

SOBHA

REAL ESTATE

11 AUG 2017

Quarterly Update

BUY

Target Price: Rs 459

Improved outlook for FY18

Sobha's management expects the improved performance of Q1FY18 (pre-sales of Rs 5.6 bn; up 20% YoY) to continue for FY18. It highlighted improved footfalls and conversion. Further, it expects the collection run-rate (Rs 7.3 bn in Q1 – the highest in past 13 quarters) to be sustainable. With payment of Rs 1.65 bn towards land already made to Puravankara in Q2FY18, outlook on cash flows for FY18 remains positive, and may bring the debt level down.

We believe RERA and GST will improve transparency in the sector and lead to polarization of demand towards reputed developers such as Sobha. Moreover, with its huge land bank and strong execution capability, Sobha is best placed to capitalize on the opportunity in the affordable housing segment. Maintain BUY.

CMP : Rs 385
Potential Upside : 19%

MARKET DATA

No. of Shares : 96 mn
Free Float : 44%
Market Cap : Rs 37 bn
52-week High / Low : Rs 449 / Rs 224
Avg. Daily vol. (6mth) : 442,680 shares
Bloomberg Code : SOBHA IB Equity
Promoters Holding : 56%
FII / DII : 32% / 7%

Key highlights

- ◆ **Revenues were up 18% YoY at Rs 6.9 bn** in Q1 (vs. Rs 5.9 bn in Q4) driven by 1 wing of Dream Acres and 1 wing from Oasis hitting revenue recognition and steady pace of sale and execution in its revenue contributing projects
- ◆ **EBITDA margin stood lower at 18%** in Q1 (vs. 20% in Q4), as the company booked most of the cost related to the vendors to avail input credits. Management expects the **margin to normalize going ahead**
- ◆ Sobha generated **net operating cash flow of Rs ~1 bn** (8th consecutive quarter of surplus post interest and taxes). **Net debt declined by Rs 490 mn** in Q1 to Rs 20.2 bn with net debt to equity now at 0.75x (borrowing cost has declined ~2.5% in past 24 months)
- ◆ **RERA:** All projects in states where rules have been notified have been registered with RERA
- ◆ **GST impact:** Reduced prices marginally (Rs 65-110 psf) in ongoing projects depending on the stage of construction
- ◆ From its ongoing project of 42 msf, Sobha is yet to receive ~Rs 33 bn of cash. With 16.02 msf of unsold inventory worth ~Rs 103 bn and ~Rs 75 bn of pending costs, **net cash of ~Rs 62 bn is expected over 5-6 years**

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	19,566	22,462	23,784	27,584
PAT (Rs mn)	1,381	1,608	1,925	2,243
Con. EPS* (Rs.)	-	-	21.4	25.8
EPS (Rs.)	14.1	16.7	20.0	23.3
Change YOY (%)	(42.0)	18.6	19.7	16.5
P/E (x)	27.3	23.0	19.2	16.5
RoE (%)	5.5	6.2	7.1	7.8
RoCE (%)	9.1	8.3	8.6	9.3
EV/EBITDA (x)	12.9	13.7	12.7	11.6
DPS	2.3	2.7	3.2	3.7

Source: Company, Axis Capital

Key drivers

(Rs bn)	Q1'18	Q1'17	(%)	Q4'17	(%)
Sales (msf)	0.82	0.81	1	0.72	13
Realization (Rs)	6,903	5,806	19	6,980	(1)
Sales	5.6	4.7	20	5.0	11
Collections #	5.7	4.3	33	4.9	18

