

Robust sales volume; deleveraging on track...

About the stock: Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects with ~7.3 mn sq feet (msf) of unsold saleable area and ongoing contractual projects aggregating to ~5.2 msf in various stages of construction.

- It has a real estate presence in 12 cities, viz. Bengaluru, Gurugram, Chennai, Pune, Coimbatore, Thrissur, Kozhikode, Kochi, Trivandrum, Gift City, Hyderabad and Mysore

Q4FY23 Results: Healthy operating performance.

- Sales volume was healthy at 1.48 msf (up 10.1% YoY), with sales value at ₹ 1463 crore up 32% YoY, with average price realisation (increased to ₹ 9868/sq ft, up 19.8% YoY) mainly due to project mix and hikes undertaken. The company has delivered 15.1% volume growth in FY23 at 5.6 msf. Sales value growth was 34% at ₹ 5198 crore
- On the financial front, reported revenues grew 70% YoY to ₹ 1210 crore owing to robust revenue recognition in the real estate segment, which was up 84% at ₹ 956 crore and PAT at ₹ 48.6 crore, up 2.4x
- Sobha has managed to reduce its net debt position by ₹ 697 crore YoY to ₹ 1640 crore (net D/E: 0.66x), aided by strong operating cash flows of ₹ 1056 crore (up ~23% YoY) in FY23, driven by collections of ₹ 4306 crore (up ~36% YoY) from residential sales

What should investors do? Sobha's share price has grown by merely 12% over the past five years given the debt and relatively muted sales momentum in the past.

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

Target Price and Valuation: We value Sobha at ₹ 680/share.

Key triggers for future price performance:

- Robust ongoing & completed project with ₹ 5753 crore of potential cash flow
- Launch pipeline of ~7 msf in FY24 vs. ~4 msf in FY23, coupled with further likely 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 ₹ 650

Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	5 yr CAGR FY18-23	FY24E	FY25E	2yr CAGR FY23-25E
Net Sales	3753.9	2109.8	2561.3	3310.1	3.5%	3589.3	4206.4	12.7%
EBITDA	1115.2	675.1	532.8	369.4	4.8%	542.1	761.3	43.6%
EBITDA Margin (%)	29.7	32.0	20.8	11.2		15.1	18.1	
PAT	281.7	62.2	173.2	104.2	-13.6%	255.3	415.9	99.8%
EPS(₹)	29.7	6.6	18.3	11.0		26.9	43.9	
P/E (x)	18.7	84.4	30.3	50.4		20.6	12.6	
EV/EBITDA (x)	7.6	12.2	14.6	18.9		12.2	8.1	
RoNW (%)	11.6	2.6	6.9	4.2		9.5	14.0	
RoCE (%)	20.0	12.3	10.8	8.8		11.6	15.2	

Source: Company, ICICI Direct Research *FY20/FY21 accounting was different on finance costs and EBITDA front



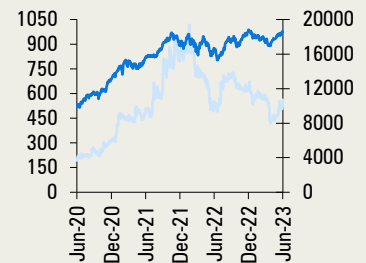
Particulars

Particular	Amount (₹ crore)
Market Capitalization	5,452
Total Debt	2,004
Cash and Inv.	451
EV	7,005
52 week H/L (₹)	751 / 412
Equity capital	94.8
Face value (₹)	10.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	52.0	52.0	52.0	52.3
DII	12.8	13.7	13.8	13.6
FII	15.0	15.6	15.1	13.8
Other	20.2	18.8	19.2	20.4

