



Date: April 19, 2021

To The Deputy Manager Department of Corporate Services BSE Limited, P. J. Towers, Dalal Street Mumbai – 400 001 Scrip Code: 532784	To The Manager The National Stock Exchange of India Limited Exchange Plaza, Plot No C/1, G Block Bandra Kurla Complex Mumbai – 400 051 Scrip Code: SOBHA
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Dear Sir / Madam,

Sub: Updates on Credit Ratings

With reference to the above captioned subject, we are pleased to inform you that, India Rating & Research has assigned the following ratings to the Company:

Sl. No.	Instrument Type	Rating / Outlook
1.	Term loans	IND AA-/Stable
2.	Fund-based Working Capital limits	INDAA-/Stable/INDA1+
3.	Non-fund-based Working Capital limits	INDAA-/Stable/INDA1+

The detailed Report issued by India Ratings is enclosed.

We request you to take the aforementioned information on records in Compliance with SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015.

Yours sincerely,

FOR SOBHA LIMITED

**VIGHNESHWAR G BHAT
COMPANY SECRETARY & COMPLIANCE OFFICER**

SOBHA LIMITED

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India Ratings Assigns Sobha 'IND AA-'/Stable

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APR 2021

By Abhishek Shukla

India Ratings and Research (Ind-Ra) has assigned Sobha Limited a Long-Term Issuer Rating of 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	On or before December 2033	INR27,680	IND AA-/Stable	Assigned
Fund-based working capital limits	-	-	-	INR8,900	IND AA-/Stable/IND A1+	Assigned
Non-fund-based working capital limits	-	-	-	INR6,940	IND AA-/Stable/IND A1+	Assigned

ANALYTICAL APPROACH

Ind-Ra has taken a consolidated view of the financial profile of Sobha along with all its subsidiaries and joint ventures, because of the strong legal, operational and strategic linkages among them.

KEY RATING DRIVERS

Strong Credit Metrics: The consolidated net debt/net adjusted working capital (inventories + receivables + other current assets + assets including long-term assets pertaining to contracts and manufacturing business - payables - other current liabilities) was 0.64x at FYE20 (FYE19: 0.64x). Ind-Ra expects the ratio to have improved to 0.59x at FYE21 and to further reduce to 0.52x FYE22 respectively, as the net debt continues to decline.

Healthy Sales Velocity: The consolidated adjusted pre-sales (including collections from contracts and manufacturing business) to net debt ratio was 1.14x in FY20 (FY19: 1.35x). The ratio is likely to have declined to 1.12x in FY21 with the decline in sales due to the impact of the COVID-19 pandemic and fewer fresh launches.

Strong Launch Pipeline amid Economic Recovery: Ind-Ra expects India's GDP to stage a double-digit % increase in FY22. The agency expects the residential floor space sold to rise by nearly 30% yoy in FY22 as the economy recovers. Moreover, Grade I real estate players (such as Sobha) are likely to see a 49% yoy jump in floor space sold in FY22. In this context, Sobha's plan of launching nearly 10 million sqft of floor space over 4QFY21-3QFY22 is likely to position the company well to benefit from the expected recovery.

Diversified Revenue: Manufacturing and contract business accounted for 35% of collections and 23% of operating profit in FY20. The agency believes that the presence of manufacturing and contract business provides some diversification benefit to the earnings of Sobha, which is generally not present in most other real estate companies. Moreover, the top five projects accounted for 47% of the total floor space sold by Sobha in FY20. Bangalore accounted for 74% of the real estate presales while Gurugram, Chennai, Kochi and GIFT City accounted for 6%, 5%, 4% and 3%, respectively in FY20.

Large Land Bank: The company had 2,411 acres of land (Sobha's share) at FYE20. The land offered total development potential of 205 million sq ft. The historical cost of the land was INR27,864 million (of which INR1,424 million is yet to be paid), but the agency estimates that the market value might be nearly INR168,770 million (at INR70 million per acre), which completely dwarfs Sobha's 31 December 2020 net debt of INR29,750 million. The company has adequate land bank for the next five decades at current rate of sales. The company has informed Ind-Ra that it shall not acquire significant new land unless its debt to equity falls to 1.1x (1.23x at end-December 2020). This is likely to help the company to deleverage further. Not purchasing more land while trying to monetise the existing land bank can be a good deleveraging strategy, in Ind-Ra's opinion.

Liquidity Indicator - Adequate: The company needs to spend INR39,590 million to complete the projects that it has already launched and offered for sale. Pending receivables from the already sold units stand at INR31,040 million. In addition, the company has INR55,660 million of unsold inventory in these projects. At FYE20, the company had cash and equivalent of INR950 million. In addition, it had INR11,915 million of undrawn debt facilities. Sobha is a publicly listed company and has relations with more than 20 banks and financial institutions, the agency expects it to easily raise fresh financing, when required.

Cyclicality and Regulatory Risks: The Indian real estate industry is highly cyclical with volatile cash flows. The sector is also subject to multiple regulatory approvals, and the timely receipt of the same is critical for launching new projects within the scheduled timelines and for future sales/collections.

Pandemic Risk: A sustained second wave of COVID-19 infections, with or without further lockdowns, may derail the expected recovery in real estate demand.

RATING SENSITIVITIES

Positive: A significant increase in the scale and cash flow diversification while improving the liquidity and credit metrics could be positive for the ratings

Negative: A lower-than-expected demand for new projects, resulting in higher-than-expected concentration of cash flows in select projects, or a cash flow deficit, or deviation from the stated land acquisition strategy resulting in higher reliance on debt, and/or the net debt/net working capital exceeding 0.65x on a sustained basis, will lead to a negative rating action.

COMPANY PROFILE

Sobha is based out of Bangalore and is one of the largest real estate developers in India. Sobha was incorporated in August 1995 and listed on the NSE in December 2006. The group operates majorly out of Bangalore, with about 70% of its total sales coming from the region. It also operates in nine other cities including Pune, Delhi NCR and Chennai. On 31 December 2020, it had completed 58.75 million sq ft of floor space and was developing

another 27.05 million sq ft of space.

FINANCIAL SUMMARY

Consolidated Financials (IND-AS)	FY20	FY19
Revenue (INR million)	37,827	34,769
EBITDA (INR million)*	7,883	7,081
Finance cost (INR million)**	3,258	2,363
Gross interest coverage (x)	2.4	3.0
Source: Annual report, Ind-Ra *After non-cash finance cost **Excluding non-cash finance cost for FY20		

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Analyst Names

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