

# Sobha

## Well placed for recovery

SDL reported operationally weak 4QFY20 with pre-sales of 0.9mn sqft (-20% YoY) as sales in Bengaluru (73% of sales in 4QFY20) fell by 22/20% YoY/QoQ. Pre-sales for FY20 remained flattish at 4.1mn sqft. To add to weak operational performance, SDL evaluated overall portfolio and has recognized 1.93mn sqft of bookings (Rs 12.4bn value and Rs 2bn in collections, ~10% of area under construction) with low/delayed collection as probable cancellation and made it available for sales. Whilst sector as a whole is facing cancellation headwinds, SDL has disclosed same in the results. Silver lining lies in sharp recovery of presales in June near pre-Covid level. **We estimate SDL to report industry leading 1QFY21 presales at 60-65% of pre covid levels and collections at ~70%+.** SDL with its strong brand positioning, robust unused bank limits (Rs 15bn) and premium positioning in residential segment is well placed to ride COVID headwinds. We maintain BUY with reduced TP to Rs 348/sh (vs Rs 377/sh earlier) to account for higher debt.

- Earnings miss estimates; June-20 presales near pre-Covid level:** SDL posted Revenue/EBITDA/PAT of Rs 9.1/1.7/0.5bn, missing our estimates by 3/9/21%. Earnings miss was largely led by lower than expected EBITDA margin. After easing of lock down, work has started on all sites with labor availability of 50% at company level. While April/May presales were weak, in June presales recovered to near normal. We build in 3.5mn sqft/Rs 25bn of pre-sales in FY21E at an average realization of Rs 7,037/sqft.
- 1.93mn sqft of booking recognized as probable cancellation:** SDL has recognized 1.93mn sqft/Rs 12.4bn of bookings, spanning across 4-5 years, with low/delayed collection as probable cancellation and has made it available for sales to new customers. Against Rs 12.4bn, SDL has hitherto received Rs 2bn and will part way with money only after finding a new buyer. Company has not recognized any revenue from these bookings so net impact on P&L is likely to be positive due to penalties on refunds. Management doesn't expect no. of probable cancellation to rise further as they have prudently recognized all slow-moving bookings. These customers were largely end user's facing issues financially.
- Focus on improving liquidity:** Consolidated net debt decreased marginally to Rs 30.2bn (vs Rs 30.9bn on Dec'19), With Rs 0.9bn of cash, Net D/E reduced to 1.24x, falling short of target of 1.2x at FY20 end. With check on capex, investment in land and execution of contractual orderbook, management further wants to reduce Net D/E ratio to 1.1x in FY21E. To conserve cash, company is likely to defer residual land payments. We don't expect significant outlay on land capex in next 2yrs. SDL capex on rental assets will remain low wrt to overall balance sheet size.

### Financial summary

Year Ending March (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	9,101	13,978	(34.9)	8,832	3.0	34,421	37,539	33,072	37,452
EBITDA	1,667	2,435	(31.5)	1,984	(16.0)	6,733	7,593	6,566	6,944
APAT	507	1,133	(55.3)	732	(30.7)	2,970	2,815	2,277	2,437
Diluted EPS (Rs)	5.3	11.9	(55.3)	7.7	(30.7)	31.3	29.7	24.0	25.7
P/E (x)						6.9	7.3	9.1	8.5
EV / EBITDA (x)						6.4	6.7	7.8	7.3
RoE (%)						11.9	12.1	9.0	9.0

Source: Company, HSIE Research

## BUY

CMP (as on 29 June 2020)	Rs 217
Target Price	Rs 348
NIFTY	10,312

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 377	Rs 348
	FY21	FY22
EPS change (%)	-2.5	-0.4

### KEY STOCK DATA

Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (Rs bn) / (\$ mn)	21/273
6m avg traded value (Rs mn)	100
52 Week high / low	Rs 588/118

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	66.5	(45.3)	(59.9)
Relative (%)	49.3	(29.4)	(48.6)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	51.75	51.78
FIs & Local MFs	16.81	14.40
FPIs	25.9	23.37
Public & Others	5.54	10.45
Pledged Shares	0.0	0.0

