



**Valuation and view**

- Sobha expects to launch 6msf of projects in FY24, which indicates that the existing quarterly pre-sales run rate will be sustained in FY24. Thus, we increase our FY24E sales booking by 5% to INR56b.
- The company indicated that margin pressure in the contractual business will continue for at least one more quarter; hence, we reduce our FY23 EBITDA/PAT estimates by 19%/42%
- Sobha is progressing well on the pre-sales growth trajectory. The steady cash flow is enabling debt reduction and renewed focus on new land investments. However, we believe material re-rating triggers are at least a year away, as the company is preparing for project launches at a couple of its large land parcels in Hosur and Hoskote, which will drive re-rating in the implied land valuation.
- That said, the current valuations imply a steep 50% discount to the book value of land, which is unwarranted. We arrive at a fair land value of INR41b (applying 20% discount to derived value) v/s INR15b of implied value. **We reiterate our Buy rating on the stock with a TP of INR855, an upside potential of 48%.**

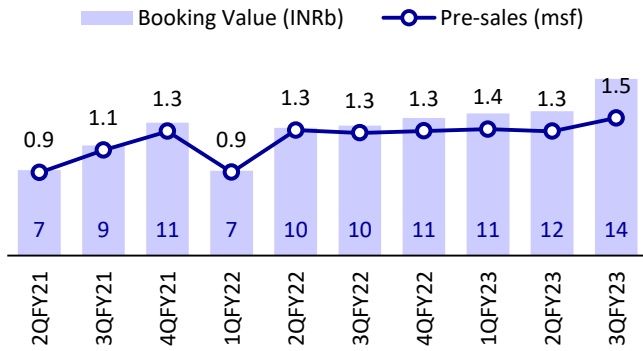
**Quarterly Performance**

Y/E March	FY22				FY23				FY22	FY23	FY23	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>5,115</b>	<b>7,799</b>	<b>6,223</b>	<b>6,476</b>	<b>5,646</b>	<b>6,673</b>	<b>8,682</b>	<b>7,176</b>	<b>25,613</b>	<b>28,177</b>	<b>7,890</b>	10%
YoY Change (%)	46.1	49.4	-9.1	17.0	10.4	-14.4	39.5	10.8			18.1	
Total Expenditure	3,109	6,009	4,720	6,447	4,918	5,751	7,794	6,051	20,285	24,514	6,570	
<b>EBITDA</b>	<b>2,006</b>	<b>1,790</b>	<b>1,503</b>	<b>29</b>	<b>728</b>	<b>922</b>	<b>888</b>	<b>1,125</b>	<b>5,328</b>	<b>3,663</b>	<b>1,320</b>	-33%
Margins (%)	39.2	23.0	24.2	0.4	12.9	13.8	10.2	15.7	20.8	13.0	16.7	-650bps
Depreciation	174	170	180	195	147	179	175	246	719	747	196	
Interest	1,817	789	788	-311	614	632	660	549	3,083	2,455	616	
Other Income	127	5	277	431	117	233	298	197	840	845	237	
<b>PBT before EO expense</b>	<b>142</b>	<b>836</b>	<b>812</b>	<b>576</b>	<b>84</b>	<b>344</b>	<b>351</b>	<b>528</b>	<b>2,366</b>	<b>1,307</b>	<b>745</b>	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
<b>PBT</b>	<b>142</b>	<b>836</b>	<b>812</b>	<b>576</b>	<b>84</b>	<b>344</b>	<b>351</b>	<b>528</b>	<b>2,366</b>	<b>1,307</b>	<b>745</b>	
Tax	36	205	202	191	39	152	33	126	634	350	186	
Rate (%)	25.4	24.5	24.9	33.2	46.4	44.2	9.4	23.9	26.8	26.8	25.0	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
<b>Reported PAT</b>	<b>106</b>	<b>631</b>	<b>610</b>	<b>385</b>	<b>45</b>	<b>192</b>	<b>318</b>	<b>402</b>	<b>1,732</b>	<b>957</b>	<b>559</b>	-43%
<b>Adj PAT</b>	<b>106</b>	<b>631</b>	<b>610</b>	<b>385</b>	<b>45</b>	<b>192</b>	<b>318</b>	<b>402</b>	<b>1,732</b>	<b>957</b>	<b>559</b>	
YoY Change (%)	60.6	289.5	182.4	115.1	-57.5	-69.6	-47.9	4.3	177.8	-44.8	70.9	
Margins (%)	2.1	8.1	9.8	5.9	0.8	2.9	3.7	5.6	6.8	3.4	7.1	
<b>Key metrics</b>												
Sale Volume (msf)	0.9	1.3	1.3	1.3	1.4	1.3	1.5	1.8	4.9	6.0	1.5	1%
Sale Value (INRb)	6.8	10.3	10.5	11.1	11.5	11.6	14.3	13.7	38.7	51.1	12.5	14%
Collections (INRb)	5.5	7.2	8.4	10.6	8.9	10.8	11.6	11.2	31.7	42.5	9.0	
Realization (INR/sft)	7,626	7,638	7,936	8,281	8,423	8,707	9,628	7,488	7,891	8,498	8,570	

