



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- The company improved its net debt to equity ratio from 0.98x in FY22 to 0.8x in FY23.
- Collections increased 11% YoY to a record high of Rs.14.2b, driven by a 12% rise in residential inflows to Rs.11.8b. However, increase in construction flows led to a 9% drop in OCF to Rs.3.7b.

2. MANAGEMENT COMMENTARY:

- Launches:** Demand momentum continues to remain healthy and the company wants to keep up with the momentum. It has planned a launch of 7-8msf of projects in FY24, of which, 5msf will be in Bengaluru, 1msf in NCR and the remaining in other markets. The company expects to sustain a similar run-rate in FY25.
- Pricing:** The management is factoring in only inflationary growth in pricing and further growth will depend on demand momentum.
- Operating Margin:** The company will continue to witness margin pressure in contractual business for a quarter and the residential segment for the next two-three quarters. Residential EBITDA margin is expected to improve to over 15% and PAT margin will be in double digits

3. PRICE PERFORMANCE (%)

Particulars	3 M	1 Y
Sobha Ltd	23.51%	-7.68%
Nifty Realty	33.54%	19.79%
Nifty 50	9.29%	4.79%

4. CONCALL SUMMARY:

- Gurugram projects:** Added a new project in NCR, near the existing land parcel at Dwarka-expressway and another launch is from an old land in New Gurugram.
- Cash flow:** Focus on cash flows led to record reduction in net debt in FY23. Debt level is far more comfortable and the optimistic economic environment will compel the company to focus on growth.
- Cash flow:** The management expects an increase in expenditure on construction and acquiring new land, and hence, we do not expect a similar reduction in debt. Any debt reduction is expected to be gradual over time.
- Margins :** The revenue recognized now corresponds to the sales made prior to the onset of the Covid. However, the costs incurred during this period were affected by an inflationary environment, resulting in lower margins.
- Margins :** Expect margins to more than double to over 6% post 4QFY24.
- Hosur** –The company was gearing up to launch a plotted development project in Hosur, but unfortunately it faced unexpected roadblocks. Despite these setbacks, the project should be back on track in the next couple of quarters, with the aim to launch it in FY24 and it has not yet been included in the pipeline of 7-8 msf projects.
- Hoskote** – It's under accumulation and initial design phase right now. The company is currently identifying a land parcel which can be launched in multiple phases. The management will crystalize its plans in 2HFY24.
- Promoter role :** Ravi Menon is moving to the UAE business to take over the baton from PNC Menon. Going forward, Ravi Menon's role in India will shift toward a strategic focus. The company has always been professionally managed, with the promoters serving as a guiding force. Therefore, this transition should not be perceived as anything negative.

5. VALUATION AND OUTLOOK:

- Strong cash generation will enable business development and further growth visibility in future.
- As per company management, demand continues to resilient and the company plans to launch 7-8msf of new projects in FY24, of which 5msf is expected to be in Bengaluru, 1msf in Gurugram and balance in other cities. If the approvals for all the planned launches come through, then the company is targeting 15-20% growth in gross sales bookings for FY24.
- EBITDA Margins for FY23 of 11% have been impacted by legacy contracting and manufacturing segment projects, the company expects margins to improve from H2FY24.
- We initiate BUY rating on stock and value the stock at 14.4x FY25 earnings to arrive at the target of Rs.627.**

RECOMMENDATION – BUY

CMP –531.85

TARGET – 627 (18%)

Industry	Construction- Real Estate
NSE CODE	SOBHA
BSE CODE	532784
Market Cap (₹ Cr)	5044
Shares outstanding (in Cr)	9.48
52 wk High/Low (₹)	750.85/412.1
P/E	48.4
P/BV	2.02
Face Value (₹)	10.0
Book Value (₹)	263.03
EPS (₹)	10.99
Dividend Yield (%)	0.56
Debt / Equity	0.81
Interest coverage	1.58

SHAREHOLDING PATTERN

	Mar 23	Dec 22	Sep 22
Promoters	52.26	51.99	51.99
Mutual Funds	11.25	12.18	12.12
FII/FPI	13.76	15.06	15.55
Non Institutions	20.36	19.19	18.76
Promoter Pledging	20.18	20.28	20.28

