

CMP: ₹ 907

Target: ₹ 970 (7%)

Target Period: 12 months

HOLD

November 10, 2021

Riding on strong underlying demand...

About the stock: Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects with ~20 mn sq feet of saleable area and ongoing contractual projects aggregating to 5.9 mn sq ft under various stages of construction. As on Q2FY22, the company has delivered ~114.7 mn sq ft of developable area.

- The company has a real estate presence in 10 cities, viz. Bengaluru, Gurugram, Chennai, Pune, Coimbatore, Thrissur, Kozhikode, Kochi, Gujarat (Gift City) and Mysore

Q2FY22 Results: Sobha reported a strong operating and financial performance.

- The sales volume of 13,48,864 sq ft (up 51.2% YoY, 30% from pre Covid – Q2FY20) during Q2FY22 valued at ₹ 1030.2 crore (up 49.3% YoY), were primarily driven by good sale numbers achieved in Bengaluru, Gurugram, Pune and GIFT CITY
- On the financial front, reported revenues were up 57% YoY at ₹ 819 crore, driven by strong real estate revenues recognition (up 96% YoY at ₹ 654 crore). Ex- Ind AS EBITDA at ₹ 155.8 crore, was up 24.5% with margins of 19%, down 500 bps YoY. PAT at ₹ 45.4 crore was up 167% YoY

What should investors do? Sobha's share price has returned 266% over the past five years with most gains being back ended in the last one year.

- We maintain HOLD rating to the company as the recent run up (up ~50% in last three months) restricts meaningful upsides from here

Target Price and Valuation: We value Sobha at ₹ 970/share.

Key triggers for future price performance:

- Robust current ongoing and completed project with ₹ 7213 crore of potential cash flow
- Any improvement in leverage, which currently is at 1.13x net debt/equity
- Huge captive land bank providing enough ammunition to expand overall residential sales volumes trajectory

Alternate Stock Idea: Besides Sobha, we like Mahindra Life in the realty sector

- A play on expanding residential real estate portfolio
- BUY with a target price of ₹ 335

Key Financial Summary

₹ crore	FY19	FY20	FY21	5 yr CAGR FY16-21	FY22E	FY23E	2 yr CAGR FY21-23E
Net Sales	3442.1	3753.9	2109.8	1.7%	3005.7	3190.7	23.0%
EBITDA	673.3	1115.2	675.1	8.8%	727.3	812.1	9.7%
EBITDA Margin (%)	19.6	29.7	32.0		24.2	25.5	
PAT	297.0	281.7	62.2	-14.7%	291.4	360.8	140.8%
EPS(₹)	31.3	29.7	6.6		30.7	38.0	
P/E (x)	28.9	30.5	138.2		29.5	23.8	
EV/EBITDA (x)	16.6	10.7	17.4		15.9	14.6	
RoNW (%)	13.3	11.6	2.6		11.1	12.5	
RoCE (%)	14.7	20.0	12.3		12.7	13.8	

Source: Company, ICICI Direct Research * FY22/FY23 margins are ex-IND AS



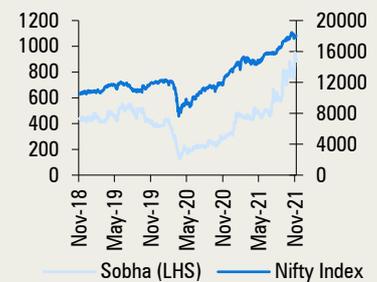
Particulars

Particular	Amount (₹ crore)
Market Capitalization	8,894.9
Total Debt (FY21)	3,038.6
Cash and Investments	204.2
EV	11,729.3
52 week H/L (₹)	980 / 284
Equity capital	94.8
Face value (₹)	10.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	52.0	52.0	52.0	52.0
DII	13.3	12.5	12.9	13.1
FII	16.0	18.1	17.9	17.1
Other	18.7	17.5	17.2	17.8

Price Chart



Key Risks

Key Risk: (i) Slower debt reduction; (ii) Faster than expected residential sales volume

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Key business highlight and outlook

