

# Sobha Developers

BSE Sensex

S&amp;P CNX

28,209

8,522



## Stock Info

Bloomberg	SOBHA IN
Equity Shares (m)	98.1
52-Week Range (INR)	536/350
1, 6, 12 Rel. Per (%)	-15/-25/-
M.Cap. (INR b)	35.7
M.Cap. (USD b)	0.6
Avg Val(INRm)/Vol'000	93/211
Free float (%)	39.4

## Financial Snapshot (INR b)

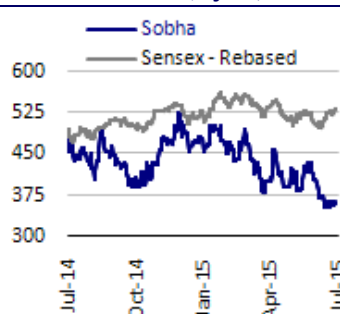
Y/E Mar	2015	2016E	2017E
Net Sales	24.4	25.9	30.2
EBITDA	6.2	7.0	8.0
Adj PAT	2.4	2.6	3.0
EPS (INR)	24.3	26.3	30.6
EPS Gr. (%)	1.3	8.4	16.0
BV/Sh (INR)	248.0	266.1	288.5
P/E (x)	15.0	13.8	11.9
P/BV (x)	1.5	1.4	1.3
RoE (%)	10.1	10.2	11.0
RoCE (%)	13.3	13.1	13.9

## Shareholding pattern (%)

As on	Mar-15	Dec-14	Mar-14
Promoter	60.6	60.6	60.6
DII	4.1	4.3	2.9
FII	31.7	31.5	33.0
Others	3.6	3.6	3.5

FII Includes depository receipts

## Stock Performance (1-year)


**CMP: INR364**
**TP: INR480 (+32%)**
**Buy**

## Operational miss amidst gloomy environment

**Bangalore dependency rises from 67% in FY14 to 83%**

- SOBHA's 1QFY16 presales declined 20% QoQ to 0.84msf (INR5b), ~19% of the annual guidance.
- Though Bangalore volumes declined QoQ, SOBHA's dependency on the city increased further to 83% of sales (*Dream Acres* the key driver). Kerala and NCR markets remain soft, amidst marginal uptick in Chennai.
- The stock appears attractive post correction, which factors in recent operational weakness. We expect normalcy to resume over 2HFY16. Maintain Buy with a target price of INR480.

## Operations weaker than anticipated

SOBHA's 1QFY16 presales were 0.84msf (INR5.0b) versus 1msf (INR6.3b) in 4QFY15 and expectation of INR0.9msf (INR5.4b). *Sobha Clovelly* (0.326msf) at Padmanabha Nagar, Bangalore was the only new launch (@INR7,750/sf). In a scenario of continued weakness in the broader market and more so in the premium segment, *Dream Acres* (ASP at ~INR5,600/sf) was the key driver. Average realization declined ~2% QoQ to INR5,989/sf.

## High Bangalore dependence; Kerala demand still soft

Bangalore accounted for 83% of sales in 1QFY16 (versus ~80% in 4QFY15 and 67% in FY14), largely due to weakness in other markets. Apart from *Dream Acres*, *Silicon Oasis*, *Arena*, *Halcyon* contributed to presales in 1Q. Momentum remains slow in Kerala, with likelihood of uptick in NRI demand in 2/3QFY16. New launch in 4QFY15 (*Winchester*, 0.51msf) drove improvement in Chennai volumes. Gurgaon asset should see improvement, with clarity on Dwarka Expressway execution and launch of new product segment in 2HFY16.

## Valuations favorable post correction

Annual guidance of 4msf (INR26b) is only ~19% reached. Operational normalcy would be the key trigger for re-rating. New product, *Dream Acres* received encouraging momentum and is likely to offer stability to presales till other planned launches in Chennai, Kochi (after pending approvals) and Bangalore kick-in in 2HFY16. SOBHA trades at 11.9x FY17E EPS and 1.3x FY17E BV, and at an EV of ~9x FY17E cash EBITDA. The recent corrections have made the stock attractive for operational recovery play. Maintain **Buy** with a target price of INR480 (15% discount to SOTP value of INR550).