FINANCIAL SNAPSHOT (₹ Cr)

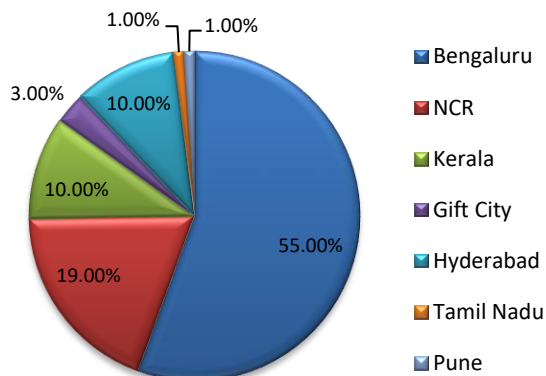
Y/E March	2023A	2024E	2025E
Core			
Sales	3310	3493	4021
Sales Gr. (%)	21.21	5.53	15.12
EBITDA	369	465	706
EBITDA mrg. (%)	-58.49	13.31	17.56
PAT	104	216.22	412.6
EPS (₹)	10.99	22.81	43.52
EPS Gr. (%)	-10.80	107.55	90.79
Ratios			
RoE (%)	4.17	8.2	14.8
RoCE (%)	12.49	9.5	12.2
Valuation			
P/E (x)	39.18	21	14.4
Net Debt/ equity	0.80	0.6	0.4

Particulars	TTM	5 Yr Avg
Historical P/E :	47.9	33.42
Industry P/E :	49.8	
Historical P/B :	2.00	1.77
Industry P/B :	3.45	

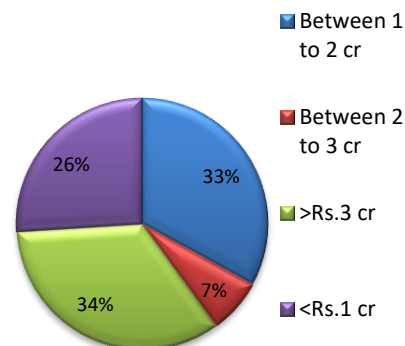


REVENUE SPLIT (%) Q4 FY23

Region Wise Contribution to Total Sales



% Contribution Per Price Brackets



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22				FY23				FY24	FY23	FY24E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE*		
Net sales	512	780	622	710	582	667	868	1210	912	3,310	3493
YoY change (%)	46.37	49.41	-9.07	28.35	13.53	-14.44	39.51	70.34	56.70	21.21	5.53
Total Expenditure	311	601	472	633	368	575	779	1094	765	2,941	3028
EBITDA	201	179	150	78	214	92	89	116	147	369	465
Margins (%)	39	23	24	11	13	14	10	10	16.12	11	13.31
Depreciation	18	17	18	18	16	18	18	18	18	68	74
Interest	184	79	79	68	190	63	66	61	65	249	196
Other income	13	1	28	33	14	23	30	30	25	92	102
PBT	13	84	81	25	22	34	35	67	89	145	297
Tax	2	21	20	11	8	15	3	18	21.4	28.3	80.78
Rate (%)	14	25	25	43	37	44	9	27	24	28.0	27.2
Adjusted PAT	11	63	61	14	14	19	32	49	67.6	104	216.22
YoY change (%)	63.64	289.51	182.41	-20.67	26.85	-69.57	-47.87	242.2	382.8	-11.11	107.90
Key Performance Indicators											
RM Cost (% of Sales)	37	45	46	70	66	90	97	113	-	-22.00	-
Staff Cost (% of Sales)	52	62	62	65	59	77	75	79	-	9.00	-
Other Costs (% of Sales)	0	0	0	0	0	0	0	0	-	102.00	-
EBITDA Margin (%)	39	23	24	11	13	14	10	10	16.12	11	13.3
PAT Margin (%)	2.1	8	10	2	2	3	4	4	7.41	3.14	6.19

Source: Company, Hem Securities Research.

