INSTITUTIONAL RESEARCH

Sobha

A smooth ride with few bumps

Sobha Developers Limited's (SDL) FY20 annual report is more an annual ritual with clear cut disclosures and conservative treatment of real estate sales. The pre-sales for FY20 remained flattish at 4.1mn sqft. A few yellow flags do require further clarity in (1) SEBI emails seeking clarifications on certain business transactions done in earlier years (SDL has mentioned no adverse financial impact of it) and (2) related party dealings with promoter entity Sobha Projects and Trade Pvt Ltd. SDL, with a strong brand positioning, robust unused bank limits (Rs 15bn), and premium positioning in the residential segment, is well-placed to ride the COVID headwinds. We maintain BUY with a target price of Rs 348/sh.

- **Land capex worsened an already-negative FCF:** Sobha incurred Rs 2,913mn on capex, a large part of which (Rs 1,900mn) went towards acquiring land and building in Bengaluru for future expansion. This is a one-off investment. Of the balance, Rs 420mn was employed for St. Marks property (property completed now with no more capex) and Rs 600mn towards plant machinery and scaffolding. Besides this, the outgo on dividend stood at Rs 800mn. The total outgo on capex and dividend of Rs 3.8bn was part-funded by a debt increase of Rs 3.3bn. During FY21E, SDL may not incur a significant capex on land acquisitions.
- **Yellow flags on SEBI email and related party transactions with promoter entity:** During FY19/20/21, SDL received emails from SEBI, enquiring about certain transactions entered into by the group in earlier years. The board had sought contracts and documents for verification on any possible irregularities in the business/accounting of these transactions. SDL has responded to SEBI promptly and is pursuing the recovery of receivables and balances from the parties involved. The company also believes it has not given any undue favour and does not expect any adverse financial impact of the same. Besides, SDL has a business dealing with promoter entity Sobha Project and Trade Pvt Ltd, which is into fire and safety equipment. The later executes fire safety/piping products/civil contracts for other developers, sometimes back-to-back subcontracted to SDL. SDL also purchases goods from Sobha Trade for own or other subcontracts. We need more clarity on how the two entities determine the pricing.
- **Focus on improving liquidity:** Consolidated gross debt increased to Rs 31.1bn (vs Rs 26bn YoY), with Rs 0.9bn in cash. This resulted in net D/E increasing to 1.24x (vs. 1.1x YoY), falling short of the target of 1.2x at FY20 end. With no major capex anticipated on commercial assets build out or land acquisitions, SDL wants to reduce the net D/E ratio to 1.1x in FY21E. The company is likely to defer residual land payments to conserve cash.

Financial summary

Year Ending March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	19,566	22,462	27,870	34,421	37,539	33,072	37,452
EBITDA	4,429	4,199	5,197	6,733	7,593	6,566	6,944
APAT	1,469	1,666	2,323	2,970	2,815	2,268	2,428
Diluted EPS (Rs)	15.0	17.3	24.5	31.3	29.7	23.9	25.6
P/E (x)	14.5	12.6	8.9	6.9	7.3	9.1	8.5
EV / EBITDA (x)	9.5	9.9	8.2	6.7	6.7	7.8	7.3
RoE (%)	5.3	5.2	8.0	11.9	12.1	9.0	9.0

Source: Company, HSIE Research

BUY

CMP *(as on 31 July 2020)*	Rs 218
Target Price	Rs 348
NIFTY	11,073

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

KEY STOCK DATA	
Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (Rs bn) / ($ mn)	21/278
6m avg traded value (Rs mn)	91
52 Week high / low	Rs 561/118

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.2	(51.3)	(60.0)
Relative (%)	(2.3)	(43.6)	(60.3)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	51.78	51.90
FIs & Local MFs	15.50	10.94
FPIs	23.37	19.48
Public & Others	9.35	17.68
Pledged Shares	10.54	10.54

