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Company update and
rating change

Real Estate

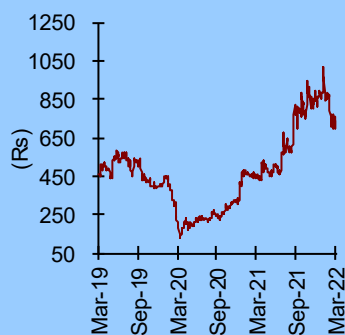
Target price: Rs902

Shareholding pattern

	Mar '21	Sep '21	Dec '21
Promoters	52.0	52.0	52.0
Institutional investors	30.5	30.8	30.7
MFs and others	10.8	12.0	10.6
FIs/Banks/Ins	1.6	1.1	1.6
FPI	18.1	17.7	18.5
Others	17.5	17.2	17.3

Source: NSE

Price chart



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INDIA



Sobha Ltd

BUY

Upgrade from ADD

Rs735

Well poised for growth

We recently hosted Mr. Jagadish Nangineni, the newly appointed Managing Director (MD) of Sobha Ltd. (SOBHA) for an interaction with investors. Mr. Nangineni has been elevated to the role of MD effective 14th Mar'22 and served as the Deputy MD of the company prior to his elevation. He brings ~20 years of experience in the field of real estate and has been associated with the company since 2009, overseeing its operations in Ahmedabad, Chennai, Gurugram and Pune regions. Mr. Nangineni reiterated in the call that he will look to take the company forward in its growth aspirations to reach 6-7msf of annual sales volumes while looking to reduce debt levels further. He also stressed on the need to bring in quality supply rather than just quantity to ensure increased sales velocity in new project launches taking into account customer preference and project location. We believe that the company's strategy to elevate incumbent senior management personnel is a positive move and will ensure continuity in executing the company's strategy. We upgrade our rating to BUY from ADD with an unchanged Mar'22 SOTP-based target price of Rs902/share post the recent correction in the stock price. Key risks to our call are a slowdown in residential demand and a rise in the company's debt levels.

- **New MD brings rich experience across functions and regions across India:** The new Managing Director, Mr. Jagadish Nangineni has ~20 years of experience in the fields of real estate, consulting and technology. He has been associated with Sobha Ltd. since 2009 in senior strategic and operational roles. He was recently the Deputy Managing Director of the company and overseeing the operations of Ahmedabad, Chennai, Gurugram and Pune regions. He has established the business ground up at Gurugram, one of the key markets for the company.
- **Expect improved showing to continue in Q4FY22-FY24E:** We believe that the company's Q2FY22 and Q3FY22 sales performance is commendable considering the second Covid wave impact across India, and expect momentum to sustain heading into Q4FY22E as well on the back of new launches. As per company, it is on track to get approvals for ~13msf of planned launches in FY23E of which inventory will be released for sale in phases. Low mortgage rates, stable property prices and robust hiring outlook for IT/ITeS and financial services, especially in South India, are expected to support residential housing demand in FY23-24E as well. We model for Sobha to clock 4.8msf of gross sales bookings worth Rs38.0bn in FY22E vs. 9MFY22 sales of 3.56msf worth Rs27.6bn. We expect the company to clock gross sales booking value of Rs47.1bn and Rs49.0bn in FY23E and FY24E, respectively.

Market Cap	Rs69.7bn/US\$919mn	Year to Mar	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	SOBH.BO/SOBHA IN	Revenue (Rs bn)	21.1	27.8	33.0	41.4
Shares Outstanding (mn)	94.8	Rec. Net Income (Rs bn)	0.6	2.0	3.4	5.3
52-week Range (Rs)	1022/431	EPS (Rs)	6.6	20.8	35.4	56.0
Free Float (%)	48.0	% Chg YoY	(77.9)	216.3	70.3	58.1
FII (%)	18.5	P/E (x)	111.8	35.4	20.8	13.1
Daily Volume (US\$/'000)	6,988	P/B (x)	2.9	2.7	2.4	2.1
Absolute Return 3m (%)	(9.3)	EV/E (x)	14.6	15.4	11.5	8.4
Absolute Return 12m (%)	61.4	Dividend Yield (%)	1.2	1.2	1.2	1.2
Sensex Return 3m (%)	1.7	RoCE (%)	12.5	11.6	14.7	18.6
Sensex Return 12m (%)	17.4	RoE (%)	2.6	7.8	12.1	16.8

