

Sobha

17 August, 2021

Reuters: SOBH.NS; Bloomberg: SOBHA IN

Gradual improvement in balance sheet health

We maintain our Accumulate rating on Sobha and value it at FY23E NAV, arriving at a revised target price (TP) of Rs563 (Rs 468 earlier), implying a downside of 5% from CMP. We have made an upward revision of 1.5% in residential prices, as guided by the management in the conference call to arrive at a target price.

Net profit grew by 64% YoY due to base effect since 1QFY21 was strongly impacted by Covid-induced lockdown. The QoQ decline in net profit to Rs108mn was due to: (1) Decline in revenue by 7% QoQ to Rs5.1bn (2) Increase in interest expenses by 23% QoQ (3) Tax payment of Rs18mn in 1QFY22 compared to tax refund of Rs33mn in 4QFY21.

Residential sales volume declined from 1.3mn sqft in 4QFY21 to 0.89mn sqft in 1QFY22. Further, the average sales price reduced from Rs8,014/sqft in 4QFY21 to Rs7,626/sqft in 1QFY22.

Net operating cash flow from operations (post interest & tax) stood at Rs516mn in 1QFY22 compared to Rs1,506mn in 4QFY21. Net debt to equity ratio improved marginally from 1.24x in 1QFY21 to 1.15x in 1QFY22.

Revenue declines by 7% QoQ and increases by 46% YoY in 1QFY22: Revenue in 1QFY22 declined by 7% QoQ and increased by 46% YoY. Revenue from contractual and manufacturing segments declined by 46% QoQ.

The company intends to launch ~17 projects spread over an area of 12.56mn sqft across various cities. Total inventory available for sale stood at 26.93mn sqft as of June'21, of which 14.69mn sqft is from the unsold inventory. The project cost will be funded mostly through internal accruals. The management has guided that due to adoption of IND-AS 116, the revenue recognition of Rs68.7mn for the undertaken projects will be recognized in the coming quarters.

EBITDA margin stood at 39% in 1QFY22 vs 27% in 4QFY21 and 55% in 1QFY21: EBITDA margin expanded by 12.3% QoQ and contracted by 15.94% YoY in 1QFY22. The expansion in EBITDA margin QoQ was mainly due to (1) Decrease in land purchase cost by 100% QoQ as the company deferred the purchase of land to the latter quarter and will incur the said cost depending on the availability of opportunities (2) Reduction in construction expenses by 36% QoQ (3) Reduction in employee cost by 2% QoQ and (4) Decline in other expenses by 38% QoQ.

The contraction in EBITDA margin YoY was due to (1) Increase in construction expenses by 72% YoY (2) Increase in RM cost by 35% YoY (3) Increase in production expenses by 111% YoY (4) Increase in employee cost by 70% YoY and (5) Increase in other expenses by 20% YoY.

Net adjusted profit after tax declines by 40% QoQ and increases by 64% YoY: The adjusted profit after tax declined by 40% QoQ and increased by 64% YoY. The decline in adjusted net profit QoQ was mainly due to (1) Fall in revenue by 7% QoQ (2) Increase in interest expenses by 23% and (3) Tax outflow of Rs18mn in 1QFY22 v/s an inflow of Rs33mn in 4QFY21.

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ACCUMULATE

Sector: Real Estate

CMP: Rs595

Target Price: Rs563

Downside: 5%

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Key Data

Current Shares O/S (mn)	94.8
Mkt Cap (Rsbn/US\$m)	56.4/759
52 Wk H / L (Rs)	688/200
Daily Vol. (3M NSE Avg.)	681,266

Price Performance (%)

