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SOBHA.NSE - Q4 2017 Sobha Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, good day, and welcome to the Sobha Limited Q4 FY '17 Earnings Conference Call hosted by SBICAP Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I'll now hand the conference call over to Mr. Sandeep Mathew from SBI GAAP Securities. Thank you, and over to you Mr. Mathew.

Sandeep Mathew

We have with us today the management of Sobha Limited represented by J.C. Sharma, Vice Chairman and Managing Director; Mr. Subhash Bhat, Chief Financial Officer; Mr. Vigneshwar Bhat, Company Secretary and Compliance Officer; and Mr. Bala Murugan from Investor Relations, VC & MD's office.

I would now like to hand over the call to J.C. Sharma for opening remarks. Over to you, sir.

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Good afternoon, friends. We are pleased to connect with you today post declaration of our audited financial results for the fourth quarter and for the financial year 2016-'17 ended March 31, '17 through this con call hosted by SBICAP Securities. Thank you, Sandeep, for organizing the [team]. We've already shared the details of our operational performance in the first week of April 2017. We already uploaded an investor presentation as well yesterday [self] for you to go through with and raise your queries, whatever you have on the same. As we look into our last year's performance, what I would like to comment upon is that the year had been quite difficult, challenging and had been on a transition through and through. There are so many pluses, and there have been some misses as well.

(inaudible) what I could sense that last financial year had shown -- sown the seed of ensuring that the sector from now onwards becomes more accountable, more transparent, more reliable, more compliant and should have better financial discipline. All these things we will see post RERA getting implemented, post GST getting implemented. At the same time, I also would like to communicate that the affordable housing scheme,



which had been introduced in the recent budget, it is going to bring a transformational change the way the real estate sector will be run. The definition of carpet area up to 60 meters squared, to the best of my knowledge, will ensure that all developers should be having this kind of a product going forward because it will bring down their construction cost, improve their volume and give them the income tax benefits as well.

On top of this, the lowering of interest rates, the availability of money, both to the developers as well as to the customers, is a positive sign. On the negative side, we had to go through with demonetization, generally speaking, where all the markets got impacted. We had to also, as far as Bangalore is concerned, had to go through certain issues pertaining to NGT as well as during the flooding time, some issues pertaining to demolishments and others. Going forward, we believe that these things should not be impacting anymore. Whatever time we will be taking and the industry will be taking, it will be primarily on account of how we transition beautifully. We hope that the visa clarity should be there by the end of next week where all the states must be coming out with their own rules, which will bring lots of clarity to the customers and, hopefully, that will also ensure that we can confidently start marketing our products without any fear.

The year which has gone by should be looked at vis-à-vis all such things, the way we were able to sell 3 million square feet and about INR 2,000 crore shows the resilience, shows that -- how we have been able to operationally overcome the challenges and as well as protect our prices and margins.

We also delivered whatever we had committed to our customers. And through this education, we could improve our billing process which is amply reflected in our improved cash flows. We continuously work with our bankers to ensure that there is not only sufficient liquidity, the interest rates keep coming down. So you will also observe that from 11.83%, the interest rates have come down to 10.42% on average, and it is likely to come down further.

We have remained cash flow positive. And when we're entering into this New Year, our belief is this year will be definitely going to be better both on the operational front as well as on the financial front. From a guidance perspective, we have this time avoided giving the guidance as advised by our board because they felt since this transition and the uncertainty remains, we should be avoiding. Post that, this will be reviewed, and we will again come back and communicate. We will continue to chase growth. And we believe that, that will get reflected when this current financial year ends both on the operational side as well as on the financial side. The details I will request our CFO, Subhash Bhat, to communicate. Thank you.

Subhash Mohan Bhat - Sobha Limited - CFO

Thank you, Sharma-ji. Good afternoon, friends. With the backdrop of the points that Sharma-ji has mentioned in this call, we would tell you the company performance for 2016-'17 and for Q4 '17. Despite the challenging environment that were mentioned about, we had the following positive updates in the financial parameters for the financial year '16-'17. Revenue for the year came in at INR 22.85 billion, which was up 15%. Real estate contributed INR 14.88 billion, which was 65% of the top line, and contracts and the manufacturing business contributed the rest of INR 7.58 billion. The real estate and the contracts showed revenues were up by 11% and 22%, respectively. The EBITDA for the year stood at INR 4.58 billion, with the PBT coming in at INR 2.45 billion. The PAT was up 17% at INR 1.61 billion.

During the year, the company invested an additional INR 220 million for marketing and sales promotion activities in order to excite the latent demand and counter whatever negative impacts were caused by demonetization and other issues, which were highlighted earlier. And this impacted the EBITDA margin for the year by about 1%. The net debt remains stable during this quarter, and we have brought the debt-equity down to 0.78 as of 31 March '17. As mentioned by Sharma-ji that the average cost of borrowing is also now down to 10.42% from 12.6%, which was in March 2015. So over the last 2 years, we've brought the average cost of borrowing down by almost 218 basis points, which was better than the RBI reported cut during the same period.

Coming to the fourth quarter financial highlights. Revenue for the fourth quarter stood at INR 6.01 billion, which is higher by about 6% as compared to the corresponding quarter last year, and 9% up sequentially. The real estate contributed INR 3.72 billion, which is coming in at about 62% of our top line and the contracts and the manufacturing business came in at INR 2.17 billion. EBITDA for the quarter stood at INR 1.33 billion, with the PBT at INR 757 million. EBITDA margin improved during the quarter to 22.1% as compared to 19.3% in the sequential quarter earlier.



