



Company Name	: SOBHA LTD
BSE Code	: 532784
Time Duration	: 2 years
CMP	: ₹290.65(as on 05 Nov., 2020)
Target Price	: ₹407

Our Upstream Pick for the month of November is Sobha Limited. The company is known for its positive attributes like solid values, benchmark quality standards, and uncompromising business ethos. Its focussed customer-centric approach, robust engineering, in-house R&D along with, transparency in all spheres of conducting business have contributed to making Sobha Ltd, a preferred real estate brand in both residential and commercial segments. Sobha Ltd has developed 109.74 million sq. ft. of the area since inception. It has a presence in the residential segment in 10 cities with its overall footprint, extending up to 27 cities in 14 states across India.

The company is an industry leader based in Bengaluru. Location-wise, this real estate company earns a major chunk of its revenue from Bengaluru (68 per cent), 12 per cent from NCR, 10 per cent from Kochi, 4 per cent from Chennai, 2 per cent from Thrissur, and 1 per cent from Kozhikode & Mysuru each. Product-wise, the company's revenue comprises of 65.8 per cent from real estate, 24.2 per cent from contractual, and 10 per cent from the manufacturing segment.

We have chosen Sobha Limited as our Upstream Pick for this month as it registered the highest sales in FY19-20 despite COVID-19 disruption and strong operating cash flow even during the lockdown. The company posted good results backed by its unmatched quality standards, product mix offering, and solid track record of delivering the project on-time. It also benefits from government initiatives as it is the only real estate company in India to integrate a self-reliant model of operations.

Operational highlights

Sobha Ltd achieved a new sales area of 4.07 million sq. ft., the highest since its inception, during the year 2019-20. Despite a challenging environment, the company's performance in sales volume was in line with the projections. For Q1FY21, the company sold an area of 6,50,400 sq. ft. as against 10,63,632 sq ft which it sold in Q1FY20, registering a de-growth of 38.85 per cent YoY, due to the lockdown implemented throughout the nation to curb the spread of COVID-19.

Although the company witnessed a decline in sales volume for the June-end quarter, it saw an increase in its average price to Rs 7,498 per sq. ft. compared to Rs 7,312 per sq. ft. for the corresponding quarter of the previous year. The company will benefit from the rise in the average realisation price, once the economy recovers.

Moreover, the level of inquiries from customers is now almost back to pre-COVID levels, suggesting a revival in the business for the upcoming quarter.

Sales value performance

The company continued to see demand in every price category, especially in the segment of Rs 1 crore-Rs 2 crore, from which, sales contribution increased to 56 per cent in Q1FY21 from 46 per cent in the corresponding quarter of the previous year. The segment of more than Rs 3 crore rose to 11 per cent in Q1FY21 from 6 per cent in Q1FY20 while the segment of Rs 2 crore-Rs 3 crore contributed 17 per cent, similar to the previous year. Interestingly, the segment of Rs 1 crore contributed to 16 per cent as against 31 per cent in Q1FY20. Region-wise, Bengaluru contributed 74 per cent of the total sales value in Q1FY21.

Focus on reducing the debt level

The company utilises its debt financing for the execution of various projects viz. residential, commercial & contractual and to finance the acquisition of land parcels for future development. As of Q1FY21, the company registered a marginal decline in debt of Rs 3,021 crore compared to Rs 3,023 crore in the previous quarter. However, on annual basis, the company witnessed a rise of 9.77 per cent in the net debt level.

On the borrowing cost front, the average borrowing cost declined in the previous three quarters. In Q3FY20, the company's borrowing cost was 9.76 per cent, which has come down to 9.64 per cent in Q1FY21. Considering the reduced borrowing cost, the company will have a lesser burden of finance costs in the future. The company's net debt-to-equity ratio reduced to 1.24x in Q1FY21 from 1.30x in Q3FY20.

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Completed & upcoming projects

The real estate product mix includes multi-storied apartments (dreams, luxury, super luxury & presidential category), row houses, villas, plotted developments & clubhouse facilities, etc. The company completed real estate projects located across seven cities, with an increase in the total development of 58.74 million sq. ft. from 55.01 million sq. ft. and an increased super built-up area of 44.62 million sq. ft. for Q1FY21 compared to 42.09 million sq. ft. in Q1FY20.