Source: MOFSL, Company

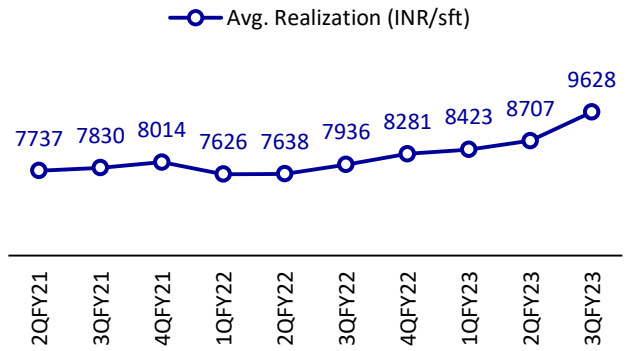
Key exhibits

Exhibit 1: SOBHA reported sales of INR14b, up 36% YoY



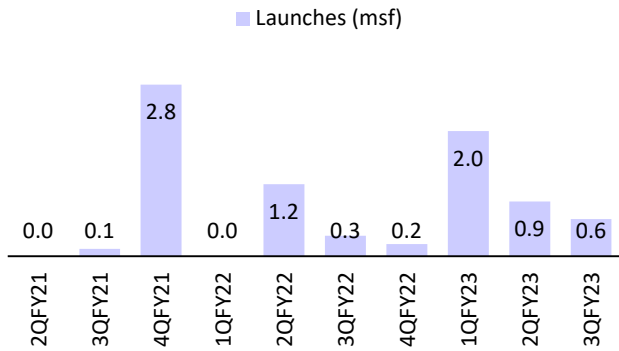
Source: Company, MOFSL

Exhibit 2: Realization increased by 21% YoY due to mix



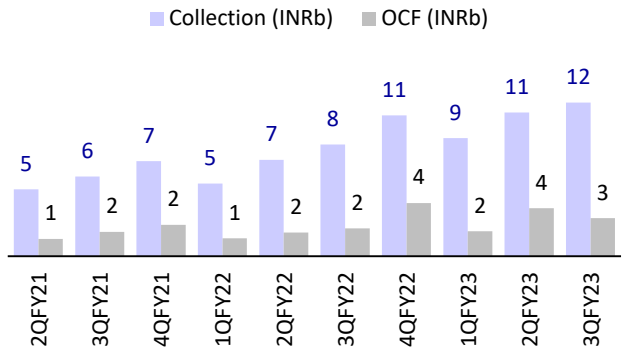
Source: Company, MOFSL

Exhibit 3: Company launched four new towers in Sobha city, Gurugram



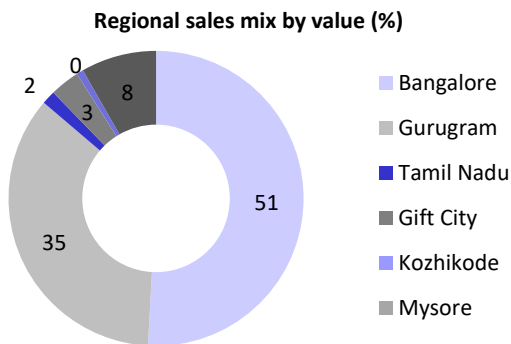
Source: MOFSL, Company

Exhibit 4: Residential collections improved 38% YoY and OCF stood at INR3b



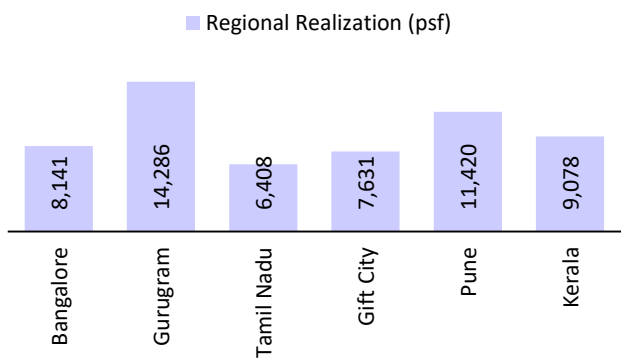
Source: MOFSL, Company

Exhibit 5: Bengaluru contributed 51% to overall sales value



