



"Sobha Limited Q2 FY2018 Earnings Conference Call"

November 13, 2017





Analyst:

Mr. Sandeep Mathew – SBI Cap Securities Limited

Management:

Mr. J. C. Sharma - Vice Chairman and Managing Director –
Sobha Limited

Mr. Subhash Bhat – Chief Financial Officer - Sobha Limited

Mr. Ramesh Babu, VP Finance - Sobha Limited

Mr. Vighneshwar Bhat – Company Secretary and
Compliance Officer - Sobha Limited

Mr. Bala murugan – Investor Relations Vice Chairman and
MD's Office – Sobha Limited



Moderator: Ladies and gentlemen good day and welcome to the Sobha Limited Q2 FY2018 Earnings conference call hosted by SBI Cap Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing '*0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBICAP Securities. Thank you and over to you Sir!

Sandeep Mathew: A very good afternoon, everyone. We are very happy to have with us today the management of Sobha Limited, represented by Mr. J.C. Sharma, Vice Chairman and Managing Director; Mr. Subhash Bhat, Chief Financial Officer; Mr. Ramesh Babu, VP Finance; Mr. Vighneshwar Bhat, Company Secretary and Compliance Officer; and Mr. Bala Murugan from Investor Relations, VC & MD's Office. I would like to now hand over the call to the management for opening remarks. Over to you, Sir!

J.C. Sharma: Good evening, friends. I welcome you all. We are indeed pleasure to have on board both declaration of our limited review and unaudited financial results for the second quarter financial year 2017-2018 ended September 30, 2017, through this con call hosted by SBICAP Securities. Thanks to Sandeep Mathew for this.

We had already shared the details of our operational update of the company in the first week of October 2017. We had also uploaded our investor presentation based on this financial results adopted by the board, which can be downloaded from the website of our company.

As all of you are aware that this year had begun on a tentative note. There was all around apprehension how real estate will be able to overcome both the RERA-related challenges as well as the transition in this new GST regime.

However, we can say with confidence that we transitioned it beautifully, all our projects got registered. There has been zero disruption in any of our activities, be it procurement, be it execution, be it overall on a collection basis, or be it, at the end of the day, registering and convincing the customer that the projects what we are selling, they are all complied all the right notes applicable to those projects.



You are seeing our last quarter's results in the backdrop of this transition. We feel that this transition pain, as far as this activity is concerned, while it is taking its own time to overcome, should overcome in next couple of quarters, which, in my view, should be by March 31, 2018. As you will witness, post this RERA, the new launches also are in the pipeline, and we will see more of new launches from this sector also, as well as from the Sobha also.

As far as our financial and operational performance is concerned, we have ensured that whatever we are selling, we are delivering, we are executing, we are collecting, we are billing. And going forward, we believe that the mechanism what we have evolved, the process what we follow, will keep us relatively better off vis-à-vis the sectors post this new RERA and GST era.

I will take the questions after Subhash Bhat talks about the financial update. Over to Subhash!

Subhash Bhat:

Thanks, Sharma Ji. Good evening, friends. Let me take you through the financials for the second quarter of FY2017-2018.

Revenue for the second quarter came in at Rs.6.58 billion, which was higher 19% year-on-year. Of this, real estate contributed Rs.4.93 billion, which is about 75% of the topline, and the contracts and the manufacturing business contributed the remaining Rs.1.53 billion. The EBITDA for the quarter stood at Rs.1.36 billion, and the PBT came in at about Rs.710 million. The EBITDA and PBT are up by 19% and 10% year-on-year.

I would like to mention here that when you look at EBITDA, please note basis under the Ind-AS accounting regime. If you compare this with the I-GAAP regime earlier, the EBITDA is lower by about 1.3%, and that is mainly because of the revenue side that we had to take in for the joint development projects that we have under Ind-AS.

The profit after tax stood at Rs.502 million, which is 30% year-on-year higher. The cash flow came in at Rs.6.94 billion. And I am pleased to mention that we generated net operational positive cash flow of Rs.594 million after meeting interest and tax expenses.

Further, I am pleased to announce that your company has further brought down the average cost of borrowing to 9.88% as of September 30, 2017. And cumulatively, we



have brought down the average cost of borrowing by about 262 basis point since Q2 of 2016-17, which is better than the RBI REPO rate reduction during the same period.