Source : BSE

**Parikshit D Kandpal, CFA**  
 parikshitd.kandpal@hdfcsec.com  
 +91-22-6171-7317

**Rohan Rustagi**  
 rohan.rustagi@hdfcsec.com  
 +91-22-3021-7355

Revenue: Rs 9.1bn (-35% YoY, +3% QoQ, 3% miss)

EBIDTA margins: 18.3% (+90bps YoY, -415bps QoQ)

EBITDA: Rs 1.7bn (-31.5%/-16% YoY/QoQ, 8.5% miss)

PAT: Rs 0.51bn (-55% YoY, -31% QoQ, 20.5% miss). PAT miss was largely led by in EBITDA margin

Pre-sales volume for the quarter stood at 0.9mn sqft (-20% YoY). Total sales by value at Rs 7.7bn (-17% YoY), with avg price realisation at Rs 8,466/sqft

Similarly for FY20, pre-sales volume stood at 4.1mn sqft (+1% YoY), total sales by value at Rs 28.8bn (-8% YoY), with average realisation at Rs 7,075/sqft

Collections stood at Rs 9.4bn (-6.5% YoY) for the quarter and Rs 36.5bn (+1% YoY) in FY20

Cost of funds decreased by ~7bps QoQ to 9.69%.

Net debt decreased by Rs 0.7bn to Rs 30.2bn with Net D/E at 1.24x, down from 1.30x on Dec'19

SDL generated Rs 2.0bn from operating activities and had negative free cash flow of Rs 400mn in FY20

### Quarterly Financials Snapshot - Standalone

Rs mn	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Sales	9,101	13,978	(34.9)	8,832	3.0	37,539	34,421	9.1
Material Expenses	(4,940)	(9,522)	(48.1)	(4,400)	12.3	(19,910)	(20,561)	(3.2)
Employee Expenses	(600)	(656)	(8.5)	(582)	3.1	(2,464)	(2,359)	4.5
Other Operating Expenses	(1,894)	(1,365)	38.8	(1,866)	1.5	(7,571)	(4,768)	58.8
<b>EBITDA</b>	<b>1,667</b>	<b>2,435</b>	<b>(31.5)</b>	<b>1,984</b>	<b>(16.0)</b>	<b>7,594</b>	<b>6,733</b>	<b>12.8</b>
Interest Cost	(840)	(758)	10.8	(818)	2.7	(3,259)	(2,362)	38.0
Depreciation	(188)	(159)	18.2	(182)	3.3	(723)	(623)	16.1
Other Income	175	238	(26.5)	180	(2.8)	718	735	(2.3)
<b>PBT</b>	<b>814</b>	<b>1,756</b>	<b>(53.6)</b>	<b>1,164</b>	<b>(30.1)</b>	<b>4,330</b>	<b>4,483</b>	<b>(3.4)</b>
Tax	(307)	(623)	(50.7)	(432)	(28.9)	(1,515)	(1,512)	0.2
<b>RPAT</b>	<b>507</b>	<b>1,133</b>	<b>(55.3)</b>	<b>732</b>	<b>(30.7)</b>	<b>2,815</b>	<b>2,971</b>	<b>(5.3)</b>

Source: Company, HSIE Research

### Margin Analysis

MARGIN ANALYSIS	4Q FY20	4Q FY19	YoY (bps)	3Q FY20	QoQ (bps)	FY20	FY19	YoY (bps)
Material Expenses % Net Sales	54.3	68.1	(1,384)	49.8	446	53.0	59.7	(670)
Employee Expenses % Net Sales	6.6	4.7	190	6.6	0	6.6	6.9	(29)
Other Operating Expenses % Net Sales	20.8	9.8	1,105	21.1	(32)	20.2	13.9	632
EBITDA Margin (%)	18.3	17.4	90	22.5	(415)	20.2	19.6	67
Tax Rate (%)	37.7	35.5	224	37.1	60	35.0	33.7	126
APAT Margin (%)	5.6	8.1	(253)	8.3	(272)	7.5	8.6	(113)

Source: Company, HSIE Research

### Pre-sales Trend

Pre-sales trend	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY20	FY19	YoY (%)
Sales Volume (mn sqft)	0.9	1.1	(19.8)	1.1	(15.0)	4.1	4.0	1.0
Sales Value (Rs mn)	7,668	9,206	(16.7)	7,261	5.6	28,806	31,225	(7.7)
Average Realization (Rs/sqft)	8,466	8,152	3.9	6,811	24.3	7,075	7,749	(8.7)