- Sales Performance:** Sobha reported best ever quarterly sales volume of 1.35 mn sq ft during Q2FY22 valued at ₹ 1,030 crore with Sobha's share at ₹ 854.2 crore (vs. 0.9 mn sq ft area; total sales value of ₹ 683 crore posted in Q1FY22). Total sales volume and sales value during H1FY22 was at 2.2 mn sq ft and ₹ 1,713 crore respectively. Geographically, Bangalore contributed 59.2% to total sales volume, followed by Gurugram with 14.1% share, Kochi with 8.7% share, Pune (5.9%) Thrissur (3.4%), and Gift city (3.9%). Going forward, its market share in Bangalore market is likely to remain elevated (~12-15%) with higher number of new launches in pipeline (5.8 mn sq ft; despite likely increase in competitions with new players/corporates entering the geography). Also, the company expects sales momentum (of ₹ 1000 crore/quarter) to sustain going ahead, with increased affordability, low mortgage rates, and a buoyant IT sector.
- Real estate projects:** Real estate revenue for Q2FY22 was at ₹ 654.4 crore (up 96% YoY). With higher sales, cash inflow from the division improved to ₹ 725 crore (up 44% YoY) while the company generated net operating cash flow of ₹ 177 crore (up 37% YoY). Going forward, its balance receivable from sold ongoing project inventory and completed projects was at ₹ 5,010 crore and sufficient to cover 97% of the balance project cost. Additionally, its unsold completed inventory was at 0.44 mn sq. ft (valued at ₹ 1,084.1 crore), which is one of the lowest in the real estate sector
- Contracts portfolio:** Sobha has delivered 53.8 mn sq ft of area since inception via its contracts division and contractual projects of 5.9 mn sq ft area are under various stages of construction. These projects are majorly spread across Bangalore (1.7 mn sq ft), Trivandrum (2.8 mn sq ft), Nagpur (0.4 mn sq ft), Indore (0.4 mn sq ft) and Haryana (0.5 mn sq ft) regions. During Q2FY22, contractual and manufacturing vertical revenue was muted at ₹ 186.3 crore (down 11.3% YoY). However, the management expects divisional revenue to improve with strong order book position (₹ 2,280 crore as on September 30, 2021), and enhanced activities on various sites. With these, revenue booking in H2FY22 is likely to be better than H1FY22
- Realisation and margin:** Average price realisation during Q2FY22 remained at an elevated level at ₹ 7,637 /sq ft (vs ₹ 7,626 /sq ft in Q1FY22). This is largely attributed to better product mix, higher sales in better regions such as Gurugram and Kochi, and reduced discounts. Going forward, the management has indicated towards sustainability of margins at current level despite increase in input costs
- Prices:** Sobha has undertaken ~6-7% price hikes in some of its newer projects in order to offset increase in input costs. Additionally, the company has indicated towards ~1-2% price hikes for some of the units located in same location but at different/adjacent towers. The management expects per unit costs can jump up to ~25-30% from current levels over next two to three years across major markets given rising input cost, limited supply and higher land costs.
- New Launches:** During Q2FY22, Sobha launched two residential projects "Sobha Manhattan" in Bengaluru and "Sobha Arbor" in Chennai with super built-up area of 0.9 mn sq ft and 0.3 mn sq ft, respectively. Additionally, the company has strong medium term pipeline of launches spread across real estate (10.8 mn sq ft) and commercial (0.32 mn sq ft) portfolios. Out of these pipeline, the company is looking to launch projects having ~2 mn sq ft of potential sales by January/February 2022. Going ahead, Sobha is looking to focus on utilising existing land bank, which would also improve cash flow profile with reduction in land payment to JV partners. Also, Sobha is evaluating some JV/JDA proposals located mainly in southern market on opportunistic basis
- Debt:** Sobha reduced its net debt position by ₹ 39 crore on a QoQ basis (despite dividend payment). Its net debt at the end of September 2021 was at ₹ 2,778 crore (net D/E: 1.13x). Also, the cost of borrowing came down to 8.85% (from 8.98% a quarter ago). Going forward, the company's strong focus remains on reducing its debt with higher sales and better cash flow generation, and targeting D/E to <1x in near-to-medium term

