Equity Research

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BSE Sensex: 48174

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**Company update and target price change**

## Real Estate

**Target price Rs505**

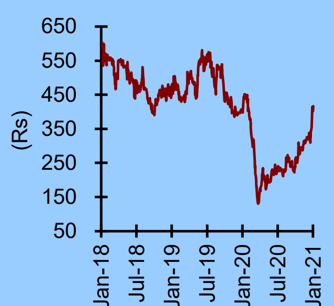
**Target price revision**
Rs505 from Rs382

**Shareholding pattern**

| | Mar '20 | Jun '20 | Sep '20 |
|---|---|---|---|
| Promoters | 51.8 | 51.8 | 52.0 |
| Institutional investors | 38.9 | 38.9 | 28.6 |
| MFs and others | 13.8 | 13.3 | 10.2 |
| FIs/Banks/Ins | 1.7 | 1.7 | 1.3 |
| FPI | 23.4 | 23.4 | 17.1 |
| Others | 9.3 | 9.3 | 19.4 |

Source: NSE

**Price chart**





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**INDIA**

# Sobha Ltd

**BUY**
**Maintain**

## Sales bookings cross pre-COVID levels

**Rs411**

**Sobha's Q3FY21 gross sales volumes of 1.13msf worth Rs8.9bn were up 6% YoY in volume terms and 22% YoY in value terms. A strong QoQ uptick in Bengaluru and continued momentum in Kochi/Gurugram markets has enabled Sobha to cross pre-COVID sales bookings inspite of minimal launches. The company maintains its guidance of achieving a YoY growth in H2FY21 sales bookings on the back of new launches and monetisation of existing inventory. We have raised our FY21/22E volume estimates by 25% to 3.9/4.7msf respectively (earlier 3.2/3.8msf) to reflect the improved performance. We retain our BUY rating with a revised SOTP based target price of Rs505/share (earlier Rs382) as we roll forward to Mar-22 NAV and build in higher sales volumes over FY21-23E. Ability to keep debt levels in check remains the key monitorable.**

- **Bengaluru market drives uptick in sales bookings:** Sobha's Q3FY21 gross sales bookings of 1.13msf worth Rs8.9bn were up 6% YoY in volume terms and 22% YoY in value terms. On QoQ basis, gross sales volumes and value were up 27% and 29%, respectively driven by a strong QoQ uptick in Bengaluru where volumes surged 46% QoQ to 0.79msf and contributed to 69% of the quarter's sales volumes. Sales trajectory in premium projects in Kochi and Gurugram remained strong as well. The sales volumes were achieved inspite of minimal new launches (one project of 0.12msf was launched in Bengaluru during the quarter).

- **Expect improved showing in Q4FY21:** The company has achieved 9MFY21 sales volumes of 2.7msf and remains confident of an improved showing in Q4FY21 as well on the back of new launches and monetisation of existing inventory. Hence, we believe that the company remains on track to clock a YoY sales booking growth in H2FY21 and we have raised our FY21/22E volume estimates by 25% to 3.9/4.7msf respectively (earlier 3.2/3.8msf) to reflect the improved performance. We believe that the relatively muted impact of COVID-19 on the IT/ITeS sector in South India in 9MFY21 has helped to a large extent along with increased sales through digital channels. While the company remains optimistic about its upcoming launch pipeline of 14.5msf, the timing and area launched for sale remains dependent on the COVID-19 containment and pace of project approvals, especially in South India.

- **Debt levels remain key:** In Q2FY21, Sobha generated positive operating surplus of Rs1.3bn, which was negated by interest/tax/capex and dividend payment of Rs1.5bn leading to net debt rising by Rs0.2bn QoQ to Rs30.5bn (net D/E of 1.3x). The company's ability to keep debt levels in check remains a key monitorable.

