

Sobha Ltd | BUY

Steady operations; 8msf launch planned in FY19

Sobha 4Q profit was +42% YoY, on higher revenue recognition during the quarter. Revenue recognition increased by 35% YoY while contractual revenues improved by 24%. Sobha reported fresh sales at INR6.6bn, +7/30% QoQ/YoY respectively, as sales witnessed improvement across Sobha reported fresh sales at INR6.6bn, +7/30% QoQ/YoY respectively, as sales witnessed improvement across regions. Bangalore reported improvement in sequential volume primarily contributed by Dream Acres and launches in last 2 quarters. The company launched 2 (0.63msf) projects during the quarter in Bangalore and Chennai. Net debt declined by INR 1.3bn during the quarter primarily on higher collection from ongoing projects. Key monitorable remains affordable housing launch. We believe Sobha will be a beneficiary of improvement in end-user demand, as sector transparency improves. However execution of land parcels remains critical for significant upside potential. Maintain BUY with TP at INR 600.

- **Adj PAT +42% YoY:** 4Q revenue increased 32% YoY to INR7.8bn (+13% QoQ), as the quarter saw improvement in real estate revenues (INR5.0bn; +35% YoY) and contractual earnings (INR 2.7bn; +24% YoY). Margins were reported at 19%, down 192bps YoY, as profitability was impacted by higher project costs (increase in input costs, sales and marketing cost). Net profit was reported at INR 654mn, up 42% YoY (+22% QoQ).
- **Real Estate collections improve; net debt declines by INR 1.3bn:** Sobha generated operating cash flows (ex-land) of INR 2.3bn vs INR 1.2bn in 3QFY18. Real estate collections improved sequentially from INR 4.9bn in 3QFY18 to INR 6.0bn as demand letters issued for ongoing projects post RERA compliance improved collections. In addition contractual collections improved to INR 3.1bn (INR 1.9bn in 3QFY18). Construction spend increased to INR 5.8bn (3QFY18 at INR 4.6bn). Company incurred INR 0.7bn on interest expense (net of income). Net debt declined by INR 1.3bn (QoQ) on higher collection. The cost of debt declined to 9.39%, a decline of 103bps over last one year.
- **4Q fresh sales of INR6.6bn at average realisation of INR6,457/sq ft:** Sobha reported fresh sales at INR6.6bn, +30% YoY primarily on 40% increase in volume (low base quarter impacted by demonetisation) marginally offset by lower realisation (-8% on higher contribution from Dream Acres) increase on higher contribution from Gurgaon and Kochi projects. QoQ sales volume (1.02msf) improved by 9%. Sales witnessed sequential uptick in Bangalore, Kochi and Coimbatore. For FY18, pre-sales improved from 3msf last year to 3.6msf with sales value at INR 24.2bn (+30% YoY).
- **Maintain BUY with a TP of INR 600; uptick in operations necessary for upside:** We build in 8/11% volume/value CAGR over FY18-23E. We value ongoing projects at INR 27bn (on DCF, INR 287/share) and the contract arm at INR 6.8bn (6x FY20 EBITDA, INR 71/share). We value business development potential at INR 45.8bn (INR 483/share), at an implied 1.9x land bank book value. Subtracting net debt of INR 22.9bn (INR 241/share), we arrive at a target price of INR 600/share.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	600
Upside/(Downside)	13.2%
Previous Price Target	600
Change	0.0%

Key Data – SOBHA IN

Current Market Price	INR530
Market cap (bn)	INR50.3/US\$0.7
Free Float	20%
Shares in issue (mn)	96.3
Diluted share (mn)	94.8
3-mon avg daily val (mn)	INR173.1/US\$2.5
52-week range	695/345
Sensex/Nifty	34,848/10,596
INR/US\$	68.0

