

**July 06, 2012**

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Rating	Accumulate
Price	Rs333
Target Price	Rs360
Implied Upside	8.1%
Sensex	17,521
Nifty	5,317

*(Prices as on July 06, 2012)*
**Trading data**

Market Cap. (Rs bn)	33.3
Shares o/s (m)	98.1
3M Avg. Daily value (Rs m)	66.5

**Major shareholders**

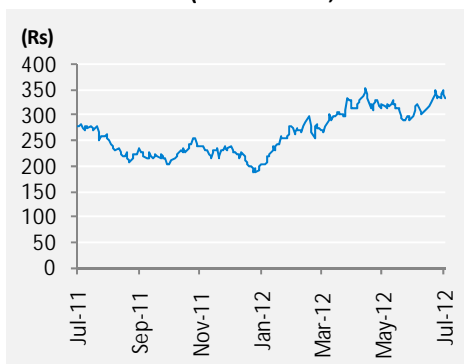
Promoters	60.55%
Foreign	32.37%
Domestic Inst.	2.64%
Public & Other	4.44%

**Stock Performance**

(%)	1M	6M	12M
Absolute	6.4	61.7	19.0
Relative	(0.1)	51.3	25.4

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	28.4	24.5	16.2
2014	40.2	31.6	27.2

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


Source: Bloomberg

- **Strong sales performance continues:** Although launches were subdued for the quarter with only a small villa launch in Coimbatore, sales momentum continued at the company's previously launched projects, thereby, ending the quarter at 0.83m sq.ft, representing 25% YoY growth and a marginal sequential decline. Sales from the Gurgaon project witnessed a strong sequential increase of 24%.

Realizations too remained firm at Rs5,737, an increase of 26% & 7% on a YoY and QoQ basis, respectively, resulting in total sales of Rs4.79bn. The company's sales guidance for FY13 stands at Rs20bn as against sales of Rs17bn clocked in for FY12.

- **Upward trajectory to continue:** Sobha has a launch visibility of ~5m sq.ft in the near term, with the Dairy Circle property in Bengaluru and a Thrissur launch being next in queue. Besides, the company has been releasing additional area at its previously launched projects, thereby, providing momentum to sales. We expect sales growth of 14% in volume terms to 3.75m sq.ft.

- **Deleveraging in process:** On account of strong launches and monetization of old sales, coupled with a steady execution, the company has brought its net debt down from Rs12.1bn in FY11 to Rs11.4bn in FY12. We further expect net debt to reduce to Rs8.9bn FY13, resulting in a DER of 0.56, down from 0.67 in FY11.

- **Valuations:** Sobha's NAV stands at Rs39.8bn, translating to Rs406/ share. We attribute a 20% discount to this to arrive at the value of the real estate business. To this, we are adding the value of the contract business which is calculated at Rs35/share which translates to a target price of Rs360. We maintain 'Accumulate' on the stock.

**Key financials (Y/e March)**

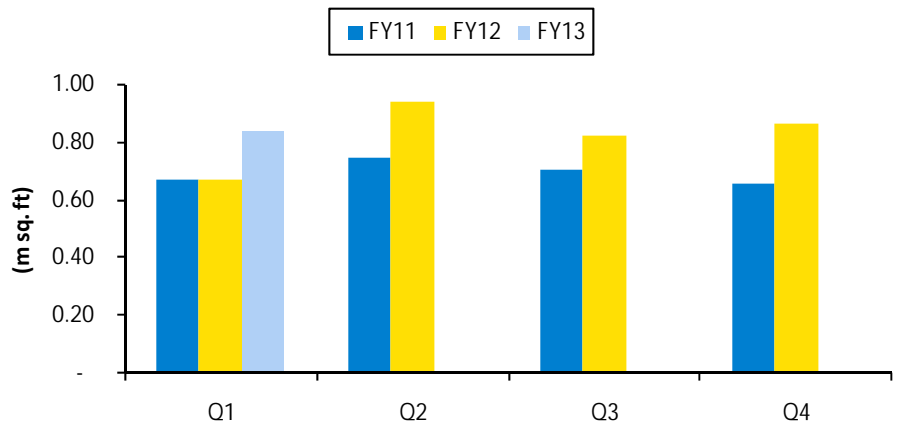
	2011	2012	2013E	2014E
Revenues (Rs m)	14,739	14,079	18,351	24,269
Growth (%)	30.4	(4.5)	30.3	32.3
EBITDA (Rs m)	3,161	4,666	5,163	6,925
PAT (Rs m)	1,813	2,060	2,789	3,940
EPS (Rs)	18.5	21.0	28.4	40.2
Growth (%)	35.2	13.6	35.4	41.3
Net DPS (Rs)	3.0	5.0	4.5	5.0

