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Q1FY20 results review  
and reco change

## Real Estate

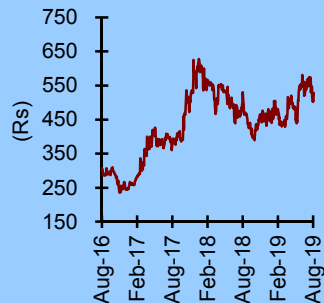
Target price Rs516

### Shareholding pattern

	Dec '18	Mar '19	Jun '19
Promoters	56.0	56.0	51.8
Institutional investors	38.6	38.3	42.5
MFs and others	10.9	13.0	14.9
FIs/Banks/Ins	0.7	0.7	0.6
FPI	27.0	24.6	27.0
Others	5.4	5.7	5.7

Source: NSE

### Price chart



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INDIA

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## Sobha Ltd

**HOLD**

Downgrade from ADD

Debt levels remain key

**Rs529**

Sobha's gross sales volumes in Q1FY20 were steady at 1.1msf and worth Rs7.8bn (up 11% YoY in volume terms and 2% YoY in value terms) with the Bengaluru market (70% volume share) continuing to be the major contributor. While sales momentum remains robust and Sobha has a healthy pipeline of launches in FY20-21E, Sobha's net debt levels have risen by Rs3.2bn QoQ to Rs27.5bn (net D/E of 1.1x). This was on account of fresh land spend of Rs1.5bn and commercial capex of Rs0.7bn during the quarter. As Sobha targets higher annual volumes of 7-8msf over the medium term, keeping debt levels under control remain crucial. However, as Sobha's debt levels continue to inch up, we cut our *Add* rating to *HOLD* with a target price of Rs516/share based on 1x NAV.

- **Bengaluru sales strong; other markets steady:** Sobha's Q1FY20 gross sales bookings of 1.1msf worth Rs7.8bn were driven by sales in Bengaluru, which accounted for 0.74msf or 70% of the sales volumes. Other markets clocked a relatively stable performance on QoQ basis. Sobha launched two new projects during the quarter with one super luxury project in Pune spread over 0.51msf saleable area and a small row house project in Coimbatore spread over 0.1msf of saleable area.
- **Net debt increased sharply in Q1FY20:** Sobha's Q1FY20 collections stood at Rs8.0bn (Rs5.2bn from real estate and Rs2.8bn from contracting business) but was negated by high construction spend of Rs7.9bn (Rs4.3bn in real estate and Rs2.8bn in contracting business) and the company incurred post interest/tax cash deficit of Rs0.8bn for the quarter. Further, capital outflow of Rs2.4bn consisting largely of land payments of Rs1.5bn and commercial capex of Rs0.7bn led to Sobha's net debt rising by Rs3.2bn QoQ to Rs27.5bn. Land spend has largely been on Joint Development Agreements (JDAs) across geographies in Gurugram, Trivandrum, Bengaluru and Hosur during the quarter while capex was largely incurred at the Sobha International City project in Gurugram.
- **FY20 off to strong start; ability to scale up is crucial:** While we expect Sobha to clock an average annual sales volume of ~4-4.5msf over FY20-FY21E, we believe the company may have to invest in new land parcels for more affordable housing projects in order to achieve its long-term vision of 7-8msf of annual volumes. Sobha currently has a launch pipeline of 19.4msf which consists of 8.7msf from phases not released for sale in ongoing projects and 10.7msf from future launches. We believe that the scale up in volumes needs to be accompanied by a significant jump in operating cash surplus to keep debt levels in check and remains the key monitorable.