Price Performance

%	1M	6M	12M
Absolute	-2.9	0.1	32.3
Relative*	-4.1	-3.8	15.7

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	19,566	22,461	27,870	31,219	34,425
Sales Growth (%)	-19.6	14.8	24.1	12.0	10.3
EBITDA	4,519	4,255	5,361	5,839	6,750
EBITDA Margin (%)	23.0	18.9	19.1	18.7	19.6
Adjusted Net Profit	1,381	1,607	2,168	2,270	2,554
Diluted EPS (INR)	14.1	16.7	22.9	23.9	26.9
Diluted EPS Growth (%)	-42.0	18.5	37.0	4.7	12.5
ROIC (%)	4.7	4.7	6.9	7.3	8.1
ROE (%)	5.5	6.2	8.0	8.0	8.5
P/E (x)	37.6	31.8	23.2	22.1	19.7
P/B (x)	2.0	1.9	1.8	1.7	1.6
EV/EBITDA (x)	15.7	16.7	13.6	12.6	11.0
Dividend Yield (%)	0.4	0.5	0.5	1.3	1.5

Source: Company data, JM Financial. Note: Valuations as of 18/May/2018

Key takeaways from conference call

- Management has expedited launch pipeline and is planning to launch 8msf in FY19. Recent launches of premium projects are supplementary launches and key launch in North Bangalore (1.8msf Affordable housing project)
- Management indicated that Bangalore market has seen significant reduction in active developers leading to market share gains.
- Company is targeting equal proportion of sales from premium mid income and affordable segment.
- Debt target- 0.8x by end of FY19
- Gujarat, Hyderabad and Trivandrum are the new geographies company is planning to enter.

Exhibit 1. Income Statement Trends

	4QFY17	3QFY18	4QFY18	YoY%	QoQ%
Sales	5,922	6,923	7,813	32%	13%
Cost of goods sold	3,436	4,250	4,705	37%	11%
Gross Margin %	42.0%	38.6%	39.8%	-220 bps	117 bps
EBITDA	1,236	1,379	1,481	20%	7%
EBITDA Margin %	20.9%	19.9%	19.0%	-192 bps	-96 bps
Depreciation	173	137	135	-22%	-1%
EBIT	1,063	1,242	1,346	27%	8%
Other Income	91	81	79	-13%	-2%
Interest & finance charges	397	498	518	30%	4%
PBT	757	825	907	20%	10%
Taxes	297	291	253	-15%	-13%
Effective Tax rate %	39%	35%	28%	-1,134 bps	-738 bps
Adjusted Net Profit	460	534	654	42%	22%
Net Profit Margin %	8%	8%	8%	60 bps	66 bps
NP (after Minorities)	470	534	654	39%	22%

Source: Company, JM Financial

Exhibit 2. Sales snapshot (msf)

	4QFY17	3QFY18	4QFY18	YoY%	QoQ%
Bangalore	0.51	0.64	0.75	48%	16%
Thrissur	0.00	0.02	0.01	94%	-68%
Coimbatore	0.01	0.01	0.03	201%	68%
Pune	0.01	0.00	0.01	-27%	NA
Existing locations	0.53	0.68	0.79	49%	16%
New locations – NCR, Chennai & Mysore	0.20	0.25	0.23	17%	-10%
Total	0.72	0.93	1.02	40%	9%
Bangalore (% of total)	70%	69%	74%		

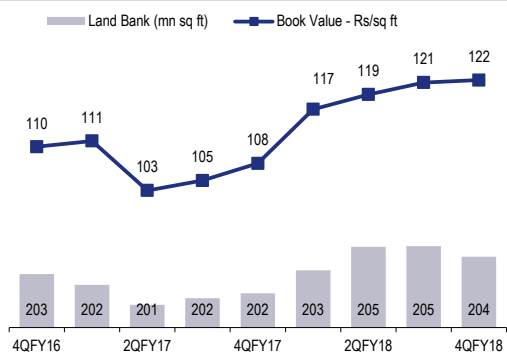
Source: Company, JM Financial

Exhibit 3. Sales volume trends ('000 sf)

