

Estimate change



TP change



Rating change



Bloomberg	SOBHA IN
Equity Shares (m)	95
M.Cap.(INRb)/(USDb)	72.1 / 0.9
52-Week Range (INR)	802 / 412
1, 6, 12 Rel. Per (%)	8/56/14
12M Avg Val (INR M)	392

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	35.6	42	50.3
EBITDA	4.1	6.3	11.4
EBITDA (%)	11.5	15	22.7
PAT	1.5	3.9	8.1
EPS (INR)	16.1	40.8	83.6
EPS Gr. (%)	48.6	154.1	104.7
BV/Sh. (INR)	271.7	309.1	389.2

Ratios

Net D/E	0.5	0.4	0.3
RoE (%)	6.1	14.1	23.9
RoCE (%)	7.7	11.9	19.6
Payout (%)	21.4	8.4	4.1

Valuations

P/E (x)	47.3	18.6	9.1
P/BV (x)	2.8	2.5	2
EV/EBITDA (x)	20.6	13.4	7.2
Div Yield (%)	0.5	0.5	0.5

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	52.3	52.3	52.0
DII	15.0	12.2	13.7
FII	11.2	12.8	15.6
Others	21.6	22.8	18.7

CMP: INR761

TP: INR960 (+26%)

Buy

Healthy all-round performance

Bookings run-rate continue to scale up

- Sobha reported the highest ever bookings of INR17.2b (15% beat to our estimate of INR15b), up 48%/18% YoY/QoQ. Sales volume for the quarter stood at 1.7msf, up 26%/21% YoY/QoQ.
- The volume from Bengaluru are now back to ~1msf run rate and its share in overall sales stood at 54% (in line with TTM average). NCR and Kerala contributed 21% and 15% in total sales.
- Collections increased 16% YoY to INR13b; however, on account of higher outflows, OCF declined 17% YoY to INR3b.
- The company delivered 0.8msf of projects in 2QFY24, leading to 22% YoY growth in the residential segment revenue to INR5.4b. Contractual revenue was down 13% YoY to INR2.3b.
- EBITDA declined 18% YoY and increased 15% QoQ to INR0.7b with a margin of 10.2% (vs. 13.8% in 2QFY23). The contractual business witnessed sequential improvement in margin to 15% (vs. 2% in 1QFY24)

Highlights from the management commentary

- **Launches:** Sobha is targeting to launch 6-7 msf in FY24 of which 1.5msf are at advanced stage of approvals. Overall, the company has a healthy pipeline of 15msf with GDV of INR150b+, which is enough to drive growth in the near term. Beyond this too, the pipeline remains strong, comprising projects sourced from the existing land bank, with a few additional projects stemming from new business development initiatives undertaken in the past year.
- The intended **pre-sales growth of 15-20%** will be achieved from existing as well as new markets. Among the existing ones, Bengaluru and NCR would drive the growth, given the strong project pipeline in these markets. Additionally, the company is scouting for opportunities in Pune and Hyderabad.
- **P&L Performance:** Efficiency had taken a hit during Covid because of high fixed cost for backward integrated model. On a project basis, the company continues to aim 30-35% margin. A significant portion of the revenue, amounting to INR110b, is yet to be recognized. Notably, 80% of this revenue is attributed to projects launched since FY22. These projects have decisively better margins and also operate without the burden of increased costs.

Valuation and view

- Driven by calibrated new launches and strong demand in ongoing projects, SOBHA has consistently improved its quarterly bookings run-rate since FY22. Healthy launch pipeline for 2H and beyond will drive intended growth of 15-20% in the near term. This, coupled with improvement in P&L margins and clarity on launches from its large land parcels will be a key re-rating trigger.
- Management highlighted that the completion of low-margin legacy projects in the contractual segment is largely behind, and hence, we have factored in improved profitability in our valuation analysis, leading to an increase in our TP to INR960. We **reiterate our BUY rating on the stock with 26% upside potential.**