Profit after tax stood at INR 466 million, which was 68% higher year-on-year and 17.7% higher sequentially. Cash inflow of INR 6.95 billion. We generated a net operating cash flow of INR 784 million after meeting interest and tax expenses. We would like to point out that this is the seventh consecutive quarter where the company has generated net operational cash flow after meeting the financial obligations.

From a revenue recognition perspective, 1 [venue] of Sobha Dream Acres and 1 venue of Sobha Silicon Oasis project for each revenue recognition threshold during the fourth quarter, and the revenue that was recognized was INR 631 million from these 2 areas.

Coming to the cash flow. For the full year, our total collections stood at INR 25.66 billion, which was 14% higher as compared to the previous year numbers. We have generated a net operating cash flow of INR 3 billion after meeting interest and tax expenses. And this is in spite of the sales generated by demonetization exercise during the year. In spite of the uncertainty in the economy during '16-'17, the company generated net positive cash flow of INR 412 million as against a net cash outflow of INR 2.29 billion in FY '16 -- or '15-'16. Coming to the quarter, the cash flow inflow during the fourth quarter was INR 6.95 billion, which was higher 20% year-on-year and 12% on a sequential basis. We have maintained strict control over the fixed and the direct cost. And at the same time, we have aggressively invested in advertising and marketing expenses during the year to ensure adequate inquiries and footfalls of potential customers at our project sites.

Coming to the other performance highlights. As communicated during the first week of April 2017, we sold 3 million square feet of area in financial year '16-'17, with the sales coming at INR 20.12 billion, of which Sobha's share was INR 18.66 billion. During the fourth quarter, our sales volume was 0.72 million square feet with a total sales value of INR 5.57 billion, of which Sobha's share was INR 5.05 billion, with the average price realization coming in at INR 6,981 per square feet. We would like to mention that we've completed 7 real estate projects during the year and 10 contractual projects, measuring to a total area of 5.09 million.

Coming to the inventory and future launches. At the close of Q4 FY '17, our unsold inventory in completed projects was only 0.27 billion square feet, of which 0.07 million square feet comprised of the total development projects that we have. We have a total area released for sale in ongoing projects of 15.79 million, of which already 9.89 million has been sold till 31 March, 2017, and the unsold area is only 5.9 million. This unsold area accounts for only 27% of the area released for sale, which we consider is adequate right now for this market. In addition to this, projects approved and not released for sale is about 11.69 million.

Coming to the customer profile. We would also like to highlight that 82% of our customers are falling under the salaried category and similar percentage of customers are below 50 years of age.

Coming to the contracts and the manufacturing vertical. The contract vertical continues to support the company, not only executing a significant number of projects but also augmenting the top line and the bottom line, at the same time contributed to the positive cash flow. Total revenue from the contracts and the manufacturing business for FY '16-'17 was INR 7.58 billion.

The contracts vertical contributed INR 5.11 billion, which was higher by 31% year-on-year, and the manufacturing revenue was at INR 24.47 billion, which was 7% higher on a year-over-year basis. As of end of March 2017, our contractual unbilled projects on hand is INR 5.23 billion. And as of the -- since inception, we have delivered 406 projects totaling to 86.73 million square feet in a span of 22 years. And we are grateful to all our stakeholders who helped the company to achieve this reality. Thank you.

Operator

Sir, can we begin with the question-and-answer session?

Subhash Mohan Bhat - *Sobha Limited* - CFO

Yes.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We take the first question from the line of Atul Tiwari from Citigroup.

Atul Tiwari - *Citigroup Inc, Research Division - VP and Analyst*

Sir, my first question is on your EBITDA margin. So we have seen margins coming off. Even in this quarter compared to the year-ago quarter, margins are down at 20%. So what I want to understand is that how long this margin pressure is likely to continue. That means, whatever you have sold currently, when it gets executed, are we likely to see a similar level of margins at 20%? Or we are likely to revert back to the historical higher-margin range of 28%, 30%? That's my first question.

Subhash Mohan Bhat - *Sobha Limited - CFO*

Yes. To answer your question, the EBITDA margins will continue at the current level. And as highlighted during the presentation that we did now, we spent about INR 22 crores on marketing expenses for the full year, which is in relation to what we normally spend, and this was to counter the negative pressure that we had across the sectors that we operate in. And that itself is about 1.31% impact on the EBITDA.

Atul Tiwari - *Citigroup Inc, Research Division - VP and Analyst*

Okay. So I mean it is just 1 percentage hit, but I mean, we have seen 600 to 700 basis points of margin compression. So then is it fair to assume that unless we see the net realizations going up, the margins are unlikely to go back up to 25%, 26% level?

Subhash Mohan Bhat - *Sobha Limited - CFO*

You have to understand that after India hasn't gotten the JD -- the joint development cost is also coming in both at the top line as well as the cost at a project level. So that impacted also. There you can't do apples-to-apples comparison with the IGAAP numbers, which were there last year, and the India's numbers in the current year. So you have to look at the India's numbers also which we have presented in the Investor presentations and then do a comparison.