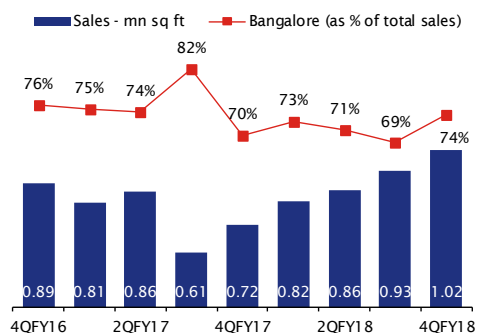
Sales Volume	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	%YoY	%QoQ
Bangalore	669	607	637	503	509	593	613	644	750	48%	16%
Thrissur	41	53	7	13	3	13	20	20	6	94%	-68%
Coimbatore	1	5	10	5	8	16	13	15	25	201%	68%
Pune	3	13	21	13	8	-9	6	0	6	-27%	NM
NCR	37	63	50	23	98	124	79	83	76	-23%	-8%
Chennai	25	29	62	33	56	27	28	27	20	-64%	-25%
Mysore	100	29	19	14	15	15	19	23	11	-29%	-52%
Kozhikode	5	6	2	2	18	8	20	12	5	-73%	-60%
Kochi	5	4	49	7	8	28	63	110	116	1320%	6%
Total	886	809	856	614	723	815	861	933	1,016	40%	9%

Source: Company, JM Financial

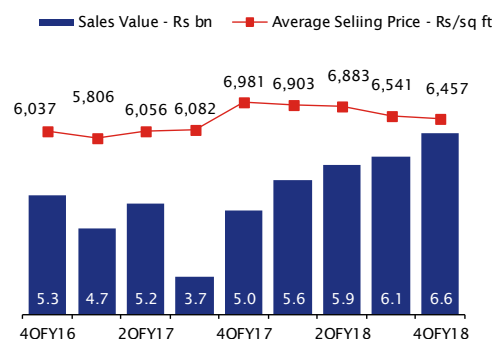
- Visibility for existing land parcel execution is key for stock performance: The management guided for utilisation of 260 acres of land bank over two years. In our view, execution visibility of existing land parcel is key for the company.

Exhibit 4. Land Bank (msf)

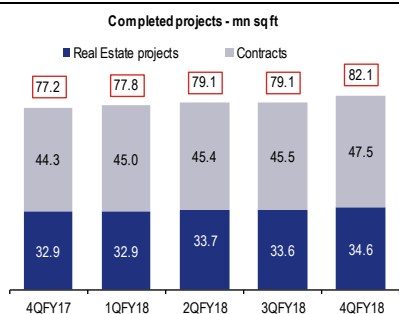
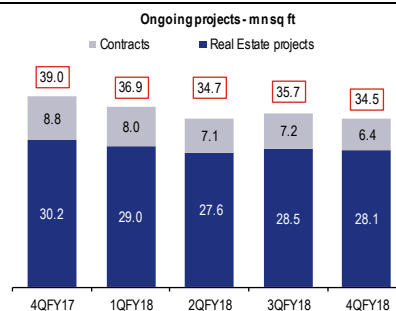
Source: Company, JM Financial

Exhibit 5. Fresh Sales (msf)

Source: Company, JM Financial

Exhibit 6. Sales Value and Realisation (INR bn/INR/sf)