Source : BSE

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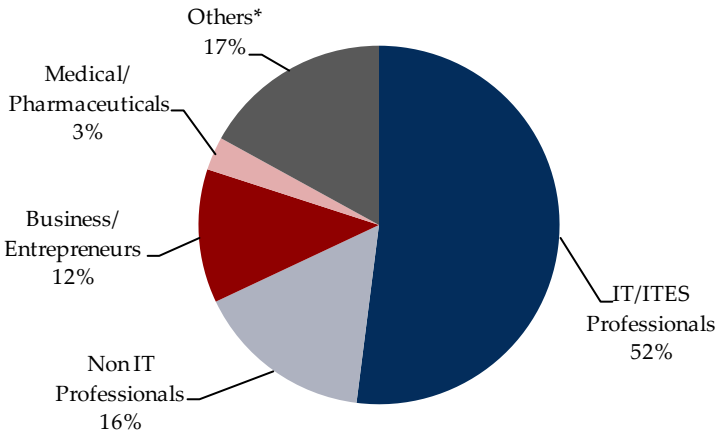
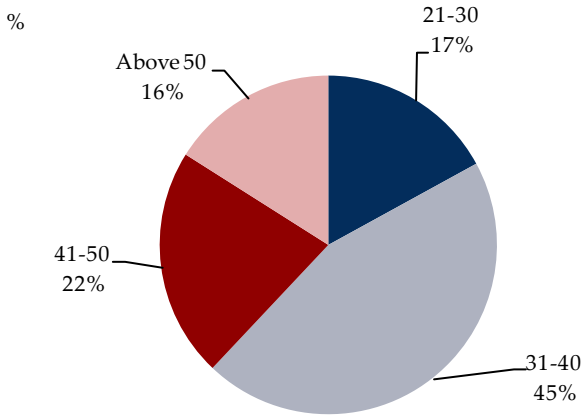
Presales trends in charts

