

# Sobha Developers

**BUY**  
Maintained  
**Rs243**

## Striding ahead

Reason for report: Target price revision

Sobha Developers' (Sobha) has seen significant pick-up in residential volumes, which have increased >50% from ~0.3mn sqft/quarter run rate over the past five quarters. Also, prices in Bangalore have firmed up, with risk being higher on the upside than downside. Based on this, we expect Sobha to witness sales of 3mn sqft in FY10E, and reaching ~7mnsqft by FY12E. Post capital infusion of Rs5.3bn via QIP (at Rs209/share) and Rs5bn through land liquidation (Rs2.25bn already raised via private equity), we expect gross D/E to reduce from the peak of 1.8x to 0.6x by end-FY10E. Sobha has 9.3mn sqft under development and is expected to launch another 3-4mn sqft in FY10. Given cashflow visibility from operations and asset sales, we remain confident about the company's long-term potential. We raise our target price to Rs314/share from Rs288/share; given Sobha's discounted valuations, we maintain BUY. The stock is trading at 1.2x FY11E P/BV of Rs202/share.

- **Revenues on the rise.** Sobha is witnessing sales run-rate of Rs500mn/month vis-à-vis Rs50-100mn/month at lowest levels as well as half of the peak run-rate of Rs1bn/month. Volumes have picked up across projects to over 0.5mn sqft at present from ~0.3mn sqft/quarter over the past five quarters. 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.
- **Land liquidation value accretive.** Sobha has sold ~5mn sqft to private equity players in Bangalore for Rs2.25bn, of which Rs1bn has been received. Further, Sobha is looking to sell land in Bangalore, Pune and other cities to raise additional capital of Rs2.5bn. These asset sales will further de-stress the balance sheet, resulting in faster execution and new residential launches for the company.
- **We raise target price** to Rs314/share from Rs288/share based on 20% discount to one-year forward NAV of Rs393/share to account for volume uptrend and better price realisation in real estate projects. The stock trades at FY11E P/BV of 1.2x vis-à-vis 2x for the sector. Sobha's land bank's value at cost is Rs132/share, with FY11 BV of Rs202/share. The stock has outperformed the broader markets and we expect the trend to continue, given the re-rating led by deleveraging and volume build-up in residential sales. Maintain BUY.

Market Cap	Rs23.8bn/US\$486mn
Reuters/Bloomberg	SOBH.BO/SOBHA IN
Shares Outstanding (mn)	98
52-week Range (Rs)	280/75
Free Float (%)	13.1
FII (%)	2.5
Daily Volume (US\$'000)	1,390
Absolute Return 3m (%)	25.2
Absolute Return 12m (%)	(9.4)
Sensex Return 3m (%)	12.3
Sensex Return 12m (%)	8.2

Year to March	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	9,679	13,028	16,414	22,169
Net Income (Rs mn)	1,097	1,668	2,471	3,738
EPS (Rs)	11.2	17.0	25.2	38.1
% Chg YoY	(51.9)	52.1	48.2	51.2
P/E (x)	21.7	14.3	9.6	6.4
CEPS (Rs)	14.9	20.1	28.3	41.5
EV/E (x)	16.3	9.8	7.3	4.8
Dividend Yield	0.4	0.4	0.4	0.4
RoCE (%)	6.4	8.1	10.6	14.1
RoE (%)	10.6	11.8	13.3	17.3

Please refer to important disclosures at the end of this report

## Real Estate

Target price Rs314

### Earnings revision

(%)	FY10E	FY11E
Sales	↑ 2.1	↑ 2.3
EBITDA	↑ 7.5	↑ 8.3
EPS	↑ 15.8	↑ 14.1

### Shareholding pattern

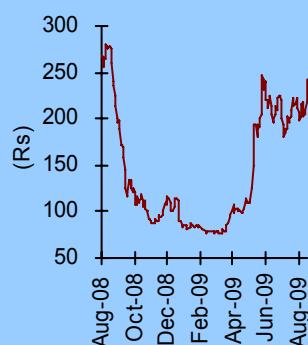
	Dec '08	Mar '09	Jun '09
Promoters	86.9	86.9	86.9
Institutional investors	4.7	3.3	3.2
MFs and UTI	0.0	0.0	0.0
Banks, FIs	0.8	0.8	0.8
FII	3.6	2.6	2.5
Others	8.3	9.7	9.8

