

## Company update

## Real Estate

Target price: Rs808

## Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	52.0	52.0	52.0
Institutional investors	30.7	29.6	28.0
MFs and others	10.6	11.6	10.6
FIs/Banks/Ins	1.6	1.5	2.3
FPI	18.5	16.5	15.1
Others	17.3	18.4	20.0

Source: NSE

## ESG disclosure score

Year	2020	2021	Chg
<b>ESG score</b>	<b>33.8</b>	<b>33.8</b>	<b>0.0</b>
Environment	2.9	2.9	0.0
Social	19.8	19.8	0.0
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

## Sobha Ltd

**BUY****Maintain****Rs628**

## Sales momentum intact

Sobha Ltd. (SOBHA) achieved Q2FY23 gross sales bookings of 1.34msf worth Rs11.6bn vs. Isec estimate of Rs11.0bn and is the best ever quarter for the company in value terms for sales bookings. While the company had earlier guided for flattish gross sales volume of ~5.0msf in FY23E (4.9msf in FY22) citing cost input pressures and rising mortgage rates, the strong start to FY23 had led to the company revising its FY23 guidance to 10-15% YoY volume growth and 15-20% YoY value growth. Given the strong H1FY23 performance in spite of rising mortgage rates and strong launch pipeline, we believe that the company is well on track to achieve its FY23 guidance and we maintain our FY23E and FY24E gross sales booking value estimates of Rs45.5bn and Rs49.0bn, respectively. We maintain our BUY rating with an unchanged SOTP based TP of Rs808/share. Key risks to our call are a slowdown in residential demand and a rise in the company's debt levels.

► **Bengaluru launches enable strong operational performance:** Sobha's Q2FY23 gross sales bookings of 1.34msf worth Rs11.6bn (Isec estimate of Rs11.0bn) was flat QoQ in volume terms and up 2% in value terms aided by the company achieving its highest ever gross realisation of Rs8,709/psf. In Q2FY23, the Bengaluru market was again the key contributor with sales volumes of 1.04msf and contributed 78% of the total volumes (same as Q1FY23). This was owing to three new launches spread over 0.88msf towards the end of the quarter including two in Bengaluru and one in Thiruvananthapuram. As per company, its consolidated net debt levels have reduced further QoQ from Rs21.1bn as of Jun'22 (net D/E of 0.8x as of Jun'22) as the company continues to generate surplus post interest/taxes operating cash flow.

► **On track to achieve FY23 sales booking guidance:** For FY22 overall, the company had clocked its best ever annual sales performance with gross sales bookings of 4.91msf worth Rs38.7bn. In May'22, in spite of the company having a strong launch pipeline of ~13msf, given the cost input inflation and mortgage rates expected in FY23E, the company had guided for flattish gross sales volume of ~5.0msf in FY23E (4.9msf in FY22) with gross sale value growing 5-6% to ~Rs40bn (Rs38.7bn in FY22). However, given the strong Q1FY23 performance and demand sustaining even with the rise in mortgage rates, the company had revised its FY23 guidance and expects 10-15% YoY volume growth and 15-20% YoY value growth in FY23. Given the strong performance in H1FY23 in spite of rising mortgage rates, we believe that the company is well on track to achieve its FY23 guidance and we maintain our FY23E and FY24E gross sales booking value estimates of Rs45.5bn and Rs49.0bn, respectively.

Market Cap	Rs59.4bn/US\$721mn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	SOBH.BO/SOBHA IN	Revenue (Rs bn)	21.1	27.3	30.9	38.8
Shares Outstanding (mn)	94.8	Rec. Net Income (Rs bn)	0.6	1.2	2.1	4.6
52-week Range (Rs)	1022/493	EPS (Rs)	6.6	12.3	22.5	48.8
Free Float (%)	48.0	% Chg YoY	(77.9)	87.5	82.5	117.1
FII (%)	15.1	P/E (x)	94.5	50.4	27.6	12.7
Daily Volume (US\$/000)	3,143	P/B (x)	2.4	2.3	2.2	1.9
Absolute Return 3m (%)	(5.9)	EV/E (x)	13.0	9.3	14.4	8.2
Absolute Return 12m (%)	(27.2)	Dividend Yield (%)	1.4	0.5	0.6	0.8
Sensex Return 3m (%)	5.4	RoCE (%)	12.5	17.5	9.8	13.6
Sensex Return 12m (%)	(3.8)	RoE (%)	2.6	4.7	5.6	10.4

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**Table 1: Quarterly sales performance**

