Sobha Limited

September 14, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	100.00	[ICRA]A1; Reaffirmed
Fund-based - Term Loan	2154.59	1605.59	[ICRA]A+ (Stable); Reaffirmed
Fund-based – Working Capital Facilities	455.00	820.00	[ICRA]A+ (Stable); Reaffirmed
Non-fund Based Facilities	450.00	634.00	[ICRA]A+ (Stable); Reaffirmed
Non-convertible Debentures	400.00	400.00	[ICRA]A+ (Stable); Reaffirmed
Total	**3559.59**	**3559.59**	

* Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) assigned to the Rs 3059.59-crore fund-based and non-fund based bank facilities of Sobha Limited (Sobha). ICRA has also reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) assigned to the Rs. 400.00-crore NCD programme and the short-term rating of [ICRA]A1 (pronounced ICRA A one) assigned to the Rs 100.00-crore commercial paper programme of Sobha.

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.

Rationale

The ratings reaffirmation takes into account Sobha's established position in the Bengaluru real estate market and its strong in-house project execution capabilities in the real estate and contracting sectors. These strengths have translated into steady sales in the ongoing projects; the company witnessed 28% growth in pre-sales value in FY2018. The rating also draws comfort from the contract sector's healthy order book position, which provides medium-term cash flow visibility. Though the balance receivable from the sold area cover the pending cost and the debt outstanding is comfortable at 59% as on June 30, 2018, on the back of improved sales and limited new project launches, the cover of the 'balance receivable + unsold value' over the pending cost and debt outstanding is moderate at 115% because of the high land bank investments made by the company historically.

The ratings continue to be constrained by the high debt levels relative to the ongoing project portfolio. Moreover, the large debt repayment obligations in the medium term necessitate timely debt refinancing. However, the undrawn bank loans available with the company provide cash buffer to an extent. The ratings are constrained by the geographic risk as most of the company's projects are in Bengaluru. Additionally, it is also susceptible to project concentration risks as Sobha Dream Acres (SDA) project has been the highest revenue contributor. Any slowdown in sales in the SDA project or the Bengaluru market could adversely impact the company's sales and collections. However, the company plans to diversify the project and geographic risks through new launches. The company is also exposed to external risks such as inherent cyclicality in the real estate industry apart from regulatory risks.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from its established market position. The outlook may be revised to Positive if an improvement in sales, collections and profitability strengthens the overall financial profile of the company. The outlook may be revised to 'Negative' if lower-than-expected pre-sales and collections, and high land banking investments result in material increase in leverage levels.

Key rating drivers

Credit strengths

Established position: Sobha has a track record of 23 years in the Bangalore real estate market. The company has a strong in-house project execution capabilities demonstrated through completion of 129 real estate projects, which measure 48.69 million sq.ft., and 302 contractual projects, which measure 47.79 million sq.ft..

Good progress in ongoing projects: The group has a proven track record of project delivery within stipulated timelines. Sobha's in-house project execution and backward integration capability provides better control over cost, quality and timelines. Sobha in its ongoing projects has incurred around 44% of the budgeted project cost.

Steady pre-sales: Sobha has a low completed inventory and continues to witness healthy sales in most projects. In the 37 ongoing projects, the company achieved booking for 69% of the launched area as on June 30, 2018. The company has demonstrated steady sales volumes with growth of 21% in FY2018 over FY2017.

Moderate future cash flow covers: Sobha has pending cash inflows from sold area of Rs. 3,541 crore, covering 59% of the 'balance project cost and debt outstanding'.

Strong contractual order book provides steady cash flow streams: In the contractual business, the company has orders in-hand of Rs 2440 crore as on June 30, 2018, an increase from Rs 550 crore as on June 30, 2017. The order book is 5.4 times of the FY2018 contractual revenues.

