



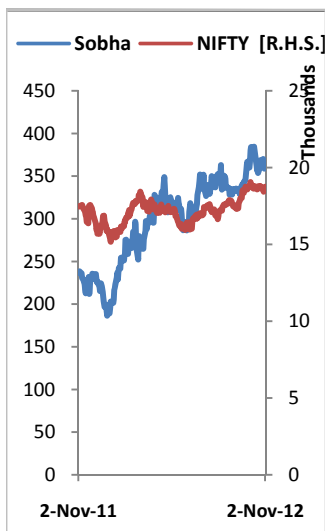
Date: 5th Nov, 2012

Stock information

Sector:	Real Estate
CMP	₹379.3
Target Price:	₹402.0
Upside Potential:	5.7%
BSE Code	532784
NSE Code	Sobha
Bloomberg	Sobha@IN
Reuters	SOBH.BO
Mkt cap (mn)	37204.4
Equity shares(mn)	98.1
Face Value(₹)	10
52Weeks H/L	394.0/185.3
Sensex	18762.9
Nifty	5704.2

Shareholding as on 30st September 2012 (%)

Promoters	60.6
Mutual Funds/UTI	2.4
FIs/ Banks	0.6
FIIIs	32.8
Bodies Corporate	0.9
Others / Public	2.7

**Q2FY13 Financial Result & Conference Call Highlights:**

□ Sobha Developers Ltd's (Sobha) consolidated revenue for Q2FY13 stood at ₹4148 mn registering a robust growth of 40.9% on Y-o-Y basis, however Sobha's revenue declined by 4.2% on sequential basis mainly on account of much higher land monetization of about ₹960 mn in preceding quarter. During Q2FY13, Real Estate operations contributed ~ ₹3164 mn (~76% to total revenue) and contract & manufacturing contributed the remaining ₹984 mn (~24% of total revenue) to total revenue. During the quarter, Sobha monetized a small land parcel at ₹64 mn for full consideration

□ In Q2FY13 Sobha's EBITDA margin declined marginally by 140bps to 31%, however it has shown an improvement of 330bps on sequential basis. During the quarter, real estate business posted ~30% operating margin and contract & manufacturing business reported ~20% operating margin and is expecting to maintain the same for whole year. For H1FY13, EBITDA margin stood at 29.3% registering an improvement of 110bps.

□ Sobha's net profit during the quarter stood at ₹501 mn Vs. ₹339 mn (Q2FY12), registering a robust growth of 47.8% on Y-o-Y basis and it has grown by 32.7% sequentially. The net profit margin for Q2FY13 stood at 12.1%, up 60bps on Y-o-Y basis and 170bps on sequential basis. For H1FY13, Sobha's net profit margin stood at 11.2% with improvement of 60bps.

□ During Q2FY13, ~0.95 msf of saleable area (~0.84 msf in Q1FY13, ~0.86 msf in Q4FY12, ~0.82 msf in Q3FY12, ~0.93 msf sold in Q2FY12 and ~0.67 msf in Q1FY12) with average sales realization of ~ ₹5575/ sq ft (~₹5737 /sq ft in Q1FY13), which was up by 26% on Y-o-Y basis. The sale value during the quarter stood at ₹5.27 bn which has gone up by 8.6% on Y-o-Y basis and 10% on sequential basis. In H1FY13, Sobha achieved cumulative sales of ~1.78 msf valued at ₹10.07 bn and the company is also confident to achieving 3.75 msf of new sales estimated at ₹20 bn for whole year FY13.

□ During Q2FY13, Sobha launched two new projects 1) Sobha Morzaria Grandeur, Bengaluru and 2) Sobha Zade, Thrissur totaling to ~0.869 msf. The company has proposed new launches to the tune of 8.67 msf super built Area in next four quarter. During Q2FY13, Sobha completed 2 real estate projects and 12 contractual projects, measuring the total developable area of 1.95 msf. Sobha's Consolidated net Debt to Equity ratio stands at 0.62x as on Q2FY13.