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 a robust sales performance during Q4FY23 with sales of ₹ 1463 crore (up ~32% YoY, ~3% QoQ) with sales volume of 1.48 msf (up ~10% YoY, flat QoQ). Sobha's share in sales was at ₹ 1207 crore (up ~29% YoY, ~8.7% QoQ). Growth was driven by new foray and launch in Hyderabad where the company sold ~0.1 msf worth ₹ 145 crore. Bengaluru sales moderated to 0.93 msf (down 0.3% YoY, up 4% QoQ). Overall, price realisation saw a strong improvement (up 19.8% YoY, ~9% QoQ), largely led by mix and hike undertaken by the company. **Going ahead, if approvals are on time, the company expects to clock 15-20% volume growth in FY24**
- Collections:** Sobha's operating cash inflow of ₹ 1422 crore (up ~10% YoY) in Q4FY23 was driven by collections of ₹ 1179 crore (up ~11% YoY) from residential sales and with collections from the contractual business of ₹ 244 crore (up ~5.6% YoY). Free cash flow was ₹ 129 crore, which translated into debt reduction. For FY23, operating cash flows at ₹ 1056 crore were up ~23% YoY, driven by collections of ₹ 4306 crore (up ~36% YoY) from residential sales. FCF was ₹ 697 crore
- Contracts portfolio:** Contract and manufacturing revenue was up 34% YoY at ₹ 254 crore. **EBIT margins for the business were again negative in the quarter (at ~-4.2%). The management attributed the same to certain legacy projects. It expects margins to improve ahead in H2FY24.** Sobha has delivered 57.7 mn sq ft of area since inception across 26 cities via its contracts division and has ongoing projects of 5.2 mn
- Completion, new launches:** Sobha completed projects of total 1.78 msf saleable area in Q4FY23. FY23 completion was at 3.97 msf. There were three new launches (1.06 mn sq ft) in Q4FY23 and 10 new launches (3.96 msf) in FY23. **Sobha has planned launch pipeline of 16 projects (including three commercial projects) with 14.4 msf of area of which it expects to launch ~7 msf in FY24**
- Debt:** Sobha has managed to reduce its net debt position by ₹ 697 crore YoY to ₹ 1640 crore (net D/E: 0.66x), aided by strong operating cash flows. Also, the cost of debt has marginally increased to 8.93% during Q4FY23 (vs. 8.81% in Q3FY23 and 8.4% in FY22) despite a 250 basis points rise in repo rates in FY23. **Going forward, the company's strong focus remains on reducing its debt (albeit with lower intensity ahead as it is in a comfortable zone) driven by higher sales and better cash flow generation**

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY	QoQ
Bengaluru							
Sales Volume (Sq ft)	9,32,215	10,60,172	10,37,368	8,90,296	9,29,575	-0.3%	4.4%
Average Realisation (₹/sq ft)	7,558	8,090	8,757	8,141	8,682	14.9%	6.6%
Sale Value (₹ crore)	705	858	908	725	807	14.5%	11.4%
Pune							
Sales Volume (Sq ft)	17,589	18,182	18,704	9,457	15,679	-10.9%	65.8%
Average Realisation (₹/sq ft)	11,314	10,835	11,869	11,420	11,417	0.9%	0.0%
Sale Value (₹ crore)	19.9	19.7	22.2	10.8	17.9	-10.1%	65.7%
NCR							
Sales Volume (Sq ft)	2,34,123	1,68,901	71,458	3,52,583	1,85,439	-20.8%	-47.4%
Average Realisation (₹/sq ft)	11,451	10,941	11,755	14,286	15,250	33.2%	6.7%
Sale Value (₹ crore)	268.1	184.8	84.0	503.7	282.8	5.5%	-43.9%
Gift City							
Sales Volume (Sq ft)	42,771	61,280	31,581	60,542	55,964	30.8%	-7.6%
Average Realisation (₹/sq ft)	6,359	6,984	7,821	7,631	7,826	23.1%	2.6%
Sale Value (₹ crore)	27.2	42.8	24.7	46.2	43.8	61.0%	-5.2%
Kerala							
Sales Volume (Sq ft)	69,825	3,302	1,28,839	1,29,647	1,61,956	131.9%	24.9%
Average Realisation (₹/sq ft)	9,853	NA	7,474	9,078	9,039	-8.3%	-0.4%
Sale Value (₹ crore)	68.8	16.6	96.3	117.7	146.4	112.8%	24.4%
Tamil Nadu							
Sales Volume (Sq ft)	45,956	46,874	48,878	33,394	31,566	-31.3%	-5.5%
Average Realisation (₹/sq ft)	4,570	5,099	5,872	6,408	6,399	40.0%	-0.1%
Sale Value (₹ crore)	21.0	23.9	28.7	21.4	20.2	-3.8%	-5.6%
Hyderabad							
Sales Volume (Sq ft)					98,227		
Average Realisation (₹/sq ft)					14,782		
Sale Value (₹ crore)					145.2		
Total							
Sales Volume (Sq ft)	13,42,479	13,58,711	13,36,828	14,75,920	14,78,407	10.1%	0.2%
Average Realisation (₹/sq ft)	8,265	8,431	8,924	9,652	9,898	19.8%	2.6%
Sale Value (₹ crore)	1,110	1,169	1,193	1,425	1,463	31.9%	2.7%

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume sold in msf	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24	Comments
Total	3.3	3.4	4.0	4.0	4.9	5.6	6.2	

Source: Company, ICICI Direct Research

Exhibit 3: Valuations

Particulars	NAV	
	₹ crore	₹ /share
Real Estate Business value	7808.0	823.6
Less:		
Net debt	1552	163.7
Real Estate equity value	6255.8	659.9
RE Value	6255.8	659.9
Construction Business (4x FY24E EV/EBITDA)	160	16.9
Total SoTP Valuation	6416	677
Rounded TP		680

