

Healthy show!

About the stock: Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects with ~30.7 mn sq feet of saleable area, and ongoing contractual projects aggregating to 5.9 mn sq ft under various stages of construction. As on Q3FY22, the company has delivered ~115.9 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

Q3FY22 Results: Sobha reported a strong operating and financial performance.

- The sales volume of 1.32 mn sq ft (up 17% YoY, flat QoQ) valued at ₹ 1,048 crore (up 18% YoY, flat QoQ). Further, average price realisation during Q3FY22 has grown 4% QoQ. The overall sales were primarily driven by good sale numbers achieved in Bengaluru, Gurugram and Pune
- On the financial front, reported revenues were down 2.4% YoY at ₹ 668.2 crore, with relatively lower real estate revenues recognition (down 4% YoY at ₹ 447 crore). EBITDA at ₹ 227.5 crore, was up 27.4% with margins of 34%, up 800 bps YoY. PAT at ₹ 32.7 crore was up 51% YoY

What should investors do? Sobha's share price has returned 193% over the past five years.

- We maintain HOLD rating on the company.

Target Price and Valuation: We value Sobha at ₹ 960/share.

Key triggers for future price performance:

- Robust current ongoing and completed project with ₹ 7077 crore of potential cash flow
- Any improvement in leverage which currently is at 1.07x 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 ₹ 380



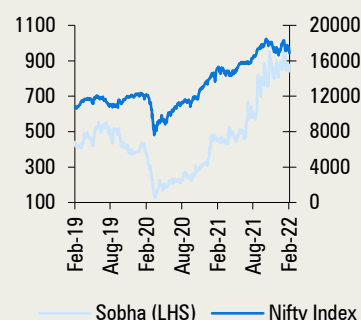
Particulars

Particular	Amount (₹ crore)
Market Capitalization	8,247.2
Total Debt (FY21)	3,038.6
Cash and Investments	204.2
EV	11,081.6
52 week H/L (₹)	1045 / 419
Equity capital	94.8
Face value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	52.0	52.0	52.0	52.0
DII	12.5	12.9	13.1	12.2
FII	18.1	17.9	17.1	18.1
Other	17.5	17.2	17.8	17.8

Price Chart



Key Risks

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

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Key Financial Summary

₹ crore	FY20	FY21	5 yr CAGR FY16-21	FY22E	FY23E	FY24E	2 yr CAGR FY22-24E
Net Sales	3753.9	2109.8	1.7%	2849.7	3190.7	3755.7	14.8%
EBITDA	1115.2	675.1	8.8%	624.5	834.3	986.3	25.7%
EBITDA Margin (%)	29.7	32.0		21.9	26.1	26.3	
PAT	281.7	62.2	-14.7%	213.8	373.6	494.3	52.1%
EPS(₹)	29.7	6.6		22.5	39.4	52.1	
P/E (x)	28.3	128.2		37.3	21.4	16.1	
EV/EBITDA (x)	10.1	16.4		17.4	13.5	11.3	
RoNW (%)	11.6	2.6		8.3	13.1	15.4	
RoCE (%)	20.0	12.3		11.0	14.1	16.1	

