

DEEP DIVE

Sobha



Sobha

'R'eset, 'R'estart, 'R'efocus = 'R'erating

Over the last year, SOBHA Ltd. (SDL) has underperformed the Nifty Realty Index by 38% and peers Brigade and Prestige Estates by 33%/53%. Whilst negative news flow on enforcement agencies' (ED/IT) actions (during FY23) has led to de-rating, SDL judiciously strengthened its balance sheet by reducing INR 15bn net debt. SDL scale/size has lagged peers over FY20-23 with the Bengaluru presales CAGR of 16% vs. 29%/34% for Brigade/Prestige. With the regulatory overhang largely behind, the robust financial health of the parent, and a strong demand undercurrent in Bengaluru market, SDL has hit the Reset-Restart button. There is a clear refocus on deleveraging, tying up new business development (15msf new launch pipeline, 20msf advance stage tie-up), and ramping up new launches (with minimal incremental INR 8-10bn of residual capex). The SDL brand enjoys huge client loyalty, differentiated design/architecture in premium offerings, in-house construction, novelty factor and 15-25% brand premium. Valuation comfort, robust FCF generation, and likely deleveraging are key near-term triggers for rerating. We maintain BUY and increase our captive land price assumption by 10-15% (in-line with market) resulting in our NAV/sh increase to INR 1,024/sh.

- **Headwinds largely priced in, risk-reward favourable for further rerating:** SDL has faced closed scrutiny from enforcement agencies during FY23, followed by an IT Dept search. This may have impacted business performance over the last two years, including future expansion plans. We now see receding regulatory headwinds and business reorientation towards growth. We envisage about 15mn sq ft (INR 150bn) of new launch pipeline and SDL readiness for creating 15-20mn sq ft (INR200bn) of business development pipeline, on which work has been going on for few years.
- **Group not averse to scale, parent company amongst Top 3 developers in Dubai:** Given the upcycle in Dubai real estate, Sobha's parent company achieved INR242/140bn presale during CY22/5MCY23 (post exchange rate) and may achieve INR 300bn+ presales for CY23 (annualizing 5MCY23 presales, by far the highest vs. any individual Indian real estate company). CY22 EBITDA stood at INR 29bn, while 1.5-2x EBITDA/DEBT and FCF of INR 11-33bn are the annual forecasts by a rating agency. With such a huge scale, the Indian entity is well-placed to learn from its parent and accelerate growth in the Indian markets.
- **Customer centricity, brand pull, in-house construction and high value delivery to help retain pricing premium:** SDL over the years has standardized delivery of quality houses at 15-25% premium vs. peers. Despite setbacks, SDL has not seen any slowing in demand for its products. Financial institutions continue to support and ably so as the company has significantly deleveraged its balance sheet and is on course to be net cash positive (largely residential developer—upcycle to accelerate FCF, no major commercial capex) in the absence of any major land capex.
- **Valuation supportive, discount to long-term averages, risk-reward favourable:** SDL is trading at the highest NAV discount of -22% vs. the long-term avg. of -17%. We believe that rerating will be contingent on presales outperformance, robust cash flow generation, achieving net cash status, and acceleration in new launches from captive and new land capex/tie-ups. The rerating equation is seeing shrinking headwinds on the denominator and expansion in tailwinds on the numerator, which can lead to a robust rerating.

Consolidated Financial Summary

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Net Sales	34,421	37,539	21,098	25,613	33,101	33,573	39,155	45,692
EBITDA	6,733	7,593	4,102	5,328	3,695	5,103	7,244	8,453
APAT	2,970	2,815	623	1,732	1,042	1,743	3,187	4,054
Diluted EPS (INR)	31.3	29.7	6.6	18.3	11.0	18.4	33.6	42.7
P/E (x)	19.2	20.2	91.3	32.9	54.6	32.6	17.9	14.0
EV / EBITDA (x)	12.1	11.5	20.8	15.0	19.6	12.4	7.2	4.5
RoE (%)	11.9	12.1	2.6	7.4	4.2	6.8	11.4	13.0

Source: Company, HSIE Research

BUY

CMP (as on 06 Sep 23)	INR 600
Target Price	INR 1,024
NIFTY	19,611

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 935	INR 1,024	
EPS Change %	FY24E (1.5)	FY25E (1.1)	FY26E (0.1)

KEY STOCK DATA

Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (INR bn) / (\$ mn)	57/697
6m avg traded value (INR mn)	456
52 Week high / low	INR 751/412

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.8	7.6	(13.9)
Relative (%)	2.1	(2.4)	(24.9)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	52.26	52.28
FIs & Local MFs	13.63	12.22
FPIs	13.76	12.75
Public & Others	20.35	22.75
Pledged Shares	10.54	10.54

Source: BSE

Parikshit D Kandpal, CFA

parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Manoj Rawat

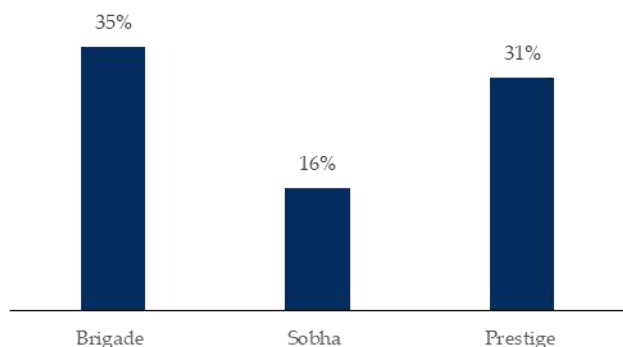
manoj.rawat@hdfcsec.com
+91-22-6171-7358

Nikhil Kanodia

nikhil.kanodia@hdfcsec.com
+91-22-6171-7362

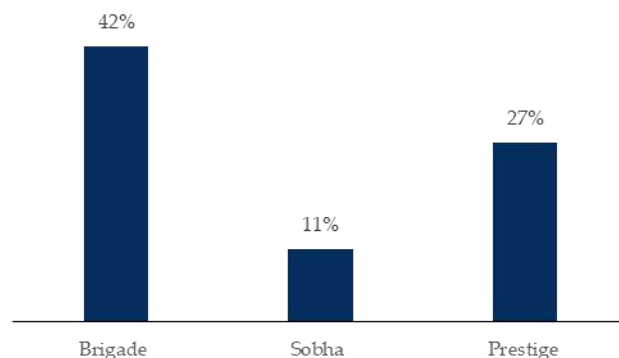
Focus Charts

5Y CAGR: Presales by value – all India



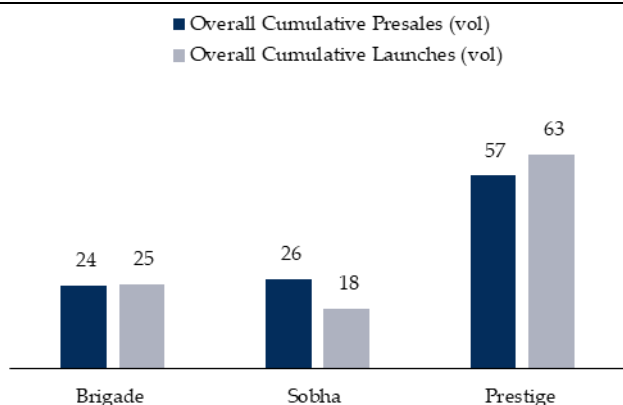
Source: Company, HSIE Research

5Y CAGR: Presales by value – Bengaluru



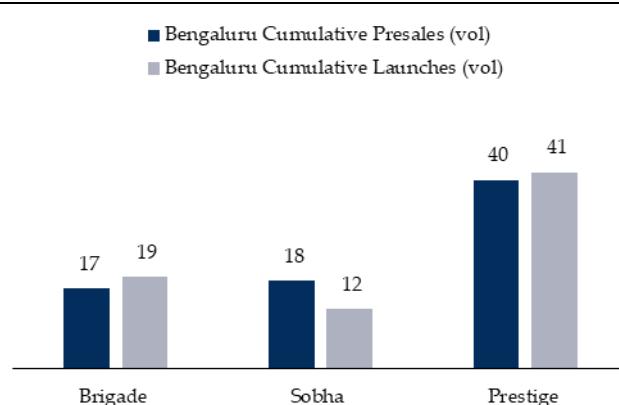
Source: Company, HSIE Research

Cumulative Presales vs Launches - Overall (FY18-FY23) (msf)