Source: Company, HSIE Research

### Consolidated Net D/E Ratio Trend (x)

(Rs mn)	1Q FY19	2Q FY19E	3Q FY19	4Q FY19	1Q FY20E	2Q FY20	3Q FY20	4Q FY20
Net Debt	22,625	23,652	23,999	24,337	27,518	29,803	30,937	30,230
Net D/E (x) IND AS 115	1.09	1.16	1.13	1.09	1.19	1.29	1.30	1.24
Cost of debt (%)	9.31%	9.30%	9.57%	9.72%	9.80%	9.81%	9.76%	9.69%

Source: Company, HSIE Research

### Customer Collections

(Rs mn)	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Real Estate	5,030	5,400	5,580	5,760	5,210	5,110	5,699	6,001
Contractual	2,340	2,180	2,600	3,460	2,800	3,290	3,293	3,451
Total	7,370	7,580	8,180	9,220	8,010	8,400	8,992	9,452

Source: Company, HSIE Research

## Key Assumptions &amp; Estimates

	Estimates		Growth (%)		Comments
	FY21E	FY22E	FY21E	FY22E	
<b>Volume assumptions</b>					
Residential (mn sqft)	3.5	4.0	(14.0)	13.1	Expect SDL to deliver pre-sales of 3.56bn as June recovery is at near normal
<b>Total</b>	<b>3.5</b>	<b>4.0</b>	<b>(14.0)</b>	<b>13.1</b>	
<b>Realization</b>					
Residential (Rs/sqft)	7,037	7,273	(0.5)	3.4	Realization to remain flattish as pressure remains due to Covid-19
<b>Presales</b>					
Rs mn	24,629	28,800	(14.5)	16.9	
<b>Earnings forecast</b>					
Sales (Rs mn)	21,343	25,019	(1.3)	17.2	Sales to pick up post 1QFY21
Contractual	11,729	12,433	(26.3)	6.0	Normalization of labour availability and cash flow from clients to lead execution of C&M segment
<b>Total</b>	<b>33,072</b>	<b>37,452</b>	<b>(11.9)</b>	<b>13.2</b>	
<b>EBIDTA Real estate (Rs mn)</b>	<b>5,393</b>	<b>5,701</b>	<b>(10.1)</b>	<b>5.7</b>	
<b>EBIDTA Contract (Rs mn)</b>	<b>1,173</b>	<b>1,243</b>	<b>(26.3)</b>	<b>6.0</b>	
<b>Total EBIDTA (Rs mn)</b>	<b>6,566</b>	<b>6,944</b>	<b>(13.5)</b>	<b>5.8</b>	
<b>EBIDTA margin Real estate(%)</b>	<b>25.3</b>	<b>22.8</b>	<b>(247.8)</b>	<b>(248.4)</b>	
<b>EBIDTA margin Contract(%)</b>	<b>10.0</b>	<b>10.0</b>	<b>-</b>	<b>-</b>	
<b>EBIDTA Margin (%)</b>	<b>19.9</b>	<b>18.5</b>	<b>(37.3)</b>	<b>(131.3)</b>	Overall EBIDTA margin to shrink in FY21E & FY22E
<b>Net interest expense*</b>	<b>3,380</b>	<b>3,535</b>	<b>3.7</b>	<b>4.6</b>	Company's effort to reduce net debt could reduce interest cost going forward
<b>Avg. interest rate (%)</b>	<b>10.8</b>	<b>11.1</b>	<b>(95.8)</b>	<b>28.3</b>	
<b>PAT (Rs mn)</b>	<b>2,277</b>	<b>2,437</b>	<b>(19.1)</b>	<b>7.0</b>	
<b>PAT Margin (%)</b>	<b>6.9</b>	<b>6.5</b>	<b>(61.4)</b>	<b>(37.8)</b>	
<b>EPS (Rs)</b>	<b>24.0</b>	<b>25.7</b>	<b>(19.1)</b>	<b>7.0</b>	
<b>Cash flows forecast</b>					
CFO - a	3,510	3,858			
CFI - b	166	164			
FCF - a+b	3,676	4,023			
CFF-c	(3,288)	(3,346)			
<b>Total change in cash - a+b+c</b>	<b>388</b>	<b>677</b>			

