

Stable pre-sales, earnings disappoint

Sobha delivered a Rev/EBITDA/PAT miss of 34/30/31% respectively on the back of 49% QoQ revenue dip in the Real Estate segment with Contracts and Manufacturing segment holding steady. We maintain BUY with a reduced TP of Rs 647/sh.

HIGHLIGHTS OF THE QUARTER

- 2QFY20 Revenue/ EBITDA/ APAT grew 19/19/9% higher YoY to Rs 7.8/1.7/0.7bn. The company maintained pre-sales momentum with 1.03mn sqft of sales by volume (flat YoY) in 2QFY20 valued at Rs 6.8bn. SDL expects the sales momentum to build-up during 2HFY20E.
- Bengaluru continues to be the key pre-sales driver with pre-sales volume/value of 0.78mn sqft/Rs 5.2bn. During 1HFY20, the company witnessed sustained demand for the affordable and mid-ticket segment with 30% of the sales in the <Rs 10mn price bracket and 49% of the sales in the Rs 10-20mn price bracket. These two segments witnessed 32% YoY growth by area sold and 30% YoY growth by value during 1HFY20.
- Net debt has increased by Rs 2.3bn QoQ to Rs 29.8bn and net D/E is now at 1.29x (vs 1.19x QoQ). SDL spent Rs 216mn towards land during 2QFY20 (Rs 1.8bn

during 1HFY20). Accumulation of incremental land bank is expected to taper during 2HFY20E with the company expected to spend ~Rs 4bn during 2HFY20. SDL has guided that debt may increase marginally from current levels but the company aims to maintain net D/E around 1.1x levels at the end of FY20E.

STANCE

SDL has ~16.2mn sqft of unsold area in ongoing projects and expects to add 10.5mn sqft from new projects in the pipeline, over the coming quarters. Whilst SDL has only 0.22 mnsqft of unsold completed inventory worth Rs 1.2bn we remain cautious on land bank addition of Rs 1.8bn during 1HFY20 (given SDL already has a high unsold under construction inventory, 4yrs). Net D/E is expected to reduce to 1.1x by FY20E as the collections from two projects where issue of delay in registration was resolved is expected to see improved collections coupled with 2mn sqft of planned launches in 2HFY20. The contracting business is seeing good growth with an order book of Rs 21.7bn. We maintain BUY. Key risks: (1) Weak order inflow in the contracting business, (2) Dip in collection momentum and (3) Aggressive incremental land bank addition.

Financial Summary (Consolidated)

YE March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Sales	7,839	6,587	19.0	11,767	(33.4)	27,870	34,421	37,861	41,519
EBITDA	1,668	1,402	19.0	2,275	(26.7)	5,197	6,733	7,546	8,308
APAT	670	614	9.1	906	(26.0)	2,323	2,970	3,133	3,767
Diluted EPS (Rs)	7.1	6.5	9.1	9.6	(26.0)	24.5	31.3	33.0	39.7
P/E (x)						17.4	13.6	12.9	10.8
EV / EBITDA (x)						12.1	9.4	8.4	7.7
RoE (%)						8.0	11.9	13.4	14.4

Source: Company, HDFC sec Inst Research

INDUSTRY	REAL ESTATE
CMP (as on 11 Nov 2019)	Rs 427
Target Price	Rs 647
Nifty	11,913
Sensex	40,345

KEY STOCK DATA

Bloomberg	SOBHA IN
No. of Shares (mn)	95
MCap (Rs bn) / (\$ mn)	41/567
6m avg traded value (Rs mn)	143

STOCK PERFORMANCE (%)

52 Week high / low	Rs 588/405		
	3M	6M	12M
Absolute (%)	(19.1)	(4.1)	(8.0)
Relative (%)	(26.5)	(11.8)	(22.7)

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	51.75	51.75
FIs & Local MFs	15.56	17.03
FPIs	26.98	26.63
Public & Others	5.70	4.59
Pledged Shares	10.54	10.54

Source : BSE

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Revenue: Rs 7.8bn (+19% YoY, -33% QoQ, 34% miss). Revenue from Real Estate segment came in at Rs 4.3bn (+11% YoY, -49% QoQ) while revenues from contracting and manufacturing segment came in at Rs 3.8bn (+30% YoY, 8% QoQ)

EBITDA: Rs 1.7bn (+19/-27% YoY/QoQ, 30% miss)

EBITDA margin came in at 21.3% (-1bps/+194bps YoY/QoQ).

