

## Healthy cash flow generation, debt reduction...

**About the stock:** Sobha Ltd (Sobha) is a leading real estate player with ongoing real estate projects with ~12.3 mn square feet (msf) of unsold saleable area and ongoing contractual projects aggregating to 4.8 msf in various stages of construction. As on Q1FY23, Sobha has delivered ~121+ msf of developable area.

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

**Q2FY23 Results:** Sobha reported a steady operating performance with the key highlight being healthy cash flows and debt reduction.

- Sales booking value at ₹ 1164 crore (up ~13% YoY) with volume down 0.9% YoY at 1.34 msf and sustained momentum in Bengaluru
- On the financial front, reported revenues were down 14.4% YoY at ₹ 667.3 crore, owing lower revenue recognition in the real estate segment, which was down 28.5% at ₹ 444 crore. PAT was down 70% at ₹ 19.2 crore owing to lower revenues and profitability
- Sobha has managed to reduce its net debt position by ₹ 221 crore QoQ to ₹ 1888 crore (net D/E: 0.77x), aided by strong operating cash flows

**What should investors do?** Sobha's share price has grown at ~4% CAGR over the past five years given the debt and relatively muted sales momentum

- The consistency in sales volumes, collections and debt reduction is a positive surprise. We upgrade from HOLD to **BUY** rating

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

### Key triggers for future price performance:

- Robust ongoing & completed project with ₹ 5864 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	2 yr CAGR FY22-24E
Net Sales	3753.9	2109.8	2730.9	4.1%	3025.9	3512.4	13.4%
EBITDA	1115.2	675.1	889.2	16.2%	530.3	682.8	-12.4%
EBITDA Margin (%)	29.7	32.0	32.6		17.5	19.4	
PAT	281.7	62.2	116.8	-6.2%	202.0	323.8	66.5%
EPS(₹)	29.7	6.6	12.3		21.3	34.2	
P/E (x)	23.3	105.4	56.1		32.5	20.3	
EV/EBITDA (x)	8.8	14.2	10.3		16.8	13.4	
RoNW (%)	11.6	2.6	4.7		7.6	11.2	
RoCE (%)	20.0	12.3	17.9		10.6	13.2	

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



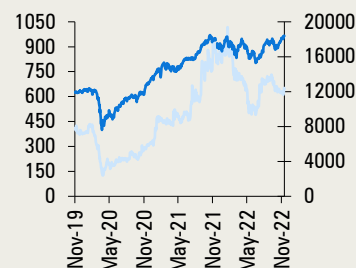
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,247
Total Debt (FY22)	2,533
Cash and Inv. (FY22)	178
EV	8,601
52 week H/L (₹)	1045 / 480
Equity capital	94.8
Face value (₹)	10.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	52.0	52.0	52.0	52.0
DII	12.2	13.1	12.8	13.7
FII	18.1	16.2	15.0	15.6
Other	17.8	18.8	20.2	18.8

