

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR581 **TP: INR750 (+29%)** **Buy**

Operationally strong, but P&L performance subdued

Healthy bookings momentum sustained

- SOBHA reported the highest ever pre-sales of INR14.65b (11% above our estimate), which was up 28% YoY and flat QoQ, despite seasonality.
- A large part of this growth was attributed to improved pricing, as sales volume remained relatively stable YoY at 1.4msf (down 6% QoQ). However, the blended realization witnessed a 25% YoY increase, driven by greater contributions from markets with higher realizations such as NCR, Kerala, and Hyderabad. Additionally, there were price hikes in Bengaluru (up 17% YoY) and Gurugram (up 40% YoY).
- Bengaluru contributed to 60% of total volumes, while NCR and Kerala contributed 15% each. No new projects were launched during the quarter, but the company released 0.8msf of area in ongoing projects of Marina One, Kochi and Sobha Metropolis, Thrissur.
- SOBHA raised its new project launch pipeline to 15msf from ~13msf in 4QFY23, of which, it plans to launch ~7-8msf in FY24, which will drive pre-sales growth. We expect the company to clock pre-sales of INR60b in FY24, up 15% YoY and in line with the company guidance of 15-20% growth.

Steady cash flow performance; debt reduction continues despite ramp-up in land investments

- Collections were up 21% YoY to INR13.6b, but down 5% QoQ. Collections from the residential vertical stood at INR11.5b, up 29% YoY and flat QoQ. Higher outflows of INR11.6b led to a 40% QoQ decline in OCF to INR1.9b.
- SOBHA ramped up its capex and land investments with spending of INR0.8b, leading to surplus cash flows of INR0.7b. SOBHA's gross debt increased by INR1b to INR21b, but higher cash balance of INR5.2b, led to a reduction in net debt to INR15.7b or 0.63x of equity.

P&L performance adversely impacted by subdued residential margins

- The company delivered 0.97msf of projects in 1QFY24, leading to 62% YoY growth in the residential segment revenue. Contractual revenue was up 38% YoY to INR2.0b. Total revenue increased 61% YoY to INR9.1b, which was 11% above our estimate.
- EBITDA was however down 10% YoY to INR0.65b, 28% below estimate, due to a decline in residential EBIT margin to 17% from 28% in 1QFY23, while contractual business EBIT margin remained subdued at 2%.
- PAT more than doubled to INR121m as 'other income' jumped three-fold leading to a reported PAT margin of ~1%.



Bloomberg	SOBHA IN
Equity Shares (m)	95
M.Cap.(INRb)/(USDb)	55.1 / 0.7
52-Week Range (INR)	750 / 412
1, 6, 12 Rel. Per (%)	0/-9/-26
12M Avg Val (INR M)	282

Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	33.1	35.6	40.9
EBITDA	3.7	4.3	7.0
EBITDA (%)	11.2	12.0	17.0
PAT	1.0	1.9	4.1
EPS (INR)	10.8	19.4	42.8
EPS Gr. (%)	-39.8	78.9	120.9
BV/Sh. (INR)	259.0	274.9	314.3

Ratios

Net D/E	0.6	0.6	0.4
RoE (%)	4.2	7.2	14.5
RoCE (%)	6.0	7.5	12.1
Payout (%)	27.3	17.8	8.1

Valuations

P/E (x)	53.7	30.0	13.6
P/BV (x)	2.2	2.1	1.8
EV/EBITDA (x)	19.2	16.7	9.8
Div Yield (%)	0.5	0.6	0.6

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	52.3	52.3	52.0
DII	12.2	13.6	13.0
FII	12.8	13.8	15.0
Others	22.8	20.4	20.0