APAT: Rs 0.7bn (+9/-26% YoY/QoQ, 31% miss)

Total collections during the quarter stood at Rs 8.4bn vs Rs 9.2bn QoQ

Notional Interest accrued on advance from customers as per IND AS 115 amounting to Rs 906/891mn in 2QFY20/1QFY20 respectively have been considered under other operating expenses

Quarterly Financial Snapshot (Consolidated)

Rs mn	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Sales	7,839	6,587	19.0	11,767	(33.4)	19,606	12,564	56.0
Material Expenses	(3,649)	(3,270)	11.6	(6,921)	(47.3)	(10,570)	(6,426)	64.5
Employee Expenses	(636)	(598)	6.4	(646)	(1.5)	(1,282)	(1,115)	15.0
Other Operating Expenses	(1,886)	(1,317)	43.2	(1,925)	(2.0)	(3,811)	(2,315)	64.6
EBITDA	1,668	1,402	19.0	2,275	(26.7)	3,943	2,708	45.6
Interest Cost	(761)	(532)	43.0	(840)	(9.4)	(1,601)	(1,073)	49.2
Depreciation	(178)	(154)	15.6	(175)	1.7	(353)	(303)	16.5
Other Income	199	175	13.7	164	21.3	363	299	21.4
PBT	928	891	4.2	1,424	(34.8)	2,352	1,631	44.2
Tax	(258)	(277)	(6.9)	(518)	(50.2)	(776)	(491)	58.0
RPAT	670	614	9.1	906	(26.0)	1,576	1,140	38.2

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

MARGIN ANALYSIS	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Material Expenses % Net Sales	46.5	49.6	-309	58.8	-1,227	53.9	51.1	277
Employee Expenses % Net Sales	8.1	9.1	-97	5.5	262	6.5	8.9	-234
Other Operating Expenses % Net Sales	24.1	20.0	407	16.4	770	19.4	18.4	101
EBITDA Margin (%)	21.3	21.3	-1	19.3	194	20.1	21.6	-144
Tax Rate (%)	27.8	31.1	-329	36.4	-857	33.0	30.1	289
APAT Margin (%)	8.5	9.3	-77	7.7	85	8.0	9.1	-104

Source: Company, HDFC sec Inst Research

Pre-sales Trend

Pre-sales trend	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Sales Volume (mn sqft)	1.0	1.0	0.5	1.1	(2.6)	2.1	2.0	5.4
Sales Value (Rs mn)	6,823	6,166	10.7	7,777	(12.3)	14,600	13,790	5.9
Average Realization (Rs/sqft)	6,584	5,977	10.2	7,312	(10.0)	6,953	6,924	0.4

Source: Company, HDFC sec Inst Research

Consolidated Net D/E increased to ~1.29x vs ~1.19x QoQ

Net debt stood at Rs 29.8bn (+Rs 2.3bn QoQ).

Avg. cost of debt remained flat QoQ at 9.81%

SDL's customer collections from real estate development were Rs 5.1bn in 2QFY20

The contractual segment witnessed collections of Rs 3.3bn

Consolidated net D/E has peaked to 1.29x

- Consolidated Net D/E increased to 1.29x vs 1.19x QoQ. Net debt stood at Rs 29.8bn (+Rs 2.3bn QoQ). Land payments during the quarter were Rs 216mn with total payments during 1HFY20 at Rs 1.8bn. This takes Sobha's share in the land bank to 2,415 acres with a development potential of 206mn sqft.
- Despite an increase in Net D/E, the company has guided for maintaining Net D/E at 1.1x at the end of FY20E aided by robust cash flows from real estate/contractual business.
- SDL highlighted that net debt may increase but net D/E should be ~1.1x which is a comfortable leverage for the company.

