ARKADE DEVELOPERS LIMITED

September 12, 2024

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Real Estate
Fresh Issue (Shares)	3,20,31,250
Net Offer to the Public	3,20,31,250
Issue Size (Rs. Cr.)	387-410
Price Band (Rs.)	121-128
Offer Date	16-Sep-24
Close Date	19-Sep-24
Face Value	10
Lot Size	110 Shares

Issue Composition

	In shares
Total Issue for Sale	3,20,31,250
QIB	1,60,15,625
NIB	48,04,688
Retail	1,12,10,938

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	85.58%	70.82%
QIB	0.00%	8.63%
NIB	14.42%	14.52%
Retail	0.00%	6.04%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the Net Proceeds from the Issue towards the following objects:

Funding is part of the costs to be incurred in developing the Ongoing Projects (viz. Arkade Nest, Prachi CHSL, and C-Unit) (Funding Development Expenses); and

Funding acquisition of yet-to-be-identified land for real estate projects and general corporate purposes.

Book Running Lead Manager

- Unistone Capital Private Limited

Name of the registrar

- Bigshare Services Private Limited

About the company

Arkade Developers Limited is a real estate development company focused on developing high-end, sophisticated lifestyle residential developments in Mumbai, Maharashtra. The company's business can be divided into two segments: Development/construction of residential buildings on land acquired by the company (new projects); and Redevelopment of existing buildings (Redevelopment Projects). The company is involved in the development of new projects and the redevelopment of existing buildings. Between 2017 and Q1 2024, the company launched 1,220 residential units and sold 1,045 residential units in various markets in MMR, Maharashtra. As of June 30, 2024, the company has developed 2.20 million square feet of residential properties. From CY 2003 to March 2024, the company has completed the redevelopment of 10 projects in the western suburbs of Mumbai and 1 project in south-central Mumbai (through a partnership firm in which the company held a majority stake) with a total built-up area of 1,000,000 square feet (approx.). In the last two decades, the Company has completed 28 projects including 11 projects on a standalone basis including 2 projects executed through partnership firms in which the Company held a majority stake, 8 projects executed by the promoter through his proprietorship, M/s Arkade Creations, and 9 projects through joint development agreements with other third parties with a total built-up area of more than 4.5 million square meters awarded to more than 4,000 customers.

Strategic Location and Market Leadership: Arkade Developers has strategically positioned its operations in Mumbai, one of India's most dynamic and competitive real estate markets. The Mumbai Metropolitan Region (MMR), Maharashtra, has consistently held the top spot in residential unit sales among India's top seven cities from CY 2021 to Q1 2024, contributing an average of 31% of total residential unit absorption during this period. Moreover, MMR's residential market is the most expensive among the top seven cities, with a capital value of Rs. 14,600 per sq. ft as of Q1 2024. Arkade has a significant presence in the western suburbs of MMR, and since 2017, has been a top-10 developer in terms of supply in the Borivali West, Goregaon East, and Santacruz West micro-markets. From 2017 to Q1 2024, Arkade has been a market leader in 2BHK, 3BHK, and 4BHK units in these micro-markets. In the combined markets of Andheri East, Borivali West, Goregaon East, and Santacruz West, Arkade's share of the top-10 developers' supply has been 7% from 2017 to Q1 2024.

A Proven Track Record: Arkade is a leading player and a top-10 developer in select micro-markets of MMR, Maharashtra. The company has a strong reputation for developing new and redevelopment projects in Mumbai, India's commercial capital. Since CY 2021 to CY 2023, capital values in MMR, Maharashtra have grown approximately 26%. As of Q1 2024, the average basic selling price of residential properties in MMR stands at Rs. 14,600/sq. ft,

a 13% increase from 2023. Arkade has grown through a diversified approach to residential development, specializing in both new construction projects on acquired land and redevelopment of existing properties. In the Borivali West micro-market, Arkade holds a 2% share in total supply and a 6% share in total absorption from 2022 to Q1 2024. Its share of the top-10 developers' supply in Borivali West is 11% since 2017 and 13% since 2022. Similar figures for Goregaon East and Santacruz West indicate Arkade's strong market position.

Strong In-House Resources: Arkade's integrated business model ensures seamless project execution, from initiation to completion. The company's in-house resources include legal, business development, purchase and contracts, and sales and marketing teams. The legal team conducts thorough due diligence on proposed properties, negotiates agreements for redevelopment projects, and helps avoid potential disputes. The business development team identifies prime development opportunities and acquires land competitively. The sales team drives property transactions through advertising, channel partnerships, and strategic marketing initiatives. Arkade prioritizes customer relationships, providing personalized service and fostering customer loyalty.

A Proven Track Record of Delivery: Over the past two decades, Arkade has completed 28 projects, totaling over 4.5 million square feet of development and serving approximately 4,000 customers. The company has consistently delivered projects within agreed timelines, even post-RERA implementation. Arkade's commitment to quality and timely delivery has been a key factor in its success.