From a revenue recognition perspective, we had 3 projects which reached revenue recognition threshold during this quarter, and Rs.575 million revenue has been recognized on these projects.

The cash flow during the second quarter, as I mentioned earlier, was at Rs. 6.94 billion improved. We generated a net operating cash flow of Rs. 594 million after meeting interest and tax. And this is the ninth consecutive quarter that the company has generated net operating cash flow after meeting the financial obligations. The debt/equity ratio is at 0.85% as of September 30, 2017.

Coming to the performance highlight, as communicated during the first week of October 2017, we sold 0.86 million square feet during the second quarter of FY2017-18, totaling to about Rs.6.75 billion, with the Sobha share being at Rs.5.92 billion. The average price realization came in at about Rs.6883 on our share.

The sales value accrued during this quarter was highest in the past 10 quarters. And we would like you to note that this was achieved without adding any new launches during the quarter. And besides Bangalore and Gurgaon, we saw Cochin real sales performance also during this quarter. The company is planning to launch 5 new projects in Bangalore, Chennai, Thrissur, Mysore and Cochin during the coming quarters.

Coming to the real estate inventory that we hold at close of Q2 FY2017-2018, our unsold inventory and completed projects was only 250000 square feet, of which about 70000 square feet of inventory is plotted development. We have total area, which are released for sale in ongoing projects, at 14.75 million square feet, of which we have already sold 10.71 million square feet until 30th of September and unsold area of 4.04 million. The unsold area accounts only for 27% of the area released for sale, and we consider this to be adequate in this market. In addition to this, the project in Pune area not released for sale is about 10.86 million square feet.

Coming to the contracts and the manufacturing business the collections from contractual and manufacturing business remains stable and healthy; our company bagged 2 major contractual orders valued at Rs.5.21 billion from Lulu and Biocon group. The order book stood at Rs.15.17 billion as of September 30, 2017. The total revenue



from contract and manufacturing business for the quarter was Rs.1.53 billion, with a contract vertical contributing Rs.917 million and the manufacturing vertical coming in at Rs.618 million.

We would like to thank you for listening to us and would request the participants to now put their questions forward. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with question and answer session. Our first question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: Sir, Congratulations on good operating numbers. Sir, I would first like to understand the land payments in the quarter. I understand we have bought land parcel in Cochin. Could you give us details on that, please?

J. C. Sharma: Good evening. Abhishek, we have paid two large payments in this quarter towards the land. One was the balance payment for the Marina One, which was paid in the last quarter. While we had some time, it was not interest bearing, we paid it. The other one was 2 land parcels had come for auction in Cochin, Marine Drive of 12.5 acres, with an FSI cost of almost Rs.1000 per square feet is what we have paid for, which we had won, along with the promoter of Puravankara, Mr. Ravi Puravankara. We have identifying one parcel out of that for a mid and residential space, other one for the commercial development as things stands today.

Abhishek Anand: Sir, how much we have paid for this land parcel?

J. C. Sharma: Rs. 100 Crores?

Abhishek Anand: For the 2 million square feet development?

J. C. Sharma: Our share will be 1 million square feet for that.

Abhishek Anand: Okay. So as we understand, Puravankara's promoter is basically keeping it in his book, and we are having it in another company books. Is that correct?

J. C. Sharma: Yes, Absolutely right.

Abhishek Anand: Any reason why there is a difference in approach there between the 2?