Debt/Equity Ratio Trend (X) (Consolidated)

(Rs mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Net debt (Rs mn)	22,832	23,276	21,991	22,625	23,652	23,999	24,337	27,518	29,803
Net D/E (x) - IND AS 115				1.09	1.16	1.13	1.09	1.19	1.29
Cost of Debt %	9.88	9.74	9.39	9.31	9.30	9.57	9.72	9.8	9.81

Source: Company, HDFC sec Inst Research;

Real Estate collections improve

- SDL's customer collections from real estate development stood at Rs 5.1bn in 2QFY20 (vs Rs 5.2bn QoQ). The contractual segment witnessed improved collections at Rs 3.3bn (vs Rs 2.8bn QoQ).
- SDL has new launches of ~10.5mn sqft in the pipeline over next 3-4qtrs across Bengaluru, Gurgaon, Chennai,

Thrissur and Ahmedabad in addition to 0.79mn sqft of new residential launches in 1HFY20. Unsold ready inventory stands at 0.22mn sqft with unsold area not released for sale in ongoing projects is 7.81mn sqft. This should aid in better collections during 2HFY20 as payment due on sale will be high.

Customer Collections

(Rs mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Real Estate	4,330	4,870	5,980	5,030	5,400	5,580	5,760	5,210	5,110
Contractual	2,600	1,870	3,130	2,340	2,180	2,600	3,460	2,800	3,290
Total	6,930	6,740	9,110	7,370	7,580	8,180	9,229	8,010	8,400

Source: Company, HDFC sec Inst Research

Key Assumptions And Estimates

	Estimates		Growth (%)		Comments
	FY20E	FY21E	FY20E	FY21E	
Volume assumptions					
Residential (mn sqft)	4.1	4.4	2.4	6.9	Total unsold area including area not opened for sale in existing projects is 7.81mn sqft which may aid sales volume. SDL has also planned new projects launch of 10.46mn sqft over the forthcoming quarters
Total	4.1	4.4	2.4	6.9	
Realization					
Residential (Rs/sqft)	7,785	7,757	0.5	(0.4)	Absolute realization to remain flattish as pricing power still not on the horizon
Presales					
Rs mn	32,112	34,207	2.8	6.5	
Earnings forecast					
Sales (Rs mn)	26,219	28,947	17.4	10.4	
Contractual	11,641	12,571	(3.8)	8.0	
Total	37,861	41,519	10.0	9.7	FY19-21E revenue CAGR of 9.8%
EBIDTA Real estate (Rs mn)	6,381	7,051	15.5	10.5	
EBIDTA Contract (Rs mn)	1,164	1,257	(3.8)	8.0	
Total EBIDTA (Rs mn)	7,546	8,308	12.1	10.1	11.1% FY19-21E EBIDTA CAGR
EBIDTA margin Real estate(%)	24.3	24.4	(40.2)	1.9	
EBIDTA margin Contract(%)	10.0	10.0	-	-	
EBIDTA Margin (%)	19.9	20.0	36.9	8.0	Margins have bottomed out and we expect increasing share of real estate contribution to drive the margins upwards
Net interest expense	3,162	3,147	33.9	(0.5)	Interest to inch up slightly on the back of increased capex expected in FY20-21E for commercial/ APMC projects and new launches
PAT (Rs mn)	3,133	3,767	5.5	20.2	12.6% FY19-21E PAT CAGR
PAT Margin (%)	8.3	9.1	(35.4)	79.8	
EPS (Rs)	33.0	39.7	5.5	20.2	

Source: Company, HDFC sec Inst Research

Absolute realization to remain flattish as pricing recovery still not on the horizon

Margins have bottomed out and we expect higher share of residential revenue in mix will result in margin improvement

The company has adopted the new corporate tax structure, thus the applicable tax rate for the company during FY20-21E will be 25.2%