Source: CMIE

### Target price revision

Rs314 from Rs288

### Price chart



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## Land bank

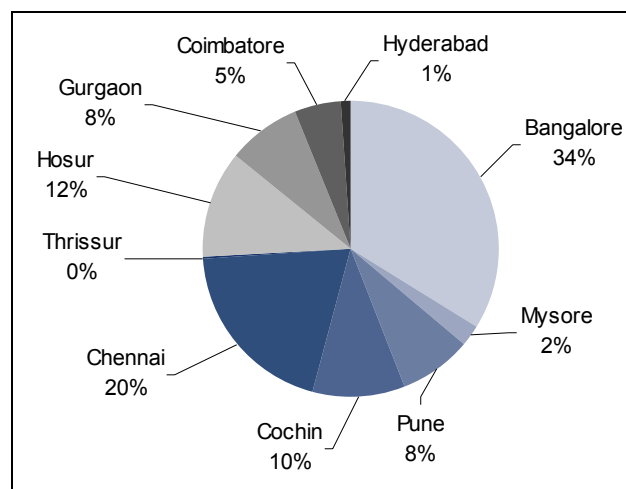
Sobha's land bank is primarily South India-based, except Gurgaon (3%), with Bangalore contributing the maximum (33% of the company's land bank).

**Table 1: Land bank**

Cities	Area (mn sqft)	NAV (Rs mn)	NAV/sqft (Rs/sqft)
Bangalore	62	15,562	252
Mysore	3	1,026	301
Pune	12	3,707	301
Cochin	31	4,684	153
Chennai	36	9,018	250
Trissur	1	148	220
Hosur	33	5,360	165
Gurgaon	7	3,685	566
Coimbatore	5	2,374	460
Hyderabad	1	498	423
<b>Total</b>	<b>190</b>	<b>46,062</b>	<b>243</b>

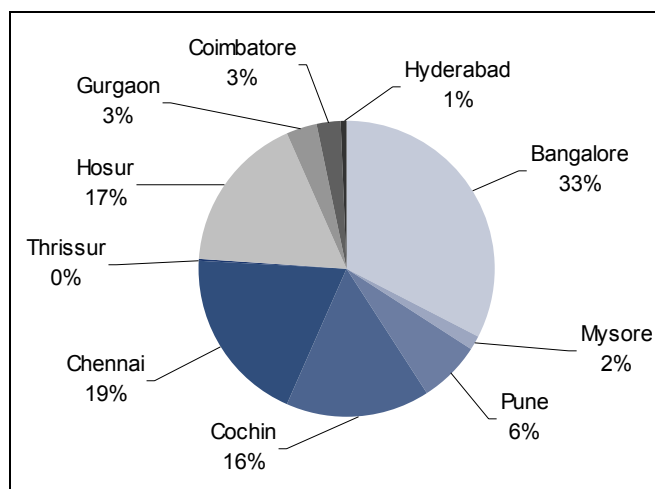
Source: Company data, I-Sec Research

**Chart 1: Land bank – NAV break up**



Source: Company data, I-Sec Research

**Chart 2: Land bank – Regional break up**



Source: Company data, I-Sec Research

We expect Sobha's volumes to pick-up significantly and expect the company to sell 3mn sqft in FY10E, and reaching 7mn sqft by FY12E.