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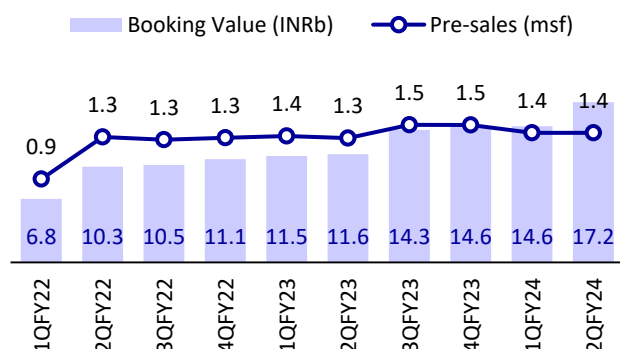
Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	FY24E Var (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	
Net Sales	5,646	6,673	8,682	12,099	9,079	7,412	9,246	9,825	33,101	35,563	8,535	-13%
YoY Change (%)	25.8	-14.4	39.5	70.3	60.8	11.1	6.5	-18.8			27.9	
Total Expenditure	4,918	5,751	7,794	10,943	8,425	6,658	8,276	8,114	29,407	31,473	7,734	
EBITDA	728	922	888	1,156	654	754	970	1,711	3,694	4,090	801	-6%
Margins (%)	12.9	13.8	10.2	9.6	7.2	10.2	10.5	17.4	11.2	11.5	9.4	79bps
Depreciation	147	179	175	178	183	193	190	187	678	753	185	
Interest	614	632	660	611	611	639	608	609	2,490	2,466	523	
Other Income	117	233	298	302	313	324	270	337	923	1,245	265	
PBT before EO expense	84	344	351	669	173	247	443	1,252	1,449	2,115	358	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	84	344	351	669	173	247	443	1,252	1,449	2,115	358	
Tax	39	152	33	183	52	97	111	306	407	567	108	
Rate (%)	46.4	44.2	9.4	27.4	30.2	39.4	25.0	24.5	28.1	26.8	30.2	
Minority Interest & Profit/ Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	45	192	318	486	121	149	332	946	1,042	1,548	250	-40%
Adj PAT	45	192	318	486	121	149	332	946	1,042	1,548	250	
YoY Change (%)	-87.1	-69.6	-47.9	242.3	168.3	-22.2	4.5	94.6	-39.8	48.6	30.2	
Margins (%)	0.8	2.9	3.7	4.0	1.3	2.0	3.6	9.6	3.1	4.4	2.9	
Key metrics												
Sale Volume (msf)	1.4	1.3	1.5	1.5	1.4	1.7	2.2	1.9	5.7	7.1	1.8	-6%
Sale Value (INRb)	11.5	11.6	14.3	14.6	14.6	17.2	20.3	15.5	52.0	67.7	15.0	15%
Collections (INRb)	8.9	10.8	11.6	11.8	11.5	12.6	14.6	10.1	43.1	48.8		
Realization (INR/sft)	8,423	8,707	9,628	9,901	10,537	10,224	9,436	8,289	9,192	9,537	8333	23%

Source: MOFSL, Company

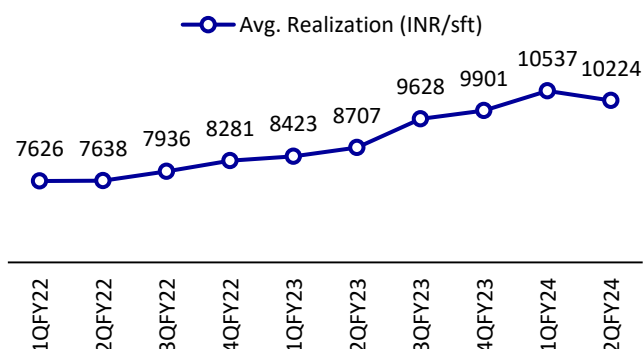
Key exhibits

Exhibit 1: SOBHA reported sales of INR17b, up 48% YoY....