*Insights into the assumptions:

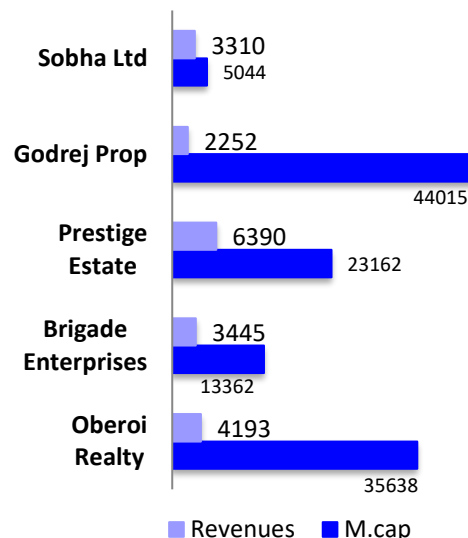
- 1> Expected to see sharp growth in FY24 on the back of Owning to the improving demand dynamics and a strong sales performance in FY23.
- 2> Near term focus of company is to de leverage the balance sheet.
- 3> We expect EBITDA and PAT margins to improve in line with dedicated cost cutting efforts by the company.



INDUSTRY OVERVIEW

- Real estate sector is one of the most globally recognized sectors. It comprises of four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth in the corporate environment and the demand for office space as well as urban and semi-urban accommodations.
- By 2040, real estate market will grow to Rs. 65,000 crore (US\$ 9.30 billion) from Rs. 12,000 crore (US\$ 1.72 billion) in 2019. Real estate sector in India is expected to reach a market size of US\$ 1 trillion by 2030 from US\$ 120 billion in 2017 and contribute 13% to the country's GDP by 2025. Retail, hospitality, and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.
- Demand for residential properties has surged due to increased urbanization and rising household income. India is among the top 10 price appreciating housing markets internationally.
- As per ICRA estimates, Indian firms are expected to raise >Rs. 3.5 trillion (US\$ 48 billion) through infrastructure and real estate investment trusts in 2022, as compared with raised funds worth US\$ 29 billion to date.
- Private market investor, Blackstone, which has significantly invested in the Indian real estate sector (worth Rs. 3.8 lakh crore (US\$ 50 billion), is seeking to invest an additional Rs. 1.7 lakh crore (US\$ 22 billion) by 2030. Overall Real Estate sector is in bull trend.