Highlights from the management commentary

- **Launches:** The 15msf forthcoming pipeline will be launched over the next two years and Sobha has an 80% share in it. There has been a delay in approvals in Karnataka due to a change of government. The company had previously envisaged 7msf launches in FY24, but expected it to be slightly less, given the current approval scenario. In any case, the company aims to launch 6-7msf in FY24.
- **Demand and Target:** There is strong demand in the premium housing, which is reflected in the company's sales mix. The ticket size of INR30m and above generated 37% sales in 1Q and this was less than 5% a few years back.
- The company is aiming for double-digit value growth in FY24 and quantum of growth is dependent on how launches materialize.
- Sobha achieved sales of 5.6msf in FY23 and the mid-term target is to reach 8msf+ sales and if everything works, the company would scale it up to 10msf.
- **P&L Performance:** Projects delivered in 1QFY24 were booked at a pre-covid price, but due to increased post-covid costs of construction, they have adversely impacted the margins.
- Expect financial performance to improve from FY25, by when the legacy real estate developments along with low margin contractual projects will be completed. The newly generated sales at the current pricing are expected to yield a gross margin of 35%, a significant improvement from the previous 20%, which will be reflected in the P&L performance.

Valuation and view

- The company retained its pre-sales guidance of 15-20% growth, despite a delay in launches by a quarter. The management also highlighted the improved margin trajectory in P&L from 2HFY24 onwards.
- SOBHA's pre-sales have been steady since the last three quarters, and thus, launches will play a key part in scaling it up further, which would largely be visible in 2H. Improvement in P&L margins and clarity on launches from its large land parcels will be a key re-rating trigger, which is still two-three quarters away.
- That said, the current valuations imply INR15b of value to the land bank, which is at a steep discount to book value of INR26b. We arrive at a fair land value of INR29b, based on discounted cash flows and applying a 50% discount for the uncertainty. **We reiterate our BUY rating on the stock with unchanged TP of INR750.**

Quarterly Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E 1QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	5,646	6,673	8,682	12,099	9,079	8,535	9,246	8,702	33,101	35,563	8,179	11
YoY Change (%)	25.8	-14.4	39.5	70.3	60.8	27.9	6.5	-28.1			44.9	
Total Expenditure	4,918	5,751	7,794	10,943	8,425	7,478	7,880	7,512	29,407	31,295	7,266	
EBITDA	728	922	888	1,156	654	1,057	1,367	1,190	3,694	4,268	913	-28
Margins (%)	12.9	13.8	10.2	9.6	7.2	12.4	14.8	13.7	11.2	12.0	11.2	-396bps
Depreciation	147	179	175	178	183	185	190	195	678	753	180	
Interest	614	632	660	611	611	523	495	406	2,490	2,035	550	
Other Income	117	233	298	302	313	265	270	219	923	1,067	260	
PBT before EO expense	84	344	351	669	173	614	952	807	1,449	2,546	443	
PBT	84	344	351	669	173	614	952	807	1,449	2,546	443	
Tax	39	152	33	183	52	186	288	156	407	682	119	
Rate (%)	46.4	44.2	9.4	27.4	30.2	30.2	30.2	19.4	28.1	26.8	26.8	
Reported PAT	45	192	318	486	121	429	664	651	1,042	1,864	324	-63
Adj PAT	45	192	318	486	121	429	664	651	1,042	1,864	324	
YoY Change (%)	-87.1	-69.6	-47.9	242.3	168.3	123.3	108.8	33.9	-39.8	78.9	620.6	
Margins (%)	0.8	2.9	3.7	4.0	1.3	5.0	7.2	7.5	3.1	5.2	4.0	
Key metrics												
Sale Volume (msf)	1.4	1.3	1.5	1.5	1.4	1.5	1.7	1.8	5.7	6.4	1.6	-13
Sale Value (INRb)	11.5	11.6	14.3	14.6	14.6	12.8	16.1	16.1	52.0	59.7	13.2	11
Collections (INRb)	8.9	10.8	11.6	11.8	11.5	9.5	11.9	11.3	43.1	44.3	10.3	
Realization (INR/sft)	8,423	8,707	9,628	9,901	10,537	8,533	9,436	9,136	9,192	9,380	8,254	28

Source: MOFSL, Company

Key exhibits

Exhibit 1: SOBHA reported sales of INR14.6b, up 28% YoY....

