

**BUY**

<b>Price</b>	<b>Rs499</b>
<b>Target Price</b>	<b>Rs804</b>
<b>Investment Period</b>	<b>12 months</b>

**Stock Info**

Sector	Real Estate
Market Cap (Rs cr)	3,637
Beta	0.9
52 WK High / Low	1060 / 483
Avg Daily Volume	33869
Face Value (Rs)	10

BSE Sensex	16,416
Nifty	4,870

BSE Code	532784
NSE Code	SOBHA
Reuters Code	SOBH.BO
Bloomberg Code	SOBHA IN

**Shareholding Pattern (%)**

Promoters	87.0
MF/Banks/Indian FIs	1.3
FII/ NRIs/ OCBs	8.9
Indian Public	2.8

<b>Abs.</b>	<b>3m</b>	<b>1yr</b>	<b>3yr*</b>
Sensex (%)	(6.6)	13.9	17.7
Sobha (%)	(41.2)	(45.4)	(51.0)

\* Since listing on Jan 2, 2007

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**Performance Highlights**

- Net Sales not upto the mark:** Sobha Developers (SDL) reported disappointing Topline for 4QFY2008 at mere 32% yoy growth to Rs474cr (Rs359cr). Real Estate segment constituted 67% of Net Sales and Contractual & Manufacturing segment contributed the balance. For FY2008, yoy Topline growth was merely 20% at Rs1,423cr (Rs1,187cr), which was lower than our estimate of nearly Rs1,800cr. For FY2008, Real Estate segment constituted 60% of Net Sales and Contractual & Manufacturing segment contributed the balance. The average realisations for the year has gone up from Rs2,700 per sq. ft. in FY2007 to Rs3,200 per sq. ft. The company delivered 2.35mn sq. ft (1.71mn sq. ft) in FY2008, a 37% yoy jump, which was lower than what we had estimated for the company.
- Operating Margins under pressure:** While Operating Profit increased to Rs108cr (Rs91cr), up 18% yoy, Operating Margins for 4QFY2008 declined to 22.8% (25.5%) because of the steep rise in the cost of Raw Materials. However, OPMs increased to 24.9% (21.6%) for FY2008.
- Net Profit increased only marginally:** For 4QFY2008, Bottomline increased to Rs70crs (Rs64crs), up a mere 11% yoy, on account of a considerable rise in Interest costs to Rs19.2cr (Rs8.7cr), up 121% yoy. Net Profit margins declined to 14.8% (17.7%). However, the company ended FY2008 with Net Profit growth of 41% yoy to Rs228cr (Rs162cr).
- Substantial and ready land bank:** SDL currently has a land bank of around 4,024 acres, which is substantially paid. Hence, uncertainty regards acquisition-related issues is lower. This land bank would give SDL a developable saleable area of 230mn sq ft. Further, not only does the company has a substantial and ready land bank, the acquisition cost price per sq. ft. is merely Rs125, which would work as a great advantage for the company going ahead. Currently, the company has 10.3mn sq ft. and 8.3mn sq. ft. as ongoing projects in Real Estate and Contractual segments respectively.

**Key Financials (Consolidated)**

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
<b>Net Sales</b>	<b>1,186</b>	<b>1,423</b>	<b>1,909</b>	<b>2,409</b>
% chg	89.8	19.9	34.2	26.2
<b>Net Profit</b>	<b>162</b>	<b>228</b>	<b>265</b>	<b>329</b>
% chg	82.5	41.4	15.9	24.4
<b>FDEPS (Rs)</b>	<b>22.2</b>	<b>31.3</b>	<b>36.3</b>	<b>45.1</b>
EBITDA Margin (%)	21.6	24.9	26.8	25.5
P/E (x)	22.5	15.9	13.7	11.1
RoE (%)	19.8	23.1	22.1	22.4
RoCE (%)	16.6	18.1	23.0	23.8
P/BV (x)	4.5	3.7	3.0	2.5
EV/Sales (x)	3.5	3.0	2.3	1.9
EV/EBITDA (x)	16.2	12.1	8.6	7.3

Source: Company, Angel Research

**Outlook and Valuation**

SDL is predominantly a South-based player having sizeable prime location land reserve. Traditionally, the Residential segment has been the main revenue driver for players in the Real Estate business. However, going ahead, SDL plans to diversify its Real Estate portfolio by foraying into the Retail and Commercial segments. Also on the anvil are the company's plans to enter the Slum Rehabilitation Scheme (SRS) and SEZ segments.

We have reduced Sobha's forward NAV by 28% to Rs804 per share driven by higher capitalisation rate and 10% correction in pricing and rental assumption reflecting tighter credit market conditions and potential demand-supply issues.

**Price Assumptions have been moderated**

Earlier we were forecasting a flat pricing/rental scenario over FY2008-10E period and assuming a moderate 5% annual pricing inflation beyond FY2011. However, now, we are factoring in a 10% correction over FY2008-10E (i.e. 5% annual correction). Also keeping in mind the tightening global liquidity and rising yields in Singapore REIT market, we have raised capitalisation rate assumption for office properties to 10% (i.e. an increase of 100bp) and retail properties to 12% (i.e. an increase of 200bp). The moderation in the rental price assumption is keeping in mind the expected oversupply in these two segments and the current affordability issues. While the current affordability in the residential segment appears adverse, the recent tax cuts in the budget and the expected price correction in residential prices will improve affordability FY2011 onwards and hence our assumption of price inflation FY2011 onwards.

With the changes in the rental, price and cap rate assumptions as mentioned above, Sobha's forward NAV reduces to Rs804/share (Rs1,116/share). **We maintain buy on the stock with a revised target price of Rs804.**

**Exhibit 1: Financial Performance**

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
<b>Net Sales</b>	<b>474</b>	<b>359</b>	<b>32.1</b>	<b>1423</b>	<b>1187</b>	<b>19.9</b>
Total Expenditure	366	267	37.0	1069	930	15.0
<b>Operating Profit</b>	<b>108</b>	<b>92</b>	<b>17.9</b>	<b>354</b>	<b>257</b>	<b>37.7</b>
OPM (%)	22.8	25.5		24.9	21.6	
Interest	19.2	8.7	120.7	59.7	48.6	22.8
Depreciation	9.2	6.7	37.3	35	24.4	43.4
Non Operating Income	2.4	1.6	50.0	11.9	2.9	310.3
Non recurring items	0	0		0	0	
<b>Profit Before tax</b>	<b>82.0</b>	<b>77.8</b>	<b>5.4</b>	<b>270.9</b>	<b>186.7</b>	<b>45.1</b>
Tax	11.8	14.3	(17.5)	42.6	25.2	69.0
<b>Reported Profit After Tax</b>	<b>70.2</b>	<b>63.5</b>	<b>10.6</b>	<b>228.3</b>	<b>161.5</b>	<b>41.4</b>
PAT (%)	14.8	17.7		16.0	13.6	-
<b>Reported EPS</b>	<b>9.6</b>	<b>8.3</b>	<b>15.7</b>	<b>31.3</b>	<b>24.3</b>	<b>28.8</b>

Source: Company, Angel Research



## Angel Broking Limited

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**Ratings (Returns) :** Buy (Upside > 15%)  
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)  
Sell (Downside > 15%)

Neutral (5 to -5%)