

## Balance sheet deleveraging on track; outlook muted...

**About the stock:** Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects, ~14.1 mn sq feet of unsold saleable area and ongoing contractual projects aggregating to 3.3 mn sq ft under various stages of construction. As on Q4FY22, the company has delivered ~120 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

**Q4FY22 Results:** Sobha reported a steady operating and financial performance.

- Sales volume was at 1.34 mn sq ft (flat YoY) valued at ₹ 1109.6 crore (up 3.5% YoY) with sales value growth driven by realisation at ₹ 8,265/ sq ft, up 3.1% YoY
- On financial front, reported revenues were up 32.1% YoY at ₹ 731.3 crore, driven by strong real estate revenues recognition (up ~8% YoY at ₹ 540 crore). EBITDA at ₹ 204.3 crore, was up ~36% with margins of 27.9%, up 90 bps YoY. PAT at ₹ 25 crore was up 39.7% YoY
- It has reduced its net debt position by ₹ 317 crore QoQ basis and its net debt at the end of March 2022 was at ₹ 2,337 crore (net D/E: 0.93x)

**What should investors do?** Sobha has been up 39% over the past five years.

- We maintain **HOLD**. Despite sharp price correction, muted growth guidance and revisiting contractual business remains an uncertainty

**Target Price and Valuation:** We value Sobha at ₹ 590/share, as we incorporate lower volumes, higher cost of capital and 20% discount to NAV.

**Key triggers for future price performance:**

- Robust ongoing & completed project with ₹ 6731 crore of potential cash flow
- Huge captive land bank providing enough ammunition to expand overall residential sales volumes trajectory
- Further improvement in leverage

**Alternate Stock Idea:** Besides Sobha, we like Brigade in the realty sector.

- Strong residential traction and commercial portfolio recovery
- BUY with a target price of ₹ 550



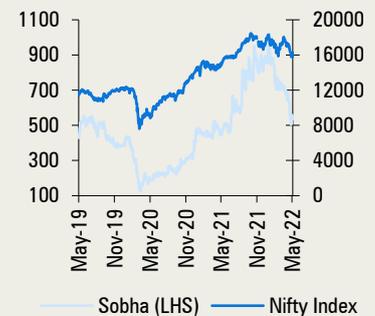
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	5,332.7
Total Debt	2,533.0
Cash and Investments	178.3
EV	7,687.4
52 week H/L (₹)	1045 / 449
Equity capital	94.8
Face value (₹)	10.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	52.0	52.0	52.0	52.0
DII	12.9	13.1	12.2	13.1
FII	17.9	17.1	18.1	16.2
Other	17.2	17.8	17.8	18.8

### 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	FY22	5 yr CAGR FY17-22	FY23E	FY24E	2 yr CAGR FY22-24E
Net Sales	3753.9	2109.8	2730.9	4.1%	2978.6	3399.7	11.6%
EBITDA	1115.2	675.1	889.2	16.2%	520.1	657.2	-14.0%
EBITDA Margin (%)	29.7	32.0	32.6		17.5	19.3	
PAT	281.7	62.2	116.8	-6.2%	194.4	304.6	61.5%
EPS(₹)	29.7	6.6	12.3		20.5	32.1	
P/E (x)	18.4	83.3	44.3		26.6	17.0	
EV/EBITDA (x)	7.5	12.1	8.7		14.3	11.7	
RoNW (%)	11.6	2.6	4.7		7.3	10.6	
RoCE (%)	20.0	12.3	17.9		10.4	12.8	