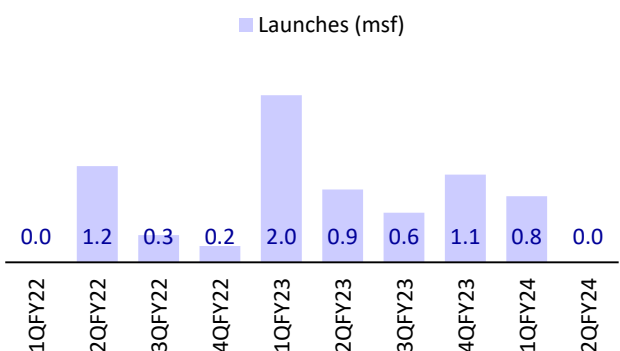
Source: Company, MOFSL

Exhibit 2: ...driven by 17% YoY rise in realization



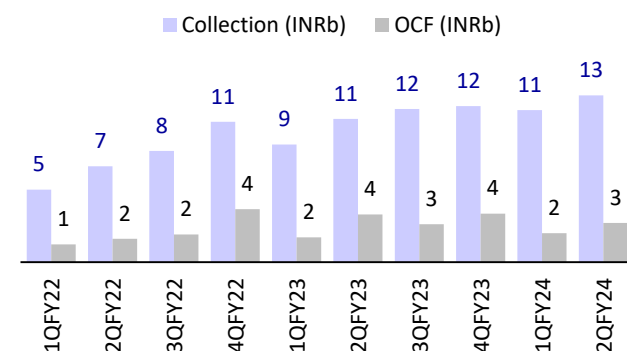
Source: Company, MOFSL

Exhibit 3: Sobha did not launch any new project in 2Q

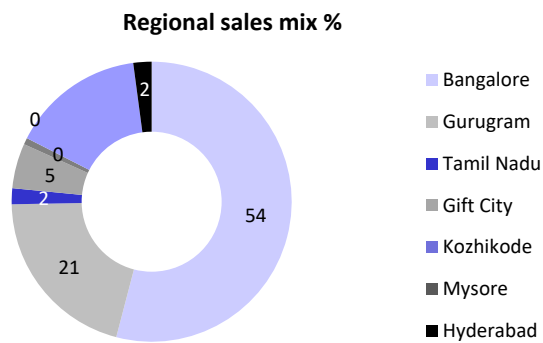


Source: MOFSL, Company

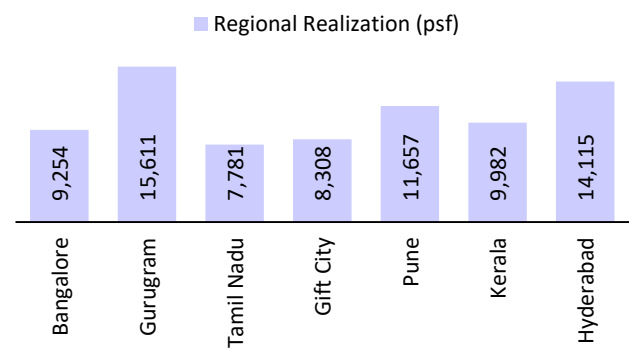
Exhibit 4: Residential collections improved 16% YoY and OCF stood at INR3b



