

April 06, 2010

C.M.P:
Rs.290.00

Target Price:
Rs.325.00

1 Year Comparative Graph



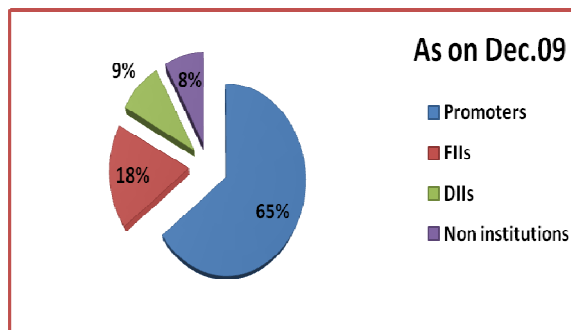
SOBHA DEVELOPERS

BSE SENSEX

Stock Data

Sector	Realty Sector
Face Value (Rs)	Rs.10.00
52 wk. High/Low (Rs.)	Rs.319.70/84.10
Volume (2 wk. Avg.)	24000
BSE Code	532784
Market Cap (Rs.mn.)	28449

Share Holding Pattern



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SYNOPSIS

- Today Sobha developers a Rs. 12 billion plus company is one of the largest and only backward integrated companies in the construction arena.
- Company Strong Pipeline of Ongoing Projects offering c.9.3 MM sq. ft. of saleable area expected to be completed over the next 2 –3 years.
- In the year 2010-11 the company plans to launch about 8 new projects covering 8 million sq ft across various market segments.
- During the quarter Sobha has completed 57 residential projects and 158 contractual projects covering about 35.56 million square feet of area in 17 cities across India.
- Sobha has contractual projects totaling 34 in progress with 88% contributed by Infosys.
- Purna Partners invest Rs 2.25 bn in Sobha Developers.
- The company currently has 27 ongoing residential projects aggregating to 8.55 Mn. sq ft, while 5.48-mn sq ft volumes of contractual projects are under various stages of construction and design.

Financials

(Rs.mn.)	FY09	FY10E	FY11E
Net Sales	9747.00	10379.65	11832.80
EBIDTA	2854.00	2294.91	2645.99
PAT	1097.00	1249.80	1427.15
EPS (Rs)	15.05	12.74	14.55
P/E (x)	19.27	22.76	19.93

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/BV(x)	Dividend (%)
Sobha Developers Ltd	290.00	28449.00	14.08	34.08	1.94	10
DLF	327.90	556559.8	9.08	143.19	4.49	100
HDIL	301.95	104427.2	27.40	21.72	2.30	-
India bulls Real	160.00	64246.3	0.11	500.00	1.65	-

Investment Highlights

- Result Updates (Q3 FY10)**

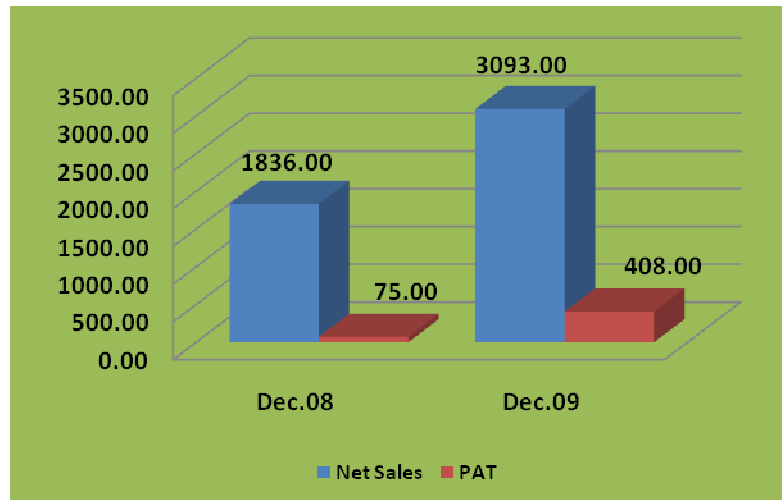
Sobha Developers Ltd disclosed a substantial rise in standalone net profit for the quarter ended December 2009. During the quarter, the profit of the company rose 444.00% to Rs 408.00 million from Rs 75.00 million in the same quarter previous year. Net sales increased 68.46% to Rs 3093.00 million, while total income for the quarter increased 65.35% to Rs 3102.00 million, when compared with the prior year period.