	1 M	6 M	1 Yr
Sobha	(9.7)	31.3	159.8
Nifty Index	4.0	8.9	47.3

Source: Bloomberg

Y/E March (Rs mn)	1QFY22	4QFY21	QoQ (%)	1QFY21	YoY (%)	1QFY22E	Var (%)
Revenue from operations	5123	5,534	-7.4%	3500	46.4%	7,646	-33.0%
Indirect expenses	(1,858E)	(2,328)	-20.2%	-651	185.4%	(4,205)	-55.8%
Employee benefit expenses	(517)	(526)	-1.7%	-304	70.1%	(540)	-4.3%
Other expenses	(734)	(1,183)	-38.0%	-611	20.1%	(813)	-9.7%
EBITDA	2,014	1,497	34.5%	1,934	4.1%	2,088	-3.5%
EBITDAM (%)	39.3%	27.1%	12.3%	55.3%	-15.9%	27.3%	12.0%
Depreciation and amortization	(175)	(204)	-14.2%	-189	-7.4%	(208)	-15.9%
EBIT	1839	1293	42.2%	1745	5.4%	1880	-2.2%
EBITM (%)	35.9%	23.4%	12.5%	49.9%	-14.0%	24.6%	11.3%
Other income	127	355	-64.2%	93	36.6%	121	5.0%
Interest expenses	(1,840)	(1,502)	22.5%	(1,784)	3.1%	(1,390)	32.4%
Profit before tax	126	146	-13.7%	54	133.3%	611	-79.4%
Tax expense	(18)	(33)	-45.5%	-12	50.0%	(154)	-88.3%
Effective tax rate (%)	-14.3%	-22.6%	-	-22.2%	-35.7%	25.2%	-
Adjusted PAT	108	179	-39.7%	66	63.6%	457	-76.4%
NPM (%)	2.11%	3.23%	1.13%	1.89%	-	5.98%	3.87%

Source: Company, Nirmal Bang Institutional Equities Research

Sales volume declines QoQ but increases YoY: The average sales volume declined by 33% QoQ from 1.3mn sqft in 4QFY21 to 0.89mn sqft in 1QFY22 and realization declined by 5.0% QoQ from Rs8,014/sqft in 4QFY21 to Rs7,626/sqft in 1QFY22 on account of property demand being affected due to the second covid wave.

Net debt shows a declining trend: Sobha reported net debt of Rs28.17bn in 1QFY22 compared to Rs28.52bn in 4QFY21 and Rs30.21bn in 1QFY21. While the debt declined by 6% YoY and 1.23% QoQ, it still remains at a significantly high level. The net debt to equity ratio improved to 1.15x in 1QFY22 from 1.24x in 1QFY21 and remained at 1.15x in 4QFY21. The cost of debt also improved from 9.64% in 1QFY21 and 9.04% in 4QFY21 to 8.98% in 1QFY22.

Maintain Accumulate with revised TP of Rs563 (Rs468 earlier): We maintain our Accumulate rating on Sobha and value it at FY23E NAV, arriving at a revised target price (TP) of Rs563, implying a downside of 5% from CMP. We made an upward revision of 1.5% in residential prices. The revised TP is due to upward revision in residential prices as per the management in the conference call.

Key takeaways from the conference call:

Sales volume decline partially due to 2nd wave of Covid: Despite Sales volume declined 33% QoQ partially due to lockdowns imposed in Bengaluru. The management has guided for double-digit YoY volume growth in 2QFY22.

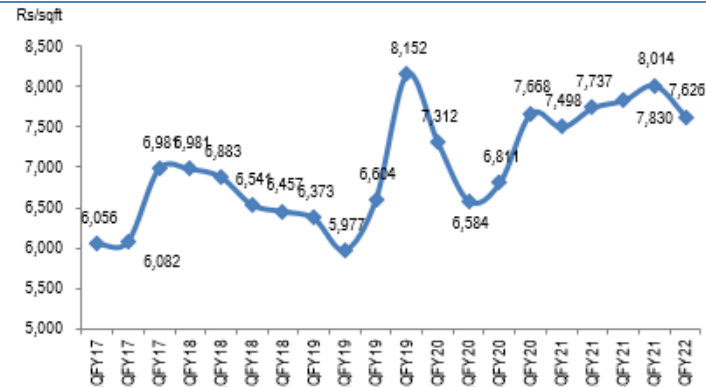
Net operating cash flow after tax & interest declines 65% QoQ to Rs516mn: Net operating cash flow after adjusting for tax and interest cost stood at Rs516mn in 1QFY22, up 2% YoY but down 65% QoQ. The QoQ decline in cash flow was primarily due to (1) Lower cash inflow from Real Estate by 23% QoQ (2) Lower contractual and manufacturing cash flow by 35% QoQ.

