

**April 09, 2012**

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Rating	Accumulate
Price	Rs316
Target Price	Rs348
Implied Upside	10.1%
Sensex	17,222
Nifty	5,234

*(Prices as on April 09, 2012)*
**Trading data**

Market Cap. (Rs bn)	31.0
Shares o/s (m)	98.1
3M Avg. Daily value (Rs m)	78.3

**Major shareholders**

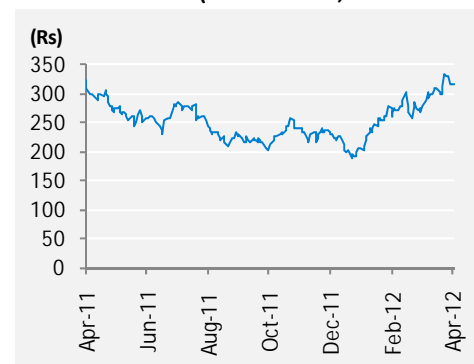
Promoters	60.55%
Foreign	33.24%
Domestic Inst.	1.67%
Public & Other	4.54%

**Stock Performance**

(%)	1M	6M	12M
Absolute	12.9	49.4	1.9
Relative	13.7	40.4	14.4

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	23.5	23.9	-1.9
2014	27.0	30.2	-10.5

**Price Performance (RIC:SOBH.BO, BB:SOBHA IN)**


Source: Bloomberg

- Q4 sales volumes strong, in-line with expectations:** As per Sobha's operational update released today, the company has recorded strong sales for the quarter at 0.86m sq.ft, fuelled by two Chennai launches and one Bengaluru launch in Whitefield, totalling to 1.83m sq.ft. For FY12, the company ended the year with total sales of 3.28m sq.ft valued at Rs17bn as against 2.78m sq.ft valued at Rs11.3bn in FY11. Average realizations too increased sharply by 27% from Rs4,082 in FY11 to Rs5,181, led by the high-value NCR launch.

Launches during the fiscal saw a strong pick up to 10.45m sq.ft as against 4.3m sq.ft launched in FY11. Besides, Sobha entered three new geographies in FY12, NCR, Chennai and Mysore, all of which have performed fairly well.

- Sales momentum to remain strong, Cash flow generation to accelerate:** With Sobha's strategy of releasing additional area at the existing launches as well as with new launches lined up, we expect sales growth of 28% to 4.2m sq.ft in FY13. The company has a near-term pipeline of over 5m sq.ft of launches.

New launches and monetization of old sales is likely to lead to positive cash generation for the company on account of which we expect a steady decline in the company's debt levels. The company's DER is likely to reduce from 0.67 in FY11 to 0.59 by FY13.

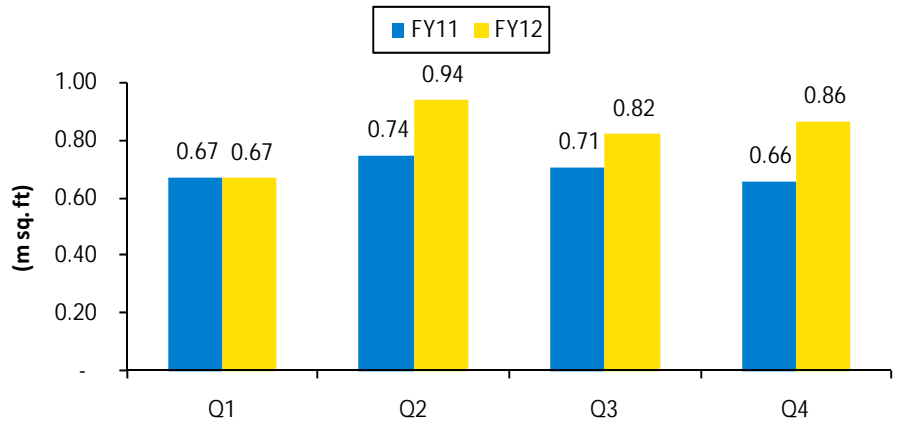
- Valuations:** Sobha's gross asset value stands at Rs50bn. From this, we deduct its net debt of Rs11.7bn to give us a net asset value of Rs38.2bn which translates to Rs390/share. To arrive at our target price, we have factored in a 20% discount to the company's real estate NAV which gives us a value of Rs312. To this, we are adding the value of the contract business which translates to a target price of Rs348. We maintain '**Accumulate**' on the stock.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	14,739	14,072	18,555	20,483
Growth (%)	30.4	(4.5)	31.9	10.4
EBITDA (Rs m)	3,161	3,231	4,337	4,871
PAT (Rs m)	1,813	1,772	2,302	2,652
EPS (Rs)	18.5	18.1	23.5	27.0
Growth (%)	35.2	(2.2)	29.9	15.2
Net DPS (Rs)	3.0	3.3	4.5	5.0