Strategy

Expanding into the Eastern Region of MMR, Maharashtra: The Indian housing market remains robust due to the emotional significance of homeownership, which offers safety, financial stability, and social status. Arkade aims to capitalize on this sentiment within Mumbai, particularly in the eastern region of MMR, Maharashtra. Several factors are driving growth in the eastern suburbs, including significant infrastructure development, proximity to business hubs, strong social infrastructure, urban renewal and redevelopment projects, and emerging entertainment and lifestyle centers. The region's IT and BPO growth has increased employment opportunities and housing demand. Since 2017, Arkade has expanded its operations in the eastern region of MMR, Maharashtra. In Kanjurmarg East, Arkade holds a 12% share in total supply and 11% in total absorption from 2017 to Q1 2024. The company is also the second-largest developer in Kanjurmarg East, with a 16% share of the top-10 developers' supply. The eastern region offers opportunities for acquiring larger land parcels at competitive prices and developing premium projects. Arkade has already completed one project in the region and launched a new one in Mulund, where capital values are significantly higher than the Mumbai average.

Moving Up the Value Chain: Arkade has historically focused on delivering value-luxury affordable residential premises in high-density regions of MMR, Maharashtra. The company typically undertakes projects on land parcels of at least one acre, offering aspirational lifestyle amenities to its customers. To further enhance its value proposition, Arkade plans to develop projects on larger land areas, enabling the construction of more premium properties with greater amenities, facilities, and

recreational opportunities. These projects will feature larger per-unit carpet areas, appealing aesthetics, and luxurious furnishings.

Leveraging Market Trends: Consumer surveys conducted from 2018 to 2023 indicate a growing preference for real estate as an investment asset. Developers who demonstrate the ability to complete projects on time and with minimal execution risk are now favored, even at higher prices. This trend, coupled with liquidity challenges faced by smaller developers, is driving consolidation in the real estate sector. Arkade's integrity, value proposition, timely project delivery, and brand recognition position it well to move up the real estate value chain and capitalize on emerging opportunities.

Continuing the Blended Business Model: MMR, Maharashtra is a significant employment hub, attracting both organized and unorganized industries. The presence of grade-A office spaces in Mumbai directly influences housing demand in the region. Redevelopment projects, including slum rehabilitation, MHADA layouts, cessed buildings, and housing society redevelopments, account for a portion of MMR's residential supply. Investor demand and higher disposable incomes among working professionals in MMR, Maharashtra have contributed to the overall housing demand. These factors highlight the region's ongoing need for new project development and redevelopment. Arkade's blended business model, combining new construction and redevelopment projects, offers several advantages. Redevelopment projects are typically more capital-efficient, with abundant opportunities in the western and eastern regions of MMR, Maharashtra. By effectively utilizing capital and leveraging the financial strength from redevelopment projects, Arkade can undertake new projects in developing areas and develop more premium properties.

Risk Factor

- The company may not be able to successfully identify redevelopment projects or identify and acquire suitable land for its proposed new projects which may have an adverse impact on its business and the growth of the Company.
- The company doesnot enter into long term agreements for supply of labour and key materials for construction of its projects. Any significant increase in the prices, or shortage of, or delay or disruption in supply of labour or key materials for our construction may result in time or cost overruns and may impact our business prospects.
- The company relies on third party contractors whom it does not control to construct its projects. Any delay or failure on the part of such contractors to adhere to their obligations could adversely affect its financial condition and its business.
- Its revenue from operation is significantly dependent on its ability to sell its units in a timely manner. If it is not able to sell its project inventories in a timely manner, then it may adversely affect its business, results of operations and financial condition.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Godrej Propert.	2838.53	1120.38	40.29	70.31	7.88	359.37	5.00	2832.60	78762.42
Macrotech Devel.	11545.20	1846.00	19.37	61.81	7.00	171.11	10.00	1197.30	119156.90
Keystone Realtor	2372.45	91.06	7.23	97.40	3.44	204.82	10.00	704.20	8873.70
Suraj Estate	443.48	82.92	18.69	40.76	6.54	116.53	5.00	761.75	3379.21
Arkade Developers Limited	634.74	122.81	6.61	19.35	3.24	39.52	10.00	128.00	2376.41

***Peer companies financials are TTM based**
****Arkade Developers Limited is based on FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.128, the stock is priced at pre issue P/E of 16.01x on FY24 EPS of Rs.7.99. Post issue, the stock is priced at a P/E of 19.35x on its EPS of Rs.6.61. Looking at the P/B ratio at Rs.128 pre issue, book value of Rs. 21.07 of P/Bvx 6.08x. Post issue, book value of Rs. 39.52 of P/Bvx 3.24x.