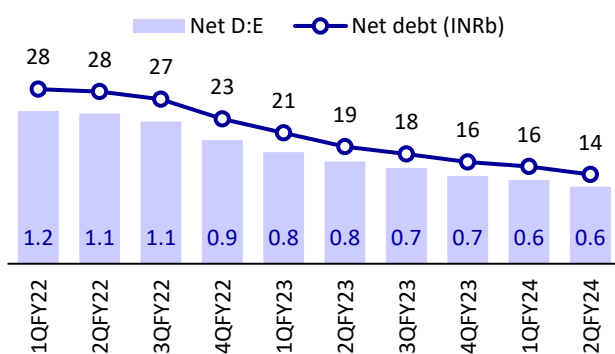
Source: MOFSL, Company

Exhibit 5: Bengaluru contributed 54% to overall sales value

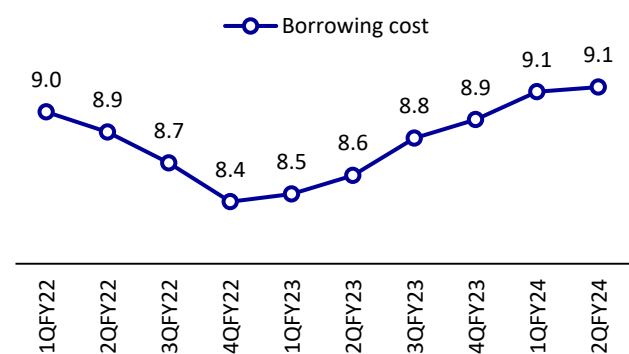
Source: Company, MOFSL

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

Source: Company, MOFSL

Exhibit 7: Net debt declining consistently

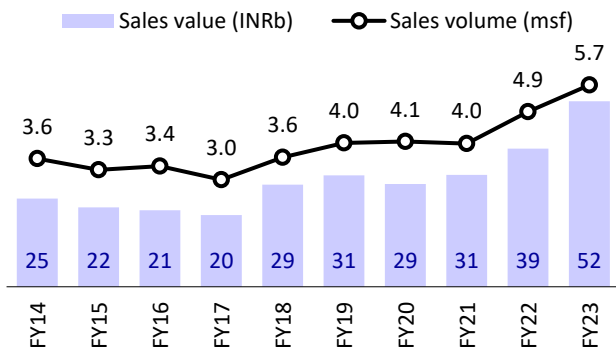
Source: MOFSL, Company

Exhibit 8: Cost of debt stood at 9.1%

Source: MOFSL, Company

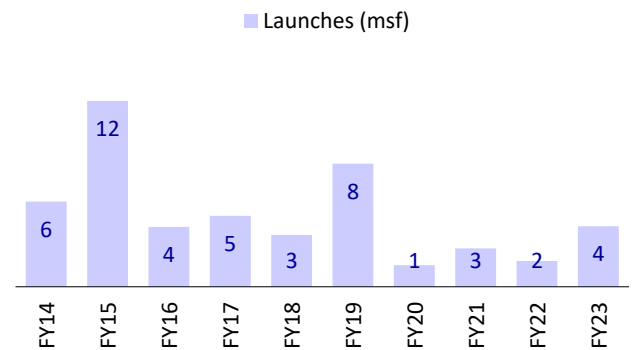
Story in charts

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



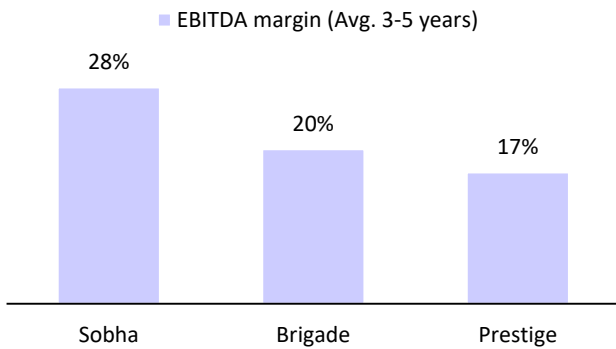
Source: Company, MOFSL

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



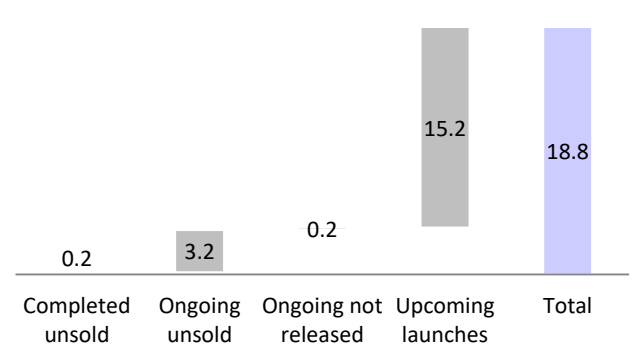
Source: Company, MOFSL

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



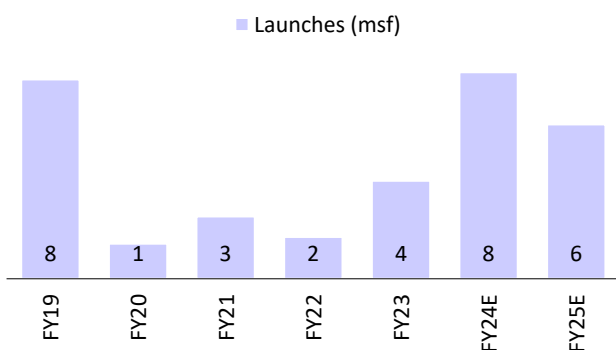
Source: MOFSL, Company

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



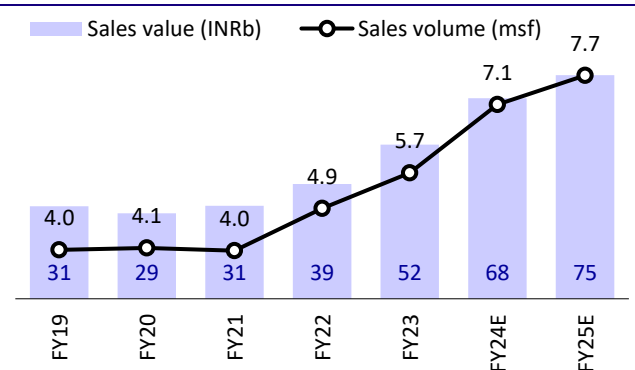
Source: MOFSL, Company

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

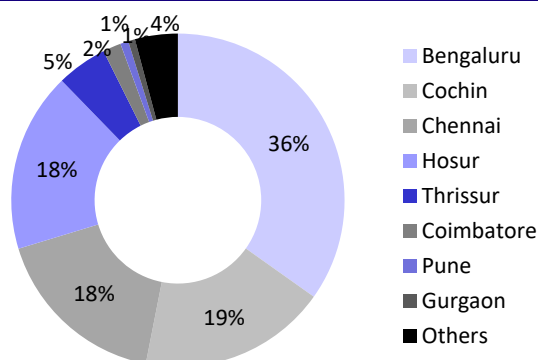


Source: Company, MOFSL

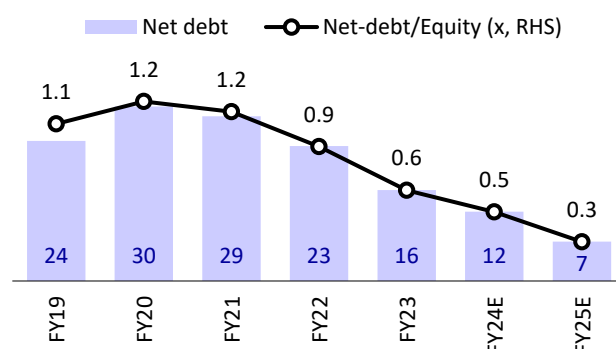
Exhibit 14: Pre-sales to grow at 20% CAGR over FY23-25



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: Expects net debt to reduce to INR7b by FY25 or 0.3x of equity

Source: Company, MOFSL

Exhibit 17: Earnings change

(INR b)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	36	41	36	42	-1%	2%
EBITDA	4	7	4	6	2%	-10%
Adj. PAT	2	4	2	4	-23%	-2%
Pre-sales	60	68	68	75	13%	11%
Collections	44	55	49	58	11%	5%

Source: MOFSL, Company

Other key con-call Takeaways

Launch Strategy:

- Sobha's offering is slightly premium to other players, and hence, follows a calibrated approach toward new launches, enabling it to take periodic price hikes. However, depending on demand, the company will not hesitate to launch full inventory.