Sales Data - Real Estate	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Gross Volumes sold (sft)</b>						
Bengaluru	663,867	798,353	958,814	932,215	1,060,172	1,037,368
Thrissur	40,152	46,222	32,861	11,786	13,232	-
Chennai	14,064	43,484	16,915	41,084	34,367	30,132
Coimbatore	4,402	16,970	14,770	4,872	12,507	18,746
Pune	24,993	79,572	43,890	17,589	18,182	18,704
NCR (Gurugram)	67,336	189,522	191,774	234,123	168,901	71,458
Mysore	-	-	-	-	-	-
Cochin	52,833	117,564	13,310	58,039	29,564	128,839*
Kozhikode	2,019	4,623	4,612	-	(39,494)	-
GIFT City	25,873	52,553	45,737	42,771	61,280	31,581
<b>Total</b>	<b>895,539</b>	<b>1,348,864</b>	<b>1,322,684</b>	<b>1,342,480</b>	<b>1,358,710</b>	<b>1,336,828</b>
<b>Gross Sales Value (Rs mn)</b>						
<b>Sales Value (Rs mn) – Sobha Share</b>	<b>6,829</b>	<b>10,302</b>	<b>10,475</b>	<b>11,096</b>	<b>11,455</b>	<b>11,642</b>
<b>Average price realisation (Rs/psf) – Gross basis</b>						
	<b>7,626</b>	<b>7,637</b>	<b>7,920</b>	<b>8,265</b>	<b>8,431</b>	<b>8,709</b>

Source: Company data, I-Sec research, \*from Q2FY23 this represents entire sales volumes from the State of Kerala including cities of Cochin, Thrissur, Calicut and Thiruvananthapuram

**Table 2: Annual sales performance**

Sales Data - Real Estate	FY18	FY19	FY20	FY21	FY22	H1FY23
<b>Gross Volumes sold (sft)</b>						
Bengaluru	2,600,252	2,767,789	3,002,161	2,702,120	3,353,250	2,097,541
Thrissur	59,570	66,380	101,048	150,156	131,021	-
Chennai	102,227	176,341	212,091	125,072	115,547	64,499
Coimbatore	69,271	112,805	73,981	56,517	41,014	31,252
Pune	3,025	11,865	65,376	93,580	166,044	36,887
NCR (Gurugram)	360,857	351,242	237,383	373,058	682,755	240,359
Mysore	67,230	180,662	63,608	34,056	-	-
Cochin	317,618	318,155	155,626	395,527	241,747	132,140
Kozhikode	45,340	39,505	33,857	16,452	11,253	-
GIFT City	-	5,036	126,573	66,843	166,935	92,861
<b>Total</b>	<b>3,625,390</b>	<b>4,029,779</b>	<b>4,071,704</b>	<b>4,013,381</b>	<b>4,909,567</b>	<b>2,695,538</b>
<b>Average price realisation (Rs/psf) – Sobha share</b>						
	6,680	6,303	5,852	NA	NA	NA
<b>Sales Value (Rs mn) – Sobha Share</b>						
	<b>24,217</b>	<b>25,401</b>	<b>23,827</b>	<b>24,759</b>	<b>32,684</b>	<b>19,127</b>

Source: Company data, I-Sec research, \*from FY23 this represents entire sales volumes from the State of Kerala

**Table 3: Key historical numbers and forward assumptions**

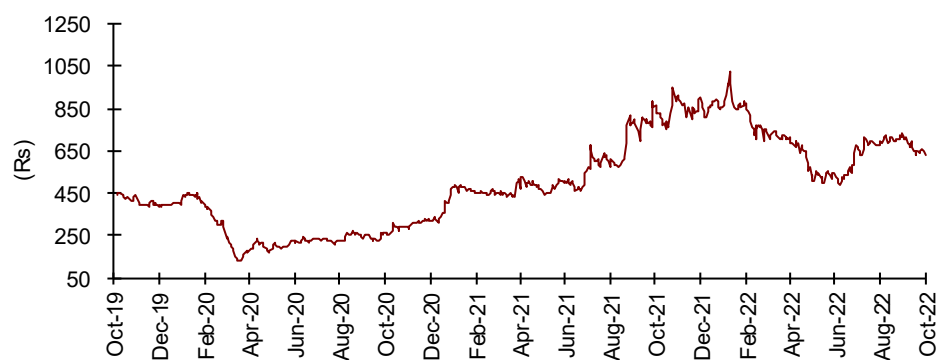
Year ending March	FY19	FY20	FY21	FY22	FY23E*	FY24E*
<b>Development Properties</b>						
Gross Area sold (msf)	4.0	4.1	4.0	4.9	5.7	6.4
Average Realisation (Rs/psf) – Sobha share	6,303	5,852	NA	NA	8,008	7,660
Sale Value (Rs mn)	25,401	23,827	24,759	32,684	45,504	49,027

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	12,393	131	12.4
Gurugram (NCR)	10,697	113	10.7
Thrissur	530	6	0.5
Rest of South India/Pune	8,172	86	8.2
<b>Total Devco</b>	<b>31,792</b>	<b>335</b>	<b>31.7</b>
Land Bank	52,698	556	52.6
Contractual/Manufacturing	5,602	59	5.6
Rental Assets/APMC	5,594	59	5.6
Refundable JDA deposits	4,500	47	4.5
<b>Total GAV</b>	<b>100,186</b>	<b>1,057</b>	<b>100.0</b>
Less : FY22 Net Debt	23,547	248	
<b>Net Asset Value (NAV)</b>	<b>76,639</b>	<b>808</b>	

