

New launches drive sales volumes...

About the stock: Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects with ~13.5 mn sq feet (msf) of unsold saleable area and ongoing contractual projects aggregating to 3.1 msf in various stages of construction. As on Q1FY23, the company has delivered ~120+ msf of developable area.

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

Q1FY23 Results: Sobha reported a steady operating and financial performance.

- Sobha's sales booking value was at ₹ 1145.5 crore (up ~68 YoY) with sales volume up 52% YoY (flattish QoQ) at 1.36 msf, driven by strong launch of projects of ~2 msf in Bengaluru during the quarter
- On the financial front, reported revenues were up 13.5% YoY at ₹ 581.6 crore, driven by strong real estate revenues recognition (up ~25.7% YoY at ₹ 473.6 crore) and PAT at ₹ 13.7 crore, up 26.9% YoY
- Sobha has managed to reduce its net debt position by ₹ 227 crore QoQ to ₹ 2,110 crore (net D/E: 0.84x), aided by receipt from land sales of ₹ 155 crore

What should investors do? Sobha's share price has grown at 12.4% CAGR over the past five years.

- We incorporate higher sales volumes and remove discount to NAV. We maintain **HOLD**, given the ~30% run up in the last three months

Target Price and Valuation: We value Sobha at ₹ 735/share.

Key triggers for future price performance:

- Robust ongoing & completed project with ₹ 6382 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 Enterprises in the realty sector

- A play on Bengaluru residential and commercial real estate
- BUY with a target price of ₹ 595



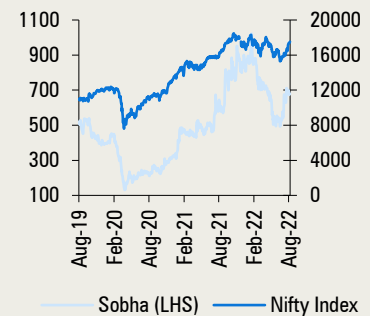
Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,783.1
Total Debt (FY22)	2,533.0
Cash and Inv. (FY22)	178.3
EV	9,137.8
52 week H/L (₹)	1045 / 480
Equity capital	94.8
Face value (₹)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	52.0	52.0	52.0	52.0
DII	13.1	12.2	13.1	12.8
FII	17.1	18.1	16.2	15.0
Other	17.8	17.8	18.8	20.2

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%	3025.9	3512.4	13.4%
EBITDA	1115.2	675.1	889.2	16.2%	530.3	682.8	-12.4%
EBITDA Margin (%)	29.7	32.0	32.6		17.5	19.4	
PAT	281.7	62.2	116.8	-6.2%	202.0	323.8	66.5%
EPS(₹)	29.7	6.6	12.3		21.3	34.2	
P/E (x)	23.3	105.4	56.1		32.5	20.3	
EV/EBITDA (x)	8.8	14.2	10.3		16.8	13.4	
RoNW (%)	11.6	2.6	4.7		7.6	11.2	
RoCE (%)	20.0	12.3	17.9		10.6	13.2	