Credit challenges

Geographic and project concentration risks: The company has high geographic concentration as over 70% of the sales by volume and value comes from the Bengaluru real estate market. However, significant launches in NCR, Chennai, Kerala and Pune mitigate this risk to some extent. Within the Bengaluru market, Sobha Dream Acres (SDA) continues to be the largest selling project, with a contribution of approximately 20% of the company's sales in FY2018. Any slow-down in sales in the SDA project or Bengaluru market could adversely impact the sales and collections of the company. However, the company has plans to diversify project and geographic risks through new launches.

Moderately high leverage levels: The company has been able to contain its debt over the last three years with net gearing level maintained at 0.80 times. However, debt at Rs. 2349 crore as on June 30, 2018 is high compared to the ongoing project portfolio of the company due to the high investment in land bank made historically. Unlocking the land bank potential through project launches would be essential to maintain healthy cash flow covers. The gearing of the company (based on gross debt) remained moderate at 1.09 times (as per IND AS 115, 0.80 times as per Ind AS 11 and 18) as on June 30, 2018.

Exposure to refinancing risk: The company's high scheduled debt repayment obligations, amounting to Rs 570.80 crore in FY2019 (Sep'18 to Mar'19) and Rs 549.40 crore in FY2020, expose the company to refinance risks. However, the company has cushion in terms of undrawn bank loans to cover the debt obligations to an extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Real Estate Entities

Rating Methodology for Construction Entities

Group Profile

Incorporated in August, 1995, as a private limited company, and subsequently converted into a public limited company in June 2006, Sobha Limited (Sobha) is an established player in the real estate development and contract construction in Bengaluru. Sobha is promoted by its chairman emeritus Mr. P N C Menon, who started his India operations after successfully running interior decoration firms in Muscat. Along with his family members, he holds around 60% of equity shares in the company. As on June 30, 2018, Sobha executed 129 real estate projects with an overall development of 48.69 mn sq ft of built up area, with a major presence in Bengaluru. It has also diversified to other cities such as Gurgaon, Chennai, Pune, Thrissur, Coimbatore, Kochi, Calicut and Mysore. In the contracting segment, Sobha has completed 302 projects in several states in India, covering a total built up area of 47.79 million sq ft.

Key financial indicators (consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	2,229	2,783
PAT (Rs. crore)	161	217
OPBDIT/OI (%)	18.83%	18.67%
RoCE (%)	8.10%	9.82%
Total Debt/TNW (times)	0.88	0.90
Total Debt/OPBDIT (times)	5.52	4.78
Interest coverage (times)	2.80	2.63

***Source**: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income*

Status of non-cooperation with previous CRA: Not applicable

The rating for Sobha Limited assigned by CARE has been moved to 'CARE A; Issuer Not Cooperating; Based on best available information' as the company had not paid the surveillance fee for the rating exercise.

Any other information: None

Rating history for last three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Current Rating (FY2019) Date & Rating September 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2018 August/September 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 February/March 2016
1	Commercial Paper	Short Term	100.00	91.80	[ICRA]A1	[ICRA]A1	-	-
2	Long-term Term Loan	Long Term	1605.59	1043.70	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Long-term Fund Based	Long Term	820.00	434.30	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Long-term Non-fund Based	Long Term	634.00	247.90	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Non-convertible Debentures	Long Term	400.00	120.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Term loans	01/04/2014	-	30/06/2028	1605.59	[ICRA]A+ (Stable)
NA	Fund Based - Working capital limits	-	-	-	820.00	[ICRA]A+ (Stable)
NA	Non-fund based - Working capital limits	-	-	-	634.00	[ICRA]A+ (Stable)
INE671H07160	Non-convertible debentures	20/07/2015	12.50%	19/07/2019	100.00	[ICRA]A+ (Stable)
INE671H07210		18/09/2015	12.00%	18/09/2018	20.00	[ICRA]A+ (Stable)
Proposed		-	-	-	280.00	[ICRA]A+ (Stable)
INE671H14034	Commercial Paper	21/11/2017	9.00%	20/11/2018	100.00	[ICRA]A1

Source: Sobha Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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