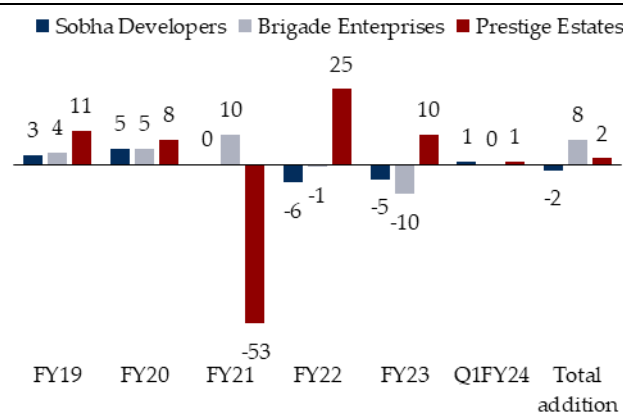
Source: Company, HSIE Research

Cumulative Presales vs Launches - Bengaluru (FY18-FY23) (msf)



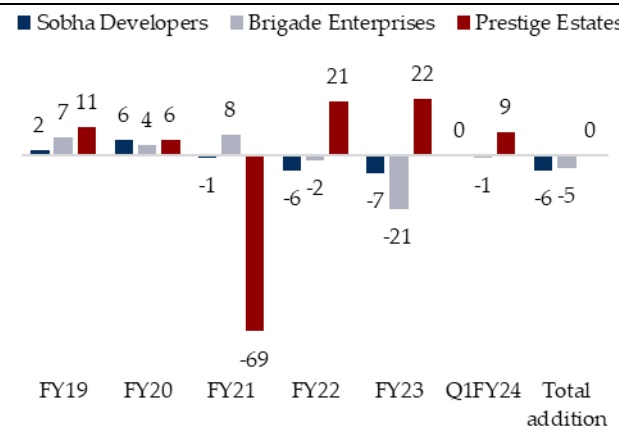
Source: Company, HSIE Research

Gross debt increase /decrease



Source: Company, HSIE Research

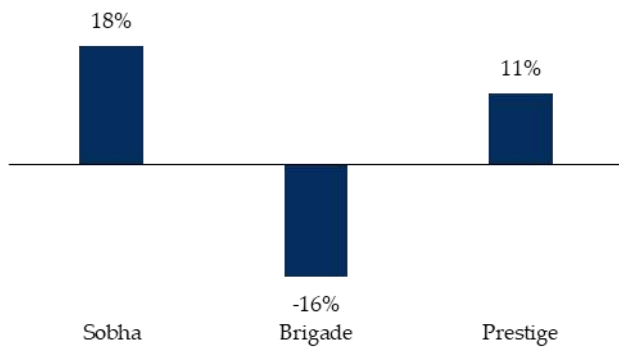
Net debt increase /decrease



Source: Company, HSIE Research

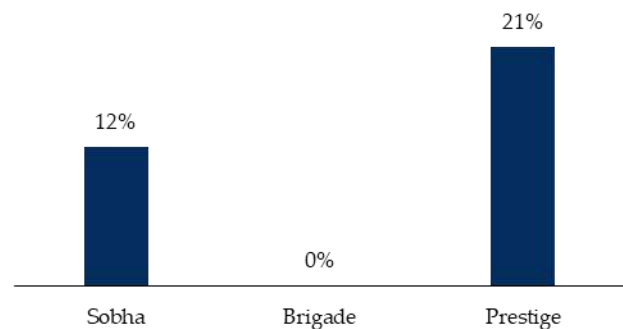
Sobha: Deep Dive

Non-Bengaluru presales—Percentage point increase since FY18



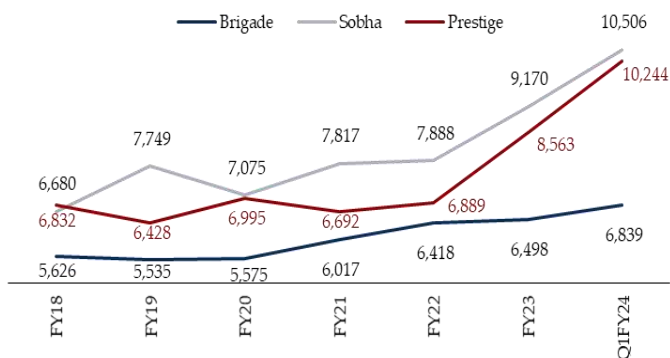
Source: Company, HSIE Research

Non-South presales (% of total)—Percentage point increase since FY18



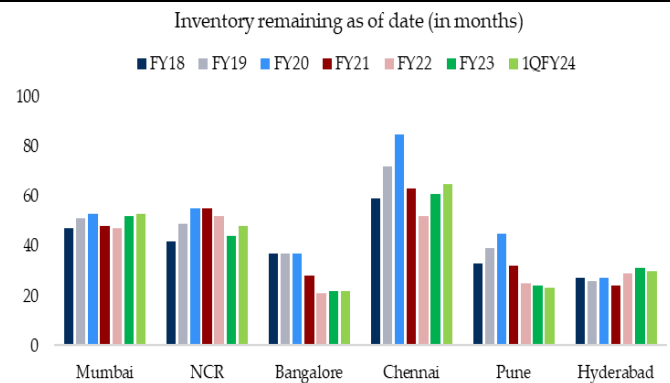
Source: Company, HSIE Research

Average price realisation trend (INR per sq ft)



Source: Company, HSIE Research

Inventory remaining (in months)



Source: Company, HSIE Research

Sobha's presales lag its peers; it is time for a reset

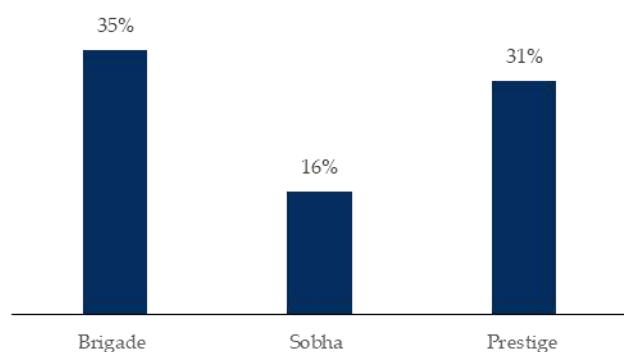
Until now, Sobha has lagged in presales growth relative to the other Bengaluru-listed developers. On a five-year CAGR basis, Sobha presales by value have grown 16% whereas for the largest player by presales value, Prestige Estates, growth was 31% while Brigade grew at 35% CAGR since FY18 on a lower base. SDL faced close scrutiny from enforcement agencies during 2019-2022 pertaining to its Gurgaon Project ([link](#)). This may have impacted its business performance in the last two years and its expansion plans.

This relative underperformance with its regional peers resulted in the relative gap of Brigade and Prestige with Sobha widening over five years. Prestige used to clock overall sales at 1.4x of SDL in FY18, which expanded to 2.5x in FY23. Brigade with its low base was able to invert the presales multiple from 0.3x in FY18 to 1.02x in FY23.

The FY18-23 underperformance period may be largely behind and with receding regulatory headwinds, SDL is making fresh attempts to reorient its business and return to growth, driven by new launches and new business development. We dig a little deeper to see the quality of Sobha and the factors that will drive the near to medium-term outperformance by Sobha.