KEY PLAYERS



PEER PERFORMANCE

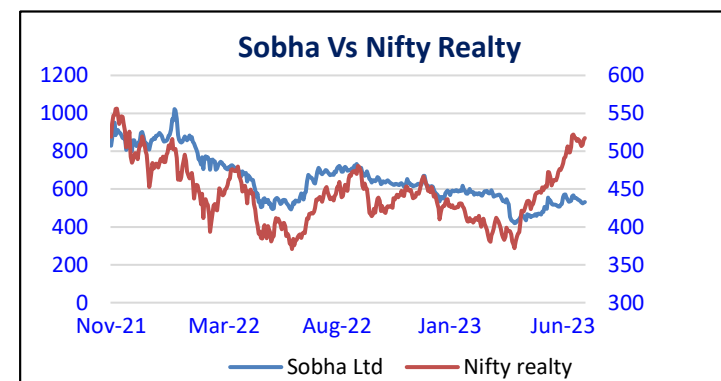
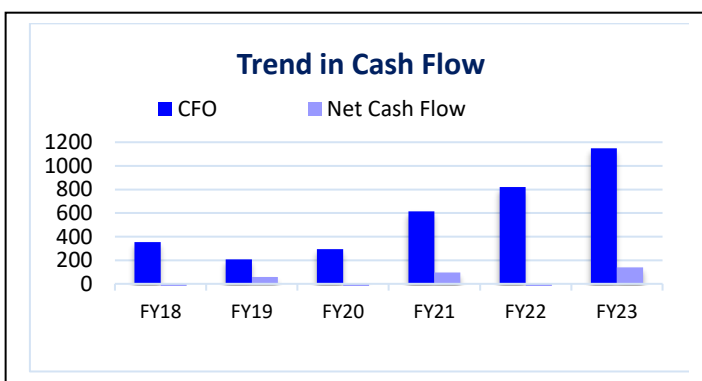
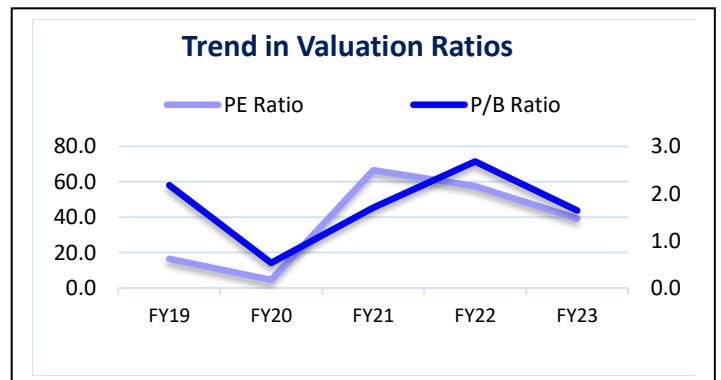
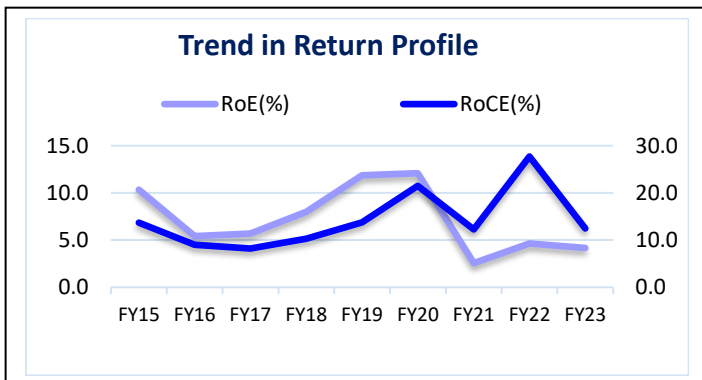
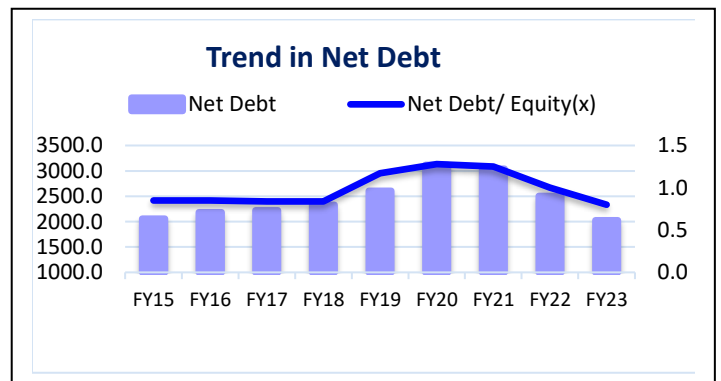
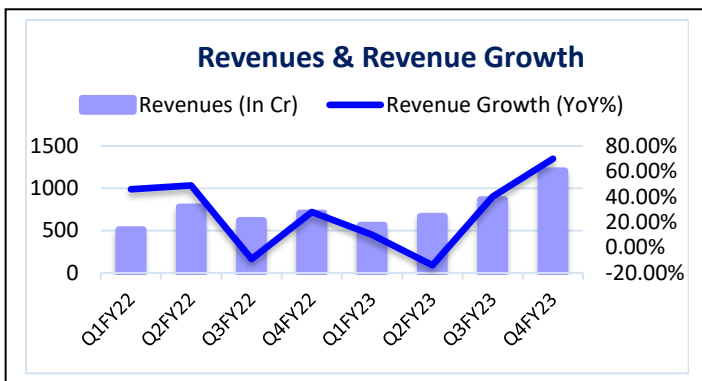
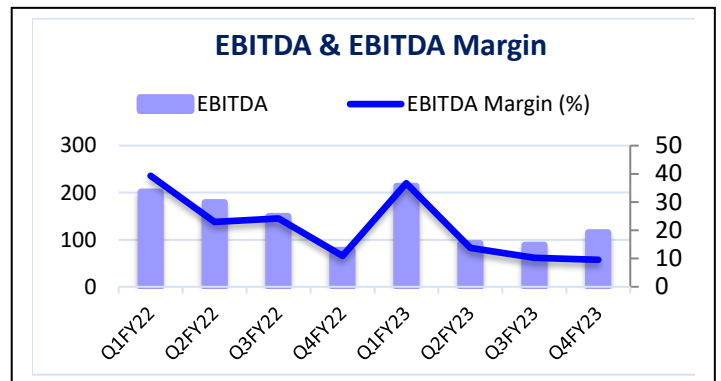
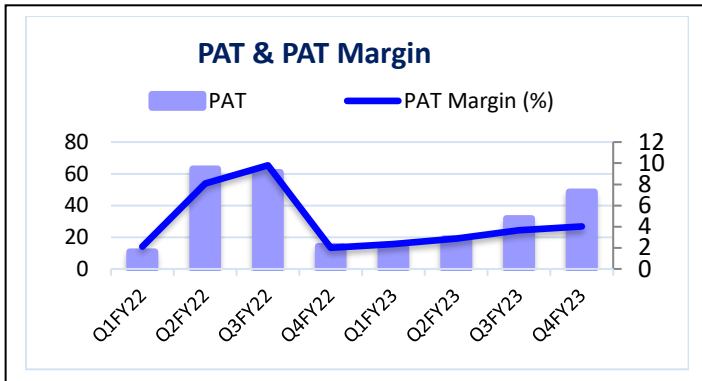
(₹ Cr)