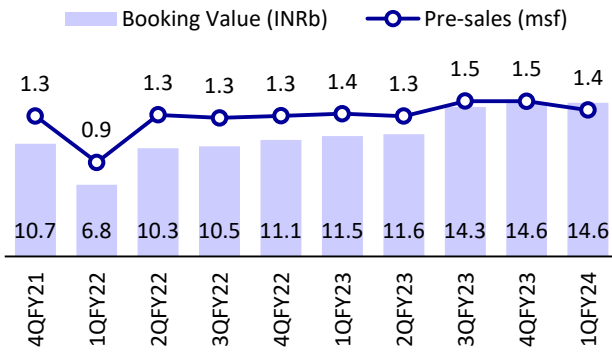


Exhibit 2: ...driven by 25% YoY rise in realization

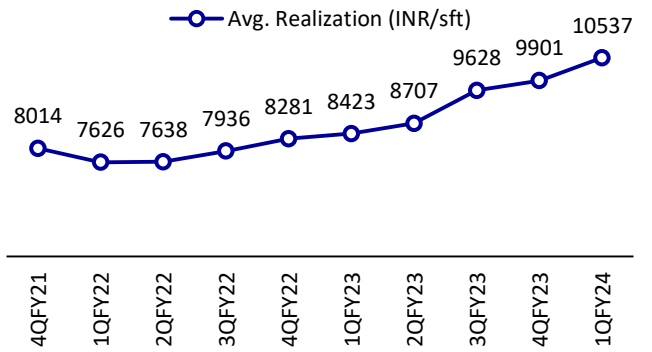


Exhibit 3: Company launched 0.8msf at existing projects

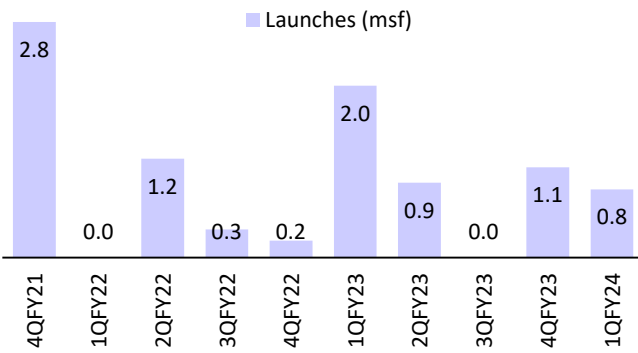


Exhibit 4: Residential collections improved 29% YoY and OCF stood at INR2b