SOBHA Neopolis

- The project was launched in early Oct and the company sold 40% of inventory at a realization of INR11,700psf.
- In the first phase of the project, a total of 825 units were launched, out of the planned 1,875 units. All the necessary approvals are already in place, and the company plans to release new inventory basis the sales traction.

Cash flow

- Company expects collections to sustain or marginally improve in 2H. Management believes that the current debt level is at a very comfortable level, and hence, the incremental cash flows will be deployed toward capturing growth opportunities by investing in existing land and acquiring new projects.

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.
 - 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 10x on FY25E EBITDA.

Based on the above approach, we arrive at a GAV of INR103b. Netting off its FY24E net debt of INR12b, we derive a NAV of INR91b, or INR960/share, indicating a potential upside of 26%.

Exhibit 18: Our SoTP-based approach denotes 26% 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	26	272	28%
Upcoming projects	❖ Around 20msf of unreleased, ongoing, and upcoming pipeline discounted over five years at a WACC of 11.2%	27	281	29%
Value of ongoing and upcoming projects		50	52	53
Commercial properties	❖ Operational assets valued at a cap rate of 8% and ongoing projects through DCF	9	96	10%
Land bank (net of cost payable)	❖ Valued at 50% discount to fair value	32	332	35%
Contractual and manufacturing	❖ FY25E EBITDA at an EV/EBITDA of 10x	10	105	11%
Gross asset value		103	1,086	113%
Net debt	❖ FY24E net debt	(12)	(126)	-13%
Net asset value		91	960	100%
Shares outstanding		94.8		
Price objective		960		
CMP		761		
Upside		26%		