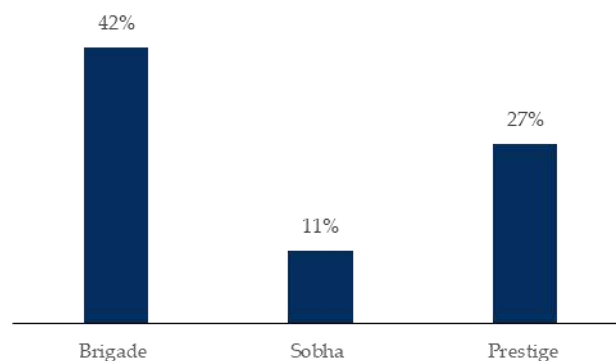
For example, Prestige and Brigade's performance with Sobha when compared on metrics like Bengaluru vs. non-Bengaluru presales shows a diversified picture. On 5Y-CAGR, the relative presales of Prestige and Brigade with Sobha have grown at 13/16% resp. while on just Bengaluru presales, the relative presales have grown faster at 15/28% resp.

5Y CAGR: Presales by value – all India



Source: Company, HSIE Research

5Y CAGR: Presales by value – Bengaluru



Source: Company, HSIE Research

Gross Presale val (Rs mn) - Bengaluru	FY18	FY19	FY20	FY21	FY22	FY23	5Y CAGR
Brigade	5,884	11,536	15,653	19,367	18,136	33,570	42%
Sobha	19,642	21,331	21,105	20,306	24,739	32,980	11%
Prestige	23,148	31,900	31,974	38,226	82,855	76,522	27%

Gross Presale val (Rs mn) - Overall	FY18	FY19	FY20	FY21	FY22	FY23	5Y CAGR
Brigade	8,963	16,439	23,768	27,667	30,227	40,939	35%
Sobha	24,218	31,225	28,806	31,372	38,707	51,889	16%
Prestige	33,137	45,571	45,607	54,608	103,822	129,209	31%

Growth outperformance vs. Sobha - Bengaluru:	FY18	FY19	FY20	FY21	FY22	FY23	5Y CAGR
Prestige/Sobha (x)	1.18	1.50	1.51	1.88	3.35	2.32	15%
Brigade/Sobha (x)	0.30	0.54	0.74	0.95	0.73	1.02	28%

Growth outperformance vs. Sobha - Overall:	FY18	FY19	FY20	FY21	FY22	FY23	5Y CAGR
Prestige/Sobha (x)	1.37	1.46	1.58	1.74	2.68	2.49	13%
Brigade/Sobha (x)	0.37	0.53	0.83	0.88	0.78	0.79	16%

Source: Company, HSIE Research

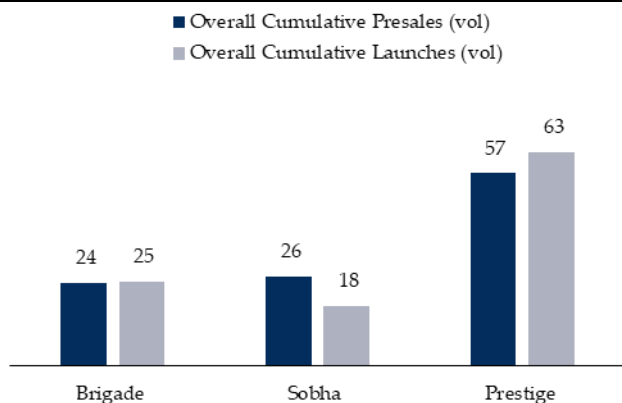
Sobha presales largely sustenance-based

Presale volume in Sobha has been largely composed of previously launched project/phases. In FY18, Bengaluru presales volume was 3.3x of launches that year by Sobha. Similarly, until FY23, presale volume has far exceeded the launch volume for its respective financial year. When compared with Prestige and Brigade, presales have exceeded launches only in recent few years. A similar pattern is visible on overall sales volume where presales volume has far exceeded launches for Sobha than for its regional peers.

This indicates that demand for Sobha’s product is exceeding what the company can supply. As a result, the unsold inventory for Sobha has declined at a faster rate of 13% 5Y CAGR than that of Brigade or Prestige.

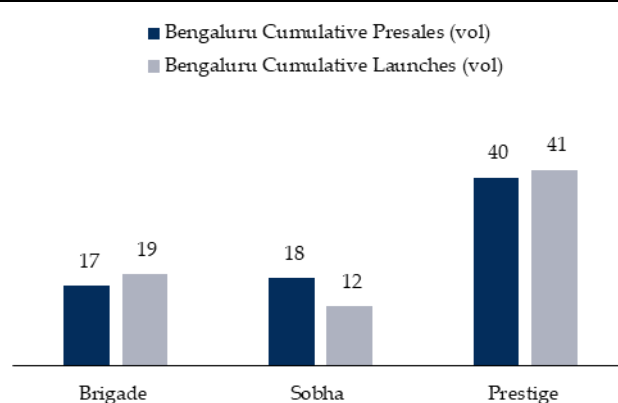
The total launch by Sobha in the past six years has been 18msf while the presale volume has been 26msf; and thus, the total new launch pipeline (over and above 5msf of unsold stock) for the next two years of 15msf (6-7msf launch planned for FY24, and 5/1/1msf launch planned for Bengaluru/NCR/other markets) makes a strong case for accelerated presales growth.

Overall (FY18-FY23) (msf)



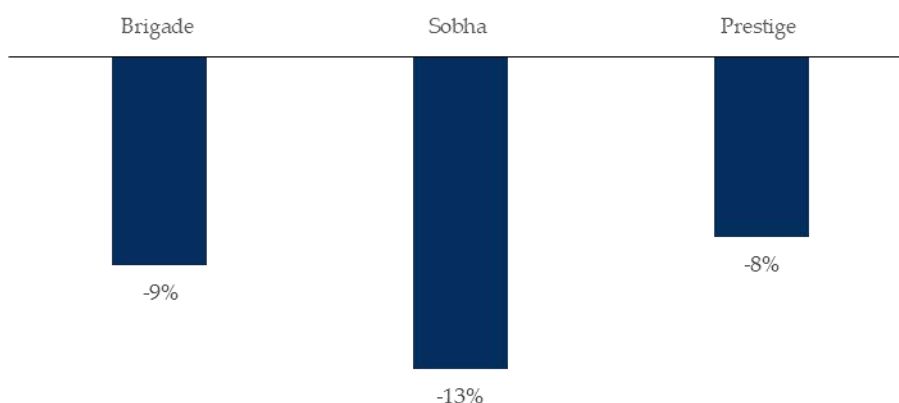
Source: Company, HSIE Research

Bengaluru (FY18-FY23) (msf)



Source: Company, HSIE Research

Unsold inventory (completed + ongoing) – overall 5Y CAGR



Source: Company, HSIE Research

Presales largely sustenance-based

<u>Gross Presale vol (msf) - Bengaluru</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade	0.97	1.87	2.78	3.22	2.83	5.17	16.84
Sobha	2.60	2.77	3.00	2.70	3.35	3.92	18.34
Prestige	3.39	4.96	4.57	5.71	12.03	8.94	39.60

<u>Gross Presale vol (msf) - Overall</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade	1.59	2.97	4.26	4.60	4.71	6.30	24.43
Sobha	3.63	4.03	4.07	4.01	4.91	5.66	26.31
Prestige	4.85	7.09	6.52	8.16	15.07	15.09	56.78

<u>New Residential launch vol - Bengaluru</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade	1.26	5.22	2.92	2.19	2.70	4.96	19.25
Sobha	0.80	5.24	0.23	1.72	1.07	3.43	12.49
Prestige	7.59	2.02	5.71	8.38	10.86	6.66	41.22

