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Sobha's Q2 pre-sales are decent; cash flow trends remain key

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Real estate developer Sobha Ltd's pre-sales booking volumes for the September quarter (Q2FY23) at 1.34 million square feet (msf) are down marginally, on a quarter-on-quarter (q-o-q) and an annual basis. Even so, investors in the stock can seek comfort from the fact that its pre-sales in value terms were the highest ever in a quarter.

Sobha's share of pre-sales value at ₹961 crore was up 12.5% year-on-year (y-o-y) and about 1% higher sequentially. This was aided by better realisations.

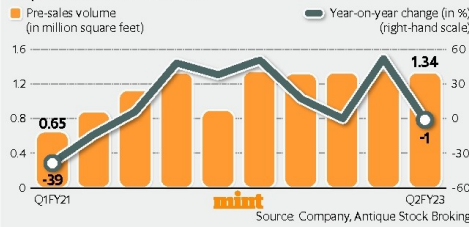
Average price realisation in Q2FY23 rose by 14% y-o-y and 3% q-o-q to around ₹8,709 per sq ft. Last quarter, Sobha launched three projects with a saleable area of around 0.9 msf. Out of these, two projects are located in Bengaluru and the third in Thiruvananthapuram. In Q2, Sobha's key market Bengaluru contributed 78% to its total share of sales.

Given the strong performance in the first half of FY23 and the robust launch pipeline, the company is likely to meet its volume and value growth guidance for the financial year.

Sobha maintains that cash flow management continues to

Holding on

In Q2FY23, Sobha's pre-sales booking volume fell marginally on a sequential and annual basis.



be its focus area and has resulted in a further reduction in net debt.

"The company's focus on

cash flow management has helped it pare net debt for the past eight consecutive quarters. Sobha's focus on cash flows and

geographical expansion should hold it in good stead. Cash flow improvement is a key stock catalyst," said analysts at Nuvama Research. In general, investors in real estate stocks should now closely track the impact of rising home loan rates on the sales momentum in residential property. This risk is not unique to Sobha. However, if the current sales trajectory fizzles out, the developer's cash flows would come under pressure.

Meanwhile, in this calendar year so far, the benchmark index Nifty Realty has declined by nearly 12%, while Sobha's shares have seen a steeper drop of almost 30%. From its

52-week high of ₹1,044.95 seen in January, the stock is down to ₹630. "While Sobha has done well in the recent quarters in terms of sales and launches, Bangalore based peers like Brigade Enterprise and Prestige Estates have also scaled up significantly on these parameters," said Manish Agrawal, Vice President (Real Estate, Cement and Multiplexes), JM Financial Institutional Securities Ltd. "Going forward, the focus remains on land bank monetisation and consequent debt reduction. However, monetizing non-prime land banks has been a challenge for the company," according to him.