New launches: Sobha intends to launch 17 new projects over a period in both residential as well as commercial segments spread over an area of ~12.56mn sqft. The total inventory available for sale as of June'2021 stood at 26.93mn sqft, of which 14.37mn sqft is unsold inventory.

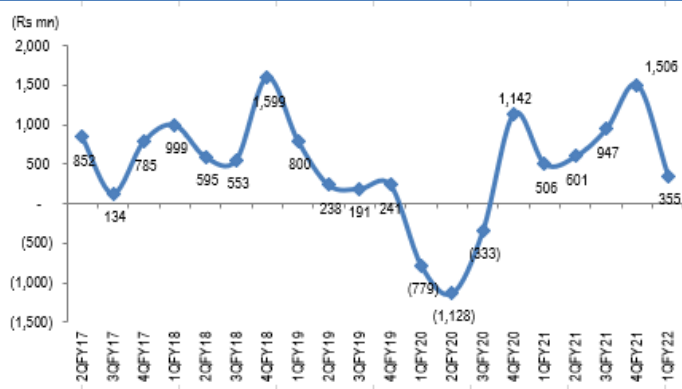
Net debt to equity: The net debt declined from Rs30,210mn in 1QFY20 to Rs28,170mn in 1QFY22 and net debt to equity ratio stood at 1.15x in 1QFY22 compared to 1.24x in 1QFY21.

Exhibit 1: Net debt

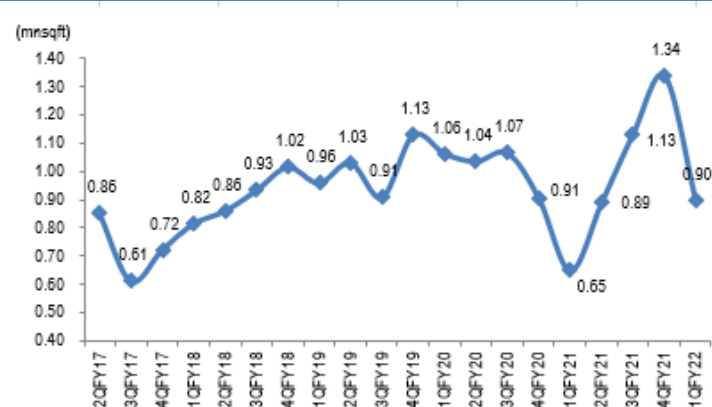

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Average sale price


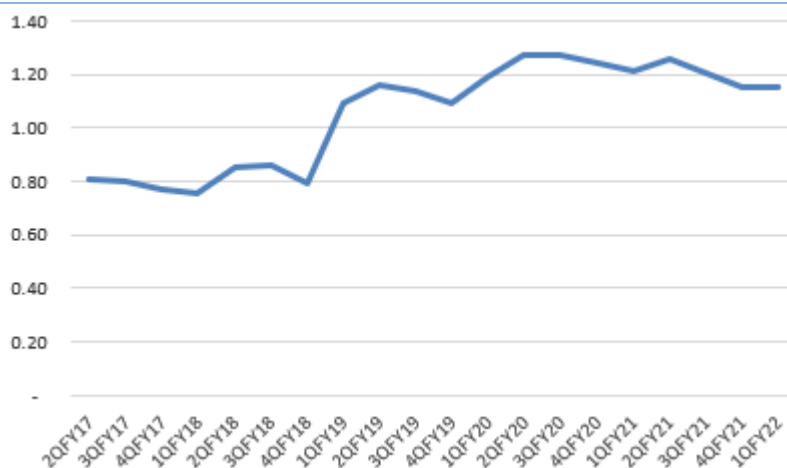
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Operating cash flow after interest costs and tax