Source: HSIE Research

## Outlook and valuation

### Valuation

	Rs mn	New - Rs/share	Comments
Gross NAV Residential	20,982	221	NAV based on the methodology above
Land Bank	31,543	333	At current market price
Contractual/Manufacturing	8,211	87	at 7x FY21E EV/EBIDTA
Refundable JDA Deposits	4,182	44	
Total Gross NAV	64,917	684	
Less net debt	(30,331)	(320)	Net debt as on March 2021E
Unpaid land cost	(1,613)	(17)	
<b>NAV</b>	<b>32,973</b>	<b>348</b>	

Source: HSIE Research

### SOTP Valuation

- We maintain BUY on SDL, with SOTP-based target price of Rs 348/share (vs Rs 377/sh earlier). We value the real estate business at Rs 221/share, future developable land bank at Rs 333/share, contracting and manufacturing business (C&M) at Rs 87/share, refundable deposits at Rs 44/share to arrive at a gross NAV of Rs 684/share. From the gross NAV, we deduct the net debt (Rs 320/share) and unpaid land bank value (Rs 17/share), to arrive at Rs 590/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 value the real estate business at Rs 221/share, future developable land bank at Rs 333/share, contracting and manufacturing business (C&M) at Rs 87/share, refundable deposits at Rs 44/share to arrive at a gross NAV of Rs 684/share*

*From the gross NAV, we deduct the net debt (Rs 320/share) and unpaid land bank value (Rs 17/share), to arrive at decreased TP of Rs 348/share*

*Reduced TP is largely due to net debt adjustments*

## 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.

### Key valuation assumptions

#### Base case assumption (%)

Discount rate	13.5
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: HSIE Research

#### Base price and construction cost price assumption

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: HSIE Research

*Our pricing assumptions are at 10-20% discount to current market prices*

## NAV Sensitivity Analysis

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

### Sensitivity to 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%.

% change in sale price	-10	-5	0	5	10
NAV/share (Rs)	256	303	348	392	440
Change in NAV (%)	(26.4)	(12.9)	-	12.8	26.5

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

### 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%.

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	219	282	348	419	497
Change in NAV (%)	(37.0)	(18.8)	-	20.4	43.0

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

### 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%.

Cost inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	420	387	348	305	263
Change in NAV (%)	20.8	11.3	-	(12.1)	(24.4)

- 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 the discount rate

- In our base case, we have assumed a discount rate of 13.5%. For every 100bps increase in the discount rate, NAV will fall by 4.7%.

WACC rates (%)	11.5	12.5	13.5	14.5	15.5
NAV/share (Rs)	382	365	348	331	317
Change in NAV (%)	10.0	4.9	-	(4.7)	(8.8)

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

### Change in estimates

Particulars	FY21E			FY22E		
	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	33,072	33,074	(0.0)	37,452	37,449	0.0
EBITDA (Rs mn)	6,566	6,549	0.3	6,944	6,923	0.3
Margins (%)	19.9	19.8	5.4	18.5	18.5	5.3
APAT (Rs mn)	2,277	2,336	(2.5)	2,437	2,447	(0.4)

Source: HSIE Research

We have revised our estimates to align it with FY20 depreciation and interest cost