Collections from real estate operations

* As per Indian GAAP

Price performance

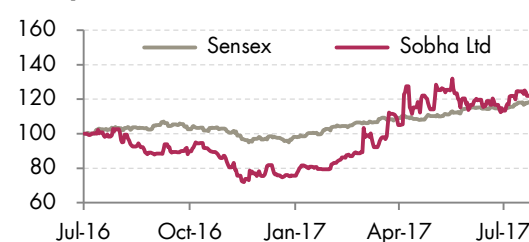


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Net Sales	6,789	5,737	18.3	5,888	15.3	23,784	22,462	5.9
EBIDTA	1,215	972	25.0	1,202	1.1	4,503	4,198	7.3
Other income	97	81	19.8	125	(22.4)	350	386	(9.3)
PBIDT	1,312	1,053	24.6	1,327	(1.1)	4,853	4,584	5.9
Depreciation	135	154	(12.3)	173	(22.0)	613	638	(3.9)
Interest	449	357	25.8	397	13.1	1,474	1,497	(1.5)
PBT	728	542	34.3	757	(3.8)	2,766	2,449	12.9
Tax	251	201	24.9	297	(15.5)	940	970	-
Share of (profit)/ loss of JVs	0	(18)	(100.0)	(10)	(100.0)	(100)	(129)	(22.6)
Adjusted PAT	477	359	32.9	470	1.5	1,925	1,608	19.7
No. of shares (mn)	96	98	-	96	-	96	96	-
EBIDTA margins (%)	17.9	16.9	-	20.4	-	18.9	18.7	-
PBIDT margins (%)	19.3	18.4	-	22.5	-	20.4	20.4	-
EPS - annualized (Rs)	19.8	14.6	35.3	19.5	1.5	20.0	16.7	19.7

Source: Company, Axis Capital Note: Above financials are as per Ind AS

Other highlights

- ♦ **New launches:** The company plans to launch greenfield projects of 0.5 msf in Chennai, 0.5 msf in north Bangalore, 1 msf of affordable housing project in north Bangalore and an additional development in South East Bangalore
- ♦ **Bangalore market** continued to be the key performer and contributed ~73% to pre-sales in Q1. Sobha saw improved pre-sales velocity in its high-ticket projects that are nearing completion such as **Palladian**, **Grandeur** and **Indraprastha**. During the quarter, additional area of 0.71 msf was launched at Dream Acres and Sobha City Gurgaon to saleable area
- ♦ **Contractual business:** Revenue up 11% YoY at Rs 1.7 bn in Q1 with strong visibility due to order book of Rs 5.5 bn
- ♦ Pre-sales run-rate in Dream Acres project (affordable housing) has improved to 60-70 units/ month (vs. 40-50 units/ month a few quarters back). Management is comfortable with this pre-sales run-rate
- ♦ **Average realization remained steady at Rs 6,903 psf** (vs. Rs 6,980 psf in Q4)
- ♦ **Focus remains on execution:** Sobha completed 5 contractual projects totaling 0.68 msf in Q4 (vs. 1.8 msf in Q4)
- ♦ From its ongoing project of 42 msf, Sobha is yet to receive ~Rs 33 bn of cash. With 16.02 msf of unsold inventory worth ~Rs 103 bn and ~Rs 75 bn of pending costs, net cash of ~Rs 62 bn is expected over 5-6 years
- ♦ **The board has approved a buyback of equity shares** not exceeding Rs 620 mn at Rs 425 per share (~10% premium from CMP of Rs 386) with a record date of August 28, 2017
- ♦ As of June 30, 2017, Sobha had 2,358 acres (~203 msf of saleable area) of land reserves with average cost of Rs 231 psf (land cost on saleable FSI is Rs 113 psf)

Exhibit 2: Balance sheet

(Rs. mn)	Quarter ended				
	Jun-17	Jun-16	% Chg	Mar-17	% Chg
Shareholders's funds	26,915	26,008	3	26,445	2
Share capital	963	981	(2)	963	0
Reserves and surplus	25,952	25,027	4	25,482	2
Minority Interest	0	0	-	0	-
Non-current liabilities	6,699	29,600	(77)	6,940	(3)
Long term borrowings	4,180	3,892	7	4,494	(7)
Deferred tax liabilities (net)	2,348	2,187	7	2,283	3
Other long term liabilities	1	23,521	(100)	2	(50)
Long term provisions	170	0	-	161	6
Current liabilities	56,046	31,055	80	61,429	(9)
Short term borrowings	17,112	17,072	0	17,445	(2)
Trade payables	8,477	3,400	149	9,227	(8)
Other current liabilities	30,334	10,061	202	34,624	(12)
Short term provisions	123	522	(76)	133	(8)
Total	89,660	86,663	3	94,814	(5)
Non-current assets	10,922	6,849	59	10,869	0
Fixed assets	5,907	6,108	(3)	5,950	(1)
Goodwill	2	6	-	2	-
Long term loans and advances	0	410	(100)	0	-
Other non-current assets	4,680	13	35900	4,774	-
Current assets	78,738	79,814	(1)	83,945	(6)
Current investments	0	0	-	0	-
Inventories	50,840	42,077	21	50,960	(0)
Trade receivables	2,927	3,081	(5)	2,267	29
Cash, cash equivalents and other bank balances	1,030	1,277	(19)	1,468	(30)
Short-term loans and advances	0	3,928	(100)	348	(100)
Other current assets	23,941	29,451	(19)	28,902	(17)
Total	89,660	86,662	3	94,814	(5)