Please refer to important disclosures at the end of this report

Table 1: Quarterly sales performance

Sales Data - Real Estate	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Gross Volumes sold (sft)						
Bengaluru	538,608	786,630	892,604	663,867	798,353	958,814
Thrissur	44,404	45,656	39,466	40,152	46,222	32,861
Chennai	34,601	31,821	37,601	14,064	43,484	16,915
Coimbatore	16,279	14,974	13,929	4,402	16,970	14,770
Pune	15,148	18,349	50,643	24,993	79,572	43,890
NCR (Gurugram)	82,509	97,267	162,537	67,336	189,522	191,774
Mysore	12,250	3,903	-	-	-	-
Cochin	130,267	107,171	118,467	52,833	117,564	13,310
Kozhikode	9,492	-	-	2,019	4,623	4,612
GIFT City	8,142	27,803	22,460	25,873	52,553	45,737
Total	891,700	1,133,574	1,337,707	895,539	1,348,864	1,322,684
Gross Sales Value (Rs mn)	6,899	8,876	10,720	6,829	10,302	10,475
Sales Value (Rs mn) – Sobha Share	5,309	6,777	8,742	5,709	8,542	9,082
Average price realisation (Rs/psf) – Gross basis	7,737	7,830	8,014	7,626	7,637	7,920

Source: Company data, I-Sec research

Table 2: Annual sales performance

Sales Data - Real Estate	FY17	FY18	FY19	FY20	FY21	9MFY22
Gross Volumes sold (sft)						
Bengaluru	2,255,440	2,600,252	2,767,789	3,002,161	2,702,120	2,421,035
Thrissur	76,357	59,570	66,380	101,048	150,156	119,235
Chennai	180,229	102,227	176,341	212,091	125,072	74,463
Coimbatore	28,654	69,271	112,805	73,981	56,517	36,143
Pune	54,397	3,025	11,865	65,376	93,580	148,455
NCR (Gurugram)	233,592	360,857	351,242	237,383	373,058	448,632
Mysore	77,381	67,230	180,662	63,608	34,056	-
Cochin	68,019	317,618	318,155	155,626	395,527	183,708
Kozhikode	27,759	45,340	39,505	33,857	16,452	11,253
GIFT City	-	-	5,036	126,573	66,843	124,163
Total	3,001,828	3,625,390	4,029,779	4,071,704	4,013,381	3,567,087
Average price realisation (Rs/psf) – Sobha share	6,216	6,680	6,303	5,852	NA	NA
Sales Value (Rs mn) – Sobha Share	18,661	24,217	25,401	23,827	24,759	23,333

Source: Company data, I-Sec research

Table 3: Key historical numbers and forward assumptions

Year ending March	FY19	FY20	FY21	FY22E*	FY23E*	FY24E*
Development Properties						
Area sold (msf)	4.0	4.1	4.0	4.8	5.9	6.4
Average Realisation (Rs/psf) – Sobha share	6,303	5,852	NA	7,862	8,010	7,660
Sale Value (Rs mn)	25,401	23,827	24,759	37,992	47,120	49,027

Source: Company data, I-Sec research, *Gross sales volume and value

Table 4: SoTP valuation

Details (GAV)	Amount (Rs mn)	Rs/share	% of GAV
Bengaluru	13,338	141	11.9
Gurugram (NCR)	10,953	116	9.8
Thrissur	539	6	0.5
Rest of South India/Pune	8,508	90	7.6
Total Devco	33,338	352	29.8
Land Bank	55,189	582	49.3
Contractual/Manufacturing	12,723	134	11.4
Rental Assets/APMC	6,153	65	5.5
Refundable JDA deposits	4,500	47	4.0
Total GAV	111,903	1,180	100.0
Less : FY22 Net Debt	26,392	278	
Net Asset Value (NAV)	85,510	902	