Market Cap	Rs50.1bn/US\$711mn	Year to Mar	FY18	FY19	FY20E	FY21E
Reuters/Bloomberg	SOBH.BO/SOBHA IN	Revenue (Rs bn)	27.9	34.4	35.6	34.3
Shares Outstanding (mn)	94.8	Rec. Net Income (Rs bn)	2.2	3.0	3.3	3.2
52-week Range (Rs)	581/390	EPS (Rs)	22.8	31.3	34.3	34.1
Free Float (%)	48.2	% Chg YoY	36.7	36.9	9.9	(0.6)
FII (%)	27.0	P/E (x)	23.1	16.9	15.4	15.5
Daily Volume (US\$/000)	2,268	P/B (x)	1.8	1.6	1.5	1.4
Absolute Return 3m (%)	18.7	EV/E (x)	13.9	11.0	9.8	9.7
Absolute Return 12m (%)	2.3	Dividend Yield (%)	1.3	1.5	1.7	1.7
Sensex Return 3m (%)	0.8	RoCE (%)	9.6	12.0	12.2	11.5
Sensex Return 12m (%)	0.1	RoE (%)	7.9	10.1	10.7	9.8

Please refer to important disclosures at the end of this report

**Table 1: Q1FY20 consolidated result snapshot**

	Q1FY20*	Q1FY19*	Q4FY19*	YoY (%)	QoQ (%)
<b>Total Operating income</b>	<b>11,767</b>	<b>5,977</b>	<b>13,978</b>	96.9	(15.8)
Raw Materials	6,921	3,156	9,522	119.3	(27.3)
Personnel Cost	646	517	656	25.0	(1.5)
Other Expenses	1,925	998	1,365	92.9	41.0
<b>Total Expenses</b>	<b>9,492</b>	<b>4,671</b>	<b>11,543</b>	<b>103.2</b>	<b>(17.8)</b>
<b>EBITDA</b>	<b>2,275</b>	<b>1,306</b>	<b>2,435</b>	<b>74.2</b>	<b>(6.6)</b>
<i>EBITDA margin (%)</i>	19.3	21.9	17.4	(251.7)	191.3
Interest (Net)	840	541	758	55.3	10.8
Depreciation	175	149	159	17.4	10.1
Other Income	164	124	238	32.3	(31.1)
Exceptional items					
<b>Profit Before Tax</b>	<b>1,424</b>	<b>740</b>	<b>1,756</b>	<b>92.4</b>	<b>(18.9)</b>
Taxation	518	214	623	142.1	(16.9)
<b>Profit After Tax before MI/Associate</b>	<b>906</b>	<b>526</b>	<b>1,133</b>	<b>72.2</b>	<b>(20.0)</b>
MI/Associate share	-	8	(1)		
<b>Reported PAT</b>	<b>906</b>	<b>534</b>	<b>1,132</b>	<b>69.7</b>	<b>(20.0)</b>
<i>Net margin (%)</i>	7.7	8.9	8.1	(123.5)	(39.9)

Source: Company data, I-Sec research, \*As per INDAS 115 project completion method

**Table 2: Quarterly sales performance**

Sales Data – Real Estate	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Volumes sold (sft)</b>						
Bengaluru	750,375	612,944	702,072	613,816	838,957	743,479
Thrissur	6,425	27,400	17,247	16,304	5,429	23,198
Chennai	20,100	48,253	43,731	34,705	49,652	53,729
Coimbatore	25,127	31,004	46,807	17,228	17,766	14,846
Pune	5,727	1,104	4,825	5,936	-	20,710
NCR (Gurugram)	75,733	102,190	132,875	49,561	66,616	66,183
Mysore	10,944	49,371	61,881	50,836	18,574	49,020
Cochin	116,409	75,627	9,438	118,377	111,425	46,497
Kozhikode	4,871	12,192	9,438	2,061	15,814	16,277
GIFT City	-	-	-	-	5,036	29,693
<b>Total</b>	<b>1,015,711</b>	<b>960,085</b>	<b>1,031,602</b>	<b>908,824</b>	<b>1,129,268</b>	<b>1,063,632</b>
<b>Units Sold :</b>						
Bengaluru % share of sales	73.9%	63.8%	68.1%	67.5%	74.3%	69.9%
Price realisation (Rs/psf)	6,457	6,373	5,977	6,604	6,300	6,211
<b>Sales Value – Sobha (Rs mn)</b>	<b>6,558</b>	<b>6,118</b>	<b>6,166</b>	<b>6,002</b>	<b>7,115</b>	<b>6,606</b>