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

## Key business highlight and outlook

- Sector Overview:** The real estate industry has recovered well lately during FY22 despite operating environment being disturbed by the second wave in April-May 2021 and third wave during January-February 2022. The demand is likely to improve even further over medium to longer term to be driven by a) better affordability, b) conducive government policies, c) growing working population and increasing affordability, d) shifting to nuclear families, e) financially stable developers, and f) improving digital sales and marketing capabilities. Further, the industry has not witnessed any major impact of recent interest rate hike on housing demand (~80% of overall customer base for Sobha's product are financed via banks). However, increase in key input prices such as steel, plastics and cement are likely to impact margins of the real estate developers
- Sales Performance:** Sobha has reported highest-ever sales volume of 1.34 mn sq ft during Q4FY22 valued at ₹ 1,110 crore (vs 1.32mn sq ft area; total sales value of ₹ 1,048 crore posted in Q3FY22) backed by healthy demand across all product segments. Geographically, Bangalore contributed 69.4% to total sales volumes, followed by Gurugram with 17.4% share, Chennai with 3.1% share, Kochi (4.3%), Gift City (3.2%), and Chennai (3.1%). **Going forward, the company expects sales momentum to sustain (volume, value during FY23 likely to be flat, low double digit on YoY basis)** with improving demand for ready inventories, and newer launches
- Real estate projects:** Real estate revenue for Q4FY22 was at ₹ 532.6 crore (up 83.7% YoY). Additionally, the company has registered highest-ever cash inflow from the division to ₹ 1,060 crore (up 48% YoY) aided by marked improvement in construction activities while the company generated net operating cash flow of ₹ 400 crore (up 71% YoY). Going forward, its balance receivable from sold ongoing project inventory and completed projects stands at ₹ 5,387 crore and sufficient to fully cover the balance project cost to be spent for completing the projects. Additionally, its unsold completed inventory was at 0.37 mn sq ft, which is one of the lowest in the real estate sector
- Contracts portfolio:** Sobha has delivered ~57 mn sq ft of area since inception via its contracts division and contractual projects of 3.3 mn sq ft area are under various stages of construction. These projects are majorly spread across Bangalore (2.2 mn sq ft), Haryana (0.5 mn sq ft), and Nagpur (0.4 mn sq ft) regions. During Q4FY22, Contractual and manufacturing vertical revenue stood muted at ₹ 198.6 crore (down 24.6% YoY). **Going forward, the management expects revenue in the manufacturing unit likely to improve to ~₹ 400 crore (at pre-Covid level) during FY23. However, the contractual business unit is likely to witness moderation in FY23 as the company has turned cautious with increase in raw material costs, in turn, higher pressure on margins**
- Realisation and margin:** Average price realisation during Q4FY22 remained at an elevated level and was at ₹ 8,265 /sq ft (vs ₹ 7,920 /sq ft in Q3FY22). This is largely attributed to better product mix, higher sales in better regions such as Gurugram and Kochi and reduced discounts. However, its operating margin was impacted and was at ~16% mainly due to a) recognition of lower margin in joint development and land monetised projects (margin in real estate projects were stable during Q4FY22) and b) increase in prices of key raw material (impacting performance in contractual projects). **Going forward, the management expects margin in FY23 to sustain (despite increase in raw material) as significant costs have already been incurred in projects due for handover**
- Prices:** Sobha has undertaken ~6% price hike during FY22 on overall portfolio basis in order to offset increase in input costs and to benefit from growing demand. Going forward, **the management expects mid-single digit rise in unit prices during FY23 with significant increase in land acquisition**

**expense, noteworthy employee/labourers salary gains and higher input costs pressure**

- **New Launches:** Sobha has launched 'Sobha Brooklyn Towers Wing 3' residential project in Bengaluru during Q4FY22 with super built-up area of 0.2 mn sq ft. Additionally, the company has launched two new projects in Bengaluru measuring ~1.5 mn sq ft and planning to launch two new projects in the near term. Overall, the company has a strong pipeline spread across real estate (13.2 mn sq ft) and commercial (0.32 mn sq ft) portfolios which is likely to get launched over next 1-2 years. Currently, 110 projects of Sobha are registered under RERA and all projects have received approvals
- **Debt:** Sobha has managed to reduce its net debt position by ₹ 317 crore, ₹ 516 crore on QoQ, YoY basis. Its net debt at the end of March 2022 was at ₹ 2,337 crore (net D/E: 0.93x). Also, the cost of borrowing came down to 8.40% (from 8.65% a quarter ago). **Going forward, the company's strong focus remains on reducing its debt with higher sales and better cash flow generation.**