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Net Sales	21,098	27,813	32,987	41,382
Operating Expenses	14,346	21,572	24,862	30,232
EBITDA	6,752	6,241	8,125	11,150
% margins	32%	22%	25%	27%
Depreciation & Amortisation	794	810	826	843
Interest expenses	6,012	3,286	3,110	3,215
Other Income	806	887	975	1,073
Exceptional items	-	-	-	-
PBT	752	3,032	5,164	8,165
Less: Taxes	129	1,061	1,807	2,858
PAT before				
Minority/Associate	623	1,971	3,356	5,307
Minority/Associate share	-	-	-	-
Net Income (Reported)	623	1,971	3,356	5,307

Source: Company data, I-Sec research, *Reclassification of interest costs

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	1,01,924	1,04,615	1,14,050	1,33,576
of which cash & cash eqv.	2,041	2,728	6,743	7,574
Total Current Liabilities & Provisions	56,862	59,407	65,030	79,021
Net Current Assets	45,062	45,208	49,020	54,556
Goodwill/Investments	1,143	1,168	1,193	1,218
Net Fixed Assets	9,034	9,224	9,398	9,555
Total Assets	55,239	55,600	59,611	65,329
Liabilities				
Borrowings	30,620	29,120	30,120	31,120
Equity Share Capital	948	948	948	948
Reserves & Surplus*	23,329	25,190	28,201	32,919
Net Worth	24,277	26,138	29,149	33,867
Minority Interest	-	-	-	-
Deferred Taxes	342	342	342	342
Total Liabilities	55,239	55,600	59,611	65,329

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
PBT	752	3,032	5,164	8,165
Depreciation	794	810	826	843
Non-Cash Adjustments	-	-	-	-
Working Capital Changes	(788)	(459)	(796)	(5,705)
Taxes Paid	(129)	(1,061)	(1,807)	(2,858)
Operating Cashflow	629	2,321	3,386	445
Capital Commitments	(395)	(1,000)	(1,000)	(1,000)
Free Cashflow	234	1,321	2,386	(555)
Other investing cashflow	(50)	(25)	(25)	(25)
Cashflow from Investing Activities	(445)	(1,025)	(1,025)	(1,025)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(780)	(1,500)	1,000	1,000
Dividend paid	(664)	(109)	(346)	(589)
Cashflow from Financing activities	(1,444)	(1,609)	654	411
Net Change in cash	(1,260)	(313)	3,015	(169)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
EPS	6.6	20.8	35.4	56.0
Cash EPS	14.9	29.3	44.1	64.9
Dividend per share (DPS)	9.0	9.0	9.0	9.0
Book Value per share (BV)	256.1	275.7	307.5	357.2
Growth (%)				
Net Sales	(43.8)	31.8	18.6	25.4
EBITDA	(39.4)	(7.6)	30.2	37.2
PAT	(77.9)	216.3	70.3	58.1
Valuation Ratios (x)				
P/E	111.8	35.4	20.8	13.1
P/BV	2.9	2.7	2.4	2.1
EV / EBITDA	14.6	15.4	11.5	8.4
Dividend Yield	1.2	1.2	1.2	1.2
Operating Ratios				
Debt/EBITDA (x)	4.5	4.7	3.7	2.8
Net D/E	1.2	1.0	0.8	0.7
Profitability/Return Ratios (%)				
RoE	2.6	7.8	12.1	16.8
RoCE	12.5	11.6	14.7	18.6
EBITDA Margins	32.0	22.4	24.6	26.9
Net Income Margins	3.0	7.1	10.2	12.8

Source: Company data, I-Sec research

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