Particulars	Sobha Ltd	Brigade Enterprises	Prestige Estate	Godrej Properties	Oberoi Realty Ltd
Market Cap	5044	13362	23162	44015	35638
Net Sales	3310	3445	6390	2252	4193
EBITDA	369	859	2086	207	2112
PAT	104	222	1067	621	1905
EPS (Rs)	10.99	12.63	23.49	20.55	52.38
EBITDA MARGIN %	11	25	25.00	9	50
PAT MARGIN %	3.14	6.44	12.83	27.58	45.43
ROCE %	12.49	8.69	12.54	10.84	14.15
ROE %	4.17	8.98	9.44	6.16	15.59
P/E	39.18	37.56	17.16	50.17	16.09
P/B	1.64	3.37	1.62	3.09	2.51
EV/EBITDA	12.20	14.23	8.94	31.97	15.41
Debt to Equity	0.80	1.40	0.81	0.69	0.32
Return on assets	0.82	1.77	2.57	2.47	10.21

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Company is one of India's most established brands with presence in 10 cities, viz. Bengaluru, Gurugram, Chennai, Pune, Coimbatore, Thrissur, Kozhikode, Kochi, Gujarat (Gift City) and Mysore.
- The demand is likely to improve even further over medium to longer term to be driven by a) better affordability, b) conducive government policies, c) growing working population and increasing affordability, d) shifting to nuclear families, e) financially stable developers, and f) improving digital sales and marketing capabilities.
- Company has managed to reduce its net debt position by Rs. 697 crore YoY to Rs. 1640 crore (net D/E: 0.66x), aided by strong operating cash flows of Rs.1056 crore (up ~23% YoY) in FY23, driven by collections of Rs. 4306 crore (up ~36% YoY) from residential sales. Going forward, the company's strong focus remains on reducing its debt with higher sales and better cash flow generation.
- With demonetisation and RERA implementation, organized players such as Sobha benefited immensely from their brand value and high quality. Also, company gained from historically low lending rates, tax cuts, and consumer preference for ready-to-move-in/timely-completed projects.
- Given the established brand and favorable dynamics, Company will continue to capitalize on upcoming opportunities.
- Going forward, if approvals are on time, the company expects to clock 15-20% volume growth in FY24.
- Going forward, the management expects margin to improve ahead in H2FY24 (despite increase in raw material) as significant costs have already been incurred in projects due for handover.
- Company has planned launch pipeline of 16 projects (including three commercial projects) with 14.4 msf of area of which it expects to launch ~ 7 msf in FY24.
- Company has a Huge captive land bank providing enough ammunition to expand overall residential sales volumes trajectory.