### 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 Q2FY23 wherein the company sold 1.34 mn sq ft for ₹ 1,164 crore (vs 1.36 mn sq ft for ₹ 1,145 crore in Q1FY23) largely aided by healthy product demand and highest ever sales price realisation of ₹ 8,709 / sq ft achieved during Q2FY23. This is despite interest rate hikes and increase in unit prices. Additionally, sales volume has been in the range of 1.3 mn sq ft for the past four to five quarters showing sustained demand post the Covid impacted period. Bangalore, for a second consecutive quarter, has achieved 1+ mn sq ft of sale, contributing ~77.6% to sale volumes in Q2FY23 mainly aided by a strong presence in the micro market. Bangalore is followed by the Kerala, NCR and Ahmedabad region, which contributed 9.6%, 5.3% and 2.4%, respectively. Going forward, the company expects sales momentum to continue with improving demand and newer launches with pre sales likely to reach 3-3.5 mn sq ft during H2FY23 (vs. ~2.7 mn sq ft of pre-sales registered in H1FY23)
- Real estate projects:** Real estate revenue during Q2FY23 declined 28.5% YoY and was at ₹ 444 crore. Additionally, the company registered highest ever cash inflow of ₹ 1,335 crore (up 46% YoY) aided by marked improvement in construction activities while Sobha generated net operating cash flow of ₹ 361 crore (up 104% YoY). Going forward, its balance receivable from sold ongoing project inventory and completed projects was at ₹ 5,353 crore sufficient to cover 97% of the balance cost to complete the ongoing projects offered for sale. Also, its unsold completed inventory was at 0.19 mn sq ft, which is one of the lowest in the real estate sector
- Contracts portfolio:** Sobha has delivered 57.23 mn sq ft of area since inception across 26 cities via its contracts division. Currently, contractual projects of 4.83 mn sq ft area are in various stages of construction, which is mainly aided by securing a new project under non-Infosys contracts division (in Q2FY23; development of office towers in Karle SEZ HUB spanning across ~1.74 mn sq ft area having an estimated value of contracts to the tune of ₹ 140 crore). Overall, contractual projects are mainly spread across Bangalore (3.86 mn sq ft), Nagpur (0.41 mn sq ft), Sonapat (0.49 mn sq ft), and Pune (0.07 mn sq ft) regions. During Q2FY23, contractual and manufacturing vertical revenue was at ₹ 223 crore (up 41% YoY). Collections, have been healthy at ₹ 253 crore, in line with higher site activity
- Realisation and margin:** Average price realisation during Q2FY23 remained elevated at ₹ 8,709/sq ft (up 3.3% YoY). This is largely attributed to a better product mix, improved sales in better regions, strong demand continuation, healthy brand positioning and reduced discounts. However, margin was at the moderated level of 15% during Q2FY23 owing to recognition of lower margins in legacy contracts. Going forward, the management expects margins to improve from here on with higher realisation and optimisation of cost structure. Currently, margin in real estate is at 25%+
- Completed, new launches:** Sobha completed projects of total 0.8 mn sq ft saleable area in Q2FY23, which includes a) partial completion in Sobha HRC Pristine, Sobha Dream Acres, Sobha Forest Edge in Bangalore, b) Sobha meadows (Plot development) in Mysore and c) partial completion in Sobha Gardenia in Chennai. Further, the company has launched three projects during Q2FY23 with saleable area of 0.9 mn sq ft, which includes a) 'Sobha Insignia' in Bangalore, b) 'Sobha Brooklyn – Town Park' in Bangalore, c) 'Sobha Meadows – Whispering Hill' in Trivandrum. Overall, a total of 2.90 mn sq ft of new residential projects were launched during H1FY23. Additionally, the company has an inventory (ongoing) of ~12.3 mn sq ft and a pan India launch pipeline (forthcoming) of 10.9 mn sq ft (to get launched over the next few years; adequate for addressing the residential demand). During H2FY23, the company is looking to launch projects with saleable area of 4 mn sq ft. Currently, 113 projects of Sobha are registered under RERA while all projects have received approvals

- **Diversification:** Sobha entered Trivandrum city during Q2FY23 by launching a project namely 'Sobha Meadows – Whispering Hill'. Additionally, **the company is likely to expand its operations geographically to Hyderabad city, which will make it the twelfth city for the real estate division' operation**
- **Prices:** As per the management, price hikes in future would be more on an opportunistic basis despite healthy consumer demand as commodity prices have softened, to some extent
- **Debt:** Sobha has **managed to reduce its net debt position by ₹ 221 crore on a QoQ basis while its net debt at the end of September 2022 was at ₹ 1,888 crore (net D/E: 0.77x)**. Also, the cost of debt has marginally increased to 8.57% during Q2FY23 (vs. 8.40% at FY22-end), despite 190 basis points rise in repo rates in 2022. Going forward, **the company's strong focus remains on reducing its debt with higher sales and better cash flow generation**