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	21.4	23.0	23.4	23.8
RoE (%)	10.2	9.2	11.1	11.7
RoCE (%)	6.8	6.4	8.2	8.7
EV / sales (x)	2.9	3.0	2.2	2.0
EV / EBITDA (x)	13.6	13.2	9.6	8.4
PE (x)	17.1	17.5	13.5	11.7
P / BV (x)	1.7	1.6	1.4	1.3
Net dividend yield (%)	0.9	1.0	1.4	1.6

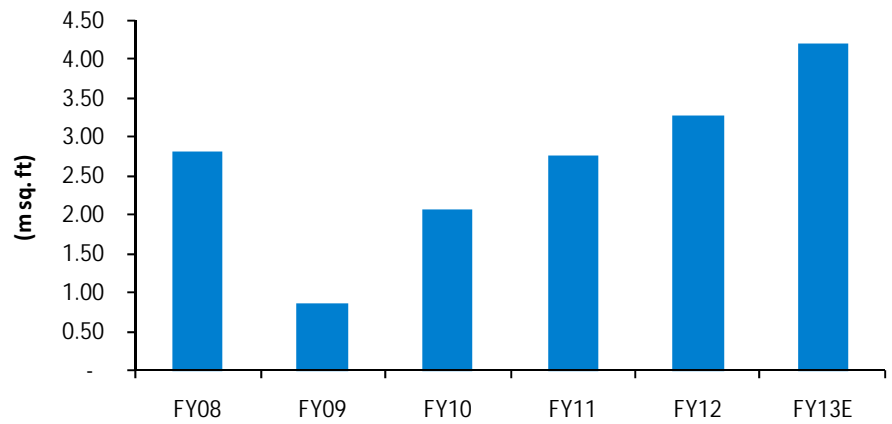
Source: Company Data; PL Research

**Exhibit 1: Quarter-wise Sales Volumes**



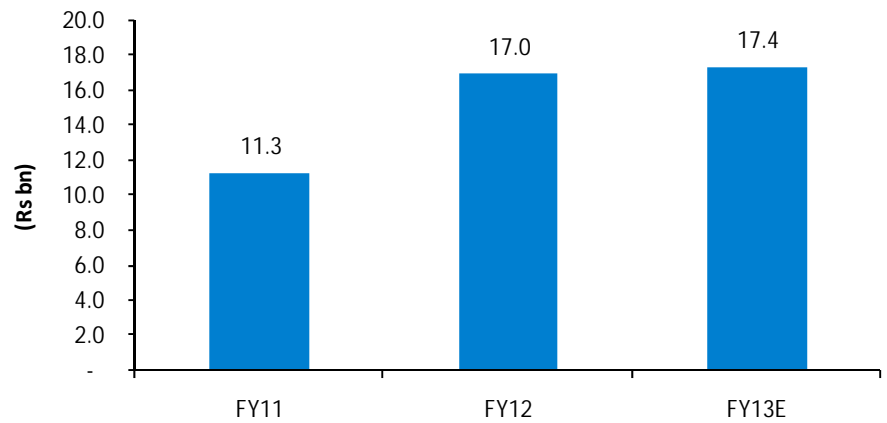
Source: Company Data, PL Research

**Exhibit 2: Annual Sales (Volume)**



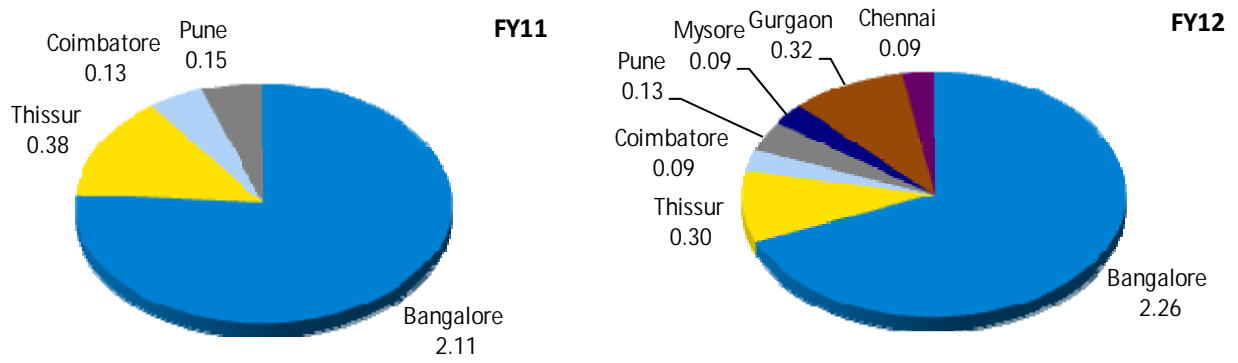
Source: Company Data, PL Research

**Exhibit 3: Annual Sales (Value)**



Source: Company Data, PL Research

**Exhibit 4: Geographical Break-up of Sales**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
<b>Net Revenue</b>	<b>14,739</b>	<b>14,072</b>	<b>18,555</b>	<b>20,483</b>
Raw Material Expenses	8,632	7,921	10,043	11,054
Gross Profit	6,107	6,151	8,512	9,428
Employee Cost	1,035	915	1,392	1,485