Presales by profession profile



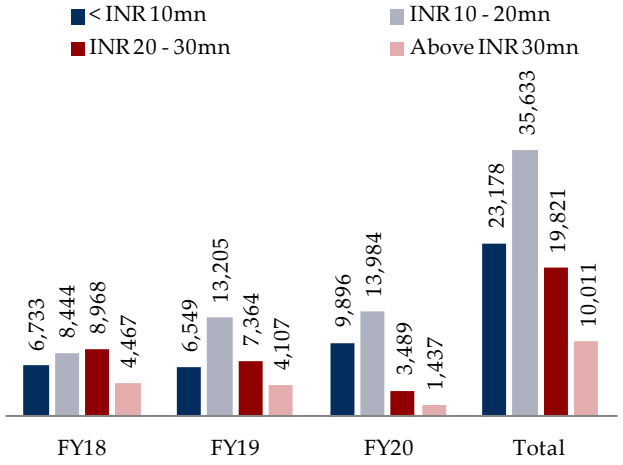
Source: Company

Presales by age profile



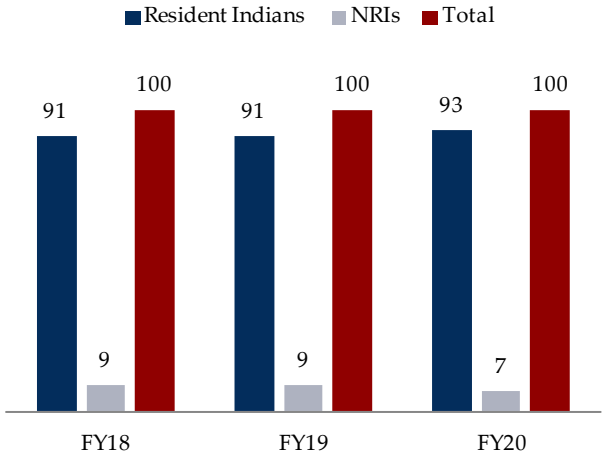
Source: Company

Pre-sales split across ticket size



Source: Company

Resident vs NRI split



Source: Company

Consolidated - P&L Statement Analysis

Year ending March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	Comments
Net Sales	**24,406**	**19,566**	**22,462**	**27,870**	**34,421**	**37,539**	Sobha reported Real estate revenue of Rs 22,801mn (+0.7% YoY, 61% in mix), Contractual and manufacturing Revenue of Rs 14,738mn (+25.2% YoY, 39% in mix). Total revenue of Rs 37,539mn (+9.1% YoY).
Growth (%)	***12.3***	***(19.8)***	***14.8***	***24.1***	***23.5***	***9.1***	
Material Expenses	13,428	10,243	13,190	16,840	20,561	19,910	Includes Rs 3,558mn reversals on notional interest on client advances as per INDAS-115
Employee Expenses	1,977	1,762	1,779	1,985	2,359	2,464	
Other Operating Expenses	2,827	3,131	3,294	3,848	4,768	4,014	Includes Rs 239mn (vs Rs 25mn YoY) of ECL provisions on contractual business. There were debtors due past 1yr and Sobha took ECL provisions on same and will continue to pursue recovery
EBIDTA	**6,173**	**4,429**	**4,199**	**5,197**	**6,733**	**11,153**	We estimate implied EBIDTA margins of 25.2% and 12.5% EBIDTA margins for Real estate and Contractual segment. Overall EBIDTA margins stood at 29.7% on account of Rs 3,558mn notional interest reversal on client advance. Adjusted for same reported EBIDTA came in at Rs 7,595mn (+12.8% YoY)
EBIDTA (%)	***25.3***	***22.6***	***18.7***	***18.6***	***19.6***	***29.7***	
EBIDTA Growth (%)	***2.4***	***(28.2)***	***(5.2)***	***23.8***	***29.6***	***65.6***	
Other Income	149	343	386	496	735	718	Includes non operating income of Rs 288mn and finance income of Rs 429mn
Depreciation	723	597	638	544	623	723	
EBIT	5,600	4,175	3,947	5,149	6,845	11,148	
Interest	1,883	1,637	1,497	1,978	2,362	6,816	Includes non cash notional interest on client advances of Rs 3,558mn as per INDAS-115. Same has been adjusted above EBIDTA in inventory, hence higher EBIDTA margins. Borrowing related interest expense is Rs 3,258mn
Exceptional items	-	-	-	-	-	-	
PBT	**3,716**	**2,539**	**2,450**	**3,171**	**4,482**	**4,330**	
Tax	1,277	1,188	970	1,002	1,512	1,515	Tax rate at 34.7% despite adopting 115BAA is due to MAT reversals and other adjustments
PAT	**2,439**	**1,350**	**1,480**	**2,169**	**2,970**	**2,815**	
Share of profits	(59)	30	129	-	-	-	
Share of associates	-	30	129	-	-	-	
EO items (net of tax)	-	89	58	154	-	-	
APAT	**2,380**	**1,469**	**1,666**	**2,323**	**2,970**	**2,815**	APAT at Rs 2,815mn (-5.2% YoY)
APAT Growth (%)	**1.3**	**(38.3)**	**13.4**	**39.4**	**27.9**	**(5.2)**	
EPS	**24.3**	**15.0**	**17.3**	**24.5**	**31.3**	**29.7**	
EPS Growth (%)	***1.3***	***(38.3)***	***15.5***	***41.5***	***27.9***	***(5.2)***	