<u>New Residential launch vol - Overall</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade	2.03	5.22	4.16	4.51	3.65	5.27	24.84
Sobha	1.62	6.49	1.07	2.89	1.69	3.96	17.72
Prestige	7.59	4.16	6.06	11.85	16.77	16.46	62.89

<u>Presales as % of Launches - Bengaluru</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade	77%	36%	95%	147%	105%	104%	87%
Sobha	325%	53%	1305%	157%	313%	114%	147%
Prestige	45%	246%	80%	68%	111%	134%	96%

<u>Presales as % of Launches - Overall</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade	78%	57%	102%	102%	129%	120%	98%
Sobha	224%	62%	381%	139%	291%	143%	148%
Prestige	64%	170%	108%	69%	90%	92%	90%

<u>Relative comparison - Launches - Bengaluru:</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade/Sobha (x)	1.58	1.00	12.70	1.27	2.52	1.45	1.54
Prestige/Sobha (x)	9.49	0.39	24.83	4.87	10.13	1.94	3.30

<u>Relative comparison - Launches - Overall:</u>	FY18	FY19	FY20	FY21	FY22	FY23	Cumulative (FY18-23)
Brigade/Sobha (x)	1.25	0.80	3.89	1.56	2.16	1.33	1.40
Prestige/Sobha (x)	4.69	0.64	5.66	4.10	9.93	4.16	3.55

Decreasing inventory level for Sobha:

<u>Unsold inventory (completed + ongoing) - Overall</u>	FY18	FY19	FY20	FY21	FY22	FY23	5Y CAGR
Brigade	6.38	7.41	7.80	7.19	5.45	4.04	-9%
Sobha	14.82	17.47	16.51	15.95	14.09	7.33	-13%
Prestige	10.06	8.65	13.53	11.54	10.45	6.79	-8%

Source: Company, HSIE Research

RE upcycle generating strong cash flow; SDL may be debt-free by FY25

Real estate upcycle has helped SDL accelerate its presales momentum and generate robust Cash flow from operations. This has led to company generating INR 10.5bn of CFO during FY23. With SDL primarily a residential focused developer with large captive land bank, it stands to benefit as sales velocity increases. We envisage SDL CFO to increase to INR 15.3/17.4bn during FY24/25 and net cash generation INR 8.9/11bn. With cumulative FY24-25 cash generation of INR 19.8bn SDL may become debt free (1QFY24 gross/net debt of INR 20.8/15.7bn). Prestige has also been generating strong free cash flow but with higher upcoming commercial/retail/hospitality and land capex, the net cash flow will be negative. Brigade on the other hand has been seeing higher cash outflow towards its land acquisition given low levels of land inventory and investments towards annuity assets. Sobha largely being a residential focused developer will see surplus cash generation which may get returned to shareholders or get deployed towards higher growth/business development.

Sobha cash flow

INR mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating cash flow inflow:											
Residential	15,591	18,409	20,930	25,384	23,642	22,169	31,728	43,058	58,100	68,425	79,615
Others	6,958	7,252	9,152	10,584	12,829	8,600	8,094	9,765	9,863	9,961	10,061
Total Operational cash inflow	22,549	25,661	30,082	35,968	36,471	30,769	39,822	52,823	67,963	78,386	89,675
Operating cash flow outflow:											
Construction cost - Residential	(9,545)	(9,490)	(12,633)	(17,310)	(18,658)	(13,605)	(18,151)	(25,550)	(35,074)	(42,750)	(49,454)
All other costs	(8,867)	(10,564)	(11,164)	(14,484)	(15,709)	(10,966)	(13,080)	(16,714)	(17,597)	(18,241)	(19,674)
Total Operational cash outflow	(18,412)	(20,054)	(23,797)	(31,794)	(34,367)	(24,571)	(31,231)	(42,264)	(52,671)	(60,991)	(69,129)
Net cash flow from operations	4,137	5,607	6,285	4,174	2,104	6,198	8,591	10,559	15,292	17,396	20,547
Investing Activities:											
Construction cost - Capex	(1,180)	(255)	(348)	(881)	(1,157)	(150)	(349)	(328)	(400)	(400)	(400)
Investment in Land/JD/JV/TDR	(1,670)	(1,365)	(3,605)	(1,963)	(2,641)	(382)	94	(918)	(3,500)	(3,500)	(3,500)
Others	-	-	-	-	-	-	-	-	-	-	-
Net cash flow from investing	(2,850)	(1,620)	(3,953)	(2,844)	(3,798)	(532)	(255)	(1,246)	(3,900)	(3,900)	(3,900)
Net cash flow from financing	(3,583)	(3,575)	(3,586)	(3,676)	(4,199)	(3,957)	(3,182)	(2,341)	(2,528)	(2,577)	(2,633)
Net cash flow	(2,296)	412	(1,254)	(2,346)	(5,893)	1,709	5,154	6,972	8,864	10,919	14,013

Source: Company, HSIE Research

Brigade cash flow

INR mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating cash flow inflow:											
Residential	14,645	15,633	13,442	16,812	19,039	20,339	30,620	40,679	45,072	51,833	59,607
Others	4,882	5,211	4,481	5,604	6,346	6,780	10,207	13,560	18,410	20,157	23,181
Total Operational cash inflow	19,526	20,844	17,922	22,416	25,385	27,119	40,827	54,238	63,481	71,990	82,788
Operating cash flow outflow:											
Construction cost - Residential	(11,807)	(11,843)	(10,449)	(12,128)	(14,072)	(12,985)	(20,547)	(28,662)	(37,422)	(43,036)	(49,491)
All other costs	(4,196)	(4,373)	(5,885)	(5,784)	(6,291)	(4,964)	(9,031)	(10,409)	(11,601)	(12,932)	(14,419)
Total Operational cash outflow	(16,003)	(16,216)	(16,334)	(17,912)	(20,363)	(17,949)	(29,578)	(39,071)	(49,023)	(55,968)	(63,911)
Net cash flow from operations	3,523	4,628	1,588	4,504	5,022	9,170	11,249	15,167	14,458	16,022	18,877
Investing Activities:											
Construction cost - Capex	(2,085)	(3,094)	(6,017)	(5,327)	(7,618)	(5,200)	(2,388)	(2,314)	(2,893)	(3,616)	(4,520)
Investment in Land/JD/JV/TDR	(6,957)	(1,486)	(4,355)	(952)	(314)	(1,856)	(1,541)	(7,077)	(9,167)	(7,167)	(7,167)
Others	294	275	(1,721)	2,016	141	(2,615)	(7,593)	37	(1,000)	(1,000)	(1,000)
Net cash flow from investing	(8,748)	(4,305)	(12,093)	(4,263)	(7,791)	(9,671)	(11,522)	(9,354)	(13,059)	(11,782)	(12,686)
Net cash flow from financing	5,656	(495)	10,025	597	3,374	920	639	(6,552)	(5,692)	(6,188)	(7,151)
Net cash flow	431	(172)	(480)	838	605	419	366	(739)	(4,293)	(1,949)	(959)