As of December 31st, 2009, in the past 14 years since its inception, Sobha has completed 57 residential projects and 158 contractual projects covering about 35.56 million square feet of area in 17 cities across India. The company currently has 27 ongoing residential projects aggregating to 8.55 Mn. sq ft, while 5.48-mn sq ft volumes of contractual projects are under various stages of construction and design. The company is constantly executing about 6 million sq ft of work for the past 3 years. This clearly puts Sobha on the top of the execution chart.

Quarterly Results - Standalone (Rs in mn)			
As at	Dec - 09	Dec - 08	%Change
Net Sales	3093.00	1836.00	68.46
PAT	408.00	75.00	444.00
Basic EPS	4.16	1.03	303.88

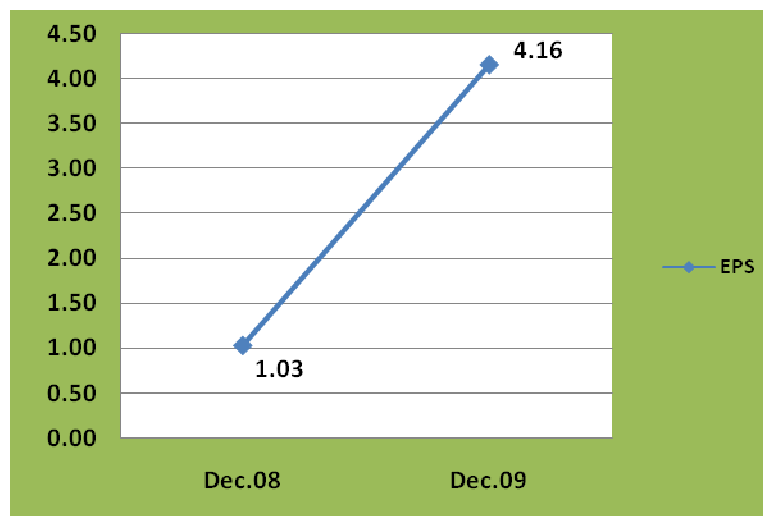
Net Sales & PAT Growth

During the quarter, Net sales rose by 68.46% to Rs.3093.70 million from Rs.1836.00 million in the same quarter last year and the Total Profit for the quarter ended December 2009 was Rs.408.00 million grew by 65.35% from Rs.75.00 million compared to same quarter last year.



EPS Growth

The basic EPS of the company stood at Rs.4.16 for the quarter ended Dec 2009 from Rs.1.03 for the quarter ended Dec 2008.



- **Completes construction**

Sobha Developers has handed over the largest corporate education centre, the global education centre (GEC) II in the world, built by the company for Infosys located at Mysore, inaugurated by Sonia Gandhi.

- **Raised Money through QIP**

Sobha developers has allotted 25,162,135 equity shares of face value Rs.10 each at a price of Rs. 209.40 per equity share aggregating Rs. 5,268,951,069 to the qualified institutional Buyers under SEBI Guidelines.

- **Partners invest Rs 2.25 bn**

Sobha Developers has entered into a term sheet with an investor - Purna Partners, Bangalore for investment of Rs 2.25 billion for the purpose of development of its projects in Bangalore and other cities.

- **Launch high-end apartment project**

Sobha Developers is in a mood to launch a high-end apartment project in Bangalore. The project, which would carry a price tag of about Rs 6,000 per sq ft, will be the first luxury apartment project from the company after crisis hit the Indian real estate sector.

- **Redevco may invest Rs 3 bn**

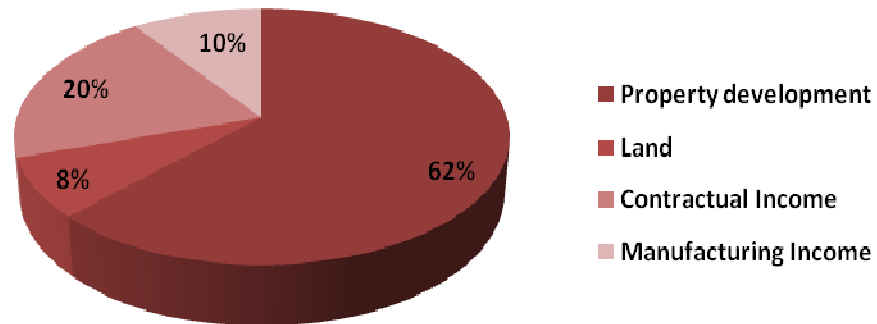
Redevco, one of Europe`s largest real estate investment and development firms, is learnt to be looking at investing around Rs 3 billion in various projects of Sobha Developers. Redevco, part of the diversified Cafro Holdings, which is into private equity, retail, financial services and renewable energy, in addition to real estate development.