#### Other Highlights

- The company expects **construction spend to go up ~60% YoY during FY23 while collection inflows likely to improve to 20% YoY**

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY	QoQ
<b>Bengaluru</b>							
Sales Volume (Sq ft)	8,92,604	6,63,867	7,98,353	9,58,814	9,32,215	4.4%	-2.8%
Average Realisation (₹/sq ft)	7,450	7,307	7,050	7,524	7,558	1.5%	0.5%
Sale Value (₹ crore)	665	485	563	721	705	6.0%	-2.3%
<b>Thrissur</b>							
Sales Volume (Sq ft)	39,466	40,152	46,222	32,861	11,786	-70.1%	-64.1%
Average Realisation (₹/sq ft)	7,069	7,095	6,901	6,999	8,909	26.0%	27.3%
Sale Value (₹ crore)	27.9	28.5	31.9	23.0	10.5	-62.4%	-54.3%
<b>Coimbatore</b>							
Sales Volume (Sq ft)	13,929	4,402	16,970	14,770	4,872	-65.0%	-67.0%
Average Realisation (₹/sq ft)	5,616	5,734	5,480	6,635	7,389	31.6%	11.4%
Sale Value (₹ crore)	7.8	2.5	9.3	9.8	3.6	-53.8%	-63.3%
<b>Pune</b>							
Sales Volume (Sq ft)	50,643	24,993	79,572	43,890	17,589	-65.3%	-59.9%
Average Realisation (₹/sq ft)	9,912	9,494	9,639	10,025	11,314	14.1%	12.9%
Sale Value (₹ crore)	50.2	23.7	76.7	44.0	19.9	-60.4%	-54.8%
<b>Mysore</b>							
Sales Volume (Sq ft)	-	-	-	-	-	NA	NA
Average Realisation (₹/sq ft)	-	-	-	-	-	NA	NA
Sale Value (₹ crore)	0.0	0.0	0.0	0.0	0.0	NA	NA
<b>NCR</b>							
Sales Volume (Sq ft)	1,62,537	67,336	1,89,522	1,91,774	2,34,123	44.0%	22.1%
Average Realisation (₹/sq ft)	9,949	9,614	9,629	10,392	11,451	15.1%	10.2%
Sale Value (₹ crore)	161.7	64.7	182.5	199.3	268.1	65.8%	34.5%
<b>Chennai</b>							
Sales Volume (Sq ft)	37,601	14,064	43,484	16,915	41,084	9.3%	142.9%
Average Realisation (₹/sq ft)	6,780	7,117	5,772	4,611	4,235	-37.5%	-8.2%
Sale Value (₹ crore)	25.5	10.0	25.1	7.8	17.4	-31.8%	123.1%
<b>Calicut</b>							
Sales Volume (Sq ft)	-	-	-	-	-	NA	NA
Average Realisation (₹/sq ft)	-	-	-	-	-	NA	NA
Sale Value (₹ crore)	-	-	-	-	-	NA	NA
<b>Cochin</b>							
Sales Volume (Sq ft)	1,18,467	52,833	1,17,564	13,310	58,039	-51.0%	336.1%
Average Realisation (₹/sq ft)	10,224	9,865	9,221	7,288	10,045	-1.8%	37.8%
Sale Value (₹ crore)	121.1	52.1	108.4	9.7	58.3	-51.9%	501.0%
<b>Gift City</b>							
Sales Volume (Sq ft)	22,460	25,873	52,553	45,737	42,771	90.4%	-6.5%
Average Realisation (₹/sq ft)	5,716	5,774	5,785	6,428	6,359	11.3%	-1.1%
Sale Value (₹ crore)	12.8	14.9	30.4	29.4	27.2	112.5%	-7.5%
<b>Kozhikode</b>							
Sales Volume (Sq ft)	-	2,019	4,623	4,612	-	NA	NA
Average Realisation (₹/sq ft)	-	6,141	6,922	6,505	-	NA	NA
Sale Value (₹ crore)	0.0	1.2	3.2	3.0	0.0	NA	NA
<b>Total</b>							
Sales Volume (Sq ft)	13,37,707	8,95,539	13,48,863	13,22,683	13,42,479	0.4%	1.5%
Average Realisation (₹/sq ft)	8,014	7,626	7,638	7,789	8,265	3.1%	6.1%
Sale Value (₹ crore)	1,072	683	1,030	1,047	1,110	3.5%	5.9%