Source: Company, HSIE Research

Prestige cash flow

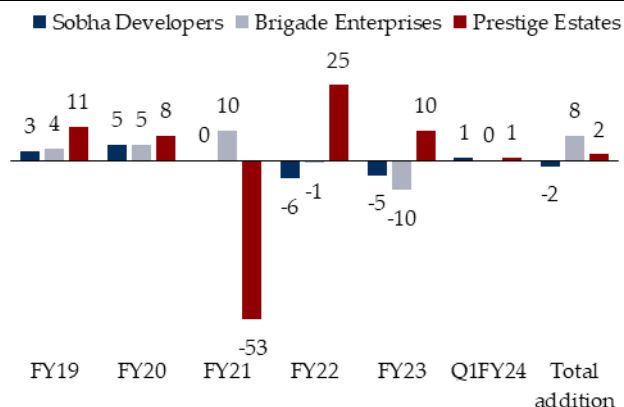
INR mn	FY23	FY24E	FY25E	FY26E
Operating cash flow inflow:				
Residential	98,055	132,430	156,267	167,879
Others	12,105	16,349	19,314	20,749
Total Operational cash inflow	110,160	148,779	175,581	188,628
Operating cash flow outflow:				
Construction cost - Residential	(42,624)	(67,830)	(81,945)	(80,209)
All other costs	(27,905)	(33,486)	(40,183)	(48,220)
Total Operational cash outflow	(70,529)	(101,316)	(122,128)	(128,429)
Net cash flow from operations	39,631	47,463	53,453	60,200
Investing Activities:				
Construction cost – Capex	(19,260)	(28,890)	(36,113)	(45,141)
Investment in Land/JD/JV/TDR	(37,691)	(40,000)	(40,000)	(40,000)
Others	(291)	-	-	-
Net cash flow from investing	(57,242)	(68,890)	(76,113)	(85,141)
Net cash flow from financing		(5,250)	(4,750)	(3,250)
Net cash flow		(26,677)	(27,409)	(28,191)

Source: Company, HSIE Research

Sobha robust cash generation deployed for paying debt

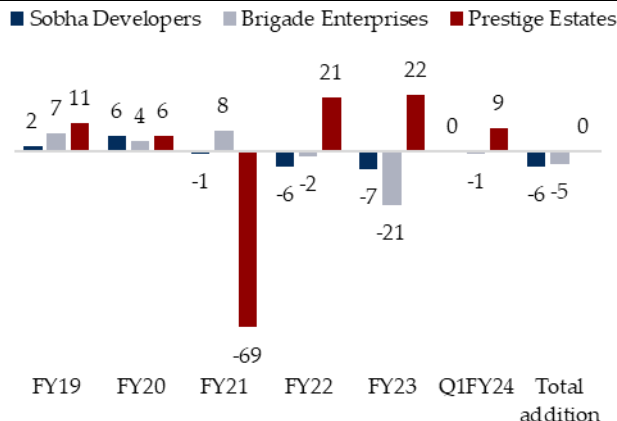
Sobha has reduced its debt significantly with gross debt at INR 21bn, reducing by 10bn since FY20. The net debt is one of the lowest among the listed developers and stands at INR 15bn. Robust pick-up in real estate and resultant presales and acceleration of land bank inventory monetization have led to a reduction in the residential segment debt for most developers. SDL stands to benefit more as it is largely focused on residential development and with residential upcycle it may deliver robust cash flow.

Gross debt increase /decrease



Source: Company, HSIE Research

Net debt increase /decrease



Source: Company, HSIE Research

Net debt (INR bn)	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24	Post covid debt reduction
Sobha Developers	22	24	30	29	23	16	16	15
Brigade Enterprises	25	32	36	44	42	21	20	16
Prestige Estates	65	76	82	13	34	56	65	17

Gross debt (INR bn)	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24	Post covid debt reduction
Sobha Developers	23	26	31	31	25	20	21	10
Brigade Enterprises	30	34	39	49	48	38	38	1
Prestige Estates	74	85	93	40	65	75	76	17

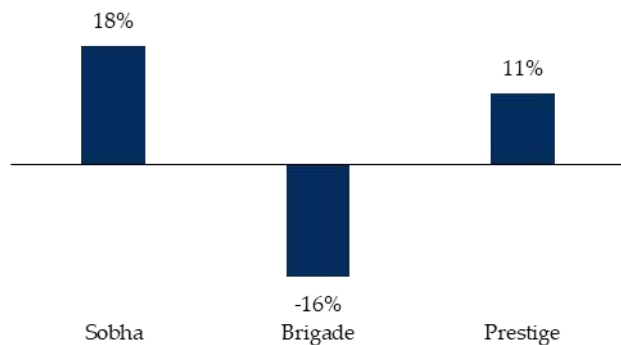
Residential Gross Debt (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24
Sobha Developers	23,346	26,120	31,180	30,620	25,330	19,930	20,840
Brigade Enterprises	7,918	6,849	6,919	4,973	2,718	465	10
Prestige Estates					32,197	44,329	44,172

Source: Company, HSIE Research

Sobha diversification story to reduce reliance on Bengaluru

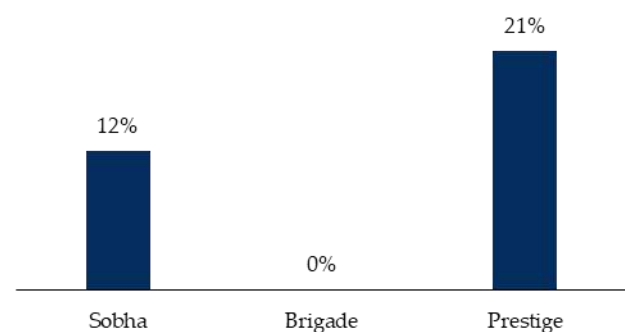
Sobha has a presence in eight cities and is one of the most diversified developers. Its non-Bengaluru presales increased from 18% in FY18 to 36% in FY23. Similarly, its higher focus in the NCR market has also helped diversify its presence with north region presales at 25% of total presales by value in FY23 (13% in FY18). Prestige's non-Bengaluru sales are largely concentrated in MMR and Hyderabad whereas Sobha's non-Bengaluru ones are largely concentrated in NCR and to an extent in Kochi.

Non-Bengaluru presales—Percentage point increase since FY18



Source: Company, HSIE Research

Non-South region presales (% of total)—Percentage point increase since FY18



Source: Company, HSIE Research

Diversification is better than peers

Non-Bengaluru (% of presales value)	FY18	FY19	FY20	FY21	FY22	FY23
Sobha	19%	32%	27%	35%	36%	36%
Brigade	34%	30%	34%	30%	40%	18%
Prestige	30%	30%	30%	30%	20%	41%

Sobha—city-wise presales

	FY18	FY19	FY20	FY21	FY22	FY23
Bengaluru	69%	68%	73%	65%	64%	63%
NCR	12%	12%	8%	11%	18%	20%
Kerala	15%	13%	8%	16%	9%	7%
GIFTY City	0%	0%	2%	1%	3%	3%
Hyderabad	0%	0%	0%	0%	0%	3%
Tamil Nadu	4%	6%	5%	4%	2%	2%
Pune	0%	0%	2%	3%	4%	1%
Mysore	1%	1%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Prestige—city-wise presales

	FY22	FY23
Bengaluru	80%	59%
MMR	7%	21%
Hyderabad	10%	14%
Kerala	2%	2%
Tamil Nadu	1%	3%
Goa	1%	1%
Mangalore	0%	0%
Total	100%	100%

Source: Company, HSIE Research

Brigade – city-wise presales

	FY18	FY19	FY20	FY21	FY22	FY23
Bengaluru	62%	100%	70%	49%	74%	94%
Mysore	0%	0%	3%	0%	0%	6%
Chennai	38%	0%	27%	11%	21%	0%
Hyderabad	0%	0%	0%	41%	5%	0%
Trivandrum	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Source: Company, HSIE Research

Sobha has higher replacement value than peers

Sobha had about 205mn sq ft of land bank as of FY20 end (it stopped giving land bank after this). It has recorded 15mn sq ft of sales over FY21-23, considering that the land bank could be 190mn sq ft. At the implied residential value of INR 34bn, this implies ~INR 180/sq ft of FSI land value. Industrial land sells at INR 700-800/sq ft and residential sells at 1,000-1,100/sq ft when a corporate/developer buys the same. So replacement value is 4-6x.

Similarly, for Brigade, FSI land value comes out to be ~INR 962/sq ft and the replacement value is 0.8x-1.1x; and for Prestige, the FSI land value comes out to be ~INR 3,188/sq ft and the replacement value is 0.25-0.35x.