- **Pledges additional stake**

Bangalore-based Sobha Developers has pledged 4.3 million shares or about 5.9% of equity to Switzerland-based Bank Sarasin & Co.

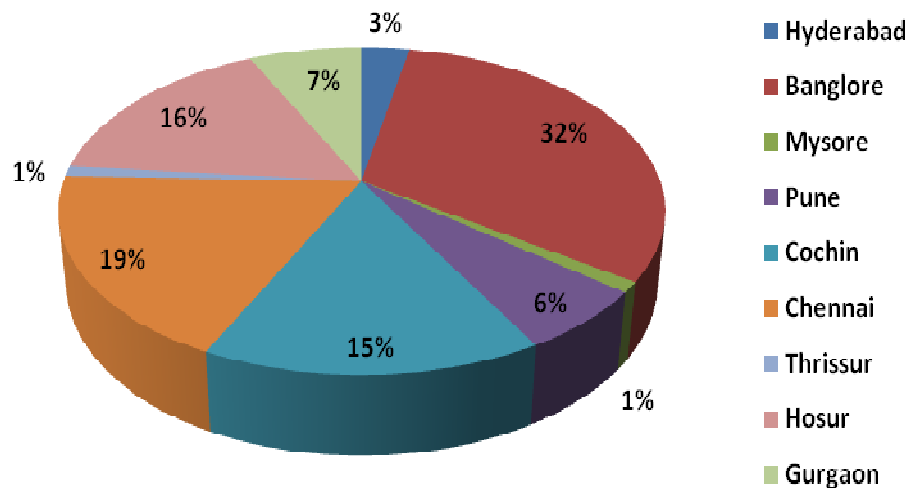
- **Revenue Break-up**

Revenue Break-up



- **Land bank- Regional break up**

Land Book Position

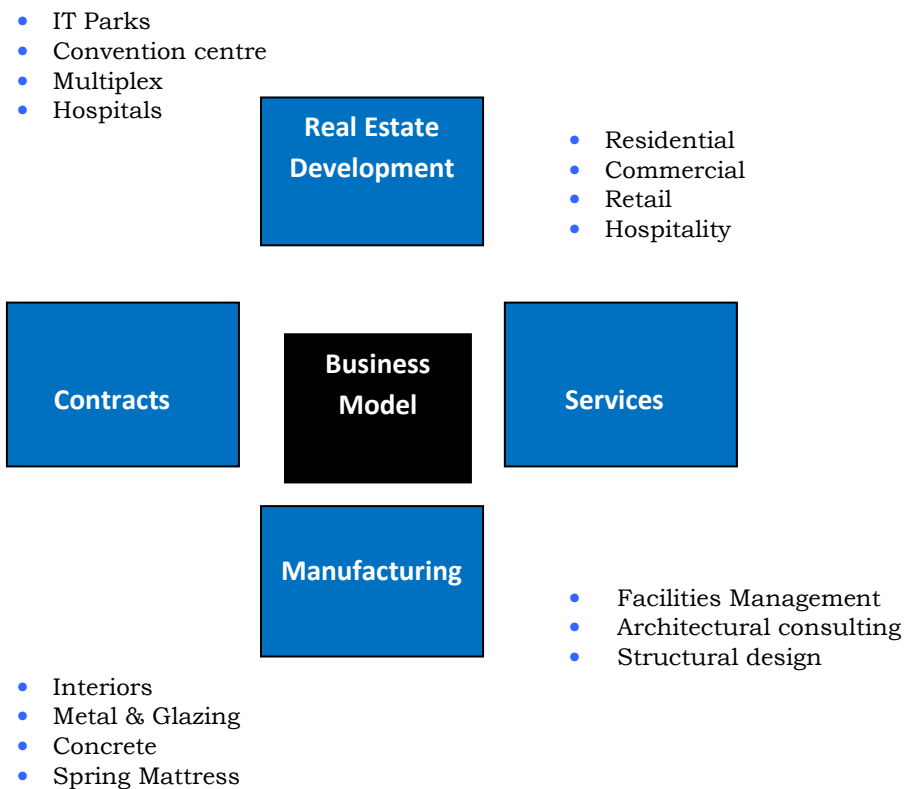


Company Profile

It was in the year 1995 that Mr. P N C Menon founded Sobha developers with the clear vision to "transform the way people perceive quality" in the real estate industry returned home from the Middle east where he was acclaimed for quality interiors and construction since 1977. His intuition and business sense buttressed with the exhilaration of returning to his homeland led him to believe that he could make Quality the key differentiator between his proposed venture and other construction companies. Over the intervening years this vision continues to be the bedrock of all endeavors.

