

July 29, 2019

Sobha Limited: Long-term rating reaffirmed at [ICRA]A+(Stable); short-term rating of [ICRA]A1 withdrawn, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	0.00	[ICRA]A1; Withdrawn
Fund-based - Term Loan	1605.59	2598.40	[ICRA]A+ (Stable); Reaffirmed
Fund-based – Working Capital	820.00	890.00	[ICRA]A+ (Stable); Reaffirmed
Non-fund Based Facilities	634.00	733.30	[ICRA]A+ (Stable); Reaffirmed
Non-convertible Debentures	400.00	140.00	[ICRA]A+ (Stable); Reaffirmed
Total	3559.59	4361.70	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account Sobha Limited's (Sobha) 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 11% growth in the total area sold and 5% growth in its pre-sales value in FY2019. The rating draws comfort from the contracting segment's healthy order-book position, which provides medium-term cash flow visibility. The receivables from the sold area in the completed and ongoing projects cover 49% of the pending cost and the debt outstanding as on March 31, 2019. The company has been consistently reporting average sales of nearly 1 million square feet (sqft) per quarter as against the unsold inventory from its launched projects of 9.08 million sqft as on March 31, 2019.

The rating continues to be constrained by the high debt levels relative to the ongoing project portfolio. The elevated debt levels are on account of the high land bank investments made by the company historically. Moreover, the large debt repayment obligations in the medium term necessitate timely debt refinancing. However, ICRA takes comfort from the undrawn bank loans available with the company, which provide cash buffer and financial flexibility to a large extent. The rating is also constrained by the geographical concentration risk as most of the company's projects are located in Bengaluru city. Any slowdown in sales in the Bengaluru market could adversely impact the company's sales and collections. However, the concentration has reduced YoY with increasing contribution to sales from other geographies supported by new launches. The company is also exposed to external risks such as cyclicity in the real estate industry, apart from regulatory risks inherent to the sector.

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 results in meaningful reduction in debt levels and strengthens the company's overall financial profile. 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 brand and market position: Sobha has a track record of 24 years in the Bangalore real estate market. The company has strong in-house project execution capabilities demonstrated through completion of 143 real estate projects, measuring 54.77million sqft, and 307 contractual projects, measuring 49.11 million sqft.

Steady pre-sales: Sobha has a low completed inventory and continues to witness healthy sales in most projects. In the 47 ongoing projects, it achieved booking for 42% of the launched area as on March 31, 2019. The company has demonstrated steady sales volume with a total 4.03 million sqft sold in FY2019, a growth of 11% over FY2018. In comparison, the unsold inventory from the launched projects stood at 9.08 million sqft as on March 31, 2019. Sobha has pending cash inflows from the sold area worth Rs. 3,642 crore, covering 49% of the balance project cost and debt outstanding. The same has declined YoY on account of three new launches in Q4FY2019.

Strong contractual order book provides steady cash flow: In the contractual business, the company reported orders in-hand worth Rs. 2588 crore as on March 31, 2019. The order book is 2.2 times of the FY2019 contractual revenues.

Credit challenges

Moderately high leverage levels: Sobha has been able to maintain its gearing over the last three years with a net gearing level of 1.1 times (as per Ind AS 115). However, the debt stood at Rs. 2612 crore as on March 31, 2019, which is high in relation to the company's ongoing project portfolio 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. Moreover, high scheduled debt repayment obligations expose Sobha to refinancing risks. However, cushion in terms of undrawn bank loans provides comfort to an extent

Geographical and project concentration risks: The company has high geographical concentration as around 70% of the sales by volume and value comes from the Bengaluru real estate market. Within the Bengaluru market, Sobha Dream Acres (SDA) continues to be the largest selling project, with a contribution of around 14% of the total sales volume in FY2019. Any slowdown in sales in the SDA project or Bengaluru market could adversely impact the company's sales and collections.

Exposure to cyclical and regulatory risks inherent to the sector: Being a cyclical industry, real estate is highly dependent on macro-economic factors. The company remains exposed to any slowdown in the economy and decrease in housing demand or property prices.