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY	QoQ
Bengaluru							
Sales Volume (Sq ft)	5,38,608	7,86,630	8,92,604	6,63,867	7,98,353	48.2%	20.3%
Average Realisation (₹/sq ft)	7,518	7,624	7,450	7,307	7,050	-6.2%	-3.5%
Sale Value (₹ crore)	405	600	665	485	563	39.0%	16.0%
Thrissur							
Sales Volume (Sq ft)	44,404	45,656	39,466	40,152	46,222	4.1%	15.1%
Average Realisation (₹/sq ft)	7,186	7,380	7,069	7,095	6,901	-4.0%	-2.7%
Sale Value (₹ crore)	31.9	33.7	27.9	28.5	31.9	0.0%	11.9%
Coimbatore							
Sales Volume (Sq ft)	16,279	14,974	13,929	4,402	16,970	4.2%	285.5%
Average Realisation (₹/sq ft)	4,605	4,504	5,616	5,734	5,480	19.0%	-4.4%
Sale Value (₹ crore)	7.5	6.7	7.8	2.5	9.3	24.0%	272.0%
Pune							
Sales Volume (Sq ft)	15,148	18,349	50,643	24,993	79,572	425.3%	218.4%
Average Realisation (₹/sq ft)	8,161	7,942	9,912	9,494	9,639	18.1%	1.5%
Sale Value (₹ crore)	12.4	14.6	50.2	23.7	76.7	518.5%	223.6%
Mysore							
Sales Volume (Sq ft)	12,250	3,903	-	-	-	-100.0%	#DIV/0!
Average Realisation (₹/sq ft)	1,926	2,283	-	-	-	-100.0%	#DIV/0!
Sale Value (₹ crore)	2.4	0.9	0.0	0.0	0.0	-100.0%	#DIV/0!
NCR							
Sales Volume (Sq ft)	82,509	97,267	1,62,537	67,336	1,89,522	129.7%	181.5%
Average Realisation (₹/sq ft)	9,214	9,712	9,949	9,614	9,629	4.5%	0.2%
Sale Value (₹ crore)	76.0	94.5	161.7	64.7	182.5	140.1%	182.1%
Chennai							
Sales Volume (Sq ft)	34,601	31,821	37,601	14,064	43,484	25.7%	209.2%
Average Realisation (₹/sq ft)	7,558	5,740	6,780	7,117	5,772	-23.6%	-18.9%
Sale Value (₹ crore)	26.2	18.3	25.5	10.0	25.1	-4.2%	151.0%
Calicut							
Sales Volume (Sq ft)	-	-	-	-	-	#DIV/0!	#DIV/0!
Average Realisation (₹/sq ft)	-	-	-	-	-	#DIV/0!	#DIV/0!
Sale Value (₹ crore)	-	-	-	-	-	#DIV/0!	#DIV/0!
Cochin							
Sales Volume (Sq ft)	1,30,267	1,07,171	1,18,467	52,833	1,17,564	-9.8%	122.5%
Average Realisation (₹/sq ft)	9,113	9,697	10,224	9,865	9,221	1.2%	-6.5%
Sale Value (₹ crore)	118.7	103.9	121.1	52.1	108.4	-8.7%	108.1%
Gift City							
Sales Volume (Sq ft)	8,142	27,803	22,460	25,873	52,553	545.5%	103.1%
Average Realisation (₹/sq ft)	5,514	5,510	5,716	5,774	5,785	4.9%	0.2%
Sale Value (₹ crore)	4.5	15.3	12.8	14.9	30.4	575.6%	104.0%
Kozhikode							
Sales Volume (Sq ft)	9,492	-	-	2,019	4,623	-51.3%	129.0%
Average Realisation (₹/sq ft)	5,733	-	-	6,141	6,922	20.7%	12.7%
Sale Value (₹ crore)	5.4	0.0	0.0	1.2	3.2	-40.7%	166.7%
Total							
Sales Volume (Sq ft)	8,91,700	11,33,574	13,37,707	8,95,539	13,48,863	51.3%	50.6%
Average Realisation (₹/sq ft)	7,737	7,830	8,014	7,626	7,638	-1.3%	0.2%
Sale Value (₹ crore)	690	888	1,072	683	1,030	49.3%	50.9%

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume sold in msf	FY18	FY19	FY20	FY21	FY22E	FY23E	Comments
Total	3.3	3.4	4.0	4.0	4.8	4.9	

Source: Company, ICICI Direct Research

Exhibit 3: Valuations

Particulars	NAV	
	₹ crore	₹ /share
Completed and Ongoing projects - incl. new phases	3273.4	345.3
New Launches	1259.1	132.8
Commercial assets	316.5	33.4
Other Land Bank (developable value: PV of post tax OCF)	6535	689.3
Real Estate Business value	11383.7	1200.8
Less:		
Net debt	2930	309.1
Land cost outstanding	142	15.0
Real Estate equity value	8311	876.7
Construction Business (6x FY23E EV/EBITDA)	871	91.8
Total SoTP Valuation	9182	969
Rounded TP		970

