

Strong sales volume; deleveraging continues...

About the stock: Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects with ~11.2 mn sq feet (msf) of unsold saleable area and ongoing contractual projects aggregating to 4.8 msf in various stages of construction

- It has a real estate presence in 11 cities, viz. Bengaluru, Gurugram, Chennai, Pune, Coimbatore, Thrissur, Kozhikode, Kochi, Trivandrum, Gift City and Mysore

Q3FY23 Results: Strong operating performance.

- Sales booking value was robust at ₹ 1425 crore (up ~36% YoY) with sales volume of 1.48 mn sq ft (up ~12% YoY) led by Gurugram
- On the financial front, reported revenues were up 29.9% YoY at ₹ 868.2 crore, owing to robust revenue recognition in the real estate segment, which was up 51.7% at ₹ 677 crore. PAT was down 2.8% at ₹ 31.8 crore, owing to owing to losses in legacy projects of contractual segment
- Sobha has managed to reduce its net debt position by ₹ 119 crore QoQ to ₹ 1769 crore (net D/E: 0.7x), aided by strong operating cash flows of ₹ 1407 crore (up ~33% YoY and ~5% QoQ) in Q3FY23, driven by collections of ₹ 1157 crore (up ~38% YoY) from residential sales

What should investors do? Sobha's share price has grown by merely 4% over the past five years given the debt and relatively muted sales momentum.

- The consistency in sales volumes, collections and debt reduction is likely to be a key trigger for a rerating. We maintain our **BUY** rating

Target Price and Valuation: We value Sobha at ₹ 750/share.

Key triggers for future price performance:

- Robust ongoing & completed project with ₹ 5836 crore of potential cash flow
- Huge captive land bank providing enough ammunition to expand overall residential sales volumes trajectory
- Further improvement in leverage

Alternate Stock Idea: Besides Sobha, we like Brigade Enterprise in the realty space.

- A play on Bengaluru residential and commercial real estate
- BUY with a target price of ₹ 620

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 yr CAGR FY17-22	FY23E	FY24E	FY25E	3 yr CAGR FY22-25E
Net Sales	3753.9	2109.8	2730.9	4.1%	2864.3	3563.2	4045.5	14.0%
EBITDA	1115.2	675.1	889.2	16.2%	371.0	632.6	761.5	-5.0%
EBITDA Margin (%)	29.7	32.0	32.6		13.0	17.8	18.8	
PAT	281.7	62.2	116.8	-6.2%	102.9	326.2	417.3	52.9%
EPS(₹)	29.7	6.6	12.3		10.9	34.4	44.0	
P/E (x)	19.5	88.2	47.0		53.3	16.8	13.1	
EV/EBITDA (x)	7.8	12.6	9.0		20.0	12.4	10.3	
RoNW (%)	11.6	2.6	4.7		4.0	11.6	13.4	
RoCE (%)	20.0	12.3	17.9		8.5	13.1	14.7	

Source: Company, ICICI Direct Research * FY23/FY24/FY25 margins are ex-IND AS



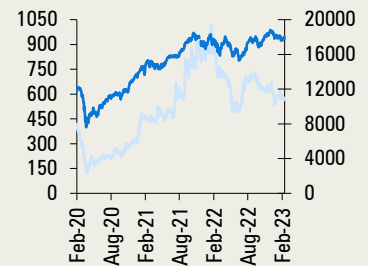
Particulars

Particular	Amount (₹ crore)
Market Capitalization	5,674
Total Debt (FY22)	2,533
Cash and Inv. (FY22)	178
EV	8,029
52 week H/L (₹)	842 / 480
Equity capital	94.8
Face value (₹)	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	52.0	52.0	52.0	52.0
DII	13.1	12.8	13.7	13.8
FII	16.2	15.0	15.6	15.1
Other	18.8	20.2	18.8	19.2

Price Chart



— Sobha (LHS) — Nifty Index

Key Risks

Key Risk: (i) Slower debt reduction; (ii) Any weakness in sales momentum

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Key business highlight and outlook