**Table 2: Sales schedule**

(mn sqft)				
Cities	FY10	FY11	FY12	FY13
Bangalore	1.7	2.0	2.2	2.4
Mysore	0.4	0.4	0.4	0.6
Pune	0.5	0.6	0.7	1.6
Cochin	0.0	0.0	0.3	0.6
Chennai	0.2	0.3	0.7	1.8
Hosur	0.0	0.0	0.7	0.7
Trissur	0.2	0.3	0.0	0.0
Coimbatore	0.0	0.0	1.3	1.3
Delhi	0.0	0.1	0.3	1.0
Hyderabad	0.0	0.1	0.2	0.2
<b>Total</b>	<b>3.1</b>	<b>3.9</b>	<b>6.8</b>	<b>10.1</b>

Source: Company data, I-Sec Research

## Attractive valuations

Sobha's NAV-based fair value estimate is Rs38.5bn or Rs393/share; we have increased our NAV 9% on the back of better price and volume realisation. We raise our target price to Rs314/share from Rs288/share and expect the stock to trade at 20% discount to its one-year forward NAV.

**Table 3: Valuations**

(Rs mn)

	Revised	Previous
NAV	46,062	42,586
Net debt	9,942	9,739
Land payment	1,484	1,484
Terminal value	1,807	1,807
EPC value	2,095	2,095
<b>NPV</b>	<b>38,539</b>	<b>35,266</b>
<b>NPV/share (Rs/share)</b>	<b>393</b>	<b>360</b>
<b>Target price (Rs/share)</b>	<b>314</b>	<b>288</b>
Value of land at cost (Rs/share)	132	132

Source: Company data, I-Sec Research

## Financial Summary

**Table 4: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
<b>Operating Income (Sales)</b>	<b>9,679</b>	<b>13,028</b>	<b>16,414</b>	<b>22,169</b>
of which Domestic	9,679	13,028	16,414	22,169
<b>Operating Expenses</b>	<b>7,050</b>	<b>9,586</b>	<b>12,094</b>	<b>16,190</b>
<b>EBITDA</b>	<b>2,629</b>	<b>3,441</b>	<b>4,321</b>	<b>5,979</b>
% margins	27.2	26.4	26.3	27.0
Depreciation & Amortisation	360	308	305	335
Gross Interest	1,039	978	739	583
Other Income	225	130	155	203
<b>Recurring PBT</b>	<b>1,455</b>	<b>2,285</b>	<b>3,432</b>	<b>5,264</b>
Add: Extraordinaries	0	0	0	0
Less: Taxes	358	617	961	1,527
- Current tax	0	617	961	1,527
<b>Net Income (Reported)</b>	<b>1,097</b>	<b>1,668</b>	<b>2,471</b>	<b>3,738</b>
<b>Recurring Net Income</b>	<b>1,097</b>	<b>1,668</b>	<b>2,471</b>	<b>3,738</b>

Source: Company data, I-Sec Research

**Table 5: Balance sheet**

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
<b>Assets</b>				
Total Current Assets	34,287	32,348	32,991	34,687
of which cash & cash eqv.	214	380	723	1,337
Total Current Liabilities & Provisions	6,117	6,628	6,686	7,139
<b>Net Current Assets</b>	<b>28,170</b>	<b>25,721</b>	<b>26,305</b>	<b>27,548</b>
<b>Investments</b>				
of which	27	27	27	27
Strategic/Group	27	27	27	27
<b>Net Fixed Assets</b>	<b>2,248</b>	<b>2,285</b>	<b>2,359</b>	<b>2,441</b>
of which				
intangibles	0	0	0	0
Capital Work-in-Progress	516	567	624	686
<b>Total Assets</b>	<b>30,444</b>	<b>28,032</b>	<b>28,691</b>	<b>30,015</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>19,322</b>	<b>10,322</b>	<b>8,622</b>	<b>6,322</b>
<b>Minority Interest</b>	<b>249</b>	<b>249</b>	<b>249</b>	<b>249</b>
Equity Share Capital	729	981	981	981
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	4,506	6,061	8,420	12,045
Less: Misc. Exp. n.w.o.	0	0	0	0
<b>Net Worth</b>	<b>10,874</b>	<b>17,462</b>	<b>19,820</b>	<b>23,445</b>
<b>Total Liabilities</b>	<b>30,444</b>	<b>28,032</b>	<b>28,691</b>	<b>30,015</b>

