

## VISIT UPDATE

### MID CAP

#### Share Data

Reuters code	SOBHA.BO
Bloomberg code	SOBHA IN
Market cap. (US\$ mn)	711
6M avg. daily turnover (US\$ mn)	2.2
Issued shares (mn)	98
Target price (Rs)	379

#### Performance (%) 1M 3M 12M

Absolute	4	(11)	45
Relative	4	(13)	23

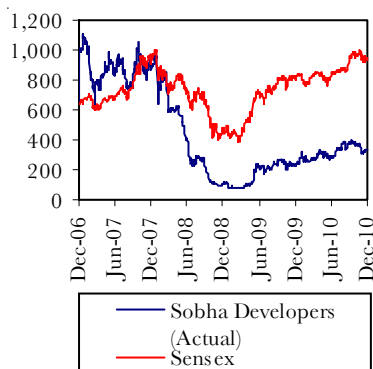
#### Valuation Ratios (Consolidated)

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	20.6	28.8
+/- (%)	47.2	39.7
PER (x)	16.0	11.4
Dividend/Yield (%)	1.5	1.5
EV/Sales (x)	3.0	2.4
EV/EBITDA (x)	12.4	8.4

#### Major shareholders (%)

Promoters	61
FII's	27
MFs/FIs	8
Bodies Corporate	2
Public & Others	2

#### Relative performance



## Sobha Developers

Maintain Outperformer

Price: Rs 329

BSE Index: 19,865

20 December 2010

### Improved revenue visibility

**We recently met with the management of Sobha Developers. Following are key takeaways:**

- **Bangalore real estate market stable now:** Based on our conversations with the management, the real estate market in Bangalore seems stable now and is set to strengthen. The management indicated that new sales have been improving continuously and it is confident about selling more than 3 mn sq ft of real estate projects in FY11 and 4 mn sq ft in FY12 (*1H FY11 sales: ~1.4 mn sq ft*).
- **Increase in prices across projects:** After a lull of about two years, Sobha Developers raised prices across projects by 5–15% in the past six months. This, coupled with new project launches at better realisations, has led to increase in average realisations to Rs 3,900 per sq ft (from Rs 3,750 per sq ft in the second quarter).
- **Net debt/equity at manageable levels:** Sobha Developers' net debt/equity appears stable now at 0.6x from 0.8x in 2010. The company achieved this only due to the management's proactive measures and funds from sale of non-strategic land parcels. The management is confident that it will bring down net debt/equity further to ~0.5x by March 2011. In this regard, it intends to sell another land parcel worth ~Rs 1.2 bn.
- **No change in plans:** Management maintains its plans not to purchase new land parcels or aggressively launch new projects.
- **Focus on execution:** The management's focus is more on execution of ongoing projects of 9 mn sq ft and new projects of 13 mn sq ft, which it plans to launch in the next 12 months. It is confident about executing ~3.3 mn sq ft in FY11.
- **Entry into newer geographies:** Sobha Developers has strong foothold in South India and it now plans to enter Delhi NCR with launch of a township project of ~153 acres (villas) in Gurgaon by March 2011. This project would be developed in a JV with Sobha Developers' share at 64%.

We expect YoY earnings to improve on the back of increased sales at better realisations and better execution. We continue to value the company on DCF and land valuations. We maintain our Outperformer rating with FVPS of Rs 379. At current market price, the stock is trading at 16.0x FY11E and 11.4x FY12E revised consolidated earnings.

## SOTP Valuation

Particulars	Value per share (Rs)
<b>Real estate</b>	
Ongoing projects - (A)	82
Planned launches - (B)	119
NPV of leased projects - (C)	12
Land bank value - (D)	260
<b>Enterprise value (EV)/Value per share (A)+(B)+(C)+(D)</b>	<b>473</b>
Less: Net debt ( <i>as on 31<sup>st</sup> March 2010</i> )	142
Less: Outstanding land payment ( <i>as on 31<sup>st</sup> March 2010</i> )	16
<b>Real estate NPV per share</b>	<b>316</b>
Add: Value from Contractual & Manufacturing Business	63
<b>Shareholders' value/Value per share</b>	<b>379</b>
<b>Fully diluted no of shares (mn)</b>	<b>98</b>

**Income Statement (Consolidated)**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>9,740</b>	<b>11,333</b>	<b>14,763</b>	<b>17,466</b>
<i>Growth (%)</i>	<i>(31.9)</i>	<i>16.3</i>	<i>30.3</i>	<i>18.3</i>
Operating expenses	(6,953)	(8,663)	(11,161)	(12,503)
Operating profit	2,788	2,670	3,602	4,962
<b>EBITDA</b>	<b>2,788</b>	<b>2,670</b>	<b>3,602</b>	<b>4,962</b>
<i>Growth (%)</i>	<i>(24.7)</i>	<i>(4.2)</i>	<i>34.9</i>	<i>37.8</i>
Depreciation	(360)	(323)	(311)	(315)
Other income	148	39	74	87
<b>EBIT</b>	<b>2,575</b>	<b>2,385</b>	<b>3,365</b>	<b>4,734</b>
Interest paid	(1,074)	(693)	(707)	(762)
Pre-tax profit	1,501	1,692	2,658	3,972
(before non-recurring items)				
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(after non-recurring items)				
Tax (current + deferred)	(402)	(279)	(640)	(1,152)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,099	1,413	2,018	2,820
Minority interests	(21)	(42)	–	–
Reported PAT	1,078	1,371	2,018	2,820
<b>Adjusted net profit</b>	<b>1,078</b>	<b>1,371</b>	<b>2,018</b>	<b>2,820</b>
<i>Growth (%)</i>	<i>(52.8)</i>	<i>27.2</i>	<i>47.2</i>	<i>39.7</i>