- J. C. Sharma:** That they are listed estate company, you need to ask them. As far as we are concerned, all our operations are within the company only.
- Abhishek Anand:** And any indicative launch of this land we will be paid for the Marine One?
- J. C. Sharma:** The valuing has started. Approval takes its own time. We believe that it may still take another two quarters before this project will launch.
- Abhishek Anand:** Okay, Perfect. Sir, secondly, so we mentioned that we are planning to launch certain projects in various cities. Could it be quantified, especially in Bengaluru, how much we are planning? At least in the planning stage, how much how many are you...
- J. C. Sharma:** Not so much in the planning stage, Abhishek. Right now, we are working out for this month's launch. In Bengaluru, one project called Pristine. It will be launched this month itself. Finally, we are working out launches in Chennai, in Kochi, Sobha Isle, which was approved and then somehow some legal issues arose. It had been overcome, so we are relaunching that in Mysuru and in Chennai, which we will also be able to get villa development layout approval for. This approval process is on. So wherever things improve, this project will be launched. At least another two projects would be launched out of the remaining four in this quarter itself. There are other three to four projects at the various stages in Bengaluru, in Pune, in Chennai and in Thrissur, which should be launched as we move forward. So we have created good visibility as far as our new launches are concerned.
- Abhishek Anand:** Sir, so the affordable housing which we were planning a part of?
- J. C. Sharma:** No, affordable housing will not be able to launch in this financial year. At the earliest, it will be launched early financial year next year.
- Abhishek Anand:** Okay. And Sir, lastly, and then I will join back in the queue. We have seen quite a few developers actually actively pursuing a launch pipeline in the coming few months. Do you see significant amount of supply coming into the markets? Or do you see demand catching up enough to solve this launch?
- J. C. Sharma:** I personally believe that demand will just to catch up in a meaningful manner, I also personally believe that whatever we may talk about with the overall supply, will not be of that size and scale what this industry had been used to. If at all, meaningfully the



new supply comes, it will be coming more on the affordable segment because market is still having a reasonable amount of unsold inventory at various stages almost in all the cities. So it will take its own time. We are, relatively speaking, better placed there because whatever projects we had launched, more than 75%, it is already sold. And where we have got ourselves registered with the RERA, it has been engineered beautifully where projects will be delivered on time, collections will happen and the least amount of money we would like to keep in the RERA-designated accounts. And this allowed us some kind of the flexibility to launch in all the markets at least one product in the near foreseeable future.

Abhishek Anand: Sure great Sir. I will join back in the queue for more questions.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet J. Gulati: First of all, if you can just give a breakup so Rs.100 Crores, you said you spend on this new land parcel, and the balance entirely is in the Marina payment? Or is there something more?

J. C. Sharma: No, not everything, but a significant payment has gone to that Marina One. And the remaining are small payments here and there, not for buying any meaningful land parcel.

Puneet J. Gulati: Okay. Secondly, if you can also give us some color on your sales trajectory. So obviously, if I look at year-on-year number, the realization has really gone up. While in terms of volume, it has largely been flattish to slightly up. What is really driving this realization growth?

J. C. Sharma: Primarily, it is a good question, right? We may be the only developers today who had this sales properly bifurcated below Rs.1 Crores, below Rs.2 Crores and above Rs.2 Crores. And if you look at our sales trajectory for the half year, it is almost 30% plus in all the 3 categories. So in our case, this year, what you have noticed that the sales on Rs.1 Crores plus and Rs.2 Crores plus, it is higher or better as a percentage of the total sales vis-à-vis the last year, where the Dream Acre one did the principal driver. So while Dream Acres, we still believe, we may end up selling whatever we have sold last year, the growth is coming mainly on account of the other products, which is being reflected in our realization per square feet, relatively higher this first half than throughout last



year or last couple of years as well. Going forward, also looking at the visibility of the project launch, including the affordable, right, I believe that the realizations have more or less stabilized. And we should keep doing around this, because the increase in prices also we do not foresee significantly as we are currently seeing the kind of demand scenario.

Puneet J. Gulati: Okay. And what million square feet of your entire total projects are you likely to complete over next one year?

Bala Murugan: Around 3 million square feet what we have already projected. But see, after this RERA thing, which you can notice that once you get the occupancy certificate only, we will be able to officially declare as a completed project that we have classified in our last few slides of the presentation.

Puneet J. Gulati: Last slide.

Bala Murugan: Yes, Slide #33. If you notice, there are 5 projects which are already completed, and we have applied for an occupancy certificate.

J. C. Sharma: What Bala is trying to say, earlier once the architect gives us a completion certificate and we had raised 100% billing on our customers, it will be considered as complete. Now it is complete from the billings and from the architect's perspective. But from a RERA perspective, until you do not get the final occupancy certificate, it is not declared. So that has been demarcated and reflected in the annexure Page #33.

Puneet J. Gulati: Yes, so you are two point yes, sorry?

J. C. Sharma: So but we will be completing 3 million square feet and delivering that much of inventory in this financial year.

Abhishek Anand: Okay, so your 2.05, it is already done and applied for OC, and are you expecting more this year where you will be filing for OC?