Source: Company, ICICI Direct Research

**Exhibit 2: Assumptions**

Volume sold in msf	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24	Comments
Total	3.3	3.4	4.0	4.0	4.9	4.9	5.2	

Source: Company, ICICI Direct Research

**Exhibit 3: Valuations**

Particulars	NAV	
	₹ crore	₹ /share
Completed and Ongoing projects - incl. new phases	3049.5	321.7
New Launches	1109.8	117.1
Commercial assets	316.5	33.4
Other Land Bank (developable value: PV of post tax OCF )	4310	454.6
<b>Real Estate Business value</b>	<b>8785.8</b>	<b>926.8</b>
<b>Less:</b>		
Net debt (FY24)	2314	244.1
<b>Real Estate equity value</b>	<b>6471.5</b>	<b>682.6</b>
<b>Discount to NAV (20% )</b>	<b>1294.3</b>	<b>136.5</b>
<b>RE Value</b>	<b>5177.2</b>	<b>546.1</b>
Construction Business (5x FY24E EV/EBITDA)	378	39.9
<b>Total SoTP Valuation</b>	<b>5555</b>	<b>586</b>
<b>Rounded TP</b>		<b>590</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>2,109.8</b>	<b>2,730.9</b>	<b>2,978.6</b>	<b>3,399.7</b>
Growth (%)		29.4	9.1	14.1
Other income	80.6	90.7	90.7	95.2
<b>Total revenue</b>	<b>2,190.4</b>	<b>2,821.6</b>	<b>3,069.3</b>	<b>3,494.9</b>
Raw Material Expense	928.2	1,239.8	1,819.7	2,064.3
Land cost	254.4	196.0	198.9	227.0
Employee benefit expenses	177.1	229.5	247.9	267.7
Other Expenses	329.3	372.4	391.0	410.6
<b>EBITDA</b>	<b>675.1</b>	<b>889.2</b>	<b>520.1</b>	<b>657.2</b>
Growth (%)		31.7	(41.5)	26.4
Interest	601.2	749.7	277.0	269.8
Depreciation	79.4	72.1	73.9	75.3
Other income	80.6	90.7	90.7	95.2
<b>PBT</b>	<b>75.1</b>	<b>158.1</b>	<b>259.9</b>	<b>407.2</b>
Taxes	12.9	41.3	65.5	102.6
Minority Interest	-	-	-	-
<b>PAT after MI</b>	<b>62.2</b>	<b>116.8</b>	<b>194.4</b>	<b>304.6</b>
PAT Growth rate	(77.9)	87.7	66.5	56.7
<b>Adjusted EPS (Diluted)</b>	<b>6.5</b>	<b>12.1</b>	<b>20.2</b>	<b>31.6</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>62.2</b>	<b>116.8</b>	<b>194.4</b>	<b>304.6</b>
Depreciation	79.4	72.1	73.9	75.3
Interest	601.2	749.7	277.0	269.8
Others	(88.2)	(32.0)	(156.2)	(197.9)
Cash Flow before wc changes	667.5	947.9	454.6	554.5
Net Increase in Current Assets	(59.2)	(390.3)	929.5	(78.4)
Net Increase in Current Liabilities	51.3	262.6	(680.7)	(261.6)
<b>Net CF from operating activities</b>	<b>671.6</b>	<b>820.2</b>	<b>703.4</b>	<b>214.5</b>
(Purchase)/Sale of Fixed Assets	(44.3)	46.1	(190.0)	(185.0)
<b>Net CF from Investing activities</b>	<b>(91.7)</b>	<b>38.2</b>	<b>(99.3)</b>	<b>(89.8)</b>
Inc / (Dec) in Equity Capital	-	(0.0)	-	-
Dividend	(66.4)	(33.2)	(55.2)	(86.4)