**Profitability & Valuation**

	2011	2012	2013E	2014E
EBITDA margin (%)	21.4	33.1	28.1	28.5
RoE (%)	10.2	10.7	13.2	16.4
RoCE (%)	6.8	9.1	9.5	11.9
EV / sales (x)	3.0	3.1	2.3	1.6
EV / EBITDA (x)	14.2	9.5	8.1	5.7
PE (x)	18.0	15.9	11.7	8.3
P / BV (x)	1.8	1.6	1.5	1.3
Net dividend yield (%)	0.9	1.5	1.4	1.5

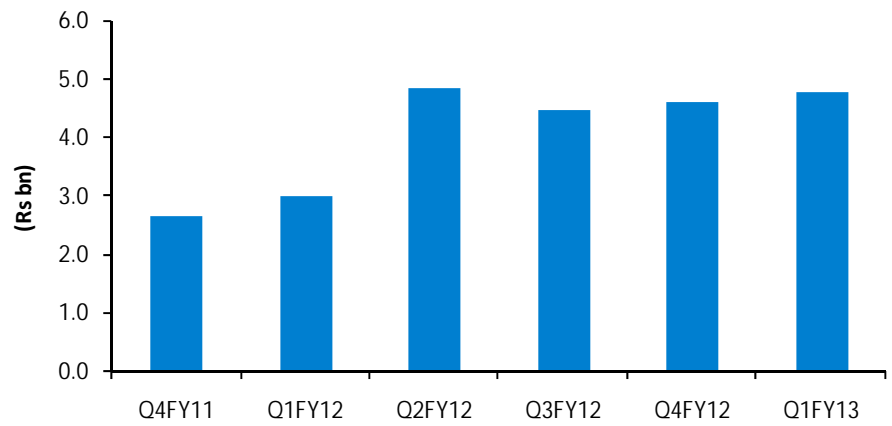
Source: Company Data; PL Research

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



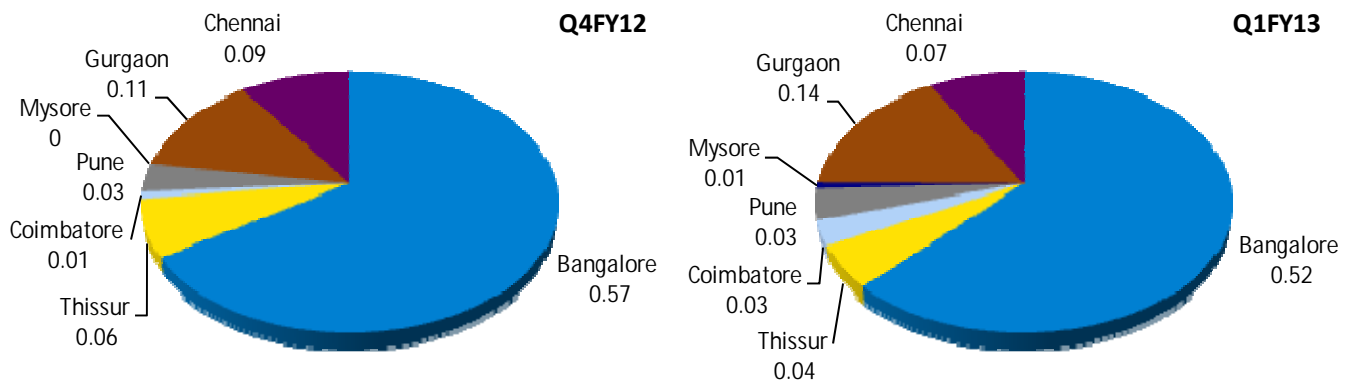
Source: Company Data, PL Research

**Exhibit 2: Quarterly Sales (Value)**



Source: Company Data, PL Research

**Exhibit 3: Geographical Break-up of Sales**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>14,739</b>	<b>14,079</b>	<b>18,351</b>	<b>24,269</b>
Raw Material Expenses	8,632	4,447	9,059	11,945
Gross Profit	6,107	9,632	9,292	12,324
Employee Cost	1,035	1,267	1,376	1,759
Other Expenses	1,911	3,699	2,753	3,640
<b>EBITDA</b>	<b>3,161</b>	<b>4,666</b>	<b>5,163</b>	<b>6,925</b>
Depr. & Amortization	278	388	418	463
Net Interest	444	1,165	611	581
Other Income	75	65	85	80
<b>Profit before Tax</b>	<b>2,514</b>	<b>3,177</b>	<b>4,219</b>	<b>5,960</b>
Total Tax	669	1,077	1,430	2,021
<b>Profit after Tax</b>	<b>1,846</b>	<b>2,101</b>	<b>2,789</b>	<b>3,940</b>
Ex-Od items / Min. Int.	33	41	—	—
<b>Adj. PAT</b>	<b>1,813</b>	<b>2,060</b>	<b>2,789</b>	<b>3,940</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>21.0</b>	<b>28.4</b>	<b>40.2</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	2,385	1,983	2,990	3,041
C/F from Investing	(252)	(308)	(501)	(501)
C/F from Financing	(2,670)	(522)	(362)	(1,064)
Inc. / Dec. in Cash	(537)	1,154	2,126	1,476
Opening Cash	826	288	588	3,554
Closing Cash	288	588	3,554	5,030
FCFF	2,179	983	2,490	2,541
FCFE	(143)	596	2,999	2,051