J. C. Sharma: Yes, definitely.

Puneet J. Gulati: How much would that be?



- J. C. Sharma:** That as and when it gets completed and certified, we will keep you posted. But it should be well within the 3 million square feet. Sometimes one month here and there, it may just change the whole scenario. Only two quarters are left for this financial year.
- Puneet J. Gulati:** Okay. And how much of this would be unsold from this?
- J. C. Sharma:** Hardly anything of a significant nature. Whatever projects we will likely to complete also, more or less the sales momentum is there, so then total unsold inventory is only 250,000 square feet. Going forward, it will be within that range only.
- Puneet J. Gulati:** That is good. And last question, how are you looking at the new opportunities for land acquisition and for various joint development contracts?
- J.C Sharma:** You see, we are keeping our eyes and ears open. Interest rates are low. Cash flows are better. Margins are protected. So whenever we get good opportunities there, we believe that, yes, somewhere good terms are available, we will look at. At the same time, we keep repeating our sales that the debt/equity ratio, it has peaked, and it can only come down from here. So within these parameters, we need to collect more to invest.
- Puneet J. Gulati:** Okay. So any color whether you are seeing increase on some of these opportunities? Or is it largely same what it used to be?
- J. C. Sharma:** The market has been flat for a relatively longer period of time, so the number of opportunities; they have been at elevated levels for last couple of years, if really you look at.
- Puneet J. Gulati:** That is good. That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Just a couple of questions. So firstly, when we have seen some improved sales now in the first half, can we expect a resumption of the guidance that you used to give earlier?
- J. C. Sharma:** Definitely, we would like to start that part again. Hopefully, from the next financial year. This time, not giving guidance, it has rather helped us. But still, would we love to come back on that front. And we will do double-digit growth at least every year. That much clarity is not there yet now.



- Abhinav Sinha:** Sir, on the quarterly run rate that we have seen close to Rs.600 Crores. This is looking sustainable now?
- J. C. Sharma:** It is looking sustainable.
- Abhinav Sinha:** And you would think that market share gains have played a part here?
- J. C. Sharma:** It looks like. Because when we look at the way that the market has shown its performance, somewhere, definitely, we have gained market share in most of the markets where we are currently operating.
- Abhinav Sinha:** Okay. Sir, secondly, on the contractual business now we have seen a big order when a couple of the big order wins comes through, and I do not think we have seen Rs.1500 Crores or double. So how should we look at the revenue scale up here now?
- J. C. Sharma:** See, we still are quite choosy. Whatever we are building; more or less we are collecting, with margins remaining intact. We have been fortunate been to have good clients. Now Lulu has relatively bigger plans in India. They have considered us as their preferred vendor. So we hope that as and when they start awarding new contracts, we will be one of the preferred contractors. At the same time, I used to be worried whether we will be able to sustain the Rs.600 Crores to Rs.800 Crores kind of the contracting business or not. We are confident that it is Rs.800 Crores to Rs.1000 Crores kind of a building as it stands today, we hope to sustain in the near foreseeable future also.
- Abhinav Sinha:** Okay. So the likely execution period of the Lulu Mall should be around, what, three, four years now?
- J. C. Sharma:** No. It is 30 months.
- Abhinav Sinha:** It is 30 months. Okay.
- J. C. Sharma:** 30 months. And you can compute it even faster also.
- Bala Murugan:** Yes.
- Abhinav Sinha:** Okay. So Rs.800 Crores to Rs.1000 Crores is what we should look at from, let us say, next year onwards?