Strong cash flows from operations to be spent towards land bank accumulation, capex for APMC project and interest payment

Cash flow shortfall to be made up with higher borrowing

We have revised our FY20-21E APAT estimates by (8.3)/(2.5)% to factor in increase in interest cost and new corporate tax structure

Cash Flow Forecast

Rs mn	Estimates		Comments
	FY20E	FY21E	
Cash flows forecast			
CFO – a	6,617	6,481	
CFI – b	(2,768)	(3,414)	Capex of Rs 10bn to be incurred on the APMC project over 3-4 years starting from FY20E
FCF - a+b	3,848	3,067	
CFF-c	(2,556)	(3,113)	Interest outflow to impact cash flow negatively
Total change in cash - a+b+c	1,293	(45)	The net change in cash doesn't impact the debt position materially

Source: Company, HDFC sec Inst Research

Change in Estimate

Rs mn	FY20E New	FY20E Old	% Change/ bps	FY21E New	FY21E Old	% Change/ bps
Revenues	37,861	37,861	(0.0)	41,519	41,519	(0.0)
EBIDTA	7,546	7,546	(0.0)	8,308	8,308	(0.0)
EBIDTA Margins (%)	19.9	19.9	(0.0)	20.0	20.0	(0.0)
APAT	3,133	3,418	(8.3)	3,767	3,863	(2.5)

Source: HDFC sec Inst Research

We value the real estate business at Rs 224/share, future developable land bank at Rs 508/share, contracting and manufacturing business (C&M) at Rs 93/share, rental assets at Rs 46/share, refundable deposits at Rs 44/share to arrive at a gross NAV of Rs 914/share.

From the gross NAV, we deduct the net debt (Rs 248/share) and unpaid land bank value (Rs 15/share), to arrive at increased TP of Rs 647/share

Valuation: NAV target Rs 647/sh

SoTP valuation

- We maintain BUY on SDL, with SOTP-based target price of Rs 647/share (vs Rs 652/sh earlier). We value the real estate business at Rs 224/share, future developable land bank at Rs 508/share, contracting and manufacturing business (C&M) at Rs 93/share, rental assets at Rs 46/share, refundable deposits at Rs 44/share to arrive at a gross NAV of Rs 914/share. From the gross NAV, we deduct the net debt (Rs 248/share) and unpaid land bank value (Rs 19/share), to arrive at Rs 647/share as our NAV-based target price.
- We don't assign any NAV discount to SDL, as we have only valued the projects that have visibility over the next five years. For the land bank beyond that period, we ascribed the current market value.
- We have also incorporated the valuation of SDL's upcoming APMC commercial project. This project envisages a Rs 10bn outlay for developing ~2.8mn sq ft lease area (~0.7mn sqft will be handed over to APMC). SDL will be leasing 2.1mn sq ft at an average rate of ~Rs 50/sqft/month. The work is taking place, albeit slowly due to minor hurdles and pending approvals, and serious outlay will only start in 2HFY20.

Sum Of The Parts

	Rs mn	Rs/share	Comments
Gross NAV Residential	21,134	224	DCF-based NAV.
Land Bank	48,155	508	At project discounted GAV
Contractual/Manufacturing	8,867	93	At 7x FY21E EV/EBIDTA
Rental assets/APMC	4,353	46	Discounting at 12% cap rate viz. school, hospital etc
Refundable JDA Deposits	4,182	44	Balance sheet number
Total Gross NAV	86,692	914	
Less net debt	(23,508)	(248)	Net debt as on Mar-21E
Unpaid land cost	(1,796)	(19)	
NAV	61,389	647	

