

Real Estate

Target price Rs416

Target price revision

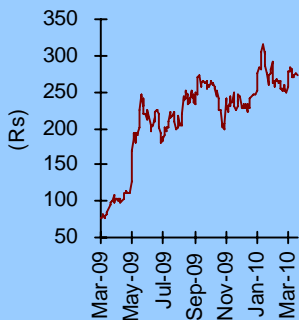
Rs416 from Rs377

Shareholding pattern

	Jun '09	Sep '09	Dec '09
Promoters	87.0	64.7	64.7
Institutional investors	3.3	27.4	27.0
MFs and UTI	0.8	8.1	9.1
Banks, FIs	0.0	0.6	0.0
FII	2.5	18.7	17.9
Others	9.7	8.0	8.3

Source: CMIE

Price chart



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INDIA

Sobha Developers

BUY

Maintained

Rs272

Playing the right notes

Reason for report: Company update

We are raising our NAV target for Sobha Developers (Sobha) to Rs416/share from Rs377/share based on: i) improvement in price realisation and volume, ii) better cashflow from ongoing projects & recent launches and iii) pick-up in the Bengaluru real-estate market. Sobha's sales volume run-rate has stabilised (we expect sales of 0.65mn sqft in Q4FY10), despite the higher prices. On the back of strong pick-up in execution, the company is likely to deliver 5.9mn sqft in FY10E (~4.8mn sqft already delivered in 9MFY10) and 6.5mn sqft in FY11E. Sobha has 7.5mn sqft under development (4.6mn sqft already sold) and plans to launch ~8mn sqft in the next 12 months. Further, the contractual order book is likely to grow 30% in value terms in FY11. We believe Sobha will generate cumulative net operating cashflow of ~Rs22bn in the next three years, including land monetisation worth Rs3bn over March-December '10. We remain upbeat on the company, given strong earnings momentum and improving cashflow from operations & land monetisation. Sobha trades at FY11E & FY12E P/E of 10.3x & 6.5x and FY11E P/BV of 1.3x; maintain BUY with target price of Rs416/share.

- **Price pick up and volume stabilisation.** Sobha is likely to deliver sales volume of 0.65mn sqft in Q4FY10 (sold 0.4mn sqft over January-February '10 at ~Rs3,400/sqft realisation; and 1.85mn sqft over 11MFY10). Sobha is developing 8.9mn sqft (~6.3mn sqft in Bengaluru) and plans launching ~8mn sqft worth projects in the next four quarters at Bengaluru (6.8mn sqft), Pune (0.3mn sqft), Coimbatore (0.3mn sqft) and Chennai (0.6mn sqft). Sobha targets sales of 11mn sqft (~3mn sqft is existing inventory and 8mn sqft from new launches) over the next three years – 3mn sqft for FY11, 4mn sqft for FY12 and 5mn sqft for FY13. Average realisation of unsold inventory is expected to be higher at Rs3,700/sqft.
- **Bangaluru realty market on sound footing.** Bengaluru market has witnessed strong recovery in realty prices and transaction volumes. Registration data and our channel checks suggest that prices in few areas in Bengaluru are nearing their '08 highs. Bookings are on an uptrend and have already surpassed the peak run rate. We believe Sobha's ongoing projects and new launches at Bengaluru will receive good response and lead to strong volumes in the medium term.
- **Outlook and price revision.** We believe Sobha will generate cumulative net operating cashflow of ~Rs22.3bn in the next three years – Rs15.7bn from real estate, Rs2.4bn from contractual business and Rs4bn from land sale. We raise our NAV assumptions for Sobha by 10% to Rs48bn or Rs489/share; we upgrade our target price to Rs416/share (15% discount to NAV). Maintain BUY.