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

Key business highlight and outlook

- **Sales Performance:** Sobha reported its highest-ever sales performance during Q1FY23 wherein the company sold 1.36 msf for ₹ 1,145 crore despite price increases in projects and marginal increase in home loan rates. Additionally, sales volume has been in the range of 1.3 msf for the past four quarters showing sustained demand post Covid impacted period. **Bangalore has contributed ~76% to the sales value, driven by three projects launched with total saleable area for these projects at ~2 msf. Improved visibility of GIFT City has also aided in increased demand for its projects. Going forward, the company expects sales momentum to improve (volume, value during FY23 likely to improve 10-12%, 15-20% on YoY basis; on higher base) with improving demand for ready inventories, and newer launches. This, is an upgrade to earlier guidance of flattish sales volumes**
- **Real estate projects:** Real estate revenue during Q1FY23 improved 53% YoY and was at ₹ 367 crore. Additionally, the company registered cash inflow of ₹ 888.3 crore (up 62% YoY) aided by marked improvement in construction activities while the company generated net operating cash flow of ₹ 186.9 crore (up 39% YoY). **Going forward, its balance receivable from sold ongoing project inventory and completed projects stands at ₹ 5,214 crore and sufficient to cover 90% of the balance cost to complete the ongoing projects offered for sale.** Additionally, its unsold completed inventory was at 0.44 msf, which is one of the lowest in the real estate sector
- **Contracts portfolio:** Sobha has delivered 57.23 msf of area since inception via its contracts division and contractual projects of 3.1 msf area are under various stages of construction. These projects are mainly spread across Bangalore (2.1 msf), Nagpur (0.4 msf), Sonapat (0.5 msf), and Pune (0.07 msf) regions. During Q1FY23, contractual and manufacturing vertical revenue was at ₹ 108 crore. Collections, however, have been healthy at ₹ 229 crore, in line with increased site activity. **Going forward, the management expects revenue in the manufacturing unit to improve to ~₹ 400 crore (at pre-Covid level) during FY23**
- **Realisation and margin:** Average price realisation during Q1FY23 remained at an elevated level and was at ₹ 8,431 /sq ft (up 10.5% YoY). This is largely attributed to better product mix, higher realisations, improved sales in better regions, and reduced discounts. Margin was at 20% despite increase in prices of key raw material. **Going forward, the management expects margins to improve from here on with higher realisation and optimisation of cost structure**
- **Completed and new launches:** Sobha has completed projects in Chennai (plots at Sobha Blossom), Gurgaon (Sobha City, three towers) and in Bangalore (Dream Acres, row houses in HRC Pristine) during Q1FY23. **Overall, the company has an inventory of ~13 msf and launch pipeline of 12.1 msf (to be launched over next two years). During rest-FY23, the company is looking to launch projects to have saleable area of 2-3 msf**
- **Update on land sale:** Sobha sold a land parcel during Q2FY22, which was acquired by the company during FY04, FY05. The land was primarily acquired to develop residential/commercial project but did not fructify owing to multiple ownership issues. **Recently, in Q1FY23, the company completed the deal and received residual payment of ₹ 155 crore, which, in turn, aided in debt reduction. Going forward, the management has said that land parcels (that cannot be developed due to some issues and are getting right valuation) are only in radar for monetisation. Having said that, Sobha does not expect monetisation of major land parcel in the near future**

- **Prices:** Sobha has undertaken ~4-6% price hike during Q1FY23 particularly in Bengaluru region 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 due to significant increase in land acquisition expense, noteworthy employee/labours salary gains, and higher input costs pressure
- **Debt:** Sobha has managed to reduce its net debt position by ₹ 227.2 crore on QoQ basis and its net debt at the end of June 2022 was at ₹ 2,110 crore (net D/E: 0.84x). Also, the cost of debt has marginally increased to 8.45% from 8.40% in Q4-FY22, owing to increasing interest rates. Going forward, the company's strong focus remains on reducing its debt with higher sales and better cash flow generation