- **Sales Performance:** Sobha continued to report robust sales performance during Q3FY23 with sales of ₹ 1425 crore (up ~36% YoY and ~22% QoQ) with sales volume of 1.48 mn sq. ft (up ~12% YoY and ~10% QoQ). Sobha's share in sales was at ₹ 1111 crore (up ~22% YoY and ~16% QoQ). Growth was led by Gurugram where sales increased to 0.35 mn sq ft in Q3FY23 (up ~22% YoY and ~3.9x QoQ), aided by release of four new towers. Bengaluru sales moderated to 0.89 mn sq ft (down 7% YoY and 14% QoQ). Price realisation saw strong improvement (up 22% YoY and ~11% QoQ), largely led by mix with Gurugram realisation being higher
- **Collections:** Sobha's operating cash inflow of ₹ 1407 crore (up ~33% YoY and ~5% QoQ) in Q3FY23 was driven by collections of ₹ 1157 crore (up ~38% YoY) from residential sales, and with collections from the contractual business of ₹ 250 crore (up ~14% YoY). Free cash flow was ₹ 120 crore, which translated into debt reduction
- **Contracts portfolio:** Contract and manufacturing revenue declined 3.9% YoY and 12% QoQ to ₹ 232.8 crore in Q3FY23. **EBIT margins for the business turned negative in the quarter (at ~-5%) owing to certain legacy projects. It expects margins to improve ahead.** Sobha has delivered 57.3 mn sq ft of area since inception across 26 cities via its contracts division and has ongoing projects of 4.8 mn
- **Completion and new launches:** Sobha completed projects of total 1.16 mn sq ft saleable area in Q3FY23, which includes a) partial completion in Sobha HRC Pristine, Sobha Dream Acres, Sobha Forest Edge, Sobha Arena in Bangalore, b) Sobha Gardenia (Villa Project) in Chennai and c) partial completion in Sobha City, Gurgaon. The total launch volume for 9MFY23 was at 2.93 mn sq. ft. As of December 2022, **Sobha has planned the launch of 19 projects (including three commercial projects) with 12.9 mn sq. ft of area. The management expects to launch 1 mn sq ft in Q4FY23 (of which 0.7 mn sq. ft has already been launched) and 3.5 mn sq. ft in Q1FY24**
- **Debt:** Sobha has managed to reduce its net debt position by ₹ 119 crore on a QoQ basis and its net debt at the end of Q3 was at ₹ 1,769 crore (net D/E: 0.72x vs. .77x in Q2). Also, the cost of debt has marginally increased to 8.81% during Q3FY23 (vs. 8.4% in Q2), despite a 225 basis points rise in repo rates in CY22. Going forward, **the company's strong focus remains on reducing its debt with higher sales and better cash flow generation**
- **Other issues**
 - On the issue of OC revocation for flats in Sobha City Bengaluru, the company has obtained a stay order from the Karnataka Appellate Tribunal, and is working with the authorities to get a fresh clearance as the defective fire clearance certificate has been rectified and re-submitted
 - On the issue pertaining to the investigation for land parcels acquired in Gurugram, the management has responded to the queries and is in the process of filing responses to a show-cause notice received