Interest paid	(310.6)	(291.6)	(277.0)	(269.8)
Inc / (Dec) in Loans	(75.1)	(559.4)	(30.0)	(100.0)
<b>Net CF from Financing activities</b>	<b>(452.1)</b>	<b>(884.2)</b>	<b>(362.2)</b>	<b>(456.3)</b>
Net Cash flow	127.8	(25.9)	242.0	(331.6)
Opening Cash	88.4	204.2	178.3	420.3
<b>Closing Cash/ Cash Equivalent</b>	<b>204.2</b>	<b>178.3</b>	<b>420.3</b>	<b>88.7</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,332.9	2,415.7	2,554.9	2,773.1
Total Shareholders funds	2,427.7	2,510.5	2,649.7	2,867.9
Minority Interest	-	-	-	-
Total Debt	3,038.6	2,533.0	2,503.0	2,403.0
Deferred Tax Liability	34.2	15.1	15.1	15.1
<b>Total Liabilities</b>	<b>5,501</b>	<b>5,059</b>	<b>5,168</b>	<b>5,286</b>
<b>Assets</b>				
Gross Block	1,187.2	1,220.4	1,250.4	1,275.4
Less Acc. Dep	353.8	425.9	499.8	575.1
Net Block	833.4	794.5	750.6	700.3
Goodwill on Consolidation	-	22.7	22.7	22.7
Capital WIP	70.1	-	160.0	320.0
Investments	114.3	114.9	114.9	114.9
Inventory	7,124.6	7,427.1	6,667.7	6,740.7
Sundry Debtors	236.1	406.9	326.4	372.6
Loans & Advances	2,628.2	2,466.3	2,376.6	2,335.9
Cash & Bank Balances	204.2	178.3	420.3	88.7
Total Current Assets	10,307.4	10,593.5	9,905.9	9,652.8
Creditors	5,680.6	6,318.4	5,651.8	5,387.4
Provisions	29.0	33.0	19.0	21.7
Net Current Assets	4,483.5	4,127.2	4,120.3	4,128.8
<b>Total Assets</b>	<b>5,501</b>	<b>5,059</b>	<b>5,168</b>	<b>5,286</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY21	FY22	FY23E	FY24E
<b>Per Share Data (₹)</b>				
EPS - Diluted	6.5	12.1	20.2	31.6
Cash EPS	14.9	19.9	28.3	40.1
Book Value	252.1	260.7	275.1	297.8
Dividend per share	1.9	3.5	5.8	9.1
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	32.0	32.6	17.5	19.3
PAT / Net Sales	2.9	4.3	6.5	9.0
Inventory Days	1,232.6	992.7	817.1	723.7
Debtor Days	40.9	54.4	40.0	40.0
<b>Return Ratios (%)</b>				
RoNW	2.6	4.7	7.3	10.6
RoCE	12.3	17.9	10.4	12.8
RoC	11.4	16.7	9.7	11.9
<b>Valuation Ratios (x)</b>				
EV / EBITDA	12.1	8.7	14.3	11.7
P/E (Diluted)	84.5	45.0	27.1	17.3
EV / Net Sales	3.9	2.8	2.5	2.3
Market Cap / Sales	2.5	2.0	1.8	1.6
Price to Book Value	2.1	2.1	2.0	1.8
Dividend yield	0.3	0.6	1.1	1.7
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	1.2	0.9	0.8	0.8
Debt / EBITDA	4.5	2.8	4.8	3.7
Current Ratio	1.7	1.6	1.7	1.7
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

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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## ANALYST CERTIFICATION

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