- Bala Murugan:** Yes.
- J. C. Sharma:** Yes. This year also, we can look around that.
- Bala Murugan:** All the execution happened long ago.
- Abhinav Sinha:** Okay. Thanks.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead/
- Saurabh Kumar:** Sir, my question was on margins. So your real estate revenues have gone up by 36%. Normally, with this sharper rise, we kind of see some operating leverage happen, but that has not happened in this quarter. So why is this margin still not up to 30%-odd in real estate?
- J. C. Sharma:** See, basic margins, they still remain okay. As we have been telling two things: One, the ability to increase the prices, it is not yet there with the developers, and second, there has been a consistent and constant investment on the sales and marketing promotional-related activities, which you need to charge off. So while at the operating level, we are still better at quarter-on-quarter or year-on-year basis if you look at. Only sales promotion-related things, we have been offering this much more probably the highest-ever incentives in our history to the third party, which are channel partners and to our own people with lots of focus.
- Subhash Bhat:** On the brand also.
- J. C. Sharma:** Promotional-related activity. So that takes away whatever improvement otherwise you see at the operating level.
- Saurabh Kumar:** Sir, fair point. So basically, the discounts to brokers are going up, right?
- J. C. Sharma:** Yes, you can say discounts and the investment in the promotional activity.
- Subhash Bhat:** Yes, I think which is more of the advertisement that we are doing.
- J. C. Sharma:** Channel partner contribution has increased and improved both in the Gurgaon market as well as in the Dream Acres, Bangalore market.



- Saurabh Kumar:** Okay. And Sir, just on this land bank. So the land bank which you have this 100 million square feet, you came with book value is Rs.2000 Crores?
- Subhash Bhat:** Yes.
- J. C. Sharma:** Yes Sir.
- Saurabh Kumar:** But this will not be the book value, they will be some interest charged off against this, so the total book value on the balance sheet will be slightly higher, right?
- J. C. Sharma:** 100%, you are right.
- Subhash Bhat:** This value is including the interest, which is sitting on the book.
- J. C. Sharma:** Either it is in the land account or it is charged to the revenue, sort of, I think P&L account. So you are right, it is inclusive of that interest cost.
- Saurabh Kumar:** It includes the interest cost?
- J. C. Sharma:** Yes, Sir.
- Subhash Bhat:** The number that is put out is including interest, capitalized from it.
- Saurabh S. Kumar:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Sir, I just want to check with you on the Cochin new land acquisitions that you have done with Puravankara. What is the selling price expectation over here, and if you can just back up with the construction cost just for us to understand the ROI on this investment?
- J. C. Sharma:** The current realization on our Marina One, it takes about Rs.9000 a square feet. Right, this product because there will be Rs.1000 benefit on the FSI cost and specification also will be little bit on a lower side, so we hope that we should be able to sell this product around Rs.7000 per square feet.



- Sameer Baisiwala:** Okay. And I presume, Sir, your standard cost of construction is Rs.3000, Rs.3500?
- J. C. Sharma:** Yes. See, there will be in the new project some extra benefits, what right now we have not experienced because we have not launched any new projects in the last six months. The GST means today that the excise benefit, interest rate benefit and other certain cascading taxes that benefit has started accruing in a little bit small manner. As the new project takes off, that benefit will become maximum. So first time we will see that our cost of construction as we project will be lower projected than what we have been projecting every time when the new project cost estimates are being done.
- Sameer Baisiwala:** Okay, this is very helpful. So we can assume that your PBT margin on this can be about Rs.2500 per square feet or so?
- J. C. Sharma:** Yes possible.
- Sameer Baisiwala:** Sir, just for understanding, what you look at which financial metrics you look at when you are acquiring these land parcels?
- J. C. Sharma:** See, it is one is that your operating margins, it should be under all circumstances above 30%. Number 2, the market should be able to absorb the product what you believe you can sell there. By the time when project is completed, the project needs to be sold. Now we have succeeded till now in almost all our projects. Where when you launch the project and you complete the project, more or less you have been able to finish and you have been able to have this 30% operating margins. That formula continues to be applied while looking at any new opportunity.
- Sameer Baisiwala:** Okay. Sir, just turning on Slide #12. Just broad question over here, if I look at the ongoing area released, roughly about 15 million square feet, so and your balance construction spend is Rs.38 billion, so I presume at Rs.3000, Rs.3300, your total spend would be about Rs.5000 Crores on this. So these projects are roughly 25% completed. Is that a fair assessment?
- J. C. Sharma:** No. I would not agree that way. This 14.75 million square feet where we need to spend balance Rs.38.06 billion. This is what you need to spend. What has already been spent, if you put it through, it will be around Rs.3000 per square feet, little bit more than that, that is all.



