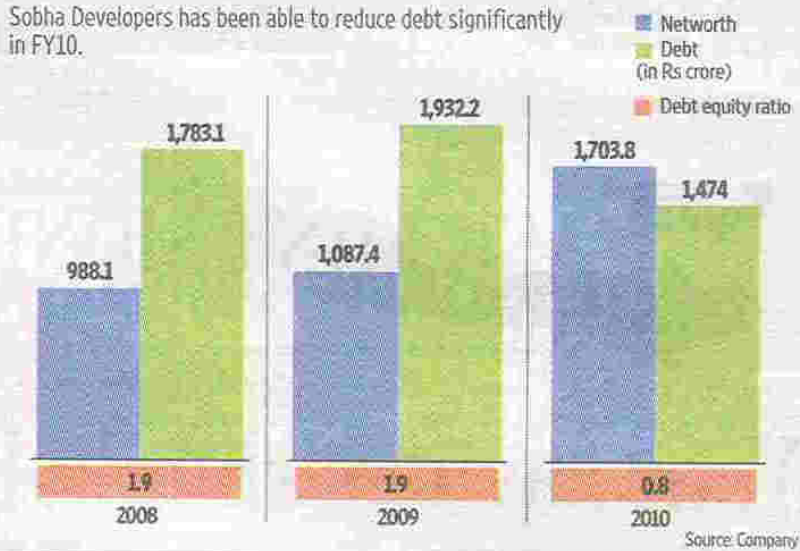


Sobha Developers: deleveraging its balance sheet

BALANCING ACT

Sobha Developers has been able to reduce debt significantly in FY10.



NAVYEN KUMAR SAMI/MINT

Even as the realty market stabilizes, **Sobha Developers Ltd's** key focus is to deleverage its balance sheet. The Bangalore-based mid-cap realty firm reduced its gearing by half to 0.8 during fiscal 2010. It reduced debt by around Rs500 crore to Rs1,470 crore. Funds raised through an institutional placement of equity and sale of land aided the process, particularly since cash flows from operations during the year were negative. A CLSA report points out, "Sobha's fiscal 2010 operational cash flows (ex QIP, land sales; including interest/tax) was a negative Rs2.7bn (Rs270 crore)."

The management is confident of lowering the debt-equity ratio to 0.5 by the end of fiscal 2011, internal accruals being the key to this. "In the next 15 months, we estimate outflows on operations to be around Rs1,000 crore against revenues of Rs2,200 crore, thereby generating operating cash flows of about Rs1,200 crore," says S. Baaskaran, chief financial officer, Sobha Developers. This appears plausible, given that the firm's revenue comes from a mix of residential projects and corpo-

rate contracts, both of which are on the recovery path. The company also plans to monetize around Rs250 crore worth of land. It estimates that aggressive deleveraging should bring down debt levels to below Rs1,000 crore.

The other positive is that execution remained robust during the slowdown. "The company spent almost the entire customer collections (Rs6.0 bn), on construction (Rs5.4 bn)," says the CLSA report. This will pay off in terms of faster delivery of existing projects and consequently, higher billings. Also, sales that happened in the second half of fiscal 2010 will generate strong cash flows during the coming quarters. Analysts are confident that fiscal 2011 sales will be 3 million sq. ft, 50% higher than the previous year.

The revenue momentum, coupled with deleveraging, should translate into better earnings. The stock, though, has little headroom for appreciation, as the current market price of around Rs285 discounts its estimated fiscal 2012 earnings around 15 times.

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