

# Pick of the week



## Sobha Ltd

### Recommendation

**Buy**

### Time Period

**12 Months**

### Current Price

**₹ 232**

### Target Price

**₹ 400**

### Potential Upside

**73.24%**

## Investment Argument

- Sobha achieved 70% of sales volume in Q1FY21 as compared to Q4FY20. The performance should be seen in the backdrop of the company's exclusive reliance on online/digital channels for almost 75 days of the quarter.
- Management highlighted that the level of inquiries from customers are now almost back to pre-Covid levels although they haven't seen the same quantum of conversions leading to actual sales. Moratorium of Rs47.4 cr on debt servicing has helped the company generate positive free cash flows of Rs48.6 cr. The debt at the end of the quarter remained flattish at Rs. 3020 cr.
- Stringent cost control measures adopted by the company and higher proportion of own real estate deliveries led to margin expansion with operating margin (EBITDA margin) of 55% in Q1FY21.
- The order book for Sobha's contractual business remains intact. Sobha is currently executing 94.8 lakh sq. ft of projects with order book of Rs2370 cr.
- Management highlighted that the labor force has started to return. It has recovered from 30-35% in the month of June 2020 to 60% level in July and is expected to return to normalcy in a few months' time.
- Sobha remains confident of completing construction of its residential projects within the RERA timeline. We believe that the current share price of the company offers sufficient cushion on concerns over land bank valuation, even as development and contracts divisions recover from the lows in Q1FY21. We maintain BUY rating with a revised fair value of Rs. 400.

**Note:** The above is a brief note on the company, based on the inputs of KIE research report dated 10th August, 2020, which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

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