- Sameer Baisiwala:** So, Sir, if I add Rs.3000, then it becomes about Rs.7000 for 15 million square feet, it is almost Rs.4500 per square feet construction cost. I do not think that was the money that you spend?
- J. C. Sharma:** No.
- Sameer Baisiwala:** Out of the 38 billion you were asking me to add 30 billion, so this about Rs.68 billion.
- J. C. Sharma:** It is Rs.3000. I said it will be Rs.3000 plus.
- Subhash Bhat:** Sameer, let me add here, the balance construction cost we spend, okay, is including the JD payment that will happen because the collection that we show here, expected cash inflow from the sale is not Sobha shares, it is from the product. So the payment to the JD or partner goes then part of the construction balance cost we spend. So we will correct this definition, And we say that it is construction cost and JD payments speed up.
- Sameer Baisiwala:** Okay. So it is not 25%, maybe it is about 40%?
- Subhash Bhat:** Yes, yes, exactly. And the JD part, where we are handing over the revenue share to the land owner also will be part of this.
- Sameer Baisiwala:** Okay. Sir, and just a related question to this, if I look at the receivables, which is about Rs.3400 Crores, and the area which is sold is about total Rs.10.7 billion, so it looks like it is about 50% sold. Is that also understanding correct roughly about?
- Subhash Bhat:** Collection?
- Sameer Baisiwala:** And I am putting about Rs.6500 per square feet as an ASP, so the Rs.7000, Rs.3400 is pending?
- Subhash Bhat:** Yes. What you have collected is about 50%, you are right. So remaining 50% will be collected.
- Sameer Baisiwala:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.



- Saurabh Kumar:** Sir, just two questions. So one is, you said you will continue double-digit growth. So I am guessing, was this a comment on presales?
- Subhash Bhat:** Presales, yes.
- J. C. Sharma:** Presales, yes. Presales followed sort of everything, that is kind of an order book you create. So going forward, we believe that, that kind of growth is from now onwards is with whatever existing products we have and what is in the pipeline, it is actual.
- Saurabh Kumar:** Okay. Sir, and this Slide 12, this Rs.5800 Crores which you are expecting to get, so what is the time frame of monetization of this? What will be your expectation?
- J. C. Sharma:** The unsold inventory is almost 15 million square feet now, correct, So with the 10% minimum growth kind of, I think you should be able to finish it in next three and a half years to four years' time.
- Saurabh Kumar:** So, basically, what I am trying to get at is if you finish this Rs.5800 Crores in four years, even if you remove your corporate expenses and the interest and tax, you are still kind of left with a surplus of more than Rs.3000 Crores over a period of four years.
- Subhash Bhat:** Saurabh sale would happen over four and a half years. Collection would happen over six years you can consider, one and a half years more.
- J. C. Sharma:** There is always you are collecting the land money upfront. Or the first 30%, what you are collecting will be upfront and the delivery takes its own time. So the time lag will be there.
- Subhash Bhat:** Overall you can look at just money coming in about six years.
- Saurabh Kumar:** Okay. So if I do this math over six years on your basis of your corporate cost and your interest cost, you still are left with about Rs.2500 Crores surplus, post-interest for that.
- Subhash Bhat:** Yes.
- J. C. Sharma:** That is 100%. And then something more will get sold also, that will get added, some corporate cost will get reduced. It will continue like this.



Saurabh Kumar: Yes. So assuming you do not add anything, so you will still be left with Rs.2500 Crores. And you already have a land of Rs.2000 Crores on your balance sheet, so what is your thinking? Will you add more land? Or would you like pay down the debt? Like a past or bottom debt was like the least we went to was Rs.1200 Crores, can we expect this number to reach there or to start leveraging up?

J. C. Sharma: See, we are getting into a little bit of commercial space also. One small project again we are starting in this quarter. We are also, right, going to invest in NCR a little bit more because we believe that, that is the long-term market for us. But at the end of the day, we do hear, we will not be able to work on the basis of the debt equity ratio with which most of the companies are operating today. This is the peak. Even by the year-end, we hope to bring it back to the level where we had started, if not more, and going forward, through the cash lodge only. We are somewhat worked out that money will be deployed in such a manner either commercial or real estate, which is opportunistic and which enhances or complements our exiting product portfolio.

Subhash Bhat: We will try to maintain the debt equity at about 0.7 to 0.8, so if that is the question that you are asking.

