

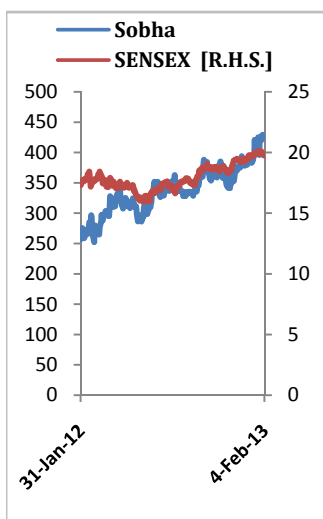


Date: 5th Feb, 2012
Stock information

Sector:	Real Estate
CMP	₹417.7
Target Price:	₹443.0
Upside Potential:	6.1%
BSE Code	532784
NSE Code	Sobha
Bloomberg	Sobha@IN
Reuters	SOBH.BO
Mkt cap (mn)	40976.4
Equity shares(mn)	98.1
Face Value(₹)	10
52Weeks H/L	450.0/252.5
Sensex	19659.8
Nifty	5956.9

Shareholding as on 31st December 2012 (%)

Promoters	60.6
Mutual Funds/UTI	3.6
FIs/ Banks	0.6
FIIIs	31.8
Bodies Corporate	0.9
Others / Public	2.5



Q3FY13 Financial Result & Conference Call Highlights:

□ In Q3FY13, Sobha Developers Ltd's (Sobha) reported a consolidated revenue of ₹4298 mn with strong revenue growth of 37.7%, however on sequential basis, Sobha registered a revenue growth of 3.6%. For 9MFY13, Sobha registered a revenue of ₹12778 Mn with robust growth of 44.4%. During Q3FY13, Real Estate operations contributed ~ ₹3172 mn (~74% to total revenue) and contract & manufacturing contributed ₹984 mn (~26% of total revenue) to total revenue.

□ In Q3FY13 Sobha's EBITDA stood at 32% with an improvement of 100bps on Y-o-Y basis, however it remained subdued on sequential basis with the decline of 430bps. During the quarter, the company continued to maintain real estate operating margins ~40% operating margin and contract & manufacturing business reported ~20% operating margin and is expecting to maintain the same for coming few quarters. For 9MFY13, EBITDA margin stood at 30.2% with a decline of 90bps on Y-o-Y basis.

□ Sobha's net profit during the quarter stood at ₹526 mn with a growth of 6.5% on Y-o-Y basis and 5% on sequential basis. The net profit margin for Q3FY13 improved by 10bps to 12.2% Y-o-Y basis, however it remained under pressure on Q-o-Q basis with decline of 360bps For 9MY13, Sobha's net profit grown by 35.1% whereas net profit margin declined by 80 bps on Y-o-Y basis.

□ During Q3FY13, 0.90 msf of saleable area against 0.82 msf in Q3FY12, registering a volume growth of 10.2%. Sobha achieved highest average sales realisation of ₹5910 /sqft during the quarter, which was up by 7.9% on Y-o-Y basis. Sobha recorded its highest ever new sales value of ₹5.33 bn, which was up by 19% on Y-o-Y basis. For 9MFY13, Sobha sold ~2.68 msf of new spaces, which was up by 10.9% and recorded a new sales value of ₹15.4 bn which was up by 24.5% on Y-o-Y basis.

□ During Q3FY13 Sobha launched 3 new projects in Bengaluru, Coimbatore and Thrissur measuring to ~1.13 msf against new launches of ~0.869 msf in Q2FY13. Sobha has proposed new launches to the tune of ~12.5 msf super built Area in next four quarters. During Q3FY13, Sobha completed 4 real estate projects and 15 contractual projects, measuring the total developable area of ~12.66 msf. Sobha's Consolidated net Debt to Equity ratio stands at 0.62x as on Q3FY13

Valuation:

We revise our **price target to ₹443 / share** (from earlier ₹402 share) for Sobha (which is at 10% discount to revised FY14E NAV of ₹493/ share), and we continue to maintain **"HOLD" rating on the stock**. However, considering the present and expected improvement in operating cash flows and reducing interest rates going forward, sobha is expected to perform relatively better than its peers in Bengaluru real estate market. Key risks: new launches in new cities, continues slowdown in GDP, the macro environment of IT sector & 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	20.4	1.0	10.0
FY13E	17456.3	4975.0	28.5	2137.7	12.2	21.8	19.2	1.0	7.2
FY14E	20947.5	6179.5	29.5	3249.8	15.5	33.1	12.6	0.8	9.3

KC Research Reports are also available on Reuters, Thomson publishers, myiris.com, Bloomberg KCSL <GO> and Factset