Exhibit 1: Sales volume, value, realisation trend

Particulars	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY	QoQ
<b>Bengaluru</b>							
Sales Volume (Sq ft)	7,98,353	9,58,814	9,32,215	10,60,172	10,37,368	29.9%	-2.2%
Average Realisation (₹/sq ft)	7,050	7,524	7,558	8,090	8,757	24.2%	8.2%
Sale Value (₹ crore)	563	721	705	858	908	61.4%	5.9%
<b>Coimbatore</b>							
Sales Volume (Sq ft)	16,970	14,770	4,872	12,507	18,746	10.5%	49.9%
Average Realisation (₹/sq ft)	5,480	6,635	7,389	7,836	7,308	33.4%	-6.7%
Sale Value (₹ crore)	9.3	9.8	3.6	9.8	13.7	47.3%	39.8%
<b>Pune</b>							
Sales Volume (Sq ft)	79,572	43,890	17,589	18,182	18,704	-76.5%	2.9%
Average Realisation (₹/sq ft)	9,639	10,025	11,314	10,835	11,869	23.1%	9.5%
Sale Value (₹ crore)	76.7	44.0	19.9	19.7	22.2	-71.1%	12.7%
<b>NCR</b>							
Sales Volume (Sq ft)	1,89,522	1,91,774	2,34,123	1,68,901	71,458	-62.3%	-57.7%
Average Realisation (₹/sq ft)	9,629	10,392	11,451	10,941	11,755	22.1%	7.4%
Sale Value (₹ crore)	182.5	199.3	268.1	184.8	84.0	-54.0%	-54.5%
<b>Chennai</b>							
Sales Volume (Sq ft)	43,484	16,915	41,084	34,367	30,132	-30.7%	-12.3%
Average Realisation (₹/sq ft)	5,772	4,611	4,235	4,103	4,978	-13.8%	21.3%
Sale Value (₹ crore)	25.1	7.8	17.4	14.1	15.0	-40.2%	6.4%
<b>Gift City</b>							
Sales Volume (Sq ft)	52,553	45,737	42,771	61,280	31,581	-39.9%	-48.5%
Average Realisation (₹/sq ft)	5,785	6,428	6,359	6,984	7,821	35.2%	12.0%
Sale Value (₹ crore)	30.4	29.4	27.2	42.8	24.7	-18.8%	-42.3%
<b>Kerala</b>							
Sales Volume (Sq ft)	1,68,409	50,783	69,825	3,302	1,28,839	-23.5%	3801.8%
Average Realisation (₹/sq ft)	8,521	7,030	9,853	NA	7,474	-12.3%	NA
Sale Value (₹ crore)	143.5	35.7	68.8	16.6	96.3	-32.9%	480.1%
<b>Total</b>							
Sales Volume (Sq ft)	13,48,863	13,22,683	13,42,479	13,58,711	13,36,828	-0.9%	-1.6%
Average Realisation (₹/sq ft)	7,638	7,789	8,265	8,431	8,709	14.0%	3.3%
Sale Value (₹ crore)	1,030	1,047	1,110	1,146	1,164	13.0%	1.6%