Saurabh Kumar: Sir, my point is the debt equity is meaningless in this sector, point being that the cash flow is very cyclical. So I do not know what debt equity actually gets you to. If you actually benchmark to cash flows, your interest are still eating up away a lot of the operating cash flows. So I was thinking that should not you be looking to debt reduce this debt further?

J. C. Sharma: From this you have been talking about the land bank parcel. Three or four of the land bank parcels today, right, they have been actively pursued to say that new product launch happens in the near future. Nagondanahalli will be one among the debt. Then you have Bellandur something is working out. and in Chennai also, something is working out, in Cochin also. So we believe that at some point of time, as the market starts showing such an improvement, the benefit of this interest eating, where the land cost is still relatively cheaper, it will outweigh. And it will show the positive side of this kind of investment. Like GMS has done, we will see from the more number of such projects as they are being launched, that benefit will start accruing.

Saurabh Kumar: Okay, Sir. But your basic expectation that your ongoing projects have negative working capital will continue, right?



- J. C. Sharma:** 100%.
- Subhash Bhat:** We might Saurabh, we might tweak specific projects once they reach a maturity level where the money does not get locked into the RERA-designated accounts, so we may specifically in those projects where we start seeing more money flowing into the designated account, we may offer better payment terms at a higher price to the customer.
- Saurabh Kumar:** Okay. But that anyway your working capital deployment and ongoing is very low.
- Saurabh Kumar:** Alright Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Many congrats on good set of numbers. Sir, you have spoken about some 5 to 6 launches, which you have planned, so can you quantify, in terms of million square feet, how much you are planning to do?
- J. C. Sharma:** There are more than 2 million square feet.
- Parikshit Kandpal:** This will be entirely the new launches not from the area?
- J. C. Sharma:** No, no, no, entirely the new launches.
- Parikshit Kandpal:** And anything which you are releasing from the area not released yet?
- J. C. Sharma:** That will also keep happening like Dream Acres. I think every quarter, one or two new towers. They are being released. So but that is an ongoing process. It will keep happening.
- Parikshit Kandpal:** Sir, there has been talks about so I wanted to know, sir, there has been talks of some tweaking sort of in the GST for the real estate, so can you give us some sense like what are the likely changes here and how it will benefit the sector?
- J. C. Sharma:** We believe as a part and parcel of this being representing this organized sector in the real estate that even if the time duty registration charges from the land bank stage itself, it comes under the GST, we welcome it whatever things if they can come out



under the GST, we would also go one step further. These benefits can be made available even to the investors also. It will be a great initiative by this government. Because at least, the investors can keep their surplus money, they believe strongly about the real estate. And whenever they feel that extra money they are earning out of their investment, on that only is they are being required to pay the time duty. On an appreciating asset if this kind of the thing this government brings it up, it is the most welcome thing. Because at the end of the day, this will bring much more transparency and clarity about the real land prices, real construction cost, real availability, real margins and that will help the sector alone.

Parikshit Kandpal: Sir, the land payments which we did during quarter, so this Marina One, so now and all dues of Puravankara has been settled now? Has been paid?

J. C. Sharma: 100%. They have been settled.

Parikshit Kandpal: Roughly Rs.160 Crores would have gone out for during this quarter, right?

J. C. Sharma: You are right.

Parikshit Kandpal: Sir, there was a MAT credit this quarter of Rs.10 Crores, so what is that attributable to, like which project?

Subhash Bhat: Yes. So basically, this quarter we are back into the MAT part, so we are paying tax based on MAT so that credit has to come back into the P&L.

Parikshit Kandpal: This will be for which project?

Subhash Bhat: No, this is not specifically project.

J. C. Sharma: This is for the company.

Subhash Bhat: For the company, it is at the legal entity level.

Parikshit Kandpal: Okay Sir that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.