Sobha's land bank

Land bank as of FY20	Land (Acre)	Developable area (msf)	Sobha share (msf)
Gurugram	46	2.5	1.4
GIFT City	4	0.8	0.8
Pune	66	1.9	1.7
Hyderabad	4	0.5	0.3
Bangalore	746	75.8	73.9
Mysore	12	0.3	0.3
Thrissur	84	10.4	10.4
Kochi	434	39.9	38.8
Trivandrum	7	0.6	0.6
Coimbatore	57	3.7	3.7
Hosur	533	38.3	37
Chennai	507	37.2	36.5
Total	2,502	212	205
Sale recorded from FY21-23 (msf)	15		
Remaining land – Sobha share (msf)	190		

Brigade's land bank

Land bank as of Q1FY24	Acres	Developable area (msf)	Brigade share (msf)
Bengaluru	340	33.8	26.8
Chennai	85	12.5	8.7
Kochi, Hyderabad and Gujarat	30	1.3	0.9
Total	455	48	36

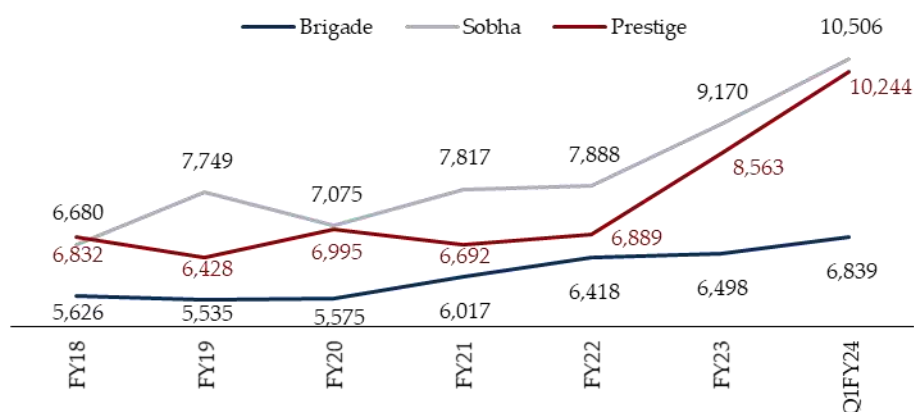
Prestige's land bank

In Acres	As of Q1FY24	PEPL share (Acre)	Implied PEPL share - developable area(msf)
Bengaluru	445	380	45
Chennai	20	13	1
Mangalore	17	17	2
Goa	224	114	6
Mysuru	4	4	0
Total	710	528	54

Sobha has been a price leader with premium positioning

Over the years, Sobha has changed its product mix and has been tilting more towards premium products. As a result, the average price realized (APR) has touched an all-time high of INR 10,506psf. Sobha's APR is the highest among its peers with Prestige and Brigade APR at INR 10,244/6,839psf resp. Our channel checks suggest that SDL has been able to create this branding intangible, which helps it achieve a 15-25% premium for its product vs. peers. This is reflective of in-house captive capability as contractor and, hence, better control on quality, better value engineering and loading efficiency, and brand trust. Despite regulatory headwinds, this has helped Sobha, as brand loyalty and timely delivery helped drive its presale momentum.

Average price realisation trend (INR per sq ft)



Source: HSIE Research

Sobha's statutory auditor is a Grant Thornton affiliate

Sobha last year in FY23 discontinued its statutory auditor M/s. BSR & Co. LLP, a KPMG affiliate, after the completion of five years. For Brigade and Prestige, the statutory auditors are, however, an affiliate firm of EY.

	FY18	FY19	FY20	FY21	FY22	FY23
Sobha	M/s. BSR & Co. LLP	M/s. BSR & Co. LLP	M/s. BSR & Co. LLP	M/s. BSR & Co. LLP	M/s. BSR & Co. LLP	M/s. Walker Chandio & Co. LLP
Brigade	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP
Prestige	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP	M/s. S. R. Batliboi & Associates LLP

Source: HSIE Research

On the valuation front, Sobha seems the most attractive

As we have highlighted at the start of the note on SDL share underperforming peers, we believe that the worst may be already in the price. Going forward, as the market looks at delivery and performance, SDL stock may see rerating.

Core EV/Presales	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Brigade	0.9	0.5	0.2	0.9	1.7	1.3	1.2	1.0	0.9
Sobha	2.4	1.9	1.2	2.0	2.2	1.1	0.8	0.7	0.7
Prestige	2.7	2.0	1.2	0.6	1.1	1.5	1.2	1.0	1.0

Source: HSIE Research

Sobha SOTP valuation – INR 938/sh

Details	Amount (Rs mn)	Rs/share
Development Properties		
Bangalore	21,160	223
Gurgaon	6,558	69
Thrissur	173	2
Pune	-	-
Rest of South India	6,218	66
Total Devco	34,109	360
Land Bank	67,985	717
Contractual/Manufacturing	7,957	84
Rental assets/APMC	-	-
Refundable JDA Deposits	4,182	44
Total GAV	114,233	1,204
Less:		
Net Debt - FY24E	15,521	164
Unpaid land cost	1,613	17
Equity value	97,099	1,024

Source: HSIE Research

Peer valuation

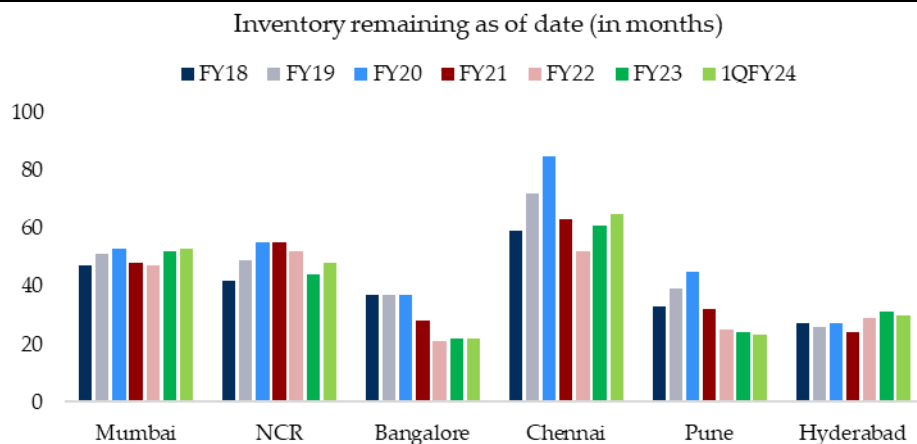
Companies	CMP (INR)	TP (INR)	Upside (%)	Total EV (INR bn)	Core EV (INR bn)	Gross Presales (Rs bn)				Total EV/ presales (x)				Core EV/presales (x)				Core EV/Embedded EBITDA (x)			
						FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Sobha	600	1,024	70	74	59	52	70	81	89	1.4	1.1	0.9	0.8	1.1	0.8	0.7	0.7	5.6	4.1	3.6	3.3
Brigade Enterprises	633	739	17	167	55	41	47	55	60	4.1	3.5	3.1	2.8	1.3	1.2	1.0	0.9	6.8	5.9	5.1	4.6
Prestige Estates	642	700	9	313	193	129	162	191	187	2.4	1.9	1.6	1.7	1.5	1.2	1.0	1.0	7.8	6.2	5.3	5.4
Kolte Patil	450	464	3	35	35	22	25	28	28	1.6	1.4	1.3	1.2	1.6	1.4	1.3	1.2	8.9	8.0	7.0	6.9
Mahindra Lifespaces	565	622	10	89	73	18	25	31	33	4.9	3.6	2.9	2.7	4.0	2.9	2.4	2.2	21.6	12.4	9.5	8.3
Oberoi Realty	1,141	1,298	14	445	260	51	55	62	64	8.7	8.1	7.2	7.0	5.1	4.7	4.2	4.1	13.8	11.8	11.0	10.7
DLF	519	575	11	1,292	697	151	128	145	148	8.6	10.1	8.9	8.7	4.6	5.4	4.8	4.7	12.7	14.9	13.2	12.9
Godrej Properties	1,662	1,664	0	498	415	122	141	166	162	4.1	3.5	3.0	3.1	3.4	3.0	2.5	2.6	19.5	17.0	14.4	14.7
Macrotech Developers	734	750	2	779	660	121	138	162	159	6.5	5.6	4.8	4.9	5.5	4.8	4.1	4.1	19.6	17.1	14.6	14.8
Phoenix Mills	1,853	2,000	8	340	660	3.8	4.1	4.5	4.8	90.5	82.3	74.8	71.2	175.7	159.7	145.2	138.3	439.2	399.3	363.0	345.7

Source: HSIE Research

Bengaluru inventory level lowest among other major cities

Inventory level (in number of months of inventory) is lowest in Bengaluru at 22 months amongst the other major cities. Inventory level in Bengaluru has been consistently low over the years owing to strong presales. Such low levels of inventory and higher demand has been driving the average price realization higher. Prices in Bengaluru in FY23 increased by 16% YoY second only to NCR where price increase was 33% YoY.