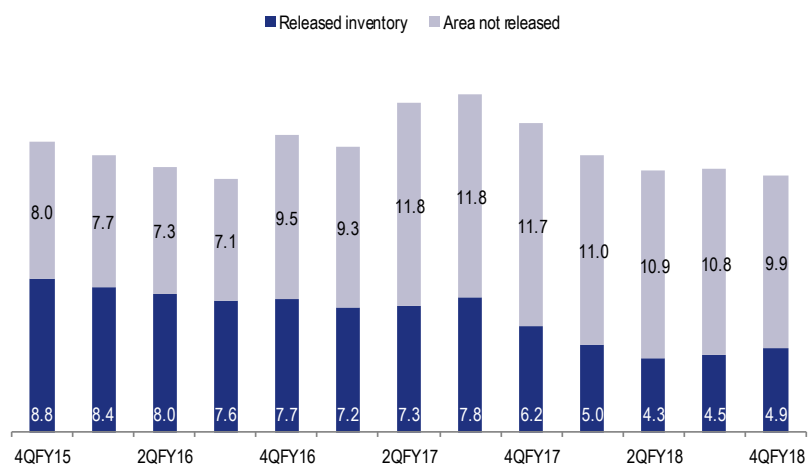
Source: Company, JM Financial

Exhibit 7. Project Portfolio**Completed Projects****Ongoing Projects**

Source: Company, JM Financial

- Inventory stood at 15.2msf. Inventory of 10.76msf has not been offered for sale yet.

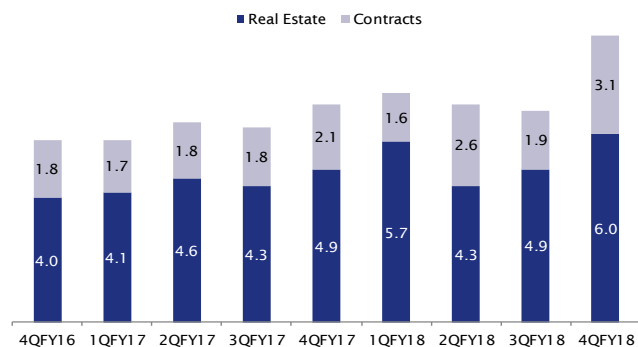
Exhibit 8. Inventory- Material unreleased inventory to tap demand recovery (msf)



Source: Company, JM Financial

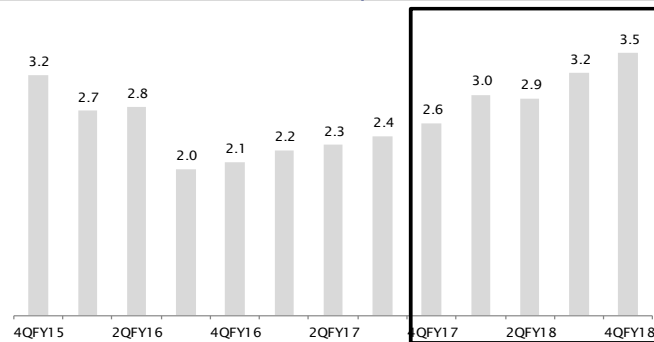
- Cash collection (at INR6.9bn) declined sequentially as demand letters were delayed on account of RERA/GST compliance.

Exhibit 9. Collection- Real Estate and Contracts (INR bn)



Source: Company, JM Financial

Exhibit 10. Real Estate construction spend (INR bn)



Source: Company, JM Financial

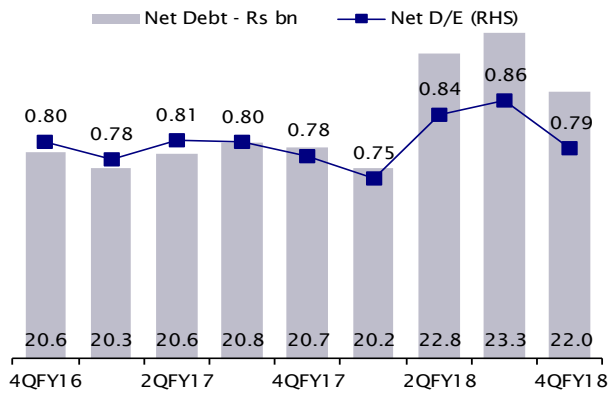
Exhibit 11. Operating cash flow (INR bn)