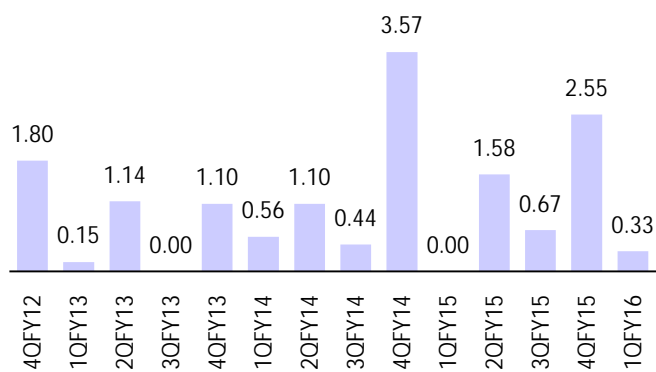
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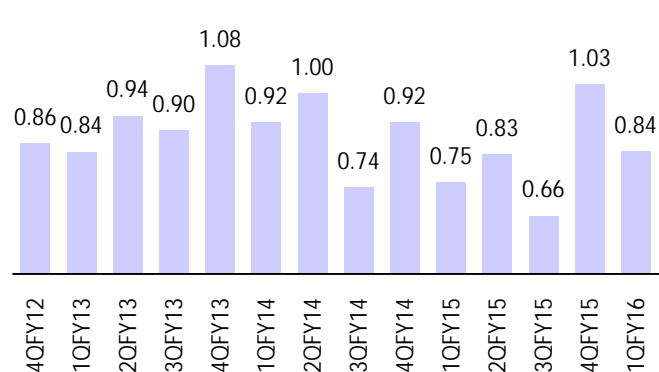
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Exhibit 1: One project was pre-launched in 1Q (msf)



Source: Company, MOSL

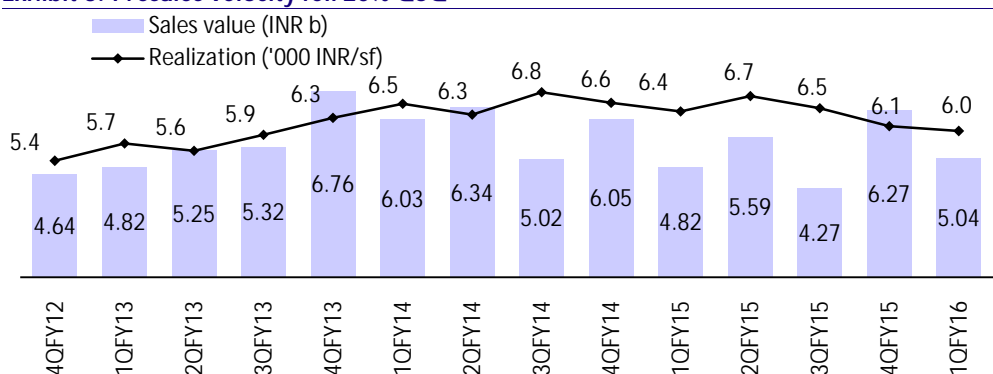
Exhibit 2: Presales volume (msf) dipped after 4Q spike



Source: Company, MOSL

Exhibit 3: Presales velocity fell 20% QoQ

Mid-segment products in Bangalore market remain key drivers



Source: Company, MOSL

Exhibit 4: Bangalore accounts for 83% of volumes

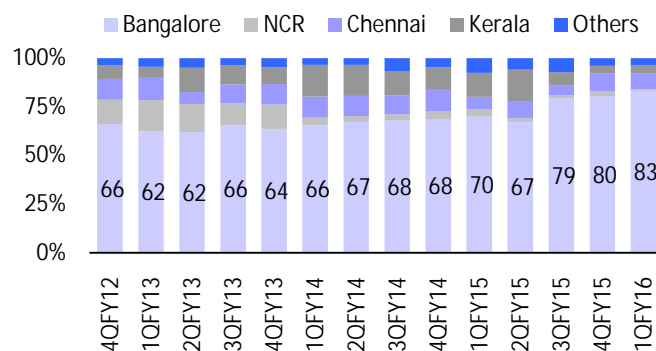
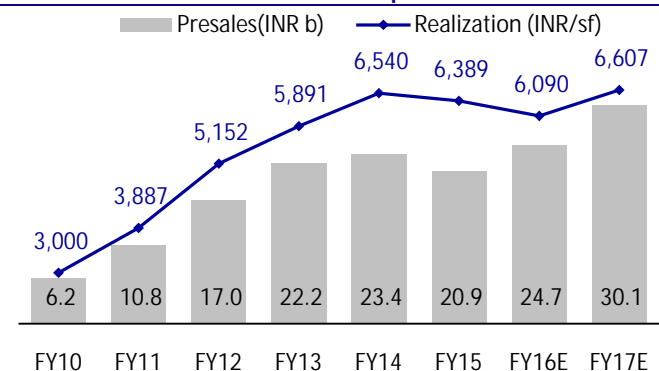


