Sobha Limited

Instrument	Amount Rated	Rating Action
	In Rs. Crore	August 2016
Term Loans	2254.59	[ICRA]A (Stable) reaffirmed
Fund Based Working Capital Limits	430.00	[ICRA]A (Stable) reaffirmed
Non Fund Based Working Capital Limits	375.00	[ICRA]A (Stable) reaffirmed
Non Covertible Debentures	400.00	[ICRA]A (Stable) reaffirmed
Total	**3459.59**	

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 2254.59 crore term loans, Rs. 430.00 crore fund based working capital limits, Rs. 375.00 crore non fund based working capital limits and Rs. 400.00 crore NCD programme of Sobha Limited (Sobha). The outlook on the rating is Stable.

While assigning the rating, ICRA has taken a consolidated view of Sobha and its subsidiaries given the strong operational, financial and management linkages among the various entities.

The rating reaffirmation takes into account Sobha's established position in Bangalore real estate market and strong execution capabilities in the real estate and contracting segments. Sobha's operational strengths have translated into healthy sales across its project portfolio with bookings in the ongoing projects of Sobha (55% of the launched area sold as on March 31, 2016). The balance receivables from the sold area provides a cover of around 44% over the pending project costs and debt outstanding. The sales continue to remain stable as compared to FY2015 with continued good response for its project, Sobha Dream Acres (Bangalore), which is contributing the highest share towards overall sales. These sales volumes are, however, lower than historical highs reported during FY2013 and have been constrained by the challenging market conditions and the reduction in new launches by the company in the last fiscal. The rating also draws comfort from the contractual segment's comfortable order book position which provides stable cash flows.

The rating is, however, constrained by the challenging operating environment for the real estate segment, which could put pressure on the company's sales and operating cash flows. Though there has been improvement in net fund flow from operations during FY16 as compared to FY15, free cash flows continue to be negative, resulting in increase in net gearing level marginally to 0.80x as on 31st March 2016 as compared to 0.75x as on 31st March 2015 and continued reliance on fresh debt drawdown for financing maturing debt obligations. Sobha's revenue and profit booking has seen a decline during FY16 (24% year on year decline in operating income and 18% decline in operating profit) owing to large share of the sales happening in projects which are yet to reach revenue recognition. The rating also takes into account of Sobha's high concentration in Bangalore residential market and its exposure to inherent cyclicality in the real estate industry.

Going forward, Sobha's ability to improve the sales and collections from ongoing projects would be the key rating sensitivities. Besides, material reduction in gearing levels through improved fund flows from operation, lower land bank investments, and timely refinancing of its debt obligations would be other key monitorables.

Company Profile

Incorporated in August 1995, Sobha is an established player in real estate development and contract construction business in Bangalore. Sobha was promoted by Mr. P N C Menon, who started Sobha in India after successfully running interior decoration firms in Muscat; along with his family members, he holds close to 60% of the equity shares in the company.

Sobha has executed 111 real estate projects with an overall development of 39.23 million square feet (msf) of developed area with major presence in Bangalore and diversification in other cities such as Gurgaon, Chennai, Pune, Thrissur, Coimbatore, Kochi, Calicut and Mysore. On contractual basis, Sobha has completed 278 projects in several states in India covering a total built-up area of 42.41 msf.

Recent Results

The company reported a net profit of Rs. 153.2 crore on an operating income of Rs. 1862.6 crore in FY2016 as compared to net profit of Rs. 238.0 crore on an operating income of Rs. 2440.7 crore for FY2015.

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