

# Sobha Developers

5 January 2012

Reuters: SOBH.BO; Bloomberg: SOBHA IN

## Strong 3QFY12 pre-sales, but no new project launch a concern

Sobha Developers (SDL) reported strong pre-sales of Rs4.4bn (up 47% YoY) in 3QFY12, thanks to sales from Gurgaon project, but they were down 7.8% QoQ on lack of new project launch. Although reported pre-sales of Rs12.3bn and 2.4mn sq ft in 9MFY12 were ahead of our expectations, we believe higher net debt (net D/E ratio of 0.71x in 2QFY12) will remain an overhang on the stock. Further, SDL has not launched any new project in 3QFY12 and has given muted new project launch guidance of 1.6mn sq ft for 4QFY12, which will make sustainability of 3QFY12 pre-sales challenging. We maintain our Hold rating on SDL.

**Strong pre-sales; likely to surpass its FY12 guidance:** Volumes stood at 818,935 sq ft, up 16.2% YoY, but down 12.5% QoQ. Average realisation was Rs 5,475/sq ft, up 5.4% QoQ, aided by better product mix. The management has indicated that the company will surpass its pre-sales guidance of Rs15bn and volume guidance of 3mn sq ft for FY12, which, we believe, is achievable. However going forward, sustainability of strong pre-sales will be challenging, given the lack of new project launch in Bangalore.

**No new project launched in 3QFY12:** SDL had done 3.1mn sq ft of new project launch in 1HFY12 (across Bangalore, Gurgaon and Mysore) and had given muted guidance of only 1.6mn sq ft for 2HFY12 because of lack of new projects in Bangalore. Further, the ongoing delay in getting government approvals in Chennai resulted in no new project launch in 3QFY12. The management has given guidance of launching Sobha Serene (0.2mn sq ft) and Sobha Meritta (0.7mn sq ft) projects in Chennai and Hopefarm project (0.6mn sq ft) in Bangalore in 4QFY12.

**Higher debt remains an overhang:** SDL had reported positive operating cash flow of Rs891mn in 1HFY12, but adjusted for capex (Rs558mn) and interest payment (Rs1,230mn), debt reduction seems to be unlikely. Further 50% of its debt is front-ended, which makes it vulnerable in a scenario of high interest rates. Going forward, we expect muted debt reduction visibility (the management gave guidance of Rs3bn debt reduction in FY12) because of no land sales, stake purchase from PAN Atlantic for Rs600mn and high pre-launch expenses in markets other than Bangalore.

**Outlook:** At the current market price, SDL is trading at 0.9x P/BV and 8.8x P/E on FY13E earnings and at 36% discount to our one-year forward NAV. Muted visibility on debt reduction and higher new project launch in new cities offsets 30% discount to NAV. We maintain our Hold rating on SDL with a TP of Rs227, which is at a 30% discount to our one-year forward NAV.

## HOLD

Sector: Real Estate

CMP: Rs206

Target Price: Rs227

Upside: 10%

Param Desai

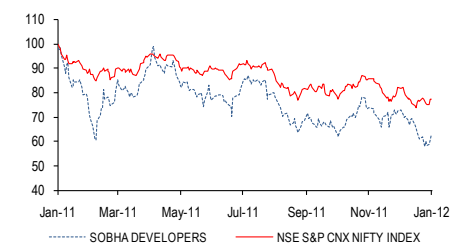
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### Key Data

Current Shares O/S (mn)	98.1
Mkt Cap (Rsbn/US\$m)	20.2/381.5
52 Wk H / L (Rs)	330/180
Daily Vol. (3M NSE Avg.)	150,717

Share holding (%)	4QFY11	1QFY12	2QFY12
Promoter	60.6	60.6	60.6
FII	30.4	32.1	33.4
DII	4.6	2.9	1.7
Corporate	1.5	1.5	1.4
General Public	2.9	3.0	2.9