| | |
|---|---|
| Market Cap | Rs38.9bn/US$533mn |
| Reuters/Bloomberg | SOBH.BO/SOBHA IN |
| Shares Outstanding (mn) | 94.8 |
| 52-week Range (Rs) | 451/131 |
| Free Float (%) | 48.1 |
| FII (%) | 19.5 |
| Daily Volume (US$/'000) | 1,914 |
| Absolute Return 3m (%) | 56.7 |
| Absolute Return 12m (%) | 5.5 |
| Sensex Return 3m (%) | 22.0 |
| Sensex Return 12m (%) | 19.9 |

| Year to Mar | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Revenue (Rs bn) | 37.5 | 35.5 | 37.7 | 39.3 |
| Rec. Net Income (Rs bn) | 2.8 | 2.6 | 3.2 | 3.3 |
| EPS (Rs) | 29.7 | 27.4 | 33.7 | 35.1 |
| % Chg YoY | (4.8) | (7.9) | 23.2 | 4.0 |
| P/E (x) | 13.8 | 15.0 | 12.2 | 11.7 |
| P/B (x) | 1.6 | 1.5 | 1.3 | 1.2 |
| EV/E (x) | 6.2 | 9.7 | 8.3 | 8.1 |
| Dividend Yield (%) | 2.2 | 2.2 | 2.2 | 2.2 |
| RoCE (%) | 22.3 | 12.3 | 13.2 | 12.8 |
| RoE (%) | 12.1 | 11.0 | 12.2 | 11.5 |

### Table 1: Quarterly sales performance

| Sales Data - Real Estate | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 |
|---|---|---|---|---|---|---|
| **Gross Volumes sold (sft)** | | | | | | |
| Bengaluru | 781,686 | 819,227 | 657,769 | 484,278 | 538,608 | 786,630 |
| Thrissur | 26,576 | 28,646 | 22,629 | 20,630 | 44,404 | 45,656 |
| Chennai | 62,659 | 56,822 | 38,881 | 21,049 | 34,601 | 31,821 |
| Coimbatore | 18,615 | 25,509 | 15,010 | 11,335 | 16,279 | 14,974 |
| Pune | 12,835 | 9,800 | 22,030 | 9,440 | 15,148 | 18,349 |
| NCR (Gurugram) | 35,782 | 50,749 | 84,669 | 30,745 | 82,509 | 97,267 |
| Mysore | 14,588 | - | - | 17,903 | 12,250 | 3,903 |
| Cochin | 45,338 | 31,687 | 32,104 | 39,622 | 130,267 | 107,171 |
| Kozhikode | - | 16,156 | 1,424 | 6,960 | 9,492 | - |
| GIFT City | 38,261 | 27,425 | 31,194 | 8,438 | 8,142 | 27,803 |
| **Total** | **1,036,340** | **1,066,022** | **905,710** | **650,400** | **891,700** | **1,133,574** |
| | | | | | | |
| **Gross Sales Value (Rs mn)** | **6,823** | **7,261** | **6,945** | **4,877** | **6,899** | **8,876** |
| **Sales Value (Rs mn) – Sobha Share** | **5,610** | **6,075** | **5,536** | **3,931** | **5,309** | **6,777** |
| | | | | | | |
| **Average price realisation (Rs/psf) – Gross basis** | **6,584** | **6,811** | **7,668** | **7,498** | **7,737** | **7,830** |

Source: Company data, I-Sec research

### Table 2: Annual sales performance – Sobha's share

| Sales Data - Real Estate | FY16 | FY17 | FY18 | FY19 | FY20 | 9MFY21 |
|---|---|---|---|---|---|---|
| **Gross Volumes sold (sft)** | | | | | | |
| Bengaluru | 2,592,143 | 2,255,440 | 2,600,252 | 2,767,789 | 3,002,161 | 1,809,516 |
| Thrissur | 103,264 | 76,357 | 59,570 | 66,380 | 101,048 | 110,690 |
| Chennai | 300,469 | 180,229 | 102,227 | 176,341 | 212,091 | 87,471 |
| Coimbatore | 19,636 | 28,654 | 69,271 | 112,805 | 73,981 | 42,588 |
| Pune | 54,468 | 54,397 | 3,025 | 11,865 | 65,376 | 42,937 |
| NCR (Gurugram) | 65,718 | 233,592 | 360,857 | 351,242 | 237,383 | 210,521 |
| Mysore | 118,529 | 77,381 | 67,230 | 180,662 | 63,608 | 34,056 |
| Cochin | 42,653 | 68,019 | 317,618 | 318,155 | 155,626 | 277,060 |
| Kozhikode | 86,842 | 27,759 | 45,340 | 39,505 | 33,857 | 16,452 |
| GIFT City | - | - | - | 5,036 | 126,573 | 44,383 |
| **Total** | **3,383,722** | **3,001,828** | **3,625,390** | **4,029,779** | **4,071,704** | **2,675,674** |
| | | | | | | |
| Average price realisation (Rs/psf) – Sobha share | 5,946 | 6,216 | 6,680 | 6,303 | 5,852 | NA |
| | | | | | | |
| **Sales Value (Rs mn) – Sobha Share** | **20,119** | **18,661** | **24,217** | **25,401** | **23,827** | **16,017** |