Today Sobha developers a Rs. 12 billion plus company is one of the largest and only backward integrated companies in the construction arena. Since its inception Sobha's reputation is built on rock solid values, benchmark quality standards, uncompromising business ethos, focused customer centric approach, robust engineering, in-house Research and development and transparency in all spheres of conducting business, which have contributed in making Sobha a preferred real estate brand in both residential and commercial segments. This was emphatically endorsed during its IPO in 2006 when the issue was oversubscribed by 126 times that created history, being the first event of its kind in Indian capital markets.

Fully integrated Business model



SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> • Diversified portfolio across the various infrastructure sectors • Healthy order book • Strong order inflow continues even in at the time of global economic slowdown • Strong execution capabilities • Having highly skilled people 	<ul style="list-style-type: none"> • Giving much Importance to Real estate • Low earning margins • Higher Debt Level • Highly depending on BOT projects
Opportunities	Threats
<ul style="list-style-type: none"> • The Government of India's mega Golden Quadrilater, highway projects and irrigation projects have thrown up fresh opportunities for construction companies • The estimated investments of \$500 billion planned during 2007-12 towards creation of new infrastructure (ports, roads, power) should prove beneficial for companies like HCC Ltd 	<ul style="list-style-type: none"> • Glob economic slowdown • Slow execution of orders • Slow down in the infrastructure sector • More number of players and tough competition

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs. in million)	FY08A	FY09A	FY10E	FY11E
	12m	12m	12m	12m
Description				
Net Sales	14,226.00	9,747.00	10379.65	11832.80
Other Income	119.00	157.00	32.90	42.77
Total Income	14,345.00	9,904.00	10412.55	11875.57
Expenditure	-10,689.00	-7,050.00	-8117.64	-9229.58
Operating Profit	3,656.00	2,854.00	2294.91	2645.99
Interest	-597.00	-1,039.00	-680.96	-715.01
Gross Profit	3,059.00	1,815.00	1613.95	1930.98
Depreciation	-350.00	-360.00	-328.82	-345.26
Profit before Tax	2,709.00	1,455.00	1285.13	1585.72
Tax	-426.00	-358.00	-35.33	-158.57
Profit after Tax	2,283.00	1,097.00	1249.80	1427.15
Equity Capital	729.00	729.00	981.00	981.00
Reserves	9,155.00	10,166.00	11,415.80	12,842.95
Face Value	10.00	10.00	10.00	10.00
Total No. of Shares	72.90	72.90	98.10	98.10
EPS	31.32	15.05	12.74	14.55

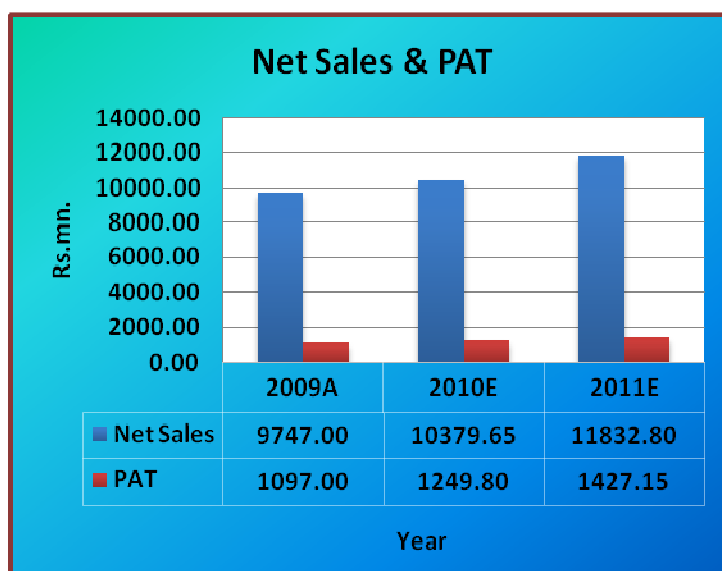
Quarterly Ended Profit & Loss Account (Standalone)