Consolidated - Balance Sheet Analysis

As at March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	
SOURCES OF FUNDS							
Share Capital	981	981	963	948	948	948	
Reserves	23,337	24,667	25,482	26,751	21,343	23,364	
Total Shareholders Funds	**24,318**	**25,648**	**26,445**	**27,699**	**22,291**	**24,312**	
Minority Interest	**148**	**-**	**-**	**-**	**-**	**-**	
Long Term Debt	20,588	20,586	22,219	23,346	26,039	31,137	
Short Term Debt	-	1,216	-	-	-	-	
Total Debt	**20,588**	**21,803**	**22,219**	**23,346**	**26,039**	**31,137**	Total debt is Rs 31bn and networth Rs 24.3bn and gross debt/equity is 1.28x.
Deferred Taxes	**1,631**	**2,361**	**2,684**	**2,521**	**-**	**311**	
Long Term Provisions & Others	**-**	**249**	**163**	**185**	**121**	**206**	
TOTAL SOURCES OF FUNDS	**46,684**	**50,062**	**51,511**	**53,751**	**48,451**	**55,966**	
APPLICATION OF FUNDS							
Net Block	**3,151**	**3,729**	**3,173**	**2,796**	**2,848**	**4,991**	Gross block increased largely on account of new land and building site at Bengaluru worth worth Rs 1,900mn, scaffolding of Rs 312mn and Plant & Machinery Rs 260mn. Investment property under construction capex was Rs 423mn on St Marks - One Sobha Mall which is now completed and hence no more capex on this
CWIP	**524**	**454**	**799**	**1,345**	**1,900**	**2,323**	
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**	
Investments	**0**	**294**	**0**	**1,125.0**	**1,128.3**	**1,143.0**	Investment in Kondhwa Project
Investment Property		**1,997**	**1,979**	**1,961**	**2,029**	**1,881**	
Other Non Current Assets		**4,888**	**4,860**	**4,873**	**6,395**	**5,618**	
Inventories	27,284	42,649	50,960	48,349	65,173	67,045	Comprise of largely land stock of Rs 12bn vs Rs 9.8bn. WIP of Rs 40.8bn vs Rs 50bn YoY. Finished good flats of Rs 12bn vs Rs 3.6bn YoY. Large increase of finished flat inventory as clients are yet to take hand over though all payment received. Total Rs 64.2bn vs Rs 62.7bn YoY.
Debtors	2,724	2,522	2,267	3,272	3,272	3,603	Debtors more or less stable at Rs 3.5bn.
Cash & Equivalents	1,631	1,185	1,468	1,194	1,772	884	
ST Loans & Advances, Others	27,047	22,906	23,423	25,333	22,881	22,633	Other financial asset comprise of JDA advances which has seen increase of Rs 3.2bn largely on account of reclassification from inventory to other financial assets. Other assets include land bank advances of Rs 14.5bn (besides Rs 12bn is in inventory and Rs 1bn in Pune investment). Total book value of land bank is Rs 27.5bn.
Total Current Assets	**58,687**	**69,262**	**78,118**	**78,148**	**93,098**	**94,165**	
Creditors	4,785	3,182	7,693	7,205	11,328	9,567	
Other Current Liabilities & Provns	10,894	27,380	29,726	29,292	47,621	44,590	Includes Rs 39bn of customer advances
Total Current Liabilities	**15,678**	**30,563**	**37,419**	**36,497**	**58,948**	**54,157**	
Net Current Assets	**43,008**	**38,699**	**40,699**	**41,652**	**34,150**	**40,008**	
Misc Expenses & Others	**0**	**-**	**-**	**-**	**-**	**2**	
TOTAL APPLICATION OF FUNDS	**46,684**	**50,062**	**51,512**	**53,751**	**48,450**	**55,966**	