Source: Company data, I-Sec research

### Table 3: Key historical numbers and forward assumptions

| Year ending March | FY18 | FY19 | FY20 | FY21E* | FY22E* | FY23E* |
|---|---|---|---|---|---|---|
| **Development Properties** | | | | | | |
| Area sold (msf) | 3.6 | 4.0 | 4.1 | 3.9 | 4.7 | 5.0 |
| Average Realisation (Rs/psf) – Sobha share | 6,680 | 6,303 | 5,852 | 7,977 | 7,867 | 7,997 |
| Sale Value (Rs mn) | 24,217 | 25,401 | 23,827 | 31,111 | 36,838 | 39,847 |

Source: Company data, I-Sec research, *Gross sales volume and value

### Table 4: SoTP valuation

| Details (GAV) | Amount (Rs mn) | Rs/share | % of GAV |
|---|---|---|---|
| Bengaluru | 8,796 | 93 | 11.0 |
| Gurugram (NCR) | 5,005 | 53 | 6.3 |
| Thrissur | 538 | 6 | 0.7 |
| Rest of South India | 8,460 | 89 | 10.6 |
| **Total Devco** | **22,799** | **240** | **28.5** |
| Land Bank | 39,105 | 413 | 48.9 |
| Contractual/Manufacturing | 10,766 | 114 | 13.5 |
| Rental Assets/APMC | 4,231 | 45 | 5.3 |
| Refundable JDA deposits | 3,000 | 32 | 3.8 |
| **Total GAV** | **79,900** | **843** | **100.0** |
| Less : FY22 Net Debt | 31,986 | 337 | |
| **Net Asset Value (NAV)** | **47,914** | **505** | |

Source: Company data, I-Sec research

# Financial summary (consolidated)

## Table 5: Profit & Loss statement

*(Rs mn, year ending March 31)*

| | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Net Sales** | **37,539** | **35,518** | **37,702** | **39,279** |
| **Operating Expenses** | **26,388** | **28,185** | **29,202** | **30,346** |
| **EBITDA** | **11,151** | **7,333** | **8,500** | **8,933** |
| *% margins* | 30% | 21% | 23% | 23% |
| Depreciation & Amortisation | 723 | 1,159 | 1,304 | 1,449 |
| Interest expenses | 6,816* | 2,816 | 2,992 | 3,168 |
| Other Income | 718 | 790 | 869 | 956 |
| Exceptional items | - | - | - | - |
| **PBT** | **4,330** | **4,148** | **5,073** | **5,272** |
| Less: Taxes | 1,515 | 1,452 | 1,776 | 1,845 |
| **PAT before Minority/Associate** | **2,815** | **2,696** | **3,297** | **3,427** |
| Minority/Associate share | 5 | (100) | (100) | (100) |
| **Net Income (Reported)** | **2,820** | **2,596** | **3,197** | **3,327** |