Other Expenses	1,911	2,005	2,783	3,072
<b>EBITDA</b>	<b>3,161</b>	<b>3,231</b>	<b>4,337</b>	<b>4,871</b>
Depr. & Amortization	278	373	418	463
Net Interest	444	402	618	588
Other Income	75	75	85	80
<b>Profit before Tax</b>	<b>2,514</b>	<b>2,532</b>	<b>3,386</b>	<b>3,900</b>
Total Tax	669	759	1,083	1,248
<b>Profit after Tax</b>	<b>1,846</b>	<b>1,772</b>	<b>2,302</b>	<b>2,652</b>
Ex-Od items / Min. Int.	33	—	—	—
<b>Adj. PAT</b>	<b>1,813</b>	<b>1,772</b>	<b>2,302</b>	<b>2,652</b>
<b>Avg. Shares O/S (m)</b>	<b>98.1</b>	<b>98.1</b>	<b>98.1</b>	<b>98.1</b>
<b>EPS (Rs.)</b>	<b>18.5</b>	<b>18.1</b>	<b>23.5</b>	<b>27.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	2,385	3,253	2,385	1,778
C/F from Investing	(252)	(2,174)	(570)	(577)
C/F from Financing	(2,670)	(939)	(7)	(1,064)
Inc. / Dec. in Cash	(537)	140	1,808	137
Opening Cash	826	288	429	2,237
Closing Cash	288	429	2,237	2,374
FCFF	2,179	2,253	1,885	1,278
FCFE	(143)	2,011	2,394	788