# Financials

## Consolidated Income Statement

Year ending March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>24,406</b>	<b>19,566</b>	<b>22,462</b>	<b>27,870</b>	<b>34,421</b>	<b>37,539</b>	<b>33,072</b>	<b>37,452</b>
<i>Growth (%)</i>	<b>12.3</b>	<b>(19.8)</b>	<b>14.8</b>	<b>24.1</b>	<b>23.5</b>	<b>9.1</b>	<b>(11.9)</b>	<b>13.2</b>
Material Expenses	13,428	10,243	13,190	16,840	20,561	19,910	18,830	21,894
Employee Expenses	1,977	1,762	1,779	1,985	2,359	2,464	2,385	2,622
Other Operating Expenses	2,827	3,131	3,294	3,848	4,768	7,572	5,292	5,992
<b>EBIDTA</b>	<b>6,173</b>	<b>4,429</b>	<b>4,199</b>	<b>5,197</b>	<b>6,733</b>	<b>7,593</b>	<b>6,566</b>	<b>6,944</b>
<i>EBIDTA (%)</i>	<b>25.3</b>	<b>22.6</b>	<b>18.7</b>	<b>18.6</b>	<b>19.6</b>	<b>20.2</b>	<b>19.9</b>	<b>18.5</b>
<i>EBIDTA Growth (%)</i>	<b>2.4</b>	<b>(28.2)</b>	<b>(5.2)</b>	<b>23.8</b>	<b>29.6</b>	<b>12.8</b>	<b>(13.5)</b>	<b>5.8</b>
Other Income	149	343	386	496	735	718	610	641
Depreciation	723	597	638	544	623	723	754	793
EBIT	5,600	4,175	3,947	5,149	6,845	7,588	6,423	6,792
Interest	1,883	1,637	1,497	1,978	2,362	3,258	3,380	3,535
<b>PBT</b>	<b>3,716</b>	<b>2,539</b>	<b>2,450</b>	<b>3,171</b>	<b>4,482</b>	<b>4,330</b>	<b>3,043</b>	<b>3,257</b>
Tax	1,277	1,188	970	1,002	1,512	1,515	766	820
<b>PAT</b>	<b>2,439</b>	<b>1,350</b>	<b>1,480</b>	<b>2,169</b>	<b>2,970</b>	<b>2,815</b>	<b>2,277</b>	<b>2,437</b>
Share of profits	(59)	30	129	-	-	-	-	-
EO items (net of tax)	-	89	58	154	-	-	-	-
<b>APAT</b>	<b>2,380</b>	<b>1,469</b>	<b>1,666</b>	<b>2,323</b>	<b>2,970</b>	<b>2,815</b>	<b>2,277</b>	<b>2,437</b>
<i>APAT Growth (%)</i>	<b>1.3</b>	<b>(38.3)</b>	<b>13.4</b>	<b>39.4</b>	<b>27.9</b>	<b>(5.2)</b>	<b>(19.1)</b>	<b>7.0</b>
<b>EPS</b>	<b>24.3</b>	<b>15.0</b>	<b>17.3</b>	<b>24.5</b>	<b>31.3</b>	<b>29.7</b>	<b>24.0</b>	<b>25.7</b>
<i>EPS Growth (%)</i>	<b>1.3</b>	<b>(38.3)</b>	<b>15.5</b>	<b>41.5</b>	<b>27.9</b>	<b>(5.2)</b>	<b>(19.1)</b>	<b>7.0</b>

Source: Company, HSIE Research

## Consolidated Balance Sheet

As at March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital	981	981	963	948	948	948	948	948
Reserves	23,337	24,667	25,482	26,751	21,343	23,364	25,133	27,159
<b>Total Shareholders Funds</b>	<b>24,318</b>	<b>25,648</b>	<b>26,445</b>	<b>27,699</b>	<b>22,291</b>	<b>24,312</b>	<b>26,081</b>	<b>28,107</b>
Minority Interest	148	-	-	-	-	-	-	-
Long Term Debt	20,588	20,586	22,219	23,346	24,427	31,003	31,603	32,203
Short Term Debt	-	1,216	-	-	-	-	-	-
<b>Total Debt</b>	<b>20,588</b>	<b>21,803</b>	<b>22,219</b>	<b>23,346</b>	<b>24,427</b>	<b>31,003</b>	<b>31,603</b>	<b>32,203</b>
Deferred Taxes	1,631	2,361	2,684	2,521	-	311	373	448
Long Term Provisions & Others	-	249	163	185	121	206	227	249
<b>TOTAL SOURCES OF FUNDS</b>	<b>46,684</b>	<b>50,062</b>	<b>51,511</b>	<b>53,751</b>	<b>46,838</b>	<b>55,832</b>	<b>58,283</b>	<b>61,007</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	3,151	3,729	3,173	2,796	2,848	4,991	4,437	3,844
CWIP	524	454	799	1,345	1,900	2,323	2,323	2,323
Goodwill	-	-	-	-	-	-	-	-
Investments	0	294	0	1,125.0	1,128.3	1,143.0	1,143.0	1,143.0
Investment Property	-	1,997	1,979	1,961	2,029	1,881	2,126	2,402
Other Non Current Assets	-	4,888	4,860	4,873	6,395	5,618	5,747	5,879
Inventories	27,284	42,649	50,960	48,349	65,173	67,045	66,034	65,983
Debtors	2,724	2,522	2,267	3,272	3,272	3,603	3,622	4,102
Cash & Equivalents	1,631	1,185	1,468	1,194	1,772	884	1,272	1,948
ST Loans & Advances, Others	27,047	22,906	23,423	25,333	22,881	22,634	23,584	24,534
<b>Total Current Assets</b>	<b>58,687</b>	<b>69,262</b>	<b>78,118</b>	<b>78,148</b>	<b>93,098</b>	<b>94,166</b>	<b>94,513</b>	<b>96,568</b>
Creditors	4,785	3,182	7,693	7,205	11,328	9,567	9,124	10,333
Other Current Liabilities & Provns	10,894	27,380	29,726	29,292	49,233	44,724	42,882	40,821
<b>Total Current Liabilities</b>	<b>15,678</b>	<b>30,563</b>	<b>37,419</b>	<b>36,497</b>	<b>60,560</b>	<b>54,291</b>	<b>52,006</b>	<b>51,153</b>
<b>Net Current Assets</b>	<b>43,008</b>	<b>38,699</b>	<b>40,699</b>	<b>41,652</b>	<b>32,538</b>	<b>39,875</b>	<b>42,507</b>	<b>45,414</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>46,684</b>	<b>50,062</b>	<b>51,511</b>	<b>53,751</b>	<b>46,838</b>	<b>55,832</b>	<b>58,283</b>	<b>61,007</b>