Atul Tiwari - *Citigroup Inc, Research Division - VP and Analyst*

Okay. And sir, my second question is on the presales. So obviously, we have seen presales recovering quite nicely in the fourth quarter. But I was wondering whether some of this INR 5 billion-odd presale could be spillover volume from the third quarter. Some of the customers would have probably delayed their decision-making in the wake of demonetization, and that has come through now. And the implication of that is that, going ahead, we may not see this INR 5 billion-odd run rate of presales per quarter. Is that a right understanding? Or would you look at it differently?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Atul, good afternoon. We will look at that thing very differently. Despite presuming that some kind of a spillover might happen, that keeps happening in any sector as such. We are tracking a customer's inquiry for about 13 months to see whether he is buying or he's not buying as an active customer. But what we have noticed in the last quarter was the sales from all the segments and especially from the higher segments which improved our overall realization. Going forward, that demonetization related, and so-called whatever benefited, Atul, to what was there, it is gone. And we are still confident when we're talking about that operationally we should be doing better means, in volume terms, definitely we should do better than what we have achieved in the last year. We are quite confident that this year, our second largest market, Gurgaon, should continue to outperform. We had only 1 quarter of good performance in Gurgaon in the last financial year. This year, we'll be showing growth in all the 4 quarters, that is

what we expect. And going forward, we also believe that the other ongoing projects, what we are selling now, should continue to give us not only a reasonable realization but higher billing because most of the projects are in the completion stage. So along with reasonable prices, the realization as well as the cash flow realization, both perspective should be better this financial year.

Atul Tiwari - Citigroup Inc, Research Division - VP and Analyst

Okay. And sir, my last one, if I can just ask one more, is on the RERA. So now that we are passing through a period of transition and the regulator is still being set up and probably the staff, et cetera, will get appointed in due course of time. So do you see a period of, say, 6 months from now on when despite having about 11.7 million square feet of projects approved and ready for sale but not released, you could face problems in selling the project? Because rules and regulations, I don't think, are like crystal clear and [solid] as of now.

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

That may be contracting our sales. What we are communicating is, as you've pointed out, it's a transition phase. At this point of time, whatever we may talk, it is our interpretation. Media experts and the customers, they are also being affected, their point of view. So what we are looking for is a speedy and in an expedited manner, the implementation of RERA act, in whatever form, we are not trying to be smart here, and if that happens, what the general belief is -- we still do not know, but what the general belief is, you have to put everything on your website, you cannot put it if it had any kind of a violation, which means, as the general perception is, some of the supply, which is right now available, during this transition period may not be available. All our ongoing projects, what just now we talked about, INR 11 million plus INR 6 million sort of thing, they have got the requisite approvals, and we'll continue to sell these products the way we are currently selling.

Atul Tiwari - Citigroup Inc, Research Division - VP and Analyst

Sir, just to clarify, so in Karnataka, the RERA is set up completely and the website is up and running and you can...

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

No, no, no. Karnataka is yet to notify the rules even. No website is set up nor the authority is decided. Where we are operating right now is only Maharashtra, where they have set up the authority, and there is clarity. Otherwise, at all other places, the confusion continues, with Tamil Nadu, with Kerala, with Karnataka, with Gurgaon.

Operator

Next question is from the line of Abhinav Sinha from CLSA.

Abhinav Sinha - CLSA Limited, Research Division - Research Analyst

Sir, a question on why you've not given the guidance. I just wanted to check, I mean if the impact is likely to be transitory and we should be possibly on our way in 2, 3 months, then why completely refrain from a guidance?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

It's a good question. We did deliberate that, Abhinav, then what we all felt collectively was that till the transition doesn't happen -- in the past, the transition had impacted and then you do not know how to catch up or whether you can do it better than that sort of thing. So neither we wanted to limit on our guidance per se nor we wanted to be sure, with this kind of uncertainty, these certain things keep persisting, and it brings some kind of a temporary disruption also. It will not be good vis-à-vis the experience, what we had in the last few years. So we are not completely ruling

out -- we are only saying when the transition happen, we're -- we will be knowing to where and what extent we have been impacted positively or negatively, which will allow us to redraw our plan instead of working on an annual business plan. Post to that, we work on our plan and then come back to you people.

Abhinav Sinha - CLSA Limited, Research Division - Research Analyst

Okay. So even 2 quarters down the line, can we see some broader number being given to us?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Of course, yes. Of course, yes.

Abhinav Sinha - CLSA Limited, Research Division - Research Analyst

Okay. Sir, secondly, on the new launches itself, realistically, given the issues that we had specific to Bangalore and RERA rollout yet to happen in Karnataka. When do you expect the new launches to resume?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

It is a good question. We believe, what a little bit we have heard, hopefully, anytime, the RERA authority will be notified, rules will be notified as far as Karnataka is concerned. Once that happens, we may agree, we disagree, but we will be doing our jobs with absolute clarity. And no sooner that happens, it will be only a technical time whatever is required for us to go ahead by the time for 90 days post such a notification. And hopefully, we will be among the first few developers to put forth our projects on the website and start doing. I personally do not foresee as far as we are concerned any kind of a disruption in the sales momentum, but there is an apprehensiveness that how the customers are going to react or respond during this period of transition.