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Average sales volume


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Net Debt to Equity Ratio


Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 6: Income statement

Y/E March (Rsmn)	F19	F20	FY21	FY22E	FY23E
Net sales	34,421	37,539	21,098	36,512	40,878
Growth YoY (%)	23.7	9.1	(43.8)	73.1	12.0
Operating costs	20,561	19,910	9,282	21,011	23,674
Staff expenses	2,359	2,464	1,771	1,904	2,094
Other expenses	4,768	4,012	3,293	3,458	3,631
EBITDA	6,733	11,152	6,752	10,140	11,479
EBITDA growth (%)	29.5	65.6	(39.5)	50.2	13.2
EBITDA margin (%)	19.6	29.7	32.0	27.8	28.1
Depreciation	623	723	794	825	856
EBIT	6,110	10,430	5,958	9,315	10,623
EBIT (%)	17.7	27.8	28.2	25.5	26.0
Net interest expense	1,976	6,386	5,592	4,754	5,265
Other income	348	288	386	405	426
Earnings before tax	4,482	4,332	752	4,966	5,783
Tax- total	1,512	1,515	129	964	1,041
Rate of tax (%)	33.7	35.0	17.2	19.4	18.0
Net profit	2,970	2,817	623	4,002	4,742
Minority and other interest	0	0	0	0	0
Net profit for group	2,970	2,817	623	4,002	4,742
% growth	36.9	(5.2)	(77.9)	542.4	18.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	F19	F20	FY21	FY22E	FY23E
Share capital	948	948	948	948	948
Reserves and surplus	21,343	23,364	23,329	27,990	32,732
Net worth	22,292	24,313	24,277	28,938	33,680
Loans	26,039	31,173	30,620	27,620	29,120
Minority Interest	-	-	-	-	-
Deferred tax liability	-	311	342	342	342
Lease Liabilities	-	134	130	130	130
Total capital employed	48,331	55,931	55,369	57,030	63,272
Net fixed assets	6,777	9,240	8,877	12,832	12,526
Goodwill	-	-	-	-	-
Investments	1,128	1,143	1,143	1,200	1,260
Right of Use Assets	-	128	157	165	173
Current assets loans and adv.	98,557	99,589	101,905	111,932	125,717
Inventories	65,173	67,045	71,246	80,286	93,065
Debtors	3,355	3,746	3,355	5,502	6,160
Cash and bank	1,771	884	2,041	928	1,471
Loans and advances	23,606	20,828	19,541	19,207	18,713
Current investments and others	4,651	7,086	5,722	6,008	6,309
Less Current liab. & prov.	59,067	54,191	56,732	69,119	76,426
Current liabilities	58,241	53,626	56,355	67,866	75,097
Provisions	826	565	377	1,253	1,329
Net current assets	39,489	45,397	45,173	42,813	49,292
Miscellaneous	-	-	-	-	-
Deferred Tax Assets	935	21	19	20	21
Total capital employed	48,330	55,930	55,369	57,030	63,272

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	F19	F20	FY21	FY22E	FY23E
Profit after Tax	2,970	2,817	623	4,002	4,742
Depreciation	623	723	794	825	856
Other Income	(348)	(288)	(386)	(405)	(426)
Working capital changes	7,179	(6,796)	1,382	1,247	(5,936)
Operating Cash Flow	10,424	(3,544)	2,413	5,669	(763)
Capital Expenditure	(1,298)	(3,186)	(431)	(4,780)	(550)
Investments	(4)	(14)	(0)	(57)	(60)
Cash flow from investments	(1,301)	(3,200)	(431)	(4,837)	(610)
Equity	-	-	-	-	-
Debt	2,726	5,134	(553)	(3,000)	1,500
Others	(10,631)	1,523	(271)	1,706	417
Dividends	(800)	(800)	-	-	-
Cash flow from financing	(8,706)	5,857	(824)	(1,294)	1,917
Total Cash Generation	417	(888)	1,157	(462)	543
Opening Cash Balance	1,355	1,771	884	2,041	928
Closing Cash & Bank Balance	1,772	884	2,041	1,579	1,471