Consolidated - Cash Flow Statement Analysis

Year ending March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	
PBT before minority and Share of profits	3,716	2,539	2,449	3,171	4,482	4,330	
Non-operating & EO items	(6,191)	(245)	(326)	(340)	(369)	(186)	
Taxes	(845)	(617)	(679)	(837)	(882)	(1,063)	
Interest expenses	1,753	1,459	1,327	1,780	2,147	6,595	Sobha generated CFF of Rs 11,462mn (including Rs 6,595mn of interest provision vs Rs 2,147mn YoY). Due to adoption of AS115, Real estate companies have to provide notional interest (no cashflow impact) on customer advances (Sobha provisioning 9-10% interest rate on Rs 39bn customer advances) and hence the Rs 6,595mn includes about Rs 3,296mn as notional interest on customer advance and actual bank interest of Rs 3,299mn (Rs 3,258mn in P&L)
Depreciation	723	597	638	544	623	723	
Working Capital Change	(1,319)	151	130	(888)	(3,942)	(7,783)	Sobha reported Rs 8,348mn of Negative NWC this is due to Rs 3,158mn increase is inventory as offsetting entry to notional interest charge to customer advance of Rs 3,296mn. This will keep coming every year but no cash flow impact as notional interest charged will offset increase in inventory on asset side. Besides this other large items which contributed negatively were reduction in trade payable Rs 1,742mn which was payment done to supply chain. This may turn positive as Sobha will avail extended credit terms. Third item was decrease in non-financial liabilities Rs 2,755mn which is reduction in customer advances as they got adjusted against the apartment deliveries
OPERATING CASH FLOW (a)	**(2,164)**	**3,884**	**3,539**	**3,430**	**2,061**	**2,616**	This resulted in operating cash flow of Rs 2,616mn post Rs 1,063mn of tax.
Capex	(634)	(1,076)	(316)	(617)	(1,150)	(3,011)	Sobha incurred Rs 2,913mn on capex a large part was Rs 1,900mn on acquiring land with building in Bengaluru for expansion of factory and mining works. This is one off investment and non recurring. Balance was Rs 420mn for St Marks property (property completed now no more capex) and Rs 600mn on plant machinery and scaffolding
Free cash flow (FCF)	(2,798)	2,808	3,223	2,813	910	(395)	
Investments	(24)	(1,841)	(199)	124	152	(161)	
Others	60	467	534	331	388	430	
INVESTING CASH FLOW (b)	***(599)***	***(2,451)***	***20***	***(163)***	***(610)***	***(2,742)***	Total adjusted CFI was Rs 2,742mn
Share capital Issuance	-	-	(582)	(620)	-	-	
Debt Issuance	6,544	1,964	(40)	1,088	2,706	3,254	Sobha outgo toward interest of Rs 3,298mn and Rs 800mn towards dividend led to total cash outgo of Rs 4,098mn which was funded by Rs 3,254mn of debt and surplus cash
Interest expenses	(2,369)	(2,464)	(2,602)	(2,606)	(2,768)	(3,299)	
Dividend	(803)	(827)	(232)	(290)	(800)	(800)	
FINANCING CASH FLOW (c)	**3,372**	**(1,327)**	**(3,455)**	**(2,428)**	**(862)**	**(845)**	
NET CASH FLOW (a+b+c)	**609**	**106**	**103**	**840**	**589**	**(971)**	Total net cash generated stood at -Rs 971mn and with starting cash of Rs 1,644mn net cash balance for FY20 came in at Rs 675mn
Non-operating and EO items	(152)	10	3	(9)	(7)	-	
Other Deposits not considered in C&CE		50	227				
Closing Cash & Equivalents	1,664	1,185	1,468	1,194	1,772	885	

Contingent liabilities – Few Yellow Flags

Contingent Liabilities (Rs mn)	FY19	FY20	Comment
Guarantees given by the group	3,392	4,508	Nothing material. Though during the year Sobha received notice of provisional attachment in a JDA partner's land on which Sobha has completed the project. Based on legal opinion Sobha doesn't see any material impact. Also during FY19/20/21 Sobha received SEBI email, inquiring on certain transactions entered into by the group in earlier years. The email intends to verify any irregularities in business/accounting of these transactions. Sobha has responded and one email has been received in FY21 and Sobha is preparing response for same. Sobha has receivables and other balances from these transactions and is in process of recovering the same. Sobha believes it has given no undue favours to these parties and hence expects no adverse financial impact on company
Income tax matters in dispute	279	247	
Sales tax matters in dispute	634	670	
Service tax matters in dispute	615	607	
Excise duty matters in dispute	7	7	
Total	4,927	6,039	

Auditor Remuneration – Compensation increase not material

Auditor Fees (Rs mn)	FY19	FY20	YoY (%)
Audit fees	7.5	10.4	38.3

Related party – More clarity required on transactions

Related Party	FY19	FY20	Comment
Sobha Projects and Trade Pvt ltd			
Income from contractual activity	1,022	623	Sobha Projects and Trade Pvt Ltd is promoter company and is into manufacturing and trading of fire safety equipments for buildings. They give civil contract to Sobha and also Sobha for its own buildings purchases fire safety systems from them
Purchase of project items	923	746	
Advance paid towards purchase of goods and services	512	732	
Refund of advance	26	-	
Advance recoverable in cash or kind	8	13	
Trade receivable	635	695	
Trade payable	13	13	

Sobha Purvankara Aviation Pvt Ltd	FY19	FY20	
Aircraft higher charges	120	60	Sobha doesn't own aircraft they avail it on rent through this entity
Advance paid towards purchase of goods and services	88	-	
Advance recoverable in cash or kind	693	222	

Technobuild Developers Pvt Ltd	FY19	FY20	
Land advance	556	77	Land banking entity due to urban ceiling on land
Refund of advance	105	749	
Balances - land advance	9,177	8,519	
Trade Payables	72	356	

Outlook and valuation

Valuation

We value the real estate business at Rs 221/share, future developable land bank at Rs 333share, 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

	Rs mn	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)	
NAV	**32,973**	**348**	

Source: HSIE Research

SOTP Valuation

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

- We maintain BUY on SDL, with SOTP-based target price of Rs 348/share. 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 348/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.