Market Cap	Rs26.7bn/US\$586mn	Year to March	FY09	FY10E	FY11E	FY12E
Reuters/Bloomberg	SOBH.BO/SOBHA IN	Revenue (Rs mn)	9,679	12,308	15,219	19,888
Shares Outstanding (mn)	98	Net Income (Rs mn)	1,097	1,701	2,598	4,127
52-week Range (Rs)	314/76	EPS (Rs)	11.2	17.3	26.5	42.1
Free Float (%)	35.3	% Chg YoY	(51.9)	55.1	52.8	58.8
FII (%)	17.9	P/E (x)	24.3	15.7	10.3	6.5
Daily Volume (US\$'000)	2,695	CEPS (Rs)	14.9	20.8	30.4	46.6
Absolute Return 3m (%)	12.8	EV/E (x)	17.4	13.8	8.4	5.2
Absolute Return 12m (%)	252.6	Dividend Yield	0.4	0.4	0.4	0.7
Sensex Return 3m (%)	1.0	RoCE (%)	6.4	7.9	10.9	14.5
Sensex Return 12m (%)	84.8	RoE (%)	10.6	12.0	13.9	18.8

NAV revision

We raise our NAV estimates for Sobha by 10% to Rs48bn or Rs489/share (based on saleable area of 188mn sqft); we upgrade our target price to Rs416/share as we expect the stock to trade at 15% discount to its one-year forward NAV. The revision is based on raising our selling price assumptions, which are still at 10-15% discount to current market prices.

Sobha trades at FY11E & FY12E P/E of 10.3x & 6.5x and FY11E P/BV of 1.3x. Reduction in leverage and volume build-up in residential sales will likely trigger a re-rating of the stock. Maintain BUY.

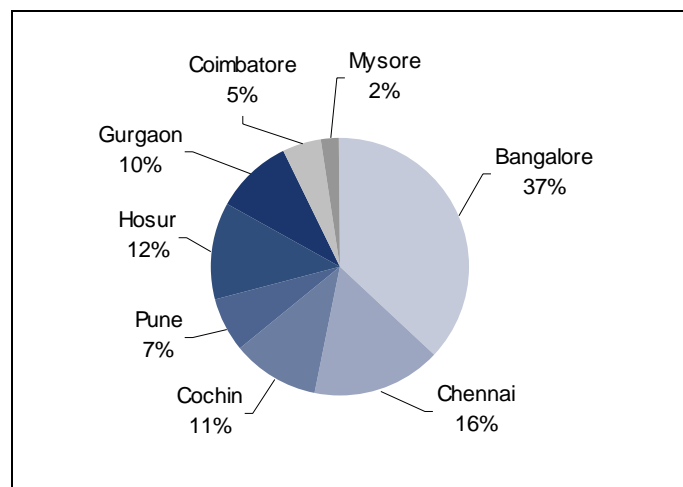
Table 1: NAV valuations

(Rs mn)

	Revised
NAV	60,245
Net debt	14,067
Land payment	1,250
Terminal value	1,441
EPC value	1,556
NPV	47,925
NPV/share (Rs/share)	489
Target price (Rs/share)	416

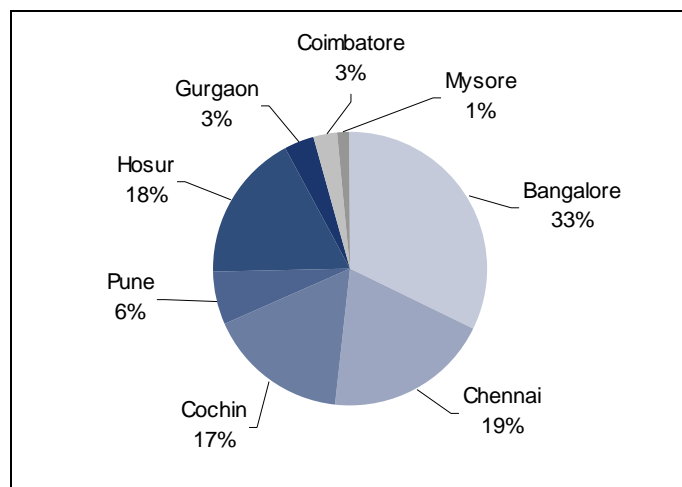
Source: Company data, I-Sec Research

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 believe Sobha will generate cumulative net operating cashflow of ~Rs22.3bn in the next three years – Rs15.7bn from real estate, Rs2.4bn from contractual business and Rs4bn from land sale.