Source: Company, HSIE Research



### Consolidated Cash Flow

Year ending March	FY15	FY16	FY17	FY18	FY19P	FY20	FY21E	FY22E
PBT before minority and Share of profits	3,716	2,539	2,449	3,171	4,482	4,330	3,043	3,257
Non-operating & EO items	(6,191)	(245)	(326)	(340)	(369)	(430)	(610)	(641)
Taxes	(845)	(617)	(679)	(837)	(882)	(1,063)	(766)	(820)
Interest expenses	1,753	1,459	1,327	1,780	2,147	6,595	3,380	3,535
Depreciation	723	597	638	544	623	723	754	793
Working Capital Change	(1,319)	151	130	(888)	(3,942)	(8,348)	(2,290)	(2,266)
<b>OPERATING CASH FLOW ( a )</b>	<b>(2,164)</b>	<b>3,884</b>	<b>3,539</b>	<b>3,430</b>	<b>2,061</b>	<b>1,807</b>	<b>3,510</b>	<b>3,858</b>
Capex	(634)	(1,076)	(316)	(617)	(1,150)	(2,447)	(200)	(200)
Free cash flow (FCF)	(2,798)	2,808	3,223	2,813	910	(640)	3,310	3,658
Investments	(24)	(1,841)	(199)	124	152	(161)	(245)	(276)
Others	60	467	534	331	388	430	610	641
<b>INVESTING CASH FLOW ( b )</b>	<b>(599)</b>	<b>(2,451)</b>	<b>20</b>	<b>(163)</b>	<b>(610)</b>	<b>(2,178)</b>	<b>166</b>	<b>164</b>
Share capital Issuance	-	-	(582)	(620)	-	-	-	-
Debt Issuance	6,544	1,964	(40)	1,088	2,706	3,254	600	600
Interest expenses	(2,369)	(2,464)	(2,602)	(2,606)	(2,768)	(3,299)	(3,380)	(3,535)
Dividend	(803)	(827)	(232)	(290)	(800)	(800)	(508)	(411)
<b>FINANCING CASH FLOW ( c )</b>	<b>3,372</b>	<b>(1,327)</b>	<b>(3,455)</b>	<b>(2,428)</b>	<b>(862)</b>	<b>(845)</b>	<b>(3,288)</b>	<b>(3,346)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>609</b>	<b>106</b>	<b>103</b>	<b>840</b>	<b>589</b>	<b>(1,216)</b>	<b>388</b>	<b>677</b>
<b>Closing Cash &amp; Equivalents</b>	<b>1,664</b>	<b>1,185</b>	<b>1,468</b>	<b>1,194</b>	<b>1,772</b>	<b>884</b>	<b>1,272</b>	<b>1,948</b>