Inventory remaining (in months)



Source: Liases Foras, HSIE Research

Inventory levels in major cities

(In Months)	Mumbai	NCR	Bangalore	Chennai	Pune	Hyderabad
FY18	47	42	37	59	33	27
FY19	51	49	37	72	39	26
FY20	53	55	37	85	45	27
FY21	48	55	28	63	32	24
FY22	47	52	21	52	25	29
FY23	52	44	22	61	24	31
1QFY24	53	48	22	65	23	30

Source: Liases Foras, HSIE Research

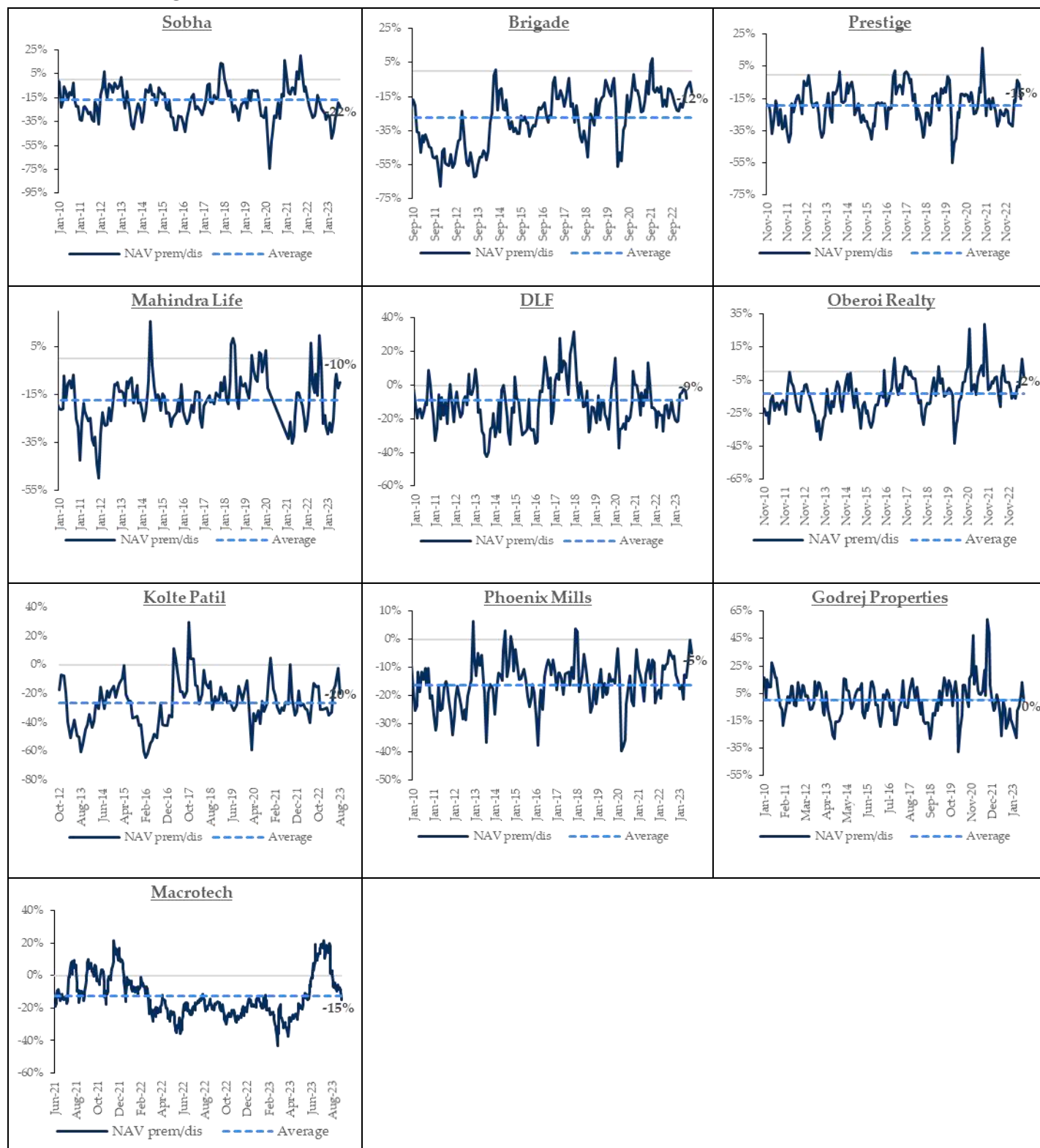
Affordability (Price/Income (x))



Source: HSIE estimates

Sobha: Deep Dive

Sobha is trading at most discount to its NAV



Source: HSIE Research

Financial Statement:

INCOME STATEMENT (INR mn)

Year ending March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	34,421	37,539	21,098	25,613	33,101	33,573	39,155	45,692
<i>Growth (%)</i>	23.5	9.1	(43.8)	21.4	29.2	1.4	16.6	16.7
Material Expenses	20,561	19,910	9,282	14,129	21,021	22,695	22,651	26,433
Employee Expenses	2,359	2,464	1,771	2,512	2,945	2,753	3,211	3,747
Other Operating Expenses	4,768	7,572	5,943	3,644	5,440	3,022	6,049	7,059
EBIDTA	6,733	7,593	4,102	5,328	3,695	5,103	7,244	8,453
<i>EBIDTA (%)</i>	19.6	20.2	19.4	20.8	11.2	15.2	18.5	18.5
<i>EBIDTA Growth (%)</i>	29.6	12.8	(46.0)	29.9	(30.6)	38.1	41.9	16.7
Other Income	735	718	806	840	923	1,246	269	58
Depreciation	623	723	794	718	678	792	870	888
EBIT	6,845	7,588	4,114	5,450	3,940	5,558	6,643	7,623
Interest	2,362	3,258	3,362	3,083	2,490	3,227	2,394	2,218
Exceptional items	-	-	-	-	-	-	-	-
PBT	4,482	4,330	752	2,366	1,450	2,331	4,249	5,406
Tax	1,512	1,515	129	634	408	587	1,062	1,351
PAT	2,970	2,815	623	1,732	1,042	1,743	3,187	4,054
EO items (net of tax)	-	-	-	-	-	-	-	-
APAT	2,970	2,815	623	1,732	1,042	1,743	3,187	4,054
<i>APAT Growth (%)</i>	27.9	(5.2)	(77.9)	178.0	(39.8)	67.3	82.8	27.2
EPS	31.3	29.7	6.6	18.3	11.0	18.4	33.6	42.7
<i>EPS Growth (%)</i>	27.9	(5.2)	(77.9)	178.0	(39.8)	67.3	82.8	27.2

Source: Company, HSIE Research

BALANCE SHEET (INR mn)