Source: Company, HDFC sec Inst Research

Real estate development: NAV calculation methodology

- We have divided SDL's entire land bank into current and future developments (based on information from the company).
- We have arrived at the sales price/sq ft and the anticipated sales volumes for each project, based on our discussions with industry experts.
- We have deducted the cost of construction, based on our assumed cost estimates, which have been arrived at after discussions with industry experts.
- We have further deducted marketing and other costs, which have been assumed at 5% of the sales' revenue.
- We have then deducted income tax, based on the tax applicable for the project.
- The resultant cash inflows at the project level have been discounted based on WACC of 13.5% (cost of equity 17.2% based on beta of 1.5, cost of debt 13% and debt/equity ratio of 0.85x). All the project-level NAVs have been summed up to arrive at the NAV of the company.
- In case of a future land bank, we have valued at 20% discount to current prices, and not taken into account construction margins.
- For annuity income-generating assets, we have valued cash flows at a cap rate of 12%.
- From the NAV, we have deducted the net debt as of FY21E, to arrive at the final valuation of the company.

Our base property price assumption is at a 10-20% discount to current prices in SDL's key macro markets

Key valuation assumptions

- In the exhibit below, we highlight our sales and cost inflation forecasts. We expect property prices to appreciate in-line with WPI inflation, i.e. 5%, and the cost of construction to grow at 6%. We forecast other costs including marketing, SGA and employee cost at 5% of sales.

Base Case Assumptions (%)

Discount rate	16.1
Annual rate of inflation-sales price	5
Annual rate of inflation-cost of construction	6
Other costs – marketing, SGA, employee cost (as % of sales)	5
Tax rate (%)	33

Source: Company, HDFC sec Inst Research

- In the exhibit below, we highlight our sales price and construction cost forecasts. Our pricing assumptions are at 10-20% discount to the currently prevailing prices.

Base Price And Construction Cost Assumptions

Location	Prices Rs/sq ft	Cost Rs/sq ft
Bangalore	5,500	2,400
Mysore	3,700	1,800
Pune	4,800	2,200
Chennai	4,900	2,200
Kochi	6,500	3,000
Hosur	4,500	1,800
Thrissur	4,500	2,200
Coimbatore	4,400	2,200
Gurgaon	7,500	3,425
Calicut	4,500	1,800

Source: Company, HDFC sec Inst Research

1% increase in average base sales price impacts our NAV positively by 2.5%

Every 100bps increase in sales price inflation impacts our NAV positively by 20.4%

100bps increase in cost inputs decreases our NAV by 12.1%

100bps increase in discounting rate impacts our NAV negatively by 4.7%

NAV sensitivity analysis

Sensitivity to our assumption of property prices

- Our model is sensitive to changes in the assumptions regarding property prices. For every 1% change in the base property prices, the NAV will change by approximately 2.5%.

NAV Sensitivity To Change In Average Sale Price

% change in sale price	(10)	(5)	0	5	10
NAV/share (Rs)	476	564	647	730	818
Change in NAV (%)	(26.4)	(12.9)	-	12.8	26.5

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in sales inflation

- In our base case, we have assumed an annual sales price inflation of 5%. For every 100bps increase in the annual sale price inflation, the NAV will increase by approximately 20.4%.

NAV Sensitivity To Change In Sales Inflation

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	408	525	647	779	926
Change in NAV (%)	(37.0)	(18.8)	-	20.4	43.0

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in cost inflation

- In our base case, we have assumed cost inflation to be 6%. For every 100bps increase in construction cost inflation, the NAV will change by approximately 12.1%.

NAV Sensitivity To Change In Cost Inflation

Cost inflation rates (%)	4	5	6	7	8
NAV/share (Rs)	782	721	647	569	489
Change in NAV (%)	20.8	11.3	-	(12.1)	(24.4)

Source: Company, HDFC sec Inst Research

The combined impact of a 100bps increase in sales price inflation and cost inflation will be an increase in NAV of 8.3%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 15%. For every 100bps increase in the discount rate, NAV will fall by 4.7%.