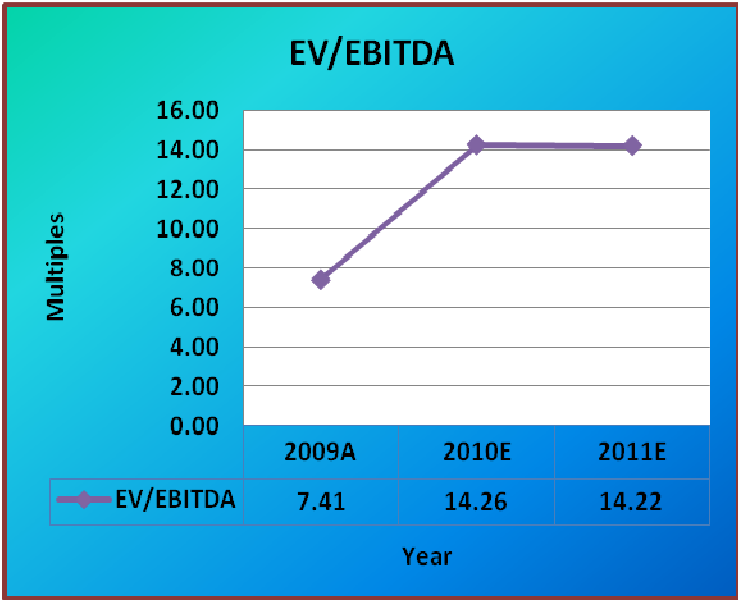
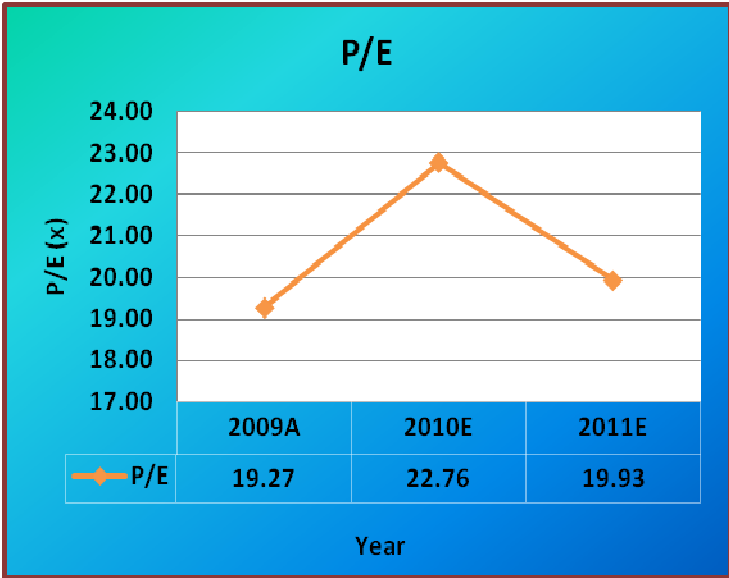
Value(Rs. in million)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10
	3m	3m	3m	3m
Description				
Net Sales	1786.00	2253.00	3093.00	3247.65
Other Income	4.00	10.00	9.00	9.90
Total Income	1790.00	2263.00	3102.00	3257.55
Expenditure	-1348.00	-1757.00	-2447.00	-2565.64
Operating Profit	442.00	506.00	655.00	691.91
Interest	-233.00	-149.00	-148.00	-150.96
Gross Profit	209.00	357.00	507.00	540.95
Depreciation	-82.00	-82.00	-82.00	-82.82
Profit before Tax	127.00	275.00	425.00	458.13
Tax	0.00	0.00	-17.00	-18.33
Profit after Tax	127.00	275.00	408.00	439.80
Equity Capital	729.00	981.00	981.00	981.00
Face Value	10.00	10.00	10.00	10.00
Total No. of Shares	72.90	98.10	98.10	98.10
EPS	1.74	2.80	4.16	4.48