As at March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS								
Share Capital	948	948	948	948	948	948	948	948
Reserves	21,343	23,364	21,890	23,281	23,998	25,554	28,425	31,905
Total Shareholders' Funds	22,291	24,312	22,838	24,229	24,947	26,502	29,374	32,853
Minority Interest	-	-	-	-	-	-	-	-
Long Term Debt	26,039	31,137	26,816	21,389	13,901	13,401	11,901	10,401
Short Term Debt	-	-	3,504	3,648	6,135	5,635	5,135	4,635
Total Debt	26,039	31,137	30,321	25,037	20,035	19,035	17,035	15,035
Deferred Taxes	-	311	126	117	126	151	181	217
Long Term Provisions & Others	121	206	370	377	434	477	525	577
TOTAL SOURCES OF FUNDS	48,451	55,966	53,655	49,761	45,542	46,165	47,115	48,683
APPLICATION OF FUNDS								
Net Block	2,848	4,991	4,728	4,314	4,233	3,942	3,272	2,584
CWIP	1,900	2,323	701	65	68	68	68	68
Goodwill	-	-	180	176	192	192	192	192
Investments	1,128.3	1,143.0	1,142.7	1,149.0	1,149.5	1,149.5	1,149.5	1,149.5
Investment Property	2,029	1,881	3,956	3,962	4,519	5,106	5,770	6,520
Other Non-Current Assets	6,395	5,618	6,707	6,134	10,916	11,167	11,424	11,686
Inventories	65,173	67,045	74,984	76,516	87,610	82,387	71,988	74,229
Debtors	3,272	3,603	1,935	3,503	1,578	1,562	2,143	2,502
Cash & Equivalents	1,772	884	2,041	1,783	4,514	12,629	22,051	33,732
ST Loans & Advances, Others	22,881	22,634	18,772	17,816	11,103	12,053	13,003	13,953
Total Current Assets	93,098	94,166	97,733	99,618	104,805	108,631	109,185	124,415
Creditors	11,328	9,567	4,987	4,470	5,987	9,262	10,803	12,606
Other Current Liabilities & Provns	47,621	44,590	56,508	61,189	74,354	74,828	73,142	85,326
Total Current Liabilities	58,948	54,157	61,495	65,659	80,341	84,090	83,945	97,932
Net Current Assets	34,150	40,009	36,238	33,959	24,464	24,541	25,240	26,483
Misc Expenses & Others	-	-	-	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	48,451	55,966	53,655	49,761	45,542	46,165	47,115	48,683

Source: Company, HSIE Research

CASH FLOW STATEMENT (INR mn)

Year ending March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT before minority and Share of profits	4,482	4,330	752	1,582	1,450	2,331	4,249	5,406
Non-operating & EO items	(369)	(186)	(420)	(576)	(923)	(1,246)	(269)	(58)
Taxes	(882)	(1,063)	(266)	(515)	(360)	(587)	(1,062)	(1,351)
Interest expenses	2,147	6,595	6,012	7,497	2,490	3,227	2,394	2,218
Depreciation	623	723	794	721	678	792	870	888
Working Capital Change	(3,942)	(7,783)	(788)	(411)	7,510	7,856	8,543	10,264
OPERATING CASH FLOW (a)	2,061	2,616	6,084	8,298	10,845	12,372	14,725	17,366
Capex	(1,150)	(3,011)	(395)	462	(600)	(500)	(200)	(200)
Free cash flow (FCF)	910	(395)	5,689	8,760	10,244	11,872	14,525	17,166
Investments	152	(161)	(50)	(109)	(557)	(587)	(664)	(750)
Others	388	430	112	30	923	1,246	269	58
INVESTING CASH FLOW (b)	(610)	(2,742)	(333)	383	(234)	159	(594)	(892)
Share capital Issuance	-	-	-	-	-	-	-	-
Debt Issuance	2,706	3,254	(757)	(5,565)	(5,002)	(1,000)	(2,000)	(2,000)
Interest expenses	(2,768)	(3,299)	(3,414)	(2,945)	(2,490)	(3,227)	(2,394)	(2,218)
Dividend	(800)	(800)	(664)	(332)	(313)	(188)	(315)	(575)
FINANCING CASH FLOW (c)	(862)	(845)	(4,835)	(8,841)	(7,805)	(4,415)	(4,709)	(4,793)
NET CASH FLOW (a+b+c)	589	(971)	916	(160)	2,806	8,115	9,421	11,681

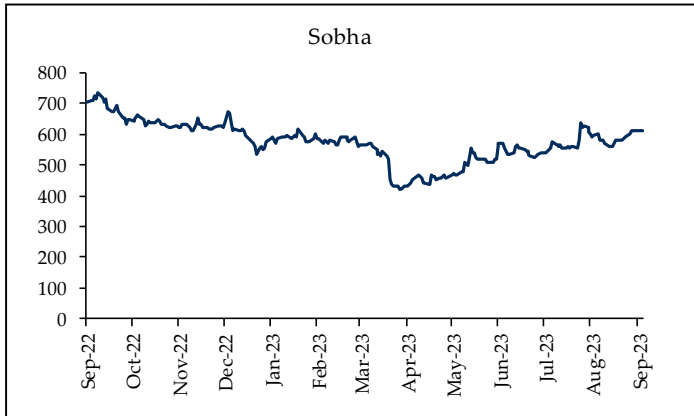
Source: Company, HSIE Research

KEY RATIOS

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)								
GPM	40.3	47.0	56.0	44.8	36.5	32.4	42.2	42.2
EBITDA Margin	19.6	20.2	19.4	20.8	11.2	15.2	18.5	18.5
APAT Margin	8.6	7.5	3.0	6.8	3.1	5.2	8.1	8.9
RoE	11.9	12.1	2.6	7.4	4.2	6.8	11.4	13.0
Core RoCE	13.7	14.9	7.7	10.8	8.5	12.4	14.6	16.3
RoCE	9.1	9.5	6.3	7.8	6.0	9.2	10.8	12.1
EFFICIENCY								
Tax Rate (%)	33.7	35.0	17.2	26.8	28.1	25.2	25.0	25.0
Asset Turnover (x)	0.7	0.7	0.4	0.5	0.7	0.7	0.9	1.0
Inventory (days)	602	643	1,229	1,079	905	924	720	584
Debtors (days)	35	33	48	39	28	17	17	19
Payables (days)	98	102	126	67	58	83	94	93
Cash Conversion Cycle (days)	538	575	1,151	1,051	875	858	643	509
Debt/EBITDA (x)	3.9	4.1	7.4	4.7	5.4	3.7	2.4	1.8
Net D/E	1.1	1.2	1.2	1.0	0.6	0.2	(0.2)	(0.6)
Interest Coverage	2.9	2.3	1.2	1.8	1.6	1.7	2.8	3.4
PER SHARE DATA								
EPS (Rs/sh)	31.3	29.7	6.6	18.3	11.0	18.4	33.6	42.7
CEPS (Rs/sh)	37.9	37.3	14.9	25.8	18.1	26.7	42.8	52.1
DPS (Rs/sh)	7.0	7.0	7.0	3.5	2.7	1.6	2.8	5.0
BV (Rs/sh)	235.0	256.3	240.8	255.4	263.0	279.4	309.7	346.4
VALUATION								
P/E	19.2	20.2	91.3	32.9	54.6	32.6	17.9	14.0
P/BV	2.6	2.3	2.5	2.3	2.3	2.1	1.9	1.7
EV/EBITDA	12.1	11.5	20.8	15.0	19.6	12.4	7.2	4.5
OCF/EV (%)	2.5	3.0	7.1	10.4	15.0	19.5	28.4	45.4
FCF/EV (%)	1.1	(0.5)	6.7	10.9	14.1	18.7	28.0	44.9
FCFE/Market Cap	6.4	5.0	8.7	5.6	9.2	19.1	22.0	26.6
Dividend Yield (%)	1.2	1.2	1.2	0.6	0.5	0.3	0.5	0.8

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com