AXIS DIRECT

SOBHA

REAL ESTATE

12 Apr 2017 **Flash Note**

HOLD

Target Price: Rs 361

Pre-sales revive sharply butyet to normalize

Sobha'spre-sales grew~35% QoQin Q4FY17 (0.7msf/ Rs 5 bn),partially aided by strong pre-sales in Gurgaon market (driven by pent-up demand and developments on Dwarka Expressway).However, **volumes are yet to reach steady state** (down 6% YoY).
The company met its FY17 sales guidance of Rs 20 bn.

Collections are expected to improveQoQdriven by higher pre-sales in high-ticket projects nearing completion,which shall result in **positive operational cash flow** (debt to remain steady).

While **enquiries and conversions have improvedQoQ**, they are yet below pre-demonetization levels. Managementexpects **sales to improve over next few quarters** driven by planned new launches and

CMP	: Rs 343
Potential Upside	: 5%

MARKET DATA

No. of Shares	: 96 mn
Free Float	: 40%
Market Cap	: Rs 33 bn
52-week High / Low	: Rs 388 / Rs 224
Avg. Daily vol. (6mth)	: 148,367 shares
Bloomberg Code	: SOBHA IB Equity
Promoters Holding	: 60%
FII / DII	: 28% / 7%

Other highlights

- **Bangalore market continued to be the key performer, contributing ~70% to pre-sales** inQ4FY17.High-ticket projects nearing completionsuch as Palladian, Grandeur and Indraprastha posted improved pre-sales velocity. Pre-sales run-rate in Dream Acres project (affordable housing) has stagnated to ~40-50 units/ month (vs. 60-70 units/ month last year). No new project was launched inQ4
- **Strong pre-sales in Gurgaon** (0.1 msf vs. 0.02 msf in Q3FY17). As per the management, the revival was driven by strong pent-up demand and commencement of process to connect Dwarka Expressway with NH-8.Chennai toopostedt decent pre-sales (0.05 msf vs. 0.025 msf in Q3) driven by strong demand in its Sobha Winchester project
- **Average realization improved** to Rs 6,980 psf (vs. Rs 6,082 psf) due to higher contribution from high-ticket projects
- Management highlighted it has **not reduced prices** in any project and **ruled out any possibility of price correction** as it believes that prices in Bangalore and other south Indian cities remain affordable

Financial summary (Consolidated)

Y/E March	FY16	FY17E	FY18E	FY19E
Revenue (Rs mn)	19,432	22,453	24,309	29,916
Adj PAT (Rs mn)	1,381	1,469	2,059	2,625
EPS (Rs.)	14.1	15.2	21.4	27.2
Change YOY (%)	(42.0)	8.3	40.2	27.5
Net Debt (Rs mn)	20,570	21,054	20,961	23,054
Networth (Rs mn)	25,647	26,260	27,934	30,068
RoE (%)	5.5	5.7	7.6	9.1
RoCE (%)	9.0	7.6	9.1	10.3
P/E (x)	24.4	22.5	16.1	12.6
P/B (x)	1.3	1.3	1.2	1.1

Source: Company, Axis Capital

Key drivers

(Rs bn)	Q4'17	Q4'16	(%)	Q3'17	(%)
Sales (msf)	0.72	0.89	(18)	0.61	18
Selling price(Rs) #	6,980	6,037	16	6082	15
Sales value #	5.0	5.3	(6)	3.7	35

Sobha's share

Price performance

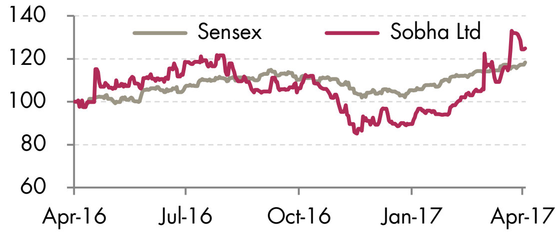

Exhibit 1: Q4FY17 operational performance

	Area sold (msf)					Area sold (msf)		
Locations	Q4FY17	Q4FY16	% chg	Q3FY17	% chg	FY17	FY16	% chg
Bengaluru	0.51	0.67	(24)	0.50	1	2.26	2.59	(13)
NCR	0.10	0.04	165	0.02	324	0.23	0.07	255
Chennai	0.06	0.03	120	0.03	66	0.18	0.30	(40)
Thrissur	0.00	0.04	(92)	0.01	(75)	0.08	0.10	(26)
Pune	0.01	0.00	205	0.01	(37)	0.05	0.05	(0)
Coimbatore	0.01	0.00	463	0.01	65	0.03	0.02	46
Cochin	0.01	0.01	58	0.01	12	0.07	0.04	59
Calicut	0.02	0.00	274	0.00	711	0.03	0.09	(68)
Mysore	0.02	0.10	(85)	0.01	14	0.08	0.12	(35)
Total	**0.72**	**0.89**	**(18)**	**0.61**	**18**	**3.00**	**3.38**	**(11)**
Average realization (Rs/ psf) *	6,980	6,037	16	6,082	15	6,216	5,946	5
Sales value (Rs bn) *	5.0	5.3	(6)	3.7	35	18.7	20.1	(7)

Source: Company, Axis Capital *Sobha's share

Financial summary (Consolidated)