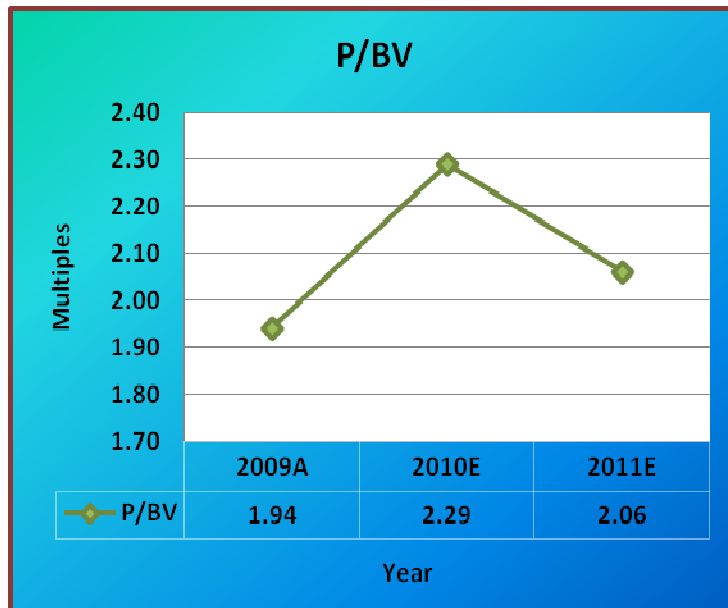
Key Ratios

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	72.90	72.90	98.10	98.10
Market Price	290.00	290.00	290.00	290.00
EPS (Rs.)	31.32	15.05	12.74	14.55
EBITDA Margin (%)	26%	29%	22%	22%
PAT Margin (%)	16%	11%	12%	12%
P/E Ratio (x)	9.26	19.27	22.76	19.93
ROE (%)	23%	10%	10%	10%
ROCE (%)	15%	11%	8%	9%
EV/EBITDA (x)	5.78	7.41	14.26	14.22
Debt-Equity Ratio	1.78	1.76	1.62	1.53
Book Value (Rs.)	135.58	149.45	126.37	140.92
P/BV	2.14	1.94	2.29	2.06

Charts:







Outlook and Conclusion

- At the current market price of Rs.290.00 the stock is trading at a P/Ex of 22.76x for FY10E and 19.93x for FY11E.
- Due to the change in equity capital to 981.00 million, the EPS of the stock is expected to be at Rs.12.74 and Rs.14.55 for FY10E and FY11E respectively.
- On the basis of price to book value, the stock trades at 2.29x and 2.06x for FY10E and FY11E respectively.
- Sobha raised Rs530cr by issuing 25.2mn shares at Rs210/share resulting in total dilution of 34% and promoter stake falling to 65% from 87%.
- Purna Developers will be investing Rs225cr to purchase stakes in various residential projects of the company. Puma has already invested Rs95cr.
- Sobha is developing 9.3mn sqft across 31 projects (7mn sqft in Bangalore) and has aggressive plans to launch 3-4mn sqft projects in FY10E across Bangalore, Mysore, National Capital Region (NCR), Pune and Trissur.
- Infosys has confirmed that the contract of developing their new campus facility spread across ≈450 acres at Pocharam, Hyderabad. Infosys has also confirmed that the contracts of developing their 2 Software Development Blocks and Food courts in Pune –Hinjewadi campus, new ECC block and SDB at Mangalore.

- In the year 2010-11 the company plans to launch about 8 new projects covering 8 million sq ft across various market segments.
- We recommend a “BUY” on the stock with a target price of Rs.325.00 for medium to long term.

Industry Overview

The Infrastructure sector is currently going through tough phase due to the global slow down. As the sector's dependency on other sectors are much more, any slow down in other sectors will affect the performance of this sector. Decline in the price of commodity and easing interest rates will help the companies to come out from the troubles created by the slowdown. But we expect that the effects of these factors will be seen only from the last quarter of the current fiscal. Slow execution of orders is the main concern for the companies in the sector. Even some companies in the sector are facing order cancellation also.

As a positive indication towards this, the country has witnessed a rapid increase in private investment in infrastructure over the last five years. The estimated investment in infrastructure has now been pegged at USD 500 billion by the end of the Eleventh Five Year Plan. This is both a challenge and an opportunity for the Government as well as for the private sector

The General Index for the month of November grew by 2.4% as compared to the level in the month of November 2007. The cumulative growth for the period April-November 2008-09 stands at 3.9% over the corresponding period of the pervious year.