Table 2: Cashflow analysis

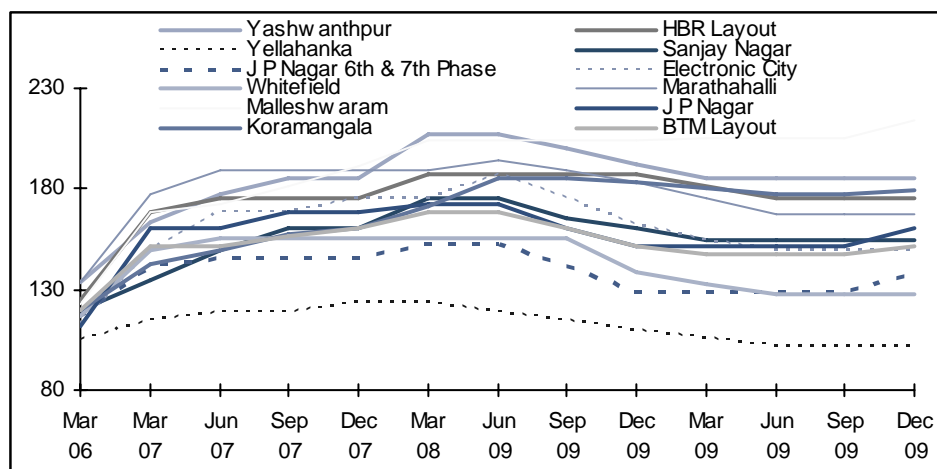
Cashflow (Rs mn)	FY11E	FY12E	FY13E
Net cash inflow	8,573	12,271	15,963
Cumulative construction cost	(4,720)	(6,579)	(8,300)
Cash inflow from Contractual & Manufacturing	871	778	764
Cash inflow from land sale & unsold inventory	1,500	1,500	1,000
Land payment	(500)	(500)	(500)
Operating cashflow	5,724	7,469	8,928
Tax payment	(650)	(1,450)	(2,030)
Interest cost	(1,686)	(1,335)	(984)
Debt repayment	(2,700)	(2,700)	(2,700)
Net cash	688	1,984	3,213

Source: I-Sec Research

Bangaluru – Strong bounce back

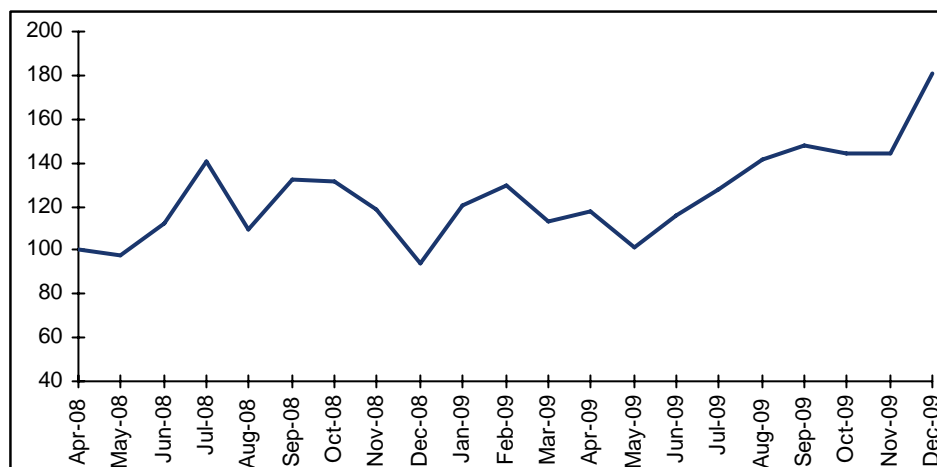
Bangaluru market has seen a strong recovery in terms of price and volume. Registration data and our channel checks suggest that prices in few areas at Bangaluru have reached their earlier highs. Bookings have already surpassed the earlier peak run rate and are on an uptrend. We believe Sobha’s ongoing projects and new launches at Bangaluru will receive good response and lead to volume growth for the company.