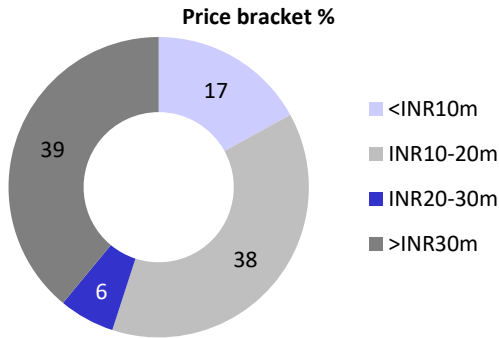
Source: Company, MOFSL

Exhibit 6: Realization/sft in key markets



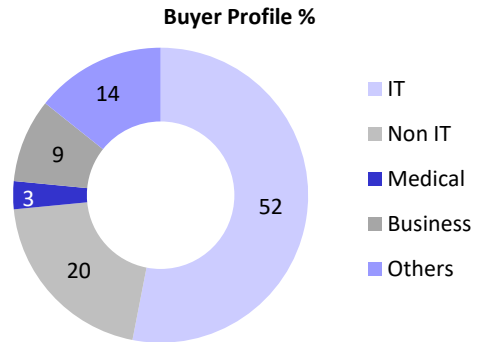
Source: Company, MOFSL

**Exhibit 7: Premium segment (INR30m+) contributed 38% to overall sales driven by new launch in NCR**



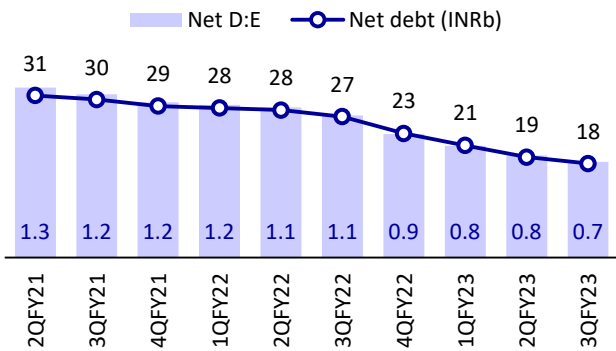
Source: MOFSL, Company

**Exhibit 8: Bulk of the demand driven by customers from IT background**



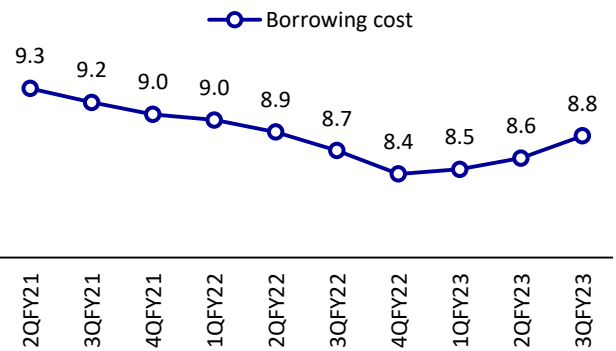
Source: MOFSL, Company

**Exhibit 9: Net debt declining consistently**



Source: MOFSL, Company

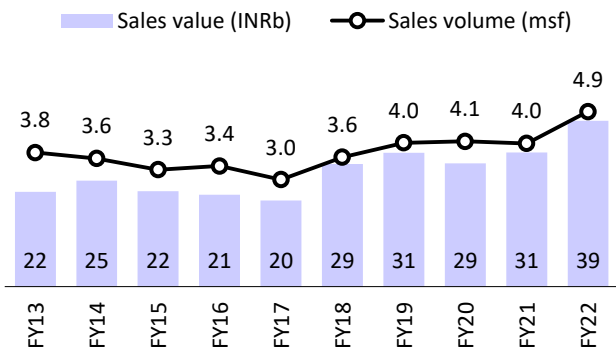
**Exhibit 10: Cost of debt stood at 8.8%**