**Balance Sheet (Consolidated)**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash & marketable securities	215	826	504	2,381
Other current assets	34,042	35,633	35,987	36,324
Investments	27	27	27	27
Net fixed assets	2,248	2,061	2,120	2,201
Other non-current assets	31	52	52	52
<b>Total assets</b>	<b>36,562</b>	<b>38,599</b>	<b>38,690</b>	<b>40,984</b>
Current liabilities	6,117	6,529	7,013	8,369
Total debt	19,322	14,740	12,949	11,641
<b>Total liabilities</b>	<b>25,439</b>	<b>21,270</b>	<b>19,962</b>	<b>20,010</b>
Share capital	729	981	981	981
Reserves & surplus	10,145	16,057	17,456	19,702
Less: Misc. expenditure	(0)	(0)	(0)	(0)
<b>Shareholders' funds</b>	<b>10,874</b>	<b>17,038</b>	<b>18,437</b>	<b>20,683</b>
Minorities interests	249	291	291	291
<b>Total equity &amp; liabilities</b>	<b>36,562</b>	<b>38,599</b>	<b>38,690</b>	<b>40,984</b>
<b>Capital employed</b>	<b>30,445</b>	<b>32,069</b>	<b>31,676</b>	<b>32,615</b>

**Cash Flow Statement (Consolidated)**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	1,501	1,692	2,658	3,972
Depreciation	356	315	310	313
Chg in working capital	(2,121)	(1,434)	(521)	507
Total tax paid	(365)	(165)	(833)	(1,152)
<b>Cash flow from oper. (a)</b>	<b>(628)</b>	<b>407</b>	<b>1,615</b>	<b>3,640</b>
Capital expenditure	(462)	(128)	(369)	(393)
Chg in investments	1	–	–	–
<b>Cash flow from inv. (b)</b>	<b>(461)</b>	<b>(128)</b>	<b>(369)</b>	<b>(393)</b>
<b>Free cash flow (a+b)</b>	<b>(1,090)</b>	<b>279</b>	<b>1,246</b>	<b>3,247</b>
Equity raised/(repaid)	–	5,109	(0)	(0)
Debt raised/(repaid)	1,491	(4,581)	(1,792)	(1,307)
Dividend (incl. tax)	(474)	(166)	270	(62)
Other financing activities	–	(30)	(46)	(0)
<b>Cash flow from fin. (c)</b>	<b>1,018</b>	<b>332</b>	<b>(1,568)</b>	<b>(1,369)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(72)</b>	<b>611</b>	<b>(322)</b>	<b>1,877</b>

**Key Ratios (Consolidated)**

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	14.8	14.0	20.6	28.8
Growth	(52.8)	(5.4)	47.2	39.7
Book NAV/share (Rs)	152.6	176.7	191.0	213.9
Dividend/share (Rs)	1.0	2.5	5.0	5.0
Dividend Payout Ratio	7.9	20.9	28.4	20.3
Tax	26.8	16.5	24.1	29.0
EBITDA margin	28.6	23.6	24.4	28.4
EBIT margin	26.4	21.0	22.8	27.1
RoCE	8.8	7.6	10.6	14.7
Net debt/Equity	171.8	80.3	66.5	44.1

**Valuations (Consolidated)**

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	22.3	23.5	16.0	11.4
PCE	16.7	19.0	13.9	10.3
Price/Book	2.2	1.9	1.7	1.5
Yield (%)	0.3	0.8	1.5	1.5
EV/Net sales	5.3	4.1	3.0	2.4
EV/EBITDA	18.4	17.3	12.4	8.4

**Du Pont Analysis – ROE (Consolidated)**

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	11.1	12.1	13.7	16.1
Asset turnover	0.3	0.3	0.4	0.4
Leverage factor	3.3	2.6	2.1	2.0
Return on equity (%)	10.2	9.6	11.2	14.2

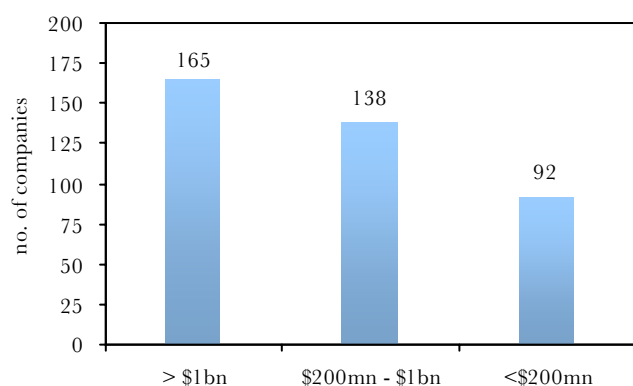
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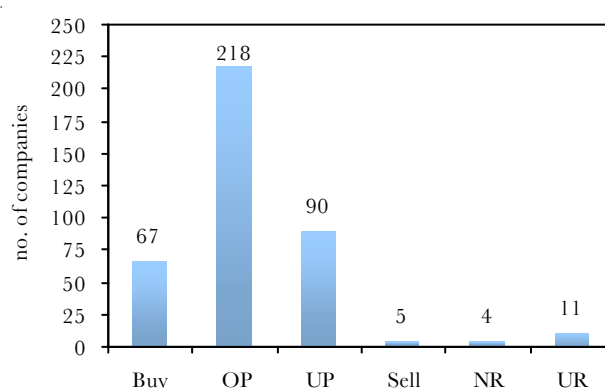
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## B&amp;K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



**B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.**

**B&K Investment Ratings:**

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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