Valuation:

We revise our **price target to ₹402 / share** (from earlier ₹375/ share) for Sobha (which is at 10% discount to newly calculated FY14E NAV of ₹447/ share), but we maintain **"HOLD" rating on the stock**. The company is confident of maintaining operating profit margin despite cost pressures. Key risks: new launches in new cities, a sharp slowdown in GDP, the macro environment of IT sector and interest rates.

Particulars	Revenue (₹ Mn)	EBITDA (₹ Mn)	EBITDA Margins (%)	PAT (₹ Mn)	Net Margins (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY11	13767.0	3500.0	25.4	1824.0	13.2	18.6	14.5	1.2	9.9
FY12	13965.0	4339.0	31.1	2008.0	14.4	20.5	18.6	1.0	10.0
FY13E	17456.3	4975.0	28.5	2137.7	12.2	21.8	17.4	0.9	7.2
FY14E	20947.5	6179.5	29.5	3249.8	15.5	33.1	11.5	0.7	9.3

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Sobha Developers Ltd- Q2FY13 Result Update



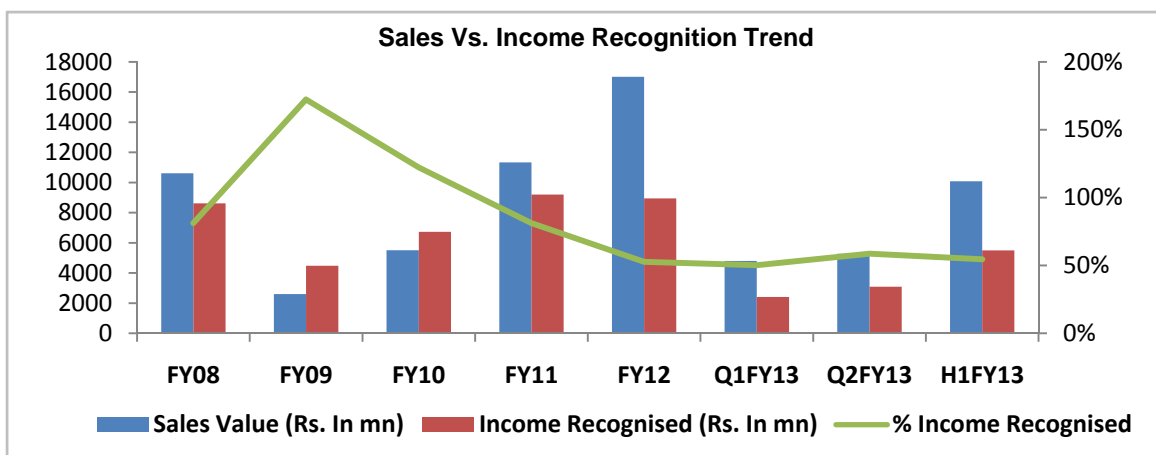
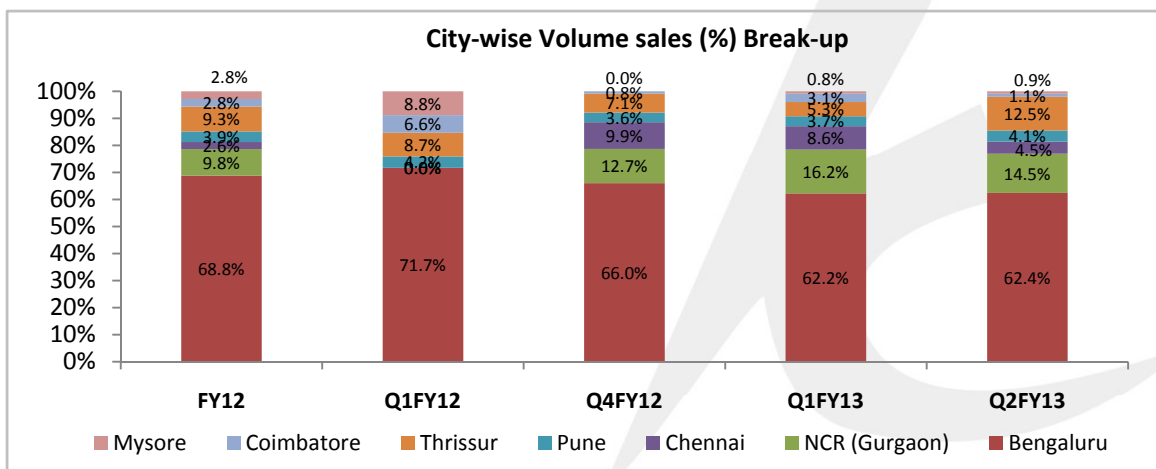
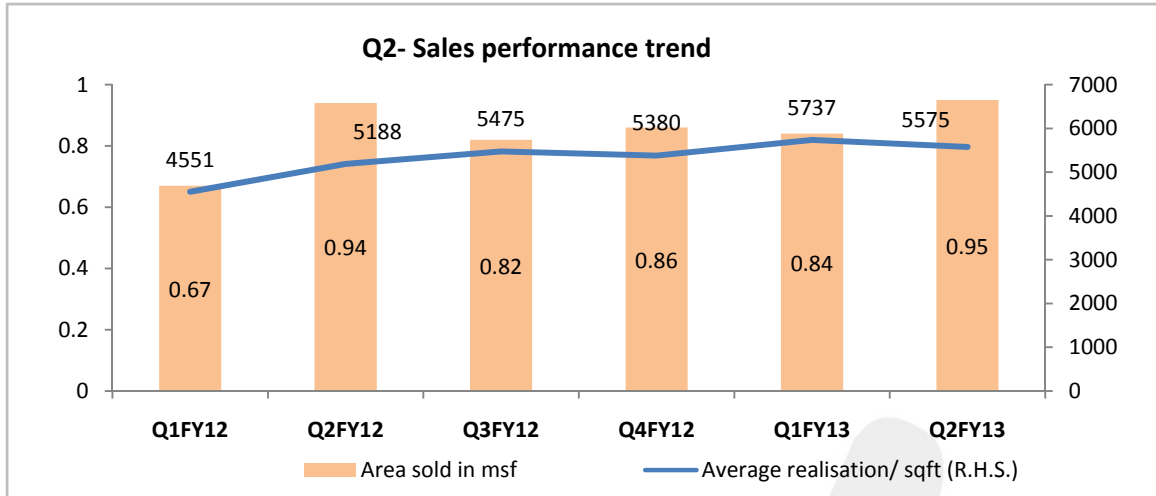
Q2FY13- Quarterly Financial Result Analysis: (₹ in mn)