Hit by the global financial meltdown, the key infrastructure sector industries showed poor performance during December, registering a dismal growth of 2.3 per cent, a trend which economists feel is likely to continue during the remaining part of the fiscal year. With steel and crude oil showing negative growth during the month, six infrastructure industries in December recorded the second-lowest growth during 2008-09, marginally up from 1.8 per cent in November. For the nine-month period of April-December, the growth of the infrastructure sector - crude oil, petroleum refinery products, coal, electricity, cement and finished steel -dropped to 3.5 per cent from 5.9 per cent in the same period of 2007-08.

However, now that the infrastructure sector is struggling with liquidity problem, high interest rates and financing constraints. On the positive side, the government's investment in infrastructure sectors can receive a boost from the fiscal stimulus announced as part of the package to boost economic growth. Despite strong estimated revenue growth of about 25-30 per cent in Q4, net profit growth in the construction sector will only be about 8-10 per cent. This is primarily on the back of higher cost of funds of about 13-14.5 per cent compared to 11-12 per cent earlier.

Meanwhile, there is enough visibility in the infrastructure sector given the order book of 3-3.5 times FY08 revenue. Also, as interest rates are on a downtrend and liquidity is improving, the funding and visibility of the projects could improve. Lastly, the lag effect of lower commodity prices should reduce the pressure on the margins in the coming quarters.

The Indian construction industry

Construction activity is an integral part of a country's infrastructure and industrial development. It includes hospitals, schools, townships, offices, houses and other buildings; urban infrastructure (including water supply, sewerage, drainage); highways, roads, ports, railways, airports; power systems; irrigation and agriculture systems; telecommunications etc. Covering as it does such a wide spectrum, construction becomes the basic input for socio-economic development. Besides, the construction industry generates substantial employment and provides a growth impetus to other sectors through backward and forward linkages. It is, essential therefore, that, this vital activity is nurtured for the healthy growth of the economy.

With the present emphasis on creating physical infrastructure, massive investment is planned during the eleventh Plan. The construction industry would play a crucial role in this regard and has to gear itself to meet the challenges. In order to meet the intended investment targets in time, the current capacity of the domestic construction industry would need considerable strengthening.

In India, construction is the second largest economic activity after agriculture. Investment in construction accounts for nearly 11 per cent of India's Gross Domestic Product (GDP) and nearly 50 per cent of its Gross

Fixed Capital Formation (GFCF) Fund injection into the sector could go up to US\$ 124.65 billion by FY2010. Construction accounts for nearly 65 per cent of the total investment in infrastructure and is expected to be the biggest beneficiary of the surge in infrastructure investment over the next five years.

The Indian construction industry recorded a consistent double-digit year-on-year growth (12%) during 2000-2005, and is expected to grow at 25-30% during 2005-2010. The key drivers of this growth are government investment in infrastructure creation and real estate demand in the residential and industrial sectors.

The industry is experiencing increasing polarization between large and small players. These players are increasing their market share through large-scale contracts, joint ventures, and foreign operations. Though an increasing number of small players are also entering the market, most of them do not have the resources to bid for big contracts.

The construction segment constitutes a significant part of infrastructure development in the economy. The following table shows the construction investments figures in the various areas of infrastructure development:

(Rs. in billion)

	FY02- FY06	FY07- FY11
Roads	1167	2306
Urban infrastructure	536	1150
Power	578	861
Irrigation	514	744
Railways	225	639
Others	193	429
Total	3,213	6129

Demand for construction has resulted in the following macro trends:

The increasing spend in the infrastructure sector has resulted in an increased order book for construction companies thereby easing the supply – demand competitive pressure.

Margins of construction companies were adversely impacted by increase in prices of inputs in the past especially steel, aggregate and now cement. Whilst commodity prices continue to exhibit volatility, price escalation clauses are being used to allow for some protection. Whilst partly mitigated, this remains an area of concern.

Construction companies are moving towards public-private partnership, raising funds from the market to finance these projects. Whilst some participants, especially the smaller ones, have adopted a fragmented approach to the market, bidding aggressively, the more established players who have financial strength, experience and access to technology and an appetite to undertake large contracts are adopting a selective approach in their order mix and client selection, leading up to risk management on margins. To accelerate and increase public private partnerships in infrastructure, two major initiatives have been taken by the GoI provision of viability gap funding and Establishment of India Infrastructure Finance Company Limited.

These initiatives are designed to implement public projects to make them financially feasible and involve either a one-time grant or a deferred grant of funds to aid in the respective project. The Indian construction industry is facing the challenges of outdated land and property ownership regulations, infrastructural bottlenecks, and a shortage of civil engineers.