Source: MOFSL

Financials and Valuation

Consolidated Profit & Loss

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	34,421	37,539	21,098	25,613	33,101	35,563	41,991	50,333
Change (%)	23.5	9.1	-43.8	21.4	29.2	7.4	18.1	19.9
Project Cost & Subcontractor Charges	20,865	20,183	9,281	14,129	21,022	22,760	26,035	27,683
Employees Cost	2,359	2,464	1,771	2,512	2,945	3,378	3,359	3,695
Other Expenses	4,464	3,740	3,294	3,644	5,440	5,334	6,299	7,550
Total Expenditure	27,688	26,386	14,346	20,285	29,407	31,473	35,693	38,929
% of Sales	80.4	70.3	68.0	79.2	88.8	88.5	85.0	77.3
EBITDA	6,733	11,152	6,752	5,328	3,694	4,090	6,299	11,405
Margin (%)	19.6	29.7	32.0	20.8	11.2	11.5	15.0	22.7
Depreciation	623	723	794	719	678	753	787	829
EBIT	6,110	10,429	5,958	4,609	3,016	3,337	5,511	10,576
Int. and Finance Charges	2,362	6,816	6,012	3,083	2,490	2,466	1,607	1,340
Other Income	735	718	807	840	923	1,245	1,470	1,762
PBT bef. EO Exp.	4,482	4,331	752	2,366	1,449	2,115	5,374	10,998
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	4,482	4,331	752	2,366	1,449	2,115	5,374	10,998
Total Tax	1,512	1,515	129	634	407	567	1,440	2,947
Tax Rate (%)	33.7	35.0	17.2	26.8	28.1	26.8	26.8	26.8
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	2,970	2,816	623	1,732	1,042	1,548	3,934	8,051
Adjusted PAT	2,970	2,816	623	1,732	1,042	1,548	3,934	8,051
Change (%)	37.0	-5.2	-77.9	177.8	-39.8	48.6	154.1	104.7
Margin (%)	8.6	7.5	3.0	6.8	3.1	4.4	9.4	16.0

Consolidated Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	949	949	949	949	949	949	949	949
Total Reserves	21,343	23,364	23,329	24,157	23,999	25,215	28,817	36,536
Net Worth	22,291	24,312	24,277	25,106	24,948	26,164	29,766	37,485
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	26,039	31,308	30,031	24,630	20,269	16,269	13,769	11,269
Deferred Tax Liabilities	-935	291	342	151	0	0	-2,314	-1,656
Capital Employed	47,395	55,911	54,650	49,887	45,217	42,433	41,220	47,098
Gross Block	8,713	11,737	11,892	12,384	12,488	12,940	13,648	14,332
Less: Accum. Deprn.	2,063	2,764	3,558	4,277	4,955	5,708	6,496	7,324
Net Fixed Assets	6,650	8,973	8,334	8,107	7,533	7,232	7,153	7,008
Goodwill on Consolidation	127	222	0	0	0	0	0	0
Capital WIP	0	0	701	65	86	400	468	403
Total Investments	1,128	1,143	1,143	1,149	1,149	1,149	1,149	1,149
Curr. Assets, Loans&Adv.	98,557	99,765	1,01,924	1,04,779	1,15,596	1,14,949	1,15,116	1,22,299
Inventory	65,173	67,045	71,246	74,271	87,610	88,211	91,921	90,656
Account Receivables	3,271	3,605	2,361	4,069	2,375	2,923	2,876	2,758
Cash and Bank Balance	1,772	884	2,041	1,783	4,514	4,256	1,423	1,202
Loans and Advances	28,341	28,231	26,275	24,656	21,097	19,560	18,896	27,683
Curr. Liability & Prov.	59,067	54,191	57,452	64,214	80,541	84,347	85,715	86,810
Account Payables	11,369	9,578	7,318	6,753	5,987	9,485	10,757	11,732
Other Current Liabilities	46,872	44,048	49,844	57,131	74,122	74,403	74,417	74,429
Provisions	826	565	290	330	432	458	541	649
Net Current Assets	39,490	45,573	44,473	40,565	36,449	33,222	32,020	38,108
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	47,395	55,911	54,650	49,886	45,217	42,002	40,790	46,668