DESCRIPTION	Y-o-Y (%)			Q-o-Q (%)		Q-o-Q (%)		
	Q2FY13	Q2FY12	Change	Q1FY13	Change	H2FY13	H2FY12	Change
Net Sales	4140	2938	-	4320	-	8460	5711	-
Other operating income	8	5	-	12	-	20	9	-
Net Sales & Other Operating Income	4148.0	2943.0	40.9	4332.0	-4.2	8480.0	5720.0	48.3
(Increase)/ Decrease in finished goods	-809	-4240	-80.9	50	-	-759	-4495	-83.1
Land cost	461	2121	-78.3	1	-	462	2466	-81.3
Cost of Materials consumed	261	236	10.6	281	-7.1	542	400	35.5
Purchase of project materials	1166	643	81.3	1006	15.9	2172	1054	106.1
Sub-contractor and labor charges	835	568	47.0	767	8.9	1602	1351	18.6
License fees and plan approval charges	73	1887	-96.1	134	-45.5	207	1909	-89.2
Employee benefit expense	404	316	27.8	412	-1.9	816	622	31.2
Other expenditure	472	457	3.3	483	-2.3	955	801	19.2
Total Expenditure	2863	1988	44.0	3134	-	5997	4108	46.0
PBITD (Excl OI)	1285.0	955.0	34.6	1198.0	25.4	2483.0	1612.0	54.0
EBITDA Margins (%)	31.0%	32.4%	-	27.7%	-	29.3%	28.2%	-
Other Income	14	28	-50.0	16	-42.9	30	30	-
Operating Profit	1299	983	32.1	1214	23.5	2513	1642	53.0
Interest	443	341	29.9	377	10.6	820	508	61.4
PBDT	856	642	33.3	837	30.4	1693	1134	49.3
Depreciation	141	91	54.9	140	53.8	281	165	70.3
PBT	715	551	29.8	697	26.5	1412	969	45.7
Tax	214	197	8.6	247	25.4	461	349	32.1
Net Profit (before Eis)	501	354	41.5	450	27.1	951	620	53.4
Minority Interest	0	15	-	0	-	0	21	-
Net Profit (after Eis)	501	339	47.8	450	32.7	951	599	58.8
Net Profit Margin (%)	12.1%	11.5%	-	10.4%	-	11.2%	10.5%	-
EPS (Quarterly/12M)	5.1	3.5	48.1	4.6	33.3	9.7	6.1	58.8