Sobha Developers Ltd- Q3FY13 Result Update



Q3FY13- Quarterly Financial Result Analysis: (₹ in mn)

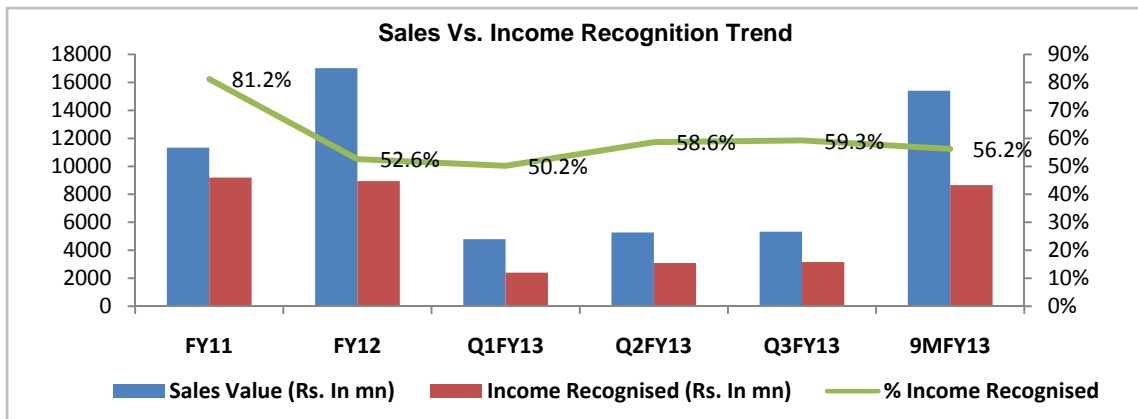
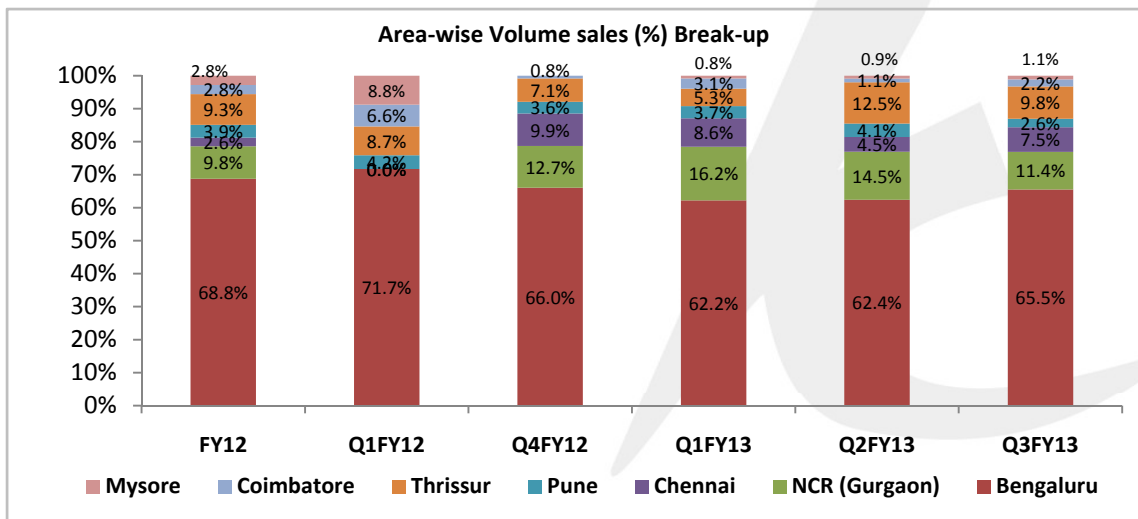
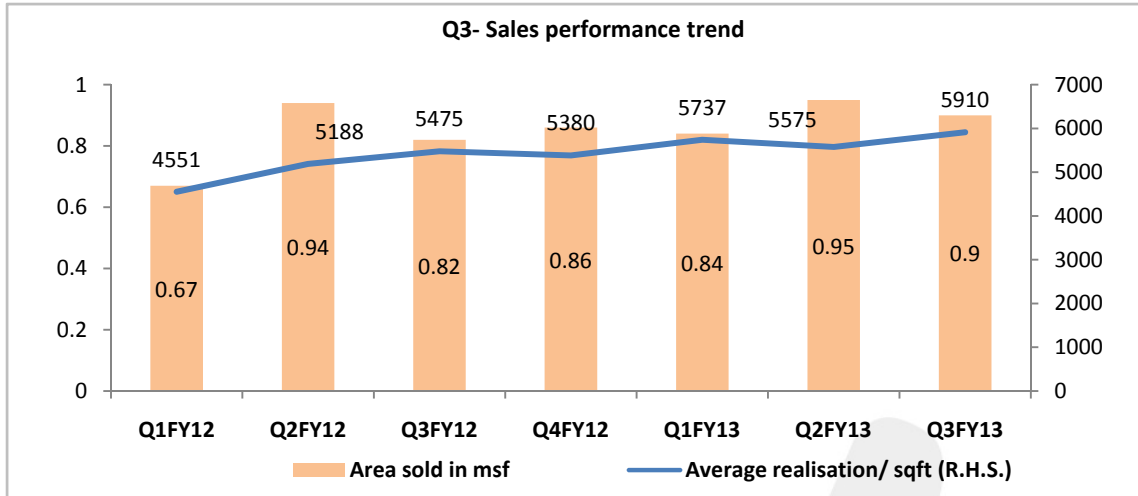
DESCRIPTION	Y-o-Y (%)			Q-o-Q (%)			Q-o-Q (%)	
	Q3FY13	Q3FY12	Change	Q2FY13	Change	9MFY13	9MFY12	Change
Net Sales	4288.0	3123.0	37.3	4140.0	3.6	12748.0	8834.0	44.3
Other operating income	10.0	5.0	100.0	8.0	25.0	30.0	14.0	114.3
Net Sales & Other Operating Income	4298.0	3128.0	37.4	4148.0	3.6	12778.0	8848.0	44.4
(Increase)/ Decrease in finished goods	-1524.0	-283.0	438.5	-809.0	88.4	-2283.0	-4778.0	-52.2
Land cost	1333.0	-58.0	-2398.3	461.0	189.2	1795.0	2408.0	-25.5
Cost of Materials consumed	221.0	248.0	-10.9	261.0	-15.3	763.0	648.0	17.7
Purchase of project materials	1261.0	781.0	61.5	1166.0	8.1	3433.0	1835.0	87.1
Sub-contractor and labor charges	753.0	581.0	29.6	835.0	-9.8	2355.0	1932.0	21.9
License fees and plan approval charges	42.0	6.0	600.0	73.0	-42.5	249.0	1915.0	-87.0
Employee benefit expense	397.0	303.0	31.0	404.0	-1.7	1213.0	925.0	31.1
Other expenditure	441.0	413.0	6.8	472.0	-6.6	1396.0	1214.0	15.0
Total Expenditure	2924.0	1991.0	46.9	2863.0	2.1	8921.0	6099.0	46.3
PBIDT (Excl OI)	1374.0	1137.0	20.8	1285.0	6.9	3857.0	2749.0	40.3
EBITDA Margins (%)	32.0%	36.3%	-	31.0%	-	30.2%	31.1%	-
Other Income	15.0	22.0	-31.8	14.0	7.1	45.0	52.0	-