Source: MOFSL, Company

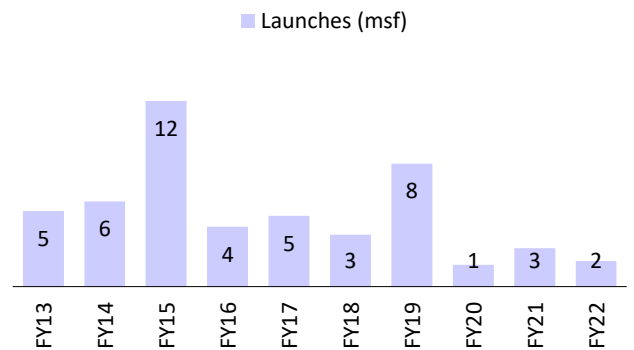
Story in charts

**Exhibit 11: Sales have been sustained at 3-4msf over the last decade, but increased in value terms**



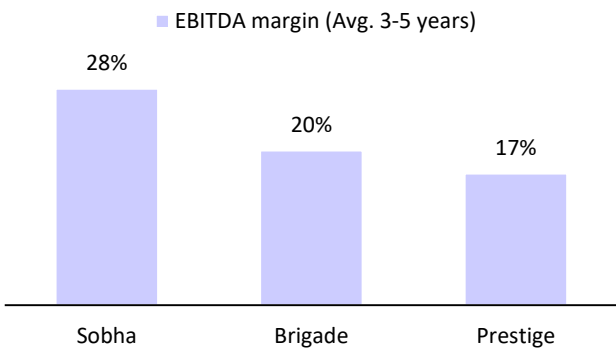
Source: Company, MOFSL

**Exhibit 12: Launches were in line with the sales run rate for most years in the last decade**



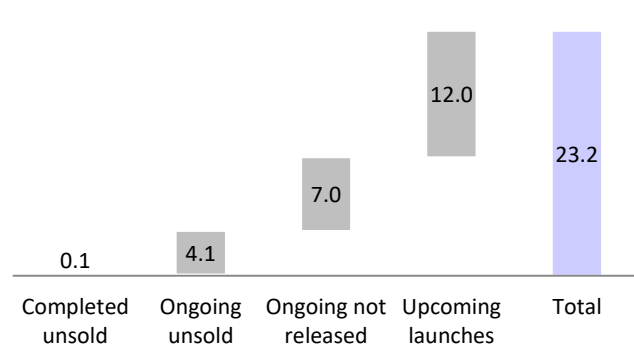
Source: Company, MOFSL

**Exhibit 13: SOBHA generates higher margin than its peers**



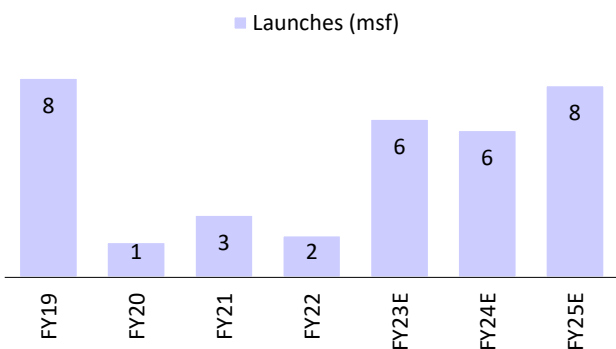
Source: MOFSL, Company

**Exhibit 14: Ongoing and upcoming projects provide strong near-term visibility on pre-sales**



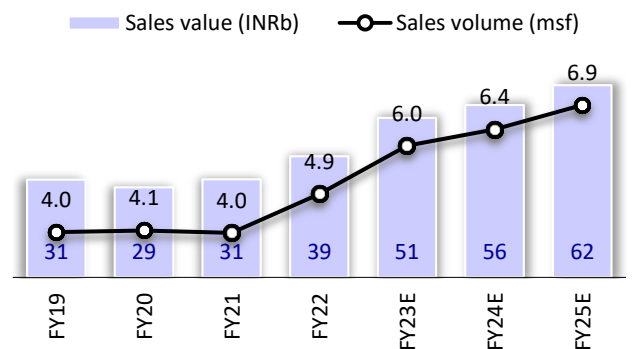
Source: MOFSL, Company

**Exhibit 15: Expect SOBHA to release 6-8msf annually over the next three-to-four years**



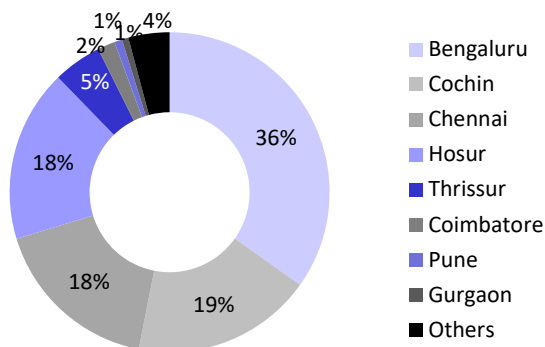
Source: Company, MOFSL

**Exhibit 16: Pre-sales to gradually scale up on the back of new launches**



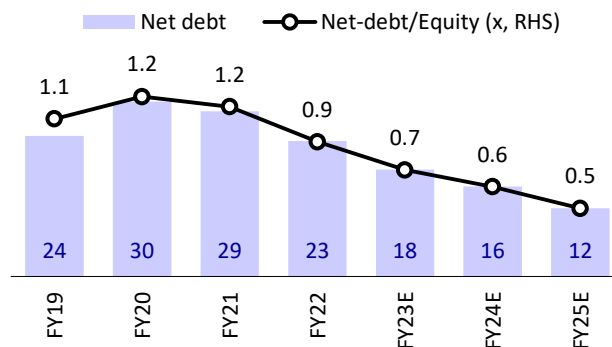
Source: Company, MOFSL

**Exhibit 17: SOBHA owns large land parcels in key markets like Bengaluru, Kochi, Chennai, and Hosur**



Source: Company, MOFSL

**Exhibit 18: Expect net debt to come down to INR16b by FY24 or 0.6x of equity**



Source: Company, MOFSL

**Exhibit 19: Changes in our estimates**

(INR b)	Old		New			Change		
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	28	36	28	36	41	0%	-1%	NA
EBITDA	5	8	4	8	10	-19%	0%	NA
Adj. PAT	2	4	1	4	6	-42%	8%	NA
Pre-sales	49	53	51	55	62	4%	4%	NA
Collections	45	58	43	48	56	-5%	-17%	NA

Source: MOFSL, Company



### Other key concall Takeaways

#### Cash flows:

- A INR744m outflow is pertaining to new land investment and pending payments for previous projects.
- Management is comfortable with current gearing, but the downward trend will continue given the enhanced focus on cash flows. While absolute debt could remain stable, the ratio could decrease with the rising equity base.

#### NCR Pipeline

- The new commercial project added in 3Q is a part of Sobha International City in Sec-106. It is evaluating b/w leasing and strata sale.