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY	QoQ
Bengaluru							
Sales Volume (Sq ft)	6,63,867	7,98,353	9,58,814	9,32,215	10,60,172	59.7%	13.7%
Average Realisation (₹/sq ft)	7,307	7,050	7,524	7,558	8,090	10.7%	7.0%
Sale Value (₹ crore)	485	563	721	705	858	76.8%	21.7%
Thrissur							
Sales Volume (Sq ft)	40,152	46,222	32,861	11,786	13,232	-67.0%	12.3%
Average Realisation (₹/sq ft)	7,095	6,901	6,999	8,909	9,371	32.1%	5.2%
Sale Value (₹ crore)	28.5	31.9	23.0	10.5	12.4	-56.5%	18.1%
Coimbatore							
Sales Volume (Sq ft)	4,402	16,970	14,770	4,872	12,507	184.1%	156.7%
Average Realisation (₹/sq ft)	5,734	5,480	6,635	7,389	7,836	36.7%	6.0%
Sale Value (₹ crore)	2.5	9.3	9.8	3.6	9.8	292.0%	172.2%
Pune							
Sales Volume (Sq ft)	24,993	79,572	43,890	17,589	18,182	-27.3%	3.4%
Average Realisation (₹/sq ft)	9,494	9,639	10,025	11,314	10,835	14.1%	-4.2%
Sale Value (₹ crore)	23.7	76.7	44.0	19.9	19.7	-16.9%	-1.0%
NCR							
Sales Volume (Sq ft)	67,336	1,89,522	1,91,774	2,34,123	1,68,901	150.8%	-27.9%
Average Realisation (₹/sq ft)	9,614	9,629	10,392	11,451	10,941	13.8%	-4.5%
Sale Value (₹ crore)	64.7	182.5	199.3	268.1	184.8	185.6%	-31.1%
Chennai							
Sales Volume (Sq ft)	14,064	43,484	16,915	41,084	34,367	144.4%	-16.3%
Average Realisation (₹/sq ft)	7,117	5,772	4,611	4,235	4,103	-42.4%	-3.1%
Sale Value (₹ crore)	10.0	25.1	7.8	17.4	14.1	41.0%	-19.0%
Cochin							
Sales Volume (Sq ft)	52,833	1,17,564	13,310	58,039	29,564	-44.0%	-49.1%
Average Realisation (₹/sq ft)	9,865	9,221	7,288	10,045	12,177	23.4%	21.2%
Sale Value (₹ crore)	52.1	108.4	9.7	58.3	36.0	-30.9%	-38.3%
Gift City							
Sales Volume (Sq ft)	25,873	52,553	45,737	42,771	61,280	136.8%	43.3%
Average Realisation (₹/sq ft)	5,774	5,785	6,428	6,359	6,984	21.0%	9.8%
Sale Value (₹ crore)	14.9	30.4	29.4	27.2	42.8	187.2%	57.4%
Kozhikode							
Sales Volume (Sq ft)	2,019	4,623	4,612	-	(39,494)	NA	NA
Average Realisation (₹/sq ft)	6,141	6,922	6,505	-	8,052	NA	NA
Sale Value (₹ crore)	1.2	3.2	3.0	0.0	-31.8	NA	NA
Total							
Sales Volume (Sq ft)	8,95,539	13,48,863	13,22,683	13,42,479	13,58,711	51.7%	1.2%
Average Realisation (₹/sq ft)	7,626	7,638	7,789	8,265	8,431	10.6%	2.0%
Sale Value (₹ crore)	683	1,030	1,047	1,110	1,146	67.8%	3.2%

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	5.5	5.8	

Source: Company, ICICI Direct Research

Exhibit 3: Valuations

Particulars	NAV	
	₹ crore	₹/share
Completed and Ongoing projects - incl. new phases	3140.6	331.3
New Launches	1170.1	123.4
Commercial assets	316.5	33.4
Other Land Bank (developable value: PV of post tax OCF)	4310	454.6
Real Estate Business value	8937.2	942.7
Less:		
Net debt (FY24)	2353	248.2
Real Estate equity value	6584.6	694.6
RE Value	6584.6	694.6
Construction Business (5x FY24E EV/EBITDA)	375	39.5
Total SoTP Valuation	6959	734
Rounded TP		735

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	2,109.8	2,730.9	3,025.9	3,512.4
Growth (%)		29.4	10.8	16.1
Other income	80.6	90.7	90.7	95.2
Total revenue	2,190.4	2,821.6	3,116.6	3,607.7
Raw Material Expense	928.2	1,239.8	1,856.8	2,151.4
Land cost	254.4	196.0	202.0	234.5
Employee benefit expenses	177.1	229.5	247.9	267.7
Other Expenses	329.3	372.4	391.0	410.6
EBITDA	675.1	889.2	530.3	682.8
Growth (%)		31.7	(40.4)	28.8
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
PBT	75.1	158.1	270.1	432.9
Taxes	12.9	41.3	68.1	109.1
Minority Interest	-	-	-	-
PAT after MI	62.2	116.8	202.0	323.8
PAT Growth rate	(77.9)	87.7	73.0	60.3
Adjusted EPS (Diluted)	6.5	12.1	21.0	33.6