Exhibit 5: We factor in for ~INR25b presales in FY16



Source: Company, MOSL

We expect a recovery through shift in product mix to boost operating cash flow over FY16-17 after a YoY flat FY15

**Exhibit 6: FY15 cash flow to mimic operational weakness**

INR b	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Collections</b>	<b>18.3</b>	<b>21.2</b>	<b>26.9</b>	<b>25.8</b>	<b>31.2</b>	<b>35.4</b>
RE	11.8	16.1	19.5	18.4	22.6	26.3
Contract	3.2	4.1	7.4	7.4	8.6	9.0
Land sales	3.3	1.0	0.0	0.1	0.0	0.0
Rental income		0.0	0.0	0.0	0.1	0.2
<b>Construction outflow</b>	<b>10.8</b>	<b>12.4</b>	<b>16.9</b>	<b>19.2</b>	<b>22.4</b>	<b>24.2</b>
RE	7.4	8.9	10.8	13.0	14.9	16.3
Contract	3.4	3.5	6.1	6.2	7.5	7.8
Approvals	0.9	1.3	1.3	1.5	3.7	3.9
Corpus						
Overheads	1.0	1.4	1.4	1.2		
Marketing	0.3	0.3	0.7	0.5		
Capex and others	0.1	0.9	1.0	1.3	1.1	1.7
<b>Gross Cash flow</b>	<b>5.1</b>	<b>5.0</b>	<b>5.6</b>	<b>2.1</b>	<b>4.0</b>	<b>5.6</b>
Tax Paid	0.5	0.9	1.0	0.8	1.1	1.3
<b>OCF</b>	<b>4.6</b>	<b>4.1</b>	<b>4.6</b>	<b>1.2</b>	<b>2.9</b>	<b>4.4</b>
<b>Core OCF</b>	<b>1.3</b>	<b>3.1</b>	<b>4.6</b>	<b>1.2</b>	<b>2.9</b>	<b>4.4</b>
Land payment	0.8	1.9	1.8	3.8	1.0	1.0
Interest	2.2	2.1	2.0	2.4	2.7	3.0
<b>FCFE</b>	<b>0.7</b>	<b>-0.5</b>	<b>0.9</b>	<b>-5.0</b>	<b>-0.6</b>	<b>0.6</b>
Dividend	0.6	0.6	0.8	0.8	0.8	0.8
<b>Net CF</b>	<b>0.2</b>	<b>-1.0</b>	<b>0.1</b>	<b>-5.8</b>	<b>-1.4</b>	<b>-0.2</b>
FCF	2.9	1.6	2.8	-2.6	2.1	3.6
<b>Core cash EBITDA</b>	<b>1.8</b>	<b>4.0</b>	<b>5.6</b>	<b>2.2</b>	<b>4.1</b>	<b>5.6</b>

**Exhibit 7: We value Sobha's NAV at INR550/share and our target price is INR480**

NAV Calculation FY17	(INR m)	NAV/Share	Method of valuation
Real Estate	65,423	667	
Ongoing projects	11,467	117	At NAV
FY14/FY15 launches	23,977	245	At NAV
Land bank	29,979	306	~218msf of balance land bank with average FSI cost of INR110/sf. Valued Bangalore land at lowest range of MTM value (INR300/sf) and rest at cost of acquisition
Contractual Business	7,031	72	At 6x FY15E EV/EBITDA
<b>Gross Asset Value (GAV)</b>	<b>72,455</b>	<b>739</b>	<b>GAV based on NPV of development potential</b>
Less: Net debt	18,516	189	
<b>Net Asset Value (NAV)</b>	<b>53,938</b>	<b>550</b>	
<b>Implied EV at TP</b>	<b>65,586</b>	<b>480</b>	~13% discount to NAV
Cash EBITDA FY17E	5.6		
Implied multiple at target price (x)	11.7		