**Key Financial Metrics**

Y/e March	2011	2012E	2013E	2014E
<b>Growth</b>				
Revenue (%)	30.4	(4.5)	31.9	10.4
EBITDA (%)	19.9	2.2	34.2	12.3
PAT (%)	35.2	(2.2)	29.9	15.2
EPS (%)	35.2	(2.2)	29.9	15.2
<b>Profitability</b>				
EBITDA Margin (%)	21.4	23.0	23.4	23.8
PAT Margin (%)	12.3	12.6	12.4	12.9
RoCE (%)	6.8	6.4	8.2	8.7
RoE (%)	10.2	9.2	11.1	11.7
<b>Balance Sheet</b>				
Net Debt : Equity	0.7	0.6	0.5	0.4
Net Wrkng Cap. (days)	271	402	278	250
<b>Valuation</b>				
PER (x)	17.1	17.5	13.5	11.7
P / B (x)	1.7	1.6	1.4	1.3
EV / EBITDA (x)	13.6	13.2	9.6	8.4
EV / Sales (x)	2.9	3.0	2.2	2.0
<b>Earnings Quality</b>				
Eff. Tax Rate	26.6	30.0	32.0	32.0
Other Inc / PBT	3.0	3.0	2.5	2.1
Eff. Depr. Rate (%)	8.8	9.0	9.0	9.0
FCFE / PAT	(7.9)	113.5	104.0	29.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	18,508	19,907	21,693	23,771
Total Debt	12,418	12,177	12,686	12,196
Other Liabilities	324	—	—	—
<b>Total Liabilities</b>	<b>31,250</b>	<b>32,084</b>	<b>34,379</b>	<b>35,967</b>
Net Fixed Assets	2,041	2,699	2,851	2,965
Goodwill	—	—	—	—
Investments	37	1,179	1,179	1,179
Net Current Assets	29,099	28,131	30,275	31,749
<i>Cash &amp; Equivalents</i>	288	429	2,237	2,374
<i>Other Current Assets</i>	36,519	37,000	38,384	40,897
<i>Current Liabilities</i>	7,709	9,298	10,346	11,522
Other Assets	74	74	74	74
<b>Total Assets</b>	<b>31,250</b>	<b>32,084</b>	<b>34,379</b>	<b>35,967</b>

**Quarterly Financials (Rs m)**

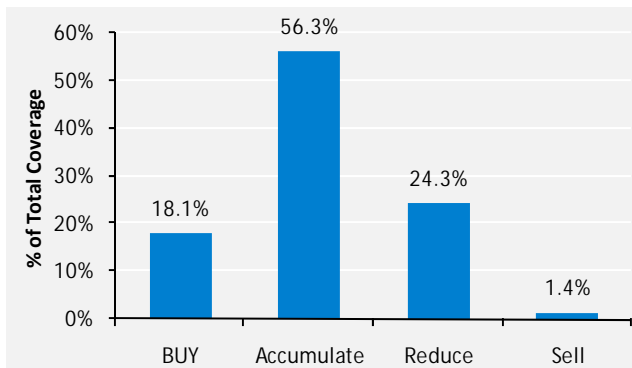
Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12E
<b>Net Revenue</b>	<b>3,179</b>	<b>3,294</b>	<b>3,137</b>	<b>4,162</b>
<b>EBITDA</b>	<b>623</b>	<b>755</b>	<b>753</b>	<b>980</b>
<i>% of revenue</i>	19.6	22.9	24.0	23.6
Depr. & Amortization	74	91	106	102
Net Interest	101	81	93	127
Other Income	5	9	23	38
<b>Profit before Tax</b>	<b>453</b>	<b>592</b>	<b>577</b>	<b>790</b>
Total Tax	144	183	176	256
<b>Profit after Tax</b>	<b>309</b>	<b>409</b>	<b>401</b>	<b>533</b>
<b>Adj. PAT</b>	<b>309</b>	<b>409</b>	<b>401</b>	<b>533</b>

Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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