Source: Company, ICICI Direct Research * FY22/FY23/FY24 margins are ex-IND AS

Key business highlight and outlook

- Sales Performance:** Sobha reported sales volume of 1.32 mn sq ft during Q3FY22 valued at ₹ 1,048 crore (vs 1.35mn sq ft area; total sales value of ₹ 1,030 crore posted in Q2FY22). Geographically, Bangalore contributed 72.5% to the total sales volume, followed by Gurugram with 14.5% share, Gift City with 3.5% share, Pune (3.3%) Thrissur (2.5%), and Chennai (1.3%). Going forward, its market share in Bangalore market is likely to remain elevated (~12-15%) with **higher number of new launches in pipeline (8.3 mn sq ft; despite likely increase in competitions with new players/corporates entering the geography).** However, the company is looking to diversify itself geographically and expects share of Bangalore to overall sales to decline <60% over next few years. Also, the company expects sales momentum to sustain, going forward with improving demand for ready inventories, and newer launches (total sales volume and sales value during 9MFY22 was at 3.6 mn sq ft and ₹ 2,761 crore respectively)
- Real estate projects:** Real estate revenue for Q3FY22 was at ₹ 447 crore (down 3.8% YoY). However, cash inflow from the division improved to ₹ 840 crore (up 27% YoY) with higher construction activities while the company generated net operating cash flow of ₹ 209 crore (up 15% YoY). Going forward, its balance receivable from sold ongoing project inventory and completed projects stands at ₹ 5,629 crore and sufficient to fully cover the balance project cost to be spent for completing the projects. Additionally, its unsold completed inventory was at 0.44 mn sq. ft, which is one of the lowest in the real estate sector
- Contracts portfolio:** Sobha has delivered 54.4 mn sq ft of area since inception via its contracts division and contractual projects of 5.9 mn sq ft area are in various stages of construction. These projects are majorly spread across Bangalore (2.4 mn sq ft), Trivandrum (2.1 mn sq ft), Nagpur (0.4 mn sq ft), Indore (0.4 mn sq ft) and Haryana (0.5 mn sq ft) regions. During Q3FY22, Contractual and manufacturing vertical revenue stood muted at ₹ 222 crore (up 1% YoY). However, the management expects divisional revenue to improve with strong order book position (₹ 2,348 crore as on 31st December 2021), and enhanced activities on various sites
- Realisation and margin:** Average price realisation during Q3FY22 remained at an elevated level and was at ₹ 7,920 /sq ft (vs. ₹ 7,637 /sq ft in Q2FY22). This is largely attributed to better product mix, higher sales in better regions such as Gurugram and Kochi, and reduced discounts. Additionally, **its operating margin (ex- Ind AS) was healthy at ~20% largely aided by strengthening prices, and various cost cutting measures.** Going forward, the management has indicated towards sustainability of margins at current level despite increase in input costs
- Prices:** Sobha is **selectively taking price hikes (~2-3% price hikes on QoQ basis) in some of its projects in order to offset increase** in input costs and to benefit from growing demand. As per the management, price hikes are inevitable for many developers with significant increase in land acquisition expense, noteworthy employee/labours salary gains, and higher input costs pressure
- New Launches:** During Q3FY22, Sobha **launched 'Sobha Avalon' residential project in GIFT CITY with super built-up area of 0.3 mn sq ft.** Additionally, the company has **strong pipeline spread across real estate (13.4 mn sq ft) and commercial (0.32 mn sq ft) portfolios which is likely to get launched over next 1-2 years.** Currently, 104 projects of Sobha are registered under RERA and 102 projects have received approvals. Also, the company is evaluating some JV/JDA proposals and may undergo on opportunistic basis (2-3 deals possible in the near-to-medium term).
- Debt:** Sobha has managed to **reduce its net debt position by ₹ 123 crore on QoQ basis** and its net debt at the end of December 2021 stood at ₹ 2,654 crore (net D/E: 1.07x). Also, the cost of borrowing came down to 8.65% (from 8.85% 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 over the next three to six months**