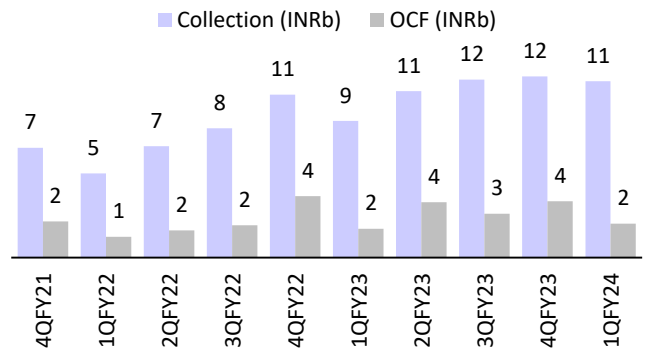


Exhibit 5: Bengaluru contributed 54% to overall sales value

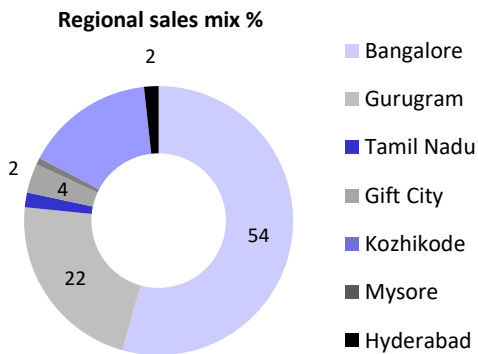


Exhibit 6: Realization/sft in the company's key markets

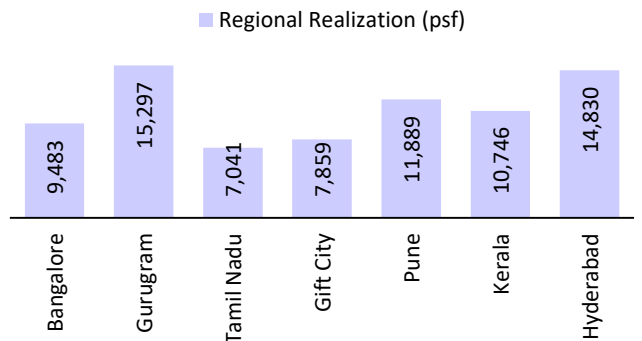
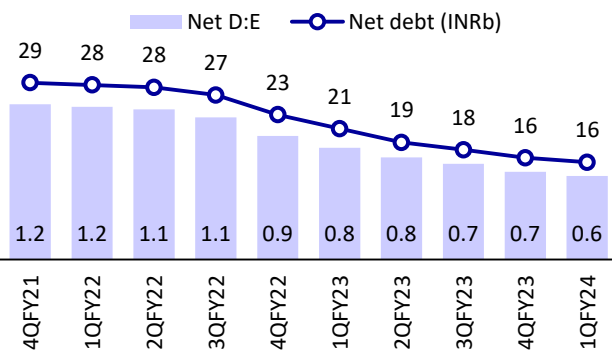
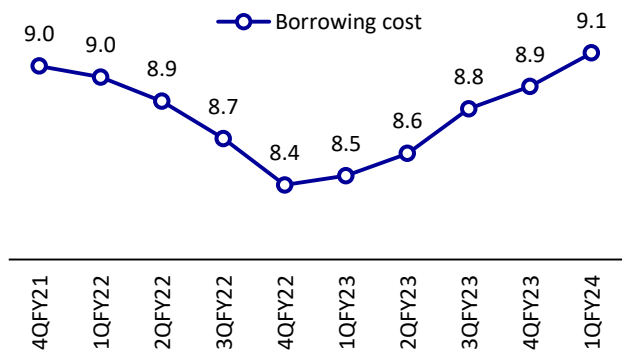