RISK FACTORS:

- Any decline in property prices could exert pressure on the real estate market. Further, there is uncertainty about events such as government policy changes, market movements and in general demographic preferences, which could cause considerable damage to players operating in the real estate industry.
- Interest rates play a pivotal role in real estate and are one of the key demand boosters. Any adverse movement in interest rates can lead to a reduction in demand and impact the industry and the company's growth prospects.

COMPANY RECAP

- Sobha Limited, incorporated in 1995, is a real estate developer engaged in construction to operations of townships, housing projects, commercial premises, and other related activities. The Co. is also engaged in manufacturing activities related to interiors, glazing and metal works, and concrete products.
- Company has categorized its revenue into three categories:-
 - Real Estate (64% of the revenue, FY21):** It includes the sale of housing and commercial leasing of properties.
 - Contract and Manufacturing (36%):** It comprises the development of commercial premises and other related activities, including manufacturing activities related to interiors, glazing and metal works, and concrete products.
- Co.'s corporate clients include LuLu group, Biocon, Dell, Bosch, Syngene, Taj Hotels, HCL, ITC Hotels, Huawei Technologies, and many more.
- Co.'s Contractual portfolio includes developing offices, convention centres, software development blocks, multiplex theatres, hostel facilities, hotels, guest houses, food courts, restaurants, research centres, club houses and factory buildings for its many well-known and respected corporate clients.
- The product-mix offered by the Company has been well accepted by its customers. The Company, on an ongoing basis, analyses its customer base and the analysis revealed that its customer profile has a healthy mix, comprising IT/ITES professionals, non-IT professionals, entrepreneurs, and professionals. About 65 percent of its customers are in the salaried category, which includes 49 per cent from IT/ITES and 16 per cent from non-IT industries. In addition, 4 per cent of the Company's customers are from the business and entrepreneur category.
- It is the only company in the sector to have a full-fledged backward integrated model of operations. Under the backward integration model, the Co. has three manufacturing divisions - Glazing and Metal Works, Interiors and Concrete Products which are used for the manufacturing of houses. It also has a very high-end mattress manufacturing unit under the brand name Sobha Restoplus, started in 2007.
- Sobha has a presence in the residential segment in 10 cities and its overall footprint extends to 27 cities in 14 states across India. However, the company derives 67% of the revenue only from Bangalore.
- Region wise contribution to sales value:-
 - * Bangalore: 63%
 - * NCR: 20%
 - * Kerala: 7%
 - * Gift City : 3%
 - * Hyderabad : 3%
 - * Tamil Nadu : 2%
 - * Pune : 1%



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

	2018	2019	2020	2021	2022	2023	2024E	2025E
							(₹ Cr)	
March	2018	2019	2020	2021	2022	2023	2024E	2025E
Revenue from operations	2783.0	3,442.1	3753.9	2109.8	2731	3310	3493	4021
Growth YoY (%)	24.9	23.7	9.1	-43.8	29.4	21.21	5.53	15.12
Total Expenditure	2263.3	2768.8	2638.9	1434.6	1842	2941	3028	3315
(%) of sales	81.3	80.4	70.3	68.0	67.4	88.85	86.69	82.44
EBITDA	519.7	673.3	1115.2	675.1	889	369	465	706
EBITDA Growth (%)	24.2	31.2	59.0	-36.3	31.7	-58.49	26.01	51.83
EBITDA Margin (%)	20.4	21.7	31.6	35.8	32.6	11.15	13.31	17.56
Depreciation	54.4	62.3	72.3	79.4	72	68	74	81
EBIT	371.5	510.5	505.4	154.6	817	301	391	625
Growth (%)	30.5	32.9	62.9	-39.3	428	-63.16	29.90	59.85
Interest Expenses	197.8	236.2	681.6	601.2	750	249	196	185
Other Income	49.6	73.5	71.8	80.6	91	92	102	133
Exceptional Items	-	-	-	-	-	-	-	-
Earnings before Taxes	317.1	448.2	433.2	75.2	158	145	297	573
Growth (%)	29.5	41.3	-3.3	-82.6	110	-8.23	104.83	92.93
EBT Margin (%)	11.4	13.0	11.5	3.6	5.8	4.38	8.50	14.25
Tax-Total	100.3	151.2	151.2	12.9	41	41	80.78	160.44
Rate of tax (%)	31.6	33.7	35	17.2	26	28	27.2	28
Net Profit	216.9	297.0	281.7	62.3	117	104	216.22	412.6
Growth (%)	46.7	36.9	-5.2	-77.9	87.8	11.1	107.90	90.82
PAT Margin (%)	7.8	8.6	7.5	3.0	4.3	3.1	6.19	10.26
EPS	22.9	31.3	29.7	6.6	12.31	10.99	22.81	43.52
EPS Growth (%)	37.0	36.9	-5.2	-77.9	86.9	-10.72	107.55	90.79