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume sold in msf	FY18	FY19	FY20	FY21	FY22E	FY23E	Comments
							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	3140.6	331.3
New Launches	1170.1	123.4
Commercial assets	316.5	33.4
Other Land Bank (developable value: PV of post tax OCF )	4310	454.6
<b>Real Estate Business value</b>	<b>8937.2</b>	<b>942.7</b>
<b>Less:</b>		
Net debt (FY24)	2193	231.3
<b>Real Estate equity value</b>	<b>6744.6</b>	<b>711.5</b>
<b>RE Value</b>	<b>6744.6</b>	<b>711.5</b>
Construction Business (5x FY24E EV/EBITDA)	375	39.5
<b>Total SoTP Valuation</b>	<b>7119</b>	<b>751</b>
<b>Rounded TP</b>		<b>750</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>2,109.8</b>	<b>2,730.9</b>	<b>3,025.9</b>	<b>3,512.4</b>
Growth (%)		29.4	10.8	16.1
Other income	80.6	90.7	90.7	95.2
<b>Total revenue</b>	<b>2,190.4</b>	<b>2,821.6</b>	<b>3,116.6</b>	<b>3,607.7</b>
Raw Material Expense	928.2	1,239.8	1,856.8	2,151.4
Land cost	254.4	196.0	202.0	234.5
Employee benefit expenses	177.1	229.5	247.9	267.7
Other Expenses	329.3	372.4	391.0	410.6
<b>EBITDA</b>	<b>675.1</b>	<b>889.2</b>	<b>530.3</b>	<b>682.8</b>
Growth (%)		31.7	(40.4)	28.8
Interest	601.2	749.7	277.0	269.8
Depreciation	79.4	72.1	73.9	75.3
Other income	80.6	90.7	90.7	95.2
<b>PBT</b>	<b>75.1</b>	<b>158.1</b>	<b>270.1</b>	<b>432.9</b>
Taxes	12.9	41.3	68.1	109.1
Minority Interest	-	-	-	-
<b>PAT after MI</b>	<b>62.2</b>	<b>116.8</b>	<b>202.0</b>	<b>323.8</b>
PAT Growth rate	(77.9)	87.7	73.0	60.3
<b>Adjusted EPS (Diluted)</b>	<b>6.5</b>	<b>12.1</b>	<b>21.0</b>	<b>33.6</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>62.2</b>	<b>116.8</b>	<b>202.0</b>	<b>323.8</b>
Depreciation	79.4	72.1	73.9	75.3
Interest	601.2	749.7	277.0	269.8
Others	(88.2)	(32.0)	(158.8)	(204.3)
Cash Flow before wc changes	667.5	947.9	462.2	573.7
Net Increase in Current Assets	(59.2)	(390.3)	915.6	(94.4)
Net Increase in Current Liabilities	51.3	262.6	(696.7)	(273.2)
<b>Net CF from operating activities</b>	<b>671.6</b>	<b>820.2</b>	<b>681.1</b>	<b>206.1</b>
(Purchase)/Sale of Fixed Assets	(44.3)	46.1	(190.0)	(25.0)
<b>Net CF from Investing activities</b>	<b>(91.7)</b>	<b>38.2</b>	<b>(99.3)</b>	<b>70.2</b>
Inc / (Dec) in Equity Capital	-	(0.0)	-	-
Dividend	(66.4)	(33.2)	(57.3)	(91.9)
Interest paid	(310.6)	(291.6)	(277.0)	(269.8)
Inc / (Dec) in Loans	(75.1)	(559.4)	(30.0)	(100.0)
<b>Net CF from Financing activities</b>	<b>(452.1)</b>	<b>(884.2)</b>	<b>(364.3)</b>	<b>(461.7)</b>
Net Cash flow	127.8	(25.9)	217.5	(185.4)
Opening Cash	88.4	204.2	178.3	395.8
<b>Closing Cash/ Cash Equivalent</b>	<b>204.2</b>	<b>178.3</b>	<b>395.8</b>	<b>210.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	94.8	94.8	94.8	94.8
Reserve and Surplus	2,332.9	2,415.7	2,560.4	2,792.3
Total Shareholders funds	2,427.7	2,510.5	2,655.2	2,887.1
Minority Interest	-	-	-	-
Total Debt	3,038.6	2,533.0	2,503.0	2,403.0
Deferred Tax Liability	34.2	15.1	15.1	15.1
<b>Total Liabilities</b>	<b>5,501</b>	<b>5,059</b>	<b>5,173</b>	<b>5,305</b>
<b>Assets</b>				
Gross Block	1,187.2	1,220.4	1,250.4	1,275.4
Less Acc. Dep	353.8	425.9	499.8	575.1
Net Block	833.4	794.5	750.6	700.3
Goodwill on Consolidation	-	22.7	22.7	22.7
Capital WIP	70.1	-	160.0	160.0
Investments	114.3	114.9	114.9	114.9
Inventory	7,124.6	7,427.1	6,664.6	6,730.1
Sundry Debtors	236.1	406.9	331.6	384.9
Loans & Advances	2,628.2	2,466.3	2,388.4	2,364.0
Cash & Bank Balances	204.2	178.3	395.8	210.4
Total Current Assets	10,307.4	10,593.5	9,895.3	9,804.3
Creditors	5,680.6	6,318.4	5,635.4	5,359.1
Provisions	29.0	33.0	19.3	22.4
Net Current Assets	4,483.5	4,127.2	4,125.7	4,308.0
<b>Total Assets</b>	<b>5,501</b>	<b>5,059</b>	<b>5,173</b>	<b>5,305</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY21	FY22	FY23E	FY24E
<b>Per Share Data (₹)</b>				
EPS - Diluted	6.5	12.1	21.0	33.6
Cash EPS	14.9	19.9	29.1	42.1
Book Value	252.1	260.7	275.7	299.8
Dividend per share	1.9	3.5	6.0	9.7
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	32.0	32.6	17.5	19.4
PAT / Net Sales	2.9	4.3	6.7	9.2
Inventory Days	1,232.6	992.7	803.9	699.4
Debtor Days	40.9	54.4	40.0	40.0
<b>Return Ratios (%)</b>				
RoNW	2.6	4.7	7.6	11.2
RoCE	12.3	17.9	10.6	13.2
RoC	11.4	16.7	9.9	12.3
<b>Valuation Ratios (x)</b>				
EV / EBITDA	13.4	9.7	15.7	12.4
P/E (Diluted)	98.5	52.5	30.3	18.9
EV / Net Sales	4.3	3.1	2.8	2.4
Market Cap / Sales	3.0	2.3	2.1	1.8
Price to Book Value	2.5	2.4	2.3	2.1
Dividend yield	0.3	0.5	1.0	1.5
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	1.2	0.9	0.8	0.8
Debt / EBITDA	4.5	2.8	4.7	3.5
Current Ratio	1.7	1.6	1.7	1.8
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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