	FY13	FY14	FY15	FY16	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18
Operating Inflows	21.2	26.9	25.8	22.5	25.7	7.3	6.9	6.7	9.1	30.1
Construction Spend	12.3	16.9	19.2	14.6	15.4	4.5	4.5	4.6	5.8	19.4
Net Construction Inflow	8.9	10.0	6.6	7.9	10.3	2.8	2.5	2.2	3.3	10.7
Other Operating outflow	3.9	4.4	4.1	3.6	4.6	1.2	1.1	1.0	0.9	4.2
Net Operating Cash Flows (ex-land payment)	5.0	5.6	2.5	4.3	5.8	1.5	1.4	1.2	2.3	6.4
Land Payment	2.4	1.8	3.8	1.7	1.4	0.4	2.8	0.2	0.2	3.6
Net Operating Cash Flows (after land payment)	2.6	3.8	-1.3	2.6	4.4	1.2	-1.4	0.9	2.1	2.8
Interest Cost	2.0	2.0	2.4	2.8	2.8	0.5	0.8	0.6	0.7	2.7
Other Cost	2.0	1.8	2.1	2.2	1.6	0.1	0.4	0.8	0.1	1.4
Net Cash Flow	-1.4	0.1	-5.8	-2.3	0.1	0.5	-2.6	-0.4	1.3	-1.3

Source: Company, JM Financial

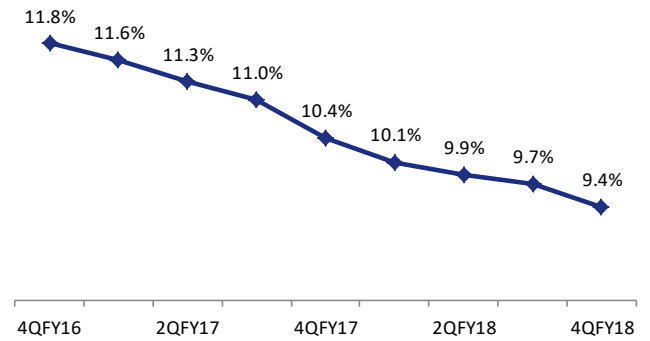
- Debt equity was reported at 0.86x (INR23.3bn net debt) with cost of debt at 9.74% (from 10% in 1QFY18).

Exhibit 12. Net debt Trends



Source: Company, JM Financial

Exhibit 13. Cost of Debt



Source: Company, JM Financial

Exhibit 1. Sobha SoTP

	msf	INR mn	INR/sh	Comment
Real estate business	16	26,473	287	Valuing ongoing projects with sales completion by FY22
BDV/Land	204	45,767	483	BDV to land value at 1.9x
Contract business		6,773	71	6x FY20 EBITDA
SOTP Value		79,012	841	
Net Debt		22,884	241	
Target Price - Mar'19			600	

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	19,566	22,461	27,870	31,219	34,425
Sales Growth	-19.6%	14.8%	24.1%	12.0%	10.3%
Other Operating Income	89	58	164	0	0
Total Revenue	19,655	22,519	28,034	31,219	34,425
Cost of Goods Sold/Op. Exp	10,243	13,191	16,840	18,100	19,776
Personnel Cost	1,762	1,779	1,985	2,184	2,402
Other Expenses	3,131	3,294	3,848	5,097	5,497
EBITDA	4,519	4,255	5,361	5,839	6,750
EBITDA Margin	23.0%	18.9%	19.1%	18.7%	19.6%
EBITDA Growth	-26.8%	-5.8%	26.0%	8.9%	15.6%
Depn. & Amort.	597	638	544	566	595
EBIT	3,922	3,617	4,817	5,273	6,155
Other Income	254	328	331	174	182
Finance Cost	1,637	1,497	1,978	2,128	2,582
PBT before Excep. & Forex	2,539	2,448	3,170	3,319	3,755
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,539	2,448	3,170	3,319	3,755
Taxes	1,188	970	1,002	1,049	1,202
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	30	129	0	0	0
Reported Net Profit	1,381	1,607	2,168	2,270	2,554
Adjusted Net Profit	1,381	1,607	2,168	2,270	2,554
Net Margin	7.0%	7.1%	7.7%	7.3%	7.4%
Diluted Share Cap. (mn)	98.1	96.3	94.8	94.8	94.8
Diluted EPS (INR)	14.1	16.7	22.9	23.9	26.9
Diluted EPS Growth	-42.0%	18.5%	37.0%	4.7%	12.5%
Total Dividend + Tax	236	290	286	799	914
Dividend Per Share (INR)	2.0	2.5	2.5	7.0	8.0

