

**RETAIL EQUITY RESEARCH****Sobha Ltd.**  
Realty

BSE CODE: 532784

NSE CODE: SOBHA

Bloomberg CODE: SOBHA:IN SENSEX: 33,033

**Accumulate**

Rating as per Mid Cap

12months investment period

CMP Rs537 TARGET Rs604 RETURN 12% 08<sup>th</sup> March, 2018**Resilience to continue**

Sobha Ltd is a premium developer in South India focused primarily on the residential projects (luxury, semi luxury apartments and villas which accounts for over 75% of its revenues) and contractual projects (offices and malls).

- Q3FY18 PAT grew by 35% YoY led by strong top-line growth and margin expansion in realty segment.
- Sales volume stood at 0.9msf (up 52% QoQ) owing to higher volumes from Bangalore.
- EBITDA margins improved by 220bps YoY to 19.9%.
- Improving launch pipeline, gain in market share and reducing dependence on Bengaluru market are key positives.
- Well placed to benefit from structural reforms in the sector which is expected to provide a level playing field for organised developers.
- Given it's well-diversified land bank, strong cash flow and relatively stable core market, quality management and steady cash flow in contractual business, we continue to maintain our positive view on Sobha.
- We roll forward to FY20E and value Sobha at P/BV of 1.8x with a Target Price of Rs604 with an Accumulate rating.

**Company Background**

Sobha Ltd is a premium developer in South India, focused primarily on the residential market, which accounts for over 75% of its revenues. Its residential projects include luxury & super luxury apartments, semi-luxury apartments, villas, row houses, residential apartments, and plotted developments and contractual projects include offices and malls. Sobha is a Bangalore based player (37% of its land bank is in Bangalore), Chennai (17%) and Cochin (22%) are the other major cities in which it has a sizeable land bank.

**Investment Rationale****Sales volumes grew by healthy 18% QoQ...**

Q3FY18 revenue grew 27.5% YoY, owing to strong growth in the Real Estate development business (+50.8% YoY), but was partly negated by a decline in the Contracting segment (-10.2% YoY). Sobha's sales volumes grew robustly by 52% YoY and 8.4% sequentially to 0.93 million square feet (msf) led by two new launches viz. 'Sobha HRC Pristine' in Bengaluru and 'Sobha Silver Estate' in Thrissur. The Bengaluru market continued to perform strongly with 5.1% QoQ growth to 0.64 msf. Sobha witnessed good traction in the Kochi market where it managed volumes of 109704 sq ft (vs. 63075 sq ft in Q2FY18). The management believes the demand scenario is steadily improving with RERA implementation.

**Profitability robust...**

Net profit grew robustly by 35.5% YoY to Rs53.4 crore. Net profit increased largely led by higher revenues and expansion of EBITDA margin by 60bps to 19.9%, decline in other expenses and lower tax outgo. The average realisation was Rs6541/sq ft which was up by 8% and the total collections were INR6.7bn (up 9% YoY).

**Contractual division orderbook strong at Rs.1470 crore...**

With order inflows worth Rs522 crore from the LuLu Group and Biocon in 9MFY18, Sobha's contractual order book is strong at Rs1470 crore, 2x its TTM contractual division revenues, showing strong revenue visibility. Despite strong order accretion and a robust order book, given the high base, we expect contractual revenues to grow moderately at 6.4% CAGR to Rs 859 crore in FY17-19E.

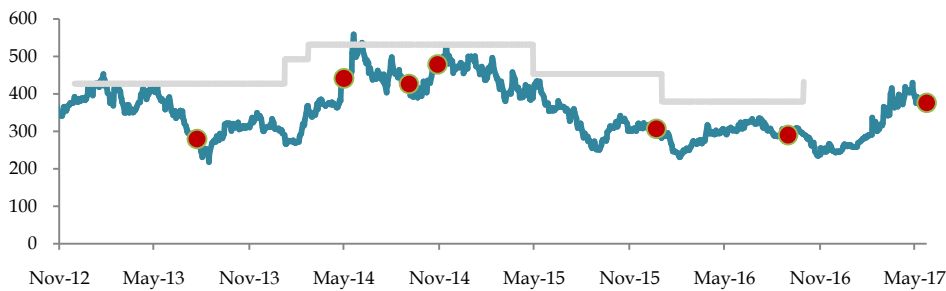
### Debt to decline...

Net debt stood at Rs 23.3bn (vs 22.8bn in 2QFY18) largely due to share buyback of ~INR620mn during the quarter. Further, Sobha incurred Rs 71mn capex on commercial assets during 3QFY18 (9MFY18 - Rs 202mn vs Rs 128mn during 9MFY17). Sobha has been generating positive cash flow (post interest and tax expenses) for the past 10 quarters. Going ahead, management will continue to look for opportunistic land buys in the post RERA environment while maintaining close watch on cash flows and leverage levels. Management believes that D/E has peaked and expects it to fall going ahead.

### Outlook & Valuation

We expect Sobha's cash flow to improve driven by robust new sales momentum. We continue to maintain positive view on given Sobha's strong operational parameters like cash flow/volume off-take, launch of planned projects, a relatively stable core market and balance sheet improvement. We roll forward to FY20E and value Sobha at P/BV of 1.8x with a Target Price of Rs604 with an Accumulate rating.

## Price History



Source: Bloomberg, Geojit Research

Dates	Rating	Target
12 August 2013	BUY	427
21 May 2014	BUY	427
23 September 2014	BUY	492
15 November 2014	BUY	531
12 January 2016	BUY	453
22 September 2016	BUY	379
13 June 2017	BUY	432
08-march-2018	Accumulate	604

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Down side is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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