

February 7, 2008

BUY

Price Target Price
Rs 851 **Rs 1,408**

Sensex **18,139**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(5)	0	0
Rel. to Sensex	3	1	(16)	(33)

Stock Details

Sector	Real Estate
Reuters	SOBH.BO
Bloomberg	SOBHA@IN
Equity Capital (Rs mn)	729
Face Value	10
52 Week H/L	1,060/590
Market Cap	62.0
Daily Avg Volume (No of sh)	125426
Daily Avg Turnover (US\$)	2.9

Shareholding Pattern (%)

(31st Dec.'07)

Promoters	87.0
FII	7.5
Institutions	1.1
Private Corp.	1.7
Public	2.7

Rohan Guptarohan.gupta@emkayshare.com

+91 22 6612 1248

Prerna Jhavarprerna.jhavar@emkayshare.com

+91 22 6612 1337

Sobha Developers Ltd.

Result Update

Strong Outlook Ahead

Sobha Developers Ltd. (SDL) reported its Q3FY08 results, which was in line with our expectation. Company's revenues increased by 19.4% yoy / 7.4% qoq to Rs 3553 mn. EBITDA increased to Rs961 mn, up 42.6% yoy / 9.2% qoq on back of improvement in margins by 440 bps yoy / 45 bps qoq to 27%. Net profits increased by 34.4% yoy / 9.1% qoq to Rs614 mn. Accordingly EPS also increased by 34.4% yoy / 9.1% qoq to Rs8.4. SDL presently has a land bank of 224 mn sqft across 10 cities and is presently developing 12.15 mn sqft of real estate space. We expect company to post an EPS of Rs35.2, Rs52.0 and Rs67.2 in FY08E, FY09E and FY10E, respectively. Our NAV estimate for the company is 1158 and at current price the stock trades at discount of 25% discount to its NAV. We maintain our BUY recommendation on the stock with a price target of Rs 1408, based on SOTP valuation after including contract work business and other manufacturing business also.

Q3FY2008 results in line with expectations

Company reported its Q3FY08 results, which were in line with our expectations. Revenues increased 19.4% yoy / 7.4% qoq to Rs3553 mn. EBITDA increased to Rs961 mn, up 42.6% yoy / 9.2% qoq on back of improvement in margins by 440 bps yoy / 45 bps qoq to 27% during the quarter. Ebitda margin improvement was on account of decreasing proportion of low margin contractual projects. Net profits increased by 34.4% yoy / 9.1% qoq to Rs614 mn. Accordingly EPS also increased by 34.4% yoy / 9.1% qoq to Rs8.4.

Conference Call Update

- Company currently has a land bank of 4076 acre or 224 mn sqft across 10 cities which it intends to develop over the next decade. Of this company has paid for about 37% of the total land bank. Substantial increase in land bank (from 156 mn sqft as reported in our report on Real Estate Sector) is due to increase in FSI in Bangalore.
- Company is currently developing 12.15 mn sqft of real estate space, of which about 49% has been sold till date. Further, it is developing 8.3 mn sqft under contractual projects. In 9mFY08 it has launched 13 real estate projects with 6.91 mn sqft of saleable area in the cities of Bangalore (3.5 mn sqft), Trichur, Pune and Coimbatore.
- During the year, company has increased prices by 15-20% in Bangalore market.
- Company plans to launch about 22.5 mn sqft of real estate in next 12 months, including about 4 mn sqft of commercial & retail space in the next 6-8 months.
- Company expects its project handling capacity to increase to 18-20 mn sqft by December'08 current 12-14 mn sqft. It further expects the ratio of real estate to contractual work to improve from about 60:40 (expected for the current year) to 80:20 going forward, indicative of company's aggressive growth plans.
- Company expects its revenues to grow at a CAGR of 40-50% over next 2-3 years. It also expects better results in Q4FY08 due to higher revenue booking in that quarter.
- Company currently has a cash balance of Rs3.1 bn including Rs620 mn from IPO proceeds. Its current debt equity stands at about 1.55x.

Key Financials: Rs mn

YE- Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT (RS)	APAT (%)	AEPS (Rs)	EV/ EBITDA	P/BV	RoE (%)	P/E
FY07	11865	2562	21.6	1615	13.6	22.2	26.2	7.6	33.9	38.4
FY08E	16900	4085	24.2	2564	15.1	35.2	16.4	6.2	28.2	24.2
FY09E	22816	5800	25.4	3788	16.6	52.0	11.5	4.8	33.2	16.4
FY10E	27592	7184	26.0	4902	17.7	67.2	8.9	3.8	33.5	12.7

Outlook and Valuation

The company presently has a land bank of 224 mn sqft across 10 cities and is presently developing 12.15 mn sqft of real estate space. Company is aggressively diversifying geographically beyond Bangalore and is reducing its reliance on low margin contractual work to benefit from fast growing real estate market and improve its margins. Further, it has also increased its focus on the more lucrative and high growth commercial real estate. We expect company to post an EPS of Rs35.2, Rs52.0 and Rs67.2 in FY08E, FY09E and FY10E, respectively. Our NAV estimate for the company is 1158 and at current price the stock trades at discount of 25% discount to its NAV. We maintain our BUY recommendation on the stock with a price target of Rs 1408, based on SOTP valuation after including contract work business and other manufacturing business also.

Quarterly Financials

Y/E, Mar (Rs. mn)	Q3FY08	Q3FY07	% YoY	Q2FY08	% QoQ
Net Sales	3,553	2,976	19.4	3,309	7.4
Cost of Construction	1,906	1,688	12.9	1,785	6.8
Total Exp	2,592	2,302	12.6	2,429	6.7
EBITDA	961	674	42.6	880	9.2
EBITDA %	0	0		0	
Other Income	7	9	(22.2)	21	(66.7)
Depreciation	87	68	27.9	88	(1.1)
EBIT	874	606	44.2	792	10.4
Interest	171	123	39.0	133	28.6
PBT	710	492	44.3	680	4.4
Tax	96	35	174.3	117	(17.9)
Effective Tax Rate (%)	0	0	90.1	0	(21.4)
APAT	614	457	34.4	563	9.1
AEPS	8.4	6.3	34.4	7.7	9.1
EO income	-	-		-	
PAT	614.0	457.0	34.4	563.0	9.1

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299