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	YoY	QoQ
Bengaluru							
Sales Volume (Sq ft)	7,86,630	8,92,604	6,63,867	7,98,353	9,58,814	21.9%	20.1%
Average Realisation (₹/sq ft)	7,624	7,450	7,307	7,050	7,524	-1.3%	6.7%
Sale Value (₹ crore)	600	665	485	563	721	20.3%	28.2%
Thrissur							
Sales Volume (Sq ft)	45,656	39,466	40,152	46,222	32,861	-28.0%	-28.9%
Average Realisation (₹/sq ft)	7,380	7,069	7,095	6,901	6,999	-5.2%	1.4%
Sale Value (₹ crore)	33.7	27.9	28.5	31.9	23.0	-31.8%	-27.9%
Coimbatore							
Sales Volume (Sq ft)	14,974	13,929	4,402	16,970	14,770	-1.4%	-13.0%
Average Realisation (₹/sq ft)	4,504	5,616	5,734	5,480	6,635	47.3%	21.1%
Sale Value (₹ crore)	6.7	7.8	2.5	9.3	9.8	46.3%	5.4%
Pune							
Sales Volume (Sq ft)	18,349	50,643	24,993	79,572	43,890	139.2%	-44.8%
Average Realisation (₹/sq ft)	7,942	9,912	9,494	9,639	10,025	26.2%	4.0%
Sale Value (₹ crore)	14.6	50.2	23.7	76.7	44.0	201.4%	-42.6%
Mysore							
Sales Volume (Sq ft)	3,903	-	-	-	-	-100.0%	#DIV/0!
Average Realisation (₹/sq ft)	2,283	-	-	-	-	-100.0%	#DIV/0!
Sale Value (₹ crore)	0.9	0.0	0.0	0.0	0.0	-100.0%	#DIV/0!
NCR							
Sales Volume (Sq ft)	97,267	1,62,537	67,336	1,89,522	1,91,774	97.2%	1.2%
Average Realisation (₹/sq ft)	9,712	9,949	9,614	9,629	10,392	7.0%	7.9%
Sale Value (₹ crore)	94.5	161.7	64.7	182.5	199.3	110.9%	9.2%
Chennai							
Sales Volume (Sq ft)	31,821	37,601	14,064	43,484	16,915	-46.8%	-61.1%
Average Realisation (₹/sq ft)	5,740	6,780	7,117	5,772	4,611	-19.7%	-20.1%
Sale Value (₹ crore)	18.3	25.5	10.0	25.1	7.8	-57.4%	-68.9%
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)	1,07,171	1,18,467	52,833	1,17,564	13,310	-87.6%	-88.7%
Average Realisation (₹/sq ft)	9,697	10,224	9,865	9,221	7,288	-24.8%	-21.0%
Sale Value (₹ crore)	103.9	121.1	52.1	108.4	9.7	-90.7%	-91.1%
Gift City							
Sales Volume (Sq ft)	27,803	22,460	25,873	52,553	45,737	64.5%	-13.0%
Average Realisation (₹/sq ft)	5,510	5,716	5,774	5,785	6,428	16.7%	11.1%
Sale Value (₹ crore)	15.3	12.8	14.9	30.4	29.4	92.2%	-3.3%
Kozhikode							
Sales Volume (Sq ft)	-	-	2,019	4,623	4,612	#DIV/0!	-0.2%
Average Realisation (₹/sq ft)	-	-	6,141	6,922	6,505	#DIV/0!	-6.0%
Sale Value (₹ crore)	0.0	0.0	1.2	3.2	3.0	#DIV/0!	-6.3%
Total							
Sales Volume (Sq ft)	11,33,574	13,37,707	8,95,539	13,48,863	13,22,683	16.7%	-1.9%
Average Realisation (₹/sq ft)	7,830	8,014	7,626	7,638	7,789	-0.5%	2.0%
Sale Value (₹ crore)	888	1,072	683	1,030	1,047	18.0%	1.7%

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume sold in msf	FY18	FY19	FY20	FY21	FY22E	FY23E	FY23E	Comments
Total	3.3	3.4	4.0	4.0	4.8	4.9	5.2	

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	3002	316.6
Land cost outstanding	142	15.0
Real Estate equity value	8240	869.2
Construction Business (6x FY23E EV/EBITDA)	865	91.2
Total SoTP Valuation	9105	960
Rounded TP		960