Abhinav Sinha - CLSA Limited, Research Division - Research Analyst

Okay. Sir, lastly, on the contractual business, given the decline in order book that we have and RERA in business now, which is quite significant, how do you see the revenues next year?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

We still believe that whatever we have achieved in this financial year, we will try to be there more or less. We have got some good pipeline. And I believe that despite relatively speaking a lower billing from Infosys, one of our major clients, there may not be any significant fall in our overall contracting and manufacturing revenues. To put it in the right perspective, the manufacturing division today is having a better order book position. As things stand today, they will do better. On contracting side also, a couple of good projects are there in the pipeline. We should be sharing the same with you soon.

Operator

(Operator Instructions) Next question is from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala - Morgan Stanley, Research Division - Executive Director

Sir, the first question is, in your opening remarks, you were fairly optimistic about the Gurgaon project. So any color on that? Why do you think in fiscal '18 you'll do well on that? And any update on Dwarka Expressway.

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Dwarka Expressway is happening. That is what -- whenever we meet the authorities and the political leaders of that particular state, they are showing that kind of an assurance. And since despite the landlords, whatever efforts they have made, this time, they have to make way for the functionality of the Dwarka Expressway. At the same time, this time, we do not have to market that fast because somewhat themselves have started expecting and believing that Dwarka Expressway will happen. And this is where, the side of Gurgaon, had started showing a consistent improvement. And this is the fifth month where we believe that the momentum that we have gotten, it is continuing. So that gives me that kind of a comfort that today we have a complementary product. About 4 years back, when things were doing well, we had only 1 product and we have done quite well. So we have a long way to go, our base was too low. So I believe that at this particular financial year, Gurgaon should be much better than what it had achieved.

Sameer Baisiwala - Morgan Stanley, Research Division - Executive Director

Okay. Sir, second question on the affordable housing plans. Can you share how is Sobha thinking about it? And do you think there's a meaningful and large pipeline that you can deploy into this?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

We really are trying 1 million square feet of affordable housing product in Bangalore North. It is at the design stage. We will attempt that this product is launched in this financial year itself.

Sameer Baisiwala - Morgan Stanley, Research Division - Executive Director

But like taking a 3-year view, do you think this can be a much larger part of your business?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Of course, yes. That is what I have been trying to communicate. The most of the -- the benefits are significant. Sameer, you will agree with me that 2002, '03, '04, '05, '06, '07, when the real estate sector were doing exceedingly well, at that time, most of the developers took advantage of ATIB, that 1,500 square feet built-up area and 1,000 square feet built-up area, our capital has been built on the strength of that ATIB section. Thereafter, we have got again an opportunity where we did not have to pay tax on these projects, we put them in our existing portfolio. So it is a good benefit, when we are a 30% income tax paying company, saving that allows us to play with the pricing, and lower priced products, affordable housing, lower rate of interest. And looking at the success of our Dream Acres, our gut feeling is that customer will accept the product and developers will push this product. So it will be a win-win kind of a thing.

Sameer Baisiwala - Morgan Stanley, Research Division - Executive Director

One final question with your permission, sir.

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Please go ahead.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

I'm looking at the Slide #12 of your presentation, which shows the quarterly collection rate. And I see that from the fourth quarter of fiscal '15 from INR 380 crores to the last quarter -- reported quarter, you have almost come to INR 490 crores, call it, INR 500 crores. So it's been a big rise. But the point here is that now your presales is also -- sort of has plateaued at INR 500 crores a quarter for the last several quarters. And that's where the collection has also come to sit. So is it fair to say that for some time, your collections will remain stable, there is no case for it to grow?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Just now when I was responding to one of the queries, Atul, Citigroup, I have communicated that what has happened we have lots of ongoing projects. Almost today, 16 million, 17 million square feet of our projects are under construction, which we already reported, of that, 9 million square feet is already sold. Now the percentage completion on these projects, it's fairly high. That allows us a little bit extra cash flow. Then secondly, vertical Dream Acres also started contributing to this kind of a cash flow. So we remain positive that this upward trend, what you have witnessed, from the INR 380 crores to this INR 590 crores (sic) [INR 490 crores] kind of a thing quarterly, there is a scope to improve.

Operator

We take the next question from the line of Abhishek Anand from JM Financial.

Abhishek Anand - *JM Financial Institutional Securities Limited, Research Division - Research Analyst*

Sir, my first question will be, of course, on the CLSS scheme, which -- the details of which were released in mid of March. And of course, numbers wouldn't have reflected much of it. So just trying to understand, after March, how much -- how many apartments would you have sold on back of CLSS scheme? And whether it's benefiting the customers or it's still in-the-works kind of a concept?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

No, no, it's a fair point. It takes time for a customer and for a banker as well, to our assessment, to make them aware about this scheme. What we have done is to help create, wherever we have large projects, sort of a help desk team where -- whatever is required by NHD to reimburse the money through the housing finance companies that kind of information has been given. Almost 50% of the people that are opting for loan, they need to also come out with their own, the household income, personal income, the criteria under which they are buying 90 meter square, 110 meter square sort of a thing, but taking a little bit of time, income is below INR 12 lakhs or INR 18 lakhs. So many people will get disqualified because they have a higher income than what they're eligible for. But some of these guys, they have taken -- they request an application form, and it is under active consideration with these housing finance companies. And that data, we do not have. But maybe in a week's time, if you talk to Bala, he should be able to give you this information.

Abhishek Anand - *JM Financial Institutional Securities Limited, Research Division - Research Analyst*

But do you expect this scheme to be...