Profit &loss (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Net sales	**19,323**	**22,453**	**24,309**	**29,916**
Other operating income	109	-	-	-
Total operating income	**19,432**	**22,453**	**24,309**	**29,916**
Cost of goods sold	(10,613)	(13,609)	(14,227)	(14,328)
Gross profit	8,819	8,844	10,082	15,588
Gross margin (%)	*45.6*	*39.4*	*41.5*	*52.1*
Total operating expenses	(4,389)	(4,872)	(5,213)	(9,683)
EBITDA	**4,430**	**3,973**	**4,869**	**5,905**
EBITDA margin (%)	*22.9*	*17.7*	*20.0*	*19.7*
Depreciation	(597)	(652)	(725)	(736)
EBIT	**3,833**	**3,320**	**4,144**	**5,169**
Net interest	(1,637)	(1,509)	(1,525)	(1,593)
Other income	343	350	350	250
Profit before tax	**2,539**	**2,162**	**2,969**	**3,826**
Total taxation	(1,188)	(843)	(1,009)	(1,301)
Tax rate (%)	*46.8*	*39.0*	*34.0*	*34.0*
Profit after tax	1,351	1,319	1,959	2,525
Minorities	-	-	-	-
Profit/ Loss associate co(s)	30	150	100	100
Adjusted net profit	**1,381**	**1,469**	**2,059**	**2,625**
Adj. PAT margin (%)	*7.1*	*6.5*	*8.5*	*8.8*
Net non-recurring items	-	-	-	-
Reported net profit	**1,381**	**1,469**	**2,059**	**2,625**

Balance sheet (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Paid-up capital	981	963	963	963
Reserves & surplus	24,666	25,297	26,971	29,104
Net worth	25,647	26,260	27,934	30,068
Borrowing	22,049	22,549	22,549	24,549
Other non-current liabilities	-	-	-	-
Total liabilities	**47,696**	**48,809**	**50,483**	**54,617**
Gross fixed assets	9,783	10,083	10,083	10,083
Less: Depreciation	(4,061)	(4,713)	(5,439)	(6,175)
Net fixed assets	5,722	5,370	4,645	3,909
Add: Capital WIP	459	2,959	5,709	8,709
Total fixed assets	6,181	8,329	10,354	12,618
Total Investment	294	294	294	294
Inventory	42,202	45,789	50,368	56,412
Debtors	2,498	2,591	2,868	3,810
Cash & bank	1,185	1,201	1,294	1,201
Loans & advances	3,568	3,334	3,071	2,748
Current liabilities	37,808	42,305	47,342	52,043
Net current assets	38,996	37,961	37,610	39,480
Other non-current assets	2,225	2,225	2,225	2,225
Total assets	**47,696**	**48,809**	**50,483**	**54,617**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Profit before tax	2,539	2,162	2,969	3,826
Depreciation & Amortisation	597	652	725	736
Chg in working capital	*3,418*	*1,051*	*444*	*(1,963)*
Cash flow from operations	**6,690**	**4,330**	**4,403**	**2,742**
Capital expenditure	*(3,103)*	*(2,800)*	*(2,750)*	*(3,000)*
Cash flow from investing	**(3,024)**	**(2,300)**	**(2,300)**	**(2,650)**
Equity raised/ (repaid)	*207*	*(581)*	-	-
Debt raised/ (repaid)	*1,461*	*500*	-	*2,000*
Dividend paid	*(259)*	*(275)*	*(385)*	*(491)*
Cash flow from financing	**(228)**	**(1,864)**	**(1,911)**	**(85)**
Net chg in cash	3,439	166	192	7

Key ratios

Y/E March	FY16	FY17E	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	14.1	15.2	21.4	27.2
CEPS (Rs)	20.2	22.0	28.9	34.9
DPS (Rs)	2.3	2.4	3.4	4.4
Dividend payout ratio (%)	16.0	16.0	16.0	16.0
GROWTH				
Net sales (%)	(20.6)	16.2	8.3	23.1
EBITDA (%)	(28.2)	(10.3)	22.6	21.3
Adj net profit (%)	(42.0)	6.3	40.2	27.5
FDEPS (%)	(42.0)	8.3	40.2	27.5
PERFORMANCE				
RoE (%)	5.5	5.7	7.6	9.1
RoCE (%)	9.0	7.6	9.1	10.3
EFFICIENCY				
Asset turnover (x)	0.4	0.5	0.5	0.6
Sales/ total assets (x)	0.3	0.3	0.3	0.3
Working capital/ sales (x)	2.0	1.7	1.5	1.2
Receivable days	-	-	-	-
Inventory days	-	-	-	-
Payable days	-	-	-	-
FINANCIAL STABILITY				
Total debt/ equity (x)	0.9	0.9	0.8	0.8
Net debt/ equity (x)	0.8	0.8	0.8	0.8
Current ratio (x)	2.0	1.9	1.8	1.8
Interest cover (x)	2.3	2.2	2.7	3.2
VALUATION				
PE (x)	24.4	22.5	16.1	12.6
EV/ EBITDA (x)	12.1	13.6	11.1	9.5
EV/ Net sales (x)	2.8	2.4	2.2	1.9
PB (x)	1.3	1.3	1.2	1.1
Dividend yield (%)	0.7	0.7	1.0	1.3
Free cash flow yield (%)	0.1	-	0.1	-

Source: Company, Axis Capital

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Research Team

Sr. No	Name	Designation	E-mail
1	Akhand Singh	Research Analyst	akhand.singh@axissecurities.in
2	Sankar Narayanan	Database Manager	sankar.narayanan@axissecurities.in

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HOLD	Between 10% and -10%
SELL	Less than -10%

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