

September 07, 2017

## Sobha Limited

### Summary of rated instrument

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	[ICRA]A1; Assigned
Fund-based – Term loans	2154.59	[ICRA]A+ (stable); outstanding
Fund Based - Working capital limits	455.00	
Non-fund based - Working capital limits	450.00	
Non-convertible debentures	400.00	
<b>Total</b>	<b>3559.59</b>	

\* Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs 100.00 crore commercial paper programme of Sobha Limited (Sobha). The company also has an outstanding rating of [ICRA]A+ (pronounced ICRA A plus) on the Rs. 2154.59 crore term loans, Rs. 455.00 crore fund based working capital limits, Rs. 450.00 crore non fund based working capital limits and Rs. 400.00 crore of NCD programme. The outlook on the long-term 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.

### Rationale

The assigned rating derives comfort from Sobha’s established position in Bengaluru real estate market and strong execution capabilities in the real estate and contracting segments. These strengths have translated into healthy sales in the ongoing projects of the company despite the subdued demand conditions. The rating also draws comfort from the contractual segment’s comfortable order book position which provides stable cash flows. The rating also takes into account the uptick in pre-sales in the ongoing projects of the group in recent quarters which has resulted in improved visibility on collections going forward. The balance receivable from the sold area cover over pending cost and debt outstanding has improved from 44% as on March 31, 2016 to 55% as on June 30, 2017 on the back of improved sales and limited new project launches.

The rating is however constrained by the high debt levels relative to the ongoing project portfolio and the large debt repayment obligations over the medium term which result in high dependence on timely debt refinance. The rating also continues to be constrained by the geographic and project concentration risks due to high sales contribution from Bengaluru market and Sobha Dream Acres (SDA) project. Any slow-down in sales in the SDA project or Bengaluru market could adversely impact the sales and collections for the company. The company is also exposed to external factors such as inherent cyclicity in the real estate industry apart from regulatory risks. Impact of Real Estate Regulation and Development Act on working capital requirement will be a monitorable.

Going forward, Sobha’s ability to improve the sales and collections from ongoing projects would be the key rating sensitivity. Besides, material reduction in gearing levels, extent of land bank investment and capital expenditure, and timely refinancing of its debt obligations would be the other key monitorables.

## Key rating drivers

### Credit strengths

- **Established position:** Sobha has a track record of 22 years in the Bangalore real estate market. The company has a strong in-house project execution capabilities demonstrated through completion of 118 real estate projects measuring 42.44 million sq.ft. and 288 contractual projects measuring 44.96 million sq.ft..
- **Good progress in ongoing projects:** The group has a track record of project delivery within reasonable timelines. Sobha's in-house project execution and backward integration provides better control over cost, quality and timelines. Sobha in its ongoing projects has incurred around 40% of the budgeted project cost.
- **Uptick in pre-sales:** Sobha has a low completed inventory and continues to witness healthy sales in most projects. In the 38 ongoing projects the company has achieved booking for 69% of the launched area as on June 30, 2017. After a decline in sales volumes by 29% in Q3 of FY2017 on a Q-o-Q basis on account of demonetisation and the resulting uncertainty, there has been an uptick in sales volumes with growth of 18% and 13% on a Q-o-Q basis witnessed in Q4 FY2017 and Q1 FY2018 respectively.
- **Moderate future cash flow covers:** Sobha has pending cash inflows from sold area of Rs. 3,254 crore covering 55% of the 'balance project cost and debt outstanding'.
- **Healthy contractual order book provides steady cash flow streams:** Contractual order book of Rs. 550 crore as on June 30, 2017, with incremental sourcing of large orders amounting to Rs 600 crore in July 2017 provides revenue visibility as well as stability to cash flows.