With under construction projects located across 9 cities, it has a total developable area of 38.52 million sq. ft. and a super built-up area of 26.81 million sq. ft. in Q1FY21, which is marginally lesser from that of the same quarter of the previous year.

Forthcoming residential projects are located across 9 cities with a total super built-up area of 14.36 million sq. ft. including proposed commercial projects in Bengaluru with a total leasable area of 0.39 million sq. ft.

Contracting order book & collection

Regardless of the pandemic and economic slowdown, the company recorded an increase of 5.95 per cent YoY in the order book of contracts & manufacturing in Q1FY21. Order book in Q1FY21 stood at Rs 2,366 crore as against Rs 2,233 crore in Q1FY20.

On the collections' front, the total collection for the June quarter declined 24.64 per cent YoY to Rs 211 crore from Rs 280 crore in Q1FY20. Out of the total collections, the collection from contracts declined 18.56 per cent YoY while collection from manufacturing de-grew 33.62 per cent YoY.

Financials

On the financial front, consolidated net sales for Q1FY21 stood at Rs 350 crore, witnessing a 70.26 per cent YoY decline as compared to Rs 1,176.7 crore in the corresponding period of the previous year. EBITDA for the quarter declined by 38.91 per cent YoY to Rs 193.4 crore as against Rs 316.6 crore in Q1FY20. EBITDA margin for the quarter expanded by 2,835 bps to 55.26 per cent YoY due to lower operational expenses. The company's consolidated net profit for the quarter sharply declined by 92.72 per cent YoY to Rs 6.6 crore from Rs 90.6 crore in Q1FY20.

Segment-wise, the contractual vertical has been a consistent contributor to the total revenue with a CAGR of 25 per cent. Revenue contribution of the vertical is approximately 26 per cent, supporting the company's operations.

Net operational cash flow increased to Rs 92.7 crore for Q1FY20 from Rs 5.5 crore in Q1FY20 due to lower real estate project expenses and lower contracts & manufacturing expenses for the quarter.

Valuation & Outlook

With operations moving gradually towards the pre-COVID levels, operational performance for the remaining 9 months of FY21 is expected to be better as compared to Q121. The company enjoys sufficient liquidity from banks and with sufficient undrawn bank limits, it would be able to meet the obligations.

On the valuation front, the company has a TTM EPS of Rs 29.7 and TTM P/E of 4.56x, which is comparatively lower than its peers, Godrej Properties (which is trading at a P/E of 56.85x) and Sunteck Realty (trading at a P/E of 29.43x). The company has a total debt/equity of 1.28x as of March 2020 and a comfortable interest coverage ratio of 1.64x. Considering all the above factors, we see a potential upside of 40 per cent with a target price of Rs 415 over a period of two years.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	3753.85	3442.07	2783.03	2229.06	1943.2
Total Income	3825.66	3515.54	2832.61	2267.67	1977.48
Total Expenditure	2638.62	2768.78	2263.31	1809.32	1500.27
PBIDT	1187.04	746.76	569.3	458.34	477.21
PAT	281.67	296.99	216.87	147.83	135.04
Dividend %	70.00	70.00	70.00	25.00	20.00
Adj. EPS(Rs)	29.70	31.31	22.87	16.69	14.08

Quarter On Quarter (Consolidated)

Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Net Sales	350.00	910.10	-61.54	1176.70	-70.26
Total Expenditure	156.60	655.60	-76.11	860.10	-81.79
PBIDT (Excl OI)	193.40	254.50	-24.01	316.60	-38.91
PAT	6.60	50.70	-86.98	90.60	-92.72
PBIDTM% (Excl OI)	55.26	27.96	97.64	26.91	105.35
PBIDTM%	57.91	29.89	93.74	28.30	104.63
PATM%	1.89	5.57	-66.07	7.70	-75.45
Adj. EPS(Rs)	0.70	5.35	-86.92	9.56	-92.68



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