Source: Company, HSIE Research

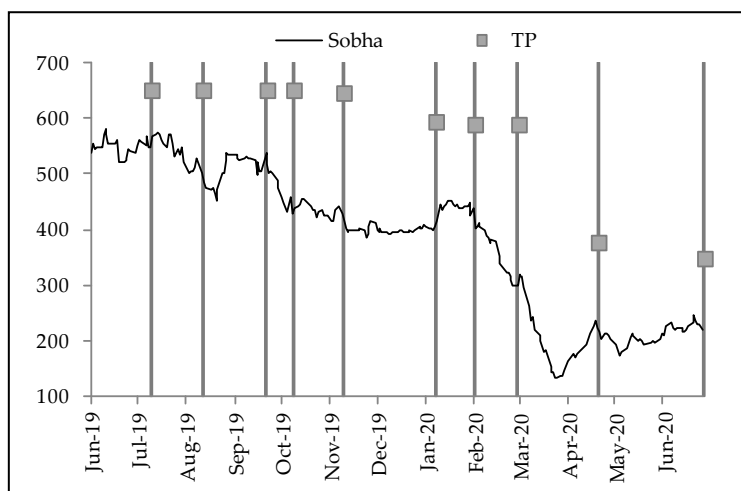
### Key Ratios

	FY15	FY16	FY17	FY18	FY19P	FY20	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	45.0	47.6	41.3	39.6	40.3	47.0	43.1	41.5
EBITDA Margin	25.3	22.6	18.7	18.6	19.6	20.2	19.9	18.5
APAT Margin	9.8	7.5	7.4	8.3	8.6	7.5	6.9	6.5
RoE	10.6	5.3	5.2	8.0	11.9	12.1	9.0	9.0
Core RoCE	13.3	8.7	7.8	9.9	13.9	15.1	11.5	11.6
RoCE	13.3	5.1	5.3	7.4	9.3	9.7	8.5	8.6
<b>EFFICIENCY</b>								
Tax Rate (%)	34.4	46.8	39.6	31.6	33.7	35.0	25.2	25.2
Asset Turnover (x)	0.5	0.4	0.4	0.5	0.8	0.7	0.6	0.6
Inventory (days)	386	652	761	650	602	643	734	643
Debtors (days)	40	49	39	36	35	33	40	38
Payables (days)	77	74	88	98	98	102	103	95
Cash Conversion Cycle (days)	348	627	711	589	538	575	671	586
Debt/EBITDA (x)	3.3	4.9	5.3	4.5	3.6	4.1	4.8	4.6
Net D/E	0.8	0.8	0.8	0.8	1.0	1.2	1.2	1.1
Interest Coverage	3.0	2.6	2.6	2.6	2.9	2.3	1.9	1.9
<b>PER SHARE DATA</b>								
EPS (Rs/sh)	24.3	15.0	17.3	24.5	31.3	29.7	24.0	25.7
CEPS (Rs/sh)	31.6	21.1	23.9	30.2	37.9	37.3	32.0	34.1
DPS (Rs/sh)	7.0	7.0	2.0	2.5	7.0	7.0	4.5	3.6
BV (Rs/sh)	248.0	261.5	274.6	292.0	235.0	256.3	275.0	296.3
<b>VALUATION</b>								
P/E	9.0	14.5	12.6	8.9	6.9	7.3	9.1	8.5
P/BV	0.9	0.8	0.8	0.7	0.9	0.8	0.8	0.7
EV/EBITDA	6.5	9.5	9.9	8.2	6.4	6.7	7.8	7.3
OCF/EV (%)	(5.4)	9.3	8.5	8.0	4.8	3.6	6.9	7.6
FCF/EV (%)	(6.9)	6.7	7.7	6.6	2.1	(1.3)	6.5	7.2
FCFE/Market Cap	17.6	22.4	15.2	18.9	17.5	12.7	19.0	20.6
Dividend Yield (%)	3.2	3.2	0.9	1.2	3.2	3.2	2.0	1.7

Source: Company, HSIE Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
9-Jan-20	397	BUY	595
4-Feb-20	437	BUY	590
2-Mar-20	297	BUY	590
22-Apr-20	224	BUY	377
30-Jun-20	217	BUY	348

From 2<sup>nd</sup> March 2020, we have moved to new rating system

## Rating Criteria

- BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: >10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)