Financials

Consolidated Income Statement

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

Source: Company, HSIE Research

Standalone Balance Sheet

As at March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS							
Share Capital	981	963	948	948	948	948	948
Reserves	24,667	25,482	26,751	21,343	23,364	25,133	27,159
Total Shareholders Funds	**25,648**	**26,445**	**27,699**	**22,291**	**24,312**	**26,081**	**28,107**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Long Term Debt	20,586	22,219	23,346	24,427	31,003	31,603	32,203
Short Term Debt	1,216	-	-	-	-	-	-
Total Debt	**21,803**	**22,219**	**23,346**	**24,427**	**31,003**	**31,603**	**32,203**
Deferred Taxes	**2,361**	**2,684**	**2,521**	**-**	**311**	**373**	**448**
Long Term Provisions & Others	**249**	**163**	**185**	**121**	**206**	**227**	**249**
TOTAL SOURCES OF FUNDS	**50,062**	**51,511**	**53,751**	**46,838**	**55,832**	**58,284**	**61,007**
APPLICATION OF FUNDS							
Net Block	**3,729**	**3,173**	**2,796**	**2,848**	**4,991**	**4,437**	**3,844**
CWIP	**454**	**799**	**1,345**	**1,900**	**2,323**	**2,323**	**2,323**
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments	**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	42,649	50,960	48,349	65,173	67,045	66,034	65,983
Debtors	2,522	2,267	3,272	3,272	3,603	3,622	4,102
Cash & Equivalents	1,185	1,468	1,194	1,772	884	1,272	1,948
ST Loans & Advances, Others	22,906	23,423	25,333	22,881	22,634	23,584	24,534
Total Current Assets	**69,262**	**78,118**	**78,148**	**93,098**	**94,166**	**94,512**	**96,568**
Creditors	3,182	7,693	7,205	11,328	9,567	9,124	10,333
Other Current Liabilities & Provns	27,380	29,726	29,292	49,233	44,724	42,882	40,821
Total Current Liabilities	**30,563**	**37,419**	**36,497**	**60,560**	**54,291**	**52,006**	**51,153**
Net Current Assets	**38,699**	**40,699**	**41,652**	**32,538**	**39,875**	**42,507**	**45,414**
TOTAL APPLICATION OF FUNDS	**50,062**	**51,512**	**53,751**	**46,838**	**55,832**	**58,284**	**61,007**

Source: Company, HSIE Research

Standalone Cash Flow

Year ending March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT before minority and Share of profits	2,539	2,449	3,171	4,482	4,330	3,043	3,257
Non-operating & EO items	(245)	(326)	(340)	(369)	(186)	(610)	(641)
Taxes	(617)	(679)	(837)	(882)	(1,063)	(766)	(820)
Interest expenses	1,459	1,327	1,780	2,147	6,595	3,380	3,535
Depreciation	597	638	544	623	723	754	793
Working Capital Change	151	130	(888)	(3,942)	(7,783)	(2,290)	(2,266)
OPERATING CASH FLOW (a)	**3,884**	**3,539**	**3,430**	**2,061**	**2,616**	**3,510**	**3,858**
Capex	(1,076)	(316)	(617)	(1,150)	(3,011)	(200)	(200)
Free cash flow (FCF)	2,808	3,223	2,813	910	(395)	3,310	3,658
Investments	(1,841)	(199)	124	152	(161)	(245)	(276)
Others	467	534	331	388	430	610	641
INVESTING CASH FLOW (b)	**(2,451)**	**20**	**(163)**	**(610)**	**(2,742)**	**166**	**164**
Share capital Issuance	-	(582)	(620)	-	-	-	-
Debt Issuance	1,964	(40)	1,088	2,706	3,254	600	600
Interest expenses	(2,464)	(2,602)	(2,606)	(2,768)	(3,299)	(3,380)	(3,535)
Dividend	(827)	(232)	(290)	(800)	(800)	(508)	(411)
FINANCING CASH FLOW (c)	**(1,327)**	**(3,455)**	**(2,428)**	**(862)**	**(845)**	**(3,288)**	**(3,346)**
NET CASH FLOW (a+b+c)	**106**	**103**	**840**	**589**	**(971)**	**388**	**677**
Non-operating and EO items	10	3	(9)	(7)	-	-	-
Closing Cash & Equivalents	1,185	1,468	1,194	1,772	884	1,272	1,948