NAV Sensitivity To Change In WACC

WACC rates (%)	12	13	14	15	16
NAV/share (Rs)	712	679	647	617	591
Change in NAV (%)	10.0	4.9	-	(4.7)	(8.8)

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	22,462	27,870	34,421	37,861	41,519
Growth (%)	14.8	24.1	23.5	10.0	9.7
Material Expenses	13,190	16,840	20,561	21,587	23,639
Employee Expenses	1,779	1,985	2,359	2,656	2,913
Other Operating Expenses	3,294	3,848	4,768	6,072	6,658
EBIDTA	4,199	5,197	6,733	7,546	8,308
EBIDTA (%)	18.7	18.6	19.6	19.9	20.0
EBIDTA Growth (%)	(5.2)	23.8	29.6	12.1	10.1
Other Income	386	496	735	595	584
Depreciation	638	544	623	687	708
EBIT	3,947	5,149	6,845	7,454	8,184
Interest	1,497	1,978	2,362	3,162	3,147
PBT	2,450	3,171	4,482	4,292	5,037
Tax	970	1,002	1,512	1,159	1,269
PAT	1,480	2,169	2,970	3,133	3,767
Share of profits	129	-	-	-	-
EO items (net of tax)	58	154	-	-	-
APAT	1,666	2,323	2,970	3,133	3,767
APAT Growth (%)	13.4	39.4	27.9	5.5	20.2
EPS	17.3	24.5	31.3	33.0	39.7

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	963	948	948	948	948
Reserves	25,482	26,751	21,343	23,582	26,784
Total Shareholders Funds	26,445	27,699	22,291	24,530	27,732
Minority Interest	-	-	-	-	-
Long Term Debt	22,219	23,346	24,427	25,927	26,527
Short Term Debt	-	-	-	-	-
Total Debt	22,219	23,346	24,427	25,927	26,527
Deferred Taxes	2,684	2,521	(935)	(56)	(56)
Long Term Provisions & Others	163	185	121	133	146
TOTAL SOURCES OF FUNDS	51,511	53,751	45,903	50,534	54,349
APPLICATION OF FUNDS					
Net Block	3,173	2,796	2,848	2,255	1,747
CWIP	799	1,345	1,900	4,900	8,400
Goodwill	-	-	-	-	-
Investments	0.2	1,125.0	1,128.3	1,128.3	1,128.3
Investment Property	1,979.5	1,961	2,029	2,293	2,591
Other Non Current Assets	4,860.4	4,873	5,460	5,586	5,714
Inventories	50,960	48,349	65,173	60,325	64,765
Debtors	2,267	3,272	3,272	4,157	4,559
Cash & Equivalents	1,468	1,194	1,772	3,065	3,019
ST Loans & Advances, Others	23,423	25,333	22,881	23,831	24,781
Total Current Assets	78,118	78,148	93,098	91,378	97,124
Creditors	7,693	7,205	11,328	10,445	11,455
Other Current Liabilities & Provns	29,726	29,292	49,233	46,561	50,901
Total Current Liabilities	37,419	36,497	60,560	57,006	62,355
Net Current Assets	40,699	41,652	32,538	34,372	34,768
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	51,512	53,751	45,903	50,534	54,349

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PBT before minority and Share of profits	2,449	3,171	4,482	4,292	5,037
Non-operating & EO items	(326)	(340)	(369)	76	(584)
Taxes	(679)	(837)	(882)	(1,159)	(1,269)
Interest expenses	1,327	1,780	2,147	3,162	3,147
Depreciation	638	544	623	687	708
Working Capital Change	130	(888)	(3,942)	(441)	(557)
OPERATING CASH FLOW (a)	3,539	3,430	2,061	6,617	6,481
Capex	(316)	(617)	(1,150)	(3,100)	(3,700)
Free cash flow (FCF)	3,223	2,813	910	3,517	2,781
Investments	(199)	124	152	(264)	(298)
Others	534	331	388	595	584
INVESTING CASH FLOW (b)	20	(163)	(610)	(2,768)	(3,414)
Share capital Issuance	(582)	(620)	-	-	-
Debt Issuance	(40)	1,088	2,706	1,500	600
Interest expenses	(2,602)	(2,606)	(2,768)	(3,162)	(3,147)
Dividend	(232)	(290)	(800)	(894)	(566)
FINANCING CASH FLOW (c)	(3,455)	(2,428)	(862)	(2,556)	(3,113)
NET CASH FLOW (a+b+c)	103	840	589	1,293	(45)
Closing Cash & Equivalents	1,468	1,194	1,772	3,065	3,019

