

SOBHA LIMITED:

## SCALING NEW HEIGHTS



Photo : Sobha Dream Heritage, Gift City, Gujarat

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**S**obha Limited is engaged in the construction and development of residential and commercial projects. The company is also involved in contractual projects. Its residential projects include luxury and super-luxury apartments, villas, row houses, plotted development and aspirational homes. Its main business divisions include Sobha Contracting and Sobha Manufacturing. Sobha Contracting provides end-to-end solutions starting from the conceptualisation of a project to its final satisfactory completion. Its services include civil, mechanical, electrical, plumbing, interiors, glazing, metal works and landscaping.

Sobha Manufacturing comprises interiors division, glazing and

metal works division and concrete products division. The interiors division also manufactures spring mattresses, which are sold under the brand name Sobha Restoplus. The company is considered to be amongst the topmost entities in the real estate space in India and currently has a presence in 10 cities across six states. It is present in Bangalore, Gurugram (NCR), Chennai, Thrissur, Kochi, Calicut, Coimbatore, Pune, Mysore and Gujarat International Finance Tec-City.

## Industry Overview

The recent times have been very unexpected and filled with hurdles for the realty sector. Major economies slowed down due to US-China trade conflicts and the Middle East geopolitical



turmoil followed by plummeting crude oil prices not to forget the havoc caused due to the pandemic which has brought the whole world to a literal standstill by way of extended lockdowns. As a result, construction activities were halted for a long period and panic over realty sales spread as businesses were faced with financial struggles and hence the need for reduced infrastructure. In India, the construction sector is considered to be one of the largest sectors for employment generation after the agricultural sector.

Though the recent times have been tough for the construction industry, it is expected to have a positive growth trend going forward. Going forward, the industry should align its activities to a changing environment with appropriate use of technology, optimum utilisation of available digital tools and platforms as well as undertaking innovation and designing of custom-made tools that would cater to the changing needs and upcoming challenges. The realty sector has recently shown some positive recovery in Q2FY21, which signifies as improved performance compared to Q1FY21. Analysts believe that the sector will witness contraction in leading indicators in the first half of FY21 while the second half of FY21 will see revival.

## Financial and Operational Overview

Looking at the quarterly trends on a consolidated basis, for Q1FY21 the company reported net sales of ₹350 crore, a decrease of 70.26 per cent, as against the net sales of ₹1,176.7 crore for Q1FY20. For Q1FY21, the PBT stood at ₹5.4 crore, contracting by 96.20 per cent compared to ₹142.4 crore posted in Q1FY20. It gained net profit of ₹6.6 crore in Q1FY21, which is a contraction by 92.72 per cent compared to the net profit of ₹90.6 crore gained in Q1FY20. During Q2FY21, Sobha Limited reported a total sales volume of 8,91,700 square feet valued at around ₹6.90 billion, with a total average realisation of ₹7,737 per square feet.

In spite of the imposed lockdowns due to the pandemic, no new launches, uncertain macro-economic outlook and tough real estate sector scenario, the company posted 37 per cent QoQ growth in sales volume and 41 per cent QoQ increase in total sales value during Q2FY21. On the annual front, in FY20, the company reported net sales of ₹3,573.9 crore, an increase of 9.06

per cent over the net sales of ₹3,442.1 crore reported in FY19. For FY20, PBT came in at ₹433 crore, thus declining by 3.41 per cent compared to ₹448.3 crore posted in FY19. Sobha gained net profit of ₹281.50 crore in FY20, which is a contraction of 5.25 per cent compared to the net profit of ₹297.10 crore gained in FY19.

During FY20, the company also witnessed a strong performance in its contracts and manufacturing verticals with highest-ever cash inflows. As on March 31, 2020, the company had delivered overall 109.74 million square feet of developable area. Whereas, since its establishment it has completed real estate projects measuring up to 58.74 million square feet of developable area and 44.62 million square feet of super built-up area. In FY20, Sobha completed construction activities of around 3.98 million square feet of total developable area and 2.74 million square feet of super built-up area.

## Conclusion

Since the construction sector is one of the most important sectors in the Indian economy, the government positively responds to the sector's concerns and demands. In the Union Budget for FY21, the finance minister of India laid down the foundation for increasing consumption while ensuring that the government's investment is deployed to build infrastructure that will pave the way towards a USD 5 trillion economy by FY25. Additionally, the government also announced a series of measures to support the sector from the impact and threats of the pandemic.

Sobha currently has ongoing real estate projects aggregating to around 39.36 million square feet of developable area and of approximately 27.41 million square feet of saleable area. Ongoing contractual projects aggregate to about 9.44 million square feet under various stages of construction. The company continues to remain focused on efficiently managing its cash flows as well as undertaking cost optimisation to maintain strong and sustainable cash flows.

It also intends to continue to further bring down its average cost of borrowing. Apart from its existing presence in major cities, the company is looking forward to expand in presence pan-India by exploring new markets. In general, Sobha enjoys strong brand positioning as well as premium positioning in the residential segment, thus well-placed to benefit from the growing demand as the economy rebounds. On the basis of rich valuation and positive fundamentals pointing towards the company's upward growth trend, we recommend **BUY**.

### Peer Comparison

Company Name	Market Cap ₹ Cr.	ROA (%)	ROE (%)	ROCE (%)	Adjusted PE (x)	EV/EBITDA (x)	Adjusted EPS (₹)
Godrej Properties Ltd.	26079.01	3.68	8.15	10.50	48.56	23.10	12.41
Oberoi Realty Ltd.	16105.76	4.29	5.11	6.18	38.60	28.31	8.66
Phoenix Mills Ltd.	9943.76	3.84	5.30	7.02	59.49	31.89	9.62
Sobha Ltd.	2762.86	2.74	13.26	22.5	4.44	3.56	30.52
Sunteck Realty Ltd.	3957.9	3.97	5.46	5.64	29.73	26.10	7.07