Exhibit 7: Net debt declining consistently



Source: MOFSL, Company

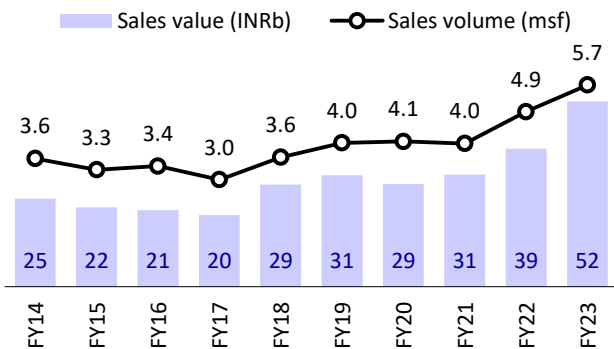
Exhibit 8: Cost of debt stood at 9.1%



Source: MOFSL, Company

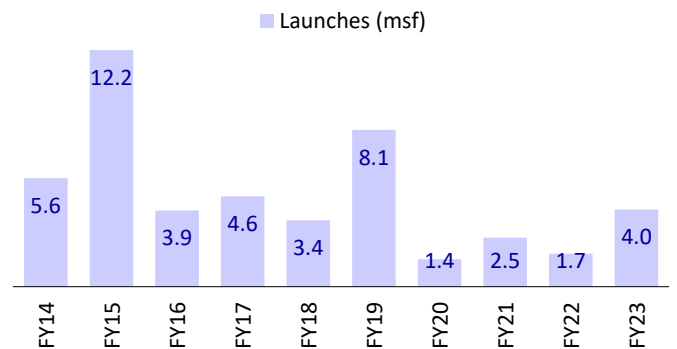
Story in charts

Exhibit 9: Sales have sharply improved over the last three years



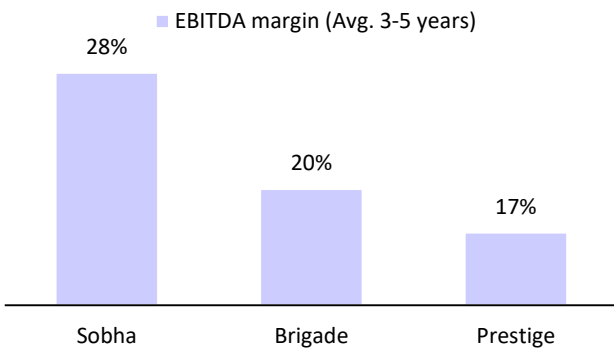
Source: Company, MOFSL

Exhibit 10: The company also witnessed a gradual rise in new launches since FY20



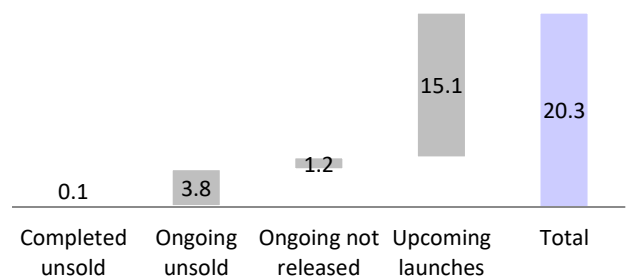
Source: Company, MOFSL

Exhibit 11: SOBHA generates a higher margin than its peers in residential segment



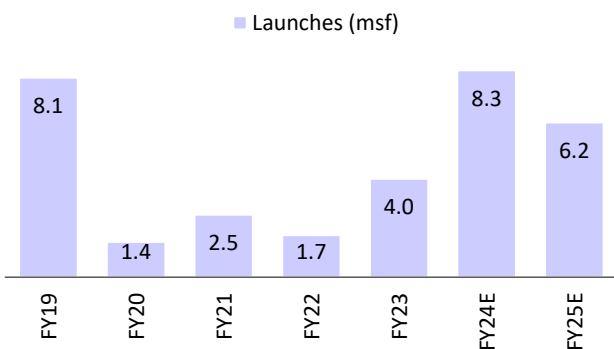
Source: MOFSL, Company

Exhibit 12: Ongoing and upcoming projects provide strong near-term visibility on pre-sales



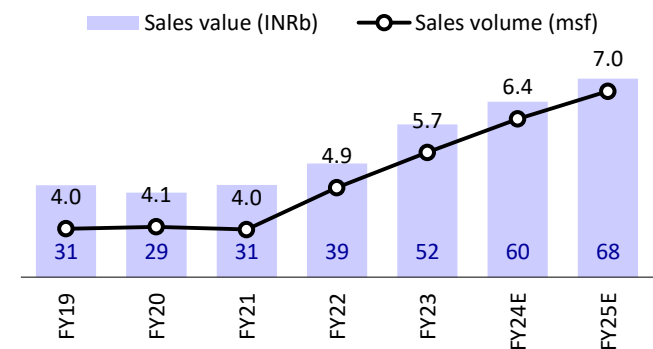
Source: MOFSL, Company

Exhibit 13: Expect SOBHA to release 6-8msf annually over the next two-to-three years