Chart 3: Bangaluru – Price index



Source: ICICI PSG, I-Sec Research

Chart 4: Bangaluru – Absorption index



Source: ICICI PSG, I-Sec Research

Table 3: Bangaluru – Current capital & rental values

Location	Zone	Average capital value (Rs/sqft)	Rentals for 2-BHK (Rs/mth)
Sanjay Nagar	North	2,800-4,000	10,000-12,000
Hebbal	North	3,000-4000	10,000-12,000
Yaswanthpur/ Tumkur Road	North	3,000-4000	10,000-12,000
New International Airport Road	North	2,800-4000	NA
J P Nagar	South	2,800-3500	12,000-18,000
HSR Layout	South	4,000-6000	12,000-18,000
Bomanhalli	South	2,250-2750	8,000-10,000
Electronic City	South	2,200-2700	6,000-10,000
Bennargatta Road	South	3,000-4000	10,000-12,000
BTM Layout	South	3,500-4500	10,000-14,000
Rajarajeshwari Nagar	West	2,200-2700	8,000-10,000
Koramangala	South	6,000-8000	15,000-20,000
Marthahalli	East	2,500-3000	10,000-12,000
Whitefield	East	2,250-2750	8,000-10,000
Old Madras Road	East	2,750-4000	8,000-10,000
Sarjapur Road	South	3,000-4000	10,000-12,000
Leville Road	Central	20,000-25000	30,000-40,000
Richmond Road	Central	18,000-22000	25,000-35,000
Indiranagar	Central	6,500-8000	20,000-25,000
Old Airport Road/ Domlur	Central	3,500-4500	15,000-20,000
Jayanagar	Central	6,000-8000	15,000-20,000
Malleshwaram	West	6,000-8000	15,000-20,000

Source: ICICI PSG

Execution picking up

Despite recent price hike, Sobha is likely to witness sales volume stabilisation at 0.65mn sqft in Q4FY10 (0.4mn sqft over January-February '10 at Rs3,400/sqft realisation; and 1.85mn sqft over 11MFY10). Sobha is developing 8.9mn sqft (~6.3mn sqft in Bangaluru) and plans launching ~8mn sqft worth projects in the next four quarters in Bangaluru (6.8mn sqft), Pune (0.3mn sqft), Coimbatore (0.3mn sqft) and Chennai (0.6mn sqft). Sobha targets sales of 11mn sqft (~3mn sqft is existing inventory and 8mn sqft from new launches) over the next three years – 3mn sqft for FY11, 4mn sqft for FY12 and 5mn sqft for FY13.

The company has paced-up execution and is likely to deliver 5.9mn sqft in FY10 (~4.8mn sqft delivered in 9MFY10) and 6.5mn sqft in FY11 (3.3mn sqft real estate and 3.2mn sqft contractual).

Table 4: Sales break-up for 11MFY10

City	Area sold in FY10 (mn sqft)
Bangaluru	1.21
Thrissur	0.23
Coimbatore	0.32
Pune	0.08
Total	1.85

Source: Company data

Table 5: Sales schedule

(mn sqft)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Total
Bangalore	2.0	2.0	2.1	2.4	2.7	2.7	2.7	19.3
Mysore	0.4	0.4	0.4	0.4	0.4	0.4	0.0	3.4
Pune	0.2	0.2	0.3	0.5	1.1	1.1	1.1	5.8
Cochin	0.0	0.2	0.2	0.3	0.6	0.9	0.9	3.1
Chennai	0.2	0.4	0.4	0.5	0.7	0.9	1.1	4.6
Hosur	0.0	0.0	0.0	0.7	0.7	0.7	0.7	2.7
Trissur	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Coimbatore	0.0	0.8	0.8	0.8	0.8	0.8	1.3	5.3
Delhi	0.0	0.3	1.0	1.6	1.6	2.0	0.0	6.5
Hyderabad	0.0	0.0	0.0	0.2	0.2	0.2	0.2	1.0
Total	3.2	4.3	5.1	7.6	8.9	9.7	8.0	52.3

Source: Company data

Financial Summary

Table 6: Profit and Loss statement
(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	9,679	12,308	15,219	19,888
<i>of which Domestic</i>	9,679	12,308	15,219	19,888
Operating Expenses	7,050	9,353	10,752	13,314
EBITDA	2,629	2,954	4,468	6,574
<i>% margins</i>	27.2	24.0	29.4	33.1
Depreciation & Amortisation	360	338	381	438
Gross Interest	1,039	888	1,090	801
Other Income	225	273	251	243
Recurring PBT	1,455	2,001	3,248	5,578
Add: Extraordinaries	0	0	0	0
Less: Taxes	358	300	650	1,450
- Current tax	0	300	650	1,450
Less: Minority Interest	0	0	0	0
Net Income (Reported)	1,097	1,701	2,598	4,127
Recurring Net Income	1,097	1,701	2,598	4,127