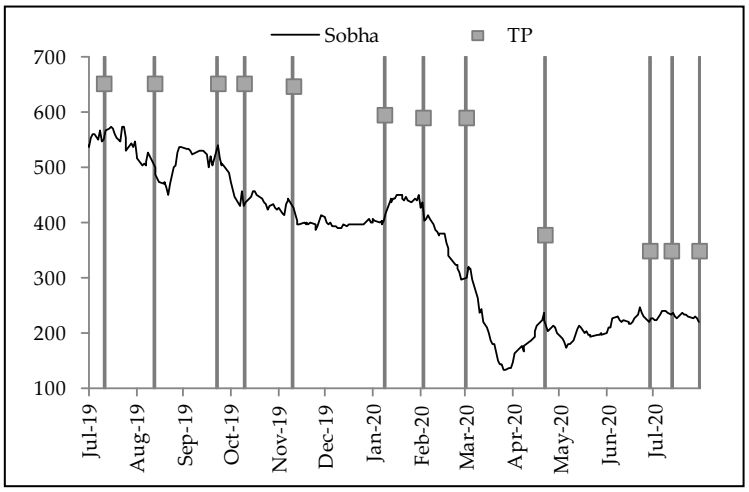
Source: Company, HSIE Research

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)							
GPM	47.6	41.3	39.6	40.3	47.0	43.1	41.5
EBITDA Margin	22.6	18.7	18.6	19.6	20.2	19.9	18.5
APAT Margin	7.5	7.4	8.3	8.6	7.5	6.9	6.5
RoE	5.3	5.2	8.0	11.9	12.1	9.0	9.0
Core RoCE	8.7	7.8	9.9	13.9	15.1	11.5	11.6
RoCE	5.1	5.3	7.4	9.3	9.7	8.5	8.6
EFFICIENCY							
Tax Rate (%)	46.8	39.6	31.6	33.7	35.0	25.2	25.2
Asset Turnover (x)	0.4	0.4	0.5	0.8	0.7	0.6	0.6
Inventory (days)	652	761	650	602	643	734	643
Debtors (days)	49	39	36	35	33	40	38
Payables (days)	74	88	98	98	102	103	95
Cash Conversion Cycle (days)	627	711	589	538	575	671	586
Debt/EBITDA (x)	4.9	5.3	4.5	3.6	4.1	4.8	4.6
Net D/E	0.8	0.8	0.8	1.0	1.2	1.2	1.1
Interest Coverage	2.6	2.6	2.6	2.9	2.3	1.9	1.9
PER SHARE DATA							
EPS (Rs/sh)	15.0	17.3	24.5	31.3	29.7	24.0	25.7
CEPS (Rs/sh)	21.1	23.9	30.2	37.9	37.3	32.0	34.1
DPS (Rs/sh)	7.0	2.0	2.5	7.0	7.0	4.5	3.6
BV (Rs/sh)	261.5	274.6	292.0	235.0	256.3	275.0	296.3
VALUATION							
P/E	14.7	12.7	9.0	7.0	7.4	9.1	8.5
P/BV	0.8	0.8	0.8	0.9	0.9	0.8	0.7
EV/EBITDA	9.5	10.0	8.3	6.5	6.7	7.8	7.4
OCF/EV (%)	9.2	8.4	8.0	4.7	5.1	6.9	7.6
FCF/EV (%)	6.7	7.7	6.5	2.1	(0.8)	6.5	7.2
FCFE/Market Cap	22.2	15.1	18.7	17.4	13.7	18.8	20.5
Dividend Yield (%)	3.2	0.9	1.2	3.2	3.2	2.0	1.6

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
13-Jul-20	235	BUY	348
3-Aug-20	218	BUY	348

From 2nd 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

Disclosure:

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