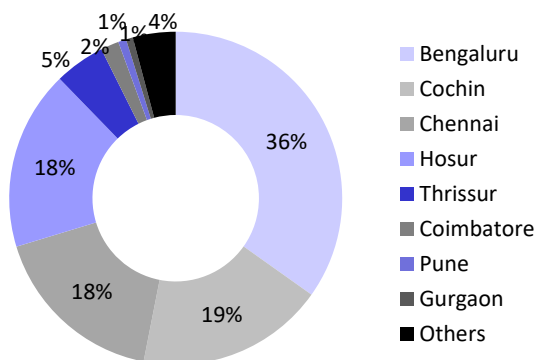
Source: Company, MOFSL

Exhibit 14: Pre-sales to gradually scale up on the back of new launches



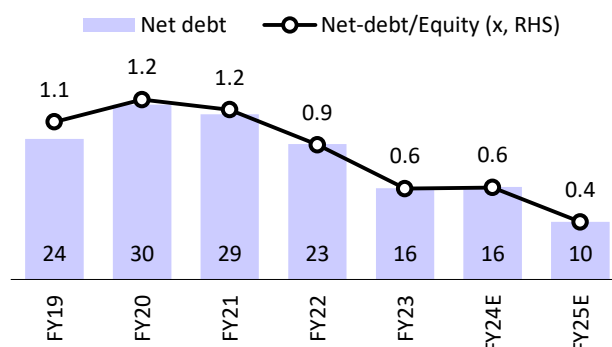
Source: Company, MOFSL

Exhibit 15: SOBHA owns large land parcels in key markets such as Bengaluru, Kochi, Chennai, and Hosur



Source: Company, MOFSL

Exhibit 16: Expect net debt to reduce to INR10b by FY25 or 0.4x of equity



Source: Company, MOFSL

Exhibit 17: Earnings change

(INR b)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	36	41	36	41	0%	0%
EBITDA	4	7	4	7	0%	0%
Adj. PAT	2	4	2	4	0%	0%
Pre-sales	60	69	60	68	0%	-1%
Collections	47	55	44	55	-6%	-1%

Source: MOFSL, Company

Other key con-call Takeaways

Debt and Credit rating:

- While the company has made significant progress on deleveraging, the credit rating has not changed due to weaker P&L performance.
- The company does not have a deleveraging target, but will continue to repay the debt. For a mature real estate company, the net debt can even go to zero.

Collections

- As construction progresses in new projects, collections should also improve as milestones are achieved. While the trend is generally upward, the management is unable to provide specific timelines at this moment.
- Certain JDA payments were accrued in the previous financial year and were disbursed in 1Q. The management expects it to remain higher in 2Q, after which they are expected to return to a normalized level.
- Sobha plans to spend INR1-2b toward land in FY24.

Focused markets

- The sales volumes from Bengaluru touched 1msf few quarters back and should go back to that level as launches improve. The company has a strong pipeline in multiple micro-markets in the city.
- Apart from Bengaluru, the company is looking to grow in NCR, Pune, Hyderabad, and Kerala.

Contractual and Manufacturing

- Focus for FY24 is to complete the existing contractual projects within the budget and protect margins. The company is looking for opportunities which provide double-digit margins. The current pipeline will exhaust in a couple of years and the management does not have very strong visibility for this segment.
- The company previously faced profitability challenges in its manufacturing business, but those issues have been resolved. The management is optimistic about the growth prospects of this business moving forward.

Valuation and view

- We value SOBHA based on our SoTP approach, wherein:
 - Its ongoing inventory and the upcoming pipeline are valued using NAV, with expected cash flows discounted over the next four-to-six years at a WACC of 11.2%.
 - Cash flow potential of its 195msf land bank is discounted at a WACC of 11.2% over 20-75 years, assuming marginal improvement in existing sales velocity across markets that the company is exposed to.
 - The company's land bank is taken at 50% discount to fair value.
 - 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 an EV/EBITDA of 5x on FY24E EBITDA.
 - Based on the above approach, we arrive at a GAV of INR87b. Netting off its FY24E net debt of INR16b, we derive a NAV of INR71b, or INR750/share, indicating a potential upside of 29%.

Exhibit 18: Our SoTP-based approach denotes 29% upside for SOBHA based on CMP; reiterate 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 11.2% over the next four years	20	214	29
Upcoming projects	❖ Around 20msf of unreleased, ongoing, and upcoming pipeline discounted over five years at a WACC of 11.2%	25	264	35
Value of ongoing and upcoming projects			45	478
Commercial properties	❖ Operational assets valued at a cap rate of 8% and ongoing projects through DCF	9	96	13
Land bank (net of cost payable)	❖ Taken 50% discount on fair value	30	312	42
Contractual and manufacturing	❖ FY24E EBITDA at an EV/EBITDA of 5x	3	31	4
Gross asset value		87	917	122
Net debt	❖ FY24E net debt	(16)	(168)	-22
Net asset value		71	750	100
Shares outstanding		94.8		
Price objective		750		
CMP		581		
Upside		29%		