- Sobha has 1.7msf of forthcoming projects and it has 1.5msf inventory at Sobha City & International City, along with 0.5msf commercial which was recently added. So there is sufficient pipeline in NCR and the company will be able to cater to strong demand, particularly in the premium segment.
- To capture the increased demand, it has redesigned existing inventory by introducing larger homes and has received a strong response.

#### Contractual segment

- The termination notice was pertaining to one of the contracts signed in 2012 with APMC, wherein the company was supposed to develop its land.
- New contracts taken up this year will have lower margins compared to historical levels and management will remain selective about future contracts.

**Sobha City (Bengaluru) OC issue**

- The project was delivered in 2019 and the OC was cancelled by govt authorities due to defects in fire and water NOCs, but the company has already received a stay order for the same. Currently, it is working with the authorities to resolve the issue.
- The financial implication will be absorbed under normal expenditure and will not have any untoward impact.

**Hoskote land**

- Sobha has completed the majority of investment and plans to start development. Any future investments are intended to be made from cash flows from the project.

**Valuation and view**

- We value SOBHA based on our SoTP approach:
  - Its ongoing inventory and the upcoming pipeline are valued using NAV, with expected cash flows discounted over the next four to six years at WACC of 12.2%.
  - Cash flow potential of its 195msf land bank is discounted at WACC of 12.2% over 20-75 years, assuming a marginal improvement in existing sales velocity across markets that the company is exposed to. We apply a 20% discount to its derived land bank to incorporate any uncertainty related to the development of large land parcels.
  - Operational commercial projects are valued at an 8.5% cap rate on FY24E EBITDA and ongoing projects on a DCF basis.
  - SOBHA's contractual business is valued at 5x FY23E EV/EBITDA.