The construction sector has major linkages with the building material industry since construction material accounts for sizeable share of the construction costs. These include cement, steel, bricks/tiles, sand/aggregates, fixtures/fittings, paints and chemicals, construction equipment, petro-products, timber, mineral products, aluminum, glass and plastics.

The Indian Real Estate Industry

Size

- Real Estate and Construction is a US\$50 billion (2008) industry in India
- Rapid growth in the industry in the past few years
- FDI it is expected that the sector would witness inflows to the tune of US\$ 8-10 billion by FY 2010
- High demand growth has led to prices doubling over 3 years in many cities.

Potential

- Several factors are expected to contribute to the rapid growth in Real Estate
- Large demand-supply gap in affordable housing, with demand being fuelled by tax incentives and a growing middle class with higher savings.
- Increasing demand for commercial and office space especially from the rapidly growing Retail, IT/ ITeS and Hospitality sectors.
- The recently announced JNNURM expected to provide further impetus
- Investment opportunities exist in almost every segment of the business
- Housing: About 20 million new units expected to be built in five years
- Office space for IT/ITeS: Five-fold increase in office space requirement over the next 3 year
- Commercial space for organized retailing: 200 million sq. ft. by 2010
- Hotels & Hospitality: Over 40,000 new rooms in the next 5 years.
- Investment opportunity of over US\$75 billion in the next five years.

Current scenario in Infrastructure sector (Road)

Delay in Project awards

Due to the economic slowdown, the all major infrastructure companies are facing liquidity problems. Though the Project viability, tight credit conditions, restrictions under clause 2.1.18 of RPF, etc impacts project bidding. During FY09, NHAI has invited tenders for 79 road projects (8,175kms) with an estimated cost of Rs879b on BOT basis, while just three projects (215 kms) have been awarded. The delays have

been largely due to the restrictions in terms of number of bidders for submission of financial bids, tightening credit scenario, and execution challenges etc. In a significant relaxation, NHAI has stated that restrictions imposed by clause 2.1.18 will not be applicable for new offers made, in case the number of short listed bidders is less than 5.

RFP dates further revised for 37 projects

RFP submission dates for 37 projects have been extended further. The total 79 projects currently under tendering stage by NHAI, To improve viability, industry players have made representations to i) increase project cost which will lead to increased quantum of Viability Gap Funding (VGF) ii) increase VGF from 40% of project cost to 60% and iii) increase concession period to 20 years. Recently, NHAI has approved cost escalation of 20% for projects for which DPRs were prepared before 2007 and 10% for projects based on 2007 prices. Cabinet Committee of Economic Affairs has also approved increasing the concession period for specific projects to 20-30 years from current 12-20 years.

Some major Infrastructure companies are in race in terms of short listing

After bid withdrawals, some of consortiums shortlisted for submitting financial bids include: Reliance Infra (1,017 kms), L&T (851 kms), HCC (700 kms), GVK (382 kms), Madhucon (339 kms) and GMR Infra (314 kms). During Feb 08 till Nov 08, there have been no project awards. In Dec 08, NHAI awarded three road projects with cost of Rs21.5b (215 kms), part of NHDP Phase 3, under the New Model Concession Agreement, with revenue sharing.

Cost escalation for 60 projects under bidding stage

Cost escalation for 60 projects under bidding stage one of the important reasons for poor response in bid participation was limited viability of the projects on offer. Recently, NHAI has approved cost escalation at 20% for projects for which Detailed Project Reports (DPRs) were prepared before 2007 and 10% for projects based on 2007 prices. This will address the issue of funding gap in the projects, and will improve viability. These will be applicable to all the 60 projects, worth Rs650b currently in the tendering process. The higher actual cost of the project vs the bid document lead to a gap in the funding, as debt for the project would be on the approved project cost.

Only three projects awarded in Dec 08

During April – Nov 08, NHAI had invited tenders for 79 road projects (8,175kms) with an estimated cost of Rs879b on BOT basis. During Feb 08 till Nov 08, there have been no project awards. In Dec 08, NHAI awarded three road projects with cost of Rs21.5b (215 kms), part of NHDP Phase 3. These projects comprise of: 60 kms Gonde-Nashik-Pimpalgaon stretch costing Rs7.5b, 97 km MP-Maharashtra border Dhule project costing Rs6.8b, and 58 km Kishangarh-Beawar costing Rs7.2b. These projects have been awarded under the New Model Concession Agreement, with revenue sharing.

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