### One Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
Sobha	(13.3)	(26.3)	(36.0)
Nifty Index	(5.9)	(15.9)	(22.6)

Source: Bloomberg

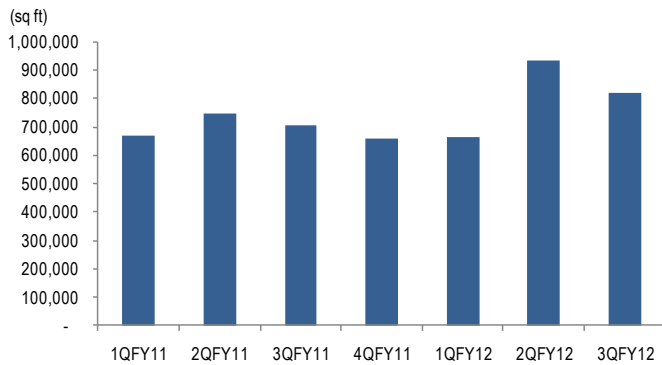
Y/E Mar (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	9,740	11,299	14,739	15,325	19,754
EBITDA	2,788	2,463	3,161	3,227	4,277
Net profit	1,078	1,341	1,813	1,729	2,313
EPS (Rs)	11.0	13.7	18.5	17.6	23.6
EPS growth (%)	(52.8)	24.4	35.2	(4.6)	33.8
EBITDA margin (%)	28.6	21.8	21.4	21.1	21.6
PE ratio (x)	18.8	15.1	11.2	11.7	8.8
P/BV (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA (x)	14.1	13.9	10.3	10.3	8.1
RoCE (%)	8.4	6.9	9.2	9.1	11.2
RoE (%)	10.4	9.6	10.2	9.0	11.1

Source: Company, Nirmal Bang Institutional Equities Research

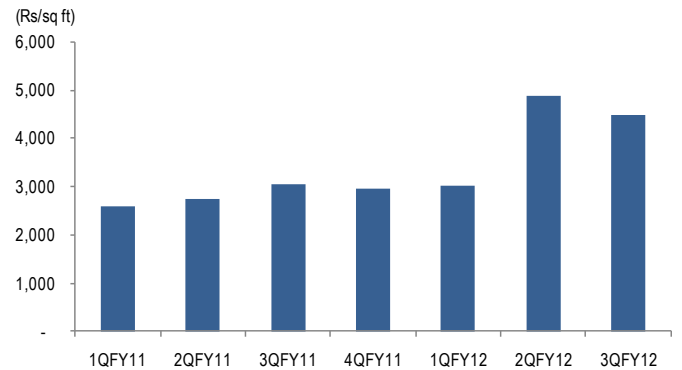
**Exhibit1: Volume break-down**

Area (sq ft)	3QFY11	2QFY12	3QFY12	YoY (%)	QoQ (%)
Bangalore	564,075	644,116	567,662	0.6	(11.9)
Thrissur	58,432	101,876	83,243	42.5	(18.3)
Coimbatore	26,066	18,906	21,468	(17.6)	13.6
Pune	56,458	46,603	23,536	(58.3)	(49.5)
Mysore	-	17,438	16,843	NA	(3.4)
NCR	-	107,380	106,183	NA	(1.1)
<b>Total</b>	<b>705,031</b>	<b>936,319</b>	<b>818,935</b>	<b>16.2</b>	<b>(12.5)</b>

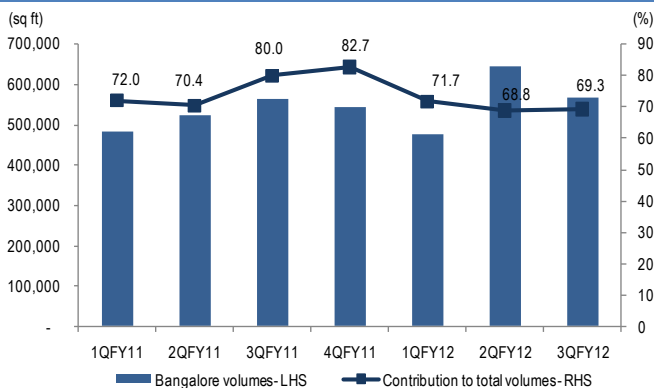
Source: Company

**Exhibit 2: QoQ drop in volumes following no new launches**


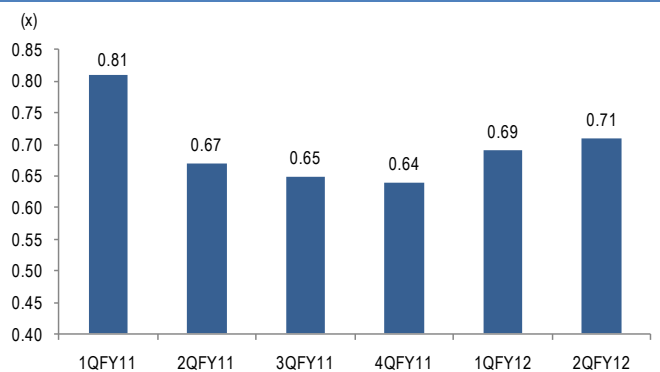
Source: Company

**Exhibit 3: Higher realisation aided by better product mix**


Source: Company

**Exhibit 4: Volume sustainability in Bangalore to be challenging**


Source: Company

**Exhibit 5: Muted visibility on debt reduction**


Source: Company

## Ratings track

Date	Rating	CMP (Rs)	Target price (Rs)
4 October 2011	Hold	208	227
15 November 2011	Hold	226	227

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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