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Of course, yes. Of course, yes, because this scheme is not bureaucratic in nature. The underlying benefit about this scheme is that NHD is calling us, the developers, the developer's body, to take advantage. The housing finance companies, they have put their designated people as well to help the customers out. But this takes time to get circulated, but I do believe that whatever budget the government has allocated under this scheme, it will get exhausted before the financial year ends.

Abhishek Anand - JM Financial Institutional Securities Limited, Research Division - Research Analyst

So secondly, Sir, on the real estate regulator, we understand Karnataka doesn't have it, Gurgaon doesn't have it. But we have almost 17 days...

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Tamil Nadu doesn't have.

Abhishek Anand - JM Financial Institutional Securities Limited, Research Division - Research Analyst

Tamil Nadu doesn't have it. But Maharashtra, of course, Pune has it.

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Yes.

Abhishek Anand - JM Financial Institutional Securities Limited, Research Division - Research Analyst

So for ongoing projects, as of now, I'm sure we would have applied for the registration, but are we doing sales from the ongoing projects? Or we have to hold the ongoing sales at the time until we get registered?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

That is where the confusion I was talking about. As we said, it will persist. But what we have been advised, right, legally that you have 90 days' time to register yourself, correct. And if you are confident that you will get yourself registered, which means that you are going to comply with whatever requirements they need, you can continue selling. Those people who will not be able to register, and those who are selling post 1st of May, we do hear that, yes, they should be extremely careful on those projects.

Abhishek Anand - JM Financial Institutional Securities Limited, Research Division - Research Analyst

Sir, if I can squeeze one more. Just wanted to understand the buyback we had done for Sobha high-rise ventures, the INR 44 crores payout for the quarter, is there anything pending apart from that or this is it?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

No, nothing. It is INR 34 crores payout on account of equity and INR 20 crores on account of the extinguishment of the debentures. There is 0 payment left out in this time. So we continue now to own 100% of this company.

Abhishek Anand - JM Financial Institutional Securities Limited, Research Division - Research Analyst

And any other private equity buyouts in the pipeline?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

No, we don't have any other private equity in our companies now.



Operator

We take the next question from the line of Kunal Lakhan from Axis Capital.

Kunal Lakhan - *Axis Capital Limited, Research Division - VP of Realty*

Sharma-ji, a while back, you said that RERA can get notified any moment now. So just wanted to understand if you can give some color on the new launch pipeline, especially the greenfield projects, besides the 1 million square feet of affordable housing project that you spoke about, what is the pipeline looking like, except -- and over and above the 11 million square feet of unlaunched inventory, if you can give some color on the new greenfield project pipeline.

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

It's a good point. There are a good number of projects. We are working on about 0.5 million square feet of project in Chennai. We are also working on about 0.5 million square feet of projects, which will get launched first in Bangalore North. We also are working on, in Southeast, about another 20-acre-plus of development, which should also happen in this financial year. So this is besides that 17 acres of land what we have in the Bangalore North, we have 1 million square feet we are planning on this -- affordable housing kind of a thing. We have a couple of more launches planned in Mysore and in other places. So let us keep our fingers crossed. As far as the RERA is concerned, this is independent of RERA coming or not coming. We would have done the same. With RERA coming, maybe little bit extra time you will need to get yourself registered post plan approval. And to that extent, some delay is expected.

Kunal Lakhan - *Axis Capital Limited, Research Division - VP of Realty*

Great, that's helpful. My second question is on the land payments that we can expect in FY '18. Would that include your land payment for Gurgaon and for the Cochin land?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

We have a time to pay, which goes to the next year also, correct. But we are confident that we should be able to pay this money. And this will not have any adverse impact on our cash flows.

Kunal Lakhan - *Axis Capital Limited, Research Division - VP of Realty*

And besides the INR 165 crores land payment, there is no other land payment earmarked?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

There will be small payments here and there, right, but not significant.

Operator

We take the next question from the line of Puneet Gulati from HSBC.



Puneet J. Gulati - HSBC, Research Division - Analyst

Just some clarifications here. So on RERA, you are saying that you will not launch any projects till RERA is notified?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

New projects. New projects.

Puneet J. Gulati - HSBC, Research Division - Analyst

Yes. And are others also doing the same? Or they continue...

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

Right. To the best of our knowledge, what we have given advice to our fraternity is no new projects should be launched post 1st of May, first time. No prelaunch should happen. The ongoing projects should continue, presuming they are RERA-compliant or they have got 90-day window to get themselves registered whenever the act is notified.

Puneet J. Gulati - HSBC, Research Division - Analyst

Okay. Great. Secondly, on the tax concession, particularly, the 100% tax deduction on the affordable segment, have you -- is there absolute clarity on it? Have you started availing that benefit for your new projects?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

How -- we have not even launched the -- and how can we avail of the benefit? It is absolutely, clear, it's a very simple law. What does it say is that you need to ensure that you have added 60 meters square as defined in the, what shall I say, RERA law, the carpet area, for you to qualify for the affordable housing scheme. And once you qualify under that, the customers will take the benefit of PMAY if they're going for the loan. And the developers will say that the benefit of income tax as well as they will take the benefit of lower cost of interest if they avail loan against such projects, being infrastructure status granted.

