

Rating Rationale

Brickwork Ratings assigns ‘BWR A+ (SO)’ rating for Sobha Ltd.’s Secured NCD issue of ₹ 200 Cr

Brickwork Ratings (BWR) had assigned the **Rating¹** of BWR A+ (SO) (Pronounced BWR A Plus - Structured Obligation) (**Outlook: Stable**) for Sobha Ltd.’s Secured NCD issue of ₹ 200 Cr.

The rating “**BWR A+**” stands for a credit facility that is considered to have **adequate degree** of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The rating, inter alia, factors the company’s established track record in real estate market, premium positioning, geographical spread, diversity in revenue stream involving residential and contractual activities, , YOY growth in financial performance and structure of the NCD issue. The rating is, however, constrained by project execution risk resulting from large scale development at multiple geographies, and by macro headwinds in the real estate sector.

BWR has essentially relied upon the Audited financial results of Sobha Ltd upto FY15 and Projected financials up to FY20, information and clarification provided by the Company’s management and publically available information.

Company Overview

Sobha Limited (formerly Sobha Developers Ltd) a listed company on BSE & NSE, was started by Mr P N C Menon in the year 1995. Sobha is a leading real estate developer in India, with their Head Office in Bangalore. The Company has real estate presence in nine cities, viz. Bangalore, Gurgaon, Chennai, Pune, Coimbatore, Thrissur, Calicut, Cochin and Mysore. Overall, Sobha has a footprint in 24 cities and 13 states across India.

The company is into residential real estate development and civil contracting business with a revenue contribution ratio of 70:30 (approx.). The real estate product mix includes Multi-Storied Apartments, Row Houses, Villas, and Plotted Developments. Sobha is a strong backward integrated company where the Company is engaged through its subsidiaries in metalwork & woodwork manufacturing as well as Design & Engineering works.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Since inception, Sobha has completed 102 real estate projects and 262 contractual projects covering about 70.54 million square feet of area. The Company currently has ongoing residential projects aggregating to 41.81 million square feet of developable area and 26.59 million square feet of saleable area, and ongoing contractual projects aggregating to 9.31 million square feet under various stages of construction.

Key Terms of the Issue

- The proposed NCD issue, which will be Secured, Listed, Non-Convertible Debentures of Rs 200 crs to be issued with tenure of 4 years.
- The NCDs shall be secured by way of First pari passu charge over tangible immovable assets situated in Bangalore, of the Company, with a minimum asset cover of 1.50 times to be maintained on outstanding amount of NCDs during the entire tenor of the NCDs.
- The above issue also has a built-in Debt Service Reserve Account (DSRA) account equivalent to at least six months interest on the Outstanding NCDs in form of cash/fixed deposit in an approved Bank/certain permissible Liquid Securities.
- The Issue would have a minimum moratorium of one year from the date of allotment.
- The issue also has management holding covenants relating to ownership & management control & “Sobha” brand name.
- The purpose of the said issue is to refinance existing higher cost debt, improving maturity profile, and augmenting medium to long term resources.

Financial Performance

As per the audited financials at the consolidated levels for FY15, the company has achieved net sales of Rs 2432.75 Cr as against Rs2169.34 Cr in FY14, witnessing a YOY growth of 12%. The Company recognizes revenue by percentage completion method in which it does not include the land costs on a proportionate basis but amortizes it fully. The PAT has marginally increased from Rs 233.69 Cr in FY14 to Rs 243.94 Cr in FY15.

As on 31st March, 2015 the company’s consolidated net worth stood at Rs 2446.51 Cr against net borrowings of Rs1895.78 Cr (net of cash and cash equivalents) resulting in a comfortable debt equity ratio of 0.76. The company’s cash-flows and debt protection metrics are comfortable.

As on 31st March, 2015 the company has total unsold inventory of 8.83 mn sq.ft which comprises of 0.19 mn sq.ft from completed projects and 8.64 mn sq.ft from ongoing projects. The average price realization per sq.ft was Rs 6788.

Rating Outlook

Outlook for the company is expected to be stable. Sobha Ltd. has a premium positioning in the real estate business. The strong backward integration helps the company to have a better handle on costs and timely delivery. Going forward, timely execution of ongoing projects, reducing unsold inventory, prudent management of debt in medium term, and ability to maintain margins in a competitive environment remains key rating sensitivities for the company.

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