Accordingly, we arrive at a GAV of INR99b. Netting off its FY23E net debt of INR18b, we derive an NAV of INR81b, or INR855/share, indicating a potential upside of 48%.

**Exhibit 20: Our SoTP-based approach denotes 48% upside to CMP; maintain Buy rating**

NAV summary	Description	INR b	Per share	As a percentage of NAV
Ongoing projects	❖ INR33b of net cash surplus, excluding overheads discounted at a WACC of 12.2% over the next four years	20	213	25%
Upcoming projects	❖ Around 21msf of unreleased, ongoing, and upcoming pipeline discounted over five years at a WACC of 12.2%	26	276	32%
<b>Value of ongoing and upcoming projects</b>			<b>46</b>	<b>489</b>
Commercial properties	❖ Operational assets valued at a cap rate of 8% and ongoing projects through DCF	9	97	11%
Land bank (net of cost payable)	❖ Cash flow potential from 195msf land bank discounted at a WACC of 12.2% over 20-75 years, depending on the size of the land parcel	41	432	51%
Contractual and manufacturing	❖ FY23E EBITDA at an EV/EBITDA of 5x	3	31	4%
<b>Gross asset value</b>		<b>99</b>	<b>1,049</b>	<b>123%</b>
Net debt	❖ FY23E net debt	(18)	(195)	-23%
<b>Net asset value</b>		<b>81</b>	<b>855</b>	<b>100%</b>
Shares outstanding		94.8		
<b>Price objective</b>		<b>855</b>		
CMP		577		
<b>Upside</b>		<b>48%</b>		

Source: MOFSL

## Financials and Valuation

### Consolidated Profit & Loss

INR million

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>27,870</b>	<b>34,421</b>	<b>37,539</b>	<b>21,098</b>	<b>26,201</b>	<b>28,177</b>	<b>35,563</b>	<b>40,903</b>
Change (%)	24.1	23.5	9.1	-43.8	24.2	10.0	26.2	15.0
Project Cost & Subcontractor Charges	17,013	20,865	20,183	9,281	14,127	16,625	19,560	22,088
Employees Cost	1,985	2,359	2,464	1,771	2,295	2,818	3,023	3,272
Other Expenses	3,675	4,464	3,740	3,294	3,755	5,072	5,157	5,317
<b>Total Expenditure</b>	<b>22,673</b>	<b>27,688</b>	<b>26,386</b>	<b>14,346</b>	<b>20,177</b>	<b>24,514</b>	<b>27,739</b>	<b>30,678</b>
% of Sales	81.4	80.4	70.3	68.0	77.0	87.0	78.0	75.0
<b>EBITDA</b>	<b>5,197</b>	<b>6,733</b>	<b>11,152</b>	<b>6,752</b>	<b>6,024</b>	<b>3,663</b>	<b>7,824</b>	<b>10,226</b>
Margin (%)	18.6	19.6	29.7	32.0	23.0	13.0	22.0	25.0
Depreciation	544	623	723	794	688	747	781	825
<b>EBIT</b>	<b>4,653</b>	<b>6,110</b>	<b>10,429</b>	<b>5,958</b>	<b>5,336</b>	<b>2,916</b>	<b>7,043</b>	<b>9,401</b>
Int. and Finance Charges	1,978	2,362	6,816	6,012	4,035	2,455	2,192	1,930
Other Income	496	735	718	807	917	845	1,067	1,227
<b>PBT bef. EO Exp.</b>	<b>3,171</b>	<b>4,482</b>	<b>4,331</b>	<b>752</b>	<b>2,218</b>	<b>1,307</b>	<b>5,917</b>	<b>8,699</b>
EO Items	0	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>3,171</b>	<b>4,482</b>	<b>4,331</b>	<b>752</b>	<b>2,218</b>	<b>1,307</b>	<b>5,917</b>	<b>8,699</b>
Total Tax	1,003	1,512	1,515	129	550	350	1,586	2,331
Tax Rate (%)	31.6	33.7	35.0	17.2	24.8	26.8	26.8	26.8
Minority Interest	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>2,169</b>	<b>2,970</b>	<b>2,816</b>	<b>623</b>	<b>1,668</b>	<b>957</b>	<b>4,332</b>	<b>6,368</b>
<b>Adjusted PAT</b>	<b>2,169</b>	<b>2,970</b>	<b>2,816</b>	<b>623</b>	<b>1,668</b>	<b>957</b>	<b>4,332</b>	<b>6,368</b>
Change (%)	34.9	37.0	-5.2	-77.9	167.6	-44.8	352.8	47.0
Margin (%)	7.8	8.6	7.5	3.0	6.4	3.4	12.2	15.6