Considering the P/E valuation, on the lower end of the price band of Rs.121, the stock is priced at pre issue P/E of 15.14x on FY24 EPS of Rs.7.99. Post issue, the stock is priced at a P/E of 18.29x on its EPS of Rs.6.61. Looking at the P/B ratio at Rs.121 pre issue, book value of Rs. 21.07 of P/Bvx 5.74x. Post issue, book value of Rs. 39.52 of P/Bvx 3.06x.

Industry Overview

Mumbai is one of the biggest and most expensive real estate markets in India. It has various micro-markets along with Mumbai City, suburbs, extended suburbs and neighbouring areas such as Thane and Navi Mumbai. Between 2017 and 2019, the housing market in MMR witnessed a gradual growth in both supply and absorption of housing units, with absorption numbers surpassing the new residential supply. During this period, MMR's housing supply and absorption recorded respective increases of 45% and 42%.

Outlook

Arkade Developers Ltd. is a rapidly expanding real estate firm with a strong foothold in Mumbai, Maharashtra. Strategically positioned in the western suburbs of the Mumbai Metropolitan Region, Arkade has also ventured into high-end luxury projects in south and eastern Mumbai. The company's robust financial performance and ambitious growth plans make it a compelling investment option. Arkade's consistent profit growth and revenue increases are indicative of its potential. Its steady development pipeline and track record of successful project completions further solidify its position in the real estate market. This IPO presents a promising opportunity for investors seeking exposure to a company with a solid foundation and a strategic vision for future growth. Backed by strong financials and a reputation for excellence, Arkade is poised to expand its market presence and deliver value to its stakeholders.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
IPO Open Date	Monday, September 16, 2024
IPO Close Date	Thursday, September 19, 2024
Basis of Allotment	Friday, September 20, 2024
Initiation of Refunds	Monday, September 23, 2024
Credit of Shares to Demat	Monday, September 23, 2024
Listing Date	Tuesday, September 24, 2024

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	**634.736**	**220.152**	**228.934**
Total expenditure	467.296	159.862	174.489
Operating Profit	**167.44**	**60.29**	**54.45**
OPM%	26.38	27.39	23.78
Other Income	0.976	3.861	8.248
Total Net Income	**168.42**	**64.15**	**62.69**
Interest	3.127	1.281	4.329
PBDT	**165.29**	**62.87**	**58.36**
Depreciation	1.138	0.271	0.071
Profit before tax and share of profit or loss of associates	**164.15**	**62.60**	**58.29**
Share of profit / (loss) from associates	0.959	4.174	7.279
Restated Profit before tax	**165.11**	**66.77**	**65.57**
Tax	42.302	16.007	14.728
PAT	**122.81**	**50.77**	**50.84**

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-24	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	11.83	1.91	1.83
Intangible assets	0.33	0.25	0.00
Right-of-use assets	1.82	0.00	0.00
Financial Assets			
Investments	18.13	16.97	16.38
Other financial assets	2.38	6.37	1.10
Non-current tax assets (net)	2.18	1.49	0.05
Deferred tax assets (net)	0.52	0.35	0.27
Other non-current assets	0.03	0.08	0.00
Total non-current assets	**37.22**	**27.43**	**19.63**
Current asset			
Inventories	487.90	500.53	299.01
Financial Assets			
Investments	0.00	0.00	23.16
Trade receivables	8.07	3.71	5.26
Cash and cash equivalents	23.30	16.62	2.52
Bank balances other than (ii) above	1.56	0.95	7.00
Loans	0.11	0.09	0.02
Other financial assets	2.96	2.68	0.19
Other current assets	13.88	3.41	13.18
Total current assets	**537.78**	**527.98**	**350.34**
Total Assets	**575.01**	**555.41**	**369.97**
Non-current liabilities			
Borrowings	29.04	78.75	1.20
Lease liabilities	1.43	0.00	0.00
Provisions	1.25	1.09	0.91
Total Non- Financial liabilities	**31.72**	**79.85**	**2.11**
Current liabilities			
Financial Liabilities			
Borrowings	40.37	70.24	63.21
Lease liabilities	0.39	0.00	0.00
Trades Payable - MSME	10.12	7.97	3.25
Trades Payable - MESE	28.17	15.55	10.48
Other financial liabilities	4.58	13.73	7.71
Other current liabilities	128.88	164.80	130.81
Provisions	5.32	2.91	3.10
Current tax liabilities (net)	1.83	0.00	0.00
Total Financial liabilities	**219.65**	**275.20**	**218.56**
Total	**251.37**	**355.04**	**220.67**
Net worth represented by:			
Equity Share Capital	152.00	2.00	2.00
Other equity	171.40	198.32	147.49
Total atributable t o Non- Controlling Interest	0.23	0.05	-0.20
Net Worth	**323.63**	**200.37**	**149.30**

Balance sheet is on next page

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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