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	2,561.3	3,310.1	3,589.3	4,206.4
Growth (%)		29.2	8.4	17.2
Other income	84.0	92.3	96.9	101.8
Total revenue	2,645.3	3,402.4	3,686.3	4,308.2
Raw Material Expense	1,412.9	2,102.2	2,163.9	2,514.5
Land cost	207.2	1,052.8	717.9	841.3
Employee benefit expenses	251.2	294.5	312.2	330.9
Other Expenses	364.4	544.0	571.2	599.8
EBITDA	532.8	369.4	542.1	761.3
Growth (%)		(30.7)	46.7	40.4
Interest	308.3	249.0	215.6	223.5
Depreciation	71.9	67.8	82.1	83.5
Other income	84.0	92.3	96.9	101.8
PBT	236.6	144.9	341.3	556.0
Taxes	63.4	40.7	86.0	140.1
Minority Interest	-	-	-	-
PAT after MI	173.2	104.2	255.3	415.9
PAT Growth rate	178.3	(39.8)	145.0	62.9
Adjusted EPS (Diluted)	18.0	10.8	26.5	43.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	173.2	104.2	255.3	415.9
Depreciation	71.9	67.8	82.1	83.5
Interest	308.3	249.0	215.6	223.5
Others	331.1	1.7	(182.9)	(241.9)
Cash Flow before wc changes	947.9	463.4	456.1	621.2
Net Increase in Current Assets	(390.3)	(852.5)	688.4	765.0
Net Increase in Current Liabilities	262.6	1,539.3	(578.2)	(677.3)
Net CF from operating activities	832.1	1,150.2	566.3	708.8
(Purchase)/Sale of Fixed Assets	46.1	(116.6)	(25.0)	(25.0)
Net CF from Investing activities	38.2	(104.1)	71.9	76.8
Inc / (Dec) in Equity Capital	(0.0)	-	-	-
Dividend	(33.2)	(28.5)	(72.4)	(118.0)
Interest paid	(291.6)	(224.7)	(215.6)	(223.5)
Inc / (Dec) in Loans	(559.4)	(519.8)	100.0	50.0
Net CF from Financing activities	(884.2)	(773.0)	(188.1)	(291.5)
Net Cash flow	(13.9)	273.1	450.2	494.0
Opening Cash	204.2	178.3	451.4	901.6
Closing Cash/ Cash Equivalent	178.3	451.4	901.6	1,395.6

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,415.7	2,399.9	2,582.7	2,880.6
Total Shareholders funds	2,510.5	2,494.7	2,677.5	2,975.4
Minority Interest	-	-	-	-
Total Debt	2,533.0	2,003.6	2,103.6	2,153.6
Deferred Tax Liability	15.1	-	-	-
Total Liabilities	5,059	4,498	4,781	5,129
Assets				
Gross Block	1,233.9	1,383.7	1,408.7	1,433.7
Less Acc. Dep	423.3	491.1	573.2	656.7
Net Block	810.7	892.6	835.5	777.0
Goodwill on Consolidation	-	-	-	-
Capital WIP	6.5	8.6	8.6	8.6
Investments	114.9	114.9	114.9	114.9
Inventory	7,427.1	8,761.0	7,643.1	6,801.8
Sundry Debtors	406.9	237.5	393.4	461.0
Loans & Advances	2,466.3	2,109.7	2,383.3	2,392.0
Cash & Bank Balances	178.3	451.4	901.6	1,395.6
Total Current Assets	10,593.5	11,674.5	11,436.2	11,165.3
Creditors	6,318.4	8,034.2	7,476.3	6,795.0
Provisions	33.0	43.2	22.9	26.8
Net Current Assets	4,127.2	3,482.2	3,822.1	4,228.5
Total Assets	5,059	4,498	4,781	5,129

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY22	FY23	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	18.0	10.8	26.5	43.2
Cash EPS	25.9	18.1	35.6	52.7
Book Value	260.7	259.0	278.0	309.0
Dividend per share	5.2	3.1	7.6	12.5
Operating Ratios (%)				
EBITDA / Net Sales	20.8	11.2	15.1	18.1
PAT / Net Sales	6.8	3.1	7.1	9.9
Inventory Days	1,058.4	966.1	777.2	590.2
Debtor Days	58.0	26.2	40.0	40.0
Return Ratios (%)				
RoNW	6.9	4.2	9.5	14.0
RoCE	10.8	8.8	11.6	15.2
RoIC	9.5	7.5	11.9	18.2
Valuation Ratios (x)				
EV / EBITDA	14.6	18.9	12.2	8.1
P/E (Diluted)	30.8	51.2	20.9	12.8
EV / Net Sales	3.0	2.1	1.8	1.5
Market Cap / Sales	2.1	1.6	1.5	1.3
Price to Book Value	2.1	2.1	2.0	1.8
Dividend yield	0.9	0.6	1.4	2.2
Solvency Ratios (x)				
Net Debt / Equity	0.9	0.6	0.4	0.3
Debt / EBITDA	4.8	5.4	3.9	2.8
Current Ratio	1.6	1.4	1.4	1.4
Quick Ratio	0.5	0.3	0.4	0.4

Source: Company, ICICI Direct Research

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