Liquidity position

Sobha's fund flows from operations in FY2019 were adequate to cover the interest obligations and investing cash flows to a large extent. However, to meet the maturing principal repayment obligations, the company had to rely on refinancing by availing project loans against the new projects. Going forward, its refinancing requirements are likely to remain high, given the large repayments due. However, healthy sales bookings and collections in its ongoing projects and undrawn bank lines available provide comfort to a large extent. As on March 31, 2019, the company had an available liquidity cushion of around Rs. 179 crore in the form of liquid investment and bank balances and Rs. 722 crore in the form of sanctioned and undrawn working capital and term loan limits.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the entity

About the company

Incorporated in August 1995, as a private limited company, and subsequently converted into a public limited company in June 2006, Sobha Limited is an established player in 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 55.97% of equity shares in the company. As on March 31, 2019, Sobha executed 143 real estate projects with an overall development of 54.77 million sqft 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, Mysore and Gujarat. In the contracting segment, Sobha has completed 307 projects in several states in India, covering a total built-up area of 49.11 million sqft.

Key financial indicators (consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	2783.0	3442.1
PAT (Rs. crore)	216.9	297.0
OPBDIT/OI (%)	19.0%	19.6%
RoCE (%)	10.1%	13.9%
Total Debt/TNW (times)	0.8	1.2
Total Debt/OPBDIT (times)	4.4	3.9
Interest Coverage (times)	2.7	2.9

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

Status of non-cooperation with previous CRA:

In April 2018, the rating for Sobha Limited assigned by CARE had 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	Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as on Mar19 (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2019 Sep 2018	Date & Rating in FY2018 Aug/Sep 2017	Date & Rating in FY2017 Aug 2016
1	Commercial Paper	Short Term	0.00	Nil	Withdrawn	[ICRA]A1	[ICRA]A1	-
2	Long-term Term Loan	Long Term	2598.40	1768.90	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Long-term Fund Based	Long Term	890.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
4	Long-term Non-fund Based	Long Term	733.30	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
5	Non-convertible Debentures	Long Term	140.00	140.00	[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
INE671H14034	Commercial Paper	November 2017	9.00%	November 2018	0.00	[ICRA]A1; Withdrawn
NA	Term loans	FY2014-FY2019	-	June 2028	2598.40	[ICRA]A+ (Stable)
NA	Fund Based - Working capital	-	-	-	890.00	[ICRA]A+ (Stable)
NA	Non-fund based - Working capital	-	-	-	733.30	[ICRA]A+ (Stable)
INE671H07160		20/07/2015		19/07/2019	35.00	
INE671H07194		29/07/2015		29/07/2019	35.00	
INE671H07236	Non-convertible debentures	29/09/2015	11%-13%	29/09/2019	20.00	[ICRA]A+ (Stable)
INE671H07251		03/03/2016		03/03/2020	10.00	
INE671H07277		11/03/2016		11/03/2020	20.00	
INE671H07301		21/03/2016		21/03/2020	20.00	

Source: Sobha Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sobha City ['Partnership firm']	100.00%	Full Consolidation
Sobha Contracting Pvt Ltd	100.00%	Full Consolidation
Sobha Developers (Pune) Limited	100.00%	Full Consolidation
Sobha Assets Private Limited	100.00%	Full Consolidation
SobhaHighrise Ventures Private Limited*	100.00%	Full Consolidation
SobhaNandambakkam Developers Limited	100.00%	Full Consolidation
Sobha Tambaram Developers Limited	100.00%	Full Consolidation
Vayaloor Properties Private Limited	100.00%	Full Consolidation
Vayaloor Builders Private Limited	100.00%	Full Consolidation
Vayaloor Developers Private Limited	100.00%	Full Consolidation
Vayaloor Real Estate Private Limited	100.00%	Full Consolidation
Vayaloor Realtors Private Limited	100.00%	Full Consolidation
ValasaiVettikadu Realtors Private Limited	100.00%	Full Consolidation
Kondhwa Projects LLP	50.00%	Equity method

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