise perform any obligations under such financing agreements may lead to acceleration of payments under such credit facilities.

## Issue Structure and Offer Details

The proposed issue size of Rustomjee's IPO is INR 635 cr (INR 560 cr fresh issue and INR 75 cr OFS) and the price band for the issue is in the range of INR 514-541 and the bid lot is 27 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares offered
QIB	Not more than 50% of the Offer	58,68,761
NIB	Not less than 15% of the Offer	17,60,628
Retail	Not less than 35% of the Offer	41,08,133

*Number of shares based on a higher price band of INR 541*

Source: Company Reports

Details of the selling shareholders		
Promoter Selling shares	Amount offered	No of shares
Boman Rustom Irani	Not more than 38 Cr	6,93,161
Percy Sorabji Chowdhry	Not more than 19 Cr	3,46,580
Chandresh Dinesh Mehta	Not more than 19 Cr	3,46,580

*The amount is based on a higher price band of INR 541*

Source: Company Reports

**Keystone Realtors financial summary and analysis**

Fig in INR Cr (unless specified)	FY20	FY21	FY22	Fig in INR Cr (unless specified)	FY20	FY21	FY22
<b>Income Statement</b>				<b>Per share data &amp; Yields</b>			
Revenue	1,211.5	848.7	1,269.4	Adjusted EPS (INR)	1.4	21.3	12.0
YoY Growth (%)	(42.8)	(29.9)	49.6	Adjusted Cash EPS (INR)	1.6	21.4	12.3
Raw Material Cost	900.9	612.7	988.6	Adjusted BVPS (INR)	24.6	72.3	84.6
RM Cost to Sales (%)	74.4	72.2	77.9	Adjusted CFO per share (INR)	30.8	57.4	(9.6)
Employee Cost	41.6	27.1	28.4	CFO Yield (%)	5.7	10.6	(1.8)
Employee Cost to Sales (%)	3.4	3.2	2.2	Adjusted FCF per share (INR)	23.2	58.3	5.7
Other Expenses	132.8	69.0	73.1	FCF Yield (%)	4.3	10.8	1.1
Other Exp to Sales (%)	11.0	8.1	5.8	<b>Solvency Ratio (X)</b>			
<b>EBITDA</b>	<b>136.2</b>	<b>139.9</b>	<b>179.3</b>	Total Debt to Equity	9.0	1.5	1.6
Margin (%)	11.2	16.5	14.1	Net Debt to Equity	7.6	1.1	1.4
YoY Growth (%)	(73.2)	2.7	28.2	Net Debt to EBITDA	15.5	6.7	7.3
Depreciation & Amortization	2.2	1.5	3.4	<b>Return Ratios (%)</b>			
<b>EBIT</b>	<b>134.0</b>	<b>138.4</b>	<b>175.9</b>	Return on Equity	3.8	28.8	14.6
Margin (%)	11.1	16.3	13.9	Return on Capital Employed	1.1	5.2	5.2
YoY Growth (%)	(73.5)	3.3	27.1	Return on Invested Capital	5.3	8.0	7.8
Other Income	57.1	328.6	33.5	<b>Working Capital Ratios</b>			
Finance Cost	128.0	165.6	23.0	Payable Days (Nos)	83	101	88
Interest Coverage (X)	1.0	0.8	7.7	Inventory Days (Nos)	833	943	60
Exceptional Item	0.0	0.0	0.1	Receivable Days (Nos)	19	16	45
<b>PBT</b>	<b>63.2</b>	<b>301.4</b>	<b>184.4</b>	Net Working Capital Days (Nos)	769	858	17
Margin (%)	5.2	35.5	14.5	Net Working Capital to Sales (%)	210.7	235.0	162.5
YoY Growth (%)	(65.4)	376.9	(38.8)	<b>Valuation (X)</b>			
Tax Expense	48.8	69.4	47.9	P/E	381.0	25.4	45.3
Tax Rate (%)	77.2	23.0	26.0	P/BV	22.0	7.5	6.4
<b>PAT</b>	<b>14.4</b>	<b>232.0</b>	<b>136.5</b>	EV/EBITDA	60.8	50.7	41.7
Margin (%)	1.2	27.3	10.7	EV/Sales	6.8	8.4	5.9
YoY Growth (%)	(89.5)	1,509.0	(41.2)	<b>Cash Flow Statement</b>			
Min Int/Sh of Assoc	1.8	10.4	(0.3)	PBT	63.2	301.4	184.4
<b>Net Profit</b>	<b>16.2</b>	<b>242.4</b>	<b>136.1</b>	Adjustments	105.3	(134.8)	(178.8)
Margin (%)	1.3	28.6	10.7	Change in Working Capital	231.2	556.9	(66.9)
YoY Growth (%)	(84.1)	1,399.1	(43.8)	Less: Tax Paid	(48.8)	(69.4)	(47.9)
<b>Balance Sheet</b>				<b>Cash Flow from Operations</b>	<b>350.9</b>	<b>654.1</b>	<b>(109.2)</b>
Share Capital	100.0	100.0	100.0	Net Capital Expenditure	(2.4)	(0.8)	0.0
Total Reserves	180.1	723.8	863.5	Change in Investments	(197.3)	(234.3)	(137.6)
<b>Shareholders Fund</b>	<b>280.1</b>	<b>823.8</b>	<b>963.5</b>	<b>Cash Flow from Investing</b>	<b>(199.7)</b>	<b>(235.1)</b>	<b>(137.6)</b>
Long Term Borrowings	290.6	191.8	142.4	Change in Borrowings	299.2	(443.7)	176.9
Deferred Tax Assets / Liabilities	0.0	0.0	2.5	Less: Finance Cost	(128.0)	(165.6)	(23.0)
Other Long Term Liabilities	108.8	217.9	193.2	Proceeds from Equity	0.0	0.0	0.0
Long Term Trade Payables	2.6	2.1	3.0	Buyback of Shares	0.0	0.0	0.0
Long Term Provisions	2.6	2.8	2.6	Dividend Paid	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>684.7</b>	<b>1,238.5</b>	<b>1,307.2</b>	<b>Cash flow from Financing</b>	<b>171.2</b>	<b>(609.3)</b>	<b>153.9</b>
Net Block	5.5	2.0	7.7	<b>Net Cash Flow</b>	<b>322.4</b>	<b>(190.3)</b>	<b>(92.9)</b>
Capital Work in Progress	0.0	0.3	0.0	Forex Effect	0.0	0.0	0.0
Intangible assets under developmen	0.0	0.0	0.0	Opening Balance of Cash	32.4	354.9	164.6
Non Current Investments	0.0	0.0	0.0	<b>Closing Balance of Cash</b>	<b>354.8</b>	<b>164.6</b>	<b>71.7</b>
Long Term Loans & Advances	78.2	16.4	25.9				
Other Non Current Assets	195.8	34.0	35.5				
Net Current Assets	405.2	1,185.8	1,238.1				
<b>Total Assets</b>	<b>684.7</b>	<b>1,238.5</b>	<b>1,307.2</b>				

Source: Ventura Research

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