Puneet J. Gulati - HSBC, Research Division - Analyst

Okay. You don't have to take any permission from the government to get this -- to get your project approved for these tax concessions?

Subhash Mohan Bhat - Sobha Limited - CFO

Right now there is no such requirement, but the law says that it has to be approved by competent authority. And if you compare this with ATIB which was there earlier, competent authority is the planning authority for that particular location.

Puneet J. Gulati - HSBC, Research Division - Analyst

Okay. And all the apartments have to be 60 square meter below, right? Or can you have some which is higher and avail the benefit to the extent of -- the smaller apartment?



Subhash Mohan Bhat - *Sobha Limited - CFO*

The planned project necessarily will have to have only affordable housing, all the units, okay? So you can have some lower than 60 square meters, some at 60 square meter, but certainly not more than that, okay? But in the same location, you can have few buildings which are put up as affordable housing projects and rest of the housing projects may not be in the affordable segment. So we'll have a run through 2 separate projects at the same site.

Puneet J. Gulati - *HSBC, Research Division - Analyst*

Okay, okay. Great. Last year -- some bit of clarification here on your Slide #36, which is your cash flow statement. The Q3 FY '17 cash flow from real estate operations and contracts and manufacturing are slightly different from what you reported last time. So any reclassification there?

Subhash Mohan Bhat - *Sobha Limited - CFO*

Basically, if you look at my last year number -- last year's number, the India and the IGAAP were different because we had a prior equity sitting in one of the entities, which we bought out. So this year, you are not seeing the IGAAP and the India adjustments in the cash flow.

Puneet J. Gulati - *HSBC, Research Division - Analyst*

No. I'm talking of the last quarter Q3 FY '17, so the operational cash flow which you reported in the last quarter presentation was INR 5.8 billion, and here it is INR 6.18 billion?

Subhash Mohan Bhat - *Sobha Limited - CFO*

Yes, that is different. High-rise ventures cash flow was not considered. Now we're right at [100,000], okay, when we discussed with you why is that down, we can show it as your own cash flow.

Operator

We take the next question from the line of Adhidev Chattopadhyay from Emkay Global.

Adhidev Chattopadhyay - *Emkay Global Financial Services Ltd., Research Division - Research Analyst*

Sir, to Slide 36 of the presentation, on the buyer profile, so obviously, the idea is 45% of our -- or whatever the people who buy from us. And again in [areas] also 40% fall in the 31 to 40 age bracket. So there's been lots of small ordeals happening in the IT sector, and especially in a lot of the domestic IT companies. So over a 2- to 3-year period, how -- where do you see the demand getting replaced if there is a slowdown of demand from this sector?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

It's a good point. Somewhere -- what we have believed that the consumption story, it has been driven because of the explosive growth in the IT sector. Bangalore is nothing, but today it has become a mega city, it has been driven by the IT. So it's alone contribution cannot be underestimated. Having said that, what I personally believe is that probably, we are overreacting to a given scenario where the office space consumption, here I am not an authority, but you people are also tracking that in India right now, the real estate, if any sector is booming, it is the commercial space sector where the people are prepared to do transaction with a yield of 6%, 7%, 8% sort of thing, which are not there. And there are large buyers of space who are not getting the space. So somewhere, something is happening. It may not be of that high quality. That is where I am trying to put the emphasis on affordable housing, and I am trying to put emphasis on the way the rate of interest has come down, especially in the case of affordable

housing, now it has come down [upwards INR 30 lakhs for that expanded file]. So we have reached almost the bottom of the interest rates. The prices have not gone up. Back 3, 4 years, the volumes have remained stagnant whereas the employment growth in the white-collar sector, looking at the commercial space absorption, has been great. So net-net, we remain positive that demand is there. The right kind of product, right kind of a pricing, right kind of an interest should be able to compensate this kind of loss what otherwise would have impacted the sector much more significantly.

Adhidev Chattopadhyay - *Emkay Global Financial Services Ltd., Research Division - Research Analyst*

Sir, my second question is on the affordable housing project. So typically, historically, we have a 35% markup on our costs when we are [prioritizing] for the project. Will it be any different for this project? And second part of the question is, is there clarity that a large area project should also qualify for this kind of benefit? Or is it only applicable for the land where 100% is owned by us?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

What we have been given to understand that the landlord has his own share, we have our own share, both the parties can claim the affordable housing benefit in their respective balance sheet. The income tax, they will get the affordable housing benefit also. So that should clarify your joint venture, joint development kind of scenario. What was your other question?

Subhash Mohan Bhat - *Sobha Limited - CFO*

That they are adding 35% to the...

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Right. So far, right, what we have believed that the margins per se is not impacting the demand. These are industry-related margins. 1%, 2% here and there definitely you get a scope in every product. Because of the income tax benefits, you will have higher maneuverability, but that is more market-driven than otherwise determining these things on the basis of my liking or disliking.

Adhidev Chattopadhyay - *Emkay Global Financial Services Ltd., Research Division - Research Analyst*

Okay. The reason I was asking was (inaudible) from doing very good finishing. So I mean would you like to keep the cost lower for these projects? Or it is more -- will you be willing to settle for a lower margin on these projects? That is what I'm trying to get at today.

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

No. What we are trying to do is speeding up our construction capabilities, and that way, delivering the projects on time and, at the same time, collecting money also in a timely manner and reducing the unnecessary costs. So affordable housing with higher volumes and faster completion should help us to ensure that pricing remain right and margins remain right for us.