Our target price implies ~11.7x FY17E cash EBITDA of INR5.6b

## Financials and valuations

Income Statement							(INR Million)	
Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
<b>Net Sales</b>	<b>11,299</b>	<b>13,945</b>	<b>14,079</b>	<b>18,645</b>	<b>21,734</b>	<b>24,406</b>	<b>25,936</b>	<b>30,195</b>
Change (%)	16.0	23.4	1.0	32.4	16.6	12.3	6.3	16.4
Construction expenses				9,558	8,840	12,100	13,648	15,705
Office and site establish. exps	1,530	1,532	1,694	1,969	2,684	2,594	2,853	3,442
<b>EBITDA</b>	<b>2,637</b>	<b>3,600</b>	<b>4,665</b>	<b>5,483</b>	<b>6,025</b>	<b>6,174</b>	<b>6,963</b>	<b>7,958</b>
% of Net Sales	23.3	25.8	33.1	29.4	27.7	25.3	26.8	26.4
Depreciation	323	278	388	594	690	723	754	781
Interest	693	860	1,165	1,705	1,734	1,883	2,409	2,748
Other Income	39	51	65	55	103	149	200	200
<b>PBT</b>	<b>1,658</b>	<b>2,514</b>	<b>3,177</b>	<b>3,239</b>	<b>3,704</b>	<b>3,717</b>	<b>4,001</b>	<b>4,629</b>
Tax	275	669	1,076	1,068	1,368	1,277	1,360	1,574
Rate (%)	16.6	26.6	33.9	33.0	36.9	34.4	34.0	34.0
<b>Reported PAT</b>	<b>1,341</b>	<b>1,813</b>	<b>2,060</b>	<b>2,172</b>	<b>2,350</b>	<b>2,381</b>	<b>2,582</b>	<b>2,996</b>
<b>Adjusted PAT</b>	<b>1,341</b>	<b>1,813</b>	<b>2,060</b>	<b>2,172</b>	<b>2,350</b>	<b>2,381</b>	<b>2,582</b>	<b>2,995</b>
Change (%)	24.5	35.1	13.6	5.5	8.2	1.3	8.4	16.0
Balance Sheet							(INR Million)	
Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Share Capital	981	981	981	981	981	981	981	981
Reserves	16,057	17,527	19,017	20,386	21,933	23,337	25,116	27,308
<b>Net Worth</b>	<b>17,038</b>	<b>18,508</b>	<b>19,998</b>	<b>21,367</b>	<b>22,914</b>	<b>24,318</b>	<b>26,097</b>	<b>28,289</b>
Loans	14,740	12,416	12,031	13,536	13,786	20,147	23,647	24,147
Deffered Tax Liability	-52	-74	330	638	1,010	1,631	1,631	1,631
<b>Capital Employed</b>	<b>31,727</b>	<b>31,174</b>	<b>32,714</b>	<b>35,643</b>	<b>37,798</b>	<b>46,244</b>	<b>51,582</b>	<b>54,333</b>
Gross Fixed Assets	2,942	3,164	5,018	5,895	6,915	7,182	7,932	8,682
Less: Depreciation	1,513	1,791	2,179	2,773	3,463	4,186	4,939	4,939
<b>Net Fixed Assets</b>	<b>1,429</b>	<b>1,373</b>	<b>2,840</b>	<b>3,122</b>	<b>3,453</b>	<b>2,996</b>	<b>2,992</b>	<b>3,742</b>
Capital WIP	632	647	13	13	207	600	560	1,495
Investments	27	37	0	2	0	0	0	0
<b>Curr. Assets</b>	<b>36,459</b>	<b>36,816</b>	<b>39,519</b>	<b>45,295</b>	<b>51,338</b>	<b>58,687</b>	<b>66,196</b>	<b>72,871</b>
Inventory	11,101	10,685	16,759	19,018	24,273	27,284	31,123	34,724
Debtors	4,430	4,310	3,904	6,935	6,454	7,206	7,781	7,549
Cash & Bank Balance	826	230	587	670	1,055	1,631	3,431	3,423
Loans & Advances	20,102	21,592	18,268	18,672	19,556	22,566	23,861	27,175
Other Current Assets								
<b>Current Liab. &amp; Prov.</b>	<b>10,695</b>	<b>7,699</b>	<b>9,658</b>	<b>12,955</b>	<b>17,298</b>	<b>16,118</b>	<b>18,247</b>	<b>23,855</b>
Creditors	5,984	6,757	8,272	11,518	15,832	14,620	16,599	22,042
Other Liabilities	4,166	4,715	5,712	5,818	9,032	7,120	8,040	9,964
Provisions	545	942	1,386	1,437	1,466	1,498	1,648	1,813
<b>Net Current Assets</b>	<b>25,764</b>	<b>29,118</b>	<b>29,861</b>	<b>32,340</b>	<b>34,040</b>	<b>42,569</b>	<b>47,950</b>	<b>49,016</b>
<b>Application of Funds</b>	<b>27,852</b>	<b>31,174</b>	<b>32,714</b>	<b>35,643</b>	<b>37,798</b>	<b>46,244</b>	<b>51,582</b>	<b>54,333</b>
E: MOSL Estimates								