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	2,569	2,577	3,170	3,319	3,755
Depn. & Amort.	597	638	544	566	595
Net Interest Exp. / Inc. (-)	1,637	1,497	1,978	2,128	2,582
Inc (-) / Dec in WCap.	-1,505	-1,113	972	-2,297	-2,308
Others	-89	-328	-331	-174	-182
Taxes Paid	-619	-970	-1,002	-1,049	-1,202
Operating Cash Flow	2,591	2,301	5,331	2,493	3,241
Capex	-1,442	-376	-149	-353	-305
Free Cash Flow	1,149	1,925	5,182	2,140	2,936
Inc (-) / Dec in Investments	43	0	0	0	0
Others	51	328	331	174	182
Investing Cash Flow	-1,349	-48	182	-179	-124
Inc / Dec (-) in Capital	0	-594	-620	0	0
Dividend + Tax thereon	-686	-196	-286	-799	-914
Inc / Dec (-) in Loans	1,774	717	-1,464	1,500	0
Others	0	0	0	0	0
Financing Cash Flow	-1,607	-2,890	-4,838	-1,803	-3,496
Inc / Dec (-) in Cash	-366	-637	674	511	-378
Opening Cash Balance	1,631	1,185	1,469	1,194	1,705
Closing Cash Balance	1,266	548	2,143	1,705	1,327

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	25,647	26,445	27,699	29,170	30,810
Share Capital	981	963	948	948	948
Reserves & Surplus	24,666	25,482	26,751	28,222	29,862
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	21,080	21,797	23,089	24,589	24,589
Def. Tax Liab. / Assets (-)	2,349	2,663	2,829	2,829	2,829
Total - Equity & Liab.	49,076	50,905	53,617	56,588	58,228
Net Fixed Assets	6,181	5,952	6,103	5,890	5,600
Gross Fixed Assets	5,727	6,103	6,252	6,605	6,910
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	0	950	1,494	2,060	2,655
Capital WIP	454	799	1,345	1,345	1,345
Investments	294	0	1,125	1,125	1,125
Current Assets	74,136	82,958	82,966	87,602	90,536
Inventories	42,649	50,960	48,349	51,396	53,469
Sundry Debtors	2,787	2,410	3,407	3,642	3,902
Cash & Bank Balances	1,185	1,469	1,194	1,705	1,327
Loans & Advances	7,348	8,994	8,696	9,539	10,519
Other Current Assets	20,167	19,125	21,320	21,320	21,320
Current Liab. & Prov.	31,535	38,005	36,577	38,030	39,034
Current Liabilities	3,182	7,693	7,205	7,371	7,650
Provisions & Others	28,353	30,312	29,372	30,658	31,384
Net Current Assets	42,601	44,953	46,389	49,572	51,502
Total - Assets	49,076	50,905	53,617	56,587	58,227

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	7.0%	7.1%	7.7%	7.3%	7.4%
Asset Turnover (x)	0.4	0.5	0.6	0.6	0.6
Leverage Factor (x)	1.9	1.8	1.8	1.8	1.8
RoE	5.5%	6.2%	8.0%	8.0%	8.5%

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	261.4	274.6	292.2	307.7	325.0
ROIC	4.7%	4.7%	6.9%	7.3%	8.1%
ROE	5.5%	6.2%	8.0%	8.0%	8.5%
Net Debt/Equity (x)	0.8	0.8	0.8	0.8	0.8
P/E (x)	37.6	31.8	23.2	22.1	19.7
P/B (x)	2.0	1.9	1.8	1.7	1.6
EV/EBITDA (x)	15.7	16.7	13.6	12.6	11.0
EV/Sales (x)	3.6	3.2	2.6	2.4	2.2
Debtor days	52	39	44	43	41
Inventory days	792	826	629	601	567
Creditor days	77	154	116	106	101

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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