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Net Sales	2,109.8	2,849.7	3,190.7	3,755.7
Growth (%)		35.1	12.0	17.7
Other income	80.6	76.6	80.4	84.4
Total revenue	2,190.4	2,926.3	3,271.1	3,840.2
Raw Material Expense	928.2	1,666.9	1,763.7	2,140.3
Land cost	254.4	329.4	352.8	415.3
Employee benefit expenses	177.1	212.6	229.6	247.9
Other Expenses	329.3	345.8	363.1	381.3
EBITDA	675.1	624.5	834.3	986.3
Growth (%)		(7.5)	33.6	18.2
Interest	601.2	334.2	332.6	325.4
Depreciation	79.4	81.0	82.7	84.4
Other income	80.6	76.6	80.4	84.4
PBT	75.1	285.8	499.4	660.9
Taxes	12.9	72.0	125.9	166.5
Minority Interest	-	-	-	-
PAT after MI	62.2	213.8	373.6	494.3
PAT Growth rate	(77.9)	243.5	74.8	32.3
Adjusted EPS (Diluted)	6.5	22.2	38.8	51.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Profit after Tax	62.2	213.8	373.6	494.3
Depreciation	79.4	81.0	82.7	84.4
Interest	601.2	334.2	332.6	325.4
Others	(106.7)	(148.6)	(206.3)	(251.0)
Cash Flow before wc changes	649.0	552.5	708.5	819.7
Net Increase in Current Assets	(59.2)	1,152.7	126.6	108.1
Net Increase in Current Liabilities	51.3	(996.0)	(664.8)	(260.7)
Net CF from operating activities	653.0	709.2	170.2	667.1
(Purchase)/Sale of Fixed Assets	(44.3)	(185.0)	(185.0)	(185.0)
Net CF from Investing activities	(91.7)	(108.4)	(104.6)	(100.6)
Inc / (Dec) in Equity Capital	-	-	-	-
Dividend	(66.4)	(60.7)	(106.0)	(140.3)
Interest paid	(310.6)	(334.2)	(332.6)	(325.4)
Inc / (Dec) in Loans	(75.1)	-	(30.0)	(100.0)
Net CF from Financing activities	(452.1)	(394.9)	(468.6)	(565.7)
Net Cash flow	109.2	205.8	(403.0)	0.8
Opening Cash	59.7	204.2	410.0	7.1
Closing Cash/ Cash Equivalent	157.0	410.0	7.1	7.9

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,332.9	2,486.0	2,753.5	3,107.6
Total Shareholders funds	2,427.7	2,580.8	2,848.4	3,202.4
Minority Interest	-	-	-	-
Total Debt	3,038.6	3,038.6	3,008.6	2,908.6
Deferred Tax Liability	34.2	34.2	34.2	34.2
Total Liabilities	5,501	5,654	5,891	6,145
Assets				
Gross Block	1,187.2	1,212.2	1,237.2	1,262.2
Less Acc. Dep	353.8	434.9	517.6	601.9
Net Block	833.4	777.3	719.6	660.2
Goodwill on Consolidation	-	-	-	-
Capital WIP	70.1	230.1	390.1	550.1
Investments	114.3	114.3	114.3	114.3
Inventory	7,124.6	6,033.3	5,930.4	5,765.1
Sundry Debtors	236.1	312.3	349.7	411.6
Loans & Advances	2,628.2	2,490.7	2,429.6	2,424.9
Cash & Bank Balances	204.2	410.0	7.1	7.9
Total Current Assets	10,307.4	9,360.6	8,831.0	8,723.7
Creditors	5,680.6	4,695.5	4,028.5	3,764.2
Provisions	29.0	18.2	20.3	23.9
Net Current Assets	4,483.5	4,532.7	4,667.9	4,821.4
Total Assets	5,501	5,654	5,891	6,145

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	6.5	22.2	38.8	51.3
Cash EPS	14.9	31.1	48.1	61.0
Book Value	252.1	268.0	295.8	332.5
Dividend per share	1.9	6.4	11.2	14.8
Operating Ratios (%)				
EBITDA / Net Sales	32.0	21.9	26.1	26.3
PAT / Net Sales	2.9	7.5	11.7	13.2
Inventory Days	1,232.6	772.8	678.4	560.3
Debtor Days	40.9	40.0	40.0	40.0
Return Ratios (%)				
RoNW	2.6	8.3	13.1	15.4
RoCE	12.3	11.0	14.1	16.1
RoC	11.4	10.8	13.7	16.1
Valuation Ratios (x)				
EV / EBITDA	16.4	17.4	13.5	11.3
P/E (Diluted)	130.1	37.9	21.7	16.4
EV / Net Sales	5.3	3.8	3.5	3.0
Market Cap / Sales	3.9	2.9	2.6	2.2
Price to Book Value	3.3	3.1	2.8	2.5
Dividend yield	0.2	0.8	1.3	1.8
Solvency Ratios (x)				
Net Debt / Equity	1.2	1.0	1.1	0.9
Debt / EBITDA	4.5	4.9	3.6	2.9
Current Ratio	1.7	1.9	2.2	2.3
Quick Ratio	0.5	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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