Source: Company data, I-Sec research

**Table 3: Annual sales performance – Sobha's share**

Sales Data - Real Estate	FY14	FY15	FY16	FY17	FY18	FY19
<b>Volumes sold (sft)</b>						
Bengaluru	2,412,332	2,441,493	2,592,143	2,255,440	2,600,252	2,767,789
Thrissur	359,986	121,848	103,264	76,357	59,570	66,380
Chennai	302,550	197,965	300,469	180,229	102,227	176,341
Coimbatore	73,166	52,630	19,636	28,654	69,271	112,805
Pune	83,456	108,299	54,468	54,397	3,025	11,865
NCR (Gurugram)	128,783	80,541	65,718	233,592	360,857	351,242
Mysore	77,513	87,774	118,529	77,381	67,230	180,662
Cochin	16,252	101,077	42,653	68,019	317,618	318,155
Kozhikode	131,147	87,377	86,842	27,759	45,340	39,505
GIFT City	-	-	-	-	-	5,036
<b>Total</b>	<b>3,585,185</b>	<b>3,279,004</b>	<b>3,383,722</b>	<b>3,001,828</b>	<b>3,625,390</b>	<b>4,029,779</b>
Average price realisation (Rs/psf)	6,534	6,389	5,946	6,216	6,680	6,303
<b>Sales Value (Rs mn)</b>	<b>23,426</b>	<b>20,950</b>	<b>20,119</b>	<b>18,661</b>	<b>24,217</b>	<b>25,401</b>

Source: Company data, I-Sec research

**Table 4: Key historical numbers and forward assumptions**

Year ending March	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Development Properties</b>						
Area sold (msf)	3.4	3.0	3.6	4.0	4.2	4.2
Average Realisation (Rs/psf)	5,946	6,216	6,680	6,303	7,587	6,540
Sale Value (Rs mn)	20,119	18,661	24,217	25,401	32,225	27,488

Source: Company data, I-Sec research

**Table 5: SoTP valuation**

Details (FY19E GAV)	Amount (Rs mn)	Rs/share	% of GAV
Bengaluru	5,537	58	7.5
Gurugram (NCR)	1,768	19	2.4
Thrissur	533	6	0.7
Rest of South India	5,393	57	7.3
<b>Total Devco</b>	<b>13,232</b>	<b>140</b>	<b>18.0</b>
Land Bank	44,385	468	60.2
Contractual/Manufacturing	9,058	96	12.3
Rental Assets/APMC	4,008	42	5.4
Refundable JDA deposits	3,000	32	4.1
<b>Total GAV</b>	<b>73,682</b>	<b>777</b>	<b>100.0</b>
Less : FY19E Net Debt	24,142	255	
Unpaid land cost	600	6	
<b>Net Asset Value (NAV)</b>	<b>48,941</b>	<b>516</b>	

Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 6: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
<b>Net Sales</b>	<b>27,870</b>	<b>34,421</b>	<b>35,593</b>	<b>34,341</b>
<b>Operating Expenses</b>	<b>22,668</b>	<b>27,688</b>	<b>27,746</b>	<b>26,431</b>
<b>EBITDA</b>	<b>5,202</b>	<b>6,733</b>	<b>7,847</b>	<b>7,910</b>
% margins	19%	20%	22%	23%
Depreciation & Amortisation	544	623	1,061	1,061
Interest expenses	1,978	2,362	2,431	2,607
Other Income	490	735	809	889
Exceptional items	-	-	-	-
<b>PBT</b>	<b>3,170</b>	<b>4,483</b>	<b>5,163</b>	<b>5,131</b>
Less: Taxes	1,002	1,512	1,807	1,796
<b>PAT before</b>	<b>2,168</b>	<b>2,971</b>	<b>3,356</b>	<b>3,335</b>
<b>Minority/Associate</b>				
Minority/Associate share	(4)	(8)	(100)	(100)
<b>Net Income (Reported)</b>	<b>2,164</b>	<b>2,963</b>	<b>3,256</b>	<b>3,235</b>