Source: MOFSL

Financials and Valuation

Consolidated Profit & Loss

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	27,870	34,421	37,539	21,098	26,201	33,101	35,563	40,903
Change (%)	24.1	23.5	9.1	-43.8	24.2	29.2	7.4	15.0
Project Cost & Subcontractor Charges	17,013	20,865	20,183	9,281	14,127	21,022	22,405	24,542
Employees Cost	1,985	2,359	2,464	1,771	2,295	2,945	3,023	3,272
Other Expenses	3,675	4,464	3,740	3,294	3,755	5,440	5,868	6,136
Total Expenditure	22,673	27,688	26,386	14,346	20,177	29,407	31,295	33,950
% of Sales	81.4	80.4	70.3	68.0	77.0	88.8	88.0	83.0
EBITDA	5,197	6,733	11,152	6,752	6,024	3,694	4,268	6,954
Margin (%)	18.6	19.6	29.7	32.0	23.0	11.2	12.0	17.0
Depreciation	544	623	723	794	688	678	753	787
EBIT	4,653	6,110	10,429	5,958	5,336	3,016	3,514	6,166
Int. and Finance Charges	1,978	2,362	6,816	6,012	4,035	2,490	2,035	1,768
Other Income	496	735	718	807	917	923	1,067	1,227
PBT bef. EO Exp.	3,171	4,482	4,331	752	2,218	1,449	2,546	5,626
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	3,171	4,482	4,331	752	2,218	1,449	2,546	5,626
Total Tax	1,003	1,512	1,515	129	550	407	682	1,507
Tax Rate (%)	31.6	33.7	35.0	17.2	24.8	28.1	26.8	26.8
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	2,169	2,970	2,816	623	1,668	1,042	1,864	4,118
Adjusted PAT	2,169	2,970	2,816	623	1,668	1,042	1,864	4,118
Change (%)	34.9	37.0	-5.2	-77.9	167.6	-39.8	78.9	120.9
Margin (%)	7.8	8.6	7.5	3.0	6.4	3.1	5.2	10.1

Consolidated Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	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	23,999	25,531	29,317
Net Worth	27,699	22,291	24,312	24,277	25,106	24,948	26,479	30,266
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	23,313	26,039	31,308	30,031	24,630	20,269	17,769	15,269
Deferred Tax Liabilities	2,521	-935	291	342	151	0	0	-1,024
Capital Employed	53,533	47,395	55,911	54,650	49,887	45,217	44,248	44,511
Gross Block	7,584	8,713	11,737	11,892	12,353	12,488	12,940	13,648
Less: Accum. Deprn.	1,481	2,063	2,764	3,558	4,246	4,955	5,708	6,496
Net Fixed Assets	6,103	6,650	8,973	8,334	8,107	7,533	7,232	7,153
Goodwill on Consolidation	0	127	222	0	0	0	0	0
Capital WIP	0	0	0	701	65	86	400	468
Total Investments	1,125	1,128	1,143	1,143	1,149	1,149	1,149	1,149
Curr. Assets, Loans&Adv.	83,021	98,557	99,765	1,01,924	1,04,779	1,15,596	1,16,710	1,18,027
Inventory	48,349	65,173	67,045	71,246	74,271	87,610	89,170	88,363
Account Receivables	3,272	3,271	3,605	2,361	4,069	2,375	4,384	5,043
Cash and Bank Balance	1,194	1,772	884	2,041	1,783	4,514	1,818	2,124
Loans and Advances	30,206	28,341	28,231	26,275	24,656	21,097	21,338	22,497
Curr. Liability & Prov.	36,715	59,067	54,191	57,452	64,214	80,541	83,862	84,905
Account Payables	7,225	11,369	9,578	7,318	6,753	5,987	9,431	10,231
Other Current Liabilities	28,822	46,872	44,048	49,844	57,131	74,122	73,972	74,147
Provisions	668	826	565	290	330	432	458	527
Net Current Assets	46,306	39,490	45,573	44,473	40,565	36,449	35,467	35,741
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	53,533	47,395	55,911	54,650	49,886	45,217	44,248	44,510