Source: Company data, I-Sec research, *Reclassification of interest costs

## Table 6: Balance sheet

*(Rs mn, year ending March 31)*

| | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Assets** | | | | |
| Total Current Assets | 99,784 | 69,988 | 77,071 | 83,239 |
| *of which cash & cash eqv.* | 884 | 1,188 | 3,017 | 3,490 |
| Total Current Liabilities & Provisions | 54,496 | 20,365 | 22,328 | 23,206 |
| **Net Current Assets** | **45,288** | **49,623** | **54,744** | **60,033** |
| Goodwill/Investments | 1,143 | 1,168 | 1,193 | 1,218 |
| Net Fixed Assets | 9,195 | 9,036 | 8,732 | 8,283 |
| **Total Assets** | **55,626** | **59,827** | **64,669** | **69,534** |
| **Liabilities** | | | | |
| Borrowings | 31,003 | 33,003 | 35,003 | 37,003 |
| Equity Share Capital | 948 | 948 | 948 | 948 |
| Reserves & Surplus* | 23,364 | 25,465 | 28,207 | 30,972 |
| **Net Worth** | **24,312** | **26,413** | **29,155** | **31,920** |
| Minority Interest | - | 100 | 200 | 300 |
| Deferred Taxes | 311 | 311 | 311 | 311 |
| **Total Liabilities** | **55,626** | **59,827** | **64,669** | **69,534** |

Source: Company data, I-Sec research

## Table 7: Cashflow statement

*(Rs mn, year ending March 31)*

| | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **PBT** | **4,330** | **4,148** | **5,073** | **5,272** |
| Depreciation | 723 | 1,159 | 1,304 | 1,449 |
| Non-Cash Adjustments | (5) | 100 | 100 | 100 |
| Working Capital Changes | (8,100) | (3,031) | (4,293) | (5,815) |
| Taxes Paid | (1,515) | (1,452) | (1,776) | (1,845) |
| **Operating Cashflow** | **(4,567)** | **924** | **409** | **(840)** |
| Capital Commitments | (2,447) | (1,000) | (1,000) | (1,000) |
| **Free Cashflow** | **(7,014)** | **(76)** | **(591)** | **(1,840)** |
| Other investing cashflow | (161) | (25) | (25) | (25) |
| **Cashflow from Investing Activities** | **(2,608)** | **(1,025)** | **(1,025)** | **(1,025)** |
| Issue of Share Capital | - | - | - | - |
| Inc (Dec) in Borrowings | 3,254 | 1,000 | 2,000 | 2,000 |
| Dividend paid | (800) | (495) | (456) | (561) |
| **Cashflow from Financing activities** | **2,454** | **505** | **1,544** | **1,439** |
| **Net Change in cash** | **(4,721)** | **404** | **928** | **(426)** |

Source: Company data, I-Sec research

## Table 8: Key ratios

*(Year ending March 31)*

| | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Per Share Data (Rs)** | | | | |
| EPS | 29.7 | 27.4 | 33.7 | 35.1 |
| Cash EPS | 37.4 | 39.6 | 47.5 | 50.4 |
| Dividend per share (DPS) | 9.0 | 9.0 | 9.0 | 9.0 |
| Book Value per share (BV) | 256.5 | 278.6 | 307.5 | 336.7 |
| **Growth (%)** | | | | |
| Net Sales | 9.1 | (5.4) | 6.1 | 4.2 |
| EBITDA | 65.6 | (34.2) | 15.9 | 5.1 |
| PAT | (4.8) | (7.9) | 23.2 | 4.0 |
| **Valuation Ratios (x)** | | | | |
| P/E | 13.8 | 15.0 | 12.2 | 11.7 |
| P/BV | 1.6 | 1.5 | 1.3 | 1.2 |
| EV / EBITDA | 6.2 | 9.7 | 8.3 | 8.1 |
| Dividend Yield | 2.2 | 2.2 | 2.2 | 2.2 |
| **Operating Ratios** | | | | |
| Debt/EBITDA (x) | 2.8 | 4.5 | 4.1 | 4.1 |
| Net D/E | 1.2 | 1.2 | 1.1 | 1.0 |
| **Profitability/Return Ratios (%)** | | | | |
| RoE | 12.1 | 11.0 | 12.2 | 11.5 |
| RoCE | 22.3 | 12.3 | 13.2 | 12.8 |
| EBITDA Margins | 29.7 | 20.6 | 22.5 | 22.7 |
| Net Income Margins | 7.5 | 7.3 | 8.5 | 8.5 |

Source: Company data, I-Sec research

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