Source: Company

Exhibit 3: Cash flow

(Rs mn)	Q1FY18	Q4FY17	Q3FY17	Q2FY17
Operational cash inflows				
Real Estate	5,738	4,856	3,880	4,559
Monetization of land / Dev. Rights	-	-	-	-
Contractual & manufacturing	1,557	2,092	1,996	1,797
Total Operational cash inflow -A	7,295	6,948	5,876	6,356
Operational cash outflows				
Real Estate project expenses	2,960	2,573	2,408	2,289
Contracts project expenses	1,585	1,662	1,423	1,416
Statutory Dues	372	436	394	340
Corpus Repayment	53	44	63	42
Overheads	399	317	339	343
Advtg & marketing expenses	113	117	329	131
Total Operational cash outflow-B	5,482	5,149	4,956	4,561
Net operational cashflow(C=A-B)	1,813	1,799	920	1,795
Capital Outflows				
Land Payments	361	344	277	503
Capex	100	74	58	50
Change in investments	-	-	-	(199)
Buyback of shares	-	-	-	582
Dividend including tax	-	-	-	232
CSR contribution	48	22	35	36
Total capital outflow (D)	509	440	370	1,204
Financial Outflows				
Interest	541	729	578	774
Taxes	273	285	208	169
Deposit	-	-	-	-
Total Financial Outflows (E)	814	1,014	786	943
Net Cash flow (F=C-D-E)	490	345	(236)	(352)

Source: Company

Exhibit 4: Operational performance

Locations	Area sold (msf)					Area sold (msf)		
	Q1FY18	Q1FY17	% chg	Q4FY17	% chg	FY17	FY16	% chg
Bengaluru	0.59	0.61	(2)	0.51	17	2.26	2.59	(13)
NCR	0.12	0.06	97	0.10	27	0.23	0.07	255
Chennai	0.03	0.03	(6)	0.06	(51)	0.18	0.30	(40)
Thrissur	0.01	0.05	(75)	0.00	298	0.08	0.10	(26)
Pune	(0.01)	0.01	(167)	0.01	(213)	0.05	0.05	(0)
Coimbatore	0.02	0.01	191	0.01	90	0.03	0.02	46
Cochin	0.03	0.00	668	0.01	247	0.07	0.04	59
Calicut	0.01	0.01	40	0.02	(57)	0.03	0.09	(68)
Mysore	0.01	0.03	(50)	0.02	(5)	0.08	0.12	(35)
Total	0.82	0.81	1	0.72	13	3.00	3.38	(11)
Average realization (Rs/ psf) *	6,903	5,806	19	6,980	(1)	6,216	5,946	5
Sales value (Rs bn) *	5.6	4.7	20	5.0	11	18.7	20.1	(7)

Source: Company, Axis Capital

Exhibit 5: Ongoing projects – cash flow status as of 30th Jun 2017

Location	Ongoing	Completed
Total saleable area (msf)	30.22	
Sobha's share of saleable area (msf)	27.59	
Less: Leasable area in Bangalore (St. Mark's Road Property)	0.10	
Net saleable area (msf)	27.49	9.46
Total area sold till 30th Jun 2017 (msf)	10.46	9.20
Unsold area (msf)	15.76	0.26
Balance construction cost to complete above projects (Rs mn)	74,240	270
Outstanding receivables + balance to be billed and collected on sold units (Rs mn)	32,540	1,400
Sale value of unsold stock (Rs mn)	101,320	1420
Positive cash flow available (Rs mn)	59,620	2,420
Total positive cash flow available from the projects (Rs mn)		62,040