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
<b>Assets</b>				
Total Current Assets	64,555	71,721	75,670	77,513
of which cash & cash eqv.	1,817	1,983	2,297	3,372
Total Current Liabilities & Provisions	17,705	21,518	21,595	20,638
<b>Net Current Assets</b>	<b>46,850</b>	<b>50,202</b>	<b>54,075</b>	<b>56,875</b>
Goodwill/Investments	50	75	100	125
Net Fixed Assets	7,916	9,293	11,232	12,170
<b>Total Assets</b>	<b>54,817</b>	<b>59,571</b>	<b>65,407</b>	<b>69,170</b>
<b>Liabilities</b>				
Borrowings	23,962	26,125	29,125	30,125
Equity Share Capital	948	948	948	948
Reserves & Surplus*	27,338	29,922	32,657	35,321
<b>Net Worth</b>	<b>28,286</b>	<b>30,870</b>	<b>33,605</b>	<b>36,269</b>
Minority Interest	30	38	138	238
Deferred Taxes	2,538	2,538	2,538	2,538
<b>Total Liabilities</b>	<b>54,816</b>	<b>59,571</b>	<b>65,407</b>	<b>69,170</b>

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>3,170</b>	<b>4,483</b>	<b>5,163</b>	<b>5,131</b>
Depreciation	544	623	1,061	1,061
Non-Cash Adjustments	4	8	100	100
Working Capital Changes	185	(3,186)	(3,558)	(1,726)
Taxes Paid	(1,002)	(1,512)	(1,807)	(1,796)
<b>Operating Cashflow</b>	<b>2,901</b>	<b>416</b>	<b>959</b>	<b>2,771</b>
Capital Commitments	(2,000)	(2,000)	(3,000)	(2,000)
<b>Free Cashflow</b>	<b>901</b>	<b>(1,584)</b>	<b>(2,041)</b>	<b>771</b>
Other investing cashflow	(25)	(25)	(25)	(25)
<b>Cashflow from Investing Activities</b>	<b>(2,025)</b>	<b>(2,025)</b>	<b>(3,025)</b>	<b>(2,025)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	100	2,163	3,000	1,000
Dividend paid	(282)	(380)	(520)	(571)
<b>Cashflow from Financing activities</b>	<b>(182)</b>	<b>1,783</b>	<b>2,480</b>	<b>429</b>
<b>Net Change in cash</b>	<b>694</b>	<b>174</b>	<b>414</b>	<b>1,174</b>

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY18	FY19	FY20E	FY21E
<b>Per Share Data (Rs)</b>				
EPS	22.8	31.3	34.3	34.1
Cash EPS	28.6	37.8	45.5	45.3
Dividend per share (DPS)	7.0	8.0	9.0	9.0
Book Value per share (BV)	298.4	325.6	354.5	382.6
<b>Growth (%)</b>				
Net Sales	24.1	23.5	3.4	(3.5)
EBITDA	23.9	29.4	16.5	0.8
PAT	34.6	36.9	9.9	(0.6)
<b>Valuation Ratios (x)</b>				
P/E	23.1	16.9	15.4	15.5
P/BV	1.8	1.6	1.5	1.4
EV / EBITDA	13.9	11.0	9.8	9.7
Dividend Yield	1.3	1.5	1.7	1.7
<b>Operating Ratios</b>				
Debt/EBITDA (x)	4.6	3.9	3.7	3.8
Net D/E	0.8	0.8	0.8	0.7
<b>Profitability/Return Ratios (%)</b>				
RoE	7.9	10.1	10.7	9.8
RoCE	9.6	12.0	12.2	11.5
EBITDA Margins	18.7	19.6	22.0	23.0
Net Income Margins	7.8	8.6	9.1	9.4

Source: Company data, I-Sec research

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