



# Sobha

BSE SENSEX  
71,357

S&P CNX  
21,517



|                       |             |
|-----------------------|-------------|
| Bloomberg             | SOBHA IN    |
| Equity Shares (m)     | 95          |
| M.Cap.(INRb)/(USDb)   | 106.2 / 1.3 |
| 52-Week Range (INR)   | 1140 / 412  |
| 1, 6, 12 Rel. Per (%) | 12/96/71    |
| 12M Avg Val (INR M)   | 484         |

### Financials & Valuations (INR b)

| Y/E MARCH         | FY24E | FY25E | FY26E |
|-------------------|-------|-------|-------|
| Sales             | 35.6  | 42    | 50.3  |
| EBITDA            | 4.1   | 6.3   | 11.4  |
| EBITDA Margin (%) | 11.5  | 15    | 22.7  |
| Adj PAT           | 1.5   | 3.9   | 8.1   |
| Cons. EPS (Rs)    | 16.1  | 40.8  | 83.6  |
| EPS Growth (%)    | 48.6  | 154.1 | 104.7 |
| BV/Share (Rs)     | 271.7 | 309.1 | 389.2 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | 0.5  | 0.4  | 0.2  |
| RoE (%)    | 6.1  | 14.1 | 23.9 |
| RoCE (%)   | 7.7  | 11.9 | 19.6 |
| Payout (%) | 21.4 | 8.4  | 4.1  |

### Valuations

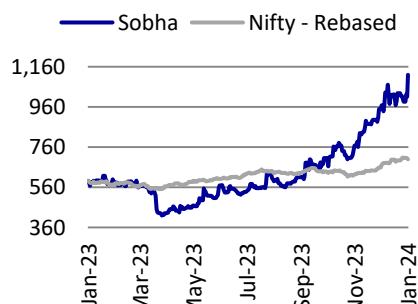
|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 64   | 25.2 | 12.3 |
| P/BV (x)       | 3.8  | 3.3  | 2.6  |
| EV/EBITDA (x)  | 26.8 | 17.2 | 9.3  |
| Div. Yield (%) | 0.3  | 0.3  | 0.3  |

### Shareholding pattern (%)

| As On    | Sep-23 | Jun-23 | Sep-22 |
|----------|--------|--------|--------|
| Promoter | 52.3   | 52.3   | 52.0   |
| DII      | 15.0   | 12.2   | 13.7   |
| FII      | 11.2   | 12.8   | 15.6   |
| Others   | 21.6   | 22.8   | 18.7   |

FII Includes depository receipts

### Stock Performance (1-year)



**CMP: INR1120**

**TP: INR1400 (+25%)**

**Buy**

## Aiming for higher scale with strong balance sheet

### Targeting sustainable growth with healthy cash flows and profitability

After underperforming its listed peers on pre-sales growth over FY21-23, we believe SOBHA is set to outperform in terms of growth given its focus on unlocking its vast land reserve and exploring external growth opportunities through its healthy balance sheet. The outperformance is also expected to be driven by improvements in profitability. Further, visibility in the monetization of some of its large land parcels in Bengaluru will lead to a re-rating in its implied land valuation. SOBHA is our top idea for CY24 with a revised TP to INR1,400, 25% upside potential.

Key risks to our target price include (a) slowdown in residential absorption, (b) delay in monetization of large land parcels, and (c) inability to sign BD deals.

### Delivered ~30% CAGR in pre-sales over FY21-23

- Over FY13-22, SOBHA sustained pre-sales at INR20-30b and sales volumes stagnant at ~4msf. However, during FY21-23, the company reported a 30% CAGR in bookings, driven by strong demand tailwinds, increased launches, and rising prices.
- Volumes saw a CAGR of ~20% during the period, aided by a high contribution from NCR, GIFT City, and Hyderabad. Growth in Bengaluru was in line with industry growth.
- SOBHA also reported a 12% CAGR in pricing during the period, led by strong appreciation in markets like NCR (+21%), GIFT City (+16%), and Pune (+10%).

### Strong pipeline to support pre-sales growth

- The company has outlined 15msf of launches (period), of which 3-4msf was launched in 3QFY24 and the remaining will be launched over the next one and a half years.
- Through its vast land reserves of ~200msf, SOBHA aims to launch 30-40msf of projects over the next three to four years. These launches also include an initial phase of its projects on its large land parcels at Hosur (Tamil Nadu) and Hoskote (Bengaluru).
- We expect SOBHA to scale up launches to 9-10msf by FY26, which will lead to a 25% CAGR in pre-sales to INR100b through FY23-26.

### Healthy balance sheet to enable growth beyond existing land bank

- Over the last three years, the management focused on bringing down the leverage, which further intensified after Mr. Jagadish Nangineni took over as MD and CEO in Mar'22. During his tenure, net debt has been reduced by INR13b to INR14b as of Sep'23.
- With leverage now at 0.6x, the management aims to scale up its operations by launching more projects on its existing land parcels.
- Further, it also intends to restart investments in land, given healthy cash flows. We expect the company's OCF to increase to INR13b by FY26, which should provide SOBHA enough firepower to target external growth.

### Contracts margin stabilized, residential margins to improve from FY25

- EBITDA margins dropped to 11% in FY23 from 21% in FY22 as EBIT margins for the residential segment halved to 23%. The contractual segment managed to breakeven at the operating level owing to the impact of sharp inflation.
- Margin contraction, especially in the residential segment, despite pricing 10-15% premium over its peers, has been one of the key concerns for investors. Thus, margin improvement will be one of the key re-rating triggers.
- EBIT margins for the contractual segment have now stabilized at 15% (in 2QFY24) as guided by the company. The residential segment's EBITDA margin is expected to recover to 25-30% in 4QFY24.
- As per the management, projects launched post FY23 have seen healthy realizations and are expected to generate EBITDA margin of over 30%.

### Resolution of ongoing cases might take time

- **Gurugram ED case:** The Enforcement Directorate has concluded its investigation and the case will go through the judicial process once filed in the court. SOBHA is confident of a favorable outcome but the timeline is difficult to ascertain.
- **Chennai IT Raid:** The management is yet to hear from the Income Tax Department about the findings of the raid and will accordingly assess if the judgement needs to be contested, hence it expects the case to run a little longer.
- **Sobha City OC issue:** The management admitted lapses in the documentation of the project and it proactively took action to get it corrected. The company is ready to accept the penalty levied for the same, but it will not be material.

### Valuation and view

- We factor in higher launches over FY24-26E and hence revise our pre-sales estimates by 4%/12% for FY24/FY25. We also introduce FY26 estimates.
- We believe that as the company unlocks its vast land reserves and explores growth opportunities beyond its existing land bank, it will provide further growth visibility. Project launches on its large land parcels in Bengaluru and Tamil Nadu will drive re-rating for its existing land valuation.
- Its focus on sustainable growth (revenue growth, healthy profitability, and steady cash flows) will put the company on a long-term growth path.
- At CMP, SOBHA's ~200msf land is valued at INR38b vs. our arrived value of INR60b assuming 25-75 years of monetization. The company trades at 6.5x FY25E EV/EBITDA (implied based on FY25E pre-sales), which is 25-40% discount to its comparable midcap/smallcap peers (PEPL, BRGD, MLDL, Sunteck).
- **We revise our TP to INR1,400, implying 25% upside potential, and we rate SOBHA as our top idea for CY24.**