- Abhishek Anand:** Sir, if I remember, there were some government payments due to us for land parcel we had given on account out of Metro, I think. Any update on that? Is it in process?
- J. C. Sharma:** See, the notification has been done. The BMRCL had authorized the Karnataka Industrial Area Development Board, KIADB. We call it, to give the compensation to the landlord. The project had been approved and the BMRCL has got with the European bank credit also for long term. The revenue department has raised certain objections about these lands. And that matter is before the High Court. No sooner that matter is settled, this compensation should come to our account.
- Abhishek Anand:** And any tentative figure on how much we expect from there?
- J. C. Sharma:** Cannot say. It is based on twice the valuation of the guideline value, which will be considered by the government as things stand today, which with the back-of-envelope calculation says that okay we should be getting almost Rs.200 Crores from the authorities.
- Abhishek Anand:** Okay. Perfect. Secondly, on RERA implementation in Karnataka, so we see a some difference between Maharashtra and Karnataka RERA's implementation, especially for the end users. At least I am not able to see the details of the project to such extent we are seeing in Mumbai. So any visibility there when will this website open up for much more details? Or is this how the website is going to continue now?
- Subhash Bhat:** Abhishek, There are some small kinds of bugs which are keeping coming, but they are still working it on, okay. But you can see certain projects, macro-level pictures, what is the area and the other addresses, the name of the project kind of Karnataka website.
- J. C. Sharma:** Yes, but details.
- Subhash Bhat:** But it is not still not up to Maharashtra website.
- J. C. Sharma:** My take, Abhishek, is, this act is still at its infancy levels with the authorities or the people who are currently managing, they are not properly well briefed, and they are taking calls based on whatever they have understood or they believe they should be doing. In a couple of more quarters, we will have similar kind of information dissemination happening throughout India. Till then, we have to bear with them. But



they are definitely trying to help the developers' fraternity in providing whatever clarity or support which is needed.

Abhishek Anand: Thank you so much.

Moderator: Thank you. The next question is a follow-up from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: So just wanted an update on the APMC project. So what is the status?

J. C. Sharma: APMC project, also, thanks to that NGT order, if you know, last year, The NGT has defined that any nala, primary, secondary, tertiary or any lake boundary from the edge, certain meter requirement they had stipulated. And because of that stipulation, lots of projects in Bangalore, they are stuck due to the distant challenges. Here also, there is no physical nalas but in the village we have some kind of those revenue records, some streams they are showing. So we have applied to the revenue department to shift these kinds of things to certain other portion which does not hamper the construction activity. The matter has been taken up and revenue department has recommended based on our application. No sooner that happens, this project, we will take up.

Parikshit Kandpal: So I mean, you are saying there is a new location which will be given for building.

J. C. Sharma: No, the location remains the same. See, the NGT order currently prohibits for us to apply for a plan approval, based on, the way those revenues in the revenue records, some kind of a stream, some small nalas are being shown. So either the Supreme Court has to decide on that, a, or the revenue department has to shift there is a provident, where this kind of "karab" "bad" land, it can be shifted by the side and the project can take off. On either of the 2 things happening, we will be going ahead with the project implementation.

Parikshit Kandpal: Location remains the same.

J. C. Sharma: Location remains the same. The contour and the understanding remains the same.

Parikshit Kandpal: And when can be the likely groundbreaking here and the first investment moving into the project? So I just...



J. C. Sharma: Typically, debt clarity does not come. Either NGT's reliance, a, then we do not have to leave lots of setback area, we can plan it better, or the government acts on whatever they have in principle agreed to do the needful.

Parikshit Kandpal: And will there be any reduction in leasable area? Or it economics remains the same?

J. C. Sharma: No. There is a fearless talk happening that government of Karnataka wants to decrease the FAR laws and want to sell the premium FSI as it is being done in other states. Till that act does not become a law, till that is recommendations, we cannot say. I think, then today, we have got enough FSI available on the whole 30 acres. Because what we will be constructing for the government is going to be much, much less, and we still have lots of comfort on the FSI.

Parikshit Kandpal: Thank you.

Moderator: Thank you, ladies and gentlemen. That was the last question. I now hand the floor back to the management for closing comments. Over to you, Sir!

J. C. Sharma: Thank you once again to all of you for your patience hearing. We believe that as far as Sobha is concerned in the current environment, it should be able to sustain its last two quarters' performance. We also believe that post-RERA and post-GST, organized players should be doing better than what they have been doing till now. We also believe that with the new product pipeline, we should be able to sustain and maintain the momentum what we have shown with our new launches. We are confident to protect our margins. We are confident to ensure that our cash flows remain in place. We are also confident that the interest cost also should keep coming down at least for the next couple of quarter. As far as the contracts and manufacturing activities are concerned, we remain confident that both the margins and the revenue part should remain stable as we have been reflecting in the past many years. Thank you once again.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of SBICAP Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.