## Financials and valuations

### Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
<b>Basic (INR)</b>								
Adjusted EPS	13.7	18.5	21.0	22.2	24.0	24.3	26.3	30.5
Growth (%)	-7.5	35.1	13.6	5.5	8.2	1.3	8.4	16.0
Cash EPS	17.0	21.3	25.0	28.2	31.0	31.7	34.0	38.5
Book Value	173.7	188.7	203.9	217.9	233.7	248.0	266.1	288.5
DPS	2.5	3.0	5.0	7.0	7.0	7.0	7.0	7.0
Payout (incl. Div. Tax.)	18.3	16.2	23.8	31.6	29.2	28.8	26.6	22.9

### Valuation (x)

P/E	26.7	19.7	17.4	16.5	15.2	15.0	13.9	11.9
Cash P/E	21.5	17.1	14.6	12.9	11.8	11.5	10.7	9.5
EV/EBITDA	18.9	13.3	10.1	8.9	8.1	8.8	8.0	7.1
EV/Sales	4.4	3.4	3.4	2.6	2.2	2.2	2.2	1.9
Price/Book Value	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3
Dividend Yield (%)	0.7	0.8	1.4	1.9	1.9	1.9	1.9	1.9

### Profitability Ratios (%)

RoE	9.6	10.2	10.7	10.5	10.6	10.1	10.2	11.0
RoCE	7.5	10.7	13.6	14.5	14.8	13.3	13.1	13.9

### Turnover Ratios

Debtors (Days)	65	65	65	65	65	65	65	65
Creditors. (Days)	70	70	70	70	70	70	70	70

### Leverage Ratio

Debt/Equity (x)	0.9	0.7	0.6	0.6	0.6	0.8	0.9	0.9
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### Cash Flow Statement

(INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
PBT before Extraordinary Items	1,658	2,514	3,177	3,239	3,704	3,717	4,001	4,629
Add : Depreciation	323	278	388	594	690	723	754	781
Interest	693	860	1,165	1,705	1,734	1,883	2,409	2,748
Less : Direct Taxes Paid	275	669	1,076	1,068	1,368	1,277	1,360	1,574
(Inc)/Dec in WC	-1,179	217	-387	-2,396	-1,315	-7,953	-3,580	-1,075
<b>CF from Operations</b>	<b>1,221</b>	<b>3,200</b>	<b>3,267</b>	<b>2,074</b>	<b>3,445</b>	<b>-2,907</b>	<b>2,223</b>	<b>5,510</b>
(Inc)/Dec in FA	-137	-236	-1,221	-877	-1,215	-659	-710	-2,466
<b>Free Cash Flow</b>	<b>1,084</b>	<b>2,963</b>	<b>2,046</b>	<b>1,198</b>	<b>2,230</b>	<b>-3,566</b>	<b>1,512</b>	<b>3,044</b>
(Pur)/Sale of Investments	0	-10	37	-2	2	0	0	0
<b>CF from Investments</b>	<b>-137</b>	<b>-246</b>	<b>-1,184</b>	<b>-878</b>	<b>-1,213</b>	<b>-659</b>	<b>-710</b>	<b>-2,466</b>
(Inc)/Dec in Networth	5,089	-21	407	308	372	447	0	0
(Inc)/Dec in Debt	-4,581	-2,324	-385	1,505	250	6,361	3,500	500
Less : Interest Paid	693	860	1,165	1,705	1,734	1,883	2,409	2,748
Dividend Paid	287	344	574	803	803	803	803	803
<b>CF from Fin. Activity</b>	<b>-473</b>	<b>-3,549</b>	<b>-1,717</b>	<b>-695</b>	<b>-1,915</b>	<b>4,122</b>	<b>288</b>	<b>-3,051</b>
<b>Inc/Dec of Cash</b>	<b>611</b>	<b>-596</b>	<b>356</b>	<b>83</b>	<b>385</b>	<b>576</b>	<b>1,800</b>	<b>-9</b>
Add: Beginning Balance	214	826	230	587	670	1,055	1,631	3,431
<b>Closing Balance</b>	<b>826</b>	<b>230</b>	<b>586</b>	<b>669</b>	<b>1,054</b>	<b>1,630</b>	<b>3,431</b>	<b>3,423</b>

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