Source: Company

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	19,433	22,253	23,784	27,584
Other operating income	133	209	-	-
Total operating income	19,566	22,462	23,784	27,584
Cost of goods sold	(10,243)	(13,191)	(13,853)	(13,203)
Gross profit	9,323	9,271	9,932	14,381
Gross margin (%)	48.0	41.7	41.8	52.1
Total operating expenses	(4,893)	(5,073)	(5,428)	(9,282)
EBITDA	4,429	4,198	4,503	5,100
EBITDA margin (%)	22.8	18.9	18.9	18.5
Depreciation	(597)	(638)	(613)	(610)
EBIT	3,832	3,560	3,890	4,490
Net interest	(1,637)	(1,497)	(1,474)	(1,542)
Other income	343	386	350	300
Profit before tax	2,539	2,449	2,766	3,247
Total taxation	(1,188)	(970)	(940)	(1,104)
Tax rate (%)	46.8	39.6	34.0	34.0
Profit after tax	1,350	1,479	1,825	2,143
Minorities	-	-	-	-
Profit/ Loss associate co(s)	30	129	100	100
Adjusted net profit	1,381	1,608	1,925	2,243
Adj. PAT margin (%)	7.1	7.2	8.1	8.1
Net non-recurring items	-	-	-	-
Reported net profit	1,381	1,608	1,925	2,243

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	981	963	963	963
Reserves & surplus	24,667	25,482	27,047	28,870
Net worth	25,648	26,445	28,010	29,833
Borrowing	20,978	21,795	21,795	23,795
Other non-current liabilities	-	-	-	-
Total liabilities	78,263	86,246	92,335	100,804
Gross fixed assets	6,165	6,101	6,101	6,101
Less: Depreciation	(443)	(950)	(1,563)	(2,173)
Net fixed assets	5,722	5,151	4,538	3,928
Add: Capital WIP	459	801	3,551	6,551
Total fixed assets	6,181	5,952	8,089	10,479
Other Investment	-	-	-	-
Inventory	42,649	50,960	54,782	60,260
Debtors	2,787	2,410	2,824	3,444
Cash & bank	1,185	1,468	1,440	1,732
Loans & advances	7,348	8,994	8,738	8,427
Current liabilities	31,637	38,006	42,530	47,175
Net current assets	42,500	44,951	44,380	45,813
Other non-current assets	(2,349)	(2,664)	(2,664)	(2,664)
Total assets	78,263	86,246	92,335	100,804

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	2,539	2,449	2,766	3,247
Depreciation & Amortisation	(597)	(638)	(613)	(610)
Chg in working capital	(86)	(2,168)	544	(1,142)
Cash flow from operations	3,186	1,189	4,207	2,954
Capital expenditure	515	(278)	(2,750)	(3,000)
Cash flow from investing	595	531	(2,300)	(2,600)
Equity raised/ (repaid)	208	(510)	-	-
Debt raised/ (repaid)	390	817	-	2,000
Dividend paid	(258)	(301)	(360)	(420)
Cash flow from financing	(1,297)	(1,491)	(1,835)	38
Net chg in cash	2,484	229	72	392

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	14.1	16.7	20.0	23.3
CEPS (Rs)	20.2	23.3	26.4	29.6
DPS (Rs)	2.3	2.7	3.2	3.7
Dividend payout ratio (%)	16.0	16.0	16.0	16.0
GROWTH				
Net sales (%)	(20.1)	14.5	6.9	16.0
EBITDA (%)	(28.2)	(5.2)	7.3	13.2
Adj net profit (%)	(42.0)	16.5	19.7	16.5
FDEPS (%)	(42.0)	18.6	19.7	16.5
PERFORMANCE				
RoE (%)	5.5	6.2	7.1	7.8
RoCE (%)	9.1	8.3	8.6	9.3
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)	2.1	1.9	1.8	1.6
Current ratio (x)				
	2.3	2.2	2.0	2.0
Interest cover (x)				
	2.3	2.4	2.6	2.9
VALUATION				
PE (x)	27.3	23.0	19.2	16.5
EV/ EBITDA (x)	12.9	13.7	12.7	11.6
EV/ Net sales (x)	2.9	2.6	2.4	2.1
PB (x)	1.5	1.4	1.3	1.2
Dividend yield (%)	0.6	0.7	0.8	1.0
Free cash flow yield (%)	9.8	2.5	3.9	(0.1)

Source: Company, Axis Capital

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