### Consolidated Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	949	949	949	949	949	949	949	949
Total Reserves	26,751	21,343	23,364	23,329	24,157	24,829	28,829	34,864
<b>Net Worth</b>	<b>27,699</b>	<b>22,291</b>	<b>24,312</b>	<b>24,277</b>	<b>25,106</b>	<b>25,778</b>	<b>29,777</b>	<b>35,813</b>
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	23,313	26,039	31,308	30,031	24,630	22,130	19,630	17,130
Deferred Tax Liabilities	2,521	-935	291	342	151	-428	187	618
<b>Capital Employed</b>	<b>53,533</b>	<b>47,395</b>	<b>55,911</b>	<b>54,650</b>	<b>49,887</b>	<b>47,480</b>	<b>49,594</b>	<b>53,561</b>
Gross Block	7,584	8,713	11,737	11,892	12,353	12,831	13,539	14,299
Less: Accum. Deprn.	1,481	2,063	2,764	3,558	4,246	5,024	5,805	6,629
<b>Net Fixed Assets</b>	<b>6,103</b>	<b>6,650</b>	<b>8,973</b>	<b>8,334</b>	<b>8,107</b>	<b>7,807</b>	<b>7,735</b>	<b>7,670</b>
Goodwill on Consolidation	0	127	222	0	0	0	0	0
Capital WIP	0	0	0	701	65	408	464	481
<b>Total Investments</b>	<b>1,125</b>	<b>1,128</b>	<b>1,143</b>	<b>1,143</b>	<b>1,149</b>	<b>1,149</b>	<b>1,149</b>	<b>1,149</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>83,021</b>	<b>98,557</b>	<b>99,765</b>	<b>1,01,924</b>	<b>1,04,779</b>	<b>1,05,709</b>	<b>1,07,570</b>	<b>1,12,875</b>
Inventory	48,349	65,173	67,045	71,246	74,271	77,237	75,997	79,846
Account Receivables	3,272	3,271	3,605	2,361	4,069	4,246	4,384	5,043
Cash and Bank Balance	1,194	1,772	884	2,041	1,783	3,656	4,072	5,490
Loans and Advances	30,206	28,341	28,231	26,275	24,656	20,570	23,116	22,497
<b>Curr. Liability &amp; Prov.</b>	<b>36,715</b>	<b>59,067</b>	<b>54,191</b>	<b>57,452</b>	<b>64,214</b>	<b>67,593</b>	<b>67,324</b>	<b>68,615</b>
Account Payables	7,225	11,369	9,578	7,318	6,753	8,731	8,360	9,245
Other Current Liabilities	28,822	46,872	44,048	49,844	57,131	58,499	58,506	58,843
Provisions	668	826	565	290	330	363	458	527
<b>Net Current Assets</b>	<b>46,306</b>	<b>39,490</b>	<b>45,573</b>	<b>44,473</b>	<b>40,565</b>	<b>38,116</b>	<b>40,245</b>	<b>44,260</b>
Misc Expenditure	0	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>53,533</b>	<b>47,395</b>	<b>55,911</b>	<b>54,650</b>	<b>49,886</b>	<b>47,479</b>	<b>49,593</b>	<b>53,560</b>



## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>22.5</b>	<b>30.8</b>	<b>29.2</b>	<b>6.5</b>	<b>17.3</b>	<b>9.9</b>	<b>45.0</b>	<b>66.1</b>
Cash EPS	28.2	37.3	36.7	14.7	24.5	17.7	53.1	74.7
BV/Share	287.6	231.5	252.4	252.1	260.7	267.7	309.2	371.8
DPS	2.5	7.0	7.0	7.0	3.5	3.0	3.5	3.5
Payout (%)	12.9	23.7	25.0	106.5	19.9	29.7	7.7	5.2
<b>Valuation (x)</b>								
P/E	28.9	21.1	22.3	100.7	37.6	58.1	12.8	8.7
Cash P/E	23.1	17.5	17.7	44.3	26.6	32.6	10.9	7.7
P/BV	2.3	2.8	2.6	2.6	2.5	2.2	1.9	1.6
EV/Sales	3.0	2.5	2.5	4.3	3.2	2.6	2.0	1.6
EV/EBITDA	16.2	12.8	8.3	13.3	14.1	20.0	9.0	6.5
Dividend Yield (%)	0.4	1.1	1.1	1.1	0.5	0.5	0.6	0.6
FCF per share	31.0	10.8	-4.2	60.3	97.8	51.7	46.0	48.7
<b>Return Ratios (%)</b>								
RoE	8.0	11.9	12.1	2.6	6.8	3.8	15.6	19.4
RoCE	7.1	9.1	13.9	10.2	9.0	5.6	12.2	15.2
RoIC	6.3	8.5	13.8	9.4	8.2	4.8	12.0	15.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.7	4.0	3.2	1.8	2.1	2.2	2.6	2.9
Asset Turnover (x)	0.5	0.7	0.7	0.4	0.5	0.6	0.7	0.8
Inventory (Days)	633	691	652	1,233	1,035	1,001	780	713
Debtor (Days)	43	35	35	41	57	55	45	45
Creditor (Days)	95	121	93	127	94	113	86	83
<b>Leverage Ratio (x)</b>								
Current Ratio	2.3	1.7	1.8	1.8	1.6	1.6	1.6	1.6
Interest Cover Ratio	2.4	2.6	1.5	1.0	1.3	1.2	3.2	4.9
Net Debt/Equity	0.8	1.1	1.3	1.2	0.9	0.7	0.5	0.3

### Consolidated Cash flow

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	3,171	4,482	4,332	752	2,218	1,307	5,917	8,699
Depreciation	544	623	723	652	688	747	781	825
Interest & Finance Charges	1,448	1,760	6,165	6,012	7,497	2,455	2,192	1,930
Direct Taxes Paid	-837	-882	-1,063	-266	-515	-929	-971	-1,900
(Inc)/Dec in WC	-888	-3,942	-7,785	-789	-409	2,955	-1,721	-2,934
<b>CF from Operations</b>	<b>3,439</b>	<b>2,043</b>	<b>2,372</b>	<b>6,361</b>	<b>9,479</b>	<b>6,534</b>	<b>6,199</b>	<b>6,619</b>
Others	96	18	244	-231	-661	-845	-1,067	-1,227
<b>CF from Operating incl EO</b>	<b>3,535</b>	<b>2,061</b>	<b>2,616</b>	<b>6,130</b>	<b>8,818</b>	<b>5,689</b>	<b>5,132</b>	<b>5,392</b>
(Inc)/Dec in FA	-597	-1,040	-3,011	-414	461	-789	-766	-777
<b>Free Cash Flow</b>	<b>2,938</b>	<b>1,021</b>	<b>-395</b>	<b>5,716</b>	<b>9,279</b>	<b>4,900</b>	<b>4,366</b>	<b>4,615</b>
(Pur)/Sale of Investments	-21	-111	-19	0	-6	0	0	0
Others	-764	529	371	82	-85	845	1,067	1,227
<b>CF from Investments</b>	<b>-1,381</b>	<b>-621</b>	<b>-2,659</b>	<b>-332</b>	<b>370</b>	<b>56</b>	<b>301</b>	<b>450</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	1,088	2,706	3,255	-756	-5,595	-2,500	-2,500	-2,500
Interest Paid	-2,606	-2,768	-3,299	-3,391	-2,916	-1,870	-2,185	-1,593
Dividend Paid	-241	-663	-664	-664	-332	-285	-332	-332
Others	-669	-137	-137	-23	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-2,428</b>	<b>-862</b>	<b>-844</b>	<b>-4,834</b>	<b>-8,843</b>	<b>-4,655</b>	<b>-5,017</b>	<b>-4,425</b>
<b>Inc/Dec of Cash</b>	<b>-274</b>	<b>578</b>	<b>-887</b>	<b>964</b>	<b>345</b>	<b>1,091</b>	<b>416</b>	<b>1,417</b>
Opening Balance	1,468	1,194	1,772	1,078	2,042	2,566	3,656	4,072
<b>Closing Balance</b>	<b>1,194</b>	<b>1,772</b>	<b>884</b>	<b>2,042</b>	<b>2,387</b>	<b>3,656</b>	<b>4,072</b>	<b>5,490</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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