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	3,753.9	2,109.8	3,005.7	3,190.7
Growth (%)		(43.8)	42.5	6.2
Other income	71.8	80.6	76.6	80.4
Total revenue	3,825.7	2,190.4	3,082.3	3,271.1
Raw Material Expense	1,991.0	928.2	1,720.1	1,768.6
Land cost	426.8	254.4	347.4	352.8
Employee benefit expenses	246.4	177.1	212.6	229.6
Other Expenses	401.2	329.3	345.8	380.4
EBITDA	1,115.2	675.1	727.3	812.1
Growth (%)		(39.5)	7.7	11.7
Interest	681.6	601.2	334.2	328.7
Depreciation	72.3	79.4	81.0	82.7
Other income	71.8	80.6	76.6	80.4
PBT	433.2	75.1	388.6	481.1
Taxes	151.5	12.9	97.1	120.3
Minority Interest	-	-	-	-
PAT after MI	281.7	62.2	291.4	360.8
PAT Growth rate	(5.2)	(77.9)	368.3	23.8
Adjusted EPS (Diluted)	29.2	6.5	30.3	37.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	281.7	62.2	291.4	360.8
Depreciation	72.3	79.4	81.0	82.7
Interest	681.6	601.2	334.2	328.7
Others	160.4	(106.7)	(173.7)	(200.7)
Cash Flow before wc changes	1,359.4	649.0	630.1	691.8
Net Increase in Current Assets	(597.3)	(59.2)	1,144.7	234.5
Net Increase in Current Liabilities	(679.6)	51.3	(1,073.0)	(665.8)
Net CF from operating activities	94.4	641.1	701.8	260.5
(Purchase)/Sale of Fixed Assets	(112.5)	(44.3)	(185.0)	(185.0)
Net CF from Investing activities	(84.8)	(91.7)	(108.4)	(104.6)
Inc / (Dec) in Equity Capital	-	-	-	-
Dividend	(80.0)	(66.4)	(82.7)	(102.4)
Interest paid	(321.3)	(310.6)	(334.2)	(328.7)
Inc / (Dec) in Loans	302.9	(75.1)	-	(100.0)
Net CF from Financing activities	(98.4)	(452.1)	(417.0)	(531.1)
Net Cash flow	(88.8)	97.3	176.4	(375.2)
Opening Cash	177.2	59.7	204.2	380.6
Closing Cash/ Cash Equivalent	88.4	157.0	380.6	5.4

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,336.4	2,332.9	2,541.6	2,800.0
Total Shareholders funds	2,431.2	2,427.7	2,636.5	2,894.9
Minority Interest	-	-	-	-
Total Debt	3,117.4	3,038.6	3,038.6	2,938.6
Deferred Tax Liability	31.1	34.2	34.2	34.2
Total Liabilities	5,580	5,501	5,709	5,868
Assets				
Gross Block	963.6	1,187.2	1,212.2	1,237.2
Less Acc. Dep	276.4	353.8	434.9	517.6
Net Block	687.1	833.4	777.3	719.6
Goodwill on Consolidation	-	-	-	-
Capital WIP	232.3	70.1	230.1	390.1
Investments	114.3	114.3	114.3	114.3
Inventory	6,704.5	7,124.6	6,015.2	5,862.4
Sundry Debtors	374.6	236.1	329.4	349.7
Loans & Advances	2,811.0	2,628.2	2,499.6	2,397.7
Cash & Bank Balances	88.4	204.2	380.6	5.4
Total Current Assets	10,092.8	10,307.4	9,339.2	8,729.5
Creditors	5,402.9	5,680.6	4,617.5	3,950.5
Provisions	29.6	29.0	19.1	20.3
Net Current Assets	4,546.0	4,483.5	4,588.3	4,644.4
Total Assets	5,580	5,501	5,709	5,868

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	29.2	6.5	30.3	37.5
Cash EPS	37.3	14.9	39.3	46.8
Book Value	252.4	252.1	273.8	300.6
Dividend per share	8.4	1.9	8.7	10.8
Operating Ratios (%)				
EBITDA / Net Sales	29.7	32.0	24.2	25.5
PAT / Net Sales	7.5	2.9	9.7	11.3
Inventory Days	651.9	1,232.6	730.5	670.6
Debtor Days	36.4	40.9	40.0	40.0
Return Ratios (%)				
RoNW	11.6	2.6	11.1	12.5
RoCE	20.0	12.3	12.7	13.8
RoC	19.8	11.4	12.7	13.3
Valuation Ratios (x)				
EV / EBITDA	10.7	17.4	15.9	14.6
P/E (Diluted)	31.0	140.4	30.0	24.2
EV / Net Sales	3.2	5.6	3.8	3.7
Market Cap / Sales	2.4	4.2	3.0	2.8
Price to Book Value	3.5	3.5	3.3	3.0
Dividend yield	0.9	0.2	1.0	1.2
Solvency Ratios (x)				
Net Debt / Equity	1.2	1.2	1.0	1.0
Debt / EBITDA	2.8	4.5	4.2	3.6
Current Ratio	1.8	1.7	1.9	2.2
Quick Ratio	0.6	0.5	0.6	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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