Balance Sheet

Y/E March	2018	2019	2020	2021	2022	2023
Equity Share Capital	95	95	95	95	95	95
Reserves & Surplus	2675	2134	2336	2333	2416	2400
Total Shareholder's Funds (A)	2770	2229	2431	2428	2511	2495
Long Term Borrowings	2331	2604	3131	3052	2463	2027
Non-Controlling Interest	-	-	-	-	-	-
Total Non-Current Liabilities (B)	2331	2604	3131	3052	2463	2027
Advance from customers	1126	4189	3914	4300	5025	-
Trade Payables	720	1133	957	732	675	599
Other Liability Items	2077	585	577	697	5761	7455
Total Current Liabilities (C)	3924	5907	5448	5729	6436	8054
Total Equity and Liabilities (A+B+C)	9025	10740	11010	11209	11410	12576
Property, Plant & Equipment	610	678	919	903	817	901
Capital Work in progress	0	0	0	0	0	0
Investments	112	113	114	114	115	115
Total Non-Current Assets (A)	722	791	1033	1017	932	1016
Inventory	4835	6517	6704	7125	7427	8761
Debtors	327	327	360	194	350	158
Cash and Bank Balance	119	177	88	204	178	451
Loans and advances	2533	2389	2265	1956	202	1
Other Current Assets	487	539	558	712	2320	2188
Total Current Assets (B)	8302	9949	9976	10191	10478	11560
Total Assets(A+B)	9025	10740	11010	11209	11410	12576

Source: Company, Hem Securities Research.



Ratios						
Y/E March (Basic (INR))	2018	2019	2020	2021	2022	2023
Profitability and return ratios						
Net profit margin (%)	7.8	8.6	7.5	3.0	4.3	3.1
EBITDA margin (%)	20.4	21.7	31.6	35.8	33	11.2
EBIT margin (%)	18.5	19.9	29.7	32.1	33.2	9.09
ROE (%)	8.0	11.9	12.1	2.6	4.7	4.17
ROCE (%)	10.3	13.8	21.5	12.3	27.7	12.49
Working Capital & liquidity ratios						
Payables (Days)	121.1	146.6	108.3	741.2	-	17
Inventory (Days)	650.3	601.9	642.8	1196.3	-	-
Receivables (Days)	36.3	34.7	33.4	47.9	47	-
Current Ratio (x)	1.4	1.1	1.1	1.1	1.2	1.11
Valuations Ratios						
EV/sales (x)	2.5	2.1	1.2	3.3	2.7	2.00
EV/EBITDA (x)	12.4	9.8	3.6	9.2	9.2	57.13
P/E (x)	6.0	16.4	4.6	66.4	57.5	39.18
P/BV (x)	1.7	2.2	0.5	1.7	2.7	1.64
Dividend Yield (%)	1.4	1.4	5.2	0.8	0.7	0.56
Return on Assets (%)	2.4	3.0	2.6	0.6	1.0	0.82
Leverage Ratio						
Debt/Equity (x)	0.8	1.2	1.3	1.3	0.9	0.80

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023
CF from Operating activities (A)	353	206	294	613	821	1150
CF from Investing Activities (B)	-129	-61	-307	-33.2	38	-237
CF from Financing Activities (C)	-243	-86	-84	-483	-884	-773
Net Cash Flow	-18	58	-97	96	-25	140
Add: Opening Bal.	124	106	164	68	164	139
Closing Balance	106	164	68	164	139	279

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
28 th June 2023	BUY	627

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