Valuation Summary: (₹ in Mn, Except per share data)

NAV Valuation Summary	NAV/ GAV	NAV/ GAV Per Share	Comments
GAV from Real Estate Operations (Including Land Bank Valuation)	46,573.4	474.8	NAV Based on Valuation Methodology
Less: Unpaid Land Cost	1197.1	-	-
Less: Net Debt (net of cash)	7718.5	-	Debt As on FY14E
NAV for Real Estate Operation	37657.9	383.9	-
Shares Outstanding (in Millions)	98.0999	-	-
Contract and Manufacturing Business	6158.6	62.8	Based on 7X FY14 EBITDA
Total NAV of Sobha Developers Ltd	43816.4	446.7	-
Discount @ 10%	-	44.7	-
Target Price	-	402.0	-

Sobha Developers Ltd- Q2FY13 Result Update



Source: Company, ACE Equity, KC Research

Sobha Developers Ltd- Q2FY13 Result Update



Income Statement (₹ in Mn) :

Particulars	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue	11298.7	13767.0	13965.0	17456.3	20947.5
Revenue Growth (%)	16.0%	21.8%	1.4%	25.0%	20.0%
Total Operating Expenses	8669.0	10267.0	9626.0	12481.2	14768.0
EBITDA	2629.7	3500.0	4339.0	4975.0	6179.5
EBITDA margin	23.3%	25.4%	31.1%	28.5%	29.5%
Other Income	44.3	59.0	63.0	63.0	63.0
Gross Profit	2674.0	3559.0	4402.0	5038.0	6242.5
Interest (net)	693.4	845.0	1062.0	1307.2	1127.7
EBDT	1980.6	2714.0	3340.0	3730.9	5114.8
Depreciation	323.1	278.0	388.0	587.2	264.3
PBT	1657.5	2436.0	2952.0	3143.7	4850.5
Tax	274.8	612.0	944.0	1006.0	1600.7
Net Profit	1382.7	1824.0	2008.0	2137.7	3249.8
Minority Interest	-42.2	0	0	0	0
Adj. Net profit	1340.5	1824.0	2008.0	2137.7	3249.8
Net Profit Margin (%)	11.9%	13.2%	14.4%	12.2%	15.5%
EPS	14.1	18.6	20.5	21.8	33.1

Balance Sheet Statement (₹ in Mn):

