

We initiate **PEPL** and **SOBHA** at **BUY** with SOTP based TPs of Rs1,810 and Rs1,640 indicating an upside potential of 52% and 38% respectively. PEPL's and SOBHA's home market of Bengaluru is growing from strength to strength as it clocked highest-ever absorption in 2023. We believe the city is yet to unlock its true potential, as indicated by pace of growth in number of households and low residential-to-commercial absorption ratio. Both PEPL and SOBHA are likely to capitalize on this growth opportunity in Bengaluru as it gears up with a stronger launch pipeline. The growth is expected to accelerate further as PEPL/SOBHA eye the Rs4.6tn/Rs3.8tn opportunity beyond Bengaluru. We expect PEPL/SOBHA to deliver 40%/29% CAGR in pre-sales over FY25-27E. PEPL's track record of share gains in non-Bengaluru markets, strong cash flows and healthy annuity portfolio make it a preferred pick over SOBHA.

Core market of Bengaluru growing strength to strength

In CY23, Bengaluru reported highest-ever absorption of 99msf across ~66,000 units, surpassing its previous peak of 89msf clocked in FY14. However, CY24 reported a marginal dip in absorption on account of bunching of launches and marginal slowdown in velocity. That said, in CY24, realizations are up another 18%, following up from 12% CAGR reported over CY21-23, on constrained supply and premiumization. While CY24 saw a dip in absorption, we believe the city is yet to unlock its full demand potential. Bengaluru's residential-to-commercial absorption ratio of 7x remains lowest for the top seven cities and well below the ideal ratio of 12-15x. Bengaluru continues to be one of the most consolidated residential markets with the top five developers controlling 30% of the market share. Thus, scale-up of Bengaluru largely depends on the ability of these top developers to create enough supply to capture the growth opportunity.

PEPL and SOBHA expected to further consolidate their share in Bengaluru

Over the last five years, the top five players in Bengaluru have cumulatively reported 13% CAGR in launches, which led to 19% CAGR in pre-sales. PEPL has outperformed its peers both in supply as well as pre-sales growth, raising its market share to 15% in FY24 vs ~7% in FY19, while the other four maintained their market share. This circles back to the same argument that ability to scale-up in Bengaluru will be determined by the supply an individual player is able to bring to the market. Both PEPL and SOBHA are looking to further scale-up launches in Bengaluru over the next two-three years. PEPL's pre-sales contribution is about to reach saturation, but SOBHA is expected to witness a 12% pre-sales CAGR in Bengaluru over FY25-27E, to Rs 56bn, on the back of 18msf of launches lined up over the next three years versus 9msf launched in the last three.

Pan-India focus to boost growth; more so for PEPL than SOBHA

Over the years, both PEPL and SOBHA have expanded into markets beyond Bengaluru. For PEPL, it has happened in the recent past, but penetration has been quick with market share increasing to 2.4% in both MMR and Hyderabad. The same for SOBHA in NCR has been more gradual with a market share of just 0.9% despite more than a decade's presence in Gurugram. We expect this pan-India expansion strategy to boost growth albeit with a similar trend as PEPL eyes a big share of the Rs4.6tn market in NCR, Chennai and Pune while SOBHA's target markets of NCR, Pune and MMR provide a Rs3.8tn opportunity. We see PEPL/SOBHA delivering 40%/29% pre-sales CAGR over FY25-27E.

Valuation: Initiate PEPL and SOBHA with BUY

PEPL and SOBHA have had a similar run of disappointment with 9MFY25 pre-sales materially lagging the full year guidance, but recovery is in sight. We prefer PEPL (BUY) over SOBHA (BUY) for its proven track record of scaling-up faster than peers and strong cashflow-generation potential backed by a large ongoing/upcoming annuity portfolio.