Operating Profit	1389.0	1159.0	19.8	1299.0	6.9	3902.0	2801.0	39.3
Interest	439.0	317.0	38.5	443.0	-0.9	1259.0	825.0	52.6
PBDT	950.0	842.0	12.8	856.0	11.0	2643.0	1976.0	33.8
Depreciation	153.0	106.0	44.3	141.0	8.5	434.0	271.0	60.1
PBT	797.0	736.0	8.3	715.0	11.5	2209.0	1705.0	29.6
Tax	271.0	230.0	17.8	214.0	26.6	732.0	579.0	26.4
Net Profit (before EIs)	526.0	506.0	4.0	501.0	5.0	1477.0	1126.0	31.2
Minority Interest	0.0	12.0	-	0.0	-	0.0	33.0	-
Net Profit (after EIs)	526.0	494.0	6.5	501.0	5.0	1477.0	1093.0	35.1
Net Profit Margin (%)	12.2%	15.8%	-	12.1%	-	11.6%	12.4%	-
EPS (Quarterly/12M)	5.4	5.0	6.3	5.1	4.9	15.1	11.2	35.1

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)	51,321.9	523.2	NAV Based on Valuation Methodology
Less: Unpaid Land Cost	1432.5	-	-
Less: Net Debt (net of cash)	7718.5	-	Debt & Cash As on FY14E
NAV for Real Estate Operation	42171.0	429.9	-
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	48329.5	492.7	-
Discount @ 10%	-	49.3	-
Target Price	-	443.4	-

Source: Company, ACE Equity, KC Research

Sobha Developers Ltd- Q3FY13 Result Update



Source: Company, KC Research

Sobha Developers Ltd- Q3FY13 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	1.02	0.79
EV/Sales (x)	0.36	0.30	0.32	0.29	0.23
P/E (x)	29.6	14.5	20.4	19.2	12.6
P/BV (x)	1.57	1.55	1.63	1.37	1.17
EPS (Rs)	14.1	18.6	20.5	21.8	33.1

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