

OCTOBER 13, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF SOBHA LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long Term Bank Facilities-Term Loan	1970.56	CARE A (Single A)	Reaffirmed
Long Term Bank Facilities-Fund Based-Working Capital	430.0	CARE A (Single A)	Reaffirmed
Long Term Bank Facilities- Non Fund Based	375.0	CARE A (Single A)	Reclassified from CARE A2+ (Single A Two Plus)
Total facilities	2775.56 (Rs. Two Thousand Seven hundred Seventy five crore and Fifty six lakh only)		

Rating Rationale

The rating continues to derive strength from strong execution track record of Sobha Ltd with in-house design to delivery capabilities, healthy booking in ongoing projects, established brand name in Bangalore real estate market with growing presence in other markets, sizeable land reserves across different geographies at a relatively low cost and satisfactory capital structure. The rating takes note of stable sales volume in an otherwise subdued real estate market environment, improvement in operational cashflows in recent quarters primarily due to higher collections vis-à-vis project expenses, however, further improvement of the same in light of significant construction cost yet to be incurred remains to be seen. The rating is, however, constrained by implementation risk with relatively low development cost incurred till date on ongoing projects, significant share of real estate business concentrated in Bangalore and inherent cyclicity associated with real estate industry. The rating also takes note of drop in PAT by more than 35% in FY16 over FY15 due to significant new sales coming in from projects which are yet to reach the revenue recognition threshold.

Going forward, the ability of the company to sustain the sales and collection and improve its operating cash flows which would help aid in debt reduction remain the key rating sensitivities

Background

Sobha Limited (erstwhile Sobha Developers Limited) was incorporated in August 1995 as Sobha Developers Private Ltd by Mr. P.N.C Menon, a person of Indian origin and National of Sultanate of Oman. The company was converted to a public company in 2006. The company is in the business of real estate development and also undertakes contract work for corporates.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Till June 30, 2016, the company has completed and handed over 113 projects with total developed area of 40.14 msf and 278 contractual projects aggregating to 42.41 msf (As on June 30 2015, completed 104 projects with total developed area of 34.24 msf and 264 contractual projects aggregating to 37.50 msf).

The company was awarded its first contract for construction of Corporate Block of Infosys Technologies Ltd in December 1999. Since then, the company is associated with Infosys and has constructed all the corporate buildings, training centres and hostels for Infosys.

As on June 30, 2016, the Company had land reserves of 2,425 acres spread across 9 cities.

During FY16, company generated income of Rs. 1869.6 crore and PAT of Rs. 154 crore, as against Rs. 2440.6 crore and Rs. 244 crore respectively during FY15

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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