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	30.4	(4.5)	30.3	32.3
EBITDA (%)	19.9	47.6	10.7	34.1
PAT (%)	35.2	13.6	35.4	41.3
EPS (%)	35.2	13.6	35.4	41.3
<b>Profitability</b>				
EBITDA Margin (%)	21.4	33.1	28.1	28.5
PAT Margin (%)	12.3	14.6	15.2	16.2
RoCE (%)	6.8	9.1	9.5	11.9
RoE (%)	10.2	10.7	13.2	16.4
<b>Balance Sheet</b>				
Net Debt : Equity	0.7	0.6	0.4	0.3
Net Wrkng Cap. (days)	271	798	377	286
<b>Valuation</b>				
PER (x)	18.0	15.9	11.7	8.3
P / B (x)	1.8	1.6	1.5	1.3
EV / EBITDA (x)	14.2	9.5	8.1	5.7
EV / Sales (x)	3.0	3.1	2.3	1.6
<b>Earnings Quality</b>				
Eff. Tax Rate	26.6	33.9	33.9	33.9
Other Inc / PBT	3.0	2.0	2.0	1.3
Eff. Depr. Rate (%)	8.8	9.3	9.0	9.0
FCFE / PAT	(7.9)	28.9	107.5	52.1

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	18,508	19,998	22,270	25,636
Total Debt	12,418	12,031	12,540	12,050
Other Liabilities	324	686	330	330
<b>Total Liabilities</b>	<b>31,250</b>	<b>32,714</b>	<b>35,140</b>	<b>38,017</b>
Net Fixed Assets	2,041	2,012	2,095	2,133
Goodwill	—	—	—	—
Investments	37	—	—	—
Net Current Assets	29,099	29,862	33,045	35,883
<i>Cash &amp; Equivalents</i>	<i>288</i>	<i>588</i>	<i>3,554</i>	<i>5,030</i>
<i>Other Current Assets</i>	<i>36,519</i>	<i>38,932</i>	<i>40,254</i>	<i>42,858</i>
<i>Current Liabilities</i>	<i>7,709</i>	<i>9,658</i>	<i>10,763</i>	<i>12,005</i>
Other Assets	74	—	—	—
<b>Total Assets</b>	<b>31,250</b>	<b>31,874</b>	<b>35,140</b>	<b>38,017</b>

**Quarterly Financials (Rs m)**

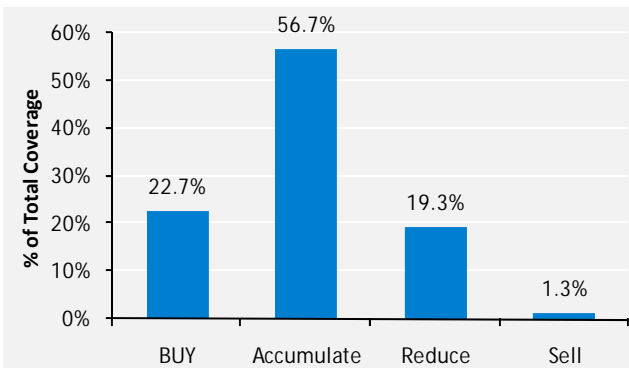
Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13E
<b>Net Revenue</b>	<b>3,294</b>	<b>3,032</b>	<b>4,769</b>	<b>3,958</b>
<b>EBITDA</b>	<b>755</b>	<b>948</b>	<b>1,806</b>	<b>1,029</b>
<i>% of revenue</i>	<i>22.9</i>	<i>31.3</i>	<i>37.9</i>	<i>26.0</i>
Depr. & Amortization	91	106	117	125
Net Interest	81	286	371	285
Other Income	9	21	13	5
<b>Profit before Tax</b>	<b>592</b>	<b>577</b>	<b>1,331</b>	<b>624</b>
Total Tax	183	176	441	193
<b>Profit after Tax</b>	<b>409</b>	<b>401</b>	<b>890</b>	<b>431</b>
<b>Adj. PAT</b>	<b>409</b>	<b>401</b>	<b>890</b>	<b>431</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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