Source: Company data, I-Sec Research

Table 7: Balance sheet
(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	34,287	36,257	36,094	37,843
<i>of which cash & cash eqv.</i>	214	255	769	1,095
Total Current Liabilities & Provisions	6,117	6,474	6,687	7,418
Net Current Assets	28,170	29,782	29,407	30,425
Investments				
<i>of which</i>	27	27	27	27
<i>Strategic/Group</i>	27	27	27	27
Net Fixed Assets	2,248	2,254	2,413	2,593
<i>of which</i>				
<i>Capital Work-in-Progress</i>	516	567	624	686
Total Assets	30,444	32,063	31,847	33,045
Liabilities				
Borrowings	19,322	14,322	11,622	8,922
Deferred Tax Liability	0	0	0	0
Minority Interest	249	249	249	249
Equity Share Capital	729	981	981	981
<i>Face Value per share (Rs)</i>	10	10	10	10
Reserves & Surplus	4,506	6,092	8,576	12,474
Net Worth	10,874	17,493	19,976	23,874
Total Liabilities	30,444	32,063	31,847	33,045

Source: Company data, I-Sec Research

Table 10: Quarterly trend
(Rs mn, year ending March 31)

	Mar-09	Jun-09	Sep-09	Dec-09
Net sales	1,472	1,771	2,236	3,093
% growth (YoY)	(69.0)	(48.9)	(23.8)	68.5
EBITDA	171	423	479	646
Margin (%)	11.6	23.9	21.4	20.9
Other income	146	19	27	9
Add: Extraordinaries	0	0	0	0
Net profit	27	127	275	408

Source: Company data

Table 8: Cashflow statement
(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	634	1,766	2,728	4,323
Working Capital Changes	(1,878)	(1,572)	889	(692)
Capital Commitments	(461)	(345)	(540)	(618)
Free Cash Flow	(1,705)	(150)	3,077	3,012
Cash flow from Investing				
Activities	226	273	251	243
Issue of Share Capital	0	252	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	1,491	(5,000)	(2,700)	(2,700)
Dividend paid	(113)	(115)	(115)	(229)
Extraordinary Items	0	0	0	0
Chg. in Cash & Bank balance	(93)	41	514	326

Source: Company data, I-Sec Research

Table 9: Key ratios
(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
EPS(Basic Recurring)	11.2	17.3	26.5	42.1
Diluted Recurring EPS	11.2	17.3	26.5	42.1
Recurring Cash EPS	14.9	20.8	30.4	46.6
Dividend per share (DPS)	1.0	1.0	1.0	2.0
Book Value per share (BV)	110.9	178.4	203.7	243.5
Growth Ratios (%)				
Operating Income	(32.0)	27.2	23.7	30.7
EBITDA	(25.7)	12.4	51.2	47.1
Recurring Net Income	(51.9)	55.1	52.8	58.8
Diluted Recurring EPS	(51.9)	55.1	52.8	58.8
Diluted Recurring CEPS	(44.7)	40.0	46.1	53.2
Valuation Ratios (x)				
P/E	24.3	15.7	10.3	6.5
P/CEPS	18.3	13.1	9.0	5.8
P/BV	2.5	1.5	1.3	1.1
EV / EBITDA	17.4	13.8	8.4	5.2
EV / Operating Income	4.7	3.3	2.5	1.7
EV / Operating FCF	(26.8)	(271.1)	12.2	11.5
Operating Ratio				
Raw Material/Sales (%)	46.5	57.2	50.9	48.0
SG&A/Sales (%)	15.9	8.1	9.0	8.2
Other Income / PBT (%)	15.5	13.7	7.7	4.4
Effective Tax Rate (%)	24.6	15.0	20.0	26.0
NWC / Total Assets (%)	91.8	92.1	89.9	88.8
Inventory Turnover (days)	742.4	560.2	490.5	382.3
Receivables (days)	174.1	113.6	100.9	88.5
Payables (days)	82.2	57.3	61.1	59.1
D/E Ratio (x)	1.8	0.8	0.6	0.4
Return/Profitability Ratio (%)				
Recurring Net Income Margins	11.1	13.5	16.8	20.5
RoCE	6.4	7.9	10.9	14.5
RoNW	10.6	12.0	13.9	18.8
Dividend Payout Ratio	8.9	5.8	3.8	4.8
Dividend Yield	0.4	0.4	0.4	0.7
EBITDA Margins	27.2	24.0	29.4	33.1

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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