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

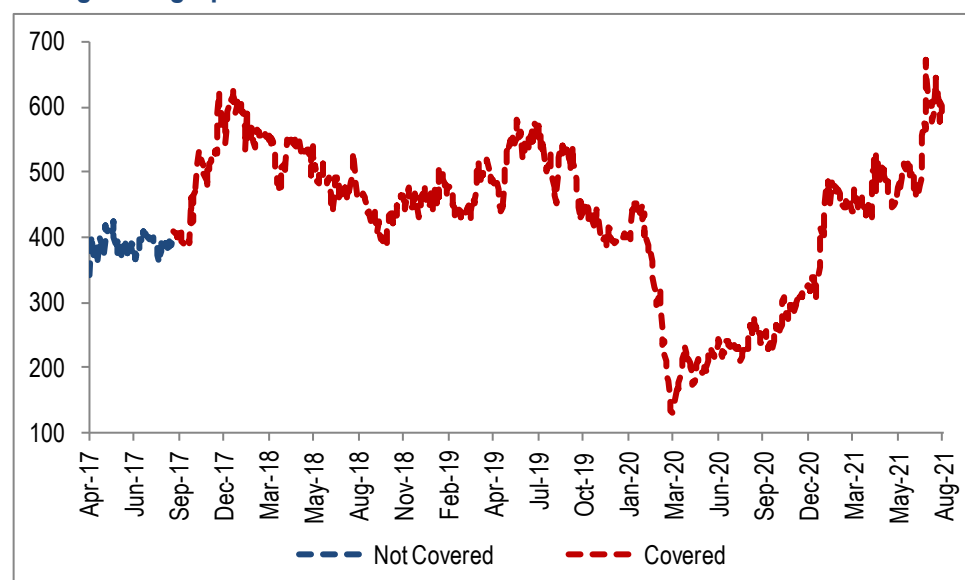
Y/E March (Rsmn)	F19	F20	FY21	FY22E	FY23E
Profitability and return ratios					
EBITDA margin (%)	19.6	29.7	32.0	27.8	28.1
EBIT margin (%)	17.7	27.8	28.2	25.5	26.0
Net profit margin (%)	8.6	7.5	3.0	11.0	11.6
RoE(%)	13.3	11.6	2.6	13.8	14.1
RoCE (%)	13.9	20.0	12.2	17.8	18.2
Working capital and liquidity ratios					
Receivables (days)	36	36	58	55	55
Inventory (days)	691	652	1233	803	831
Payables (days)	212	223	396	330	355
Current ratio (x)	1.7	1.8	1.8	1.6	1.6
Valuation ratios					
EV/sales (x)	2.3	2.3	4.0	2.3	2.1
EV/EBITDA (x)	12.0	7.8	12.6	8.2	7.3
P/E (x)	19.0	20.0	90.6	14.1	11.9
P/BV (x)	2.5	2.3	2.3	2.0	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7 September 2017	Sell	401	295
14 November 2017	Sell	503	295
14 February 2018	Sell	561	363
22 May 2018	Sell	509	363
8 August 2018	Sell	496	363
13 November 2018	Sell	450	376
7 February 2019	Sell	480	376
21 May 2019	Sell	484	376
14 August 2019	Sell	499	376
3 October 2019	Sell	477	405
13 November 2019	Sell	427	360
4 February 2020	Sell	438	360
27 March 2020	Buy	132	162
30 June 2020	Acc	218	208
11 August 2020	Acc	230	235
23 September 2020	Acc	235	243
10 November 2020	Acc	288	304
7 January 2021	Acc	411	389
16 February 2021	Acc	446	444
9 April 2021	Acc	503	499
24 June 2021	Acc	446	468
17 Aug 2021	Acc	595	563

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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