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY	QoQ
Bengaluru							
Sales Volume (Sq ft)	9,58,814	9,32,215	10,60,172	10,37,368	8,90,296	-7.1%	-14.2%
Average Realisation (₹/sq ft)	7,524	7,558	8,090	8,757	8,141	8.2%	-7.0%
Sale Value (₹ crore)	721	705	858	908	725	0.5%	-20.2%
Pune							
Sales Volume (Sq ft)	43,890	17,589	18,182	18,704	9,457	-78.5%	-49.4%
Average Realisation (₹/sq ft)	10,025	11,314	10,835	11,869	11,420	13.9%	-3.8%
Sale Value (₹ crore)	44.0	19.9	19.7	22.2	10.8	-75.5%	-51.4%
NCR							
Sales Volume (Sq ft)	1,91,774	2,34,123	1,68,901	71,458	3,52,583	83.9%	393.4%
Average Realisation (₹/sq ft)	10,392	11,451	10,941	11,755	14,286	37.5%	21.5%
Sale Value (₹ crore)	199.3	268.1	184.8	84.0	503.7	152.7%	499.6%
Gift City							
Sales Volume (Sq ft)	45,737	42,771	61,280	31,581	60,542	32.4%	91.7%
Average Realisation (₹/sq ft)	6,428	6,359	6,984	7,821	7,631	18.7%	-2.4%
Sale Value (₹ crore)	29.4	27.2	42.8	24.7	46.2	57.1%	87.0%
Kerala							
Sales Volume (Sq ft)	50,783	69,825	3,302	1,28,839	1,29,647	155.3%	0.6%
Average Realisation (₹/sq ft)	7,030	9,853	NA	7,474	9,078	29.1%	21.5%
Sale Value (₹ crore)	35.7	68.8	16.6	96.3	117.7	229.7%	22.2%
Tamil Nadu							
Sales Volume (Sq ft)	31,685	45,956	46,874	48,878	33,394	5.4%	-31.7%
Average Realisation (₹/sq ft)	5,555	4,570	5,099	5,872	6,408	15.4%	9.1%
Sale Value (₹ crore)	17.6	21.0	23.9	28.7	21.4	21.6%	-25.4%
Total							
Sales Volume (Sq ft)	13,22,683	13,42,479	13,58,711	13,36,828	14,75,920	11.6%	10.4%
Average Realisation (₹/sq ft)	7,789	8,265	8,431	8,709	9,652	23.9%	10.8%
Sale Value (₹ crore)	1,047	1,110	1,146	1,164	1,425	36.0%	22.4%

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume sold in msf	Comments						
	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24
Total	3.3	3.4	4.0	4.0	4.9	5.5	5.8

Source: Company, ICICI Direct Research

Exhibit 3: Valuations

Particulars	NAV	
	₹ crore	₹ /share
Completed and Ongoing projects - incl. new phases	3155.9	332.9
New Launches	1191.1	125.6
Commercial assets	316.5	33.4
Other Land Bank (developable value: PV of post tax OCF)	4181	441.0
Real Estate Business value	8844.0	932.9
Less:		
Net debt (FY24)	2152	227.0
Real Estate equity value	6692.0	705.9
RE Value	6692.0	705.9
Construction Business (5x FY24E EV/EBITDA)	400	42.2
Total SoTP Valuation	7092	748
Rounded TP		750

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	2,730.9	2,864.3	3,563.2	4,045.5
Growth (%)		4.9	24.4	13.5
Other income	90.7	94.3	99.0	104.0
Total revenue	2,821.6	2,958.6	3,662.2	4,149.5
Raw Material Expense	1,239.8	1,737.6	2,134.3	2,444.8
Land cost	254.4	196.0	238.7	271.0
Employee benefit expenses	229.5	290.1	307.5	325.9
Other Expenses	372.4	465.5	488.8	513.2
EBITDA	889.2	371.0	632.6	761.5
Growth (%)		(58.3)	70.5	20.4
Interest	749.7	250.6	220.3	230.8
Depreciation	72.1	73.9	75.3	76.8
Other income	90.7	94.3	99.0	104.0
PBT	158.1	140.9	436.0	557.9
Taxes	41.3	38.0	109.9	140.6
Minority Interest	-	-	-	-
PAT after MI	116.8	102.9	326.2	417.3
PAT Growth rate	87.7	(11.9)	217.1	28.0
Adjusted EPS (Diluted)	12.1	10.7	33.9	43.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	116.8	102.9	326.2	417.3
Depreciation	72.1	73.9	75.3	76.8
Interest	749.7	250.6	220.3	230.8
Others	(32.0)	(132.4)	(208.9)	(244.6)
Cash Flow before wc changes	947.9	333.0	522.8	620.9
Net Increase in Current Assets	(390.3)	1,271.2	133.4	243.2
Net Increase in Current Liabilities	262.6	(619.0)	(824.5)	(646.0)
Net CF from operating activities	832.1	985.2	(168.4)	218.1
(Purchase)/Sale of Fixed Assets	46.1	(190.0)	(25.0)	(25.0)
Net CF from Investing activities	38.2	(95.7)	74.0	79.0
Inc / (Dec) in Equity Capital	(0.0)	-	-	-
Dividend	(33.2)	(29.2)	(92.6)	(118.4)
Interest paid	(291.6)	(250.6)	(220.3)	(230.8)
Inc / (Dec) in Loans	(559.4)	(510.0)	150.0	50.0
Net CF from Financing activities	(884.2)	(789.8)	(162.9)	(299.2)
Net Cash flow	(13.9)	99.8	(257.2)	(2.1)
Opening Cash	204.2	178.3	278.1	20.9
Closing Cash/ Cash Equivalent	178.3	278.1	20.9	18.9