Equity and Liabilities	FY11	FY12	FY13E	FY14E
Share Capital	980.6	980.6	980.6	980.6
Reserves and Surplus	17527.2	19016.9	28868.9	33957.2
Shareholder's fund	18507.8	19997.5	29849.5	34937.8
Minority Interest	324.0	355.3	355.0	355.0
Non-current Liabilities				
Long-term Borrowings	20.7	244.4	100.0	100.0
Deferred tax liabilities (Net)	0.0	330.4	47.4	56.9
Trade payables	177.6	177.6	177.6	177.6
Long-term Provisions	25.7	20.7	25.0	57.0
Current Liabilities				
Short-term Borrowings	3251.2	1973.4	2955.0	1955.0
Trade payables	3263.5	3798.2	2354.9	2226.0
Other Current Liabilities	12460.2	14109.4	12425.0	13323.0
Short-term Provisions	915.8	1365.5	2155.0	2559.0
TOTAL	38946.5	42372.4	50444.5	55747.4
Non-Current Assets				
Tangible Assets	1366.5	2739.6	1428.8	2233.9
Intangible Assets	6.3	57.9	43.0	58.0
Goodwill on consolidation	0.0	42.0	42.0	47.0
Capital work-in-progress	646.5	12.8	19.1	28.7
Non-current investments	27.2	0.2	425.0	507.0
Deferred tax Assets (net)	73.8	0.0	0.0	0.0
Long term loans & Advances	4581.7	5501.9	6252.0	6814.7
Inventories	19.7	13.5	18.5	19.4
Trade Receivable	25.5	51.3	73.5	80.9
Other non-current assets	58.3	101.9	112.0	123.2
Current Assets				
Current Investments	10.0	0.0	0.0	0.0
Inventories	10664.9	16745.9	20575.5	23628.8
Trade Receivables	1055.9	1128.6	2078.7	2651.0
Cash and bank balance	230.1	587.8	486.3	336.5
Short-term loans and advances	17010.0	12766.5	15742.9	15599.1
Other current assets	3170.3	2622.6	3147.2	3619.2
TOTAL	38946.5	42372.4	50444.5	55747.4

Source: Company, ACE Equity, KC Research



Cash Flow Statement (₹ in mn):

Particulars	FY10	FY11	FY12	FY13E	FY14E
Opening Cash and Cash Equivalents	214.2	825.7	230.1	587.7	486.3
Net Profit before Tax & Els	1657.5	2514.2	3177.1	3143.7	4850.5
Total Adjustments (PBT & Els)	943.6	1119.9	1517.0	1894.4	1392.0
Op. Profit before Working Capital Changes	2601.1	3634.1	4694.1	5038.0	6242.5
Working Capital Changes	881.5	699.8	-385.9	-1027.1	-2944.5
Tax Paid	-161.8	-357.1	-509.9	-1006.0	-1600.7
Net Cash from Operating Activities	3320.8	3976.8	3798.3	3005.0	1697.3
Purchased of Fixed Assets(net)	-1088.7	-229.8	-1088.8	608.8	-872.8
Others	8.5	5.7	44.8	-408.0	-102.0
Net Cash Used in Investing Activities	-1080.2	-218.7	-1041.4	200.8	-974.8
Proceeds from Issue of shares (incl share premium)	4619.3	0.0	0.0	0.0	0.0
Proceed from other Long Term Borrowings	-4569.2	-2324.7	1.9	-2000.0	-2000.0
Dividend Paid	-72.0	-245.5	-294.2	0.0	0.0
Interest Paid	-2470.0	-1741.9	-2058.2	-1307.2	1127.7
Others	-93.4	-41.7	-48.9	0.0	0.0
Net Cash Used in Financing Activities	-2585.3	-4353.7	-2399.3	-3307.2	-872.3
Net Inc/(Dec) in Cash and Cash Equivalent	-344.7	-595.5	357.6	-101.4	-149.8
Cash and Cash Equivalents at End of the year	-130.5	230.1	587.7	486.3	336.5

Key Valuation Ratios:

Valuation Ratio	FY10	FY11	FY12	FY13E	FY14E
Operating Margin (%)	23.3%	25.4%	31.1%	28.5%	29.5%
Net Margin (%)	11.9%	13.2%	14.4%	12.2%	15.5%
Debt/ Equity (x)	0.9	0.7	0.6	0.3	0.2
ROCE (%)	5.3%	7.4%	7.7%	6.7%	9.7%
ROE (%)	8.1%	9.9%	10.0%	7.2%	9.3%
EV/EBITDA (x)	1.55	1.17	1.02	0.94	0.73
EV/Sales (x)	0.36	0.30	0.32	0.27	0.21
P/E (x)	27.0	14.5	18.6	17.4	11.5
P/BV (x)	1.57	1.55	1.63	1.25	1.07
EPS (Rs)	14.1	18.6	20.5	21.8	33.1

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