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	30.8	29.2	6.5	18.0	10.8	16.1	40.8	83.6
Cash EPS	37.3	36.7	14.7	25.4	17.9	23.9	49.0	92.2
BV/Share	231.5	252.4	252.1	260.7	259.0	271.7	309.1	389.2
DPS	7.0	7.0	7.0	3.5	3.0	3.5	3.5	3.5
Payout (%)	23.7	25.0	106.5	19.2	27.3	21.4	8.4	4.1
Valuation (x)								
P/E	24.7	26.0	117.6	42.3	70.3	47.3	18.6	9.1
Cash P/E	20.4	20.7	51.7	29.9	42.6	31.8	15.5	8.3
P/BV	3.3	3.0	3.0	2.9	2.9	2.8	2.5	2.0
EV/Sales	2.8	2.7	4.7	3.7	2.7	2.4	2.0	1.6
EV/EBITDA	14.3	9.2	14.8	17.8	23.8	20.6	13.4	7.2
Dividend Yield (%)	0.9	0.9	0.9	0.5	0.4	0.5	0.5	0.5
FCF per share	10.8	-4.2	60.3	99.7	108.3	58.6	1.3	22.9
Return Ratios (%)								
RoE	11.9	12.1	2.6	7.0	4.2	6.1	14.1	23.9
RoCE	9.1	13.9	10.2	7.7	6.0	7.7	11.9	19.6
RoIC	8.5	13.8	9.4	6.9	5.0	6.4	10.8	18.8
Working Capital Ratios								
Fixed Asset Turnover (x)	4.0	3.2	1.8	2.1	2.7	2.7	3.1	3.5
Asset Turnover (x)	0.7	0.7	0.4	0.5	0.7	0.8	1.0	1.1
Inventory (Days)	691	652	1,233	1,058	966	905	799	657
Debtor (Days)	35	35	41	58	26	30	25	20
Creditor (Days)	121	93	127	96	66	97	94	85
Leverage Ratio (x)								
Current Ratio	1.7	1.8	1.8	1.6	1.4	1.4	1.3	1.4
Interest Cover Ratio	2.6	1.5	1.0	1.5	1.2	1.4	3.4	7.9
Net Debt/Equity	1.1	1.3	1.2	0.9	0.6	0.5	0.4	0.3

Consolidated Cash flow

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	4,482	4,332	752	2,366	1,449	2,115	5,374	10,998
Depreciation	623	723	652	719	678	753	787	829
Interest & Finance Charges	1,760	6,165	6,012	7,497	2,490	2,466	1,607	1,340
Direct Taxes Paid	-882	-1,063	-266	-515	-679	-1,678	-3,754	-2,288
(Inc)/Dec in WC	-3,942	-7,785	-789	-409	7,635	3,913	-1,645	-6,322
CF from Operations	2,043	2,372	6,361	9,658	11,573	7,570	2,369	4,556
Others	18	244	-231	-661	-71	-1,245	-1,470	-1,762
CF from Operating incl EO	2,061	2,616	6,130	8,997	11,502	6,325	899	2,795
(Inc)/Dec in FA	-1,040	-3,011	-414	461	-1,234	-766	-777	-618
Free Cash Flow	1,021	-395	5,716	9,458	10,268	5,559	122	2,176
(Pur)/Sale of Investments	-111	-19	0	-6	-1,327	0	0	0
Others	529	371	82	-85	192	1,245	1,470	1,762
CF from Investments	-621	-2,659	-332	370	-2,369	479	693	1,143
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	2,706	3,255	-756	-5,595	-5,198	-4,000	-2,500	-2,500
Interest Paid	-2,768	-3,299	-3,391	-2,916	-2,247	-2,185	-1,593	-1,328
Dividend Paid	-663	-664	-664	-332	-285	-332	-332	-332
Others	-137	-137	-23	0	0	0	0	0
CF from Fin. Activity	-862	-844	-4,834	-8,843	-7,730	-6,517	-4,425	-4,159
Inc/Dec of Cash	578	-887	964	524	1,403	287	-2,833	-221
Opening Balance	1,194	1,772	1,078	2,042	2,566	3,969	4,256	1,423
Closing Balance	1,772	884	2,042	2,566	3,969	4,256	1,423	1,202

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