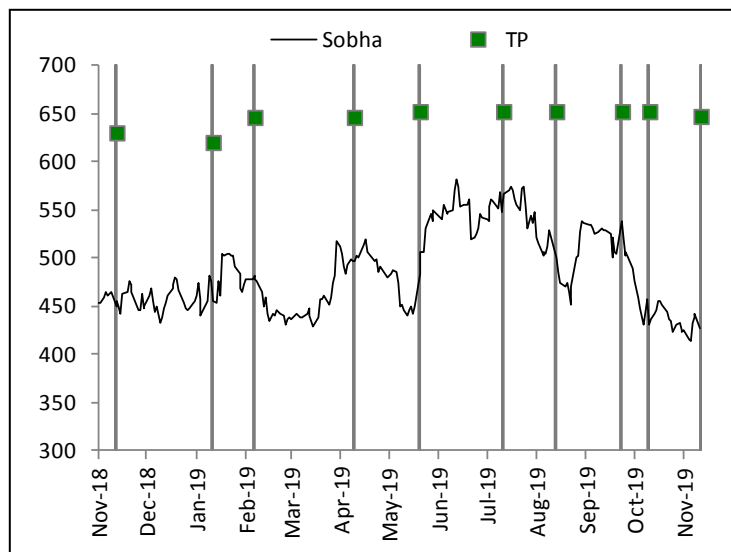
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	41.3	39.6	40.3	43.0	43.1
EBITDA Margin	18.7	18.6	19.6	19.9	20.0
APAT Margin	7.4	8.3	8.6	8.3	9.1
RoE	5.2	8.0	11.9	13.4	14.4
Core RoCE	7.8	9.9	14.1	15.8	15.9
RoCE	5.3	7.4	9.3	11.2	11.7
EFFICIENCY					
Tax Rate (%)	39.6	31.6	33.7	27.0	25.2
Asset Turnover (x)	0.4	0.5	0.8	0.8	0.8
Inventory (days)	761	650	602	605	550
Debtors (days)	39	36	35	36	38
Payables (days)	88	98	98	105	96
Cash Conversion Cycle (days)	711	589	538	536	492
Debt/EBITDA (x)	5.3	4.5	3.6	3.4	3.2
Net D/E	0.8	0.8	1.0	0.9	0.8
Interest Coverage	2.6	2.6	2.9	2.4	2.6
PER SHARE DATA					
EPS (Rs/sh)	17.3	24.5	31.3	33.0	39.7
CEPS (Rs/sh)	23.9	30.2	37.9	40.3	47.2
DPS (Rs/sh)	2.0	2.5	7.0	7.8	5.0
BV (Rs/sh)	274.6	292.0	235.0	258.6	292.4
VALUATION					
P/E	24.7	17.4	13.6	12.9	10.8
P/BV	1.6	1.5	1.8	1.7	1.5
EV/EBITDA	14.7	12.1	9.4	8.4	7.7
OCF/EV (%)	5.7	5.5	3.3	10.4	10.1
FCF/EV (%)	5.2	4.5	1.4	5.6	4.3
FCFE/Market Cap	7.7	9.6	8.9	12.4	8.3
Dividend Yield (%)	0.5	0.6	1.6	1.8	1.2

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
13-Nov-18	445	BUY	630
11-Jan-19	476	BUY	620
7-Feb-19	480	BUY	646
9-Apr-19	497	BUY	646
21-May-19	484	BUY	652
11-Jul-19	550	BUY	652
14-Aug-19	501	BUY	652
22-Sep-19	504	BUY	652
10-Oct-19	430	BUY	652
12-Nov-19	427	BUY	647

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Parikshit Kandpal, CFA & Shrey Pujari, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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