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	22.5	30.8	29.2	6.5	17.3	10.8	19.4	42.8
Cash EPS	28.2	37.3	36.7	14.7	24.5	17.9	27.2	50.9
BV/Share	287.6	231.5	252.4	252.1	260.7	259.0	274.9	314.3
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	27.3	17.8	8.1
Valuation (x)								
P/E	28.9	21.1	22.3	100.7	37.6	53.7	30.0	13.6
Cash P/E	23.1	17.5	17.7	44.3	26.6	32.5	21.4	11.4
P/BV	2.3	2.8	2.6	2.6	2.5	2.2	2.1	1.8
EV/Sales	3.0	2.5	2.5	4.3	3.2	2.1	2.0	1.7
EV/EBITDA	16.2	12.8	8.3	13.3	14.1	19.2	16.7	9.8
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	108.3	19.0	36.9
Return Ratios (%)								
RoE	8.0	11.9	12.1	2.6	6.8	4.2	7.2	14.5
RoCE	7.1	9.1	13.9	10.2	9.0	6.0	7.5	12.1
RoIC	6.3	8.5	13.8	9.4	8.2	5.0	6.4	11.1
Working Capital Ratios								
Fixed Asset Turnover (x)	3.7	4.0	3.2	1.8	2.1	2.7	2.7	3.0
Asset Turnover (x)	0.5	0.7	0.7	0.4	0.5	0.7	0.8	0.9
Inventory (Days)	633	691	652	1,233	1,035	966	915	789
Debtor (Days)	43	35	35	41	57	26	45	45
Creditor (Days)	95	121	93	127	94	66	97	91
Leverage Ratio (x)								
Current Ratio	2.3	1.7	1.8	1.8	1.6	1.4	1.4	1.4
Interest Cover Ratio	2.4	2.6	1.5	1.0	1.3	1.2	1.7	3.5
Net Debt/Equity	0.8	1.1	1.3	1.2	0.9	0.6	0.6	0.4

Consolidated Cash flow

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	3,171	4,482	4,332	752	2,218	1,449	2,546	5,626
Depreciation	544	623	723	652	688	678	753	787
Interest & Finance Charges	1,448	1,760	6,165	6,012	7,497	2,490	2,035	1,768
Direct Taxes Paid	-837	-882	-1,063	-266	-515	-679	-1,363	-2,531
(Inc)/Dec in WC	-888	-3,942	-7,785	-789	-409	7,635	-339	-141
CF from Operations	3,439	2,043	2,372	6,361	9,479	11,573	3,632	5,508
Others	96	18	244	-231	-661	-71	-1,067	-1,227
CF from Operating incl EO	3,535	2,061	2,616	6,130	8,818	11,502	2,565	4,281
(Inc)/Dec in FA	-597	-1,040	-3,011	-414	461	-1,234	-766	-777
Free Cash Flow	2,938	1,021	-395	5,716	9,279	10,268	1,799	3,504
(Pur)/Sale of Investments	-21	-111	-19	0	-6	-1,327	0	0
Others	-764	529	371	82	-85	192	1,067	1,227
CF from Investments	-1,381	-621	-2,659	-332	370	-2,369	301	450
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	1,088	2,706	3,255	-756	-5,595	-5,198	-2,500	-2,500
Interest Paid	-2,606	-2,768	-3,299	-3,391	-2,916	-2,247	-2,185	-1,593
Dividend Paid	-241	-663	-664	-664	-332	-285	-332	-332
Others	-669	-137	-137	-23	0	0	0	0
CF from Fin. Activity	-2,428	-862	-844	-4,834	-8,843	-7,730	-5,017	-4,425
Inc/Dec of Cash	-274	578	-887	964	345	1,403	-2,151	306
Opening Balance	1,468	1,194	1,772	1,078	2,042	2,566	3,969	1,818
Closing Balance	1,194	1,772	884	2,042	2,387	3,969	1,818	2,124

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NOTES

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BUY	>=15%
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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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