Operator

We take the next question from the line of [Anil Nayak] from ICICI Bank.



Unidentified Analyst

So my question pertains to Slide #20 of your presentation. There -- I'm sorry -- it's slide #20, yes, where we have given the price range. So what I have observed is the sales in segment less than INR 1 crore have in terms of percentage decreased, whereas sales in segment of INR 1 crores up to INR 3 crores have increased from about 35% to 49%. So what could be the reason for this considering we have seen the sales that have been happening only in lower range or lower pricing?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

That is what I was trying to say that like in Gurgaon, right, the prices are higher but sales have improved. In Bangalore, we had this in the first half and a little bit of the higher-priced products, which have also moved faster. So all such things has helped in selling more than INR 1 crore also and less than INR 1 crore. In all our communication, we are very clear that this time when the demand has come back, it has come back on all the price range, on all products.

Unidentified Analyst

Okay. So you -- do you see this trend continuing going forward as well?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Yes.

Operator

We take the next question from the line of Parikshit Kandpal from HDFC Securities.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Just on the affordable housing again, so I wanted to know...

Operator

Excuse me, sir, I'm sorry to interrupt, I'm requesting you to please speak a bit louder.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Yes, is it better now?

Operator

Yes, much better.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Sir, affordable housing, how much is the expected CapEx outlay for this year? And also if you can update us on APMC CapEx.



Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

As far as the affordable housing is concerned, right, if it's 1 million square feet or 2 million square feet, we will have 2 options: One, post-GST, our existing capacity also can be made available for the other projects for some of the elements, a, so there will not be much of the CapEx required. B, we also see that, thanks to this Mivan aluminum shuttering system, we are in a better position now to complete the project even of the higher heights with this technology in a much faster manner without increasing the cost. Okay, the risk can be significantly higher, so I don't foresee much of a CapEx coming this financial year on account of affordable housing or otherwise. To your next question with APMC, we are still going slow. We are confident with whatever development we have otherwise happening, that next year this project will take off.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

FY '19, the CapEx -- the real CapEx?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Yes.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Okay. So just on this affordable, again, the CapEx I was referring was the land CapEx. So this project will be carried on our own land bank or...

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

This is already there with us. This -- what I'm talking about there, the 0 CapEx per se, on this thing, correct. (inaudible) experiment others which are there, it is in the routine, we have nothing to do.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Okay. And sir, just on the presale for this year, we have booked down 3 million square feet, and we had launched projects -- new project launch of INR 3.7 million, and INR 0.93 was released from the existing inventory. So how much was the presales contribution from the new launch of INR 3.7 million?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

I think (inaudible) the new launches, what you looked at, it has been there in Gurgaon and in Cochin, the larger-sized projects, and Chennai. So Chennai, mostly, the sales have come from the Winchester, which has shown good improvement and good realization. Gurgaon also mostly the sales have come from the new project. The Cochin launch, we are doing our low-cost apartment this month. We believe from the next month onwards, the sales will pick up.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

I mean the presales contribution will be around INR 3 lakhs or INR 4 lakhs, like 10% or 15% in the new launches?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

It should be. It should be, yes.

Subhash Mohan Bhat - *Sobha Limited - CFO*

About 10% is what we can take.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Okay. So large part of the sales happen from the existing inventory.

Subhash Mohan Bhat - *Sobha Limited - CFO*

Yes, that's right. That's right.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

Okay. And would the collection also will be similar like 5%, 6% from the new launches?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

No, no, no. The collections, whenever you sell, within 60 days, we demand 25% to 30%.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

So I meant, out of INR 2,500 crores of collections this year, so...

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Okay. Okay.

Subhash Mohan Bhat - *Sobha Limited - CFO*

Yes, that's right, because the new launches will not give you the same kind of collection as compared to these projects which are advanced in completion.

Parikshit D. Kandpal - *HDFC Securities Limited, Research Division - Research Analyst*

So that means even if the launch pipeline is slow for this year, so the existing launches can more or less help us maintain our base case at least presales of INR 3 million-plus?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Of course, yes. Of course, yes.



Operator

We take the next question from the line of Atul Tiwari from Citigroup.

Atul Tiwari - Citigroup Inc, Research Division - VP and Analyst

Sir, my question is on the CLSS scheme. So as of now, out of all the projects that you have, how many of your customers have family income of less than INR 18 lakh, roughly speaking? And how many -- how much of area will be less than 110 square feet?

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

A significant portion of our current ongoing inventories, it falls within this 100 meter square area kind of a thing. Exact details, right now, I do not have, but you can ask our CFO or Bala, they should be able to provide you.

Subhash Mohan Bhat - Sobha Limited - CFO

Yes. On the area, about 80%-plus of our apartment inventory is getting covered by the scheme.

Atul Tiwari - Citigroup Inc, Research Division - VP and Analyst

Okay. And what about the customers' income range? Would you have any kind of idea? I know...

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

That is what we are in the process. When you asked this question in the beginning, right? While we are being able to sell under PMAY, the household income of the customer, today, there's sales certification process, but nowadays everything has been [expanding]. So they do their own due diligence. So...

Subhash Mohan Bhat - Sobha Limited - CFO

That is technically between the housing finance company and the customer because it's not fair for me to ask the customer what is their income -- household income. I can -- max house and that is all demographic data that we take, some people give it, some people don't give it.