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,415.7	2,489.4	2,723.0	3,021.9
Total Shareholders funds	2,510.5	2,584.2	2,817.8	3,116.7
Minority Interest	-	-	-	-
Total Debt	2,533.0	2,023.0	2,173.0	2,223.0
Deferred Tax Liability	15.1	15.1	15.1	15.1
Total Liabilities	5,059	4,622	5,006	5,355
Assets				
Gross Block	1,220.4	1,250.4	1,275.4	1,300.4
Less Acc. Dep	425.9	499.8	575.1	652.0
Net Block	794.5	750.6	700.3	648.5
Goodwill on Consolidation	22.7	22.7	22.7	22.7
Capital WIP	-	160.0	160.0	160.0
Investments	114.9	114.9	114.9	114.9
Inventory	7,427.1	6,367.1	6,128.4	5,857.4
Sundry Debtors	406.9	313.9	390.5	443.3
Loans & Advances	2,466.3	2,348.0	2,376.7	2,351.7
Cash & Bank Balances	178.3	278.1	20.9	18.9
Total Current Assets	10,593.5	9,422.0	9,031.5	8,786.2
Creditors	6,318.4	5,714.2	4,885.2	4,236.1
Provisions	33.0	18.2	22.7	25.8
Net Current Assets	4,127.2	3,574.7	4,008.6	4,409.4
Total Assets	5,059	4,622	5,006	5,355

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	12.1	10.7	33.9	43.3
Cash EPS	19.9	18.6	42.4	52.1
Book Value	260.7	268.3	292.6	323.6
Dividend per share	3.5	3.1	9.8	12.5
Operating Ratios (%)				
EBITDA / Net Sales	32.6	13.0	17.8	18.8
PAT / Net Sales	4.3	3.6	9.2	10.3
Inventory Days	992.7	811.4	627.8	528.5
Debtor Days	54.4	40.0	40.0	40.0
Return Ratios (%)				
RoNW	4.7	4.0	11.6	13.4
RoCE	17.9	8.5	13.1	14.7
RoIC	16.7	7.1	11.5	13.2
Valuation Ratios (x)				
EV / EBITDA	9.0	20.0	12.4	10.3
P/E (Diluted)	47.7	54.2	17.1	13.4
EV / Net Sales	2.9	2.6	2.2	1.9
Market Cap / Sales	2.1	2.0	1.6	1.4
Price to Book Value	2.2	2.1	1.9	1.8
Dividend yield	0.6	0.5	1.7	2.2
Solvency Ratios (x)				
Net Debt / Equity	0.9	0.7	0.8	0.7
Debt / EBITDA	2.8	5.5	3.4	2.9
Current Ratio	1.6	1.6	1.8	2.0
Quick Ratio	0.5	0.5	0.6	0.7

Source: Company, ICICI Direct Research

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Sell: <-15%



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