### Credit weaknesses

- **Geographic and project concentration risks:** The company has high geographic concentration with around 75% of the sales by volume and value coming from the Bengaluru real estate market. However, significant launches in NCR, Chennai, Kerala and Pune mitigate these risks to an extent. Within the Bengaluru market, Sobha Dream Acres (SDA) continues to be the largest selling project with a contribution of approximately 25% of the company's sales in FY2017. Any slow-down in sales in the SDA project or Bengaluru market could adversely impact the sales and collections for the company.
- **Moderate sales velocity for premium units:** The year to sell the balance inventory is moderate for higher ticket size units (prices more than Rs 1.5 crore) and in couple of projects in Gurgaon and Kerala due to adverse market conditions. Based on FY2017 sales velocity, the years to sell unsold inventory of ticket size greater than Rs 1.5 crore stands high at 3.6 years compared to a healthy 1.3 years for ticket sizes less than Rs 1.5 crore.
- **Moderately high leverage levels:** The company has been able to contain its debt over the last eight quarters with a reduction in net gearing levels from 0.81 times as on June 30, 2015 to 0.75 times as on June 30, 2017. However, debt at Rs. 2164 crore as on June 30, 2017 is high compared to the ongoing project portfolio of the company due to the high investment in land bank. 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) remains moderate at 0.80 times as on June 30, 2017.
- **Exposed to refinancing risk:** The company has high scheduled debt repayment obligations amounting to Rs 470 crore and Rs 873 crore in FY2018 (July-March) and FY2019 exposing the company to refinance risks.

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

**Links to applicable criteria:**

### About the company

Incorporated in August 1995 as a private limited company, and subsequently converted into a public limited company in June 2006, Sobha is an established player in real estate development and contract construction in Bangalore. Sobha was 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, 2017, Sobha has executed 118 real estate projects with an overall development of 42.44 msf of built-up area with a major presence in Bangalore and diversification in other cities such as Gurgaon, Chennai, Pune, Thrissur, Coimbatore, Kochi, Calicut and Mysore. In the contracting segment, Sobha has completed 293 projects in several states in India covering a total built-up area of 44.96 msf.

### Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	1,943	2,229
PAT (Rs. crore)	138	161
OPBDIT/ OI (%)	22.79%	18.83%
RoCE (%)	8.80%	8.10%
Total Debt/ TNW (times)	0.79	0.81
Total Debt/ OPBDIT (times)	4.98	5.52
Interest coverage (times)	2.71	2.80
NWC/ OI (%)	220%	201%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S. No.	Instrument	Current rating (FY2018)			Chronology of rating history		
		Type	Amount Rated (Rs. crore)	September 2017	FY2017	FY2016	FY2015
					August 2016	July 2015	August 2014
1	Commercial Paper Program	Short Term	100.00	[ICRA]A1	-	-	-
2	Term loans	Long Term	2154.59	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund Based - Working capital limits	Long Term	455.00	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Non-fund based - Working capital limits	Long Term	450.00	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Non-convertible debentures	Long Term	400.00	[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](http://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
Proposed	Commercial Paper	-	-	-	100.00	[ICRA]A1
NA	Term loans	-	-	Sept/2030	2154.59	[ICRA]A+ (Stable)
NA	Fund Based - Working capital limits	-	-	-	455.00	[ICRA]A+ (Stable)
NA	Non-fund based - Working capital limits	-	-	-	450.00	[ICRA]A+ (Stable)
INE671H07160	Non-convertible debentures	20/07/2015	12.50%	19/07/2019	100.0	[ICRA]A+ (Stable)
INE671H07178		29/07/2015	12.00%	29/07/2017	10.0	[ICRA]A+ (Stable)
INE671H07186		29/07/2015	12.00%	29/07/2018	5.0	[ICRA]A+ (Stable)
INE671H07202		18/09/2015	12.00%	18/09/2017	5.0	[ICRA]A+ (Stable)
INE671H07210		18/09/2015	12.00%	18/09/2018	20.0	[ICRA]A+ (Stable)
INE671H07228		29/09/2015	12.00%	29/09/2017	5.0	[ICRA]A+ (Stable)
INE671H07244		03/03/2016	11.25%	03/04/2018	15.0	[ICRA]A+ (Stable)
INE671H07285		17/03/2016	11.25%	17/04/2018	15.0	[ICRA]A+ (Stable)
INE671H07293		21/03/2016	11.25%	21/04/2018	25.0	[ICRA]A+ (Stable)
Proposed			-	-	-	200.0

Source: Sobha Limited

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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