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	62.2	116.8	202.0	323.8
Depreciation	79.4	72.1	73.9	75.3
Interest	601.2	749.7	277.0	269.8
Others	(88.2)	(32.0)	(158.8)	(204.3)
Cash Flow before wc changes	667.5	947.9	462.2	573.7
Net Increase in Current Assets	(59.2)	(390.3)	915.6	(94.4)
Net Increase in Current Liabilities	51.3	262.6	(696.7)	(273.2)
Net CF from operating activities	671.6	820.2	681.1	206.1
(Purchase)/Sale of Fixed Assets	(44.3)	46.1	(190.0)	(185.0)
Net CF from Investing activities	(91.7)	38.2	(99.3)	(89.8)
Inc / (Dec) in Equity Capital	-	(0.0)	-	-
Dividend	(66.4)	(33.2)	(57.3)	(91.9)
Interest paid	(310.6)	(291.6)	(277.0)	(269.8)
Inc / (Dec) in Loans	(75.1)	(559.4)	(30.0)	(100.0)
Net CF from Financing activities	(452.1)	(884.2)	(364.3)	(461.7)
Net Cash flow	127.8	(25.9)	217.5	(345.4)
Opening Cash	88.4	204.2	178.3	395.8
Closing Cash/ Cash Equivalent	204.2	178.3	395.8	50.4

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,332.9	2,415.7	2,560.4	2,792.3
Total Shareholders funds	2,427.7	2,510.5	2,655.2	2,887.1
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
Total Liabilities	5,501	5,059	5,173	5,305
Assets				
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	6,664.6	6,730.1
Sundry Debtors	236.1	406.9	331.6	384.9
Loans & Advances	2,628.2	2,466.3	2,388.4	2,364.0
Cash & Bank Balances	204.2	178.3	395.8	50.4
Total Current Assets	10,307.4	10,593.5	9,895.3	9,644.3
Creditors	5,680.6	6,318.4	5,635.4	5,359.1
Provisions	29.0	33.0	19.3	22.4
Net Current Assets	4,483.5	4,127.2	4,125.7	4,148.0
Total Assets	5,501	5,059	5,173	5,305

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	6.5	12.1	21.0	33.6
Cash EPS	14.9	19.9	29.1	42.1
Book Value	252.1	260.7	275.7	299.8
Dividend per share	1.9	3.5	6.0	9.7
Operating Ratios (%)				
EBITDA / Net Sales	32.0	32.6	17.5	19.4
PAT / Net Sales	2.9	4.3	6.7	9.2
Inventory Days	1,232.6	992.7	803.9	699.4
Debtor Days	40.9	54.4	40.0	40.0
Return Ratios (%)				
RoNW	2.6	4.7	7.6	11.2
RoCE	12.3	17.9	10.6	13.2
RoC	11.4	16.7	9.9	12.3
Valuation Ratios (x)				
EV / EBITDA	14.2	10.3	16.8	13.4
P/E (Diluted)	107.0	57.0	33.0	20.6
EV / Net Sales	4.6	3.3	2.9	2.6
Market Cap / Sales	3.2	2.5	2.2	1.9
Price to Book Value	2.7	2.6	2.5	2.3
Dividend yield	0.3	0.5	0.9	1.4
Solvency Ratios (x)				
Net Debt / Equity	1.2	0.9	0.8	0.8
Debt / EBITDA	4.5	2.8	4.7	3.5
Current Ratio	1.7	1.6	1.7	1.8
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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