Source: Company data, I-Sec Research

**Table 8: Quarterly trend**

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	2,934	1,805	1,472	1,771
% growth (YoY)	(15.4)	(38.5)	(18.4)	20.3
EBITDA	936	506	171	423
Margin (%)	31.9	28.0	11.6	23.9
Other income	19	40	146	19
Add: Extraordinaries	0	0	0	0
Net profit	490	75	27	127

Source: Company data, I-Sec Research

**Table 6: Cashflow statement**

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
<b>Operating Cashflow</b>	<b>634</b>	<b>1,846</b>	<b>2,621</b>	<b>3,870</b>
Working Capital Changes	(1,878)	2,615	(241)	(629)
Capital Commitments	(461)	(345)	(379)	(417)
<b>Free Cashflow</b>	<b>(1,705)</b>	<b>4,116</b>	<b>2,001</b>	<b>2,824</b>
<b>Cashflow from Investing</b>				
<b>Activities</b>	<b>226</b>	<b>130</b>	<b>155</b>	<b>203</b>
Issue of Share Capital	0	252	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	1,491	(9,000)	(1,700)	(2,300)
Dividend paid	(113)	(113)	(113)	(113)
<b>Extraordinary Items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(93)</b>	<b>166</b>	<b>343</b>	<b>614</b>

Source: Company data, I-Sec Research

**Table 7: Key ratios**

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	11.2	17.0	25.2	38.1
Diluted Recurring EPS	11.2	17.0	25.2	38.1
Recurring Cash EPS	14.9	20.1	28.3	41.5
Dividend per share (DPS)	1.0	1.0	1.0	1.0
Book Value per share (BV)	110.9	178.1	202.1	239.1
<b>Growth Ratios (%)</b>				
Operating Income	(32.0)	34.6	26.0	35.1
EBITDA	(25.7)	30.9	25.6	38.4
Recurring Net Income	(51.9)	52.1	48.2	51.2
Diluted Recurring EPS	(51.9)	52.1	48.2	51.2
Diluted Recurring CEPS	(44.7)	35.6	40.5	46.7
<b>Valuation Ratios (% YoY)</b>				
P/E	20.6	13.5	9.1	6.0
P/CEPS	15.5	11.4	8.1	5.5
P/BV	2.1	1.3	1.1	1.0
EV / EBITDA	15.8	9.4	7.0	4.6
EV / Operating Income	4.3	2.5	1.9	1.2
EV / Operating FCF	(24.4)	7.9	15.2	9.8
<b>Operating Ratios</b>				
Raw Material/Sales (%)	46.5	54.1	55.3	55.1
SG&A/Sales (%)	15.9	10.1	9.9	10.3
Other Income / PBT (%)	15.5	5.7	4.5	3.9
Effective Tax Rate (%)	24.6	27.0	28.0	29.0
NWC / Total Assets (%)	91.8	90.4	89.2	87.3
Inventory Turnover (days)	742.4	533.7	395.2	287.5
Receivables (days)	174.1	107.2	88.5	68.5
Payables (days)	82.2	56.7	58.6	57.1
D/E Ratio (x)	1.8	0.6	0.4	0.3
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	11.1	12.7	14.9	16.7
RoCE	6.4	8.1	10.6	14.1
RoNW	10.6	11.8	13.3	17.3
Dividend Payout Ratio	8.9	5.9	4.0	2.6
Dividend Yield	0.4	0.4	0.4	0.4
EBITDA Margins	27.2	26.4	26.3	27.0

Source: Company data, I-Sec Research

*I-Sec investment ratings (all ratings relative to Sensex over next 12 months)*

**BUY:** +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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