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 5: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>21,098</b>	<b>27,309</b>	<b>30,882</b>	<b>38,755</b>
<b>Operating Expenses</b>	<b>14,346</b>	<b>18,417</b>	<b>25,153</b>	<b>29,165</b>
<b>EBITDA</b>	<b>6,752</b>	<b>8,892</b>	<b>5,729</b>	<b>9,590</b>
% margins	32%	33%	19%	25%
Depreciation & Amortisation	794	721	735	750
Interest expenses*	6,012	7,497	2,712	2,817
Other Income	806	907	998	1,097
Exceptional items	-	-	-	-
<b>PBT</b>	<b>752</b>	<b>1,581</b>	<b>3,279</b>	<b>7,120</b>
Less: Taxes	129	413	1,148	2,492
<b>PAT before</b>				
<b>Minority/Associate</b>	<b>623</b>	<b>1,168</b>	<b>2,131</b>	<b>4,628</b>
Minority/Associate share	-	-	-	-
<b>Net Income (Reported)</b>	<b>623</b>	<b>1,168</b>	<b>2,131</b>	<b>4,628</b>

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

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	1,01,924	1,04,779	1,09,587	1,24,957
of which cash & cash eqv.	2,041	1,783	2,454	7,116
Total Current Liabilities & Provisions	56,862	63,514	65,813	76,273
<b>Net Current Assets</b>	<b>45,062</b>	<b>41,265</b>	<b>43,774</b>	<b>48,684</b>
Goodwill/Investments	1,143	1,149	1,174	1,199
Net Fixed Assets	9,034	8,172	8,437	8,686
<b>Total Assets</b>	<b>55,239</b>	<b>50,586</b>	<b>53,385</b>	<b>58,569</b>
<b>Liabilities</b>				
Borrowings	30,620	25,330	26,330	27,330
Equity Share Capital	948	948	948	948
Reserves & Surplus*	23,329	24,157	25,956	30,140
<b>Net Worth</b>	<b>24,277</b>	<b>25,105</b>	<b>26,904</b>	<b>31,088</b>
Minority Interest	-	-	-	-
Deferred Taxes	342	151	151	151
<b>Total Liabilities</b>	<b>55,239</b>	<b>50,586</b>	<b>53,385</b>	<b>58,569</b>

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>752</b>	<b>1,581</b>	<b>3,279</b>	<b>7,120</b>
Depreciation	794	721	735	750
Non-Cash Adjustments	-	-	-	-
Working Capital Changes	(788)	(409)	(2,838)	(1,247)
Taxes Paid	(129)	(413)	(1,148)	(2,492)
<b>Operating Cashflow</b>	<b>629</b>	<b>1,480</b>	<b>29</b>	<b>4,131</b>
Capital Commitments	(395)	459	(1,000)	(1,000)
<b>Free Cashflow</b>	<b>234</b>	<b>1,939</b>	<b>(971)</b>	<b>3,131</b>
Other investing cashflow	(50)	(109)	(25)	(25)
<b>Cashflow from Investing Activities</b>	<b>(445)</b>	<b>350</b>	<b>(1,025)</b>	<b>(1,025)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(780)	(5,595)	1,000	1,000
Dividend paid	(664)	(332)	(333)	(444)
<b>Cashflow from Financing activities</b>	<b>(1,444)</b>	<b>(5,927)</b>	<b>667</b>	<b>556</b>
<b>Net Change in cash</b>	<b>(1,260)</b>	<b>(4,097)</b>	<b>(329)</b>	<b>3,662</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	6.6	12.3	22.5	48.8
Cash EPS	14.9	19.9	30.2	56.7
Dividend per share (DPS)	9.0	3.0	4.0	5.0
Book Value per share (BV)	256.1	264.8	283.8	327.9
<b>Growth (%)</b>				
Net Sales	(43.8)	29.4	13.1	25.5
EBITDA	(39.4)	31.7	(35.6)	67.4
PAT	(77.9)	87.5	82.5	117.1
<b>Valuation Ratios (x)</b>				
P/E	94.5	50.4	27.6	12.7
P/BV	2.4	2.3	2.2	1.9
EV / EBITDA	13.0	9.3	14.4	8.2
Dividend Yield	1.4	0.5	0.6	0.8
<b>Operating Ratios</b>				
Debt/EBITDA (x)	4.5	2.8	4.6	2.8
Net D/E	1.2	0.9	0.9	0.7
<b>Profitability/Return Ratios (%)</b>				
RoE	2.6	4.7	8.2	16.0
RoCE	12.5	17.5	11.8	18.1
EBITDA Margins	32.0	32.6	18.6	24.7
Net Income Margins	3.0	4.3	6.9	11.9

Source: Company data, I-Sec research

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