



## NEUTRAL

Price	Rs215
Target Price	-
Investment Period	-

### Stock Info

Sector	Real Estate
Market Cap (Rs cr)	2,103
Beta	0.8
52 WK High / Low	306 / 67
Avg. Daily Volume	84401
Face Value (Rs)	10
BSE Sensex	15,388
Nifty	4,571
BSE Code	532784
NSE Code	SOBHA
Reuters Code	SOBH.BO
Bloomberg Code	SOBHA@IN

### Shareholding Pattern (%)

Promoters	87.0
MF/Banks/Indian FIs	3.9
FII/ NRIs/ OCBs	4.1
Indian Public/others	5.1

Abs.	3m	1yr	3yr#
Sensex (%)	34.9	7.7	15.4
Sobha (%)	117.0	(13.9)	(77.9)

# Since listing on 20<sup>th</sup> December 2006

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## Performance Highlights

- Net Sales slumps 49%:** Sobha Developers (SDL) reported a substantial 49% de-growth in Top-line for 1QFY2010 to Rs177.1cr (Rs346.8cr) on the back of considerably weak demand in the South India Real Estate market. The company also witnessed a slowdown in its Construction activity during the quarter on account of the difficulties being faced by most construction companies in receiving funding from banks. In 1QFY2010, Realty contributed around 67% to the company's Total Revenues while the balance came from the Contractual Segment. Going ahead, we have not factored in too much growth in Top-line as there have been no major launches by SDL in recent times and the market scenario also does not look too good.
- Operating Profit plunges 58%:** SDL reported dismal performance at the Operating level in 1QFY2010. OPM declined by a substantial 540bp to 23.9% (29.3%) primarily on the back of lower Top-line growth and dip in Realisations in the Real Estate Segment. Going ahead too, we expect Margins to be under pressure on account of lower realisations.
- Bottom-line down by an abysmal 75%:** During 1QFY2010, Bottom-line crashed 74.9% to Rs12.7cr (Rs50.5cr) on account of dismal Top-line and low Margins. Thus, Bottom-line was primarily impacted by the decline in Top-line while other costs remained at same levels. Net Profit Margin dipped to 7.2% (14.6%). Going ahead, we expect SDL's Net Profit growth to continue to be under pressure owing to weak demand persisting in its Premium Segments.

### Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>Net Sales</b>	<b>1,422.6</b>	<b>974.0</b>	<b>1,123.1</b>	<b>1,443.2</b>
% chg	19.9	(31.5)	15.3	28.5
<b>Net Profit</b>	<b>228.3</b>	<b>109.9</b>	<b>101.7</b>	<b>131.4</b>
% chg	41.2	(52.8)	(5.7)	29.2
<b>FDEPS (Rs)</b>	<b>31.3</b>	<b>15.1</b>	<b>10.4</b>	<b>13.4</b>
EBITDA Margin (%)	24.9	28.6	25.1	23.7
P/E (x)	6.9	14.3	20.7	16.0
RoE (%)	23.1	9.7	8.1	9.4
RoCE (%)	11.4	7.9	7.2	8.5
P/BV (x)	1.6	1.4	1.7	1.5
EV/Sales (x)	2.3	3.6	3.3	2.7
EV/EBITDA (x)	9.4	12.5	13.3	11.3

Source: Company, Angel Research

**Outlook and Valuation**

Sobha has improved its Balance Sheet through a series of measures including (1) Equity offering, (2) PE investment and (3) Reduction in liabilities. 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%. Sobha also reduced Debt by Rs400cr on account of which its D/E ratio now stands reduced at 0.9x from 1.7x. Moreover, Purna Developers will be investing Rs225cr to purchase stakes in various residential projects of the company. Puma has already invested Rs95cr. Over the past few months, Sobha has rationalised land bank owing to which its land bank has reduced to 2,875 acres from 4,030 acres earlier and there has been a sharp reduction in the company's unpaid land cost as well.

We, however, see no change in the company's fundamentals and believe that its business is still plagued by negatives like by a sluggish Real Estate market in the South (primarily due to oversupply, low affordability levels) and low demand for its offerings especially in the Premium Segment, among others. **Hence, we remain Neutral on the stock.**

**Exhibit 2: 1QFY2010 Performance (Standalone)**

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
<b>Net Sales</b>	<b>177.1</b>	<b>346.8</b>	<b>(48.9)</b>	<b>974.0</b>	<b>1,422.6</b>	<b>(31.5)</b>
Total Expenditure	134.8	245.2	(45.0)	695.3	1,068.9	(35.0)
<b>Operating Profit</b>	<b>42.3</b>	<b>101.6</b>	<b>(58.4)</b>	<b>278.7</b>	<b>353.7</b>	<b>(21.2)</b>
OPM (%)	23.9	29.3		28.6	24.9	
Interest	23.3	26.7	(12.7)	107.4	59.7	79.9
Depreciation	8.2	8.9	(7.9)	36.0	35.0	2.9
Non Operating Income	1.9	2.0	(5.0)	14.8	11.9	24.5
Non-Recurring Items	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax</b>	<b>12.7</b>	<b>68.0</b>	<b>(81.3)</b>	<b>150.1</b>	<b>270.9</b>	<b>(44.6)</b>
Tax	0.0	17.5	(100.0)	40.2	42.6	(5.7)
<b>Reported Profit After Tax</b>	<b>12.7</b>	<b>50.5</b>	<b>(74.9)</b>	<b>109.9</b>	<b>228.3</b>	<b>(51.9)</b>
PAT (%)	7.2	14.6		11.3	16.0	
Adjusted Profit After Tax	12.7	50.5	(74.9)	109.9	228.3	(51.9)
Adj. PAT (%)	7.2	14.6		11.3	16.0	
<b>Adj. FDEPS (Rs)</b>	<b>1.3</b>	<b>5.1</b>	<b>(74.9)</b>	<b>11.2</b>	<b>23.3</b>	<b>(51.9)</b>

Source: Company, Angel Research


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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b>	<b>Accumulate (Upside upto 15%)</b>	<b>Neutral (5 to -5%)</b>
	<b>Reduce (Downside upto 15%)</b>	<b>Sell (Downside &gt; 15%)</b>	