Atul Tiwari - Citigroup Inc, Research Division - VP and Analyst

Okay. So I mean just to round up my understanding, beyond these 2 criteria, there is nothing -- there is no other...

Subhash Mohan Bhat - Sobha Limited - CFO

This has to be his first home. This has to be his first home.

Atul Tiwari - Citigroup Inc, Research Division - VP and Analyst

This has to be the first home. Okay.

Subhash Mohan Bhat - *Sobha Limited - CFO*

So that is another criteria.

Operator

We take the next question from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

Just on the RERA implementation. Sir, for the 70% escrow, how do you plan to cope up for the ongoing projects?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Okay. It's a good point, Sameer. That is why today, if you look at -- the company has got (inaudible) of more than INR 600 crores. The company has a term loan, which is also almost INR 1,000 crores or so, which we have availed from various financial institutions. And the construction loan is very, very limited. So most of our projects today, they're not directly funded at construction finance. So we will not have any difficulty whatsoever while coping up with this 70% thing. We can draw almost INR 400 crore-plus from our existing cash debt limits without any problem.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

Okay. And therefore, the outlook for net debt current year fiscal '18, most likely to go up because of this and being also because of INR 165 crores land payment that you may end up doing.

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

No, Sameer, that is what we said that debt will not go up. You have a general pool and you have a construction-linked to a loan. What I am trying to communicate is we do not have many construction linked to loan anymore. Wherever we have construction linked to loan, we are confident that we will be able to manage the construction activities within the parameters in which we have got ourselves exposed. So there will not be any extra increase on that account, a. What was your second question? On land permits including (inaudible). As I said, as in our cash flow projections, all these things we have planned, and we believe that with all these payments, our overall debt, this should also will be not going up.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

Okay. This is very helpful. And you're taking into account the 70% escrow requirement that you may have on the ongoing projects?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Absolutely, right. We're taking into account that. Yes. Yes.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

Okay. And sir, second question, because of RERA implementation, do you see any on the ground shift in the market share more towards organized, bigger players? And can this happen over a short order of time? Or do you think this will take 2, 3 years for it to actually come through?



Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

If you consider the short order next 2 to 3 quarters, I think, by this calendar year itself, all of us should have a clarity because what we should be looking at is post RERA, the questions, what you have raised, how many of them will continue to sell, a; how many of them will have the financial capabilities to complete; and how many will be able to withstand the requirements of timely delivery and the commitment to honor as they've been promising otherwise, without RERA, to their customers. So automatically, whether they're organized or non-organized, the guys who will be compliant, with the required financial capabilities, they should start getting the market share is our view.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

Okay. And sir, just one final one. Just looking from my notes, and I don't know if you ever changed it, I think, once upon a time, you had a presales target of 7.5 million square feet?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

Yes, yes, yes.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

So what's the current thought on this?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

So if you look at sales back 4 years, what sales is now, these are ongoing inventory, it has almost doubled. We never had 40 million square feet of ongoing projects. We never had so many projects of this size and scale. What -- we are now, right, putting it as not offered for sales sort of an inventory. Despite that, we are communicating to the market that our ongoing pipeline is still strong. We know that we can split our projects on a state-wide basis. The significant investment in the land has already been made. And the demand, once it comes back, we will be among those few developers with the execution capability and a lower rate of interest to capitalize on that. So prima facie, we remain positive. Whatever will happen, that is the external environment. That is why this time, on the guidance note, the board decided to look at the signals and then act on that. But from a preparedness point of view, we are ready.

Sameer Baisiwala - *Morgan Stanley, Research Division - Executive Director*

Yes. Sure, I get your point, sir. And I think when all of these positive things were happening and your pipeline was getting bigger, you still always maintain about 3 million square feet presales run rate over the last 3 years-plus. So the question is, therefore, fiscal '19, which is 2 years out, which is looking beyond what the Board has chosen not to give a guidance for, which is current year, a 7.5 million square feet target, what's the current thinking on that?

Jagdish Chandra Sharma - *Sobha Limited - Vice Chairman and MD*

You've seen in India itself some of the developers, the way their volumes had gone, the sales were sustained or not, but they have demonstrated what I have been talking about of selling 5 million, 12 million square feet with the kind of city, what they have. So I still do not rule out -- as I said, we are working towards that. At the same time, we also know that overall volumes have not gone up or our inventories have gone up, and that has become a point of complaint. Now there is going to be a readjustment, whatever we discuss today is on those terms only. The RERA and GST, we are welcoming from that perspective. So the demand will not wait that way. It can always be disruptive and sudden. And in that case, whether

we are ready or not, we say, we are ready. Whether we will active or not, as I said, post these 2 acts, we will again come back and communicate what we're seeing at that point of time and how do we go about.

Operator

Well, that was the last question. I now hand the floor over to the management for their closing comments.

Jagdish Chandra Sharma - Sobha Limited - Vice Chairman and MD

So thank you all for your presence, hearing and participating in this con call actively. We remain confident that whatever is likely to happen, we are preparing ourselves to ensure that we keep growing and keep demonstrating our unique capabilities to the market with the environment gradually becoming helpful. And we hope that this year, we should be doing better than what we have achieved last year. Thank you, once again.

Operator

Thank you. Ladies and gentlemen

(technical difficulty)

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